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Bank Quest

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INDIAN INSTITUTE OF BANKING & FINANCE
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MISSION

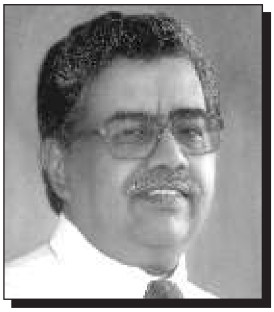
The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

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

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

editorial



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

The Institute conducts an annual essay competition for its members under its Micro Research initiative. Under this initiative members are encouraged to contribute original papers on any area of banking and finance. Essays received under this competition are evaluated by a panel of experts for contents and relevance. The Institute had received 19 micro research papers. Based on the score given by the experts, 12 of these essays on seven different topics in Banking & Finance were approved by the Institute's Research Advisory Committee for the award of prizes for the year 2013. Out of the prize winning essays, seven essays have been selected for publishing in the Bank Quest.

The first essay is on "Financing Energy Efficient Housing in India" by Mr. R. K. Arvind. The author discusses the importance of 'energy efficient' or 'green' buildings for the country and underlines the importance of supporting and financing 'energy efficient homes'. In this regard the experience in regard to Green Housing from various parts of the world has been highlighted including the financial mechanism in vogue in such countries. While the paper suggests measures for augmenting flow of finance towards Energy Efficient Housing, it also conveys the urgent need to stream line the strategies for giving a fillip to green housing in the country.

The second essay is on "Best Practices in Customer Service in Banks" by Mr. V. Harish. Good customer service is essential especially in a service organization like bank is once again stressed by the author. The changing expectations of the different stake holders from banks and the constraints faced by the banks to meet their expectations have been covered in detail. The author gives examples of best practices and also identifies areas which require customer service focus and suggests action points for best customer service practices in banks. The need to involve the internal customers viz employees for rendering good customer service is *also highlighted. The author suggests that banks may appoint a chief customer officer to enhance customer delight.*

The third essay is on "Aadhaar and Inclusive Banking: Issues" by Mr. D. Balasundar. Creating a credible identity is essential for every citizen of a country more so in India, where a large number of them are illiterate and without permanent residential arrangements. In this scenario, the Aadhaar card has come as a boon to such people. As the Aadhaar card has been made acceptable for KYC requirements in banks, the account opening in banks has become a smoother affair. Hence the author recommends that to achieve the goals under financial inclusion initiative in the country Aadhaar is important. The author cites instances from Philippines, Kenya to show case their success in inclusive banking through technology and their relevance to Indian situation.

The next essay is on "Bharatiya Mahila Bank: Prospects and Challenges" by Mrs. Tania Saritova Rath. The need for an exclusive bank to cater to the women in the country was felt over the years. In this regard, a decision to launch a new bank called Bharatiya Mahila Bank (BMB) was taken and implemented within a record time of less than a year. Having a bank for women is one thing but ensuring that more women entrepreneurs come forward to avail of funds is altogether a different issue. Hence the author touches on the challenges ahead of the new bank. She also highlights the experience from other countries which went in for exclusive banks for women and the problems faced by them, notably that of First Women Bank Ltd, Pakistan. The experience and lessons from such banks will be of interest to BMB while charting its course of activities.

The fifth essay is on "Impact of Local Area Banks" by Mr. Tapas Kumar Parida. The country is in the midst of the possibility of licences for new banks. So far two new bank licences have been granted. The author traces the LAB experience in the country since 2000 and their performance. He pitches for the growth of such banks, taking a cue from USA where around 7000 community banks are in operation. He cites the performance of The Capital Local Area Bank Limited, Punjab and argues that given proper encouragement and support LABs can play a very useful role in development of backward and rural areas and help in the task of financial inclusion.

The sixth essay is on "Proposed New Banks and Their Role" by Mr. D. Rama Krishna Reddy. The author cites three reasons for the need for new banks in India viz. to enhance economic growth, to expand financial system further and to achieve financial inclusion. These have been the objectives for introducing financial institutions like banks since long. Yet the goals remain elusive. Hence there is an urgent need and scope for new banks in the country where nearly 50% of the people are yet to be included. The paper briefly captures the role and task before the new banks to achieve such goals.

The last essay in the current issue is on "Financial Literacy: Will it lead to informed Financial Decisions" by Ms. Sheetal Deepak Rangsubhe. Financial literacy has taken the central stage in most of the countries including India. All the regulatory bodies like RBI, SEBI, IRDA, PFRDA have taken steps to spread financial literacy. The author details the steps taken in this field by both banks and insurance companies. Various suggestions have been given to spread financial literacy in the country. The suggestion that financial literacy could be spread through popular TV channels merit attention. The author states that the financial literacy programme is a long drawn out one and its benefits will be reaped by the generations to come. Hence the investment in this programme will benefit the communities and country for a long time.

In addition to the above essays, a write up on the recommendations of the "Committee on Comprehensive Financial Services for Small Business and Low Income Households" is also included under current banking development feature / section.

We welcome your valuable suggestions and feedback for improvement.

(Dr. R. Bhaskaran)

Micro Research Prize Winning Article, 2013

Financing Energy Efficient Housing in India

R. K. Arvind *

Energy, along with labour, land and capital, is a basic ingredient in any country's economic growth formula. Known as a “factor of production” to economists, energy illuminates buildings, heats homes and offices, powers factories and moves goods and people.[1] Indian Economy has been growing rapidly during the last decade and the growth has been accompanied by increasing pressure on its energy resources. India relies a lot on imports of crude petroleum and the coal reserves contribute majorly to electricity generation in the country. Although over the years steps have been taken for developing alternative energy resources yet more initiatives are needed to develop a vast reservoir of clean and affordable energy resources.

The household sector is the largest consumer sector of energy in India, accounting for 40-50% of the total energy consumption in the country. Energy consumption for cooking, lighting, heating and in modern houses, cooling represents the largest share of household consumption. Electricity distribution has grown very slowly over the past 15 years resulting in regular power shortages. Second to the industrial sector, the residential sector consumes approximately 21% of final electricity consumption - 1,46,080 GWh out of 7,02,144 GWh of total electricity consumption in 2009. The current trend of construction of houses in India is not very energy efficient. The average absolute electricity use in an air-conditioned housing unit is about 10,000 kWh per year in the warm and humid climate zone and 8,500 kWh per year in the composite zone. It is estimated that between 3,000 and 5,000 kWh could be saved through Energy Efficient measures predominantly related to reducing cooling needs.[2]

With the introduction of the Energy Conservation Building Code in 2007 by the Bureau of Energy Efficiency, importance started being given to the construction of 'Energy Efficient' or 'Green' Buildings. Indian Green Building Council (IGBC) has defined a Green Building as "one which uses less water, optimises energy efficiency, conserves natural resources, generates less waste and provides healthier spaces for occupants, as compared to a conventional building." IGBC states that the tangible benefits of Green Buildings are energy savings of 20-30% and water savings of 30-50%. The intangible benefits are : enhanced air quality, excellent day lighting, health and well being of the occupants, conservation of scarce natural resources and enhanced marketability for the project.

India doubled its floor area of buildings between 2001-2005 and is experiencing the fastest rate of growth in new building in the world. By 2050 India will have added about 35 billion square metres of new building floor area. To date, the efforts of India's policymakers have focused on reducing energy consumption in new commercial buildings, but to achieve a significant scale will depend on efficiency measures becoming standard in the residential building segment. Residential building makes up 75% of India's construction market yet until now, has not been a priority for energy efficiency policy. The potential for expanding and adapting existing energy-efficiency policies to the residential segment is tremendous[3].

This essay is an attempt to emphasize the importance of building energy efficient homes or green homes in India and focus only on the role of finance and financial institutions in increasing the flow of money towards the creation of such buildings. The essay has been divided into four sections : (1) focus on the magnitude of the housing shortage in the country

* Manager, National Housing Bank.

which presents an opportunity for developing a huge stock of energy efficient homes, (2) barriers relating to promoting energy efficiency in the residential housing segment, (3) methods of financing energy efficiency improvements in various countries and (4) recommendations for augmenting the flow of finance towards such homes. For the purpose of this essay, the terms Green Housing and Energy Efficient Housing have been used interchangeably.

1. Housing Shortage : An opportunity

As per the latest Government estimates, the housing shortage in the urban areas is 18.78 million units out of which 99 per cent of the housing shortage pertains to the Economically Weaker Sections (EWS) and Lower Income Group (LIG) segments. Out of this shortage, the congestion factor contributes to 12.67 million of households and the need for fresh housing contributes to 16.29 million units. The Working Group on Rural Housing for the Twelfth Five Year Plan (2012-17), has estimated the total housing shortage in rural areas at 43.67 million units. It is also of a major concern that 90 per cent of the rural housing shortage (approximately 39.30 million units) are in respect of Below the Poverty Line (BPL) categories.

The Government of India (GOI) through its various flagship programmes like Basic Services to the Urban Poor (BSUP) under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Rajiv Awaas Yojana (RAY), Rajiv Rinn Yojana (RRY), Credit Risk Guarantee Fund Trust for Low Income Housing etc. has been making efforts towards reducing the housing shortage for the urban poor. The private sector has also taken a number of initiatives for mitigating the housing shortage. In the past few years, a slew of affordable housing projects have been launched by private developers in the urban areas. During 2009-2012, real estate developers have launched projects in the affordable segment across Indian cities, with units priced between ₹5-10 Lakhs. Developers have successfully executed affordable housing projects of nearly 15-35 acres having 1,500-3,500 units at locations beyond 20-25 km from the city centre. To reduce costs and improve affordability for the buyer, developers have adopted several measures like offering limited options like 1 BHK and 1 RK houses, reduced areas, low construction costs and reduced periods of construction[3]. Affordable housing projects have been launched in Delhi, Ahmedabad, Mumbai, Pune, Kolkata, Chennai and Bengaluru by developers like DBS affordable homes, Tata Housing, Value Budget Housing Corporation etc. The various State Governments apart from participating in the various GOI housing schemes have also been taking steps to mitigate the housing shortage through their own schemes as well as through various Public Private Partnership programmes.

Various GOI documents have been highlighting the importance of Green Housing from time to time. The National Urban Habitat and Housing Policy, 2007 had envisaged using technology for modernizing the housing sector for enhancing energy and cost efficiency, productivity and quality. It also said that technology would be harnessed to meet the housing needs of the poor. The Policy also mentioned that suitable provisions need to be made in the Building Bye-laws for innovative energy conservation practices. One of the objectives of the National Mission on Sustainable Habitat (NMSH) set up by GOI includes exploiting the potential for mitigating climate change through reduction in demand for energy in the residential and commercial sectors by adopting various energy efficiency and conservation measures. With respect to adaptation, the aim would be to promote greater use of renewable sources and to reduce dependence on a single source. In formulating climate change strategies, mitigation efforts need to be balanced with those aimed at adaptation. NMSH clearly states that the implementation of existing energy efficiency measures could achieve 30 per cent energy savings in new residential buildings and 40 per cent energy savings in new commercial buildings.

The housing shortage presents an opportunity for the incorporation of energy efficiency measures in the construction of residential buildings both by the Government as well as by the Private Sector. There is a need to combine 'mass housing' with 'green housing'. As the demand for housing increases and as the public agencies and the private sector go about meeting the housing shortages, if the component of energy efficient housing can be included in the beginning of the project stage itself, then it will not only result in the creation of a sustainable housing stock but also help in meeting our Green House Gas (GHG) emission reduction targets. It is therefore important that apart from the private sector, the role of public agencies like Housing Boards, Municipal Corporations and Urban Development Authorities also is revived in 'Green Housing' as they have traditionally been the major suppliers of housing for the EWS and LIG segments and if such agencies could be enabled to provide sustainable or environment friendly housing, then a lot of ground can be quickly covered in terms of reducing GHG emissions. Some recommendations in this regard have been made in the final part of this essay.

'Affordable Housing' is the buzzword now but there is clearly a need for 'Affordable Green Housing' too. The next section will talk about the problems currently being encountered in promoting Energy Efficient housing in India.[4]

2. Barriers to Green Housing

The advantages of green housing are manifold but what prevents them from being adopted on a large scale? One of the major reasons is the high price of such energy efficient homes with both borrowers and developers remain reluctant in either buying or creating such homes. The property prices have only kept on increasing in the recent years which has already resulted in an exclusion of a significant section of the population from the market. Majority are unable to buy a house because either houses are not available as per their budget or they lack access to finance for buying of such houses.

The barriers identified by the National Mission on Sustainable Habitat in the promotion and implementation of energy efficiency in the building sector are as follows :

1. Knowledge Gap - It has been observed that there is lack of technical, economic and general knowledge related to green buildings. The knowledge gap exists not only among building designers and architects, but also among politicians, investors and consumers. There needs to be a demand for green buildings from investors, developers and building occupants. This demand is currently low due to lack of awareness of the financial, social and health benefits of green buildings. There is also a lack of knowledge about green investment and returns on green buildings in the society.
2. Enforcement and implementation - While many strategies to encourage or mandate green buildings or energy efficiency have been introduced by the Government, these programmes still require greater implementation. There is a major gap between the political statements and actual action or changes in the building designs and construction. Currently, The Leadership in Energy and Environmental Design (LEED-INDIA) Green Building Rating System by IGBC and GRIHA (Green Rating for Integrated Habitat Assessment) by The Energy Resources Institute (TERI) are two rating systems which certify various residential projects as 'Green'. However, these ratings are not mandatory.
3. Technology development and lowering cost - In order for any of the implementation strategies to be successful, green building materials, equipment and systems need to be available and reasonably priced in all parts of India. Government, research universities and private developers need to identify R&D options for investment to arrive at innovative low-cost technology options for arriving at sustainable development in the building sector.

3. Methods of Financing Energy Efficient Improvements : International Experiences

Energy efficiency measures in the residential sector have been promoted and adopted in various countries. There is a greater awareness about climate change in western nations and financial institutions have developed specific products catering to energy efficient housing. There is greater collaboration between various stakeholders in promoting energy efficient housing. Various kinds of public-private financing mechanisms have been developed.

Some examples of public-private financing mechanisms for leveraging energy efficient investments in various countries are given below :

A. On-Bill Financing

On-bill financing allows a loan for energy efficiency measures to be repaid over time via an additional line item on the recipient's utility bill, which decreases repayment risk for the lender. The lender in "classic" utility on-bill financing has traditionally been the utility itself. Hybrid models have also emerged in which public and private funds are pooled to offer low-interest loans, with repayment similarly attached to the utility bill. The utility then collects the payment and returns it to the lender, which lowers the lender's administrative costs. The utility customer benefits from lower energy costs after retrofits, and typically pays loans back over a period of about 2-5 years.

Similar partnerships can be explored in India also. An example could be that TATA Power, Raheja Developers and BMC partner together to ensure that energy efficient measures which can be both passive and active are incorporated in the design stage during approval of plans of any upcoming housing project and the extra cost of the improvements / fittings is recovered from the electricity bills of the customers.

B. Commercial Property Assessed Clean Energy (PACE) Financing

Property assessed financing reduces repayment risk and lowers interest rates by securing loans with a tax lien on the property. The key attributes of property assessed financing are that programmes offer upfront loans for voluntary energy efficiency upgrades, which are paid back through an extra line item on the property tax bill. Payments should be less than the energy savings to yield a net gain for the consumer. Some cities issue bonds to raise money that they lend directly to borrowers for upgrades. Another option leverages commercial banks to provide loans, either to property owners directly or to Energy Service Companies (ESCOs). Such programmes rely on commercial banks to make loans to companies for retrofits; the city simply assigns the liens on the properties to the bank as security. Loan terms typically vary from 5-20 years and interest rates are low, reflecting reduced risk because the loan is senior to all other obligations.

C. Loan Guarantees

Energy efficiency investments are often perceived as risky by banks because of their unfamiliarity with the technologies and investment structures used, as well as the monitoring needed. Companies can typically only borrow money to finance these measures if they have good credit and give the lender recourse to their assets as a guarantee. However, when a public agency with good credit offers a loan guarantee, banks can lend at lower interest rates and/or extend the term of the loan because the guarantor has promised to ensure timely repayment. Individual loans or a portfolio of loans can be covered by either partial or full risk guarantees.

D. Loan Loss Reserve Funds

A Loan Loss Reserve Fund (LLRF) is another way of backing energy efficiency borrowers. If the borrower defaults, then the lender is paid back out of the reserve fund, reducing or eliminating repayment risk. A LLRF can secure a single loan or a portfolio of loans, and is often used for the latter. A LLRF is another way to guarantee a loan without relying on the credit of an institution as Guarantor. An actual sum of money must be set aside in an escrow account, rather than an organization pledging its credit. Either one can be structured to repay full or partial losses in case of default. Loan guarantees and reserve funds can work in conjunction with other types of loans.

In summary, barriers to financing energy efficiency can be overcome through public-private financing tools. Small investments by government to reduce the risk of lending to energy efficiency projects can unlock major private sector investment, as well as significant environmental benefits[5].

4. Energy Effcient Progrmmes of Various Financial Institutions

This section gives examples of the programmes of financial institutions of various countries which can provide valuable insights regarding the products and services related to energy efficient housing.

In India, recently National Housing Bank (NHB) has also launched a programme on energy efficient housing which also been discussed in this section.

a) KfW, Germany

The KfW, formerly KfW Bankengruppe (banking group), is a German government-owned development bank, based in Frankfurt. It promotes the construction of new energy-efficient homes and the energy-efficient refurbishment of older residential buildings in particular with grants or loans at favourable conditions. Energy standards are laid out in the Energy Conservation Ordinance (EnEV). KfW has defined five levels of support for a "KfW Efficiency House".

- KfW Efficiency House 55
- KfW Efficiency House 70
- KfW Efficiency House 85
- KfW Efficiency House 100
- KfW Efficiency House 115
- KfW Efficiency House Monument

Simply put, the figures indicate in per cent how much of the maximum primary energy requirement specified by the EnEV the house consumes. The best standard (55) receives the highest support.

If the costs and effort of a complete refurbishment would be too high, it is also possible to implement only individual measures. Financing is available for

- Thermal insulation of walls, roof and floor space
- Renewal of windows and exterior doors
- Installation / renewal of a ventilation system
- Renewal of the heating system
- Optimisation of heat distribution for existing heating systems
- Loans are available from EUR 50,000 to EUR 75,000 per housing unit. Grants are available from 25.0% for a KfW Efficiency House 55, not more than EUR 18,750 to 10.0% for the implementation of individual measures, not more than EUR 5,000. Grant amount keeps decreasing based on the increase in the energy consumption of the house[6].

b) Royal Bank of Canada, Canada

The Royal Bank of Canada offers an Energy Saver Loan for the following products :

- Environmental-friendly products and services recommended during a home energy audit
- Products and services that qualify for a government grant as outlined by the Office of Energy Efficiency
- ENERGY STAR qualified products
- Renewable energy projects such as solar panels
- Hybrid cars

The borrower receives a 1% interest rate discount or a $100 rebate on a home energy audit with a qualifying purchase through a fixed rate loan over $5,000[7].

c) Clean Energy Finance Corporation (CEFC), Australia

The CEFC is a legislated fund of Government of Australia dedicated to investing in clean energy. Under its enabling legislation, its investment activities will be funded through a special appropriation of $2 billion to a special account every year for five years, commencing from 1 July, 2013.

The CEFC has three broad financing structure models for its investments.

- Project finance : for larger utility scale renewable and low emissions generation projects as well as smaller projects that have specific features that may make them harder for commercial banks to finance alone;
- Corporate loans : for corporates that may have one or more renewable, low emissions or energy efficiency projects of various sizes; and
- Aggregation funding : to catalyse large numbers of smaller projects in conjunction with commercial banks and other partners[8].

d) Green Deal, United Kingdom

The Green Deal is a scheme formulated by the Government of United Kingdom to make energy-saving improvements to home or business, for example :

- insulation - e.g., solid wall, cavity wall or loft insulation
- heating

- draught-proofing
- double glazing
- renewable energy generation - e.g., solar panels or heat pumps

The home owners have to get a Green deal assessment done of their property to see what improvements can be made and how much can be saved on energy bills. The improvements can be financed through a loan and there are two ways of repayment : either through instalments added in the electricity bill or direct payment to the agencies which will carry out the improvements[9].

e) Energy Efficient Mortgages, United States of America

An Energy Efficient Mortgage (EEM) is a mortgage that credits a home's energy efficiency in the mortgage itself. EEMs give borrowers the opportunity to finance cost-effective, energy-saving measures as part of a single mortgage and stretch debt-to-income qualifying ratios on loans thereby allowing borrowers to qualify for a larger loan amount and a much better energy-efficient home. To get an EEM, a borrower typically has to have a home energy rater to conduct a home energy rating before financing is approved. This rating verifies for the lender that the home is energy-efficient. EEMs are typically used to purchase a new home that is already energy efficient such as an ENERGY STAR certified home[10].

f) Green Home Insurance by Fireman's Fund Insurance Company, United States of America

Fireman's Fund is the first insurance company to offer green home coverages to environmentally minded customers. Fireman's Fund coverage pays for homeowners with certified green homes to rebuild using green materials that meet current certification standards.

Owners of traditional homes can buy optional green upgrade that allows them to rebuild using green materials, following a loss. The optional green upgrade pays for rebuilding traditional home with energy-efficient, green materials and appliances after a loss. The certified Green Dwelling coverage protects the existing features of certified green homes by replacing them with green materials that meet today's requirements for certification[11].

g) NHB-KfW Energy Efficient Programme, India

KfW is financing a Promotional Programme for Energy Efficient New Residential Housing in India. KfW provides a Line of Credit of EUR 50 million to the National Housing Bank (NHB). This Line of Credit is used by NHB for refinancing individual home buyer loans for energy efficient new residential housing under the Programme title Energy Efficient Homes. Apartments eligible for refinancing have to meet a minimum standard of 30% improvement in energy efficiency over the benchmark building. Energy efficiency in new residential buildings can be achieved by passive measures (such as the insulation of the building envelope, solar design, optimised natural lighting, wall shading, and retroflective surface materials) and active measures (efficient cooling and ventilation system, energy efficient lighting, solar water heating, and energy efficient appliances).[11] New residential buildings that need at least 30% less electricity than the standard receive an energy saving certificate. Technical consultants support the developers in identifying improvement measures for higher energy efficiency of their buildings using the energy need assessment tool developed by the German Fraunhofer Institute for Building Physics (Fraunhofer IBP) and The Energy and Resources Institute (TERI). The certified developments are then entitled to use a label indicating the extent of energy savings following a star label logic – the more stars the higher the energy savings. Apartments in certified developments are eligible for an Energy Efficiency Loan from financial institutions participating in the Programme.[12]

5. Way Forward

The issue of flow of finance towards construction of 'Green' or 'Energy Efficient Homes' has to be tackled both from the Demand side as well as the Supply side. Supply side initiatives will include increasing the housing stock for such homes and demand side initiatives will include creating a 'demand' or creating conditions which will give fillip to the demand for such homes. While creating the demand for such homes, it also has to be kept in mind that the materials / technology / equipment required for the construction of such homes needs to be made available at low or subsidized rates. A quick summary of the major barriers currently being encountered by financial institutions in financing of 'Energy Effcient Homes' are :

- Currently only certain projects of private developers are rated by GRIHA ratings or LEEDS ratings resulting in availability of very limited housing stock which can be financed or re-financed.
- The costs of such houses are high and, therefore, a vast section of the population is unable to afford the same. Therefore there is negligible demand for such loans.
- A lot of knowledge dissemination / promotional activities still need to be done with regard to popularizing the concept of such houses.

To begin with GOI can state that assistance to the various State Governments under the various Central Government Housing schemes starting from a particular date will be provided only when energy efficiency measures are adopted in all the projects. Mandatory reforms were prescribed for Urban Local Bodies in the JNNURM schemes. Why not make adoption of energy efficient measures also mandatory for providing funds under such schemes? Various such schemes are being implemented by the Housing Boards / Municipal Authorities / Urban Development Authorities in different states and it is important that from the planning stage itself such measures are incorporated rather than going in for retrofits later. The added advantage is that while mitigating the housing shortage which is only going to increase with the passage of time we will also be mitigating GHG emissions and help meet our country's GHG reduction targets. This can also prove beneficial during Climate Change negotiations as the point can be put forward that all projects from this period are energy efficient projects and this much reductions have been achieved.

After consultation with the rating agencies, various experts and other organisations involved in such efforts, GOI needs to come out with a set of guidelines clearly defining the following :

- What project will be considered a green or energy efficient project?
- A list of certified agencies who will be supplying equipment, materials, technology for such projects need to be identified.
- A list of rating agencies can also be identified who will provide the certification to the projects as to whether they are 'Green' or 'Energy Efficient'.
- These rating agencies can also be used to provide consultancy services to the various Housing Boards / Development Authorities / Municipal Corporations in the preparation of project reports to incorporate energy saving measures.
- The guidelines will be applicable for any Central Government assisted housing projects and State Governments can be encouraged to adopt the same for their own housing schemes.

It is also proposed that for augmenting the flow of finance towards such homes, a combination of Concessional Loans, Grants and Interest Rate Subsidies and Risk Mitigants will be employed.

On the lines of the CEFC of Australia, a separate department for Green Homes can be set up under the aegis of National Housing Bank. National Housing Bank can be provided with an initial seed capital or corpus of say ₹1,000 crores by the Government of India. This fund can be called the 'Green Housing Fund'.

The fund will be used to provide the following initiatives on the supply side as well as the demand side :

Supply Side

- Providing Refinance for construction finance provided to the private developers by Banks / Housing Finance Companies who decide to adopt energy efficiency measures in their various projects at concessional rates.
- Providing Project finance directly to Housing Boards / Municipal Corporations / Urban Development

Authorities for implementing energy efficient measures in various GOI and State Government Housing projects at concessional rates.

Demand Side

- Providing refinance to Scheduled Commercial Banks / Housing Finance Companies / Regional Rural Banks / Urban Co-operative Banks for financing housing projects with energy efficiency measures at concessional rates.
- Interest Rate Subsidies from the Green Fund will be provided to the borrowers on the lines of 'Rajiv Rinn Yojana' of GOI.
- The existing Credit Guarantee Fund Scheme for Low Income Housing can also be tapped for providing credit guarantees for loans granted to borrowers under the various energy efficient projects.

The idea is to channelize the efforts towards making more and more upcoming as well as existing residential projects energy efficient. A humongous amount of money is currently being spent in various GOI / State Government housing schemes and with some tweaking such projects can also be made energy efficient.

Indian Institute of Banking and Finance (IIBF) can be entrusted by GOI with the task of developing a course for the professionals of financial institutions as well as for the various departments of the Central Government or State Governments. The course will cover all the aspects on Green Homes including the international experiences. A lot of knowledge is lying scattered right now with a lot of institutions / experts doing their own bit in promoting energy efficient homes but all these efforts need to be consolidated together.

Energy efficiency is the fastest, cleanest, and cheapest way to meet energy needs - India alone could save $42 billion each year by largely improving energy efficiency in buildings[13]. To sum up, Dr. Subir Gokarn in his 30th Sir Purushotamdas Thakurdas Memorial Lecture pointed out that sustainability is a process rather than an outcome which brings more and more into alignment the interests of multiple stakeholders and the financial system is an integral part of the monitoring, reward and correction mechanism.

Saving of energy needs to be given priority so that crucial financial resources of the country are utilized for other development activities and energy efficient housing on a mass scale can play a crucial role in this regard.

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Best Practice in Customer Service in Banks

Harish. V. *

"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so."

- Mahatma Gandhi

1. Introduction

As per Dictionary meaning 'Customer' is a person who buys goods or services from a shop or business. So, customer service involves three entities i.e. 1. Seller, 2. Buyer and 3. Goods / Services. Customer service is, therefore, encapsulation of all these entities for the mutual benefit so as to increase the value of all the participants in the process of buying and selling.

For the business world, customer service is not a new concept and has been in vogue since the time trade was initiated in this world. However, customer service was practised or experienced at varying degrees considering various factors like type of industry, geography, people, time etc. If customer service was being practised on regular basis in the business, then why so much concern is raised with respect to customer service in the bank?

Well, definition of customer service has changed a lot from the pre LPG (Liberalisation, Privatisation & Globalisation) era to the post LPG era (after 1991), thereby pushing the bankers to the threshold with respect to reviewing, analysing, formulating, innovating and implementing the various functionalities of customer service in tune with the changing times. A good customer service will make the operations smoother. A better customer service will increase the revenue and profitability. Whereas best practices in customer service will place the institution in niche segment thereby extending the growth cycle along with manifold value addition.

2. Pre liberalisation

Prior to 1991, Indian business was mainly a seller's market with limited choices / products and large magnitude of demands from the buyers. This was no different in the banking industry which was dominated mainly by the public sector banks. Also the market was highly regulated and customers were supposed to accept whatever was available to them rather than having a pick & choose attitude.

As there was no alternative in satisfying the demand, existing players in the market were least interested in customer service and many a times customers' requirements were ignored while delivering the products / services. All these do not mean absence of customer service, but inefficient customer service which more often results in customer grievance rather than delight. For example, issuing a Demand Draft to a customer constitutes a customer service in normal course, however if the same transaction takes place in the least possible time, then the customer service can be labelled as customer delight.

3. Post liberalistaion

Post LPG has seen a watershed in the area of customer service in a wide area of Indian business environment with banking being a prominent one. We may not construe LPG as the direct impact for this change, but through a series of market developments / changes brought out prominently by the Narasimham Committee recommendations on Banking Reforms. The advent of new generation private sector banks as an offshoot of

* Chief Manager, Bank of India.

Narasimham Committee recommendations has indeed revolutionised the Indian Banking industry.

Two core areas on which new generation private sector banks have banged upon were the Information Technology and Customer Service oriented banking. One may say, these were the two facets of banking which the then existing bankers were ignoring for a long time. It is coincidental or a natural course of action, new generation bankers were clear in their direction in this regard and rest is history with respect to their acumen in capturing a lion's chunk of business, especially in the retail banking from the public sector banks.

All these developments have given way for codification of customer service blue print, that was soon made the order of the day in many of the banking institutions. In short, rather than practising customer service, best practice in customer service was formulated and implemented, which in itself is not an end, but a continuous evolution, taking cues from the past experience, present needs and future demands from the various stakeholders like customers, banks, regulators, industry, government etc.

4. Importance of Customer Service in Banking

In manufacturing sector, the presence of tangible products differentiates the importance of firm's value in the mind of customer thereby giving a better customer service with a better product. Apart from this, the supporting staff plays supplementary function in improving the customer service. Banking is a predominantly service oriented industry and banking transactions are characterised mainly by intangible items. In other words, tangible items are used only as a supplementary part (using a debit card which is a tangible item) for deriving the purpose of satisfying the need (drawing the cash / purchasing commodities / services at Point of Sale [PoS]).

If tangible items are least present in banking, then what is the prevalent factor which determines customer service in banking? Well, we are progressing to the main point i.e. the human resources, which is playing a pivotal role in many of the customer service oriented functions / transactions in the banking. Major part of bank's revenue comes from the branches and there lies the secret of unleashing the customer service prowess, which many a times decides the winner in the market. Though bank branches are the nerve centre for revenue generation, all other offices like Regional / Zonal / Head Office, Processing Centre / Call centre / etc. are also equally important in sensitising the importance of customer service culture in the entire institution.

5. Customer Service and Financial Inclusion

Financial Inclusion is taking the banking to the unbanked area. Well, this was one of the objectives when banks were nationalised for want of social banking in the late sixties, but even today, banks are skewed in their approach to rural banking where returns are lower. However, perception is changing considering the fact that development of any region results in further development and for this reason, any undeveloped region should have a proper banking system so that people can save as well as obtain loans for productive work. This type of set up will soon result in more revenue flow in the people's life which results in more purchasing power thereby resulting in the overall development of the region.

As there is huge potential available in the rural areas especially in farming community, financial inclusion can reap more in the national development. Now nothing comes free of cost and for financial inclusion also excellent, efficient and effective customer practice is needed to attract the unbanked masses into the banking fold. Best practices in customer service is the order of the day even in financial inclusion.

6. Best Practices in Customer Service in Banks

As we have seen from above, customer service was practised with different dimensions, intensity and objectives in the past. Post LPG has forced many banking companies to vigorously pursue for garnering larger scale of business through better customer service. Soon, better customer service was overtaken by the best practices and the momentum is still picking up. The appetite for the best customer service is lingering in the minds of all the participants in the banking industry so that any innovative customer service practice may give them a niche segment in the already crowded market.

What is a best practice? Be it in customer service or in other field, anything which gives hundred percent achievements of the objectives in all manners (effective as well as efficient) may be termed as a best practice. Customer service encompasses offering the best in output and defining / formulating / implementing / reviewing the best practice in customer service, which is always under a continuous evolution process.

So, best practice of any kind of customer service as on date may not be so promising at a later date and the present best practice always needs a thorough retrospection as the time progresses leading to newer / modified best practice of customer service. Next point is the evolving space in the banking which calls for customer service commensurating with the relevant vertical / products / geography / pricing etc.

7. Areas in Banking where Customer Service plays a Core Function

Banking in simple terms is the accepting of deposits and extending loans / advance against the same. Though now a days, many banks especially in the US / European / Gulf countries are adopting a brick / mortar less banking concept (wherein majority of the banking transactions are conducted through the online / web using computers etc.), banking in emerging economies like India still follows the traditional banking structure i.e. branch banking.

So, primarily Branch Banking ranks higher in terms of offering a variety of customer service to the banking public in a country like India. Next in line comes the various processing centres / call centres etc, followed by the administrative offices like Zonal & Head Office.

A typical brick & mortar Branch basically consists of human resources as well as the required infrastructure. Human resources includes the branch head along with the supporting staff (officers / clerks / sub staffs / armed guard etc.). Basic infrastructure includes the banking hall, computer system, customer lounge etc. Customer service in branch is prominently visible in the following process :

1. Enquiring about a banking product or availing any product / service by a non customer of the branch.
2. Starting a banking relationship i.e. opening account and completion of necessary formalities.
3. Visiting branch for day to day account transactions / queries etc.
4. Visiting branch for any specific grievance.
5. Launching of any new product / service by the bank for which the respective branches are nominated for marketing the same.
6. Any directions of the Government / RBI / other Government Agencies etc. which are implemented / notified through the bank branches.
7. Any other miscellaneous service offered by the bank to its customers.

Facilities /Actions for Best Customer Practice

Customer Relationship Officer

All the officials of the bank are supposed to take care about the customer related matters in a standardised manner. However, to streamline this process, it is better to include one official who is good in marketing / human relations as a designated Customer Relationship Officer (CRO).

The concept will sound like incurring additional expenses for the bank, but presence of customer relationship officer will go a long way to reduce the customer service related issues on an amicable way without hurting the sentiments of customers as well as the bank staff. In large branches, exclusive CRO may be posted to take care about the service related matters of the customers and in small / medium branches, additional responsibility of CRO may be entrusted with any existing official whose work load along with his regular line of duties may be regulated accordingly.

9. Customer Lounge

If you visit any MNC brand automobile workshop, we will be made to wait in the luxurious customer lounge overlooking the service area. This in fact gives the customer a feeling of premium class along with the exposure to the different processes involved in the servicing / repair of the vehicles. There may be presence of TV, Music, magazines / news papers, Kids play area etc. in the customer lounge which enhances the customer delight.

Though some of the facilities mentioned aforesaid may not be replicated in Banking environment, some innovative approach can be adopted or tailor made to suit the banking space. It is imperative to note that some of the new generation banks, PSBs, foreign banks have already started such a type of set up wherein differential treatment are given to customers based on their level of business with them. For example in Bank of India, for customer above ₹1.00 lakh in their savings account will be termed as Diamond Customers, who will be offered the customer lounge facility with a dedicated Relationship Manager at select branches where this facility is available.

10. Information Technology

As we have seen earlier, Information Technology (IT) has revolutionised the entire business spectrum and banking is not an exception. IT can be suitably used in brick / mortar as well as the virtual set up. IT has in short become the life line of banking.

In the branches (brick / mortar), IT can be successfully used for streamlining the customer relationship process. To start with, customers may be provided with access cards to selectively use different services (customer lounge, self use screen, complimentary drinks etc.) once they visit the branch. Queue system can be scientifically programmed with special considerations to the senior citizens, high net worth individuals etc. Self help machines for cash drawal, cash / cheque deposit, passbook printing etc. can be installed which all will reduce the rush at the regular counters.

In the virtual set up, opportunities using IT are unlimited, however considering the higher risk perception, banks may attempt various options available with IT on a conservative basis after pilot testing under various risk architecture. Coupled with the same, most of the IT transactions in the virtual set up need approval from the regulators (RBI etc.) and that too will be available after a period of standardisation with local pilot testing. Some of the virtual IT applications widely used are Internet banking, mobile banking etc.

Considering the risk perception along with the regulatory approvals and bank's appetite for managing risk with technology, banks may slowly progress towards advanced technological applications which may reduce the work load at the branches. Lesser work load will definitely give the banking staff ample time for business development with a quality customer service.

11. Customer Education

There should be proactive approach from the bankers to educate the customers regarding various aspects of banking. Many a times customers are harassed or put to trouble for their not properly knowing about the feature of the product / services thereby resulting in time / monetary loss.

Though banker can escape by putting the blame on the customer for not enquiring about the product / service, such kind of incidents may adversely affect the bank's reputation in the public minds. The right place to educate customers is the branch where the entire primary banking needs of the customer is taken care. This type of attitude is important not only in the retail banking but also in the commercial banking space.

12. Customer Meets

Customer though may be enjoying the banking service during their visit to the branches, will be able to derive more out of the banking service if many of them are called for a customer meeting at a predetermined place / time. Customer meets can be solely for interaction in a get together wherein there will be a forum in which bankers will tell the audience about the various products / services and customer may give feedback / queries, suggestions etc. Such customer meets will also give a kind of oneness / togetherness among the customers and bankers which will lead to greater synergies in the banking transactions. On the other hand, customers can be entertained by organising fun filled programmes like dance / music / variety show which will add excitement and stimulate the customers to associate with the banks who is organising such shows considering the feel good factor.

Non-Customer Meets

Customer meets may be a norm for the banks, but at the same time non customer meets are also equally important especially where banks are establishing their presence in a new market.

Specific Customer Meets

Specific customer meets are like Exporters Meet, SME meet, Pensioners meet, Women Customers meet etc. Such types of meetings are more specific with respect to contents, target audience, duration etc.

13. Accessibility of Branch

Branches need to be situated at accessable points i.e on main road, ground floor, near bus stop / railway station etc. Even if the customer is having account with a distant branch, facilities may be granted for doing the basic minimum banking transactions from any other branch considering the convenience of the customer at the relative point of time.

As we have described the financial inclusion in the earlier part of this essay, we were stressing the need to extend banking to the interiors where banking is yet to be covered. This may call for opening of many branches in many unbanked areas thereby increasing the capital cost of banking. But technology has acted as a saviour in the form of "Ultra Small Branch (USB)" banking.

USB is an innovative style of banking where business facilitators / correspondents will visit the unbanked areas (remote villages etc.) with an ultra ATM / Banking terminal (operated with a mobile SIM) which is having biometric authentication system operated with the help of Aadhaar seeding of the customers. USB thus saves the bank from having any brick / mortar set up (avoiding huge capital expenditure) in spreading banking in unbanked areas. While saving the bank from huge capital cost, USB gives the unbanked customers the best experience in customer service as banking is happening at their doorsteps.

Virtual world or online space is another medium which is as important as the physical branches. Now-a-days, most of the banks in India are having online presence with different levels of operational convenience. Operational convenience means, some banks simply promote their bank's philosophy in the online webpage, whereas other banks may provide online transactions which covers many of the transactions that are available in the physical branches. It is pertinent to note that simply providing online services does not give the banks any advantage, as the ease and convenience of online banking with a plethora of service / transaction options give the bank edge over their competitors. Banks should be proactive in regular updation of their IT framework to keep up with the industry pace and customer expectations.

14. Role of a Branch Head

Branch Head is considered to have the pivotal role in the management of branch banking. All the positive and negative outcomes of the branch as well as the bank finally end in the authority of branch head. The buck starts and stops from / at Branch Head! The most important function of a branch head is the overall supervision of customer service in the branch. So, branch head has more to do with the best practices in customer service.

Branch head should mentor the staff with respect to the feedback obtained from the customers and also from the guidelines prescribed by the bank for customer service of highest order. In case of a compliant, branch head should not be trivial in taking sides i.e. either with the staff or with the customer. Branch head should be holistic / neutral in viewing the grievance and try to satisfy all the stakeholders regarding the issue, be it the higher authorities / Govt. offices or the inside staff. Practise the golden principle of human resource management i.e. in case of any exemplary customer service due to the initiative taken by the staff, commend the staff in front of all the staff and in case of any complaint, reprimand the staff in private. This will go a long way in creating a harmonious human resources situation which will always strive for better customer service and higher productivity for the bank.

15. Staff training on Customer Service

There is no perfect format for imparting training in customer service. What the need of the hour is unlocking the potential of the staff in creatively using their talents in attaining the best in customer service. Curriculum for such training should include subject on emotional intelligence, motivation, leadership skills etc. apart from the regular subjects of sales, marketing, banking etc. Staff should be periodically updated with latest guidelines in customer transactions, new products, and industry developments.

Branch head or the respective department head of the branch to call for regular meetings of their staff for updating on all these counts. Rotation of job also takes out the monotony of the staff in doing the same thing again and again unless the position involves any requirement of specialised knowledge which requires retention of the staff for a longer time.

16. External and Internal Customers

Caption may sound vague, but in banking all the responsible positions deal with two types of customers i.e. External and Internal customers. External customers are the people / firms who deal with the banks for all their requirements. Internal customers are inside people or staff who are doing the work for fulfilling the requirement of the external customers.

Best customer practice does not end with delighting the external customers, but a lot has to be done with regard to the aspirations of the internal customers. Only making the external customers satisfied without minding the emotions of the internal customers may result in disasters for the banks. Such type of work / business culture may result in employee dissatisfaction, de-motivation, high attrition etc. which may be costly for the banks and sometimes take away the competitive position enjoyed by the banks in the medium / long run.

17. Controlling Office

As a norm, banks normally do not allow the customers to interact with the officials of the controlling office unless there is any pressing grievance from the customer. But for good order sake, controlling offices may have a responsible person / nodal officer whose function is to facilitate the issues of customer with the branch or the appropriate authority in case the compliant / grievance approaches the controlling office.

Some of the new generation banks are having a separate grievance redressal mechanism apart from the branch set up which keeps the controlling office out of customer's reach. To a greater extent it is seen that most of the public sector banks are still having an approach wherein customers can freely go and meet any person in the controlling office which may hamper the work place as well as the relations with the branches.

Having regard to the importance of customer service and regulatory requirements, banks are in the process of appointment of 'Chief Customer Officer (CCO)' whose objectives are to ensure customer delight at the branch level, faster resolution of customer grievance, evolution of newer / better customer service considering the customer needs / market demands / peer performance, review of the customer service set up in the bank, codifying the customer service practices for accountability and responsibility and devising appropriate compensation policy taking into the aspects of customer service dynamics.

18. Internationalisation of Banking operations

Indian banks mainly concentrate on the Indian operations and only few Indian banks have forayed into overseas markets (like Bank of India, Bank of Baroda, State Bank of India etc.) from their inception. Some of the banks (Bharat Overseas Bank) who have ventured in the overseas markets were either amalgamated or wound up their operations abroad.

Time has changed a lot as on date when compared to the 60s, 70s and eighties. The change was slowly grappling the Indian Banking arena post Liberlization Privatization Globalization (LPG) and will enter a threshold point in the coming few years. During the post LPG period, customer profile has changed a lot compared to the earlier times when the market was closed. Now customers especially the corporates are taking calculated risks in reaping the benefits of globalisation and for these reasons, banks are also on the chase for the overseas business of the Indian customer.

If we take the Indian banks operating overseas, majority of their customers are the companies / firms / individuals who are mainly of Indian ethnic origin. Here again, best practices of customer service provided by the Indian banks can decide the winner. Best practice can be for the ethnic Indian community as well as for acquiring the business of the natives of the foreign country. Overseas branches of Indian banks can be regarded as the next best to their counterparts (native banks of foreign countries) only when they can perform on a uniform standards (regulatory and country specific) offering competitive services / products to the entire customer community (irrespective of ethnic Indian or not). For this achievement, Indian banks can try to replicate their Indian Models in foreign country with necessary additions / modifications etc. to suit the local customer appetite / regulatory requirements.

Etiquette is another important non verbal / verbal aspect which distinguishes the Indian staff from their counterparts while dealing with the foreign customers. In Indian business environment, lack of etiquette can be a “chalta he” attitude as far as customers and bankers are considered. However, of late, customers and bankers are becoming more conscious about etiquette in Indian Banking also. Indian Banks may take joint initiatives to train their staff in some international education institutes specialised in marketing / customer service / etiquettes etc. so that staff will be proactive in their approach towards the best customer service.

19. Accept Mistakes

It is a human tendency not to accept mistakes. Mistakes can take place either at customer instance or at the bank. But in the event of mistake, mistake maker will try to pass the buck and in the melee, customer relations get spoiled. If the customer has committed mistakes, banker should not take it in a pin pointing style / blaming etc. Banker should empathise with the customer for the customer's mistake and try to explore a way out so that the effects of the mistake should not be too costly for the customer. In this way, customer relationships get further gelled.

On the other hand, if bank commits a mistake, accept the mistake and try to rectify / correct / compensate for the losses / inconvenience caused instead of futile arguments which in no way will give any solution to the bank but ultimately take the bank to consumer forums / banking ombudsman etc. A gentleman attitude from the banker's part in the cases of mistakes / customer complaints will give a positive propaganda about trust in banker's transaction by way of word of mouth campaign by the benefitted customer.

20. Avoiding Hidden Charges

Charges / Interests are something bankers cannot avoid in the day to day banking transactions. At the same time, transparency of charges / interest is something which bankers take to back seat especially in the private sector banks. However with the advent of internet and online banking, banks are now a days required to publish their charges / interest in their portal so that customers can compare with other players for choosing the service / products. Banks should be more transparent with respect to their charges / interest rates as well as any disclaimer which is not informed to the customer in the first hand.

21. Customer Service Initiative

Apart from the day to day customer service practised in the branch level, banks can go a mile ahead in addressing the customer issues / preferences / delights in a common forum. A classical example is the initiative taken by ICICI Bank Ltd. in the recent past which was codenamed “ICICI Bank Khayaal aapka”.

ICICI Bank was a forerunner in exhibiting and practising the latest in the customer service whether it is the branch driven or the technology driven right from its inception.

The bank has embarked on a campaign (ICICI Bank Khayaal aapka). The campaign was a successful one as per ICICI Bank Ltd, which in fact bridged the gap between the bank and the customers thereby giving a message that the bank stands for the welfare of the customers.

Campaigns of the above nature as well as corporate advertisements can be undertaken which will pass on the philosophy of the customer service to the customers especially the prospective one. In the case of Bank of India, 'Relationship beyond Banking' is the trump line which signifies that the bank is not only concerned about the money matters of the customer, but also the overall welfare of the customer so that relationship through banking is maintained on a holistic manner.

Apart from these initiatives, banks can also go for sponsoring some group events like quiz competitions, music events etc., as well as corporate social responsibility programmes like provision of drinking water, sponsoring poor children's education, conducting medical camps etc. which will carry the message of the bank among the participants / audience / beneficiaries of such a gathering / programme.

22. Code of Conduct

The Banking Codes and Standards Board of India has formulated the duties & responsibilities that a banker in India is needed to follow while transacting with the customer as well as the responsibilities of the customer while availing service from the banks. As we have already seen, customer service in banks has attained higher levels in the past many years and this has resulted in banking becoming a buyer's market i.e. customer is a king now. So, this development has made some customers illogical in their approach towards bankers and many times result in arguments / verbal duels in the branches as well as interacting with the call centres.

From the above proposition, it may not be construed that any one is supporting the bankers for all the arguments. But many a times, even after the banker has made a logical representation / conclusion of the entire issues / grievance faced by the customer, customer may due to pressure / anxiety may act rudely and aggressively resulting in unnecessary exchange of words between the affected parties including the bankers.

23. Portability of Banking Services / products

There is nothing unusual at present about portability of accounts of a customer from one branch to another branch of the same bank though it was not possible in the past. As technology is racing ahead, the possibility of portability of services among the banks is not far ahead. So, ground work for this project may be started at the earliest as only the first comer in any new initiative / innovation can reap a predominant portion of the benefits in the initial years. There should be cooperation among the bankers for erecting a dedicated IT framework with uniform standards suitable for various types of services / products which can be migrated from one bank to other without any much hassle. All these steps will go a long way in extending ultimate customer service experience in banking.

24. Conclusion

Customer service is not the end in itself, but it is the beginning for a plethora of activities in the bank. When the demand is more for the banking products / services, banking can be driven with lower gear in customer service. But when the supply is more, demand become selective and customer service plays an important part for the customer to choose the provider, banker in this case. If some of the banks are still thinking of a half hearted attempt in customer service in the present pressing times of banking, chances of drastic drain of customer base are not remote.

Banks who are good in or at the maximum in offering the best practices in customer service will rule the world. There is no ideal way of defining a best practice as a practice now termed as best may soon turn to be a meagre one in the times to come. What the need of the hour is the constant updation / review of the existing customer service set up so that the competitive status obtained by way of best practice may be sustained for a longer period. At the same, best practice in customer service should not be one sided i.e. only focussed on the external customers, it should be a comprehensive one involving all the stake holders including the internal (staff) and external customers.

Regulator / Government should also prescribe uniform rules / conditions / standards to all the participants of banking industry so that level playing field is available for all the participants. Taking a cue from the Darwin's theory of evolution, 'Survival of the fittest' plays a role in sieving the non performers thereby giving opportunity to the performers to practise the best in customer service at an ideal / optimum cost to the bank.

Micro Research Prize Winning Article, 2013

Aadhaar and Inclusive Banking : Issues

Balasundar D. *

"Aadhaar will provide a robust foundation for financial inclusion of millions of Indians".

- Mr. Vijay S. Madan,

Director General, Unique Identification Authority of India

Introduction :

India has enjoyed tremendous growth over the past twenty years, but still suffers from the steep disparity in growth, between the rich and the poor. So, to have a wholesome growth, it will be critical to include the very poor and geographically remote class of citizen in the economy. An inclusion agenda will not only help generate prosperity and jobs - it will establish a solid foundation for improving social outcomes for all. This paper sets out the key issues and the proposed methods to make use of aadhaar in 'Inclusive Banking'. With the right governance and uptake, India's UID programme can lead to a change in social and economic inclusion by connecting the citizens with their opportunities, who have so far been excluded from access to government services and employment opportunities. When we take into account the challenges it presents before us, this will be easier said than done. Governments and businesses will need to take charge of this herculean task and banks play the key role of methodical dispersal of funds among the people. These three agencies will have to implement robust, secure and highly-targeted mechanisms capable of bringing large sections of underprivileged, geographically dispersed and other hard-to-reach people into the mainstream economic system. Thus, AADHAAR requires the holistic involvement of all its stake holders.

Financial Inclusion and Aadhaar

Dr. C. Rangarajan committee defines financial inclusiveness as follows.

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

Financial inclusiveness has become the mantra of the government, to ensure that the nation is proceeding in a positive trajectory, not only in its financial but also in its social aspects. The RBI has imparted a lot of efforts to transform the mantra into magic. In spite of all these efforts, the impact at the ultimate destination seems to be a bit faded. The main factor contributing to this is said to be the "lack of awareness of rights" among the people.

The next hurdle seems to be the lack of identity of a huge number of population. Banks being the major channel of transaction of people's funds, the identity proofs seems to be unavoidable in this industry. But, at the same time a huge populace lacks any proof for their identity. A great solution for this long tussle could be the "AADHAAR".

The Government of India started the ambitious programme to provide a Unique Identification number, Aadhaar, to every resident of India and has constituted the Unique Identification Authority of India (UIDAI) for this purpose in the year 2009. As of September 2013, 50 crores of unique identification numbers have been issued across the country and the government has set a target to cover 60 crore citizens by 2014. Aadhaar has been envisioned as a means for residents to easily and effectively establish their identity, to any agency, anywhere in the country, without having to repeatedly produce the identity documentation to agencies. The timing of this initiative coincidentally comes at a time when there is an increased focus of Government on inclusive growth.

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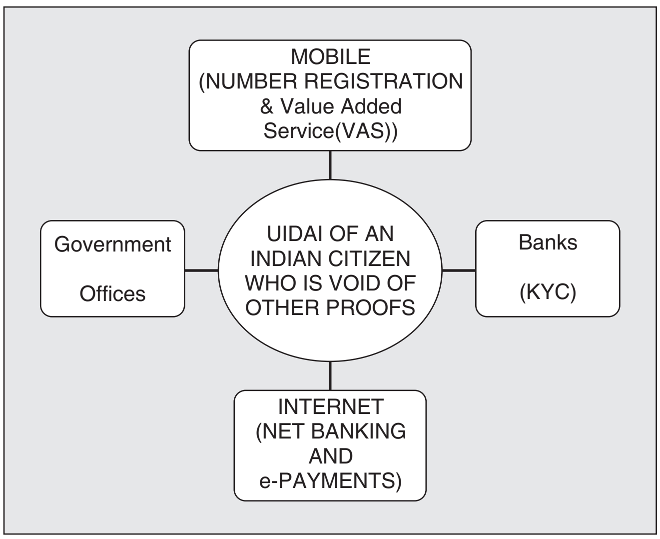
For any agency which takes part in the task of financial inclusiveness, say banks and like, Project Aadhaar provides the recourse to its KYC requirement or the identity verification of the customer. Since RBI agreed UID number as a valid identity document for opening bank accounts, these agencies can leverage this as a valid source for user verification, unless otherwise stated by RBI. BCs / MNOs / POS in coordination with UID project can facilitate the poor in making micro transactions, remotely and at a low cost while addressing the issue of identity verification. This is how the Aadhaar based transaction model works : -



The current era can be marked with the technological outburst, to a level that even an illiterate can make use of the cell phone for their communicating needs. The Internet has obviously become the most populated platform for sharing and gathering information.

Financial transactions through these two global medium have become a common practice, only for a niche segment of service consumers. But to the masses, the same is still 'greek & latin'. Identity proofs are unavoidable necessities for service providers to provide these services to their customers. This gap can be reduced by the Aadhaar cards in the following ways :

With the use of Aadhaar cards,

- The bank's KYC requirements are satisfied so that, these people get ready access to financial services.
- As per the norms of TRAI, The telephone and internet service providers' need of identity proofs gets fulfilled.
- The uniqueness of each and every number makes this one a reliable source of identity.

After having a well-established financial structure, with technology as its operational nerves, the feasibility of an inclusive business model becomes reality. The net banking and mobile banking facilities add upto the list of strengthening features.

In the following passages, we will be presenting a view on the key issues / critical success factors and the proposed moves to face the same.

Critical Success Factors (CSF) / Key Issues :

According to the Pareto effect, “20% of the causes lead to 80% of the effects”. On that basis, four CSFs namely communicating benefits, accessibility and use, ensuring security and privacy, building in transparency are identified and depicted here. No great thing is achieved without facing challenges or hurdles. Obviously UID, a giant leap in our steps to achieve financial inclusiveness, poses its own set of challenges.

- *Communicating benefits :*

Establishing a successful universal ID programme is a social and a technical challenge. Too often, the focus of policymakers is on deliverables - the costs and practicalities of system delivery. Yet, without a clear idea of how to influence social and cultural change plus concerted efforts to educate the public about the benefits of the scheme, public trust can easily evaporate.

- *Accessibility and Use :*

Ease of accessibility and use breeds familiarity with an ID system. Familiarity creates a sense of assurance and confidence. But this can only be achieved through a scheme that serves the population as a whole, and coordination across government and the other sectors of the economy is vital. The system should also be flexible, to allow for improvements in technology, and be interoperable with other applications to make it easy to use.

- *Ensuring security and privacy :*

"Can governments protect citizens' personal information?"

This question goes to the heart of the issue of trust in creating acceptance for universal ID systems. Governments must do everything in their powers to reassure people that, leading-edge technologies and encryption tools are being used to protect sensitive data. Similarly, a risk management programme should be in place to allow citizens or agencies to revoke a biometric or an identity credential that has been stolen or compromised.

- *Building transparency :*

This is crucial when establishing a universal ID system. People expect to be informed about the policy intent and need to understand how their confidential information is kept, who will use it and for what purpose. This is not simply a one-way street : Citizens need to be actively engaged in considering the benefit of the programme in light of stated goals, ensuring that functionality, information storage and access is in proportion to the goals of the ID system. These four critical success factors need to be underpinned by government agencies and businesses that are willing to execute an inclusive growth strategy. The Indian Government has a great opportunity to use Aadhaar to improve public service value and deliver more effective social outcomes. Experienced analysts foresee a future in which companies connect the dots between their for-profit activities and an improved business environment based on inclusive business models. These inclusive business models are large-scale, which compensates for low margins, and are most likely to succeed if they are financially self-sustaining.

Whatever may be the list of CSFs, the above mentioned business models with customizations then and there, help us to tread on the path of "financial inclusiveness".

Decreasing proportion of rural branches in the last decade :

The decreasing proportion of rural branches, add up to the list of factors. According to the statistics of 2010, 73% of the households are void of credit from a formal source. The declining proportion of rural branches of banks in the past decade can be attributed to the cause of the fore mentioned problem. The following table gives a clear picture of the decline.

Table : No. of rural branches from 2000-13

Year	Rural	Semi-Urban	Urban	Metro	Total	Rural / Total (%)
2000	32,734	14,407	10,052	8,219	65,412	50.00
2001	32,562	14,597	10,293	8,467	65,919	49.40
2002	32,380	14,747	10,477	8,586	66,190	48.90
2003	32,303	14,859	10,693	8,680	66,535	48.60
2004	32,121	15,091	11,000	8,976	67,188	47.80
2005	32,082	15,403	11,500	9,370	68,355	46.90
2006	30,579	15,556	12,032	11,304	69,471	44.00
2007	30,551	16,361	12,970	11,957	71,839	42.50
2008	31,002	17,724	14,397	13,019	76,142	40.70
2009	31,646	18,969	15,439	13,877	79,931	39.60
2010	32,494	20,494	16,761	14,855	84,604	38.40
2011	33,566	22,751	17,749	15,803	89,869	37.30
2012	36,452	25,763	18,967	17,425	98,607	37.00
2013	39,387	28,288	19,931	18,207	1,05,813	37.20

Source : Statistical tables relating to Banks in India, RBI.

Aadhaar - The key stone of growth :

The Aadhaar Project holds great potential to change the lives of millions of low-income and geographically remote based Indians. But this will only be possible if a stable and secure ecosystem, which can deliver social, financial and infrastructural benefits to all levels of society. Both the government and private sector have to launch 'out of the box' thinking to build such an ecosystem.

Role of Government :

As a matter of fact, all socio-friendly activities require the government's participation as an essential ingredient. Project Aadhaar is not an exception. The government can leverage the existing welfare schemes using the data collected under Aadhaar with technology assistance.

The Indian Government has a great opportunity to use Aadhaar to improve public service value and deliver more effective social outcomes. To maximise these opportunities, government agencies must scale with speed and leverage existing welfare schemes by harvesting the power of the citizen data collected under Project Aadhaar. For example, the Government of India's national health insurance programme, Rashtriya Swasthya Bima Yojana (RSBY), aims to provide families living below the poverty line with insurance coverage.

Every beneficiary family is issued a biometric enabled smart card containing their fingerprints and photographs. But the benefits of the RSBY card need not stop with healthcare services. For example, UID data could be added to the chip mounted on the card so that families below the poverty line could identify themselves as such and obtain government-provided grain at India's fair-price grain shops; the shops need only be equipped with battery operated smart-card readers to complete the transactions.

A UID number also plug leaks in the country's universal primary education programme, Sarva Shiksha Abhiyan. For example, the card would allow a child's record on several critical educational parameters to be documented. It would also help schools monitor dropouts, a significant problem among children at the elementary education stage. This data would not only help individual children stay on track; it would also provide officials with information about where to focus educational improvement efforts.

Making e-payments, the basis of transferring subsidies under all government welfare programmes :

As far as now, a major part of government subsidies are delivered through direct payments. This account for around 40 - 45 per cent of the per capita incomes (based on GDP per capita) in the context of population residing in the lowest 20 per cent income brackets in India. An inability to prove identity is one of the biggest barriers preventing the poor from accessing benefits and subsidies. Only a full biometric proof can help circumvent this problem. Therefore, a transparent and reliable payment mechanism - one which is built on robust 'know your- customer' processes and backed by biometric authentication - must form the basis of all transfers made by government welfare programmes. This will improve the payment reliability, efficiency and efficacy of government services to the poor and financially excluded. Estimates by veterans suggest that the poor would be in a position to reduce transaction costs (associated with travel, loss of a day's income to collect payments, etc.) to the tune of 15 to 20 per cent of their income as a result of e-transactions.

Businesses in action

We are living in an era in which the concepts like "Bottom of the Pyramid" have become the mantra of business organizations. Not only the governments, but also the profit based business organizations have to move a step forward, towards inclusive growth. In their book "Competing for the Future", Gary Hamel and CK Prahalad claim that the strategic intent of a firm has three key components : destiny, direction and discovery. This analysis has particular relevance for companies confronting the challenge of inclusive growth. If a company does not have a sense of shared destiny with the poor, it will probably not go in the right direction nor embark on the kind of experimentation and discovery that will produce innovative changes or trend setters. It must have deep confidence in its ability to travel on the bumpy road of discovery. Discoveries always test the patience and persistence of the explorer. So, constraints do exist - creative solutions will always need to be found. Patience is the key - as a company focuses on these new consumers, it must understand that commercial viability will take time. To successfully tread this path, firms need to nurture the following distinctive capabilities, both internally and throughout their network of suppliers, partners and other affiliated organisations :-

- *Transform teams into Trend setters*

Organisations must be equipped with non-conventional tools and open-minded teams capable of mining customer 'wants'. Consider how Cavin kare has capitalized on the 'needs' and 'wants' of the society as a whole. Their idea of shampoo sachet made them the leading shampoo brand in South India in a short span of 3 months. In a time when shampoo was sold in luxurious stores packed in bottles, Cavin Kare sold the same in 50 paise sachets which made it affordable to even a layman. Thus, it made its product the "Chik" synonymous to shampoo among the masses. Later, every other competitor moved on this path. Whatever it may be, the market was identified and tapped for the first time by Cavin Kare. They foresaw the power of inclusiveness a decade back. This is the need of the hour and is required from each and every player belonging to various industries.

- *Partner with the right people*

Another key to executing for inclusion is partnering with the right people. When Eureka Forbes engaged microfinance company Basix to sell its AquaSure, a water-storage purifier, sales jumped by 20 per cent. Basix's network of loan officers served as the link between Eureka Forbes and the rural population, providing customer intelligence while also marketing the purifiers to the self-help groups that it meets regularly. By following a similar approach, companies can create a web of micro entrepreneurs that could pull thousands of rural households out of poverty.

- *Leverage innovations in other markets*

To maximise the value of inclusive innovations, a company must be in a position to guide stakeholders in other parts of the business and other markets. For example, in 2000 ITC launched e-Choupal - a business aimed at working with low-income farmers to enhance their farming methods. Since then, ITC has used its networks with low income farmers to create best-in-class food products for middle- and high income households. ITC-Aashirvaad flour is now the number-one packaged flour brand in India. With the help of its farmer network, largely made up of small and mid-size farmers located across 25,000 villages in four states, ITC is well positioned to procure different varieties of high-quality wheat cost-effectively. While reaching out to UID-beneficiaries with products and services that are affordable, businesses must take a leaf from the ITC-example to explore how networks created by them can be effectively leveraged. For example, businesses can map skill sets of UID beneficiaries and explore whether these can be deployed in identifying individuals who could be a part of their rural-BPOs, which can help them to cut down costs.

- *Foster adaptive and agile local operations*

Beneficiaries of the 'inclusive growth' strategy are generally not open to frequent experimentation and want to be treated in a dignified manner. Companies must also understand the needs of the people they serve. Consider the example of Aravind eye hospital, Tamilnadu, an eye hospital which really gave meaning to the word “Service”. Their impeccable 'Assembly line' method of cataract operations helped millions of people to get back their clear vision. This has been the case study for operational management in several management institutes including the IIMs. The hospital offers both free as well as beneficial treatments. But, it is seen as a cult of service in the health industry by the people. Their medical camps can be added to their list of services. The ultimate point is that their agile and innovative operation methodologies brought down optical treatment from a cosmetic one to a basic amenity.

Banks in Inclusive Growth :

When 'Inclusive growth' has become the mantra of the Indian government, 'Financial Inclusiveness' has become the destination of the banking industry. 'Banking' being common for all other industries, the banking industry practises its own set of business models. Banks already practise the following business models as means of moving towards inclusive growth.

1. Bank focused model : In Traditional retail banking model wherein, banks offer Internet and ATM services to the existing customers, the role of mobile phones are limited and it acts as a channel to send SMS notifications whenever the customer makes any transaction through conventional means of banking. SBI mobile banking application falls under this class.
2. Branch less banking (Third party channel) model : A JV or an arrangement between a bank and third party which helps in expanding the banks outreach by having outlets for customer transactions. Transactions at retail stores may be performed using a card and POS infrastructure or by using the mobile phones of both the customer and the store. In this model, mobile phone network acts as a transaction acquisition network facilitating the transactions using mobile as a medium. Such a model has come into effect on trial basis in the northern parts of the nation. However, business correspondents and Block Development Offices (BDO) work in tandem with banks in this mode of operation. Eko Aspire foundation is an organization reaping commendable profits in this mode of business.

In both these models, the role of technology is just an instrument and not as the backbone. However, both the regulatory authorities involved, say TRAI and RBI, have readily accepted UID as a proof of identity.

There are other prospective models, in which technology forms the key stone of operations. These models are practised in a full swing in other parts of the world, catering to the purpose of financial growth. Though such models do exist in some parts of the nation, the efficiency of the same is a big question. Those mobile telephony based business models are as follows (Here, Mobile Network Operators are shortly referred as MNOs) :

1. Branch less Banking (MNO's Channel) model : The retail bank, instead of building its own retail distribution, outsources the necessary infrastructure for MNO to manage the individual user accounts while the account issuance and fund management services are still retained with the bank. Smart Money in Philippines is a well- established business of this kind.
2. MNO led branch less banking solution : In this model, MNO owns the entire value chain of banking service by obtaining an e-money licence, signing up a network of cash-in/out in retail stores and maintaining a pooled account with a bank holding 100 % of the value of e-money issued. MNO entity would require customer management systems, channel development, audit trails, reporting etc.

   M-PESA in Kenya stands as an example of the MNO based model. Though Kenya is being considered as an economically backward nation, this move of them towards inclusive growth is an exemplary thing.

By following the business models mentioned above, we can make banking feasible in the remote parts of the nation. Banks can also educate the business customers about inclusive growth and its benefits.

The Golden harvest :

Companies that adopt inclusive business models identify a gap in society and then work to bridge that gap. This can lead to follow-on benefits, which enable companies to :

- Unearth new revenue-generating customer segments
- Launch new products, tailor made for each segment of customers
- Achieve new standards in customer satisfaction
- Create new scaling capabilities that can be adapted across sectors, both in terms of economy and quantities.
- Derive new applications of existing technologies
- Discover new sources of talent
- Ensure strong brand recall among consumers.

To put it in a nut shell, the companies can realise their dream of reaching the “Bottom of the pyramid”.

Conclusion :

The current situation of UID has become a bit erratic. 'Project Aadhaar' initially led by Mr. Nandan Nilekani and Mr. Vijay. S. Madan with other people who have a keen vision on the society, has now become the food and fodder of media. The Supreme Court declared that Aadhaar cards are not compulsory for many official formalities. This seems to be a drag in the pace of the project. People also seem to be disinterested with the enrolment process post the judgement. However, the same media is throwing light on the same and educating the people about the benefits of the same. Though the public feel 'it's not a must', they accept that it is a useful document to be added to their list of proofs. The RBI has also insisted on allocation of 25% of its branches to be in remote rural areas in its FIP 2013-16 plans. Now it is the government which should guard the interest of the public and their belief towards the same. If this situation has been overcome, the world will soon find a nation with each and every citizen having his own identity.

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Bharatiya Mahila Bank : Prospects and Challenges

Tania Saritova Rath *

Introduction :

Bharatiya Mahila Bank (BMB), the Country's first Pan India Commercial Bank constituted exclusively for women, has started operating in public sector since 19th November, 2013. The idea of an exclusive lender for women was mooted at the Jaipur Congress plenary last year. In Budget 2013-14, the Finance Minister, Mr. Chidambaram had announced setting up of all-women bank with an initial capital of ₹1,000 crore. "Women are heads of many banks today, including two public sector banks, but there is no bank that exclusively serves women. Can we have a bank that lends mostly to women and women-run businesses, that supports women SHGs and women's livelihood, that employs predominantly women, and that addresses gender-related aspects of empowerment and financial inclusion? I think we can," Mr. Chidambaram had said.

The idea has become a reality with the inauguration of the Bank at its Nariman Point branch in Mumbai on 19th November 2013. While inaugurating the Bank, Dr.Manmohan Singh, Prime Minister has said : "The setting up of the Bharatiya Mahila Bank is a small step towards the economic empowerment of our women. It is also a reflection of our deep commitment to this cause. I am sure that the Bank will fulfil the objective with which it has been established, namely financial inclusion of women and providing them equal and easy access to financial services. I am also sure that it will particularly benefit women from the less privileged sections of our society. The fact that it will be run largely by women, will serve as an example that given the opportunity, women are capable of taking on challenging tasks."

The tagline of the Bank is 'Empowering Women' that signifies the laudable purpose for which the Bank has been set up.

Basic Features of the Bank :

- Bharatiya Mahila Bank or BMB is a full-fledged commercial bank opened in Public Sector category. It is headed by Ms. Usha Ananthasubramanian, eminent banker, as its Chairman and Managing Director.
- The Bank has a 8 member all Women Board which may be expanded up to 12.
- The Bank has started with an equity capital of ₹1,000 crores wholly owned by the Government of India.
- Mahila Bank with staff strength of 100 at the moment has drawn on a majority of cadre from state-run lenders. Besides, it has recruited 110 freshers in officer cadre. Almost 60% of these officials are women. The Bank will hire women preferentially.
- 7 branches across 7 states became operational on inauguration. The bank is headquartered in New Delhi with branches located in Kolkata, Chennai, Ahmedabad, Guwahati, Lucknow, Mumbai and Patna. The number would go up to 25 by the end of March 2014.
- Initial branches will be opened in State Capitals and Union Territories.
- The bank intends to fulfill its obligation of meeting 25 percent of its branches in rural and unbanked areas from the next fiscal.
- The bank will break-even in the next three to five years. Its total business - advances and deposits - will be ₹60,000 crore by 2020, when it will have a 770-strong branch network and it will be listed in due course.

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- It will design and offer special products for women, create more job opportunities for women and pay special attention to weaker and neglected sections of women. While every bank is supposed to do these, the fact is that they don't as they have other priorities and goals.
- One of the gender-related issues that the bank aims to address is the need for collateral when the title to property is not in the name of the woman borrower. In such cases, the owner of the property can become the co-borrower.
- While Men can open deposit accounts, the Bank will provide Credit predominantly to women.
- The Bank will support women entrepreneurs and self help groups.

Highlights of products offered by the Bank :

Higher interest on savings bank account : BMB announced savings bank account interest rate of 4.5% for deposits up to ₹1 lakh and 5% for balances above ₹1 lakh. Most public sector banks offer 4% while a number of private sector banks are providing 5-6% on the savings bank account.

Specialised products like kitchen loans : Women can borrow loans to redo their kitchen space, the place where most women spend most of their time, according to the Bank's Chairman and Managing Director. The loan can be availed for ₹50,000-7,00,000 at 2.5% above the bank's base rate.

Other special products include loans for setting up catering services and hygienic day-care centres for children of working women.

The bank also launched education loans of up to ₹10 lakh for girls with no processing charges.

Exclusive Women Banks in the World :

A few countries have experimented with the concept of setting up Banks exclusively for women. Pakistan was the first country to set up a women's bank - First Women Bank Ltd - in 1989. Late Prime Minister Benazir Bhutto established this to meet the needs of women entrepreneurs. Subsequently, the government's stake rose beyond 50%. It gives loans to those companies where women have at least 50% shareholding, or women employees constitute at least 40% of total employees or those that have a woman Chief Executive Officer (CEO). The First Women Bank Limited is an initiative by the Government of Pakistan for the welfare of female entrepreneurs. The main idea behind it was to improve the socio-economic life of women in Pakistan. It provides loans to female entrepreneurs, training & advisory services to better manage their business, and other market opportunities (International Labor Organization (ILO), 2003). The bank has about 60,000 women customers spread over 41 branches over 24 locations, with a majority in Karachi, its headquarters.

Tanzania Women's Bank is the second example. In 1999, a group of women entrepreneurs mooted the idea of the bank to then president Benjamin William Mkapa. It was set up in 2007, with the government holding 97% equity stake and private entities the rest, but it started business in July 2009. Based in Dar es Salaam, it focuses on low-income earners, small businesses and small and medium enterprises. Its name was changed to Tanzania Women's Bank Public Ltd Co. last year when the bank planned to raise money from the public and list its shares.

There is yet another global example of a special vehicle for women - Women's World Banking Ghana Savings and Loans Co. Ltd. Set up in 1998, it has seven branches in Ghana's Golden Triangle. It's an affiliate of the Women's World Banking global organization that has a network of microfinance institutions and banks working to help low-income entrepreneurs around the world.

Enat Bank inaugurated on 7th March, 2013 was initiated by some of Ethiopia's leading visionaries and business women. Enat Bank's founders created a bank that empowers women, while providing all clients with exemplary services. Ethiopia's Enat Bank - which means 'mother' in Amharic signifies their attitude to all clients. Enat Bank is for everyone with a special focus on reaching women. Enat's 11-person board of directors (6 women and 5 men) includes leaders from varied economic, social banking and other business backgrounds. Over 7,000 shareholders - 64% of whom are female - have already invested in Enat.

The Indian Experiments : In India, there have been a few co-operative banks that give loans to women borrowers. At least two co-operative organizations are run exclusively by women - the Ahmedabad based Shri Mahila Sewa Sahakari Bank Ltd and Mann Deshi Mahila Sahakari Bank Ltd. Both have a limited geographical presence. Established in 1974 with 4,000 members each contributing ₹10 as share capital, Sewa Bank now has 93,000 depositors. The Mann Deshi Mahila Sahakari Bank was founded in Satara district of Maharashtra by illiterate, rural women who won a hard-fought battle for a banking licence from the Reserve Bank of India. Since then, the bank has grown from start-up share capital worth US$15000 to assets worth US$ 470,459.32 in 2012-2013. Mann Deshi is proud of a repayment rate of 98% and has over 185,000 clients. The average age of clients is 36, and they live in households having at least two children and both in-laws. At the bank, their average monthly savings is around ₹75 ($1.88). Roughly one-half of Mann Deshi's clients are poor rural women who earn living as street vendors, vegetable vendors, milk vendors, weavers, wage laborers etc.

The sterling examples of SEWA and the several hundred self-help groups across the country tell that women are willing to take responsibility for financial decisions of their households, and given the right mentoring will pursue entrepreneurial ventures. From informal credit groups and chit funds to joint entrepreneurial ventures, women have drawn strength from working in groups. Their collection does not represent a preference to deal only with women, but to enable them to fight their battles better. These women benefit from organisations that are able to work with them at the grass root level, a task several NGOs, microfinance institutions, and business enterprises such as Amul and FAB India have accomplished over the years. The systems and structures in these organisations help women manage their earnings, profits, loans, and finance. It is not about these organisations being run by a man or a woman, but their acceptance that women can make financial decisions, has worked.

Since micro-credit could help women's economic empowerment, there is a need for government and other institutions to support creation of an enabling environment for the future development of the sector by removing institutional and regulatory obstacles. The establishment of BMB is a step forward in this direction.

Prospects and Challenges :

The purpose of BMB is laudable, the road map set up is ambitious, the prospects seem encouraging with total Government support and the challenge before the Bank is to tread the road map successfully.

The general banking scenario in India has become very dynamic now-a-days. For the purpose of assessment of performance of banks, the Reserve Bank of India categorise them as public sector banks, old private sector banks, new private sector banks and foreign banks. There are 27 banks in Public Sector, 19 banks in Private Sector and 36 Foreign Banks operating in India. Developing countries like India, still have a huge number of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are rising as the level of services are increasing due to the emergence of Information Technology and competition. Now, the existing situation has created various challenges and opportunity for Indian Commercial Banks.

Set with the objective of empowering women, the prospects and challenges for BMB will be unique and specific to the Bank. At the same time it has to face all the challenges in the current banking scenario encountered by commercial banks in general.

Empowerment is a process by which people take control of their lives or gain the ability to generate choices, exercise bargaining power, develop a sense of self-worth, and a belief in one's ability to secure desired changes (UN, 2001). Empowerment is seen as a process that enhances the ability of the poor to utilize available resources to transform their lives.

Applied to women as a segment or group, empowerment essentially means economic empowerment through financial independence. Economic empowerment aiming at enabling women to earn or having earning power by increasing women's access to micro-credit has the tendency to initiate a series of 'virtuous spirals' of economic empowerment, increased well-being for women and their families and on the wider scale, on social and political empowerment. Beyond increased opportunities and income, micro-credit programmes are believed to engender self-confidence and a culture of independence such that women are able to believe in their own agency to significantly improve upon their lives (Mayoux,1998).

Economic Empowerment of women can be done by encouraging micro credit on the one hand and promoting women entrepreneurship for self employment on the other.

The first major challenge for BMB, therefore, is empowering women through micro credit. It is noteworthy that generally the relationship that has been existing between men and women has been that of dependency where men have more control than women. This dependence relationship makes women less assertive and less influential when it comes to taking decisions and/or taking financial risks due to lack of the purchasing power. It is, therefore, theorized that if micro-credit is made available to women it would produce economic changes which in turn, would stir up other changes towards the general empowerment of women.

According to Ackerly (1995), credit by definition is a liability and, therefore, in order for it to be empowering it must be a means to generate income. Hence, Bharatiya Mahila Bank is not only to provide but also to ensure productive use of micro credit that would translate it to empowerment. A study of Grameen Bank suggested that women participants in credit programmes were more conscious of their rights, better able to resolve conflicts, and have more control over decision making at the household and community levels (Chen, 1992)

Micro-credit schemes may take three different forms or a composite of all the three forms namely, the capacity building approach, the channelling approach and the institutional approach. The capacity building approach focuses on the very poor, the landless, the powerless, the voiceless or the 'assetless', especially women. The aim is to raise awareness, organise the clients and build their confidence to enable them believe in their own ability to transform their lives and to develop savings culture.

The channelling approach may be used by rural banks and non-governmental organisations to assist the 'not-so-poor' or productive poor. These groups may have the courage to take some minor risks but may lack financial support because of the lack of collateral security. In this case, the function of the scheme could be limited to credit intermediation, extension and peer-pressure.

The institutional approach is more embracing and may be used in places where there are no financial institutions. In this environment, poor women especially could be helped through the institutional approach where they are given the opportunity to mobilise their own savings through the group formation and linking them up with a financial institution. The SHG Bank linkage programme is based on this approach.

Table-1 : Highlights of the SHG-Bank Linkage Programme 2012-13

Particulars	Achievement	
	No. in Lakhs	**Amt. in Crores (₹)**
Total number of SHGs saving linked with banks	73.18	8,217.25
Out of total (of which) exclusive Women SHGs	59.38 (80%)	6,514.87 (79%)
Total number of SHGs credit linked during 2012-13	12.20	20,585.36
Out of total (of which) exclusive Women SHGs	10.37 (85%)	17,854.31 (87%)
Total number of SHGs having loans outstanding as on 31 March 2013	44.51	39,375.30
Out of total (of which) exclusive Women SHGs	37.57 (84%)	32,840.04 (83%)
NPA as on 31.03.2013		2,787 (7.08%)
Source : NABARD Report 2012-13		

Considering more than 80% share of WSHG (Women Self Help Groups) in SHG Bank linkage programme as is evident from Table-1, BMB has to adopt a combination approach to micro credit which essentially involves capacity building of women self help groups, providing credit to micro enterprises set by women as well as the institutional linkage approach adopted by Commercial Banks.

The second major challenge for BMB is to encourage women entrepreneurs by giving financial support to start or expand an activity. “The word entrepreneur is derived from the French verb enterprendre that means to undertake”. Schumpeter (1934) described the entrepreneur as “the innovator who introduces something new into an economy”. We can define an entrepreneur as “……One who undertakes a commercial enterprise and who is an organisational creator and innovator”.

“Female entrepreneurs are defined as those who use their knowledge and resources to develop or create new business opportunities, who are actively involved in managing their businesses, and own at least 50 per cent of the business and have been in operation for longer than a year”

Factors affecting Women entrepreneurship :

Personal factors like self fulfillment and achievement are motivational factors for females across the globe. One significant factor contributing to this is the status of females in society, especially in the developing world. Their leadership role is discouraged; they are considered subservient to males. They come to business because they want to prove themselves to others, including family members. With the world becoming a global village, many women even in remote and far-flung places are becoming exposed to the idea of financial independence as a route to empowerment.

We cannot deny the importance of financial factors while pursuing an entrepreneurial activity. Supporting the family income and raising their standard of living are also contributory motivational factors in female entrepreneurship. In lower-income classes, female entrepreneurship may be due to the need to meet family expenses, while among middle-income groups it can be attributed to the desire to raise the standard of living.

Stereotyping haunts female entrepreneurs - they complain about the discouraging attitude of financial institutions towards them. In most cases female do not possess personal assets and are unable to offer any collateral. This gives rise to a vicious cycle where women are unable to secure the initial funding to get started on their path to start an entrepreneurial venture - hence leading to a lack of opportunities for women to gain financial independence.

Psychological factors like the fear of failure impacts the performance of entrepreneurial females. A study of the literature, however, shows that this is not the case with all female entrepreneurs; some of them love a challenge and like to take on risks.

Lack of education is another prime characteristic that discourages female entrepreneurs. Evidence from a study carried out in Nigeria declared this constraint to be high priority because it triggers further problems - lack of education seems to be the root cause due to which females have a greater fear of failure and lack of knowledge regarding financial resources and information along with a lack of awareness regarding the different opportunities available.

Female entrepreneurs also lack managerial skills. These females have less knowledge about market conditions and lack basic training to run a business venture.

The job-market situation also poses threats to females and they may become entrepreneurs to find more opportunities. In some cases, it has also been observed that females become self-employed because there is no paid employment available for them and self-employment is their last resort.

Lack of governmental support and related issues have also created problems for female entrepreneurs. An Ethiopian study pointed out that although a government may devise different strategies and plans for female entrepreneurs, there is a gap between the announcement and the implementation of these plans (Singh and Belwal, 2008). The same study identified heavy tax rates, corrupt officials, bribery and slow official procedures as additional concerns.

Even in developed countries, governments may not be very successful in properly advertising their plans to female entrepreneurs.

Taking these factors into consideration BMB can not remain idle just by providing financial support to women entrepreneurs. The Bank has to play the role of enabler of women entrepreneurship by ensuring the viability of the unit by arranging for essential training, expert guidance and support. It has to act like a partner in ventures taken up by women entrepreneurs.

As the issue of absence of collateral property in the name of women and resultant high risk of the loan turning NPA, the Bank has to carefully design the loan product to address the issue.

The Bank is not envisaged as a mere support venture for empowering women, it has been set up as a commercial bank to play at par in the dynamic field of banking in India and has to sustain itself by booking quality business and making profit.

Along with the special challenge it has to face in its effort to meet rising expectation of women from rural as well as urban India, it also has to successfully address challenges faced by Banks in general like adhering to Basel III, Capital adequacy norms, risk management, financial inclusion, innovating variety of financial services equipped with technology, customer expectation, Service quality management, Human Resource Management issues, NPA Management and market competition.

Financial inclusion : India remains one of the largest and most active financial inclusion markets in the world. India is also participating in the G20's Global Partnership on Financial Inclusion. The 2011 Findex data reports that one in three adult Indians has a bank account, a figure higher than many low-income countries though it also indicates how much more work remains to be done. In recent years there is excitement about banks using Business Correspondents (banking agents) an approach with enormous potential. However, the BC approach is still new and unproven in the Indian environment. The diversity of providers and delivery approaches in India is laudable, unbanked and underserved people need access to a portfolio of financial services to smooth consumption, build assets, and mitigate and manage risk. An ecosystem of providers ranging from insurance companies, MFIs, BCs, commercial banks, and SHGs will be needed in order to offer the payments, savings, credit, insurance and pension services to low income people need over their lifetimes.

A dynamic Indian financial inclusion landscape will require even more investment in research and development - to creatively source new insights about actual and potential clients, and move to translate this knowledge into a more robust and responsive offering.

BMB, as it will take some time for it to open rural branches to expand its reach, besides BC / BF model it may explore tie up with other service providers in the area for financial inclusion. It also has to take steps to educate people for financial Literacy to promote financial inclusion.

Management of Risks : Researchers found that Indian banks' risk management capabilities have been improving over time. Returns on the banks' stocks appeared to be sensitive to risk management capability of banks. The study suggests that banks that want to enhance shareholder wealth will have to focus on successfully managing various risks.

BMB has started attracting funds with higher rates of interest in savings bank accounts. It has to plan the investment of these funds carefully to have a balanced risk portfolio. Ensuring quality advance is a major step towards this goal of healthy risk management and generating steady flow of income for the Bank. As the bank starts with zero NPA being a new player, it should strive to maintain this status by incorporating robust credit risk management measures. As in many cases male members of the family do business in the name of women, the Bank has to put in place proper checks to guard against such eventualities. Similarly, women shift their residence after marriage, proper KYC has to be done to locate them after marriage for follow up and recovery of loans.

Market Discipline and Transparency : Transparency and disclosure norms as part of internationally accepted Corporate Governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad, operating and profitability indicators, the total investments made in the equity shares, units of mutual funds, bonds, debentures, aggregate advances against shares and so on. BMB has to adhere to these norms.

Competition : Banking in India is generally fairly mature in terms of supply, product range and reach with a number of Public Sector Banks, Private Sector Banks, Foreign Banks and Regional Rural Banks operating in the field. The opening up of Banking Industry to private and foreign players has raised the standard and quality of product innovation and services offered. BMB has the advantage of starting as a tech-savvy core banking enabled bank, the challenge before it is the service quality management and innovation of products to meet the expectation of its focused target group i.e., women. In many places, private and public sector banks have started opening women-only branches, fearing their women customers will leave them once this bank opens its branch nearby. Bharatiya Mahila Bank has to face increasing competition from banks while trying to attract women customers.

Customer Acquisition, Retention and Growth : The biggest challenge for banking industry is to serve the mass market of India. The better we understand our customers, the more successful we will be in meeting their needs. One of the major challenges for BMB will be customer acquisition, retention and increase in customer base. It has to design its products carefully keeping in eye the special needs of its target group. The kitchen Loan offered by it is a step in right direction. But it has to prepare itself for competitive advantage in this field as other banks are likely to offer similar products sooner or later to retain their women customers.

Human Resource Management

Motivating and retaining employees will be one of the major challenges for BMB. The Grameen Bank of Bangladesh, a pioneer microfinance institution, for instance required that a Branch Manager possessed a Masters Degree for effective monitoring and implementation at the branch level. Furthermore, there is the need to train a number of grass-root (preferably female) workers who would be willing to work with the poor in their social mobilization and advise them on their economic activities. BMB's lateral recruitment from other banks and selection of mostly women officers tries to address this issue. It also has to carefully plan a sound women friendly HR policy keeping in mind the family responsibility that women have to undertake in the Indian society so as to attract and retain women employees.

NPA Management : The steady increase in the NPA against loans to SHGs continued unabated during the current year. Overall NPA against loans to SHGs increased by 26% to ₹2,787 crore by March 2013 against ₹2,213 crore a year earlier. In percentage terms NPA (gross) increased from 6.09% last year to 7.08% during the current year. This is certainly an alarming situation considering the fact that the percentage of NPA loans was only 2.9% during 2009-10 whereas it crossed 7% during this year. (Table-1)

Against this back drop, BMB has to be extra careful not to create any NPA portfolio. The experience of 'The First Women Bank Ltd" of Pakistan has not been very encouraging in this regard as it has to set aside 166 million Pakistani rupees for bad loans and consequently , in the first nine months of 2013, reported losses of around 158 million Pakistani rupees. BMB has to learn from the mistakes of similar banks in the field, take due notice of various challenges it has to face, short term and long term, and devise a road map for sustainable growth with zero NPA.

Social and Ethical Aspects

Banks these days have to proactively undertake the responsibility to bear the social and ethical aspects of banking under Corporate Social Responsibility (CSR). The triple principle of profit-people-planet poses challenge for new banks like BMB who have to meet the CSR criteria set up by the Government like any other bank.

Conclusion :

The Self-Help Groups (SHGs) - an intermediary between the banking system and borrowers - and the microfinance movement in India are being driven by women. Women play a critical role on this turf as they are more responsible and disciplined in dealing with money than their men folk. Bharatiya Mahila Bank wants to lend exclusively to women while it is open to the idea of taking deposits from men as well. But as a Commercial Universal Bank it cannot remain limited to the WSHG movement. It has to design products for urban middle class women as well as the elite women to diversify its portfolio. It has to address the needs of working women, business women, women industrialists and agriculturists etc. in rural as well as urban India. It has to plan its road map carefully to transform itself into most preferred Bank for women in India.

Sceptics caution that segregating women into separate spaces is easy; giving them real equality is far more difficult. The Bharatiya Mahila Bank has started operations with eminent ladies as directors in its all women board. With their knowledge and experience they are quite capable to devise policies and design strategies which actually lead to empowerment of women across all stratas, sectors and segments. An inclusive growth is the challenge and the goal of BMB. The responsibility lies in the able hand of its Board to carefully steer the Bank towards this goal steadily and effectively empowering women in the process economically, socially and above all personally to transform this "Half of India" into strong and equal partners in the socio-economic progress of the country.

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Impact of Local Area Banks

Tapas Kumar Parida *

SECTION - 1 : INTRODUCTION

The Banking Industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. So, banking in India has been through a long journey and has also achieved a new height with the changing times. Technology in banking has brought a revolution in the industry as a whole, whether it is in operations (Core Banking) or in product delivery (ATM, internet banking & mobile banking etc.). However, with the changing dynamics, banking business brings new kind of risk exposures in operations, like market risk, operational risk etc.

Despite a plethora of products & services offered by banks and Financial Institutions (FIs) operating in India, there is around 60% of the total population having no access to any type of financial services. So, both the Government and RBI has taken number of initiatives to bring all the population into the banking purview and provide different facilities such as direct cash transfer, micro insurance, micro pension (Swavalamban) etc. These initiatives are taken in the country to achieve an indepth, as well as a stable financial system, with a wider distribution and access of financial services, which will help both the consumers and producers to raise their welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and more importantly, insure themselves against income shocks and emergencies. In comparison to other countries, India needs to travel a long way to achieve inclusive growth in the country.

This paper is structured in five sections. In Section II, a brief overview of 'The Indian Banking Structure' and 'What is the need for new banks in the sectors?' has been discussed. In Section III, status of Local area Banks (LABs) has been analysed in detail. The financial performance of the LABs is also discussed. In Section IV, a case study on 'Capital Local Area Bank' sketched, which accounts to 72% of the all assets of the total LABs in India. In the next Section, a review of 'Report of the Review Group on the working of the Local Area Bank Scheme, 2002' is outlined and finally, last but not the least, we have outlined our observations and future road map for these small banks in India.

SECTION - 2 : STRUCTURE OF INDIAN BANKING SYSTEM

The Indian Banking System is known to the world over for its robustness and also plays a dynamic role in the economic development of the country. The growth story of an economy depends on the robustness of its banking industry. Banks act as the store as well as the power house of the country's wealth. They accept deposits from individuals & corporates and lend to the businesses. They use the deposits collected for productive purposes which help in the capital formation of the country. In India, historically, commercial banks were held by private business houses. However, after 1951, the Government of India adopted economic development of the country through the 5 year plans. It was observed that commercial banks lagged in attaining the social objectives and failed to cater to the credit needs of poorer sections of society, such as farmers, craftsmen, etc. and to the credit needs of small and cottage industries. With a view to enhance credit to the needy sectors, Government of India nationalised 14 major commercial banks in 1969 and further 6 more banks in 1980.

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Again, after the Balance of Payment Crisis, 1991, Government adopted liberalisation policies to suit the requirements of a liberalised economy. The banking sector reform became inevitable to accelerate the pace of reforms to usher in a vibrant and competitive economy. An expert Committee under the Chairmanship of Shri M. Narasimham (former Governor of RBI) was set up for spearheading the financial sector reforms in India. The Narasimham Committee (Committee on Financial Sector Reforms, 1991) *inter alia*, recommended opening up of the banking sector to the private entrepreneurs to bring in competition and efficiency, thereby paving the way for licensing of new commercial banks in the private sector. Since then, the RBI has licensed 10 banks in the private sector in 1993-94, and 2 more in 2002-04 under the guidelines framed in 1993 and 2001 respectively.

Table-1 : Structure of India's Banking Sector, 2012-13

Bank Category	No of Banks	Assets (₹ Bn)	% of Total Assets	
			FY13	FY12
Public Sector	**26**	**69,620**	**73%**	**73%**
SBI and Group	6	20,657	22%	21%
Nationalised Banks	20	48,962	51%	51%
Private Sector Banks	**20**	**19,898**	**21%**	**20%**
Old Private Banks	13	4,447	5%	5%
New Private Banks	7	15,451	16%	16%
Foreign Banks	**43**	**6,216**	**6%**	**7%**
Total	**89**	**95,733**	**100%**	**100%**

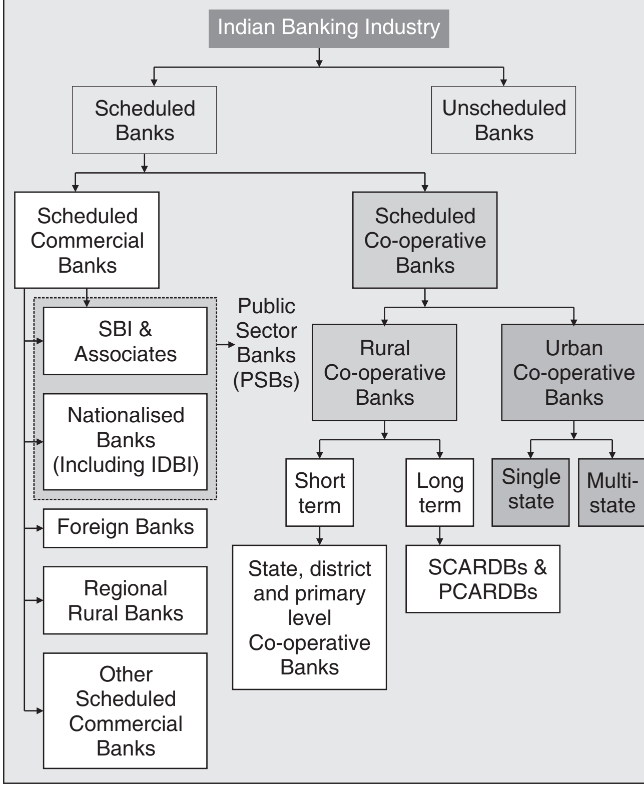
Source : Statistical Tables Relating to Banks of India, RBI

The RBI is the central Bank which regulates the functioning of all banks operating within the country. As on March 31, 2013, there are 157 commercial banks [26 public sector banks, 20 private sector banks, 43 foreign banks, 64 RRBs and 4 Local Area Banks (LABs)]. The LABs are private non-scheduled banks, which are functioning since 1999 (refer Exhibit-1).

2.1 Need for New Banks in the Private Sector in India

The Indian financial system has made impressive strides in resource mobilisation, geographical and functional reach, financial viability, profitability and competitiveness, since nationalisation of banks in 1969 and liberalisation of economic policies since early 1990s. With the penetration of banks into the nook and corner of the country, the average population per branch has declined from 63,800 in 1969 (as per 1961 census) to about a fifth of that number, 12,000 in 2013 (as per 2001 census).

Exhibit - 1 : Present Structure of Indian Banking Industry



Notwithstanding the vast network of branches (1,05,750 as on March 2013), a sizeable segment of population, especially the underprivileged sections of the society, have no access to formal banking services. There still exists a gap between the ever increasing demands for financial services of a growing economy and the available banking network to cater to the needs of the vast areas, which are unbanked or under-banked even today. Despite the progress made over the years since nationalisation of banks in 1969, the problem of financial exclusion is staggering. According to the findings of World Bank Global Findex Survey 2012, only 35% of Indian adults had access to formal bank account and just 8% borrowed formally. Only 2% of adult population used bank accounts to receive money (remittances) from members of family living elsewhere and 4% received payments from the Government.

Table-2 : Indicators of Financial Inclusion in India								
	1969	**1980**	**1991**	**2000**	**2010**	**2011**	**2012**	**2013**
Number of Commercial Banks	89	154	272	298	169	169	173	157
Number of Bank Offices (include admin offices)	8,262	34,594	60,570	67,868	88,203	94,019	1,01,261	1,04,647
of which Rural & Semi-Urban bank offices	5,172	23,227	46,550	47,693	53,551	57,167	62,061	66,273
Number of Branches	8,262	32,419	60,220	65,412	88,441	93,799	99,884	1,05,750
Number of ATMs	-	-	-	-	60,153	74,505	95,686	1,14,014
Population per Branch	63,800	19,137	14,054	15,515	14,000	13,466	12,921	12,000
Population per ATM	-	-	-	-	19,700	16,243	11,236	-
People having Deposit Accounts (%)	-	-	-	-	55.80	61.20	74.6	-
People having Credit Accounts (%)	-	-	-	-	9.30	9.90	10.8	-
People having Credit Cards (%)	-	-	-	-	1.53	1.49	1.5	-
People having Debit Cards (%)	-	-	-	-	15.20	18.80	22.9	-
Credit-GDP Ratio (%)	8.6	17.6	20.4	22.3	50.2	51.4	52.1	52.4
Credit-Deposit (%)	78.3	67.8	60.4	53.6	72.2	75.7	78.0	78.1
Deposits (% of National Income)	16	36	48	54	69	67	66	67
Per capita Deposits (₹)	88	738	2,368	8,542	38,062	43,034	48,732	55,780
Per capita Credit (₹)	68	457	1,434	4,555	27,489	32,574	38,033	43,468
Priority Sector Advances (%)	15	37	39	35	35.6	34.5	32.9	31.6
Branches per 1000 Square km	-	-	-	21.9	25.49	26	30.4	-
Insurance Coverage (%)	-	0.8	0.9	2.3	5.2	5.1	4.1	-
Pension Coverage (%)	-	-	-	-	-	12	13	-
Source : Reserve Bank of India, Note : '-' indicates figures not available								

Of the 600,000 rural habitations in the country, only about 40,000 had been covered by the presence of brick and mortar branches of banks. With regard to the financial access and penetration, India ranks low compared with OECD countries. As of 2009, India had 6.33 branches per 100,000 persons whereas OECD countries provided 23-45 branches per 100,000 persons.

Table-3 : Currency Component in M3	
Year	**Currency Component**
1971	39.6%
1981	24.1%
1991	19.9%
2001	15.9%
2005	15.8%
2010	13.7%
2013	13.6%
Source : RBI.	

It is well known that financial inclusion helps us in two ways : (i) increase in saving habits amongst majority of the population thereby creating investible funds necessary for growth and (ii) reducing cash dependence in the economy. We have carried out data analysis for the period of 40-years beginning from 1971-72 to 2011-12 and it reveals that the number of Savings Bank Accounts with banks increased manifold from 34.9 million to 903.2 million *vis-a-vis* increase in population from 554 million to 1,202 million in the same period. Interestingly, the percentage of population not having access to formal banking facilities or to be more precise not having Savings Bank Account with bank was very high at 94% in 1972 which fell significantly to 24.9% in 2012. Taking banking to rural masses has also helped in bringing down cash component in the economy from 39.6% in 1971 to 24.1% in 1981 and further to 13.6% in March 2013. With rapid financial inclusion, we expect the cash component in broad money supply to decline in India in line with developed countries like UK (2%), Australia (3%), and Japan (6%) on a going forward basis.

Table-4 : Currency Component in Money Supply : Cross Country				
India	**UK**	**Australia**	**Japan**	**Euro-zone**
13.6%	2.0%	3.0%	6.0%	9.0%
Source : IMF				

The Indian banks have implemented Basel III capital norms w.e.f. 1st April, 2013 and broad estimates suggests that the full implementation by end-March 2018[1] would require common equity of ₹1.5 trillion on top of internal accruals, in addition to ₹2.7 trillion in the form of non-equity capital for the PSBs. PSBs constitutes 73% of the total banking assets in India, so further expansion of these banks into new areas would depend on the ability and willingness of the Government to infuse capital, as it holds a majority (around 71% and minimum 51%) of share capital.

The data shows that there is a lot to do to have 100% inclusion with inclusive growth in the country. So, there is a need for new banks with inclusion as a primary objective, despite stretching of the resources of the existing banks to fill the gap.

SECTION - 3 : LOCAL AREA BANKS (LABs) IN INDIA

3.1 Structure & Functioning of LABs

The primary objective of the LABs was to mobilize rural savings and make them available for investment in the local area of operation of such banks. The LABs were expected to bridge the gap in credit availability and strengthen the institutional credit framework in the rural and semi-urban areas and provide efficient and competitive financial intermediation services in their area of operation. The area of operation of LAB was restricted to a maximum of three geographically contiguous districts and only one urban centre per District and rest of the branches were allowed to be opened in the rural and semi urban centers subject to requisite clearance in respect of rural branches from the District Consultative Committee for the concerned districts.

The LABs were also required to finance 'priority sector' that included agriculture and allied activities, trading activities, non-farm sector and cottage & village industries and small scale industries. Their lending to priority sector consisting of the above activities was to be minimum 40% of their net bank credit and lending to weaker section was to be at least 25% of their priority sector lending (10% of net bank credit). Thus, the need for local area banks was felt strongly to extend financial services to cover vast number of poor people particularly in rural areas.

The minimum start-up capital of a LAB was fixed at ₹5 crore. The promoters of these banks were required to bring in the entire minimum share capital up-front. It was also decided that a family among the promoter group could hold equity not exceeding 40% of the paid-up capital. The NRI contributions to the equity of the bank were not to exceed 40% of the paid-up capital. The entire initial capital subscribed by the promoters (including their friends and relatives / associates) would carry a lock in period of 3-years from the date of licensing of the bank. Further, the promoters' equity to the extent of 40% of the initial paid-up capital was to be locked in at least for 2-years beyond the aforesaid period of three years subject to review before expiry of five years from the date of licensing of the bank. The bank is required to maintain capital adequacy at 8% of risk weighted assets and comply with the norms of income recognition, asset classification and provisioning.

The banks need to be registered as a public limited company under the Companies Act. LABs are licensed under the Banking Regulation Act, 1949 and would be eligible for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934 subject to the fulfilment of the eligibility criteria laid down in Section 42(6) of the said Act. However, in regard to liquidity requirements and interest rates, such banks would be governed by the provisions applicable to the Regional Rural Banks (RRBs) established under the Regional Rural Banks Act, 1976.

The regulatory responsibility over the LABs vests with Rural Planning and Credit Department (RPCD) of the RBI. The RPCD issues licence for these banks as per the provisions of Section 22 of the Banking Regulation Act, 1949 and grants permission for opening of branches at new places of business as per the provisions of Section 23 of the Act. The financial health of the LABs is monitored through off-site returns and other statements required to be submitted by these banks. The appointment of the CEO and the Chairman of the LAB requires clearance of the RBI as per the provisions of Section 10B of the Banking Regulation Act, 1949, read with Section 35B of the Act. The remuneration of the CEO also requires prior

1. Now Extended upto March 31, 2019.

approval of the RBI. The composition of the Board of these banks is to be in accordance with the provisions of Section 10A of the Banking Regulation Act, 1949. As LABs are commercial banks in the private sector, banking policies as applicable to commercial banks are made applicable to them except where these pertain to areas of business which LABs are not permitted to undertake.

3.2 Financial Performance of LABs

The table 5 elucidates that among the 4-LABs, Capital LAB is the biggest, which holds around 72% of market share in total assets and which performed very well in the last 5-years with a CAGR growth of 20%. However, the Subhadra LAB holds a meagre share in assets / advances / deposits.

In total, the profitability of LABs at the aggregate level measured by Net Profit has been stagnant in the last three years. This may be due to economic slowdown or high interest rate or competition of funds. Also, in terms of efficiency, measured by NIM, the LABs are doing much ahead of the SCBs.

SECTION - 4 : CASE STUDY : 'THE CAPITAL LAB'

The Capital Local Area Bank Ltd. was established on January 14, 2000 with its head-quarters at Phagwara operating in 3 adjunct districts of Punjab : Kapurthala, Hoshiarpur and Jalandhar. The Bank pioneered in bringing modern banking facilities to the rural areas at a low cost. In line with the objective for which the LABs have been set up, the Bank focussed on promoting Financial Inclusion in the area of operation since inception by providing easy access to the masses to banking services. The aim of the Bank is to provide credit for viable economic activities and deploy funds only in the area of operation. It has achieved highest Credit Deposit Ratio and has become a role model Banking Institution for economic development of the area.

Table-5 : Profile of Local Area Banks (₹ in Billion)

Name of LAB	Assets			Deposits			Advances		
	Mar-2013	3Y CAGR	5Y CAGR	Mar-2013	3Y CAGR	5Y CAGR	Mar-2013	3Y CAGR	5Y CAGR
Capital LAB	11.4 (72.3)	23.3	20.0	9.78 (74.8)	22.9	20.7	6.06 (67.1)	20.1	19.6
Coastal LAB	2.21 (14.0)	18.3	21.9	1.74 (13.3)	19.4	24.3	1.56 (17.3)	24.9	28.6
Krishna Bhima	1.44 (9.1)	2.2	9.8	1.15 (8.8)	11.2	19.7	0.96 (10.6)	4.4	10.7
Subhadra LAB	0.72 (4.5)	8.6	16.6	0.41 (3.1)	9.8	11.0	0.45 (5.0)	11.8	18.3
All LAB	15.8	19.3	19.0	13.1	20.7	20.7	9.0	18.4	19.8

Source : RBI, Figures in parentheses indicate percentage share in total

Table-6 : Performance of LABs

Year	Net Profit (₹ Billion)	Total Assets (₹ Billion)	Net Interest Margin (NIM %)
2001-02	0.03	1.19	4.10
2002-03	0.00	1.46	3.40
2003-04	0.00	1.87	3.40
2004-05	0.01	2.53	-
2005-06	0.03	3.63	3.70
2006-07	0.06	4.96	3.80
2007-08	0.10	6.54	3.80
2008-09	0.14	7.87	4.60
2009-10	0.13	9.46	4.00
2010-11	0.20	11.10	5.10
2011-12	0.20	13.60	4.90
2012-13	0.20	15.80	4.60

Source : RBI, -: NA

In the last 13 years, the bank has performed excellently in all spheres. The bank has been operating with a total of 30 branches (14-rural, 12-semi urban and 4-urban) and RBI in Jan'13 has accorded the approval for expansion of area of operation of the Bank to two more Districts of Ludhiana and Amritsar in Punjab. This expansion will go a long way for the overall growth of the Bank. The Bank is in the process of opening five new branches with one each in Ludhiana and Amritsar cities.

Table-7 : Districts wise ASCB Deposits, Advances (₹ in Billion) & C-D Ratio of Punjab				
Districts	Offices	Deposits	Advances	C-D Ratio
Amritsar	**421**	**200.1**	**94.1**	**47.0**
Hoshiarpur	267	137.7	35.9	26.1
Jalandhar	589	357.9	119.5	33.4
Kapurthala	199	104.5	31.1	29.7
Ludhiana	**656**	**342.2**	**575.4**	**168.2**
Punjab State	4625	2006.8	1625.5	81.0
Source : RBI.				

Table-8 : Performance of Capital LABs				
	FY13	FY12	FY11	FY10
Advances (₹ Crore)	603.2	516.3	418.7	347.0
Deposits (₹ Crore)	977.8	819.7	647.9	531.9
Assets (₹ Crore)	1,140.0	967.0	750.0	651.0
Net Worth (₹ Crore)	71.3	61.8	54.1	46.4
Net Profit (₹ Crore)	12.5	10.6	10.4	7.4
Capital Adequacy Ratio	15.6	15.7	15.6	16.3
EPS* (₹)	8.0	6.8	6.6	4.7
Total Branches (Nos.)	30	24	21	16
Rural (Nos.)	14	13	11	9
Semi urban (Nos.)	12	9	8	5
Urban (Nos.)	4	2	2	2
*Source : Capital LAB, *annualized*				

In our view, RBI's approval to Capital LAB to expand operation in Ludhiana and Amritsar in Punjab may not achieve the objective of establishing LABs. The table-7, figures that Ludhiana is already concentrated with a large number of commercial banks, which have 656 offices with a CD ratio of 168%. Opening LAB in this districts may not help the rural / urban poor. However, it may help the bank to get good business, as Ludhiana is a commercial hub of the state.

The total business of the Bank as on Mar'13 is ₹15.8 billion (Deposits ₹9.78 billion and Advances : ₹6.06 billion), with a satisfied customer base of more than 2,09,000. The bank has been showing profit since inception and posted a profit of ₹12.5 crore for the year ended March 31, 2013. The Bank has more than 80% of its business in rural and semi urban areas with credit exposure of more than 32% in Agriculture. Exposure to Micro and Small Enterprises constitutes 16% of Net Bank Credit. The tremendous performance of the Bank is evident from the fact that most of its rural and semi-urban branches have become the largest credit branches in their respective areas in this short span.

Going ahead with the national agenda to provide banking services in every unbanked village having population of 2000 and above, the Bank has voluntarily adopted 10 villages in the first phase out of 178 such villages identified in the area of operation of the Bank. The Bank has taken the lead in its area of operation with extension of Banking Services in these centers through Business Correspondent Model by opening 10 Suvidha Kendras (Brick & Mortar BC outlets) as against only 1 unbanked village allocated by SLBC. In a short span, the Bank has been able to generate a total business of ₹71.91 crores through these 'Suvidha Kendras' by opening 13,059 numbers of accounts. The 'No-Frill Accounts' of the Bank constitute 25% of the total Savings Bank accounts of the Bank.

Thus, the performance of Capital LAB is notable in its area of operation, where around 517 branches of SCBs are also operating. The total business of the Bank is continuously increasing, though profits remain stagnant in the last 3-years. The Bank has been adhering to all prudential norms of the regulator and also has a good brand value in Punjab.

SECTION - 5 : RECOMMENDATIONS OF THE RBI REVIEW COMMITTEE, 2002

Keeping the objectives of LABs in view, RBI's Review Group (2002) has recommended the following :

- Capital Base : LABs with their present capital base of ₹5 crore cannot become viable institutions. The existing LABs should be asked to reach a net worth of at least ₹25 crore over a period of five years.
- Capital adequacy : The committee proposed a net worth of ₹25 crore and capital adequacy norm of 15% which would enable the LAB to build an asset base of about ₹150 crore, a level at which their operations would become viable.
- Trading in securities : Considering the risks involved, the LABs should be prohibited from trading in Securities market for the initial years of operations.

- Engagement of agents : LABs should not be permitted to engage the services of agents and quasi agents for achieving their business outreach.
- Scheduling of LABs : Scheduling of the LABs may be considered after they have reached higher capital and capital adequacy and after watching their performance.
- Refinance : The absence of refinancing facility places the LABs under a serious handicap both in managing maturity mismatch and in their ability to lend at finer rates. We therefore suggest that though a LAB may not be "scheduled," it should not be denied access to refinance for its term lendings from NABARD and SIDBI. However, as a precautionary measure, the committee suggested that refinance should be permitted only in respect of such loans where at least one instalment repayable has been recovered by the LAB.
- Branch Expansion : To enable the LABs to expand their business and attain viability, the committee has recommend that after LABs have opened a certain minimum rural / semi urban branches, they could be licensed to open more urban branches. A ratio of one urban branch to 10 rural / semi urban branches will perhaps be appropriate. While the first urban branch may be allowed to be opened at any time, the second urban branch should be permitted to be opened only after 20 rural / semi urban branches have been opened by the LAB concerned.
- Regulation & Supervision : The LABs need to be treated like any other commercial bank and, therefore, regulation and supervision should be entrusted to the same wing of the RBI which is responsible for the Regulation and Supervision of the commercial banks. The Rural Planning and Credit Department (RPCD) of RBI should be relieved of its responsibility of regulating the LABs.

SECTION - 6 : CONCLUDING OBSERVATIONS & FUTURE ROADMAP

Local Area Bank is an innovative way to tap the local market. This would create a sense of ownership and trust among the local area residents as the bank and its headquarters are located within their reach. This will also mobilize the money struck in those areas where people do not avail banking facilities. On the other hand, honesty of small promoters as well as profitability of such small banks given a high fixed cost might be a question and issue of concern. However, after the Lehman Brothers' crisis and many more, it is well evident that size has got no linkage with honesty.

In our view, there are a number of issues pertaining to the operations of the LABs which needs to be addressed :

- Firstly, small banks pose less threat to systemic stability given their limited-area of operations with little financial interconnectedness. However, smaller banks should be promoted only after putting in place adequate safeguards in the form of corporate governance and a stronger resolution framework to handle the possibility of higher mortality.
- Secondly, the nature of capital requirements and exposure norms and supervisory framework for local banks and a viable business model. These small banks should not compete with the SCBs and they should have different business models.
- Thirdly, for competition of business with nationalized banks and private sector banks which are operating in the same centres / areas, the operation area needs to defined, with a view that LABs should not compete with the SCBs.
- Fourthly, LABs remain a miniscule portion of the entire banking system (0.02% of the asset size of SCBs), with considerable concentration of the banking business in one LAB of the four LABs, Capital Local Area Bank accounting for 72% of the total assets of all four LABs. So, there is a need to review the operations of LABs and if possible, give licence to a few number of strong localised banks and consolidate the weaker LABs.
- Fifth, contrary to the recommendations of the RBI Review Group of 2002 which looked into the working of LABs, no LAB except the Capital Local Area Bank could step up its net worth to ₹25 crore to improve financial soundness.

- To conclude that LABs have made a great contribution towards the improvement of the local communities amongst whom they are functioning. There is a need to increase the capital base and also support in capital infusion for their expansion and growth in rural areas.

6.1 Future Roadmap for LABs

Recently, RBI has brought out a discussion paper on 'The Banking Structure in India : The Way Forward' which has recommended creation of more number of smaller banks in the private sector with the objective of achieving financial inclusion at the local level. In past also, similar recommendations of the Committee on Financial Inclusion (Rangarajan, 2008) as well as the Committee on Financial Sector Reforms (Raghuram Rajan, 2009), put forward the idea that such small localised banks have a pivotal role to play in financial inclusion and that this must be revisited as an important policy imperative. However, in a country like India with a large and diverse population, there is a need for multiple approaches to financial inclusion and hence the localised financial institution is clearly a feasible approach.

In US also, there are about 7,000 small community banks with asset size ranging from less than $10 million to $10 billion or more. They account for about 46% of all small loans to businesses and farms and in terms of the number. They constitute about 92% of the all the Federal Deposit Insurance Corporation (FDIC) insured institutions. In India also, the small banks (LABs, RRBs and co-operative banks) have showed their promise for rural growth and upliftment of the poor sections of the society by providing different type of advances and support. However, these banks can be experimented on a larger scale in future, with clear defined area of operations. .

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Proposed New Banks and Their Role

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Introduction

The evolution of banking sector in India is remarkable. The banking system in India, evolved over several decades, has been serving the credit and banking services need of the economy. There are several streams in today's banking sector to cater to the needs of the different segment of population.

The financial sector especially banking sector contributed to economic growth and development through mobilisation of savings and providing credit to necessary sector. Financial sector reforms that started from 1991 led to tremendous growth of the Indian banking system. RBI regulations ensured that the financial soundness of the Indian commercial banking system compares favourably with most of the advanced and emerging countries.

Even though banking system progressed, still a lot more needs to be done to cater to the vast section of people and for industrial development. New banks can play a role in reaching to people and industrial development.

I. Why we need new banks?

- To enhance economic growth
- To expand financial system further
- To achieve Financial Inclusion

- We need new banks to serve billion-plus population and to achieve economic growth of 8% (of GDP), and to address the financially excluded.
- Banking system will grow in size and sophistication with the new entrants. New banks will help to meet the needs of a modern economy and for improving access to banking services.
- New private sector banks & foreign banks have, in the past, brought technology and innovative delivery model. In the same line, new banks are expected to bring new technology, innovative models, new business and delivery models which would speed up the roll out of financial services reach.
- The banking system needs to be flexible and competitive in the emerging milieu. Private sector banks brought competitive edge in the banking sector in India. New way of banking especially technology driven services are brought by private banks in India. By giving licences to new banks, further competitiveness can be bought about.
- RBI in its Discussion Paper on Entry of New Banks in the Private Sector states that a larger number of banks would foster greater competition, and thereby reduce costs, and improve the quality of service. More importantly, it would promote financial inclusion, and ultimately support inclusive economic growth, which is a key focus of public policy.
- New banks would help in reaching unbanked population as license will be awarded with the condition to open one in each four of their branches in rural areas.

II. RBI Guidelines for New Bank Licenses - Its implication

i) Eligible Promoters :

Entities / groups in the private sector, entities in public sector and Non-Banking Financial Companies (NBFCs) are eligible to set up a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

- RBI's objective on NOFHC is that the holding company will ring fence the regulated financial services entities of the promoter group, including the bank, from other activities of the group i.e., commercial, industrial and financial activities not

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regulated by financial sector regulators. The objective is also that the bank should be ring-fenced from other regulated financial activities of the Group.

ii) 'Fit and Proper' criteria :

Entities / groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years. For this purpose, RBI may seek feedback from other regulators and enforcement and investigative agencies.

- New banks with good background may get licenses with this rule.

iii) Corporate structure of the NOFHC :

The NOFHC shall be wholly owned by the Promoter / Promoter Group. The NOFHC shall hold the bank as well as all the other financial services entities of the group.

- Management of banks & other financial institutes will be systematic and regulators have easy monitoring of financial entitles.

iv) Regulatory framework :

The bank will be governed by the provisions of the relevant Acts, relevant statutes and the Directives, Prudential regulations and other Guidelines / Instructions issued by RBI and other regulators. The NOFHC shall be registered as a non-banking finance company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

- Failure of banks can be prevented with this rule.

v) Foreign shareholding in the bank :

The aggregate non-resident shareholding in the new bank shall not exceed 49% for the first 5 years after which it will be as per the extant policy.

- These rules may some what prevent financial contagion from other countries.

vi) Business Plan for the bank :

Business plan of the new banks should be granular, realistic and viable. The business plan also needs to address how the bank proposes to achieve financial inclusion. The performance of the bank in terms of achieving its stated business plans will continue to be monitored by the RBI well after the bank has been awarded its banking license, and the proposed bank would be well-served by adhering to the plan.

- New banks may start business with realistic and viable business models. It will help for growth of banking sector and financial inclusion.

vii) Branch Network - Financial Inclusion and Priority Sector Lending :

- New banks need to set up 25% branches in hitherto unbanked areas; this will lead to development of new business models by new entrants as "necessity leads to innovation" is well known.
- New banks with strong capital base and presence in rural and urban areas can achieve the 40% of priority-sector lending targets within the mandated three years.
- This rule may have its impact on profitability for the new banks with low capital base & less presence in rural & semi urban areas.

III. Role of New Banks

i. New Banks - Manufacturing Sector

- India is set to become world's manufacturing hub in near future. The next leg of economic growth in India will happen with support of manufacturing sector.
- The manufacturing sector is vital for the country's economic growth and development of people as it employs nearly 12% of the country's labour force. It provides a transitional opportunity to the labour force in agriculture. In addition, the sector has a multiplier effect for job creation in the services sector. According to National Manufacturing Policy 2011, every job created in the manufacturing sector creates two-three additional jobs in the related activities.
- New banks may support manufacture sector growth by providing banking services especially credit facilities.

ii. Infrastructure financing

As per the planning commission, the total investment in infrastructure is estimated to have increased from 5.7% of GDP in the base year (2006-07) of the Eleventh Plan to around 8.0% in the last year of the

Plan and this is expected to grow further in the 12th Five Year plan. Banking sector is expected to finance part of the USD1 trillion infrastructure investments in the 12th Five Year Plan, opening a huge opportunity for the banking sector.

Projected Investment in Infrastructure during the 12th Five Year Plan (₹ crore at 2006-07 prices)					
	2013-14	2014-15	2015-16	2016-17	12th Plan
GDP	75,01,978	81,77,156	89,13,100	97,15,280	4,11,90,064
Rate of Growth of GDP	9.00	9.00	9.00	9.00	9.00
Infrastructure Investment as % of GDP	9.50	9.90	10.30	10.70	9.95
Infrastructure Investment	7,12,688	8,09,538	9,18,049	10,39,535	40,99,240
Source : Mid-Term Appraisal of the Eleventh Five Year Plan, Planning Commission.					

Banks have been the main source of funding of infrastructure through direct and indirect routes. However, Banks are facing some difficulties in Infrastructure financing.

New banks may play a role with new process & products in infrastructure credit and also may bank on opportunity in this sector. They are going to play a role in infrastructure financing provided infrastructure projects are commercially viable.

iii. Technology

Technology changed the functioning of banking and financial service industry and it impacted banking more than any other industry. Technology changed the banking products, services, processes, channels, delivery modes. Deposits, loans, assets, liabilities or specific business / product domains like G-sec, Forex etc., moved from physical to electronic medium.

To have an edge over existing players, new banks should start with upgraded systems & procedures, tailor made products and modern risk management systems. To survive in any competition, proposed new banks should focus on profitability, lower operation costs, customer centric models and greater customer loyalty, which will happen with the support of technology.

iv. Human Resources

Banking has been and will always be a "People Business".

Human resources are major pillars of banking sector. Human Resource Management is a key area that needs to be tackled at present and in future.

New entrants need to distinguish themselves from existing banks by creating customer centric models driven by skilled man power. In future, survival / success of banks will depend on the customer service.

According to RBI, values such as

- "sound",
- "reliable",
- "innovative",
- "international",
- "close",
- "socially responsible",
- "Indian", etc. need to be emphasized through concrete actions on the ground and it would be the bank's human resource that would deliver this.

v. Young Population

Young population provides solid customer base for new banks

India is poised to reap rich dividends with its growing educated young population. We will have lot many young hands and brains to contribute to economic progress of the country.

Percentage distribution of population by broad age groups in 2011			
Age	Total	Rural	Urban
0-14	29.5	30.9	25.5
15-39	43.6	43.1	45.3
40+	26.9	26.3	29.2

As per 2011 census, around 40% of the population is in the age group of 15-39. New Banks can eye on this segment and take long term benefit from this segment, as new young customers will be attached with banks for long period. Young customers need advice for financial planning and wealth management, debt reduction, expense management and financial education. They want banks to address their needs by using technology tools like mobile devices etc. These young consumers represent a new and important growth opportunity for new banks.

Strategies to attract young customers could include :

- Targeting customers through new social media with innovative marketing and branding.
- Optimising e-channel experience, multi channel integration and customized branches to meet the needs of this target group.
- Building products and services that assist in meeting customer lifestyle goals
- Educating and helping customers with financial Management
- Making transactions simple, fast and fun.

vi. Middle Class

New banks need to capture this segment of population for CASA Deposits.

Indian middle class is growing. This segment offers tremendous opportunity for banks, both in liabilities and assets. Middle class has always been the mainstay of banking industry's deposit base contributing significantly through low cost deposits.

New Banks need to design products according to the needs of this section to have an edge over mutual funds, insurance, real-estate and commodities.

vii. Alternate Channels

New banks may bring new ways of banking

To serve the needs of urban / metro customers & for low operational cost in rural areas, new banks may come up with new ways of alternate delivery channels.

viii. Competition - Entry of new bank will further improve competition and enhance access to banking services. New banks should come up with new wave of innovation to compete with established players.

ix. Customer Segmentation - To compete with existing banks, new entrants should differentiate their services or even target different but profitable customer segments to deliver better service.

x. New strategies : New entrants may follow the way of social media; alternate channel models for that extra edge in making their customer engagement more intimate, retain them longer and get them to do most of their transactions via non-traditional channels.

xi. Business Strategy : New entrants have the advantage of choosing a path leasing from the experience of domestic / international banks. Globally / domestically financial sector invented new products & process. Global trade & raising income levels created new avenues for banking. New entrants can choose existing business and create new business avenues for domestic / global needs.

xii. Risk

Financial globalisation, new products & process increased the risk of failure of banks. New banks should come up with risk management techniques stipulated by RBI and also new risk management tools. New entrants have to define clearly roles and responsibilities down the hierarchy, establishing accountability and reinforcing change with communication and training to mitigate the risk.

xiii. Customer Engagement

Customer engagement will be mantra for new banks. A steep rise in customer expectations has been evident over the years across financial services. New bank licence aspirants will have to give deep thought to ways in which they should heighten customer experience, especially at a retail level, *vis-à-vis* the competition. New banks have to invest in right technology to enable seamless customer relationship management.

xiv. Corporate Governance

Corporate governance issues became very important after the financial crisis. RBI stipulated guidelines to ensure corporate governance in banks-management of the bank to be adequately skilled and trustworthy enough to manage the bank in an efficient manner and adoption of “fit and proper criteria” in corporate structure for the promoters. Ensuring corporate governance culture to make the bank as trustworthy for both the regulator and the bank customers will also create all round confidence in its operations.

Conclusion :

New Banks are going to play a key role in taking banking system to the next level. New Banks need to be ready to meet emerging environmental requirements i.e., Regulatory environment, global competition, technology, domestic needs and evolving systems and procedures.

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Unconventional Monetary Policy by Central Banks in Developed Economies : Impact on Financial Markets

Central banks in the developed world have engaged in unconventional policy measures to counter the crisis. The basic aim of these unconventional measures has been to restore growth and ensure job creation. Several studies have examined the impact of these measures and their possible consequences.

One of the earliest studies by Gagnon et al. (2011) observed that the Fed's large-scale asset purchases (LSAP) between December 2008 and March 2010 exerted a statistically significant impact on long-term interest rates of securities, including treasuries and corporate bonds. Subsequent studies (D'Amico and King, 2010) found that US LSAP also had substantial effects on international long-term interest rates. Event study by Swanson (2011) on Operation Twist during the 1960s found that it was qualitatively similar to the current QE2 and detected effects on Treasury rates in the range of 10-17 basis points, for maturities from 5-30 years.

For the UK, it has been found that the first-round impact of Bank of England's asset purchases had economically significant impact on gilt yields. According to estimates, the initial Impact of Quantitative Easing (QE) announcements lowered gilt yields by 35-60 basis points. Others estimated that medium-to long-term gilt yields declined by 100 basis points; similar falls were also registered in corporate bond yields.

Although the magnitude of the estimates differ, most studies veer around the conclusion that central bank asset purchases had economically significant effects, at least on government bond yields. There is however, limited consensus on the transmission channel linking asset purchases with asset prices and on the persistence of reduction in yields. Some authors have emphasised the role of risk premia, whereas others infer that it was the signalling channel that was more important.

Most empirical studies suggest that unconventional monetary policy was somewhat effective as asset purchases lowered yields and long-term interest rates. This, in turn, exerted a positive impact on financial markets. However, its impact on growth is yet to be convincingly established. There is much less consensus on the size and duration of the effect and the channels of influence. The recent BIS Annual Report notes that despite all the monetary accommodation by leading central banks, economic growth has remained sluggish. Additionally, the low interest rates create spillovers, including capital flows to fast growing emerging economies and even several advanced economies, hampering their domestic stabilisation efforts. It appears that the cost-benefit calculus is reaching a tipping point wherein further gains from pursuing Such policy appear less convincing.

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Financial Literacy : Will It Lead to Informed Financial Decisions

Sheetal Deepak Rangsubhe *

INTRODUCTION

Financial literacy means knowledge about finance. In layman's language it means providing financial knowledge to those people who are not aware of financial products and services. Financial literacy skills enable individuals to make informed decisions about their money and minimise their chances of being misled on financial matters. It means learning about finance and money which will help one to take better financial decisions in life. The need for financial literacy has become significant with the deregulation of financial markets and the easier access to credit which available in the market. Having said that, as financial institutions compete strongly with each other for market share, the rapid growth in development and marketing of financial products created the need for people to understand the financial language so that they can take appropriate decisions regarding the use and management of money.

Financial Literacy is the first step towards achieving Financial Inclusion. India has one of the highest saving rates in the world. But still people are not able to create enough wealth for them because of lack of financial literacy. The common man should be having basic financial knowledge so that he/she can be protected from wrong doings in the market such as scams.

In urban areas, people who are well educated but still employ managers to look out their finance. People have lot of money but they don't know how to invest, where to invest, when to invest and how much to invest. Financial education is not only the RBI, SEBI's responsibility but it is the responsibility of every citizen to educate others regarding finance.

In rural areas people are having money but they don't know how to manage their money for their secured future. They either invest money in chit fund companies due to higher rate of interest or where no financial documents are needed to be signed by them. Instead of opening a bank account, they prefer to keep the money in their houses. This is happening due to lack of awareness among people. We need to create trust in the minds of people on why it is necessary to open a bank account and what are its benefits so that more money flows into the economy through organised sector.

Government of India through its various agencies like RBI, SEBI, NABARD, IRDA, credit counselling centres have been trying to give financial literacy and financial education to its citizens in the last few years.

The Organisation for Economic Cooperation and Development (OECD) defines Financial Literacy as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well being. People achieve financial literacy through a process of financial education.

OECD created the International Network on Financial Education (INFE) in 2008 to promote and facilitate international co-operation between policy makers and other stakeholders on financial education issues worldwide.

In rural India, some people are not able to fulfil even their three basic necessities i.e. food, clothing and shelter. In that situation if bank finances to self help group in that area which will help them to not only create trust in minds of people but also fulfil their necessities.

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Finance from a bank not only helps the industry to grow but also benefit the people in the economy. Therefore, everyone who earns an income is a potential saver, every saver is a potential investor and every investor ought to be financially literate.

Initiatives taken by RBI regarding financial literacy :

- The RBI has undertaken an initiative titled project 'financial literacy'. The objective of the project is to provide information regarding the central bank and general banking concepts to various target groups. Also the Reserve Bank has created a link on its web site for the common person to give him/her the ease of access to financial information in English and Hindi, and 12 Indian regional languages.
- A financial education site was launched on November 14, 2007 mainly aimed at teaching basics of banking, finance and central banking to children in different age groups.
- The comic books format has been used to explain concepts of banking such as opening a savings bank account and its benefits, how to keep money in fixed deposits, loan from bank, payment and withdrawal facility and central banking role in case of inflation and recession in economy in a simple and interesting way for children. The site has films on security features of currency notes of different denominations in order to know the difference between original and fake note.
- In addition, with a view to promoting financial awareness, the Reserve Bank conducted essay competitions for school children on topics related to banking and financial inclusion.
- The Bank has also been participating in exhibitions, seminars to spread the awareness of financial literacy.
- The Reserve Bank launched 'RBI Young Scholars Award' Scheme amongst students undergoing undergraduate studies to generate interest in and create awareness about the banking sector and the Reserve Bank. The selected candidates have opportunity to work on the project for 3-4 months.

Initiatives taken by SEBI regarding financial literacy :

- To undertake financial education to various target segments SEBI has empanelled Resource Persons throughout India.
- Investor education programmes are conducted by SEBI through workshop and seminar all over the country.
- SEBI has recently set up SEBI Helpline in 14 languages wherein through a toll free number, investors across the country can access and seek information for redressal of their grievances and guidance on various issues.
- SEBI has published the list of companies and its directors debarring them from accessing the securities market and from buying, selling or dealing in securities directly or indirectly, in whatsoever manner, till all the investor's grievances against the company are resolved by them.
- The site has published financial education material to various target groups such as school and college students, housewife, retired people, etc.

Initiatives taken by IRDA regarding financial literacy :

- IRDA has launched the consumer education website for the people to know about IRDA, how they can make claims, complaints, how to buy an insurance of all types, etc.
- The comic strips are also available regarding insurance ombudsman, ULIP, under insurance, etc. It has also launched the documentary film which not only disseminates generic information about insurance but also highlights various initiatives taken by IRDA in the field of educating customers and redressal of grievances.
- Awareness programmes have been conducted on television and radio. Simple messages about the rights and duties of policyholders, channels available for dispute redressal etc. have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages.

- IRDA conducts an annual seminar on policy holder protection and welfare and also partially sponsors seminars on insurance by consumer bodies.

Initiatives taken by PFRDA regarding financial literacy :

- PFRDA has developed FAQ on pension related topics on its website and has been associated with various non government organizations in India in taking the pension services to the disadvantaged community.
- PFRDA has issued advertisements in print media and electronic media through radio and television. PFRDA appointed intermediaries are called Aggregators who are directly responsible for pension awareness mostly in vernacular languages and in line with socio-economic sensibilities.

Similarly, commercial banks, Stock Exchanges, Broking Houses and Mutual Funds have taken initiatives in the field of financial education by conducting seminars, workshops, and newspaper campaigns. Insurance companies too, carry out campaigns and other educational activities for generic education in insurance.

Financial Literacy Centres (FLCs) have been opened by various banks with a view to focus on the spread of Financial Literacy, to create awareness about the financial products and services. RBI releases the financial literacy material to banks containing guidance note for trainers, operational guidelines for conduct of financial literacy workshops which will help to link the financially excluded section with the banking system.

The Financial Literacy Centres (FLCs) impart financial education in the form of simple messages like Why Saving is to be done, Why it should start early in your Life, What are the benefits of saving money with the banks, Why borrow from Banks, Why borrow as far as possible for income generating activities, Why repay in time, Why insure yourself, Why Save for your retirement etc.

The International Network on Financial Education (INFE) created by the OECD in 2008 to collect data on financial literacy, develop comparative reports, and policy documents. They are facilitating international co-operation between policy makers and other stakeholders on financial education.

Major initiatives to be taken for financial literacy among following sectors :

<u>Banking :</u>

In India many people are not having bank account. The people having accounts are not fully aware of banking services. The banks should take the initiative to educate their customers. Having said that employees are the first customers of banks, he/she should be educated about all banking products where he/she is working so that they can pass on the knowledge to the customers.

Most of the people in rural areas are not having bank accounts or rather they prefer to invest in chit fund companies due to their comfort level. They avoid opening bank account as he/she may not be able to write or having fear of talking to bank people as they might be feeling awkward for going to the bank. It might be difficult for illiterate person to fill up a pay-in-slip or account opening form. If bank is able to create trust in minds of people & help them in that, more money will route through organised sector which not only help the economy to be financially stable but also benefit the banks to increase their profitability.

People in rural areas are having money but they don't know the importance of bank or why they have to open an account with a bank. As bankers we need to create awareness among people to do banking. Common people don't know what are the benefits of having an account with bank, ATM network, RTGS and NEFT facility (where money gets transferred within 2-3 hours and lesser commission is required to be paid as compared to the Demand Draft). They invest most of the money in unorganised sector or take loan from chit fund companies where they are charged exorbitant rate of interest because of their lower financial education. Hence our first priority is to help the customers and explain to them the financial concepts in layman's language, so that he/she can take his/her own financial decisions instead of depending on others.

Banking is one sector where all types of customers visit to the branches. Bank should use innovative ideas to drive the financial literacy initiative. The more you simplify the procedure or account opening form and formalities, the more customers will open an account with a bank.

Insurance :

In layman's language Insurance means providing cover to one's family if loved one's dies untimely. It is the best option to protect family from sudden loss of income due to untimely death. People are not fully aware of insurance or rather don't know its importance.

IRDA has designed insurance according to consumer requirements such as children policy for their higher education, life insurance policy for family dependents, mediclaim policy in case of sudden hospitalisation, retirement plans policy for retired people so they don't have to depend on others in their old age, general insurance such as travel insurance, car insurance, home insurance etc.

IRDA has policies for agents selling insurance products. How many people are aware of these types of policies? Most of the people know life insurance only. We need to create the awareness of insurance. People should understand why insurance is necessary in their life. As a responsible citizen of nation it is everyone's duty to educate others, wherever needed.

Insurance is having lot of scope in India. Some people look to them as an investment or tax benefit option. People blindly trust agents and buy the insurance policy because they don't understand the financial language. The insurance companies should do the awareness programme regarding the terms and conditions of policy so that people will not have problems in future.

Financial market :

The stock market is one of the most important sources for companies to raise money. This allows businesses to raise additional financial capital for expansion by selling shares of ownership of the company in a public market. But people look to it as satta bazaar or juggar. Lot of scams happened in the share market; hence people hesitate to invest their hard earned money. They have the fear of losing principal value when market goes down or any scam happens in the market. We need to educate them regarding financial market. SEBI is doing investor awareness programmes in many cities. But these workshops are shown only on financial news channel which very few people watch. It should be telecast on channels which most of the people watch. People blindly trust on other people's experiences and take decisions regarding finance. If they are educated or provided knowledge regarding the types of products and their risk-return ratio, they can take their own financial decisions. People should be aware of when to invest, how to invest and where to invest so that their financial decisions will be an informed one. If Indian investors start to participate in financial market, then there will be no longer a situation in India where companies have to depend on foreign inflows.

All regulatory bodies have created a link on their website for consumer education or investor guide, but how many people in India are having PCs in their home? It needs to be thought as to how to educate these people without these things. In India where many people are not able to fulfil their basic necessities, reaching them and educating them remain a big challenge for the government.

Some suggestions for achieving financial literacy :

- Generally people start understanding the importance of money when they start earning. Teachers should teach the students in their childhood so that they can understand what is its value and how much to spend and where to spend. Also Saving habit must be developed among students.
- An article regarding financial education should be published in all newspapers everyday including vernacular languages, so even if people read newspaper in vernacular language they may be able to know the financial world which will help them to take informed financial decisions in life.
- Mobile is the biggest network in India to reach people in every corner. People are downloading lot of things on their mobile through android phones. Financial literacy application should be created for the layman to understand the financial language in such a way that they can take their

own financial decisions instead of depending on others.

- Financial awareness programmes are mostly telecast on the financial news channels which very few people watch. Cartoon network channels and daily soap serial channels such as Star plus, Zee TV, Sony etc. may be used for financial education. This will not only benefit people about finance but children can also learn the value of money and its importance in life.
- RBI has already created a link on their website about investor education and lot of comic books are made available on what is banking? How to save? What is its role in economy? etc. But in India not all people are having computers in their home. And if they are having it, how many people are having net connection? By taking all these things into consideration RBI may launch a weekly paper on financial education and supply free of cost to students in school and colleges, then it will benefit the society at large.

Many NGO's such as Sanchayan are working for promoting financial literacy campaigns. The objective is to bring financial education to the youth and individuals who are primarily from non-finance background, but need basic financial literacy to manage their incomes, expenditures and savings. This can be started from one's family.

It is important to educate people to take financial decisions on their own and to understand the complication. A financial decision begins with an individual's work life. Generally wants are unlimited and resources are limited. Hence, people should prioritise their needs as per the requirement and accordingly decisions are taken. It can start from simple budget of daily expenses and monthly incomes. Statement of cash inflows and outflows may be prepared so that it will help to know where the money is going and how manage it so that one can keep some money for investment purpose also.

In most of the houses, women take financial decisions. But some of them hesitate to do financial transactions such as going to the bank, insurance companies due to their lower education. They are not able to write because they lack confidence. If we are able to create confidence in their mind, then they can do everything without anybody's support i.e. they don't have to depend on their children or husbands to do things for them.

With the objective of achieving financial literacy, RBI enables banks to use the Business Correspondent model to reach out to people who are still not part of banking sector. This model is very useful as compared to setting up of a branch in rural areas which required huge investment. Banks may use any intermediaries like post office, insurance agents, NGOs, community based organisations etc. for providing banking services. Such services may include collection of primary information from the people such as know your customer documents (KYC) like pan card, voting card, driving license, aadhaar card for identity proof and Electricity bill, passport, aadhaar card for address verification purpose for opening a bank account or taking a loan from bank.

Business Correspondent (BC) will help the customers in rural areas to access banking services such as cash deposits, withdrawals, remittances and balance enquiries from anywhere in the country on the lines of ATM facilities available to customers in urban areas. Business correspondent model will work best in India and generate revenues for the bank if they are able to create trust in the minds of people regarding them. Financial Inclusion Network & Operations Ltd. (FINO) is an example of a financial service provider taking banking to the poor.

It is truly said by Dr. Deepali Pant Joshi, Executive Director, Reserve Bank of India, that financial literacy should not be confined to only opening zero balance or no frill accounts and meeting targets but also cover the unbanked areas and give people confidence to use basic banking services.

Financial literacy is not a few days programme. People must understand the value of money so that it will pass on to the next generation to take sound financial decisions. Business correspondents should have all the knowledge regarding financial products so that they can pass on to the people in layman's language.

Financial literacy has emerged as a focus area for policy makers not just in India, but all across the globe, particularly in the aftermath of the global financial crisis. Educating the people about finance will not only help the economy to have lesser number of frauds but also help to create a nation of sound investors. It is very necessary so that more money will flow through organised sector to bring about financial stability in economy.

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Cyber Security and Cyber Crimes : International Approach

The risks of security of the internet and integrity of information and processes in the cyber world have become critical in ensuring a smooth functioning of financial systems, as for other aspects of economic, social and political life. Although, as concluded by some reports very few isolated cyber-related events have the capacity to cause a global crisis, there is a need to make detailed assessments of risks and preparations to withstand and recover from a wide range of unwanted cyber events, both accidental and deliberate. The Research Department of the International Organisation of Securities Commission (IOSCO), jointly with the World Federation of Exchanges Office, has conducted a cyber-crime survey (to bring attention towards the threats from cyber-crimes to some of the most critical financial market infrastructures – the world's exchanges, from the perspective of securities market.

Cyber-crimes can be understood as an attack on the confidentiality, integrity and accessibility of an entity's online / computer presence or networks - and information contained within. The catastrophic single cyber-related events could include successful attack on one of the underlying technical protocols upon which the Internet depends and a very large-scale solar flare which physically destroys key communications components such as satellites, cellular base stations and switches. The risks from other types of breaches of cyber security such as malware, distributed denial of service, espionage and the actions of criminals and hackers are expected to be both relatively localised and short-term in impact. The cyber attacks by 'attack vectors' which are not reflected in available preventative and detective technologies, with the ability to produce new attack, pose the biggest challenge in this regard.

Although, computer systems which are stand-alone or communicate only over proprietary networks are safe from malware, they are still vulnerable to management carelessness and insider threats.

In case of cyber space, the defence has to concentrate on resilience - preventive measures plus detailed contingency plans to enable rapid recovery when an attack succeeds as it is often very difficult to identify the actual perpetrator because the computers from which the attack appears to originate will themselves have been taken over and used to relay and magnify the attack commands.

It is important to carry out a detailed threat assessment of any specific potential cyber threat based on possible triggering events, likelihood of occurrence, ease of implementation, immediate impact, likely duration, recovery factors etc. As large sections of critical national infrastructure may not be under full and direct government control, there is a need for a clear policy for overall public security and safety from cyber crimes.

Apart from the need for action by the government towards having a comprehensive policy framework for national cyber security spreading awareness, developing forensic resources and research and international cooperation; the respective financial sector regulators and standard setting bodies also need to design, update and implement regulations and standards for security of operations from cyber crimes / attacks, with special emphasis on promoting information sharing.

Source : Financial Stability Report, Issue No. 8, Reserve Bank of India (RBI)

Views / Recommendations of Committee on Comprehensive Financial Services for Small Business and Low Income Households

Reserve Bank of India had, in September 2013, set up a Committee on Comprehensive Financial Services for Small Business and Low Income Households, under the Chairmanship of Dr. Nachiket Mor, Member, Central Board of Directors, Reserve Bank of India. The main purpose of setting up of this Committee was to elicit suggestions for achieving financial inclusion and increased access to financial services. The Committee had submitted its final report on December 31, 2013. In this article, an attempt is made to capture some important recommendations of this committee.

The Committee has outlined six vision statements for full financial inclusion and financial deepening in India. In its vision statements, the Committee has proposed the following to be achieved by January 1, 2016 :

- giving each Indian resident, above the age of 18 years, with an individual, full-service electronic bank account (1.Universal Electronic Bank Account (UEB).
- setting up of widely distributed Electronic Payment Access Points offering deposit and withdrawal facilities at reasonable cost (2. Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges).
- offering each low-income household convenient access to affordable formal (a) credit products (3. Sufficient Access to Affordable Formal Credit), (b) investment and deposit products (4. Universal Access to a Range of Deposit and Investment Products at Reasonable Charges), and (c) insurance and risk management products at a reasonable price (5.Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges).
- Providing every customer the legally protected right to be offered suitable financial services (6. Right to Suitability).

The Committee in its report has articulated a set of four design principles *viz.,* Systemic Stability, Balance-sheet Transparency, Institutional Neutrality and Responsibility towards the Customer. These principles are expected to guide the development of institutional framework and regulation for achieving the vision outlined in the report.

Systemic Stability : The Committee is of the view that any approach to financial inclusion must seek to enhance stability of the financial system.

Balance-sheet Transparency : A well-functioning financial system requires each participant to build completely transparent balance sheets. The true quality of balance sheet must be made visible in a high-frequency manner. Further, efforts must be constantly made to ensure that an accurate estimate is made of the true value of the each components of the balance sheet.

Institutional Neutrality : In addition to the above, the treatment of each participant in the financial system must be strictly neutral. It is entirely determined by the role it is expected to perform in the system and not its specific institutional character.

Responsibility towards the Customer : The financial system must maintain the principle that the financial service provider is responsible for sale of suitable financial services to customers. Further, the financial system must ensure that service providers are incentivised for their efforts to offer welfare-enhancing products only to customers.

The major recommendations of the Committee are :

1. *Wide-spread payment network and universal access to savings :* The Committee has recommended that every resident receive a Universal Electronic Bank Account at the time of receiving their Aadhaar number. The Committee has further recommended that the RBI should issue a circular indicating that no bank can refuse to open an account for a customer who has adequate KYC which specifically includes Aadhaar. The Committee has proposed the setting up of Payments Banks. The primary purpose of these Payments Banks will be to provide payment services and deposit products to small businesses and low income households. These banks will be restricted to holding a maximum balance of ₹50,000 per customer. They will be required to meet the CRR requirements as applicable to all the Scheduled Commercial Banks.

   It has proposed the setting up of Wholesale Banks. These banks will lend to corporates and purchase securitized retail and small-business loans. These banks will only be permitted to accept deposits larger than ₹5 crore. They will not take retail deposits (deposits less than ₹5 crore). The minimum entry capital requirement suggested for both the banks (Payments Banks / Wholesale Banks) will be ₹50 crore compared to the ₹500 crore required for full-service SCBs.

2. *Sufficient access to affordable formal credit :* The Committee has recommended a number of measures to be taken to help banks to manage their credit exposures effectively (including allowing banks to purchase portfolio insurance). Universal reporting of information with credit bureaus should be mandatory for all loans, especially Kisan Credit Cards and general credit cards. Further, it has recommended that, banks price farm loans based on risk. It has also suggested that any relief to be provided by the government to the farmers, would be best carried out as a Direct Benefit Transfer (DBT) to the bank account of the farmer and not through the mechanism of either interest subvention or debt waiver.

   The Committee has proposed that a State Finance Regulatory Commission (SFRC) to be set up into which all state level financial regulators will be merged. The functions like the regulation of Non-Government Organisations-Micro Finance Institutions (NGO-MFIs) and local Money Services Business could be added to the function of SFRC.

   On defining Non-Banking Finance Companies (NBFCs), the Committee has recommended only two categories : one for core investment companies and another category for all other NBFCs. The Committee has recognized that desirability of a partial convergence of NBFC and Bank regulations.

   The Committee has recommended that the Non-Performing Asset reporting provisions and other regulations for Non-Banking Finance Companies (NBFCs) be aligned with those of banks. It has also suggested measures to ease funding constraints of NBFCs including relaxation of External Commercial Borrowings and equity investment rules. Further, Committee has proposed the removal of barriers to the transition of NBFCs into banks by including more sectors in the Priority Sector Lending (PSL) classification.

3. *Priority Sector Lending :* The Committee has suggested that investment by banks in bonds and equities and provision of guarantees to PSL beneficiaries be counted towards meeting the banks' PSL targets. Banks may choose to focus their priority sector strategies on different customer segments and asset classes. The Committee has recommended that the regulator to provide specific guidance on differential provisioning norms at the level of each asset class. A bank's overall Non Performing Assets Coverage Ratio would therefore be a function of its overall portfolio asset mix. It has recommended the removal of the cap on interest rate on loans at the base rate plus 8% per annum. It has also recommended that the PSL target be revised from 40% to 50% of credit provided.

Customer protection issues : The Committee has proposed that financial service providers be required to commit capital against customer protection risk. It has proposed that firms be made liable to ensure suitability of products issued to customers and that RBI frame regulations regarding the same. It has proposed the setting up of a unified Financial Redress Agency (FRA) that will handle customer grievances across all financial products in coordination with their respective regulators. The Committee has also recommended that RBI should create a system using which any customer can check a financial firm registered with / regulated by RBI.

From the point of customer protection, the Committee has desired that Reserve Bank of India should issue regulations on suitability, applicable specifically for individuals and small businesses, to all regulated entities within its purview, i.e., banks, NBFCs and payment institutions. As a result, the violation of such regulations would result in penal action for the institution as contemplated under the relevant statutes through a variety of measures, including fines, cease-and-desist orders, and modification and cancellation of licences.

In order to achieve complete financial inclusion and deepening, the Committee, in its recommendation has stressed the need for focusing on an approach where multiple models and partnerships are allowed to emerge, particularly between national full-service banks, regional banks of various types, non-bank finance companies, and financial markets.

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Planning a Pension System for the Informal Sector

Even today the pension budgets, which contain significant expenditure for the old, for states like Bihar, Orissa, Uttar Pradesh and West Bengal account for more than 25 per cent of their revenues. The situation in the North Eastern states is worse with pension budgets accounting for over 50 per cent of revenues in four states of which Nagaland's expenditure on pensions is more than 135 per cent of its own revenues. The present central and state government budget on pensions exceeds ₹1,600 billion (BE for 2012-13). It is worth noting that these budgets pertain to the retirees amongst the civil servants who constitute a small percentage of the population. Considering the current budget estimations and commitment towards the pension obligations, a continuous launch of numerous Defined Benefit (DB) schemes with lack of liability computation may prove to be fiscally challenging in an era of increasing life expectancy.

The GoI approved on 23rd August 2003 the proposal to implement the budget announcement of 2003-04 relating to Introducing a new restructured defined contribution pension system for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing system of defined benefit pension system. The new system was also to be available, on a voluntary basis, to all persons including self employed professionals and others in the unorganised sector. The National Pension System (NPS) was, therefore, created to serve both the Government employees and the private sector workers. While the absence of a country-wide social security system (formal pension coverage being about 12 per cent of the working population), the ageing and social change were important considerations for introducing pension reform in the unorganised sector, fiscal stress of the defined benefit pension system was the major factor driving pension reforms for employees in the organised public sector (Government employees). This had been designed to make a shift from defined- benefit to defined-contribution, putting a cap on government's liability towards civil servants' pension, in line with the international practices and the realization of upcoming fiscal stress of pay-as-you-go system.

Source : Financial Stability Report, Issue No. 8, Reserve Bank of India (RBI)

Books Added to the IIBF Corporate Library			
No.	**Title**	**Author**	**Publisher & Year of Publication**
1.	Art of Innovation : Lessons in creativity from IDEO, America's Leading Design Firm	Tom Kelly & Jonathan Littman	Profile Books, 2011
2.	Building brand You : Essentials for Corporate Success	Mamata R. Talukdar & Sanjiv S. Chaudhary	Rupa Publications, 2012
3.	Business Ethics : Code of Conduct for Managers	Rajiv K. Mishra	Rupa & Co., 2006
4.	Business Research Methods, 11th edition	Donald R. Cooper & others	Tata McGraw Hill, 2012
5.	Business Research Methods, with CD ROM	Naval Bajpai	Dorling-Kindersley (India), 2011
6.	Business Research Methods : A South-Asian perspective, 8th edition	William G. Zikmund & others	Cengage Learning (india), 2013
7.	Demystifying Strategy : How to become a Strategic Thinker	Tony Grundy	Kogan Page, 2012
8.	Five Dysfunctions of a Team : A Leadership Fable	Patrick Lencioni	Wiley India, 2013
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22.	Strategic Management; Analysis, Implementation Control	A. Nag	Tata McGraw Hill, 2012
23.	Three Laws of Performance : Rewriting the Future of your Organization and your Life	Steve Zafflon & Dave Logan	Wiley India, 2013
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A brief autobiographical note should be supplied including full name, designation, name of organization, telephone and fax numbers, and e-mail address (if any) or last position held, in case of retired persons. Passport size photograph should also be sent along with the submission.

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5) Figures, charts and diagrams :

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