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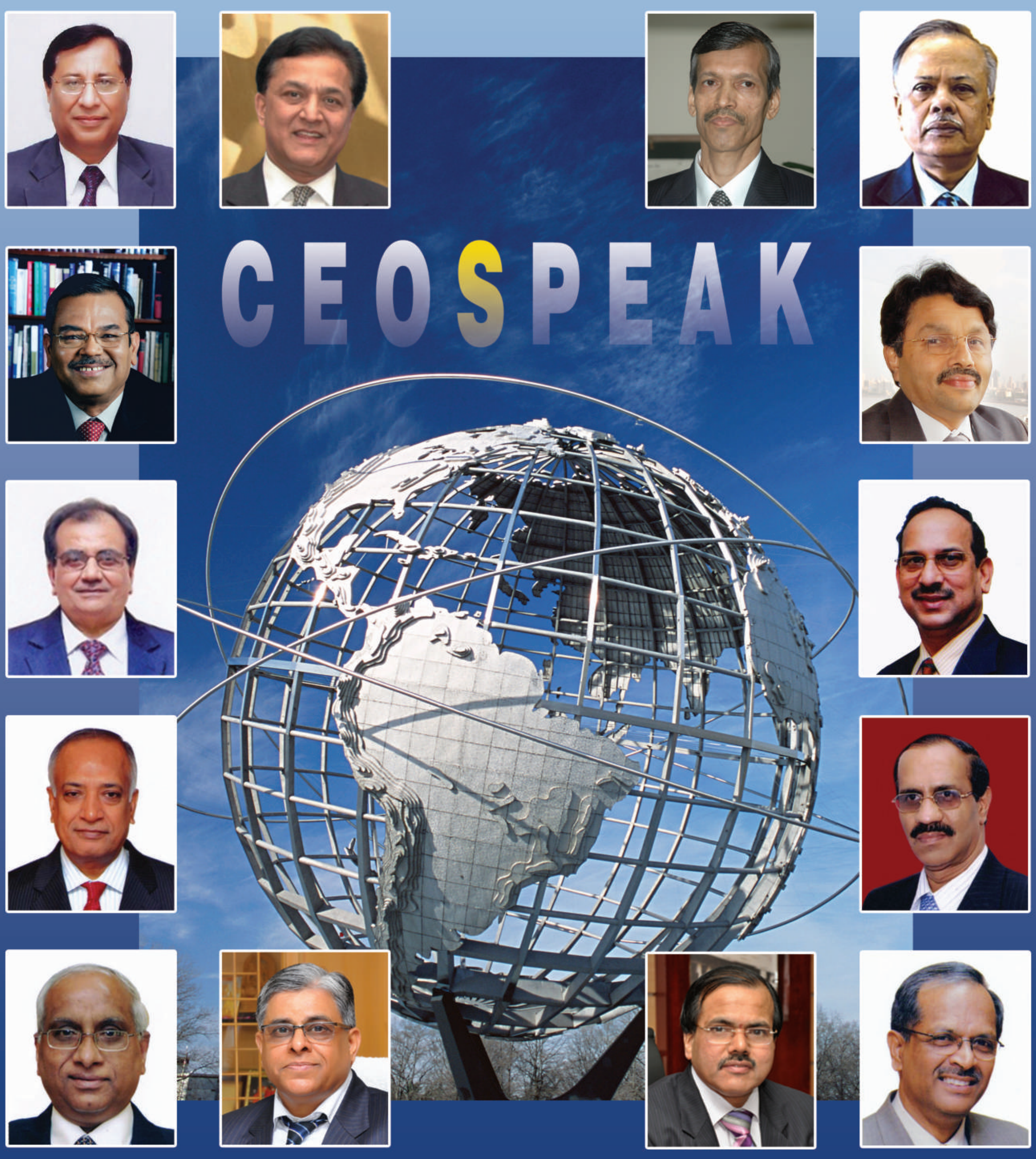

निर्यातकों के लिए
भारतीय निर्यात ऋण गारंटी
निगम लिमिटेड की ओर से
मंदी प्रूफ संरक्षण
निर्यातकों को अब भारतीय निर्यात ऋण गारंटी निगम लिमिटेड (ई सी जी सी) की ओर से मिलेगा मंदी प्रूफ संरक्षण. आर्थिक मंदी का दौर किसी निर्यातक के कारोबार को बुरी तरह प्रभावित कर सकता है. जैसे कि हाल ही में कुछ देशों में अचानक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

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

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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 ।

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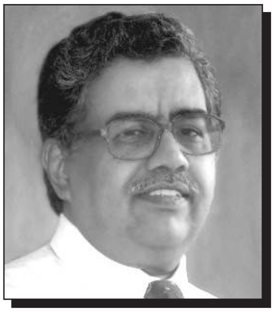


Dr. R. Bhaskaran
Chief Executive Officer,
IIBF, Mumbai

The CEO Speak special issues of Bank Quest April-June, 2006 and October-December, 2008 had carried the perspectives of CMDs on various issues concerning the banking industry at those points of time. While the first CEO Speak contained the views of 13 bank CEOs, the second issue contained the views of 14 CEOs. Both these issues of Bank Quest had received overwhelming appreciation from the readers.

This has encouraged us to bring out CEO speak once in a while. Post global financial crisis the banking landscape is changing and we thought that it is good time, now to get the perspectives on the current issues engaging the banking industry and hence, this Special Issue 'CEO Speak'.

For this issue we have asked for the CEOs responses on several areas such as regulatory capital, risk measurement, base rate system, real interest rates, export credit, optimal utilization of CBS system, customer service, cost of compliance, banking utility, agricultural finance, role of rating agencies, IFRS and disclosure systems. This issue contains the responses / views of CEOs from both public and private sector banks on the issues raised. Though CEOs appear to have expressed somewhat similar opinions on most of the core issues, every one of them has given different dimensions on those issues, making the responses more diverse and interesting. There are certain issues where the messages are subtle yet powerful. IIBF could not have asked for anything more informative than this. It is indeed a rewarding experience to read the responses. Let me say a big 'thank you' to the CEOs before taking up brief overview of each question.

The concept of regulatory capital on a standardized, now known as BASEL-I was implemented in India in 1992.The implementation of BASEL-II, wherein the capital charge was somewhat more sophisticated started in 2005. It was here that the concept of regulatory capital was introduced. Drawing from the experience of recent financial crises, BIS has already proposed a framework (BASEL-III) that calls for more regulatory capital in due course of time. Measures suggested under Basel-III, among others, include revisions to the definition of regulatory capital, capital conservation buffer, counter - cyclical buffer, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standards. The phased implementation of the proposed new capital rules (BASEL-III) would start from January 1, 2013. On the question of possible *impact of regulatory capital and if it would limit the expansion of business of banks, the CEOs have indicated that the regulatory capital is essential to manage the risks for overall stability of the financial system even though it may limit the business. While some banks are confident of meeting the requirements, others particularly capital short public sector banks are hopeful of capital infusion from the GOI. Going forward, the fact that the Government holding in PSU banks has to be 51% could be a constraint. Private banks are able to access equity markets for augmenting capital. Banks are also confident of managing challenges such as matching credit growth with the pace of the economy, competitive pressures on banks' margins, additional capital requirements to support overseas expansions, mergers & acquisitions, joint ventures and subsidiaries, etc.*

Risk measurement is an important facet of risk management. To measure the risk, accurately, banks are adopting sophisticated tools and seeking the support of technology. In this background, on the goal of advanced measurement approach, CEOs agree that this approach would result in capital efficiency. At the same time they have identified certain constraints / challenges such as collection, collation and processing of data from widely spread branches, lack of historic data on loss events, lack of trained and skilled manpower to analyze and interpret such data. The need for appropriate reporting systems and IT infrastructure up gradation has also been pointed out. Banks have indicated that business decisions have to be often driven by market conditions rather than the efficient deployment of capital. Adoption of advanced approaches will help banks in getting better equipped to handle the risk return trade off. Sensitizing the bank staff with regard to the nuances involved in advanced approach is one of the important issues in this regard. Banks have indicated that they are taking effective steps to meet these challenges.

The answer for the question on effective response of base rate system to changes in policy rates and its influence on risk focused lending is an ovewhelming 'Yes'. The base rate will be useful in transmitting the monetary policy measures. It is however evident that the response will be with a time lag. The time lag will be less than what it was in the BPLR regime. It is revealed that the base rate is also expected to help capture the risks associated with the type of customer, business line as well as the tenor of the loan. CEOs have opined that the base rate system will make credit pricing more efficient and that it has the potential to capture the risk associated with the type of customer, business line as well as the tenor of the loan.

We had argued that the real rate of interest on deposits is negative and could impact the flow of deposits. While the CEOs have agreed with the statement that the real rate of *interest on the deposits has been negative they are not overtly concerned with the possibility of reduction in the volume of deposits. It has been pointed out that the pricing of deposits has not factored the inflation rates. However, the deposits rates were increased only in the beginning of this quarter. Some of the reasons put forward for non-introduction of floating rates of interests on deposits are lukewarm response from the public to the floating rate deposit schemes of some banks in the past, the fact that economic conditions in the past two years have been very different to normal, fixed rate protects depositors from the possible future fall in interest rates, difficulty in identifying appropriate benchmark for floating rate products, lack of suitable systems and procedure, customer's sentiments during falling interest rate period, small saver's risk aversion and preference to safety of deposits, lack of awareness among depositors about floating rate products etc. A suggestion has been made to consider the introduction of floating rate of interest on bulk deposits from institutional sources for short periods. CEOs have, however expressed an opinion on the possible erosion of value of the depositors' money and if the negative return continues for long, the depositors may be attracted towards other options like mutual fund and equity markets, and ultimately there is a possibility of affecting the deposit growth in banks in future. Some of the banks had experimented with the concept of floating rate deposits but did not meet with any worthwhile success. That the negative real rate of interest does not affect the volume of deposits, banks have argued, can be inferred from the healthy growth of CASA deposits in the recent years.*

The issues that have been identified in achieving export credit targets are competitiveness in cost and quality, compliance with international best practices, prevalence of child labour in certain sectors, quality concerns (like rejection of the consignments), volatility of rupee and global developments, higher interest as well as transaction costs of banks, export credit in foreign currency, specialized manpower & training requirements and inadequate infrastructure etc. Obviously most banks have not achieved the target (12%) set for lending to export sector. Some of the measures initiated to help increase exports and augment credit flow are increasing number of designated branches, treating export credit as one of the key performance parameters, incentive schemes, facilitating increased access of foreign currency loans to exporters, offering foreign currency denominated export credit at very low spread over LIBOR, integrating domestic as well as forex business under one roof, creation of customer segmentation and mid-corporate desk to focus on to the requirements of mid-corporates, organizing exporters' meets at various centers, identification of potential centers to explore the business opportunities and *diversifying the product basket as well as the trade destinations. Banks are also attempting to offer technology driven products to enhance product utility. These measures together with tax concession, interest rate subvention are expected to boost the export credit.*

Though most of the banks are reporting 100% CBS, certain components of assets side are yet to be covered under CBS. Further the extent of leveraging technology beyond CBS differs from bank to bank. The CBS is predominantly transaction processing software and appropriate parameterization has to be done to undertake analytical tasks. The implementation of CBS is not even across the banking system and there are a number of issues such as NPA treatment, IRAC norms, provisioning etc., which fall outside CBS. The CEOs in their response elaborate the extent of coverage of CBS in their bank along with their journey for the benefit of readers. It has also been pointed out that assets call for focused application and CBS may not be exhaustive. Evidently there is scope to improve the usage of CBS and banks are moving forward in this direction.

Banking sector, being a service industry dealing with human beings is acutely aware of the need for personal interaction with their customers. The customer expectation on the banks is rather high. Since inception, banks in India have recognized 'individual identity' and knowing customers by face. What do the CEOs feel about the impact of use of technology on customer service? The common refrain is that technology has helped in providing more convenience and options to the customers. Technology has made customer service more focused and specific. As a result the human interaction may be different than from the past and will be more driven by the choice of individual customer. Banks are meeting needs of different customer segment through the option of multiple channels and services. Banks are using customer segmentation and CRM to offer specific services to customers. It can be inferred that the personal touch is not needed in all the cases and what is more important is that the service needs are fulfilled more efficiently. As one CEO has indicated if there is decline in the personal touch it is more by choice than by design. Technology has definitely changed the way the bank interacts with the customer. With the increased use of internet and burgeoning social networks, banks are keen to get closer to the customer in the virtual space.

The cost of compliance, more particularly in the case of overseas branches of Indian banks has gone up in recent times. There are a number of statutory and other compliances that Indian banks are faced with. The higher cost of compliance in the case of overseas branches has to be *offset by higher volumes of business. The risks and costs have to be appropriately balanced in the long run. Besides mentioning the rationale, list of compliances CEOs have shared their thoughts on the effective ways to address cost of compliance.*

One of the issues that IIBF had posed in the International Banking Summer School that it had organized towards the end of 2009 was on Banking Utility. Payment and Settlement System, Savings Accounts and Priority Sector Lending, we feel, fall under utility banking. Today's banks however are not merely commercial banks. Also we do not have many banks in India who can be termed as private sector banks in the real sense i.e. banks which are involved more in investment and HNI business. Thus be it PSU or Private sector banks the business mix is somewhat similar and most banks in India are extending services beyond mere commercial banking- namely lending or deposit taking or ancillary services. These banks provide utility services like remittances, bills payments, sale of gold coins, tax collection, e-stamping etc. Banks also offer loans at concessional rates which are development oriented. The reactions of CEOs on the need for segregating utility and commercial banking are varied. CEOs who believe in providing all services in one roof akin to a financial supermarket feel that combining utility banking and commercial banking adds value to the bank. Other group of CEOs feels that segregation would help in serving the customer better by opening specialized branches like personnel banking branches or through the alternative delivery channels. It has been pointed out that utility banking would be facing stress on margins. Given that the private banking in the sense that it is practiced abroad is not practiced here and that banks are adopting technology to reach all customers the need for segregating utility banking may not arise. Instead it has been indicated that customer segmentation, specialized branches etc., could be adopted.

It is well known that the financial, more importantly credit exclusion among farmers is very high. The question on what steps that banks are taking for augmenting agriculture credit has received a very detailed response from most banks. Banks have indicated that agricultural lending is a viable business proposition. CEOs have shared their experience in enhancing the flow of credit to agriculture more particularly the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless laborers. Product innovations, specialized branches, special drives, capacity building etc., are some of the efforts taken by banks to reach the unreached. In order to bring excluded into the banking fold, banks will be opening branches in rural and semi-urban areas, take up financing of PACS, take up ICT driven Business Correspondents model, Debt Swap scheme, and financing JLGs (joint liability groups).

Rating agencies should be made responsible for the rating as much as a professional is responsible in his / her profession seems to be the general response to the question on rating. It has been opined that as banks will have to rely more on rating agencies in the risk management area they need to consider moving from issue rating to issuer rating. CEOs have suggested that rating agencies should study the rating performance and do periodical studies on rating trends and default trends. It has been suggested that there should be, as in the case of audit firms, a regulatory body for rating agencies. Since the RBI has made four Credit Rating Agencies as accredited rating agencies it is hoped that a better rating climate will prevail. On the question about roles and responsibilities of credit rating agencies different views have emerged. Fine tuning rating matrix by rating agencies, rating on long-term expected quality, issue rating v/s issuer rating, roles, responsibility and accountability are some of the issues about which CEOs elaborate their views.

Finally, CEOs spoke on the benefits of International Financial Reporting Standards (IFRS) to the bank / customers / stakeholders. Indian markets are getting more integrated with the global markets. Our banks are also getting ready to compete globally. Though Indian accounting and disclosure systems are one of the best standards, moving towards the (IFRS) is inevitable. The IFRS will provide more realistic position with the replacement of historical cost method by fair value method of valuation. The convergence to IFRS, will equip our banks to access global markets, to compare and compete with the global peers, to eliminate the need for multiple reporting etc.

Is it only a matter of 12 questions and responses from 14 CEOs? No, it is much more than that. This is because the responses are rich and varied. Barring Yes bank most responses are from PSU banks and apparently the responses look similar. Yet there are certain exclusive viewpoints, subtle statements, and specific data about the banks performance, added by each one. On some of the issues, different experiences have been shared by the CEOs. On some issues there is more eloquence and on some brevity is seen. We must underline that each viewpoint is important in understanding the overall scene of the everyday changing banking. We have grouped the responses of all CEOs to each question. You will, as you read, feel as if you are doing the interviewing. We hope you will enjoy reading this special issue of Bank Quest.

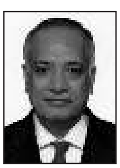
(R. Bhaskaran)

Our previous issues of CEO Speak (April-June, 2006) and (October-December, 2008) received good response from our readers as these issues provided the readers varied perspectives of the then CEOs of banks on different issues facing the banking sector then. Encouraged by the response we have decided to bring out the 3rd Special Issue of CEO Speak. There are several new faces with thoughts on new areas and perspectives from both public and private sector bank CEOs.

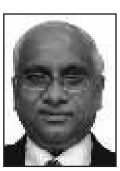
Shri. J. P. Dua (JPD)
- CMD, Allahabad Bank

Shri. M. D. Mallya (MDM)
- CMD, Bank of Baroda

Shri. Anup Sankar Bhattacharya (ASB)
- CMD, Bank of Maharashtra



Shri. S. Raman (SR)
- CMD, Canara Bank



Shri. Ramnath Pradeep (RP)
- CMD, Corporation Bank

Shri T. M. Bhasin, (TMB)
- CMD, Indian Bank

Shri. M. Narendra (MN)
- CMD, Indian Overseas Bank

Shri. Nagesh Pydah (NP)
- CMD, Oriental Bank of Commerce

Shri. K. R. Kamath (KRK)
- CMD, Punjab National Bank

Shri. Arun Kaul (AK)
- CMD, UCO Bank

Shri. M. V. Nair (MVN)
- CMD, Union Bank of India

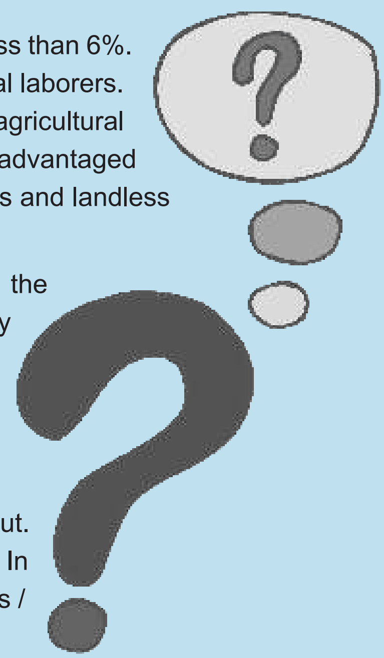
Shri. Bhaskar Sen (BS)
- CMD, United Bank of India

Shri. Albert Tauro (AT)
- CMD,Vijaya Bank

Shri. Rana Kapoor (RK)
- MD & CEO, Yes Bank

QUESTIONNAIRE

1. Moving forward, regulatory capital could often be a limiting factor for increasing the business of banks. What are the challenges that the banks may face in this regard/raising capital. How your bank is geared up to handle this?
2. Do you think in the Indian context, advanced measurement approach of risk as a goal can be pursued, to achieve capital efficiency? What are the constraints?
3. The base rate system has been introduced. Will this enable banks to respond to changes in policy rates more effectively? Will this result in more risk-focused lending rates?
4. The real rate of interest on the deposits has been negative over the last two years. Banks are offering low interest rate on deposits unmindful of the fact that deposits constitute the largest chunk of resources. Will not such sustained negative returns affect the deposit base in future? Is it not time to offer floating rates which will give positive returns?
5. Indian exports are not substantial in terms of its share in the volume of international trade. Is there a special strategy / focus to achieve statutory enhanced credit flows to export sector in your bank, given the fact most of the banks did not even achieve the statutory export credit limits and what are the challenges?
6. Most of the banks are having 100% CBS. It is however seen that whereas the full range of liability side is covered, only a small portion of asset side is under CBS. What are the plans of the bank to fully utilize the existing infrastructure and IT platforms to usher in a totally tech-driven era in banking?
7. With the increasing use of technology in day to day life human interaction in the branch premises has taken back seat. The increased use of technology meant the 'death of individual identity'. In the past the bankers knew their customers by face. Now, they are dealing more with customer IDs than with the customers themselves - your views? How do you bring back the personal touch? Do you see a greater role for customer segmentation on account of IT?
8. Compliance risk and compliance costs have gone up for overseas branches of Indian banks in recent times. What is the emerging picture in the light of tightening of regulatory responses to various crises?
9. Is there a case for segregating 'banking utility' and 'commercial banking'?
10. Commercial banks commitment to agriculture in terms of total assets is less than 6%. Informal lending is accessed by marginal farmers and landless agricultural laborers. Exclusion among the farming gentry is therefore very high. In the area of agricultural finance, what is your experience in enhancing the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless laborers?
11. Even as Rating agencies are improving the rating tools on account of the lessons learnt in the recent crisis, it emerges that inability to effectively capture / simulate the business cycle changes will be a major challenge for rating of long term investments and credit exposures. What role do you see for credit rating agencies in improving the quality of banks' asset books? Do you think that rating agencies must be made responsible?
12. The accounting and disclosure systems in Indian banking are well laid out. The size and depth of financial reporting as on date is possibly too large. In this back ground, what will be the benefits of IFRS to the bank / customers / stakeholders?



1. Moving forward, regulatory capital could often be a limiting factor for increasing the business of banks. What are the challenges that the banks may face in this regard / raising capital. How your bank is geared up to handle this?

JPD (Allahabad Bank) : Let me answer in three parts.

a) Moving forward regulatory capital could often be a limiting factor for increasing the business of banks : Regulatory capital is to be seen as a tool for managing the risk for over all stability of financial system and should not be construed as a limiting factor. No doubt, the cost of raising capital is bound to increase the cost of doing business. Capital cost is akin to input cost and may not be an impediment in enhancing the business. Going forward, it may throw opportunities in structuring contingent capital instruments, pricing strategies and cost efficiency measures. In fact, it will reduce the probability and severity of future financial crises and thus promote higher growth over the long term.

b) What are the challenges that the banks may face in this regard / raising capital : Challenges are 1) to develop a capital plan for different time horizons considering the changes in business model and pricing strategies 2) to absorb the increased cost or to pass it on to customers for sustainable growth of business 3) to explain the investors on the impact on ROE 4) to limit the illiquid assets.

c) How your bank is geared up to handle this? The bank is well capitalized as on date. The Capital Adequacy Ratio (CAR) of the Bank is 13.49% as on 30-09-2010 (of which Tier-I is 8.41%). Further we are having head room of ₹600 crore for raising Tier-I capital and ₹2,000 crore for raising Tier-II capital. Though we have comfortable capital as per Basel-II guidelines, impending Basel-III may have impact on capital level, liquidity position and on other financial parameters. I am confident that Indian Banks also evolve with time in meeting the requirements.

MDM (Bank of Baroda) : With the prudential norms getting more stringent, maintenance of capital adequacy ratio is always challenging, more so for banks growing at a pace higher than the industry level. With the rise in the asset size, accessing correspondingly higher capital needs foresight, vision and meticulous planning.

Drawing from the experience of recent financial crises, BIS has already proposed a framework of BASEL-III that calls for more regulatory capital in due course of time. While the general scenario is so, as far as Bank of Baroda is concerned, we have been able to maintain a comfortable capital adequacy ratio much beyond the minimum prescribed levels. The CAR of our Bank for September 2010 was 13.22 per cent under BASEL-II against 9 percent. The general challenges are liquidity conditions, balancing Tier-I and Tier-II capital, cost of raising capital, selection of debt equity and hybrid capital instruments, changing prudential norms, higher risk weights etc. Since the volume of assets keep rising, banks need to access capital from time to time to avoid any interruption in the growth.

ASB (Bank of Maharashtra) : Adequacy of capital plays a very important role in business expansion for a bank. Banks will have to ensure that the growth in business is not only quantitative but also qualitative. Loan book, with higher credit ratings, attracts lower risk weights leading to better capital to risk weighted assets ratio for the bank. Lesser delinquencies result in lower provisioning which increases the internal accruals. It is a well known fact that retained earnings are more cost effective than raising capital from the capital markets. To make the internal accruals as the cornerstone for capital adequacy, the bank has already taken various steps such as ramping up of risk management processes and further strengthening of the credit monitoring process by opening of Asset Recovery Branches, Regional Retail Loan Processing Centres (Retail Hubs) and deployment of specialist officers.

GoI, in its Union Budget of 2010, had announced a package of over ₹15,000 crore for capitalization of public sector banks. Under the same scheme, our bank is expected to receive further ₹1,200 crore by the year end. This will add on to a CRAR of 13.82 for September quarter. The Government holding is 76.77% as of Sept, 2010 and bank has enough headroom available for raising further capital from the market if the need arises. So, the bank is well poised to ensure sufficient capital adequacy to meet the business plan of ₹1,20,000 crore by March 2011.

SR (Canara Bank) : Regulatory capital could be a limiting factor for increasing the business of most of the banks. However, as long as the banks manage the risk profile of its assets prudently and are able to sustain the profitability by adequately pricing and controlling all the risks, this may not be a limiting factor.

We are attempting to study the impact of changes in regulatory capital requirement *vis-à-vis* business plans. We are sure that the enhancement in regulatory capital requirement will be in phases.

RP (Corporation Bank) : As per the Basel-II Guidelines, Banks are required to maintain capital for the risk arising out of the Credit, Market and Operational risks. At present, banks are adopting Basic approaches for computing capital requirements. Going forward, they will be moving over to advanced approaches for computing the capital requirement which will be more closely on the risk profile of the underlying assets.

Apart from the above, as per the Basel-III accord, banks need to maintain common equity as capital to the extent of 4.5% and capital conservation buffer of 2.5%, i.e., 7%. The total CRAR will be increased to 10.5% by the year 2019. In order to comply with this regulation, it is more important for the Banks to raise additional capital in the form of equity and to retain the profits generated in the Business. In order to raise equity from the capital markets it is necessary to maintain high yielding and good quality assets in the Balance Sheet, coupled with robust risk management systems.

Our Bank, as part of its Long Range Plan & ICAAP, has estimated its capital requirement till March 2015. Based on the Macroeconomic conditions, the Bank will raise additional capital at the appropriate time.

TMB (Indian Bank) : As given in Financial Stability Report of Reserve Bank of India dated December 2010, the Capital Adequacy position of Public Sector Banks (PSBs) in India is well above 14 per cent with Core Capital above 10 per cent. But individual Banks have assessed their additional capital requirement based upon the projected business growth.

The oversight body of Basel Committee, at its meeting dated September 12, 2010 announced substantial strengthening of existing capital requirements. The recommendations, under Basel-III focus more on core capital which can be improved only by Tier-I Capital.

For Public Sector Banks where the Government holding has come down to the minimum requirement of 51%, raising the core capital can be a challenge. The Central Government, majority stakeholder has taken congnisance of this and has been infusing capital whenever the core capital level falls below a certain level.

Indian Bank's core capital, at present, is adequately sufficient to meet the Basel-III requirements. The Bank has sufficient elbow room for raising the core capital (as the Government holding is presently 80%). Further, the Bank is in the process of coming to the market with an FPO early next year. Regulatory Capital will not be a limiting factor, to the Bank for increasing the Business.

MN (Indian Overseas Bank) : Accelerating credit growth of the public sector banks is crucial for the economy. At the same time the Basel norms that we have adopted requires the banks to be sufficiently capitalized. Though the minimum regulatory requirement of Capital to Risk Weighted Assets (CRAR) for the banks is 9%, the Government has mandated a total CRAR of 12% with 8% Tier-I Capital. The banks use a combination of methods to raise the necessary capital. Of course, equity option is ideal but depends on the market conditions and the headroom available as the promoter's stake cannot go below 51%. The banks have, therefore, been raising capital through various bonds and debts instruments. The government also periodically infuses fresh capital into the public sector banks whenever needed. Recently, the government agreed to provide an additional amount of ₹6,000 crore, in addition to the ₹15,000 crore already provided in the Budget 2010-11, to ensure Tier-I CRAR (Capital to Risk Weighted Assets) of all Public Sector Banks (PSBs) at 7% and also to raise Government of India holding in all PSBs to 58%.

Our bank is sufficiently capitalized with CRAR of 13% plus. We have a substantial cushion in promoter's capital also. However, to support our growth plans, we propose to raise ₹3,000 crore through a domestic bond issue either in the form of perpetual debt or lower Tier-II bonds. We have also requested ₹1,400 crore additional capital from the government.

NP (Oriental Bank of Commerce) : The statement seems correct looking at the past global financial meltdown. However, with increase in confidence of investors in Banking industry and redefining the character of capital in Basel-III, it will definitely address the concern of first part of the question. Right business mix, trade-off of asset quality and yield, improving low cost deposit share, improve in non-interest income will add to bottom line in proportion to asset growth. Further improvement in bottom line will provide headroom for Banks to tap capital market at an appropriate time factoring the need for capital and cost of capital.

The present capital adequacy position of our Bank is comfortable, which is above the regulatory requirement. Further the steps initiated by the Bank to reduce cost and improve yield have started reflecting in its bottom line which will support the business growth of the Bank in near term. Moreover the Bank has enough headroom available to raise Tier-1 and Tier-2 capital to support the business growth as per its plan.

KRK (Punjab National Bank) : Banks need to shore up their capital base to support higher credit growth and provide adequate resources needed by a growing economy. Going forward, banks also need to increase their capital base, in view of the enhanced Basel-II regime as there may be some negative impact arising from shifting deductions from Tier-1 and Tier-2 capital to common equity. Impending implementation of Basel-III and IFRS puts further pressure on the Banks' capital. While banks have been raising capital from the market, the Government has also been supporting them through timely capital infusion.

PNB's Capital Adequacy Ratio in terms of prescriptions of BASEL-II stood at 14.16% (Tier-I - 9.11% and Tier-II - 5.05%) in March 2010 that not only exceeds the requirements of the regulators worldwide but is also comparable with the best Banks globally. At present, the Paid up Equity Capital of the Bank is adequate. Further, the Bank has a headroom of 6.8% (with Govt. of India's shareholding @57.8%) at present to dilute Govt's stake to 51% minimum required and can raise the same in case of need subject to necessary approvals. We may raise around ₹3,000 crore as Tier-II capital bonds. (subject to favourable market conditions), of which ₹500 crore has already been raised. Government of India has decided to increase its stake to 58% by infusing around ₹184 crore in our equity on preferential basis. Further during the current budget, the amount provided for capital infusion has been taken as a Plan expenditure which will facilitate Government of India to participate in rights issue of Public Sector Banks in future without much difficulty. Further, we plough back substantial amounts every year out of our earnings. Put all this together PNB will not find it very difficult to meet its capital requirements.

AK (UCO Bank) : The banking industry is central to any economy which makes regulation of this industry so very essential. And it has been established, capital is a key shield that banks can have in place both during good times as well as bad. Towards this end, Basel Committee on Banking Supervision (BCBS) in Sep'2010 sealed a deal (Basel-III) aimed at a fundamental strengthening of global capital standards.

Under the Basel-III guidelines, Tier-I capital, which includes common equity and other financial instruments, will have to be increased to six per cent from four per cent. Within this, the minimum common equity capital requirement has been raised from two per cent to 4.5 per cent by January 1, 2015. In addition, banks will have to carry a further "counter-cyclical" capital conservation buffer of 2.5%, effectively raising the floor of total common equity requirements to 7%. The new common equity norms will make banks (a) more risk sensitive, and (b) realign exposure for better use of capital.

The Government of India plans to strengthen capital of the Public Sector Banks so that the Banks would be able to attain a minimum of 8% Tier-I CRAR. Accordingly, it has been decided to infuse ₹940 crore in UCO Bank by way of preferential allotment of equity in favour of Government of India. The transaction would be carried out in the form of equity plus premium as per the Securities and Exchange Board of India (SEBI) guidelines. This would also allow the Bank to raise more Tier-II capital and facilitate a follow-on public issue in future. After the proposed allotment, the percentage of shareholding of the government of India will increase from 63.59% to 68.13%, the Tier-I capital of the Bank will improve from 7.47% to 8.14% and overall CRAR will be around 13%.

MVN (Union Bank of India) : Today, core equity of Indian banks is quite high. Indian banks already met proposed core tier-I equity standards of Basel-III that will kick in after a couple of years. With CRAR at 14.5 per cent including 10.1 per cent of Tier-I capital as on end-March, 2010, the enhanced capital norms are lower than this level. However, near double-digit growth of the economy would require an average growth of about 25 per cent in banking sector's assets. Thus, high growth rate coupled with higher capital needs would be a challenge for the banks in medium to long-term.

Besides moving to impending BASEL-III norms, the competitive pressure on banks' margins would negatively impact plough back of profits. The regulatory requirement for maintaining 70 per cent provision coverage ratio may also pose difficulty in maintaining profitability. Banks would also need to have adequate capital to support overseas expansions, mergers & acquisitions, joint ventures and subsidiaries. The businesses like insurance, mutual funds, asset management, venture capital, credit cards etc. have long gestation periods and there may not be significant returns in initial period, thus blocking the capital. The buffer capital towards possible deterioration in asset quality would add to total capital requirement of banks. There may also be some negative impact arising from shifting some deductions from Tier-I and Tier-II capital to common equity. The changes relating to the counter party credit risk framework are also likely to have capital adequacy implications for some banks with large OTC bilateral derivatives position. In case of public sector banks, another capital constraint may be the inability to dilute the government holding below 51 per cent.

As regards our Bank, the Tier-I CRAR is below 8 per cent and if one excludes the perpetual bonds, the ratio will be affected adversely. The bank has almost reached the ceiling for raising perpetual debt instruments. However, there is enough headroom available for Upper Tier-II and Lower Tier-II capital instruments to shore up overall CRAR. The Bank has requested the Government of India to participate in preferential shares issue which would increase the government holding as also give an opportunity in the future for dilution and / or for rights issue. We are also looking at a consistently high return on assets of 1.25 per cent or more in medium term that would help in sizeable plough back of profits.

BS (United Bank of India) : In the long-run the proposed regulatory capital would certainly be a limiting factor for increasing the business of the banks. On the other hand, raising capital would not be an easy task considering the fact that Government's holding must not go below 51%.

In India minimum capital adequacy has been fixed at 9% higher than international minimum ratio of 8%. Government is proactively encouraging and taking steps to recapitalise the Public Sector Banks (PSBs) to maintain a higher ratio of over 12% capital to risk-weighted assets.

With the introduction of Basel-III, pressures on capital will further increase. According to rating agency ICRA, capital requirement suggested by the proposed Basel-III guidelines would necessitate Indian banks to raise ₹6 lakh crore in external capital over next nine years, besides lowering their leveraging capacity. It is the public sector banks that would require most of this capital, given that they dominate the Indian banking sector.

As for our bank, the Capital Adequacy Ratio (CAR) as on 30th September 2010 stands at 12.74%. We don't foresee any capital crunch in the current fiscal. The Bank is in a growth trajectory at present and we have an ambitious plan to increase our business significantly in next three years which necessitates more capital. We are aiming at augmenting our capital through increased internal generation by improving our profitability by proper pricing of our various products, strict monitoring and arresting slippages, recovery of NPAs, more non-interest income etc. Considering our planned expansion in the coming years, the Bank's Board has approved raising ₹350 crore Tier-I capital through IPDI route and Tier-II capital of ₹250 crore. Depending on the market conditions we would go to the market at appropriate times. Further, we may also consider going for FPO in future. However, IPDI market at present is not very deep; hence we may have to approach the Government of India for further capital support in coming years to sustain our growth plan.

AT (Vijaya Bank) : I don't think regulatory capital has in any way been a limiting factor in banks' asset growth so far. As of March 2010, combined CRAR of all SCBs stood at 14.58% against regulatory norm of 9%. Thus, most of the Indian banks are well capitalized and I don't foresee regulatory capital to be a limiting factor at least in the medium term. However, in a futuristic perspective, regulatory capital alone may not be adequate to support asset growth, going by the guidance on future loan growth, especially in segments like infrastructure and introduction of new regulatory benchmarks like Basel-III.

As far as Vijaya Bank is concerned, a CAR of 14.25% is considered quite reasonable. Further, we understand that the Govt. of India is also contemplating increasing the capital base of the banks where the Govt. of India share is moderately above 51%. In case of our Bank, Government's stake is at 53.87% and that probably would facilitate further capital infusion to support business growth. Our major focus, however, will continue to be on ways to improve retained earnings.

RK (Yes Bank) : The Indian Banking System is currently well capitalized with a Capital adequacy ratio of 14.5% as of March 31, 2010 and a Tier-I ratio of 10.1%, which is well above the regulatory limit of 6%. As the norms change with the transition to Basel-III, Indian Banks would be less affected as they already consider most of the deductions (like deferred tax assets, intangibles and investment in subsidiaries) mentioned under Basel-III for computing Tier-I capital. According to a Citi Research Report released in May 2010, the average reduction in Core Tier-I ratio in US / Europe would be 3.2% on average, and for India it would be close to 1%.

Challenges in regards to raising capital linked to conditions in global and local market conditions.

Higher Tier-I ratios of Indian Banks allow them enough time to be able to plan a capital raising depending on the requirements for growth and capital market conditions. Most banks, especially in the private sector have managed to raise capital consistently with a prudent mix of domestic & international investors on a timely basis and at attractive growth multiples / valuations.

YES BANK has a capital adequacy ratio of 18.2% with a 10.4% Tier-I ratio as of December 31, 2010. YES BANK has established a Financial and Investor Strategy team dedicated to consummating the financial strategy of the Bank and planning well in advance for future capital raisings and executing the same during favorable times. YES BANK has demonstrated its ability to raise all forms of capital through both benign and challenging market conditions (including raising perpetual Hybrid Capital in Feb-March 2009) and augmenting it regularly with high level of retention. YES BANK recently concluded its maiden QIP in January 2010 of ₹1,034 crores (US $225 million) which was placed very successfully and is well-capitalized to meet the current growth demands.

Expanding the Scope of Financial Regulation

The Joint Forum, composed of the BCBS, IMS and IOSCO, is analysing regulatory gaps in order to help ensure that the scope and the nature of financial regulation are appropriate. In January 2010, the Joint Forum, composed of the BCBS, IAIS and IOSCO, published its report on the Differentiated Nature and Scope of Financial Regulation. While the report covers a broad waterfront, the recommendations are focused on five key areas: (i) Key regulatory differences across the banking, insurance and securities sectors; (ii) Strengthening supervision and regulation of financial groups; (iii) Promoting consistent and effective underwriting standards for mortgage origination; (iv) Broadening the scope of regulation to hedge fund activities; and (v) Strengthening regulatory oversight of credit transfer products.

For the insurance sector, the International Association of Insurance Supervisors (IAIS) published on April 12, 2010, a guidance paper on treatment of non-regulated entities in group-wide supervision sector. The IAIS is also researching the design and practicality of a common assessment framework for insurance group supervision. Finally, the IAIS is currently preparing a new Roadmap for standard setting within the framework for insurance supervision which aims at setting out the policy direction and priorities for all IAIS standard-setting activities within the Framework for Insurance Supervision over the two-year period commencing January 1,2010. The IAIS has launched a consultation process among its members in order to raise the issue of what standard-setting initiatives should be undertaken in respect of supervisory review, reporting and assessment within the timeframe of this Roadmap.

IOSCO, which is a member body of the FSB, published in June 2009 a set of high-level principles for hedge fund regulation. The six principles include requirements on mandatory registration, regulation and provision of information for systemic risk assessment purposes. They also state that regulators should co-operate and share information to facilitate efficient and effective oversight of globally active hedge fund managers / hedge funds. IOSCO will continue its work in this area. National and regional initiatives are also underway in key jurisdictions.

A number of initiatives are also underway at the national level to review the adequacy of domestic regulation and fill identified regulatory gaps, including as part of broader financial sector reform proposals.

Source : RBI, Report on Currency and Finance, 2008-09.

2. Do you think in the Indian context, advanced measurement approach of risk as a goal can be pursued, to achieve capital efficiency? What are the constraints?

JPD (Allahabad Bank) : Ultimate benefit of advanced measurement approach will be translated in terms of enhancing the capital efficiency. RBI has come out with timelines for implementation of approaches and as a goal, we have to pursue and implement to reap the benefits. Constraints rather challenges will be in the area of IT infrastructure up gradation, reporting systems and making the data availability.

MDM (Bank of Baroda) : Yes, banks are already on way to adopt advanced credit risk management modules to ensure that capital needs are assessed on more scientific methods. The advanced approaches also enable banks to fine tune the capital needs and be able to maintain a CAR close to the regulatory requirements. Optimum management of CAR can facilitate maintenance of capital on just in time model. Since accessing capital involves costs, it is desired that banks adopt higher risk measurement modules to keep cost of capital low. Collection, collation and processing of accurate data from the branches to the central servers are a highly challenging task. More so, for large public sector banks having multiple branch network. Moving over to CBS systems has however brought about some standardization in pooling the MIS without much human intervention. But looking to the complexity and size of operations banks have long way to go to rationalize data collection. The banks will be able to move to advanced measurement approaches once the data warehousing and data processing are organized to align with the needs.

ASB (Bank of Maharashtra) : Marching towards advanced measurement approach aims at developing the abilities of the banks towards near accurate perception of risks in various activities undertaken by them based on the analysis of loss incurred over a significant time horizon. Such a Capital charge arrived at is expected to be significantly lower than regulatory prescriptions stipulated at present.

However, near accurate perception of risk will be possible only if granular data for previous years is captured and meaningful analysis thereof is done. Technological up gradation & designing suitable software are necessary for such purpose. Trained and skilled manpower to analyze and interpret such data for developing suitable predictive risk models would be a challenge in this direction.

SR (Canara Bank): The advanced approaches of risk as a goal can be pursued to achieve capital efficiency. The constraining factors, if any, associated with this are availability of robust MIS and quality staff with required expertise in risk management. In this regard, the Bank has already achieved 100% CBS. With identification and employing of suitable risk management software solution, building up of historical data bases and planned recruitment of risk management specialists, the constraints stated above can be overcome.

RP (Corporation Bank) : After introduction of Basel-II regulation, banks in India are in the process of establishing most efficient use of capital to support their business i.e., a changeover from capital adequacy to capital efficiency. In this process, return-on-equity will be determined by how effectively the capital is used. This will influence banks' business plans and helps them to grow in a systematic manner. One of the constraints in achieving capital efficiency is that the business decisions have often to be driven by market conditions rather than the efficient deployment of capital.

TMB (Indian Bank) : Yes, the advanced measurement approach of risk will result in capital efficiency.

In Credit Risk, computation of capital under the advanced approach will be a more scientific reflection of the quality of assets and with Indian Banks having larger percentage of high rated accounts in their portfolio will stand to achieve better capital efficiency under advanced approaches.

In Operational Risk, under the advanced approach capital provision will be the true reflection of the perceived operational loss and definitely will be much lower than the present level computed under basic indicator or even standardized approach worked out based on fixed percentages on gross income.

The constraints will mainly arise out of the quality of data inputs, especially in case of Operational Risk on external loss data. However, Banks are gearing up for moving over to the advanced approaches and Indian Bank has made considerable progress in this regard.

MN (Indian Overseas Bank) : The advanced measurement approach (AMA) is a set of operational risk techniques proposed under Basel-II capital adequacy rules. Under this approach the banks are allowed to develop their own empirical model to quantify required capital for operational risk. The RBI has also given a road map for Indian banks which are confident of migrating to this methodology. Of course, there may be risks associated with this technique. Basel-III is advocating a leverage ratio which basically seeks to achieve capital efficiency through quality asset build up and better risk management practices. For this, qualitative requirements such as governance, up skilling personnel for risk management and internal audit function (independent of each other), validation of models etc. are the areas where banks will need to put in place best practices for overall improvement in the Risk Management of banks.

NP (Oriental Bank of Commerce) : Implementation of advanced measurement approach is not a one-time measure; it is an on-going process. The method to adopt the advanced approaches should be a consultative and participative one. Banks in India are already in the process of implementation of advanced measurement approach and with the increased level of understanding and the development of technology, shall be successful in achieving the desired goal of Basel-II requirement.

The understanding (and not just the implementation) of the advanced measurement approach shall bring the essential changes in the way banks identify, assess and manage diverse risks across their strategic business units and incentivizes them with better risk awareness and higher risk-adjusted returns and hence assist them to achieve the capital efficiency. This approach not only emphasizes on sophisticated risk model for quantification of risk but also factors the effectiveness of internal control mechanism. The required capital under Advanced Measurement Approach will either increase or decrease depending on the effectiveness of internal control mechanism as compared to capital charge computed under present Basic Indicator Approach. However, the advanced measurement approach requires the sophisticated risk management systems, huge quality data and human resources with appropriate skill sets and proper training.

KRK (Punjab National Bank) : The fundamental objective of the Basel II is to develop a framework that would further strengthen the soundness and stability of the banking system. The revised framework intends to promote the adoption of stronger risk management practices by the banking industry. The new accord seeks to arrive at significantly more risk-sensitive capital requirements (instead of broad brush approach of Basel-I) that are conceptually sound and at the same time pay due regard to particular features of the present supervisory and accounting systems in individual member countries. A significant innovation of this Framework is the greater use of assessments of risk by banks' internal systems as inputs to capital calculations.

Advanced approaches permit banks to estimate their own risk parameters necessary for capital computation. These approaches are more granular and incorporate risk culture of the organization among other quantitative parameters. The banks having better control, robust risk management framework and embedded risk culture across the organization are set to be in advantageous position as far as capital requirement is concerned. In India, regulatory control is far more efficient and effective. This is one of the major reasons that India came out unscathed from recent financial turmoil. Further, Banks in India are subject to various audits at central as well as unit level. Granularity of the advanced approaches and better control environment in Indian context will help banks in attaining capital efficiency. Banking is an art of “striking a balance” between “Risk and Return”. Adoption of these approaches will help banks in getting better equipped in handling this risk return trade off. It will facilitate banks in directing their operations towards optimization of business growth and profit.

Some of the challenges in adoption of these approaches relate to creation of data base for estimation of risk parameters, embedding good risk management practices into the day to day business processes and need for human resources with appropriate skill sets and proper training for adopting sophisticated risk management techniques, particularly under the advanced approaches. With average age of Public Sector Banks' officers being above 50 years, the task becomes challenging. Short data history, and lesser number of data points in LGD (Loss Given Default), EAD (Exposure at default) and high impact low frequency events in operational risk may give distorted results. Efforts for creation of pooled data are required to be made requiring collaborative efforts amongst banks and supervisor.

AK (UCO Bank) : The advanced measurement approach (AMA) (proposed under Basel-II capital adequacy rules) allows banks to develop their own empirical model to quantify required capital for operational risk. Banks can use this approach subject to approval from their local regulators.

AMA not only brings about improvements in risk management but also promotes an enterprise-wide risk capture and assessment culture across all business units of an organization. It makes use of the prevalent best practices of banks to develop techniques for identifying, measuring, and attributing capital for operational risk.

Today, development of internal models and the implementation of the AMA is a significant challenge facing the Indian banking industry. The major constraints are lack of a) relevant external loss data, and b) skill levels in the banks to put in place the AMA model. It will take some time to develop necessary human skills for : (i) putting in place statistical models for measuring the capital charge, and (ii) designing and incorporating inputs in the models.

MVN (Union Bank of India) : The Indian Banks have already shown their commitment to adopt the international best practices in all the spheres of the banking. The banks are taking effective steps to move towards advanced measurement approach of risk. I believe that banks will also achieve capital efficiency as they are cost conscious.

There are constraints though. Firstly, the implementation of advance approaches will require intensive skills and technology. Then there are issues with quantification of risk and the right model for this. There will be need to adopt appropriate risk modeling and other computational techniques of risk measurement. There will also be a need to integrate risk management process with capital planning strategies. The quality of data is yet another issue. The positive thing is that the banks are already working on it and should be able to address these constraints effectively.

BS (United Bank of India) : The advanced measurement approach (AMA) is a set of operational risk management techniques proposed under Basel-II. The AMA is an objective methodology, more sophisticated than the basic Indicator / or the Standardised approach. For implementation of this methodology there are some constraints too.

Under advanced measurement approach which is the most sophisticated of the three, banks can develop their own model for measuring operational risk and quantifying the capital requirement. However, for using the AMA approach the banks need to create requisite technology and the risk management infrastructure including required database, MIS and skill upgradation. The major constraint is the lack of historic data on loss events. Another constraint is the lack of proper skilled persons in risk management area. Banks will have to select specialized skilled persons for recruitment and they should be given training to avoid such deficiency.

AT (Vijaya Bank) : I feel, banks will definitely achieve capital efficiency by moving forward towards advanced measurement approach of risk management. However, for this, banks need to put in more efforts, especially to overcome constraints like inadequacy and cleanliness of data, lack of trained manpower, cost involved in IT infrastructure, need for sensitizing the branch personnel with regard to the nuances involved in advanced approach. These efforts will benefit the banks not only by saving additional capital requirement but in reducing the credit, market and operational risks in the organization.

RK (Yes Bank) : The constraints faced by Indian Bank for migration to Credit Risk and Operational Risk Advanced approaches is mainly from the perspective of insufficient historical data for computation of PD (Probability of Default) & LGD (Loss Given Default) and Operational Loss. There will also be issues pertaining to Integration of data from various source systems for migration to advanced approaches. Additionally, for Public Sector Banks (as for other banks), there will be a need to up-skill the human resources for these specific functions.

3. The base rate system has been introduced. Will this enable banks to respond to changes in policy rates more effectively? Will this result in more risk-focused lending rates?

JPD (Allahabad Bank) : Policy rates, as hitherto, were transmitted albeit with a time lag. The Base Rate mechanism which is a continuous process with provision for review at greater frequency will enable banks to respond to changes in Policy Rates more effectively and transmit the same immediately. The mechanism captures market volatility in interest rate which will definitely translate into more risk-focused lending rates.

MDM (Bank of Baroda) : The base rate system has been introduced to ensure faster transmission of monetary policy measures, more particularly interest rate signals. The transparency and disclosure of computation of base rate provides more confidence to the market about the reasonability of pricing. Since markups beyond the base rate are meant to cover the perceived risk in lending, it clearly transpires the method of measuring and pricing of risk. As a result base rate provides more clarity in linkage of lending rates with risk. Hence the concept of base rate is more risk focused in determining lending rates.

ASB (Bank of Maharashtra) : The base rate system was introduced for the purpose of correlating policy rates to the lending rates. The major component in base rate computation is the cost of funds which normally is derived from the policy rates, though with a lag. So, the base rate will enable banks to respond to changes in policy rates. Risks are always factored in loan pricing, irrespective of the process whether BPLR or Base Rate. Lending rates based on Base Rate mechanism have an added component of Credit Risk Premium, Tenor Premium & Product Specific Cost. To ensure risk return tradeoff, ultimate lending rates can be prescribed based on the risk appetite of the bank and the profitability projections.

SR (Canara Bank) : Under BPLR regime, the pricing of a significant proportion of loans stayed far out of alignment with BPLR, thus undermining its role as a reference rate. This perception was reinforced by wide dispersion persisted in actual lending rates owing to substantial sub-BPLR lending.

The Base Rate system has been able to achieve transparency in the process of pricing of credit. The key factors which go into fixation of base rate are aligned to policy rates. Hence it is expected that ultimate lending rate will stay in tune with the policy rates as well as estimation of risk. The Base Rate system has led to risk based approach in pricing the credit and curbed cross-subsidization to a very large extent.

RP (Corporation Bank) : While the Base Rate may be more sensitive to the policy rates than the BPLR, ultimately it is still based on the internal costs for the bank in the form of cost of deposits / funds. To the extent that T-Bill rates are factored into the equation, the Base Rate does become sensitive to market conditions, but the over-riding factor is the internal, historical costs which would take at least a quarter, till the next Base Rate change, to get factored in. To that extent, the Base Rate would respond with a lag of at least a quarter.

TMB (Indian Bank) : Base rates were aimed at bringing more transparency in the lending market and banks cannot lend below the base rate.

Under the base rate system, the lending rate adds up risk premium to the base rate and naturally this will result in more risk focused lending rate. But this may take some more time to settle down fully.

Reserve Bank of India has allowed banks to follow any specific methodology for calculation of the base rate and had given them time up to December 2010 which has been further extended to June 30, 2011 for any change in methodology of calculation, after which banks would have to stick to the same methodology.

The Base rate of a bank is calculated on the basis of the cost of its deposits, which is a major component of the base rate formula. Policy rate hikes of Reserve Bank have a direct bearing on the liquidity and cost of funds for the Banks. Definitely, banks would be able to respond more effectively to changes in the policy rate by RBI. But the only rider is that banks can change their base rates only once in a quarter, which means that during the interregnum, the banks would absorb any change in the policy rates, either upward or downward.

MN (Indian Overseas Bank) : Broadly, the banks are deciding the Base Rate based on the benchmark of cost of deposit or offered deposit rate in specified time band. The lending rates are fixed based on the targeted NIM. As such the changes in deposit rates and lending rates complement each other.

The deposit rates offered by banks are market driven depending on the asset-liability position of the specific banks. Policy rates are the indicator and driver for bank's interest rate movements. However, there is a time lag between the movement in policy rates and the movement in the benchmark for the Base rate depending upon the change in composition of deposit portfolio and re-pricing of deposits thereof.

It is easier to add a risk premium to the base rate based on the principle that higher the extent of expected default, higher will be the risk premium; which is in line with Basel principles that provision for expected loss should come from the borrower while that for unexpected loss should come from capital (owners).

NP (Oriental Bank of Commerce) : Yes, the Base Rate system has resulted in increasing transparency in lending rates and improves monetary policy transmission as it is computed scientifically and linked to market variables i.e. T-Bill yield, CRR, SLR, hence, more responsive to the monetary measures than the earlier BPLR system. It is also expected that the base rate system will make credit pricing more efficient and bring discipline in financial sector while pricing a borrower.

Pricing factors by banks are becoming more and more risk-focused. Though absolute quantification of all material risks associated with counterparty is difficult, the technological sophistication in banking industry will make it easy to translate most of such risks into risk premium. The efficiency with which risks are assessed by the banks will impact financing of various activities and also benefit the borrowers.

KRK (Punjab National Bank) : Base Rate system adoption is aimed at improving transparency and pricing of credit, resulting in risk based pricing as it factors in credit risk premium as well, among other factors. It gives freedom to Banks in their loan pricing decisions while ensuring transparency and improving disclosure system.

However, given the fact that base rate is to be reviewed quarterly while monetary policy is reviewed twice in a quarter, monetary policy rates get transmitted effectively into lending rates with a lag. Moreover, lending rates also depend upon liquidity conditions and competition. Indian Banks are yet to perfect risk based pricing.

AK (UCO Bank) : The Reserve Bank of India (RBI) has allowed banks to formulate their own benchmarks for setting their base rates. All that RBI wants is that banks should have a sound methodology which is to be applied consistently and in a transparent manner. Obviously, the base rate is arrived at taking into account, among others, the cost of funds. Before finalizing the rate, each bank takes into account the prevailing rates in the market, price in its expectations over the next few months and figures out what they can offer their best borrower. Subsequently, if the factors / circumstances that go into arriving at the base rate change, then the rate will change accordingly and so will the ultimate rate to the borrower. Thus, the new system is expected to help banks align lending rates with policy rate changes introduced by the RBI periodically.

As far as factoring in risks are concerned, banks price their loans based on internal grading to companies in a way that lowest rating receives the highest risk premium. Thus, the best-rated corporate can get loan at base rate whereas for others the rate can go up, say, by 25 bps for every rung of the risk ladder. With emphasis on Basel-II norms, risk-based pricing and the tenure of loans would play crucial role in determining effective rate charged to customer.

MVN (Union Bank of India) : The interest channel of monetary policy transmission in India has been weak. Commercial banks are the entities through which policy rate signals get transmitted to the credit markets. Traditional benchmark prime lending rate (BPLR) system has extended lags in reflecting the policy changes. In this backdrop, base rate system was introduced effectiveJuly 2010. It is too early to pass a judgment on its efficacy; however, the experience so far suggests that the new system is proving to be more effective. There are reasons why I believe so. Firstly, the calculation of base rate is quite transparent and parameter based. After initial cooling period allowed to banks for setting their base rate formula, banks will have pre-defined parameters, changes in which will impact base rate. Secondly, barring a few, all loans are referred to base rate and sub-base rate lending is prohibited. So, unlike BPLR changes, a change in base rate would cause parallel shift in loan yield curve of the banks across the loan segments. Hence, changes in base rate are transparent and non-discriminatory.

While base rate is the floor, additives for actual lending rate to the borrower are customer specific charges, product specific costs, credit risk premium and tenor premium. Obviously, banks have to cover specific risks by loading risk premium. I would not say that base rate is more risk-focused; rather it rightly captures the risk associated with type of customer, his business line as well as the tenor of the loan.

BS (United Bank of India) : The base rate system has been introduced by the RBI since 1st July, 2010. In the words of RBI "The base rate system is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy."

The BPLR system, introduced in 2003, fell short of its original objective of bringing transparency to lending rates. This was mainly because under the BPLR system, banks could lend below BPLR. For the same reason, it was also difficult to assess the transmission of policy rates of the RBI to lending rates of the banks. The Base Rate system is aimed at enhancing transparency in lending rates of the banks and ensuring faster response to the policy changes.

Banks determine their actual lending rates on loans and advances with reference to the Base Rate and by including other customer specific charges which include risk premium as well. The components of the base rate are the key factors. With the changes in policy rates the components respond to the changes and the effect on base rate depends on the accuracy and sensitivity of the components. The components of base rate system are made more transparent than the BPLR system to enable to respond in a more accurate and sensitive manner. It is expected that this will enable the banks to respond to changes in the policy rates more effectively.

Regarding risk focused lending rates, the banks have been incorporating the risk premium in their lending rates in some form or other for a long time especially after introduction of prudential norms of income recognition and asset classification. Under the new regime of Base Rate, as stated earlier, now the banks have to be more precise and transparent in measuring the risk for a particular borrower / activity so that the risk premium and other borrower specific charges can be loaded to the base rate to arrive at a more scientific pricing of the loan. Further, the system of pricing should be made available for supervisory review / scrutiny, as and when required. Therefore, from this angle it appears that the base rate system would result in more risk focused lending rates.

AT (Vijaya Bank) : Base rate system has brought in a dynamic element into the loan pricing mechanism. It has also helped to ensure better monetary policy transmission as banks are given leeway to align their Base Rates once in a quarter, in sync with changes in key policy rates and their liability structure. I must say, Base Rate has largely done away with element of arbitrariness in loan pricing. It also reckons and factors in risk perceived into pricing of loans as it mandates no loan to be extended at rates below Base Rate. In a way, it has addressed the malaise of huge loan portfolios at sub-BPLR rates- a feature typifying many banks until recently.

RK (Yes Bank) : The base rate regime has introduced transparency in domestic bank lending rates as the lending rates are now benchmarked against internal cost of funds for each bank. The recent migration to the base rate would place the new regime under regulatory auditable process, which is beneficial for all the stakeholders in the industry. While this enhances transparency in the lending architecture of the banking system in India, it also has the advantage of capturing monetary policy signals from the central bank in an efficient manner with timely transmission to external stakeholders.

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4. The real rate of interest on the deposits has been negative over the last two years. Banks are offering low interest rate on deposits unmindful of the fact that deposits constitute the largest chunk of resources. Will not such sustained negative returns affect the deposit base in future? Is it not time to offer floating rates which will give positive returns?

JPD (Allahabad Bank) : Inflation is the sole factor in turning the real ROI into negative. Though, taming the inflation is not in the domain of Bankers but its effect on deposit base is a cause of worry. As of now, making availability of credit at market absorption rates for growth is on our priority. Offering floating rates on deposits may become a future reality.

MDM (Bank of Baroda) : The interest rates on deposits are subject to market conditions. The contention that the interest rates are negative in real terms is not correct. The pricing of deposits are not factored to inflation rates. The rates of interest on deposits are dependent on demand and supply of funds at any given point of time. The interest rates are now on a rising curve which is cyclical in nature. Fluctuations in interest rates are to be accepted as a market reality. Banks offer liability products as a repository of faith and interest rates on them are susceptible to volatility. Depositors learn to accept the phenomenon of fluctuations in deposit rates as a mark of market maturity. I do not think that matured markets can impact the flow of resources into the banking system.

ASB (Bank of Maharashtra) : Economic conditions in the past two years have been very different from normal. In the wake of unprecedented scale and nature of financial turmoil in the international financial market Indian economy, like other developing economies, witnessed dry down of inflow of foreign capital and sharp fall in exports to developed countries. As a result economic growth in India slowed down. Annual economic growth decelerated from the level of 9.7% in Q3 of FY08 to 5.8% in Q4 of FY09. For reversal in the falling trend of economic growth rate the Government of India announced a slew of fiscal measures including reduction in tax rates, increase in government expenditure, hike in wages and salaries of government employees, increased expenditure in employment generation schemes, in order to spur aggregate demand. Government expenditure induced increase in domestic demand coupled with supply side rigidities resulted in high rate of inflation.

During this period, commercial banks contributed to the process of returning to accelerated economic growth path by way of providing adequate funds for investment at reasonably low rate of interest. In order to keep lending rate reasonable, deposit rates could not be raised in sync with high rate of inflation.

However, with the Indian economy returning to high growth path and demand for credit picking up banks are in a position to increase lending rates. This also allows banks to offer higher rate of interest on deposits. In this fiscal so far, deposit rates have gone up by about 150 - 200 basis points, while WPI based inflation has eased to about 8 per cent from about 11 per cent. As a result, real rate of interest has turned positive and in coming months with further easing of inflation pressure that will improve. In the long run with compounding interest benefits, depositors would get reasonably good real returns on their bank deposits.

Bank deposits provide fixed rate returns wherein the depositors are protected from the possible future fall in interest rate. Although floating rate interest may assure a more or less stable real rate of return, finding a suitable benchmark is difficult. Due to structural and frictional rigidities interest rates in the market do not move in perfect tandem with inflation rate. Therefore, benchmarking any market rate of interest would expose retail depositors to large scale uncertainties.

SR (Canara Bank) : In view of the persistent high inflation rate, the Reserve Bank of India has been making calibrated increase in the key policy rates. Taking cue from the same and also taking into consideration the market situation, the banks have substantially increased the deposit interest rates over the last three-four months.

Incidentally, Canara Bank also has a floating rate deposit Scheme, with interest rate linked to average monthly 91 days T-Bill rate. However, Indian customers are attuned to fixed rate deposit schemes and the floating rate schemes are yet to pick up in the Indian context.

RP (Corporation Bank) : The economy had experienced high rate of inflation from in year 2008 from Apr-May'08, which continued up to Dec'08. Year 2009 had witnessed a fall in the inflation rate to even negative levels. The inflation started again picking up in Dec'09 and is still above the comfort levels of the regulator. The real rate of interest was positive for most parts of the year 2009, however, the current levels of high inflation has rendered the real rate negative. This might be the reason that the deposit growth for most part of the current financial year has remained muted and much below the expected 18% level mentioned by the RBI in its annual policy document.

As a result of tightening liquidity in the market and credit growth picking up, banks have been forced to raise their deposit rates in recent months, to attract depositors. However, it may take some more time for the depositors to shift their resources back to the banks from the other avenues where they may have been parking their funds. They may also start switching funds parked in savings deposits to term deposits, thereby keeping overall deposit rate at same level while increasing cost of funds for the banks and lowering their CASA ratios. How much the banks will be able to pass on this higher cost to the loanees remains to be seen in a competitive market. There are chances that NIM may decline in such a scenario.

As regards floating rate deposits, such schemes have been floated by a couple of banks but as far as we understand they have received lukewarm support from the market, principally because banks would be wary of promoting such schemes in a rising interest rate scenario, which can raise costs. The situation can appreciably worsen when the interest rates start coming down and customers rush to demand prepayment of such deposits. In a falling interest rate situation depositors would not like to park their money in such deposits.

In the current market situation, it is difficult to decide on a suitable benchmark to which floating rate deposits can be linked. Also, while deciding on the floating rate, care needs to be taken that the earnings are able to match the increase in the rates, if any in the near future.

TMB (Indian Bank) : I agree that inflation in India is high when compared to other developed countries. But Banks have been raising their deposits rates in tune with the market conditions. However, I do not agree that banks are offering low interest rates on deposits.

Deposits constitute the largest chunk of Banks resources and any increase in interest rates will result in passing on the same to borrower customers.

Banks are progressively reducing their operating expenses and will allocate the interest rate benefit to both their depositors and borrowers.

In India, most banks are offering fixed rates, though Reserve Bank in India in its monetary and credit policy for 2002-03 had advised banks to put in place a flexible interest rate system for deposits along with the fixed rate option. The idea of mobilizing floating rate deposits did not gain currency mainly because suitable systems and procedures were not in place. The absence of suitable bench marks has been an inhibiting factor; the benchmark developed was 5 year and 10 year G Secs. There is a need for a suitable benchmark where the volatility is minimum and which mirrors the movement in the overall interest rate.

Besides, customer behavior and pattern, especially in India play a pivotal role with regard to floating rate deposits. In India, customers basically like to be assured of fixed returns which they contract at the time of opening deposits. In circumstances, where the interest rates become volatile and goes down, it might affect the customer's sentiments. Under floating rate mechanism, interest rates would be dynamic, changing with the benchmark and the market conditions. Proper information dissemination would be a priority for the banks to enable customer awareness with regard to the prevailing interest rates.

MN (Indian Overseas Bank) : Interest rates are a complex subject. One has to see the interests of the savers as well as the borrowers. Both are intertwined. The policy makers have been mindful of the inflationary trend in the past year and have been adjusting up the rates periodically so as to keep the real interest rates positive. There is a possibility that the SB interest rate may also be freed. Inflation indexed bonds are also being talked about. All these will to some extent protect the savers against inflation.

NP (Oriental Bank of Commerce) : Indian savings market is peculiar where many other factors like safety of deposits; small savings etc influence the investor's decision along with the level of interest rates. Majority of small investors here are still risk averse and have not evolved as rational investors. Unlike developed market *viz.,* US that is more consumption oriented, the middle class dominated Indian market is more inclined to saving and that too long term. Hence in long term, the deposit base may not be impacted and shall remain with the banking industries. Nevertheless, the growth in Savings Deposits of Banks has been encouraging and put the economy in confidence apart from several ups and down.

The growth data (YoY%) on savings deposits of SCBs is given below.

Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
16.7	16.4	22.7	26.5	26.2	28.8	26.3

The Indian market is growing at a great pace with the average rate of growth of around 8%. The global market crisis also had little impact on the economic growth. Though, it is true that the last two years has witnessed very high interest rates, but that is majorly due to global factors like rise in food prices, crude oil, global melt down etc. The present high credit growth in India is a cause of concern because it builds inflationary pressure. However, the outlook of Indian economy is positive and the long term economic indicators are in the comfortable zone. Hence, in long term the real rate of interest of Indian investors who are more inclined towards long term investment in deposits is likely to remain positive.

KRK (Punjab National Bank) : Inflation rate had been negative over June - August 2009, up to October 2009 when it was close to 1%. During that period, deposit interest rate ranged around 6%. Hence, there were no negative returns to the depositors. The inflation rate has been on the higher side since January 2010. The deposit rates did not witness an increase around that time because of sufficient liquidity in the system to support credit demand which was moving at a slow pace around that time. However, as liquidity pressures built up due to a pickup in credit and the hike in rates by the regulator to indicate a tightening stance to curb inflation, the banks have also responded by effecting increases in deposit rates. This has been coupled with introduction of many attractive deposit schemes by various banks to attract depositors. Moreover, bank deposits offer assured return to the savers as against other market linked schemes which do not guarantee returns. Floating rate deposit schemes were launched by Banks. But it did not find customer acceptance. This is mainly because customers can opt for premature renewal of deposits in risky interest rate scenario, where they stay insulated in falling interest rate scenario under formal deposit schemes. Thus the customers can have best of both worlds under the preset type of deposits.

AK (UCO Bank) : Interest rates on deposits as well as loans are determined by a broad range of factors such as liquidity, deposit growth and policy rates.

It is because of high inflation, the real return to depositors was negative. Inflation affects everybody including the banks, as inter alia their administrative overheads go up. In fact, the banks have been quick in increasing the rates of interest on deposits in line with the RBI signals / market requirements. (Deposit growth of commercial banks was 17 per cent for the year till February 11). Consequently, banks have to hike their lending rates to maintain their margins. But banks have to maintain a fine balance between the cost of funds and the pricing of loans so as not to affect the economic growth of the country.

RBI data show that for 2009-10, public sector banks experienced a shift in their deposit liabilities towards the short-term end of the maturity. With 60-65% of the deposits having maturity period of one year or less, effectiveness of floating rates remains to be seen.

MVN (Union Bank of India) : Banks are aware of the situation. The past 6 to 12 months have been highly uncertain on inflation front as the causative factors changed intermittently. Secondly, credit pick-up was subdued during this period. In this set up, banks did not have any inducement to mobilize deposits at higher rates. Thus a combined effect of high inflation and subdued loan growth resulted in prevalence of negative real interest rate conditions. Definitely, this has adversely impacted the deposit growth of banking system. As the signs of busy season pick-up in loan demand are increasingly visible, banks have started responding. In fact, almost every bank has raised interest rate on deposits over the last six months. At my bank itself, deposit rates have been raised five times during current financial year. Deposits rate hikes coupled with gradual decline in inflation has now reduced the extent of negative real interest rate. With inflation projected to be around 6.0 per cent by December 2010, one can see emergence of a positive real interest rate scenario. This would be essential to give a push to deposit mobilization for meeting the increasing demand for loans.

Of course, floating rate deposit is a good alternative for depositors as a hedge against interest rate movements. However, such product has not been popular amongst depositors in our country in the past. The traditional household savings that come to the banking system via deposits seeks safe and sound return. The awareness amongst the masses about floating rate products is lacking and thus, the response to such products is not encouraging. Even for those who understand floating rate deposits, the downward movement of deposit rates becomes a worry and pre-closure & conversion to fixed rate is normally seen. Such behavior of depositors may also be a concern from bank's asset-liability management point of view. Hence, I do not think we are game for a floating rate deposit products in India as of now.

BS (United Bank of India) : There is deceleration of deposit growth in banks due to eroding value of depositors money that earns interest lower than prevailing inflation. RBI in its Mid Quarter Monetary Policy Review on 27th September observed the 'need to end the prevalence of negative real interest rates.' This has prompted the banks to hike deposit rates. But the fact remains that there is erosion of value of the depositors' money and if the negative return continues for long, there is possibility that the deposit growth in banks in future would be affected. Previously banks / post-offices were the option for the general public for the purpose of savings. Now the market has expanded and mutual fund and equity market , where the rate of returns are more than the bank deposits, are taking away a large chunk of funds from general public which would have normally come to banking channels. People are now more aware of various options before them especially in terms of risk and returns. The alternative avenues to the depositors would pose a challenge to the banks. Hence, unless interest rates on deposits are tuned with the market rate of return, there remains a possibility of further slowing down of deposit growth.

Floating rate on deposits may be a possible alternative to attract more bank deposits. We feel that floating rate of interest on deposits, though would capture the market trend in interest rate movement, would attract the depositors so long as the interest is rising. However, in a falling interest rate regime it is likely to have psychological effect on the general customers. Floating rate would introduce more volatility in deposit interest rates which the general customers are not used to handle so long. The banks may consider introduction of floating rate of interest on bulk deposits which are generally mobilized from institutions and mostly for the short term.

AT (Vijaya Bank) : The issue of negative Real Rate of Interest on deposits, it goes without saying, is due to high inflation levels - an area of unprecedented policy focus. Several Policy initiatives have resulted in moderation of inflation, which is still above the comfort zone. I believe, with hardening trend in interest rates and further moderation in inflation level by the year-end, the real interest rates could get closer to positive zone. As regards floating rate deposits, a major issue is about finding a proper benchmark. I don't think, given the extent of integration among various market segments, we have graduated to the era of a foolproof floating rate system. I am aware few PSBs had in the past attempted floating rate linked products but didn't meet the desired outcome.

RK (Yes Bank) : The high inflationary environment has resulted in real deposit interest rates turning negative. However, with the onset of monetary policy tightening by the Reserve Bank in India alongside scarce domestic liquidity conditions, banks have responded quite actively over the last 3-4 months. As a result deposit rates in general have moved up by over 200 bps, which has recently reflected in a pickup in deposit mobilization.

The elasticity of deposit mobilization with respect to real rates is low for the system as a whole due to lack of availability of short term alternative investment opportunities on comparable risk parameters. However, if real rates persistently stay negative for a sustained period of time, then there could be some minor reallocation towards small savings, PF, etc.

In India, the market for floating rate deposits is underdeveloped due to lack of a robust underlying benchmark. Most of the floating rate deposits have been benchmarked on the overnight MIBOR, which per se, is not a reliable benchmark from the perspective of inflation adjusted returns. The absence of any nationwide inflation index which covers the entire economy makes benchmarking complicated.

5. Indian exports are not substantial in terms of its share in the volume of international trade. Is there a special strategy / focus to achieve statutory enhanced credit flows to export sector in your bank, given the fact most of the banks did not even achieve the statutory export credit limits and what are the challenges?

JPD (Allahabad Bank) : Though we are not able to achieve export credit of 12%, but have taken proactive steps like holding Exporters Meet etc. The YoY growth in the export credit is around 15%.

In view of greater demand for foreign currency loans, Bank is gearing up its Hong Kong Branch and Treasury at Mumbai to streamline procedures so as to make foreign currency loans accessible to exporters.

MDM (Bank of Baroda) : As a net importing country, Indian economy has to always operate with a trade deficit.

Moreover the financial crisis had further doused the export sentiments in the last couple of years. Indian exports are now fast picking up to reach US$ 200 billion in 2010-11. The bank finance to export sector is also on the rise. But the recent slowdown in exports led to lower export credit as a consequence. Therefore many banks could not reach the 12 percent mark of export finance. Banks are now refocusing on export finance as a means to step up its ancillary services too. The major challenges in export finance relate to volatility of rupee and global developments. Since there is interdependence with domestic financing opportunities, banks look for export finance as a marketing tool. With the opportunities of domestic foreign business on rise, export finance activities too will also scale up.

ASB (Bank of Maharashtra) : Exports from India have shown sizeable growth in the current FY with 26% growth in Dollar terms and 20% growth in Rupee terms in April-November 2010 over the corresponding period last year. Government of India has taken several initiatives to expand exports to untapped markets through its Focus Market Scheme which provides incentives upto 2% for exports to select countries.

Exporters face certain challenges in terms cost and quality competitiveness as well compliance with international best practices, employment of child labour in certain sectors, quality concerns like rejection of the consignments of grapes exported from India, and infrastructure. However, our exporter community has taken number of steps to improve their corporate practices to conform to the international standards.

Coming to banking support for this sector, banks have adopted latest technology to provide speedy remittance and transmission facilities, on par with international standards. As regards costs, however, exporters have voiced their concern about higher interest as well as transaction costs of Banks. Our Bank is taking review of these areas. Exporters need foreign currency denominated Export Credit at very low spread over LIBOR. We feel that RBI should consider providing foreign currency funds to PSBs who are not having branches abroad at competitive rates prevailing in the International markets.

Our Bank has taken the following steps to increase our lending to the sector.

- For benefit of our clients, we have strengthened our infrastructure and processes. We have integrated domestic as well as forex business at our Corporate Finance branches in Mumbai and Pune so as to provide all facilities to our corporate clients under one roof. We have taken steps to expand the network of 'B' category branches of our Bank and have already opened new Forex Centres at Vashi & Gurgaon. More Forex centres are planned at Chandigarh, Raipur, Firozabad and other places.
- Export sector mainly comprises small and mid-sized corporates. With a view to have focus on catering to the requirements of mid-corporates, we have set up a Mid-Corporate Desk at our Head Office.
- Challenges are in the field of specialized manpower requirements. We are planning specialised training programmes for our forex personnel.
- Meeting the requirements of the Exporters for export credit in foreign currency is another area of concern. We are raising resources through line of credit with our correspondent banks so that we can provide low cost funds to our exporter clients. We are also revisiting the ROI structure on our Export Credit finance so as to make it competitive for our exporter clients.

SR (Canara Bank) : In view of the renewed importance of trade flow during the economic recovery phase, the Bank is playing an active role in finance of exporters and importers. The Bank has over 120 designated branches that provide credit to exporters and importers. The outstanding export credit of the Bank is about ₹9,000 crore.

RP (Corporation Bank) : The global recession has affected our export front too. However, the Govt. initiatives, including stimulus package, have certainly helped to curtail the impact of global recession on our economy and our export have bounced back. There has been a good growth in export in almost all segments. The Bank's performance under Export Credit front has also improved during the current fiscal. The Export credit portfolio which had shown negative growth, to the tune of ₹95 crore during the FY 2009-10, has now reached a level of ₹2,955 crore as at 31.12.2010, showing a growth of ₹303 crore over March-2010, registering annualized growth of around 15%. We foresee further growth in export sector in the remaining months of the current fiscal & future years.

Bank has taken several initiatives to improve the credit deployment to Export Sector and the major initiatives are as under :

- No. of Designated Branches [ADs] have been increased from 43 to 52 and all these branches have been connected to Forex Division [IIBD-Mumbai] The bank has implemented STP [Straight Through Process] between all the ADs and IIBD, which facilitates the automatic updation of every transaction done by the AD at our IIBD. This allows improved service to the customers.
- With a view to encourage branches to improve the performance, export credit is included as one of the performance parameters in the planning exercise. Export / Import customer meets are held periodically at potential centres in order to get feedback on the products / services offered by the Bank. Further, focused attention is given to meet the needs of existing exporters.
- The Designated branches have been advised to popularise the Gold Card Scheme for exporters in order to encourage exporters with satisfactory track record. The scheme provides various incentives such as lower rate of interest, concession in service charges, expeditious sanction, relaxation in security norms etc. We are also in the process of opening new branches in export potential centres in order to improve the export credit.
- For the Credit Plan for fiscal 2010-11, export credit has been projected at a level of ₹3,500 crore, with an aggregate growth of ₹817 crore or 30.5%.

TMB (Indian Bank) : India's trade has grown fast, and currently accounts for 1.5% of world trade (2009), according to the WTO. India's economy is mostly dependent on its large internal market with external trade accounting for just 20% of the country's GDP in 2009-10.

Indian Bank has taken serious efforts to improve upon its export credit limits and credit marketing is done in this area and we have also organized exporters' meet at various centres. The Bank has also expanded its lending under FCPCs and has strong presence in lending to cashew exporters in Quilon and tobacco exporters at Guntur.

MN (Indian Overseas Bank) : India's foreign trade has been growing the fastest in the past years. Indian exports have doubled its share in the country's GDP since 1998. India's share in the global trade has also increased to 2% from less than 1% for many years. Still exports have a long way to go to be a major player in world trade. Export Sector is a thrust area for the banks.

We have set clear targets for exports in our loan portfolio. Exports given priority while forging partnership with various commodity boards. Need based line of credit for 3 years is extended to exporters which is enhanced if required. IOB Expo Gold card offers exporters interest concession and other concessions. Finer rates for all categories of exporters are given. Sales Desks have been set up to guide exporters. Presently, the major challenge faced by the exporters is the volatile movement of foreign currencies against Indian Rupee.

NP (Oriental Bank of Commerce) : The share of Indian export in world economy though not substantial is critical as it decides the movement of economy in terms of currency value and trade balancing. Also, the employment generation is important factor in export industry.

India's exports have shown remarkable resilience in recent years with a growth rate above 20% in dollar terms since 2002. But in recent time, the global recession jolted this continued upward growth even then export growth in 2008-09 stands at a respectable 13.6%, indicating that India had weathered the crisis better than other countries. This has resulted in slackness in trade credit.

The difficult financing conditions prevailing in the international credit markets and increased risk aversion by the counterparties exulted declining trend in Export Credit as a percentage of Net Bank Credit (NBC). The total export credit outstanding as on 24th March 2000 was ₹39,118 crore contributing 9.8% of NBC, which increased to ₹1,24,360 crore as on 15th January 2010 but share in NBC declined to 4.1% in ten years span of time. This is alarming situation and the matter is of introspection both from the macroeconomic point of view and banking side. Though the government and RBI took number of stimulus measures, decline in external demand resulted in negative growth in India's trade over the previous year.

OBC's strategies :

- Potential centers have been identified to explore the business opportunities. The consortium and multiple banking accounts at branch are put in place such as constituents belonging to MSME Sector with forex facilities requirement.
- We have been arranging Exporters Meet at major centers for creating an awareness of the latest products.
- Leveraging on Customer Relationship Managers (CRMs) for Non Fund Based business.
- Special emphasis on Skill development. Apart from extensive training of the newly recruited staff, workshops at various locations to sharpen the skills and knowledge levels of existing staff.

The minimum statutory level (12% of NBC) applies to Foreign Banks only being kept in priority sector lending. But Public Sector Banks are also a major contributor due to their vast presence and customer relations. The loyal customers of PSBs do not want to go out normally. Yes, there are challenges like high delinquency level in export credit and increased competition for low interest rates. In recent period the slackness in export from India coupled with high rate interest regime contributed to less utilization of export credits.

KRK (Punjab National Bank) : The exports segment was the most impacted one by the global economic crisis which led to a decline for twelve consecutive months since October 2008. However, things started looking up since October 2009. Post crisis, export demand has been increasingly picking up due to demand from newer destinations like Africa, Latin America, etc as well as on account of diversification from the traditional sectors to nontraditional sectors.

Towards facilitating faster export credit growth, PNB regularly organizes Exporters' Meets to be used as an interactive forum for improved delivery. The Bank has introduced a basket of new services in foreign exchange area. The Bank introduced RETAD (Reuter Electronic Trading), an automatic dealing system for foreign exchange operations. The Bank has also launched a prepaid card for foreign travelers, 'PNB World Travel Card', that can be used outside, in three popular currencies, the US dollar, Euro and the British pound. “PNB NRI REMIT - INDIA”, a service aimed at facilitating remittances by individuals in US to India. Challenges will always remain, but our Bank has a tradition of meeting them innovatively to ensure continued support required for exports' growth.

AK (UCO Bank) : UCO Bank kept its focused attention to serve the exporter community as we are committed to the national cause. Consequently, the Bank has been able to maintain steady growth of export credit over the years. The outstanding export credit as on 31.12.2010 stood at ₹5,232.54 crores as against ₹3,847.78 crores as on 31.12.2009. The Bank have exporter clients from all exporting segments *viz.,* cotton and textile yarns, garments, jute and jute textiles, leather products, tea, cashew, tobacco, sea-food, gems and jewellery and various engineering goods.

UCO Bank is extending export credit for both pre-shipment and post-shipment purposes not only in Indian Rupee but also in foreign currency at very competitive interest rates. Besides, the Bank is booking forward contracts at very competitive exchange rates in any convertible currency with the help of a centralized and state-of-the-art dealing room situated at Mumbai and linked to about 64 branches all over the country handling forex business through CBS.

If needed, the Bank also undertake the task of educating exporters by our forex specialist officers posted at various flagship and mid-corporate branches that are authorized to handle forex business.

To enhance the export credit business, the following strategies have been put in place :

- Clearance from resource angle is given immediately to exporters seeking export credit in foreign currencies under PCFC / EBRD and FCNR (B) loan facilities.
- Zonal Mangers are organizing exporters meet at different places for the latter's feedback and solving their grievances, if any.
- Bank staff are being deputed to upgrade their skills in forex related matters for offering better service in foreign exchange business.

MVN (Union Bank of India) : India's share in global trade is around 1.6 per cent, which is almost double of 0.83 per cent in 2003. This is quite low when compared to India's share in world GDP that is close to 2.2 per cent. Added to this, the most severe global crisis of our living memory led to decline in world trade volume. Things are improving now; however, it is not yet broad-based recovery for world trade. Our country's trade is witnessing a healthy growth over the past 12 months, though on a low base. India's Foreign Trade Policy aims at doubling exports of goods and services by 2014 and doubling the share in world trade by 2020. This requires a mix of measures including those aimed at diversifying the product basket as well as the trade destinations.

In my bank, a team of marketing officers in large corporate and business banking branches are engaged in identifying the clients in import-export business and offer them tailor-made products. We also approach them through organizing exporters' meet in Tier-I & Tier-II cities while cluster based approach is also in vogue. In my bank, I see an upside for export credit hereafter. In terms of export credit as per cent of net bank credit, we are witnessing an inflection point since June this year as this ratio is on rise.

BS (United Bank of India) : The volume of Indian exports as a percentage of GDP is traditionally low. However, at present, growth is noticed in some sectors. In order to give support to the exporters through availability of cheap credit the following measures have been adopted by our Bank.

- Our interest rate is among the lowest in the industry. We extend export credit at 8.5% p.a.
- In case of pre-shipment credit for obtaining cover of ECGC, 50% of the cost of premium is borne by us.
- The export credit proposals are disposed of within a very short time. The time limit set for the same is 15 days for loan up to ₹10 lacs and maximum 45 days for loans above ₹10 crore.
- The interest subvention scheme for exporters promoted by Government of India is implemented in its true spirit. All eligible exporters in specified sectors dealing with us are offered the concession and in their cases effective interest rate comes down to 6.5%.

These steps are expected to give a boost to our export credit portfolio.

AT (Vijaya Bank) : There is no gainsaying the act that our share in world trade is very low which, f course, has been showing signs of improvement f late. Over the last five years, India's share in international trade in goods and services has increased from 1.1% to 1.5%. I feel, there is still lot f upside left for our share to improve significantly. I am also aware that export credit extended by banks has not kept pace with the sector's requirements. It is also well known that a large chunk of the incremental credit in recent years has gone to the infrastructure and large cap segments while that to the export sector has come down. I can think of few reasons that have led to this trend. Firstly, I feel slow pace of export growth in the face of global demand contraction is a major reason. Further, in value terms also export credit has been showing slackness as worldwide commodity prices have been moving downward for the last two years. Appreciation in the value of Rupee *vis-a-vis* major currencies in the West and European Bloc could be another reason for slackened growth in export credit. Probably, one of the ways out could be to further incentivize export credit with sops in tax treatment, interest rate subvention and similar such measures.

RK (Yes Bank) : Unlike MNC banks, domestic banks like ours do not have a statutory / mandatory priority sector lending requirement towards the export sector. However, we see the export sector and the relative scarcity of supply of export credit as a business opportunity. In order to maximize gains from this, we have taken the following steps :

- As part of the Knowledge Banking approach, we are working on a Trade Corridor Strategy which involves identifying top commodities for export and engaging with relevant customers for export financing. This is in addition to the Bank's focus on export oriented industries like IT, Gems & Jewellery, Textiles and Agro Exports.
- In order to enhance the Export Credit Book, we have further sanctioned export financing facilities, which is evidenced by an increase of 275% in export credit limits sanctioned from March 2008 to March 2010.

Recent Developments in Basel Committee on Banking Supervision - Liquidity Risk

A key characteristic of the financial crisis was the inadequate / ineffective management of liquidity risk. In recognition of the need for banks to improve their liquidity risk management and control their liquidity risk exposures. The Basel Committee has developed two internationally consistent regulatory standards for liquidity risk supervision as a corner stone of a global framework to strengthen liquidity risk management and supervision. The work of the Basel Committee on these two standards is contained in the Consultative Paper issued by the Committee in December 2009 on "International framework for liquidity risk measurement, standards and monitoring". These two standards are explained briefly below :

Liquidity Coverage Ratio (LCR)

The ratio alms to ensure that a bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario specified by supervisors. At a minimum, the stock of liquid assets should enable the bank to survive until day 30 of the proposed stress scenario, by which time it is assumed that appropriate actions can be taken by the management and / or supervisors.

$$\text{Liquidity Coverage Ratio} = \frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflow over a 30 day period}}$$

The specified scenario entails both institution-specific and systemic shocks built upon actual circumstances experienced in the global financial crisis. The scenario entails : (i) a significant downgrade of the institution's public credit rating; (ii) a partial loss of deposits; (iii) a loss of unsecured wholesale funding; (iv) a significant increase in secured funding haircuts; and (v) increases in derivative collateral calls and substantial calls on contractual and non-contractual off-balance sheet exposures, including committed credit and liquidity facilities.

Net Stable Funding Ratio (NSFR)

To promote more medium and long-term funding of the assets and activities of banks, the Net Stable Funding Ratio (NSFR) has been developed. This ratio establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one year time horizon. This standard is designed to act as a minimum enforcement mechanism to complement the liquidity coverage ratio standard and reinforce other supervisory efforts by incenting structural changes in the liquidity risk profiles of institutions away from short-term funding mismatches and toward more stable, longer-term funding of assets and business activities.

$$\text{Net Stable Funding Ratio} = \frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}}$$

Available Stable Funding (ASF) is defined as the total amount of an institution's: (i) capital; (ii) preferred stock with maturity of equal to or greater than one year; (iii) liabilities with effective maturities of one year or greater; and (iv) that portion of "stable" non-maturity deposits and / or term deposits with maturities of less than one year that would be expected to stay with the institution for an extended period in an idiosyncratic stress event.

The required amount of stable funding is calculated as the sum of the value of the assets held and funded by the institution, multiplied by a specific required stable funding (RSF) factor assigned to each particular asset type, added to the amount of OBS (off-balance sheet) activity (or potential liquidity exposure) multiplied by its associated RSF factor. The RSF factor applied to the reported values of each asset or OBS exposure is the amount of that item that supervisors believe should be supported with stable funding.

The finer details relating to these two standards, viz., the definition of liquid assets, the run-off and roll-over factors, etc. to arrive at net cash outflows under LCR and the ASF and RSF factors under NSFR are being calibrated.

Source : RBI, Report on Trend & Progress of Banking in India, 2009-10.

6. Most of the banks are having 100% CBS. It is however seen that whereas the full range of liability side is covered, only a small portion of asset side is under CBS. What are the plans of the bank to fully utilize the existing infrastructure and IT platforms to usher in a totally tech-driven era in banking?

JPD (Allahabad Bank) : Certain components of assets side are still handled manually for operational convenience and are not fully parameter-driven. Bank is in the process of automating the remaining portfolios.

To usher tech driven era in banking, all the stakeholders have to play their roles to perfection. All the products are to be marketed within the bank and outside the bank. Customers are to be educated and encouraged to adopt to tech- banking.

MDM (Bank of Baroda) : Banks strengthened technology platform gradually modulating implementation in phases. Most banks have migrated to CBS. Attempts are on to automate flow of MIS from operating level (branches) to centralized server to facilitate generation of periodical returns / information. The loan products in most banks are also on CBS. Eventually banks will be able to integrate asset products with CBS architecture. The transactions in such banks are online and flow of data to various controlling offices will be through electronic systems without human intervention. This ensures a move towards harnessing CBS capabilities.

ASB (Bank of Maharashtra) : Core Banking Solution (CBS) implementation at all our branches has been one of the major technology initiatives the bank has embarked upon during 2009-10. The CBS Software is transaction software that encompasses deposits advances, remittances Government Business, General Ledger etc. It is integrated with other modules like Treasury, Trade Finances, Credit Processing, HRMS and delivery channels like Net Banking, ATMs, Mobile Banking, etc covering by and large the entire gamut of Bank's business operations.

Though we have covered almost all the liabilities side under CBS, in respect of asset side, compliance of IRAC norms, NPA collation and identification, provisioning, etc., are the major areas which are yet to be covered under CBS.

The CBS is predominantly transaction processing software and appropriate parameterization has to be done to undertake analytical tasks. This is likely to create overload on the transaction processing system and thereby affecting customer service.

Banks have initiated discussions with the CBS vendor, to take steps to leverage the CBS platform to identify and collate NPA, thus switching over to system based identification. Presently, the data from CBS system is taken in the form of an interface file on monthly basis and uploaded in external software. Validation checks are built in, through which the data is processed for asset classification and provisioning as per IRAC guidelines.

In order to facilitate successful implementation of system based identification and collation of NPA, banks need to undertake data cleaning exercise. Our Bank has already initiated steps in this direction to move for a system based identification of NPA by March 2011.

SR (Canara Bank) : The Bank is 100% CBS compliant. Both assets & liability sides of branch banking are fully covered under CBS platform.

CBS, ATMs, internet banking, anywhere banking, Real Time Gross Settlement (RTGS), Electronic Funds Transfer at Point of Sale (EFTPOS), cheque truncation, Customer Relationship Management (CRM), etc. have significantly improved customer service and experience. Decision Support Systems (DSS) have also been introduced for credit risk appraisal, forecasting loan delinquencies, investment decisions, etc. for optimized organizational design and company-wide process excellence. Our technology products are now second to none.

RP (Corporation Bank) : The Bank has ensured coverage of the asset side also in an integrated manner for both domestic and foreign currency. The system facilitates not only opening of accounts and transactions in the loan accounts but also facilitates posting of interest to the loan accounts from a central location, generation of periodical MIS pertaining to assets also from an off-site location, maintenance of history of changes in interest rates and centralised updation of interest rates for schematic lending. A 21 digit code is assigned to the individual loan accounts facilitate tracking of loans to minorities, weaker sections, women beneficiaries and deployment of funds to government-sponsored schemes without seeking additional information from the branches / offices. Further, the system also facilitates automatic classification of loans into various asset codes depending on the repayment schedule, recoveries made, repayment holiday or moratorium etc. This would ensure more accurate classification of loans, reduce the workload at branches and ensure better follow-up for recovery.

TMB (Indian Bank) : The bank has 100% business coverage under CBS. All loans and advances head are under CBS. As such, the bank has fully utilized the IT infrastructure and can proudly claim to have ushered in tech-driven initiatives for its customers.

Bank has introduced various technological products to suit the customer requirements and awareness also created among the customers. The Bank will be shortly opening an E-banking branch and extending it to other centres. The E-banking branch will enable a customer to have all his normal branch banking needs attended to without human intervention.

MN (Indian Overseas Bank) : Our Bank runs on Home-grown CBS software. We have almost all of the Asset Side of the Balance sheet relating to Branch Banking in the Core. In addition, there are other In-house packages for the areas like Treasury, Accounts, HRMS and Balance sheet etc. Apart from this, we have also procured certain modules like Anti Money Laundering (AML), Business Intelligence, SAP - ERP and have integrated. We are also in the process of customizing and integrating CRM - Customer Relationship Management, Loan origination and processing software etc.

We are working on Management Information Systems (MIS) and Decision Support Services (DSS). With this full complement of infrastructure and IT platforms in place, we are better placed to usher in a totally tech-driven era.

NP (Oriental Bank of Commerce) : Banks had an extra edge on developments in the field of Information Technology (IT) which strongly support the fast service delivery by implementing CBS (Core Banking Solutions). This helped in bringing all services under one support umbrella which not only enhanced the competitive efficiency of the banking sector by strengthening back-end administrative processes, but also improved the front-end operations and helped in bringing down the transaction costs for the customers.

As per RBI latest data available the total computerization in PSBs done till March 2010 was 97.8% and CBS implementation at 90%. Our Bank has implemented CBS in all its branches in November 2007 covering all liabilities and assets of the Bank. Bank has devised various products and services interwoven with the CBS Platform. These products are extended to the customers utilizing IT infrastructure of the Bank.

But the power of CBS is yet to be explored fully. It may be in ideal situation where each and every transactions whether of credit or debit or be deposits or advances may be performed by system only. The efficiency is at the optimum level under this situation. The Power of CBS remains there in terms of utilizing it for product wise FTM, the loan loss provisioning and other credit structured products.

KRK (Punjab National Bank) : All the products and services offered by the Bank are through CBS platform - both on assets as well as liabilities side. PNB has been a trendsetter in IT implementation and has taken many innovative initiatives in this field. It is the first Public Sector Bank of its size to complete the coverage of its 100% branches under Core Banking solution; establish Security Operation Centre, Enterprise Wide Data warehouse and migrating all its sponsored 6 RRBs to CBS. In fact, technology advantage has been a key element enabling our growth which has set us apart from other Banks and facilitated consistent improvement in business parameters.

The strategy of the Bank is to consolidate the gains arising out of technology and to aim for still stronger fundamentals. PNB leverages its IT initiatives to cash in on rising opportunities especially from the unbanked population through financial inclusion, the young rising middle class, globalizing corporates, upcoming SME segment, etc, by offering state of the art customized solutions. Focus is also on changing the processes in line with the new technology so as to achieve one or more of the following objectives of IT investment :

a) Better customer delivery - both in terms of products and services.

1911 2011

Central Bank of India.

Celebrating the Indomitable Spirit of India for 100 years.

India has witnessed a remarkable transformation in the last 100 years.

From being a much exploited part of the British Empire to an emerging global power.

From a poor nation ravaged by a bloody partition and four wars, to one of the fastest growing economies.

If there's one thing that has brought about this amazing change, it is the Indomitable Spirit of Indians.

So it was with a humble clerk – Sir Sorabji Pochkhanawala working in a British bank. A determined man who believed in the Indian ability to set up a 'truly Indian' bank and did so successfully. Thus was born the Central Bank of India on December 21, 1911.

Over the years, as the nation and its people progressed, we, at the Bank, have kept pace with their changing needs.

Sir Sorabji Pochkhanawala
Founder - Central Bank of India

Helping families become more secure with savings and deposit accounts with insurance, recurring deposits and fixed deposit offerings.

Improving people's lifestyles with home loans, vehicle loans, personal loans, credit, debit cards and other payment solutions. Preparing the new generation to face life with confidence with education loans.

And moving the very wheels of business and industry with MSME loans, entrepreneurship loans and corporate banking services.

From our very inception, our priority has been financial inclusion of Indians. Thus we have provided support to agricultural activities through zero balance savings and No-frill accounts. Even extending microfinance and finance facilities for other business activities in villages.

And offering biometric card and Micro ATM solutions at doorsteps through a Business Correspondent model. Helping more and more of the 'unbanked' to come into the banking fold.

As we enter our 100th year, we rededicate ourselves to serve the people of the country.

सेन्ट्रल बैंक ऑफ़ इंडिया
Central Bank of India
1911 से आपके लिए ''केंद्रित'' "CENTRAL" TO YOU SINCE 1911
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b) Ease of operations for staff

c) Reduction in transaction costs.

d) Better tools for informal decision making.

AK (UCO Bank) : The technology deployment in UCO Bank is one of the best in the industry. The Bank became 100% CBS compliant in Feb'2010 at a pace of roll out which was one of the quickest in the industry and has migrated all its liabilities as well as asset side accounts into CBS. To further leverage our IT infrastructure, the entire MIS function is also being carried out with the help of CBS such that barring few statements, all other reports are being generated from CBS. Besides, we are making extensive use of technology in our control functions as well as in our products and services like :

- NPA identification and provisioning (from CBS)
- Providing 24x7 banking services through alternate delivery channels like ATMs, Internet Banking, Mobile Banking
- Financial Inclusion initiatives including deployment of branch-on-wheels employing cutting-edge technology
- Straight through processing of NEFT / RTGS transactions (including positive confirmation to remitter)
- e-Tax Payments for both CBDT & CBEC
- Utility Bill payments
- e-ASBA.

Here it may not be out of place to mention that UCO Bank has been awarded the runner up prize for outstanding achievement in the "Best Financial Inclusion Initiative" category of IBA Banking Technology Awards 2010.

Our future plans include :

- Offering e-banking services to both Retail and Corporate clientele (Services to include a/c statements, self & third party fund transfers, beneficiary registration, Two Factor Authentication, On-Line Share Trading)
- Starting Self-Service Customer Lobby with Cash Dispenser, Transaction Kiosk and Self-service Passbook Printers at strategic locations
- Deploying Bunch Cash Depositors and Assisted Teller Service machines
- Introduction of Human Resource Management System (HRMS) and Integrated Risk Management System.

MVN (Union Bank of India) : The first step for banks was to take all the operations on the technology platform. This has already happened as more than 90 per cent of bank branches in India are on core banking solution (CBS). This has enabled banks to offer multitude of services to both retail and corporate banking customers. Of course, the extent of leveraging technology beyond CBS differs from bank to bank. As the liability is mostly transaction based, covering these under CBS is easier than the asset side which involves appraisal and monitoring. Many banks are also integrating these aspects in technology framework.

In case of my bank, technology leverage is comparatively higher. Our latest foray on this front is migration to system-generated data on non-performing loans (NPLs). We are amongst the few select banks having done so. By March 2011, Union Bank will move completely to system-based recognition of NPLs. Prior to this, on asset side, Bank introduced Lending Automation Solution (LAS) that facilitates end-to-end loan processing along with monitoring, risk rating & MIS. Similarly, on retail asset side, Lead Management System (LMS) is helpful in cross selling.

Union Bank has always been innovative in usage of technology. We have continuously added tech-savvy features to our product and services. We have presently four projects being developed on technology platform. To move completely to a paperless banking, Document Management System involves digitizing all documents in the areas of loan processing, account opening, issuance of circulars etc. Then, the issue of leveraging technology for speedy data transfer. Unified Communication System will facilitate voice, data and image transmission using the Wide Area Network. Our third project, Digital Media Signage will be used for displaying various products and corporate messages digitally through centrally controlled system and can be used for educating staff onsite. Fourth, Enterprise Data Warehouse project will make the data a powerful tool in customer relationship management, planning, risk management and many other areas.

BS (United Bank of India) : Almost all the banks are having 100% CBS. As for United Bank of India 100% CBS was achieved in September 2009. Steps have been taken to cover all the items of assets and liabilities under CBS. Now we can also do credit monitoring and NPA management in a better way through the system.

Our vision is to emerge as a dynamic, techno-savvy customer-centric, progressive and financially sound premier bank of the country. In the changing environment, appropriate capacity building measures are undertaken to equip the employees with skills and knowledge. For being techno-savvy, the best technology is acquired, absorbed and leveraged. As a customer-centric organization, expansion of clientele base is an important strategy. Innovation of new products, updating of existing products and publicity and public relations activities to reach to the masses with these products, are undertaken. As a progressive organization, we move with the changing times from a traditional banking organization to a market oriented financial organization, enforcing professionalism, trust and transparency in the working environment, rewarding excellent performers to improve work culture. We have moved ahead with changing times and competitive environment to be a pan India organization.

United Bank of India is now offering bundle of innovative products through seamless delivery channels in order to enhance customer retention and customer value as well as attract gen-next customers. Major initiatives of the bank are as under :

- Continuous value addition / product innovation.
- Boosting Internet banking, Tele banking, Demat, ATM, SMS banking, Mobile banking, etc.
- Cross selling of bank's products like Bancassurance, Mutual Funds, etc.
- Technology based auto-processing of credit proposals.
- Introduction of CRM in CBS platform.
- Bio-metric smart card based financial inclusion.
- Integrated Cash Management Services (CMS).

AT (Vijaya Bank) : It's not correct to say that CBS covers full range of liability and not as much on the assets side. As far as Vijaya Bank is concerned, CBS is well customized to cover disaggregated segments of both liabilities and assets. I believe it's true for other 100% CBS Banks also. Besides, we have also taken recourse to standalone software modules that can sit on the CBS platform and extract advances data segment-wise, as per rate of interest, limit-wise and so on. In our case, CBS offers a host of permutations and combination of data extraction that helps us to tone up customer service ensure effective supervisory control and adhere to various compliance functions.

RK (Yes Bank) : CBS is supposed to provide the core functionality for the bank - like GL, CIF etc. It is incidental that most CBSs also have built in Liabilities module especially given the context that CA / SA is your 'first' point of relationship in context of 'traditional' banking and almost a must to have for any customer.

Assets (loans / credit) is not a 'must' product and has its own nuances, workflows, and increasingly complex differentiators - from process to risk management. And it is best addressed by 'focused' point applications which cater to the functional needs. So to that extent, it needs to be looked at differently and it will stay that way. Most, if not all banks are highly automated *viz.,* their assets business and underlying technologies - and these are very well integrated with core banking for straight through processing.

Unlike ERP systems for manufacturing & services sectors - there are no 'one box' solutions in banking. For eg. even for retail assets - you may need a separate system for each retail product (FAS / FAP / Home Loans / Mortgages / Automobiles / Education Loans) - corporate assets / trade finance being drastically different. At YES Bank, we use FINNONE to address our asset loan needs for retail.

7. With the increasing use of technology in day to day life human interaction in the branch premises has taken back seat. The increased use of technology meant the 'death of individual identity'. In the past the bankers knew their customers by face. Now, they are dealing more with customer IDs than with the customers themselves - your views? How do you bring back the personal touch? Do you see a greater role for customer segmentation on account of IT?

JPD (Allahabad Bank) : Changing demographic profile of the country, the needs, expectations and lack of time with the customers are pushing the human interaction to a minimum and it is not true to say that with the adoption of technology, the human interaction has taken back-seat, because after technology adoption 60% of bank staff are involved in front-office jobs and knowing the customer's needs and deliver the suitable services to their satisfaction. With the 3G / 4G technology, time is not far away to have “Virtual Human touch” when bankers handle customer calls or instruments with embedded chips.

With the CRM in center stage, customer segmentation has greater use in today's world of cut-throat competition. Retention of existing customer is as important as acquisition of new customer. CRM solution has to be implemented to access the entire customer details and provide a 360° degree view across all delivery channels as well as products and enhance service quality.

MDM (Bank of Baroda) : Increased application of technology may lead to more off site transactions taking place in the banking industry. It is a natural process of transformation taking banking services close to customers and making them available round the clock. As the number of customers increase with better connectivity to people, it is also essential to put the services on auto mode. Even in such virtual environment, personalized services will be the hallmark of success of banks. The automation will provide more convenience to the customers but their connection with the banks will remain active. Rather the significance of personal service is increasing though customer IDs and account numbers facilitate automation of transactions, the relationship with the customers continue to build on personal rapport. The customer segmentation is also evolving with Customer Relationship Management (CRM) data getting collated centrally in banks. Hence two distinct features in the technology driven banking environment could be foreseen :

1. More qualitative data of customers will get captured facilitating segregation of customers on the basis of value that it can generate to the bank.
2. The personalized services and customer touch points with bank employees will assume more significance in increasing the share of wallet.

Therefore, technology cannot distance the customers with the bank. It will better integrate bank and customers by delivering convenience and better value. Leveraging technology will therefore remain the most challenging aspiration of banks.

ASB (Bank of Maharashtra) : With the advent of and the extensive use of information and communications technology, distribution of banking and financial services is enabled through multiple delivery channels. ATM, Point of Sale terminals, Internet Banking, Mobile Banking and Phone Banking are some of the alternate delivery channels available to the customers. Distribution of banking services through these delivery channels is an important part of this transformation. This has helped the banks to improve operational efficiency besides enabling the branch staff to improve the across-the-counter services and build relationships.

The number of online services offered to customers by banks and financial institutions is ever increasing. The technology keeps getting more sophisticated. Facilities for online remittances, online tax payments, online share trading, on line enquiry options, e-commerce, etc., offers greater comfort and convenience to the customers.

It's a big change for people to move away from the brick and mortar approach and availing of the banking services from a typical branch of a local bank round the corner. This is more so in the case of public sector banks, which have a distinct age profile for both customers and employees. This requires a mindset change. There used to be the tendency to shy away from such changes and the idea of change seems difficult to accept and implement for many. However, both have started realizing that these new options and channels will perform and work as a safe option. More and more customers have started accepting the convenience and enhanced efficiency which these IT initiatives have enabled, both for the banks and the customers. Customers can easily and quickly handle their banking business at an ATM or over internet or mobile phone.

In addition to the multiple delivery channels, more and more operations are getting centralized in the banks such as clearing, opening of account, issuances of cheque books, retail credit processing, generation of MIS, etc.

With these developments brought about by the various IT initiatives, Banks should embark upon diversification to offer advisory services, business marketing and selling of new products and services such as insurance products. A face-to-face conversation ability is a huge selling point for branches. The personal touch is the thing one shall utilize for these activities.

Last but not the least, technology options are fraught with risks of threats and vulnerabilities. Here comes our role to communicate with the customers and educate them sufficiently for safeguarding from threats of hacking, phishing, etc. Therefore, the branch staff should be made free to interact more with the customers. Implementation of modules such as CRM will also enable the banks to communicate effectively and more with the customers.

SR (Canara Bank) : Technology & Centralised Banking Solution (CBS) have totally transformed the present banking scenario. 'Branch Banking' has given way to 'Bank Banking' and there cannot be a going back. A customer, by click of a button can transfer funds from one corner to another corner of the country. This has helped to generate more benefits both to the customers and to the banks in the 24x7 banking era.

The present day customers are more sensitive to time and hence banks are giving service at their door steps. With the increase of alternative delivery channels, the number of customers visiting bank branches has come down. With enhanced technology and less customers across the counters, banks are able to provide better service by attending to their individual and intricate needs. Major portion of the customer transactions are done through e-modes like Internet Banking, SMS Banking & ATMs.

Better customer service is the need of the hour and more customer interactions, marketing of technology products through personalized services, particularly to the High Networth Individuals (HNIs) have become the order of the day.

In the present tech-driven environment, human interaction with the customers might have reduced but human interaction in the banking system still remains of a high order. Infact, technology can be-and indeed is-leveraged to enhance human interaction. For example, technology makes it possible for the banker to wish the customer on his birthday, anniversary, etc. via sms / text messages. Banks have adopted several innovative and 'out-of-box' strategies to gain / enhance personal touch and human interactions. Some banks, including Canara Bank have established call centres to answer the queries raised by customers over phone / e-mail. Banks have put in place floor walkers, help-desk counter and Radio Frequency Identification (to identify important customers and to signal the branch personnel) to gain / enhance personal touch and human interaction in the branch premises. The personal touch can also be gained by sending greetings on special occasions / anniversary days of the customer through SMS, over phone / mobile and by e-mail as new generation customers have passion for e-banking rather than Banking in Person.

RP (Corporation Bank) : The Bank has gone in for a mix of brick and mortar branches and various delivery channels like ATMs, Internet Banking, Mobile Banking etc. These channels facilitate the customers to access their funds or information pertaining to their accounts at any time of the day or anywhere. The new generation customers find it more convenient to visit the banks' websites and ATMs rather than their branches, especially when the variety of delivery channels facilitate them to carry out their banking needs from the comfort of their homes / offices. However, banks have to maintain contact with their customers to develop their own business, so it is not correct to say that individual identity is lost. There is a marketing person / team who meets the customers initially for getting their accounts opened and the servicing team at the branch who services the customers when they visit the branch premises.

While customer segmentation can be augmented with the help of IT, it can also enable the banks to develop specialized customer interaction systems suited to serving the varied need of different customers. For example, the IT-savvy can use internet banking; those who are on the move and require cash can partake of ATMs; similarly, those comfortable with mobiles, can conduct their banking using their mobile phone; the financially excluded can be brought into the mainstream using smart card and biometric enabled machines linked to Business Correspondents who can provide service at their door-steps. Ultimately, it is only people who can talk to people and not the computers - to get business the bank staff have to interact with their customers - but they can certainly do it more efficiently and productively with the help of IT.

In order to provide personalised service to High Networth Individuals (HNIs) who would like to visit branch premises, our Bank has started Priority Banking in a few branches where these customers would be serviced by specific relationship managers. This would enhance the customer satisfaction and assist in relationship building and bonding between the Bank and the customers.

TMB (Indian Bank) : Technology is primarily being used as an enabler to offer improved customer service and we firmly believe that our relationship with the customers is of prime importance for our business growth. PSBs still continue with the slogan 'customer is always right and many avenues have been thrown open for redressal of deficiency in services'. Moreover customer contacts for business are now aggressive (CASA campaign, traders fortnight / Senior Citizens Forum / Home Loan / Personal Banking mela etc.) and each PSB is vying with each other to win over customers. IT is only the business strategy that aims to understand, anticipate and manage the needs of the current as well as potential customer of the organization.

The technology has essentially improved the efficiency of the back up operations of the banking more than the front end. In practice, Bankers can ill afford to avoid meeting customers in person.

We, in Indian Bank, arrange customers meet at frequent intervals at Zonal levels, wherein the Chairman level presence is also ensured. Customer meets are arranged at branch level also, where again senior executives participate to bring in personal touch.

There could be customer segmentation on account of IT and younger generation preferring 'virtual banking' and senior citizens opting for brick and mortar type.

MN (Indian Overseas Bank) : It is true that with the advent of Alternative Delivery Channels - ATMs, Kiosks, Internet Banking, Payment Gateways, Mobile Banking, e-commerce and m-commerce - the personal touch is somewhat declining. But it may be more by choice than by chance. Customers often find it more convenient in the interest of time and reach. Then there is also the aspect of cost from the banker's side. We have done a costing in our Bank. The cost works upwards of ₹50 per manual transaction; ₹16.25 for ATM transaction, ₹7 for BC model, ₹5 or less for internet banking and mobile banking transactions.

The down side is that it prevents up-selling, cross-selling. We try to solve this through customer relationship management, customer profiling etc which will help us in customer segmentation with its attendant benefits.

We must keep in mind that about 350 million customers will be added by Generation Next. About half of them may not be affluent. But on the whole the average customer from Generation Next is more likely to be a Digital Consumer. How are banks going to serve them? At least, half of them have to be served by alternative channels. There is bound to be some segmentation.

NP (Oriental Bank of Commerce) : 100% CBS implementation has provided opportunity to the Banks for streamlining the time-bound processes by taking away these activities from manual updating. This has provided opportunity for diverting human intervention from monotonous transactional banking to customer interactions and marketing of the products.

As such we do not agree to the point that use of increased technology meant 'death of individual identity'. Customer Relationship Management has assumed prime importance segregating the customers, their needs and providing the products / service of a level required by them.

KRK (Punjab National Bank) : The technological advent has changed the way a bank interacts with its customer. Today a banker interacts more on telephone or through the net while undertaking internet banking and mobile banking transactions. Such interactions are made warmer to leave a personal touch in such non-personal interactions. Besides, majority of the customers still prefer visiting the branch and are welcomed. Moreover, at PNB, we have institutionalized a system of inviting our customers once a month and interacting with them so that we are able to meet their requirements and redress their grievances, if any. We believe that technology has brought our customers closer to us as they can get in touch with us any time of the day as per their convenience rather than waiting for the branch to open. We have set up a 24X7 call centre having Customer Service Agents trained in soft skills and bank's products / services to address any query from the customer. With the advent of technology, customer preferences have also changed. Definitely there is a greater role for customer segmentation today as we have customers of different expectations simultaneously dealing with the bank.

AK (UCO Bank) : India is seeing its demographic shift increasingly towards the young and working population in the 25-40 age groups who are tech-savvy with high disposable income. The 20-40 age group is expected to have 450 million people in India by 2030, potentially creating a huge population for the delivery of banking services through alternate channels. Mobile banking will be the next revolution in the way financial services are marketed, bought and delivered in the coming years by this young population.

According to a recent survey of Indian Banking customers by a world renowned firm :

- Working hours and accessibility are important to the younger generation
- Women have a greater preference for the Branch channel
- The use of Internet and Phone Banking increases with educational level - over 35% graduate and higher educated sample had a preference for Internet and Mobile versus 9% in the less educated segment.

Therefore, banks have to appropriately design their products and services to suit the specific needs and banking patterns of the young versus aging population, urban versus rural etc.

In UCO Bank, with the onset of technology, branches will be gradually free from all mundane work (a/c opening, cheque book issuance, processing retail loans) and can devote quality time for Customer Relationship Management (CRM). They would become more customer centric, offering enhanced quality of service. In the days ahead we shall be opening more branches across the country to bring in many more customers into our fold. The brick and mortar branches would be supplemented by alternate delivery channels to address the needs of modern day customers as also improve our visibility and outreach.

MVN (Union Bank of India) : The key differentiator between new age banking and traditional banking is to bring greater emphasis on relationship management as against managing transactions in the conventional banking model. Technology has provided ease for the conduct of transactions and thus branches can focus on building relationship with customers and offer value. The emphasis adopted by banks to introduce technology has given wrong signals that customers are not wanted in the branch. It is not so. Banks need to make customers feel that transacting their day to day requirements through offsite mode is far more convenient and takes place in real time. In fact, technology has enabled banks to devote manpower on relationship banking that offers personalized services to various segments.

IT-enabled customer segmentation is definitely a boon for banks. 'One size fits all' has been the mantra of commercial banking earlier. Now IT systems and MIS of banks can be used to segregate customers as per their profile and products needs. Banks may design the right set of products for a particular class of customers. Their design, launch and marketing, all may be tweaked to the needs of each segment of customers. However, public sector banks are yet to make benefit of segmentation as MIS and data warehousing are still in transition stages.

BS (United Bank of India) : Banking service is now under transformation. Technology is shaping up the banking landscape at present. Over the past few years shift in demographic trends in India along with strong growth in the Indian economy post liberalization has led to the emergence of a new class of customers - the Young Urban Liberalised Indian Consumers (YULICs). These customers are demanding, open to ideas and flexible in choice. They always expect high standard of service and do not remain satisfied with existing convenient and cheaper banking channels of transactions.

Use of ATM, mobile banking, internet banking, smart-card technology, etc. are gradually increasing. New generation customers are now very tech-savvy and rarely come to the bank. It is true that face to face interaction with customers is no doubt waning.

To bring back the personal touch, banks have to rebuild the client trust. Product marketing is an important channel through which customer's relationship can be built up.

With deeper penetration banks are now at the door of the customers.

Most of our customers are traditionally from the middle-class, lower middle-class and poorer segment of the society. Their attachment with the bank gives us an opportunity to meet them and to keep contact with them on a regular basis. Relationship matters.

Moreover, in India banks are expanding in large-scale and penetrating in rural areas. Illiteracy and under-development would compel the banks to develop financial literacy. Culturally, Indian society is not averse to interaction. Hence, in spite of a segment of society remaining mechanically attached to banks, human touch would not disappear altogether. That is the silver line.

As the banks are now technologically very advanced, they can utilize this to their advantage to keep personal contact with the customers. Customer segmentation plays an important role toward this. On various events of life such as birthday, marriage anniversary etc., banks can easily come in contact with the customers by merely sending warm greetings. Technology based services such as marketing and selling of products to the different segments of customers can now be rendered with personal touch.

Lastly it may be said that today walk-in customer concept is missing and the Bank has to bring the customers.

AT (Vijaya Bank) : The notion that technology leads to 'death of individual identity' is probably misplaced, especially from a PSB perspective. We don't have any bar on customers visiting branches and we do consider 'human touch' as an essential adjunct of quality customer service. Having said that, we also aggressively propagate IT-enabled Alternative Delivery Channels (ADCs) at least for the tech-savvy clients who prefer remote or virtual banking. ADCs do contribute a lot in providing real- time service and facilitating client convenience of a high order. About customer segmentation, yes, IT does play a decisive role, especially with regard to the IT-savvy urban and GenNext as well as HNI clients.

RK (Yes Bank) : There are two points of consideration here - One part is the changed reality - a“globalized world”. In this millennium - the closest friends / colleagues - are interacting far more in the virtual / web world even when they actually might be at a stone's throw away. Social media / Instant messaging is their choice of communication method. The second part is that centralization of 'transactional' and 'non-value' add functions into NOCs / offshore captives etc, clubbed with the fact that customer chooses multiple channels to transact have taken the 'social' interaction piece out of transaction processing. At YES BANK, we have taken the following strategic action towards the same :

- We have created a platform called 'Insights 2 Engage' which brings together information from all product processors, CRM, Customer Service Systems etc. It contains information on demographics & psychographics of the customer, data from Business Intelligence - and this system is being positioned to capture 'all financial and non-financial transactions and interactions with the customer' - and will be underlying basis for all channels. So irrespective of the customer going to branch or calling up the contact centre - the service agent at both locations will be viewing the same information - which has 'continuity' built into it to make sure that the customer is provided 'seamless' service. Over time, internet as well as mobile and IVR will piggyback on this platform.
- As we go along, we will enrich the information with social networks status updates of customers subject to obtaining far more contextual information on the customer to engage deeper - at transaction level as also at an emotional connect level. To give an example - when I pull up a screen for customer - If his last update on facebook suggests that he / she just had a baby - and this information has flown into my screen - needless to say a small congratulatory message with possibly a token bouquet to the customer and you have the customer on your side. In other cases - if his update says 'excited about going on a vacation to xyz place, here is an opportunity to cross sell forex / travel insurance etc'.

Overall we need to bring in the best of 'old world' charm and emotional connect that existed with branch networks along with the changing demographics of the 'new' millenials - and make a service value proposition that is not easily replicable.

8. Compliance risk and compliance costs have gone up for overseas branches of Indian banks in recent times. What is the emerging picture in the light of tightening of regulatory responses to various crises?

JPD (Allahabad Bank) : In the light of tightening of regulatory response to various crises and to meet the supervisory expectations, Banks are adopting structured approach to Governance, Risk & Compliance (GRC). The aim is to effectively define, manage and monitor the external and internal business environment. Technology is assuming a key and enabling role in delivering sustainability, consistency, efficiency and transparency across the GRC process in the organization. Costs involved in these areas are high but in the interest of financial stability it is a necessity. Regarding emerging picture, we can say that recovery process is just started and challenge is to manage recovery smoothly.

MDM (Bank of Baroda) : The evolving regulatory measures are always dynamic posing a challenge to the banks to strike the right balance between compliance risk and its costs. Due to financial crisis, many central banks have begun to review their various regulatory measures and are trying to identify the reasons that allowed the crisis to precipitate. The compliance risk and costs in the long run need to be balanced. The benefits arising out of enhanced regulatory measures should be able to not only meet the cost of risk but should be able to contribute to substantially improve the quality of systemic controls. Though the cost of compliance is higher in certain overseas centres, the higher volumes arising out of business should be able to mitigate the risks. In developed markets & matured markets, the arbitrage opportunities are thin and hence overseas branches should be able to operate on thinner margins with low transaction cost. The level of margins that we see in India is not sustainable globally. The profitability of overseas centres flows more on volumes and economies of scale. If we refer to the recent views of Governor, Reserve Bank of India, he has touched upon the need to develop capability to work on lower margins. Hence the regulatory measures will be able to offset business risks providing more comfort to the banks in terms of Risk Adjusted Returns. Hence we welcome upgradation of regulatory measures in the long term interest of the banking system.

ASB (Bank of Maharashtra) : We do not have any overseas outlets.

SR (Canara Bank) : The overseas branches of the Bank have to comply with guidelines of RBI and respective host country regulators like FSA (Financial Services Authority) in UK, HKMA (Hong Kong Monetary Authority) in Hong Kong and CBRC (Chinese Banking Regulatory Commission) in China.

After the global financial crisis, the host country regulators have issued several guidelines to the overseas branches, particularly on liquidity management, AML / KYC compliance etc. to comply with those guidelines, overseas branches of the Bank had to upgrade their accounting / reposting systems and or procure new software. The overseas branches of the Bank have to comply with such overseas regulatory requirements.

RP (Corporation Bank) : The Bank, presently, does not have an overseas branch. Rather, it has two representative offices in Honk Kong and Dubai. Since the role of Representative Office is limited to collection of information, promotion of exports / imports, facilitating technical / financial collaborations and developing referrals, with no direct commercial activity, the compliance role is mainly limited to observance of KYC and AML rules, in case of the remittances which flow with the help of such offices. Once the offices are converted to full-fledged branches in future, they would be subjected to audit, inspection and other regulatory requirements applicable to branches. As far as tightening of regulatory responses are concerned, we would be affected to the extent that our regulator, the RBI, tightens rules for us and such regulations have generally been found to be beneficial for the Indian banks, especially during and after the sub-prime crisis.

TMB (Indian Bank) : Compliance Risk and costs have gone up on account of changes in regulatory requirements prescribed by different countries, especially in the aftermath of global economic crisis. Further, in some countries, the minimum capital requirement has also been revised upwards, which has added to the cost. Indian Bank has branches in Singapore and Srilanka.

For instance, in Singapore, there is a prescription called Assets Maintenance Ratio (AMR) for the customer deposits held, which requires maintenance of a ratio of specified assets with haircuts in addition to the statutory liquidity requirement, impacting the return. This has been revised upwards after the economic crisis. In Sri Lanka too, the capital requirement has been revised upwards, to be achieved in stages.

In the light of continued global economic woes in various countries and the proposed BASEL-III requirements, there can be further revisions in the regulatory requirements in various countries, which will have an impact on the profit margin.

MN (Indian Overseas Bank) : We have six overseas branches, one at Singapore, two in Hong Kong, one each at Bangkok, Seoul and Colombo. There has been an increase in compliance cost in each of the centers as a result of directives of the regulator in each of the centers. We have to nominate an exclusive compliance officer. Concurrent audit functions have to be entrusted to an audit firm instead of an officer of the branch as in the past. Training has been made compulsory for dealers who are required to clear local exams in some centers. E-payment services have to be audited by external auditors. Deposit insurance is insisted. Investment in low yielding approved securities has to meet statutory requirements.

Extra liquidity has to be maintained for agriculture lending. In some centres it is stipulated that advances to the extent of 70% of deposits be lent to domestic sector and only 30% can be extended in the form of import financing, buyer's credit, overseas credit. Foreign bank branches are required to maintain eligible assets in local currency in proportion to their liabilities. In the event of a bank having shortfall of eligible assets as stipulated by the regulator, the bank would be forced to invest in low yielding treasury bills. All these tightening measures add to cost, restrict asset growth and strains profitability. But these are the constraints banks have to learn to live with.

NP (Oriental Bank of Commerce) : Not relevant to our bank.

KRK (Punjab National Bank) : It is a universal rule that any crisis is followed by a tightening of regulation to prevent a repeat. The same holds true in case of financial crisis as well. While enhanced regulation is sometimes required to ensure financial stability which has strong contagion impact and spreads like wild fire across the globe. At the same time care needs to be taken that over-regulation should not result in stifling financial innovations. Another fall-out of a stricter regime is that it becomes more expensive and difficult to raise capital since one has to encourage dynamic provisioning or capital buffers, introduce stricter rules for off-balance sheet items, implement tighter liquidity management norms, and strengthen rules for banks' internal control and risk management, notably by reinforcing the “fit and proper” criteria for management and board members. These are some of the measures that regulators are taking in the post-crisis era. Ensuring compliance to these measures will be a mammoth task in itself. This would require creation of compliance infrastructure and factoring in compliance risk for the Banks. Thus costs would naturally rise along with need for additional capital but it is necessary to ensure systemic stability.

AK (UCO Bank) : After the global financial crisis of 2008, the Regulators across the globe have tightened supervision and monitoring. Accordingly, compliance of prudential norms and regulatory guidelines has become one of the key functions for the overseas branches. Thus ensuring compliance of regulatory norms will be one of the major challenges for the foreign branches of Indian Banks and will have major cost implications.

As the complexity, coverage and volume of compliance requirement have substantially increased over the past few years, cost of compliance is increasing on account of higher allocation of resources in terms of :

1. More Skilled Staff,
2. On-going Training to all the Staff,
3. Enhanced IT Support and
4. Additional Senior Management Time.

UCO Bank has overseas branches at Singapore and Hong Kong. The required information with respect to our overseas operations at these two centres is as under :

Singapore

Compliance requirements in Singapore broadly cover the following :

1. Regulatory Compliance which includes Anti-Money Laundering / Countering Financing of Terrorism (including Trade Surveillance)
2. Tax Compliance (Includes Corporate Tax, GST etc.)
3. Strict Adherence to Key Regulatory Requirements like Asset Maintenance Requirement (AMR - DBU & ACU), Liquidity Ratio (Minimum Liquid Ratio), Minimum Cash Balance, Group and Substantial Exposure - Many changes related to Stipulated Ratios, its Computation & Reporting Frequency / Format during the past few years ,
4. Compliance to Rules / Regulation of various Statutory Bodies in Singapore
5. H.O. / Branch Policy Compliance

Apart from the off-site ongoing supervision, under the Common Risk Assessment Framework and Techniques (CRAFT) issued in April 2007, the bank has to provide exhaustive details of its operations and the risk control measures adopted. Moreover, the annual statutory audit in Singapore has become an elaborate exercise wherein inter alia Compliance function of the bank is also audited to ascertain deviations, if any, from Regulatory / Statutory / H.O and Branch Policy and Procedures.

Non-Compliance to Regulatory / Statutory Requirements may attract financial penalty to the organisation or the individual or both. Besides, the Regulators may come out with new imposition for the banks, which at times are very stringent.

Hong Kong

Compliance risk and compliance costs for our Bank in Hong Kong Centre cover / involve :

1) Deposit protection for customer deposits (increased from HK $100,000/- to HK $500,000/- w.e.f. 1/1/2011)
2) Asset Maintenance Rule (AMR) under which banks in Hong Kong are required to maintain liquid assets (cash / Govt securities and placement with banks) equal to 25% of the free deposits.
3) Liquidity requirement that mandates banks to maintain 25% liquidity ratio (under review) in their books. In the case of our Bank, we have in our local Liquidity Management Policy, kept the level of liquidity ratio at 30%, thereby giving us a cushion for any exigencies.

MVN (Union Bank of India) : The global financial crisis has tightened the noose on overseas operations of Indian banks. There is increased surveillance, both from foreign country's regulator as well as Reserve Bank of India. Banks are subject to more rigors in terms of policy formulations and monitoring tools to ensure complete adherence and transparency. Similarly, banks world over have become more conscious of the increasing money laundering activities. This requires state-of-the-art KYC and AML procedures in place. Despite measures taken by banks, such activities are still continuing. This calls for putting in place system checks to ward off such illegal activities and to identify names of Individuals / Organizations, thereby increasing the cost of new software, right manpower, MIS etc. Besides, banks abroad need to be compliant with local regulations in the form of quantitative restrictions and qualitative impositions. On account of IT initiatives, Banks are resorting to E-payments and settlement which calls for placing appropriate system checks. While these are highly beneficial for a healthy financial system, costs of compliance are set to increase.

The effective way to economize on cost of compliance is to have in place integrated approach towards Governance, Risks and Compliance (GRC). GRC refers to overall governance structures, policies, technology, and infrastructure and assurance mechanism that an organization has in place to manage its risk and compliance obligations. There should be the right balance between Risk Management, Governance and Compliance - within a performance based culture. Rather than treat each GRC initiative in isolation, organization should connect business strategy with Governance and Risk Management, with a renewed focus on performance and efficiency out of which compliance should fall naturally.

BS (United Bank of India) : Banks and financial services organizations of all sizes are now more concerned than ever about risk and compliance management. New banking products, increased government scrutiny and intense focus on operating efficiencies bring forth greater risks and a larger set of rules and regulations.

At a global level, different countries have their own set of rules, regulations and reform. This adds to the challenge for global banks and financial institutions. A banking survey by the Economist Intelligence Unit shows that a global bank could face more than 350 regulatory exams a year. These results indicate that compliance becomes very cumbersome and expensive for a large or mid-size bank.

These banks are required to comply with global regulatory requirements like Sarbanes-Oxley Act (SOx), Basel-II, OMB A-123, Data Privacy, Consumer Privacy, Check 21, SAS 70, Anti-Money Laundering (AML), BSA, PATRIOT Act, MiFID and Reg NMS to name a few.

Further, I firmly believe that the cost of compliance in banking industry is not always fines and legal fees due to failures in regulatory and statutory compliance, but also costs arising out of "do and test approach" of financial innovation and regulation.

Looking at the tightening regulatory responses to various crises across the globe, the banks are required to deploy an integrated solution for risk and compliance management which would be lower in costs compared to building and supporting separate custom applications.

A holistic approach to integrated risk and compliance management would offer a highly configurable and dynamic solution that can easily scale up as the regulatory requirements change. Banks and financial services organizations would benefit from systems like these as they adopt the current and future releases without incurring additional costs.

A risk and compliance management solution will be ineffective if it does not provide advanced security and access controls. The integrated solution needs to have a robust security infrastructure by supporting the current standard and best practices including authentication and authorization.

AT (Vijaya Bank) : Compliance risk mitigation is something that is completely indispensable going by the dimension of the global crises from which most of the affected economies are yet to recover fully. The devastating impact of triggers that takes the shape of a contagion is too well known to give room for any complacency. I must say that the Indian regulatory system did prove a point or two in making our banks adequately resilient to the crises elsewhere and I feel, compliance culture has still a lot of room for improvement.

RK (Yes Bank) : While currently not applicable to YES BANK, as we do not have any foreign branch / office, this is a highly material cost and development which will increase capital costs as well as underlying compliance, operational and regulatory risk. Indian Banks will have to be highly cautious in conceiving their internal growth strategies supported by strong risk management systems & controls.

New Cheque Standard "CTS 2010"

The developments in cheque clearing, such as growing use of multi-city and payable-at-par cheques, introduction of Cheque Truncation System (CTS) for image-based cheque processing, and increasing popularity of Speed Clearing for local processing of outstation cheques have increased complexity in cheque processing which calls for process re-engineering and automation. Such developments along with the diversity in patterns, designs and security features of cheque forms introduced over a period of time have necessitated prescription of certain minimum security features in cheques printed, issued and handled by banks for uniform application across the banking industry. Against this backdrop, a Working Group comprising various stakeholders viz., commercial banks, paper manufacturers and security printers apart from Reserve Bank was set-up by the Bank for examining the need for further standardisation of cheque forms and enhancement of security features therein.

Based on the recommendations of the Working Group and the feedback received from banks, Indian Banks Association (IBA) and National Payments Corporation of India (NPCI) among others, certain benchmarks towards standardisation of cheques have been issued. The benchmarks styled "CTS-20l0 standard" contains mandatory and optional security features on cheque forms. The mandatory security features include quality of security paper, "CTS-INDIA" watermark, bank's logo in invisible ink (UV ink) and void pantograph (an anti-copying feature).

Additionally, certain desirable features have also been suggested, which could be implemented by banks based on their needs and their own risk perception. The new cheque standard mandates placement of significant fields on the cheque forms. It also recommends use of light / pastel colours and clutter free background in cheque forms for improving quality and content of cheque images in CTS scenario. The benchmarks, inter alia, include prohibition of alterations / corrections on cheque forms other than for date validation. Use of UV image view in CTS has been kept on hold for the present considering the implementation challenges and will be reviewed in future.

This set of minimum security features would not only ensure uniformity across all cheque forms issued by banks in the country, but also aid presenting / collecting banks while scrutinising / recognising cheques of drawee banks in an image-based processing scenario. The homogeneity in security features is expected to act as a deterrent against cheque frauds, while the standardisation of field placements on cheque forms would enable straight-through-processing by use of optical / image character recognition technology. The "CTS-2010 standard" is proposed to be implemented by banks before the roll-out of CTS at Chennai. IBA and NPCI have been vested with the responsibility to co-ordinate and advise banks on introduction of additional security features on cheques as also other aspects relating to implementation of the new standard across the country.

Source : RBI, Reserve Bank of India, Annual Report 2009-10.

9. Is there a case for segregating 'banking utility' and 'commercial banking'?

JPD (Allahabad Bank) : Rendering utility services enables banks to have access to huge clientele base and sizeable float at cheaper rate which makes the commercial activity of Banks more viable. These utilities do not provide returns by themselves but they are so fundamental to banking business of date that it is no longer an option to operate without them. The utility Banking, being a conduit to huge resource base could in fact provide the much needed competitive edge to out-maneuver other players.

MDM (Bank of Baroda) : The segregation of consumers in the banking system gets evolved over a period of time with the diversification and development of products / services. We have seen that retail banking has changed the banking landscape and specialization of services to select group of customers led to opening of specialized branches. Personal banking branches and corporate financial services branches are manifestation of such customer segmentation. Since different customers have different aspirations and needs, it is a good idea to customize branches to better service them. The concept of 'One size fits all' may not work in a highly competitive environment. The customer segmentation takes place on its own as a logical strategy to compete and stay ahead in the market. It is an evolution that happens with the developments and maturity of markets.

ASB (Bank of Maharashtra) : Customers, now-a-days, prefer to have the choice of various financial products under one roof. This has led to the present "Universal Banking" model in India. With passage of time Indian banks have adapted to the condition and have developed their processes and infrastructure that would help in offering universal banking services. In this context, I do not find a case for segregating 'banking utility' and 'commercial banking'. For providing mass banking, banks can use technology and innovative business models along with the existing commercial banking practices.

SR (Canara Bank) : The concept of utility banking is gaining momentum as the financing system is a crucial resource and healthy financial flows facilitate our everyday economic exchanges and livelihoods. For example, when liquidity dries up as starkly revealed in the aftermath of the global financial crisis of October 2008, it can create a difficult situation.

RP (Corporation Bank) : Banking has undergone tremendous transformation over the last decade. From undertaking purely commercial banking, banks have turned into financial supermarkets and have started selling a host of financial services from their outlets. They have started selling Mutual Funds, Bancassurance, Credit Cards, Trading facilities, Gold Coins, collecting Utility Bills, Tax Collection, e-stamping, cash management, wealth management, consulting, merchant banking etc., Competition has created a need for meeting every kind of financial need of the customers. The commercial banks, as of today, have entered almost every financial segment and so there is little differentiation in the products / offerings made by various banks. The real differentiating factor is mainly the customer service experience and the brand value which the customer perceives rather than banking utility vs commercial banking.

TMB (Indian Bank) : Banks no more engage themselves only in commercial banking - plain lending or deposit taking or ancillary services. Banks have moved to universal banking in India. They are offering all kinds of banking services and banking related services under one roof, they are a super store that provides varied financial products. Considering their large coverage geographically, they have started giving utility services like bills payments, sale of gold coins and a host of other services like wealth management services. Customers have also welcomed these services, as they are able to complete all their financial needs in one place. Internet banking and mobile banking have truly revolutionized the way banking is being done today. I think there is no case for segregating banking utility and commercial banking in today's age. The Bank branch has to ultimately convert itself into a financial super market.

MN (Indian Overseas Bank) : There appears to be a case for segregating "Banking Utility" and Commercial Banking. Bankers are attempting to segregate these tasks, by opening specialized branches, centralizing specialized functions etc. and effectively placing the utility to the customer-touch-points and to the alternative delivery channels. In addition, these tasks can be better served by the alternative delivery channels because of the routine nature of the services, flexibility of place and time and availability of a number of channels, thanks to the technology and Reserve Bank of India.

We have the following offerings : More than 900 ATMs, which we may increase to at least 2000 very soon; Contemporary Internet Banking suite and mobile banking suite; Payment gateway, for both issuer and acquirer transactions; Self-service Internet Kiosk; Agreements with Bill desk, CC-Avenue, Tech-process etc., for utility payments; Point of Sale Terminals; Tech-enabled Financial Services, under BC model; On-line Tax Payments and viewing tax paid details. We try to meet all the Utility Requirements of our customers, with this complement of offerings.

NP (Oriental Bank of Commerce) : Though 'banking utility' and 'commercial banking' is under one roof, the banks have made efforts in segregating the products and services by setting up verticals within the bank for effective and efficient management.

KRK (Punjab National Bank) : The increasing competition in the financial market has led to emergence of non financial entities entering the banking arena. This has led to birth of financial supermarkets that offer pure banking products along with para banking products like insurance, mutual funds, etc and utility services like online ticket booking, bill payment facilities. All these offerings form an integrated part of a universal bank and go hand in hand. We do not see any need for segregating them as the customers have a choice to select their requirements from an exhaustive menu card.

AK (UCO Bank) : Technology will change / is changing the face of banking. But, besides huge cost involvement, technology applications also have a high degree of obsolescence. Banks will need to strategize for cost optimization in the technology front. In doing so, they may have to cede certain functions to what is known as "industry utilities." This may ultimately lead to the back offices of banks getting connected like in case of real-time information transfer through a common network of Society for Worldwide Interbank Financial Telecommunication (SWIFT).

The emerging scenario points toward banks competing in the front end for increasing market share while collaborating in the back end for sharing utilities / facilities like in the case of sharing of ATMs. This type of competition-cum-collaboration will become the order of the day as banks on one hand seek to enlarge their customer base while on the other try to realize cost reduction and greater efficiency.

MVN (Union Bank of India) : In this competitive environment, diversification is mantra. Today banks are investing heavily in IT infrastructure, which helps in delivering services at low prices. Providing utility services help banks in optimizing huge investments made in its infrastructure. It also helps in consolidating financials as banks earn fee income. As long as we can serve customers to their utmost satisfaction we do not see any reason for segregation of 'banking utility' and 'commercial banking'. In fact, customers are more than happy with the choice of one stop banking. The bank in turn also gets loyal and valued customers.

Moreover, the Indian Banks are well regulated. Advances contribute approximately 60 per cent of total assets. Banks continue to lend to real sectors of the economy, particularly agriculture and the small and medium industries that have limited ability to tap the capital markets. The banks are prudent and well regulated to provide a balance growth and ensure the stability of the system.

BS (United Bank of India) : In commercial banking system depositor's money is the capital of a bank. Banks mobilize deposits and deploy the funds prudently keeping in view the safety and security of the depositors' funds. Commercial banks function in a regulatory system that does not encourage risky fabulous and speculative returns. To augment income banks also extend their services in selling of third party product like insurance, mutual fund etc. where banks' own funds are not directly involved and which are virtually riskless. These services are being imparted within the framework of regular banking services. Banks are cross selling these products to their own customers along with other commercial banking products. These services are rendered along with the regular services of the banks to their own customers which augments the earnings of the banks. However, if a bank prefers to launch its own products like insurance, mutual funds, investment banking it is preferable to segregate those from the regular commercial banking so that the depositors' money remain insulated from the risks involved in these type of products. Hence, so long banks do not launch their own products it is not necessary to segregate the services and deviate from the avowed goal of the commercial banks.

AT (Vijaya Bank) : Banking concept has undergone a sea change during the last decade. As I understand, banking utility broadly refers to risk-free banking entailing services like deposit taking. Advances and non-fund based services are now an integral part of commercial banking. Banking utility concept is, thus, no more relevant to today's banking practice as Universal banking is becoming the order. We don't see stand alone products any more as most of the banking products these days have augmented or value added features. This is purely from the perspective of what a rational customer demands and what a competitive market dictates. Therefore, I don't see any case for segregating banking utility from commercial banking practice in vogue at present.

RK (Yes Bank) : Banking utility services such as Cash management services, bill payments, mobile banking etc., is a critical service provided by banks and highly sought after by both retail and corporate clients as it improves their financial supply chain efficiencies. These services have always been offered by Commercial banks. Till recently, the banking utility services were largely in the "physical form" - cash handling, cheques etc. While in India, the physical form continues to remain predominant instrument, the "electronic" platform is gaining significant momentum. From a commercial bank's perspective, providing banking utility services ensures "customer engagement" while Transactional Banking products are risky and very important for generating CA balances.

The Capital and Liquidity Reform Package, July 2010 - Major Features

(1) Definition of Capital

(i) Prudent recognition of the minority interest

(ii) Elimination of counterparty credit restriction on hedging of financial institutions investments.

(iii) Limited recognition of investments in the common shares, mortgage servicing rights, and deferred tax assets for calculating common equity component of Tier I capital.

(2) Counterparty Credit Risk

(i) Modification of bond equivalent approach to address hedging.

(ii) Elimination of excessive calibration of credit valuation adjustment.

(iii) To subject banks' mark to market and collateral exposures to central counterparties (CCPs) to modest risk weights in the range of 1-3 per cent.

(3) Leverage Ratio

(i) Uniform credit conversion factors (CCF) for off-balance sheet exposures.

(ii) Basel-II netting plus a simple measure of potential future exposure based on the standardised factors of the current exposure method.

(iii) Testing the proposal of minimum Tier-I leverage ratio of 3 per cent during the parallel run.

(4) Regulatory Buffers, Cyclicality of the Minimum and Provisioning

(i) Capital conservation and countercyclical buffers to be finalised by end 2010.

(ii) Findings on cyclicality of the minimum requirement to be dovetailed with those from quantitative impact study to develop a set of supervisory tools to assess the adequacy of banks' capital buffers.

(iii) Dialogue with International Accounting Standards Board (IASB) to develop expected loss approach to provisioning.

(5) Global Liquidity Standard

(i) Revision of definition of liquid assets so that they remain liquid in periods of stress.

(ii) Introduction of 25.0 per cent outflow bucket for custody of clearing and settlement activities, as well as selected cash management activities.

(iii) Treatment of all sovereigns, central banks and PSEs on par with corporates with 100 per cent roll-off rate for unsecured funding.

Source : RBI, Report on Trend & Progress of Banking in India, 2009-10.

10. Commercial banks commitment to agriculture in terms of total assets is less than 6%. Informal lending is accessed by marginal farmers and landless agricultural laborers. Exclusion among the farming gentry is therefore very high. In the area of agricultural finance, what is your experience in enhancing the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless laborers?

JPD (Allahabad Bank) : Our Bank is fully committed for development of Agriculture and Farming Community in the country. Never, we defaulted in reaching the regulatory targets as we have 60% of network in Rural & Semi-urban areas, we never had any insurmountable problems in serving disadvantaged sections of the society. Bank is having farmer's friendly schemes like Kisan Credit Card, Kisan Shakti Yojana, Tenant Farmers Financing Scheme, Debt Swap Scheme, Scheme for financing to Self Help Groups etc.

For covering disadvantaged sections of the society bank is taking several measures like :

- Simplification of existing procedure and formalities in providing Banking services
- Capacity Building through awareness (opening RSETIs)
- Regular Publicity and improved financial literacy (opening FLCCs)
- Opening of No Frills accounts
- Implementation of FI Plan (opening branches, Business Correspondents, Mobile Vans etc)
- Issuing of Smart cards with inbuilt OD facility
- Issuing of KCC and GCC cards.

MDM (Bank of Baroda) : Lending to agriculture has always been a value proposition for banks from the point of Risk Adjusted Return and compliance with the priority sector requirements. It is a fact that the reach of the banks has not been deep enough to serve the large community of farmers in the hinterland. Dependence on indigenous borrowing from the money lenders has been in vogue which needs to be reduced. Unless the banking system is able to expand substantially such substitution will be a long drawn aspiration. Nevertheless banks have been focusing on financial inclusion in a big way that will give enough opportunities to extend the reach. Many banks have been active in linking Self Help Groups (SHGs) with the banking services. Moreover, the scope of financial inclusion is getting expanded to include both liability and asset products. The urban bias in branch expansion is also waning fast. Many banks are now expanding their operations to Tier-II and Tier-III cities. The services of bank correspondents, IT delivery modules such as ATMs / Point of Sale terminals / Mobiles / hand held devices etc. are expected to provide the much needed reach. A rich potentiality for increasing agriculture assets in due course of time is therefore evident.

ASB (Bank of Maharashtra) : It is true that in spite of various measures taken by banks to provide credit to the farmers, the target of 18% of ANBC to Agriculture sector would not be achieved. Since 1969, i.e. after nationalization of major banks, banks have opened branches in rural and semi urban areas and providing credit to farmers in general and disadvantaged sections such as small / marginal farmers, tenant farmers, oral lessees and agricultural labourers in particular. However, banks could not reach all of them hence farmers were forced to avail finance from informal sources at exorbitant rate of interest even though agricultural lending is a commercially viable proposition and banks in India cannot take their hands off from agricultural lending.

Banks have taken following steps in this regard.

- Branches have been opened in rural and semi urban areas to provide banking facilities.
- Efforts are being made to provide hassle free finance for which simplified procedures and documentation is followed.
- Extension education is being provided through Agriculture Field Officers.
- Self Help Groups (SHGs) and Joint Liability Group models are being promoted to provide adequate finance to the small and marginal farmers, tenant farmers, oral lessees and landless labourers etc.
- Debt Swap scheme is being implemented under which finance is provided to the villagers who have availed finance from informal sources at exorbitant rate of interest to make them free from the clutches of the private money lender.
- Financial inclusion is being implemented under which all households will be provided with various

banking facilities including credit through Business Correspondents model at the door steps of the villagers.

We are confident that with these steps all banking facilities will be provided to the villagers and they will not be required to go to informal sources for finance.

SR (Canara Bank) : The performance of the bank under lending to agriculture has been consistent over the years. The Bank has been achieving the mandated level of 18% of the Adjusted Net Bank Credit (ANBC). As at 31st March 2010, the outstanding under agriculture was 18.55% of ANBC.

The share of agricultural credit to small / marginal farmers, tenant farmers and oral lessees etc., as at the end of March 2010 was ₹10,756 crore out of the total agricultural lending of ₹25,052 crore, amounting to 43% of the total outstanding level, involving about 20 lakh accounts. The Bank has initiated several schemes for the benefit of these category of farmers, such as, Krishi Mitra Scheme for financing tenant farmers without proper land records; Kisan Tatkal Scheme for instant credit to meet post harvest expenses, Debt Swapping Scheme to prepay non-institutional debts; Financing Joint Liability Groups of Tenant farmers etc., in addition to schemes like Kisan Credit Card, Kisan Suvidha, Agricultural Gold loan etc.

The Bank has also drawn a road map to implement its Financial Inclusion programme over the next three years so as to cover the excluded category of people / farmers under its banking network so that they also avail the benefits of the bank credit including agricultural credit.

RP (Corporation Bank) : It is true that informal lending needs to be accessed by marginal farmers and landless agricultural labourers in our country much more than loans from commercial banks. The reasons for the same are (i) Unviability of banking transactions on a very small scale to meet the small loan requirements of marginal farmers and landless labourers (ii) Limited accessibility of bank credit to these segments because of inconvenient location of bank branches.

Our Bank has taken up greater Financial Inclusion as the solution to meet the credit and other banking requirements of the above categories of people who have been financially excluded so far. Our model of Financial Inclusion has been hugely successful and has been applauded by Reserve Bank of India and also Government of India at various fora. So far, we have opened about 5.50 lakh no-frills accounts and about ₹27 crore has been sanctioned as small overdrafts to the holders of these accounts. Besides, the village level house-hold survey conducted during the Financial Inclusion drive serves as a ready reference tool to identify unbanked villagers who are in need of bank credit. The village level credit plan drawn up by the branches and actualization of the same through close follow-up is effectively meeting the credit requirements of marginal farmers and landless labourers in all the villages where our Financial Inclusion model is being implemented. We plan to extend the same to a larger number of villages in the near future.

Our Branchless Banking initiative is the solution we have implemented to meet the challenge of making small banking transactions viable. In this model a Business Correspondent is engaged, who is provided with a hand-held device which can identify the biometric details of the account holder. It enables the Business Correspondent to disburse loans of small value at the door steps of the villagers at a time convenient to them. Using information technology extensively, we have designed a smart card which is given to the account holder and which can be read by the hand-held device of the Business Correspondent. We have also opened bio-metric ATMs at some places, to enable illiterate customers transact in their accounts away from the regular branch at their convenient times.

This is a win-win situation for all, since in this model, there is no need to open a full-fledged bank branch to meet the banking requirements of under-privileged sections of the rural population and most of their banking needs are met at their village effectively. In addition, we have loan schemes in our Bank designed especially to meet the special credit requirements of small & marginal farmers like (i) Land purchase scheme for small & marginal farmers (ii) Scheme for taking over liabilities of farmers from non-institutional money lenders etc.

TMB (Indian Bank) : Agricultural Lending and Rural Development are the niche areas for the Bank in the last many years. Our commitment to agriculture in terms of total assets is 9.02%. The Bank has 504 rural and 480 semi-urban branches, which constitute 55% of the total branches of the Bank.

Agriculture, Microfinance, Financial Inclusion and Development of Small Enterprises & Rural Development have become the key components in today's Banking environment. The Bank has pioneered many new dimensions to rural development in the country like Self Help Groups - 1989, Microsate Branches (exclusive Microfinance Branches) - 2005, Financial Inclusion Project - 2005, Banking Service Centers - 2008 etc.

As of March 2010, the Priority Sector and Agriculture credit to Adjusted Net Bank Credit (ANBC) of the Bank stood at 44.38% and 18.73% as against the RBI's directive of 40% and 18% respectively.

The Bank has a plethora of products and services for facilitating both production and investment credit adopts a distinct approach in serving the farmers. Crop loans are disbursed to the farmers at concessional rate of interest (i.e. at 7%) upto ₹3.00 lakh. Credit assistance is extended to Joint Liability Groups (JLGs) formed by the farmers comprising tenant farmers, share Croppers and oral lessees. The Bank's has 96 specialized Agri. Credit Intensive Branches (ACI) for focused flow of farm credit in potential centers.

Coming to credit plus initiatives for Rural Development, the Bank has set up a Trust *viz.,* "Indian Bank Trust for Rural Development" (IBTRD). The Trust has established Indian Bank Self Employment Training Institutes (INDSETI) at five centres in Salem, Vellore and Tiruvallur in Tamilnadu, Chittoor in Andhra Pradesh and Puducherry. Besides, the Trust has established a Financial Literacy and Credit Counseling (FLCC) centre at Dharmapuri in Tamilnadu and Puducherry. These centers rendered guidance and counseling to 1187 beneficiaries on various financial aspects such as savings, investments, credit and credit restructuring during 2009-10 and continue their efforts this year.

Leveraging technology initiatives with CBS platform, the Bank has installed 74 Biometric ATMs upto September 2010 for the benefit of SHG members. This facility has advantages like joint / dual authentication of the authorized representatives of SHGs, 24X7 services etc. It is more useful for the illiterate customers especially in rural areas who have been hitherto excluded from the banking access.

Coming to our experience in enhancing the flow of credit to the disadvantaged sections such as small farmers and marginal farmers, tenant farmers (TF), oral lessees (OL) and share croppers (SC), I am proud to say that the Bank has always surpassed the stipulated targets.

- The Bank disbursed ₹3,204.76 crore to 6,67,272 small and marginal farmers during the year 2009-10 which accounts for 56% to total Direct Finance disbursed by the Bank against the RBI directive of 40%. During the current fiscal, up to Sep. 2010 the Bank has disbursed ₹1,683.69 crore to 3,32,585 small and marginal farmers, which accounts for 50% of the direct agriculture credit disbursed by the Bank.
- The Bank disbursed to 16,462 new TF / OL / SC farmers, achieving 4.07% during 2009-10, against the GoI directive of 2.50%. During the current financial year upto September 2010, the same is 3.35% benefitting 6,902 farmers.

Microfinance is a powerful tool to fight poverty. It facilitates social and economic empowerment of the people at the Bottom of the Pyramid. To relieve the people especially, the womenfolk, from the clutches of local money lenders and make them self-dependent by undertaking income-generating economic ventures, the Bank launched the SHG movement in 1989 in Dharmapuri District of Tamil Nadu under International Fund for Agriculture Development project (IFAD).

The Bank had set up 46 Micro Credit Kendras (MCKs), a special window for Microfinance in rural and semi-urban branches, all over India to serve the SHGs. Taking the fruits experience of microfinance from rural areas to urban and metro centres, the Bank first introduced a new microfinance delivery channel *viz.,* Microsate Branch (exclusive microfinance branch) at Chetput in Chennai during 2005. This branch extends not only micro-credit but also renders credit plus services such as Micro-insurance, Capacity Building, Skill Upgradation, Micro-marketing facilities etc. As of now, there are 29 Microsate Branches in the Bank across India.

In recognition of the Bank's services in Micro-Finance, the bank has been consecutively bagging the State Level Award from NABARD for the 'Best Performance' in States (Tamilnadu) since 2002.

The Financial Inclusion Plan under implementation in the Bank offers vast scope to stretch its exposure to marginalised sections of the society. The Plan aims to cover 1,538 villages with population above 2,000 and

4,040 villages with population below 2000 spread across 19 states in the next 2 years.

The Bank would continue to keep pace and sustain its efforts for sustainable development and inclusive growth through technology driven and alternative delivery channels like Microfinance, Business Correspondents, Biometric Smart Card Banking, Bio-metric ATM, Internet Kiosk Banking, and Rural Mobile Banking etc. to help and reach the hinterlands.

MN (Indian Overseas Bank) : It is true that the share of agriculture in total assets of banks is falling. One reason for this is the fast increasing share of services and manufacturing in the economy. Nevertheless, our bank's experience in lending to agriculture and also in enhancing flow of credit to disadvantaged sections such as small and marginal farmers, tenant farmers and oral lessees has been satisfactory. Out of total disbursement under agriculture 45% has gone to SF / MF and out of outstanding under agriculture 60% relates to SF / MF. Proportion of investment credit under agriculture is 30%.

Incidence of marginal farmers seeking outside credit from informal sources is gradually declining due to consolidation of institutional lending mechanism, achieved through hassle free lending methods and publicity. SHG / JLG model for tenant farmers and oral lessees has improved credit dispensation to this segment. Dedicated officers have been recruited and effectively deployed. The credit off take is fuelled by increased awareness about bank lending brought about by such institutions as FLCCC, RSETI, Farmers' Club, etc. Ongoing Financial Inclusion will also reinforce this process.

NP (Oriental Bank of Commerce) : Bank has formulated some specific schemes such as Oriental Bank Grameen Project based on SHG concept, financing to joint liability Groups and Krisak Saathi Scheme for repaying old debts of distress farmers, to include disadvantaged sections such as small & marginal farmers, tenant farmers, oral lessees and landless labourers. The share of loans to small & marginal farmers, tenant farmers, oral lessees and landless labourers is 45% of Direct Agriculture loans to farmers in our Bank.

KRK (Punjab National Bank) : PNB, being a largest bank amongst the nationalised banks, has contributed significantly to development of this sector. The Bank has fulfilled the needs of all categories of farmers, be they small / marginal farmers, share croppers, tenants, oral lessees or Self Help groups. PNB's various schemes provide credit for development of various agriculture & allied activities including farm mechanization, minor irrigation, transport vehicles and wasteland development. Apart from financing traditional agriculture activities, the bank diversified its lending by targeting activities like horticulture, medicinal & aromatic plants, mushroom cultivation, organic farming, agri-clinics, agri business, fisheries, etc.

The Bank has been supporting various employment generation and poverty alleviation programmes. As a result of strong commitment shown, the Bank has been achieving the national goal of extending 18% of its net credit to agricultural activities. Out of a total agricultural lending of ₹32,274 crore at the end of Sept 2010, the component of direct lending to agriculture amounted to ₹25,072 crore. Besides, the Bank has also issued 34.36 lakh Kisan credit cards.

Agricultural growth is critically dependent on the use of modern inputs and technology. A pioneering initiative of the Bank is in setting up Farmers' Training Centres to provide FREE training for adoption of modern technology, enhancing agricultural productivity, diversification of crops, etc. The Bank has already established 9 FTCs in 8 states which have already trained more than 2.85 lakh farmers / rural youth / women for modernising their farming activities. In addition, the PNB Centenary Rural Development Trust has been set up to train rural populace in repair of farm machinery and adoption of new farm technology to ensure higher agricultural productivity and hence improved returns.

Further the Bank has actively popularized debt swap scheme to bring the small / marginal farmers, oral tenants, share croppers etc from the clutches of informal sector. We have recently enhanced the amount under the Scheme from ₹50,000 to ₹1,00,000. We have pursued the beneficiaries of debt waiver / relief scheme to avail fresh dose of credit to improve their cropping pattern / income.

PNB has also launched a massive campaign reaching out to those at the bottom of the pyramid with the help of bio-metric technology in the Indo-Gangetic basin where the Bank has a dominant presence and a wider reach made possible through large branch network in rural / semi-urban areas. Through its various initiatives towards financial inclusion, PNB has been striving for widening and deepening the access of institutional credit to small / marginal farmers / oral tenants etc. PNB has taken the initiative of providing “doorstep banking” to financially excluded as a challenge and has adopted the “Banking facilitator / correspondent” model as bankable business models to achieve its goal of supporting rural development via agricultural development.

The Bank has also announced special credit packages with varying and flexible repayment periods for the agricultural sector to take care of mismatches of income and expenditure flows of farmers and the seasonal nature of agricultural income.

Our experience in lending to the disadvantaged sections has been good and we found that poor are bankable. The recovery rate has also been satisfactory. What they need is awareness creation and handholding. Towards this, the Bank has opened 20 Financial Literacy-cum-Counseling Centres in different districts which are providing face to face counseling regarding deposits, No frill Accounts, credit, debt restructuring, technology, etc.

AK (UCO Bank) : Banks like ours are taking steps to enhance the credit flow to the Agriculture sector. We are concentrating on increasing the number of Kisan Credit Card holders substantially. Rural and semi-urban branches have been mandated to issue KCC to all farmers in their service area. Towards this end each bank can form more Joint Liability Groups through which more and more KCC can be given to small and marginal farmers, tenant farmers, oral lessees and landless labourers. All KCC holders should be covered under Personal Accident Insurance scheme (PAIS) and all eligible crops should be covered under National Agricultural Insurance Scheme (NAIS). Sufficient care has to be taken for growth in agricultural term loan for poultry, dairy, goatery and all other allied activities.

MVN (Union Bank of India) : Marginal farmer households constitute 66 per cent of total farm households in the country. Less than 10 per cent of these households are indebted to formal sources of finance.

The government is very conscious of this and thus, many initiatives from banks are seen in this sector. A scheme for financing JLGs (joint liability groups) of tenant farmers and oral lessees, evolved by NABARD, has been implemented by banks. Similarly, certain procedural changes like simplifying mortgage requirements for loans to small and marginal farmers have been introduced. Even the Agricultural Debt Waiver and Debt Relief Scheme 2008 was intended to benefit the small and marginal farmers and create borrowing capacity in them. There is a need to continuously reach out to them through innovative schemes.

Recently, in my bank, two schemes are made operational which will benefit this segment. One is for below poverty line households and another for farmer members of Primary Agriculture Cooperative Societies (PACS). We will provide credit support to all the 19600-odd BPL families in 103 villages and to about 1.25 lakh farmer members of 650 PACS in the state of Andhra Pradesh. These models are scalable and have immense scope for enhancing flow of credit to disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless laborers.

BS (United Bank of India) : The government has taken various steps for ameliorating the plight of the disadvantaged sections of the society. Banks also strived to finance on priority basis to improve their condition. But in spite of all efforts there is a gap. The disadvantaged section of people comprising small and marginal farmers, tenant farmers, oral lessees and landless labourers mostly live in remote villages where commercial bank branches are rarely found. As a result they are dependent on non-institutional finance.

Government has taken a pro-active role to reach this segment of population through bank branches and business correspondent model. Villages with population of 2000 and above are covered under this scheme at present. Banks will reach to this segment either through branches or through the business correspondent model with the help of technology by 2012 to extend banking services to them. With this facility in the doorstep situation will improve.

AT (Vijaya Bank) : I do agree that extent of financial exclusion, especially in disadvantaged segments, is very high. We at Vijaya Bank have been according due emphasis on extending banking services and credit access to the small / marginal farmers who constitute a major segment at the bottom of the pyramid. We have recently drawn up our three year Financial Inclusion Plan by virtue of which we envisage to expand our outreach to the disadvantaged segments considerably.

RK (Yes Bank) : Credit is necessary but not sufficient pre-condition for viable farming livelihood. As majority of farming is still dependent upon monsoons, the farm sector is subjected to significant level of risk at production stage as well as at a marketing stage. A number of other enablers / facilitating factors need to be in place for profitability of farming operations, which is necessary for ensuring timely repayment of credit. YES BANK has been developing innovative financial models, which leverage the outreach of various stakeholders in agribusiness value chain, to overcome the 'last miles problems' in agribusiness and rural sectors. The identified stakeholder works as an extended arm of the bank and helps the bank in documentation, disbursement and collection functions. One such innovative lending structure developed by the bank for financing the honey farmers through a honey exporting company has won the "Euro-money Trade Finance Deal of The Year 2007" award.

The Bank has also created a specialized Inclusive and Social Banking group which uses Business Correspondents (BC) and Self Help Group (SHG) mechanisms for enhancing the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless laborers. A pilot initiative is in progress in Pune district.

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Policy Measures to Augment Forex Liquidity

- Interest rate ceilings on FCNR (B) and NR(E)RA deposits were increased by 175 basis points each from September 16, 2008 providing more flexibility to Indian banks to mobilise higher foreign exchange resources.
- The constraints on external commercial borrowings were eased through relaxing various conditions, *viz.,* (i) enhancing all-in-cost ceilings for ECBs of average maturity periods of three to five years and over five years to 300 basis points above LIBOR and 500 basis points above LIBOR, respectively; subsequently, the requirement of all-in-cost ceilings under the approval route was dispensed with until December 2009; (ii) permitting ECBs up to US$ 500 million per borrower per financial year for rupee / foreign currency expenditure for permissible end-uses under the automatic route; (iii) the definition of infrastructure sector for availing ECB was expanded to include the mining, exploration and refinery sectors; (iv) payment for obtaining license / permit for 3G spectrum by telecom companies was classified as eligible end-use for the purpose of ECB; (v) dispensing with the requirement of minimum average maturity period of 7 years for ECB of more than US$ 100 million for rupee capital expenditure in the infrastructure sector; (vi) permitting borrowers to keep their ECB proceeds offshore or keep it with the overseas branches / subsidiaries of Indian banks abroad or to remit these funds to India for credit to their rupee accounts with AD category-I banks in India, pending utilisation for permissible end-uses; (vii) allowing NBFCs exclusively involved in financing of the infrastructure sector to avail of ECBs under the approval route from multilateral / regional financial institutions and government-owned development financial institutions for on-lending to borrowers in the infrastructure sector, subject to compliance with certain conditions; and enabling housing finance companies registered with the national housing bank (NHB) to access ECBs subject to RBI approval and compliance to regulations laid down by NHB.
- Access to short-term trade credit was facilitated by increasing the all-in-cost ceiling to 6-month LIBOR plus 200 basis points for less than three years' tenor. Furthermore, systemically important NBFCs not allowed hitherto were permitted to raise short-term foreign borrowings.
- Interest rate ceiling on export credit in foreign currency was increased to LIBOR plus 350 basis points subject to banks not levying any other charges.
- Authorised Dealer (AD) category-I banks were allowed to borrow funds from their head office, overseas branches and correspondents and overdrafts in nostro accounts up to a limit of 50 per cent of their unimpaired Tier-1 capital as at the close of the previous quarter or US$ 10 million, whichever was higher, as against the earlier limit of 25 per cent.
- Indian companies were encouraged to prematurely buy back their FCCBs under the approval or automatic route, at prevailing discounts rates, subject to compliance with certain stipulated conditions. Extension of FCCBs was also permitted at the current all in-cost for the relative maturity.

Source : RBI, Report on currency and finance, 2008-09.

11. Even as Rating agencies are improving the rating tools on account of the lessons learnt in the recent crisis, it emerges that inability to effectively capture / simulate the business cycle changes will be a major challenge for rating of long term investments and credit exposures. What role do you see for credit rating agencies in improving the quality of banks' asset books? Do you think that rating agencies must be made responsible?

JPD (Allahabad Bank) : The recent economic crisis in US and Euro Zone has been the effect of systemic failure caused due to lack of regulations and effective supervision by the appropriate authorities. As such, it would not be fair to hold the rating agencies responsible singularly. Banks must not be over-dependent on the rating agencies for risk-rating their assets. This has also been reiterated by the RBI. Banks have to assess their loan portfolio and consequent risk capital as per the peculiarities of its portfolio. We don't visualize any bigger role for external rating agencies in this regard. As far as the responsibility is concerned, they should be made responsible and accountable for their actions and consequences as applicable to any other professional.

MDM (Bank of Baroda) : There is always an implied responsibility on the part of rating agencies so that the future performance of the entities remains aligned with the rating accorded to it. But in view of recent experience of financial crisis, the rating agencies may have to fine tune the rating matrix to make it more effective in capturing the macroeconomic events more realistically than is presently the case. Banks have also to internally review their own mechanism of rating to be able to estimate the performance of the borrower. The external credit rating agencies will have to be conscious to the fact that the performance of the underlined entities should fall in line with their estimates failing which their reputation is always at risk. In its own interest rating agencies will have to devise better mechanism to assess the rating.

ASB (Bank of Maharashtra) : Credit rating agencies play a vital role in enabling financial markets to operate efficiently by acting as information intermediaries, specializing in the appraisal of the creditworthiness of the counterparty.

While marching towards the IRB approach for credit risk, the banks are expected to develop their own Risk Rating framework and reduce their dependence on such information intermediaries. With their experience in credit dispensation and access to significant information from borrowers / applicants, developing appropriate models for risk perception should not be very difficult.

However, host of factors are dynamic over a long time horizon and their behavior and influence on the counterparty, its projected revenues & ability & willingness to pay is not fully predictable. The uncertainties in a long term lending and investment, therefore, are difficult to capture completely. Making the credit rating agencies fully accountable for their errors occurred, if any, on such long term lending and investment propositions may not be therefore totally justified.

In the Advanced Internal Ratings Based approach under Basel-II, Banks will rely on their own internal ratings system for measurement of credit risk. As a result, the role of Credit Rating Agencies will be reduced to that extent in evaluating credit risk in banks' assets. However, the ratings assigned by external rating agencies will continue to be used to supplement the internal rating process if the banks desire so. The Credit Rating Agencies will also continue to play a role in the risk assessment of structured debt obligations, facility rating, etc.

Credit Rating Agencies are paid by the issuer of securities, resulting in a conflict of interest. To ensure fair and accurate assessment the rating agencies must be made fully responsible and accountable. Though the rating agencies are registered with SEBI, a regulator for the rating agencies will help improve the quality of ratings and the conduct of rating agencies.

SR (Canara Bank) : Yes, I agree that rating agencies must be made responsible. While ratings do provide a useful input in the decision-making process, there is a manifest need to reduce reliance on credit-rating agencies and move away from issue-rating to issuer-rating. This requires the development of alternative measures of creditworthiness and of additional risk management capacity.

Rating of long term investments and credit exposures requires capturing the impact of changes in business cycles during the maturity of the assets. Currently the rating agencies are taking into account the short / medium term predictability rather than long term. Currently Indian banks are estimating their regulatory capital requirement adopting basic approaches of

Basel-II framework. Accordingly banks are using the ratings assigned by the credit rating agencies for computing risk weighted assets. Banks are expected to use these ratings to evaluate the health of their credit portfolio also.

Ratings can help in improving the quality of bank lending. But ratings methodologies used in the processes need to be periodically reviewed to be transparent, credible, independent and objective, without in any way being compromised by conflicts of interest, abuse of confidential information or other undue influences. Ratings Services need to conduct periodic default and transition studies on rating trends containing information as to the bases of its default analyses, key assumptions and methodologies. These measures are necessary for an objective assessment of the credit ratings and track record of rating companies.

RP (Corporation Bank) : A credit rating is a professional opinion given after studying all the available information at a particular point of time and considering the performance of a particular industry in past, prospects in future and interrelations within the economy. It is more important that the rating agency must act judiciously to assign the rating taking into account the information pertaining to past business cycles and the likely adverse scenarios.

Banks / financial Institutions should also develop capabilities to make their own assessment, rather than depending on the rating agencies and should take rating assigned by the rating agencies as a supportive instrument. There should also be a regulatory body to regulate the rating agencies, as in the case of Audit Firms, to ensure proper and fair rating.

TMB (Indian Bank) : Credit Rating Agencies are considered gatekeepers, because they issue ratings that help determine whether a company is worth lending to, and at what cost. Rating Agencies evaluate the creditworthiness of the financial instruments and issue a credit rating that is published for public use. Ratings improve market efficiency. RAs have become a central, imbedded feature of the financial markets.

Credit ratings standardize data from borrowers around the world to allow investors to compare the risk of investments in different countries on the same rating scale. It has gained further influence over the financial markets through governmental regulations that mandate the use of ratings and through private contract rating requirements.

Rating agencies must be responsible for the ratings given by them, as otherwise the investors and the market would lose confidence in their ratings. This was a major problem leading up to the global financial crisis as RAs rated billions of dollars of structured finance instruments too highly, without understanding the risks and complexity of the MBSs and CDOs that they rated. Many investors did not fully understand these MBSs and CDOs, and CRAs played a central role in building investor confidence in these instruments.

In the Indian context, the Regulator has made four CRAs as accredited rating agencies for 'Bank Loan Rating' based on which risk weights are assigned for capital adequacy computation.

SEBI has been working on fixing more responsibilities on CRAs and their guideline issued in May 2010 is in line with this.

MN (Indian Overseas Bank) : In India we have been used to only issue rating. Issuer rating is of recent origin and therefore data is a constraint for “Through the Cycle” rating which is more appropriate for long term ratings since it takes into account the entire business cycle changes.

Reserve Bank of India allows use of external rating assigned by approved rating agencies for bank exposures under Standardized approach of Basel-II framework. As such, Bank's portfolio is covered partially by external ratings. However, since only solicited ratings are allowed, this benefits the borrower in getting better pricing than improving the quality of bank's asset books.

Credit ratings assigned by the Credit Rating Agencies are a matter of public interest as these are critical to capital formation through the debt market operations, investor confidence, bank finances and for the efficient performance of the economy. In India the credit rating agencies are regulated by SEBI to a limited extent which needs to be strengthened. The rating agencies have been made responsible in the US through the recently passed Dodd Frank Act. A similar step as appropriate to the Indian context might make the rating agencies accountable for the rating they give.

NP (Oriental Bank of Commerce) : RBI prefers that the assessments made by the domestic rating agencies that have up to date and ongoing access to information on domestic macro-economic conditions, legal and regulatory framework, etc., could be a better source for assigning preferential risk weights for banking book assets (excluding claims on sovereign), subject to adequate safeguards. This would facilitate the national supervisory authorities to have greater access to the quality of assessment sources and methodologies used by various rating agencies. But greater reliance needs to be placed on internal ratings-based approaches of banks, which could be structured under an acceptable framework so that a standardised approach to internal rating could be adopted.

At present the ratings assigned by Credit Rating Agencies are solicited in nature. Further, their ratings are point-of-time assessment of creditworthiness and are not recommendations. However, in view of the acceptance of the rating assigned by accredited credit agencies by RBI for provisions of Capital under Basel-II, the credit rating agencies may be made more responsible so that their ratings are more realistic and co-terminus with the economic and industry cycle prevailing in our country.

KRK (Punjab National Bank) : Credit Rating Agencies (CRA) play a key role in financial markets by helping to reduce the informative asymmetry between lenders and investors, on one side, and issuers on the other side, about the creditworthiness of companies (corporate risk) or countries (sovereign risk). CRAs' role has expanded with financial globalization and has received an additional boost from Basel-II which factored ratings of CRAs while calculating credit risk weights. However, rating agencies have been found wanting in their role as far as accuracy and transparency of methodologies is concerned. They need to be made accountable and regulated to ensure that ratings are done professionally and are dynamic instead of being sticky and generally with a lag. Unless these agencies practice improved governance, their utility is bound to be limited. The credibility of Ratings can be assured by default rates corresponding to different categories of ratings given by a CRA.

AK (UCO Bank) : The recent crisis has highlighted the fact that total reliance on rating agencies for investment / credit decisions is not desirable as the ratings reflect their own assessments which is based on their internal rating models not known to their clients.

We feel that instead of depending on the rating agencies, the banks should strengthen their own risk assessment systems to make them more forward-looking and reflective of the operating environments. The systems have to be geared up to anticipate how current trends will unfold, how critical uncertainties will play out, and what new factors will come into play. This will enable banks to predict future risks and losses better than ever before and ensure asset quality.

MVN (Union Bank of India) : The role of Credit Rating Agencies (CRAs) is being questioned in aftermath of global crisis. The world has witnessed how ratings quality suffered with the collapse of the top rated structured finance products. That is why during this crisis regulatory attention has focused mainly on Credit Rating Agencies. The credit rating should be based on long-term expected quality and agencies should be able to rate through the cycle. Having said so there are genuine difficulties in detecting long-term trends.

Ideally, the pricing of bank's long-term asset book should also factor in business cycle components of risk. But the question is whether CRAs are able to capture those. There are some models available with CRAs but none has been proved to be accurate so far. In fact, even academic literature has difficulties in detecting long-term trends.

The rating agencies have their own mandate and models. It is difficult to make them responsible for a particular 'event' per se. Instead, one should look for subjecting CRAs to greater transparency. There is also a proposal for 'issuer pays model'. It is difficult for any market player to establish how the rating played a 'real and substantial part' in the investment decision. Also, companies and governments need to ask themselves why they have become reliant on CRAs, rather than conducting their own due diligence.

While banks should be moving towards advanced approaches with less reliance on rating agencies, the rating agencies in turn have to take a holistic approach while awarding ratings having regard to end use, asset bubbles and financial stability.

BS (United Bank of India) : The rating agencies with their special expertise play a vital role in providing inputs to banks for improving the quality of assets. Their skills play a supportive role in rating and assessing the quality of bank credit and investments. Hence their service is very important to the banks. But, banks should not depend on them blindly without any monitoring since the rating agencies in spite of improving their rating tools, are subject to various limitations particularly in the area of long term investment and credit exposures, where the changes in the business cycle could be critical in affecting the quality of the assets. Hence, accuracy in forecasting the business trends is an essential parameter for rating of long term credit or investment exposure. As has been observed the rating agencies are yet to develop expertise to accurately forecast changes in business cycle. Therefore, although services of the rating agencies are essential for the banks for improving the quality of the assets the banks should also remain cautious and vigilant to overcome the shortcomings in the rating system as far as external factors including macro economic factors are concerned.

AT (Vijaya Bank) : Rating Agencies, I feel, have done a reasonably good job in providing triggers to major events. While I don't dispute the fact that rating agencies must be held accountable, the bigger challenge is to overcome sudden bouts of volatility that becomes endemic within no time. Banks and FIs would also need to be more responsive to triggers, act in sync with regulatory guidance and ensure diligence in the exposure to sensitive segments.

RK (Yes Bank) : Primarily Banks need to make their own independent credit assessment of each customer rather than solely relying on ratings generated by the credit rating agencies (CRA's). CRA's currently play a more critical role in reducing information asymmetry in investment products rather than loan products for large and medium size corporate. Having said that, the CRA's with the right rating scale and methodology can play a very meaningful role in the credit assessment of the small enterprises. In terms of accountability, CRA's need to be regulated by way of an oversight from a statutory body to ensure the integrity and independence of the rating process with holistic and timely interventions to proactively manage systemic & individual risks.

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IT Governance

Information Technology Governance is a subset of corporate governance focused on information technology systems and their performance and risk management. While an effective corporate governance strategy allows an organisation to manage all aspects of its business in order to meet its objectives, IT governance helps to ensure the delivery of the expected benefits of IT in a controlled way and enhance the long term sustainable success of the organisation. The primary goals of IT Governance are to assure that the investments in IT generate business value, and to mitigate the risks that are associated with IT. As IT infrastructure has evolved as the backbone to organisational activities of banks, IT Governance assumes critical significance. Setting up of an efficient IT infrastructure in banks involves enormous investment. Therefore, in terms of its continuous availability and return on investment, it requires basic governance principles to be enunciated.

Standard IT governance frameworks

ISO / IEC 38500

The world's formal international IT Governance Standard, IS / IEC 38500 was published in June 2008. ISO / IEC 38500 sets out a very straightforward framework for the board's governance of Information and Communications Technology.

ITIL® / CobIT® / ISO 17799

There are three widely-recognised, vendor-neutral, third party frameworks that are often described as 'IT governance frameworks' viz., ITIL®, CobiT® and ISO 17799. While, on their own, they are not completely adequate to that task, each has significant IT governance strengths. ITIL®, or IT Infrastructure Library®, was developed by the UK's Office of Government Commerce as a library of best practice processes for IT service management. Widely adopted around the world, ITIL is supported by ISO / IEC 20000:2005, against which independent certification can be achieved. CobiT®, or Control Objectives for Information and related Technology, was developed by America's IT Governance Institute. CobiT is increasingly accepted as good practice for control over information, IT and related risks. ISO 17799, now renumbered as ISO 27002 and supported by ISO 27001, (both issued by the International Standards Organisation in Geneva), is the global best practice standard for information security management in organisations.

Without an effective IT governance to deal with these constraints, IT projects will have a higher risk of failure. Each organisation faces its own unique challenges as their individual environmental, political, geographical, economic and social issues differ. Any one of these issues can present obstacles to providing effective governance. Common among such inhibiting factors are poor strategic alignment, lack of project ownership, poor risk management and ineffective resource management.

Source : RBI, Reserve Bank of India, Annual Report, 2009-10.

12. The accounting and disclosure systems in Indian banking are well laid out. The size and depth of financial reporting as on date is possibly too large. In this back ground, what will be the benefits of IFRS to the bank / customers / stakeholders?

JPD (Allahabad Bank) : The benefits of IFRS to the Bank / Customers / Stakeholders are as follow :

Improve access to International Capital Markets : Indian banks are expanding or making significant acquisitions in the global arena, for which large amounts of capital is required. The majority of stock exchanges require financial information prepared under IFRS. Migration to IFRS will enable Indian banks to have access to international capital markets, removing the risk premium that is added to those reporting under Indian GAAP.

- Lower Cost of Capital : Indian banks also raised fund from abroad and the migration to IFRS will lower the cost of raising funds, as it will eliminate the need for preparing a dual set of financial statements and the investors will believe in the financial statements prepared based on IFRS.
- Enable Benchmarking with Global Peers and Improve Brand Value
- Escape Multiple Reporting : Convergence to IFRS, by all group entities, will enable banks' managements to view all components of the group on one financial reporting platform and this will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges.
- Reflects True Value of Assets : Indian reporting standards are based on conservative approach and does not reflect the true value of assets
- Comparability : Convergence to IFRS will enhance comparability and reporting transparency
- Banks, as lender of funds, can perform accurate risk evaluation of borrowers. As a result, they can offer their loan products at competitive prices to their clients and can improve the relationship with them in the long run.

MDM (Bank of Baroda) : As part of prudential norms, the banks continue to improve their standard of disclosures / transparencies on a continuous basis. Notwithstanding such better corporate governance standards, moving over to IFRS provides a better visibility in the international market. IFRS is expected to infuse better confidence to the customers and stakeholders that is essential in a globalized banking environment. Improving domestic financial reporting system will have to be aligned to IFRS standards to provide the much needed recognition to the standards. When operating in a global financial system IFRS helps in international integration of standards that lends more credibility to the overseas market players. The banks may work towards eventual migration to IFRS standards by retuning their internal accounting systems and MIS generation system. Upgraded technology and standard operating platform like CBS will be better able to speed up the process.

ASB (Bank of Maharashtra) : Adoption of IFRS will have the following benefits.

- Improves Comparability and transparency : IFRS will improve comparability of performance of Indian Banks with their global peers and greater transparency about their activities. This will help in initiating new relationships with investors, customers and suppliers across the globe.
- Access to Global Capital markets & reduced Cost of capital : Convergence of accounting standards will eliminate barriers to cross border listings. Thus, it will enable banks to tap into the global capital markets. Even where listing on verseas exchanges is allowed using Indian GAAP, international investors attach a risk premium to financial statements not prepared according to international standards. Adoption of IFRS will reduce this risk premium resulting in lower Cost of Capital. Investors will also benefit as they will have greater avenues for investment.
- Impetus to Cross border acquisitions : Comparable and transparent financial information will provide

an impetus to cross-border acquisitions. Post-acquisition integration efforts and cost will also be lowered. It will also enable partnership and alliances with foreign entities.

- More accurate presentation of economic value : Balance sheet items will be reported at fair value instead of historical costs. This will enable financial statements to closely reflect economic value.
- Avoidance of multiple reporting and reduced cost of finance function : Requirement for multiple sets of financial statements will be avoided for entities operating in different jurisdictions reducing complexity and costs involved in financial reporting.
- Economic growth : Growth in cross-border capital flows and transactions will provide a boost to global economic growth.

SR (Canara Bank) : Convergence with IFRS will help the banks to raise capital from foreign markets as it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards across countries, banks which operate in different countries face multiple accounting requirements. The burden of financial reporting will lessen with convergence of accounting standards as it simplifies the process of preparing financial statements.

Convergence with IFRS will also benefit the economy. It facilitates maintenance of orderly and efficient markets and also helps to increase capital formation and international investments.

Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as compared to financial statements prepared using different set of accounting standards.

RP (Corporation Bank): Providers of Capital and hence users of financial statements are no longer limited to a single country and operate on a global basis. As a result they increasingly expect the financial statements to be presented in a comprehensive, transparent and commonly understood format. In this regard, the International Accounting Standards Board (IASB) has developed the IFRS for financial reporting operations and convergence. IFRS has gained significant momentum in recent years.

Potential benefits of convergence with IFRS :

1) Increased compatibility and comparability among the financial statements of sectors, countries and companies.
2) Improved communication and interaction with investors and analysts, which may provide companies with a competitive advantage and also wider access to capital at relatively lower cost.
3) The usage of IFRS is likely to enhance the reliability and image of financial reporting by Indian industry across the world. IFRS compliant financial statements are acceptable for financial reporting operations for an increased number of countries across the world.
4) Convergence with IFRS will eliminate the need for multiple reporting in most cases as the same set of financial statements can be used both for reporting at the entity level and at consolidated level, in respect of global listing, filing with overseas regulatory authorities etc. The processing of convergence with IFRS generally leads to harmonization of internal and external reporting which can assist entities in not only reducing cost but also ensuring consistency in financial reporting.

TMB (Indian Bank) : Moving to IFRS provides many benefits to entities, some of them are :

- IFRS Balance sheet is closer to economic value. The Historical cost will be substituted by fair values for assets / liabilities which will enable corporate to know its true value.
- IFRS-compliant Balance sheet of Indian entities helps foreign investors to understand and to objectively interpret the financial performance of Indian entities, thereby resulting in inflow of foreign investments.
- It reduces the risk premium built-in now by investors who are not conversant with Indian GAAP. The increased comparability of financial information on adoption of IFRS and the eventual better quality of communication to investors will

reduce investor's anxiety, reduce risk and eventually minimize the cost of capital of IFRS compliant entities.

- Improves the comparability of entities : On adoption of IFRS, Banks can bench mark their performance with global counterparts resulting in enhanced comparability and reporting with transparency.
- IFRS facilitates cross border acquisitions : IFRS helps Indian entities to acquire foreign entities by providing transparent and comparable financial information. It also enables partnerships and alliances with foreign entities and lowers cost of integration in post acquisition period.

The benefits to customers / stakeholders are :

- Customers / stakeholders will be able to analyze, interpret and compare with the financial statements with Global entities.
- IFRS balance sheet helps to understand the fair value of an entity.
- As the disclosure norms are enormous under IFRS, it helps create confidence and credibility of accounts.
- The quality of transparency helps the investors / customers to take right decision for investing.

MN (Indian Overseas Bank) : The RBI has constituted a Working Group to recommend a road map for the smooth migration of Indian banks to IFRS. A deadline of April 2013 has also been given to the banks. Given the Indian banks prowess to adapt to international standards promptly, the migration to the global accounting standards should be on schedule. The RBI guidelines to be issued would make this transition smooth and easy. Of course, there will be some convergence problem for some banks.

IFRS will benefit the banks. It is a global best practice which makes valuation issues more realistic by switching over from the historical cost method to fair value. The universality of the accounting language will make comparison among banks easier. This would then make it more convenient for banks to tap external markets for their needs.

From the Customers point of view, the new method will present a more transparent picture of the bank's balance sheet. The disclosures with reference to financial ratios would help them make their decisions better. IFRS will provide a level playing field for decision making both by borrowers and depositors. As for other stakeholders, IFRS will be more rigorous but at the same time more user-friendly. Fair value would enable assessment of ROA / ROE in a transparent manner. Comparison of peers would be easy and simple.

NP (Oriental Bank of Commerce) : No doubt that Indian accounting disclosure system is well laid by the Banking Industry. The Indian Financial Reporting System (Accounting Standards) avoided any major stress on account of contagion from the global financial crisis. Our overall regulatory framework and the specific regulatory measures played an important role in preventing instability in the Indian banking system during the global financial crisis in particular, and in avoiding any banking crisis in general in the past.

The proposed plan for convergence to International Financial Reporting Standards (IFRS) would mean India would join a league of more than 100 countries, which have converged with IFRS. As per RBI regulation the banks will have to be converted to IFRS by April 1, 2013.

The benefits of this convergence are mutual and broad for Banks, Investors and the Economy. The convergence benefits for the Banks are increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation. It encourages international investing and thereby leads to more foreign capital flows to the country.

Investors and stakeholder want the information more relevant and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities.

We believe that for Indian banking system, financial impact of convergence with IFRS will be significant, particularly, in areas relating to loans loss provisioning, financial instruments and derivatives accounting. We also expect that in addition to the financial accounting impact, the convergence process is likely to entail several changes to financial reporting systems and process adopted by banking in India. These changes would need to be planned, managed, tested and well executed after deliberation. This also needs to strengthen a data capture system to enable the impairment assessment after determining tactically where information will be collected / who will make the impairment assessment / templates and information gathering and storage systems, etc.

Our Bank is moving towards a well convergence proposition for which we have engaged E&Y as Consultant who have carried out a preliminary study and the same is under process.

KRK (Punjab National Bank) : Accounting standards and the integrity of its implementation lies at the heart of a successful market economy. It is a welcome feature of the Indian economy that Indian Accounting Standards are broadly in line with International Accounting Standards, which are now known as International Financial Reporting Standards (IFRSs). To be sure, there are some gaps in areas relating to the convergence of Indian Accounting Standards with IFRSs in developing sector-specific guidance, authority for issuance of standards and the training of professionals. These issues are being addressed.

As transactions in the business world are getting increasingly more complex with the liberalisation and globalisation across the globe, we need more sophisticated accounting standards. Thus adopting IFRS is expected to fetch benefits to customers as well as banking sector in India as the banking is also becoming complex due to the enlarged offerings by banks of products that can be customized to meet the specific needs of the customers.

The stakeholders / customers would be benefited in as much as accounting information made available is expected to be more reliable, relevant, timely and most importantly comparable across different legal frameworks. It would facilitate better understanding and confidence among the stakeholders / investors, by knowing the market related value of each balance sheet item.

Thus adoption of IFRS by the banks would facilitate use of "one accounting language company-wide". Henceforth, a banking business with overseas offices and subsidiaries, can present accounts in a way comparable to foreign competitors, making comparison easier.

AK (UCO Bank) : The disclosures in the financial statements bring about transparency so essential for a healthy financial system. That is why IFRS calls for extensive disclosures. It requires significant amount of additional disclosures compared to current disclosures made by the banks under Indian GAAP (Generally Accepted Accounting Principles). Extensive qualitative and quantitative disclosures related to fair values for each category of financial assets and financial liability, reclassifications, de-recognitions, pledges of assets, migration & sensitivity analysis, etc. are required to be disclosed under IFRS. Risk Management practices and procedures in respect of credit, liquidity and market risks associated with banks financial assets and liabilities and the efficiency of the management strategy in mitigating the same are also to be disclosed. Related Party disclosures, especially transactions with other government owned entities; segment wise disclosures of loans etc., are a few among the overall disclosure requirements. The benefits of IFRS to bank / customers / stakeholders would be :

- It will be as per globally accepted reporting and disclosures standard whereby almost all relevant information about a bank is made available.
- There will be transparent and qualitative disclosure.
- IFRS would follow Fair value method of valuation which is better than the conservative approach.
- Recognition of income and expenses will be done following some prudential basis.

MVN (Union Bank of India) : IFRS is a principle-based model. IFRS requires extensive use of fair valuations or measurement of assets and liabilities. The objective of IFRS is to set the balance sheet right, and hence a significant volatility may come in profit & loss statement. I see four distinct advantages of moving to IFRS.

First, this would provide improved access to global markets as majority of the stock exchanges globally require financial information as per IFRS. If the financial information is as per Indian Accounting Standard then a risk premium is added to pricing. Second advantage is a corollary of the first as convergence with IFRS would mean that the Indian companies need not prepare two sets of Financial Statements in order to comply with the requirements abroad. This would lead to lower cost of administration and capital. As our markets get more integrated with the global markets, the third advantage of moving to IFRS would be in benchmarking performance of Indian companies and banks with their global peers. Fourth advantage I see is that in Indian GAAP, barring a few exceptions, net assets acquired is recorded on the carrying value instead of fair value. Here the true value of the combination is not reflected. IFRS overcomes this flaw as it mandates accounting of business combinations at fair value.

BS (United Bank of India) : Different countries of the world have their nationally accepted accounting standards. They have been following the principles of International Accounting Standards (IAS) as part of their accounting standards. The interpretation of many of the principles of IAS varies significantly in different countries. As a result there is lack of transparency and non-comparability of financial statements of various entities in different parts of the world. In this era of globalisation standardized approach for financial reporting and comparability of data is very essential.

Along with more than 100 countries of the world, India is also seeking to converge to International Financial Reporting Standard (IFRS). Indian banks will have to move to IFRS by April 1, 2013. IFRS would be significant for banks in India, particularly in areas relating to loan loss provisioning, financial instruments and derivative accounting. It is also likely to have a significant impact on the financial position and financial performance, on key parameters like capital adequacy ratios and the outcomes of valuation metrics that analysts use to measure and evaluate performance.

The aim of setting standards is to bring about uniformity in financial reporting and to ensure consistency and comparability in the data published by different enterprises globally.

IFRS, when implemented will provide the following benefits :

- It will facilitate the companies to follow the standard global accounting practices leading to smooth and free-flow of international capital to them.
- Regulating agencies will be benefited since country / location-wise accounting norms will go away and the associate problems and complexity of different accounting standards will be reduced to a great extent.
- The investors will have better understanding of the financials of the companies and thereby will be more equipped to evaluate and compare the investment opportunities.

AT (Vijaya Bank) : Ours is possibly one of the best accounting and disclosure systems in the world, with quality financial reporting as one of the cornerstones under corporate governance mechanism. Convergence to IFRS will certainly to be India's advantage as the process of India's globalization gathers further momentum. It is expected that by 2015, more than 150 countries will move to the IFRS platform - providing a single language of business ensuring compatibility and comparability of financial statements the world over. Cross border movement of cost-effective capital, professional manpower and increase in cross border collaborative ventures are some of the benefits that IFRS can spill over to banks and its stake holders.

RK (Yes Bank) : Though IFRS would result in pro-cyclicality of earnings, which is a significant drawback for a public trust institution like a bank, we believe that moving to IFRS would create uniformity in accounting norms of Indian banks with their global counterparts thereby improving the ability of international stakeholders to assess Indian Banks on an equivalent basis. We believe that this will be beneficial to banks in the long run in managing / optimizing counter party risks and resultant exposures.

Books Added to the IIBF Corporate Library			
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4.	Big Book of Customer Service Training Games	Peggy Carlaw & Vasudha Kathleen Deming	Tata McGraw Hill, 2004
5.	Broom and Groom	Kiran Bedi & Pavan Choudary	Wisdom Village, 2010
6.	Dealing with Difficult People	Karen Mannering	Hodder Education, 2008
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20.	Reminiscences of a Central Banker	V. G. Pendharkar	Author, 2008
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23.	Short History of Nearly Everything	Bill Bryson	Broadway Books, 2005
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