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Bank Quest

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CEOSPEAK



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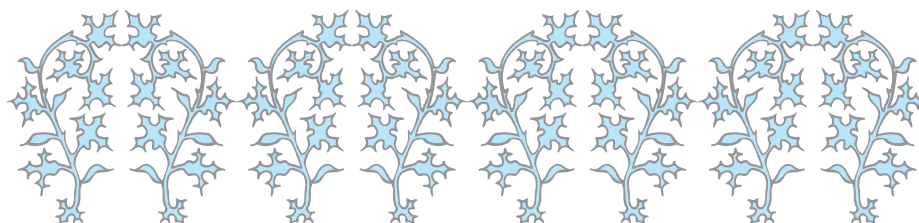
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The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

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

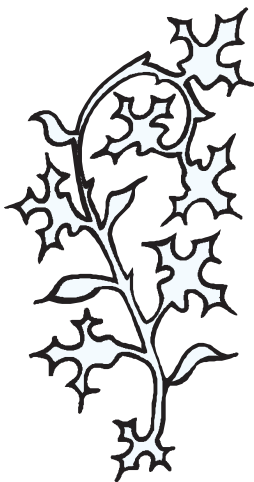
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The April- June, 2006 issue of Bank Quest had carried the perspectives of a number of CMDs on various issues (a bakers' dozen) concerning the banking industry at that point of time. That issue had received all round appreciation and encouraging response from our readers. Many educational institutions use the issue as a reference material on Indian banking thought. One of the business papers had carried an article on the issue by a former Governor of RBI who appreciated the efforts in getting the perspectives of CEOs on so many issues. Since then new CMDs have taken charge and the contours of the banking industry have changed as well. So it was thought that it is a good time to get a perspective on the current issues engaging the banking industry and hence, this issue on CEOSpeak. Once again we had asked for the CEOs' reactions on several subjects such as financial inclusion, misselling, core banking solutions, consolidation, 'decoupling' theory, HR, etc. Though the CEOs had somewhat similar views on some of the core issues, every one of them has added certain exclusive perspective on those issues making the answers to the survey very rich and varied.

Financial inclusion has been the single most important initiative in the Indian banking scene in the last two to three years. Data published by the Reserve Bank of India shows that rapid strides have been made in the opening of no-frill accounts by all the banks. On the question of viability of financial inclusion, the CEOs have indicated that financial inclusion makes definite business sense. Even though the initial costs could be high, the costs can be brought down given the possible scale of business and availability of ICT based solutions. It is evident that ICT can be appropriately used for reaching out to the vast unbanked population and eventually mainstream them. The CEOs have indicated that it is important that right products be designed for including the financially excluded. Almost all the CEOs have shared their banks' unique experience with financial inclusion and what is being done to support the cause of financial inclusion.

Is misselling a matter of concern? The response is an emphatic NO. Most of the CEOs were of the opinion that misselling was not prevalent among the public sector banks, more particularly in retail and priority sector. There are certain issues of understanding the treasury products. Misselling, according to

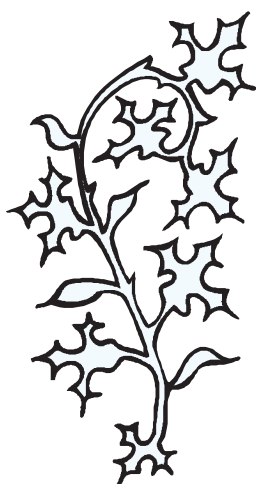


them, was a result of inadequate awareness about various products. Often, impact of very basic terms such as floating rate is not understood by the borrowers. The best way, they say, to tackle the problem is to educate the bank customers. All the banks have taken steps to educate the customers on various product related information and are using their portals to the full advantage. Banks are undertaking customer education in various ways by using training institutions or credit counselling centres.

In order to give impetus to the financial inclusion programme, the Reserve Bank of India has notified the Business Facilitator / Business Correspondent Model. We had asked each of the CEOs about their bank's experience with regard to the BF / BC model. Apparently not all the banks have implemented the BF / BC model in a big way; those that have, are in the initial stages. Although the signs are encouraging, complete feedback was not available regarding the feasibility of the model. The fact that most of the CEOs say that with the attainment of volumes the viability will happen shows that the initial costs are high. All the CEOs, however, indicate that the model has great potential and some of them have suggested broadening the category of people who can be considered to be eligible under the BC model by using the services of unemployed youth or shopkeepers, traders, PCO operators, etc. Many types of business organisations could be approved for taking up the role of BC. These permissions, they feel, will help the model be more effective.

It has been quite sometime since banks in India have implemented core banking solutions (CBS). Often, people enquire about the main benefits of CBS- to the banks and to the customers. All the CEOs unanimously agreed that the most important benefit of CBS to banks has been centralisation of operations and data base which has led to greater efficiency in terms of transaction time / cost as well as use of manpower. CBS has helped banks to have centralised MIS reports, launch new products through all branches and has also helped in conduct of government business. Various e-payment channels introduced by RBI like RTGS, NEFT, etc. have been made possible because of the CBS. For the customers, CBS has become 'Anytime, Anywhere' and they are now customers of a bank and not of a branch and can now avail of facilities like Internet banking and the availability of 24 X 7 banking services. CBS has made the banks compete effectively with the other players in the banking sector.

In a service industry where the customer is the focus, banks cannot hope to go forward without a suitable human resources (HR) policy which is in keeping with the modern times and the objective of the banks. Obviously all the banks are constrained on account of the centrally driven HR policy. Yet CEOs have indicated the changes they have made in the HR policy to keep up with the changing times. Most of them mentioned direct recruitment from management institutes, contract employment with a higher salary and recruiting at higher



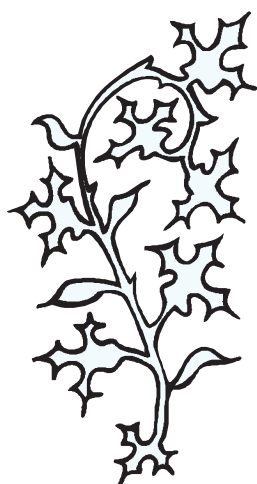
levels as key changes that they have brought about in the banks. Some have mentioned revamp of the payroll systems and promotion policy in the banks as changes that they have brought about with the aim of incentivising good performers as well as creating a clear career path for the new recruits. Banks, of course, continue to send their employees for training as per requirement of the banks as well as the employees. Central Bank of India, Bank of Baroda and State Bank of India have come out with unique HR policy changes about which their CEOs elaborate.

While compliance with Basel-II has been on the agenda of bankers in the last two years, last year it was the third pillar of Basel-II, namely market discipline that has been emphasised for compliance by the Reserve Bank of India. On being asked as to how their bank was submitting to market discipline, all the CEOs mentioned putting in place disclosure norms about risk management practices and allocation of regulatory capital, it being a part of the regulatory framework of Basel-II. The banks have also been complying with the guidelines on market discipline with regard to disclosure, corporate governance, etc. as laid down by RBI from time to time.

When we wrote out the questionnaire, the theory of India's 'decoupling' with the US economy was doing the rounds in the media. As later unfolding of events has shown, India is not completely isolated from the happenings in the US / Global financial sector. We asked the CEOs about their point of view on the 'decoupling' theory. All the CEOs say that the Indian economy is not and cannot be completely insulated or decoupled from the US economy. However, they do emphasise that regional and domestic factors play a greater role in the Indian economy than in the past as India is now less reliant on the US than in the past.

Talks of consolidation among Indian banks have abounded in the recent past but not many mergers and acquisitions have taken place. We asked the CEOs the reason behind this. All of them said that unless there is perceived synergy, mergers and acquisitions are unlikely to take place in any of the categories of the Indian banking sector. According to them merger among public sector banks is more difficult than among private sector banks because PSBs are set up and governed by different statutes, different technology platforms, differences in culture and face resistance from unions, etc.

Though the recent turmoil in the global financial markets has taken the attention away from it, March, 2009 is a time that Indian bankers are watching. For in March, 2009, possibly more liberal norms for entry of foreign banks to India may happen. Are Indian banks preparing for March 2009 in any special way? From the responses of the CEOs, it is evident that Indian banks are not unduly worried about facing the new challenges that will face them post-2009. In fact most of them are ready to face the challenges. The CEOs also look forward to the new environment as it would mean new



opportunities which will give them a chance to add to their business and make it more efficient and competitive. By way of preparation, most of the banks have streamlined their business, harnessed IT, offering more products and better services to the customers and have also made the necessary HR changes needed to excel in the new environment.

We asked the CEOs to comment on the ideal business mix for a bank and if size is important for a bank. On business mix, some of the CMDs felt that banks should move away from high cost bulk deposits to the low cost current and savings account (CASA) deposits. In terms of business mix they felt that there is no particular mix that is right for all banks. Regarding the size of a bank, the CEOs felt that though size is important especially if banks want to be global players, size should not be at the cost of profitability or by taking undue risks.

There was a mixed opinion on whether banks should turn themselves into universal banks now that they are offering other financial products like mutual funds' products and insurance products. While some of the CEOs felt that universal banks would be a good idea since it would give the banks a chance to exploit economies of scale and also use the banks' relationship with their customers to effectively sell other products, the others felt that since insurance and mutual funds business are subject to regulation by different regulators it makes sense to run these businesses as separate companies. Running separate companies would also give the banks a chance to partner with players who are strong in these businesses and help unlock their value potential.

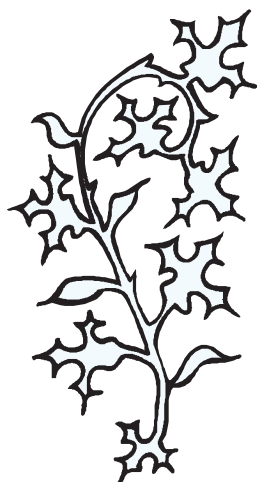
On the certification programme for the Debt Recovery Agents which the Institute has started offering the CEOs made suggestions ranging from reduction in the mandatory training hours to looking at the cost structure and offering the training in multiple languages. The Institute is grateful to the CEOs for their valuable inputs and as we go along we hope to use their inputs to further strengthen the certification programme.

Finally, on the role of IIBF in imparting education to bankers, the CEOs unanimously agreed that the Institute has been doing a good job in providing education and using technology effectively in imparting learning solutions. Some of the suggestions made for IIBF are opening a specialised training college for imparting training to bankers and take a leading role in giving thought leadership to the Industry.

The answers to the questions are unique, some crisp and some long. Yet each answer is important in understanding the changing landscape of banks and how leadership is driving change. Indeed it is a treat to read.

As we are devoting this issue exclusively for the CEO Speak we are not carrying our usual features. I am sure you will enjoy this special issue!

(R. Bhaskaran)



Our previous issue of CEOSpeak (April - June, 2006) received a very good response from our readers as the issue provided the readers a peek into the minds of the then CEOs of banks to reveal their thoughts on various issues facing the banking sector then. Encouraged by the response we have decided to repeat the issue on CEOSpeak two years later. There are several new faces this time, some new issues too and we are grateful to all the chairmen and their secretariats for their ready co-operation in helping us bring out this issue.



Mr. K. R. Kamath (KRK)
- CMD, Allahabad Bank



Mr. S. A. Bhat (SAB)
- CMD, Indian Overseas Bank



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



Mr. A. K. Mishra (AKM)
- CMD, Oriental Bank of Commerce



Mr. T. S. Narayanasami (TSN)
- CMD, Bank of India



Mr. K. C. Chakrabarty (KCC)
- CMD, Punjab National Bank



Mr. Allen C. A. Pereira (ACP)
- CMD, Bank of Maharashtra



Mr. O. P. Bhatt (OPB)
- Chairman, State Bank of India



Mr. A. C. Mahajan (ACM)
- CMD, Canara Bank



Mr. S. K. Goel (SKG)
- CMD, UCO Bank



Ms. H. A. Daruwalla (HAD)
- CMD, Central Bank of India



Mr. P. K. Gupta (PKG)
- CMD, United Bank of India



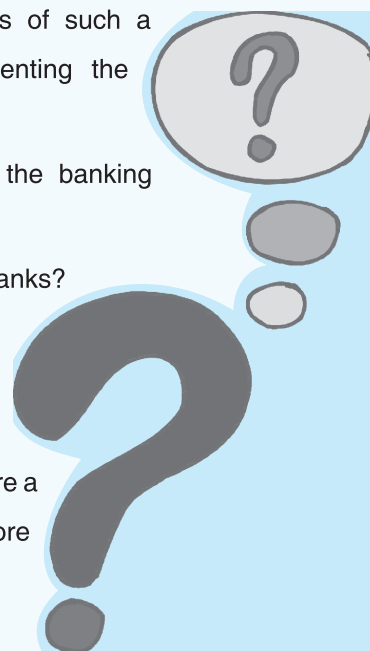
Mr. M. S. Sundara Rajan (MSS)
- CMD, Indian Bank



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

QUESTIONNAIRE

1. Financial inclusion has become a mission with the regulators and the banking industry. What are your views on the viability of financial inclusion? What unique efforts have been taken by your bank to include the financially excluded in the banking stream?
2. Do you think misselling is a major issue in banking industry? What has been your bank's contribution towards financial education of the masses in India?
3. What has been your bank's experience with regard to business facilitators / business correspondents? Do you have any suggestions to improve the model?
4. It has been quite sometime since banks have implemented core banking solutions. What has been the most important gain for the bank and what has been the most important benefit to customers?
5. What are the changes in human resources policy that your bank has made in the last two years to cope with the changing landscape of banking?
6. The aspect of Basel II that held the attention of the regulators last year was that of market discipline. In what way is your bank submitting itself to market discipline?
7. What is your view on the 'decoupling' theory with respect to the US economy and rest of the world? Do you envisage any fall in business because of the recession in the US or do domestic factors play a greater role in India?
8. Despite the consolidation talk in the last two years we have not seen many mergers among the commercial banks. What, according to you, is the reason for the lack of impetus in the consolidation drive?
9. The RBI has recently made it mandatory for recovery agents employed by banks to be certified by IIBF. What do you think will be the advantages of such a certification and what could be the challenges in implementing the certification process?
10. Is your bank planning any special strategy to gear up for the banking environment in India post March, 2009?
11. What according to you will be an ideal business mix for banks?
Is size an important driver?
12. Many banks have separate subsidiaries for mutual funds and insurance. Given the addition of efforts and cost in marketing the different entities (including banking) to the same customer, is there a strong case for universal banks? Will not a single window be more cost effective?
13. What is your advice to IIBF?





1. Financial inclusion has become a mission with the regulators and the banking industry. What are your views on the viability of financial inclusion? What unique efforts have been taken by your bank to include the financially excluded in the banking stream?



(1) KRK (Allahabad Bank) : During the post nationalization era, Indian banking industry underwent rapid expansion with an objective to extend banking services to the under-banked and unbanked rural areas. Thus, Indian banking industry contributed immensely towards equitable distribution of lendable resources for balanced inter-regional and inter-sectoral growth and development during the era.

In spite of faster and wider outreach of the Indian banking system in the hinterlands of the country, there exists a wide range financial exclusion in respect of access, conditions, prices, marketing or self-exclusion. In this context, Financial inclusion is not only relevant but also pre-requisite for ensuring inclusive growth of the country, particularly when the country has embarked upon economic reforms.

The Bank has been entrusted for 100% financial inclusion in two districts of Lakhimpur Kheri and Chitrakoot, Uttar Pradesh which are our Lead Districts. Besides, some villages of Hooghly District in West Bengal have been allotted to our Bank for 100% financial inclusion. The Bank has also initiated steps for procurement of IT enabled financial inclusion solution.

(2) MDM (Bank of Baroda) : We look at financial inclusion from an opportunity perspective rather than as a social obligation. Widest possible participation from all social strata is a precondition for sustaining the present growth momentum of Indian economy. Financial inclusion offers tremendous banking potential both from the liabilities' and the assets' side to banks. Currently, banks in India are exploring many options to reach target groups either through micro credit or by financing through Self Help Groups / Joint Liability Groups or by setting up processes for credit counseling, or by focusing on skill up gradation through suitable training.

For example, in our Bank we have initiated the following measures to include the financially excluded in the mainstream of banking.

Adoption of Dungarpur District

During 2007-08, the Bank adopted Dungarpur district, the most backward district of Rajasthan

for total integrated rural development and 100 per cent financial inclusion. It may be noted that 100 per cent financial inclusion has already been achieved in the district. Bank proposes to provide financial assistance of Rs.54.50 crore to 20,500 families under dairy development, high value crops, vegetable cultivation, and also to rural artisans.

Baroda Grameen Paramarsh Kendra (BGPK)

The Bank has set up 42 Baroda Grameen Paramarsh Kendras (BGPKs) to fill up the knowledge gap in rural community by providing credit counseling, knowledge sharing, problem solving, etc., across the country.

Baroda Swarojgar Vikas Sansthan (BSVS)

The Bank has established 12 BSVS centres for imparting training to unemployed youths and facilitating their gainful self-employment. Two out of these 12 centres are dedicated to women and the Bank so far has trained around 12,765 youth in these centres.

Adoption of 500 Villages for 100 per cent Financial Inclusion

The Bank has achieved 100 per cent financial inclusion by opening 45,000 "No-frill" accounts in 500 villages across the country by 31st March, 2008. The Bank has achieved 100 per cent financial inclusion in more than 8,160 villages identified by its SLBCs / other SLBCs.

The Bank has achieved 100 per cent financial inclusion in nine of its lead districts.

Adoption of 101 Baroda Centenary Villages

The Bank has adopted 101 Baroda Centenary Year Villages for total integrated development spread over three years and 100 per cent financial inclusion.

Self Help Groups

The Bank credit linked 13,256 Self Help Groups during the year 2007-08 with an amount of Rs.122.77 crore. Out of this, 77 per cent were women SHGs and with this the Bank has taken the total number of credit-linked-SHGs to 70,995 with a cumulative investment of Rs.422.28 crore.



Farmers' Clubs

The Bank so far has set up 2,483 Farmers' Clubs.

Business Facilitators' Model

The Bank engages NGOs, SHGs, Farmers' Clubs and reputed individuals as "Business Facilitators" for canvassing loan applications in rural areas and facilitating financial inclusion.

Smart Cards : Technology-based Financial Inclusion Smart cards, technology based financial inclusion is being run by the Bank in two districts in Rajasthan and Uttar Pradesh on pilot basis.

The Bank has also set up two Bio-Metric ATMs at Gandevi (District Navsari) in Gujarat and at Malik Mau (District Rae Bareli) in Uttar Pradesh during the last financial year.

Mobile Micro Finance Loan Factory

The Bank proposes to setup a mobile micro finance loan factory in two of its lead districts, notably, Sultanpur and Rae Bareli.

Baroda Farmers' Training Centre

The Bank also has a plan to establish two Baroda Farmers Training Centres in Rajasthan and Gujarat for imparting training to farmers.

Besides these, the Bank has established a separate Microfinance Cell to deal with microfinance portfolio exclusively. The Bank has also signed a MoU with CmF (Centre for Microfinance) to focus on skill upgradation for Micro Finance activities for rural and agricultural business and formation of quality Farmers Clubs / Self Help Groups and providing special training to them through the Centre for Microfinance.

(3) TSN (Bank of India) : Financial inclusion is definitely the crying need of the hour in a country like India where more than 70% people still live below the poverty line and more than 50% people still do not have access to banking facilities. The primary banking and financial services including a no frills account, access to simple credit facilities, usage of money transfer services and minimal financial advice are important for transforming the financial lot of the deprived millions.

Financial inclusion is definitely a viable proposition for the banks provided large numbers are tapped with the right product, cost effective technology

and deployment of locally available cheaper human resources for purveying the services and transactions to the target group. The economic activity will lead to increased incomes and many of the presently excluded persons would form the main stream banking customers tomorrow.

Our bank has always worked with a social conscience and sensitivity to the economic needs of the poor and deprived. In its effort to reach out to the weakest in the society, bank has opened accounts of 1,82,000 Self Help Groups (SHG) and credit linked 1,30,000 covering 13 lac individual beneficiaries. This also includes 1,12,000 women SHGs. Bank has lent Rs.500 crores to such SHGs including Rs.424 crores to women SHGs. Bank has also financed 11 MFIs with credit outlay of Rs.105 crores. Bank has issued general purpose credit cards to such persons for meeting their personal needs. To reach out to the yet financially excluded persons living in the remotest areas who do not have access to bank branches, Bank has recently adopted business facilitator and business correspondent model and technologically equipped them for rendering account opening and banking transactions at the customers door step.

(4) ACP (Bank of Maharashtra) : The term "Financial Inclusion" has assumed greater significance in the financial circles as it aims to bring hitherto excluded groups into the banking net. The initiatives are considered necessary since sizeable section of the population, particularly vulnerable groups, such as weaker sections and low income groups are presently excluded from basic opportunities and services provided by the financial sector. The volume of financially excluded population is so large that nearly 600 million new customers' accounts will have to be opened and serviced through various channels by the next decade. The magnitude of the work is thus tremendous. In order to make financial inclusion viable, it is necessary to use IT solutions to our advantage. With the use of IT solutions in the process of financial inclusion, opening of accounts and their management, providing efficient and reliable services to large number of customers, capturing customers' details / profiles, reaching out to the remote and inaccessible areas and making available various financial products and services on

the IT platform, etc. are the major advantages that can be availed of. In addition, IT solutions would prove to be economical and cost effective since manual handling of the work of this magnitude would require large workforce and would consume substantial time and cost.

As for initiatives by the Bank to include financially excluded in the banking stream, Bank of Maharashtra, being the convenor of SLBC for the State of Maharashtra, has a responsibility of facilitating 100% financial inclusion in at least one district. Accordingly, Jalna district was selected for financial inclusion on pilot basis and the process was completed on 31/07/2007.

In order to give major thrust to the programme, SLBC conducted 3 workshops at Aurangabad, Nagpur and Satara. Besides, workshops were organized at Nandurbar, Dhule, Wardha, Satara, Nasik and Parbhani to sort out the operational problems in the implementation of Financial Inclusion.

Gramin Mahila Va Balak Vikas Mandal Trust (GMVBVM), an NGO floated by the Bank, is instrumental in formation of SHGs for financial inclusion including credit linkage with banks.

(5) ACM (Canara Bank) : Despite widespread expansion of the banking sector during the last three decades, a substantial proportion of the households, especially in rural areas, are at present outside the coverage of the formal banking system necessitating a thrust on 'connecting people' with the banking system. It requires a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. Technology has to play a crucial role in providing access to banking products in remote areas.

There are issues of financial viability in the pursuit of financial inclusion. But as C. K. Prahalad and others have demonstrated, there is a huge opportunity at the 'bottom of the pyramid'. The utilization of this opportunity requires a change in the business model, much greater use of technology and thrust on volumes. Most banks have already put in place measures to achieve these objectives and I am sure, financial inclusion will soon become a matter of choice and not of compulsion for the bankers.

Canara Bank has been playing a lead role in furtherance of the financial inclusion movement in the country. The Bank has extended its Total Financial Inclusion campaign to 1639 villages. Twenty of the Bank's lead districts have already acquired the distinction of being 100% financially included. Exclusive schemes have also been launched by the Bank aiming at the financially excluded segments. These include the CanSara (No Frill deposit scheme), loan schemes for tenant farmers and the urban poor and schemes for redemption of agricultural loans from informal sector, Credit Card Scheme for Rural Artisans and Swarozgaris. Around 12.54 lakh such accounts were opened till 30.06.2008.

Canara Bank is the first Bank to launch mobile Biometric-voice enabled ATM. The Bank has launched 'Canara Gramin Vikas Vahini', under which 50 vans with multi-media equipment have been deployed in 50 districts and introduced Smart Cards and Credit Counseling Centres in three districts in Karnataka for total financial inclusion.

(6) HAD (Central Bank) : Indian economy is growing at a steady rate of 8.5% to 9% in the last 5 years. Most of the growth is in the industry and service sector, while growth in the agricultural sector is a little over 2%. The potential for growth in primary and SME sector is enormous. The various constraints which limits the access to affordable financial services like savings, borrowing, insurance, etc. by a vast majority of the population in the rural areas and unorganized sector if removed, can accelerate the growth and can also enlarge livelihood opportunities. In other words, financial inclusion aims at empowering the poor to take charge of their life. This is important for social and political stability.

Financial inclusion also provides formal identity and access to the banking service and insurance service. Financial inclusion can be looked from two angles :

- Provide access to banking accounts and payment systems.
- Access to formal credit markets to free them from the informal exploitative unorganized sector practices.



Hence, Financial Inclusion is critical for achieving inclusive growth, which is vital for sustaining the present growth percentage and for ensuring that the benefits of the present economic boom is available to all sections of the society.

The Government Budget for the year 2008-09 aims to push the financial inclusion agenda further ahead. Accepting two recommendations of Rangarajan Committee, the Budget set the stage for taking the country's banking system to the 'Un-banked'. The Hon'ble Finance Minister, Shri P. Chidambaram in his budget speech said that he was advising the commercial banks, including Regional Rural Banks to add at least 250 rural house hold accounts every year, at each of their rural and semi urban branches. If achieved, by the end of this financial year itself, as many as 12.5 million people will get access to the country's banking system, giving an entirely new meaning to the phrase "Financial Inclusion".

Financial inclusion cannot be decided and rejected on viability grounds. Banks are making all round efforts to keep the transaction cost as low as possible. With volumes building up, concerns of cost will recede over a period of time.

Banks have the inbuilt strength and base to undertake this exercise. IT also plays a key role in providing support in the form of hardware and software, to enable the Bank to proceed to "Branchless Banking Mode". Today, with the help of Business Correspondents and IT enabled hand-held devices, it is possible to cover many villages and deliver banking services. The presence of the Branch involving costs like rent, wages, electricity, etc. is a saving, which is expected to meet the cost in the form of Business Correspondent / IT enabled hardware / software.

The 'Cause' of Financial Inclusion is more important than the 'Cost'.

- Our Bank will be soon launching pilot projects under Financial Inclusion in the States of Andhra Pradesh, Madhya Pradesh, Maharashtra and Assam. We shall be using the hand-held devices and Contactless Smart Cards through the "Business Correspondent Model".
- Our Bank has already opened 6,96,570 "No Frills Accounts" and has completed 100% financial inclusion in 8532 villages as at 31/7/2008.

- Bank has set up a Bio-metric ATM in Vaishali in the State of Bihar to facilitate the distribution payments under National Rural Employment Guarantee Programme. As a part of extension of Bank's network, it is proposed to install Bio-metric ATMs at select centres.
- Bank has also financed various Self Help Groups numbering 62,064 to the extent of Rs.394 crore, which is also a part of financial inclusion.
- Bank has also launched schemes for lending to free the farmers and others from the clutches of non banking lenders. Under the scheme, loans are provided at a concessional rate, to enable the farmers and others to settle the loans taken from the unorganized sector at very high rates of interest. There are reported stories of many farmers who have been successfully saved from potential disasters.
- I strongly believe that financial inclusion will handle the socio economic issue more competitively and on a wider canvas.

(7) MSS (Indian Bank) : The purpose of financial inclusion is to serve the unbanked people. The first step is to provide them with basic banking account with the opening of zero / minimum balance saving accounts. Credit services are rendered to them subsequently for their consumption and production needs, besides other deposit services. Banks also offer social security services. Rural areas offer vast scope of untapped potential for banks. The efforts made by banks for bringing about financial inclusion are mainly service oriented. With technology being available, the Bank can afford to embark on inclusion activities as much as inclusion would go to reduce per capita cost and hence make it more viable.

Indian Bank - the pioneer in Financial Inclusion Project in India.

Indian Bank first launched National Pilot Project on Financial Inclusion (NPPFI) in the country i.e., in Union Territory of Puducherry during December 2005. This project is now implemented throughout India by various banks.

Hundred per cent financial inclusion (FI) has been achieved with the active participation of all bankers in UT of Puducherry and in two of our Lead Districts - Cuddalore and Kollam. In the remaining 11 Lead Districts, implementation of financial inclusion

Project has been completed by our bank branches in their command area of operation.

Financial Inclusion - Products and Services :

(i) **Banking Services** : Under financial inclusion, the first step is to open a bank account for the unbanked masses. At the all India level, upto 31st July 2008, Indian Bank has opened 9.30 lakh Savings Bank - "No Frills" accounts with zero or minimum balance in rural, semi-urban, urban and metro areas. Under rural financial inclusion, 4271 villages have been covered.

An immediate overdraft credit facility on the zero balance savings account is a unique feature of our Bank's model. Besides, General Credit Cards have been issued to meet the occupational requirements of self employed persons. These two facilities are collateral free credit facilities. More than 50,000 persons have benefited so far under these facilities.

(ii) **Social Security Facilities** : We also provide life insurance cover to Self Help Group (SHG) members under "Janashree Bima Yojana (JBY)" of LIC and medical insurance cover under "Universal Health Care" product of UIIC. Under JBY, 1.66 lakh SHG members are covered and more than 16,000 persons under the medical insurance scheme.

(iii) **Unique efforts at Dharavi** : There was no banking facility in Dharavi - Asia's biggest slum-till Feb 2007. This slum is inhabited by thousands of migrant labour from southern districts of Tamil Nadu who do not have bank accounts as many of them could not produce proof of identity to banks. They found it difficult to send remittances to their families residing in Tamil Nadu out of their earnings. Indian Bank opened a Branch with core banking solution (CBS) and online ATM facilities in Dharavi during February 2007. As of now, 13,835 persons have opened savings accounts with simplified Know Your Customer (KYC) procedures. As a complementary link, Indian Bank also opened a branch at Valliyur in Tirunelveli District of Tamil Nadu, from where large chunks of migrant labour moved to Dharavi, to send remittances to family members. The good response has prompted us to open one more offsite ATM centre at Dharavi. These efforts by the Bank have been commended by many people.

Micro Finance and Urban Financial Inclusion :

Indian Bank is the pioneer in SHG movement in India. As of March 2008, the cumulative micro

credit disbursement made to SHGs is Rs.1707 crore to 2.51 lakh groups. The first ever exclusive specialised microfinance branch was opened at Chetput in Chennai under the name "MICROSATE" Branch during May 2005 by Indian Bank to assist the urban poor. Through this branch, more than 1 lakh families and people from more than 1400 slum areas have benefited.

The Bank also opened 11 exclusive Microfinance branches all over India during the year 2007-08 at Patna, Kolkata, Vijayawada, Kollam, Hyderabad, Ahmedabad, New Delhi, Pune, Bhubaneswar, Bangalore and Chennai.

This financial year (2008-09), we would be opening 15 microfinance branches in Tier II cities and towns.

Financial Inclusion through Digital Inclusion

The Bank has made several technological initiatives under financial inclusion such as Smart Card Banking (in TamilNadu, Mumbai and West Bengal), Banking Service Centres (online Banking under Core Banking Solution using Internet Facility in 20 Centres in various parts of India) and Biometric ATM (Tamilnadu) for serving the common man.

(8) SAB (Indian Overseas Bank) : Financial inclusion is a viable proposition if the intermediation costs can be brought down substantially. To facilitate this, our Bank has gone ahead with appointment of business facilitators / business correspondents who are individuals and providing them with incentive on the basis of number of accounts and number of transactions. To prevent misappropriation of funds, updating of each and every account is facilitated on line through hand-held devices. For allowing the customers to understand the transaction is also announced in local language through the same device.

(9) AKM (Oriental Bank of Commerce) : In a developing economy such as ours with a vast unbanked population, Financial inclusion should not be seen merely from limited angle of viability but on a broad basis encompassing the objective of not only bringing substantial segments of the population, especially the under-privileged sections of the society, into the fold of basic banking services but also empowering them. In fact even MNCs are looking at the bottom of the pyramid. A small customer of today would blossom into an important customer later.



OBC has a special deposit scheme- the No Frills "SB Basic A/c", wherein a customer can open a savings bank with as low as Rs.10/- and start availing the services of the bank. As at end June 2008, the bank has opened over 0.50 Million accounts.

OBC has successfully accomplished the task of financial inclusion assigned to it by SLBC in Ferozepur and Sriganaganagar in which the Bank is the lead Bank. The village adoption scheme is implemented in other districts through the Bank's network of rural branches.

(10) KCC (Punjab National Bank) : Financial inclusion is a distinct and big opportunity as well as a business proposition for the future growth of the banking system. Although in the initial stages the transaction quantum would be small and the volume would be high, but gradually even the quantum involved would increase. Whenever banks enter the unbanked areas, business opportunities open up with the increase in demand for savings and credit. Offering banking services to the unbanked poor is definitely a viable proposition provided proper technology is adopted in conjunction with well orchestrated business model. The pervasive use of technology in the banking industry today has made it possible for the banks to give renewed thrust to financial inclusion.

With a vision to reach the underbanked population by providing financial services at a fair cost, PNB has declared the Year 2008 as the "Year of Financial Inclusion." At the same time, the bank has achieved 100% financial inclusion in 11043 villages and opened 8.15 lakh "No Frill" accounts. Moreover, the bank also has : identified 27 pilot project sites (20 rural & 7 urban) for launching technology enabled financial inclusion (of which 7 rural pilot projects and 1 urban pilot project has been already launched), plans to run urban financial inclusion pilots at 7 centres wherein in the initial phase the endeavour would be to cover mobile population, hawkers, rag pickers, socially challenged and other unserved sections, launched 4 Rickshaw projects which are unique initiatives for assisting the rickshaw pullers to supplement their daily livelihood, launched an innovative initiative for empowerment of women by bringing them under banking fold at

Lallapura, Varanasi City, opened a micro finance branch at Mukundpur in Delhi exclusively for financial inclusion of the urban poor, launched 4 mobile ATMs mainly to cover unbanked rural / slum areas under Circle Office Delhi.

(11) OPB (State Bank of India) : At SBI, we view financial inclusion as an opportunity and not as an obligation. Economic reforms and growth have lowered, albeit slowly, the percentage of people below the poverty line from 35% in 1993-94 to 28% in 2004-05. There is now a growing demand for banking and financial services from those at the bottom of the ladder, but at an affordable cost. We believe that volume and scale, though at low value, and by outsourcing through BCs / BF's, would ensure the viability of these products and services. It will, of course, need a lot of ingenuity and innovation to make available such products at a reasonable cost. We are working on a number of initiatives to do just that. The SBI Tiny Card initiative, which is basically a Smart Card, provides banking services through a hand-held device operated by the Business Correspondent, say, the village postman. In addition to Smart Cards, we are also using the magnetic stripe cards and other cards depending upon need. The farmer is, thus, able to operate his account even if there is no branch in his village.

(1) The BC / BF Model : We have engaged more than 3000 BCs / BF's (Banking Correspondents / Banking Facilitators) and have entered into alliance with organizations like India Post and ITC 'e' Choupal for extending outreach of the basic 'no frills savings account' through these Smart Cards. Over 2.10 lakh cards have already been issued and we have set for ourselves the target of issuing 40 lacs SBI Tiny Cards by March 2009 and reaching out to 1 lakh unbanked villages.

(2) Lending to Self Help Groups : The Bank is also the leader in the financing of Self Help Groups having credit linked more than a million SHGs. We are also working very closely with over a 100 NGOs and MFIs, who, in turn, lend the funds we lend to them. This will increase our outreach further. Meanwhile, our branch expansion plans have been stepped up. During 2007-08 alone, we opened 962 new branches, more than 65% of these in rural and semi-urban centres.

(3) *Branch Expansion* : During the current year, we plan to add another 2000 new branches, of which close to 60% will be in rural and semi-urban areas. Our mobile banking product is also ready and is being launched very shortly. Our aim is to cover at least 100,000 villages in 2 to 3 years through one or more of our channels, and ultimately, all the 6 lakh villages in our country. It is our aim to be the 'Banker to every Indian' household in the days to come.

(4) *Contract farming* : Financing through this model is partnership with growth - for all the parties involved, viz. the contract farming company (which will ultimately buy the produce), the farmer and the banker. The Bank is poised to tap the contract farming opportunities particularly in seed production and processing, agri-produce, horticulture and other activities like broiler farming, etc. The Bank proposes to cover more than 2 lac farmers with disbursements of more than Rs.2600 crores during 2008-09.

(5) *Better focus and implementation of all Govt. sponsored schemes* : We are using SBI Tiny Smart Cards to not only provide basic banking services but also to route payment of wages under the Government schemes as NREGP and SSP. Our aim is to have a better focus and implementation of all Government sponsored schemes as DRI lending, various schemes as PMRY / SJSRY / SGSY and Lending to Minorities.

(6) *Financial Inclusion for the Urban Poor* : Financial inclusion applies equally to urban areas as well. The bank has opened more than 14 lac "No Frills A/cs" in urban areas to improve financial outreach and tackle the problem of financial exclusion in the urban areas.

(12) SKG (UCO Bank) : Financial inclusion is more than a social mission.

It is true that it helps financially excluded / downtrodden people to have access to :

- the banking to have their savings
- affordable and timely credit
- money advice or consultancy

and for uplifting them, above the poverty line.

If delivered professionally, it also adds values to the resources and profitability of the banking sector. Beside direct credit, financing through reputed

and committed agencies enlarge the spectrum and viability of the micro credit. In view of the relatively higher transaction cost, it needs to be managed with the support of technology, facilitators / correspondents.

We are the first in the country to achieve 100% financial inclusion in Himachal Pradesh where we are the convenor of SLBC. We could make similar achievements where we are the convenor at the district level. Our commitment and functional excellence has enabled us to win national award for the outstanding achievement in micro credit.

(13) PKG (United Bank of India) : Financial inclusion has become a mission for the Government as well the regulator since it promotes inclusive growth. It is an accepted fact that we can achieve sustainable economic growth only if the poor and vulnerable groups have access to finance. Realising the importance of this agenda, a Committee on Financial Inclusion was constituted under the Chairmanship of Dr. C. Rangarajan. Based on this Committee's report, the Reserve Bank of India has already initiated various measures.

Financial inclusion pre-supposes delivery of financial services at an affordable cost to the disadvantaged and low income groups. At the same time, the fact remains that opening of large number of low balance deposit accounts or sanctioning of large number of small value loan accounts involve huge transaction cost. Obviously, the initiatives on financial inclusion cannot be viable unless innovative methods of doing banking business are found out. The Reserve Bank of India has allowed banks to open No Frill Accounts with relatively less KYC norms. It has also permitted banks to use Business Facilitator / Business Correspondent (BF / BC) models. These models backed by appropriate technology are expected to increase the outreach of the banking system in a cost effective manner thereby facilitate financial inclusion.

Like other Public Sector Banks, in United Bank of India, we have launched a pilot project using Business Correspondent model based on Bio-Metric Cards. We have also initiated a massive programme for opening No Frill accounts. Three



credit products, viz., (i) United Bhumiheen Kisan Credit Card (meant for landless farmers), (ii) United Gramin Sahaj Credit Card (meant to be a general purpose credit card for rural folks) and (iii) United Sahaj Rin Yojana for North Eastern Region (unsecured Cash Credit facility for small borrowers based on trust), have been devised to serve the cause of Financial Inclusion. For No Frill Accounts, a simple Account Opening Form named 'SARAL' has been introduced.

We believe that using Self Help Groups (SHGs) for deposit raising / credit disbursements is a cost effective way for achieving financial inclusion. As on March 2008, the Bank had 45,000 SHGs deposit linked and 35,500 SHGs credit-linked with an outlay of Rs.67 crore. We have also set up three Rural Development and Self Employment Training Institutes (RUDSETIs) in the State of West Bengal during the last one year. These Institutes extend training facilities to nearby farmers, micro and small entrepreneurs as also financial assistance for self employment.

(14) AT (Vijaya Bank) : Growth with distributive justice is the ultimate aim of total financial inclusion. So far, the benefits of high economic growth have not fully percolated to the lowest and deprived strata of our society - the excluded segment at the bottom of the pyramid. Ours being a labour surplus and capital scarce economy, financial inclusion is one of the effective ways to make growth all encompassing.

Banks, being major financial intermediaries, have a significant role in the financial inclusion movement, making the payment system and credit services available and affordable to the excluded segments.

It's probably too early to look at financial inclusion in a viability perspective. The main objective now is to bring almost 50% of our masses into the mainstream institutional mechanism. That is the basic building block to carry financial inclusion forward. However, banks don't see financial inclusion as an act of philanthropy by way of just opening no-frill accounts. Financial inclusion does provide promising long term prospects to banks, in terms of building the critical mass in clientele and enlarging their outreach into the far flung areas. The second major goal for banks is to enable income and employment generating activities, especially in the country sides and forge productive long term partnership with the beneficiaries. In Vijaya Bank, we have achieved 100% financial inclusion in all the three lead districts and working towards the same in other districts as well. Our General Purpose Credit Cards have been in good demand and we do have credit counselling services functional at our Lead bank offices. Under fresh initiatives, we have completed the preliminaries for implementing the Business Correspondent model soon. We are focussing on debt swapping initiatives to further financial inclusion.



Branchless Banking through Business Correspondents

Corporation Bank has taken up an outreach programme through the use of technology in order to provide very simple and basic financial services to the poor and the disadvantaged in the rural areas. To accomplish the task, the bank conducted a survey in the identified villages to gather information regarding the structure and size of village, family/household details such as occupation, asset ownership and the use of financial services. The automation of the survey facilitated generation of Corp Pragathi Savings Bank (CPSB) Account opening forms along with the photograph of the user at the site for the family members who expressed their desire to open an account with the bank.

The survey, *inter alia*, indicated that the villagers were generally reluctant to approach the bank as the branches were far off from their residence or workplace and hence they needed to spend money on commuting and time to carry out normal banking activities. Further, being semilliterate or illiterate, they found the procedures difficult to comprehend and follow. They were also not sure of the treatment that would be meted out to them when they approached the bank for remitting or withdrawing small sums of money. To mitigate these hardships faced by the villagers, the Corporation Bank adopted a branchless banking model in August 2007. After evaluation of different technologies ranging from palm-tops, simulators, hand held storage devices and diverse communication channels, the bank opted for a branchless banking model based on business correspondents (BCs) and use of a small hand held device. This model is more or less similar to that followed in pilot project in Andhra Pradesh. The branchless banking model has enabled the bank to reach out to the villagers by offering them savings and loan products at their doorsteps. The information collected through survey has enabled to meet the KYC requirements also.

The benefits of the model to the customers include saving of their time and cost of travel to the branch, comfort in dealing with BC as he is a familiar face, and convenience of transacting business practically at any time of the day. The advantage for the BC is that it is an alternative source of income. The benefits for the bank are that they are able to reach out to the hitherto unreached segments and mop up rural savings at lower transaction costs.

Reference :

Kamath, Raghav, 2007. Branchless Banking : Corp Banks Answer for Financial Inclusion; CAB Calling July-September; Vol.31, No.3.

Source : Report on Currency & Finance 2006-2008, Vol. II



2. Do you think misselling is a major issue in banking industry? What has been your bank's contribution towards financial education of the masses in India?



(1) KRK (Allahabad Bank) : Intensification of inter-group and intra-group competition among the segments of the financial system has made customers vulnerable to misselling. However, stringent regulations on corporate governance and use of technology specifically, internet, has come in a big way to help augment the knowledge base and information of customers. Thus, though misselling could emerge as a major issue in the banking system, improved information flow has played a crucial role in checking misselling.

The Bank has established a number of institutes for augmenting the knowledge base of its customers with credit linkage which include, Birsa Munda Institute of Entrepreneurship Development, Ranchi, Jharkhand, Indira Gandhi Farmers' Training and Entrepreneurship Institute, Rae Bareilly, Uttar Pradesh, Farmers' Training Institute at Bolpur & Debra in West Bengal. These institutes play a significant role towards financial education of people at large, specifically, the farmers community and rural masses. These institutes also pivot on creating supply chains for Agri business development, plantation & horticulture, post harvest storage infrastructure, etc.

(2) MDM (Bank of Baroda) : While there is no legal definition of misselling, in general terms, it refers to sales and marketing practices that are misleading or deceitful. Banking is a business built on customer trust and loyalty. If the trust is there, loyalty will follow. Ultimately, the value of the bank is primarily a reflection of the future cash flows from such loyal customers. Therefore, misselling is against the fundamental principle of banking.

Financial education is a vast area and banks have to put in a great deal of effort to help their customers manage their finances well. For example, take the case of credit cards. It is essential for a customer to know as to how he / she should judiciously use the credit card and follow safety precautions in order to avoid any misuse by miscreants. Similarly, the ATM cards and internet banking facility too involve many risks. The customers should clearly know the advantages and the hazards and banks can play a

major role here in sensitizing their customers about the hazards. In our bank we discuss such topics of interest in our customer meetings and send mailers on regular basis. We have also put up highly educative and elaborate information on our products and services on the Bank's website. We also distribute publicity materials on various products and services among customers from time to time.

(3) TSN (Bank of India) : I do not think misselling has been a major issue in respect of the public sector banks in the country. Some misselling has emerged on the part of some aggressive private sector players particularly in the area of forex derivatives, credit cards and even personal loans.

Our bank was the first bank in the country to set up a financial counseling centre by the name 'Abhay' (which has now offices in three cities) to provide financial advice to banking customers for debt resolution and better financial planning. These centres have been actively helping people in financial distress and in debt traps. Our branches at-large also provide advice on the most suitable financial options in the area of deposits and loans to the mass of bank customers.

(4) ACP (Bank of Maharashtra) : Presently, misselling does take place where services of franchises are engaged for propagating the products. They are motivated by earnings / fees and hence are prone to exaggerate benefits or promise quality that does not exist. They may not take into account whether the people really need such product-inputs or services. We, in Bank of Maharashtra, have not resorted to misselling as we believe in counseling and educating masses through personal communication for making an informed choice.

In these efforts, we have established Rural Development Centers at Hadapsar and Bhigwan, which are working under the aegis of Mahabank Agricultural Research & Rural Development Foundation (MARDEF) Trust. We are also providing vocational trainings in various disciplines to the rural youths through M-SETI so that they can acquire necessary skill-sets and can secure gainful employment.

(5) ACM (Canara Bank) : In my opinion, there is no menace of misselling of banking products, particularly in the PSB space in India. However, misselling occurs in investment oriented products, such as, mutual funds and unit-linked insurance products.

To enhance financial literacy and information dissemination, the Bank has published Financial Literacy Booklets, e.g., 'Savings' and 'Money'. These Booklets have been widely distributed to schools, farmers' clubs, SHGs and Lead Banks.

The Bank has also started a 'Financial Literacy cum credit counselling centres' at three of its Lead Districts viz., Chitradurga, Chikkaballapura and Kolar to apprise people about various schemes, debt restructuring / repayment to the rural people.

The Bank has launched Canara Gramin Vikas Vahini and formed over 780 Farmers' Clubs.

(6) HAD (Central Bank of India) : Misselling may not be a real issue in the banking industry. The banks can sell only what it can provide. Further, the media both print and television today provide various analytical and comparative data and the customers are very well informed.

What I consider as the issue in the banking industry is not misselling but "overselling". The customer at the metro and urban branches today, is aware of banks' schemes of deposits / lending details through media, print, radio and television as also through message services and private letters.

However, the same type of information is not available to the masses who are not subject to this kind of awareness programme. Hence, there is need for the banks to play an active role as a consultant and counselor for the masses.

Our Bank has set up 'Cent Sahayog' in Ratlam District in the State of Madhya Pradesh. This provides awareness for the various villages through periodical meetings held at the villages, distribution of pamphlets, hand bills, etc. about the bank's products and services in the local languages. The objective is not really to increase the deposits / advances base of the bank but the objective is rather to create an awareness among the villages that they can also deal with the banks, they can deposit their savings with the bankers irrespective of how petty the savings may be, they

can withdraw even small amounts from the banks and similarly for the borrowings also. The villagers should gain confidence to walk into the branches, to become a proud customer of the bank and to handle financial matters directly through the Bank. In short, a villager should walk with his head high which he cannot do if he is in the clutches of the unorganized sector.

The counselling is not only for the bank's clients but for the entire community. In case of defaults in loans taken, the counseling helps the borrowers not to shy away from the bank but to communicate with the bank for rescheduling the repayment.

This is the only way to keep the socio-economic evils away from the masses and banks play a very important role.

Secondly, the Bank has also set up "Rudseti", an organisation to deal with rural development and self employment training. The institute is set up at Kota and Muzaffarpur to educate rural artisans, self employed youths on the technological developments in agricultural, manufacturing and service sectors and also to create awareness of the bank's variety of products and services, solely tailored to suit their financial needs.

(7) MSS (Indian Bank) : Financial education is the process by which financial consumers / investors improve their understanding of financial products, concepts and risks, and through information, instruction and / or objective advice, develop the skills and confidence to become aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being as pointed by Smt. Shyamala Gopinath, Deputy Governor, RBI. Financial education thus goes beyond the provision of financial information and advice.

Financial Education for fiscal inclusion will immensely help in shaping up the livelihood of the people of the lower end segment. RBI has initiated a Project "Financial Literacy" to disseminate information regarding bank and general banking concepts targeted at various target groups like school and college going children, women, rural and urban poor, defence personnel and senior citizens.

RBI advised State Level Bankers' Committee (SLBC) Convenor Banks to set up on a pilot basis a financial literacy-cum-counselling centre in any one district, and based on the experience gained, the lead banks concerned will set up such centres in other districts.

Indian Bank has set up such a centre at Neravi in the UT of Puducherry, where the bank is the SLBC Convenor. The Bank has taken initiatives / joint ventures for capacity building of the bank customers at the Rural Training Centre at Karaikudi, Andhra Pradesh Bankers' Institute for Rural Entrepreneurship and Development (APBIRD) at Hyderabad.

(8) SAB (Indian Overseas Bank) : I do not think that any of the nationalized banks are doing misselling of their products and their services. In order to educate the masses about financial products, our bank's charter to the customers as well as the details of various schemes with rules and regulations are being made available to the customers in local language.

(9) AKM (Oriental Bank of Commerce) : Mis-selling by and large may be taking place in very small pockets. At OBC, we are very careful on the issue and maintain full transparency in promoting our products. RBI has been keeping a close watch and advising the Banks suitably.

Customer education should necessarily be a part of working philosophy of any institution. OBC has taken steps to make available the detailed literature on Bank's products at all its branches as well as on its Bank's website.

The Bank's policies on customer services viz., deposit policy, cheque collection and compensation policy, service charges on products, BCSBI Code of Conduct, Grievances Redressal Mechanism are made available to all the customers to increase the awareness and educate the public on the rights available to them.

(10) KCC (Punjab National Bank) : Misselling happens in any market when competition hots up. In our market, by and large misselling exists more for the creamy layer and by non PSBs. At present misselling is not much at the lower layers and hence for public at large it is not important.

In order to foster a "financially inclusive growth", the biggest challenge is the challenge of financial education because an important reason for financial exclusion is lack of awareness on the part of people regarding the importance of being the customers of a bank. Towards this, the Bank being the SLBC convenor in the States of Punjab and Haryana opened 9 such Centres (7 in Lead Districts of Punjab and 2 in Lead Districts of Haryana). In addition, the Bank has opened information kiosks that educate the rural customers. Besides, the Bank's staff is also playing a significant role in improving the awareness levels of uneducated clients.

(11) OPB (State Bank of India) : While misselling is not a major issue, I would, nevertheless, like to see more transparency in the Personal Banking segment especially retail lending products like credit cards, for example. In retail loans, I am also doubtful whether most borrowers know the difference between fixed rates and floating rates or even between simple interest and compound interest. It is, therefore, incumbent upon the banks to educate the customer. We have recently embarked on a massive country-wide advertisement campaign through newspapers and magazines, which focus on promoting financial literacy, more than advertising our products and is targeted at educating people on debt counselling, investment counselling, various options and products available, etc. The campaign has won wide acclaim from not only our customers but people from all walks of life.

At SBI we are also endeavouring to increase financial literacy especially amongst the rural masses through a number of ways. Credit counselling centres at various rural and semi-urban centres is one such initiative where we provide credit related counselling to farmers, as also technical advice. Literature on all our schemes in the local language is also provided. We have also set up Rural Development and Self Employment Training Institutes (RUDSETI) in 7 states to educate farmers and rural youth on various schemes and credit products. 30 more centres have been identified for this purpose.

(12) SKG (UCO Bank) : Wherever there are tall promises shadowing the conditions and limitations, with an eye on aggressive marketing of products /

services this may be an issue. However, I think it is having meagre relevance for public sector banks where the transparency in product features & terms is total with lot of regulatory control / compliances.

For financial education, we have created credit counselling centres at Shimla, Balasore, Ropar & Jallandar. UCO Development Trust is another wing for us to enhance the financial literacy.

(13) PKG (United Bank of India) : I do not think misselling is a major issue in the banking industry as of now. However, increasing indebtedness of Indian households belonging to the lower income group could become a cause of great concern over a period of time. Some instances of aggressive selling are noticed where Direct Selling Agents (DSAs) are being used.

Hence, it is necessary that credit counseling centres are set up by the banks. There is a need to spread financial literacy so that the bank customers are able to take informed decisions independently. Efforts in this regard could be made collectively through bodies like Indian Banks' Association or State Level Bankers' Committee or individually by the banks.

We have promoted a large number of Farmers' Clubs as we found them quite effective in spreading financial literacy in the rural areas. We are also using our RUDSETIs for providing financial counseling. For urban areas also, we are contemplating setting up financial counselling centres, shortly. We have got printed booklets / leaflets for distribution amongst our customers on Code of Bank's Commitment

to Customers. Besides, our website also displays relevant information for prospective customers.

(14) AT (Vijaya Bank) : It is not as much a case of misselling as of inadequate selling initiatives. Financial services have had so far a significant role in the growth of productive segments of the economy. It is much of the informal or unorganized sector for which formal financial services still remains elusive. In spite of large branch presence in far corners, the requisite awareness on formal finance is not yet deep rooted. Financial inclusion makes it imperative for bank branches to take that extra step forward and proactively reach out to those excluded so far. The task is quite challenging given the lack of financial literacy and awareness, especially among masses in the interior locations. Micro finance, like in the neighbouring Bangladesh, perhaps holds the key to success in financial awareness. Banks are faced with a dichotomy here, of educating people who cannot afford the basic amenities in life and who struggle at the subsistence level. A reoriented approach from banks is necessary and to be successful, such an approach requires support in a multi-agency framework.

Setting up of Self-employment training institutions, a Trust dedicated to rural development and continuous focus on SHG-linkage related activities are some of Vijaya Bank's initiatives, contributing in a way to financial education. As I mentioned earlier, we have our counselling centres at lead bank offices which also play a role in financial education.



Urban Financial Inclusion - Dharavi (Mumbai) Model

There is generally a feeling that financial exclusion is a problem only in rural areas. However, in reality, a large number of people in urban centers also do not have easy access to banking facilities and financial exclusion is very common even in urban areas, particularly in the case of informal sector workers who do not have regular jobs. Moreover, many migrants who do not have bank accounts and knowledge of banking facilities send money to their family members through informal sources such as friends, relatives or carry cash whenever they visit their native place.

The situation is not too different in Dharavi, Asia's Largest slum, in the country's commercial capital, Mumbai. Dharavi is inhabited by about 3,00,000 to 3,50,000 workers many of whom do not have bank accounts. After the KYC norms were rationalized to enable opening of 'no frills' accounts, Indian Bank opened a core banking branch and ATM facility in Dharavi in February 2007. The bank introduced smart card based banking which has enabled doorstep banking transactions for the slum dwellers. The facility has enabled the workers to save and migrants are able to utilize the services of easy and reliable remittance of money to their family members at their places of origin. Life and health insurance products are also offered to the residents.

Thus, some financially excluded people in urban areas have been provided banking access. Indian Bank has now also extended the Dharavi model to Guntur town of Andhra Pradesh and Tharamani, Chennai where the urban poor did not have bank accounts.

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3. What has been your bank's experience with regard to business facilitators / business correspondents? Do you have any suggestions to improve the model?



(1) KRK (Allahabad Bank) : The Bank has initiated steps for implementing Business Facilitators / Business Correspondent models based mainly on its four farmers training & entrepreneur development institutes, located in Jharkhand, Uttar Pradesh and West Bengal. The Bank's focus is on exploring support from business facilitators / business correspondents for extending micro finance services for uplifting the poor. The activities of the Business Facilitators / Correspondents would include, identifying the potential customers, collection / preliminary processing of loan applications / account opening forms, cross-selling of products, post sanction monitoring & follow-up, promoting and nurturing Self Help Group (SHG), creating awareness about savings and other products, etc. The Bank is also pivoting on exploring the support of its ex-employees in this respect.

(2) MDM (Bank of Baroda) : In recent times, the business facilitator model has been implemented in all the non-metro regions of Bank of Baroda. The model is picking up gradually. The Bank has also implemented a smartcard based business correspondent model on pilot basis in four districts. However, both these models are in nascent stage of implementation and it will be too early for us to speak about our experience in this matter. But we do believe in the potential strength of these models and feel confident that these models would help us greatly in providing financial and non-financial support services to rural and farm sectors.

(3) TSN (Bank of India) : The Bank has so far appointed 62 business facilitators and 4 NGOs as business correspondents. The business correspondents have been equipped with technological devices comprising laptop and biometric hand held devices for putting through the banking transactions at the customers' door step in remote areas. Business Correspondents and Business facilitators are crucial links - the last mile connectivity, for extending reach, and keeping costs low while quickly extending coverage. Although the system is yet in its initial days, our

experience has been quite satisfactory. I feel the model can be successfully scaled up and all banks together can cover the entire country, taking banking to the yet financially excluded people.

At the suggestion of the banks, business correspondents area has been opened up to cover farmers' clubs, retired bank / government personnel etc. which is a good step. It is necessary that due diligence is carried on the business correspondents so that the integrity of the system and safety of the savers' money is ensured. It is also necessary to work out a reasonable compensation model for the business correspondents to attract and retain good persons in the activity. Over the time, it can be seen as to how the need for transporting cash to or from the village to the bank branch can be reduced.

(4) ACP (Bank of Maharashtra) : Implementation of the concept of Business Facilitator (BF) / Business Correspondent (BC) in our Bank is at primary stage even though the Co-coordinators & Animators of Gramin Mahila va Balak Vikas Mandal, an NGO, promoted by the Bank, can be trained to be BCs / BF. Implementation of IT enabled Financial Inclusion with on-line as well as off-line mode in select rural areas on pilot basis is under consideration.

(5) ACM (Canara Bank) : Canara Bank has introduced the Business Facilitator / Business Correspondent model. So far, 21 villages have been identified by the Bank for implementation of the Model.

The Bank has launched financial inclusion through technology initiatives by introducing Biometric Handheld device operated through Smart Cards by engaging the services of Business Correspondents (BC).

The Bank has also taken initiatives to launch Smart Cards in Andhra Pradesh for payment of Social Security Pension and NREGP wages by engaging Business Correspondents. Bank has introduced similar country-wide financial inclusion project by identifying one / two villages under 50 rural / semi urban branches.

Suggestions to improve the model :

RBI has permitted the Banks to use the services of Individuals like Retired Bank Officials, Retired Government officials and Ex-servicemen for the BC Model. However it is very difficult to get the services of the above individuals in the rural / semi urban areas, for nominal remuneration under the scheme. BC model could consider using the services of unemployed youth in the villages. On the success of the pilot project, banks could upscale the project on a larger scale.

(6) HAD (Central Bank of India) : As we have mentioned earlier, the Bank will be soon launching the pilot branches using the Business Correspondent Model. Various options are available for engaging the Business Correspondents like Post Office, Self Employed, etc.

Our Pilot branches aims at engaging self employed trained personnel as Business Facilitators, taking into account their ability to move from village to village.

Under the National e-Governance, common service centres are being set up in various States. These centers offer various IT facilities and we believe that these centres can also become Business Correspondents over a period of time, subject to the regulator's approval.

(7) MSS (Indian Bank) : The business facilitators are deployed to help the under served masses for opening bank accounts and availing credit and other social security services from the bank. The Bank is implementing the Business Facilitator scheme as per norms prescribed by the Reserve Bank to increase our reach under financial inclusion. It is in the initial stage of implementation. We are also in the process of upgrading existing Business Facilitators as Business Correspondents depending on their performance and suitability.

(8) SAB (Indian Overseas Bank) : We have only recently embarked on the implementing business facilitator / business correspondent model. Our experience so far is good.

(9) AKM (Oriental Bank of Commerce) : Bank's have to move cautiously while using business facilitators / business correspondents considering the various operation risks involved. RBI has

already circulated the framework for using the model and OBC is in the process of implementing the policy in this regard.

(10) KCC (Punjab National Bank) : The bank is making use of BCs / BF's to make banking services easily accessible to the common man in rural and semi urban areas to maximize 'financial inclusion'. The Bank has identified 27 pilot project sites for launching technology enabled financial inclusion through BC / BF's. Similarly, PNB Farmers' Welfare Trust has been acting as the Business Correspondent. For this, the Trust launched "Kisan Bandhu Scheme" wherein local youth have been trained to contact the people in the villages for (i) opening of Bank accounts and (ii) providing extension services.

So far as BC / BF model is concerned, we are in 'embryonic' stage in this country and it will take time for the model to evolve. There is need for more BCs and BF's, for which eligibility has to be enhanced. Any restriction on ownership of BF may adversely affect its efficacy. We also need to encourage more individuals who are responsible citizens of the society to function as Business Facilitators.

(11) OPB (State Bank of India) : Our experience with the BC / BF model has been largely satisfactory. The BC / BF model serves the twin purpose of increasing the outreach of the Bank and increasing its rural business and ensuring greater financial inclusion by providing banking services in unbanked areas without actually opening a branch there. It is a cost-effective model for banks and also provides earnings by way of commission to the agents. The scheme has been received well in the areas where we have launched this model and over 200,000 Smart Cards were issued last year. We now plan to scale up the model across the length and breadth of the country. To ensure success of the model, the selection of the BF's is extremely important. At the same time, wide publicity needs to be given to educate the rural population on the scheme. Banks also need to put in place the necessary structure for monitoring this channel. BCs are being engaged by us at the National and State level. Our experience with India Post, who have a massive reach and ITC e-Choupal are both very satisfactory and mutually rewarding. The

Smart Cards, at present, have the facility for operating a Savings Bank account or a Recurring Deposit A/c. A time deposit and a micro loan account facility is shortly being added. We also plan to load other products like Mutual Funds, Life and Health Insurance products as we go along, as the Smart Cards have provision to accommodate around 15 accounts. The Electronic Benefit Transfer (EBT) programmes of the Government like Social Security Pension, National Rural Employment Guarantee Scheme (NREGS) will also be enabled through the Smart Card using the services of BCs.

One suggestion for improvement is to enlarge the eligibility category for Individuals as BCs which is presently restricted to retired bankers, ex-serviceman and retired Govt. officials. RBI may consider including shopkeepers, traders, PCO operators, medical shops, etc. so that we can ensure greater outreach.

Waiver of service tax on commission earned by BCs and BFs can also be considered as this is, essentially, a financial inclusion project.

Once this model is established, we can also think of providing other value added services through the POS terminal like train ticketing, mobile charging, etc.

One challenge which we are facing is finding adequate BCs at the state and local levels with a wide network to distribute the products. More NGOs and MFIs with a zeal for rural development work need to come forward for scaling up the channel.

(12) SKG (UCO Bank) : With regard to business facilitators / business correspondents, our bank has initiated steps for implementation of technology based financial inclusion on pilot basis in 4 districts in the following states.

- a) Sirmour District in Himachal Pradesh
- b) Cuttack District in Orissa
- c) Dausa District in Rajasthan
- d) Burdwan District in West Bengal

We await to have the feed back for effecting any modification.

(13) PKG (United Bank of India) : We have so far used Farmers' Clubs as business facilitators

on a large scale. We are also using NGOs and a few non-SGSY SHGs as business facilitators. So far, our experience has been good. However, it is important that before engaging any organisation as business facilitator, a proper due diligence exercise is done.

As of now, we are using only one agent as a business correspondent for the pilot project for introducing bio metric Credit Cards. Since the Business Correspondent model involves handling of cash receipts and payments, it would be necessary to exercise caution before an organization is appointed as business correspondent.

(14) AT (Vijaya Bank) : We do recognize, given the cost pressures, traditional 'brick & mortar' presence would not be an ideal medium to further financial inclusion. Business facilitators would be the right choice, aided by low cost technology for taking basic banking services to the users' door steps. We have completed the preliminaries for adopting this concept, with support from external service providers. We are now examining the technological aspects which should not take long given the strength of our branches already on CBS platform. I expect this model to go on stream early in the second half of this financial year. As for improvement in this model, I expect this to be more than a deposit taking device. With time, this model should encompass various credit and remittance related facilities as well.





4. It has been quite sometime since banks have implemented core banking solutions. What has been the most important gain for the bank and what has been the most important benefit to customers?

(1) KRK (Allahabad Bank) : The Bank has so far brought 462 branches under CBS environment covering more than 65% business of the Bank. The specialized branches of the Bank e.g. International Branches, Industrial Finance Branches, Services Branches, Small-Scale Industrial Financial Branches etc. are given special thrust for CBS platform. The CBS platform has helped marked improvement in the delivery channels of internet banking, SMS banking, mobile banking, phone banking RTGS, etc. It has also facilitated services for government business with implementation of e-payment facility. Using CBS platform, the Bank has initiated a number of applications, which include, among others, ALM, AML, Risk Management (Basel-II Compliance), CMS etc. CBS platform has facilitated the customers with "Anywhere Banking". Albeit belated, the core banking solution has gained further momentum in the Bank and helped escalation in its business growth.

(2) MDM (Bank of Baroda) : With the implementation of core banking solution, our Bank has been able to centralize its operations to a great extent. We have also created a consolidated database (based on the data from all our CBS branches) at the Bank's state-of-the-art Data Centre which has improved manageability and enhanced the business continuity. It has enabled the Bank to reduce cost of transactions as well cost of operations. Furthermore, the CBS has also provided an integrated platform for other applications enabling the STP (straight through processing) and online transactions. The CBS has also enabled the Bank to develop capabilities of a centralised MIS.

The CBS system supports all retail and corporate banking activities and has increased the number of touch points for customers of all segments through various delivery channels that are self serviced and available to customers on '24x7 basis' enabling our customers to avail "Any Time & Any Where" banking in its true spirit.

The CBS has also helped the Bank to reduce the time to introduce new products and give faster delivery of services across multiple channels.

With the common CBS platform globally, the Bank has been able to offer online real time remittances to its customers from its overseas branches to India through its novel products like "Rapid Funds2India".

Our present endeavour is to convert our CBS branches into "sales & service delivery centers" and transfer the entire back-office processes / activities through technology at back offices located in different places. The branches will then have more time for serving customers and to make banking an enjoyable experience for them.

(3) TSN (Bank of India) : The core banking solutions (CBS) has today become so embedded and pervasive in banks' operations that it is difficult to envisage banking without CBS. The gains to the banks have been multifarious. The reduction in operating cost is one major gain, eg. today our bank is handling three times more business with 25% less staff than in the pre-core banking period only with the support of technology. The bank has also been able to centralize a number of its activities, which has provided substantial efficiency gains. Staff released has been deployed in marketing. MIS has substantially improved. The bank is able to have its balance sheet for all the CBS operations on a daily basis. Data Warehousing and Data Mining, made possible by CBS, are enhancing the information generation and usage for decision making, product creation and cross selling. With easy access to customer data and account status at the controlling offices on real time basis, credit monitoring has been greatly strengthened.

CBS has also brought customer delight with the customers being able to access their account from anywhere across the network of branches of the bank. Multicity cheques and transfer of funds instantaneously has added efficiency to their business operations. ATMs and other electronic devices have now become more robust. Internet banking today permits the customers not only to get the account information and do transactions electronically but also permits them to transmit instructions to the Bank for opening Letter of Credits

etc. Linkage with interbank payment system RTGS and NEFT permits the customers to seamlessly remit funds from their terminals to any account with thousands of bank branches. They can pay taxes on line, do online share trading and do all banking activities from their office or home. The electronic banking available in India today is at par with the best available anywhere in the world and is adding competitive efficiency to Indian business.

(4) ACP (Bank of Maharashtra) : *For the Bank :* Core Banking Solution has facilitated centralised data base of customers and their accounts, centralised financial management and accounts of the bank, integrated risk management, efficient and reliable MIS for real time monitoring of Business plans, improved compliance with Statutory and Regulatory prescriptions, efficient record keeping, introduction of multiple service channels to provide 24 X 7 service to customers.

CBS has helped the customers to get prompt and effective service through any bank branch without additional cost.

(5) ACM (Canara Bank) : Core Banking Solution (CBS) is yet to be implemented fully and there are teething troubles. When CBS becomes fully operational, it would through online real time information reduce transaction costs, increase opportunities for cross-selling, manage risks better and ensure optimum utilization of human resources.

For the customers, CBS slashes transaction and process time. With CBS implementation, the banks are able to provide a rich and a more satisfying customer experience through a focus on customer relationship management.

(6) HAD (Central Bank of India) : *Bank's point of view :*

- Core Banking Solution is a seamless platform, to which various delivery channels and services can be attached.
- Banking involves voluminous transactions, which needs to be processed and stored. CBS has been a boon in this connection. Millions of transactions are processed in a very short time.
- In addition, the requisite safety, security and accuracy is ensured.

This is expected to lead to substantial savings of man hours, which can be redeployed in other productive channels like marketing, recovery and para banking activities.

- The compilation of the data and the compliance with the regulatory terms have become easy on the CBS network.
- Technology upgradation involves substantial investments which may be taxing at times. But looking at the long term benefits, such expenditure in technology is considered as an "asset" and "investment".

From the customer's point of view :

- The processing time is very much reduced and in fact, many of the transactions have become real time transactions.
- Various e-payment channels introduced by RBI like RTGS, NEFT, ECS, etc. have ensured, the flow of large funds takes place in real time in a safe and secured atmosphere.
- The customer can embark on a paperless settlement process without resorting to use of cheque or draft and their attendant risks.
- The customer can use the internet banking to do all his / her banking transactions, be it transfer of funds, payment of direct / indirect taxes, payment of utility bills, etc.
- Extended banking services provided under CBS is a great welcome by the customers.
- Customers can transact from "anywhere" using the internet banking.
- CBS provides the customers "any time banking", at his / her convenience.
- The hassle of carrying the cash for banking transactions is very much reduced, since settlement can now be made using the extensive network of CBS branches.
- The network of ATMs under CBS also ensures that any time cash requirements of the party is met and any where ATMs are 24x7.

(7) MSS (Indian Bank) : *Benefits to the Customer*

A customer becomes customer of the bank and not of a particular Branch. Allocation of unique customer ID facilitates unified view of all related accounts.



- Anywhere branch banking.
- Facility of deposit / withdrawal across all branches in the CBS network.
- Instant fund transfers through RTGS / NEFT.
- Cheques can be collected across cities and credited into the accounts.
- Issue of Multi-city cheques.
- Anytime banking on 24x7 basis.
- Facility of internet banking - remote access by customer to view his / her accounts information and facility to undertake funds transfer within the Bank and also to other bank accounts under RTGS / NEFT.
- Facility of tele banking and mobile banking.
- Connectivity to ATM Switch-On line access to all ATM Network.
- Benefits to Bank
- Instant availability of consistent and accurate data.
- MIS / EIS at ease.
- Effective control and monitoring.
- Centralised database and processing.
- Customer Exposure and evaluation at Global level.
- Reduction in information management cost.
- Ability to introduce customer centric technology oriented products within a short time.
- No reconciliation needed among the connected branches.
- Better utilisation of resources and resource sharing.
- Increase in business due to increase in customers.
- Customer relationship management.
- Increased Information Security.
- Uniformity in practices and standardised procedures.

(8) SAB (Indian Overseas Bank) : Increased efficiency, availability of almost bankwise balance sheet on line, facilitating quicker ALM management are the major benefits of core banking solution.

For the customers the major benefit is access to the account anywhere.

(9) AKM (Oriental Bank of Commerce) : OBC is one of the very few nationalised banks who

have successfully implemented 100% Core banking solution. This has facilitated real time on-line banking with accuracy and speed of data capture, besides total inter-linkage of branches for operations and transactions. Instant remittances across the country through RTGS, NEFT platform has been made possible through Core Banking Solution and the development of IT based products and services.

(10) KCC (Punjab National Bank) : Core Banking Solution (CBS) is networking of branches, which enables customers to operate their accounts and avail banking services from any branch of the Bank on CBS network, regardless of where he / her maintains his / her account. Thus CBS is a step towards enhancing customer convenience through Anywhere and Anytime banking where customers of CBS branches can avail various banking facilities from any other CBS branch located any where in the country. Thus a customer now is not a customer of a branch but of the whole bank. It has thus given a new meaning to the way the banks offer services to their clients.

PNB has one of the largest networks of CBS SOLs (Service Outlets) on FINACLE & on single instance database. Globally there is no precedent to verify the scalability of the operations at such large scale. To ensure the feasibility & efficient functioning of the Core Banking System for larger number of concurrent users, a stress test of Core Banking System was conducted in UK. The Test was conducted on hardware and software on a simulated environment by teams of M/s Sun, M/s Oracle and M/s Infosys with satisfactory results.

CBS has been implemented in 4299 Service Outlets (SOLs) at 2133 centres, covering 92% of Bank's total business. The remaining branches will be migrated to CBS by March 2009.

(11) OPB (State Bank of India) : Let us take the customer first. At SBI, Core Banking enables our customers to transact their business any time and anywhere at over 10,000 branches of the Bank, apart from multiple delivery channels like 8500 ATMs, internet banking, mobile banking etc. For remittance business, Core Banking has proved to be a boon especially, for the common man. For example, a construction labourer in Mumbai can walk into any of our 200 branches in Mumbai and

remit money to his family in a remote village in UP or Bihar free of cost (for amounts upto Rs.20,000). Cheque clearance which earlier used to take 3 to 4 days, now gets done within a day or two and in Delhi, we are already working with RBI and a few other banks on cheque truncation, which is now under trial and will soon become a reality. Collection of up - country cheques is another area where the customers now experience substantial reduction in time. Multi-city cheques and efficient cost management products are the other conveniences enabled through CBS. With our huge network on Core Banking, which is one of the largest of its kind anywhere in the world, we are able to offer our customers a tremendous advantage.

For the Bank, Core Banking has reduced transaction and reconciliation costs and improved operational efficiency. It enables us to develop and deploy suitable products quickly, provides better MIS and enables more effective Asset Liability Management. Core Banking also provides a single customer view. Above all, it has removed a lot of drudgery from the lives of our branch managers and has freed them to do more sales and marketing and provide better customer service.

(12) SKG (UCO Bank) : The most important gain for the Bank by implementing Core Banking Solution has been the arrest of the flight of High net worth individuals to other tech-savvy banks by providing them with state-of-art technology in keeping with the best global practices which included anytime anywhere banking, multi-channel banking and conveniently located ATMs.

It also allowed banks to have centralised MIS reports, launch of new products through all branches instantly and uniform version implementation across all branches.

The most important benefit to the customer on implementation of Core Banking Solution has been that he has migrated from 'Customer of a branch' to 'Customer of Bank' with facility of anytime anywhere banking with ability to transact multi channel 24X7X365 facility from his home or work place or while on move at a reduced cost.

(13) PKG (United Bank of India) : In our Bank, the first branch under CBS was rolled out in January 2007. At present, we have 502 branches

under CBS covering 78% of total business. By March 2009, we expect to put 900 branches under CBS accounting for 92% of business. CBS has given tremendous relief to the branches with regard to back office functions, thus freeing the branch personnel to attend to marketing functions. CBS has also helped in streamlining inter-branch reconciliation, clearing operations, MIS, besides centralized monitoring of advances. To fully exploit the potential of CBS, we have also gone in for a number of other modules such as those relating to ALM, HRM, CRM, KYC & Anti-Money Laundering, TPM, etc. Essentially, CBS had enhanced our competitive strength through improved efficiency in products and services delivery mechanism and faster decision making.

Implementation of CBS enables convergence in banking products and services across the bank branches making those available to the customers in a single window environment. Customers are benefited from reduced transaction and processing time. It facilitates faster transaction and collection of funds. Customers can have access to their accounts at all CBS branches from any or all locations.

(14) AT (Vijaya Bank) : We are one of the first few public sector banks to implement CBS and as on date, more than 95% of our business is already under CBS. We plan to reach the 100% mark by the end of this financial year. CBS has been to our advantage in several ways. The most important benefit has been the convergence of delivery channels that offers efficient client convenience. CBS has also enabled us to generate comprehensive MIS that provides the requisite decision support. With similar products offered by banks, it is effective customer focus that can be a key differentiator in the competitive market. CBS has enabled us to go for strategies suiting specific clientele segments. CBS network has also helped us in house keeping activities and rationalization / redeployment of manpower.





5. What are the changes in human resources policy that your bank has made in the last two years to cope with the changing landscape of banking?

(1) KRK (Allahabad Bank) : The Bank has given prime importance to developing human capital in tune with its quest to emerge as a modern bank with a rich heritage. Initiatives have been taken for capacity building of human resources by focusing their competencies and maximizing their potential in critical and vital functional areas. In line with emerging requirements, the Bank has strengthened training and recruited fresh blood with specialization in various areas like, financial analysts, IT professionals, economics, management, etc.

(2) MDM (Bank of Bank of Baroda) : In keeping with the changing banking landscape, the Bank has taken many HR initiatives and brought about many changes in its HR policies during the last two years. Some of the noteworthy initiatives are enumerated below :

New performance management system (PMS) : The PMS in the Bank has been revamped on specific customer segment lines, i.e., retail banking, SME banking, wholesale banking, rural and agricultural banking. Each of these specific customer segments have their own peculiar requirements and needs and these have to be fulfilled in a focused manner, each distinct from the other. Thus, the new PMS model is designed to support and build on the concept of “multi-specialist banking.”

Revision in promotion policy : The Bank has introduced fast-track promotion and career progression mechanisms through which service eligibility, etc. for promotion to higher scales have been reduced by more than half of the earlier criteria. The selection mechanisms have been modified. The promotion exercises have been conducted on a massive scale during the last two to three years, which has resulted in more than 3,000 promotions.

New resourcing policy for induction of young blood and fresh talent : The Bank has put in place a progressive and futuristic HR resourcing policy to address the emerging manpower requirements. In all recruitment decisions, a suitable match between the role and the individual is looked for. The lateral

induction of specialists, recruitment of young MBAs directly from campuses of renowned business schools have been initiated in large numbers to meet the needs of new age banking.

Leadership development initiatives : The Bank has engaged a renowned HR consultancy firm, M/s Grow Talent to conduct a comprehensive and customized leadership development programme for 300 executives aimed at creating future leaders for the Bank. This involves a detailed leadership competency profiling, both role based and individual based and development of required leadership competencies through a rigorous programme of classroom training as well as “action learning” projects.

Talent hunting and capability building programme (KHOJ) : This was an innovative organization-wide talent identification and development programme, by which the Bank identified around 1,000 employees with high potential for key business areas through a very scientific process of identification and rigorous selection procedure and put through structured grooming and mentoring programmes to fine-tune their capabilities.

Implementation of HRNes : The Bank implemented a comprehensive web-enabled human resource management system (HRMS) named HRNes (Human Resource Network for Employee Services). This involved complete automation of all HR processes and work-flows, provided a centralised database for easy and accurate data access, faster decision-making, automation of performance management, training & development, e-learning, centralized payroll, leave, loan, travel and benefits administration besides providing employee self-service and manager self-service functionalities, leading to greater empowerment and employee satisfaction.

It is one of the most comprehensive HR management systems ever attempted in the banking industry and is designed to enable the employees to add value to business and play a developmental and strategic role.

Promoting innovation and idea generation from employees : The Bank has set up a new forum for sharing of creative and innovative thoughts and ideas, notably, ***ideaonline@bankofbaroda.com***, which unleashed the power of small ideas necessary for giving the best to our ever-growing customers and stakeholders.

Initiatives for employee care and well-being :

Sampark : This is the CMD's helpline for giving top-level attention to matters of utmost urgency in the life of an employee, cutting down on all bureaucracy and procedural delays and granting immediate relief.

Paramarsh : This is a centre for personal counseling where trained and experienced clinical psychologists / counselors help employees resolve psychological problems / worries, which may be disturbing their personal life and affecting their productivity at work.

New rewards and incentives schemes : The Bank has introduced a performance-linked-incentive scheme to reward and recognize extraordinary contribution / commendable work for business leaders (branch heads, regional heads, and zonal heads), individual employees for canvassing business and corporate functional heads.

The Bank has also devised various schemes for granting non-financial rewards like overseas postings, overseas trainings, on-the-job training at overseas branches/offices for young officers, etc.

Focused efforts for capability building of employees :

Comprehensive credit / foreign exchange grooming programmes for creating a cadre of groomed and certified credit and forex officers.

Advanced branch management programmes for creating effective branch heads.

Sales and attitudinal training to around 10,000 front-line staff for creating a sales and marketing orientation.

Introduction of Baroda Centenary Young Managers programme to impart and update young officers with latest banking knowledge and trends.

Efforts for Employee Engagement : The Bank organized employee conclaves across the country as an employee engagement intervention. The conclaves are large group events bringing all

the employees of specific branches or a particular centre to spend a full day together dreaming and visualizing about the Bank and the various issues faced by the Bank at local or bank-level, rethinking about their role, relationships and customers in a fun-filled, appreciative environment. This has unleashed a great deal of positive energy and enthusiasm in employees.

(3) TSN (Bank of India) : We realized that the quality of human resources is key to the bank's sustained performance and competitiveness, and are therefore constantly focusing on improvement in HR area. Realizing that an objective appraisal of performance is necessary for staff motivation and performance, we have recently revamped the annual appraisal process and format, to make it objective based on pre-agreed and transparent KRAs. Incentive scheme linked to performance has been formulated. We have also streamlined staff promotions and reward policies. As a major step towards upgrading human resources and creating future leaders, the Bank has launched an ambitious Vision 2013 plan in which 1000 identified officers and clerical staff would be put through specialized on and off the job training, counseling and made ready to meet emerging challenges and lead the bank in the next decades.

(4) ACP (Bank of Maharashtra) : In May 2006, the Banks reviewed its HRM Policies taking into account the current and the future requirement and drew up a well defined HRM policy document relating to acquisition and retention of talent, promotions for meeting business growth - inter grade and intra grade, succession planning and performance based incentives within the frame work of guidelines issued by the Government of India.

In terms of the managerial autonomy accorded to the PSBs, norms for categorization of branches, which have a bearing on creation of promotional opportunities, were suitably amended to be in tune with best practices among PSBs.

The performance linked incentives such as membership of 'Chairman's Club', 'Cash Incentives to employees' were introduced last year. These schemes provide incentives to the branch / region heads as well as to team members.



The HRM policy, which is in force for the last 2 years, is being reviewed now with the inputs provided by HR consultants.

(5) ACM (Canara Bank) : In an intensely competitive industry structure and the resultant new market dynamics, there is a strategic need for leveraging human resources through constantly upgrading knowledge in both soft and hard skills. The Bank has taken several initiatives on the HR front. The reskilling covered topical issues in banking and finance through programmes conducted at in-house as well as external institutions of repute. The Bank implemented various innovative HR schemes like 'PRATIBHA' for grooming in-house talents in varied specialized areas and 'SPANDAN' for bringing about an attitudinal change among front-line staff. The Bank formed 'CLUB 2020', first of its kind in the industry and also introduced succession planning. Besides, the Bank also focused on leadership development by regularly training its senior management personnel in reputed institutes.

(6) HAD (Central Bank of India) : Technology upgradation and the evolution of the banking activities into new vistas require suitable manpower to deliver and maintain such services. With the banks going in for substantial expansion of branch network and with increase in total business handled, pressures are developing for recruiting the right kind of manpower.

Banking is no more a debit / credit activity as it once used to be. Today, a bank is expected to have latest technology, advice on the asset / liability management of the clients, provide various investments including wealth management services. All these can be met with the right kind of manpower.

PSBs are handicapped by high percentage of staff in the age group of over 50. Infusion of fresh talent with the objective to introduce new ideas based on their latest skill including technology, marketing and knowledge is a necessity.

Our Bank has gone in for series of recruitment of Probationary Officers, IT Officers and Specialist Officers. However, Public Sector Banks have constraints while attracting young talents say from institutes like IIM, IIT or Top of Drawer, Business Schools and Colleges. The constraints are two

fold - "Compensation Package" and "Career Path". As a result, best of the talents from Top-B schools are reluctant to join the PSBs.

Retention of the existing talents is also equally important. With so many opportunities available, there is a tendency for the talented in a bank to look for greener pastures. So, our Bank has launched "Level Jumping" promotions under which talents are identified and rewarded by double promotions.

"Succession Plan" is a process to facilitate identification of talents for specific verticals, train them so that vacancies as and when they arise in the Senior and Top Management level are filled, without creating any vacuum.

As an incentive to reward the performers, our Bank has launched 2 Incentive Schemes, one for the "Performers" and the other for "Super Achievers", which is called "Chairperson's Club".

Training is very essential to build sound managerial team. Training and development functions are given major thrust. Changes have been brought about in the entire gamut of training activity; even the training module contents and delivery system have undergone a change, keeping in view the emerging new thrust areas. Special attention has been given to Financial Inclusion and SME Sector training.

(7) MSS (Indian Bank) : The Bank has recruited personnel in specialised areas, including induction of officers in higher scales where in-house talent was not available; and using contemporary channels, like recruiting from the campuses of reputed institutions along with the conventional channels like open market recruitment.

The Promotion policy for intra cadre promotion in the officer cadre was revamped and the bank has introduced accelerated promotions with emphasis on merit and performance. This intervention while ensuring continuous availability of talented second in line to meet the manpower needs at all levels has also helped in enhancing the motivation levels of the staff.

The bank has launched the following initiatives for competency building like -

Nomination of officers to long term courses conducted by NIBM and IIBF in co-ordination with

Wellingkar Institute, Mumbai and Indian Institute for International Management, New Delhi.

Award of incentives to officers qualifying in NCFM, Depository Operations module.

Utilisation of the in-house training infrastructure to the optimum level and nomination of personnel for external training both within the country and specialised programmes conducted by reputed institutions overseas.

Introduction of e-learning as a part of the knowledge enhancement and development measures being initiated by the bank.

Implementation of SAP-HRMS which has helped in putting in place a strong and robust Personnel Information System.

Introduction of new Welfare measures and wherever found wanting, revision / enhancement of facilities in existing schemes.

Proper placement of personnel and effective job rotation for ensuring optimum utilisation of manpower. Transfer and placement is thus not taken as an exercise for relocation of personnel, but as a process to mentor, nurture and utilise the officers appropriate to their capacities and future needs of the Bank.

(8) SAB (Indian Overseas Bank) : In order to face the challenges ahead and to attract talent to our bank, we have started recruiting man power directly from the universities / institutions. We have started absorbing them at a level which is higher than Scale I.

(9) AKM (Oriental Bank of Commerce) : The changes in Human Resources policy effected include

- Redesigning of the promotion policy for Officers in the Bank to provide them an opportunity for moving up the career graph besides having separate promotion policy for Specialist Officers keeping in view their professional qualification, specialized knowledge, experience and needs of the Bank.
- Campus recruitment of officers and lateral recruitment of Specialist Officers upto SMG Scale V in the functional areas of marketing, Treasury (domestic & forex), Corporate Credit and Forex Operations.

(10) KCC (Punjab National Bank) : Human resource of the organization has to play an important role in translating the corporate goals into viable realities. The Bank has taken initiatives for developing employee expertise by imparting training in key areas of banking operations as well as recruitment of specialists in the field of Information Technology, Risk Management, Treasury Operations, etc.

Similarly, the Bank has implemented centralised on-line Human Resource Management System (HRMS) with various modules like payroll, training, disciplinary action, hospitalization, etc. available in the system. Through this system bank has created central data base with on-line connectivity to Head Office and Circle Offices for efficient updation of data and optimum utilization of manpower.

To improve the performance level of staff members and to keep their motivation level high, bank has launched Performance Linked Cash Incentive Scheme for employees of the bank. During the current year, Bank has disbursed more than Rs.15 crore in cash to high performers.

(11) OPB (State Bank of India) : A major change in our HR policy in the last two years has been the conscious effort to align all HR initiatives with the Business Groups. For example, recruitment of specialists and training is being done in close co-ordination with the Business Groups so that they get the right kind of people with the right skills. Similarly placements / postings are also done in keeping with the Business Group requirements as far as possible. Lateral Recruitment, particularly in the case of specialists, and Contract Recruitment on variable pay are also some of the changes in HR policy. HR policy is also now more targeted at improving employee motivation and morale than before. To achieve this, a number of initiatives have been taken starting with the Transformation Exercise.

The Transformation Exercise agenda has been communicated right down the line to the rank and file. For the Senior Management it was done through a series of conclaves and I personally addressed all the AGMs in the Bank across the country. For all our staff, Chief Managers and downwards, we rolled out a



Change Management programme, which we called 'Parivartan', wherein more than 130,000 employees were briefed on the need for Transformation and Mindset change and the challenges the Bank is facing. This was done through 3300 nation-wide two-day workshops in a period of 100 days - one of the largest such exercises anywhere in the world. 'Parivartan' has been widely acclaimed by all our staff, and customers have acknowledged a perceptible improvement in customer service at our branches, which has been confirmed by an independent survey evaluated on 25 customer service parameters. Buoyed by the response and positive energy generated, we are rolling out 'Parivartan' to all employees of our Associate Banks as well as 44,000 employees of SBI in the cadre of messengers, watch and ward staff, etc.

In another major exercise, the Bank's Vision, Mission and Value statements have been completely re-written and re-stated. The Bank's new vision statement places the customer at the forefront of the Bank's activities and has been formulated based on a feedback received from over 140,000 employees in response to a questionnaire.

Other initiatives include a Performance Linked Incentive Scheme, Reward and Recognition Schemes for outstanding performances, Employees Share Purchase Scheme, Leadership Programmes to build future leaders, MBA programmes for young officers' sponsored by the Bank, etc.

In keeping with present and future requirements and our branch expansion plans, we are also recruiting more than 20,000 new employees in the clerical cadre and 5000 officers in various cadres, including specialist officers.

Our branches have undergone a complete Business Process Re-engineering (BPR) exercise whereby several non-customer and operational functions have been spun off to separate specialized outfits like Credit Processing Cells, Clearing, Cash Administration, Pension Processing, etc. This has freed our branch staff to concentrate solely on business development and marketing, and we are in the process of re-skilling and re-training our staff to meet these new challenges.

(12) SKG (UCO Bank) : We value human assets as the inner core and strength of our

organization and we are fine tuning our policies in the following areas.

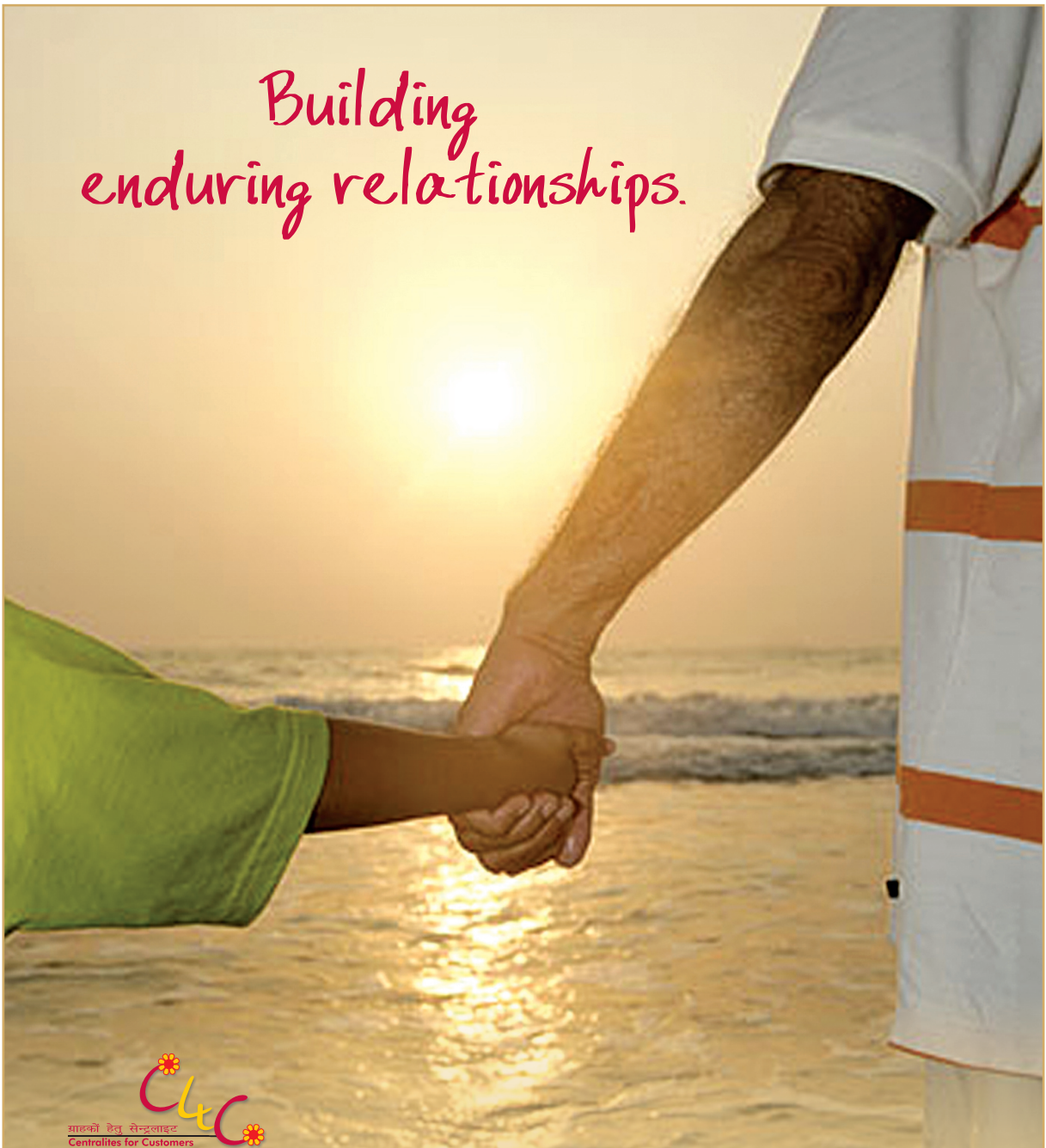
- We invite their opinions and innovative ideas to strengthen our business, profit and brand image. We get the benefit of pragmatic suggestions to boost performance besides delivering pride feeling of participation to our colleagues.
- We do have special website to receive and respond to their genuine grievances.
- Recently we have announced performance based monetary incentives to accelerate their performance and to exploit the untapped business potential in the semi urban and rural segment.
- Empowering people is another effective motivational tool. That way we have upwardly revised the categorization norms for Branch Heads.
- In selecting the Zonal Heads, we look into the resourcefulness as the key factor, since they have to energize and enthuse a large team to win amidst stiff competition.
- To retain the young blood and to reduce the attrition rate we have effected fast promotion from junior management level to middle management level.
- We intend to recruit people with matching / optimum quality to arrest attrition.

(13) PKG (United Bank of India) : We have taken a number of initiatives on HRD front over the last three years. These initiatives were focused on (a) upgrading the skills, (b) sensitizing and motivating and (c) bringing about an atmosphere of transparency and mutual trust.

The Training infrastructure was reinforced by strengthening the Faculty. The faculty members were exposed to exclusive in-Company programme at NIBM, Pune. Know Your Bank / Products Tests were introduced for Subordinate, Clerical and Officers staff. Series of training programmes on Marketing were organized in collaboration with IIM-Calcutta. Nominations to various external training programmes (within and outside India) are being made at a much larger scale.

We introduced accelerated process of promotions to encourage younger employees, Campus

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recruitment, besides Lateral recruitments for specialist functions.

Four in-house newsletters were introduced on Marketing, Bancassurance, Information Technology and HRD. The coverage and contents of house magazines, UNITED and UNITED DARPAN were improved. The Bank's quarterly results were shared with the employees at all levels regularly. A system of inviting eminent speakers on a regular basis was also introduced.

Overall, there has been a noticeable improvement in the HRD climate in the Bank as a result of various initiatives mentioned as above.

(14) AT (Vijaya Bank) : Human resources constitute one of our most valued assets and accordingly, HRM strategy is at the core of our

strategic agenda. Our basic philosophy has been to measure up to the changing market scenario, including the effects of adverse age profile, increasing attrition level and above all, the need for specialization. Accordingly, we have gone for more of campus recruitments and lateral recruitment of specialists in IT, risk management and treasury. At the same time, we have also brought progression in our promotion and placement policy for motivating the pool of committed staff. A host of staff welfare measures have also augured well for staff motivation and a congenial industrial relations climate. Our manpower, I can say, are good enough to match the best in the industry today.



Definitional Aspects of Financial Inclusion / Exclusion		
Institution / Author	Definition	Indicators
ADB (2000)	Provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income household and their micro-enterprises.	Deposits, loan, payment services, money transfer and insurance.
Stephen P. Sinclair (2001)	Financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions.	Basic banking services for money transmission, credit, insurance, debt and debt assistance, long-term saving and financial literacy.
Chant Link and Associates, Australia (2004)	Financial exclusion is lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes a concern in the community when it applies to lower income consumers and / or those in financial hardship.	Deposit accounts, direct investments, home loans, credit cards, personal loans, building insurance and home insurance.
Treasury Committee, House of Commons, UK (2004)	Ability of individuals to access appropriate financial products and services.	Affordable credit and saving for all and access to financial advice.
Scottish Government (2005)	Access for individuals to appropriate financial products and services. This includes having the capacity, skills, knowledge and understanding to make the best use of those products and services. Financial exclusion by contrast, is the converse of this.	Access to products and services, and / or capacity skills, knowledge and understanding
United Nations (2006 b)	A financial sector that provides 'access' to credit for all 'bankable' people and firms to insurance for all insurable people and firms and to saving and payments services for everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired.	Access to credit, insurance, savings, payment services.
Report of the Committee on Financial inclusion in India (Chairman : C. Rangarajan) (2008)	The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.	Access to financial services and timely and adequate credit.
World Bank (2008)	Broad access to financial services implies an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure because access has many dimension.	Access to financial services and such as deposit, credit, payment, insurance.

Source : Report on Currency & Finance 2006-2008, Vol. II



6. The aspect of Basel II that held the attention of the regulators last year was that of market discipline. In what way is your bank submitting itself to market discipline?



(1) KRK (Allahabad Bank) : Among the mutually reinforcing three pillars under Basel-II, the third pillar, market discipline, has been receiving utmost attention from the Bank. In line with the direction of the Reserve Bank of India, the Bank has disclosed both quantitative and qualitative information on risk management in its Annual Report with a view to enabling market participants to assess key information on the scope of application, capital risk exposures, risk assessment processes, bank's risk profile and level of capitalization etc.

In addition to the above, various information on financials (quarterly, half-yearly, nine-month ending & annual), various policies, management profile, products and services charges, etc. of the Bank are displayed in details in the Bank's website www.allahabadbank.in or www.allahabadbank.com.

(2) MDM (Bank of Baroda) : The Bank has become Basel-II compliant as on 31.03.2008 in accordance with the guidelines of Reserve Bank of India. The Bank has implemented standardized approach for credit risk and standardized duration approach for market risk and basic indicator approach for operational risk for the year 2007-08 in line with the guidelines of RBI.

The Bank is in the process of implementation of new technologies, processes to estimate, Probability of Default (PD), Loss Given Default (LGD) Exposure at Default (EAD), paving way for implementation of advanced approaches under Basel-II.

In accordance with the guidelines for disclosures under pillar III of Basel-II, the Bank has put in place a Disclosure Policy, duly approved by its Board of Directors. Moreover, the Bank has developed a dedicated cell for investors' relations at its Corporate Office, which promptly responds to all the queries of investors / analysts regarding the Bank's financial and operational performance.

The disclosure policy is intended to complement the other two pillars of Basel accord by encouraging market discipline through disclosures, which will enable market participants to assess the key pieces

of information on capital, risk exposures, risk assessment process and hence capital adequacy of the Bank.

The disclosure policy will contain those disclosures, which will be over and above the accounting standards and regulatory disclosures.

The Bank will provide all Pillar 3 disclosures, both qualitative and quantitative, as at end March and September each year along with the financial statements.

Under the credit risk definition of default, the disclosures cover credit risk management systems, approved credit rating agencies for external rating, internal rating system design, stress testing, etc. Under the quantitative disclosures, it covers- total gross credit risk exposure for fund based and non fund based exposures, geographical distribution of exposure, industry-wise distribution of exposure, residual maturity breakdown of assets as per maturity bands, details on NPAs and risk weight wise exposure, etc.

Under the market risk qualitative disclosures, it covers the methodology used for estimation of capital, description of stress testing applied. Under the quantitative disclosures, it covers VaR values, modified duration of the trading portfolio, and capital requirements as per the standardised duration method, etc.

Under the operational risk disclosures, the methodology used for estimation of capital and capital requirement as per the Basic Indicator Approach are included.

In respect of capital disclosures, it includes the amount of Tier-1 capital with separate disclosure of paid up share capital reserves, innovative instruments and other capital instruments, total amount of Tier-2 capital, with bifurcation details of upper tier-2 and subordinate debt, with amount raised during the year, deductions from capital and total eligible capital.

It may be noted that the additional disclosures published with such statements will be consistent with the audited statements.



The responsibility for collation of data, validation of data rests with the respective functional department as approved in the policy.

While publishing the disclosures in the financial statements, the same will be subjected to adequate validation, successively at various levels, viz., respective functional departments, risk management department and accounts and audit department.

The overall responsibility of approving the disclosure requirements rests with a committee of general managers.

(3)TSN (Bank of India) : Our bank is a listed entity. We fully comply with not only the disclosures requirement as laid down by RBI but also follow the transparency and corporate governance norms and guidelines of SEBI and stock exchanges. Our annual reports are a compendium of all due and necessary disclosures and detailed management comment about its policy, practices and plans. The bank frequently interacts with professional fund managers, analysts and press and shares all due information about its business and financial standing with them.

(4) ACP (Bank of Maharashtra) : Reserve Bank of India has prescribed enhanced disclosure requirement as a measure of Market discipline under Basel-II. Accordingly, disclosure requirements under Basel-II have been prescribed in the Bank's Disclosure Policy approved by the Board. The Bank shall comply with the above requirements by incorporating the disclosures in its annual report as at March 31, 2009 when the Bank will migrate to Basel-II.

(5) ACM (Canara Bank) : The Bank believes that proper disclosures lead to enhanced transparency, which will help the stakeholders / market participants to properly evaluate the Bank's capital structure, capital adequacy, risk exposure, risk management performance, earning potential, etc. The Bank is committed to provide comprehensive public disclosure of all material information stipulated by RBI, periodically, in a fair, timely and cost efficient manner.

The Bank has put in place Disclosure Policy approved by the Board to ensure compliance

with all disclosure obligations stipulated by regulators and also to ensure that market participants / stakeholders are provided with reliable, accurate and timely information. The Bank has formed a 'Disclosure Committee' consisting of top executives to assess and evaluate the appropriateness and timings of disclosures, including the frequency of disclosures.

All the mandatory disclosures required to be made under various legal and regulatory requirements, including Accounting Standards of ICAI and Basel-II norms, both quantitative and qualitative, are made along with annual financial statements. The Bank has taken all prudent measures while making disclosures, relying on all available sources. The disclosures are also posted on the Bank's website to enhance dissemination of information in a cost efficient manner. The Bank ensures updating of the information periodically in order to provide accurate and latest information to all the stakeholders.

(6) HAD (Central Bank of India) : In order to encourage market discipline, Reserve Bank of India has over the years developed a set of disclosure requirements which allow the market participants to assess key pieces of information on capital adequacy, risk exposures, risk assessment processes and key business parameters which provide a consistent and understandable disclosure framework that enhances comparability. Banks are also required to comply with the Accounting Standard (AS-1) on Disclosure of Accounting Policies issued by the Institute of Chartered Accountants of India (ICAI) which will enable market discipline leading to several benefits as under :

- It may mitigate the moral hazard and excessive risk taking.
- It may contribute to increased bank efficiency.
- Enhancing market discipline may help to reduce the social cost of supervision and regulation.
- It works as a testimony of fulfillment of compliance norms.

Market discipline has been given due importance under the New Capital Adequacy Framework and Market Discipline (Basel-II) by recognizing it as one of its three pillars.

The Bank has put in place the Board approved policy on Market Discipline and Disclosures. The policy takes care of all mandatory disclosures required to be made under Basel-II regime as per guidelines of the regulator and disclosures as per various accounting standards of ICAI, besides certain voluntary disclosures.

Our Bank does not have any overseas operations; hence we are required to comply with the Basel-II compliance with effect from 31/3/2009.

(7) MSS (Indian Bank) : Disclosure Policy approved by the Board / RMC is in place.

A Web Page titled "Basel-II Disclosures" is created and the link to this page is provided on the Home Page of the Bank's Web Site.

Qualitative and Quantitative information in the prescribed tables as per the policy / RBI guidelines is published in the Annual Report and also posted in the Bank's Web Site.

(8) SAB (Indian Overseas Bank) : To observe market discipline, our bank is following in letter and spirit, the regulations prescribed by RBI / SEBI.

(9) AKM (Oriental Bank of Commerce) : The Bank is following the mandatory guidelines laid down for disclosures both by RBI and SEBI as required under Pillar-III of Basel-II. Transparency in Financial sector induces market discipline and OBC adheres to this in both letter and spirit.

(10) KCC (Punjab National Bank) : The Pillar-III of Basel-II recognises the need to strengthen market discipline by requiring disclosure. Such disclosures prevent banking crisis by keeping the markets informed and also puts pressure on banks to ensure that they maintain resilience of the organisation. Our Bank is making the required disclosures as prescribed by the regulator. Besides, the Bank has taken adequate measures to keep the risks under check by formulating various models that keep a tab on asset quality and give early warning signals so that preventive measures can be taken. The Bank's risk management policy aims at reducing exposure in high risk areas, emphasizing

more on the promising industries, optimizing the return by striking a balance between the risk and the return on assets and striving towards improving market share to maximise shareholder value. It is worth mentioning that in terms of RBI guidelines, the Bank has already migrated to Basel-II accord by adopting Standardised Approach under Credit Risk and Basic Indicator Approach under Operational Risk w.e.f March 31, 2008. The Bank has also adopted Standard Duration Approach for Market Risk. The Bank is gearing itself to adopt the advanced approaches in due course of time under different risks whenever permitted by RBI.

(11) OPB (State Bank of India) : Market discipline is ensured by effective disclosure requirements under Pillar-III and is a critical complement and support to the other two pillars of Basel-II. By enhancing transparency in banks' financial reporting, the third pillar provides counterparties, investors and other participants greater insight into a bank's risk profiles that increases their ability to distinguish and reward banks that are well managed. In line with the requirements, we have a comprehensive disclosure policy duly approved by our Board.

Our Bank has complied with additional disclosures under Pillar III as on 31st March 2008 as per RBI Guidelines as published in our Annual Report for 2007-08.

(12) SKG (UCO Bank) : Market Discipline (the third pillar of Basel-II) aims to comply with disclosure requirements in their balance sheet to provide stake holders a fair and complete picture on risk reward profile of the institution. It helps the market participants to assess key pieces of information on capital, risk exposure, risk assessment and capital adequacy.

Since we are implementing Basel-II as of March 2008, we have disclosed in our note of accounts on balance sheet, the capital ratios both under Basel-I and Basel-II and given detailed disclosures as per applicable tables (both qualitative and quantitative) duly audited.

(13) PKG (United Bank of India) : 'Market Discipline', the third pillar of the regulatory framework of Basel-II puts in place disclosure norms about risk management practices and



allocation of regulatory capital and thus helps to strengthen market discipline as a complement to supervisory efforts.

Our Bank has responded to newer risks and various regulatory policies in an effective manner. In line with guidelines of RBI, the Bank has initiated all the steps to submit itself to market discipline. It has developed policy on credit risk, entered into MOU with four accredited rating agencies, successfully completed employee awareness programme on Basel-II implementation, and has been doing parallel run for computation of capital adequacy at quarterly interval and has undertaken various analysis at regular intervals in order to maintain asset quality.

(14) AT (Vijaya Bank) : Third pillar under the Basel-II framework, which features the tenets of market discipline, is quite crucial in as much as it has a bearing on issues of financial stability and improved value for stakeholders. Going by the spate of recent financial scams, market discipline has emerged as one of the key challenges facing the regulators as well as the individual players. A prudent compliance culture, transparent reporting systems and commitment to best practices in business and ethics are our three basic approaches to market discipline.



Banks Amalgamated since Nationalisation of Banks in India			
Sr. No.	Name of Transferor Bank / Institution	Name of Transferee Bank / Institution	Date of Amalgamation
1.	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2.	National Bank of Lahore Ltd.	State Bank of India	February 20, 1970
3.	Miraj State Bank Ltd.	Union Bank of India	July 29, 1985
4.	Lakshmi Commercial Bank Ltd.	Canara Bank	August 24, 1985
5.	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6.	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1986
7.	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8.	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9.	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10.	Bank of Tanjavur Ltd.	Indian Bank	February 20, 1990
11.	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12.	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13.	New Bank of India	Punjab National Bank	September 4, 1993
14.	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
15.	Bari Doab Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
16.	Punjab Co-Operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
17.	Bareilly Co-Operation Bank Ltd	Bank of Baroda	June 3, 1999
18.	Sikkim Bank Ltd.	Union Bank of India	December 22, 1999
19.	Times Bank Ltd.	HDFC Bank Ltd.	February 26, 2000
20.	Bank of Madura	ICICI Bank Ltd.	March 10, 2001
21.	ICICI Ltd.	ICICI Bank Ltd.	May 3, 2002
22.	Benares State Bank Ltd.	Bank of Baroda	June 20, 2002
23.	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
24.	South Gujarat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
25.	Global Trust Bank Ltd	Oriental Bank of Commerce	August 14, 2004
26.	IDBI Bank Ltd.	IDBI Ltd.	April 2, 2005
27.	Bank of Punjab Ltd.	Centurion Bank Ltd.	October 1, 2005
28.	Ganesh Bank of Kurundwad Ltd	Federal Bank Ltd.	September 2, 2006
29.	United Western Bank Ltd.	IDBI Ltd.	October 3, 2006
30.	Bharat Overseas Bank Ltd.	Indian Overseas Bank	March 31, 2007
31.	Sangli Bank Ltd.	ICICI Bank Ltd.	April 19, 2007
32.	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	August 29, 2007
33.	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd.	May 23, 2008
Source : Report on Trend and Progress, RBI, Various Issues / Report on Currency & Finance 2006-2008, Vol. II			



7. What is your view on the 'decoupling' theory with respect to the US economy and rest of the world? Do you envisage any fall in business because of the recession in the US or do domestic factors play a greater role in India?



(1) KRK (Allahabad Bank) : The decoupling theory has raised more debatable issues than explaining the reality. The process of integration of Indian financial system with the global ones has definitely made it more sensitive to volatility in the global market. In a dynamic equilibrium framework, the externality of global volatility is expected to have larger impact in a short run perspective while in long run the sensitivity is expected to marginalize, depending upon the financial strength, depth and width of the market segments of the emerging economy.

In the context of India, it may be observed that the volatility in global oil prices, added with the domestic factors of supply bottleneck like, food shortage, etc. fuelled the inflationary pressures, resulting in firming up of interest rate outlook. However, real sector of the country largely depends on indigenous factors, India being a wide market with ever increasing younger consumer base. Thus, it appears that sustainability of business of the Bank is more linked to the fundamentals of the country, the consumer profile and stability of the indigenous market conditions.

(2) MDM (Bank of Baroda) : Nobody would deny that in an era of globalisation, economies of different countries have become more intertwined through trade and finance. And this makes business cycles more synchronized than before. However, "decoupling" does not mean that an American recession will have no impact on emerging economies. It only implies that the GDP growth rates of emerging economies will slow by much less than in previous American downturns. And the primary reason for this is the increasing growth of trade and finance amongst the emerging economies themselves.

So far as India is concerned, domestic factors certainly play an important role in India. The country's domestic savings and investments as per cent of GDP in excess of 30.0 per cent since 2004-05 indicate a strong potential for continued growth in output and productivity over the medium term. Over the last four-five

years, nearly 90.0 per cent of Indian investments were financed out of India's own savings and this combined with our large-sized domestic market insulates our economy to a great extent from the global slowdown.

(3) TSN (Bank of India) : In an increasingly globalised world, decoupling is practically not possible. To the extent that India is a big domestic economy, domestic influences determine the direction of the economic indicators and performance. However, the global linkages by way of trade, services (IT, BPO, etc.) and capital flows necessarily mean we cannot be immune from influences of what is happening in other economies particularly the US economy which is considered to be the engine of the world.

(4) ACP (Bank of Maharashtra) : The Decoupling theory says that the emerging economies of Asia and Europe like India have developed and broadened to the extent that the dependability on the developed economies of the world such as United States of America (USA) for growth has come down from previous levels. Therefore, while it may not be possible to totally insulate the domestic economy from the happenings in the USA and other developed economies, their impact could be minimized. Therefore, economies would not be affected by the recessionary phase in the United States.

Having regard to the current demographics and the improvements in the per capita income, especially in the Rural and Semi-urban sectors, there is adequate scope for sustaining the growth of the economy in the range of 7 to 8% of GDP.

(5) ACM (Canara Bank) : We believe that the financial markets across the globe including economies like India are 'coupled' with US markets. This is evident from the synchronized rise or fall of various stock market indices in tune with the movement of Dow Jones. Apparently, financial markets have never been in the past as 'coupled' with the US markets as they are today. The fall and rise of the markets since August, 2007 bear testimony to this hypothesis.



However, in the case of real economy, most of the emerging economies have 'decoupled' with US economy. This is evident in three segments viz., export profile, policy direction of central bankers and demand-supply situation of different countries.

On the export front, most of the emerging economies including India are now less reliant on US than in the past. The depreciating dollar, emergence of other potential markets in growing economies and shift in export priorities are reasons that could be attributed to this phenomenon. On monetary policy measures, central bankers have been adopting policies which are divergent from that of the US Fed. While Fed has successively reduced the Fed rate to the present level of 2%, RBI has repeatedly increased the CRR and Repo Rate to the present level of 9%. The policies of central bankers in China, Indonesia and many other emerging economies bear resemblance to this shift.

While consumer spending and consumer confidence in USA have contracted to all time lows, the demand for consumer durables and food articles is high in India and other emerging economies. Consequently, we are seeing surge in prices of agricultural commodities in these countries. This has necessitated the governments and central bankers in these countries to introduce measures to remove supply side bottlenecks and curb upward demand side pressures.

Being the largest economy in the world, recession in USA impacts global growth. In a unipolar world, until now major global trade has been US centric.

As such, any slowdown in the US will have a cascading effect on India's as well the emerging economies' fortunes.

However, the paradigm shift witnessed in trade patterns, consumption priorities and demographic profile of these countries, including India, has made them less reliant on US than earlier. Today, India has a strong domestic demand with the rise in spending power. More than 60% of Indian population is in the age group of 20-45 years. The booming software, BPO and services sector have remarkably increased the purchasing power of a large mass of population. The middle class affluence of India is a major marketing factor for

global companies. Besides, the savings rate of an average Indian household is in the range of \$50.4, which is one of the highest in the world.

(6) HAD (Central Bank of India) : Globalisation and liberalization have led to greater integration of Indian markets with global markets. In general, the integration among the world's financial markets has opened the world economies including India and has reduced protectionism and trade barriers. The telecommunication facilities have made possible market access round the clock. With such integration, any global event is likely to start "ripple effect". United States of America is the largest global economy. Hence, any major development in US is bound to cause reaction across the global markets.

The recent example of sub-prime crisis in US and its impact on the global economy goes to prove that in a globalised atmosphere it will be difficult to contain the contagious effect although the impact may be of varying degree from economy to economy.

Global equity markets are sensitive to any development affecting the valuation of the listed entities. The sub-prime crisis which denotes the poor quality of underlying credit risk has led to the revaluation of credit spreads globally, including India.

The drying up of global liquidity has also seen the cost of funds going up in India. Under the present unsettled global situation, the domestic factors in our country like the sustained GDP growth between 8.5 to 9% and the controlled inflation rate around 5%, combined together ensure that the growth momentum was maintained in our country despite recessionary trend in US.

The sudden flight of inflation to at a high level of over 12% however took its toll and the economy is expected to slow down. Already the Government and RBI are reviewing the likely GDP growth rate at 8% for 2008-09. Apart from the greater demand pull inflation, the sudden surge in the international prices of crude oil was also a factor responsible for the increase in inflation.

The Government's policy of administered price of petrol, diesel and kerosene has ensured that the full impact of the increase in international prices on the domestic economy is not felt.

The Indian capital market also got adversely affected bringing down the valuation substantially. It is, therefore, difficult for India to remain isolated and insulated from adverse developments globally and particularly in US due to the integration of the Indian market with other global markets.

(7) MSS (Indian Bank) : According to the decoupling theory, Asian economies, especially emerging ones have broadened and deepened to the point that they no longer depend on the United States for growth and they are insulated from the American and European economies and a slowdown or recession in these countries does not affect their economies. This theory may not fully hold water in the era of globalisation and liberalisation. The extent to which Asian economies would be affected due to recession in America depends on how strong their fundamentals are. India does not depend fully on America, though the US is an important trading partner for most emerging economies. The recession in the US can affect exports to a certain extent as demand in the US has slowed down in the past year.

The rise in prices of crude oil is a major reason for the slowdown in the economies worldwide. The weak dollar and the rising fuel prices have made more damage to the emerging economies than the effect of the recession in America.

Domestic factors play a greater role in India. India's economy has shown resilience and has not been impacted by the recession in the US. The fundamentals in India are strong and it would be able to withstand the recession if the inflationary pressures are tackled immediately through fiscal and monetary measures.

(8) SAB (Indian Overseas Bank) : US is the biggest importer in the world. Therefore, 'decoupling' of the US economy with the rest of the world is difficult. If the US economy slows down, world economy will be affected.

(9) AKM (Oriental Bank of Commerce) : In a globalised economy no country can be totally insulated from the impact of changes taking place in the larger developed economies. RBI has been doing a commendable job in minimizing the impact on the players in India. India's unique economic model ensures that domestic demand takes care of the growth with stability.

(10) KCC (Punjab National Bank) : While one section had a view of decoupling as a possible solution to the US slowdown, I personally do not endorse this view. With increasing globalisation, the interdependencies of the countries on each other has increased tremendously. The pricing of various commodities is also determined at a global level be it oil or petroleum products or gold or foodgrains. One can not possibly "decouple" in such an environment. Further putting the point in perspective, recent hike in crude oil prices, which was increased from less than \$60 per barrel as recently as January 2007 to around \$130 per barrel currently, through its direct and indirect impact on industries and businesses across the board has created inflationary condition across the globe, thus affecting the over all growth prospective.

While Asian growth has been reducing the possible impact of US slowdown, the latter has started impacting the Asian growth as well, though the impact has been lesser due to impetus being provided by its domestic demand. Same holds true for India as well. India could withstand the US recession to a large extent due to its booming consumer demand and lesser dependence on exports. However, the exports got affected due to slowing demand overseas. Further, with the heightened capital inflows, the rupee started strengthening and the Indian economy witnessed signs of overheating which necessitated hikes in cost of funds which in turn led to domestic slowdown. Hence, whether one likes it or not, contagion does affect the whole world, the impact may be smaller or larger, depending on degree of interdependence.

(11) OPB (State Bank of India) : To my mind, the decoupling hypothesis that growth in developing countries like India is increasingly decoupling from the US economy and the rest of world, does not appear to be very compelling. While it is true that the US is no longer our biggest trading partner (being recently replaced by China), the US dollar is still the reserve currency of the world. Although our exports to the US account for only 4% of the Indian GDP, a US recession would definitely hurt industries like textiles, gem and jewellery, leather, etc. To that extent, business of banks will be affected in a limited way. The same holds good for BPOs, KPO's and other IT enabled services. But given our strong

internal demand, a US recession today may not be as hard a blow to our economy as it would have been a few years ago. But it would be imprudent to say that we have really decoupled from the US and will not be affected if US goes into recession.

(12) SKG (UCO Bank) : Inter-dependence is an important aspect which has great significance. It is a co-ordinated approach which ultimately culminates into an action. The 'decoupling theory', which is of recent origin, definitely has to be taken into consideration by approaching different segments of the economy. But at the same time no individual segment of an economy can remain insulated in its totality. Therefore, the issue of 'decoupling' becomes a debatable one.

The US economy is such a large economy as it can affect the rest of the world whether it is through decoupling or otherwise. Therefore, any fall in business because of the recession in the US will have a definite impact on the economies of the rest of the world. As far as India is concerned, the Indian economy is primarily agriculture dominated where two-thirds of its population derive their livelihood from agriculture even though the share of the services and the manufacturing sectors in the GDP has considerably gone up. The fact remains that Indian population derive their livelihood through agriculture. It is the failure of monsoon which even today creates problems to the Indian economy but not the growth in the services and the manufacturing sectors. Therefore, the real decoupling effect is on the functioning of the Indian economy which is to a large extent still insulated from the rest economies of the world in many ways.

(13) PKG (United Bank of India) : The Indian economy is relatively decoupled from the US economy to some extent, compared to other emerging countries. Indian economy has greater stability, sustained mainly by domestic consumption and savings. India's exports to the US constitute only 16.83% of its total exports.

Decoupling assumes that India will not be significantly affected by US slowdown and it is expected that the impact will be less than 1 percent on GDP growth, according to the economists. IT sector could, however, be affected by US slowdown because of its export-oriented nature.

The rapid interest rate cuts by Federal Reserve have, however, both favourable and unfavourable impact on Indian economy. Huge capital inflow due to widening of interest rate gap, combined with a weakening dollar would erode export advantage. On the other hand India like other emerging market economies, has also been benefited from large short term capital flows that have pushed up the rupee and boosted the Indian stock market. The overall problem is of unbalanced global capital flows, which if not corrected could lead to crisis.

Further, India's financial markets are relatively close despite relaxation in recent years. The developing global crisis may slowdown the pace of deregulation. However, Indian economy is capable of self-sustaining growth inspite of some uncertainties in the global environment.

(14) AT (Vijaya Bank) : Decoupling from US events does not hold much ground given the extent of trade and economic relationship that US has with most parts of the world. The impact of US recession and the sub-prime crisis is, thus, visible in many parts of the world. Similarly, interest rate differentials between USA and other emerging economies also has a bearing on capital movement and problems of monetary and forex management. As for India, the impact has been moderate, except in select service segments like IT which are affected by recession in USA as well as rupee appreciation. In the sphere of macro and monetary management, we managed well primarily due to a gradual and guarded approach to cross country capital movement.

About the impact on banks' business, the fallout is again moderate as domestic factors predominantly influence Indian banks' performance. There was an indirect impact on interest rates through higher growth in money supply and consequently, inflationary pressures. However, a careful and calibrated approach seems to have reined in the inflationary expectations and improve market sentiments. Further, a near 8% growth still appears to be a possibility which should augur well for banks' business.





8. Despite the consolidation talk in the last two years we have not seen many mergers among the commercial banks. What, according to you, is the reason for the lack of impetus in the consolidation drive?

(1) KRK (Allahabad Bank) : Consolidation driven by market forces in order to face the global challenges is expected to gain momentum in the post March 2009 banking environment, requiring Indian banks to have larger capital base with high risk bearing capability and globally competitive IT platform. However, there is a healthy debate going on among various constituents of the industry which will facilitate action at opportune times.

(2) MDM (Bank of Baroda) : While private banks in India are taking to the consolidation route in a big way, we have not seen many mergers taking place in public sector. The government has favoured consolidation among state-run banks to take on competition. The State Bank of India is already set to merge its seven associate banks with itself. It may be noted that while the government would facilitate consolidation in the banking sector, it does not intend to force the merger of domestic banks.

Some of the reasons for the lack of impetus in the consolidation drive could be - the legal and regulatory issues due to the existence of different statutes under which banks are formed in India, differential technology platforms, HR & culture-specific issues, etc.

(3) TSN (Bank of India) : Consolidation in the banking space has been happening but we are yet to see much action in the public sector banks' space. All PSBs have wide network and long heritage. Partly the protective impulses for the brand and partly huge challenges of consolidation among two PSBs has kept off any action in this area. There are also certain legal and regulatory issues which need to be addressed for such mergers to take place.

(4) ACP (Bank of Maharashtra) : We have seen some Bank mergers in the recent past such as that of GTB with OBC, Centurion Bank of Punjab with HDFC, United Western Bank with IDBI and some of these were with the intervention of the regulator and some voluntary necessitated by the evolving market conditions and regulatory norms.

Consolidation among public sector banks would take time on account of HRM issues involving

size of the work force, likely redundancies as well as strong feelings for independent status among employees. But there is considerable scope for achieving economy of operations through collaboration for sharing infrastructure and network. A collaborative effort for sharing infrastructure / service delivery channels and business processes could create synergies for further consolidation among a group of banks.

(5) ACM (Canara Bank) : So far, the consolidation process in Indian banking has primarily been confined to a few mergers among private sector banks, although some recent consolidation moves among the public sector banks is also evident with the most notable being the approval of the merger of SBI with SBS. Consolidation is also likely to pick up in the Indian private banking space.

The existence of different statutes under which banks are formed, institutional and political constraints, legal and regulatory bottlenecks and HR issues inherent in the consolidation process are the major factors, which hinder the consolidation drive. There is a great deal of heterogeneity among the public sector banks. As they differ substantially in their ethos and work culture, it is extremely difficult to evolve a cohesive unit through mergers. Different banks operate on different technology platforms and they are at different stages of computerization.

The different treatment of HR issues not just among private banks and foreign banks but also among PSBs hampers consolidation. Treatment of employees of the transferor bank consequent upon merger or acquisition, re-skilling and re-deployment could also be major issues. But there is no doubt that consolidation would occur.

(6) HAD (Central Bank of India) : Let me say, Consolidation is easy to discuss in various forums but difficult to put in practice. While one cannot ignore the benefits of consolidation in the banking industry, at the same time, efforts need to be made to clear the hurdles in the way of consolidation.

- First, the resistance from the bank's trade unions to consolidation who have taken already

to the agitational route. At the first sign of any negotiations of mergers proposed / suggested, they demonstrate their objection in no uncertain measures.

- Second, the absence of road map or guidelines on consolidation, handicaps the process.
- Third, the experience derived from past case of consolidation in the industry involving public sector banks.
- The different technology adopted by various banks is another serious road block.
- The different geographical and demographic factors and integration of huge staff contingent with different cultural background will need tremendous amount of conviction that the consolidation is good for the banks, for the staff and for the country as a whole.

I strongly feel banks who really intend to go in for consolidation need a strong and sustained awareness campaign to bring in change in mind set of all the stakeholders.

(7) MSS (Indian Bank) : Consolidation among banks can take place only if there is consensus on various issues among the stakeholders. The idea is only picking up now. Till now, mergers have taken place only between a weak bank and a strong bank, that is, to bail out weak banks in the interest of depositors and other stakeholders. The consolidation that we are talking now is going to be between two or more strong banks, where the issues are different.

The theme behind consolidation now is 'asset size'. To compete with international banks, we need a sizeable 'size' and market capitalisation. Increasing the size organically would take quite some time and we would be required to induct massive resources. So the next best alternative is inorganic growth via mergers and acquisitions.

It would take some time for us to adjust to the idea of having three to four banks. We would be seeing shortly the merger of SBS with SBI, the experience gained from the merger would help in speeding up the consolidation in the industry. Moreover, fusing formal systems and processes is a formidable task. There are many issues in integrating banks - technology base, culture issues, HR issues, etc. Once these issues are addressed, then the pace of consolidation will quicken.

(8) SAB (Indian Overseas Bank) : Though, consolidation of the banking industry has been accepted at the management level, the same needs to sink in with the organizations controlling the officers and award staff. Once these organizations are able to understand and visualize the benefits of consolidation, big impetus to the same can be achieved.

(9) AKM (Oriental Bank of Commerce) : Consolidation is an emerging phenomenon based on individual decisions of the respective banks and driven by market dynamics. The Basel-II requirements of risk based capital would test all the players particularly with the pressure on margins and the need to raise cost effective capital. As the pressure gains momentum, consolidation would take its natural course.

(10) KCC (Punjab National Bank) : Consolidation is necessary for the further development of the banking sector as one cannot be a major player in the international market unless you acquire size which enables you to become competitive globally. But in our country where large chunks of population are deprived of basic banking services and access to other financial products, appropriate time for consolidation has not yet come. Consolidation happens in an industry where there is proliferation of products and services. Hence, although consolidation is a must, but at this juncture, more than consolidation, the need of the hour is financial inclusion. Financial inclusion is a necessary pre-condition for banks to take up consolidation measures.

(11) OPB (State Bank of India) : Our proposal for merger with State Bank of Saurashtra has now been cleared by the Government and it could pave the way for merger with our other Associates as well. It could also perhaps trigger off other mergers in the industry. But it must be remembered that two banks will not merge with each other unless they see synergy in operations and greater prospects of growth - the sum of the parts must be greater than the whole. Sometimes, there are also personnel issues which need to be ironed out before a merger takes place, which is perhaps why more mergers have not taken place. But the signs are there - we will gradually be moving away from an era of 'large number of

small banks' to a scenario of 'small number of large banks'.

(12) SKG (UCO Bank) : It is not the question of lack of impetus in the consolidation drive involving mergers among the commercial banks. Basically, one has to look at the evolution of Indian banks which have grown in an independent nature. Moreover, the Indian banks have been exposed to the competitive scenario very recently. All through the Indian banks were under a protective umbrella which was removed through the financial sector reforms. Therefore, unless the market forces become strong enough to compel the banks to consolidate themselves for greater economies of scale, the things will continue to remain as at present. However, from the fiscal 2009-10 there will definitely be changes with the Indian banking system getting opened to the foreign banks. This will be a compelling situation where Indian banks will have to consolidate themselves to become strong financial entities *vis-à-vis* the foreign banks which will be entering into our territory.

(13) PKG (United Bank of India) : Consolidation process in the past has largely involved takeover of a weak or failed bank by a public sector bank. There are limited instances of market-driven

mergers. Given that about 75% of banking sector assets are in the public sector, a strong initiative from the government, the major share holders in PSBs, would be necessary.

(14) AT (Vijaya Bank) : There has been a good number of M&A moves among commercial banks. Many of the RRBs also have consolidated, with their number coming down from 196 to 88 at present. However, the number of M&As has not been as many in the case of PSBs as among the private players. Nevertheless, the rationale behind consolidation has been beyond question, especially from the viewpoint of the post-2009 challenges. It is quite heartening to know that many of the M&As moves taking place now are having synergy orientation and not necessarily to bail out banks in distress. However, consolidation is not a one shot affair. To yield the desired results, consolidation needs to look much beyond financials. It has to factor in compatibility in HR, technology and client profiles, and more importantly, compliance with regulatory requirements and stakeholders' value. It also needs to have a definite and validated road-map to be successful in the post-M&A scenario.



Factors Affecting Access to Financial Services

A number of factors affecting access to financial services have been identified in many countries. These are :

- **Gender issues** : Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantors to borrow.
- **Age factor** : Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.
- **Legal identity** : Lack of legal identities like identity cards, birth certificates or written records often exclude women, ethnic minorities, economic and political refugees and migrant workers from accessing financial services.
- **Limited literacy** : Limited literacy, particularly financial literacy, i.e., basic mathematics. Business finance skills as well as lack of understanding often constrain demand for financial services.
- **Place of Living** : Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (i.e., highly mobile people with no fixed or formal address), insurgency in a location, etc., also affect access to financial services.
- **Psychological and cultural barriers** : The feeling that banks are not interested to look into their cause has led to self-exclusion for many of the low income groups. However, cultural and religious barriers to banking have also been observed in some of the countries.
- **Social security payments** : In those countries where the social security payment system is not linked to the banking system, banking exclusion has been higher.
- **Bank Charges** : In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other charges that have a disproportionate effect on people with low income.
- **Terms and Conditions** : Terms and conditions attached to products such as minimum balance requirements and conditions relating to the use of accounts often dissuade people from using such products / services.
- **Level of income** : Financial status of people is always important in gaining access to financial services. Extremely poor people find it difficult to access financial services even when the services are tailored for them. Perception barriers and income discrimination among potential members in group-lending programmes may exclude the poorer members of the community.
- **Type of occupation** : Many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganized enterprises and hence tend to deny such loan requests.
- **Attractiveness of the product** : Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

References :

World Bank, 2008; Asian Development Bank, 2007; and Kempson *et al.* 2004.

Source : *Report on Currency & Finance 2006-2008, Vol. II*



9. The RBI has recently made it mandatory for recovery agents employed by banks to be certified by IIBF. What do you think will be the advantages of such a certification and what could be the challenges in implementing the certification process?

(1) KRK (Allahabad Bank) : The move is expected to lay a benchmark in respect of recovery agents and will definitely be conducive for improving recovery environment especially observing desired courtesy while dealing with delinquent borrowers. However, the criterion for fixing and maintaining the benchmark would be a challenge in the process.

(2) MDM (Bank of Baroda) : The RBI has not only received serious complaints regarding the abusive practices adopted by recovery agents, there was also litigation against banks and adverse publicity with a major reputation risk to the banking industry. Against this backdrop, the RBI made it mandatory for recovery agents to be certified by the IIBF. Now, after a proper training to recovery agents to handle the "recovery" aspects with care and sensitivity, their awareness should improve in the matters of hours of calling, privacy of customer information, etc. Moreover, improved knowledge in the field of banking law and practice may also reduce the instances of complaints.

Advantages of the IIBF certification

It will improve communication skills of recovery agents; will help them develop an approach of empathy and also ensure effective recovery by properly protecting the image of the institution.

It will ensure compliance of regulatory requirements operational from 01.01.2009.

It will create a congenial recovery environment against present methods of fear and force.

Challenges in implementation of the IIBF certification

Most of the recovery agents are illiterate or with low education.

The proposed course is in Hindi / English, whereas many participants may not be fluent in these languages from the examination perspective.

Procedures regarding maintenance of records may be found complex.

The geographical area to be covered is too vast.

The number of hours prescribed is 100 which looks stretched. Around seven hours of learning along with one and an half hour for lunch / tea appears

to be a long schedule considering the group of participants.

The cost of Rs.5,000 to Rs.6,000 per participant appears to be on the higher side. This may further increase in case of locational programmes and large infrastructure requirement.

(3) TSN (Bank of India) : Certification of recovery agents by IIBF would make the agents aware of the regulatory and legal regime within which they have to operate. More importantly it would also sensitize them to the need for care and sensitivity in pursuing recovery and avoid cases of high handedness. The fear of losing certification would, perhaps enforce a discipline on them in the performance of their duties.

(4) ACP (Bank of Maharashtra) :

Advantages:

- 1) The working of the recovery agents during recovery process can be regulated through this certificate.
- 2) Only trained and professional recovery agents will be empanelled, who understand the ethics and policies of the bank for recovery.
- 3) Complaints against the bank during the recovery process can be reduced to the minimum level

Limitations / challenges in implementing the certification process :

- 1) The employee engaged by the Recovery Enforcement firm will not remain permanently with one firm. So, the firm has less willingness to provide training to its grass root level employee for this certification course.
- 2) In the rural branches, SHG of unemployed women's groups are formed and performing as recovery agents for the Bank. Their academic standard is not more than primary level of education. They may not fulfill the eligibility described by IIBF for the enrollment for the certification course. This social aspect may be taken into consideration while implementing the same. Even unemployed youth in the rural area who are presently working as recovery agents for rural branches may not find it

convenient as infrastructure facilities are not available to complete the said course at remote centres.

- 3) Banks appoint firm / corporate recovery agents on their panels, and it is practically not possible for a bank to check the certification of each and every employee employed by the recovery firm / company. It is to be ensured by the firm / company that the person appointed for the recovery process has passed the certification course of IIBF.

(5) ACM (Canara Bank) : As per RBI guidelines, it is mandatory for the recovery agents employed by the banks to undergo training programme and obtain the certificate from IIBF. Such training programme and certification, which would streamline the recovery process of the Bank as a whole, would inculcate a sense of responsibility among recovery agents, help in development of soft skills of recovery agents and improve functional knowledge of recovery / collection personnel in areas of banking products, policies and procedures and develop competence for collection through fair practices. It may also restrain the recovery agents from adoption of uncivilized, unlawful and questionable behaviour during recovery procedure.

The challenges in implementing and certification of recovery agents may be as follows.

1. Since the cost of the training programme is exorbitant, the recovery agents may not agree to bear the expenditure.
2. Since the term 'recovery agent' includes their agents and employees also, every addition and deletion of agents / employees will have to be monitored by the bank to advise the recovery agent to train them.
3. Existing recovery agents may have involved themselves in recovery for several years. Hence, they may not agree to certification.

(6) HAD (Central Bank of India) : On the basis of regulatory guidelines issued in the year 2006, banks had developed their own policy, approved by the Board, to appoint recovery agents (RA). However, over a period of time, the regulator was seized with number of complaints relating to instances of unpleasant experiences faced by the borrowers vis-à-vis RAs.

The general feeling was that some "muscle" was being used by the RAs, although it was disputed by the banks who appointed the RAs. There were many legal cases wherein the courts decisions went against the banks and punitive punishments were imposed.

The regulator, therefore, came out with additional directives in April 2008 to be followed by banks while appointing the RAs. This is a welcome development since the banks will now follow a uniform policy while engaging the RAs.

Guidelines also ensure larger transparency vis-à-vis the engagement and appointment of recovery agents by the banks. The regulator has also cautioned that frequent violation of the guidelines and adoption of abusive practices, may lead to imposing a ban on the bank, though for a limited period, for engaging RAs.

As the earlier experience involved adoption of unethical and questionable behaviour of RAs, there was necessity to ensure that RAs are properly trained to handle with care and resort to available legal provisions and have a thorough understanding of their responsibilities particularly in respect of hours of calling, privacy of the customer's information, etc.

Certification course stipulates minimum 100 hours of training i.e. 40 hours on Technology and 60 hours on soft skills. At the end of the training, after conducting a test, a Certificate is awarded by IIBF.

The area of concern as far as training is concerned is whether the available capacity within the banking industry will be sufficient to cope with the demand. The commercials involved in conducting such training programmes which will be over a period of three weeks, in order to meet the minimum criteria of 100 hours needs consideration.

Another aspect is availability of training facilities in as many centres as possible.

As uniformity in the standard of training is very essential, I may suggest that using the forum of IBA, banks may come to certain consensus in respect of the following :-

- Banks who will provide the training
- Centres where banks will provide the training
(At large centres like Metros, 3 or 4 banks may

provide the training facility. At smaller centres, 1 or 2 banks may provide this facility).

- Sharing of the expenses
- Standardisation of course contents.

IIBF may take the initiative in organizing the meeting of the banks to take this matter forward.

(7) MSS (Indian Bank) : Acquiring a certificate from IIBF after training by recovery agents employed by banks is a welcome measure. The certification which is of 100 hours duration, lays emphasis on developing the soft skills also; recovery agents could gain good exposure and do a better job than hitherto.

(8) SAB (Indian Overseas Bank) : Considering the various stringent verdicts passed by the High courts and Supreme Court regarding the behaviour of the recovery agents, it is essential to give them proper orientation. The steps taken by the RBI to make the certificate course conducted by IIBF mandatory is a welcome step in that direction.

(9) AKM (Oriental Bank of Commerce) : The advantages of certification of recovery agents would ensure that only professional agents come into the ring with long term commitment and by following the due processes laid down. This will make the system professional and customers can then expect a uniform and predictable response from Recovery agents and provide a quick redressal system.

The laying down of standards for operation by the recovery agents and monitoring their performance for this may pose a challenge in a vast country as ours with diverse recovery practices and cultures.

(10) KCC (Punjab National Bank) : Of late there has been some grievances against the recovery process adopted by the recovery agents. To address this issue and to safeguard the interest of borrowers, certification of recovery agents will be a good beginning in the right direction. It will also impart skills regarding ways of approaching customers, handle responsibilities with care, especially in aspects like hours of calling and privacy of customer information. Challenges in this process would be in verification of the antecedents of the agents, providing adequate training to accord due care and sensitivity in matters, etc.

(11) OPB (State Bank India) : Such certification will hopefully not remain a mere certification but result in attitudinal changes on the part of the recovery agents and reduce harassment of customers and help clear the misunderstanding and remove the apprehension customers have about recovery agents. At present, the recovery agent is perceived as a muscle man with an apathetic attitude. This should change. The certification is based on an Exam which is to be passed by Debt Recovery Agents (DRAs) after attending intensive 100 hours practical Training Programme, conducted by IIBF or its accredited institutes. SBI is one of the accredited agencies. The certification is aimed at image changeover to turn Recovery Agents to Credit Counsellors. It will become a specialized job instead of just anybody being appointed by financial institutions for recovery.

The challenge in implementation lies in training of over 1,50,000 such agents on the street, many of whom are illiterate and having attitudinal issues. It is going to be a gigantic task to train such a large number of people in one year.

Another sensitive issue is the calling from a pre-informed telephone number and recording of the conversation with the borrowers. As of now very few recovery agencies have this facility.

SBI has already moved ahead and got some of our best trainers trained to impart this practical training and arrangements are being put in place to roll out this process shortly.

(12) SKG (UCO Bank) : The advantages of undergoing training for 100 hours and thereafter getting a certificate after passing an examination to be conducted by IIBF is a step in the right direction. It will be a good orientation programme for the recovery agents so that while dealing with the defaulting borrowers, they show due courtesy and have a persuasive and amiable approach. The course will give a good grounding of the legal and human rights aspects of the clients and help the recovery agents to inculcate an awareness that they must conduct themselves under all circumstances in a civilized way.

The challenges in implementing the certification process are manifold. Presently, the programmes are being conducted only in English and they

have to be made available in various vernacular languages, since a good many recovery agents are not well versed in English.

(13) PKG (United Bank of India) : In the recent past, there has been a great deal of concern with regard to strong arm tactics used by recovery agents. Various courts have condemned unethical behaviour causing distress and mental stress, by some recovery agents. The Reserve Bank of India has been advocating the need to sensitise those engaged for recovery. Hence, the move by IIBF to launch a certificate course for recovery agents has been quite timely.

In my view there should not be any difficulty in implementing the certification process. The only aspect that requires careful handling is the time frame within which a very large number of recovery

agents require to be certified. IIBF and all the banks will have to fully cooperate with each other to accomplish the task.

(14) AT (Vijaya Bank) : This is a good move that addresses the issues of unethical practices and infuses greater market discipline. All along, IIBF has been doing good service to the banking fraternity in the sphere of information spread and capacity building. Making such a certification from IIBF mandatory for recovery agents would help the cause of ethical and effective recovery mechanism. I must make a mention here that so far, the track record of PSBs has been quite good in the recovery procedures. Such a certification can enable the recovery personnel to hone and upgrade their skills further.



Report of the Committee on Financial Inclusion

The committee on Financial Inclusion was constituted by the Government of India (Chairman Dr. C. Rangarajan) on June 26, 2006 to prepare a strategy of financial inclusion. The Committee submitted its final Report on January 4, 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion, therefore, according to the Committee, should include access to mainstream financial products such as bank accounts, credit remittances and payment services, financial advisory services and insurance facilities.

The Report observed that in India 51.4 per cent of farmer households are financially excluded from both formal / informal sources and 73 per cent of farmer households do not access formal sources of credit. Exclusion is most acute in Central, Eastern and North-Eastern regions with 64 per cent of all financially excluded farmer households. According to the Report, the overall strategy for building an inclusive financial sector should be based on (i) effecting improvements with the existing formal credit delivery mechanism; (ii) suggesting measures for improving credit absorption capacity especially amongst marginal and sub-marginal farmers and poor non-cultivator households; (iii) evolving new models for effective outreach; and (iv) leveraging on technology based solutions.

Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012 and the remaining by 2015. This would require semi-urban and rural branches of commercial banks and RRBs to cover a minimum of 250 new cultivator and non-cultivator households per branch per annum. The Committee has also recommended that the Government should constitute a National Mission on Financial Inclusion (NaMFI) comprising representatives of all stakeholders to suggesting the overall policy changes required and supporting stakeholders in the domain in the of public, private and NGO sectors in undertaking promotional initiatives.

The major recommendation relating to commercial banks included target for providing accents credit to at least 250 excluded rural households per annum in each rural / semi-urban branches; targeted branch expansion in identified districts in the next three years; provision of customised saving, credit and insurance products; incentivising human resources for providing inclusive financial services and simplification of procedures for agricultural loans. The major recommendation relating to RRBs are extending their services to unbanked areas and increasing their credit-deposit ratios; no further merger of RRBs widening of network and expanding coverage in a time bound manner; separate credit plans for excluded regions to be drawn up by RRBs and strengthening of their boards.

In the case of co-operative banks the major recommendations were early implementation of Vaidyanathan Committee Revival Package; use of PACS and other primary co-operatives as BCs and co-operatives to adopt group approach for financing excluded groups.

Other important recommendations of the Committee are encouraging SHGs in excluded regions; legal status for SHGs; measures for urban micro-finance and separate category of MFIs.

Reference :

Government of India.2008. Report of the Committee on Financial Inclusion in India (Chairman Dr. C. Rangrajan) January.

Source : *Report on Currency & Finance 2006-2008, Vol. II*



10. Is your bank planning any special strategy to gear up for the banking environment in India post March, 2009?

(1) KRK (Allahabad Bank) : The Bank pivoted on accelerated expansion of business to derive the economies of scale, even representation of network throughout the country, improving asset quality and ensuring higher profitability. To that end, the Bank has opened 94 branches in 2008-09 and there are about 108 RBI authorizations in hand for opening new branches in the potential centres of the country. Secondly, retail business has continued to be the thrust of the Bank as it offers better yield. NIM being under pressure due to intensification of competition, the Bank has been focusing on fee-based income, specially, cross-selling of third party product to ensure higher profitability. The Bank's thrust is also on asset quality ensuring improved NPA management, credit monitoring and follow up and the credit appraisal system.

At this juncture, the Bank is laying emphasis on bottom line and has been aligning the top line with the bottom line. The twine approach of strengthening profitability and faster growth in business is expected to strengthen the financials of the Bank.

(2) MDM (Bank of Baroda) : Post-March-2009 banking environment in India will be characterized by new competitive threats as well as new opportunities as more liberal entry norms will become operational for foreign banks. Only those banks would survive who will acquire decent "size" by global standards, develop robust risk management capabilities and internal control systems, implement advanced technology, focus on skilling and re-skilling of manpower and adopt sound marketing practices. Future will belong only to those banks who convert threats into opportunities by waking up on time.

To talk about our efforts, we are implementing the BASEL II guidelines in the Bank with a long-term perspective to create a more risk-sensitive framework. The Bank is also in the process of evolving a more realistic business planning model having profitability / productivity at its centre as also rationalizing its branch network. The Bank is

working on expanding its network at various potential centers overseas along with opening branches at the top business centers in India where it is not currently present. Special strategies are being chalked out to tap the potential business in rural and semi-urban areas. The Bank is also on a look-out for in-house talent and leadership development, and going all-out, wherever required, for campus recruitment of human resources having adequate knowledge in the specialized areas like treasury, risk management, derivatives, forex operations and investment banking.

(3) TSN (Bank of India) : The bank's strategy to position itself in the post March 2009 scenario is ingrained in its conviction to emerge as a strong bank capable of facing global and domestic competition squarely. The Bank has been working on all fronts including business and relationships, products and capabilities, human resources upgradation and technological prowess. The bank today has technology capable of taking needs of all sections of the client base - affluent, middle class and financial inclusion, and business as well as personal segments. Our products span the entire gamut of financial services and are being constantly upgraded. Relationships are being strengthened to ward off threat of competitive pressures. We are also exploring global alliances in specific product areas.

(4) ACP (Bank of Maharashtra) : The Bank has a Vision Document, wherein we have targeted a business level of Rs.1,10,000 crore by the year 2010. As far as the strategy for post March 2009, we do not perceive any problem with regard to balance sheet or capital adequacy. The Bank has geared itself up to meet IT challenges since foreign banks are much technically advanced. The Bank has brought more than 87% of its business under core banking. We have launched various technology-driven products, such as Internet Banking, SMS banking and other IT enabled advanced products and are all set to face the challenges being posed by the new generation and foreign banks. In view of the opportunities being generated by the rural

sector, the Bank is establishing biometric ATMs and Kiosks to cater to the rural needs as well as pensioners / senior citizens, who are not quite at ease with ATMs primarily because of the need to memorize the PIN/password.

(5) ACM (Canara Bank) : Post 2009, further liberalisation for the entry of foreign banks into India with huge capital reserves, cutting edge technology, best international practices and skilled personnel will create a major competitive challenge for Indian banks. However, post-2009 banking sector scenario implies new competitive threats as well as new opportunities.

As for Canara, our main strategic move relates to enhancement of the technology content in services and IT based convergence in services. The ongoing core banking exercise is designed to mainly improve the value chain of our services and thwart competitive pressure. We have already shifted from a 'selling' mode to 'marketing' mode of providing services. An ideal blend of IT absorption and effective marketing strategy is going to be our major strength in a competitive scenario. Thrust on further strengthening of the branch network in the potentially emerging centres like Tier-II and Tier-III cities and unbanked and under banked regions will receive added focus.

Focus on customers, thrust on productive sectors, accent on technological automation, innovation and business process reengineering, robust risk management capabilities and internal control systems, skilled manpower and sound marketing practices are the key advantages for Canara Bank to cope up with the post 2009 scenario. We have already received RBI's permission for opening 6 overseas centres, viz., Johannesburg (South Africa), Manama (Bahrain), Qatar Financial Centre (Qatar), Muscat (Sultanate of Oman), Frankfurt (Germany) and Sharjah (UAE). Application in respect of opening of 8 other overseas centres has also been submitted to RBI.

(6) HAD (Central Bank of India) : The expected opening of the banking industry to foreign banks by March 2009 is expected to bring in new challenges in the form of technology, customer relationship management, branch environment, evolution of new services, requirement of talented manpower, etc.

Central Bank of India is ready to meet these challenges as we have already launched various initiatives anticipating these challenges :-

- To improve the brand image, Bank has already introduced new signage in vibrant blue and red. Blue stands for "Peace and Stability" and Red for "Vibrant Thought and Positive Action". Together, they symbolize the "New Age Outlook" of "Age Old Tradition".
- Bank has launched a programme of refurbishment of top ten branches in the order of business potentialities in each zone. Newly opened branches offer soothing interiors with good aesthetics.
- The technology initiative has seen 1070 branches and 143 extension counters, covering 67% of the total business already networked under CBS in Phase I. Another 1000 branches will join the CBS platform by 31/03/2009.
- Bank also provides various e-payment channels like RTGS, NEFT, ECS, etc. and payment of direct and indirect Taxes.
- Banks offer value added services like internet banking, SMS Banking and tele banking.
- Bank has positioned 400 ATMs at important locations and another 350 ATMs will be added during the current financial year.
- In terms of network of branches, Central Bank of India is the 3rd largest with 3379 branches and 235 extension counters, giving a Pan India presence.
- As the Bank has no overseas presence - we have already approached RBI for approval to open Representative Offices in the following centres, to be converted later into a branch :-
 - Dubai
 - Singapore
 - Hongkong
 - Doha
 - London.
- Bank has brought in key changes in its Human Resources policies for recruitment and retention of talents.
- Bank is also geared to face any unforeseen contingencies and challenges.

(7) MSS (Indian Bank) : Every bank formulates a strategy and has a vision for the long term. Our strategy has taken into account the post 2009 scenario also. Since the initiation of financial sector reforms and opening of the economy, banks have become more competitive, they have diversified their areas of operation, and they have adopted new technologies and international norms.

Our Bank lays emphasis on rural and SME lending. It has been our strength in the past and we would like to take it forward. Our other strength is customer service. The bank has been branded as the No.1 South Indian service brand by A. C. Nielson ORG Marg consecutively for the past 5 years. Our vision is to make it the No.1 brand in the country. Towards this objective, we have taken several steps to delight our customers.

(8) SAB (Indian Overseas Bank) : No comments.

(9) AKM (Oriental Bank of Commerce) : By the year 2010, the bank envisages a business level of over Rs.2 lakh crore, with a branch network of more than 1500. Bank already has one of the highest productivity levels amongst PSBs. Bank would be having an international footprint and we wish to be recognized as one of the top public sector banks offering contemporary technology based products and services.

(10) KCC (Punjab National Bank) : When the banking space would open up to foreign banks in 2009, a competitive banking market will lead to efficiency gains that will benefit the entire economy. Besides, tougher competition would necessitate further specialization in professional banking skills to enhance the efficiency of enterprise capital usage. PNB has strong fundamentals, good technology base and a wide branch network, the second largest in the country after SBI. We have a dominant presence in the Indo-Gangetic plain. The business model we have adopted is to leverage our above strengths and to further strengthen our base in the Indo-Gangetic plain so as to become a 'household' brand. I may mention that we are a strong force in the Indo-Gangetic plain and as per the business model adopted by us we will continue to remain a strong force there even in the post March 2009 banking scenario.

(11) OPB (State Bank of India) : The Bank is taking several pro-active measures to respond to the challenges that will emerge post March 2009. Our initiatives cover the areas of Technology, Processes, New Businesses and Products, Risk Management, and Human Resources. To enumerate :

- We are, apart from retaining and consolidating our leadership position in all our traditional business, also entering a number of new businesses like General Insurance, Custodial Services, Pension Funds, Financial Advisory Services, Private Equity, Payment Services including mobile banking, etc.
- Our Core Banking network is already in place with over 10,500 branches and other establishments now on a single platform apart from over 8500 ATMs. Simultaneously, we have also rolled out a comprehensive BPR initiative which has completely re-organised and remodelled processes and relocated various operational factors to separate outfits which has made our branches leaner and focused solely on business.
- We have completely streamlined our Risk Management Department which has separate sub-departments for Market, Operational and Credit Risk and is now headed by our Managing Director. We are putting in place the best practices prevalent in the industry and also striving to look at what the 'next practices' should be.
- We have already increased our equity base overall by \$5.5 billion last year through a Rights Issue and through accretion of profits and our capital adequacy ratio (CAR) as at March 2008 under Basel-II stands at 12.64%. Going forward, we may look to increase equity further to fund our asset expansion.
- We have embarked on aggressive branch expansion as I mentioned earlier. Most of these branches will be in rural India, which we view as a big opportunity.
- Apart from increasing branch network, we are, at the same time, developing and expanding our Alternative Channels viz., Internet Banking, Smart Cards, through BCs / BFIs, ATM Network and now Mobile Banking. We expect these to result in substantial reduction of transaction costs.

- I have also mentioned the various HR initiatives and the Transformation Exercise. This is being extended to our Associate Banks as well, with whom we will ultimately merge.

All in all, I think we are in fair readiness to face the new challenges ahead.

(12) SKG (UCO Bank) : Post march 2009, with the entry of technology savvy foreign banks with aggressive marketing, we foresee customer expectation will reach new heights. To manage and win this new challenges :

- We are enriching our technology, and brand image.
- We have introduced innovative products. We are now on the job of marketing these products to insiders, in turn these counter sales people can sell it with effectiveness and commitment.
- Asset processing cells (with technology and professionals) for retail and corporate clients are established, for speedy delivery with quality.
- Moving closer to clients - Field General Manager offices opened at eight centres during this year for better understanding customer needs and for responding quickly
- Performance based incentives to accelerate the growth in business.

To sum up, our Structure, Systems and Skill sets are being fine tuned.

(13) PKG (United Bank of India) : We have taken a number of steps to position ourselves appropriately to face the challenge of heightened competition post-March 2009. We have strengthened our marketing infrastructure and have tried to develop a strong marketing culture which recognizes the importance of understanding customer needs and to develop innovative products to meet those needs. By implementing CBS and going in for a number of supplementary modules on various key areas, we have tried to emerge as a techno-savvy bank. Our Vision Document emphasizes on growth in business with Profitability backed by appropriate Risk Management systems. We recognize that besides Business Processes and Technology, the involvement of people is the key to the success of any organization.

During the last three years, the Bank's business has more than doubled from Rs.37,187 crore as on March 2005 to Rs.75,123 crore as of March 2008. Our Deposits have grown by 85.3% and Advances by 137.8%. The quality of our assets has also improved significantly. The Gross NPAs have come down from 6.14% to 2.70% whereas the Net NPAs have come down from 2.43% to 1.10% during the three-year period. The Bank's Capital Adequacy stood at 11.88% as on March 2008.

We are confident that armed with the right infrastructure in terms of branch network, technology, marketing culture and motivated staff, we should have no problem in facing the challenges post-March 2009.

(14) AT (Vijaya Bank) : Post-2009, we are going to see entry of more foreign bank branches with state-of-the-art IT capabilities, capital and managerial expertise. The impact of the Basel-II implementation also remains to be seen. We are looking forward to such challenges and I am sure competitive pressures would infuse further resilience and innovativeness in the way we conduct business. I consider competition as an opportunity. If we compare PSBs of the present day with PSBs a few decades back, the sea change is attributable to three major factors - regulatory soundness, competitive forces and technology. For us, technology would be a major enabler to tackle competitive forces and ensure efficient client service. Our outreach in the country sides is quite significant and we aim to consolidate and leverage such an advantage further. Strategic alliance will be another route through which we would like to fine tune our existing business lines and make forays into new areas.





11. What according to you will be an ideal business mix for banks? Is size an important driver?

(1) KRK (Allahabad Bank) : In the current scenario of volatile market conditions, the Bank has planned to achieve a credit-deposit ratio of around 70%. The Bank has laid thrust on mobilizing core deposit, reducing slowly the share of deposits under Differential Rate of Interest (DRI) and increase CASA deposit with a targeted level of about 37%. In fact, DRI has been kept at the level of March 2007. Thus, emphasis on retail term deposit and CASA deposits has helped the Bank optimizing cost of deposit. Simultaneously, the Bank has been rebalancing its credit portfolio in favour of high yielding segments by reducing the share of bulk credit, effecting maximization of yield on advances. Thus, the Net Interest Margin (NIM) is the focus of the Bank. After achieving faster growth during last couple of years, the Bank is now focusing on fine tuning top line with the bottom line.

(2) MDM (Bank of Baroda) : An ideal business mix for banks should be a reflection of the requirements of the real sector. Given the developmental imperatives of India, the banks' incremental business mix should be more tilted towards infrastructure, SMEs and agriculture. Similarly, from the "liabilities" side, the banks especially the PSBs should try to mobilize more of CASA (low cost) deposits by appropriately leveraging their branch network in rural and semi-urban regions. These factors would not just help them attain a decent net interest margin but will also impart "stability" to their earnings profile. In order to withstand the increasing pressures of competition from their global counterparts, banks in India should also place a thrust on enhancing the fee-based income. However, the exact composition of business mix to a great extent will be governed by the actual economic scenario that would have a major influence on risk-return calculations.

"Size" is certainly an important driver as it offers many benefits in terms of economies of scale and scope, risk diversification (both from the assets & liabilities side), capital adequacy, etc. A bigger player always enjoys ease of undertaking

huge investments in requisite technology and play globally to take advantage of global opportunities. However, it must be remembered that "size" is just a facilitator and not a guarantor of sustained profitability.

(3) TSN (Bank of India) : Growth is an important characteristic of a successful and vibrant organization. In an organization like bank, which on the one hand is the repository of the society's wealth, and on the other an agent for wealth creation, size is set to grow as the size of the economy increases, otherwise the bank would reduce to a marginal player. Size also means that costs such as that of IT can be better managed and spread. Therefore according to me, the debate can only be about the ideal rate of growth. At the minimum, a bank should grow as determined by growth of the economy and other relevant monetary indicators viz., money supply, in a particular period. But size should not be pursued in an unprofitable manner and by building undue risk in the bank's book. There is always an opportunity for profitable and sensible growth which must be the goal of every bank to pursue.

(4) ACP (Bank of Maharashtra) : It cannot be denied that size is an important factor. But, it should necessarily be considered along with efficiency and profitability.

(5) ACM (Canara Bank) : Though the business mix factor has an important role to play in determining the profitability and efficiency parameters, there is no thumb rule for an ideal business mix for banks. Generally, business mix depends on banks' business models, strategies and focus areas. However, in the fast changing world of intense competition and increased business complexities, the future business strategy will be to address the basic issues of reconciliation, of conflicting objectives of development and commercial orientation, slowdown in growth, particularly in income, profits, networth and quality of assets and a paradigm shift in the business mix - a mix which lays greater emphasis on low cost deposits and

high yielding advances. Towards this end, attempts must be made to expand the business in the areas of low cost deposits, infrastructure, and services and marketing, not only to expand profits, profitability and the financial spread but also to reduce the mismatches in asset-liability management.

Size of the bank plays a vital role in mobilization of higher volume of business as well as for sustaining profits and profitability at a high level. Size also guards effectively against any normal risks emanating from business such as credit, market and operational risks. It also provides enough leeway to an entity in absorbing any internal and external shocks. Widespread branches enable banks to diversify their loan portfolio and deposit base over a wider geographical area as well as varied economic segments. This strengthens banks' overall asset-liability portfolio and safeguards them from shocks emanating at regional and specific economic segments.

Pressure on spreads necessitates adequate thrust on volumes as is the trend in advanced banking systems. Low level of spreads can be effectively countered by higher volumes of advances and fee income. Size also offers greater maneuverability in enhancing business volume and productivity level for a financial entity.

(6) HAD (Central Bank of India) : While the size certainly matters, what has become more important than size today is the "Bottom Line". The share holders and the investors are looking for improved returns on their investment and do not hesitate to shift position if their expectations are not met.

Due to various factors, we have seen erosion in value of net interest income and net interest margin over the last few years. With competition, the spreads are likely to remain under pressure.

- One way of increasing the spread is to rejig the liabilities and assets. The cost of funds can be lowered by increasing the share of low cost of funds within the deposits portfolio. Hence, increasing the share of low cost funds shall rank first amongst the priorities.

While it is difficult to be exact in numbers, it is desirable that CASA may be around 40% of the

total deposits. The need for bulk deposits cannot be totally ignored though they may be costing higher than normal deposits.

The introduction of CBS and the various e-payment channels have reduced the advantage of float funds so far enjoyed by the banking industry. Services like Cash Management, Tax Collection, etc. have taken the front seat to compensate.

The assets build up also needs careful planning to improve the net interest margin. While the big ticket corporate loans clearly lifts the size of the assets portfolio, it is the slow build up of the retail loan portfolio which actually brings in better spread of risk and also higher interest margin. The high volume of retail loan accounts can be today efficiently managed with the various technology solutions available.

While the retail loans may require higher capital provisions, the low risk corporate loans may require smaller capital provisioning. In addition, as per the present regulatory requirements, 40% of the bank's advances shall be to the priority sector. Therefore, out of the remaining 60%, the ratio of wholesale to retail banking assets at 70:30 may be a good mix, considering the net interest margin and capital requirements.

Even among the retail loan portfolio, the loan to housing sector assumes greater importance, followed by educational loans, considering their importance to contribute to growth and employment opportunities.

(7) MSS (Indian Bank) : In today's competitive scenario, size is a deciding factor. Size has become an important issue in financial markets the world over. Mergers on commercial considerations and strategic mergers are the order of the day. The trend has already been set in by the private / foreign banks and a few public sector banks taking over banks (viz., Punjab National Bank taking over New Bank of India, Oriental Bank of Commerce taking over Global Trust Bank). The Narasimhan Committee in its recommendations had suggested that we need to have 3-4 large banks to become globally competitive.

It is said that the largest bank in China is probably bigger than the top five Indian banks put together in terms of assets.



Banks require capital to fund growth, expand their business, meet the risk requirements of their current and future business, investments in IT and other infrastructure. They need to grow inorganically to increase their size. Increasing size of banks has many benefits to the banks - the main advantage being reaping economies of scale and becoming a one stop shop for all financial products and services. Consolidation will do away unhealthy competition between banks and reduce clusters of branches of various banks at particular centers and can remove regional disparities in branch expansion.

(8) SAB (Indian Overseas Bank) : Size is an important prospective for being competitive. If the aspiration is to have a regional presence, size does not matter. As long as your capital is able to support growth, no size is ideal size.

(9) AKM (Oriental Bank of Commerce) : Banks in India have a heterogeneous character ranging from large pan-India banks having international presence, to national level banks and to small Regional level players catering to a particular geographical area. There would be room for all the players viz., Large International players as well as domestic players with each one having niche of its own.

Although size would play an important role, the driving factors would be human resources development and technology which will give an edge in customer retention and accretion particularly amongst the younger generation customers with a high aspirational level and disposable incomes.

(10) KCC (Punjab National Bank) : In this competitive milieu, the business mix of a bank is dictated by its customer requirements and the type of its clientele. Though, an optimal mix within this has to be brought about by keeping in view the risks and the cost as well as returns from various products. Thus one cannot describe any ideal mix as such and in fact an optimal mix has to be offered to ensure sustainable growth.

The opening up of the economy is posing new challenges to the banking sector. Moreover, in the context of envisaged entry of foreign banks, size is going to be a great challenge. Banks need

to grow in size to be able to withstand greater risks and to be able to undertake transnational operations. Consolidation will lead to more efficient use of resources - branches, ATMs, employees, technology - enabling them to offer cheaper banking services. Compared to their smaller peers, big banks can allocate more towards technology, the benefits of which are being able to serve more customers and reach the desired economies of scale. However, size alone does not ensure profitability. It needs to be supplemented by robust risk management practices, advanced technology, skilled manpower, visionary leadership and very sound marketing practices.

(11) OPB (State Bank of India) : While it is difficult to specify a particular business mix overall, we would target a business-mix that would suit the local conditions at each centre / geographical area. As retail banking represents a steady 60 to 70% of all revenues in most markets around the world, I would say it would be the fulcrum around which our Business Expansion plans would revolve. Private Banking or Wealth Management Services for HNI clients and mass affluent, the fast growing Home Loan segment, the Young India segment all appear to be very promising. But at the same time, we will not lose sight of the opportunities in the Corporate Banking, SME and International Banking segments. We plan to increase International Banking Group's contribution to our earnings from about 7 to 8% at present to 25% in 3 to 4 years time.

Overall, our business model will continue to be that of a universal bank, a one stop shop providing a wide range of products and services for all segments of the community.

(12) SKG (UCO Bank) : Business mix (deposit mix or asset mix) is key factor in view of its relevance on the cost / yield and its impact on net interest margin. We can't have a thumb rule on these. We should influence the business mix to reach the desired profitability level, engraving commitment and will to deliver at all levels.

More than business mix pricing assumes importance in reaching profit goals.

Brand images, relationship skills and quality of service adds substantial intangible value and makes customer feel surplus in spite of small

gaps in pricing. It is time we learn to deliver client satisfaction through these intangible values considering the least cost and higher level of client satisfaction for winning business and profit.

The industry is now faced with stiff competition and it is likely to be further intensified which will make the margins thinner and thinner. Therefore, in order to maintain the desired level of profit with the narrowing of margins, size will play an important role.

(13) PKG (United Bank of India) : In a competitive banking environment, volume of business and profit are the two prongs of a bank's performance. An ideal business mix of a bank is that proportion of its deposits and credits which contributes maximum to increase the volume of business at minimum cost and to achieve optimum operational profit.

Size does add to the strength of a bank as it enables it to handle large number of transactions by effectively leveraging technology and thus reap the benefit of economy of scale. Moreover, for

banks operating in a global environment, relative size is a matter of position and prestige also.

At the same time, we have to recognize the fact that small sized efficient banks with focus on specific geographic areas or specialized activities would continue to do well. As a matter of fact, the Committee on Financial Sector Reforms recommends setting up such banks in a large number.

(14) AT (Vijaya Bank) : There is no thumb rule as to an ideal business size. It depends on the specific characteristics of a particular business entity. Size does bring in benefits of scale and scope. But size must be accompanied by qualitative considerations, especially at a time when the concept of 'too big to fall' is beset with question marks. The ultimate goal has to be to ensure a sustained and strong bottom line. Accordingly, the business matrix can be decided.



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12. Many banks have separate subsidiaries for mutual funds and insurance. Given the addition of efforts and cost in marketing the different entities (including banking) to the same customer, is there a strong case for universal banks? Will not a single window be more cost effective?

(1) KRK (Allahabad Bank) : Universal banking or one-stop financial shop has emerged as the top agenda of banks in recent years, it being more cost effective. Allahabad Bank has taken into its fold - Bancassurance and selling of mutual funds products with a view to emerge financial supermarket. To that end the Bank has tie-up with top five Mutual Funds for selling their products through our branches. In addition, we have tie-up with Life Insurance Corporation of India Ltd. and Universal Sampo General Insurance Company Ltd. for selling life and non-life products respectively. It may be noted that the Bank holds a strategic 30% stake in the company. To provide credit-linked insurance to its customers, the Bank has tied up with LIC for Housing and Education Loans.

(2) MDM (Bank of Baroda) : Yes. There is a strong case for universal banking and Indian banks indeed are trying to restructure themselves along these lines. What you are seeing today in the form of strategic alliances is the first stage in this journey.

As revealed by the international experience (including the experience of some players in India as well) universal banking model enables financial players to offer different products and services -- more or less interrelated, depending on the internal resources available and the competitive dynamics in each financial market. A universal banking character would offer them more options for penetrating more quickly into the new segments within the financial services sector, as guided by the customer demands and for generating revenue synergies through the provision of multiple services. Universal banking model is also effective in promoting social welfare by reducing the corporate financing costs for ultimate borrowers.

Furthermore, Indian regulatory framework is robust enough to undertake the regulation of financial conglomerates.

(3) TSN (Bank of India) : Banks with their extensive network of branches and large customer contact have natural synergy for marketing products like

insurance, mutual funds etc. This is the distribution side of the business and banks for the last few years have been rendering these services both for fulfilling the felt need of the customers and for earning fee based income for the Bank. Banks are now getting into the manufacturing side of the business by setting up separate subsidiaries for mutual funds and insurance. Insurance and AMC business have their own business model, profitability aspects and can gain substantial valuation and profits over a period of time. Banks are able to contribute to these businesses by way of capital, expertise and by support for distribution through their network. Hence, on the one hand banks will keep earning fee income by distributing the products of their own subsidiaries - AMC and Insurance (and other vendors where permissible) and on the other these subsidiaries would become profitable ventures on their own, the gains of which would reflect on the bank's market valuation. Bank may also earn dividends that may be declared by these subsidiary companies.

(4) ACP (Bank of Maharashtra) : As far as our Bank is concerned, we do not have a separate subsidiary for mutual funds and insurance. Still, I would say that every business requires focused attention, proper direction and a complete customer satisfaction. If these businesses are run along with the basic banking functions then, I think that proper justice can be done with these aspects.

Universal banking is sure to touch the Indian banking industry in the coming days. The banks will have to work as a financial Super Store providing array of products and financial services to the customers. However, some time would be required to enter into the realms of universal banking.

(5) ACM (Canara Bank) : The concept of universal banks has evoked considerable discussion in the literature on banking development. But the evidence regarding the success of such banks is mixed. We favour the idea of having exclusive subsidiaries for the above business for the following reasons :

Mutual Fund and Insurance are regulated by different regulators. Their compliance requirements are very stringent and lapse on the part of the banks in this regard may lead to reputation risk apart from monetary risk and penalty. The regulatory frame work of IRDA and SEBI needs to be studied and constantly updated. As such an exclusive set up is necessary.

Insurance is a growing venture with huge untapped potential. Though bancassurance model is the base, there are other areas involving compliance, investment decisions, actuarial calculations and other company law and legal issues. A well informed front office work force is essential for developing these businesses.

Banks have entered into MF business and insurance business on a different scale altogether in the form of joint ventures with foreign and domestic partners. The specific business commitments and HR policies call for a focused and professionally qualified work force in order that the set targets are reached and the business runs profitably. The infrastructure and the soft skills needed are of different nature which needs focused attention. As such a dedicated entity is required.

We are, therefore, of the view that the case for universal banks needs to be viewed in a holistic perspective and focus on target clientele through subsidiaries is cost-effective.

(6) HAD (Central Bank of India) : As the net interest margin is getting squeezed, banks have been looking to alternate channels for improving the profitability. With the introduction of modern technology, branches being on CBS network, banks are now in a position to offer variety of services. Hence, “cross selling” has become quite attractive today.

Banks substantial network provides a huge potential as Point of Sales. Add to this, the large customer base, the banks have a win-win situation when it comes to cross selling. Banks have, therefore, taken aggressively to these kind of para banking activities.

Earlier also bank's clients were taking insurance, were investing in mutual funds but without any benefit to the banks. Today, banks earn substantial

commission on the same activity by entering into an agreement with the Insurance Companies and Asset Management Companies.

Our Bank has also tied up with SMERA and ECGC. The whole objective of various tie-ups is to provide the clients all services at one place. In other words, the bank's branch today is seen as “One Stop Shop”.

Under the cross selling arrangement, while the banks earn only a small commission, at the macro level larger benefits can accrue if banks themselves do this business by setting up a subsidiary. Only few banks have taken to this alternative. Subsidiary for Insurance activity need substantial capital support and involve longer turnover period. Our Bank is also evaluating such possibility.

Mutual Fund is subject to market risks like interest rate and capital market movements. I, therefore, believe that if a Bank is inclined to form a subsidiary, it should have a strong domain strategic partner, who can exploit the branch network and the customer base. If that is not possible, cross selling is a good alternative.

(7) MSS (Indian Bank) : Banks in emerging markets are moving towards universal banking *i.e.*, integration of banking, insurance and asset management etc. The drive towards universal banking has enabled banks to become a 'one stop shop' for financial services and products and in realising synergies through spreading fixed costs and revenue gains. Universal banks tend to be cost effective. In the present scenario, most banks are becoming Universal Banks.

(8) SAB (Indian Overseas Bank) : Looking to the public sector nature of the majority of the banking industry, having subsidiaries to look after mutual funds and insurance business is the better alternative. By looking at rout, market related salaries can be offered to talented people and further the business.

(9) AKM (Oriental Bank of Commerce) : There is a strong case for universal banks aiming at becoming financial superhouse where with the use of technology various products could be developed and sold at an affordable pricing and with an efficient delivery mechanism.



(10) KCC (Punjab National Bank) : Universal Banking, means the financial entities - the commercial banks, DFIs, NBFCs, - undertake multiple financial activities under one roof, thereby creating a financial supermarket. The entities focus on leveraging their large branch network and offer wide range of services under single brand name. Universal banking can be either In-house Universal banking like in Germany or through separately capitalized subsidiaries like in England or through a holding company like in USA. The advantage of Universal Banking is that it results in greater economic efficiency in the form of lower cost, higher output and better products. Bank can utilise the credit history of their customers for cross selling financial products like Insurance, Mutual Funds from their existing branches without spending much efforts on marketing. It is thus beneficial for the bank as well as its customers.

However, the banks should have the capability to serve the full financial products requirements of their customers under one roof. Further, in the current set up the universal bank would have to co-ordinate with different regulators since different segments are regulated by their specialised supervisory authorities. These authorities have adopted risk management principles and supervisory stances which are strictly in line with the risk profile of supervised sectors in isolation. With sector integration, supervisors have to coordinate closely in policy formulation and regulation as well as on-site supervision. The subsidiaries were floated to take care of this supervisory duplicacy which even forced many to think in terms of a super-regulator to co-ordinate between these various regulators.

(11) OPB (State Bank of India) : An insurance business and mutual funds have different regulators than the banking business and it, therefore, makes sense to run these businesses as separate companies. Moreover, having separate entities gives us the advantage of partnering with strong JV partners who have brought with them rich experience and expertise. And of course, for a public sector bank like ours, having separate companies gives us the option of unlocking the value in these companies through listing them

on the stock exchange when the time is right. These businesses also require specialist skills and separate companies can handle better, the issues of recruiting, training and retaining the right talent.

(12) SKG (UCO Bank) : In the present day banking where specialization is for individual activities being performed, the cost effectiveness will be with reference to *vis-à-vis* individual activities, whether it is universal banking or otherwise. Therefore, it shall be our endeavour to see that any effort made by us individually remains profitable.

(13) PKG (United Bank of India) : Since different kinds of financial products carry different kinds of risks, it would be preferable to have separate subsidiaries for businesses like mutual fund and insurance. Under this arrangement, the regulation of such entities becomes easier by the regulators. However, to take an overall view of the business activities of a bank and its subsidiaries, which might be regulated by the varied regulators, some kind of an institution with the responsibility of an overall oversight, *i.e.* a super regulator would be necessary. The Committee on Financial Sector Reforms recommends setting up of a Financial Sector Oversight Agency (FSOA) in this context.

(14) AT(Vijaya Bank) : I feel, in some form or other, universal banking is already functional in our present system. Many of the banks, including those in the public sector, are offering several ancillary services over and above the conventional products and services. Third party business, including products and services of subsidiaries and JVs, accounts for a good chunk of many banks' business portfolio today. I must say, CBS based technology has greatly aided in providing a package of services to the customers, including subsidiaries' products, at a single point. However, subsidiaries don't serve the interest of the parent banks alone; they do have independent business model specific to their lines of business. It is in this context that the present system appears to be adequate, with subsidiaries maintaining their independent character, with specific business focus and independence in policies. Single window service, in any case, will continue its relevance for cost effective and client friendly service in the branch counters.





13. What is your advice to IIBF?



(1) KRK (Allahabad Bank) : IIBF may consider some project to disseminate knowledge on financial products and market to the masses.

(2) MDM (Bank of Baroda) : The IIBF has been doing a great job in providing technology-based learning solutions to banking community including online and video-based training courses in the areas of credit, treasury, risk management, forex operations, compliance, security, technology, etc., covering a vast canvas of banks' requirements. It has contributed a great deal to professional development of bankers through organization of lectures, seminars, conferences, etc., and also through wide dissemination of knowledge via its publications -- IIB Vision, Bank Quest, Fin@Quest, etc. My only advice to the Institute is to continue with this effort with full force and optimize learning by fostering an open, constructive and creative environment that builds on the Institute and bankers' experience, expertise and insights.

(3) TSN (Bank of India) : Over the years, IIBF has played an important role in providing professional banking education and certification to the employees and practitioners of banking. As the banking has transformed, IIBF has re-oriented its courses and curriculum and introduced new courses. I feel IIBF may aim to become the central body and platform for discussions and research on banking related matters, so that best practices and emerging trends from the more developed markets are imbibed by the Indian system and professionals early. Greater interaction and exchanges with professional bodies overseas for this purpose may be pursued.

Overtime, I see IIBF leading Indian banking to acquire thought leadership among the global banking fraternity.

(4) ACP (Bank of Maharashtra) : IIBF has been conducting examinations for awarding certificates and diplomas to banking personnel. The initiative taken by the Institute for Masters Degree in Management in collaboration with IGNOU is a welcome step. The Institute should

go for more and more such collaborations to facilitate banking personnel to acquire specialized knowledge and in turn recognition.

(5) ACM (Canara Bank) : Post-reforms, Indian banking is relatively much stronger *vis-à-vis* other Asian counterparts in terms of product range and range of investment and financial options for depositors. However, challenges remain and the Indian banking sector is at a crossroads today. The banking sector now faces newer challenges in its attempt to achieve increasingly ambitious profit and growth targets against the background of heightened risk, regulation and market pressures. The dynamics of economy and finance makes it necessary for us to provide an enabling environment for skill upgradation and knowledge base. In this overarching environment of transformation, IIBF must aim to create, develop and apply knowledge in the Indian banking space through more contemporary and relevant banking education. Towards this end, there has to be a thrust on curriculum development, dissemination of best practices and a specialized focus on disciplines, such as, technology, marketing, finance and entrepreneurship. IIBF must also forge a stronger alliance with both the industry and the Universities to provide information on wealth management, private banking and derivative products.

(6) HAD (Central Bank of India) : IIBF has been doing a good job by establishing various Certification Programmes on the newly developing areas in banking. It is also foremost in bringing out quality journals, which act as reference points.

I suggest, IIBF may examine the possibility of setting up a Specialised Training College for the banking industry, which can impart value added training in niche areas.

The training institute can even enter into agreement with reputed foreign institutes for exchange of programmes. The staff of IIBF can also be available as Faculty to the various training colleges presently run by individual

banks for specialized training and also for training the trainers.

(7) MSS (Indian bank) : At present, IIBF is conducting JAIIB and CAIIB for bank staff. It is also conducting various diploma and certificate courses. Once an employee becomes a Certificated Associate, most staff do not take up any course to further enhance his knowledge. Banking is a continuously evolving subject. The staff have to continuously upgrade their knowledge and skills. I feel IIBF can come up with some courses that could act as a continuing education for people who have completed CAIIB, maybe an advanced CAIIB course. Further, in tune with the changing times, cost effective courses in disciplines which are important and contemporary in nature like derivatives, wealth management, courses relating to Foreign exchange, new financial products etc can be introduced.

(8) SAB (Indian Overseas Bank) : You are doing well. Continue to do it.

(9) AKM (Oriental Bank of Commerce) : IIBF has gained tremendous credibility and has made enormous contribution for promoting professionalism in the Banking Sector. I would advise IIBF to keep adding courses and programs on all emerging topics. I wish all the success to IIBF in its endeavor to develop professionally qualified and competent bankers and finance professionals.

(10) KCC (Punjab National Bank) : IIBF has been a premier Institute for developing and nurturing competent professionals in banking and finance field. We hope it continues to encourage innovation and creativity among finance professionals so that they face competition and succeed.

(11) OPB (State Bank of India) : The IIBF has played a pioneering role in imparting banking knowledge to working bankers for the past few decades. I may also observe that the IIBF has constantly changed and modified the syllabus for CAIIB in tune with the skills required in the rapidly changing banking industry. Today, banks are looking more and more for specialists unlike in yester years when generalists were

preferred. Going forward, IIBF can think of having more specialized certificate courses for specialists in areas like Derivatives, Securitization, Credit Default Swaps, Carbon Credit financing, Wealth Management, Private Equity, etc. I am sure these qualifications will be welcomed by all bankers and we can really move to an era of posting the right person in the right place.

(12) SKG (UCO Bank) : I am happy to observe the changes in the course contents to enhance the skill and knowledge with professional specialization in each segments of banking and technology.

I feel we should give further focus to develop the managerial competence & client relation skills.

(13) PKG (United Bank of India) : IIBF is doing an excellent job in terms of spreading banking education. I am happy that the Institute is contemplating to set up an ambitious web-based e-learning project making it convenient for a large number of students to access the educational facilities being provided by IIBF. IIBF should also have effective coordination with the Training Colleges / Centres being run by various Banks. A system of exchange of Faculty and best practices within an agreed framework / approach could also be thought of.

(14) AT (Vijaya Bank) : While we are recognized as a Knowledge Society, our system is still beset with issues of information asymmetry which more often affects decision making. IIBF has so far done a commendable job in imparting the skills to the banking professionals and running a host of certification programmes. It is also one of the most professionally run institutions and I should say, only one of its kind in the country. As we move along, it will be even better if the institute forges alliance with individual financial entities and furthers the research and development related activities. R&D is one of the weak links in the State run banks and IIBF can definitely contribute a lot to this aspect.



Books Added to the IIBF Corporate Library

No. Title	Author	Publisher & Year of Publication
1. 3 Mistakes of My Life : a Story about Business, Cricket and Religion	Chetan Bhagat	Rupa & Co., 2008
2. Classic Drucker: Essential Wisdom of Peter Drucker from the Pages of Harvard Business Review	Peter F Drucker	Harvard Business School Publishing Corporation, 2006
3. Corporate Tax and Dividend Policy	Monica Singhanian	Taxmann Allied, 2008
4. Economic Survey 2007 - 2008	GOI / Ministry of India	GOI / Ministry of Finance, 2008
5. Financial Institutions and Markets, 2 nd Edn.	Meir Kohn	Oxford University Press (India), 2007
6. Financial Instruments Standards : a Guide on IAS 32, IAS 39 and IFRS 7	Pooja Gupta	Tata Mcgraw Hill, 2008
7. First 90 Days : Critical Success Strategies for New Leaders at all Levels	Michael D Watkins	Harvard Business School Publishing, 2007
8. Fundamentals of Indian Transfer Pricing with Reference to US and OECD Guidelines	Radhika Suri	Taxmann Allied, 2008
9. Glimpses of Changing Banking Scenario	P. N. Joshi	Mehta Publishing House, 2008
10. Harvard Business Review on Managing Projects	Harvard Business Review	Harvard Business Review, 2005
11. International Economics : Theory, Application and Policy	Charles Van Marrervijk	Oxford University Press (India), 2007
12. Introduction to Mortgage Lending, 2 nd Edn.	Andrea Lee Negroni & Jeremiah S Buckley	American Bankers' Association, 2006
13. Investment Analysis and Portfolio Management, 3 rd Edn.	Prasanna Chandra	Tata Mcgraw Hill, 2008
14. Macroeconomics : Imperfections, Institutions, and Policies	Wendy Carlin & David Soskice	Oxford University Press (India), 2007
15. Microfinance Handbook : an Institutional and Financial Perspective	Joanna Ledgerwood	IBRD / The World Bank, 1999
16. Microfinance Revolution, Vol.1 : Sustainable Finance for the Poor	Margurite S Robinson	IBRD / The World Bank, 2001
17. Microfinance Revolution, Vol.2 : Lessons from Indonesia	Margurite S Robinson	IBRD / The World Bank, 2002
18. Modern's Banker's Manual, 2 nd Edn.	Modern Law Publication	Modern Law Publication, 2008
19. New Paradigm for Financial Markets : the Credit Crisis of 2008 and What it Means	George Soros	Public Affairs, 2008
20. Power of Vedic Maths	Atul Gupta	Jaico Publishing, 2007
21. Protecting the Poor : a Microinsurance Compendium	Craig Churchill	Academic Foundation, 2008
22. Rusi Mody : the Man Who also Made Steel - a Biography	Partha Mukherjee & Jyoti Sabharwal	Stellar Publishers, 2008
23. Taxation of Capital Gains	George Koshi & V. K. Subramani	Taxmann Allied, 2008
24. Transforming Microfinance Institutions : Providing Full Financial Services to the Poor	Joanna Ledgerwood & Victoria White	IBRD / The World Bank, 2006
25. Zenobia : the Curious Book of Business	Matthew Emmens & Beth Kephart	Tata Mcgraw Hill, 2008

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HIGHLIGHTS

(Rs in Crores)

	QUARTER SEPT-07	QUARTER SEPT-08
Operating Profit	840	1215
Net Profit	425	763
Net Interest Income	986	1363
Net Interest Margin	3.04%	3.20%
Other Income	528	650
Return on Assets	1.15%	1.58%
Return on Equity	28.20%	31.88%
EPS (Rs.) (not annualised)	8.73	14.53
Book value per Share (Rs.)	127.92	189.24
Gross NPA	2.07%	1.53%
Net NPA	0.75%	0.48%
Provision Coverage	74.10%	80.89%
CRAR	12.57%	12.26%

(Basel I)

(Basel II)

Total
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Rs. 164246 cr
↑ 27%

Total
Advances
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↑ 35%



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