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Emerging Areas in Banking

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MISSION

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

ध्येय

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

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R. Bhaskaran
Chief Executive Officer, IIBF, Mumbai.

We have been bringing out Bank Quest theme-wise for the last several issues wherein articles / essays have been woven around a single theme covering any one area in banking / finance. To a certain extent the current issue is also thematic but the theme is not on a single area but 'Emerging Areas in Banking'. The articles capture some of the latest happenings in banking / finance varying from the use of balanced score card in performance management to collateralized debt obligations (CDOs) to 'Significance of Eco - Industry Analysis in Credit Risk Rating Models'.

Modern banking consists of a number of strategic business units (verticals). Branch is but one part of it. In view of this the assessment of performance can no more be on traditional parameters which were merely a question of assessing if targets were achieved or not? Modern banking needs more sophisticated performance evaluation techniques. The article on balanced score card on performance by Shambhunath Chowdhury highlights the need for a model for measuring performance management based on factors other than profitability, gross revenue, return on capital and the like. The author suggests performance measurement through four perspectives namely financial, customer, internal business process and learning coupled with growth. The balance score card method to performance management, feels the author, can provide the bank management with the ideal tool in responding effectively in the current environment.

There is a substantial argument in favour of having indigenously owned India specific payment system of credit and debit cards to the extent that the settlement has to take place in our currency. If this were to come through, the savings to the country in avoiding the charges paid to the card companies in foreign currency could be substantial. A similar effort is SEPA or Single Euro Payment Area. In his article 'Single Euro Payment Area : A Move toward Dynamic Knowledge Driven Economy' Narinder Bhasin explains the nitty-gritties of the Single Euro Payment Area (SEPA) and also the roadmap envisaged to achieve the SEPA in the Euro Area. He talks about the evolution of the SEPA, the general objectives and working methods, the initiatives by the European Payments Council (EPC) and the very latest developments and progress in moving towards SEPA.

No other issue has, in the recent times, attained as much prominence as the issue of 'sub-prime'. Sub prime does not mean lending at below prime lending rate. On the contrary it means lending at high rates of interest to risks which *are Sub-Prime. Sub-prime happened because institutions could camouflage bad risks and package it and sell it as CDOs. Certain banks and investment institutions invested in collateralised debt obligations, Mortgage Based Obligations (MBOs) more precisely, knowing well that the higher interest rate that is offered is on account of higher risk. Once the underlying defaulted the CDOs also defaulted. Evidently banks found that one or two percent higher rate is hardly a compensation for the loss of entire principal. The article by Rajiv Bhatt on collateralized debt obligations (CDOs) article explains the structure of a CDO, how it is used in the financial market and its growth of which has been phenomenal. Given that CDO is a credit risk diversification tool and aggressive expansion of retail portfolio world over, it is easy to comprehend as to how sub-prime happened. But one cannot fathom as to how global banks forgot the fundamentals of banking and took too much risk for too little interest!*

Credit risk is equally difficult to manage. Among other things external economic conditions (external to the obligor / borrower) is critical in understanding and measuring credit risk as well as credit concentration risk. D. G. Mahabal in his article 'Significance of Eco - Industry Analysis in Credit Risk Rating Models & Assessment of Concentration Risk' outlines the importance of industry analysis for arriving at a risk score. He also indicates the other uses for reports on industry analysis.

Of late, the SME sector has received attention from bankers and policy makers alike. After retail, this sector is poised to take the growth story of the banking sector ahead. Credit risk is an important issue in the case of SME also. To this end the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTSME) was set up by GOI with the objective of encouraging banks to provide credit to entrepreneurs without the hassles of collaterals or third party guarantee. The article on 'Credit Guarantee for Micro and Small Enterprises' by D. P. Sarda delineates the main highlights features of the CGTSME and also throws light on certain issues regarding the operational matters of the CGTSME.

There is, in view of the recent happenings an urgent need for banks to take up efforts on financial literacy, credit counselling and go for a transparent and verifiable customer relation policy. In this background we thought it would be worthwhile to bring the regulator's perspective on the issue of customers and are carrying reprint of a speech made by Deputy Governor of RBI Shyamala Gopinath on 'Banks' Relationship with Customers - Evolving Perspectives'. We are also carrying a speech on financial inclusion delivered by Ms. Devaki Muthukrishnan, Regional Director, RBI, in the seminar on financial inclusion organised by the Institute in Dharwad recently.

In addition this issue contains two book reviews.

इसके अलावा श्री सुधीर जैन लिखित, 'भारत में सार्वजनिक क्षेत्र के बैंकों में कम्प्यूटरजनित धोखाधड़ियाँ – कारण एवं निदान' लेख भी इस अंक में शामिल है।

We hope you enjoy the issue.

(R. Bhaskaran)

Understanding Performance Elements and Balanced Scorecard

Shambhunath Chowdhury *

Why Performance ?

The prime objective of an individual or of an organization is to perform according to preplanned standard of quantity and quality to actualize short-term goal and realize long-term mission and vision. This pre-planning is done based on the aim of an individual or mission of an organization keeping in view the resource availability. The ultimate purpose of existence of an individual or that of an organization is justified by its contribution to the society in the form of Performance. Individuals who had performed exceedingly well, created history for the future generations to follow.

Before we enter the realm of Performance we need to understand the concept of performance. Is there any common understanding on the definition of Performance? Can performance be managed for reaching desired level of goal? Fortunately we can say with certainty that there exists well-developed architectures to actualize high performance.

What is Performance?

The traditional thinkers conceive Performance as the final outcome of activities. Their concept is solely based on the result of actions undertaken. They equate performance with actions and end results. This understanding has severe limitations about the concept of performance. There are many situations where there could be no measurable output despite sincere and competent effort. Again there may be occasions where high performance can result without putting required type and quality of effort. The context (situational and exceptional advantage or disadvantage) where performance takes place has to be appropriately dealt with and proper weightage is to be put to understand the concept of core performance.

The ultimate purpose of existence of an individual or that of an organization is justified by its contribution to the society in the form of Performance.

Performance is based on objectives, knowledge, skill and competence requirement with respect to plans.

Definition of Performance

Performance as such can be defined as being concerned with means as well as ends, inputs (competence) as well as output (results). Performance is based on objectives, knowledge, skill and competence requirement with respect to plans. Simply put, performance includes activities where goals are consistently being met in an effective and efficient manner. Performance is a process for establishing an understanding about what is to be achieved, and how it is to be achieved, and an approach which increase, the probability of achieving success. Performance is about the everyday actions and behaviour which individuals take to manage planned processes, which pervade the organization where individuals function.

What are Performance Elements and Performance Standards?

Performance elements tell employees what they have to do and Performance standards tell them how well they have to do it. Performance elements and standards should be measurable, understandable, verifiable, equitable, and achievable. Employees must know what they need to do to perform their jobs successfully. Employee performance plans are the written or otherwise recorded, performance elements that

* *Corporate Senior Manager (PA & HR), Paschim Banga Gramin Bank.*

set forth expected performance. A performance plan must include all critical and non-critical performance elements and their performance standards. Performance elements and standards that are understandable, measurable, attainable, fair, and challenging is vital to the effectiveness of the performance appraisal process.

Performance elements

Critical Performance Elements :

A critical performance element is an assignment or responsibility of such importance that unacceptable performance in that element would result in a determination that the employee's overall performance is unacceptable. Each employee should have at least one critical element in his or her performance plan. Most experts in the field of performance management agree that between three and seven critical elements are appropriate for most work situations.

Critical performance elements are the cornerstone of individual accountability in employee performance management. Failure on one or more critical elements determines performance as unacceptable. Consequently, critical performance elements must describe work assignments and responsibilities that are within the employee's control.

Non-Critical Performance Elements

A non-critical performance element is a dimension or aspect of individual, team, or organizational performance that is used in assigning a summary level performance. Failure in a non-critical performance element cannot be used as the basis for a performance-based adverse action. Moreover, if an employee fails in a non-critical performance element, the employee's performance cannot be summarized as unacceptable based on that failure.

Group Performance :

Non-critical performance elements are the only way to include the groups' or the team's performances

Critical performance elements are the cornerstone of individual accountability in employee performance management.

An ideal performance plan should have a proper blend of critical, non-critical, and additional performance elements.

as an element in the performance plan so that it counts in the summary level. The key to distinguishing between group performance and an individual's contribution to the group is that group performance is measured at an aggregate level, not for a single employee.

Additional Performance Elements :

An additional performance element is a dimension or aspect of individual, team, or organizational performance that is not a critical element and is not used in assigning a summary rating level. The essential difference between a non-critical performance element and an additional performance element is that non-critical elements do affect the summary level. Opportunities for using additional performance elements include :

New Work Assignment : Managers and employees may want to establish goals, track and measure performance, and develop skills for an aspect of work that they do not believe should count in the summary level. For example, if an employee volunteered to work on a new project that requires new skills, an additional performance element describing the new assignment provides a non-threatening vehicle for planning, measuring, and giving feedback on the employee's performance without counting it in the summary level.

Ideal Performance plans

An ideal performance plan should have a proper blend of critical, non-critical, and additional performance elements. Such plans should have provisions of apprising employee performance against planned agreement on elements at five levels based on (elements to be weighted) according to specific needs of the organization :

- Outstanding Performance Level-OPL-who scores 100% or above.
- Above Standard Performance Level-ASPL- who scores 75% or above.

- Standard Performance Level-SPL- who scores 60% or above.
- Acceptable But Poor Performance Level-ABPPL- who scores 50% or above.
- Unacceptable Performance Level-UPL-who scores less than 50%.

Distinguishing Activities from Performance

The need is to focus on performance goals not on activities. Focusing on activities is keeping busy, and remain in fire fighting without focusing on the purpose of remaining busy. The importance of measuring and recognizing accomplishments (*i.e.* results achieved against pre-planned target) rather than activities (remaining active and busy) is important. The aim of performance enhancement programme center around accomplishments, not activities. "Activities" are the actions taken to produce results examples of activities include :

Customer meets to answer customer questions….

Field work to enhance business….

Writing reports and Filing documents….

Developing projects and programs. …

"Accomplishments" (or outputs) are the products or services (the results) of employee and work unit activities. The examples of outputs include :

- Customer meets those results into satisfied customers….
- Field work resulting in enhanced business, recovery performance or….
- Files that are orderly and complete and aids in performance through instant access-
- Projects that work successfully….
- Accurate guidance to customers…..
- A report that is complete and accurate ….

"Outcomes" are the final results of an organization's products and services. The example of an outcome could include :

- Reduced number of customer complaints
- Improved Credit Deposit Ratio
- A decrease in the rate of default in repayment of loan instalments
- Objective report that helps in MIS, decision making and future planning

If we want to develop performance plans that support the achievement of organizational outcomes, we must try through an approach of sharing organizational goals with everyone in the organization, measuring and rewarding accomplishments rather than activities and providing feedback on performance.

Using Balanced Scorecard-Balanced Measures

It is important to include a discussion about the importance of balancing measures in performance improvement and measurement system. Robert S. Kaplan and David P. Norton have developed a set of measures that they refer to as "a balanced scorecard." These measures give top managers a fast but comprehensive view of the organization's performance. Kaplan and Norton compare the balanced scorecard to the dials and indicators in an airplane cockpit. For the complex task of flying an airplane, pilots need detailed information about fuel, air speed, altitude, bearing, and other indicators that summarize the current and predicted environment. Reliance on one instrument can be fatal. Similarly, the complexity of managing an organization requires that top managers should be able to view performance in several areas simultaneously. A balanced scorecard - or a balanced set of measures-provides that valuable information.

Tie-in to Employee Performance

A balanced approach to employee performance appraisal is an effective way of getting a complete look at an employee's work performance. By measuring only behaviors or actions in employee performance plans, an organization might find that most of its employees are appraised as Outstanding when the organization as a whole has failed to meet its objectives.

Developing Employee Performance Plan

A performance plan without using a process

A balanced approach to employee performance appraisal is an effective way of getting a complete look at an employee's work performance.

that links accomplishments to organizational goals, the organization loses the opportunity to use the appraisal process to communicate its goals to its employees and to align employee efforts with its goals. The General Performance Plan demands a strategy that includes objective, quantifiable and measurable performance goals. To develop employee performance plans, it is better to start by gathering the following information :

- What are a firm's result areas as per its strategic plan?
- What are the Specific Performance Goals established for Annual Performance plan?

This requires an annual performance plan that sets out measurable goals that define what will be accomplished during a fiscal year. The goals in the annual performance plan describe the incremental progress toward achieving the general goals and objectives in the strategic plan. Performance plan goals are usually more specific and may be more output-oriented than the general outcome goals found in the strategic plan.

Does performance plan already exist?

A Bank's existing performance measurement systems should be such that a manager can access for information on performance, including measures used for determining progress toward achieving results and customer satisfaction surveys.

Components of General Measures

QUALITY addresses how well the employee or groups performed the work and / or the accuracy or effectiveness of the final product. Quality refers to accuracy, appearance, usefulness, or effectiveness. Quality measures can include error rates and customer satisfaction rates.

QUANTITY addresses how much work the employee or groups have produced. Quantity measures are expressed as a number of products produced or services provided.

Quantity measures are expressed as a number of products produced or services provided.

To develop specific measures, it is primarily necessary to determine the general measure(s) for each element (*i.e.*, quantity, quality, timeliness, or cost-effectiveness).

TIMELINESS addresses how quickly, when, or by what date the employee or work unit produced the service or product.

COST-EFFECTIVENESS addresses money savings or cost control for the Bank. We should develop measures that address cost-effectiveness on specific resource levels (money, personnel, or time) that we can generally document and measure in annual budgets. Cost-effectiveness measures may include such aspects of performance as maintaining or reducing unit costs, reducing the time it takes to produce or provide a product or service, or reducing waste.

Developing Specific Measures

To develop specific measures, it is primarily necessary to determine the general measure(s) for each element (*i.e.,* quantity, quality, timeliness, or cost-effectiveness). Then, the second thing is to determine how to measure the quantity, quality, timeliness and / or cost-effectiveness for the element. If we can measure an accomplishment with numbers, we should record the form of measurement. If the manager can only describe performance (*i.e.,* observe and verify), it is necessary to clarify who will appraise the performance and the factors of appraisal.

FIRST : For each element, it is necessary to decide which general measures to apply :

- Is quality important?
- Is quantity important?
- Is it important to accomplish the element by a certain time or date?
- Is it important to accomplish the element within certain cost limits?
- What measures are already available?

SECOND : For each general measure, ask :

- How could (quality, quantity, timeliness and / or cost-effectiveness) be measured?
- Is there some number or percent that could be tracked?

If the element can only be described -

- Who could judge that the element was done well?
- What factors would they look for?

Finally it is necessary to write down the specific measures. If the measure is numeric, list the units that managers will track. If the measure is descriptive, identify the rater and list the factors that the rater will look for to verify performance.

How Balanced Scorecard and various Perspectives can be applied in Banks

Generally, in Banks, we end up measuring performance in terms of surplus or profits earned. It is true that profitability, gross revenues, return on capital (ROI), are critical bottom line results those must be achieved for survival of the bank. But if we solely concentrate on financial outcomes, they may endanger our long term functioning, life and growth, since financial measures are 'lagging indicators' of success. Besides financial indicators depend on past actions and events and are basically historical in nature. They indicate what has taken place based on past activities. They do not tell us about present state and less about the future predictions.

The balanced scorecard (BS) provides an interconnected and very useful model for measuring performance through four perspectives-financial, customer, internal business process and learning and growth. It reflects a unique set of balances between :

- Short term and long term objectives,
- Between financial and non-financial measures,
- Between lagging and leading indicators and

The balanced scorecard (BS) provides an interconnected and very useful model for measuring performance through four perspectives- financial, customer, internal business process and learning and growth.

Under the BS system, financial measures are the outcome, but they do not give a good indication of what is or will happen in the Bank.

- Between external and internal perspectives.

Under the BS system, financial measures are the outcome, but they do not give a good indication of what is or will happen in the Bank. Measures of customer satisfaction, growth and retention is the current indicator of bank's performance; efficiency, speed, reduction of non-value addition jobs, minimizing quality related issues are indicators of internal processes and HR systems and development are 'leading indicators' of Bank's performance.

In the changed market dynamics, every Bank now rallies round a common purpose - how to be 'customer focused', 'customer friendly' and 'customer relevant' in the long run. Therefore, when we focus on financial measures alone, we lose sight of the very purpose of our existence - to serve the customers and keep them delighted and loyal. In such a situation Banks may take decisions like :

- Reducing deposit rate for immediate profit enhancement
- A hike in rate of interest on credit where customers may not be presently aware of
- Increasing service charges without corresponding value addition to customer
- Value reduction in other ways

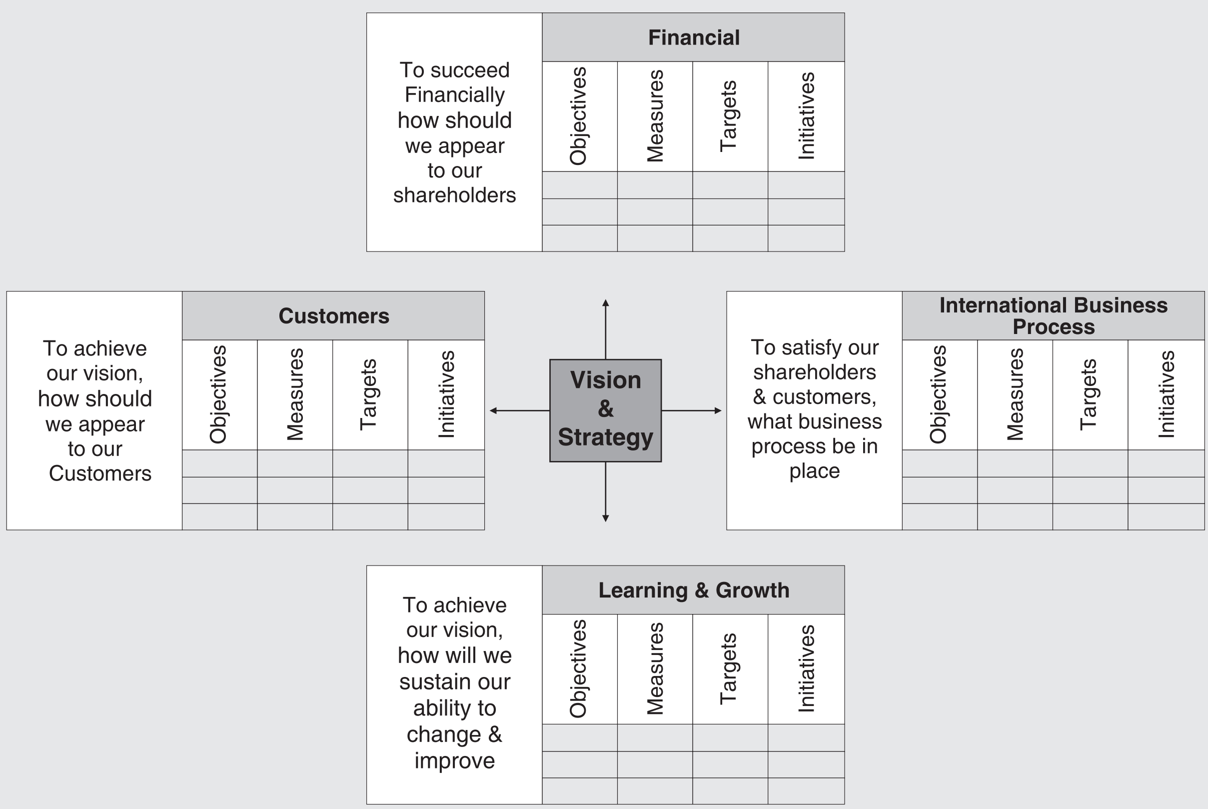
This will surely destroy relation and loyalty of the customers and customers will eventually go to the competitors. Thousands and thousands of companies worldwide have gone out of business that only focused on profit without considering customer satisfaction and value proposition to customers. So, the obsession with bottom line results which may give short term expected results can be a death trap for the long term viability of the Bank.

The Balanced Scorecard enables us to measure not only what we were doing ('lagging indicators') but also how well we are doing ('current indicators') and can expect to do in the future ('leading indicators'). BS method is a strategic approach and is a conceptual framework for translating vision into a set of performance indicators distributed among four perspectives -

- Financial
- Customer
- Internal business Processes and
- Learning and Growth.

A typical framework of BS is as under :

- Income on loan and advances and non interest Income : actual to forecast (%)
- Per capita Business : actual to forecast (Say 30 against forecast of 29 million)
- Cost of Fund : actual to forecast (Say 7% against 7.1%)
- Credit Deposit Ratio : actual to forecast (Say 70:30 against 75:25)
- Level of NPA : actual to forecast (Say 3% against 4%)



A Typical Balanced Scorecard Model

The Financial Perspective :- This perspective measures financial performance of a Bank. How a Bank can create long-term share holder value? This may be by measuring -

- Operating expense : actual to budget, actual to forecast, fixed versus variable, cost per transaction for major delivery channel
- Initiatives : forecasted staff requirements, resources used versus forecasted, resource deployment percentages
- Capital deployment : Return on Investment : actual to budget; actual to forecast (%)

The Business Perspective :- This represents the Bank's relationships with its market. It includes strategies, organizational strategies, goal, measures, structures and deployment of resources. This perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customer expectations, Banks must identify the key business processes at which they must excel. The strategic objectives may be summarized as under :

Strategic Objectives	Measures	Target (may be)	Initiative
Business Perspective Broaden revenue mix	● Revenue mix ● Revenue growth	● + 15% ● + 30%	● Appropriate revenue targeting through Improved cost structure ● New revenue sources through Improved asset allocation
Customer Perspective Customer value proposition	● Share of segment ● Customer satisfaction	● 30% ● 95%	● Segmentation program - Market segmentation - Campaign planning - Brand & account planning - New product launch ● Customer acquisition - Needs assessment - Proposal generation through customer intimacy and product innovation ● Customer retention - Inquiry handling - Problem resolution - Satisfaction survey - Operational effectiveness ● Customer growth - Customer business analysis - Needs assessment - Campaign management
Internal perspective Cross-sell the product line	● Cross-sell ratio ● Hours with customers	● 5 ● 1 hr.	● Financial planning program ● Integrated product offering
Learning and growth perspective Develop strategic skills Access to strategic information Align personal goals	● Strategic skills ● Strategic technologies ● Goals linked to BSC	● 100% ● 100% ● 100%	● Relationship management. ● Integrated customer program ● MBO update

BS is a GO-NO GO strategy. Based on strategic objective Bank should focus on :

- What products and services the Bank will offer (and what will discontinue)
- Which Customer and market segment the Bank will serve (and what not)
- How to reduce cash retention or idle fund holding
- Time taken to open an account, renew or close an account
- Time and cost involved in clearing outstation instruments
- Time taken to issue a Demand Draft
- Time taken to complete a specific Document set
- Time taken to redress a general complaint / grievance
- Whether most works can be met in a single window / counter or table
- Whether cost, time, quality involved are benchmarked against competitors
- Level of automation and Level of i-connectivity,
- Facilities of internet and intranet etc.

The Customer Perspective :- considers the organization's performance through the eyes of its customers so that the organization retains a careful focus on customer needs and satisfaction to achieve the best in business performance. There are primarily three sources of differentiation from the customer perspective.

- Product Innovation - Creation of new products and services that can keep one Bank ahead of its competitors.
- Customer intimacy - Developing intimate knowledge of customer needs and ways of satisfying them.
- Operational excellence - Delivering acceptable quality and service characteristics at the lowest possible cost.

The value proposition to customers should be defined in terms of price, quality, timeliness, features, service, relationship and brand. This may be by measuring :

- Result of Customer satisfaction rating measured against target (say 90-95%) and how they are used.
- Customer driven volumes : accounts, requests, transactions, complaints (increase & decrease as the case may be against projected target)
- Market share by product and by market : in %
- Revenue achieved against revenue goals - by customer segment (in % or volume)
- Which customer group the bank is going to serve (and going to discontinue)
- How fast customer grievances are handled? (in hours / days against target)
- What factors (Price / Quality) are meaningful to the customers of the Bank?
- Which factors will keep the Bank competitive? (Quality, Speed or cost etc.)
- What actions are being taken to reduce customer complaints?
- If there is a regular system to improve customer services, introduce new products?
- Whether there is an active benchmarking exercise to become number one Bank?
- What is the rank of the Bank among competitor Banks, etc.

The Learning and Growth Perspective :- This perspective captures the ability of the employees, information systems, and organizational alignment to manage the business and adapting to change.

The employees are the internal customer of the whole business process.

All other perspectives and processes will function if properly skilled and motivated employees, having access to timely information and other organizational resources are driving the organisation. In order to meet the ever changing requirements and growing customer expectations, employees are required to take new and added responsibilities that may require acquisition of new skills, capabilities, technologies and new organizational configuration. This may be made possible by way of creation of

- Knowledge networking through IT enabled central knowledge hub which is accessible as and when required for informed and timely decision.
- Technology leadership training statistics, regional and national leadership.
- Employee attitudes satisfactory survey results, voluntary turnover percentages, loss of key technology personnel, key technology positions unfilled, statistics on recognition of good results.
- Periodical Training and learning
- Creation of productive environment based on mutual trust where every one is willing to share and own responsibility to impart and learn.
- News bulletin / Home magazine to serve as Organizational mind.

The Employee Perspective :- The employees are the internal customer of the whole business process. They are the best sources for ideas. Business in a bank or service industry can run successfully in a participative and open door style. The potential to meet profitability goals rests mainly with employee involvement in every process. For each product or service, process schedule of human performance system needs to be developed with employment of training, feedback and reward system. The management of people in a bank is a key priority area. Leveraging and developing people skills have the following key elements :

- Recruitment
- Training
- Performance Management
- Motivation
- Productive environment
- Positive and participative Management Style
- Fast and timely communication

Objectives, Measures, Targets and Initiatives

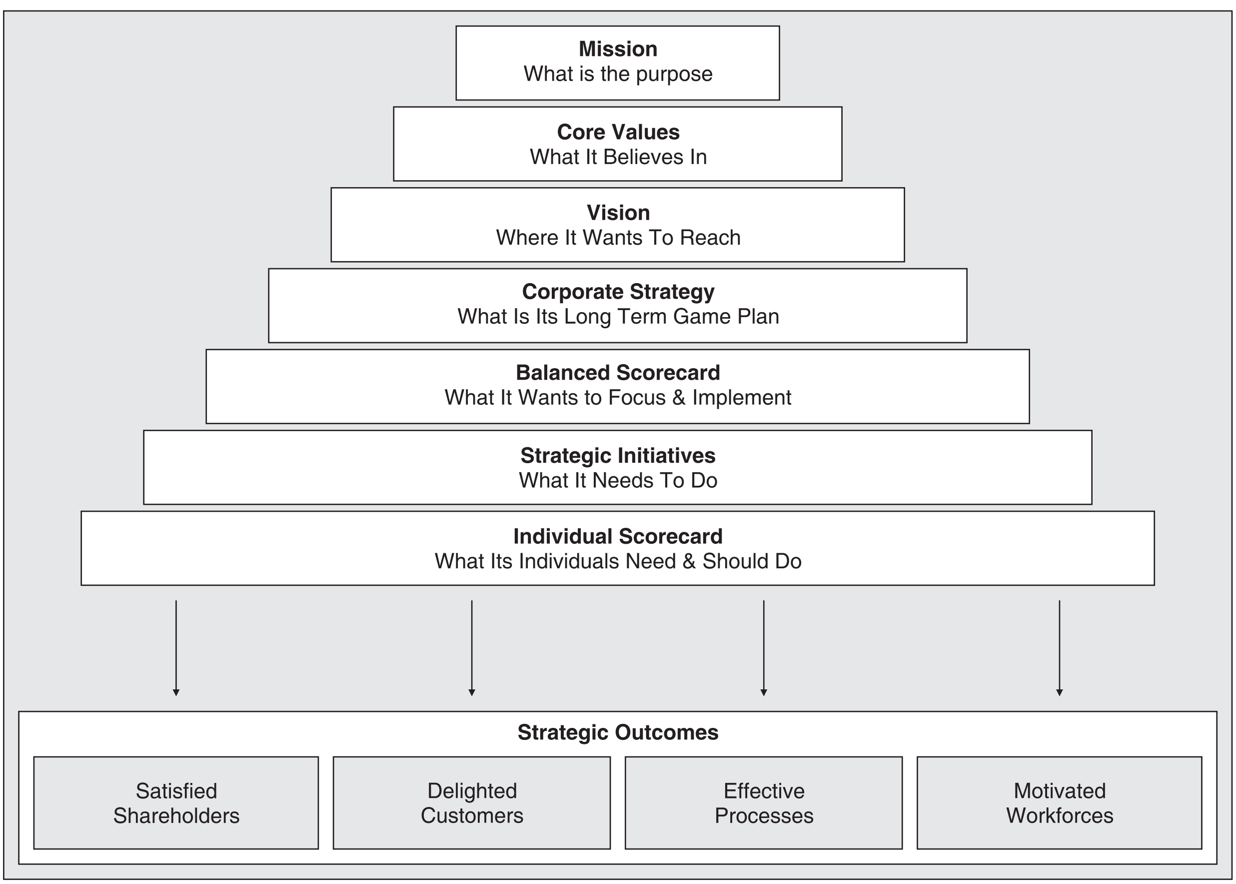
Within each of the balanced scorecard perspective financial, customer, internal process and learning and growth, like any other firm, bank must define the following which may definitely be different and distinct for every bank depending on their resource capability, mission and vision :

- Strategic Objectives - the long term plan for achieving the perspective
- Measures - how progress for that particular objective will be measured
- Targets - the target value sought for each measure
- Initiatives - what will be done to facilitate for reaching the target.

The balanced scorecard puts strategy and vision-leadership in action not control or managerial action at the centre. It establishes goals and assumes that people will adopt whatever behaviours and actions necessary to reach those goals. The balanced scorecard can be used in banks to clarify and update strategy, communicate strategy throughout the bank, align branch / operating unit goals with bank's strategy, link strategic objectives to long term targets and annual budgets, identify and align strategic initiatives and conduct periodic performance reviews to learn about and improve strategy.

The measures are designed to pull people towards the overall vision. Top leaders may visualise the results but cannot exactly tell employees how to achieve the results, because the environment in which they are operating are under continuous change. By combining the four perspectives the balanced scorecard helps to understand many interrelationships to transcend many traditional functional barriers and ultimately helps to take strong and improved decisions for better performance.

The balanced scorecard as a step by step process can be visualized as under :



Causes of failures in applying Balance Scorecard

There is no doubt that balance scorecard can be applied to harness bundle of benefits in a fully balanced way. It can prepare for much needed change. It provides for a front-end justification as well as a focus and integration for the continuous improvement, re-engineering and transformation process. But the expected benefit cannot be fully achieved if following things are present in a firm :

- There is absence of well defined strategy.
- Insistence on lagging measures
- Failure to develop specific metrics

A properly constructed balanced scorecard can provide the bank management with the ideal tool in responding effectively in this turbulent business environment. It can provide with feedback that will enable to monitor and implement strategy-even to the extent of adjusting the strategy itself. Many firms which have applied the Balanced Scorecard have begun to understand that this critical tool represents a paradigm shift in the underlying assumptions about performance and its measurement. Balanced scorecard has been considered by the Harvard Business Review as one of the 15 most important management concepts to have been introduced.

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Migration to New Capital Adequacy Framework : Parallel Run Process

With a view to ensuring smooth transition to the Revised Framework and providing opportunity to streamline their systems and strategies, banks in India were advised to have a parallel run of the Revised Framework, which they have been conducting since 2006-07. The boards of the banks were required to review the results of the parallel run on a quarterly basis. The parallel run consists of the following :

(i) Banks are required to apply the prudential guidelines on capital adequacy - both current guidelines and the guidelines on the Revised Framework - on an on-going basis and compute their CRAR under both the guidelines.

(ii) An analysis of the bank's CRAR under both the guidelines is required to be reported to the Board at quarterly intervals. While reporting the above analysis to the Board, banks should also furnish a comprehensive assessment of their compliance with the other requirements relevant under the Revised Framework, which include the following, at the minimum :

(a) Board approved policy on utilisation of the credit risk mitigation techniques, and collateral management;

(b) Board approved policy on disclosures;

(c) Board approved policy on internal capital adequacy assessment process (ICAAP) along with the capital requirement as per ICAAP;

(d) Adequacy of bank's management information system (MIS) to meet the requirements under the New Capital Adequacy Framework, the initiatives taken for bridging gaps, if any, and the progress made in this regard;

(e) Impact of the various elements / portfolios on the bank's CRAR under the revised framework;

(f) Mechanism in place for validating the CRAR position computed as per the New Capital Adequacy Framework and the assessments / findings / recommendations of these validation exercises;

(g) Action taken with respect to any advice/guidance/ direction given by the Board in the past on the above aspects.

A copy of the quarterly report to the Board is required to be submitted to the Reserve Bank.

The minimum capital maintained by banks on implementation of Basel-II norms is subject to a prudential floor computed with reference to the requirement as per Basel-I framework for credit and market risks. The floor has been fixed at 100 per cent, 90 per cent and 80 per cent for the position as at end-March for the first three years of implementation of the Revised Framework.

Source : Trend and Progress of Banking in India 2006-07, RBI.

Single Euro Payment Area : A Move Toward Dynamic Knowledge Driven Economy

Narinder Kumar Bhasin *

Introduction

Single Euro Payment Area (SEPA) aims to create an integrated market for payment services in Euro Area i.e. which does not distinguish between cross-border and national payments. This entails the removal of all technical, legal and commercial barriers between the current national payment markets. SEPA will make all euro payments in the euro area "domestic" and will result in new pan European Payment instruments, infrastructures, and standards. This SEPA vision will foster substantial economies of scale and customers will be able to make payment throughout the whole Euro area as efficiently and safely as in the national context today. If they so wish, they will be able to do so using a single payment account and single payment card. In the new reality, the winners will be those banks that develop successful new strategies for products, pricing, market positioning and sourcing, addressing how to maximise revenues and reduce costs. Driven by its aspirations to become 'the most competitive and dynamic knowledge-driven economy by 2010', the EU is fundamentally transforming the financial services industry. The Eurosystems's vision for SEPA : to enable people to make payments throughout the Euro area as quickly and easily as they make national payments today will be another step in the creation of a single market for Europe.

Evolution of European Payment Systems

The historical reason for the dominance of credit transfer payments in most European countries is the early establishment of giro systems, to which postal savings organizations importantly contributed. This development has its roots in the banking structure and activities of European banks in the early 1800s; banking in Europe was conducted by small banking houses (banker families) that did not accept public deposits to a significant extent. Indeed, the development of

Postal savings institutions of one form or another were established in all eleven countries.

modern banking organizations that collected savings from the general public began in Europe around the mid 1800s when large; limited liability commercial banks were established in many countries. The resulting increase in deposit taking activity led to the gradual increase of account transfer based payments at the expense of currency and coins. Other credit institutions, savings bank, credit co-operatives, as well as postal banks were established during this time and alter around Europe. These institutions have since developed their activities to closely resemble those of commercial banks in continental Europe and Nordic countries. In Europe the postal administration began to channel payments as postal payment orders during the 1800s. In addition, the postal system started to offer a major non cash savings service (postal savings) to the general public. Postal savings institutions of one form or another were established in all eleven countries.

During the late 1800s and early 1900s, postal savings institutions, commercial and savings banks, and credit cooperatives set up their own separate giro-systems. In some countries, postal giro systems were developed first and only later did commercial banks and other institutions follow, in order to capture a share of consumer deposits by providing payment services. After a phase of competition between these separate system, co-operative agreements between postal and bank giros were established in most European countries (Bank of Finland 1993). The establishment of wages to banks systems in the late 1960s and early 1970s where employers pay wages and salaries directly to employee's bank accounts strongly

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increased the use of bank and postal account transfers as a payment method in Europe. The clearing systems for credit transfer giro payments started shifting to electronics in the early 1970s, in some countries even in the late 1960s. Electronic POS card based transactions with real time linkages to account data represent a new stage in the evolution of payments in Europe and combine the finality advantage associated with currency use (legal tender) with the efficiency advantages of electronic account transfers. A concentrated banking industry and the nationwide branch networks of banks and postal savings institutions made it possible to establish giro payment systems in Europe based on credit transfers. Banking concentration has also played a major role in Europe by facilitating cooperation between banks and other institutions in the payment business. In a concentrated market, it is much easier to reach an agreement to establish a jointly owned giro system that, because of centralized clearing, is a lower cost alternative than use of geographically dispersed local clearing houses. In the 1990s, the development of Large Value Payment System in EU was shaped by two objectives :

- Response to Lamfalussy report
- Preparations for EMU

The EU central banks concentrated on developing a euro area wide RTGS system, which was required for achieving the integrated euro area money market as a prerequisite for the conduct of a single monetary policy. It was agreed in December 1993 to develop such a euro area wide RTGS system by linking the domestic RTGS system of each of EU Member State.

Large Value Payment Systems (LVPS) at the time of Introduction of EURO

Before the introduction of EURO in January 1999, only domestic LVPS operating in legacy currencies existed. The prevalent way of making cross border payment with EU was via correspondent banking. With the introduction of EURO on 1 January 1999, the principles for the provision of payment services with in the EURO area changed. The existence of single currency in several countries meant that cross border payments within the euro area were in principle no different from payments with in each

SEPA is a natural consequence of the introduction of the euro and it therefore focuses on euro area.

country. The conduct of single monetary policy required a single money market to be set up covering all euro area countries. The latter was greatly facilitated by the creation of a euro area wide LVPS the Trans European Automated Real Time Gross settlement Express Transfer System (TARGET) for the processing of Large Value payments in EURO.

TARGET is the RTGS system of the euro and eliminates the credit risk inherent in net settlements systems, settling credit transfers with immediate finality and therefore reducing system risk, although it is rather liquidity intensive. TARGET is a decentralised system set up by interlinking the existing national RTGS systems of the then 15 EU Member states and the ECB Payment mechanism (EPM) into a single system to enable the processing of inter Member State payments with in the EURO area. A unique feature of TARGET is that its euro payment services are available across a wider area than that in which the single currency has been adopted.

Need for SEPA

The introduction of a euro as the single currency of the 12 countries of the euro area will be completed only when the SEPA becomes a reality *i.e.* when the individuals and corporations are able to make cashless payments throughout the euro area from a single payment account anywhere in the euro area using a single set of payment instruments as easily, efficiently, and safely as they can make them today at the national level. SEPA is a natural consequence of the introduction of the euro and it therefore focuses on euro area. Nevertheless, it will also contribute to improving the single market and to meeting the objectives of Lisbon Agenda. The Lisbon Strategy, also known as the Lisbon Agenda or Lisbon Process, is an action and development plan for the European Union. It was set out by the European Council in Lisbon on March 2000. The Lisbon strategy intends to deal with the low productivity and stagnation of economic growth in

SEPA payment instruments will be used throughout the euro area and will make life easier for consumers.

EU through the formulation of various policy initiatives to be taken by all EU members states. The broader objectives set out by the Lisbon strategy are to be attained by 2010. The main fields of Lisbon strategy are economic, social and environmental renewal and sustainibility. The SEPA will only be accepted by the users and therefore materialise, if it is future oriented, if it anticipates how modern payment systems will look at the end of the decade and if it exploits the new possibilities offered by progress in information technology. In addition, in the next few years a number of EU countries are expected to join Economic and Monetary Union, therefore a careful balance has to be found between the absolute necessity to establish the SEPA for the euro area and, on the other hand, the need for openness to the rest of EU.

Benefits of SEPA

For Consumers : SEPA payment instruments will be used throughout the euro area and will make life easier for consumers. They will only need one bank account. From this account, they will be able to make credit transfers and direct debit payment anywhere in the euro area as easily as they make national payments. They could, for instance , pay rent for children studying abroad , pay for holidays home or for services provided by pan European companies *e.g.* mobile telephone services, insurance companies, utilities *etc.* People who live, work or study outside their home country will no longer need a bank account at home and another one abroad.

For Merchants: Cards are becoming one of the main payment instruments for consumers. To accept card payments, merchants need an agreement with the bank which “acquires” card payments, *i.e.* processes the payer information and forwards it to the clearing infrastructure. SEPA will allow acquirers to process all SEPA compliant card payments, even across borders. Merchants can therefore choose any bank to acquire their card payments which will increase competition and drive costs down. SEPA will also push forward the standardisation of point-of sale terminals in the euro area. Merchants will be able to accept a wide range of cards with a single terminal and competition could also drive costs down.

For Companies : SEPA will help companies simply their pan-European business management, as all financial transactions can be done certainly from one bank account using SEPA payment instruments. Payment handling be simplified as all incoming and outgoing payments will use the same format. Companies with pan European business can also save costs and time by consolidating their payment management. Value added services, such as e-invoicing and e-reconciliation, can help companies optimise their accounting system. Today, these services are often only offered nationally as the different payment formats make cross border use difficult. Payment instruments based on standardised SEPA payment schemes will make this obstacle easier to overcome.

For Banks : EU Commission Regulation No. 2560 / 2001(which states that the fee for cross border payments cannot exceed the fee for a similar national payment) has created an imbalance between bank fees and costs for cross border payments. This can be overcome if the handling of cross border payments processing, clearing and settlement becomes as efficient and cheap as the handling of national payments, which is exactly what SEPA is all about. By providing new payment instruments and common interoperable infrastructure, SEPA will bring about further European integration and market efficiency. This consolidation of infrastructure will spur competition and banks can then negotiate better clearing prices.

SEPA payment instruments will allow banks to expand their business and compete on a pan-European level, as any bank can offer its services to anyone in the euro area, without additional costs or extra effort. Banks can also expand their business and offer their customers value added services in addition to SEPA payment instruments. As the SEPA will eliminate national barriers, it will foster greater competition, and as a result exert downward pressure not only on bank's revenue but also on processing costs. In addition general and large scale standardisation will result in better opportunities to share development costs and software product. The banking industry is responsible for delivering the SEPA products, as it is upto the banks to develop and maintain viable and profitable business models that are compatible with SEPA.

General Objectives and Working methods

European Central Bank Fourth progress report titled “Towards a single euro area payments area” released in February 2006 specifies the following general objectives and working method as mentioned below.

General Objectives :

- The SEPA will eliminate national barriers
- The SEPA will focus on the EURO area
- The SEPA will be future oriented
- The SEPA will be user friendly
- The SEPA will require a communication strategy
- The SEPA will also benefit Banks
- The time frame of the SEPA process will be upheld
- The SEPA objectives will focus on establishing common standards and procedures

Working methods :

- The move to SEPA must be run as a project
- Users must be involved
- Public administrations are involved

Time Frame for SEPA implementation

In 2005, the European Payments Council (EPC) and its working groups invested substantial effort and resources in development of the Rulebooks for the two schemes defined by the EPC : the SEPA Credit Transfer and the SEPA Direct Debit The EPC also defined a SEPA Cards Framework. The EPC also defined a SEPA Cards Framework. In order to follow the principles of good project management, the Euro system urges the EPC to approve the Rulebooks in March 2006. It is vital for the SEPA project that the present achievements be frozen and they cannot continuously be challenged however, the Euro system also urges the EPC to identify the issues which will require further elaboration and might possibly complement the Rule Books. The list of issues should be limited and clear deadline set for each item.

The SEPA project has two Phases :

Implementation Phase until 2008 : The Schemes for SEPA payment instruments have been developed and banks and infrastructure will prepare their systems for roll out.

Migration Phase from 2008 : Customers will be offered both “old” national instruments and the new “SEPA” instruments. The European infrastructure will be able to clear payments made by both the types of instruments. A critical mass of transactions will have migrated to SEPA payment instruments by 2010 .Moreover, by end 2010, all euro area retail payment clearing and settlement infrastructures must be capable of processing SEPA instruments. Consequently, infrastructures must be to address or receive, directly, payment orders from any bank in Euro area.

Initiatives by European Payments Council (EPC)

- Developed and approved two rulebooks; one for SEPA direct Debit and one for SEPA Credit transfers
- Developed a framework for SEPA cards and for SEPA clearing and settlement mechanism
- Worked on common standards for cash and payment transactions

The Eurosystem's View of a SEPA for cards

There are currently more than 350 million cards in circulation area, which are used to make more than 12 billion payment transactions and 6 billion cash withdrawal transactions per year. There is at least one national card scheme operating in each euro area country. To allow cards to be used outside the country of issuance, national cards are often “co-branded” with Visa or Master Card. When the card is used within the country of issuance, it is usually the national brand which is activated, where as outside the country of issuance (within the euro area or beyond), the international brand is used. The SEPA project will have a tremendous impact on the card payment industry, and the Eurosystem's stance will be critical in helping the market to move in direction which maximises the benefits for Europe.

A SEPA for Cards will have the following characteristics :

1. Consumer's can choose among a diversity of competing payment card schemes that do not have a pre-assigned priority in use at point of sale (POS) terminals ;
2. There is a competitive, reliable, and cost efficient card market, including service and infrastructure providers;
3. All technical and contractual provisions, business practices and standards which had formerly resulted in the national segmentation of the euro area have been eliminated. In particular, there is no obstacle for merchants to accept any payment cards compliant with the SEPA Cards Framework (SCF).

The SCF has been adopted by the European Payments Council (EPC). The SCF defines three options that a card scheme can follow in order to offer SCF compliant product (these options may be combined) :

1) Replace the national scheme by an international scheme (provided the latter is SCF compliant). In this Co-branding is no longer needed, as cross border and national transactions are automatically covered by the same schemes.
2) Evolve through alliances with other card schemes or through expansion to the entire euro area. In the case of card scheme alliances, the participants could agree, for example on mutually accepted relevant brands.
3) Co-brand with an international card scheme (as is already the case in most countries today), provided that both schemes in question are SCF compliant.

SEPA compliance : banks are moving now

By 2008, banks need to be able to offer and process SEPA payment products based on the SEPA rulebooks. Compliance is not optional it is essential for banks in order to prevent damage to their reputation. Banks will need to develop payment products and adapt their payment systems and processes accordingly. Although SEPA is primarily a business issue, the impact on processes, organization and IT infrastructure is considerable. Non-IT issues such as SEPA product development and pricing will also need to be addressed. Banks may need to determine the impact on current's clearing interfaces as SEPA puts different requirements on ACHs concerning their reach, their product and service offerings and prices.

Another important element on the compliance agenda is the migration of current national payments to SEPA. Analysis in the 2006 World Payments Report shows that in the six main euro countries 85 percent of the current non-cash payments already take place in some SEPA-like form. Of these volumes, 13 percent are SEPA compliant and another 45 percent can be 'SEPA-dized' relatively easy. The remaining 42 percent show a considerable gap towards SEPA. There is however no SEPA-equivalent for 15 percent of current non-cash volumes such as cheques. Banks and banking associations will need to address and plan substitution of these products to SEPA-standards in their national migration plans.

The compliance analysis provides relevant input for future strategic repositioning. Banks should realize that compliance is just an initial step towards SEPA. Compliance alone will not reduce payments processing costs, provide competitive advantage or yield additional revenue opportunities.

SEPA Timelines - Proposed Road Map

The EPC has created a timetable for the development and implementation of SEPA :

2005-2006 : Design and Preparation

The first phase of the EPC timetable for SEPA involved the design of the SEPA Credit Transfer and Direct Debit instruments and the Cards Framework. The development of standards and the specification of the technical details were scheduled to be completed by the end of Q3 2006; versions 2.2 of the SEPA Credit Transfer and Direct Debit Scheme Rulebooks as well as of the SEPA Data Model and the Implementation Guidelines were approved by the EPC Plenary in December 2006.

1. EPC instruments available to citizens (broad roll-out of SEPA Direct Debit instrument only expected at a later stage) .
2. Critical mass migrated to SEPA is irreversible

The Cards, Cash and PE-ACH Frameworks have been completed. They were approved at the EPC Plenary Meeting of March 2006. The items that still need to be delivered by the EPC include the Direct Debit Phase 2 deliverables, the outcome of the Direct Debit Interchange project and the Scheme Management structure.

2006-2007 : Implementation and Deployment

A part of the second phase of the EPC timetable, the implementation phase has started in 2006; it overlaps with standards and specification. The testing phase started with planning at the beginning of 2007 and testing will kick off towards the middle of 2007. The launch of the SEPA Credit instrument is scheduled to take place on 1st January 2008. Banks are expected to be operationally ready for processing SEPA Direct Debits from January 2008, but the actual deployment of this payment instrument may only take place at a later stage when the transposition of the Payment Services Directive into national legislations has been completed. According to the EPC, the roll-out across SEPA of the SEPA Direct Debit instrument will start sometime in the first half of 2009.

The roll-out phase will be accompanied by major testing exercises at the level of the different communities. As defined in the SEPA Testing Framework issued by the EPC, each bank is required to declare that it is SEPA operationally ready to its national community. This declaration implies that the bank has carried out tests with other banks in the community and with one or more Clearing and Settlement Mechanisms. The EPC will support and monitor these testing activities, but in contrast to the design phase, the banking communities will take the lead in putting the schedule in place and carrying out the necessary tests Furthermore, SWIFT and other vendors have established SEPA testing programmes.

2008-2010 : Co-existence and Migration

The third phase of the SEPA project will be a transitional period characterised by a co-existence of national and SEPA Schemes and a gradual migration to the SEPA Payment Schemes from January 2008 to the end of 2010 and beyond.

SEPA means extra investments and a potential change in future exploitation costs.

SEPA Clearing and Settlement Challenges for Banks

From 1 January 2008, financial institutions all over Europe need to be ready to process SEPA Credit Transfers (SCT). One of the key decisions banks have to make is how they are going to organise the clearing and settlement of their SEPA transactions.

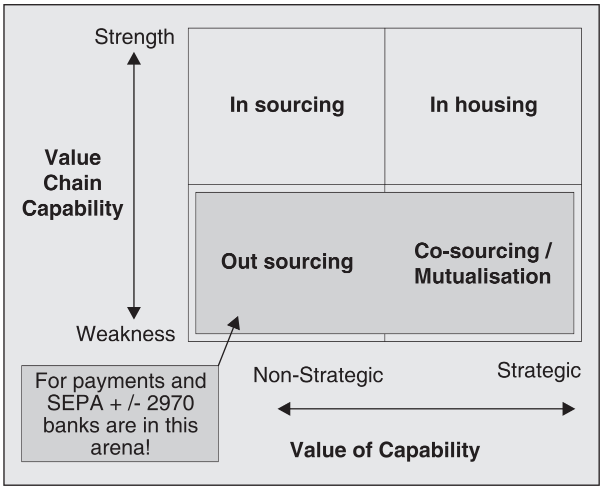
Whether it's a small, local oriented bank or a large European player, payments may not be a core business but they are always involved in their product proposition. The single euro payments area (SEPA) will have a major impact on payments business in Europe; it introduces new standards, new products and a wider range of services.

SEPA means extra investments and a potential change in future exploitation costs. Competition will increase as new opportunities arise and new entrants enter the SEPA world and the distinction between domestic and cross-border payments in euro disappears (with the likely downward pressure on payment prices). The market place is on the move; payments will become a commodity and a volume business.

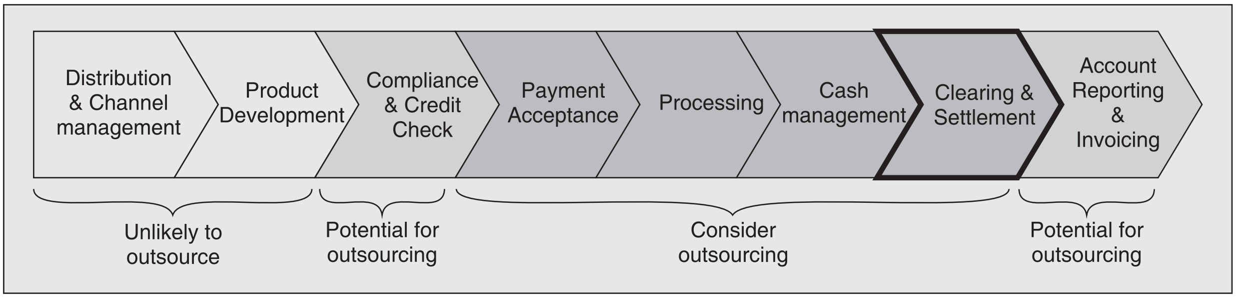
Consolidation Will Happen

Recent studies (e.g. Cap Gemini, World Payments Report) indicate that only 4000 of the 9000 banks that currently operate in Europe are active in the payments space. Only 30 banks will have the volumes to cost-efficiently process payments in the SEPA world. The capability to 'switch' between the different routing options ensures a competitive price can be negotiated. These banks will even offer insourcing services. More seriously, SEPA will force about 1000 banks to move away from payments and around 2970 banks will continue to offer payments but lack the volume to be able to process payments competitively.

Looking at the payments value chain, financial institutions have different sourcing options. A bank can choose to outsource multiple elements of their payments value chain or opt for just one element depending on their capabilities in the value chain and the value of these capabilities in respect to their strategy.



In general, for the smaller banks, when looking at the payments value chain and SEPA, outsourcing or co-sourcing are logical steps to take but certain elements are more appropriate for outsourcing considerations than others.



Payment Pricing in a SEPA context

While core compliance in terms of SEPA payment processing is top of the agenda for banks, they also need to address the pricing component, both at the strategic and IT application level, in order to create an effective business plan.

It is widely recognized that the single euro payments area (SEPA) will re-shape the contours of the payments business. Banks, national ACHs and PE-ACHs are working to get the tactical SEPA credit transfer (SCT) and SEPA direct debit (SDD) payment processing capabilities in preparation for the 'introduction window'. Various options are being considered and adopted, based on each bank's strategic viewpoint.

Some of the elements are also being, or will be, considered for the next wave (beyond the introduction window) as detailed in their respective SEPA business plan. Most business plans tend to identify future revenue streams alongside cost management measures. While cost management measures are internally focused (and hence, more predictable), predicting and ensuring revenue streams is often the more difficult task. Managing payment revenue streams through pricing will be the 'moment of truth' that banks will eventually face in a post-SEPA context.

There are multiple basic variables by which a payment fee is structured and these are set to increase as detailed above. Some of the considerations for pricing strategy will be regulatory-driven monetary thresholds for parallel pricing (as amended from time to time) as well as the co-existence of products (existing products and SEPA products), currencies (*e.g.* euro and sterling), infrastructures (*e.g.* RTGS, deferred net settlement systems / DNS; same day infrastructures), multiple compliance and reporting requirements, customer / bank operating models, and pricing based on total customer relationship, etc.

Vanilla pricing models, such as 'cost-plus', 'competition linked', 'customer segment' (*i.e.* retail, business banking, corporate and FI, etc) based rate cards/pricing will not suffice. The ability to offer relationship-based differentiated pricing is a strong lever for profitability in a post-SEPA scenario. On the other hand, there are various operational challenges for banks to contend with, such as ensuring that :

- All 'billable' services are being recorded - including variations based on variables.
- All charges and fees due from customers are indeed being collected.

- All charges and fees are consistently applied across the region(s).
- Differentiation is provided to win / retain / grow customer relationships.
- Customer profitability is being maintained.
- Benefit is shared as per evolving bilateral agreements.
- Distinction is made between 'opportunity' loss and 'real' loss in payment pricing.
- Payments are routed through the optimum processing infrastructure, based on customer pricing.
- Pricing is maintained for physical cash payments and electronic payments.
- Pricing is used as a lever to move customer usage away from 'loss leader' products.
- MIS is funnelled back to the product management for 'defining, designing and maintaining' AOS.

We observe that the current charging capability is often embedded in legacy system silos, usually spread across geographies, making improvements costly. A holistic approach to payments pricing in a SEPA context is a fundamental requirement.

Recent Developments and Progress

The number of adherents to the SEPA Credit Transfer Scheme passes the 4,000 mark - 02-01-2008.

The number of adherence packs received now exceeds 4000. Some 2100 of these have already been approved by the Scheme Management Committee and the remainder will be presented for approval on 9 January. Although 14 December was the deadline for guaranteed inclusion in the list of accepted participants for the 28 January, 2008 launch, later applications.

EPC Issues first version of a SEPA Business to Business Direct Debit Scheme Rulebook - 20-12-2007

On 18 December the EPC Plenary approved version 1.0 of the SEPA B2B Direct Debit Scheme Rulebook was released. The Scheme provides a set of inter-bank rules, practices and standards which will allow the banking industry in SEPA to offer - on an optional basis - a business to business (B2B) direct debit product to business customers. The Scheme has been defined with the SEPA Direct Debit Scheme Rulebook v2.3 as a starting point.

The key characteristics of the B2B Scheme, which was developed in consultation with corporates, are a shorter time cycle for collections, the absence of a refund right for Debtors under the Scheme (disputes to be handled by the professional parties - Debtor and Creditor - directly) and stricter mandate checking procedures.

The document contains the necessary business rules to enable national banking communities, relevant stakeholders and suppliers to commence implementation planning, systems and product specfication and development. A version 1.1 may be expected in April 2008 after the resolution of residual legal issues, further alignment with the Payment Services Directive and some minor business enhancements.

Achieving Reachability in SEPA - 07-12-07

An appendix to the EBA document 'Banks Preparing for SEPA' was released. This document provides banks with a detailed list of the key reachability-related obligations they need to fulfil with regard to the SEPA Credit Transfer Scheme.

Banks Preparing for SEPA - 07-12-07

EBA paper on issues to be addressed to achieve SEPA compliance released

The introduction of the Single Euro Payments Area (SEPA) affects all banks operating in Europe : It will change the payment products the banks offer in their front office and the payment processes they run in their back office - when they communicate with other banks as well as with Clearing and Settlement Mechanisms. In order to operate in this new European payments environment, banks need to achieve SEPA Compliance. This means that they must comply with the requirements defined by new European legislation and the new self-regulatory documents of the European Payments Council, the European banking industry's decision - making and co-ordination body on payments.

Small banks need to decide now how to organize their SEPA clearing and settlement and the search for a partner seems the only choice for smaller banks.

Conclusion : The Way Forward for SEPA

Small banks need to decide now how to organize their SEPA clearing and settlement and the search for a partner seems the only choice for smaller banks. Looking beyond SEPA, a partner may even be able to add more services by taking over the processing of additional products (*e.g.* TIP processing and remaining post-SEPA local domestic payments) or, when one is ready to outsource more parts of the product value chain, by taking over additional processes of the payment value chain.

At this moment in time, looking for a future proof partner may not be the greatest concern for small banks; but, in order to be ready for SEPA, small banks should think now about SEPA clearing and settlement partners. This partner will organize their routing of SEPA payments in such a way that attractive prices and customized value added services can be offered, while the outsourcing bank can avoid investment, but it does not necessarily need to be the partner for the future.

Keep in mind strategy for the long term, the possibilities of SEPA at short notice and the willingness to make investments. Anticipate developments by staying flexible in sourcing choices to make sure that benefit from the competition that will arise in the clearing and settlement market space.

The individual responsibilities and expectations of each stakeholder group affected by SEPA require more clarification, co-ordination and governance. Everyone involved seems to be shifting the responsibility for implementing SEPA to others and this will only be to the detriment of the end goal and the time in which SEPA is achieved. "SEPA is not just a task for banks but for everybody," affirmed SEB's Flismark. "It should be a market-driven approach that requires involvement from all stakeholders." It remains to be seen whether this may require support or pressure from the regulators.

As the appointed first movers, banks require more certainty for the investment, development and roll out of the new SEPA instruments. A clear position from regulators in terms of the PSD being finalized is crucial in meeting the January 2008 deadline. Indeed, any form of clarification will benefit SEPA migration in reaching critical mass in 2010.

By nature, the payments industry is a network business meaning that standards are key. Even though a subject of much discussion, SEPA governance and standards remains unclear. The ECB and Commission urge banks to speed up adoption of common standards for customers to make euro payments throughout Europe from a single bank account, credit card or debit card. Commissioner McCreevy also affirmed that governments must quickly implement an EU directive on an operating framework for a single payments area otherwise "businesses and banks cannot proceed with building the infrastructure in a timely way."

There is no question that progress has been made on SEPA, but there needs to be a re-think in terms of communication strategies, and this applies to the regulators and their relationship with the industry and banks/financial service providers with their corporate and consumer clients. The dialogue between banks, corporates, retailers and public administrations must be strengthened to raise further awareness about SEPA, the features of the new schemes and rulebooks, as well as the opportunities and potential pitfalls of the proposed system in order to move forward on SEPA successfully.

Reachability is a key factor for the successful implementation of Single Euro Payments Area. In order for customers to fully reap the benefits offered by the new pan Europeon payment instruments, payments need to successfully travel from any originating bank to any beneficiary bank in SEPA in a timely manner without there being any gaps or hurdles. Any bank that offers SEPA services needs to ensure it can reach any other SEPA Compliant bank in the European Union, the Europeon Economic Area and Switzerland.

McKinsey & Co's advised all stakeholder to "monitor the uncertainties" surrounding SEPA. Timing, market momentum to full integration, economics, business models and the level of standardization are all critical factors that remain open to discussion and debate. These uncertainties require close attention and co-ordination by all : SEPA is, after all, a moving target - A move towards creation of Knowledge Dynamic Economy first in Europe and then lessons to be learnt by other countries in the world.

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Reverse Mortgage - Recent Developments in India

In the Union Budget 2007-08, the Finance Minister announced the introduction of a novel product for senior citizens - the 'reverse mortgage'. This product enables a senior citizen, who is the owner of a house, to avail of a monthly stream of income against the mortgage of his / her house, while remaining the owner and occupying the house throughout his / her lifetime, without repayment or servicing of the loan. Conceptually, reverse mortgage seeks to monetise the house as an asset and specifically the owner's equity in the house. A reverse mortgage is just the opposite of a forward mortgage which requires the payment of the principal loan amount along with interest on a monthly basis. This helps a borrower in retaining his home equity and hence increasing the home value. But with reverse mortgages, there are no such monthly repayments and so the debts go on increasing. The home equity, therefore, reduces to an extremely low value unless the property value keeps increasing. Therefore reverse mortgages are often known as 'rising debt and falling equity'.

The genesis of reverse mortgage can be traced to developed countries where, due to higher standards of living, better access to health care and higher life expectancy, people above 65 years constitute a major chunk of the population. The ever-rising cost of pensions and health care for the old prompted insurance companies to introduce the reverse mortgage in the US, the UK and Australia. In India, the National Housing Bank (NHB) has recently laid down the guidelines on reverse mortgage loans (RML) for senior citizens. RMLs are to be extended by primary lending institutions (PLIs), *viz.,* scheduled banks and housing finance companies (HFCs) registered with NHB. The PLIs would have the freedom in this matter according to their individual perception of the borrower and commercial judgements.

The reverse mortgage scheme would have the following features. The lender makes periodic payments (including lump sum payments) to the borrower, i.e., the payment stream is 'reversed', as compared to a conventional mortgage. The payment mode in such a scheme might be of following types : either periodic payments (monthly, quarterly, half-yearly, annual) to be decided mutually between the PLI and the borrower upfront or lump-sum payments in one or more tranches or line of credit, with an availability period agreed upon mutually, to be drawn down by the borrower. The loan is not required to be serviced, i.e., no payment of installment or interest, as long as the borrower is alive and in occupation of the property. The loan will be repaid on the death of the borrower and the spouse (usually a co-obligant) or on permanent movement through sale of property. After adjusting the principal amount of the loan and accumulated interest, surplus will go to the Estate of the deceased. The loan can be for a maximum period of 15 years and can be prepaid together with accumulated interest at any point in time without any prepayment charges. The interest rate (including the periodic rest) to be charged on the RML to be extended to the borrower(s) may be fixed by PLI in the usual manner based on risk perception, the loan pricing policy and specified to the prospective borrowers. Fixed and floating rate of interest may be offered by the PLIs subject to disclosure of the terms and conditions in a transparent manner, upfront to the borrower.

Principal benefits of the scheme are that it enables senior / elderly citizens owning a house but having inadequate income to meet unexpected lump sum expenditure needs such as renovation / repairs to house, hospitalisation, etc. Even after the demise of the borrower, the spouse can continue to stay in the house. If the spouse is co-borrower, he / she will continue to receive payment (up to 15 years from grant of loan). Payment received from a reverse mortgage is considered as 'loan' and not 'income' from tax angle. Such a scheme can be a partial substitute for a social security scheme for home owning senior citizens and it will be particularly useful to those with no / unwilling family to support them. However, the scheme involves re-valuation of the property mortgaged to the lender at intervals that may be fixed by the lender depending upon the location of the property and its physical state. Therefore, the success of such a scheme would depend upon an appropriate valuation/ pricing of the property by the lender.

Source : Trend and Progress of Banking in India 2006-07, RBI.

CDOs : Are they still relevant?

Rajiv Bhatt *

Abstract

The subprime debacle of 2007 has caused deep and wide-spread losses in the global financial system and has brought 'innovative' structured credit products such as CDOs under bitter criticism. It is argued that while such 'innovative' products provided liquidity which fuelled subprime lending, they also led to a wide dispersion of credit risk which exacerbated the contagion effect of the subprime crisis which originated in the U.S but spread across the global financial markets. Given this backdrop, it is useful to understand the technologies used in structuring 'innovative' credit product such as CDO and the theoretical motivations underlying these technologies. Using a typical CDO structure, this paper investigates into the motivations underlying the three essential technologies - pooling, securitization and tranching - used in structured credit products, and argues that there are sound motivations which justify the relevance of CDOs as a structured credit product.

1. CDOs and Subprime Crisis

1.1. Introduction to CDOs

'Structured Credit' may be defined as a process of taking plain vanilla credit instruments and 'structuring' them to meet certain goals, which can include diversification, loss or payment redistribution, hedging, principal protection, achieving ratings targets or stability, and altering a portfolio's sensitivities to spread movements and defaults [Mahadevan et al (2005)]. A widely prevalent form of structured credit is Tranched Debt Obligations, also referred to as Collateralized Debt Obligations (CDO). A CDO comprises a series of obligations that are dependent on the performance of a portfolio of underlying assets (collateral) such as loans, bonds, asset-backed securities, mortgage backed securities, credit default swaps etc.

1.2. Growth of CDOs and Subprime Lending

The growth of Collateralized Debt Obligations (CDOs) has been explosive during the past decade. From hardly any issuance in 1995, more than $500 billion worth was issued in 2006. Since their invention in the 1980s, CDOs have evolved into innovative and complex structured products (such as CDO-squared, CDO-cubed). About 40% of CDO collateral is Residential Mortgage Backed Security (RMBS). Almost three quarters of that is in subprime[1] and home-equity loans, with the rest in higher-quality, prime home loans[2]. The subprime lending industry too has grown significantly since the 1994. The industry has gone from representing less than 5 percent of all originations to 20 percent. On a dollar value basis they have gone from $35 billion in 1994 to $625 billion in 2005. The exponential growth in subprime lending since 1995 coincides with the exponential growth in CDO over the same period. It is therefore widely argued that CDOs were a vital source of liquidity to fund subprime lending. This liquidity, coupled with a benign credit environment marked by rising house prices and low default rates, fuelled the growth in subprime lending.

1.3. CDOs exacerbating the subprime crisis

A CDO transfers the credit risk of a pool of underlying collaterals (such as RMBS) to investors by slicing (or tranching) the collateral cash flows into 'tailor-made' securitized notes to offer leveraged returns to investors with diverse risk/return needs. Since CDOs are a mechanism for transferring credit risk, it is argued that CDOs led to the widespread dispersion of subprime credit risk. Demyanyk and

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1. *The term "subprime" refers to mortgagees who are unable to qualify for prime mortgage rates. Reasons for this include poor credit histories (payment delinquencies, charge offs, bankruptcies, low credit scores, large exiting liabilities, high loan to value ratios). [Crouchy and Turnbull (2008)]*
2. *http://www.marketwatch.com/news/story/subprime-mortgage-shakeout-cdosmay/ story.aspx?guid=%7B620D90CA-3A9E-4A21 9591-E772D59E5CF3%7D. As on 3rd Oct 2007*

Hemert (2008) show while the subprime lending market was growing exponentially, the quality of subprime loans (collaterals) was deteriorating sharply. The deterioration in quality of subprime loans was not reflected in the subprime mark-up, implying that the risk from subprime lending was grossly understated. Eventually, with the subprime crises several banks world-wide who held subprime exposures, either through direct lending or via CDOs, had to reprice their subprime portfolio and take a substantial hit on their bottomlines.

The subprime crisis also affected institutions who had off-loaded credit risk via securitization, but who had guaranteed off-balance sheet Structured Investment Vehicles (SIVs). SIVs invest in long-term high-yielding securities including CDOs, and raise short-term finance by issuing commercial papers backed by these securities. As the prices and market liquidity of these high-yielding securities collapsed, SIVs found it almost impossible to rollover the outstanding commercial papers. This required the committed institutions to provide emergency liquidity to the SIVs, thus in a way bringing the credit risk back into their books. Spaventa (2007) provides a lucid explanation of how this return of credit risk fueled the subprime crisis.

The impact of the subprime crisis is deep and far reaching. In April 2008, the International Monetary Fund (IMF) said that total financial losses stemming from the housing turmoil and the global credit crunch, including the securities tied to commercial real estate and loans to consumers and corporates, may reach US$945 billion over the next two years, with US$565 billion directly related to the subprime crisis. And losses at financial institutions are likely to be saddled with half the potential losses, or about US$440 to US$510 billion. Crouchy and Turnbull (2008) provide a detailed analysis of the factors which led to the subprime crisis.

It is argued that CDOs exacerbated the contagion effect of the subprime crisis across the global financial markets. The markets for asset backed securities market and CDOs have come to a virtual standstill.

1.4. Are CDOs still relevant?

Therefore, in light of the subprime crisis, CDOs can be viewed as a double-edged sword where on one hand they fuelled growth of fundamentally risky subprime mortgages, and on the other hand increased the systemic risk of contagion effect in the event of subprime crisis. This leads one to question the relevance of structured credit products such as CDOs.

To address this question, it becomes imperative to understand the motivations underlying CDOs. This paper presents a theoretical overview of the motivations underlying the technologies used in such products. A typical CDO structure is used to illustrate these technologies.

2. CDO Technologies

There is no, one universally accepted definition of a CDO. The term CDO could refer to the entire structure comprising a pool of credit risk exposures[3] ('collateral') segmented into tranches and transferred to investors (BIS, 2005); to the Special Purpose Vehicle[4] (SPV) that invest in the pool of credit risk exposures (Madhevan et al, 2005); or to an asset-backed security whose underlying collateral is typically a portfolio of bonds (corporate or sovereign) or bank loans (Duffie and Garleanu, 2001). To avoid ambiguity in the context of this paper, the term CDO refers to the entire structure; with the pool of credit risk exposures, SPV and tranches being the principle constituents of the structure.

Figure 2.1 shows a typical CDO structure, wherein a SPV securitizes the cash flows from collateral pool by tranching them into three classes of securities ('tranches') namely Senior, Mezzanine and Equity[5]. Pooling, Securitization, and Tranching are the essential structured finance technologies used in creating a CDO. Typically, cash flows

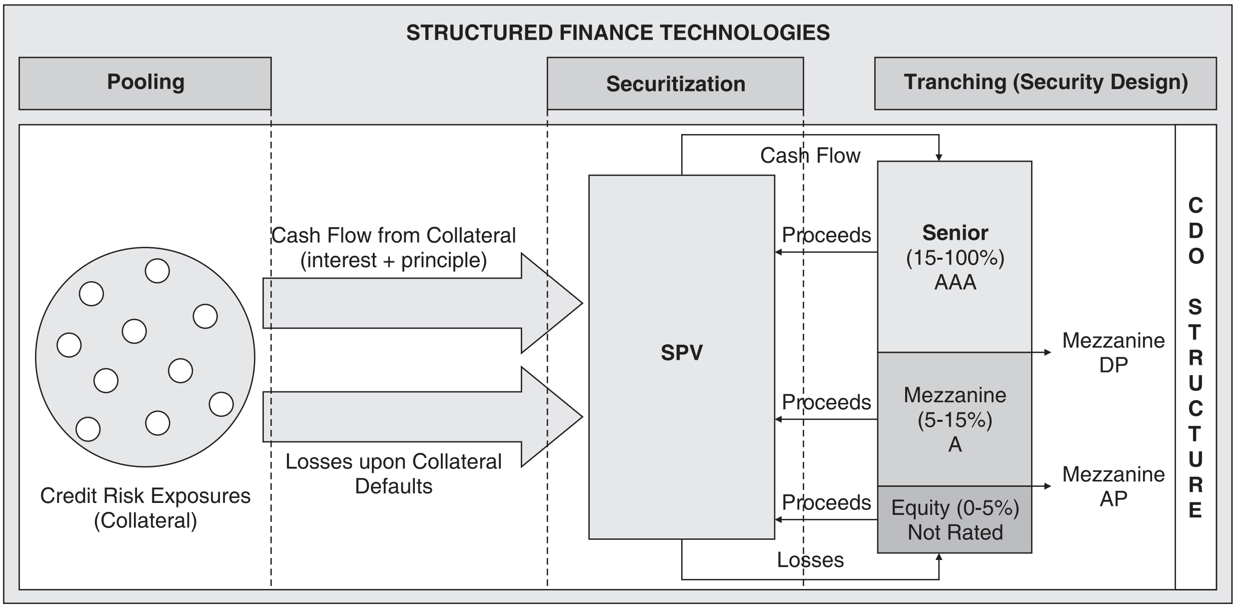
3. Credit Exposures could be assets such as bonds, loans, Asset-Backed securities (ABS), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS) etc. These assets are exposed to credit/default risk of an underlying entity or asset. For example, corporate bonds are exposed to credit risk of the issuing entity, RMBS are exposed to credit risk of the mortgagor etc.

4. A SPV is a finite-lived, stand-alone legal entity to which the collateral is sold via a true sale at law. It is bankruptcy remote from the seller of collateral, and thus protects investors in CDO tranches from bankruptcy of the original owner of the asset or any creditor lien. [Refer Tavakoli (2003), Chapter 3 for detailed discussion on SPVs]

5. Securities whose values are aggregates of value or cash flows from a pool of assets.

from and losses of a CDO are allocated to the Tranches based on certain rules. In the given example, the Equity (unrated) tranche bears the first 5% of the losses, the Mezzanine (A rated) tranche bears losses from 5% to 15% and the Senior (AAA rated) tranche bears losses greater than 15%.

Figure 2.1 : Typical CDO Structure



individual securities because security-specific components of adverse selection get diversified away in the baskets.

3.2. Securitization

'Securitization involves the pooling together of many assets and then a partitioning of the portfolio cash flows into a number of securities rank ordered by seniority'. - Boot and Thakor (1993)

3. Underlying Motivations

The motivations underlying these technologies are investigated in detail in this section.

3.1. Pooling

Pooling provides diversification benefits by reducing the idiosyncratic risks of assets pooled. In a perfect market (with no information asymmetries), pooling may seem to be a redundant exercise, since investors on their own can apparently obtain the same resulting cash flow by holding a diversified portfolio of the same securities in the same proportions. However, Gorton and Pennacchi (1993) advocate pooling by arguing that creation of composite securities[6] is not redundant and that in imperfect markets the return on these composite securities cannot be replicated by holding the individual underlying assets in the same proportions. They also argue that in the presence of information asymmetries, composite securities offer a superior trading vehicle in that they minimize the less-informed investor's losses to the insiders. Similarly, Subrahmanyam (1991) shows that less-informed traders may prefer baskets of securities to

The commonly referred motivations underlying securitization are :

From the Perspective of	Securitization Motivation
Bank (or holder of securitised assets)	Preference for cash over holding risk assets to minimize regulatory capital requirements To offload risks
Broker - dealer	To earn intermediation fees
Any firm with alternative profitable investment opportunities and limited access to credit	To redeploy cash in profitable opportunities to earn higher-returns

From the perspective of a holder of securitized assets, securitization is essentially a mechanism to generate liquidity, transfer risk, manage a balance sheet, and to reduce regulatory capital requirements. DeMarzo and Duffie (1999) and Duffie and Garleanu (2001) suggest that securitization may improve liquidity and thereby raise the total valuation to the issuer of the CDO. Picker (1996) considers issuing asset-backed securities as an efficient way to fund asset growth since it provides immediate liquidity and, by getting loans off the balance sheet, reduces the amount of capital needed to meet minimum capital adequacy requirements.

3.3. Tranching

Fundamentally, the idea of tranching credit risk is appealing because it allows separation of credit risk from a bundle of risks associated with the underlying collateral, and a potentially efficient transfer of credit risks to investors based on their risk appetites.

Theoretically, in a world where there are no information asymmetries and where risks inherent in the tranches are fully understood, investors would invest in a CDO tranche to optimize their portfolio mean-variance. Such efficient allocation of credit risk would potentially lead to reduction in overall systematic risk.

The motivations underlying tranching are well explained in the rich body of literature on Security Design. Tranching essentially involves partitioning the cash flows from the pooled assets to meet the risk/return needs of heterogeneous investor pools.

Market imperfections such as information asymmetry, market incompleteness, and arbitrage opportunities make tranching a value-creating proposition [Duffie and Garleanu (2001), DeMarzo (2004), Mitchell (2004)].

Information Asymmetry

When information asymmetry exists where the firm issuing securities has more information about the potential cash flows associated with the underlying asset pool than investors do, the issuer needs to retain a portion (called equity) of the securities to demonstrate alignment of interest and to induce investors to buy into the securities. The amount of equity retained by the issuer can be interpreted as a signal of asset quality [Leland and Pyle (1977), Myers and Majluf (1984)]. The higher the quality of the asset, the more equity retained.

Boot and Thakor (1993) argue that there is added value (to the issuer) by splitting an asset into two separate securities, one informationally sensitive (equity tranche), the other less so (debt tranche).

DeMarzo (2004) argues that tranching allows an intermediary to take advantage of the 'risk diversification' effect of pooling to create a low risk and highly liquid security (debt). For a large pool of not too highly correlated assets, the benefits of risk diversification outweigh the costs of 'information destruction effect' (from pooling), and hence pooling followed by tranching is an optimal structure.

Thus, theoretically, an optimum tranche structure would fully reflect the information available to the CDO originator and thus mitigate the information asymmetry risk to investors.

Market Incompleteness

Market incompleteness refers to the lack of financial products to cater for specific risk / return needs of investors. The notion of using contingent claims on existing assets to improve market efficiency by completing markets was put forth by Ross (1976). CDO tranches are essentially contingent claims (derivatives) on an underlying asset pool. Gaur et al (2003) suggest that CDO originators / arrangers can take advantage of incomplete financial markets by 'packaging' assets via pooling and tranching. They argue that if packaged assets help to complete markets, market will place a premium on them and the originator can profit from pooling and tranching.

Arbitrage Opportunities

Arbitrage opportunities arise due to investor segmentation and pricing differential among assets (such as corporate bonds) which may be included in the collateral pool.

Arbitrage Opportunities due to investor segmentation

Investors in financial markets are segmented in terms of their preferences, investment mandates, regulatory controls etc. Knowledge of specific investor needs may allow arrangers to design tranches of CDO to fit the needs of diverse investor segments (without violating constraints). Arrangers can take advantage of this investor-specific knowledge by practicing price discrimination and capturing part of the premium that the investor is willing to pay for in the customized product (Mitchell, 2004).

Arbitrage opportunities due to pricing differentials

Pricing differentials among assets which may be included in the collateral pool could create arbitrage opportunities. Such opportunities could be exploited by pooling, securitization, and tranching.

4. Conclusion

While CDOs have come under severe criticism in the wake of subprime crisis, there are sound motivations which justify the relevance of CDOs as a useful structured credit product. Pooling provides investors diversification benefits and a superior trading vehicle in an imperfect market in the presence of information asymmetries. Securitization enables risk-originators to offload risk, as well as generate liquidity and minimize regulatory capital requirements. Tranching enables mitigation of the problems arising from information asymmetry and the risk of Moral Hazard arising from securitization. Further, tranching helps in improving market efficiency by creating financial products which cater to specific risk-return needs of investors.

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Financial Inclusion

Devaki Muthukrishnan *

Good Morning every body. I am indeed happy to be amidst all of you for the Seminar on Financial Inclusion. I, congratulate the Indian Institute of Banking & Finance for organising the seminar which aims at providing in-depth knowledge on the various aspects of Financial Inclusion as also to inspire the bankers to view Financial Inclusion as an engine of social change. At the outset I wish all the best for the Seminar. I though it fit to dwell on the initiatives taken by the Reserve Bank of India in general on Financial Inclusion and Financial Literacy and the Regional Office, Bangalore in particular.

The Indian economy is growing at a steady rate of 8.5 percent to 9 percent over the last five years or so. However, industry and services sector have been the key drivers to this growth process. Agriculture is growing at a little over 2 percent. The potential for growth in the primary and SME sector is enormous. Limited access to affordable financial services such as savings, loan, remittance and insurance services for the vast majority of the population in the rural areas and un-organised sector is believed to be acting as a constraint on the growth impetus in these sectors. Access to affordable financial services-especially credit and insurance-enlarges livelihood opportunities and empowers the poor to take, care of him as also his family's economic well being. Such empowerment aids social and political stability. Apart from these benefits, financial inclusion imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence, financial inclusion is considered to be critical for achieving inclusive growth, which itself is required for ensuring overall sustainable growth in the country.

Financial inclusion, the current buzzword, refers to the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. Internationally, the governments and the financial regulators in the USA, UK, Canada, France, Australia, Belgium, etc. had undertaken policy initiatives much earlier to eliminate banking and financial exclusion. Financial exclusion can be thought of in two ways. One is exclusion from the payments system *i.e.* not having access to a bank account. The second type of exclusion is from formal credit markets, forcing the excluded to move towards the costly option of informal and exploitative markets. After nationalisation of major banks in India in 1969, there was a significant expansion of branch network in the unbanked areas and stepping up of lending to agriculture, small industry and business. More recently, the focus is on establishing the basic right of every person to have access to affordable basic banking services.

The financially excluded sections largely comprise marginal farmers, landless labour, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. There are a variety of reasons for financial exclusion. In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness, low incomes / assets, social exclusion, illiteracy act as barriers. From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons for exclusion. All these result in higher transaction cost apart from procedural hassles. On the other hand, the ease of availability of informal credit sources makes these popular, even if costlier. The requirement of independent documentary proof of identity and address can be a very important barrier in having a bank account, especially for migrants and slum dwellers.

Recent Initiatives by the Reserve Bank of India

The Reserve Bank of India has taken a number of measures in recent years to effectively address the

** Regional Director, RBI, valedictory address delivered at the Institute's annual seminar at Dharwad.*

issues relating to financial exclusion. The Union Finance Minister and the Governor of RBI have urged the banks to review their existing business practices so as to align them with the objectives of financial inclusion. In November 2005, banks were advised to make available a basic banking 'no-frills' account with low or nil minimum balances and charges, to expand the outreach of such accounts to vast section of the population. Banks are required to make available all printed material used by retail customers in the regional language concerned. In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts, the Know Your Customer (KYC) procedures for opening accounts has been simplified for those persons with balances not exceeding Rs.50000/- and credits in the accounts not exceeding Rs.100000/- in a year.

Banks have been asked to consider introduction of a General purpose Credit Card (GCC) facility up to Rs.25,000/- at their rural and semi urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose and end use. Interest rate on the facility is completely deregulated. A simplified mechanism for one-time settlement of overdue loans up to Rs.25,000/- has been suggested for adoption. Banks have been specifically advised that borrowers with loans settled under the one time settlement scheme will be eligible to re-access the formal financial system for fresh credit.

In January 2006, banks were permitted to utilise the services of non-governmental organisations (NGOs / SHGs), micro-finance institutions and other Civil Society Organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do 'cash in-cash out' transactions at the location of the BC and allows branchless banking. A multilingual website in 13 Indian languages on all matters concerning banking and the common person has been launched by the Reserve Bank on 18 June 2007.

Financial Inclusion-Karnataka Experience

In Karnataka, with the proactive involvement of the Reserve Bank of India, Bangalore, the banking community successfully launched and completed the first phase of Financial Inclusion viz., provision of no frills accounts to every household in all the 29 districts. The opening of accounts in the Bangalore metro has been completed to the extent of 95% and above. The bank branches spread over the entire state has already been in partnership with the Government of Karnataka, by opening 'No frills accounts' of all the NREGP workers and routing the wages through these accounts at no cost of the GOK, in all the eleven districts covered by the scheme. In addition, all the welfare / sponsored schemes implemented by the GOI / GOK are being routed through the 'No frills accounts' opened by the branches. Financial inclusion was implemented in Karnataka, unlike in other states, under the Service Area Approach-Lead Bank Scheme by all the bank branches operating in the State. The campaign was driven and monitored at the block and district level by the Lead District Officers of Reserve Bank of India, Bangalore.

IT Enabled Financial Inclusion

The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the financial inclusion initiatives. Pilot projects have been initiated using smart cards for opening bank accounts with bio-metric identification. Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis. Some state governments are routing Social Security Payments as also payments under the National Rural Employment Guaranted Scheme through such smart cards. The same delivery channel can be used to provide other financial services like low cost remittances and insurance. The use of IT also enables the banks to handle the enormous volume of transaction for millions of households for processing, credit scoring, credit record and follow up.

It is now well recognized that provision of banking and financial services at the habitat level in villages, at affordable cost, with low entry levels and operated by local persons would substantially enhance financial inclusion. The prohibitive costs of branch banking which made small ticket transactions unviable have now been solved by the developments in information technology. It is now possible to reach out to the remote corners of the country and operate banking services with the help of small hand held devices or mobile phones which communicate with a central server, thus, providing core banking services at affordable cost. The term 'information technology enable financial inclusion' now can be defined as provision of banking and other financial services to the hitherto excluded section of population in a variety of ways including through the medium of business correspondents with the help of the latest developments in information and communication technology.

The annual policy for the year 2007-08 of RBI also urged the banks to scale up efforts for IT based financial inclusion and develop technologies that are highly secure, amenable to audit and follow widely accepted open standards to allow interoperability among the different systems adopted by different banks. The enabling provisions and support of the Reserve Bank has seen important pilot projects in use of IT for extending the banking outreach for the presently excluded sections of population. The Finance Minister in his budget for 2007-08 has announced the setting up pf two funds for financial inclusion, for Rs.500 crore each. The scope of these funds is being worked out. Setting up of financial literacy centres and credit counselling on a pilot basis, launching a national financial literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently under way for furthering financial inclusion.

IT Enabled Financial Inclusion In Karnataka

Having completed the First Phase of 100% Financial Inclusion in the state of Karnataka, RBI, Bangalore proactively initiated action on the IT enable Financial Inclusion. IT constituted a Sub-Committee of the Empowered committee on RRBs to draw a road map for implementation of IT enabled Financial Inclusion. The Sub-Committee comprising of General Managers of all the Lead banks in the State, two representatives from RBI and SLBC Convenor, met four times and agreed in principle to adopt IT Enabled Financial Inclusion in the entire state of Karnataka. To begin with it was proposed to route the payments under NREGP and social Security Pension under the IT enabled solution. They have also proposed to implement the project on a pilot basis in Chitradurga, Bellary and Gulbarga. As Government of Karnataka is a major partner besides the banking community in this initiative, a high level meeting with the Chief Secretary and other senior officials of GOK with Chairmen and Managing Directors of the major Lead Banks of Karnataka was organised by the Regional Office of the Reserve Bank of India, Bangalore on April 15, 2008. It was decided to form a project Implementation Committee to implement the project in whole of Karnataka and in the three districts on a pilot basis.

Financial Literacy

One of the main reasons for a large percentage of the country's population remaining outside the formal financial system is the lack of adequate financial education / literacy among the masses. In India, the need for financial education is ever greater considering the low levels of literacy and the large section of the population, which is still out of the formal financial set-up. Thus, financial literacy assumes greater importance, in the present context, to enhance the ability of the masses to effectively use the available financial resources to improve their well being.

Towards this end, the Reserve Bank of India has undertaken a project titled 'Project Financial Literacy'. The objective of the project is no disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens. RBI, Bangalore has released, under its FIN-LIT project a series of four comic books, in English and Kannada, dealing with (i) introduction to basic banking, (ii) deposits, (iii) SHG loans especially agricultural loans and other livelihood loans like Govt. sponsored schemes, etc. and (iv) other lifestyle enhancing loans like housing loans, vehicle loans, etc. and other products like ATM cards debit, credit cards. A short film, based on the frames of the books, with voice over in Kannada has also been released. As an initiative in reaching out to a larger audience, the office had put up a stall in the Mysore Dasara Exhibition where this film was screened along with other information of relevance to the common man. The whole project of writing the stories and doing the illustrations was undertaken in-house. These booklets in CD form have also been distributed among the Chairmen of Commercial banks, RRBs and CEO, ZPs with a request to arrange wide publicity.

The absence of proper financial counselling, coupled with inadequate financial literacy levels has often resulted in pushing the consumers towards costlier options and eventual debt traps. Thus, there is a need for financial counselling in all the areas. The objective of these centres is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counselling people who are struggling to meet their repayment obligations and help them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress, etc. Some of these Credit Counselling Centres (also known as knowledge centres) even train farmers / women groups to enable them to start their own income generating activities to earn a reasonable livelihood. The Reserve Bank of India has on April 3, 2008 placed on its website, a Concept paper on Financial Literacy and Credit Counselling Centres for public comments. The paper has three parts: Part-A deals with matters relating to financial literacy, Part-B deals with those relating to credit counselling and Part-C outlines the suggested Scheme for Financial Literacy and Counselling Centres.

RBI advised the Convenor banks of the State / Union Territory Level Bankers' Committees in May 2007 to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district in the state / union territory coming under their jurisdiction. Further, on the basis of the experience gained, the Lead Banks concerned were advised to set up such Centres in other districts. In Karnataka, three such centres were opened at Chitradurga, Bijapur and Belgaum by Canara Bank, Syndicate Bank and Karnataka Vikas Grameen Bank respectively.

Banks should understand the business potential in the rural markets, and decide the kind of delivery channels required for meeting the banking and remittance needs of the rural population. Today the branch is not the only way of delivering the banking services. All options such as mobile and statelite phones, rural ATMs, smart cards, use of intermediaries need to be explored to penetrate into the rural areas so as to reduce credit risk and transaction cost. Financial inclusion should be led by understanding the needs of the customer rather than achieving targets. In rural areas banks are expected to reach out rather than a numbers game. There should be a clear focus on relatively under-banked and underserved areas rather than competing aggressively in already under-banked and underserved areas rather than competing aggressively in already served areas. Technology can be leveraged to increase delivery channels at lower cost.

Through co-ordinated efforts of RBI bank and state Government I am sure great progress can be made in financial inclusion, literacity and counseling which will ensure sustainable and inclusive growth in the country.

Thank you.

Credit Guarantee for Micro and Small Enterprises

D. P. Sarda *

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was set up by the Govt. of India and SIDBI in August 2000 with the object of motivating banks to provide credit to enterpreneurs without the hassles of collaterals / third party guarantees. It provides guarantee support to banks and lending institutions for their exposure to the micro and small enterprises sector. The Board of Trustees of CGTMSE prepared a scheme for providing guarantee cover for the advances given to micro and small enterprises certain changes have been made in the scheme prepared initially to meet the changing requirements and liberalise the scheme for motivating the lending institutions to provide credit to MSE sector. The present position of the scheme is as under :

1. Eligible Lending Institutions

Schedule Commercial Banks and also selected Regional Rural Banks classified as sustainably viable by NABARD are eligible to enrol as Member Lending Institutions (MLIs) under the scheme. Other lending institutions approved by Govt. of India are also eligible to join as MLIs. SIDBI, National Small Industries Corporation Ltd. (NSIC) and North Eastern Development Finance Corporation Ltd. (NEDFi) have been enrolled as MLIs after approval of the Government of India.

Scheduled Co-operative Banks, Urban Co-operative Banks and Non-Banking Financial Companies are not eligible for availing guarantee cover under the CGTMSE.

2. Registration of Lending Institutions with CGTMSE

Eligible lending institution has to enter into an agreement with the CGTMSE for availing guarantee facility.

Operations under the Scheme are done online through web-based B2B E-Business Model Software MLIs are allotted unique Member ID, User ID and Password at their Zonal / Regional Office level.

MLIs can access CGTMSE's website for online transactions using their Member and User IDs.

3. Credit Facilities eligible for Guarantee Cover

Credit facility (both term credit and working capital credit) sanctioned to micro and small enterprises as defined under Micro, Small and Medium Enterprises Development Act, 2006 (both manufacturing and service sector excluding retail trade) can be covered under the scheme subject to following conditions :

- Lender should extend credit without obtaining any Collateral Security / Third Party Guarantee.
- Borrower should avail credit from a single Bank / Financial Institution. However, credit facility extended for expansion / modernisation, working capital to an existing assisted unit of SFC / NSIC / NEDFi / SIDBI, etc. can be covered under the scheme.
- Interest rate levied should be in accordance with Government / Reserve Bank of India guidelines and should not be more than 3% over the Prime Lending Rate of the Lending Bank / Institution.
- Lending bank should adhere to RBI Guidelines on "Lending to Priority Sector" in this regard.

4. Guarantee Cover

Guarantee cover is extended up to Rs.50 lakh per borrower. In case of default, CGTMSE compensates the lending institution up to 75% (*i.e.* 37.50) lakh of the loss incurred by it.

Guarantee cover is raised from 75% to 80% in the following cases :

- Micro enterprises for loans up to Rs.5 lakh
- Micro and small enterprises operated or owned by women and
- All loans in the North Eastern Region (including Sikkim)

* *Advisor, Small Industries Development Bank of India, Lucknow.*

5. Lodging of Applications

MLIs may lodge applications with CGTMSE for credit facility sanctioned in a particular calendar quarter, latest by the end of the next calendar quarter. For example, application for credit facility sanctioned between 01-04-2008 and 30-06-2008 may be lodged latest by 30-09-2008. Thus, maximum time of 6 months and minimum time of 3 months is available for loading the applications. In case of working Capital Credit date of renewal can be taken as date of sanction.

6. Guarantee Fee

Guarantee fee is a one time fee and it should be paid upfront to the Trust by the bank / institution availing of the guarantee within 30 days from the date of approval of guarantee application by CGTMSE or from the date of first disbursement of credit facility in case of term loan, whichever is later. At present, guarantee fee is one per cent in the case of credit facility (comprising term loan and / or working capital facility) sanctioned upto Rs. 5 lakh and 1.5 per cent in the case of the credit facility sanctioned above Rs. 5 lakh. For units located in North Eastern Region (including Sikkim), the guarantee fee is payable at the rate of 0.75 per cent only.

7. Service Fee

Service fee is paid annually at the rate of 0.50 per cent of sanctioned credit facility upto Rs.5 lakh and at the rate of 0.75 per cent of sanctioned credit facility above Rs.5 lakh for all accounts for which guarantee cover is in force in a financial year.

Service fee should be paid within 2 months from the end of the financial year *i.e.* before May 31 of the year. If payment is not made within stipulated period, guarantee cover lapses.

8. Payment of Guarantee fee and service fee

Guarantee fee and Service fee is paid by the lending institution to CGTMSE. If desired by the lending institution, it may recover the amount from the borrower.

9. Tenure of Guarantee cover

Tenure of Guarantee Cover for Term Credit, Combined Working Capital & Term Credit and Composite Credit continues upto the tenure of Term Credit / Composite Credit.

Where Working Capital Credit alone is sanctioned, the tenure continues for block of five years. Thereafter, MLI should apply for renewal of Guarantee Cover.

10. Registration of claims

In case of default, claim can be registered with CGTMSE subject to following conditions:

- Guarantee cover should be in-force, in other words there should not be any arrears in payment of fee. Service fee should continue to be paid till disbursement of first instalment of claim.
- Claim can be lodged only after lock-in period. Lock-in period is for 24 months from the date of the start of guarantee cover or final date of disbursement in case of term loans, whichever is later.
- Account should have been classified as NPA.
- Recall notice should have been issued to the borrower.
- Recovery proceedings should have been initiated.
- Suit for recovery from Primary security should be filed with Lok Adalat / RRA / Civil Court / DRT / SARFAESI Act. If recovery proceedings are initiated under SARFAESI Act, physical possession of security, as per Section 13(4) of the Act, has to be taken.
- Subsidy availed, if any, should be indicated.
- Declaration and Undertaking is to be signed by an officer not below the rank of Assistant General Manager.

11. Claim Settlement

- Claim is settled in two instalments.
- First instalment of 75 per cent of the claim amount admissible by CGTMSE is paid within 30 days of receipt of complete information.
- CGTMSE is liable to pay penal interest at prevailing Bank Rate, if it delays payment of first instalment beyond 30 days.
- Second instalment *i.e.* balance 25 per cent of the claim amount admissible, is paid after conclusion of recovery proceedings.
- Claim is settled up to 75% / 80% of the amount in default. Amount in default includes principal and interest outstanding in the account as on

date of NPA subject to maximum of credit sanctioned.

- Recoveries made after NPA date / payment of first instalment of claim should be remitted to CGTMSE (after deducting legal expenses, if any)
- MLI's may enter into OTS or Compromise Settlement with defaulted borrower as per RBI / Internal Guidelines. CGTMSE's interest has to be safeguarded in any such settlement and MLI shall intimate terms of such settlement to CGTMSE.
- On completion of recovery proceedings, final loss is shared by CGTMSE and MLI in the ratio 75:25 / 80:20 subject to the maximum ceiling specified under the scheme (*i.e.* Rs.37.50 lakh / Rs.40 lakh, respectively).

Settlement of claim amount in two instalments can be clarified by the following example :

Outstanding amount in default

- Rs.40 lakh

Guarantee cover available (75% / 80% of the amount in default

- Rs.30 lakh / 32 lakh

Payment of first instalment by CGTMSE (75% of the claim amount admissible by CGTMSE)

- Rs.22.5 lakh / 24 lakh

Payment of second instalment on conclusion of recovery proceedings, presuming that no recovery is made (Balance 25% of claim amount admissible by CGTMSE)

- Rs. 7.5 lakh / 8 lakh

12. Clarifications on Operational Issuse regarding CGTMSE

Clarifications on certain operational issues raised during the implementation of the scheme are as under :

Sr.	Issue	Clarification
1.	Whether all private sector banks or a foreign bank is eligible for guarantee cover?	Yes, provided it is a commercial bank listed in the Second Schedule of the Reserve Bank of India Act.
2.	Whether Regional Rural Bank is eligible for guarantee cover?	Yes, provided it has been classified as a 'sustainable viable' by NABARD.
3.	Whether SFCs, Twin Function IDCs, Scheduled Co-operative Banks, Urban Co-operative Banks and Non-banking Finance Companies are eligible for availing guarantee cover?	They are not eligible institutions at present.
4.	Is it necessary that borrower avail credit from a single bank?	The borrower should avail credit facility from a single bank only. However, credit facility sanctioned by a bank to an assited unit of SFC / NSIC / NEDFi / SIDBI, etc. can be covered under the scheme subject to the condition that no CGTMSE cover has been obtained for the earlier assistance.
5.	Whether CGTMSE does re-appraisal of the proposals?	CGTMSE has trust in the lending institutions and does not conduct re-appraisal of the proposals. Lending institutions are expected to take necessary precautions as prescribed by their internal guidelines for the loans given by them.
6.	Whether the loan above Rs.50 lakh is eligible for guarantee cover?	Yes, provided the entire credit facility is extended without any collateral security.

Sr.	Issue	Clarification
		CGTMSE will restrict its claim presuming that loan amount is up to Rs.50 lakh only. In such cases, guarantee / service fee is to be paid at the prescribed rate presuming that the credit facility is upto Rs.50 lakh only.
7.	Can a bank avail guarantee facility for one loan given without collateral and having another loan with collateral?	Bank can avail guarantee cover for the loan given without collateral provided it is independent of the other loan which has collateral security and the existing collateral is not extended by the lender to the loan covered under CGTMSE.
8.	Can the credit facility extended to a borrower against a collateral security be covered if the lending institution relinquishes its rights on the collateral security?	Yes, provided the lending institution relinquishes its rights on the collateral assets and releases the same in favour of the borrower prior to seeking guarantee cover.
9.	Is there any ceiling in respect of interest to be levied on the credit facility advanced to the borrower if the same is to be covered under the scheme?	The lender has to follow the guidelines issued by RBI regarding charging of interest on the credit. However, the rate of interest should not exceed 3% over and above Prime Lending Rate (PLR) of the lender. In addition to interest, fee payable to the Trust may be charged from the borrower.
10.	Whether non-fund based limits are covered under the guarantee scheme?	Yes, provided all conditions as applicable for fund based limits are complied with for non-fund based limits also.
11.	Is it necessary for the lending institution to cover all its advances to micro and small enterprises under guarantee scheme?	No. Credit institution can seek guarantee only for the advances desired by them. The guarantee will commence from the date of payment of guarantee fee (the date on which the fee is credited to the account of CGTMSE). Guarantee fee should be paid within 30 days of the approval of guarantee application by CGTMSE or from the date of first disbursement of credit facility in case of term loan, whichever is later
12.	Can a lending institution cover credit facilities which have already become NPA?	The credit facility which has already become NPA or bad or doubtful of recovery cannot be covered under the scheme.
13.	Where the credit facilities are partially covered under ECGC, is it possible to avail guarantee cover to the extent not covered by ECGC under CGTMSE guarantee scheme?	Any credit facility which has been covered partially or fully under the Guarantee Scheme of any other Agency will not be eligible to be covered under the Credit Guarantee Scheme operated by the Trust.
14.	Whether the personal guarantee of the promoters can be obtained for sanctioning credit facility?	Yes. The personal guarantee of the promoters can be obtained, but third party guarantee should not be obtained.

Sr.	Issue	Clarification
15.	What is the difference between primary security and collateral security?	Primary security is the assets created out of the credit facility extended to the borrower. It may be clarified that assets appearing in the books of the borrowing entity can be considered as primary security for the purpose of CGTMSE cover. Collateral security is any other security which is not in the books of the borrowing entity and offered for the said loan. Lending institutions can obtain primary security but not the collateral security.
16.	Whether the credit facility for rehabilitation / nursing of the sick unit can also be eligible for guarantee under the scheme?	The eligible borrower unit which is already covered under the scheme and subsequently become sick due to factors beyond the control of the management, the additional assistance for rehabilitation extended by the lenders can be covered under the guarantee scheme subject to the overall ceiling of Rs.50 lakh.
17.	Under what circumstances the guarantee cover obtained by the lender in respect of particular borrower will lapse?	The guarantee cover given by the Trust to the lender in respect of credit facility to a particular borrower will lapse as a result of any of the following situations : i) It is subsequently brought to the knowledge of the Trust that the lender has obtained collateral / third party guarantee from the borrower while sanctioning the particular credit facility which has been covered under the guarantee. ii) It is subsequently gathered that the lender has advanced second / subsequent credit facility to the borrower with collateral / third party guarantee and extended the scope of collateral / third party guarantee to the existing credit facility for which guarantee cover has been obtained from the Trust. iii) Annual service charge is not paid to the Trust by the specified period or such extended time limit as may be granted by the Trust. (iv) There is change in the management of the borrower which has not been brought to the notice of the Trust. (v) The borrower unit undertakes another activity which is otherwise not eligible for obtaining the guarantee cover from the Trust.
18.	When can the lender invoke the guarantee given by the Trust in respect of credit facility	The lender shall prefer a claim on the defaulted account on recall of loan and initiation of

Sr.	Issue	Clarification
	advanced by it to the eligible borrower?	recovery proceedings by filing a suit in the Civil Court / Lok Adalat / RRA / DRT / SARFAESI Act. If recovery proceedings are initiated under SARFAESI Act., physical possession of security has to be taken. Merely giving a notice is not sufficient. The lender can, however, invoke the guarantee given by the Trust only after the lock-in period of 24 months either from the date of last disbursement of credit to the borrower or from the date of the guarantee cover coming into force in respect of the particular credit facility, whichever is later.
19.	How the claim of lender will be settled by the Trust in respect of defaulting account?	After satisfying itself about the procedural aspects met by the lender, regarding lodgement / preferment of claim for guarantee, the Trust will pay 75 of the claim amount admissible by CGTMSE within 30 days of receipt of complete information. The balance 25% of the claim amount admissible shall be paid on conclusion of the recovery proceedings.
20.	Whether the responsibility to recover the defaulted credit is taken over by the Trust after the settlement of claim (75% / 80% of the guaranteed amount)?	The lender continues to remain responsible to take all efforts in recovery of credit advanced to the borrower who had defaulted, even after the settlement of the claim by the Trust.

Conclusion

The guarantee scheme of CGTMSE will go a long way in assisting micro and small enterprises for getting financial assistance without collateral security / third party guarantee. The mind set of the bankers is also gradually changing. In the past, banks used to ask for collateral security before going for appraisal of the loan proposal. Now, as a result of the guarantee scheme, they are considering viability of the project even when the borrower is not able to provide collateral security / third party guarantee. It will help the micro and small enterprises to get financial assistance without any hassles of arranging for collaterals / third party guarantees.

Attention Readers

Starting from July 2008, our monthly Newsletter IIB Vision will be called IIBF Vision.

Banks Relationship with Customers - Evolving Perspective

Shyamala Gopinath *

I feel it a privilege to be associated with today's function as a tribute to the late Mr. M. R. Pai, the doyen of consumer activism in India. He successfully championed the cause of consumers, particularly bank depositors, during a different economic setting when the institutional dynamics were different, particularly for the public sector, and customer as a generic entity had not acquired the high pedestal in public discourses and management meetings. Times have changed. But as a Sanskrit saying goes…*kadachit anidrishyam jagat*. The world has always been the same and consumer issues in the new economic order remain as pressing as ever, even more so. Even in developed countries issues relating to customer protection and financial inclusion are finding increasing focus. There is as much need for a Mr. Pai today, as it was then in putting across consumer issues to the fore in an effective manner.

In my address today, I intend to share my perspective on the evolving nature of banks' relationship with its individual customers and the new challenges in this regard. The role of banks in intermediation of financial needs of different classes of customers has undergone significant changes. For the sake of convenience, banks' various roles *vis-à-vis* their customers can be broadly categorized as (i) acceptors of deposits (ii) credit providers (ii) providers of payments and remittances services (iv) provider of foreign exchange services (v) facilitators in circulation of currency notes / coins; and (vi) providers of financial instruments.

One of the defining features of the process of reforms initiated in the early nineties was the deregulation of interest rates. On the deposit side, interest rates on all deposits, except savings accounts, have been de-regulated. Similarly, on the bank lending, rates to be charged by the banks on most of the credit facilities have been deregulated except a small component for lending related to certain segments. Simultaneously, in 1993, as per the new licensing policy, fresh licenses were issued to a few private sector banks with the objective of enhancing the level of competition in the sector. One of the expected outcomes of this policy was expanding the reach of banking services, both in qualitative and quantitative terms. Technology emerged as the backbone of banking operations, revolutionizing service delivery through new platforms and channels. But it became evident gradually, these developments created more challenges for the customer in terms of service quality, non-human interface, unsolicited marketing of products, ever-increasing fine-prints on documents etc. all of which got compounded on account of basic financial unawareness on part of the ordinary customer.

Self regulation by the banking industry would have been the ideal redressal for the emerging challenges. But due to heterogeneous and complex nature of the problems coming to light, some regulatory initiative had become necessary. In the mid term review of the Monetary and Credit Policy 2003-2004, it was decided to review the level of public service provided by the Reserve Bank and banks, and to evolve appropriate incentives to facilitate change on an ongoing basis. Accordingly, the Committee on Procedures and Performance Audit on Public Services was set up. The Committee focused on the inadequacy in banking services available to common person and looked into the need to (i) benchmark the current level of service, (ii) review the progress periodically, (iii) enhance the timeliness and quality, (iv) rationalize the processes taking into account technological developments, and (v) suggest appropriate incentives to facilitate change on

* ***Address by Deputy Governor, Ms. Shyamala Gopinath at the 4th M. R. Pai Memorial Award Function organized by the All India Depositors' Association at Mumbai on April 8, 2008.***

an ongoing basis. Following the Committee's recommendations, various important customer service regulations were issued, notable among them being the guidelines on facilitating the payment to survivor / nominee of a deceased depositor, simplifying the KYC requirements, collection of cheques and facilitating operations in bank accounts. Simultaneously, a series of measures was taken to improve the institutional mechanism within as well as outside the banks to improve the quality of customer service.

- All the banks were advised to constitute a Customer Service Committee of the Board with a view to strengthening the corporate governance structure in the banking system and also to bring about ongoing improvements in the quality of customer service provided by the banks.
- In order to encourage a formal channel of communication between the customers and the bank at the branch level, banks were advised to take necessary steps for strengthening the branch level customer service committees with greater involvement of customers. Further as senior citizens usually form an important constituency in banks, banks were advised to preferably include a senior citizen in the branch level committees.
- The Banking Ombudsman Scheme was revised to enlarge the scope of the Scheme to include customer complaints on certain new areas, such as, credit card complaints, deficiencies in providing the promised services even by banks' sales agents, levying service charges without prior notice to the customer and non- adherence to the fair practices code as adopted by individual banks. The Scheme therefore provides a forum to bank customers to seek redressal of their most common complaints against banks, including those relating to credit cards, service charges, promises given by the sales agents of banks, but not kept by banks, as also, delays in delivery of bank services. The bank customers would be able to complain about non-payment or any inordinate delay in payments or collection of cheques towards bills or remittances by banks, as also non-acceptance of small denomination notes and coins or charging of commission for acceptance of small denomination notes and coins by banks. The present Scheme also allows appeals from both banks and complainants against the decisions of Banking Ombudsman.
- Recognising an institutional gap in measuring the performance of the banks against codes and standards based on established best practices, Reserve Bank of India has taken the initiative in setting up the Banking Codes and Standards Board of India (BCSBI). It is an autonomous and independent body, adopting the stance of a self-regulatory organisation in the larger interest of improving the quality of customer services by the Indian banking system. Banks register themselves with the Board as its members and provide services as per the agreed standards and codes. The Board in turn, monitors and assesses the compliance with codes and standards which the banks have agreed to. The registration of banks with the BCSBI, as members, enables the Reserve Bank of India to derive greater supervisory comfort, so also the customers of the member banks. This would also enable the BCSBI to accommodate the bank-specific differences in the customer service related benchmarks set by the banks for themselves. As on date, around 71 banks have joined the BCSBI as members.

I. Deposit Accounts

With regard to account holders, it would be useful, to recollect some of the important incremental measures taken by RBI, which over a period have made significant impact :

- Banks are required to inform customers upfront about the requirement of minimum balances and the charges if such balances are not maintained. They are also required to inform customers one month in advance any changes in such minimum balances and charges.
- It has been clarified to banks that NRO accounts can be held jointly with residents.
- In case of collection of cheques, banks are required to formulate and disclose their policy for affording immediate credit, time frame for collection and interest payment for delayed collection, taking care to ensure that the interests of the small depositors are fully protected. The policy should clearly lay down the liability of the

banks by way of interest payments due to delays for non-compliance with the standards set by the banks themselves. Compensation by way of interest payment, where necessary, should be made without any claim from the customer.

- Banks are required to provide both the drop box facility and the facility for acknowledgement of the cheques at the regular collection counters and no branch should refuse to give an acknowledgement if the customer tenders the cheques at the counters.
- Banks have been advised to ensure that brief, intelligible particulars are invariably entered in passbooks / statements of account and they adhere to the prescribed monthly periodicity while sending statement of accounts.
- It has been clarified to banks that payment to the survivor / nominee of a deceased depositor where there is a valid nomination or where the account has been opened with a survivorship clause is a valid discharge of liability provided inter alia it has been made clear to the survivor(s) / nominee that he would be receiving the payment from the bank as a trustee of the legal heirs of the deceased depositor, i.e., such payment to him shall not affect the right or claim which any person may have against the survivor(s) / nominee to whom the payment is made. In such cases insistence on production of legal representation is unwarranted and would, invite serious supervisory disapproval. In such case, therefore, while making payment to the survivor(s) / nominee of the deceased depositor, the banks have to desist from insisting on production of succession certificate, letter of administration or probate, etc., or obtain any bond of indemnity or surety from the survivor(s) / nominee, irrespective of the amount standing to the credit of the deceased account holder.
- In case where the deceased depositor had not made any nomination or for the accounts other than those styled as 'either or survivor' (such as single or jointly operated accounts), banks have been told to adopt a simplified procedure for repayment to legal heir(s) of the depositor keeping in view the imperative need to avoid inconvenience and undue hardship to the common person. In this context, banks may, keeping in view their risk management systems, fix a minimum threshold limit, for the balance in the account of the deceased depositors, up to which claims in respect of the deceased depositors could be settled without insisting on production of any documentation other than a letter of indemnity.
- In the case of term deposits, banks are advised to incorporate a clause in the account opening form itself to the effect that in the event of the death of the depositor, premature termination of term deposits would be allowed. The conditions subject to which such premature withdrawal would be permitted may also be specified in the account opening form. Such premature withdrawal would not attract any penal charge.
- In order to avoid hardship to the survivor(s) / nominee of a deposit account, banks are advised to obtain appropriate agreement / authorization from the survivor(s) / nominee with regard to the treatment of pipeline flows in the name of the deceased account holder.
- Banks are advised to settle the claims in respect of deceased depositors and release payments <u>to survivor(s) / nominee(s) within a period not exceeding 15 days</u> from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s), to the bank's satisfaction.
- Information should not be gathered in the name of KYC with the intention of using it for cross-selling of services. The banks should obtain the information required for opening an account independent of any other information that they may seek for cross-selling purposes with the consent of the customer. The forms containing this information must not be a part of the account opening form.
- the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs.50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs.1,00,000/-) in a year has been simplified to

enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer. Recently, clarification had also been issued to facilitate account opening by close relatives, *e.g.* wife, son, daughter and parents etc. who live with their husband, father / mother and son, as the case may be, who may not have the utility bills required for address verification in their name.

II. Bank Lending

On the lending side, guidelines were issued on Fair Practices Code for Lenders, including comprehensive details in loan applications and conveying reasons for rejection of loans.

In terms of the guidelines banks / FIs are required to ensure that loan application forms in respect of priority sector advances up to Rs.2.00 lakhs contains comprehensive information about the fees / charges and any other matter which affects the interest of the borrower. The Guidelines were further revised to ensure that all loan applications in respect of all categories of loans irrespective of the amount of loan sought by the borrower contains comprehensive information about fees / charges etc.

Banks / FIs are also required to convey in writing, the main reason/reasons which have led to rejection of the loan applications in case of all categories of loans irrespective of any threshold limits, including credit card applications.

RBI has issued comprehensive Credit Card Guidelines relating to credit card operations of banks/NBFCs in November 2005. These guidelines have been issued aimed at encouraging growth of credit cards in a safe, secure and efficient manner as well as to ensure that the rules, regulations, standards and practices of the card issuing banks are in alignment with the best customer practices. These guidelines address issues relating to billing, use of Direct Selling Agents (DSAs) and other agents, protection of customer rights, customer confidentiality, fair practices in debt collection, redressal of grievances, etc. Master Circular on the issue has since been issued.

Measures for ensuring reasonableness of service charges : Reserve Bank has made it obligatory for banks to display and update, in their offices / branches as also on their websites, the details of various service charges in a prescribed format. The banks are also required to display the service charges and fees on the homepage of their website at a prominent place under the title of 'Service Charges and Fees' so as to facilitate easy access to the bank customers. Reserve Bank has also placed a web-link to these web pages of banks in its website to facilitate comparison of service charges and thereby enabling the customer to take an informed decision. A Working Group was also set up to look into the issue of reasonableness of bank charges, which submitted its Report in August 2006. The Working Group indicated broad principles of reasonableness that banks should adopt in fixing and notifying the service charges for providing basic services to individuals. Guidelines have been issued to the banks based on the recommendations of the Working Group and steps taken by the banks in this regard are being examined.

Instructions to guard against incidence of excessive interest rates & charges

Based on feedback that excessive interest and charges were being levied on certain loans and advances, banks were advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on small value loans, particularly personal loans and such other loans of similar nature. Banks are also required to fix appropriate ceiling on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.

III. Foreign Exchange

Over the last two decades, there has been a paradigm shift in the foreign exchange regime in India. The approach of conservation and preservation of foreign exchange has been replaced with a liberal framework aimed at facilitation of external trade and payments and orderly development of foreign exchange markets. In the process, the RBI has moved beyond the role of a regulator to that of a facilitator of foreign exchange transactions. Several measures have been taken to expand the delivery channels of foreign exchange services for reducing transaction costs and to undertake external transactions in a hassle free manner. These measures include - licensing of a new category of entities as AD category-II to handle non-trade related current account transactions and licensing of select Urban Cooperative Banks and RRBs as well to operate as AD Cat-II. In addition, the norms for the Full Fledged Money Changers have been reviewed and the ADs have been permitted to enter into franchisee arrangements for provision of money changing facilities. Further, measures have been taken to simpify procedures in respect of cross-border flows through Exchange Houses (Rupee Drawing Arrangements).

Resident individuals have been permitted to make remittances overseas up to USD 200,000 per financial year for undertaking any of the permitted current or capital account transactions or a combination of both. Only requirements are a designated bank account, PAN number and a simple declaration.

The critical issue at this juncture is for the banks to ensure efficient customer service by equipping the frontline staff with up-dated instructions and bring about an attitudinal change in their approach towards foreign exchange business. It is disconcerting to note that the incognito visits to various banks have revealed that the services delivered at various banks are deficient and insistence on unwarranted or complex documents continues for individuals. Another issue is the reluctance of the banks to extend service to walk-in customers for handling their small value transactions. We have been sensitizing banks to these issues.

The steps taken by the RBI in liberalizing the forex regulations, delegating authority to the ADs and simplify the procedures is basically designed to extend the forex services to the residents and non-residents in a simple and hassle free manner with minimal documentation.

IV. Payment Systems

The traditional role of banks as providers of various payment and settlement services to customers is getting redefined. Until recently, requirements of customers, be it corporate or retail, were determined and extended by banks based on their perception and understanding of customer necessities. This to a large extent was also dictated by the banks' ability to offer such products. The scenario is fast changing and changing for the better. Now, the banks are encouraged to innovate and tailor products to suit various segments of customers, apart from being more sensitive to their demands. Competition between banks for market share and the emergence of other service providers are other reasons for this push. It is also necessary to put into context the magnitude of challenges that are ahead of us. The paper clearing volumes we handle is the sixth largest in the world with a volume of 1.44 billion cheques cleared during the year 2007. The RBI has launched the Cheque Truncation System in the National Capital Region of New Delhi on February 1, 2008 with the participation of 10 banks in the pilot run. Once fully operational, the system will be the largest in the world and leapfrog the country into migrating the paper based instruments to the electronic mode. The electronic suite of products is continuously expanding in terms of coverage of branches, volume of transactions and number of users availing the facility. The Reserve Bank has intervened and mandated (a) reasonability in pricing of transactions effected through ATMs, (b) compulsory use of electronic mode of initiating transactions above a specified cut-off limit, (c) strengthening the payment systems infrastructure, etc.

Whilst the clearing cycle operating across the country on a T+1 basis for cheques payable locally, favourably compares with the best in the world, it is necessary to look into the entire cycle from the time a customer deposits a cheque at a branch till the point of realisation of credit in his account. There is scope for continuous improvement in overall cycle. Going by the number of complaints, it is felt that customer-service in this area is not customer-centric. Albeit the fact that electronic payment products are improving their share in the overall retail portfolio, the volume of paper instruments would continue to be significant in the near future as well.

The share of electronic payment products like RTGS, NEFT and ECS is rising by the day and the number of branches which are offering this facility is also increasing. Notwithstanding this, the share of public sector banks in the electronic product usage is very less. It is necessary to make available these products across all bank branches. While the build-up should continue, banks need to also concentrate on reaching geographical areas and segments of populace that have not been embraced by this expansion. It is difficult to achieve financial inclusion without involving rural-India in the payment system out-reach and those banks who do so first, will reap the benefits of increase in volumes and increase in market-share, leading to concomitant increase in revenues, and of-course increase in other businesses as well. And as we all know, the electronic medium is location independent, can leave a better audit-trail and will surely improve customer involvement and service expectations. It is our vision that electronic products reach 50% of volume and 95% of value by the end of March 2009.

Banks need to adopt a '**STOCK**' approach while conceiving and bringing out products. Products that are '**S**ecure and scalable', **T**ransparent in terms and conditions of usage, **O**perationally resilient and efficient, **C**ost-effective and reasonably priced, and **K**nowledgeable to staff and customers. The customers have an equal if not higher responsibility to ensure banks adopt this approach while innovating products for them.

V. Currency Management

As per the provisions of Reserve Bank of India Act 1934, RBI is statutorily required to undertake certain activities in the area of currency management. In view of the fact that RBI has its Offices only at state capitals or at large centres, the services of commercial banks are used to store banknotes on behalf of the Reserve Bank in the currency chests held at designated branches. These bank branches may operate on the balances of the currency chests as per their requirements with correct and timely reporting being their responsibility. A decision has also been taken to provide the currency chest facility to private sector and foreign banks with 99 currency chests being held by these banks. Further, now the Urban Cooperative Bank and RRBs are also allowed to hold the facility. These steps would improve the availability of banknotes and coins across the country.

The channel of currency chests is used not only for distributing banknotes and coins but also for collecting back the soiled notes. While the banks are under instructions to sort the banknotes before depositing them into the currency chest, it was observed that meaningful sorting was not done as evident from a number of re-issuable notes being retrieved at the level of the Reserve Bank regional offices. To overcome this, all the banks were advised to install Note Sorting Machines at their currency chests, a task that has been completed. To carry the Clean Note Policy further, banks have been instructed to process all of their daily receipts over Note Sorting Machines and keep a daily record thereof. It may be mentioned here that banks are already under instructions by way of a Directive under Section 35A of the Banking Regulation Act 1949 on non-stapling of banknotes, issue only good quality of banknotes and not to write anything on the watermark portion. This would be evident from the general improvement in the quality of notes in circulation.

Further, to extend the reach of channels for distribution of coins, the services of Post Offices, Urban Cooperative Banks and Regional Rural Banks are being used in view of their wide reach to the members of general public.

VI. Financial Education and Inclusion

Lastly, let me come to the very significant aspect of financial inclusion which has been pursued with a missionary purpose by the Reserve Bank of India during the last four years. Given the socio-demographic complexities in India, the endeavour has been towards a multi-institutional and multi-instrumental approach to comprehensively address the issue of financial inclusion in all its entirety, going beyond mere availability of credit. By financial inclusion we mean the provision of affordable financial services, *viz.,* access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Globally the issue of financial inclusion has now assumed significance not merely in developing countries but also in developed countries. RBI started a focused drive in this regard in 2004.

In the Annual Policy of the Reserve Bank for 2004 - 05, the Governor, Dr. Reddy observed and I quote -

"There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis."

Pursuant to this, the Reserve Bank has undertaken a number of measures with the objective of attracting the financially excluded population into the structured financial system going beyond credit to a whole range of financial services.

- In November 2005, banks were advised to make available a basic banking 'no-frills' account with low or nil minimum balances as well as charges to expand the outreach of such accounts to vast sections of the population. Banks are required to make available all printed material used by retail customers in the concerned regional language.
- In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts, the know your customer (KYC) procedures for opening accounts has been simplified for those persons with balances not exceeding Rs 50000/- (about GBP 600) and credits in the accounts not exceeding Rs.100000/- (about GBP 1200) in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been followed.
- Banks have been asked to consider introduction of a General purpose Credit Card (GCC) facility up to Rs.25000/- at their rural and semi urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw upto the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated.
- In January 2006, banks were permitted to utilise the services of non-governmental organisations (NGOs / SHGs), micro-finance institutions and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do 'cash in - cash out' transactions at the location of the BC and allows branchless banking.
- Other measures include setting up pilots for credit counselling and financial education. A multilingual website in 13 Indian languages on all matters concerning banking and the common person has been launched by the Reserve Bank on 18 June 2007.

The key driver in the success of these initiatives would undoubtedly be technology. Technology today provides a lever which can enable multilevel leapfrogging in pursuit of financial inclusion. Andhra Pradesh has started a project that aims to improve the mechanism for paying pensions and unemployment benefits to around half a million people in villages in the Karimnagar and Warangal regions of the state. It is a tiny start—so far some 40,000 cards have been issued—but the potential is clear. The initiative is to have a bank tie up and extend this model to other places and states.

The role of financial literacy in this regard can't be over-emphasised. As noted by the Economist in a recent issue, a global crusade is under way to teach personal finance to the masses. Governments from USA to Britain to Russia are declaring their commitment to financial education. This month the World Savings Banks Institute, which represents retail and savings banks from 92 countries, will hold a summit in Brussels about financial education in the light of the sub-prime crisis. There is also an exhortation to the policy makers to simplify the choices available to people in financial matters, quoting the Swedish savings plan for old age, which offers a choice of funds to invest in but also includes a low-cost default option, chosen by 90% of the people.

Financial education has an ever more critical role to play in the changed financial landscape of India which, while on one hand has presented with newer opportunities for future collective growth, on the other, it has also heightened fears of uncertainty in certain quarters mainly because of increasing multi-faceted choices and options in the management of personal finances and exposure to a gamut of risks. Financial education could ideally supplement the financial inclusion initiatives for long term efficacy. RBI has recently put out a concept paper on setting up Financial Literacy and Counseling Centres with the objective of providing free financial literacy / education and credit counselling. The specific objectives of the proposed FLCCs would be :

- To educate the people in rural and urban areas with regard to various financial products and services available from the formal financial sector;
- To make the people aware of the advantages of being connected with the formal financial sector;
- To provide face-to-face financial counselling services, including education on responsible borrowing and offering debt counselling to individuals who are indebted to formal and / or informal financial sectors;
- To formulate debt restructuring plans for borrowers in distress and recommend the same to formal financial institutions, including cooperatives, for consideration;
- To take up any such activity that promotes financial literacy, awareness of the banking products, financial planning and amelioration of debt-related distress of an individual; and
- To take up any other activity that facilitates the above. Once feedback is received, the initiative could be carried forward in consultation with all stakeholders.

Conclusion

I would like to conclude by quoting from one of Governor Dr. Reddy's speech :

"Banking is a trust-based relationship and the banking licence from the regulator provides an assurance of trust to the public at large. To the banks, the banking licence provides the privilege of accepting uncollateralised deposits from the public. However, the acts of stealth banking, negative option marketing, misleading advertisements, information gathering from customers for cross selling of products and services and tie-up arrangements are inconsistent with the concept of a trust-based relationship. The lack of transparency, coupled with the difficulty of consumers in identifying key information from the large volume of material and communication in fine print, leads to an information asymmetry, which renders the banker-customer relationship one of unequals."

The broad approach of RBI is to empower the common person where banking services are concerned and strengthen customer-service delivery in banks by adopting a consultative process with banks, through the IBA. Specifically, the focus is on :

a) Sensitising banks to customer service and encouraging the involvement of the Boards of the banks, especially to strengthen the banks own grievance redressal machinery.

b) Insisting on transparency in all the dealings with the customers, and ensuring reasonableness in pricing.

c) Promoting adherence to self imposed codes by banks on commitments to bank customers and monitoring compliance by an independent agency, *viz.* BCSBI.

d) Strengthening the mechanism for dispute resolution.

e) Using regulation / prescription only when essential, while encouraging the industry association (IBA) to take initiatives.

f) Rationalising RBI's own systems and procedures.

It is a constant endeavour to meet the above objectives and collectively, I am sure we can build a customer-oriented banking culture and, through the initiatives on financial inclusion, achieve democratization of the financial sector.

Significance of Eco - Industry Analysis in Credit Risk Rating Models & Assessment of Concentration Risk

Dinesh G. Mahabal *

Introduction

Eco-Industry Analysis is nothing but the assessment of external industrial environment in which an obligor or the borrower company has to operate. The evaluation of relevant economic and industrial parameters concerning the industrial environment like the contribution of the industry to GDP or the impact of Government Policy etc on the working of an Industry /sector forms an integral part of any modern day evaluation of the credit risk for committing to the financial requirements' of an obligor or the borrower company.

Reserve Bank of India; vide Guidance Note on Credit Risk Management dated Oct'02, had detailed the prescription for Banks in India so as to enable them to establish effective credit risk management framework with three distinct building blocks *viz.* a) Policy and Strategy b) Organisational Structure & c) Operations / Systems. In the context of requirements for rating methodologies; covered vide the Operations / systems; RBI has directed the use of Credit Rating Framework (CRF) for the evaluation of credit risk.

The CRF being adopted by various Banks / Financial Institutions for achieving compliance towards the credit risk rating guidelines under various approaches of Basel-II essentially should comprise of the qualitative / subjective factors both the internal and external to the obligor / borrower. The Internal factors could include integrity and quality of management of the borrower, quality of inventories / receivables and the ability of borrowers to raise the finance from other sources etc. The External factors essentially include impact of the changes in economic and industrial environment on parameters such as industry's growth prospects, technological changes and alternate processes / substitutes under development etc.

Further, under the Mechanism of arriving at Risk-Ratings; the above referred circular from RBI states that the risk ratings are collective readings on the prespecified scale and reflect the underlying credit-risk for an existing or the prospective exposure. The CRF could be separate for relatively peculiar businesses like banking, finance companies, real-estate developers, etc. For all industries (manufacturing sector), a common CRF may be used.

The peculiarity of a particular industry can be captured by assigning different weights to aspects like entry barriers, access to technology, ability of new entrants to access raw materials etc. As directed further, the business risks associated with an exposure (*e.g.* cyclicality of the industry, threats of product or technology substitution etc.) are also to be addressed in the CRF.

Thus, in a nutshell it is imperative to include a rating module to measure the impact of external environmental factors concerning the state of general economy and the industry wherein a company operates in the overall CRF.

The External Risk Assessment Framework / Module :

Thus, it is evident that the CRF should normally comprise of some optional and some relevant / compulsory parameters for carrying out the Eco Industry analysis as a part of Borrower Assessment.

The parameters considered for assessment of external environmental risks are generally as under :

a. **Economic Scenario Analysis -** contribution of the Industry under evaluation to the GDP, Consumption pattern of the Industry's major products and the industry's contribution to external trade / commerce.

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b. **Industry Scenario Analysis -**

Demand - Supply Gap analysis and the past / projected growth rates. Influence of Unorganised / Replacement market etc on the Demand Supply Gap.

- Product analysis - includes the evaluation of Cyclicality / seasonality and substitution scenario assessment.
- Major Input's analysis - Availability and affordability of critical inputs to the industry like raw materials, power & fuel as also other important infrastructure facilities / environment clearances required etc.
- Government Regulations - Influence of general (tax structures / customs duties etc.) as also industry specific state / central government regulations need to be studied and quantification and further assessment needs to be done under this factor.
- Industry Financials - Based on the financial data for sample set of companies operating in that particular product segment; various financial ratios like Operating Profit Margin, Turnover ratios like Debtor's turnover, Creditors turnover, Average Inventory holdings / turnover, Return on Capital Employed, Debt Equity Ratio, Interest Coverage Ratio, Current Ratio etc may be used to evaluate the score against pre-determined benchmarks.

Methodology for Eco- Industry Analysis :

For the purpose of analysis; it is essential to form the group of companies operating in a common Eco-Industrial environment with location spread defined across a particular country or a particular region or a state etc. The group of companies so selected for analysis should collectively contribute major proportion of the industry's turnover or profit or both. Further, the broad parameters selected for evaluation as indicated at 3.0 above, must be individually assigned weights considering their importance. Higher score may be admissible on the assessment of lower risk. An indicative Methodology for a sample set of 1. Iron & Steel Industry and 2. Paper & Paper Product Industry is enclosed at **Annexure-I**. The analysis is only indicative and does not represent factual assessment of these industries. The data indicates that Iron & Steel Industry (Score 64 / 100) is less risky than Paper (Score 55 / 100).

In the ultimate analysis, the Industry evaluation will result into a score or a number which may be different for different products sector - industry. The number may thus represent the risk associated with a particular product - sector - industry etc in the backdrop of the analysis done. The analysis may further be broad based by inclusion of the evaluation for more & more products preferably those products contributing significant proportion to the country's GDP.

In case a Bank desires to carry out the specific analysis then the set of industry to be selected may consist of those industries wherein a Bank has taken sizable exposure. Moreso, the industry risk analysis needs to be carried out over a period of at least one industry cycle so as to have a stable and reliable database. As per the extant RBI guidelines, the industry studies are also required to be carried out on annual / half yearly basis.

The Product - sector - industry Risk score computed as per above methodology may primarily be used for the comparative assessment of the External Environment of the Obligor's / Borrower's.

Major uses of the Industry Analysis :

As noticed, the main use of industry analysis is for the assignment of risk score at the CRF adopted by the Lender for credit risk evaluation. The other uses include but not limited to the following :

1. **Assessment of Industry Concentration Risk :** Banks traditionally report their exposure to RBI in the format having a pre-specified set of industries / sectors by way of quarterly statement on “sectoral deployment of credit” - known as the DSB returns. While the exposure data would amply indicate the percentage share of each industry / sector; the risk score assigned to these sectors may be further used to identify and evaluate the industry / sector concentration risk.
2. **Evaluation of Risk Appetite of a Lender for a particular Industry :** The industry / sector assessment score - which represents perceived risk in financing to a particular industry sector; may be used along with other data such as

accumulation of Non Performing Assets in that sector, Prudential Write Offs, past and expected growth rates of the sector under assessment etc. On evaluation of such factors, the resultant score may be used to gauge the risk appetite for a particular industry sector - essentially a Lender specific characteristic.

3. **Improving the quality of Advances / Portfolio :** A detailed knowledge of the industry's working represented by operating ratios like Inventory turnover and holding periods like Creditors / debtors etc are important in monitoring loan quality involving units working in that specific industry sector. By identifying industry concentrations, industry risks, the relative condition of bank borrowers within their industry, and the appropriateness of tightening or loosening credit standards, industry analysis can suggest steps for banks to improve the credit quality of loans to individual borrower and of the loan portfolio as a whole.

4. **Diversification of the Portfolio :** It is observed that often the performance of certain industry / sectors are interrelated to the extent that down turn or upturn in one sector impacts the other. Problems in only a few of such interrelated industry sectors may result in a sudden ballooning of non-performing loans, followed by heavy loan losses and subsequent bank failure. It is possible to prevent or reduce some of the losses by judicious diversification of the Loan portfolio in a more systematic way. Iron & steel, Cement and Construction Industry are strongly correlated and represent concentration group industry or sector while paper or fertilizer sector are diversely related to the industry group of Iron& Steel, Cement and Construction.

5. **Strategic Planning :** Finally, industry analysis can be an important ingredient in the bank's strategic planning process and in the selection of tactics to achieve sound and sustained growth across industries / sectors by "Prioritisation" of industries for investments based on the industry score. Understanding / Knowledge of the current status of an industry in relation to the current business cycle can determine whether the bank should expand or contract its exposure to that particular sector / industry. Industry analysis is often conceptualized as an early warning system to flag potentially troublesome sectors. Nevertheless the analysis can also help to identify expanding industries which the bank may wish to target for direct marketing or for loan purchases from the secondary market.

Conclusion :

- The credit risk analysis of an obligor should consist of external factors in which a borrower operates. This analysis of external environment is essential along with other parameters which are internal to the borrower like Business Policies, Financials and the Management.
- The methodology for assessment of external environment for a borrower unit as suggested above would primarily be helpful to many Banks / Lenders who are in the process of testing / adopting a CRF.
- Apart from the basic use for credit risk evaluation, the methodology may also be put for other important uses like improving the quality of portfolio or the advance, strategic planning and portfolio diversification etc.
- With proper imposition of the Lender specific experience the Methodology may be evolved further for assessment of the "Risk Appetite" to a particular product-sector-industry.
- Further, Reserve Bank of India vide their recent circular dated 26th March'08 on "Supervisory Review Process under the New Capital Adequacy Framework Guidelines for Pillar 2" has advised that some of the risks that the banks are generally exposed to but which are not captured or not fully captured in the regulatory CRAR would include : (a) Interest rate risk in the banking book; (b) Credit concentration risk etc. It is, therefore, only appropriate that the banks make their own assessment of their various risk exposures, through a well-defined internal process, and maintain an adequate capital cushion for such risks. The framework suggested above may be used as a stepping stone towards achieving the assessment of credit concentration risk on various industry / sectors in particular.

ANNEXURE - I

NAME OF THE INDUSTRY	IRON & STEEL	PAPER & PAPER PRODUCTS
Products	Long Products like wires, rails, tubes, pipes, tor-steel bars, angles, channels etc.* and Flat products like HR / CR GP / GC Sheets, plates, foils etc. as also plain carbon steel and alloy steel.	Writing & Printing Paper*, Industrial Paper, Newsprint Paper.
* Products considered for assessment.		

Sr. No.	PARAMETER	Maximum Score **	I & S	Paper
1.	Performance of the Economy in terms of Growth in IIP (Index of Industrial Production)	5	4	3
2.	Past consumption / market size Growth in the industry	5	3	2
3.	Contribution of the industry to the GDP.	5	4	2
4.	Impact of industry specific Govt. regulations by GOI / State Govt.	5	3	4
5.	Inputs like power / fuel and Raw Materials - Availability and Affordability	5	3	3
6.	Demand Supply Gap	5	3	3
7.	Threat of Substitutes	5	3	2
8.	Industry Cyclicality / Seasonality	5	3	2
9.	Industry Financials (each 5 marks) OPM ROCE CR DER Interest Coverage ratio	25	18	15
10.	Capacity Utilisation	5	3	3
11.	Impact of Unorganised Market	5	3	3
12.	Average Debtors turnover	5	2	2
13.	Ave. Raw Material turnover	5	3	3
14.	Ave. Finished Goods Holding Period	5	2	2
15.	Inventory turnover ratio	5	3	3
16.	Average Creditors turnover ratio	5	4	3
17.	Companies considered for Assessment - their net sales turnover and net profit as on last -3- years. (Only for Information)	-	25	20
	Total Marks	**100**	**64**	**55**

** Based on Benchmarking of parameters. Higher the score lower the Risk.

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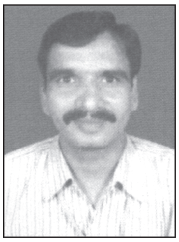


भारत में सार्वजनिक क्षेत्र के बैंकों में कम्प्यूटरजनित धोखाधड़ियाँ – कारण एवं निदान

सुधीर जैन *

"यह सच है कि इंटरनेट ने जीवन में एक नया क्षेत्र विकसित किया है, साथ ही इण्टरनेट ने ऐसे अपराधों को जन्म भी दिया है, जो अनियंत्रित हैं।"

– **यूरोपोल के डायरेक्टर**

अपने ग्राहकों को बेहतर सुविधा उपलब्ध करवाने एवं इस प्रतिस्पर्द्धात्मक बैंकिंग युग में अपने आपको बनाये रखने के लिए सभी बैंकों ने कम्प्यूटराईजेशन को तीव्र गति से अपनाया है। बड़े पैमाने पर कम्प्यूटरीकरण के साथ ही बैंकिंग गतिविधियों का स्वरूप सीमित चार दीवारी से हटकर (Break & mortar) "कहीं भी – किसी भी समय" (any where - any time) हो गया है अर्थात् आधुनिक युग में बैंकिंग गतिविधियों का संचालन इंटरनेट, ए.टी.एम., मोबाइल बैंकिंग, फोन बैंकिंग आदि साधनों द्वारा किसी भी स्थान से किया जा सकता है। अतः जहाँ एक ओर बदलते हुए परिवेश में बैंकिंग व्यवस्था अधिक गतिशील हुई है, व्यवसाय में वृद्धि हुई है, सेवा लागत (service cost) में कमी हुई है तथा ग्राहकों एवं कर्मचारियों को कम्प्यूटरीकरण की सुविधाओं का लाभ मिला है, वहीं दूसरी ओर बैंकिग में होने वाले संचालन जोखिमों (Oprational risk) में भी वृद्धि हुई है। फलस्वरूप, बैंकों में कम्प्यूटरजनित धोखाधड़ियों में भी वृद्धि हो रही है एवं कम्प्यूटर क्राईम एक संगठित अपराध की ओर प्रवृत्त हो रहा है।

कम्प्यूटर अपराध : परिभाषा

"धोखाधड़ी (Fraud)" कोई नया शब्द नहीं है। जबसे व्यापार का इतिहास है, तब से ही मनुष्य अनुचित लाभ के लिए कई हथकंडे अपनाता रहा है। बैंक भी इससे अछूते नहीं रहे।

श्री बी. डी. नारंग, तात्कालीन एक्जिक्यूटिव डायरेक्टर, पंजाब एण्ड सिंध बैंक की अध्यक्षता में "बैंकों में बड़े गबन" (Large Value Bank Frauds) के लिए गठित कमेटी ने बैंक धोखाधड़ी को निम्न प्रकार से परिभाषित किया है – "बैंक धोखाधड़ी किसी भी व्यक्ति द्वारा जानबूझकर किया गया वह कार्य है जो बैंकिंग लेनदेन के दौरान किया गया हो – चाहे यह कार्य लेखा बहियों में, जो हाथ से लिखी गई हों अथवा कम्प्यूटर सिस्टम के द्वारा रखी गई हों, एवं जिसके परिणामस्वरूप उस व्यक्ति को अनधिकृत लाभ होता है, चाहें यह अल्पावधि के लिए हो अथवा दीर्घावधि के लिए, चाहे इससे बैंक को मौद्रिक हानि हो अथवा नहीं हो।"

कम्प्यूटर धोखाधड़ियाँ अथवा अपराध (Computer frauds or Computer crimes) वे हैं जो कम्प्यूटर द्वारा अथवा कम्प्यूटर जनित डाटा, रिकोर्ड अथवा प्रोग्राम में छेड़खानी द्वारा किये जाते हैं।

कम्प्यूटर अपराध के प्रेरक तत्व (Motivaters) :

जिस प्रकार अन्य अपराधों अथवा धोखाधड़ियों के पीछे मुख्य प्रेरक तत्व धन होता है, ठीक उसी प्रकार कम्प्यूटर अपराध अथवा धोखाधड़ियों के पीछे मुख्य प्रेरक शक्ति भी **'धन'** है। फिर भी, कुछेक निम्न अन्य प्रेरक तत्व भी हैं, जो व्यक्ति को कम्प्यूटर अपराध करने को मजबूर करते हैं जैसे –

- वित्तीय लाभ प्राप्त करने के उद्देश्य से
- अव्यवस्था फैलाने के उद्देश्य से
- विद्वेष के कारण
- शरारत (Mischief)
- ज्ञान को परखने के लिए (To test knowledge)
- ब्लेकमेल (To blackmail) करने के लिए
- व्यक्तिगत दुश्मनी निकालने के लिए (personal revenge)

कम्प्यूटर धोखाधड़ी के तरीके (types of computer frauds) :-

दिन–प्रतिदिन साइबर अपराध के लिए अपराधी नये–नये तरीके अपनाते हैं। सामान्यतः कम्प्यूटर अपराध करने के लिए अपराधी निम्न तरीके अपनाते हैं :–

* प्रबंधक, स्टेट बैंक ऑफ बीकानेर एण्ड जयपूर.

1. चोरी (Theft) : कम्प्यूटर के हार्डवेयर की चोरी अथवा/ और प्रोग्राम की चोरी। यह एक सामान्य चोरी की भाँति ही है।

2. वायर टेपिंग (Wire tapping) : कम्प्यूटर क्षेत्र में सबसे अधिक धोखाधड़ी की संभावनाओं वाला क्षेत्र है – वायर टेपिंग अर्थात् ए.टी.एम./डेबिट कार्ड और क्रेडिट कार्ड/स्मार्ट कार्ड पर मेग्नेटिक स्ट्रिप होती है जिसमें डाटा रहता है और किसी धोखेबाज़ द्वारा उसको गैर कानूनी तरीके से टेप कर लेने एवं उसके दुरुपयोग करने को वायर टेपिंग कहते हैं।

3. डाटा नष्ट करना (Data destruction) : एक कम्प्यूटर में स्टोर किये गये डाटा को पूर्णतः नष्ट किया जा सकता है, खराब किया जा सकता है अथवा उनमें कुछ परिवर्तन किया जा सकता है। साधारणतः डाटा में तीन प्रकार से गड़बड़ी की जा सकती है –

- **मेन्यूअली (Manually)** – कम्प्यूटर की–बोर्ड द्वारा कोई भी व्यक्ति जो कम्प्यूटर के बारे में साधारण जानकारी रखता है, कम्प्यूटर के डाटा को मिटा सकता है अथवा परिवर्तित कर सकता है।
- **वायरस (Virus) के द्वारा** – कोई भी शरारती व्यक्ति नये–नये वायरस छोड़ सकता है जो संसार में किसी भी जगह स्थित कम्प्यूटर के डाटा को पूर्णतः या आंशिक रूप से नष्ट कर सकते हैं।
- **लोजिक विस्फोट (logic bomb) द्वारा** – यह एक गुप्त प्रोग्राम होता है जिसके द्वारा कम्प्यूटर प्रोग्राम में छेड़छाड़ की जा सकती है। एक साधारण प्रोग्रामर, इस तरह का प्रोग्राम नहीं बना सकता है। इस तरह के प्रोग्राम को आसानी से मिटाया नहीं जा सकता है।

4. जासूस सॉफ्टवेयर (Spy software) द्वारा पासवर्ड एवं आई.डी. चुराना : जासूस सॉफ्टवेयर का प्रयोग पासवर्ड या अन्य महत्वपूर्ण सूचनाएं जिससे व्यक्ति की पहचान होती है जैसे आई.डी. (Identification) अथवा पासवर्ड को चुराने में किया जाता है। जैसे ही की–बोर्ड का कोई बटन (Key) दबाया जाता है, अपराधी प्रवृत्ति के व्यक्तियों द्वारा इस सॉफ्टवेयर के माध्यम से इसे चुरा लिया जाता है। इस प्रकार उस चुराये हुए पासवर्ड एवं आई.डी. का दुरुपयोग साइबर अपराध को अंजाम देने में किया जा सकता है।

5. मनी लांडरिंग (Money Laundering) : कम्प्यूटर द्वारा कालेधन को सफेद धन में बदलने का आसान तरीका मनी लांडरिंग है। पलक झपकते ही धन को एक देश से दुसरे देश में भेजा जा सकता है। आतंककारियों के लिए तो यह माध्यम जादूई चिराग साबित हुआ है।

6. इलेक्ट्रोनिक फंड ट्रांसफर (Electronic Fund Transfer) : इलेक्ट्रोनिक माध्यम तथा कम्प्यूटर मशीन, ए.टी.एम., क्रेडिट कार्ड, डेबिट कार्ड, स्मार्ट कार्ड, सुपर कार्ड, इंटरनेट आदि माध्यमों द्वारा धन का हस्तान्तरण एक देश से दूसरे देश में, एक बैंक से दूसरे बैंक में एवं एक शाखा से दूसरी शाखा में तुरन्त हो जाता है। यह धन हस्तान्तरण करने का सशक्त माध्यम बनता जा रहा है। इसके माध्यम से निम्न प्रकार से अपराध को अंजाम दिया जा सकता है –

- सही व्यक्ति की जगह अन्य व्यक्ति के खाते में धन का हस्तान्तरण होना।
- क्रेडिट कार्ड की नकल (copy) कर लेना और डाटा का दुरुपयोग करना है।
- क्रेडिट कार्ड चुराकर (stolen) अनधिकृत व्यक्ति द्वारा ऐसे कार्डों का दुरुपयोग करना।
- ए.टी.एम. कार्ड एवं पासवर्ड चुरा लेना।
- ई–कॉमर्स के माध्यम से कम कीमत के सामान के बदले अधिक धन का हस्तान्तरण कर धोखाधड़ी करना।

7. हेकर्स (Hackers) : हेकर्स वे व्यक्ति होते हैं जो दूसरे व्यक्ति या संस्था की कम्प्यूटर सुविधाओं का, अनधिकृत प्रवेश (intrude) द्वारा, प्रयोग करते हैं। वे कम्प्यूटर सिस्टम की सुरक्षा में बरती गई कोताही का प्रयोग अपराधिक कार्यों के लिए कर सकते हैं।

8. सॉफ्टवेयर पाइरेसी (Software piracy) : पाईरेटेड सॉफ्टवेयर एक बढ़ता हुआ अपराध है। मूल सॉफ्टवेयर को कॉपी करना और बाजार में बेचना सॉफ्टवेयर पाइरेसी (Software piracy) कहलाता है। पाईरेटेड सॉफ्टवेयर की कीमत नगण्य होती है।

9. फिशिंग (Phishing) : इसके अन्तर्गत इस तरह की घटनाएं आती है जिसके अन्तर्गत ऐसा लगता है कि यह अमुक बैंक की ई–मेल है और ग्राहकों से कहा जाता है कि वे लॉग–इन करें और अपने कार्ड से

सम्बन्धित अन्य विवरण भरें क्योंकि उनको अपने बैंक के रिकॉर्ड को पूरा करना है या सिस्टम को अपग्रेड करना है या उनको पुराने कार्ड के बदले नये कार्ड जारी करने हैं आदि–आदि। इस तरह की झूठी (Bogus) ई–मेल द्वारा ग्राहकों को जाल में फँसाकर जानकारियाँ प्राप्त करना फिशिंग कहलाता है। बाद में, फिशर्स इन जानकारियों द्वारा ग्राहकों के खातों का अपने हित के लिए दुरुपयोग करते हैं।

10. फार्मिंग (Farming) : इसमें अपराधी यह देखता है कि डीएनएस सर्वर (DNS Server) सॉफ्टवेयर को किस तरह से भेदा जाये और वेब–ट्रेफिक (web traffic) को अधिकृत साईट (authentic sites) से जाली साईट (spurious sites) की तरफ कैसे मोडा जाए। इस प्रकार एक जालसाज, ग्राहकों द्वारा एक अधिकृत साईट पर दी गई जानकारियों को धोखाधड़ी के लिए प्रयोग कर सकता हैं।

बैंकिंग उद्योग में कम्प्यूटर अपराधी कौन हो सकते हैं (Computer criminals in banking industry) : हमारे देश में सार्वजनिक क्षेत्र के बैंकों में कम्प्यूटर अथवा सूचना प्रौद्योगिकी क्षेत्र में अभी तक ज्यादा धोखाधड़ी की घटनाऐं घटित नहीं हुई हैं और जहाँ हुई है, वह कम्प्यूटर के बारे में अधिक जानकारी रखने अथवा अपने ही बैंक के कर्मचारियों द्वारा की गई है। बाहरी व्यक्तियों द्वारा ए.टी.एम., क्रेडिट कार्ड अथवा इण्टरनेट द्वारा धोखाधड़ियाँ की गई है। लेकिन एक बात जो बहुत महत्वपूर्ण है – कुछ घटनाएं इस तरह की घटित हो जाती हैं जिनका उद्देश्य धोखाधड़ी करना नहीं होता है, लेकिन उससे एक बहुत बड़ी वित्तीय हानि हो जाती है जिसे हम **ईमानदारी से किया गया नुकसान** (honest loss) कह सकते हैं। इस तरह की घटनाएं आकस्मिक होती हैं जैसे किसी अनचाहे बटन (key) का दब जाना जिससे बड़ी मात्रा में डाटा नष्ट हो गया हो अथवा किसी डिस्क, पेन ड्राईव आदि में डाटा ओवर–राईट हो गया हों।

1. बैंक के अपने ही कर्मचारी : ऐसा देखने में आया है कि जिन कर्मचारियों को कम्प्यूटर का अधिक ज्ञान होता है, उन्हीं व्यक्तियों द्वारा कम्प्यूटर धोखाधड़ी की गई है। शाखा उस कर्मचारी पर ज्यादा ही निर्भर हो जाती है। ऐसे कर्मचारी मौके का फायदा उठाकर गबन कर लेते हैं। कई बार तो यह बहुत लम्बे समय तक पता ही नहीं चल पाता है। कोर बैंकिंग सोल्यूशन के बाद इस तरह की घटनाओं में बढ़ोतरी हुई है।

2. कम्प्यूटर विशेषज्ञ (Computer Experts) जिसमें वेण्डर्स (vendors) भी शामिल हैं के द्वारा : कम्प्यूटर प्रोग्रामर्स एवं कम्प्यूटर विशेषज्ञों द्वारा अपने फायदे के लिए अपने ज्ञान का प्रयोग करके कम्प्यूटर प्रोग्राम में थोड़ी हेराफेरी करके बहुत बड़ी धोखाधड़ी को अंजाम देने के मामले भी प्रकाश में आये हैं। दुर्भाग्य से, बैकों में कम्प्यूटर विशेषज्ञों की सेवा अपरिहार्य हो चुकी है। सॉफ्टवेयर सप्लायर, ए.टी.एम. वेण्डर्स, ए.एम.सी. के लिए आउटसोर्सिंग वाले कर्मचारियों द्वारा भी बैंकों में धोखाधड़ी की गई है।

3. बैंक कर्मचारियों द्वारा बाहरी व्यक्तियों की मदद से भी धोखाधड़ी की घटनाएं सामने आई हैं।

घटनाओं की कार्यविधि (Modus operandi)

कुछेक धोखाधड़ी की घटनाएं, जो विगत एक–दो साल के दौरान हुई हैं, उनका संक्षिप्त विवरण निम्न प्रकार से है –

बैंक के स्टाफ द्वारा धोखाधड़ी–सिस्टम के माध्यम से :

शाखा प्रबन्धक ने अपने नाम से सिस्टम में अनधिकृत रूप से चार–चार यूजर आई.डी. बनाये। उसने बैंक के आन्तरिक खातों (Nominal accounts) को नामे (debits) करके अन्य बेनामी खातों के माध्यम से पैसे निकाल लिये। यहाँ तक कि उसने कम्प्यूटर से कई महत्वपूर्ण फाईलें मिटा दी जिसकी वजह से चैकिंग करने वाले अधिकारियों से भी बचता रहा। गबन का पता जब चला जब एक दिन एक अधिकारी को डे–बुक चैकिंग के समय एक प्रविष्टि का काउण्टर वाउचर नहीं मिला। जब बार–बार शाखा प्रबन्धक से वाउचर मांगने पर भी उसे वाउचर उपलब्ध नहीं करवाया गया तो उसे कुछ शंका हुई और उसने अपने उच्च अधिकारियों को इस बारे में बताया। मामले की गहन जाँच करवाई गई, तब पता चला कि शाखा प्रबन्धक लम्बे समय से सिस्टम का प्रयोग कर फर्जी प्रविष्टियों के माध्यम से एक करोड़ रुपये से भी ऊपर की धोखाधड़ी कर चुका था। शाखा प्रबन्धक को नौकरी से निकाल दिया गया। केन्द्रीय जाँच ब्यूरो मामले की छान–बीन में जुटा है।

वेण्डर्स द्वारा धोखाधड़ी :

एक प्रोग्रामर ग्राहकों के बचत खातों पर ब्याज की गणना का प्रोग्राम तैयार कर रहा था। उसने कम्प्यूटर में प्रोग्राम के द्वारा निर्देश दिया कि बचत खातों पर

ब्याज की एक प्रतिशत राशि उसके (Programmer) बचत खाते में हस्तान्तरित कर दे और इस प्रकार की गई कटौती को ग्राहकों के खातों में नहीं दर्शाये। उसके खाते में बहुत सारा पैसा जमा हो गया। यह धोखाधड़ी एक ग्राहक की शिकायत द्वारा प्रकाश में आई। उसने अपने ब्याज के पैसे की गणना स्वयं (manually) की और कम ब्याज जमा होने की बात बैंक अधिकारियों को बताई। बैंक द्वारा जाँच करने पर पता चला कि यह चूक अन्य बचत खातों में भी है। विस्तृत जाँच से पता चला कि प्रोग्रामर ने सॉफ्टवेयर बनाते समय ही उक्त निर्देश डाल दिये थे।

एटीएम (ATM) से सम्बन्धित धोखाधडी :

एक खाताधारी एम का पुत्र एक्स जब अपनी पासबुक लेकर बैंक में पैसे निकलवाने आया तो पता चला कि उसके खाते से एटीएम के द्वारा 3.00 लाख रुपये एटीएम से निकाले जा चुके थे, जबकि खाताधारी ने कभी एटीएम कार्ड जारी करने के लिए आवेदन किया ही नहीं था और ना ही उसे कभी एटीएम कार्ड मिला। जाँच से पता चला कि किसी अन्य व्यक्ति द्वारा विभिन्न एटीएम के माध्यम से कार्ड का प्रयोग कर पैसा निकाल लिया। उस शाखा ने कुछ एटीएम कार्ड किसी निजी कुरियर सर्विस के माध्यम से ग्राहकों के पास भेजे थे, चूँकि चार व्यक्ति में तीन बेटे ए, बी एवं सी, एक्स और एक माँ डी थी यानि मा–बेटों का रिश्ता था, इसलिए उस कुरियर सर्विस के प्रतिनिधि ने ये चारों कार्ड माँ को ही दे दिये। खाताधारी भी उसी कॉलोनी में रहता था और उसका कार्ड भी उनको दे दिया गया और इसी का फायदा उठाकर एक बेटा बी शाखा में एम का कार्ड लेकर गया और शाखा से उस कार्ड का पिन नम्बर लेने में सफल हो गया। पुलिस में FIR दर्ज करवायी। एटीएम कियोस्क में लगे केमरे की रील देखने के बाद पुलिस ने बी को हिरासत में ले लिया।

क्रेडिट कार्ड से सम्बन्धित धोखाधड़ी :

कुछ समय पहले ठाणे पुलिस की अपराध शाखा (Cyber cell) ने क्रेडिट कार्ड के सिक्योरिटी कोड को तोड़कर लोगों के बैंक खातों से रुपये निकालने वाले एक गिरोह के मुखिया समीर शेख को गिरफ्तार किया था। पुलिस के मुताबिक गिरोह के लोग पहले नया क्रेडिट कार्ड लेने के इच्छुक लोगों से सम्पर्क करते थे। एक बार कार्ड लेने की बात तय होने पर ये लोग उक्त व्यक्ति से उसके पास के पहले से मौजूद दूसरे क्रेडिट कार्ड की जिरोक्स प्रति लेते थे। एक बार उन्हें जब दूसरे अन्य क्रेडिट कार्ड की प्रति मिल जाती थी तो वे लोग कम्प्यूटर में स्वयं के द्वारा बनाये गये एक सॉफ्टवेयर के माध्यम से उक्त व्यक्ति के क्रेडिट कार्ड के सिक्युरीटी कोड को तोड़ देते थे। वह इस कार्ड से टेलीकॉम कम्पनीज के टेलीफोन बिलों का ऑनलाईन बिल भुगतान के लिए प्रयोग करता था। वो इस तरह 1000 क्रेडिट कार्ड की फोटो कॉपी कर चुका था। सुभाष कटारिया नामक एक युवक के एकाउंट से ऐसे ही तीस हजार रुपये कम हो गये तो उसने अपराध शाखा के पास मामला दर्ज करवाया। आइ.पी.पते (I.P.address) के माध्यम से साइबर कॅफे का पता लगाया गया जहाँ से इस तरह के पेमेंट किये गये थे। पुलिस ने शेख को धर दबोचा।

इंटरनेट से सम्बन्धित धोखाधड़ी :

नवभारत टाइम्स, मुम्बई – मार्च 02, 2006 में छपी खबर – ज्यादा सुविधाएं कई बार ज्यादा तनाव पैदा कर देती हैं, खासतौर पर तब जब आपका रूपया आपकी जानकारी के बिना किसी दूसरे के बैंक एकाउंट में ट्रांसफर कर दिया जाये। कमल कुमार और भरत नामक दो ठगों ने धन के हस्तान्तरण का यह खेल एक बैंक की वेबसाइट की क्लोनिग करके खेला। कमल कुमार और भरत दोनों **मेनेजमेंट ग्रैज्युएट हैं** और दोनों को **इंटरनेट की भी खासी जानकारी है। दोनों ही किसी भी वेबसाईट को हैक करने की कला में भी खासे पारंगत हैं।**

पिछले दिनों उन्होंने अपनी इस योग्यता से एक नामी बैंक की एक फर्जी वेबसाइट बनाई और इस बैंक के ग्राहकों को ई–मेल भेजा और उनसे इस वेबसाइट को खोलने और इसमें लिखी नई जानकारी पढ़ने को कहा। कई लोगों ने इस ई–मेल को पढ़ा फिर अपने कम्प्यूटर पर जाकर वेबसाइट को भी खोला। **वेबसाइट से सम्बन्धित बैंक के ग्राहकों को रोचक जानकारी देने के साथ उनसे उनकी कुछ व्यक्तिगत जानकारी भी मांगी गई, जिसमें सबसे प्रमुख था उनका पिन नम्बर (Personal Identification Number).** कई लोग कमल और भरत के इस खेल को समझ नहीं पाये और उन्होंने अपना पिन

नम्बर उन्हें ई–मेल कर दिया। इसके बाद इन दोनों ने संबंधित लोगों के एकाउंट से पैसा निकालकर अपने एकाउंट में हस्तान्तरण करना शुरू कर दिया।

पैसा एकाउंट में ट्रांसफर करने के साथ ही इन्होंने एक और धोखाधड़ी की और वह थी एक कस्टमर के एकांउट से e-bay के जरिये मोबाइल की खरीददारी करना। **e-bay वह वेबसाइट है जिसके द्वारा कोई भी व्यक्ति ऑनलाइन शॉपिंग कर सकता है।** कमल ऑन लाइन की गई इस शॉपिंग में तब फंस गया, जब उसने किसी दूसरे के एकाउंट का पूरा रुपया अपने एकाउंट में ट्रांसफर कर दिया और विजयवाडा की एक मोबाइल दुकान पर 23 हजार रुपये कीमत के मोबाइल का ऑर्डर दे दिया। **पुलिस ने फौरन उसका आई.पी. पता (Internet Protocol Address)** खोज निकाला जो विजयवाडा के एक साइबर कॅफे का था। पुलिस जब इस साइबर कॅफे पर पहुंची, तो वहां के रजिस्टर से पुलिस को कमल कुमार के घर का पता मिल गया। इसके बाद कमल कुमार को गिरफ्तार कर लिया गया। उससे पूछताछ के बाद उसका दूसरा साथी भी पकड़ लिया गया।

भरत कुमार ने पुलिस को बताया कि उसने यू.के. बेस्ड एक ग्रुप को ज्वाईन किया था। उस ग्रुप में कम्प्यूटर प्रोग्रामर्स थे जो विभिन्न देशों के थे। उनका उद्देश्य गैर कानूनी तरीके से पैसा कमाना था और उन्होंने उसके लिए वित्तीय संस्थाओं को निशाना बनाया। उसने उपरोक्त बैंक की एक फेक वेबसाइट के जरिये क्रेडिट कार्ड की डिटेल, अकाउण्ट नम्बर, बैंकिंग पासवर्ड आदि की जानकारी प्राप्त की। इस बैंक के 190 खाताधारियों ने यह जानकारी उसको भेजी थी।

तथ्यात्मक जानकारी (Findings) :– उपरोक्त घटनाओं से हमें निम्नलिखित तथ्यों की जानकारी मिलती हैं :–

- अधिकांशतः कम्प्यूटरजनित धोखाधड़ियाँ पढ़े–लिखे लोगों द्वारा की गई है जिनकी उम्र 16 से 25 साल तक होती है।
- जाली साईट भी मूल साइट से लगभग मिलती–जुलती ही होती है।
- धोखेबाज जल्दी से जल्दी धनी बनना चाहता है।
- अपने ज्ञान और कुशलता (knowledge & skill) को परखने के लिए भी ऐसी धोखाधड़ी की जाती है।
- वेबसाइट से रोचक जानकारी दी जाती है। साथ ही, ग्राहकों से उनके पिन एवं पासवर्ड की जानकारी प्राप्त कर ली जाती है। फिर उस पिन एवं पासवर्ड द्वारा उनके खाते से अपने खाते में पैसा ट्रांसफर कर लिया जाता है।
- अच्छे प्रोफेशनल ग्रैज्युएट को भी बेरोजगारी, गलत काम करने के लिए प्रेरित करती है।
- बैंक द्वारा प्रदत्त दिशा–निर्देशों की पालना करने में कौताही बरतने के कारण धोखाधड़ी संभव हुई।

वर्तमान पद्धतियों में कमियाँ (Weakness or lapses in the existing systems)

वर्तमान में सार्वजनिक क्षेत्र के बैंक कम्प्यूटर क्षेत्र में एक शैशव काल की अवस्था से गुजर रहे हैं। उनके सामने कई कठिनाईयाँ आ रही हैं। कभी नेटवर्किंग की समस्या तो कभी हार्डवेयर की। इंजीनियर दूरस्थ गाँवों में पहुँच नहीं पाते हैं। गाँवों की शाखाओं का तो हाल यह है कि वहाँ कई घंटों तक लाइट नहीं आती है। बेक–अप भी एक–दो घंटों से ज्यादा नहीं होता है। जनरेटर किराये पर लेने की अनुमति नहीं मिलती है तो कभी गाँव–वाले प्रदुषण के कारण जनरेटर लगाने नहीं देते हैं। बड़े–बड़े शहरों में जनरेटर लगाने की कोरपोरेशन अनुमति नहीं देते हैं तो कभी पड़ोसी व्यक्ति झगड़ा करते हैं। टेलीफोन लाईनें खराब रहती है। ग्राहकों की आये दिन शिकायत रहती है कि पास–बुक प्रिंटर खराब होने के कारण पास–बुक अपडेट नहीं होती है । फिर बैंक का सिस्टम है कि विद्ड्रावल फॉर्म पास–बुक के साथ होना चाहिये ताकि पास–बुक को अपडेट किया जा सके। लेकिन ऐसा हो नहीं पाता। फिर यदि कोई धोखाधड़ी हो जाती है तो कहा जाता है सिस्टम एवं प्रोसिजर्स का पालन नहीं किया गया। लेकिन कोई यह नहीं सोचता कि क्या दी गई परिस्थितियों में या साधनों सें सिस्टम एवं प्रोसिजर्स का पालन करना सुनिश्चित किया जा सकता था? एक बात और है, पब्लिक सेक्टर बैंक में अधिकांशतः कर्मचारी 48 से ऊपर हैं उनकी मानसिकता को एक दम नहीं बदला जा सकता है। यह इसी प्रकार है जैसे नवीं कक्षा तक हिन्दी माध्यम से पढ़े लिखे विद्यार्थी को दसवीं कक्षा में अंग्रेजी माध्यम से परीक्षा दिलाने बैठा दी जाए।

निम्नलिखित कुछ कमियों की वजह से बैंकों में कम्प्यूटरजनित धोखाधड़ियाँ संभव हुई है –

- **सुदृढ़ सुरक्षित प्रणालियों में कमी** : कम्प्यूटरजनित धोखाधड़ियों के मामलों में अधिकाशं घटनाएं सिस्टम सॉफ्टवेयर में कमियों की वजह से होती हैं और इन्हीं कमियों के कारण बैंक कर्मचारी या बाहरी व्यक्ति धोखाधड़ी कर सकता है। जो लोग सॉफ्टवेयर व्यवसाय में है उनका काम है – केवल आधारभूत सुविधाऐं प्रदान करना। वे सॉफ्टवेयर सिक्योरिटी से सम्बन्धित बातों की ओर कम ध्यान देते हैं। उनकी सिक्योरिटी को तोड़कर धोखाधड़ी की जा सकती है। यही नहीं, बैंक भी आगे रहने की होड़ में बिना जाँचे–परखे सॉफ्टवेयर खरीद लेते हैं।
- **सुरक्षित प्रणालियों की जानकारी का अभाव (Lack of awareness of security system)** : भारत में ही नहीं, अपितु दुनियाभर में कम्प्यूटर सुरक्षा प्रणाली किसी भी संस्था के लिए परेशानी का कारण रही है। यहाँ तक कि कम्प्यूटर सेवी व्यक्तियों द्वारा भी अपना पासवर्ड फोन पर ही बता दिया जाता है, ताकि बैंक में किसी तरह की आपातकालीन परिस्थिति (emergency call) से निपटा जा सके। इससे भी महत्वपूर्ण बात यह है कि अभी सार्वजनिक क्षेत्र के बैंकों में कम्प्यूटर की सुरक्षा प्रणाली के बारे में तो पता ही नहीं है। बैंकों में अभी भी यह मानसिकता है कि कम्प्यूटर सुरक्षा प्रणाली की कमियों को देखना तो कम्प्यूटर विभाग का काम है।
- **कम्प्यूटर सम्बन्धी उचित प्रशिक्षण का अभाव (Lack of proper training)** : सार्वजनिक क्षेत्र के बैंकों में 50 एवं उससे ऊँची आयु वर्ग के स्टाफ को या तो कम्प्यूटर की जानकारी ही नहीं है अथवा अल्प जानकारी है। इस कारण वे अपने काम को करवाने के लिए दूसरों पर आश्रित रहते हैं।
- **प्रभावशाली कम्प्यूटर ऑडिट का अभाव** : सार्वजनिक क्षेत्र के बैंकों में अभी भी कम्प्यूटर ऑडिट या सिस्टम ऑडिट में निपुण कर्मचारियों का अभाव है। परिणामस्वरूप, धोखाधड़ी अथवा डाटा हानि का समय से पता नहीं चल पाता है।
- **आपसी समन्वय का अभाव (Lack of coordination)** : अक्सर यह देखने में आया है कि बैंक के विभिन्न विभागों और कम्प्यूटर विभाग में आपसी समन्वय का अभाव होता है। यहाँ तक कि कौनसा सॉफ्टवेयर या मशीन खरीदना ठीक रहेगा और उसके सिक्योरिटी फिचर्स क्या हैं, आदि किसी एक विभाग द्वारा बिना सिक्योरिटी विभाग के मूल्यांकन किये ही खरीद लिये जाते हैं।
- **अन्तर्राष्ट्रीय स्तर पर कम्प्यूटर अपराधों** को रोकने के लिए अपराधियों को एक दूसरे देश को सोंपने से सम्बन्धित सन्धियों (lack of extradition treaties) और जाँच में एक दूसरे देश के सहयोग का अभाव है। अन्तर्राष्ट्रीय स्तर पर एक समान सहमति (consensus) का अभाव है कि किस तरह के कार्य (conduct) को कम्प्यूटर अपराध की श्रेणी में रखा जाए। परिणामस्वरूप, आतंकवादी द्वारा कम्प्यूटर सिस्टम का प्रयोग आतंकी गतिविधियों के लिए किया जा रहा है।
- जाँच अधिकारियों को कम्प्यूटर अपराध के बारे में अधिक जानकारी नहीं होने के कारण अदृश्य साक्ष्यों को कम्प्यूटर सिस्टम के माध्यम से पुनःरक्षित नहीं किया जा सकता है। इसलिए कई बार अपराधी बच निकलते हैं। साइबर अपराधों के लिए पुलिस थानों में अलग से साइबर क्राईम ब्रांच की कमी है।

साइबर क्राईम से सम्बन्धित कानून (Laws relating to Cyber crimes)

अधिकांश विकसित देशों में कम्प्यूटरीकृत परिवेश में किये जाने वाले कार्यों के लिए पहले से ही कानून बने हुए हैं। जैसे अमेरिका में कम्प्यूटर मिसयूज एक्ट, 1991, टेलीकम्यूनिकेशन एक्ट, 1996, इलेक्ट्रोनिक कम्यूनिकेशन प्राइवेसी एक्ट, जो ई–मेल के अनुश्रवण से सम्बन्धित है, आदि।

भारत में **I.T. Act, 2000** बनाया गया है जिसका मुख्य उद्देश्य इलेक्ट्रोनिक डाटा को कानूनी मान्यता देना, सरकारी एजेन्सियों में इलेक्ट्रोनिक प्रलेखों को भेजने में सुविधा प्रदान करना (to facilitate filing of electronic documents), भारतीय दण्ड संहिता, बैंकिंग साक्ष्य अधिनियम, 1891, भारतीय साक्ष्य अधिनियम, 1872 और रिज़र्व बैंक ऑफ इण्डिया एक्ट, 1934 में आवश्यक परिर्वतन करना आदि है।

कम्प्यूटर क्षेत्र में धोखाधड़ी रोकने के उपाय (suggestive measures to prevent I.T. related frauds)

"हमारे कम्प्यूटर को इंटरनेट से बिना सुरक्षा के जुड़ा रहना उतना ही सुरक्षित है जितना कि

- कार को पार्किंग में खड़ी करना और चाबी उसी में लगी रहने देना तथा कार के दरवाजे खुले छोड़ना।
- छुट्टियों में घर के बाहर घुमने निकलना और दरवाजे खुले छोड़ जाना
- ऊँची लहरों के बीच नाव चलाना वो भी बिना लंगर एवं लाइफ जाकिट (anchor and lifeline) के।"

— **सॉफ्टवेयर.सीनेट.कॉम**

विशेषज्ञों का मानना है कि यदि सभी कम्प्यूटर अपराध पकड़े गये तो इतना बड़ा अपराध हो जायेगा कि बैंक भी इसे बताने से डरेंगे। उनको अपनी साख गंवाने का डर रहेगा। पत्रकार, अंशधारी, बोर्ड के सदस्यगण बैंक मेनेजमेंट की नाक में दम कर देगें। इसलिए साइबर क्राइम को रोकने के लिए एक विस्तृत व्यूहरचना (comprehensive strategy) अपनानी होगी, जिसमें निम्नलिखित बातों का ध्यान रखना आवश्यक होगा —

सूचना प्राद्योगिकी के लिए सुरक्षित वातावण — सूचना प्राद्योगिकी पर बैंकों की निर्भरता बढ़ती जा रही है। इसलिए बैंकों को चाहिये कि ग्राहकों को जो सुपुर्दगी चैनल (delivery channels) उपलब्ध करवाये जा रहे हैं, वे सुरक्षित होने चाहिये, अन्यथा ग्राहकों का विश्वास बैंक से खत्म हो जायेगा।

- **सुरक्षा अतिक्रमण** — सॉफ्टवेयर से सम्बन्धित कमी को पूरा करने के लिए वेण्डर से इस तरह का करार (agreement) करना चाहिये कि वो उस सॉफ्टवेयर से सम्बन्धित समस्त उन्नत किये हुए सॉफ्टवेयर (upgraded version) उपलब्ध करवाये। साथ ही ग्राहकों की आवश्यकतानुसार उस सॉफ्टवेयर में परिवर्तन भी करे।
- सॉफ्टवेयर खरीदने से पूर्व उसकी पूरी तरह जाँच (tested) होनी चाहिये। हो सके तो अपने आन्तरिक अथवा बाहरी लेखापरीक्षकों की सेवाऐं भी ली जा सकती है।

कम्प्यूटर से संबंधित ऐसी गतिविधियों, जो बैंक की सूचना परिसंपत्तियों (I.T. Assets) को नुकसान पहुँचा सकती हैं या जिनमें नुकसान पहुँचाने की क्षमता होती है, में लिप्त नहीं रहना चाहिये। निम्नाकिंत गतिविधियाँ सुरक्षा अतिक्रमण के दायरे में आने के कारण सामान्यतयाः बैंकों में प्रतिबन्धित होती हैं —

- **प्रतिरूपण (Spoofing)** : सिस्टम में कार्य करते समय स्वयं की पहचान छिपाने का प्रयास, जिसमें अन्य प्रयोगकर्ताओं के खातों (other user's accounts) का उपयोग या इस तरह लेनदेन करना कि वह लेनदेन किसी दुसरे आई.पी. पते से किया जाना प्रतीत होता हो।
- **स्निफिंग (Sniffing)** : अन्य प्रयोगकर्ताओं के प्रयोग हेतु नेटवर्क में अंतर अवरोध पैदा करने या पैकेट पकड़ने के उद्देश्य से डेस्कटॉप से टूल्स के प्रयोग या नेटवर्क में कोई युक्ति डालकर संदेश पकड़ना स्निफिंग कहलाता है।
- **अनधिकृत कनेक्टिविटी (Unauthorised connectivity)** : बैंक के सिस्टम/नेटवर्क की अन्य सिस्टम/नेटवर्क के साथ कनेक्टिविटी, जो कि कम्प्यूटर सेवा विभाग द्वारा अधिकृत नहीं हो। इसमें इंटरनेट/अन्य नेटवर्क को डेस्कटॉप से जोड़ने हेतु मोडेम का अनधिकृत प्रयोग सम्मिलित है।
- वायरस, वोर्म्स, ट्रोजन्स अथवा अन्य कपटपूर्ण सामग्री, जिनसे नेटवर्क या सिस्टम को असमर्थ किया जा सकता है या आधारभूत सामग्री (data) को नुकसान हो सकता है, डालने का प्रयास अथवा जानबूझकर प्रचार करना।
- स्केन चलाना अथवा स्केन उपकरणों का प्रयोग।
- सिस्टम को असफल करने, सूचना को हटाने या आधारभूत सामग्री की चोरी करने, सिस्टम में अनधिकृत पहुँच या अनधिकृत संशोधन करने हेतु सिस्टम में सुरक्षा कमजोरी या प्रशासनिक कमी से लाभ उठाना।
- **सुदृढ़ फायरवाल (firewall)** का प्रयोग कर इंटरनेट और वेब **(world wide web)** अपराधों को कम किया जा सकता है।

कानून लागू करने वाली एजेन्सियों को सुदृढ़ बनाना (strengthening law enforcing agencies) : साधारणतया यह मान लिया जाता है कि कम्प्यूटर अपराधी दृष्टिगोचर होने वाले साक्ष्यों के अभाव में बच निकलते हैं (lack of visual evidence LOVE)।

कम्प्यूटर अपराधी यह सोचता है कि उसने डाटा फाईल को मिटा (delete) दिया है लेकिन बैंक घोटाले में ऐसा देखा गया कि जाँच अधिकारियों द्वारा कम्प्यूटर हार्ड डिस्क से सम्बन्धित फाईलों को रिट्रिव कर लिया गया था। जैसे–जैसे तकनीक का विकास हो रहा है, कम्प्यूटर अपराधी को पकड़ना भी आसान होता जा रहा है। कम्प्यूटर सिक्योरिटी के क्षेत्र में कार्यरत दक्ष प्रोग्रामर्स द्वारा उच्च स्तर के कम्प्यूटर सिक्योरिटी एवं इन–बिल्ट ऑडिट सिस्टम बना लिये हैं और इनके माध्यम से अपराध के साक्ष्य जुटा लिये जाते हैं। **अतः जो एजेन्सियाँ कानून का पालन करने के लिए है, जैसे पुलिस, न्यायाधीश (judges) आदि, को सूचना प्रौद्योगिकी का समय–समय पर प्रशिक्षण देकर उनके ज्ञान के स्तर को बनाये रखना चाहिये।**

अन्तर्राष्ट्रीय सहयोग (International Cooperation) : जैसाकि हम जानते हैं कि कम्प्यूटर अपराध, विशेषकर इंटरनेट अपराध एक सीमा में बंधकर नहीं रह गया है। इसका स्वरूप अन्तर्राष्ट्रीय हो गया है। अमेरिका में सिटी बैंक की धोखाधड़ी के मामले से यह साफ हो गया है एक व्यक्ति अमेरिका में बैठकर इंग्लैण्ड के किसी बैंक अथवा संस्था में धोखाधड़ी करके उसकी राशि को किसी तीसरे देश में भेज देता था। कम्प्यूटर अपराधी को आधुनिक तकनीकों द्वारा पकड़ा तो जा सकता है, लेकिन प्रत्येक देश के अपने–अपने कानून होते हैं। उपरोक्त उदाहरण में तीन देश शामिल हैं। अब यह पता नहीं कि अपराधी को किस देश के कानून के अन्तर्गत सजा मिले। प्रश्न पैदा होता है कि उन देशों के बीच आपस में अपराधियों को सोंपने की संधि भी है या नहीं। परमाणु प्रसार संधि की भाँति सूचना प्रौद्योगिकी से सम्बन्धित कानून भी अन्तर्राष्ट्रीय स्तर पर एक समान होने चाहिये साथ ही उन देशों के मध्य अपराधी को सोंपने जैसे बहुपक्षीय समझौते भी होने चाहिये।

अन्य उपाय (other measures) :

- अधिकांश धोखाधड़ी की घटनाओं की वजह रही है – **खाताबहियों (Voucher Verification Reports) की उचित प्रकार से जाँच नहीं करना।** पेपरलेस बैंकिग का वातावरण बन रहा है। ऐसे वातावरण में धोखाधड़ी की संभावनाएं और बढ़ सकती है। मेरा मानना है कि कम्प्यूटरीकृत वातावरण में खाताबहियों की जाँच और महत्वपूर्ण हो गई है। यदि खाताबहियों की जाँच की भी जाती है तो बहुत ही लापरवाही से। एक धोखाधड़ी की घटना ऐसी भी प्रकाश में आई है कि यदि लेखा पुस्तकों की जाँच उचित प्रकार से की जाती है तो एक बड़ी धोखाधड़ी की घटना होने से रोकी जा सकती थी।
- सार्वजनिक क्षेत्र के बैंकों में अधिकाशं कर्मचारियों को सिस्टम प्रयोग में निपुणता हासिल नहीं है। बैंकों में अभी भी एक उम्र के लोग ऐसे हैं जो कम्प्यूटर को अपना सिरदर्द समझते हैं। कुछ लोग कम्प्यूटर पर काम करते समय, अपना काम टालने के लिए अथवा काम को सुचारू रूप से चलाने के लिए अपने पासवर्ड को अपने दूसरे साथी को बता देते हैं। अतः **कम्प्यूटर की ट्रेनिंग प्रत्येक कर्मचारी के लिए अनिवार्य बनाना चाहिये।**
- **कम्प्यूटर खाताबहियों के शेष मिलान :** कम्प्यूटराइजेशन के कारण खाताबहियों का मिलान स्वतः ही हो जाता है। फिर भी, यदि कम्प्यूटर के किसी खाते में शून्य शेष रहना चाहिये और यदि वहाँ शेष शून्य नहीं है तो इसका मतलब है कि आपकी खाताबहियों में कहीं अन्तर है। कोर बैंकिग में कई खातों में एक तरफ तो प्रविष्टि हो जाती है लेकिन दूसरी ओर की प्रविष्टि ग्लिफ (अलग–अलग बैंकों में अलग–अलग नाम से जाना जाता है) खातें में पहुँच जाते हैं और फिर ग्लिफ अकाउण्ट बैंक के लिए सिरदर्द बन जाता है। ऐसे खातों में धोखाधड़ी की संभावना पूरी बनी रहती है। अतः बैंकों को चाहिये कि इस तरह के खातों का मिलान शीघ्रातिशीघ्र कर लें।
- **संकटकालीन विकल्प (Disaster Recovery Plan) :** जब मुम्बई में बारीश हुई थी तब देश के सबसे बड़े बैंक स्टेट बैंक एवं उसके सहयोगी बैंकों के मुख्य सर्वर में पानी घुस गया और उनकी समस्त शाखाओं का काम ठप्प हो गया था। उनका दूसरा सर्वर जो चैन्नई में था वो दूसरे दिन चालू हो सका था। होना यह चाहिये था कि जैसे ही नवी मुम्बई का सर्वर डाउन होता, उधर चैन्नई का सर्वर स्वतः ही काम करना आरम्भ कर देता। इस मामले में यहाँ यह बताना अतिशयोक्ति नहीं होगी कि जिस तरह मुम्बई

की बारीश ने दिनांक 26-07-2006 को तबाही मचा दी थी, उससे लग रहा था, देश की आर्थिक राजधानी को पटरी पर लाने में काफी समय लगेगा, लेकिन दो–चार दिन में ही मुम्बई फिर पटरी पर सरपट दौड़ने लगी। उससे लगता है कि मुम्बई का डिजास्टर रिकवरी प्लान कितना सुदृढ़ है। उसी प्रकार बैंकों को भी अपना डिजास्टर रिकवरी प्लान सुदृढ़ बनाना चाहिये।

- हमें इस बात का ध्यान रखना चाहिये कि कम्प्यूटर की कीमत से कई गुणा कीमत कम्प्यूटर में डाटा की है। इनकी सुरक्षा अति महत्वपूर्ण है। इसके लिए बैंक को समय–समय पर **बैकअप** रखना चाहिये, चाहें अलग से डिस्क, डेट या किसी भी स्टोरेज डिवाइस पर रखा जा सकता है और इससे भी अधिक जरूरी है – **बैकअप को सुरक्षित स्थान** पर रखना।
- **फिशिंग से सुरक्षा** : कई बार बैंकों से ई–मेल प्राप्त होती हैं, जबकि हम बैंक के ग्राहक भी नहीं होते हैं, और हमें साईन–इन करने एवं हमारे क्रेडिट कार्ड की डिटेल मांगने के लिए प्रेरित करते हैं, ऐसी स्थिति में लॉग–इन नहीं करना चाहिये और किसी भी तरह की डिटेल नहीं देनी चाहिये। ग्राहकों को यह नियम हमेशा के लिए याद कर लेना चाहिये कि इस तरह की कोई मेल का जवाब नहीं दे जिसमें अतिगोपनीय एवं महत्वपूर्ण बातों की जानकारी मांगी जा रही है।
- **फार्मिंग से सुरक्षा** : फार्मिंग जैसी समस्या से बचने के लिए डी.एन.एस. बचाव के साधन (DNS protection tools), Server side software आदि का भी प्रयोग किया जा सकता है।
- **वायरस से सुरक्षा** : कई खुराफाती दिमाग के लड़कों की यह उपज कई रूमानी लोगों को काफी भारी पड़ सकती है। ऐसा कोई भी मेल जो अपनी पहचान स्पष्ट न कर रहा हो और उस मेल को खोलने के लिए आपको उसे आगे के लिंक खोलने पर मजबूर कर रहा हो, तो उसे खोलने की जल्दबाजी कतई न दिखाएं। विशेषज्ञों की मानें, तो इसको केवल मजाक तक सीमित समझना एक बड़ी भूल होगी क्योंकि हो सकता है कि यह ई–मेल आपको भावुक कर अपने किसी गोपनीय विवरण को बताने पर विवश करे। अतः बैंक के स्टाफ को समय–समय पर यह निर्देश दिये जाने चाहिये कि अनचाहे–अनजाने ई–मेल नहीं खोलें। इसके अलावा अपने कम्प्यूटर को ऐसे किसी भी वायरस से बचाने के लिए मौजूदा वायरस रोधी सॉफ्टवेयर (latest anti virus software) की मदद भी ली जा सकती है।

कम्प्यूटर सिस्टम ऑडिट :

- जिस प्रकार रिज़र्व बैंक द्वारा बैंकों का वार्षिक निरीक्षण होता है उसी प्रकार कम्प्यूटर सिस्टम का ऑडिट होनी चाहिये। जिसके अन्तर्गत बैंकों में प्रयोग किये जा रहे सॉफ्टवेयर एवं हार्डवेयर तथा अपनाये जाने वाले सिक्योरिटी सिस्टम की गुणवत्ता के आधार पर बैंकों की रेटिंग की जाए।

एटीएम (ATM) से धोखाधड़ी रोकने के उपाय :–

- सबसे प्रथम तो **ग्राहकों को शिक्षित करना** और उनको यह बताना कि अपने ए.टी.एम. कार्ड पर पिन नम्बर न लिखें। यदि ऐसी स्थिति में कार्ड खो गया तो पिन नम्बर भी साथ चला जायेगा और ओर कोई सिरफिरा उसका दुरुपयोग कर लेगा। समय–समय पर पिन परिवर्तित करते रहना चाहिये।
- **ए.टी.एम. कार्ड की सुपुर्दगी प्रणाली को सुदृढ़ बनाना।** कुछ मामले इस तरह के प्रकाश में आये हैं कि एक ही नाम के कई व्यक्तियों के खाते बैंक में होते हैं, यहां तक कि उनका पता भी उसी गली–मौहल्ले का होता है, ऐसी स्थिति में कार्ड सुपुर्दगी किसी गलत व्यक्ति को होने की संभावना अधिक हो जाती है। ऐसी स्थिति में सही व्यक्ति की पहचान करने के बाद ही कार्ड एवं पिन नम्बर की सुपुर्दगी दें। यहाँ तक कि उसके रिश्तेदारों को भी कार्ड सुपुर्द न करें।
- **बायोमेट्रिक्स (Biometrics)** : कुछ मामले ऐसे प्रकाश में आये हैं कि पेंशनर्स का उनके सगे–सम्बन्धियों द्वारा ए.टी.एम. कार्ड एवं पिन चुरा लिया जाता है या बुजुर्ग लोगों पर दवाब डालकर उनके कार्ड का दुरुपयोग किया जाता है। कुछ मामले इस तरह के भी हैं कि व्यक्ति के मरने के बाद उनके ही सम्बन्धियों द्वारा मृतक के कार्ड व पिन नम्बर चुरा लिये जाते हैं और पैसा निकाल लिया जाता है।

SPECIAL FEATURE

ऐसी स्थिति में **बायोमेट्रिक्स टेक्नोलोजी** द्वारा यह सुनिश्चित किया जा सकता है कि केवल वही व्यक्ति कार्ड का प्रयोग कर सकेगा, जिसका कि वह कार्ड है। इसलिए समय की आवश्यकता है कि बायोमेट्रिक्स टेक्नोलोजी पर आधारित ए.टी.एम. की स्थापना की जाये।

ए.टी.एम. द्वारा धोखाधड़ी रोकने में बायोमेट्रिक्स का प्रयोग उपयोगी सिद्ध हो सकता है। अभी ए.टी.एम. की सबसे बड़ी समस्या है डाटा स्टोरेज एवं उसका संचरण (transmission) क्योंकि इमेज फाईलें बहुत बड़ी होती हैं और वे बेण्डविड्थ (bandwidth) को जाम कर सकती हैं। मास्टर कार्ड और विजा कार्ड में यह सिस्टम है कि यदि उनका लेनदेन एक निश्चित समय में जो कुछ सैकण्ड का होता है, नहीं हुआ तो समयपार (time out) हो जाता है। इसलिए बड़ी इमेज फाईलों को स्टोर करने के लिए विशेष ए.टी.एम. लगाये जायें।

कार्ड से सम्बन्धित धोखाधड़ियों के रोकने के उपाय : भारत में विकसित अथवा अन्य विकासशील देशों की तुलना में कार्ड की धोखाधड़ियाँ कम हैं। लेकिन विगत कुछ वर्षों में निजी एवं विदेशी बैंकों में क्रेडिट कार्ड की धोखाधड़ियों में लगातार वृद्धि हो रही है।

- कार्ड के व्यापार में वृद्धि के साथ ही, उनसे होने वाली धोखाधड़ियाँ भी बढ़ती जा रही है। अतः सार्वजनिक क्षेत्र के बैंकों के सामने इस बढ़ती हुई समस्या के समाधान के लिए उचित जोखिम प्रबन्धन के विकास की आवश्यकता है। साथ ही, बैंकों को इन जोखिमों की समय–समय पर समीक्षा (review) भी करनी चाहिये।
- CIBIL को समय–समय पर ऐसे कार्डधारियों की लिस्ट भेजते रहना चाहिये जिसने बैंक से धोखाधड़ी की है।
- जिन व्यापारियों को कार्ड से भुगतान प्राप्त करने के लिए अधिकृत किया जाता है उनकी पूरी छान–बीन करके ही उनको इस कार्य के लिए अधिकृत किया जाये।
- केवल कार्ड नम्बर के द्वारा ही भुगतान प्राप्त नहीं किया जाये, वरन् पिन नम्बर जो ग्राहक स्वयं फीड करे, तब ही भुगतान किया जाये।

इंटरनेट का सुरक्षित एवं सावधानी पूर्वक प्रयोग द्वारा धोखाधड़ी की घटनाओं में कमी के उपाय :

- हर बैंक रोज नई–नई तरह की स्कीम लाता है और इस स्कीम में ग्राहकों को लाने के लिए उनसे प्रायः संपर्क भी करता है। इसी प्रक्रिया में कई बार ग्राहकों से उनका पिन भी मांगा जाता है। संभव है कि इस पूछताछ में बैंक की कोई गलत मंशा न हो, पर कई बार यह पूछताछ कोई गलत मंशा वाला व्यक्ति भी कर लेता है, इसलिए बेहतर यह है कि आप अपना पिन नम्बर कभी भी किसी को न बतायें और फिर भी बैंक के नाम पर इस जानकारी के लिए आप पर दबाव डाले, तो आप संबंधित बैंक की किसी भी शाखा में जाकर इस बारे में अच्छी तरह से पड़ताल कर लें और फिर उसी बैंक में बैंक अधिकारी को उसके द्वारा मांगी गई जानकारी दें। उस स्थिति में भी यदि आपके साथ धोखा होता है, तो आप कम से कम संदिग्ध धोखेबाज की शिनाख्त तो कर ही सकते हैं, जबकि नेट पर आपसे जानकारी मांगने वाले का कोई भी हुलिया आपके पास नहीं होता है।
- इंटरनेट का प्रयोग (Internet access) करते समय बैंक द्वारा प्रदत्त साईट का ही प्रयोग करना चाहिये।
- बैंक में व्यक्तिगत कार्य हेतु इंटरनेट का प्रयोग न्यूनतम मात्रा में एवं अत्यावश्यक होने पर ही करना चाहिये।
- इंटरनेट पर कोई अवैध, अनैतिक गतिविधियों यथा जुआ आदि नहीं खेलें, अभद्र, अपमानजनक, राजनीतिक, विघटनकारी, राष्ट्रद्रोही, अश्लील एवं अशिष्ट साईटें नहीं खोलनी चाहिये।

निष्कर्ष (conclusion)

उपरोक्त बातों से यह निष्कर्ष निकलता है कि कम्प्यूटरजनित धोखाधड़ियाँ वहीं हो सकती हैं जहाँ बताये गये दिशा–निर्देशों की अवहेलना होती है या इनकी पालना में लापरवाही बरती जाती है। अतः ग्राहकों एवं बैंक कर्मचारियों की जानकारी, सजगता और लगातार सतर्कता (awareness, alertness and constant vigil) से ही बैंकों में इन धोखाधड़ी की घटनाओं को कम किया जा सकता है।

IN DEFENSE OF GLOBALISATION

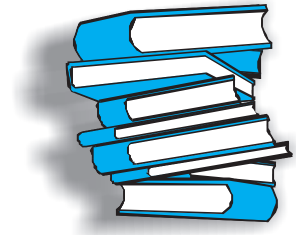
Author : Prof. Jagdish Bhagwati

Publisher : Oxford University Press

Pages : 308

Price : Rs. 445/-

Reviewed by : **Prof. R. D. Pandya**



We are living in an era of globalization today. Globalization has supporters and critics. It has its champions and adversaries. The main champions of globalization are World Trade Organization, the International Monetary Fund and the World Trade Bank. The main critics of globalization are World Social Forum and various non - Government Organization in different parts of the world. But the greatest champion of globalization, among the World Economists, is Prof. Jagdish Bhagwati, a world renowned Economist who champions consistently the cause of free-trade. As against this the greatest critic of globalization is Prof. Joseph Stiglitz, who works as a colleague of Prof. Jagdish Bhagwati in the Columbia University and had got the Nobel Prize in Economics in 2004.

Prof. Jagdish Bhagwati has come out with a brilliant publication on “In Defense of Globalization” making out a strong and forthright case in favour of globalization. The book is divided in five parts which cover in all in 19 chapters presenting, the powerful case made out by Prof. Jagdish Bhagwati. The major arguments of those who are opposed to globalization have been demolished by Prof. Jagdish Bhagwati.

Prof. Bhaghwati deals with the arguments of those who are opposed to globalization in part one. Then in part two, he deals with globalization's human face, he also examines the perils of international capitalism and other dimensions of globalization.

Prof. Bhagwati indicates that when all is said, we however lack a clear, coherent and comprehensive sense of how globalization works and how it might be made to work better. One finds that Prof. Bhagwati, known for his clarity of thought and equally sharp pen takes on the critics of globalization by using sound economic principles rather than rhetoric and proves beyond doubt that globalization is a reality. According to Prof. Bhagwati, globalization tends to alleviate many of the problems for which it has been blamed. He explores “The Human Face” of globalization in great detail. He demonstrates its beneficial effects on a panoply of social issues including poverty, child labour, women's rights, democracy, wage of labour standards and the environment. One must emphasize on the achievements of globalization rather than its demerits of so called evils. Prof. Bhagwati established conclusively that globalization is part of the solution and not part of the problem.

In recent years, in the literature on economic issues, one does not come across the use of terms like capitalism, socialism or communism. They are now replaced or appear in the new avatar of “Globalization, Privatization and liberalization”. Socialism and communism are replaced by state intervention to facilitate capitalist growth and development. This, indeed, is the impact of globalization on the world economy and literature on economic writings and issues.

This is, indeed, good as far as it goes well and smooth. Globalization, with all its merits and advantages should not divide the world between the rich countries and the poor countries. One should also guard against the unequal distribution of income and wealth among the countries while pursuing the policies of globalization, privatization and liberalization. The new emerging market economies will have to be protected against the onslaught of globalization and all that means.

In this world nothing is permanent. History shows that unless we modify economic policies from time to time in response to changing economic environment, economic systems and economic order tend to decay and even fail. Globalization must ensure that the rich countries do not exploit the poor or less developed countries for their own economic benefit. One can not afford to ignore the lessons from history. Lessons from history show that no country or group of countries can thrive and prosper in the long run by exploiting others for selfish pursuit of their own economic interest.

Prof. Bhagwati deserves to be congratulated for coming out with such a thought provoking treatise on globalization which will enrich the knowledge of not only students, researchers but also even learned professional economists in the academic profession of economics.

Compliance Function in Banks

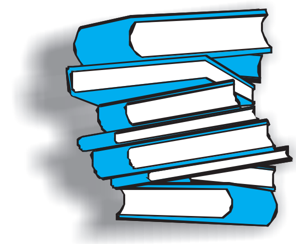
Compliance function in banks is perceived as one of the key elements in their corporate governance structure. Based on the recommendations of the Ghosh Committee, banks in India have already put in place compliance processes. However, the processes and the organisational structures have not kept pace with the increased complexities and sophistication in the banking business. In a large number of banks, the compliance function is yet to reckon the 'compliance risk' and the reputational risk arising out of compliance failures causing huge economic costs. The need for the management of the compliance risk by banks as one of the key facets of integrated risk management or enterprise-wide risk management framework at banks was recognised. Accordingly, the Annual Policy Statement for the year 2006-07 stressed the need for strong compliance standards in banks. A Working Group set up by the Reserve Bank with participation from the banking industry to review the present system of compliance machinery in banks recommended a number of measures for strengthening the compliance function. Based on the recommendations, guidelines on compliance function of the banks were issued on April 20, 2007. The guidelines sought to introduce certain principles, standards and procedures relating to compliance function consistent with the high level paper on 'Compliance and the Compliance Function in Banks' issued by the Basel Committee of Banking Supervision as also the operating environment in India. The guidelines articulate the Reserve Bank's view that the compliance function is an integral part of governance, along with the internal control and risk management process. The guidelines are also intended to guide the bank-led financial conglomerates in managing their 'group-wide compliance risk'. The salient features of the guidelines are as under :

- Each bank will put in place a formal compliance function and designate a compliance officer for its bank. It will be the responsibility of the bank's compliance officer to assist the top management in managing effectively the compliance risks faced by the bank.
- A robust compliance system in a bank should include a well documented compliance policy, outlining the philosophy of the bank, role and set up of the compliance department, composition of its staff and their specific responsibilities. The policy should be reviewed annually by the bank's board.
- Depending on its branch network, size and complexity of the business operations, sophistication of products and services offered, every bank should decide on the organisational structure and composition of its compliance unit. The structure may, however, be laid down within the overall framework of these guidelines and should avoid all potential conflicts of interest.
- The compliance department at the Head Office should play the central role in the area of identifying the level of compliance risk in each business line, products and process and issue instructions to operational functionaries and formulate proposals to mitigate such risk. It should periodically circulate the instances of compliance failures among staff along with the preventive instructions.
- The responsibilities of the compliance function should be carried out under a compliance programme that sets out its planned activities. The compliance programme should be risk-based and subject to oversight by the head of compliance to ensure appropriate coverage across businesses and co-ordination among risk management functions. The compliance function should advise and assist the senior management on compliance laws, rules and standards. It should also put up to the senior management information on developments by establishing written guidance to staff on the appropriate implementation of compliance laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.
- Banks may choose to carry on business in various jurisdictions for a variety of legitimate reasons. In such cases, it should be ensured that they comply with the applicable laws and regulations in all such jurisdictions and that the organisation and structure of the compliance function and its responsibilities are consistent with local legal and regulatory requirements. It is for local businesses to ensure that compliance responsibilities specific to each jurisdiction are carried out by individuals with the appropriate local knowledge and expertise, with oversight from the head of compliance in co-operation with the bank's other risk management functions.

Source : Trend and Progress of Banking in India 2006-07, RBI.

"GIVING" - HOW EACH OF US CAN CHANGE THE WORLD

Author : Bill Clinton
Publisher : US by Alfred A. Knopf, a Division of Random House Ltd., New York.
Edition : First Edition 2007
Price : $ 24.95/-
Reviewed by : B. Yerram Raju



Bill Clinton, the former US President scripting the impressive and highly readable book 'GIVING' has done yeoman service in driving home the ethical and economic values of the act of GIVING. Some are born rich; some build riches; some imbibe riches; and only a few share their riches, particularly with those who are in need of them most. This book under review carries the stories of those who believed in the last category of people described above.

Clinton believed, 'most people who will read this book live in places where the problems are less profound and visible than the agonizing ones I've written about. But there are people who need new beginnings everywhere. And there are good people and organizations trying to help them. (Page 100) "Ideas are what change the world and "meaning" is the greatest undervalued asset in the market place of ideas". (Page21) Giving away money has never been so fashionable among the rich and famous. Philanthropy is flourishing as the number of super rich people keeps growing. (Economist London February 25, 2006). A person earning a measly Rs.1000 per month feeds an orphan once a week and it will never become news. Bill Gates giving $30 or 31 million gets cover page attention of the Time Magazine. The new enthusiasm of philanthropy is in large part a consequence of rapid wealth creation of recent times. The world now boasts of more than 700 billionaires with half of them boasting as self-made. It would be a hazardous guess to say how many honest tax payers of them are. Corporate CEO, Hedge-fund tycoons, film stars and film makers seem to be competing to have their script written under the munificent and benevolent Givers. A modern eye hospital or a Blood Bank could have been set up and it may benefit the haves more than the have-nots because of the preferred location in cities and metros. Some films star scriptures may use them to join politics while people like Clinton script out after leaving politics. This is a different issue.

The examples quoted in the book of Rwandan women adopting lakhs of orphans and Pascasie's basket - weaving collective as narrated in "Angels in Africa" are highly exemplary. In fact, the lower House of Parliament of Rwanda provides a useful illustration for India with 49 percent of it occupied by women. The Vallenato Children made the most valuable, enduring poignant gifts of peace and reconciliation that the former President of US had ever encountered. The Book is replete with the stories of many NGO Charities, Trust, and Foundations that were established with the sole aim of giving what the rich could 'give'. The grants or donations from these organizations may have the trigger point elsewhere: the tax havens. In an unequal and unsustainable modern world the great mission would be "to move the neighborhoods towards integrated communities of shared opportunities, shared responsibilities and a shared sense of belonging, based on the essence of every successful community".

But the joys of giving are not without the pains. America's huge tax breaks for charitable donations are reported to be of great benefit to elite schools, concert halls, and religious groups. Rob Rich in the 'Social Innovation Review' is quoted as saying, "we should stop kidding ourselves that charity and philanthropy do much to help the poor". Many mainstream charities have come under the attack due to a number of scandals. Michael Porter the Guru of Harvard Business School said "Philanthropy is decades behind business in applying rigorous thinking to the use of money". There is a strong argument in favour of leveraging philanthropy or giving through social entrepreneurs. Reagy Rockfeller Dulany, George Sores, Bob Geldof Bono's philanthropist partner are all different examples of 'Giving' who yearned for cutting-edge business ideas and even political gains in their respective constituencies. Economist (Ibid) listed 20 top American philanthropists who gave more than 0.30 billions to 7.05 billion US Dollars for some cause or other that benefited the society. Germany's new wealth creators too did not lag behind. The wealthy bosses of Infosys, Wipro, Dr. Reddys' are becoming big philanthropists, joining their elder brothers. Tatas, Birlas and Bajaj families.

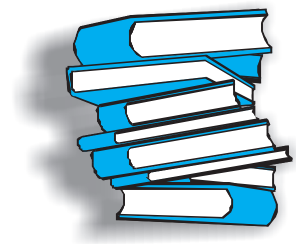
Many wealthy Americans followed Andrew Carnegie whose belief as spelt out in his 1889 essay on 'Wealth' provided great inspiration. 'Growing inequality is the inescapable price of wealth creation.' To prevent this inequality undoing the 'ties of brotherhood' that bind together the rich and the poor in harmonious relationship, he argued that the wealthy had a duty to devote their fortunes to philanthropy.

“The man who dies rich dies disgraced.” Whether it is Hillary or Bill Clinton or Bill Gates or Mckenzie Steiner, a six-year old girl who organized a drive to clean the beach in her community, the book inspires everyone to think about what every one can do within his / her limitations.

☯

A NEW BEGINNING

Author : Ranjana Kumar
Publisher : Tata McGraw-Hill
Price : Rs.675/-
Reviewed by : **Dr. Ajit Ranade**



The award winning movie Chak De is a story of the journey of a team which goes from obscurity and complete write-off to becoming a champion. This amazing turnaround is achieved under the leadership of the coach, who energizes and inspires his team to achieve the impossible. Ranjana Kumar's book is a first person account of a similar turnaround of a giant public sector bank. The author was at the helm during this fantastic turnaround from being almost "written off", or closed down, to becoming dynamic, innovative and profitable. This feat was achieved in a short span of three years.

Indian Bank, which Kumar took over as Chairperson and Managing Director in June 2000, was reeling under 44 percent bad debts, cumulative losses of more than Rs.1500 crores, negative net worth, excessive credit disbursement leading to a freeze on credit, several CBI cases against bank officers, public interest litigations alleging fraud, low employee morale and fear psychosis. It was quite a mess for a fresh CMD to walk into. And it is remarkable that the author sought the job, and not the other way around. This speaks much about the author's enterprise and pluck.

The book is the story of this astounding turnaround. It is told in twelve chapters spread over 300 pages. The first chapter reads like an executive summary of the whole story. Later chapters in the book, containing valuable details and charts, read more like a technical report, and are not as racy as the initial chapters. The author's role as change agent involved many firsts for the banking industry. She laid great stress on employee morale management, so it was as much about HR as loan recoveries. There was no fault finding or witch hunt. In fact no one was sacked, although ten percent of her workforce retired under VRS. She extracted an agreement on temporary wage freeze with the trade union. The agreement also had performance linked pay, a first for the banking sector. On the products side, she increased the focus on retail lending, ahead of the industry. She eliminated one significant layer of bureaucracy, namely the zonal office.

Ever since adopting the Basel framework in the early 1990's, the problem of NPA's (which were hitherto hidden or "evergreened") became increasingly visible for public sector banks. Recovery of bad loans was hampered, and incentive structure was dysfunctional. Provisioning required more capital infusion, which was not possible at give profitability. In 1999 the Verma committee set up by the RBI identified three weak banks, of which Indian bank was in the worst shape. The committee however ruled out liquidation or merger, and suggested a four point strategy involving organizational, operational, financial and systemic restructuring. Around this time there was a report from a CII Task force which asked for the three banks to be closed. The author says that not only did the report not contain any details about liquidation, but all it did was to create adverse publicity about the three banks. Subsequently a management advisory group for Indian Bank endorsed the view that the bank could be revived rather than closed down. The revival plan contained specific goals on growth, profits, recovery, staff motivation, technology and finally going to market for capital. The fact is that under Kumar's leadership the Indian Bank team achieved all of this, and was rated the best brand among South based banks. Perhaps it was helped by circumstance, such as capital infusion of about 2000 crores from the centre, benign monetary regime and the start of India's high growth phase.

Any successful turnaround story in India's public sector is a must read. Of the few turnarounds, very few have been recorded in books, and much less by the person who was at the helm. This book is, thus, unique in all those aspects. The author however does not dwell much on her own leadership style. That is to be gleaned from the various interviews she gave to media, and other testimonies, all of which are reproduced in the book. The author acknowledges that were it not for President Kalam's insistence, this book would not have seen the light of the day. However, the book throws more light on the Indian Bank story than on Kumar herself. Readers will have to wait for another book, to know about this dynamic leader who went on to become Chairperson of NABARD, member of the Vigilance Commission, and perhaps may become India's first woman CVC.

Books Added to the IIBF Corporate Library

No.	Title	Author	Publisher & Year of Publication
1.	100 Training Games	Gary Krochnert	Tata McGraw Hill, 2008
2.	102 Extra Training Games	Gary Krochnert	Tata McGraw Hill, 2008
3.	103 Additional Training Games	Gary Krochnert	Tata McGraw Hill, 2008
4.	Bank Finance for Small & Medium Enterprises	S. K. Bagchi	Jaico Publishing, 2008
5.	Banker to the Poor: the Story of the Grameen Bank	Muhammed Yunus & Alan Jolis	Penguin Books (India), 2007
6.	Billion Bootstraps : Microcredit, Barefoot Banking & the Business Solution for Ending Poverty	Phil Smith & Eric Thruman	Tata McGraw Hill, 2007
7.	Business Mathematics: Theory & Applications	J. K. Sharma	Ane Books India, 2007
8.	Case Problems in Finance, 12th Edn. (with CD)	W. Carl Kester	Tata McGraw Hill 2008
9.	Economics of Microfinance	Beatriz Armendariz & Jonathan Morduch	Prentice - Hall of India, 2007
10.	Financial Management: Theory & Practice, 7th Edn.	Prasanna Chandra	Tata McGraw Hill, 2008
11.	Glimpses of Emerging Trends in Trade & Development	V. B. Angadi (Editor)	Himalaya Publishing, 2007
12.	Glossary of Central Banking Related Terms	K. A. Menon	Author, 2006
13.	Harvard Business Review on Corporate Ethics	Harvard Business Review	Harvard Business School Publishing Corporation, 2003
14.	Harvard Business Review on Corporate Governance	Harvard Business Review	Harvard Business School Publishing Corporation, 2000
15.	Harvard Business Review on Corporate Responsibility	Harvard Business Review	Harvard Business School Publishing Corporation, 2003
16.	Inclusive Growth : K.N.Raj's Essays on Economic Development	Ashoka Mody (Editor)	Orient Longman, 2006
17.	International Financial Management, 4th Edn.	Cheol S Eun & Bruce G Resnick	Tata McGraw Hill, 2007
18.	Joy of Money : a User-Friendly Guide to the Financial Maze	Michelle Doughty	Kogan Page, 2008
19.	Learn & Earn from the Indian Stock Market	J. N. Dhankar & S. C. Bihari	Skylark Publications, 2007
20.	Mastering Financial Calculations : a Step-By-Step Guide to the Mathematics of Financial Market Instruments, 2nd Edn.	Bob Steiner	Pearson Education, 2008
21.	Modern Banking in India	O. P. Agarwal	Himalaya Publishing, 2008
22.	Overview of Banking Development, 1947-2007	D. T. Pai	Author, 2008
23.	Security Analysis & Portfolio Management	Ambika Prasad Dash	I. K. International Publishing, 2008
24.	Survey of Indian Industry, 2008	The Hindu	Author, 2008
25.	World Economic Outlook, October 2007 : Globalization & Inequality	International Monetary Fund	International Monetary Fund, 2007

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