BANK CREDIT AND SOCIAL BANKING

THIRD YEAR B.A. Programme

Semester – 5

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B.A. THIRD YEAR

Semester – 5 : Bank Credit and Social Banking

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining a 'A' Grade from the NAAC in the year 2014, the Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 285 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education with the aim to bring higher education within reach of all. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even housewives desirous of pursuing higher studies. With the goal of bringing education in the door step of all such people. Acharya Nagarjuna University has started offering B.A, and B, Com courses at the Degree level and M.A, M.Com., L.L.M., courses at the PG level from the academic year 2021-22 on the basis of Semester system.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers invited respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn facilitate the country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Coordinators, Editors and Lesson -writers of the Centre who have helped in these endeavours.

Prof. P.Rajasekhar
Vice –Chancellor,
Acharya Nagarjuna University

THIRD YEAR B.A.

SEMESTER – V

COURSE – 6 : 516BSE21 BANK CREDIT AND SOCIAL BANKING

No. of hours per week: 5	**Max. Marks**	**:**	**100**
No. of Credits : 04	**Semester end examination**	**:**	**70**
	Internal Assessment	**:**	**30**

Learning Outcomes :

Students at the successful completion of the course will be able to :

- Educate Student with the structure and manner of of functioning of Bank credit and social banking.
- Understand the concept of loans and advances
- Aware of the role of new technology Social Banking
- Develop an understanding of the required skills in social banking and financial inclusion
- Emerging issues in social banking

Syllabus :

Unit – 1 :

Establishing banks lending policies under changing socio-economic and legal environment – types and Forms of bank advances – Principles of credit management – types of documents used for lending – Modes of creating charge – Evaluation of different types of securities.

Unit – 2 :

Analysis of financial statements with the help of accounting ratios fund flow and cash flow statements and other emerging techniques, Credit Appraisal Techniques : Financial analysis techniques for bank lending – Assessment of credit needs for fixed assets and working capital – Monitoring of advances – renewal and recovery of advances – Nursing of sick units.

Unit – 3 :

Lending Schemes : Socio – Economic and poverty alleviation programmes / Self employment schemes: DRI, IRDP,SEEUY,SEPUP, Micro Financing: Financing of self help groups by banks and NGOs – Women Entrepreneurs, Small borrowers, SSIs, Housing Finance, Agriculture finance, Loan syndication, Federal Financing.

Unit – 4 :

Social banking as an instrument for financial inclusion, Schemes of Social Banking, Approaches in Social Banking, Financial Inclusion & Social Banking, Social Banking Ecosystem

Unit – 5 :

Issues, Trends in Social Banking, Emerging issues in social Banking, Recent Trends in Social Banking & Sustainable Development, Role of Technology Social Banking.

References :

1. Credit Appraisal & Analysis of Financial Statement - A Hand Book for Bankers and Finance Managers.
2. Credit Appraisal Risk Analysis & Decision Making 10th Edition
3. Working Capital Management & Finance – A Hand Book for Bankers and Finance Managers (Paperback, R.K.Gupta, Himanshu Gupta)
4. Bank Credit Management (3rd Revised Edition).
5. Credit Appraisal & Analysis of Financial Statement by R.K.Gupta Himanshu Gupta.

(516BSE21)

MODEL QUESTION PAPER

B.A. DEGREE EXAMINATION,

Third Year – Fifth Semester

Part – II : Banking

Paper – VI : **Bank Credit and Social Banking**

Time : Three hours **Max. Marks: 70**

SECTION A–(5 x 4 = 20 marks)

Answer any FIVE of the following.

Each answer carries 4 marks.

1. What is meant by Bank Advance
2. Credit Management
3. What is Credit Appraisal
4. Working Capital
5. Micro Finance
6. Define Social Banking
7. Housing Finance
8. What are the Issues in Social Banking

SECTION B – (5 x 10 = 50 marks)

Answer the following questions.

Each answer carries 10 marks.

9. a) Types and Forms of Bank advances.

(Or)

b) What are the different types of Securities?

10. a) What are the tools/techniques of Financial Statements Analysis?

(Or)

b) What are the Credit Appraisal Techniques?

11. a) Write about Economic and poverty alleviation programmes / Self employment Schemes.

(Or)

b) Write about NGOs.

12. a) What are the Schemes of Social Banking?

(Or)

b) Approaches in Social Banking.

13. a) Role of Technology in Social Banking.

(Or)

b) Recent trends in Social Banking.

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	5	Working Capital	5.1 - 5.18
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Unit - 3	7	Poverty Alleviation	7.1 - 7.12
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LESSON – 1

LOANS AND ADVANCES

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of Advances
- describe the brief history of Bank Credit
- distinguish various forms of Bankers Advance

Structure of the Lesson :

1.1 Introduction

1.2 Different Forms of Bankers Advances

1.2.1 Meaning of Advances

1.3 Different forms of banker's advances

1.3.1 Cash Credit

1.3.2 Overdraft

1.3.3 Discounting of Bills

1.3.4 Loan

1.3.4.1 Demand Loan

1.3.4.2 Term Loan

1.4 Credit management and order-to-cash (O2C)

1.5 B2B credit management

1.6 Summary

1.7 Key Words

1.8 Self Assessment Questions

1.9 Suggested Readings

1.1 INTRODUCTION :

Loans and advances are two types of financial products commonly used by individuals and businesses to access the funds they need to meet various financial goals. Although both loans and advances serve a similar purpose, there are significant differences between the two that are important to understand before deciding which one to choose.

In this blog, we will explore seven major differences between loans and advances. We will also discuss the various types of advances and loans available, as well as the eligibility criteria for Personal Loans and short-term loans from Hero FinCorp. Let's begin with understanding the meaning of loans and advances.

What are advances?

Advances are a type of credit facility that NBFCs like us offer to their customers. Advances are similar to loans, but they are short-term in nature. Some common types of advances are:

- Cash Credit
- Overdrafts
- Working Capital Finance

What are loans?

Loans are funds offered by various financial institutions to individuals and businesses for multiple purposes. Loans offer a lump sum amount to the borrower, who agrees to pay back the money with interest over a certain period. The various types of loans include:

- Personal Loans
- Two-wheeler Loans
- Loan Against Property
- Business Loans

Seven major differences between loans and advances :

1. Purpose :

The key difference between loans and advances is their purpose. Loans are typically used for long-term financing needs, such as purchasing a property or a vehicle. In contrast, advances are used for short-term financing needs, such as paying for inventory or covering expenses until the next payment cycle.

2. Types of Advances :

Advances can be categorised into various types, such as secured advances, unsecured advances, demand advances, term advances, and revolving advances. Secured advances require collateral, while unsecured advances do not any security. Demand advances can be repaid any time, while term advances have a specific repayment schedule. Revolving advances can be used repeatedly, such as a line of credit.

3. Interest Rates :

Interest rates are another significant difference between loans and advances. Loans usually have a lower interest rate than advances because they are long-term and have a fixed repayment schedule, which reduces the risk for the lender. On the other hand, advances have

a higher interest rate because they are short-term and often unsecured, which increases the risk for the lender. The interest rates for loans and advances vary depending on the lender, the borrower's creditworthiness, and other factors.

4. Repayment Terms :

Repayment terms are another crucial difference between loans and advances. Loans usually have a fixed repayment schedule, which means the borrower has to make regular payments over a specific period, such as 5 or 10 years. Advances, on the other hand, are more flexible and can be repaid at any time. Some advances may have a specific repayment schedule, but most do not.

If you are considering taking a loan, it is important to download our short-term loan app, which offers instant Personal Loans of up to Rs 1.5 lakhs. Loan apps have become increasingly popular in recent years, especially among individuals who need quick access to funds for emergency expenses or unexpected bills. It is always recommended to use an app for better financial management.

5. Risk :

Risk is another significant difference between loans and advances. Loans are usually less risky for the lender because they are long-term and have a fixed repayment schedule, which reduces the chance of default. On the other hand, advances are riskier because they are often unsecured, increasing the likelihood of default. This is why advances often have higher interest rates than loans.

6. Borrower Eligibility :

Borrower eligibility is another significant difference between loans and advances. Loans usually require a good credit score and a steady income to qualify. On the other hand, advances are often easier to qualify for because they are short-term and have higher interest rates. However, the eligibility criteria for advances vary depending on the lender and the type of advance.

7. Processing Time :

Processing time is another difference between loans and advances. Loans may take longer to process (in case the applicant may not fulfil the eligibility criteria) as they require specific documentation and verification.

Advances, on the other hand, are often processed quickly because they require basic documentation and verification. This is because advances are usually for smaller amounts and have a shorter repayment period.

Conclusion :

Loans and advances are two types of financial products that serve different purposes and have significant differences in terms of interest rates, repayment terms, collateral requirements, risk, borrower eligibility, and processing time. Loans are used for long-term financing needs, while advances may be used for short-term financing needs.

Understanding the key differences between loans and advances and their various types is essential to make an informed decision on which one to choose based on your financial needs and circumstances.

If you are looking for a loan, consider applying through our website or mobile app. We have a hassle-free loan approval process with very few requirements. For example - if you are considering a Personal Loan from Hero FinCorp, just check your Personal Loan eligibility on our website and apply instantly.

1.2 DIFFERENT FORMS OF BANKERS ADVANCES :

Introduction :

Money is a crucial aspect in an individual's life as well as for the business that are run by various companies. It is difficult to function without funds to face the competition in the market. Organizations and companies need funds to procure raw material for production, administrative services, capital, etc. These companies being competitive in nature are frequently investing to facilitate better products and services in comparison to others. On the other hand, individuals on a daily basis also require a supply of funds so as to meet their various requirements and live a hassle-free life. Apparently, neither the companies nor an individual is financially equipped with unlimited funds and thus loans and advances come into play and fill up the deficit in funds.

To obtain the loans and advances, one has to approach the banks or financial institutions. Lending is one of the oldest and most important functions of banks. Accepting deposits and advancing loans is a regular activity of the banks. The deposits accepted from the public by the banks are used to create loans and advances. The banks take necessary precautions while lending money so as to ensure the repayment of the money advanced and honor cheques issued by customers. Loans and advances are one of the best and popular strategy in financing the business.

1.2.1 Meaning of Advances :

'Advance' is a credit facility granted by the banks to a business entity or an individual to meet their short term financial requirement. These advances are to be repaid within a short period of time for instance one year. The terms of the repayment may vary depending upon the agreement between the lender and the borrower. In India, the terms, conditions and norms of these advances are governed and approved by the Reserve Bank of India and by the plans of the particular bank. As advances are facilitated to fulfill the daily needs or requirements of the companies or an individual, so the banks or financial institutions charge low-interest-rate making it convenient and cost-effective. Very low legal formalities are required to arrange for finances by advances as compared to the procedure of loans. Advances granted to business entities or individuals composed of smaller amounts that are utilized for immediate and short – term objectives.

The advances are granted against securities which are as follows :

- **Primary Securities :** Hypothecation of debtors, Promissory notes, etc

- **Collateral Securities :** Mortgage of property (land, buildings, etc), other fixed assets like machines, etc
- **Guarantees :** Given by partners, directors or promoters, etc.

1.3 DIFFERENT FORMS OF BANKER'S ADVANCES :

1.3.1 Cash Credit :

Cash credit is the method of lending money by banks to the customers where in the customers can borrow against the security of tangible assets and guarantees up to certain limit specified by the banker, known as 'cash credit limit'.

This system of cash credit is flexible because it allows the customer to borrow money as and when required according to his needs subject to the limit sanctioned. The arrangement of this system is permanent in nature so the customer does not have to withdraw the entire amount at once.

The bank may renew the limit of the cash credit by the end of the year if it deems the account of the customer to be running satisfactorily. Generally, cash credit is granted to the borrower against the security by way of pledge or hypothecation of tangible securities. This system of cash credit also facilitates funds against personal security.

Interest is charged to the customer only on the amount utilized by him and not for the entire amount. A commitment charge can also be imposed by the bank if the customer does not use the cash limit to the foil extent i.e. only the unutilized amount of the cash credit. The borrower can deposit the surplus funds in the banks which might result in reduced interest charge.

1.3.2 Overdraft :

Overdraft is a facility provided to a current account holder by the bank permitting to withdraw over and above the credit balance in the account. This facility is provided for a shorter period of time. With the overdraft facility, a customer is allowed to withdraw money as and when required provided that the total withdrawn amount does not exceed the agreed limit and the customer can also repay in the form of deposits at any point of time as per his convenience.

The interest is charged only on the exact amount withdrawn by the customer from his account and for the period of its actual utilization. A provision of a temporary overdraft facility is also available. Interest charged on temporary overdrafts is imposed as and when the temporary overdraft is adjusted or at the end of the month, whichever is earlier.

Overdrafts are generally granted against the security of government securities, shares & debentures, National Savings Certificates, LIC policies, bank's own deposits etc. and also on unsecured basis. However regular overdraft limits are sanctioned against some securities. Some collateral security may be taken by the bank and the bank might also grant advances against personal security of the borrower.

The customer has to provide the bank with a written application or promissory note signed by him to avail the overdraft facility. The overdraft facility is usually an agreement of an expressed contract but in the absence of the express contract, overdraft facility can be granted by referring to the course of the business of the borrower. Thus it becomes necessary for the banks to obtain a letter and a promissory note incorporating the terms and conditions as well as the interest chargeable in respect of the overdraft facility.

1.3.3 Discounting of Bills :

Bill of exchange is an instrument in writing containing of an unconditional order signed by the creditor, directing the debtor to pay a certain sum of money on maturity. Now, under the mechanism of discounting bills, the seller of goods draws a bill of exchange on the buyer as per the terms of the goods supplied.

When the buyer does not have enough funds to buy goods then he takes helps from the bank, the bank then releases funds at a discounted rate to the seller before the credit period ends. This bill is then presented to the seller's client i.e. the buyer by the bank and the bank recovers the total amount of the goods from the buyer before the credit period matures.

The discount on the bill of exchange depends upon the remaining time to maturity and the amount involved in it. The time period of the credit mostly depends upon the buyer's creditworthiness. When the buyer buys goods from the seller then the payment is to be made through letter of credit.

In the mechanism of bill discounting, all the three parties i.e. the seller, buyer and banker have advantages and benefit profits. Firstly the seller gets money in advance for his working capital, secondly, the buyer gets a credit period against the letter of credit and thirdly the bank also earns some revenue.

Example :

A is a car manufacturer and needs tyres for the manufacturing of his cars. B is a tyre manufacturer. A has been assigned with a project costing Rs 1 lakh to manufacture cars but A does not have enough funds to buy the tyres for the cars. Thus A goes to the bank for help and the bank pays a discounted rate of Rs 95,000 to B provided that A repays the whole amount to the bank within 3 months. After 3 months as A was in a good financial position, he paid the entire amount to the bank and hence the business ran smoothly.

1.3.4 Loan :

The loan is the money borrowed from the bank on the condition that it is to be repaid in instalments or all at once (lump-sum) on the agreed dates and at an agreed rate of interest. The bank charges interest on the entire amount whether or not the borrower withdraws the money from his account or not.

The loan can be obtained with or without security. If the borrower wants loan further too then he has to apply for a fresh loan. Each bank has its own procedure of granting loans and the banks shall have the authority to accept or refuse the loan depending upon its own cash position and lending facility.

Types of loans :

1.3.4.1 Demand Loan :

Demand loans are the loans which are repayable on demand by the banks. The banks at any point of time can ask the borrower to repay the money with the required interest rate borrowed from the bank. This kind of loan is usually considered short term finance and has no fixed tenures. Demand loans are beneficial for start-up businesses, to fulfil daily and temporary working capital requirements, purchasing raw material and small assets, etc.

1.3.4.2 Term Loan :

Terms loans are medium to long term loans. Term loans are usually granted for longer period of time and have to be repaid within a definite time frame. The repayment tenure of such loans is also longer. In case of business loans, the repayment period of time is usually between 12 months to 60 months. Term loans can be granted on the basis of both fixed and floating rate of interest. When it comes to grant personal loan or home loan then the repayment tenure is 10 years or more depending upon the loan amount and rate of interest.

Conclusion :

With the rapid growth and development of the world, the needs and requirements of an individual or companies keep on increasing. To meet such needs, one has to take help to avail funds for their progress. Banks play a vital role in such conditions and thus the world economy is dependent on the banking sector. The different forms of advances provided by the banks have made life easy for the entrepreneurs to start their business and also for the established businessmen who are in constant need of funds for their working capital.

What is credit management?

Credit management refers to everything directly related to approving, monitoring and recovering customers' payments. This includes onboarding, setting payment terms and policy, issuing trade credit or other business financing, and collections.

It is a core task for banks and businesses across all industries and markets. Best practices, levels of risk and days sales outstanding (DSO) (a measure for determine the health of businesses' collection processes) vary in each of these.

At its core, effective credit management is the caretaking of a company's financial health. Good credit management can mean the difference between a business surviving, thriving or going bankrupt…

Is credit management the same as collections?

Credit management and collections (procedures for collecting unpaid bills) are not the same thing. However, they are closely related to one another. And they are often managed by the same department.

Sometimes companies control their own credit management team and outsource their collection process to a third-party collections specialist. This could be a resources issue or because they believe the third party is simply *better* at recovering their invoices and debts.

Third-party collections agencies sometimes induce quicker payments. Customers think the financial risks of owing bad debts to collections agencies are higher than owing to suppliers.

1.4 CREDIT MANAGEMENT AND ORDER – TO – CASH (O2C) :

Both credit management and collections are a part of the wider order-to-cash (O2C) process. Order-to-cash covers :

- Receiving orders
- Shipping products
- Invoice issuing
- Collections
- Creating a record of sales

In other words, everything from when the customer makes an order to when the business receives the cash.

However, despite the overlap, it is still useful to think of them separately most of the time. This is because credit management is more related to businesses' own finances, whereas O2C involves considerations about the buyer journey.

The main components of credit management :

Below is our list of the most important areas involved in good credit management.

1. Assessing and approving new clients :

A good credit management system can quickly and effectively assess a customer's financial situation. But balancing 'quick' and 'effective' – two often competing requirements – isn't easy.

Overly long assessment processes risk potential customers abandoning the process or defecting to your competitors. And if assessment isn't done to a high enough standard, your business might be taking on risk.

2. Setting payment terms :

Setting payment terms is the practice of deciding when invoices should be paid.Again, a balance is needed – this time between suitable and competitive terms and maintaining a healthy cashflow and low risk profile.

What is a credit policy?

A credit policy is a set of guidelines and rules for credit management operations, including conditions related to payment terms, late fees, credit limits, interest rates, and more.

A good credit policy should do the following :

- Define customers' credit limits (the maximum amount they can borrow)

- Define credit terms (when payments, discounts, and late fees are due)
- Detail where to record transactions
- List actions to take for collections and non-payment

3. Extending credit to existing customers :

Extending trade credit lines has long been a popular business tool. It can be done in several ways, including issuing credit notes and offering other financing options to your customers.

It is often necessary if you want to retain business. And financing can bring extra benefits such as increasing sales conversions, average order volumes (AOV), and customer loyalty

Credit terms can vary according to the credit or payment history of specific customers. So, credit management decisions are critical when considering offering these financial services.

4. Tracking customer credit :

The ability to continuously monitor and prioritize your sales ledger is a key credit management function.

This area may crossover into the realm of collections. For example, for B2B companies, it might involve dunning, which is an important part of establishing the status of late payments.

What is a credit manager?

A credit manager is someone responsible for overseeing credit management processes. They usually have backgrounds in finance and/or business administration.

They should have oversight over the credit management and credit application process and best practices. They should also be responsible for keeping your credit policy up-to-date.

The role requires good analytical and organisational skills. They manage the assessment of multiple potential and existing customer's creditworthiness simultaneously.

Communication skills are also important. After all, customer relationships are involved, and they will often need to manage a credit team, too.

What is good credit management?

Good credit management involves ensuring all customers pay their invoices on time and within the terms and conditions. This means collecting payment from clients who had the correct amount of credit extended to them in the first place.

At least, that's the ideal…

In reality, it's very unlikely all customers will pay all outstanding invoices in full and on time. This is why you need a good credit management program and team.

The benefits of good credit management :

1. The primary benefit of good credit management is the improvement in your company's liquidity, i.e., cash flow.
2. It should also lower the rate of late payments. This in turn will save time for your internal resources.
3. It will also improve your DSO performance, the amount of bad debt a financial portfolio presents, and even negative or positive customer relations.

1.5 B2B CREDIT MANAGEMENT :

Business-to-business (B2B) credit management is simply credit management carried out by most businesses that work primarily with other businesses.

However, the categories of B2B and business-to-consumer (B2C) are useful. The highlight important differences between working with other businesses and consumers.

For example, B2B order volumes are usually higher but less frequent than B2C ones. This affects the customers' payment terms which effects the suppliers' cashflow.

There are also other things to assess and monitor, such as your customer's customers financial situations

Principle of Credit Policy :

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows :

i) **Principle of Safety :** Fund Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

ii) **Principle of Liquidity :** Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

iii) **Principle of Security :** It acts as cushion to grant advances and credits. Adequate values of collaterals ensure the recovery of credit correctly at the right time. Accepted security should be readily marketable, handy and free from encumbrances.

iv) **Principle of Purpose of Credit :** Generally, credit request would be accepted for productive sector only. Bank should be rejected credit request for speculation, social functions, pleasures trips, ceremonies and repayment of prior credit as they are unproductive.

v) **Principle of Profitability :** Profitability denotes the value created by the use of resource is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing to venturous project.

vi) **Principle of Spread :** Portfolio of credit advances is to be spread not only among many borrowers of same industry. It across the industries in order to minimize the risk of lending by keeping “Do not put your all eggs in the same basket” in mind.

vii) **Principle of National Interest :** In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

Every Bank should always follow the rule “Do not put your all eggs in the same basket”. So every bank makes appropriate portfolio in their investment the credit management would be excellent.

1.6 SUMMARY :

In this lesson, we will explore seven major differences between loans and advances. We will also discuss the various types of advances and loans available, as well as the eligibility criteria for Personal Loans and short-term loans from Hero FinCorp. Let’s begin with understanding the meaning of loans and advances.

Understanding the key differences between loans and advances and their various types is essential to make an informed decision on which one to choose based on your financial needs and circumstances.

To obtain the loans and advances, one has to approach the banks or financial institutions. Lending is one of the oldest and most important functions of banks. Accepting deposits and advancing loans is a regular activity of the banks. The deposits accepted from the public by the banks are used to create loans and advances. The banks take necessary precautions while lending money so as to ensure the repayment of the money advanced and honor cheques issued by customers. Loans and advances are one of the best and popular strategy in financing the business.

1.7 KEY WORDS :

Value-impaired :

A category assigned by ICERC that indicates a country has protracted debt problems.

Value Today :

An arrangement by which spot exchange must be delivered and paid for on the day of the transaction instead of two business days later.

Value Tomorrow :

An arrangement by which spot exchange must be delivered and paid for on the business day following the transaction instead of two business days later.

Volume Quotation System :

A method of giving exchange rates in which a certain specified amount of local

currency (usually 1 or 100) is stated as the corresponding amount in foreign currency.

Vostro Account :

A demand account maintained for a bank by a correspondent bank in a foreign country. The nostro account of one bank is the vostro account of the other bank. See also nostro account.

1.8 SELF ASSESSMENT QUESTIONS :

1. What are the Different forms of Bankers Advances?
2. Types of Loans.
3. Define Credit management.

1.9 SUGGESTED READINGS :

1. MoRD. (2008). Common Guidelines for Watershed Development Project. Department of Land Resources, Ministry of Rural Development, Govt. ofIndia, New Delhi.
2. Sriram, M.S. and Upadhyayula, R.S. (2002). The Transformation of the Microfinance Sector in India- Experiences, Options, and Future. Journal of Microfinance. 6(2): 89-112
3. Srinivasan, R. and Sriram, M.S. (2003). Micro-finance in India: Discussion. IIMB Management Review, June 2003.

D. Swapna

LESSON – 2
SECURITIES

Objectives :

After studying this lesson, the student be able to :

- understand the meaning and concept of Charge
- describe the modes of creating charge
- distinguish various forms of Securities.

Structure of the Lesson :

2.1 Introduction

2.2 Charge

2.3 Modes Of Creating Charge By Banks

2.3.1 Pledge

2.3.2 Hypothecation

2.3.3 Mortgage

2.4 Securities Meaning

2.5 Securities In Finance Explained

2.6 Summary

2.7 Key Words

2.8 Self Assessment Questions

2.9 Suggested Readings

2.1 INTRODUCTION :

A personal loan is a friend in need when it comes to emergency cash requirements as it helps you meet your immediate financial needs. All sorts of government and private banks in India give personal loan facilities if you have correct documents ready.

Generally banks don't charge an arm and a leg for a personal loan approval, all you need is a correct set of documents.

Documents Required for Personal Loan :

Getting a personal loan without the right documents is a kind of mission impossible, thus it is important to check the documents list in advance and keep a set of documents handy before applying for a personal loan.

Let us see, what are the documents required for a personal loan for different kinds of applicants.

List of Documents Required for Salaried Employees :

- Income Proof – Copy of Form 16, last 3 months' bank account statements / salary certificate or salary slips of the account where the salary is being credited.
- Identity Proof – A copy of PAN card/ Aadhar card/ voter's ID card or driving license.
- Address Proof – A copy of driving license/ utility bills/ bank statement / Aadhar card
- Employment Proof – A copy of job appointment letter/ contract / company's / HR's email ID or official identity card.
- Residence Ownership Proof – Copy of property documents, maintenance bill and electricity bill of the residence.
- Investment Proof (if any) – Copy of receipts of fixed deposits or mutual fund
- Photograph – Latest coloured passport-size photograph.

List of Documents Required for Self Employed :

- Income Proof – Copy of latest income tax returns submitted by the applicant, documents supporting the audited financials of the past 2 financial years and your last 6 months' bank statements.
- Identity Proof – A copy of PAN card / passport / voter's ID card or driving license.
- Address Proof – A copy of passport / Aadhar card or utility bills.
- Office Address Proof – Copy of incorporation documents/ registration certificates/ MSME/ GST registration document or shop & establishment act certificate of the commercial space.
- Office Ownership Proof – Copy of Maintenance bill, property documents or electricity bill of office.
- Business Existence Proof – A copy of company registration license or tax registration.
- Photograph – Latest coloured passport-size photograph.

List of Documents Required for Pensioners :

- Income Proof – Copy of pension document / bank account statements.
- Identity Proof – A copy of Aadhar card / PAN card / voter ID card / passport or driving license.

- Address Proof – A copy of driving license / utility bills / bank statement / Aadhar Card
- Photograph – Latest coloured passport-size photograph.

List of Documents Required for Women :

- Income Proof – Copy of last 2 months' salary slips or the previous 3 months' bank statements in case of a salaried employee and a copy of latest ITR, Form 16 or last 3 months' bank statements for a self-employed applicant.
- Identity Proof – A copy of PAN card/ Aadhar card/ voter's ID card or driving license.
- Address Proof – A copy of driving license/ Aadhar Card / utility bills/ bank statement in case of a salaried employee and a copy of company registration license or tax registration in addition, for a self-employed applicant.
- Photograph – Latest coloured passport-size photograph.

List of Documents Needed for Personal (Pension) Loan for Senior Citizen (Pension Loan) :

- Income Proof – Copy of pension document (if any) / bank account statements / PPO
- Identity Proof – A copy of Aadhar card / PAN card / voter ID card / passport or driving license.
- Address Proof – A copy of PAN card / driving license / utility bills / bank statement.
- Photograph – Latest coloured passport-size photograph.

* NRI is not eligible to avail Personal Loan in Bank of Baroda.

Importance of Documents while Applying for a Personal Loan :

Documents submitted by an applicant plays a vital role in getting quick personal loans approved and if there is any kind of discrepancy in the documents, the same needs to be corrected in order to avoid hassle while submitting a personal loan application.

Another factor to keep in mind is that banks review the documents submitted by the applicant. So a complete and correct set of documents could help you get your loan faster whereas a single incorrect document could result in the rejection of your personal loan application.

2.2 CHARGE :

A charge is basically a right which is created by a person or company (borrower) on its assets and properties, whether present or future, in favour of a bank or financial institution (lender) which lends financial assistance.

Section 2(16) of the Companies Act, 2014 defines charges so as to mean an interest

or lien created on the property or assets of a company or any of its undertakings or both as security and includes a mortgage.

"Charge" as defined in Transfer of Property Act, 1882 :

According to Section 100 of the Transfer of Property Act, 1882, where an immovable property of one person is by act of parties or operation of law made security for the payment of money to another and the transaction does not amount to a mortgage, the latter person is said to have a charge on the property, and all the provisions which apply to a simple mortgage shall, so far as may be, apply to such charge.

Essential Characteristics of Charge :

- There are two parties in every transaction of charge, the creator of charge (borrower) and the holder of charge (lender).
- The subject matter of the charge – Current or future assets or properties of the creator of charge.
- The agreement of the charge, whether written or otherwise, made by borrower in favor of lender which reflects his intention to offer one or more of its specific assets or properties as security for repayment of the borrowed money coupled with interest.

Why there is need for Charge?

Every venture, company or business requires funds for the smooth functioning of their operations. This money is usually borrowed from banks or financial institutions. These lenders do not lend money until they are sure that their funds will be repaid along with interest. So in order to secure their loans, the lenders execute loan agreements, hypothecation agreements, mortgage deeds and other similar documents which the borrower executes in the favor of lender. The creation of rights in the assets and properties of borrowing company is known as charge on assets.

Difference between Charge, Mortgage and Pledge :

Charges, mortgages, and pledges are all security interests that banks use to provide a lender with security over the borrower's assets. A mortgage is different from a pledge in terms of asset ownership; in a mortgage the assets remain the property of the borrower, whereas in a pledge the assets will be delivered to the lender (lender will have legal title to the assets).

Charges and mortgages are quite similar to one another; especially, the fixed charge where fixed assets are offered as collateral to secure loan repayment. Floating charges, on the other hand, refers to a loan or mortgage on an asset that has a value that changes periodically to secure loan repayment. Another difference is that, in a fixed charge, the assets need to be maintained until the debt is repaid. In a floating charge, the borrower has the freedom to dispose of the asset (for example, sell stock) in the course of normal business activities; however, if the borrower defaults on the loan, the floating charge will freeze and will be treated like a fixed charge until debts are recovered.

2.3 MODES OF CREATING CHARGE BY BANKS :

While lending money, the bank has to keep three principles in mind viz., liquidity, safety and profitability. In order to minimise risks in advancing money, banks usually insist on good security and would like to create a charge on the tangible assets of the borrower in favour of the bank. When a charge is created, the bank gets certain rights on the tangible assets. In case the borrower fails to repay the advance, the bank can recover its money by disposing of those assets in the market. The important methods of creating a charge are: (1) pledge, (2)hypothecation, and (3)mortgage. Let us now study them briefly.

2.3.1 Pledge :

Section 172 of the Indian Contract Act defines pledge as “a bailment of goods as security for payment of a debt or performance of a promise”. So, a pledge is a contract whereby a borrower delivers his movable property to the lender as a security for the loan on the understanding that the property pledged will be returned to the borrower on repayment of the debt. The borrower who pledges the property is called the ‘pledged’ or ‘pawner’ and the person with whom the property is pledged is known as ‘pledgee’ or ‘pawnee’. From the above, you must have understood that delivery of goods and return of goods are the two essential features of pledge. Delivery of goods may be either physical delivery or constructive (symbolic) delivery. When the pledgee puts his own lock on the godown or when the keys of the lock are handed over to the bank, it amounts to delivery of goods. Similarly, handing over the duly endorsed documents of title to goods like railway receipt, bill of lading, etc., amount to delivery of goods. While accepting a pledge as a charge, the bank should ensure that the contract is in writing to minimise the misunderstanding of the terms. The contract should be complete in all respects and should incorporate all the usual clauses of pledge. It is advisable for the bank to get a declaration from the borrower to the effect the goods deposited with the bank are left as a security for the advance. The bank should see that the borrower has a valid title to the property pledged. The bank should ensure that the goods are kept safely in the godown. It is desirable that the bank should ensure goods against theft, fire, riot, etc. You must remember that when goods are pledged, only the possession over the goods is given and not the ownership. The pledger or the borrower continues to be the owner of the property. If the borrower fails to repay the loan in time, the bank has a right to file a suit against the borrower for the recovery of the amount, and retain the goods as collateral security. But since this is a lengthy process, the banks are given the right to sell the pledged goods and recover their money. But before selling the goods, the bank must give a reasonable notice to the borrower about his intention to sell the goods. If the proceeds of sale are less than the amount due, the borrower is still liable to pay the balance. But if the proceeds of sale is in excess of the amount due, the bank has to pay the surplus amount to the borrower. In case the goods are sold without giving a reasonable notice to the borrower, the sale cannot be set aside, but the bank will become liable to the borrower for damages.

From the above, it must be clear to you that for securing a charge on the property, the method of pledging is very simple and therefore, it is very popular. It should also be noted that the right to retain the goods pledged is applicable only in case of a particular debt for

which the goods are pledged. The bank has no right to retain the security, as security for other debts owned by the borrower.

2.3.2 Hypothecation :

Hypothecation is a mode of creating charge on goods or related document surrender of possession of goods. According to Prof. Herbert Hart, "Hypothecation is a legal transaction whereby goods may be made available as security for a debt without transferring either the property or the possession to the lender". Hypothecation is resorted to such cases where transfer of possession of the property from the borrower to the creditor is either impracticable or inconvenient. For example, if the borrower wants to borrow on the security of motor vehicle, which is being used as a taxi, it shall not be advisable to pledge the vehicle with the bank, as it will deprive him of his livelihood. In the case of hypothecation, an equitable charge is created on the goods for the amount of debt but the hypothecated goods actually remain in the physical possession of the borrower. The borrower who hypothecates the goods is known as 'hypothecator' and the lender is termed as 'hypothecatee'. Generally, hypothecation is done by the borrower by executing a document called a 'letter of hypothecation' in favour of the lender. In this letter it is stated that the said goods or property are at the order and disposition of the lender until the debt is cleared. It also empowers the lender to sell the hypothecated property in the event of default or repayment by the borrower. As the hypothecated goods remain in the possession of the borrower, there is considerable scope for fraud. The same goods may be hypothecated with another person. It is a risky method no doubt. That is why this facility is granted to parties of unquestionable integrity and honesty. Even then the banker should obtain a declaration from the borrower to the effect that the goods are not hypothecated earlier with some other lender and that the borrower has a clear title to the property hypothecated. The bank should carry out regular inspection and physical verification of the hypothecated goods.

2.3.3 Mortgage :

When immovable property like land and building is offered as security for debt, a charge is created thereon by means of a mortgage. A mortgage is the transfer of the interest in a specific immovable property by one person to another for the purpose of securing an advance of money. The transferor is called 'mortgagor' and the transferee is known as 'mortgagee'. The advance of money in respect of which the mortgage is effected is called the 'mortgage money' and the instrument by which the mortgage is effected is called the 'mortgage deed'. In a mortgage, the possession of the property need not always be transferred to the mortgagee. Usually, it remains with the mortgagor. Since the mortgagee gets the interest in the property, he has a right to sell of the property and recover his loan. When the borrower repays the amount of loan together with interest, the interest in the property is re-conveyed to the mortgagor.

While accepting a mortgage as a charge, the bank should ensure that the borrower has a valid title to the property and this can be done by examining the original title deeds. The bank must not part with the title deeds to the borrower when the mortgage is pending. If the advance against mortgage is given to a joint stock company, then the charge should be

registered with the Registrar of Companies within 30 days of the creation of the charge. The mortgaged property should be inspected periodically to ensure that it is in good condition. If the property mortgaged is building, the bank should ensure that it is insured against fire, riot etc. There are several forms of mortgage. They are (i) simple mortgage; (ii) Usufructuary mortgage; (iii) English mortgage; (iv) Mortgage by conditional sale; (v) Equitable mortgage or mortgage by deposit of title deeds and (vi) anomalous mortgage.

2.4 SECURITIES MEANING :

Securities refer to tradable financial instruments or assets that have economic value. Companies issue these instruments to raise capital for financing their activities. Common examples include stocks, bonds, options, etc. The Securities and Exchange Commission (SEC) regulates the issue of such financial instruments in the United States.

Currently, marketable one can trade securities over the counter and through electronic media. Public companies or the government issue the financial instruments, and the investors buy them from the primary market. Further transactions occur in the secondary market, where investors assume the role of buyers and sellers, thus transferring the title of the securities.

2.5 SECURITIES IN FINANCE EXPLAINED :

Securities in finance form a major share of investments. The term ‘security’ refers to any instrument that serves as collateral or guarantee. Hence, an issuer of such an instrument can approach an investor to provide them with the required amount. However, the investor would look for something in return from such an exchange.

This is why equity investors receive dividends, and debenture-holders or bondholders get interest payments on their investments. However, each of these instruments’ risk and return parameters are different. Further, the issuer can also affect the investments to an extent.

For example, instruments issued by reputed and established companies offer high investment returns. This increases the demand for such a company’s securities, making them expensive.

Now, let’s examine why the securities market has become prominent worldwide. A company usually receives capital from many sources – bank loans and credit. This constitutes debt. But there is a limit to financing a company’s activities purely through debt, especially loans.

Finance experts would say that the ideal debt-equity ratio must be 2:1. Therefore, equity financing is important too. Plus, other forms of debt, like debentures, can also help to raise capital for activities like expansion into a new market, product development, or a new project.

For an investor, it is a source of income, and they get to choose the source. Investors who want assured returns can opt for fixed-income assets like debentures or preference shares. If they want high returns on their investments but are willing to face some uncertainties, they can invest in stocks.

Hence, trading, or investing, is like an exchange between two parties, where one is looking for capital and the other for income. However, this doesn't happen at random. Trading assets is one of the most organized activities, and the government regulates it.

The investor and the issuer must adhere to the regulations or risk losing. Usually, multiple government authorities have regulatory interests in the market. For instance, in the U.S., the SEC, Financial Industry Regulatory Authority (FINRA), and the Federal Reserve are some government organizations that supervise trading activities.

How To Trade In Securities?

Marketable securities can be bought and sold through many options, depending on the asset. For example, stocks can be traded via stock exchanges, whereas bonds can be bought from the government. However, in some countries, investors can buy bonds only through brokers.

Nevertheless, let's understand the structure of the market. First, private firms have to become publicly listed to be able to raise capital from the public. This is done through an initial public offering (IPO). Then, investors can buy the assets from the company directly in the primary market.

These investors can later sell the assets in the secondary market at their market price. Further buying and selling take place in the secondary market itself. Equity shareholders receive a share of the net profits, and creditors are paid the loan interest.

Types :

Let's look at the four main categories of financial instruments sold in the securities market.

1. Equity securities :

It refers to a stock – common or preferred, held by investors, who are referred to as equity shareholders. When a person holds equity, the ownership of a part of the company is transferred to them. So, they also enjoy voting rights in the firm. Hence, equities are generally more expensive than other types of instruments. Also, they are riskier assets. However, when the company makes a high profit, the shareholders, too, get high profits in the form of dividends. Or, if the company makes a loss, the equity shareholders are paid after all other debts and obligations are settled.

2. Debt securities :

Debt instruments are a type of loan that carries a low risk. However, upon maturity, they deliver fixed interests. Therefore, by issuing debt instruments, the company is borrowing a loan. It can be secure or not secure. Common examples include government bonds and debentures issued by companies. Their issuance is for a specific term; one can redeem them when they mature. When a company faces heavy losses, the creditors get preference.

3. Hybrid securities :

These are those instruments that have the characteristics of both debt and equity investments. Preference shares, convertible bonds, and equity warrants are common

examples. For instance, preference shares resemble equity shares but are less riskier than the latter, i.e.; they are given preference (only after debentures). Also, they have fixed interests, typically higher than debenture interests.

4. Derivatives :

These are other financial instruments whose value depends on an underlying asset, such as commodities, currencies, etc. The investors do not have legal possession of the assets. Examples are options, futures, forward contracts, etc.

Here are a few examples of securities.

Example #1 :

Jane is an experienced investor who maintains a diversified portfolio. The securities in her portfolio include an equity share of a FAANG company, six shares of a small internet company, T-bonds, and a 10-year mutual fund. She has invested a total of $525 as of now. Her financial advisor, Mark, manages her portfolio.

Example #2 :

Here's an example of security – single-stock ETFs. Exchange-traded funds are instruments whose value depends on multiple underlying assets or an index. They resemble mutual funds in that they are pooled investments. However, unlike mutual funds, people can trade them via exchanges.

Single-stock ETFs are a new development that functions as leveraged ETFs on a particular stock. That is, add derivatives contracts to ETFs to get single-stock ETFs. The main advantage of such an asset is to get quick high returns. However, finance experts claim that single-stock ETFs are risky and complex for around 99% of investors, especially when high volatility kicks in.

Securities vs Stocks :

A financial instrument traded for monetary or economic value can be a security. A stock is such an instrument. Therefore, a stock is a security, but not all securities are stocks.

Financial instruments can vary in risk, returns, nature, and many other factors. But stocks are usually high-risk assets associated with higher returns. Also, not all instruments confer ownership rights to the investors. Such a feature is only associated with stocks.

2.6 SUMMARY :

In this lesson we will explore, A personal loan is a friend in need when it comes to emergency cash requirements as it helps you meet your immediate financial needs. All sorts of government and private banks in India give personal loan facilities if you have correct documents ready.

Generally banks don't charge an arm and a leg for a personal loan approval, all you need is a correct set of documents.

Charges, mortgages, and pledges are all security interests that banks use to provide a lender with security over the borrower's assets. A mortgage is different from a pledge in terms of asset ownership; in a mortgage the assets remain the property of the borrower, whereas in a pledge the assets will be delivered to the lender (lender will have legal title to the assets).

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2.7 KEY WORDS :

Trade Accounts :

Those parts of the balance of payments that reflect money spent abroad by the citizens of a country on goods and services and the money spent by foreigners in the given country for goods and services.

Trader's Ticket or Dealer's Slip :

The handwritten record of a foreign exchange trade and / or placing and taking of deposits that is written by the dealer who executed the transaction.

Trading Position Worksheet :

A record of incomplete transactions in a particular currency.

Tranche :

A term sometimes used when referring to the number of drawings of funds by a borrower under a term loan.

Transfer Risk :

The risk a rising when a borrower in cursa liability in a currency that is not the currency in which revenues are generated. The borrower may not be able to convert its local currency to service an international loan if foreign exchange is not generated.

2.7 SELF ASSESSMENT QUESTIONS :

1. What are the Modes Of Creating Charge?
2. What is meant by Securities?
3. Types of Securities.
4. Define Mortgage.

2.8 SUGGESTED READINGS :

1. Frances Sinh. (2005). Access, Use and Contribution of Micro-finance inIndia: Findings from aNational Study. Economic and political week.

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3. Mord. (2008). Common Guidelines for Watershed Development Project. Department of Land Resources, Ministry of Rural Development, Govt. ofIndia, New Delhi.

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LESSON – 3
FINANCIAL STATEMENTS

Objectives :

After studying this lesson, the student be able to :

- understand the meaning and concept of Financial statements analysis
- describe the Components of Financial statements
- Real – world applications of financial statement analysis.

Structure of the Lesson :

3.1 Introduction

3.2 Key components of financial statements used in the analysis

3.2.1 Balance sheet

3.2.2 Income statement

3.3.3 Cash flow statement

3.3 Importance of financial statement analysis in decision-making

3.4 Objectives of financial statement analysis

3.5 How to analyze financial statements?

3.6 Advantages of financial statement analysis

3.7 Real-world applications of financial statement analysis

3.7.1 Investment decision-making

3.7.2 Credit analysis and risk assessment

3.8 Summary

3.9 Key Words

3.10 Self Assessment Questions

3.11 Suggested Readings

3.1 INTRODUCTION:

"Accounting does not make balance sheets or corporate earnings more volatile. Accounting just increases the transparency of volatility in earnings."

– **Diane Garnick**

Financial statement analysis as a concept may be fundamental, but one that has stood the test of time and remains relevant. While the concept may be closely associated with many

accounting jargon and spreadsheets, its implications reverberate throughout the entire business landscape.

Irrespective of location, size, or sector, this analytical practice isn't merely an option but an imperative. By meticulously dissecting financial statements, you unearth a treasure trove of insights illuminating a company's fiscal health, operational efficiency, and growth potential.

Whether you're a fledgling startup seeking investment or a conglomerate navigating turbulent markets, analyzing your financial statements must serve as your compass, guiding strategic decisions and safeguarding your financial future.

In this article, we attempt to unravel the essence of this critical practice and explore its relevance in modern business.

What is financial statement analysis :

It is a structured process that dissects a company's financial statements to develop valuable insights into its financial performance, stability, and overall health. It involves scrutinizing the balance sheet, income statement, and cash flow statement to interpret past and present financial data, providing a comprehensive understanding of a company's operational efficiency, liquidity, solvency, and profitability.

As a stakeholder or investor, this practice enables you to assess the company's ability to generate profits, manage debts, and generate cash flow. By calculating key financial ratios such as liquidity, leverage, and profitability ratios, you can gauge the company's financial strength and evaluate its performance against industry benchmarks.

Moreover, financial analysis isn't limited to numerical comparisons; it delves deeper into trends, patterns, and anomalies within the data. This holistic examination allows you to identify potential risks and opportunities, aiding in making informed decisions.

Whether you are a shareholder, creditor, manager, or potential investor, financial statement analysis empowers you to make sound financial judgments, driving sustainable growth and mitigating potential pitfalls for the company.

Purpose of financial statement analysis :

The goal is to understand a company's financial performance and position comprehensively. By understanding the financial statements, stakeholders gain insights into the company's profitability, liquidity, solvency, and operational efficiency.

For instance, consider a retail enterprise: through financial analysis, stakeholders can assess its ability to generate profits from sales, manage its inventory turnover effectively, and maintain a healthy cash flow to meet its operational needs.

Ratios like the current ratio and return on assets can be calculated to evaluate the company's liquidity and profitability. This analysis aids in making informed decisions, whether for potential investments, credit decisions, or strategic planning, by identifying strengths to leverage and weaknesses to address within the company's financial structure.

3.2 WHAT ARE THE KEY COMPONENTS OF FINANCIAL STATEMENTS USED IN THE ANALYSIS :

Financial statement analysis evaluates key components like the Balance Sheet, providing insights into financial position; the Income Statement, offering profitability insights; and the Cash Flow Statement, revealing cash management efficiency.

These components empower stakeholders to assess a company's stability, profitability, and operational effectiveness.

3.2.1 Balance sheet :

The Balance Sheet presents a snapshot of a company's financial position at a specific point in time. It outlines the company's assets, liabilities, and shareholders' equity, portraying the fundamental equation that assets equal liabilities plus equity. This component allows you to assess the company's solvency and financial stability.

The proportion of current assets to current liabilities provides insights into short-term liquidity, while the overall structure of assets versus long-term debt reveals the company's financial structure.

3.2.2 Income statement :

The profit and loss income statement showcases a company's revenue, expenses, and net income over a defined period. You can evaluate the company's profitability and operational efficiency through this component.

Key metrics like gross and net profit margin offer an understanding of the company's ability to generate profit from its operations. By comparing revenue growth to expense growth, you gauge the company's cost management and potential for sustainable earnings.

3.2.3 Cash flow statement :

The Cash Flow Statement tracks the inflows and outflows of cash within a company during a specified period. It is indispensable in assessing a company's ability to generate and manage cash.

This statement is crucial for determining the company's liquidity and financial flexibility. Operating, investing, and financing activities are categorized, revealing whether the company generates enough operational cash flow to cover investments and debt obligations.

By examining this statement, you can comprehend the company's ability to fund expansion, repay debt, and weather unforeseen financial challenges.

3.3 IMPORTANCE OF FINANCIAL STATEMENT ANALYSIS IN DECISION – MAKING :

As a CFO, you rely on this analysis to decipher intricate financial data, precisely guiding strategic choices. It enables you to gauge the company's financial health, evaluate profitability, and assess risk exposure.

You can fine-tune budget allocation, optimize resource utilization, and formulate growth strategies by interpreting ratios and trends. This analysis aids in identifying cost inefficiencies, ensuring optimal cash flow management, and determining the feasibility of capital projects.

Moreover, when communicating with stakeholders and investors, the insights derived from financial statement analysis lend credibility to your decisions. In essence, it empowers you, as a CFO, to steer the company with informed financial acumen, minimizing uncertainties and maximizing opportunities.

3.4 OBJECTIVES OF FINANCIAL STATEMENT ANALYSIS :

- Assess financial health : Through analysis, you gain a clear picture of a company's financial stability, helping you understand its ability to meet short-term obligations and navigate economic fluctuations.
- Evaluate profitability : The analysis allows you to determine the company's profitability and gauge its capacity to generate earnings from operations.
- Predict future performance: By identifying trends and patterns, you can forecast potential financial performance, aiding in proactive decision-making.
- Allocate resources efficiently : Financial statement analysis aids in allocating resources optimally, ensuring that budgets align with the company's financial objectives.
- Identify operational efficiency : The analysis unveils insights into operational effectiveness, helping you identify cost reduction and process improvement areas.
- Assess risk exposure : You can gauge the company's risk exposure by assessing its debt levels, liquidity ratios, and ability to manage financial challenges.
- Evaluate investment opportunities : The analysis assists in evaluating potential investment opportunities, providing insights into the potential returns and risks associated with different ventures.
- Support strategic planning : The data extracted from an analysis of financial statements guides the formulation of long-term strategies, aligning with the company's financial position and goals.
- Facilitate regulatory compliance : A financial analyst ensures that the financial statements adhere to financial reporting regulations and enhances transparency in financial reporting.
- Enhance stakeholder communication : With informed insights, you can confidently communicate with stakeholders, investors, and creditors, reinforcing your decisions with data-driven explanations.

Types of financial statement analysis :

1. Horizontal analysis :

This type involves comparing financial data across multiple periods to identify trends

and changes in essential line items. As you delve into horizontal analysis, you can uncover shifts in revenue, expenses, and other financial metrics over time.

2. Vertical analysis :

The analysis focuses on expressing each line item on financial statements as a percentage of a base item. This approach provides insights into the relative proportion of different components within the same period, aiding in pinpointing areas of significance.

3. Ratio analysis :

This analysis entails calculating various financial ratios by comparing specific items on financial statements. Ratios like liquidity, leverage, profitability, and debt-to-equity ratios, offer in-depth insights into a company's financial performance.

4. Common size analysis :

The analysis involves presenting each line item on financial statements as a percentage of a common base, often total revenue or assets. This technique facilitates easy comparison across different companies or periods.

5. Trend analysis :

This kind of analysis examines the trajectory of financial data over multiple periods, helping you identify patterns and potential changes. This type of analysis assists in predicting future financial performance based on historical data.

6. Industry comparative analysis :

By benchmarking a company's financial performance against industry averages, you can assess how well it is faring compared to its competitors. This approach provides context and reveals strengths and weaknesses.

7. Qualitative analysis :

While quantitative data forms the foundation, qualitative analysis complements it by considering non-financial factors such as management quality, market trends, and industry dynamics. This holistic approach offers a comprehensive view of a company's performance.

8. Credit analysis :

This analysis evaluates a company's creditworthiness and ability to meet its debt obligations. As you undertake credit analysis, you scrutinize the company's cash flow, debt levels, and financial stability to assess its capacity to repay loans.

9. Valuation analysis :

An analysis that seeks to determine the intrinsic value of a company's stock or assets is a valuation analysis. This type of analysis is essential for investors looking to make informed decisions about buying or selling securities.

10. Scenario analysis :

In scenario analysis, you explore potential outcomes based on varying assumptions

and external factors. This approach helps you prepare for different possibilities and their impact on the company's financial performance.

Each type of financial statement analysis offers a unique perspective, contributing to a comprehensive understanding of a company's financial health and performance.

3.5 HOW TO ANALYZE FINANCIAL STATEMENTS :

Navigating the world of financial statement analysis requires a systematic approach that uncovers crucial insights hidden within the numbers.

- Gather accurate data : Obtain the latest financial statements, ensuring they are correctly prepared and error-free.
- Understand accounting principles: Familiarize yourself with the accounting principles and standards for preparing financial statements. This knowledge is fundamental for accurate analysis.
- Normalize data : Adjust for any irregularities or accounting anomalies to ensure a clear basis for comparison. Exclude one-time or non-recurring items for accurate insights.
- Horizontal comparison : Compare data across different periods to detect trends, changes, and patterns in financial performance over time.
- Vertical evaluation : Express each line item as a percentage of a base item to understand the composition and relative significance of different components.
- Ratio calculation : Key financial ratios offer quantifiable insights into liquidity, profitability, and financial leverage.
- Quantitative interpretation : Analyze the calculated ratios by comparing them against historical data or industry benchmarks. Identify deviations that signify potential strengths or weaknesses.
- Common size perspective : Convert line items into total revenue or assets percentages for easy cross-company or cross-period comparisons.
- Trend identification : Scrutinize the trajectory of financial data over multiple periods to identify consistent patterns and extrapolate potential future performance.
- Contextualize industry performance : Benchmark the company's financial indicators against industry averages to comprehend its competitive positioning.
- Qualitative factors : To complement your quantitative analysis, consider non-financial factors like market trends, management quality, and industry dynamics.
- Cash flow scrutiny : Analyze the cash flow statement to assess the company's ability to generate and manage cash. Focus on different activities – operating, investing, and financing.

- Scenario assessment : Anticipate and analyze various scenarios to gauge their potential impact on the financial statements.
- Creditworthiness evaluation : Delve into the company's creditworthiness by assessing cash flow, debt levels, and overall financial stability.
- Intrinsic value determination : Utilize valuation methods to estimate the intrinsic value of company assets or stock.
- Conclusion formation : Summarize your findings and draw informed conclusions about the company's financial health, operational efficiency, and growth prospects.
- Effective communication : Present your analysis to stakeholders clearly and precisely, supporting your conclusions with data-driven explanations.

3.6 ADVANTAGES OF FINANCIAL STATEMENT ANALYSIS :

- Insightful decision-making : Gain a deeper understanding of your enterprise's financial health, empowering you to make informed and strategic decisions.
- Performance evaluation : Assess your company's profitability, liquidity, and operational efficiency to identify areas of strength and opportunities for improvement.
- Risk assessment : Evaluate potential risks by analyzing debt levels, cash flow trends, and overall financial stability, enabling you to mitigate challenges proactively.
- Resource allocation : Optimize resource allocation by identifying areas of inefficiency, ensuring that budgets align with financial objectives.
- Investment decisions : Evaluate investment opportunities more effectively, understanding potential returns and associated risks for more confident choices.
- Stakeholder confidence : Demonstrate transparency and credibility to stakeholders and investors by basing decisions on data-driven financial insights.
- Strategic planning : Develop long-term strategies aligned with your enterprise's financial position and goals, fostering sustainable growth.
- Operational efficiency : Identify cost reduction and process improvement areas, enhancing overall operational effectiveness.
- Regulatory compliance : Ensure adherence to financial reporting regulations, enhancing transparency in financial reporting practices.
- Adaptability : Armed with insights from financial statement analysis, adjust strategies and tactics in response to changing market conditions and unforeseen challenges.

Limitations of financial statement analysis :

Financial statement analysis, while a powerful tool, comes with its inherent limitations that you should be aware of while making business decisions :

- Limited historical context : Financial statements reflect historical data, which might not capture real-time market dynamics or emerging trends. As a result, relying solely on past performance might lead to inaccurate projections in rapidly changing environments.
- Accounting assumptions : Financial statements are prepared based on specific accounting principles and assumptions that can vary across industries or companies. These differences might hinder accurate cross-company comparisons or fail to capture the actual economic reality.
- Incomplete information : While financial statements provide a wealth of data, they might lack certain qualitative aspects crucial for decision-making, such as management competency, pending legal issues, or shifts in consumer sentiment.
- Window dressing : Companies might manipulate or "window dress" financial statements to give stakeholders a more favorable image. This practice could distort the accuracy of the data you're analyzing.
- Non-financial factors : Financial statements predominantly focus on quantitative data, often overlooking non-financial factors like employee morale, brand reputation, or technological innovation that can significantly impact a company's performance.
- External factors : The analysis doesn't consider external factors such as changes in regulations, geopolitical events, or shifts in consumer preferences, which can substantially affect a company's financial standing.
- Comparison challenges : While benchmarking against industry averages is common, industries can be diverse. Financial statement analysis might not fully account for these nuances, leading to inaccurate comparisons.
- Inflation effects : Financial statements might not fully adjust for inflation, which could distort the value of assets, liabilities, and earnings over time.
- Quality of data : The accuracy of financial statement analysis heavily relies on the accuracy of the underlying data. Inaccuracies or errors in recording transactions can lead to flawed conclusions.
- One dimensional view : Financial statement analysis focuses primarily on financial metrics, potentially neglecting broader strategic considerations, customer satisfaction, or employee engagement that influence overall business success.

In navigating these limitations, it's essential to complement financial statement analysis with qualitative research, external information sources, and a holistic understanding

of your industry to make well-rounded and informed decisions.

3.7 REAL – WORLD APPLICATIONS OF FINANCIAL STATEMENT ANALYSIS :

A statement analysis of finances finds diverse applications within an enterprise, serving as a compass for informed decision-making. It guides investment strategies, aiding in identifying profitable opportunities and aligning resource allocation.

An analysis such as this assists in evaluating the company's financial health, aiding strategic planning and operational optimization. Furthermore, financial statement analysis empowers effective stakeholder communication, bolstering transparency and investor confidence. It's indispensable for credit assessment, enabling prudent lending decisions while facilitating risk management through insights into liquidity and solvency.

It equips enterprises with predictive capabilities by revealing trends and patterns, fostering adaptability in ever – evolving markets. In essence, it's an essential toolkit that enables enterprises to navigate complexities, capitalize on opportunities, and ensure sustainable growth.

3.7.1. Investment decision – making :

Making decisions about significant investments for your organization is one of the most critical real – world applications of financial statement analysis. Enterprises use this analysis to evaluate potential investment opportunities, ensuring that financial resources are allocated strategically to yield the best returns.

For instance, consider a manufacturing company contemplating an expansion into a new market. By thoroughly analyzing financial statements of various locations, the company can assess factors like

- Revenue growth,
- Profitability margins,
- Cash flow patterns.

Suppose the analysis reveals a market with consistent revenue growth and healthy profit margins(net or gross profit). In that case, the company may choose to invest in that region, confident in its potential for generating substantial returns.

Thus, it serves as a guiding light for enterprises, enabling them to make informed investment decisions that align with their financial objectives and drive growth.

3.7.2 Credit analysis and risk assessment :

Enterprises, especially financial institutions, employ this analysis to evaluate the creditworthiness of potential borrowers, safeguarding themselves against potential defaults and minimizing risks.

For instance, envision a bank considering a loan application from a small business seeking expansion funds. By meticulously examining the company's financial statements,

including liquidity ratios, debt levels, and cash flow trends, the bank can gauge the business's ability to service the loan.

Suppose the analysis suggests the business has a stable cash flow and manageable debt levels. In that case, the bank may approve the loan with favourable terms, confident it can meet its repayment obligations.

Therefore, such analyses become a shield against financial uncertainties, allowing enterprises to make informed credit decisions that balance supporting growth and managing potential risks.

Conclusion :

In conclusion, financial statement analysis is not just a historical tool but a timeless guide that allows you to stay in control. By harnessing its power, you can transcend data points and improve your choices, providing higher success rates.

While the nuances of data interpretation may change, the essence of deriving meaning from numbers persists. The fusion of quantitative metrics and qualitative insights crafts a comprehensive understanding of a company's health and trajectory, aiding strategic decisions.

As we progress, financial statement analysis will remain an essential ally, ensuring enterprises, investors, and decision-makers stay ahead of the curve, poised to navigate new challenges and capture emerging opportunities.

3.8 SUMMARY :

In this article, we attempt to unravel the essence of this critical practice and explore its relevance in modern business. It is a structured process that dissects a company's financial statements to develop valuable insights into its financial performance, stability, and overall health. It involves scrutinizing the balance sheet, income statement, and cash flow statement to interpret past and present financial data, providing a comprehensive understanding of a company's operational efficiency, liquidity, solvency, and profitability.

As a stakeholder or investor, this practice enables you to assess the company's ability to generate profits, manage debts, and generate cash flow. By calculating key financial ratios such as liquidity, leverage, and profitability ratios, you can gauge the company's financial strength and evaluate its performance against industry benchmarks.

Moreover, financial analysis isn't limited to numerical comparisons; it delves deeper into trends, patterns, and anomalies within the data. This holistic examination allows you to identify potential risks and opportunities, aiding in making informed decisions.

Whether you are a shareholder, creditor, manager, or potential investor, financial statement analysis empowers you to make sound financial judgments, driving sustainable growth and mitigating potential pitfalls for the company.

3.9 KEY WORDS :

Third Country Bills :

Bankers acceptances issued by banks in one country that finance the transport or storage of goods traded between two other countries.

Through Bill of Lading :

A bill of lading used when several carriers are used to transport merchandise, for example, from a train to a vessel or vice versa.

Tied Loan :

A loan made by a governmental agency that requires the borrower to spend the proceeds in the lender's country.

Time Draft :

A draft drawn to maturate fixed time after presentation or acceptance.

Tomorrow Next :

The simultaneous purchase and sale of a currency for receipt and payment on the next and second business day, respectively or vice versa.

3.10 SELF ASSESSMENT QUESTIONS :

1. Objectives of financial statements.
2. Advantages of financial statement analysis.
3. Components of financial statements.
4. Cash flow statement.

3.11 SUGGESTED READINGS :

1. AddressbyDrK.C.Chakrabarty,DeputyGovernor,RBIatSt.Xavier'sCollege (September 6, 2011) on Financial Inclusion.
2. DougJohnson,CentreforMicrofinance,"FinancialInclusion&DeliveryofSocial Transfer Payments", 2010
3. Social Banking and Social Finance: Answers to the Economic Crisis, Springer, New York, 2010.

D. Swapna

LESSON – 4
CREDIT APPRAISAL

Objectives :

After studying this lesson, the student be able to :

- understand the meaning and concept of credit appraisal
- describe the financial analysis
- fixed assets

Structure of the Lesson :

4.1 Meaning Of Credit Appraisal

4.2 Why Is Credit Appraisal Important

4.3 Credit Appraisal Techniques

4.4 Techniques Of Financial Analysis

4.5 Introduction- Fixed Assets

4.6 Summary

4.7 Key Words

4.8 Self Assessment Questions

4.9 Suggested Readings

4.1 MEANING OF CREDIT APPRAISAL :

Credit appraisal is the process of assessing the financial status and creditworthiness of any person or entity that has applied for a credit facility. Banks and financial institutions use credit appraisal techniques to understand how risky a borrower may be. The higher the risk, the lower the chances of a loan or credit card application being approved.

To evaluate the credit risk involved, banks and lending institutions look into various factors that offer insights into a borrower's creditworthiness. They look into the income level, repayment history and existing debt levels. The credit score is another pivotal aspect of the credit appraisal process.

The Credit Appraisal Process :

Before you apply for a credit facility, it helps to understand how lenders evaluate your creditworthiness. So, check out the steps typically involved in the credit appraisal process.

Step 1 – Application Processing :

The process begins with the bank processing the application submitted by the individual or entity that requires credit. All the information in the application is assessed and

scrutinised.

Step 2 – Documentation :

The borrower must also submit other documents required by the lender. They include bank statements, proof of income, identity proofs and the like.

Step 3 – Credit Assessment :

The lender then investigates the borrower's credit history, financial stability and existing debts, if any. This will give them a clear picture of the borrower's credit situation.

Step 4 – Financial and Risk Assessment :

Thereafter, the lender evaluates the borrower's financial stability and repayment capacity. They will also look into the borrower's credit risk level.

Step 5 – Loan Structuring :

If the appraisal of the borrower's creditworthiness, financial situation and risk is positive, the lender decides the terms of the loan such as the amount, interest rate and repayment tenure.

Step 6 – Approval and Administration :

The lender then approves the loan application and disburses the amount to the borrower. Thereafter, the financial institution must administer the loan and update the records regularly.

Eligibility for Credit Appraisal :

The eligibility criteria for credit appraisal depends on the individual or entity applying for a loan. For individual applicants, the criteria assessed include the following :

- Income Stability : Your income level, stability of employment and general financial situation determine your eligibility for the credit facility you need.
- Credit History : Lenders also look into your credit history as a part of the credit appraisal process. A good credit history increases your chances of being approved.
- Loan-to-Cost Ratio : This ratio compares the loan amount with the cost of the end goal for which the funds will be used. It helps lenders decide on the amount of loan that can be granted.
- Debt-to-Income Ratio : This ratio compares the borrower's existing debts and their current income. The lower the ratio, the lower the current debts, meaning the higher the repayment capacity.
- Collateral : In the case of secured borrowings, lenders also assess the amount or value of the collateral offered before completing the credit appraisal process.

4.2 WHY IS CREDIT APPRAISAL IMPORTANT :

Credit appraisal techniques are important for various reasons. They primarily help the lender assess the borrower's repayment capacity and determine the terms and structure of loans and other credit facilities. The key benefits of credit appraisal include the following :

- It helps the lender conduct an effective risk analysis of the borrower
- It establishes the creditworthiness of the borrower
- It promotes confidence among banks and other lending institutions about the borrower's repayment capacity
- It is crucial in determining the loan amount and interest rates

Summing Up :

This concludes the fundamentals of the credit appraisal process. If you are applying for a loan or any other credit facility, the lender will certainly look into your creditworthiness. Now that you know what the process involves and why it's essential, you can better prepare for this evaluation.

4.3 CREDIT APPRAISAL TECHNIQUES :

The Banking sector in Pakistan continues to suffer from a loan problem portfolio, due to a variety of reasons. While there is no guaranteed procedure for ensuring loans do not go bad (certain circumstances can go against the best of borrowers), I have tried to develop a procedure for analyzing credits, as outlined below. This is based primarily on personal experience of over 20years as a lending officer, sitting on the Board of Banks besides guidance from earlier supervisors, and training programmes attended. The important thing to remember is not to be overwhelmed by marketing or profit center reasons to book a loan but to take a balanced view when booking a loan, taking into account the risk reward aspects. Generally we remain optimistic during the upswing of the business cycle, but tend to forget to see how the borrower will during the downturn, which is a short sighted approach. Furthermore, we tend to place greater emphasis on financials, which are usually outdated; this is further exacerbated by the fact that a descriptive approach is usually taken, rather than an analytical approach, to the credit. Thus a forward looking approach should also be adopted, since the loan will be repaid primarily from future cash flows, not historic performance; however both can be used as good repayment indicators. Having postulated above guidelines, following is a suggested general procedure for reviewing short term lending proposals

Company Profile / Ownership :

This should cover the legal structure of company, i.e. is it public /private / listed. If listed then broker reports can be an additional source of information besides share price. Sole proprietorships / partnerships tend to be higher risk. Potential support can be provided by sister concerns, multinationals etc. While this can be a support it can also work as a disadvantage with possible diversion of funds to sister concerns, transfer pricing etc. which should thus be addressed. When dealing with individual Group companies it is **essential go**

review overall Group exposure to ensure that the Group Risk is adequately analyzed and monitored, and Group limits also set.

Proposed Transaction :

Following key items should be addressed :

Purpose of facility :

This must be specific and general terms should be avoided, such as "working capital facility." A specific need would be to "finance inventory" or "receivables" (or both).These two assets generally constitute the rationale for short-term borrowings.

Source of repayment :

The cash cycle including payment and selling terms must be reviewed, which impact cash flow. Normally there should be reliance on identifiable cash flows for the first way out to repay the loan rather than the security itself. The lending officer should understand the cash production cycle and its tenor, and should question how the Bank will be repaid if things do not work out as expected for the customer e.g. slow sales, increases in inventory costs, etc. Credit Limits - Bank experience to date with borrower and use of facility should be reviewed. Limits with other Banks should also be provided, besides ability to obtain additional debt i.e. Bank should avoid being in a situation of lender of last resort. Sole Banking relationships are

4.4 TECHNIQUES OF FINANCIAL ANALYSIS :

Financial statements are analyzed to answer several questions. A few of them are listed below along with the relevant techniques used for the same :

(1) How my company is different from other companies in the industry on distribution of assets, liabilities and cost ?

Since size of the companies compared will be different, we need to bring them on certain common scale. For instance, SBI is several times more than Canara Bank. Comparison is possible if we are able to reduce the financial statements into percentage basis. This is called ‘common size statement analysis’. Common size statement analysis performed on yearly basis explains changes in assets/liability mix and cost structure.

(2) How my company has grown over the years ?

Since growth is important for long – term survival, managers would be interested to assess the growth of the company on various components. This is achieved by taking base year values as 100 and then subsequent years values are adjusted to show the growth rate. This type of analysis is called ‘Trend Analysis or Time Series Analysis’.

(3) How my company has performed on profitability, productivity of assets and risk ?

Performance of companies on these parameters is normally assessed through computation of important ratios. This type of analysis if called ‘Ratio Analysis’ or ‘Du Pont Chart Analysis’.

To illustrate financial statement analysis, we are using financial statements of Banking Industry, State Bank of India, HDFC Bank Ltd. and Corporation Bank. Balance Sheet and Profit and Loss Account of these banks are given in Table-3.1 to 3.4. While State Bank of India is the largest public sector bank, HDFC Bank is a leading hi-tech private sector bank. Corporation Bank is one of the best performing PSU Bank and comparable to HDFC Bank in terms of size. Industry figures are based on all the banks including public sector, private sector, and foreign banks.

a) Common Size Financial Statements Analysis As mentioned earlier, the common size financial statement expresses each items of the balance sheet or profit and loss statement as a percentage of total assets and net sales respectively. Table-3.5 (a) to (c) provide the common size financial statements of SBI, HDFC Bank and Corporation Bank. An analysis of common size profit and loss account over the years for each bank and between the banks provides certain important insights. While interest is important source of income, its dominance has come down over the years except for Corporation Bank. In Corporation Bank, interest income contribution has gone up from 46% in 1999 to 80% in 2000. Investment and dividend income has almost equal share in SBI and HDFC Bank whereas it was at equal level in 1999 in the case of Corporation Bank but declined to less than 1% in 2002 & 2003. This sudden change could be purely an accounting issue than real change in the nature of business model of Corporation Bank. For instance, while SBI and HDFC Bank might recognise interest earned on government securities as income from investments, whereas Corporation Bank may show the same under interest income. Other income, which mainly consists of fee based income has increased over a period of time and is in the range of 15% to 18%. The hi-tech HDFC Bank reports highest other income compared to the two PSU banks. It is natural that banks spend large amount towards interest expenditure and a declining trend is witnessed on account of general reduction in interest rates in the market. Next to interest expense, personnel expenditure share major component. Thanks to VRS schemes and increase in business volume, the personnel expenditure has come down from 19% to 5% in the last five years for SBI. While HDFC Bank spends about 6% for employees, Corporation Bank spends more than 10% toward employees' cost. Other operation expenditure ranges from 5% to 15% and economies of scale clearly show the importance of cost control. Provision for NPA is lower for newer banks, whereas PSU banks spend almost two times of HDFC Bank. Being a hitech bank, HDFC Bank spends more on capital equipment and hence larger depreciation. Despite such higher spending, profit for the HDFC and Corporation Bank are significantly higher than SBI.

While deposit constitutes significant portion of sources of capital for all banks, you can observe major differences in components of deposits. While Corporation Bank enjoys largest percentage of term deposits (59%), HDFC could attract only 42%. Is it good or bad? Though interest rate for term deposits is more, the liquidity risk is low and banks can use the amount for longer period. The distribution of funds among various assets is by and large same. In terms of importance, Investments constitute major uses of funds followed by loans and advances. However, in Corporation Bank,

loans and advances is more than investments for the year 2003. Investment in fixed assets is relatively small in banking industry. A detailed discussion on the Disabilities and Assets of the banks is presented in Blocks 2 and 3 of this course respectively.

b) Trend Analysis Trend analysis shows the level of growth that banks have achieved over the years on each component of financial statements. Suppose a bank shows a growth rate of 20% in total income but its cost has increased by 26%, then its profitability is affected. One can perform such analysis by observing the trends on each one of financial parameters. Table-3.6 (a) to (c) show the trends in financial variables.

While SBI and Corporation Bank has reported around 68% income growth in the last five years, HDFC Bank has seen a growth rate of more than 500% during the same period. It doesn't mean that HDFC Bank will continue to grow at this rate in the future since a substantial part of the growth arises from the smaller base. Similarly, asset base has gone up around 65%-70% for SBI and Corporation Bank, HDFC Bank reported a growth rate of 700% during the same period. While SBI has started concentrating on Treasury activities, Corporation Bank is focussing more on lending. Again, Term Deposits has seen major growth in Corporation Bank compared to other two banks.

c) Ratio Analysis Ratios are aimed to assess profitability, productivity of assets/capital and risk associated with operations. Though one can get some basic idea about the bank or a company from the above ratios while evaluating percentage statement and trend analysis, the level of comparison is restricted to few ratios. Ratio analysis integrates financial statements to assess financial health of the firm. Some of the important ratios in general are discussed below. (Refer to MS-4 course material for detailed discussion). However, many of these ratios require modification or are not relevant for banking industry and therefore, we will discuss the ratios relevant to banking industry separately.

1) Liquidity Analysis Ratios :

i) Current Ratio :

A firm needs liquid assets to meet day to day payments. Therefore, liquidity ratios highlight the ability of the firms to convert its assets into cash. If the ratios are low then it means that money is tied up in stocks and debtors. Thus, money is not available to make payments. This may cause considerable problems for firms in the short run. It is often viewed that a value less than 1.5 implies that the company may run out of money as its cash is tied up in unproductive assets.

The current ratio shows the relationship between the current assets and the current liabilities Current Assets Current Ratio = ——————— Current Liabilities

ii) Quick Ratio :

The acid test ratio is similar to the current ratio as it highlights the liquidity of the company. A ratio of 1:1 (i.e. a value of approximately 1) is satisfactory. However, if

the value is significantly less than 1 it implies that the company has a large amount of its cash tied up in unproductive assets, so the company may struggle to raise money in the short term.

Quick Assets Quick Ratio = ―――――――― Current Liabilities Quick Assets

= Current Assets – Inventories

iii) Net Working Capital Ratio :

The working capital ratio can give an indication of the ability of your business to pay its bills. Generally a working capital ratio of 2:1 is regarded as desirable. A stronger ratio indicates a better ability to meet ongoing and unexpected bills therefore taking the pressure off your cash flow. Being in a liquid position can also have advantages such as being able to negotiate cash discounts with your suppliers. A weaker ratio may indicate that your business is having greater difficulties meeting its short-term commitments and that additional working capital support is required. Having to pay bills before payments are received may be the issue in which case an overdraft could assist. Alternatively building up a reserve of cash investments may create a sound working capital buffer. Ratios should be considered over a period of time (say three years), in order to identify trends in the performance of the business. The calculation used to obtain the ratio is :

Net Working Capital Ratio = Net Working Capital / Total Assets

Net Working Capital = Current Assets – Current Liabilities

2. Profitability Analysis Ratios :

Profitability ratios are the most significant of the financial ratios. Similar to income ratios, profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment.

The adequacy of your company's earnings can be measured in terms of

(1) the rate earned on average total assets;

(2) the rate earned on sales;

(3) the rate earned on average common stockholders' equity; and

(4) the availability of earnings to common stockholders.

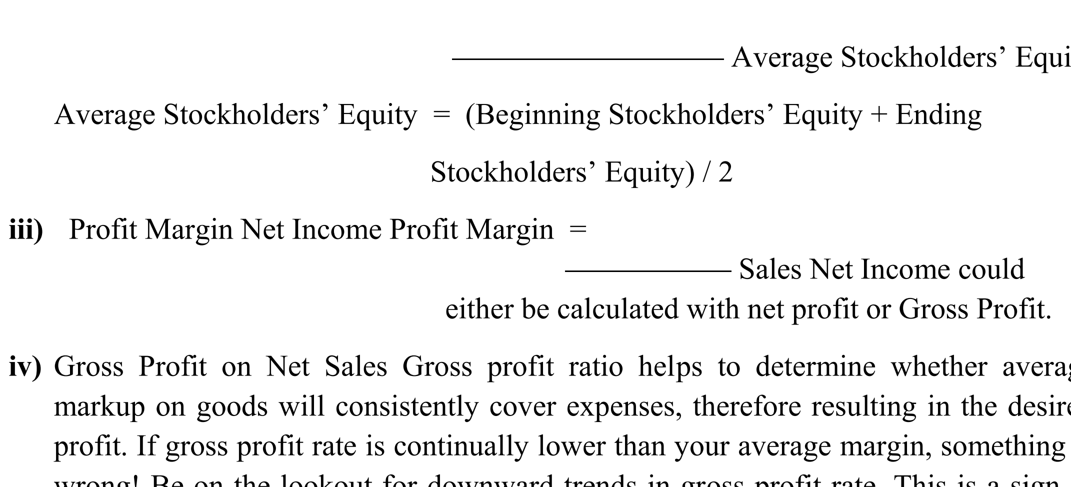
The most widely used profitability measurements are profit margin on sales, return-on-investment ratios, and earnings per share.

i) Return on Assets (ROA) Net Income Return on Assets (ROA) =

―――――――――― Average Total Assets

Average Total Assets = (Beginning Total Assets + Ending Total Assets) / 2

ii) Return on Equity (ROE) Net Income Return on Equity (ROE) =



——————— Average Stockholders' Equity

Average Stockholders' Equity = (Beginning Stockholders' Equity + Ending Stockholders' Equity) / 2

iii) Profit Margin Net Income Profit Margin =

———— Sales Net Income could either be calculated with net profit or Gross Profit.

iv) Gross Profit on Net Sales Gross profit ratio helps to determine whether average markup on goods will consistently cover expenses, therefore resulting in the desired profit. If gross profit rate is continually lower than your average margin, something is wrong! Be on the lookout for downward trends in gross profit rate. This is a sign of future problems for bottom line.

Net Sales – Cost of Goods Sold Gross Profit Rate =

———— Net Sales

Note : This percentage rate can - and will - vary greatly from business to business, even for those within the same industry. Sales, location, size of operations, and intensity of competition are the factors that can affect the gross profit rate.

v) Net Profit on Net Sales Earnings after Taxes Net Profit Rate =

———— Net Sales.

This ratio provides a primary appraisal of net profits related to investment. Once the basic expenses are covered, profits will rise disproportionately greater than sales above the break-even point of operations. Note: Sales expenses may be substituted out of profits for other costs to generate even more sales and profits The other types of profitability ratios that are in use include:

vi) Management Rate of Return This profitability ratio compares operating income to operating assets, which are defined as the sum of tangible fixed assets and net working capital.

Rate of Return = Operating Income / Fixed Assets + Net Working Capital

This rate determines whether assets are efficiently used. This ratio can be calculated for the entire company or for each of its divisions or operations. The percentage should be compared with a target rate of return that you have set for the business.

vii) Net Sales to Tangible Net Worth

Net Sales to Tangible Net Worth Ratio = Net Sales / Tangible Net Worth

Tangible Net Worth = owners' equity – intangible assets

This ratio indicates whether investment in the business is adequately proportionate to sales volume. It may also uncover potential credit or management problems, usually called overtrading and under trading. Overtrading, or excessive sales volume

transacted on a thin margin of investment, presents a potential problem with creditors. Overtrading can come from considerable management skill, but outside creditors must furnish more funds to carry on daily operations. Under trading is usually caused by management's poor use of investment money and their general lack of ingenuity, skill or aggressiveness.

viii) Earnings Per Share (EPS) :

The earnings per share ratio is mainly useful for companies with publicly traded shares. Most companies will quote the earnings per share in their financial statements, saving you from having to calculate it yourself. By itself, EPS doesn't really tell you a whole lot. But if you compare it to the EPS from a previous quarter or year, it indicates the rate of growth that a company is earning.

Earnings Per Share (EPS) = Net Income / Weighted Average No. of Common Shares Outstanding

3. Activity Analysis Ratios :

i) Assets Turnover Ratio :

The asset turnover ratio simply compares the turnover with the assets that the business has used to generate that turnover. In its simplest terms, we are just saying that for every Re. 1 of assets, the turnover is Rs. x. The formula for total asset turnover is :

Assets Turnover Ratio = Sales / Average Total Assets

Average Total Assets = (Beginning Total Assets + Ending Total Assets) / 2

ii) Accounts Receivable Turnover Ratio :

The debtor turnover ratio indicates the average time to collect debts. A ratio that is lengthening can be the result of some debtors slowing down in their payments. Economic factors, such as a recession, can also influence the ratio. Tightening your business' credit control procedures may be required in these circumstances. The debtor ageing ratio has a strong impact on business operations particularly working capital. Maintaining a running total of your debtors by ageing (eg. current, 30 days, 60 days, 90 days) is a good idea, not just in terms of making sure you are getting paid for the work or goods you are supplying but also in managing your working capital.

Debtor Ageing Ratio (in days) = No. of days (365) / Accounts receivables turnover ratio

Accounts Receivable Turnover Ratio = Sales / Average Accounts Receivable

Average Accounts Receivable = (Beginning Accounts Receivable + Ending Accounts Receivable) / 2

iii) Inventory Turnover Ratio :

The inventory turnover ratio indicates how quickly your business is turning

over stock. A high ratio may indicate positive factors such as good stock demand and management. A low ratio may indicate that either stock is naturally slow moving or problems such as the presence of obsolete stock or good presentation. A low ratio can also be indicative of potential stock valuation issues. The calculation used to obtain the ratio is :

Inventory Turnover Ratio = Cost of Goods Sold / Average Inventories Average

Inventories = (Beginning Inventories + Ending Inventories) / 2

4. Capital Structure (Leverage) Analysis Ratios :

(i) Debt to Equity Ratio Also called as gearing ratio :

Gearing is concerned with the relationship between the long term liabilities that a business has and its capital employed. The idea is that this relationship ought to be in balance, with the shareholders' funds being significantly larger than the long term liabilities.

Debt to Equity Ratio = Total Liabilities (Long term debt) / Total Stockholders' Equity

(ii) Interest Coverage Ratio :

The interest coverage ratio is a measurement of the number of times a company could make its interest payments with its earnings before interest and taxes; the lower the ratio, the higher the company's debt burden. As a general rule of thumb, interest coverage ratio above 2 is good. An interest coverage ratio below 1.0 indicates that the business is having difficulties generating the cash necessary to pay its interest obligations. The history and consistency of earnings is tremendously important. The more consistent a company's earnings, the lower the interest coverage ratio can be.

Interest Coverage Ratio = Income Before Interest and Income Tax Expenses / Interest Expense

Income Before Interest and Income Tax Expenses = Income Before Income Taxes + Interest Expense.

4.5 Introduction - Fixed Assets :

Fixed asset loans are issued to address the financing demand of the enterprises' fixed asset investment activities. Enterprises' investment activities in fixed assets include: infrastructure construction, technology transformation, new product development and manufacturing and related activities such as house purchase, engineering project construction, technology and equipment purchase and installation.

Category :

Fixed asset loans are divided into long-term loans, short-term working capital loans and foreign exchange on-lending loans with the following purposes :Capital construction refers to the infrastructure, municipal projects, service facilities,

Capital construction refers to the infrastructure, municipal projects, service facilities, newly established or expanded productive projects etc., which are approved by the authorized state departments.

Technology transformation mainly refers to the production expansion project for the existing enterprises.

Technology development refers to the activities about the research and development of the new technology and new product, and the conversion or application of the development achievements to the production field.

Other fixed purchase refers to the direct purchase of places or facilities etc., which are approved by the authorized state departments.

Features :

1. Generally the loan amount is relatively large;
2. Generally the term is relatively long, most are long or medium term with instalment schedule;
3. On the way of the loan guarantees, except providing the necessary security, generally require taking the new added fixed assets of the project as mortgage;
4. Regarding the application process, the loans should be applied and approved on case by case basis;
5. The differences between the fixed asset loans and working capital loans.

Item	Fixed Asset Loans	Working Capital Loans
Usage	Address the financing demand of the enterprises' fixed assets investment activities	Meet the medium - and short-term financing demand of enterprises
Term	One to five years of medium – term loans or more than five years of long-term loans	Short-term loans less than one year or one to three years of medium-term loans
Auditing Approach	Apply and review case by case	Apply and review case by case or the credit line of the working capital loan which can be easily borrowed, used and repaid within the term and limit specified by the bank
Source of Repayment	The cash flow after project's acceptance of completion or the equity fund of the enterprise	Mainly enterprise's business income

Risk	Influenced by more external factors, having more uncertainty and instability in the nature of higher risk	Risk is mainly with the borrower, guarantor or mortgage (pledge)
Income	Long-term, stable income	Short and medium – term income

Interest Rate :

Generally use the floating interest rate, and implemented in accordance with relevant loan interest rate policies of the People's Bank of China, loan interest rate management regulations of our bank and the agreement of the loan contract.

Charges :

All types of charges for fixed asset loans are subject to the contract.

Target Customers :

Enterprise and institution legal persons and other economic organizations, which keep independent accounting and whose registrations have been approved by the industry and commerce administration authorities (or the competent authorities).

Application Qualifications :

1. The applicant should provide the business license approved annually by the industry and commerce administration authorities, The institutions should provide the legal person certificate;
2. Provide loan license/card issued by the People's Bank of China;
3. Have good economic benefits, good credit status , strong debt paying ability and perfect administration system;
4. Implement loan guarantee acceptable to the bank;
5. Open basic deposit account or general deposit account in Bank of China;
6. The fixed asset loan projects should be in line with national industrial policies and credit policies;
7. The ratio of capital to total investment should be in accordance with the national regulation;
8. Projects should be approved by the relevant government departments, with complete supporting conditions, implementation of the imported equipment and materials source;
9. For application of foreign exchange fixed asset loans, the applicant should hold the import certificate or registration documents.

Process :

1. The borrower submits a loan application to the bank;
2. The borrower submits relevant documents, including business license, articles of association, financial reports of the past three years, project approval and the approval documents, project economic benefit analysis, usage and repayment plan and so on;
3. The bank conducts survey and evaluation before disbursement, and investigates the borrower's credit rating and legitimacy, security, profitability of the borrower, verifies the conditions of collaterals, pledge, guarantor to form the assessment;
4. After the bank's internal review and approval, and with the consent of both parties on the terms of the loan contract, mortgage contract, guarantee contract, the parties sign such contracts;
5. The borrower handles the mortgage registration and other relevant procedures agreed in the contracts;
6. The borrower submits the withdrawal application;
7. Bank funds are credited into the account, and the borrower withdraws the money.

4.6 SUMMARY :

In this lesson we will explore, Credit appraisal is the process of assessing the financial status and creditworthiness of any person or entity that has applied for a credit facility. Banks and financial institutions use credit appraisal techniques to understand how risky a borrower may be. The higher the risk, the lower the chances of a loan or credit card application being approved.

To evaluate the credit risk involved, banks and lending institutions look into various factors that offer insights into a borrower’s creditworthiness. They look into the income level, repayment history and existing debt levels. The credit score is another pivotal aspect of the credit appraisal process.

4.7 KEY WORDS :

Financial Stability Board :

Established by the G-20 countries to coordinate the development of financial regulatory policies between international standard setters, multilateral organizations, and members’ national authorities for financial regulation.

Fixed Exchange Rate System :

A system in which the exchange rate of a country’s currency is tied to one major currency, such as the U.S. dollar.

Fixed Rate of Exchange :

A rate of exchange set by a foreign government relative to the dollar, gold, another currency, or perhaps special drawing rights.It remains in effect as long as that government is willing and/or able to buy or sell exchange at the set rates.

Floating Exchange Rate System :

A system in which the values of the currencies of various countries relative to each other are established by supply and demand forces in the market without government intervention.

Floating Rate :

A rate of exchange that is determined completely by market forces with no floor or ceiling in relation to the dollar, gold, special drawing rights or any other currency.

4.8 SELF ASSESSMENT QUESTIONS :

1. Meaning of Credit Appraisal.
2. Why Is Credit Appraisal Important?
3. Credit Appraisal Techniques.
4. Techniques Of Financial Analysis.
5. Describe fixed assets.

4.9 SUGGESTED READINGS :

1. AddressbyDrK.C.Chakrabarty,DeputyGovernor,RBIatSt.Xavier’sCollege (September 6, 2011) on Financial Inclusion.
2. DougJohnson,CentreforMicrofinance,“FinancialInclusion&DeliveryofSoci al Transfer Payments”, 2010
3. Social Banking and Social Finance: Answers to the Economic Crisis, Springer, New York, 2010.
4. DraftFiveYearPlanDocument(2007–12),PlanningCommission,NewDelhi, 2007.

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LESSON – 5
WORKING CAPITAL

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of working capital
- describe the working capital requirements
- renew and recovery of Advances

Structure of the Lesson :

5.1 Introduction – Working Capital

5.2 Working Capital Requirements

5.3 Methods of Working capital assessment

5.4 Responsibility

5.5 How to Renew a Loan

5.6 Recovery of advances

5.7 Summary

5.8 Key Words

5.9 Self Assessment Questions

5.10 Suggested Readings

5.1 INTRODUCTION – WORKING CAPITAL :

Working Capital Management refers to the process of managing a company's short-term assets and liabilities to ensure it maintains sufficient cash flow to meet its short-term debt obligations and operational expenses. This management practice is crucial for maintaining a firm's liquidity, operational efficiency, and overall financial health. Key components of working capital management include managing inventories, accounts receivable and payable, and cash. Effective working capital management helps a company to optimize its net current assets and is a critical aspect of financial management that can impact profitability and liquidity.

The efficiency of the planning and management is subject to the correct estimate of the working capital requirement. Irrespective of the planning exercise made and control mechanism adopted, the correct estimation of working capital requirement is the fundamental

necessity of a good and efficient working capital management. The present article looks into the steps and calculations required to estimate the working capital requirement for a firm.

1. Estimation Process :

A firm must estimate in advance as to how much net working capital will be required for the smooth operations of the business. Only then, it can bifurcate this requirement into permanent working capital and temporary working capital. This bifurcation will help in deciding the financing pattern *i.e.*, how much working capital should be financed from long term sources and how much be financed from short term sources. There are different approaches available to estimate the working capital requirements of a firm.

2. Working Capital as a Percentage of Net Sales :

This approach to estimate the working capital requirement is based on the fact that the working capital for any firm is directly related to the sales volume of that firm. So, the working capital requirement is expressed as a percentage of expected sales for a particular period. The working capital estimation is thus, solely dependent on the sales forecast. This approach is Based on the assumption that higher the sales level, the greater would be the need for working capital. There are three steps involved in the estimation of working capital.

- To estimate total current assets as a % of estimated net sales.
- To estimate current liabilities as a % of estimated net sales, and
- The difference between the two above, is the net working capital as a % of net sales.

So, the firm has to find out on the basis of past experience, or on the basis of other firm's experience in the same competitive environment, as to how much total current assets and total current liabilities should be maintained for a given level of expected sales. The step (*a*) above *i.e.*, total current assets as a % of net sales will give the gross working capital requirement and step (*b*) above *i.e.*, current liabilities as a % of net sales will give the funds provided by current liabilities. The difference between the two is the net working capital which the firm has to arrange for. For example, the following information is available for ABC Ltd. for past three years, on the basis of which the working capital requirement for the next year is to be estimated, given that the sales are expected to increase by 10% over sales level of current year.

	Year 1	Year 2	Year 3
Net Sales	Rs. 10,00,000	Rs. 12,00,000	Rs. 14,00,000
Total Current Assets	2,00,000	2,52,000	3,08,000

Total Current Liabilities	50,000	60,000	70,000
Current Assets as a % of Sales	20%	21%	22%
Current Liabilities as a % of Sales	5%	5%	5%

In this case, the average of current assets as a % of sales is 21% *i.e.*, (20%+21%+22%)/3; and the average of current liabilities as a % of sales is 5%. So, the net working capital as a % of sales is 16% *i.e.*, 21%-5%. Now, if the firm expects an increase of 10% in sales next year, then its working capital requirement can be estimated as follows:

Expected Sales = Rs. 14,00,000 + 10% thereof = Rs. 15,40,000.

Net working capital as a % of sales = 16%. = Rs. 15,40,000 × 16% = Rs. 2,46,400.

The firm is expected to have gross working capital of Rs. 3,23,400 (*i.e.*, 21% of Rs. 15,40,000) out of which financing by current liabilities is expected to be Rs. 77,000 (*i.e.*, 5% of Rs. 15,40,000). It may be noted that in the above situation the simple arithmetic average of current assets and current liabilities as a % of sales have been taken. If there is a consistent trend (increase or decrease) in current assets or current liabilities or both, then the weighted average may be preferred.

3. Working Capital as a Percentage of Total Assets or Fixed Assets :

This approach of estimation of working capital requirement is based on the fact that the total assets of the firm are consisting of fixed assets and current assets. On the basis of past experience, a relationship between

- total current assets *i.e.*, gross working capital; or net working capital *i.e.*, Current assets – Current liabilities, and
- total fixed assets or total assets of the firm is established. For example, a firm is maintaining 20% of its total assets in the form of current assets and expects to have total assets of Rs. 50,00,000 next year. Thus, the current assets of the firm would be Rs. 10,00,000 (*i.e.*, 20% of Rs. 50,00,000).

In this approach, the working capital may also be estimated as a % of fixed assets. The firm basically plans the future level of fixed assets in terms of capital budgeting decisions. In order to use these fixed assets in an efficient and optimal way, the firm must have sufficient working capital. So, the working capital requirement depend upon the planned level of fixed assets. The estimation of working capital therefore, depends upon the estimation of fixed capital which depends upon the capital budgeting decisions. It has already been noted in Chapter 8 that the investment decisions of a firm are consisting of capital budgeting decisions (relating to fixed assets) and working capital management (relating to current assets and current liabilities). So, the working capital estimation, being a part of the investment decisions, should be made together with the capital budgeting decisions.

Both the above approaches to the estimation of working capital requirement are relatively simple in approach but difficult in calculation. The main shortcoming of these approaches is that these require to establish the relationship of current assets with the net sales or fixed assets, which is quite difficult. The past experience either may not be available, or even if available, may not help much in correct estimation. There is yet another approach to estimate the working capital requirement based on the concept of operating cycle.

4. Working Capital based on Operating Cycle :

The concept of operating cycle, as discussed in the preceding chapter, helps determining the time scale over which the current assets are maintained. The operating cycle for different components of working capital gives the time for which an assets is maintained, once it is acquired. However, the concept of operating cycle does not talk of the funds invested in maintaining these current assets. The concept of operating cycle can definitely be used to estimate the working capital requirements for any firm.

In this approach, the working capital estimate depends upon the operating cycle of the firm. A detailed analysis is made for each component of working capital and estimation is made for each of these components. The different components of working capital may be enumerated as follows:

Current Assets	Current Liabilities
Cash and Bank Balance	Creditors for Purchases
Inventory of Raw Material	Creditors for Expenses
Inventory of Work-in-progress	
Inventory of Finished Goods	
Receivables	

5.2 WORKING CAPITAL REQUIREMENTS :

Different components of current assets require funds depending upon the respective operating cycle and the cost involved. The current liabilities, on the other hand, provide financing depending upon the respective operating cycle or the lag period in payment. The estimation of working capital requirement can now be made as follows :

(a) Need for Cash and Bank Balance : Every firm must maintain some minimum cash and bank balance (*i.e.*, immediate liquidity) to meet day to day requirement for petty expenses, general expenses and even for cash purchases. The minimum cash requirement for these

transactions can be estimated on the basis of past experience. The need or motives for holding cash and bank balance have been discussed in detail in the next chapter. However, it must be noted, at this stage that the cash and bank balance must be estimated correctly for two reasons:

(i) That the cash and bank balance is the least productive of all the current assets, hence a minimum balance be maintained, and

(ii) The cash and bank balance provide liquidity to the firm, which is of utmost importance to any firm.

The minimum cash and bank balance is also considered while preparing the cash budget for the firm.

(b) Need for Raw Materials : Every manufacturing firm has to maintain some stock of raw material in stores in order to meet the requirements of the production process. The number of units to be kept in stores for different types of raw materials depend upon various factors such as raw material consumption rate, time lag in procuring fresh stock, contingencies and other factors. For example, if it takes 5 days to procure fresh stock of raw materials, and 50 units are used daily, then there should be a minimum of 250 units in stock. The firm may also like to have a safety stock of 20 units. Thus, the total units to be maintained in stores would be 270 units. If the cost per unit of this item of raw material is Rs. 10 per unit, then the working capital requirement is Rs. 2,700 (*i.e.*, 270 × Rs. 10).

(c) Need for Work – in - progress : In any manufacturing firm, the production process is continuous and is generally consisting of several stages. At any particular point of time, there will be different number of units in different stages of production. Some of these units may be 10% complete, some may be 60% complete and some may be even 99% complete. These units, which can neither be defined as raw material nor as finished goods, are known as work-in-progress or semi-finished goods. The value of raw material, wages and other expenses locked up in these semi-finished units is the working capital requirement for work-in-progress.

It may be noted that all the units are not equally completed and hence valuation of all these units is a difficult job. For this purpose, certain assumptions may be made as follows :

(i) The production process starts with the intake of full raw material. So, the value of raw material locked up in work-in-progress will be equal to full cost of number of units of raw material being represented in work-in-progress.

(ii) The units in work-in-progress may be unfinished with respect to labour expenses and overhead expenses only. Some of these units may be 10% complete, some may be 75% complete and some may be even 80% complete and so on. It is assumed for simplification, that all work-in-progress units are on an average 50% complete with respect to labour and overhead expenses. However, if some other information is given, then the valuation of work-in-progress may be made accordingly.

(d) Need for Finished Goods : In most of the cases, be it a trading concern or a manufacturing concern, the goods are not immediately sold after purchase/procurement/completion of production process. The goods in fact, remain in stores for some times before they are sold. The cost which is already incurred in purchasing, procuring or production of these units is locked up and hence working capital is required for them. It may be noted that these finished goods are valued on the basis of cost of these units. The carriage inward of course, is included.

(e) Need for Receivables : The term receivables include the debtors and the bills. When the goods are sold by a firm on cash basis, the sales revenue is realized immediately and no working capital is required for after sale period. However, in case of credit sales, there is a time lag between sales and collection of sales revenue. For example, a firm makes a credit sale of Rs. 1,50,000 per month and a credit of 15 days given to customers. The working capital locked up in receivables is Rs. 75,000 (Rs. 1,50,000 × 1/2 month).

However, an important point is worth noting here. The calculation of Rs. 75,000 is based upon the selling price, whereas the actual funds locked up in receivables are restricted to the cost of goods sold only. There is no investment in profit element as such. Therefore, it is better to calculate the working capital locked up in receivables on the cost basis. Thus, if the firm is selling goods at a gross profit of 20% then the working capital requirement in the above case, for receivables would be Rs. 60,000 only (*i.e.*, Rs. 75,000 × 80%).

The total of working capital requirement for all the above elements is also known as the gross working capital of the firm. At any particular point of time every firm requires this gross working capital as there will be some units of raw materials in stores, some units in work-in-progress, some units as finished goods and there will be some debtors yet to be collected.

(f) Creditors for the Purchases : Likewise a firm sells goods and services on credit it may procure/purchases raw materials and finished goods on credit basis. The payment for these purchases may be postponed for the period of credit allowed by suppliers. So, the suppliers of the firm in fact provide working capital to the firm for the credit period. For example, a firm makes credit purchases of Rs. 60,000 per month and the credit allowed by the suppliers is two month, then the working capital supplied by the creditors is Rs. 1,20,000 (*i.e.*, Rs. 60,000×2 months). It means that the firm would be getting the supplies without however, making the payment for two months. The postponement of the payment to the creditors makes the firm to utilize this money elsewhere or help the firm to sell on credit without blocking its own funds.

(g) Creditors for Expenses and Wages : Usually, the expenses and wages are paid at the end of a month. However, these wages and expenses accumulate in the work-in-progress and finished goods on a regular basis. The time lag in payment of wages and other expenses also provide some working capital to the firm. It may be noted that these wages and expenses are considered for the valuation of work-in-progress and finished goods, but are paid usually at the end of the month, providing a working capital to the firm for that period.

The working capital estimation as per the method of operating cycle, is the most systematic and logical approach. In this case, the working capital estimation is made on the

basis of analysis of each and every component of the working capital individually. As already discussed, the working capital, required to sustain the level of planned operations, is determined by calculating all the individual components of current assets and current liabilities. There are different steps required for estimation of working capital based on operating cycle. These steps are :

1. Identify the current assets and current liabilities to be maintained. Estimation of each element of current assets and current liability is required.
2. Determine the average operating cycle (or holding period) for each of these elements. Calculation of different holding periods has been explained in the previous chapter.
3. Find out the rate per unit for each of these elements. For example, the rates of raw materials, work in progress, finished goods are to be ascertained.
4. Find out the amount (funds) expected to be blocked in each of these elements. For example, in raw materials, the funds blocked are: Av. holding period × No. of units required Per Period × Rate per unit.
5. Prepare the working capital estimation sheet and find out the working capital requirement.

The calculation of net working capital may also be shown as follows :

Working Capital	= Current Assets – Current Liabilities = (Raw Material Stock + Work-in- progress Stock + Finished Goods Stock + Debtors + Cash Balance) – (Credi- tors + Outstanding Wages + Outstanding Overheads),
where, w Material Stock	= Cost (Average) of Materials in Stock.
Work-in-progress Stock	= Cost of Materials + Wages + Overhead of Work-in-progress.
Finished Goods Stock editors for Material	= Cost of Materials + Wages + Overhead of Finished Goods.
Creditors for Materials	= Cost of Average Outstanding Creditors.

Creditors for Wages	= Average Wages Outstanding.
Creditors for Overhead	= Average Overheads Outstanding.
Thus, Working Capital	= Cost of Materials in Stores, in Work-in-progress, in Finished Goods and in Debtors. Less : Creditors for Materials Plus : Wages in Work-in-progress, in Finished Goods and in Debtors. Less : Creditors for Wages. Plus : Overheads in Work-in-progress, in Finished Goods and in Debtors. Less : Creditors for Overheads.

5. Estimation of Working Capital Requirements :

I.	Current Assets	Amount	Amount	Amount
	Minimum Cash Balance		****	
	Inventories:			
	Raw Materials	****		
	Work-in-progress	****		
	Finished Goods	****	****	
	Receivables:			

	Debtors	****		
	Bills	****	****	
	Gross Working Capital (CA)		****	****
II.	Current Liabilities			
	Creditors for Purchases		****	
	Creditors for Wages		****	
	Creditors for Overheads		****	
	Total Current Liabilities (CL)		****	****
	Excess of CA over CL			****
	+ Safety Margin			****
	Net Working Capital			****

The following points are also worth noting while estimating the working capital requirement :

1. Depreciation : An important point worth noting while estimating the working capital requirement is the depreciation on fixed assets. The depreciation on the fixed assets, which are used in the production process or other activities, is not considered in working capital estimation. The depreciation is a non-cash expense and there is no funds locked up in depreciation as such and therefore, it is ignored. Depreciation is neither included in valuation of work-in-progress nor in finished goods. The working capital calculated by ignoring depreciation is known as cash basis working capital. In case, depreciation is included in working capital calculations, such estimate is known as total basis working capital.

2. Safety Margin : Sometimes, a firm may also like to have a safety margin of working capital in order to meet any contingency. The safety margin may be expressed as a % of total current assets or total current liabilities or net working capital. The safety margin, if required, is incorporated in the working capital estimates to find out the net working capital required for the firm. There is no hard and fast rule about the quantum of safety margin and depends upon the nature and characteristics of the firm as well as of its current assets and current liabilities.

6. Double Shifting Work :

In case, the firm is operating in double shift then a few adjustments are required in the working capital estimation. The double shift working has an effect on the working capital requirement. The reason being that extra working (production) would require additional raw materials and would result in higher stock of finished goods. Sometimes, the firm may be required to pay a higher wage rate to the labour. Fixed costs of production may remain same or may increase. The calculation of working capital requirement for double shift should be made depending on the information. If sufficient information is not available, then some assumptions may be made as follows:

1. That the requirement of raw material will increase proportionately. The storage period of raw material may remain same. Similarly, stock of finished goods will also increase.
2. The work on work-in-progress of the first shift will continue in the second shift and no extra funds would be blocked in the work in progress.
3. Fixed costs may remain same, and consequently, the fixed cost per unit will decrease as the total production increases.
4. The cost of raw materials and the selling price per unit of finished goods may decrease because of larger volumes. This change should be incorporated in the working capital estimation.

The effects of different CA and CL on working capital requirement due to Double Shift Operations are given below :

Item of CA or CL	Effect on Working Capital
Raw Material in Store	Naturally, the Raw Materials requirement of the firm would increase. Unless given otherwise, it should increase proportionately.
Raw Material in Work-in-progress	There would be no increases because the work-in-progress of first shift will continue in second shift, and so on.

Labour cost in Work-in-progress	Total Labour cost will be incurred in both the shifts. So, labour expenses will increase. Rate per unit or Rate per hour may be same or different in two shifts.
Other Variable Expenses	Other Variable Expenses per unit may remain same for second shift, but total expense for the firm will proportionately increase.
Fixed Expenses	Fixed Expenses may increase, if new fixed cost element (e.g., New Supervisor for second shift) is incurred.
Creditors for Goods	Creditors for goods will increase in proportion to increase in raw material purchases. However, credit period may change.
Creditors for Expenses	Creditors for wages, overheads and other expenses may change in proportion to change in the relevant cost

5.3 METHODS OF WORKING CAPITAL ASSESSMENT :

- Operating Cycle Method
- Drawing Power Method.
- Turnover Method.
- MPBF method (II method of lending) for limits of Rs 6.00 crores and above
- Cash Budget method - Based on procurement and cash inflow) . It is mainly used for Seasonal Industries (Sugar/ Rice Mills/Textiles/Tea/Tobacco/Fertilizers) Contractors & Real Estate Developers , Educational Institutions, etc.

Operating Cycle Method :

Meaning of operating cycle :

It begins with acquisition of raw materials and ends with collection of receivables.

Stages :

- 1) Raw materials (RM/RM consumption)

  2) Work-in-process (WIP/COP)

3) Finished Goods (FG/COS)

4) Receivables (Debtors/Credit sales)

Less :
- Creditors (creditors/purchases)

Example of Operating Cycle :

Length of operating Cycle :

a. Procurement of raw material : 30 days

b. Conversion/process time : 15 days

c. Average time of holding of finished goods : 15 days

d. Average collection period : 30 days

e. Total operating cycle : 90 days

f. Operating cycle in a year : 4

g. Total operating expenses per annum : Rs.60 lacs

h. Total turnover per annum : Rs.70 lacs

i. Working capital requirement : 60 / 4 = 15 lacs

Drawing Power (DP) Method :
(for units with small limits)

Drawing power is arrived at on the basis of valuation of current assets charged to the bank in the shape of hypothecation and assignment , after deducting the stipulated margin.

Illustration :

Paid stock – 4 Margin 25% - DP = 3

Semi-finished goods – 4 Margin 50% - DP = 2

Finished goods – 4 Margin 25% - DP = 3

Book Debts – 4 Margin 50% - DP = 2

Total DP = 10

Turnover Method :
(originally suggested by Nayak Committee for SSI units)

The WC requirements may be worked out on the basis of Naik Committee recommendations for working capital limit upto Rs.6 crores from the banking system, on the basis of minimum of 20% of their projected annual turnover for new as well as existing units, beyond which WC be computed on the basis of WC cycle, after fixing stipulated margins , on each component of the WC. In case of borrowers desiring facilities under Naik Committee recommendations and having a WC cycle of more than 3 months in a year, the WC

requirements will be funded after assessing his requirements on the basis of his WC cycle, after fixing proper margins.

Example :

Applicable for limits upto Rs.6 crores :

(a) Projected sales = Rs. 10,00,000

(b) Working capital requirements: 25% of projected sales i.e. Rs.2,50,000

(c) Margin (contribution of Owner) : 5% of projected sales i.e. Rs.50,000

(d) Working capital to be funded by bank : Rs.2,00,000

MPBF Method :
(Tandon's II method of lending)

- Working capital gap : Current assets – current liabilities (other than bank borrowings)
- Minimum stipulated net working capital= 25% of current assets (excluding exports receivables)
- Actual projected NWC

Monitoring of Advances :

Diversion of Funds

Some of the bank clients are known to be making large cash withdrawals. It is quite possible that such cash withdrawals may be used by the account holders for undesirable or illegal activities. While cash withdrawals cannot be refused, banks should keep a proper vigil over requests of their clients for cash withdrawals from their accounts for large amounts.

Post – Sanction Monitoring :

(i) It is the primary responsibility of banks to be vigilant and ensure proper end use of bank funds /monitor the funds flow. It is, therefore, necessary for banks to evolve such arrangements as may be considered necessary to ensure that drawals from cash credit/overdraft accounts are strictly for the purpose for which the credit limits are sanctioned by them. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies/subsidiaries, and acquisition of shares, debentures, units of Unit Trust of India and other mutual funds, and other investments in the capital market. This has to be so, even if there is sufficient drawing power/undrawn limit for the purpose of effecting drawals from the cash credit account.

(ii) Post sanction follow-up of loans and advances should be effective so as to ensure that the security obtained from borrowers by way of hypothecation, pledge, etc. are not tampered with in any manner and are adequate.

(iii) Drawals against clearing cheques should be sanctioned only in respect of first class customers and even in such cases the extent of limits and the need there for should be subjected to thorough scrutiny and periodical review. Banks should not issue banker's cheques / pay orders/demand drafts against instruments presented for clearing, unless the proceeds thereof are collected and credited to the account of the party. Further, banker's cheques /pay orders/ demand drafts, should not be issued by debit to cash credit /over draft accounts which are already overdrawn or likely to be overdrawn with the issue of such instruments.

(iv) Drawals against clearing instruments should be normally confined to bank drafts and government cheques and only to a limited extent against third party cheques.

(v) Cheques against which drawals are allowed should represent genuine trade transactions and strict vigilance should be observed against assisting kite-flying operations.

(vi) Drawals against cheques of allied /sister concerns should not be permitted and the facility of drawal against clearing cheques should normally be of temporary nature and should not be allowed on a regular basis without proper scrutiny and appraisal.

(vii) Bills of accommodation nature should never be purchased and the officials responsible for purchase of such bills should be punished suitably.

(viii) In case a borrower is found to have diverted finance for the purposes, other than for which it was granted, banks must recall the amounts so diverted. In addition, banks may charge penal interest on the amount diverted.

(ix) Where borrowers fail to repay the amounts diverted from cash credit accounts for uses other than for which the limit was sanctioned, banks should reduce the limits to the extent of amount diverted. The above aspects relating to safe guards are only illustrative in nature and not exhaustive.

5.4 RESPONSIBILITY :

(i) The primary responsibility for preventing misuse of funds rests with the management of banks. For the purpose, highest standards of integrity and efficiency are imperative in urban banks which are the trustees of public money. The banks should, therefore, take appropriate steps to review and tighten their internal administration and control measures so as to eliminate the scope for misuse/diversion of funds and malpractices.

(ii) Banks should take serious view of instances of misuse of power, corruption and other malpractices indulged by the members of staff and erring staff members should be given punishments befitting the seriousness of the irregularity. Light punishments such as issue of warning, stoppage of increments, transfer, etc. may not prove a deterrent in all cases. Quick disposal of enquiries by the banks and award of deterrent punishment would be necessary in all such cases, The Board should take more active interest in these matters.

5.5 HOW TO RENEW A LOAN :

Sometimes lenders will reach out to you if you're eligible for a loan renewal. However, if they don't contact you, you can approach them to be considered for additional

funding.

Applying for a loan renewal generally involves the same process as applying for an initial business loan. However, a few additional considerations come into play that can add a step to the process.

Step 1 – Apply for a Loan with a Renewal Clause :

Typically, a loan renewal is based on a clause in an original loan. Therefore, you can significantly improve your chances of approval if you start by applying for a loan with a renewal option.

However, in some cases, lenders may be willing to add an option to an existing loan if you've been making your payments on time. If your current loan doesn't include an option to renew, you can try asking your lender for one.

Step 2 – Make Your Loan Payments on Time :

To qualify for a loan renewal, you'll need to make your payments for your original loan on time. This shows you're a responsible borrower and gives lenders confidence they aren't taking on a high risk of default by extending a renewal offer to you.

Step 3 – Optimize Your Credit Rating :

In addition to making payments on time, you can take other steps to improve your creditworthiness and chances of receiving a loan approval. These include :

- Paying bills on time.
- Paying down remaining balances on credit cards and other debts.
- Correcting any errors on your credit report.
- Depositing more money into your business bank account to keep your average bank balance high.
- Reviewing your financial statements with your accountant to see if adjusting any items could improve your performance numbers.
- Considering whether you have any collateral.
- Making sure your business is current with state and federal authorities on all annual reports, licenses and tax filings.
- Rereading the terms of your loan contract to make sure you aren't violating any conditions that could affect your renewal qualifications.

Step 4 - Compare Your Options :

If your credit score or revenue has improved since you applied for your original loan, you may have better financing options at your disposal. Compare your options to determine if a loan renewal offer is the best fit for your business.

Step 5 – Submit Your Application :

Different lenders and financing types may have distinct policies on when you can apply for a loan renewal. Some may allow you to apply for a renewal as early as halfway through your original loan term, while others may require you to wait until most of your original loan is repaid. If time goes by and you haven't heard from your lender regarding a loan renewal, contact them about submitting an application.

Before a lender renews your loan, you'll have to go through an approval process similar to when you took out your original loan. That said, different lenders may have varying requirements regarding what qualifications and paperwork you'll need.

If you have an existing relationship with a lender, though, they should have much of your information available already, which should streamline the loan renewal process. Additionally, online lenders often have more relaxed re-approval processes than conventional lenders. However, at the very least, you'll likely need to provide several of your most recent business bank statements.

5.6 Recovery of advances :

(1) An advance shall be recovered from the subscriber in such number of equal monthly instalments as the sanctioning authority may direct; but such number shall not be less than twelve unless the subscriber so elects and more than twenty four. In special cases where the amount of advance exceeds three months Pay of the subscriber under sub-rule (3) of Rule 13 the sanctioning authority may fix such number of instalments to be more than twenty four but in no case more than thirty-six. A subscriber may, at his option, repay more than one instalment in a month. Each instalment shall be a number of whole rupee, the amount of the advance being raised or reduced, if necessary, to admit of the fixation of such instalments.

(2) Recovery shall be made in the manner prescribed in Rule 10 for the realization of subscriptions, and shall commence with the issue of pay for the month following the one in which the advance was drawn. Recovery shall not be made, except with the subscriber's consent while he is in receipt of subsistence grant or is on leave for ten days or more in a calendar month which either does not carry any leave salary or carries leave salary equal to or less than half pay or half average pay, as the case may be. The recovery may be postponed, on the subscriber's written request, by the sanctioning authority during recovery of an advance of pay granted to the subscriber.

(3) If an advance has been granted to a subscriber and drawn by him and the advance is subsequently disallowed before repayment is completed, the whole or balance of the amount withdrawn shall forthwith be repaid by the subscriber to the Fund, or in default, be ordered by the Accounts Officer to be recovered by deduction from the emoluments of the subscriber in a lump sum or in monthly instalments not exceeding twelve as may be directed by the authority competent to sanction and advance for the grant of which, special reasons are required under sub-rule (3) of Rule 13; Provided that, before such advance is disallowed, the subscriber shall be given an opportunity to explain to the sanctioning authority in writing and within fifteen days of the receipt of the communication why the repayment shall not be enforced and if an explanation is submitted by the subscriber within the said period of fifteen days, it shall be referred to the Governor for decision and if no explanation within the said

period is submitted by him, the repayment of the advance shall be enforced in the manner prescribed in this sub-rule.

(4) Recoveries made under this rule shall be credited as they are made to the subscriber's account in the Fund.

5.7 SUMMARY :

Working capital management is pertinent to a sound understanding of a company's ability to meet its short-term and daily operational needs. These operational needs include the necessary cash flow requirements as well as ensuring resources are used productively. The four primary areas, cash, accounts receivable, inventory, and accounts payable, are used to identify, more specifically, if those needs are being met. Working capital is the difference between current assets and current liabilities and provides an indication of liquidity, which is the ability to convert short-term assets to pay creditors. Working capital efficiency is measured in terms of the cash conversion cycle or with the working capital ratio formula, current assets/current liabilities. By breaking down each of the four primary areas into understandable ratios and metrics, whether by the working capital manager or another strategic manager, a company can engage in more accurate capital budgeting. This ability translates to a perspective of working capital that can be used to manage working capital more effectively and efficiently. Ultimately, working capital management is one of the many tools a company utilizes to enhance profitability and promote future growth.

5.8 KEY WORDS :

Letter of Credit (Import) :

A letter of credit issued by a bank on behalf of a customer who is importing merchandise into a country. Issuance of an import letter of credit carries a definite commitment by the bank to honor the beneficiary's drawings under the credit.

Letter of Credit (Irrevocable) :

A letter of credit that cannot be modified or revoked without the customer's consent or that cannot be modified or revoked without the beneficiary's consent.

Letter of Credit (Negotiation) :

A letter of credit requiring negotiation (usually in the locality of the beneficiary) on or before the expiration date. The engagement clause to honor drafts is in favor of the drawers, endorsers, or bona fide holders.

Letter of Credit (Nontransferable) :

A letter of credit that the beneficiary is not allowed to transfer, in whole or part, to any party.

Letter of Credit (Red Clause) :

A clause permitting the beneficiary to obtain payment in advance of shipment so that the seller may procure the goods to be shipped.

5.9 SELF ASSESSMENT QUESTIONS :

1. Working Capital Requirements.
2. Methods of Working capital assessment.
3. Responsibility.
4. How to Renew a Loan.
5. Recovery of advances.

5.10 SUGGESTED READINGS :

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2. Bager, T. (1994). Isomorphic processes and the transformation of cooperatives. *Annals of Public and Cooperative Economics*, *65* (1), 35–54.

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LESSON – 6

SICK UNITS

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of Sick Unit
- describe the Delegation
- sick units rehabilitation

Structure of the Lesson :

6.1 Definition of Sick Unit

6.2 Viability of Sick SSI Units

6.3 Reliefs and Concessions for Rehabilitation of Potentially Viable Units

6.4 Delegation of Powers

6.5 Relief and concessions which can be extended by banks / financial institutions to potentially viable sick SSI units under rehabilitation

6.5.1 Interest Dues on Cash Credit and Term Loan

6.5.2 Unadjusted Interest Dues

6.5.3 Term Loans

6.5.4 Working Capital Term Loan (WCTL)

6.5.5 Cash Losses

6.5.6 Working Capital

6.5.7 Contingency Loan Assistance

6.5.8 Funds for Start-up Expenses and Margin for Working Capital

6.5.9 Promoters' Contribution

6.6 Summary

6.7 Key words

6.8 Self assessment questions

6.9 Suggested Readings

6.1 DEFINITION OF SICK SSI UNIT :

An SSI unit should be considered 'Sick' if

a) any of the borrowal accounts of the unit remains substandard for more than six

months i.e. principal or interest, in respect of any of its borrowal accounts has remained over due for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard, is reduced in due course;

or

b) there is erosion in the net worth due to accumulated cash losses to the extent of 50 percent of its net worth during the previous accounting year; and the unit has been in commercial production for at least two years.

This would enable banks to take action at an early stage for revival of the units. For the purpose of formulating nursing programme, banks should go by the above definition with immediate effect.

6.2 VIABILITY OF SICK SSI UNITS :

A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central / State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny / decentralised sector units, the period of reliefs/concessions and repayment period of restructured debts which were hitherto, two years and three years respectively have been revised, so as not to exceed five and seven years respectively, as in the case of other SSI units. Based on the norms specified above, it will be for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. Viability of a unit identified as sick, should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package, banks / FIs are advised to do holding operation' for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such holding operation'.

6.3 RELIEFS AND CONCESSIONS FOR REHABILITATION OF POTENTIALLY VIABLE UNITS :

It is emphasised that only those units which are considered to be potentially viable should be taken up for rehabilitation. The reliefs and concessions specified are not to be given in a routine manner and have to be decided by concerned bank / financial institution based on the commercial judgment and merits of each case. Banks have also the freedom to extend reliefs and concessions beyond the parameters in deserving cases. Only in exceptional cases, concessions / reliefs beyond the parameters should be considered. In fact, the viability study itself should contain a sensitivity analysis in respect of the risks involved that in turn will enable firming up of the corrective action matrix. Norms for grant of reliefs and

concessions by banks/financial institutions to potentially viable sick SSI units for rehabilitation are furnished in Appendix-II.

Units becoming sick on account of willful mismanagement, willful default, unauthorizeddiversionoffunds,disputesamongpartners/promoters,etc.shouldnot be considered for rehabilitation and steps should be taken for recovery of bank's dues. The definition of willful default, will broadly cover the following :

- Deliberate non – payment of the dues despite adequate cash flow and good net worth.
- Siphoning off of funds to the detriment of the defaulting unit.
- Assets financed have either not been purchased or have been sold and proceeds have been misutilised.
- Misrepresentation / falsification of records.
- Disposal / removal of securities without bank's knowledge.
- Fraudulent transactions by the borrower.

The views of the lending banks in regard to willful mismanagement of funds / defaults will be treated as final.

6.4 DELEGATION OF POWERS :

The delay in the implementation of agreed rehabilitation packages should be reduced. One of the factors contributing to such delay was found to be the time taken by banks having multiple branches for obtaining clearance from the Head Office for the relief and concessions. As it is essential to accelerate the process of clearance, the banks may delegate sufficient powers to senior officers at various levels to sanction the bank's rehabilitation package drawn up in conformity with the prescribed guidelines.

Illustrative list of warning signals of incipient sickness that are thrown up during the Scrutiny of Borrowal Accounts and other Related Records

(e.g. Periodical Financial Data, Statements, Report on Inspection of Factory Premises and Godowns, etc.)

- Continuous irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits, periodical interest debited remaining unrealised;
- Outstanding balance in cash credit account remaining continuously at the maximum;
- Failure to make timely payment of installments of principal and interest on term loans;
- Complaints from suppliers of raw materials, water, power, etc. about non-payment of bills;

- Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements;
- Attempts to divert sale proceeds through accounts with otherbanks;
- Downward trend in credit summations;
- Frequent return of cheques or bills;
- Steep decline in production figures;
- Downward trends in sales and fall in profits;
- Rising level of inventories, which may include large proportion of slow ornon-moving items;
- Larger and longer out standings in bill accounts;
- Longer period of credit allowed on sale documents negotiated through the bank and frequent return by the customers of the same as also allowing large discount on sales;
- Failure to pay statutory liabilities;
- Utilization of funds for purposes other than running the units.
- Not furnishing the required information / data on operations in time.
- Unreasonable / wide variations in sales / receivables levels vis-à-vis level of operation of the unit.
- Non co-operation for stock inspections, etc.
- Delay in meeting commitments towards payments of installments due, crystallized liabilities under LC / BGs, etc.
- Diverting / routing of receivables through non – lending banks.

6.5 RELIEF AND CONCESSIONS WHICH CAN BE EXTENDED BY BANKS / FINANCIAL INSTITUTIONS TO POTENTIALLY VIABLE SICK SSI UNITS UNDER REHABILITATION :

The viability and there habilitation of a sick SSI unit would depend primarily on the units ability to continue to service its repayment obligations including the past restructured debts. It is, therefore, essential to ensure that ordinarily there is no write-off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. The guidelines on various parameters on reliefs and concessions are given below.

6.5.1 Interest Dues on Cash Credit and Term Loan :

If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this

period should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding three years from the date of commencement of implementation of the rehabilitation programme.

6.5.2 Unadjusted Interest Dues :

Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the same terms as at (i) above.

6.5.3 Term Loans :

The rate of interest on term loans may be reduced, where considered necessary, by not more than three per cent in the case of tiny / decentralised sector units and by not more than two per cent for other SSI units, below the document rate.

6.5.4 Working Capital Term Loan(WCTL) :

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and (ii) above, the balance representing principal dues maybe treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan (WCTL) with a repayment schedule not exceeding 5 years. The rate of interest applicable may be 1.5% to 3% points below the prevailing fixed rate / minimum lending rate of the bank, wherever applicable, to all sick SSI units including tiny and decentralized units.

6.5.5 Cash Losses :

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing programme may also befinanced by the bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded amount at the rates prescribed by SIDBI under its scheme for rehabilitation assistance.

Future cash losses in this context will refer to losses from the time of implementation of the package up to the point of cash break-even as projected. Future cash losses as above, should be worked out before interest (i.e., after excluding interest) on working capital etc., due to the banks and should be financed by the financial institutions if it is one of the financiers of the unit. In other words, the financial institutions should not be asked to provide for interest due to the banks in the computation of future cash losses and this should be taken care of by future cash accruals.

The interest due to the bank should be funded by it separately. Where, however, a commercial bank alone is the financier, the future cash losses including interest will be financed by it.

The interest on the funded amounts of cash losses / interest will be at the rates

prescribed by Small Industries Development Bank of India under its scheme for rehabilitation assistance.

6.5.6 Working Capital :

Interest on working capital may be charged at 1.5% below the prevailing fixed / minimum lending rate charged by the bank wherever applicable. Additional working capital limits may be extended at a rate not exceeding the minimum lending rate chargeable by the bank.

6.5.7 Contingency Loan Assistance :

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks / financial institutions may provide, where considered necessary, appropriate additional financial assistance upto 15 per cent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for working capital assistance.

6.5.8 Funds for Start-up Expenses and Margin for Working Capital :

There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin money for working capital in the form of long-term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses, while margin money assistance may either come from SIDBI under its Refinance Scheme for Rehabilitation or should be provided by State Government where it is operating a Margin Money Scheme. Interest on fresh rehabilitation term loan may be charged at a rate 1.5% below the prevailing fixed / minimum lending rate chargeable by the bank wherever applicable or as prescribed by SIDBI / NABARD where refinance is obtained from it for the purpose.

All interest rate concessions would be subject to annual review depending on the performance of the units.

6.5.9 Promoters' Contribution :

As per the extant RBI guidelines, promoter's contribution towards the rehabilitation package is fixed at a minimum of 10 percent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and at 20 per cent of such requirements for other units. In the case of units in the decentralized sector, promoters contribution may not be insisted upon. A need is felt for increasing the promoters' contribution towards rehabilitation from the present limits. It is, therefore, open to banks and financial institutions to stipulate a higher promoters' contribution where warranted. At least 50 per cent of the above promoters' contribution should be brought in immediately and the balance within six months. For arriving at promoters' contribution, the monetary value of the sacrifices from banks, financial institutions and Government may be taken into account, in addition to the long – term requirement of funds under the rehabilitation package.

While evolving packages, it should be made a precondition that the promoters should bring in their contribution within the stipulated time frame. Further, in regard to concessions

and relief made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the Fls and banks should be recouped from the units out of their future profits / cash accruals.

Important changes brought out in the revised guidelines based on the recommendations of the Working Group on Rehabilitation of sick SSI units vis-à-vis Existing Guidelines.

New Guidelines	Existing Guidelines
1. The definition of a sick SSI unit may be changed as : a) If any of the borrowal accounts of the unit remains substandard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding 1 year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard is reduced in due course; OR b) There is erosion in the net worth due to accumulated cash losses to the extent of 50 percent of its net worth during the previous accounting year; and AND c) The unit has been in commercial production for at least 2 years. 2. In the case of tiny / decentralized sector units, the period of reliefs / concessions and repayment period of restructured debts, have been revised, so as not to exceed five and seven years respectively	An SSI is considered 'sick' when – (i) Any of its borrowal accounts has become 'doubtful' advance i.e. principal or interest in respect of its borrowal accounts has remained overdue for a period exceeding 2½ years, and (ii) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years. In the case of tiny / decentralized sector units, the period of reliefs / concessions and repayment period of restructured debts will be two years and three years respectively. In the existing guide lines there was no mention about providing additional working capital. As per the extant guidelines, the banks

As in the case of other SSI units.

(i) While the other existing norms for grant of relief and concessions which can be extended by banks to potentially viable sick SSI units may continue, additional working capital limits may be extended at a rate not exceeding the PLR.

(ii) Viability of a unit should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as "potentially viable" /"viable". While identifying and implementing the rehabilitation package, banks / Fls may be asked to do holding operation for period of six months. This will allow small- scale units to draw funds from the cash credit account at least to the extent of the deposit of sale proceeds during the period of such holding Operation.

(iii) There is a need for increasing the promoters contribution towards rehabilitation package from the present limits. It is open to the banks / financial Institutions to stipulate a higher promoters contribution, where warranted.

Further, in regard to concessions and reliefs made available to sick units, banks should in corporate, "Right of Re-compensate" clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of the in future profits / cash accruals.

Are expected to take, as far as possible, a decision on the viability or otherwise of a unit identified as sick, within a period of three months, from the date of receipt of complete information on the relevant aspects from the management of the unit. Further, the finalization of the nursing programme should be completed within a period of three months from the date of such decisions.

As regards 'holding operation', it is a new concept / facility, which was not there in the existing guidelines.

Promoters" contribution towards rehabilitation may be fixed at a minimum of 5% of the additional long term requirements under the rehabilitation package in the case of tiny sector units and 10% of such requirements for other units.

Banks have been advised to incorporate the "Right of Re- compensate clause in cases where the concessions / reliefs were beyond the parameters laid down by RBI.

6.6 SUMMARY :

The sick Industrial Companies (Special provision) Act, 1985 defines, "An industrial unit (not registered for less than seven years) as sick if it has incurred cash losses for the current and preceding year equal to or exceeding its net worth".

A company which has eroded 50 per cent or more of its peak net worth during any of the preceding five financial years is also called "incipiently sick". This Act which was earlier applicable only to the private sector companies. Since 1991, it has applicable to the public sector companies also.

However, the 1992 amendment has made some changes in the Act, like the companies have to be registered for at least five years and the clause of cash losses for two successive years has been eliminated.

In case of small-scale sector, the industrial unit is considered to be sick if it has incurred cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and erosion on account of cumulative cash losses to the extent of 50 percent or more of its peak net worth during the last five years and/or continuously defaulted in meeting four consecutive installments of interest or two half-yearly installments of principal on term loan and there were persistent irregularities in the operation of its credit limit with the bank.

6.7 KEY WORDS :

Offer Rate :

The price at which a quoting party is prepared to sell or lend currency. This is the same price at which the party to whom the rate is quoted will buy or borrow if it desires to do business with the quoting party. The opposite transactions take place at the bid rate.

Official Rate :

The rate established by a country at which it permits conversion of its currency into that of other countries.

Off – shore Branch :

Banking organization designed to take advantage of favorable regulatory or tax environments in another country. Many of these operations are shell branches with no physical presence.

Offshore Dollars :

Same as Eurodollars, but encompassing the deposits held in banks and branches anywhere outside of the U.S., including Europe.

Open Contracts :

The difference between long positions and short positions in a foreign currency or between the total of long and short positions in all foreign currencies. Open spot or open forward positions that have not been covered with offsetting transactions.

6.8 SELF ASSESSMENT QUESTIONS :

1. Definition of Sick Unit
2. Viability of Sick SSI Units
3. Reliefs and Concessions for Rehabilitation of Potentially Viable Units
4. Delegation of Powers
5. Relief and concessions which can be extended by banks/financial institutions to potentially viable sick SSI units under rehabilitation

6.9 SUGGESTED READINGS :

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2. M. L. Tannan, Banking Law in India, Vol. 1, LexisNexis Publication (2015)
3. Anguren, R. & Marqués, J.M. (2011). Cooperative and Savings Banks in Europe.*Estabilidad Financiera*, *20*,25-44.
4. Ayadi,R.,Llewelyn, D.T.,Schmidt, R.H.,Arbak,E., & Pieter, W.(2010). *Investigating Diversity in the Banking Sector in Europe: Key Developments, Performance and Role of Cooperative Banks*. Brussels: Centre for European Policy Studies.

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LESSON – 7
POVERTY ALLEVIATION

Objectives :

After studying this lesson, the student be able to :

- understand the concept of poverty alleviation
- describe the poverty alleviation programmes
- DRI, IRDP

Structure of the Lesson :

7.1 Poverty Alleviation Programmes

7.2 Major Poverty Alleviation, Employment Generation and Basic Services Programmes

7.3 National Rural Employment Guarantee Bill, 2004 – Salient Features

7.4 Differential Rate of Interest (DRI) Scheme

7.5 Integral Rural Development Programme

7.6 Summary

7.7 Key Words

7.8 Self Assessment Questions

7.9 Suggested Readings

7.1 POVERTY ALLEVIATION PROGRAMMES :

The strategy for poverty alleviation is essentially two fold. Firstly, an effort is underway to provide greater opportunity for the poor to participate in the growth process by focusing on specific sectors, which offer such opportunities. Secondly, poverty alleviation and social sector programmes have been strengthened and restructured with special programmes for the weaker sections of society. Details of these programmes were reported in the Economic Survey 2003-04. Table 10.4 and Box 10.2 indicate developments during the current year.

The National Rural Employment Guarantee Bill, 2004 has been introduced in the Parliament in December 2004 (Box 10.3). An outlay of Rs. 13,466.40 crore (including supplementary grants) has been provided for 2004-05 for the Department of Rural Development.

7.2 MAJOR POVERTY ALLEVIATION, EMPLOYMENT GENERATION AND BASIC SERVICES PROGRAMMES :

National Food for Work Programme :

In line with the NCMP, National Food for Work Programme was launched on November 14, 2004 in 150 most backward districts of the country with the objective to intensify the generation of supplementary wage employment. The programme is open to all rural poor who are in need of wage employment and desire to do manual unskilled work. It is implemented as a 100 per cent centrally sponsored scheme and the food grains are provided to States free of cost. However, the transportation cost, handling charges and taxes on food grains are the responsibility of the States. The collector is the nodal officer at the district level and has the overall responsibility of planning, implementation, coordination, monitoring and supervision. For 2004-05, Rs.2020 crore have been allocated for the programme in addition to 20 lakh tones of food grains.

Swaranjayanti Gram Swarozgar Yojana (SGSY) :

SGSY, launched in April 1999, aims at bringing the assisted poor families (Swarozgaris) above the poverty line by organizing them into Self Help Groups (SHGs) through a mix of Bank credit and Government subsidy.

Sampoorna Grameen Rozgar Yojana (SGRY) :

SGRY, launched in 2001, aims at providing additional wage employment in all rural areas and thereby food security and improve nutritional levels. The SGRY is open to all rural poor who are in need of wage employment and desire to do manual and unskilled work around the village/habitat. The programme is implemented through the Panchayati Raj Institutions (PRIs).

Rural Housing – Indira Awaas Yojana (IAY) :

The Indira Awaas Yojana (IAY) operationalised from 1999-2000 is the major scheme for construction of houses for the poor, free of cost. The Ministry of Rural Development (MORD) provides equity support to the Housing and Urban Development Corporation (HUDCO) for this purpose.

Pradhan Mantri Gramodaya Yojana (PMGY) :

PMGY launched in 2000-01 envisages allocation of Additional Central Assistance (ACA) to the States and UTs for selected basic services such as primary health, primary education, rural shelter, rural drinking water, nutrition and rural electrification. For 2003-04 as well as 2004-05, the annual allocation of ACA for PMGY was Rs.2, 800 crore.

Rural Employment Generation Programme (REGP) :

REGP, launched in 1995 with the objective of creating self-employment opportunities in the rural areas and small towns, is being implemented by the Khadi and Village Industries Commission (KVIC). Under REGP, entrepreneurs can establish village industries by availing of margin money assistance from the KVIC and bank loans, for projects with a maximum

cost of Rs.25 lakh. Since the inception of REGP, up to 31 March 2004, 1,86,252 projects have been financed and 22.75 lakh job opportunities created. A target of creating 25 lakh new jobs has been set for the REGP during the Tenth Plan. 8.32 lakh employment opportunities have already been created during 2003-04. For 2004-05, a target of creating 5.25 lakh job opportunities has been fixed.

Prime Minister's Rozgar Yojana (PMRY) :

PMRY started in 1993 with the objective of making available self-employment opportunities to the educated unemployed youth by assisting them in setting up any economically viable activity. So far, about 20 lakh units have been set up under the PMRY, creating 30.4 lakh additional employment opportunities. The targets for additional employment opportunities under the Tenth Plan and in 2004-05 are 16.50 lakh and 3.75 lakh, respectively. While the REGP is implemented in the rural areas and small towns (population up to 20,000) for setting up village industries without any cap on income, educational qualification or age of the beneficiary, PMRY is meant for educated unemployed youth with family income of up to Rs.40, 000 per annum, in both urban and rural areas, for engaging in any economically viable activity.

Pradhan Mantri Gram Sadak Yojana (PMGSY) :

The PMGSY, launched in December 2000 as a 100 per cent Centrally Sponsored Scheme, aims at providing rural connectivity to unconnected habitations with population of 500 persons or more in the rural areas by the end of the Tenth Plan period. Augmenting and modernising rural roads has been included as an item of the NCMP.

The programme is funded mainly from the accruals of diesel cess in the Central Road Fund. In addition, support of the multi-lateral funding agencies and the domestic financial institutions are being obtained to meet the financial requirements of the programme.

Up to October, 2004, with an expenditure of Rs 7,866 crore, total length of 60,024 km. of road works has been completed. The National Rural Roads Development Agency (NRRDA), an agency of the Ministry of Rural Development registered under the Societies Registration Act, provides operational and technical support for the programme

Drought Prone Areas Programme (DPAP), Desert Development Programme (DDP) and Integrated Wastelands Development Programme (IWDP)

DPAP, DDP and IWDP are being implemented for the development of wastelands/degraded lands. During 2004-05 allocation of Rs. 300 crore, Rs. 215 crore and Rs. 368 crore were provided for DPAP, DDP and IWDP, respectively. So far, during 2004-05, 2,550 projects covering 12.75 lakh hectares, 1,600 projects covering 8 lakh hectares and 165 projects covering 8.32 lakh hectares, have been sanctioned under DPAP, DDP and IWDP, respectively.

Antyodaya Anna Yojana (AAY) :

AAY launched in December 2000 provides foodgrains at a highly subsidized rate of Rs.2.00 per kg for wheat and Rs.3.00 per kg for rice to the poor families under the Targeted

Public Distribution System (TPDS). The scale of issue, which was initially 25 kg per family per month, was increased to 35 kg per family per month from April 1, 2002. The scheme initially for one crore families was expanded in June 2003 by adding another 50 lakh BPL families. During 2003-04, under the AAY, against an allocation of 45.56 lakh tonnes of foodgrains, 41.65 tonnes were lifted by the State/UT Governments. Budget 2004-05 expanded the scheme further from August 1, 2004 by adding another 50 lakh BPL families. With this increase, 2 crore families have been covered under the AAY.

Swarna Jayanti Shahari Rozgar Yojana (SJSRY) :

The Urban Self Employment Programme and the Urban Wage Employment Programme are the two special components of the SJSRY, which, in December 1997, substituted for various extant programmes implemented for urban poverty alleviation. SJSRY is funded on a 75:25 basis between the Centre and the States. The expenditure during 2003-04 was Rs.103 crore. For 2004-05, the allocation is Rs.103 crore, out of which Rs. crore were utilized by December 31, 2004.

Valmiki Ambedkar Awas Yojana (VAMBAY) :

The VAMBAY launched in December 2001 facilitates the construction and upgradation of dwelling units for the slum dwellers and provides a healthy and enabling urban environment through community toilets under Nirmal Bharat Abhiyan, a component of the scheme. The Central Government provides a subsidy of 50 per cent, the balance 50 per cent being arranged by the State Government. Since its inception and up to December 31, 2004, Rs. 753 crore have been released as Government of India subsidy for the construction / upgradation of 3,50,084 dwelling units and 49,312 toilet seats under the scheme. For the year 2004-05, out of the tentative Central Fund allocation of Rs.280.58 crore, up to December 31, 2004, an amount of Rs. 223.66 crore has been released covering 1,06,136 dwelling units and 20,139 toilet seats.

7.3 NATIONAL RURAL EMPLOYMENT GUARANTEE BILL, 2004 – SALIENT FEATURES :

- State Governments to provide at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work.
- Sampoorna Grameen Rozgar Yojana (SGRY) and National Food for Work Programme to be subsumed within the Scheme once the Act is in force.
- Until such time as a wage rate is fixed by the Central Government, the minimum wage for agricultural labourers shall be applicable for the scheme.
- An applicant not provided employment within fifteen days, to be entitled to a daily unemployment allowance as specified by the State Government subject to its economic capacity, provided such rate is not less than a quarter of the wage rate for the first thirty days during the financial year and not less than a half of the wage rate for the remaining period of the financial year.

- Central Employment Guarantee Council to be constituted to discharge various functions and duties assigned to the Council. Every State Government to also constitute a State Council for this purpose.
- Panchayat at the district level to constitute a Standing Committee of its members to supervise, monitor and oversee the implementation of the Scheme within the district.
- For every Block, State Governments to appoint a Programme Officer for implementing the Scheme.
- Gram Panchayat to be responsible for identification of the projects as per the recommendations of the Gram Sabha and for executing and supervising such works.
- Central Government to establish a National Employment Guarantee Fund. State Governments to establish State Employment Guarantee Funds for implementation of the Scheme.
- The Scheme to be self-selecting in the sense that those among the poor who need work at the minimum wage would report for work under the scheme.

7.4 DIFFERENTIAL RATE OF INTEREST (DRI) SCHEME :

- OBJECTIVE : To improve the economic conditions of the weakest of the weaker sections of community by providing financial assistance at concessional rate of interest for engaging in productive and gainful activities.
- TARGETS : At least 2/3rd of the DRI advances should be granted through rural and semi-urban branches. It should be ensured that at least 40 percent of the total advances granted under DRI scheme go to eligible borrowers belonging to SC/ST category.

- **ELIGIBILITY NORMS :**

a. LAND – HOLDING NORMS :

- Persons not owning any land or
- The size of land holding does not exceed one acre in case of irrigated land and 2.5 acres in case of un-irrigated land.

However, the members of SC/ST category are eligible for the loan, irrespective of land holding, provided they satisfy the other eligibility criteria.

b. INCOME CRITERIA :

Family income of the borrower from all sources does not exceed Rs.18000/- p.a. in rural areas and Rs.24000/- p.a. in urban and semi – urban areas.

NOTE :

a. The beneficiary largely works on his own and with such help as other members of his

family.

b. The beneficiary should not have another source of finance while DRI loan exists.

- **MARGIN :** NIL
- **SECURITY :**

  Assets purchased with bank loan may be hypothecated to the bank. No collateral security or third party guarantee to be asked.

- **RATE OF INTEREST :** 4% p.a.

NOTE : Interest Subsidy in DRI Advances has been discontinued w.e.f. Nov- 2016.

7.5 WHAT IS THE INTEGRAL RURAL DEVELOPMENT PROGRAMME :

The Integral Rural Development Programme (IRDP) was a poverty alleviation program implemented in India. It aimed to improve the living conditions of rural households by providing them with various forms of assistance and support. The program was launched in 1978 and aimed to provide self-employment opportunities to the rural poor, particularly those below the poverty line.

Origin of Integral Rural Development Programme (IRDP)

- India launched IRDP in 1978.
- The programme aimed to promote rural development and reduce rural poverty.
- The Ministry of Rural Development started the programme.
- State governments implemented IRDP with the support of municipal bodies.
- IRDP was meant to tackle issues like poverty, lack of basic services, social exclusion and environmental degradation in villages.
- The programme aimed to promote sustainable development in rural areas.
- It did so by offering different interventions to improve the quality of life in rural communities.
- IRDP was based on the values of community participation and empowerment.

Aim of IRDP :

The aim of the Integrated Rural Development Programme (IRDP) is to :

- Promote sustainable development in rural areas.
- Alleviate poverty and improve the standard of living in rural communities.
- Provide access to basic services like healthcare, education, and clean water.
- Increase economic opportunities for rural communities.
- Empower and build the capacity of rural communities to participate in decision-making and take charge of their development.

- Promote self-reliance and sustainability.
- Address rural communities' social, economic, and environmental concerns holistically and integrated.

Objectives of IRDP :

The following are the objectives of the Integrated Rural Development Project (IRDP) :

- IRDP aimed to help poor rural people generate an income to cross the poverty line.
- Around 55 million poor people are covered under the scheme. The government spent Rs.13,700 per person.
- IRDP had partner programmes to achieve its goal. They are :
  - DWCRA for rural women and children's development
  - GKY
  - MWS
  - SITRA
  - TRYSEM for rural youth self-employment training

However, these programmes ran separately. They failed to achieve IRDP's main goal. For example, only 3% of IRDP beneficiaries got training under TRYSEM.

- DWCRA - Development of Women and Children in Rural Areas
- GKY- Ganga Kalyan Yojana
- MWS- Million Wells Scheme
- SITRA - Supply of Improved Toolkits to Rural Artisan
- TRYSEM- Training of Rural Youth for Self-Employment

Eligibility for IRDP :

The IRDP (Integrated Rural Development Programme) is a joint initiative of the Central and state governments, with a 50:50 funding arrangement. The Central Government allocates funds to each state based on the proportion of the state's rural population living in poverty compared to the total rural poverty population in the country. This approach has been implemented in all states of India since 1980. Various cooperatives, commercial banks, and regional rural banks offer productive financial assets and subsidies to support the program.

Aspects of the IRDP Scheme :

Some of the key aspects of the Integrated Rural Development Programme (IRDP) scheme include :

- Target Beneficiaries: The IRDP primarily targets the rural poor, particularly those with scheduled castes, scheduled tribes, and other backward classes.

- Credit and financial support: The programme provides credit and financial support to rural entrepreneurs and encourages the development of rural financial institutions.
- Skill Development and Training: The IRDP provides training and capacity-building support to rural communities to help them develop the skills and knowledge necessary to participate in development activities.
- Infrastructure development: The programme supports the development of basic infrastructure, such as roads, schools, healthcare facilities, and irrigation systems, to improve the quality of life in rural communities.
- Natural resource management: The IRDP promotes sustainable agricultural practices and natural resource management to promote environmental conservation and enhance the livelihoods of rural communities
- Gender and social inclusion: The programme recognises the importance of promoting gender and social inclusion and encourages the participation of women and marginalized groups in development activities.

Elements of the Integral Rural Development Programme :

- Economic development aims to spur the rural economy. It does this by providing assets, promoting self-employment and providing credit.
- Social development aims to enhance people's well-being by providing essential infrastructure such as healthcare, education, and water resources.
- Institutional development concentrates on strengthening the capabilities of local entities to support rural communities effectively.
- Human resource development focuses on skill enhancement, involving training and capacity-building initiatives.
- Environment development advocates sustainable agricultural practices and resource management, leading to improved livelihoods and environmental preservation.
- Monitoring and evaluation procedures gauge the program's effectiveness and pinpoint areas necessitating enhancement.
- The Integral Rural Development Programme (IRDP) encompasses facets that foster economic, social, institutional, human, and environmental advancement within rural regions. Regular monitoring serves to assess and refine the program's outcomes.

Subsidies Provided Under Integral Rural Development Programme :

- The government provides subsidies and bank loans as financial aid.
- Approved banks offer financial assets.
- Subsidies are allocated based on the needs of target groups.

- Banks provide a 25% subsidy to small farmers.
- For rural artisans, marginal farmers and labourers, 33.5% subsidy.
- SC/ST and physically handicapped get a 50% subsidy.
- The ceiling for SC/ST and disabled groups is set at ₹ 6000.
- For DPAP and non-DDP areas, ₹ 4000 is charged.
- For DPAP and DDP areas, ₹ 5000 is charged.
- SC/ST gets a 50% subsidy. Women get a 40% subsidy. Differently abled get a 3% subsidy.
- Priority gives to groups with excess limits and Green Card holders under free bonded labour programs.

Beneficiaries of the IRDP Scheme :

The Integral Rural Development Programme (IRDP) primarily targets the rural poor in India, particularly those who belong to scheduled castes, scheduled tribes, and other backward classes. Some of the specific categories of beneficiaries of the IRDP scheme include

- Small and marginal farmers
- Landless labourers
- Rural artisans
- People living below the poverty line
- Women and female-headed households
- Scheduled Castes and Scheduled Tribes
- Other Backward Classes

Implementation of Integral Rural Development Programme :

The Integral Rural Development Programme (IRDP) is implemented through a decentralized process that involves multiple stakeholders at different levels. Some of the key features of the implementation process of the IRDP include

- Decentralized administration: The programme is decentralized, with the District Rural Development Agency (DRDA) playing a key role in implementing the programme at the district level.
- Formation of self-help groups: The programme encourages the formation of self-help groups (SHGs) to promote collective action and help beneficiaries access credit and other forms of support.
- Identification of beneficiaries: The programme uses a participatory process to

identify beneficiaries, with Gram Sabhas and other local institutions playing a key role in the identification process.

- Asset creation: The programme supports the creation of income-generating assets, such as land, livestock, and equipment, to help the rural poor generate sustainable livelihoods.
- Credit and financial support: The programme provides credit and financial support to rural entrepreneurs through a network of rural financial institutions, such as banks, cooperatives, and microfinance institutions.
- Training and capacity building: The programme provides training and capacity-building support to rural communities to help them develop the skills and knowledge necessary to participate in development activities.
- Monitoring and evaluation: The programme has a monitoring and evaluation framework in place to assess the programme's impact and identify areas for improvement.

Target areas for Integral Rural Development Programme :

The Integral Rural Development Programme (IRDP) focuses on rural India's development sectors. The following are some of the program's primary focus areas :

- Agriculture and allied sectors: The program's goal is to encourage sustainable agricultural methods, boost production, and increase the income of small and marginal farmers.
- Animal husbandry: The program encourages animal husbandry while providing financial assistance for acquiring cattle and other animal husbandry-related equipment.
- Small-scale industries: The programme seeks to encourage the development of small-scale industries in rural areas, particularly those based on local resources and capabilities.
- Infrastructure development: The program's goal is to help fund the construction of rural infrastructure such as roads, bridges, irrigation systems, and drinking water supplies.
- Education and training: The program aims to offer rural communities education and training to develop their skills and knowledge and promote social and economic empowerment.

Evaluation of IRDP :

The Integral Rural Development Programme (IRDP) was a poverty alleviation programme launched by the government of India in 1980. Here is an evaluation of the programme :

- Providing financial assistance to the rural poor for them to create productive

assets.

- Focus on the poorest of the poor and marginalized sections of society.
- Emphasis on integrated development through a multi-sectoral approach.

7.6 SUMMARY :

Poverty Alleviation Programmes aims to reduce the rate of poverty in the country by providing proper access to food, monetary help, and basic essentials to households and families belonging to below the poverty line threshold.

Eleven Five Year Plans were launched to eradicate poverty in India. The list of these Five Year Plans that started in the year 1951. As per the 2011-2012 estimation by the Planning Commission of India, 25.7 % of the rural population was under the below-poverty line and for the urban areas, it was 13.7 %. The rate of poverty in the rural areas is comparatively higher than that in the urban areas due to the lack of proper infrastructure, insufficient food supply, and poor employment system.

The Public Distribution System (PDS) which evolved as a system of management for food and distribution of food grains plays a major role in poverty alleviation. This programme is operated jointly by the Central Government and the State Government of India.

PDS was later relaunched as Targeted Public Distribution System (TPDS) in June 1997 and is controlled by the Ministry of Consumer Affairs, Government of India. TPDS plays a major role in the implementation and identification of the poor for proper arrangement and delivery of food grains. Therefore, the Targeted Public Distribution System (TPDS) under the Government of India plays the same role as the PDS but adds a special focus on the people below the poverty line.

7.7 KEY WORDS :

Override Limit :

The total amount of money measured in terms of a bank's domestic currency that the bank is willing to commit to all foreign exchange net positions.

Parallel Banking Organizations :

APBO exists when a U.S. depository institution and a foreign bank are controlled, either directly or indirectly, by an individual, family, or group of persons with close business dealings, or that are otherwise acting in concert.

Parity :

A term derived from par, meaning the equivalent price for a certain currency or security relative to another currency or security, or relative to another market for the currency or security after making adjustments for exchange rates, loss of interest, and other factors.

Par Value :

The official parity value of a currency relative to the dollar, gold, special drawing rights, or another currency.

7.7 SELF ASSESSMENT QUESTIONS :

1. Poverty Alleviation Programmes.
2. Major Poverty Alleviation, Employment Generation and Basic Services Programmes.
3. National Rural Employment Guarantee Bill, 2004 – Salient Features.
4. Differential Rate Of Interest (Dri) Scheme.
5. Integral Rural Development Programme.

7.8 SUGGESTED READINGS :

1. DougJohnson,CentreforMicrofinance,“FinancialInclusion&DeliveryofSocial Transfer Payments”, 2010
2. Social Banking and Social Finance: Answers to the Economic Crisis, Springer, New York, 2010.
3. DraftFiveYearPlanDocument(2007–12),PlanningCommission,NewDelhi, 2007.
4. DanielM.Schydlowsky,Peru’sDevelopmentFinanceCorporation,“Financial Inclusion to Address Poverty”

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LESSON – 8

MICRO FINANCE

Objectives :

After studying this lesson, the student be able to :

- outline the concept of the micro-finance development in India;
- explain the structure, characteristics, functioning and relevance of the microfinance in watershed development; and
- appreciate the impact of government programme with subsidy components and issues for sustainable development of the micro – finance in India.

Structure of the Lesson :

8.1 Introduction

8.2 Concept of Micro – finance

8.2.1 Why Micro – finance

8.3 Structure and Characteristics of Micro – finance

8.3.1 Banks as Micro –finance Providers

8.3.2 Types of Micro – finance Institutions

8.3.3 NGOs

8.3.4 SHG's Federations

8.3.5 Mutually Aided Cooperative Societies (MACS)

8.3.6 Non – Banking Financial Companies

8.3.7 NABARD and Micro-finance

8.3.8 SIDBI and Micro – finance

8.3.9 Rashtriya Mahila Kosh (RMK)

8.4 Functioning of Micro – finance

8.4.1 Exclusive Focus on Micro – finance Services

8.4.2 Micro – finance Services as One of their Major Objectives

8.4.3 Intermediary (or) Apex Institutions

8.5 Relevance of Micro – finance in Watershed

8.6 Issues related with Micro – finance

8.6.1 Upscaling of the Programme

8.6.2 Sustainability of SHGs

8.6.3 Capacity Building

8.6.4 Graduation from Micro – finance to Micro – enterprises

8.6.5 Issues being faced by the Micro – finance

8.6.6 Impact of Government Programmes with Subsidy Components

8.7 Summary

8.8 Keywords

8.9 Self Assessment Questions

8.10 Suggested Readings

8.1 INTRODUCTION :

In the previous unit, you learnt about the requirement of Watershed Development Fund. This unit deals with micro-finance (mF) which refers to the provision of financial services to poor or low-income clients, including consumers and the self employed. It also refers to the practice of sustainability of delivering those services. Micro-financing provides permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers to enable the poor people to come out of poverty. Over the past few years, savings-led microfinance has been recognized as an effective way to help very poor families with low-cost financial services. The National Bank for Agriculture and Rural Development (NABARD) in India finances more than 500 banks to lend funds to self-help groups (SHGs) comprising of twenty or fewer members majority of which are women from the poorest castes and tribes. Members save small amounts of money, as little as a few rupees a month in a group fund from which they can borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. After gaining experience in managing their funds, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund. Groups generally pay interest rates ranging from 12to 23% a year, based on the flat calculation method. Nearly 1.3million SHGs comprising approximately 20 million women now borrow from banks, which make the Indian SHG-Bank Linkage model the largest micro – finance program in the world. Similar programs are evolving in Africa and Southeast Asia with the assistance of organizations like Opportunity International, Catholic Relief Services, CARE, APMAS and Oxfam. Micro-financing plays an important role in the development of an economy by providing the people the opportunity to establish a sustainable means of income. Eventual increases in disposable income will lead to economic development and growth.

8.2 CONCEPT OF MICRO – FINANCE :

Micro – finance (mF) is defined as the provision of thrift, credit and other financial services such as money transfer and micro-insurance products for the poor, to enable them to raise their income levels and improve living standards.

Robinson defined micro-finance as "small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro-enterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas".

Micro-finance deals with the entire range of financial services such as saving, money transfers, and insurance, production and investment credits as also housing finance and includes skillup-gradation and entrepreneurial development that would enable them to overcome poverty. Micro-finance provides credit support in small doses along with training and other related services to people who are resource poor but who are unable to undertake economic activities.

Micro-finance is based on the following principles :

- self employment/enterprise formation is a viable means for poverty alleviation;
- lack of access to capital assets/credit is a constraint for existing and potential micro-enterprises; and
- poor people are unable to save due to their low and irregular income.

Micro-finance concept came into existence in 1903, when the cooperative society act was passed for ensuring production credit loans for farmers through primary credit societies. The formation of 'long – term cooperative credit institutions started in 1928 to meet investment needs of the farmers. The Syndicate Bank, started in 1921, concentrated on raising micro – credit in the form of daily/weekly saving and also sanctioned micro-loans for the constituents. After the bank nationalization in 1969, micro-finance concept in banking institutions gained momentum. Under priority sector norms, micro-finance was extended to the investment credit which included element of production credit and even consumption credit. The Integrated Rural Development Programme (IRDP) and the Swaran Jayanti Gram Swarojgar Yojna (SGSY), laid emphasis on investment credit needs only. But subsidies and low interest rate ensured that the rural poor received these loans which were earlier monopolized by the economically more affluent section of rural people. Also the repayment rates were poor. With NABARD programme of SHGs in 1992, the emphasis shifted to loan without security/guarantee, 100% repayment norms and lending to the groups of people who would also invest their saving and regulate their group and group loans thus reducing transaction costs for the borrowers and for the banks. Other innovative concepts included sanctioning of production-cum-consumption loans, unregulated interest rate weekly/monthly saving and loan repayments. The Micro-finance by both formal and informal credit sources as means of meeting the credit requirement of rural people is thus not a new concept.

Why Micro – finance?

The dynamics of the rural economy resulted in rapid sectoral changes of far reaching magnitude. The commercialization of agriculture with increasing emphasis on cash crops has led to a new breed of money lenders in the rural economy. The traders and commission

agents are the major moneylenders in the rural economy with seeds, fertilizers and pesticides being supplied by the traders on credits or on deferred payments basis. Such type of credit arrangements which includes credit for meeting urgent religious, social, educational and medical needs is not provided by the formal banking system. It thus leads to mismatch between services provided by the formal finance sector and loan requirements of rural people and hence need for parallel credit systems. A World Bank Study (1995) reveals that 67% of the credit needs of poor people in India are on account of the consumption credit, 75% credit for short periods for emergencies such as illness and household expenses during lean period, 75% of production credit (comprising 1I3rd of the total credit) was advanced by the banks while entire consumption credit requirements were met by other sources as mentioned above at very high interest rates between 30 and 90% per annum. Reserve Bank of India (RBI) has now allowed Kisan Credit Card (KCC) holders the consumption credits to some extent.

Subsidized credit was provided to the poor in India and other countries for several decades, but it resulted in the increase in Non – Performing Assets (NPAs). In fact, the core issue for the poor was access to credit rather than the cost of credit, Micro-finance has amply demonstrated that it is the access and not the ,interest rates which is a constraint for the poor. The poor can and will save, and can indeed use a wide range of financial services such as remittances facilities and insurance products. The Grameen Bank in Bangladesh is the most well known example of a micro-credit institution. Some of the major constraints of rural credit and deficiency in delivery mechanism responsible for growth of micro-finance are listed below:

- working capital requirement of sharecropper are not met by banks as tenancy agreement are rarely registered due to Tenancy Act problem;
- formal banking system is transferring funds from rural areas, as is evident from low credit-deposit ratios;
- in spite of reasonable extensive formal banking institution network capable of meeting the financial needs of the entire rural population, over 35% members of Primary Agricultural Credit Societies (PACs) are not able to borrow and 65% of the 101235 PACs are either dormant or in poor financial health due to insufficient recycling cif funds and other weaknesses;
- after financial sector reform and introduction of prudential norms, commercial banks are concentrating more on the investment and profitability while Regional Rural Banks (RRBs) are focusing more on the investment route to profitability;
- rural credit agencies, the cooperative banks and RRBs are weak due to under capitalization and high level of NPAs;
- cost of financial intermediation of rural financial institutions is high and also low interest rate on loan;
- rural banking institutions are not able to keep pace with changing rural credit requirements and are unable to come up with system and credit! saving instruments as required by rural clientele; and

- mind set of formal banking system is based on the premise that the poor are not bankable.

The formal credit market is of paramount importance for all round development of the region. The problems of rural credit delivery system need to be identified and addressed rather than creating another set of institutions.

8.3 STRUCTURE AND CHARACTERISTICS OF MICRO – FINANCE :

The Indian micro-finance sector encompasses several approaches found across the world. Indian microfinance has adopted a part of the Grameen Bank blue print. And replicated some aspects of the Indonesian and the Bolivian models. Indian micro-finance combines some of the imported aspects as well as indigenous model of SHGs. Four major issues such as economic attractiveness of microfinance both to NGOs and commercial banks; the relative merits of various delivery channels; the issue of growth; and finally, what lies beyond micro-credit need to be thoroughly looked into to evolve micro-finance as a viable tool for rural development.

Microfinance has, in recent years, become a vital tool for development initiatives, leading to poverty alleviation particularly in the Third World countries. Although, mF includes a range of financial services targeted to the poor, however, microcredit and mF are often used interchangeably with emphasis on provision of credit to the poor.

There are various types of mF institutions in India having diverge experiences in microfinance activities. In order to delineate the institutions as MFIs, it is essential to understand the present scenario of the formal banking sector dealing with the poor and the development of the SHG – bank linkage strategy, which is a growing movement with NGOs and banks playing important roles as partners. It is necessary to have an overview of various services and designs of the financial products of some of the more successful microfinance experiences in the country. The details regarding loan conditions, modalities of savings products and the need for proper mechanism for insurance to enable the poor and the MFIs to tide over various risks and crises are adequately covered here.

8.3.1 Banks as Micro – Finance Providers :

The banking sector has been playing an important role in providing various financial services to the poor and the non-poor. Among the three categories of banks, the cooperative banking institutions, mainly serving in rural areas, took lead in providing mF services to the poor. Later, a few urban cooperative banks also started providing a variety of financial services to the poor and the not-so-poor. Prominent among them is the SEWA Bank, Ahrnedabad, which focuses on urban poor women by providing various financial services to them. Traditionally, these institutions in rural areas financed only agriculture and allied sectors. By the end of financial year 1999, these cooperative banks mobilized deposits worth Rs. 67,700 crore while their advances stood at Rs.70,770 crore. With the growing need to finance all forms of enterprises and diversification of business, the cooperative banking institutions have, in the recent past, diversified their business. Currently, nearly 70% of their credit portfolio is for agriculture and allied activities. Some of these grass – root level

cooperative banking institutions, both in rural and urban sectors, have been providing small loans with focus on the poor. Regional Rural Banks (RRBs) lend mostly to the poor for agriculture and micro-enterprise sectors.

Commercial Banks are required, as per the directions of RBI, to provide loans essentially of the nature of mF to the priority sectors comprising agriculture and allied activities, small, cottage and village industries, rural artisans, etc., to the extent of 30% of their credit portfolio including 18% of lending exclusively to agriculture and allied activities. Further, 10% of their loan portfolio is required to be provided to weaker sections Of the society covering scheduled castes, scheduled tribes, small and marginal farmers, agricultural labourers, rural artisans, etc.

Micro – Finance :

Micro – financing has thus become an important aspect of the banking policy and banks play an important role in this area. However, the banks may be treated as one of the major mF service providers and not exclusive mF institutions. The gap between demand and supply of rural credit, especially to the weaker sections continues to widen. This has resulted in growth of a number of mFIs as additional supplementary and alternative delivery mechanisms systems.

8.3.2 Types of Micro – finance Institutions :

There are a wide variety of institutions in India catering with various degrees of success to the mF needs of poor families. They comprise of mF providers in the formal financial sector such as commercial banks, RRBs and cooperative banks and mFIs namely NGOs, SHGs' federations and certain non-bank cooperative societies in the non-financial sector. In the recent past, a few Non – Banking Financial Corporations (NBFCs) have also been established as mFIs. The mFIs can broadly be sub-divided into three categories of organizational forms (Table 3.1).

1) Not – for Profit MFIs :

Not – for profit mFIs means the mFIs lending the money to the beneficiaries at operating cost i.e. at no profit no loss.

- Societies registered under Societies Registration Act, 1860 or similar State Acts.
- Public Trusts registered under the Indian Trust Act, 1882.
- Non – profit Companies registered under Section 25 of the Companies Act, 1956.

2) Mutual Benefit mFIs :

- State credit cooperatives
- National credit cooperatives
- Mutually Aided Cooperative Societies (MACS)

3) For Profit mFIs :

For profit means the mFIs lending the money to the beneficiaries at more than operating cost.

- Non Banking Financial Companies (NBFCs), registered under the Companies Act, 1956.

Banks could be called mF service providers and on the same analogy, NABARD and SIDBI could be considered as apex level mF service provider institutions, while RMK could be considered as an apex level mFI.

Different types of mFIs in India :

Types of mFIs	**Estimated Number**	**Legal Acts under which Registered**
1. Not for Profit mFIs a) NGO – mFIs b) Non – profit Companies	300 to 500 10	Societies Registration Act 1860 or similar Provincial Acts INDIAN Trust act, 1882 Section 25 of the Companies . Companies Act, 1956
2. Mutual Benefit mFIs a) Mutually Aided Cooperative Societies (MACS) and similarly set up institutions	200 to 250	Mutually Aided Cooperative societies act enacted by State Government
3. For Profit mFIs a) Non – Banking 6 Indian Companies Financial Companies (NBFCs)	6	Indian companies Act, 1956 Reserve Bank of India Act,1933
Total	700 - 800	

8.3.3 NGOs :

There exists a wide spectrum of NGOs varying greatly in their origin, size, philosophy and approach. Though traditionally engaged in social sector activities such as health, education, environment and similar other activities, NGOs are gradually broadening their approach to include livelihood issues of the poor. Over the years, some of the NGOs have transformed themselves as agencies providing financial and other linkages. A large number of NGOs recognize that economic empowerment of the poor has to go hand – in – hand with their social empowerment. Based on the information provided by NABARD, Small

Industrial Development Bank of India (SIDBD and Rastria Mahila Kosh (RMK), it is inferred that over 500 NGO- mFls are engaged in financial intermediation 'in different parts of the country. Their close grass-roots links with the people, field-based development orientation, commitment and keen understanding and responsiveness give them the strategic strength often lacking in other state-supported promotional and developmental organizations,

The NGOs are structurally not the right type of institutions founder taking financial intermediation activities as the bye – laws of these institutions are generally restrictive in allowing any commercial operations. They also do not have capital base that may be used for leveraging funds from higher financing institutions. Moreover, they are non-profit organizations and their inherent characteristics make their task of financial intermediation difficult.

Despite the above weaknesses, many NGOs have emerged as very effective change agents in organizing, nurturing, and stabilizing SHG sand ultimately facilitating their linkage with the formal banking system so as to improve the outreach of the financial services to the unreached and under-served poor. The Working Group on NGOs and SHGs set up in 1995 by the RBI to examined the role of NGOs in promoting SHGs and facilitating linkage with banks and the structural and legal constraints faced by them and made several recommendations on financial and technical support to NGOs. The Group observed that NGOs are one of the most suited agencies for training and empowering the rural poor and have generally been instrumental in the promotion of SHGs in different parts of the country.

A large number of NGOs, besides playing a catalytic role of friend, philosopher and guide to the SHGs, have also assumed the role of financial intermediaries either directly or by networking with smaller NGOs or by promoting SHGs' federations and other outfits like Mutually Aided Cooperative Societies (MACS).

8.3.4 SHG's Federations :

SHGs' Federations are the formal institutions registered under Societies Registration Act, 1860 or under analogous State Acts. A laudable initiative has been taken by some of the NGOs in helping the village level SHGs to network in clusters and .the cluster representatives to network at block level federations. This has at times enabled them to pool the resources of individual SHGs so that even short term surpluses are used by other resource-deficit SHGs. The federations facilitate training of SHGs, undertake internal auditing and ensure that the SHGs and clusters gain self-reliance in running their own affairs. SHGs' Federations, promoted by certain prominent NGOs like MYRADA (Mysore Resettlement and Development Agency), DHAN (Development of Human Action) Foundation, LEAD, Chaitanya and SEWA (Self Employed Women's Association) Bank, are functioning in different parts of the country as providers of financial services, such as mobilizing thrift and providing credit and other non-financial services like training group members and extending various support services, viz. input supply, storage, marketing and legal services. The state governments in certain cases have also taken initiatives in promoting SHGs by establishing organizations with federal structures. Notable among them are the Community Development

Societies (CDS) in Kerala and Mahalir Thittam in Tamil Nadu. This approach brings synergy in integration of community level programmes with SHG approach.

8.3.5 Mutually Aided Cooperative Societies (MACS) :

Govt. of Andhra Pradesh enacted the Mutually Aided Cooperative Societies (MACS) Act in 1995 for the voluntary formation of cooperative societies as accountable for competitive, self-reliant, business enterprises based on thrift, self help and mental aid and owned, managed and controlled by members for their socio – economic development. The societies setup under MACS Act have certain advantages over the existing traditional cooperative societies, the most important being the freedom given to their management from government interference in their affairs, raising resources, absence of provision for super session of the elected board, greater accountability, etc. However, a society setup under MACS Act may not be able to access funds from the government.

8.3.6 Non – Banking Financial Companies :

Non – Banking Financial Companies (NBFCs) refer to companies registered under the Companies Act, 1956 and regulated by the Reserve Bank of India. The RBI (Amendment) Act, 1997 has made it obligatory for NBFCs to apply to the Reserve Bank of India for a certificate of registration. The RBI introduced a new regulatory framework for the NBFCs in January 1998 with focus on NBFCs accepting public deposits with a view to safeguarding the interests of the depositors. Accordingly, NBFCs falling short of the stipulated minimum Net Owned Funds (NOF) were not allowed to accept public deposits. Ceiling on the quantum of public deposits was related to the level of credit rating given by the approved credit rating agencies. NOF is defined under the RBI Act as the aggregate of the paid-up capital and free reserves as per last balance sheet after deducting there from accumulated losses, deferred revenue expenditure and other intangible assets, etc. As regards prudential norms, NBFCs were required to achieve capital adequacy of 12%and to maintain liquid assets of 15%onpublic deposits. The interest rate ceiling on public deposits was fixed at 16% p.a.

Sanghamitra, Bangalore, BASIX (Bhartiya Samruddhi Finance Limited), Hyderabad, SHARE Microfin Ltd., Hyderabad, Indian Association for Savings and Credit (IASC), Marthandam, Tamil Nadu and CFTS (Credit and Savings for the Hard core Poor (CASHPOR) Financial and Technical Services), Mirzapur, Uttar Pradesh are some of the committed MFIs. Except BASIX whose clientele includes the non-poor, the others have exclusive poor client focus.

8.3.7 NABARD and Micro – Finance :

NABARD set up in 1982 is specifically an organization for providing undivided attention, forceful direction and pointed focus to the credit problems of the rural sector. NABARD deals with the SHG-bank linkage strategy in addition to look for other selective delivery mechanisms.

NABARD started with a limited scale Pilot Project to credit-link 500 SHGs across the country, based on comprehensive guidelines issued to the banks. It is observed that these instructions were very comprehensive and allowed flexibility and discretion to the banks in

effecting linkage of informal groups. Stress on compulsory savings, linking of credit with savings, lending decisions by the SHGs on the basis of collective wisdom, peer-pressure and group cohesion as collateral substitutes, absence of margin, unit costs etc., were the hallmarks of these operational guidelines. In addition to confessional 100% refinance to the banks, NABARD provides policy guidance, technical and promotional support mainly for capacity building of NGOs and SHGs and training support to banks, NGOs and other partners. Broadly, three different models have emerged under the programme, viz.

(i) NABARD -Bank - SHG (without NGO intervention),

(ii) NABARD – Bank – SHG (with NGO or other SHPI as a facilitating agency), and

(iii) NABARD – Bank – NGO - SHG (with NGO as financial intermediary).

The linkage banking has brought into focus some striking new approaches which could be considered as best practices at SHG level, bank level and the NGO level. These are homogeneity and affinity among members, regularity in savings, collective decisions, increase in income, creation of employment opportunities, building common fund as main bondage among members at SHG level, non subsidy orientation, reduction in transaction costs, both in credit and savings operations, profitable social banking with almost 100% repayment of loans at the bank level and add-on activity leading to deepening of NGOs' intervention as cementing factor for core developmental functions at the NGO level. Further, the progress so far has established the bankability of the poor, particularly women.

NABARD has supported more then million SHGs till now. Significantly, the SHG approach has also been recognized by apex organizations like Rashtriya Mahila Kosh (RMK) and SIDBI in supporting the NGO initiatives under mF.

Apart from the SHG linkage programme, NABARD also operates a Bulk Lending Scheme for supporting NGO initiatives involving alternative credit delivery mechanisms. 35 institutions have been supported under the scheme using Revolving fund assistance over 95% of which has gone to rural poor women from about 1,10,000 families.

8.3.8 SIDBI and Micro-finance :

SIDBI established in 1990aimed at serving as the principal financial institution for promotion, financing and development of industry in the small scale sector, and to coordinate the functions of the institutions engaged in promoting, financing and development of industry in the small scale sector. As part of the national efforts to cater to the credit needs of the poor especially in rural areas, SIDBI has recognized SHGs "as a promising tool for job creation and income generation" for the poor.

SIDBI has been providing financial support to well managed NGOs for on lending to the poor individuals or their groups (with emphasis on women) for setting up micro-enterprises through its micro-credit scheme (MCS) launched in February 1993. Wherever SHGs have been organized, the funds are lent to them for on-lending to their members, thereby developing a group corpus fund. The loan conditions include a maximum loan amount of Rs. 25,000 per individual with maximum amount of Rs. 50,000 in exceptional

cases) with repayment period of 12to 23 months. However, the quantum of minimum loan to an NGO is Rs. 10 lakh with no maximum cap. The loans from SIDBI to NGOs are repayable within 5 years, thus enabling re-cycling of funds for 3 to 5times. The interest rate from SIDBI to NGOs is 9% and on-lending to the SHGs is allowed at a maximum rate of 15% per annum. The assistance under MCS has been utilized for undertaking income generation activities like production of tasar silk, poultry and dairy products, fisheries, ready-made garments, jewellery and wool spinning.

Under the scheme, SIDBI also provides capacity building grants to NGOs for meeting managerial salaries, strengthening accounting and managerial capabilities and for training SHGs in credit utilization and delivery to the target group.

The support provided by SIDBI through NGOs has reached deserving poor women who otherwise were unable to access credit from the formal banking system. Such credit has resulted in increased turnover and income of majority of borrowers, increased savings of members, and on-time repayment rates above 92%.

SIDBI has launched a micro-credit Foundation, viz. SIDBI Foundation for Micro Credit (SFMC) in November 1998on an all-India basis for effective management of financial risks involved in MCS and to further scale up its operations under MCS. An amount of Rs. 100 crore has been earmarked for its current operations.

8.3.9 Rashtriya Mahila Kosh (RMK) :

With a view to enhancing the flow of credit to the women and supporting promotional measures, particularly for those in the unorganized sector, the Government of India established Rashtriya Mahila Kosh (RMK) in March 1993, as a Society under the Societies Registration Act, 1860. It supports NGOs for providing financial services to the poor women all over the country. It provides interest bearing loans to NGOs, Cooperative Societies and Women Development Corporations (WDCs) and in a small measure, interest-free loans convertible into grants to NGOs for promotion of SHGs. It promotes SHG approach to encourage empowerment of women. RMK gives both short and medium term loans up to Rs.7,500 per individual at 8% rate of interest which the NGO can on-lend to either individuals or SHGs at an interest rate not exceeding 12%. In case the loans are given to SHGs, they can charge the individual borrowers up to 17.85% rate of interest (the current SBI interest rate on unsecured advances).

Recognizing SHGs as appropriate mechanism for reaching the poor women, RMK has evolved a support scheme for formation and stabilization of SHGs. Under this scheme, an NGO can be given an interest-free loan of up to Rs. 1 lakh for the development and stabilisation of25 SHGs. This loan is convertible into grant subject to the formation of the SHGs, collection of regular savings and revolving of a major portion of the savings as loans to individual members. Recognizing the importance of training and exposure visits to the beginner NGOs in this field, RMK has evolved different schemes like Umbrella, Nodal Agency and Resource NGO schemes.

The success of the concept of micro-credit through self help groups (SHGs) has encouraged the Government of India to establish a National level Micro-Credit organization /

Rashtriya Mahila Kosh (RMK) (National Credit Fund for Women) under the Ministry of Women and Child Development in 1993, with an initial corpus of Rs. 31 crore to help women organise income generating activities to improve their socio economics status. RMK has disbursed cumulative loan of Rs. 151 crore up to July 2006, benefiting 5.50 lakh women and the recovery rate is above 91%. RMK has been instrumental in the formation of the India Collective for Micro-Finance (ICMF) - a federation of NGOs advocating, practising or facilitating fund support by way of mP. The main objective of ICMF is capacity building of intermediary agencies in terms of training, dissemination of best practices in mP, information compilation and translation of the material into the local language and the strengthening of local networks formed with similar objectives.

8.4 FUNCTIONING OF MICRO-FINANCE :

The mFIs provide financial services to the poor by adopting one of the following three approaches :

8.4.1 Exclusive Focus on Micro-finance Services :

Under this category, NGOs implementing a variety of mF programmes are the major players who often act as financial intermediaries in mobilizing savings and on-lending donor funds or loan funds to the poor. These funds may (or, may not) be added to client savings to form a corpus for on-lending. There are a few cooperative organizations that fall under this category of mFIs. These are registered under the Central Cooperative Societies Act such as the Indian Cooperative Network of Women of the Working Women's Forum and the thrift and credit cooperative societies promoted by the Cooperative Development Forum in Andhra Pradesh. Also, a few of the MACS in Andhra Pradesh are engaged in providing mF services exclusively.

8.4.2 Micro-finance Services as One of their Major Objectives :

A large number of NGOs engaged in various social sector programmes in health, education and environment also provide mF services as an "add-on" activity. BASIX, a NBFC, also falls under this category.

8.4.3 Intermediary (or) Apex Institutions :

Institutions like Rashtriya Mahila Kosh (RMK), the Friends of WWB (Women's World Banking) Ahmedabad, Rashtriya Gramin Vikas Nidhi (RGVN), Guwahati are among the few institutions providing indirect services in the mF sector by supporting smaller institutions offering micro-financial services. Recently, SIDBI has set up a Foundation, viz. SIDBI Foundation for Micro Credit (SFMC) for supporting micro-credit provided by mFIs.

Besides, there are a large number of informal SHGs which offer micro-financial services on a limited scale to their members. Though these may not be considered as mFIs in the strict sense, it is increasingly felt that SHGs could be recognized as non-formal community-based mFIs.

Services provided by mf'Is :

Broadly, mFIs provide all or some of the following financial services in different combinations:

- Savings
- Credit for consumption, production, trade, services, housing, or other needs.
- Insurance or risk fund services.

In addition, mFls work for creating favourable conditions for the poor to look for and accept mF interventions. At times, they also facilitate marketing and other linkages for overall development of their members. Of these services, credit is the most widespread, while many provide savings services also.

8.5 RELEVANCE OF MICRO – FINANCE IN WATERSHED :

Any rural development programme is not possible without mainstreaming the disadvantaged category of population. Dispensing credit by banks to rural poor is vital to pursue farm! Non – farm sector activities / enterprises. For these enterprises to generate adequate surplus, the credit should be supported by adequate services in the areas of technology, extension, information on input sourcing and marketing product. Even accessibility of the borrowers to social sector services viz. health, education, sanitation; hygiene, etc. also enhance productivity of economic enterprises pursued by them.

The NGOs have implemented programmes in various social fields' viz. health, education, sanitation, watershed development, natural water resource management, family planning etc., in rural areas through people's participation. SHGs also provide a working framework of people participation in addressing all issues of rural development which has so far been missing component. The guidelines of the watershed development programme emphasizes on participatory approach. NABARD provides grant and/or loan assistance to various watershed development programmes divided into two phases i.e. capacity building is the first phase (CBP) and full implementing phase (FIP). The capacity building phase is totally based on "Participatory Approach" i.e, peoples participation. There is similarity of group approach between SHGs moment in India and micro – finance.

Community participation, self regulations of village watershed development committee, Watershed Development Fund (WDF) and livelihood for the poor are the key features of the watershed development programmes. The key feature of the watershed can be eo-related with micro-finance movement in following manner:

- SHGs can be used in capacity building phase which is the acid test of the future of the watershed.
- Representative member of each SHG can be included in a village watershed development committee.
- Watershed development Fund can be used a corpus for mobilizing saving from the incremental benefit accrued due to watershed development activity and used for maintenance of the watershed assets which is necessary for the sustainable development of natural resource.

- Having matured with sustaining growth the corpus fund can be mobilized for establishing micro-enterprises which will generate additional income for longer period.

8.6 ISSUES RELATED WITH MICRO – FINANCE :

8.6.1 Upscaling of the Programme :

The SHG – Bank Linkage programme is facing problems of upscaling as there is lack of credible NGOs and other agencies / individuals who could do social intermediation, that is, formation and nurturing of SHGs. The absence of quality agencies/ individuals for social intermediation is limiting the spread of the progannme.

8.6.2 Sustainability of SHGs :

The sustainability of SHGs depends to a great extent on the quality of SHGs. The quality of SHGs is dependent on the care and attention given by Self Help Promoting Institution (SHPI) in the formation stage. It has been observed that there has been tendency at the field level to hasten the process of formation of SHGs to achieve targets, which affects the sustainability of SHGs in the long run.

8.6.3 Capacity Building :

The capacity building of various partners in the programme, namely official, animators, SHGs leaders and SHGs member is gigantic task. NABARD has been playing attention to the capacity building of all the partners in the SHG bank linkage programme. However, the enormity of the programme warrants other agencies which could also include donor agencies to collaborate in capacity building of the partners in the programme.

8.6.4 Graduation from Micro – finance to Micro – enterprises :

There are a large number of SHGs which have come of age and are struggling to graduate from the stage of micro-finance to the stage of micro-enterprises. Lack of adequate skill as well as marketing linkage affect the graduation of SHGs to micro – enterprise stage. Only a few NGOs / agencies are in position to provide SHGs the requisite backward and forward linkages as also market survey report.

8.6.5 Issues being faced by the Micro – finance :

A number of micro-finance institutions have come up based on SHGs approach or Grameen Model or variant thereof, in order to enable poor people to access the credit. However, the micro-finance sector which is fast becoming an industry in the country is also faced with some important issues like transparency, sustainability and regulation which need to be resolved.

a. Transparency :

Whether micro – finance is considered as a social enterprise to alleviate poverty or the failure of retail banking, it is fair to say that proliferation of MFIs is a positive trend keeping in view the vast unmet demand of credit by rural poor. However, the MFIs need to enhance the credibility some of the step could be :

i. Having common performance indicator / parameter / rating norms / standard.

ii. Standard for assessment and risk evaluation of MFIs financial performance which could include discloser guidelines for financial reporting.

iii. Issues relating to interest rate regulation will rise as the size of institution grows and the need for a regulator will arise.

iv. Regulation relating to capital adequacy, resource, liquidity, and loan losses will also have to considered, eventually.

v. Registration as a trust, society, and corporation has to be considered.

b. Sustainability with outreach :

The cost of outreach to the poor is high and MFls have major issues before them how to be sustainable while serving the poor. They need to address the issues of minimizing cost for the poor by having operation efficiency, administrative, effectiveness, maintaining, and portfolio quality, tracking future risk in portfolio, covering expenses and fixing appropriate interest rate.

C. Self Regulation :

The MFIs are holding saving of the poor people. Saving being an inherent part of micro – finance, MFls need to operate in a self regulation framework which could include self regulation to begin with. Besides, issues relating to regulation and supervision may have to be addressed later depending upon the volumes and risk involved.

8.6.6 Impact of Government Programmes with Subsidy Components :

Government programmes such as SGSY, which adopted the group mode for delivering credit affecting the sustainability of SGG bank-linkage programme, SGSY has subsidy component and have been report that the stabilized SHGs have split or disintegrated as member have tendency to join-scheme where the subsidy is available. Such schemes have damning effect on SHG-bank linkage programme.

8.7 SUMMARY :

This unit deals with micro-finance (mF) which refers to the provision of financial services to poor or low-income clients, including consumers and the self employed. It also refers to the practice of sustainability of delivering those services. Micro-financing provides permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers to enable the poor people to come out of poverty. Over the past few years, savings-led microfinance has been recognized as an effective way to help very poor families with low-cost financial services. The National Bank for Agriculture and Rural Development (NABARD) in India finances more than 500 banks to lend funds to self-help groups (SHGs) comprising of twenty or fewer members majority of which are women from the poorest castes and tribes. Members save small amounts of money, as little as a few rupees a month in a group fund from which they can borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. After

gaining experience in managing their funds, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund. Groups generally pay interest rates ranging from 12to 23% a year, based on the flat calculation method. Nearly 1.3million SHGs comprising approximately 20 million women now borrow from banks, which make the Indian SHG-Bank Linkage model the largest microfinance program in the world. Similar programs are evolving in Africa and Southeast Asia with the assistance of organizations like Opportunity International, Catholic Relief Services, CARE, APMAS and Oxfam. Micro-financing plays an important role in the development of an economy by providing the people the opportunity to establish a sustainable means of income. Eventual increases in disposable income will lead to economic development and growth.

8.8 KEY WORDS :

Position Book :

A detailed, ongoing record of an institution's dealings in a particular foreign currency or money market instrument. Also known as position sheet.

Position Limits :

The maximum net debit or credit foreign currency balance either during the day (daylight limits) or at close of business (overnight limits) as stipulated by bank management.

Rate Risk :

In the exchange market, the chance that the spot rate may rise when the trader has a net oversold position (a short position), or that the spot rate may go down when the operator has a net overbought position (a long position).

Reciprocal Rate :

The price of one currency in terms of a second currency, when the price of the second currency is given in terms of the first.

8.9 SELF ASSESSMENT QUESTIONS :

1. Explain About Micro Finance.
2. Characteristics of Micro Finance.
3. Different types of micro finance institutions.
4. Explain about NGOs.
5. Write about NABARD.
6. Describe Rashtriya mahila kosh.

8.10 SUGGESTED READINGS :

1. DanielM.Schydlowsky,Peru'sDevelopmentFinanceCorporation,"Financial

Inclusion to Address Poverty"

2. Deepak Pant Joshi, Social Banking – Promise, Performance and Potential, Foundation Books (2012)
3. M.L.Tannan,BankingLawinIndia,Vol.1,LexisNexis Publication(2015)

Venna Sakunthala

LESSON – 9

TYPES OF FINANCE

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of women entrepreneurs
- describe the small borrowers
- understand the concept of small scale industries, housing finance and agricultural finance etc.,

Structure of the Lesson :

9.1 Women Entrepreneurs

9.2 Small Borrower

9.2.1 Loan rates to rise

9.2.2 Present MFI loan rates

9.2.3 Boards to take a call

9.2.4 MFIs: lender to the poor

9.3 Small Scale Industries

9.4 Introduction – HOUSING FINANCE

9.5 Agricultural Finance

9.6 Loan Syndication

9.7 The Concept of Federal Finance

9.8 Summary

9.9 Key Words

9.10 Self Assessment Questions

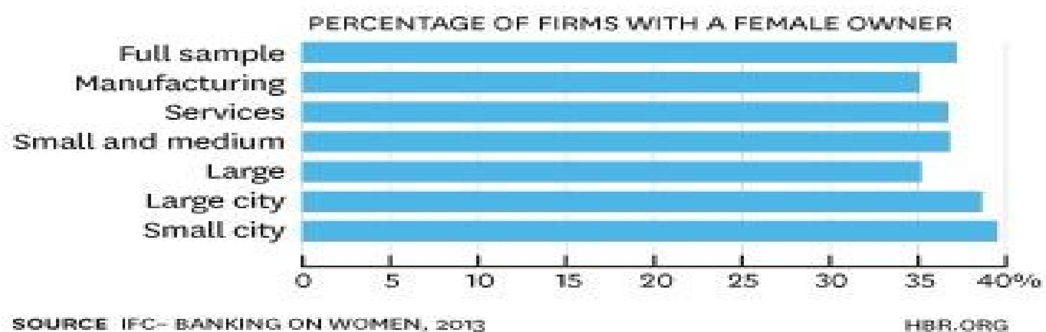
9.11 Suggested Readings

9.1 WOMEN ENTREPRENEURS :

"The woman who follows the crowd will usually go no further than the crowd. The woman who walk alone is likely to find herself in places no one has been ever before."

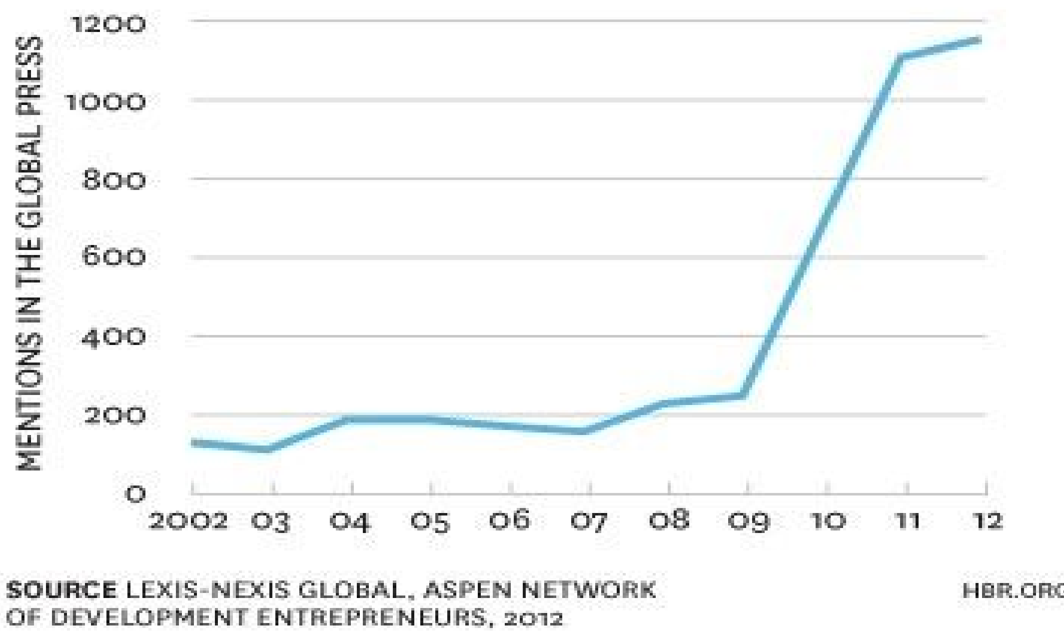
Women entrepreneurs have become an integral part of today's corporate world. Not only are they able to equalize their duties of both motherhood and entrepreneurship but also, they comprise of almost half of all businesses owned. Today, more women are breaking free from the traditional, gender-specific roles and venturing into the business world. The last decade has witnessed a dramatic increase in both – the number of women entrepreneurs as well as the success rate of their initiatives. From being a minority in the entrepreneurial ecosystem ten years ago, women today comprise of 37% of the world's total entrepreneurs. The recent Global Entrepreneurship Monitor (GEM) found 126 million women starting or running businesses, and 98 million operating established (over three and a half years) businesses. That's 224 million women impacting the global economy — and this survey counts only 67 of the 188 countries recognized by the World Bank.

Much of a business woman's drive to pursue entrepreneurship is due to the immense passion she has for her work. Another motivating factor behind women entrepreneurs is the desire for control. Many successful female business owners are provoked by the opportunity to be their own boss and run their own company, a prospect that would never occur if they had worked for someone else. Their primary goal is not monetary reward but rather personal satisfaction and community involvement. Another inspiring component that many successful women entrepreneurs share is the fact that they have the ability to multitask and also the tendency to balance family life and career with their goal-oriented approach.



Women are now overtaking their male peers in every field. When it comes to education, having higher education degrees is one of the most significant characteristics that many successful female entrepreneurs have in common. Women entrepreneurs also tend to offer better health care benefit packages, on the job training and education, more tuition reimbursement for students and continuing education employees and provide more vacation and paid leave options to their staff thus leading to the prosperity of the firm.

Women entrepreneurs are assembling themselves into groups or confederacies. The reasons behind this trend have to do with the desire to establish solid women business networks, where members can collectively pool resources and expertise together. Also, the government schemes and the numerous women Entrepreneurship associations like Federation of Indian Women Entrepreneurs have been instrumental in providing an incentive as well as the resources to step into the world of entrepreneurship. It's no coincidence that states with higher literacy rate have more number of women entrepreneurs. In fact, women entrepreneurs in the four southern states and Maharashtra account for over 50% of all women – led small – scale industrial units in India.



Even though female entrepreneurship and the formation of women business networks is steadily rising, there are still many prospective women entrepreneurs who do not follow through with their great business ideas. Many prospective women entrepreneurs may fear the debt associated with their start-up. A second challenge may be their lack of knowledge in information technology and business skills.

Despite of all the problems faced by women entrepreneurs there are many promising predictions for them in the near future. Even though many successful business ventures are

IT-related, there are many other thriving industries that do exist and are flourishing. Experience is always an advantage; however, one just has to conduct ample research on their industry, their consumer base and competitors, and speak to entrepreneurs who have already gone through the process. Moreover, many such coalitions will be formed among female associates, enabling the establishment of female business networks to flourish in the business world.

Entrepreneurship is a learning experience and even the most successful business owners have had to learn new things throughout the development of their company. Entrepreneurial activity creates growth, prosperity and solutions for social problems. And today's trends show that women will be a driving force of entrepreneurial growth in the future.

9.2 SMALL BORROWER :

Microfinance is a set of financial products including micro-savings, credit, remittances, pensions, etc, crafted for the poor and serviced with affordable costs. As per the Bharat Microfinance Report 2016, microfinance institutions (MFIs) are now reaching 40 million clients with 70,000 crore rupees of portfolios; additionally, 60 million clients are being reached by SHGs (self-help groups) for credit. This sector consumes about 46,000 crore rupees of MUDRA. The microfinance sector constitutes NBFCMFIs, societies, trusts, cooperatives and other entities.

But the significance of microfinance is the type of clients being served, over and above the quantum of the portfolio. About 60 per cent of Indian adults did not have access to formal financial institutions. The account opening drive through the Prime Minister's Jan Dhan Yojana was a welcome initiative; however, most of these accounts were dormant. As fieldwork shows, little has happened in the formal financial sector to actually reach the poor. In this situation, the microfinance sector has seen a growth of upto 60 per cent per annum. But microfinance loans are collateral-free and unsecured in nature, presenting huge potential risks for MFIs. Customers served by MFIs are essentially very poor and usually ostracised by the traditional banking system. Yet, apart from RBI-permissible micro loans per client upto Rs 1 lakh from two sources, MFIs also provision micro insurance and other financial instruments to such customers.

Customers will have to pay more in interest even for small loans from microfinance institutions (MFIs) as lenders seek to pass on their rising cost of funds to borrowers as interest rates are raised.

Most major NBFC-MFIs charge interest in the range of 18-22 percent. But, with the Reserve Bank of India raising the key policy rates by 40 basis points to 4.40 percent on May 4, most of the micro lenders are planning to revise their interest rates. "We may hike our lending rates by 25-30 basis points for new borrowers," Sadaf Sayeed, chief executive officer (CEO) of Muthoot Microfinance told *Money control*. One basis point is one-hundredth of a percentage point.

Microfinance Institutions (MFIs) lend to low-income borrowers like small traders,

corner – store owners, push-card vendors and craftsmen. These lenders operate as non-banking finance companies and in other formats and primarily source money from banks to fund their operations.

Following a crisis in the sector in October 2010 triggered by a controversial law introduced by then Andhra Pradesh government to curb MFI loans, the RBI framed new regulations for such companies, forming a separate category of NBFC-MFIs. The law was sparked by reports that the use of coercive recovery practices by the lenders was forcing overextended borrowers to commit suicide.

Interest rates on micro loans are decided by the MFIs based on board-approved policies. In March 2022, the RBI removed the interest rate ceiling on loans offered by the NBFC-MFIs, letting them modify their rates. Earlier, MFIs used to decide their lending rates based on a quarterly benchmark rate set by the RBI.

9.2.1 Loan rates to rise :

"With the present rate changes by RBI, the sector may see a marginal rate hike of 10-20 basis points at the end-borrower level, that too spread over a year and not upfront," said Rahul Kumar, Chief Operating Officer of Prayatna Microfinance.

The surprise hike in repo rate by the central bank pushed several public sector lenders like Punjab National Bank, Canara Bank, Union Bank and Bank of India to raise their repo – linked lending rates, consequently raising the cost of borrowing.

"If interest rate increases, MFIs will be forced to pass this on to the borrowers," said Sayeed of Muthoot Microfinance.

Analysts pointed out that irrespective of a rate hike happening across various financial institutions, MFIs anyways had to increase their rate of interest after the cap was removed.

"Their borrowing cost was high but the lending rates were capped, so they were not able to serve certain sections of customers as the price cap was hindering that," said Prakash Agarwal, analyst and president of financial services at India Ratings and Research. "Now, most of the MFIs will increase their rates, at least to a certain section of borrowers."

9.2.2 Present MFI loan rates :

RBI rules define a microfinance loan as a collateral-free loan, given to a household with an annual household income of up to Rs 3 lakh. MFIs lend to customers who do not have any access to banking facilities.

When the pricing cap was in force, the RBI had set a limit on the maximum interest an MFI could charge on loans, which was set at a maximum of 10 – 12 percentage points above the institutions' cost of funds or 2.75 times the average base rate for the top five commercial banks.

"The rate would vary from entity to entity, as MFIs would want to compensate for margin loss and high credit cost witnessed in the last two years," added Sachin Sachdeva, vice-president of financial sector ratings at credit assessor ICRA Limited.

9.2.3 Boards to take a call :

If the board of an MFIs feel that the cost of fund has increased, they can get the policy approved at the board level and rework the end-borrower interest rates, experts said.

"When the loan is taken for consumption purpose like daughter's wedding or child's studies, it might be slightly difficult for the borrowers if the rate of interest rises," said Kishore Kumar Puli, managing director of Pradakshana Fintech. "But if the loan is taken for productive purpose, there is no need to bother."

That is because when a loan is taken for a productive purpose like an occupational reason, the borrower stands to earn a profit that would help pay off the loan.

Little movements in interest rates aren't typically a big concern for MFI borrowers as much as access to loans, said Saibal Paul, associate director of Sa-Dhan, an association and a self-regulatory organisation for the microfinance sector.

"Rate of interest has never been a concern for the customers of MFIs; customers approach MFIs because of their accessibility. MFIs are there for primarily small ticket – size loan for those who fail to access banks," he said.

The main purpose of the MFIs is to ensure that poor people get timely credit. "So, a slight hike in the rate is unlikely to affect a majority of the customers; having said so, the leap should not be very high and usurious," Paul said.

9.2.4 MFIs: lender to the poor :

MFIs play a significant role to make credit available to poor borrowers, who will have to otherwise depend on local moneylenders.

"In the absence of funding from MFIs, small borrowers had to reach out to local money lenders, who charged significantly higher rates, which are unsustainable for borrowers," said Sachdeva of Icra.

Increased price competition among all the lenders involved in microfinance is expected to benefit the borrowers in the long-run, Sachdeva added.

9.3 SMALL SCALE INDUSTRIES :

Small scale industries are referred to as those industries in which the process of manufacturing, production and servicing are done on a small scale.

The investment on such industries is one time and these investments are mostly done on plant and machinery, the total investment on such industries do not exceed 1 crore.

In small scale industries, the manufacturing of goods and rendering of services are done with the help of smaller machines and very limited manpower.

Small scale industries or SSIs are known as the lifeline of an economy, which is very important for a country like India. Being a labor intensive industry, it is very helpful in creating employment opportunities for the population of the country.

They are also a crucial part of an economy from a financial standpoint, as they help in stabilising the per capita income of the country.

Characteristics of Small Scale Industries :

Following are the characteristics of Small scale industries in India :

1. Small scale industries generally have a single ownership, which means it either has a sole proprietorship structure or a partnership.
2. The management of the small scale industries rests with the owners and therefore, the owner plays an active role in the day to day functions of the business.
3. Small scale industries are very much labor intensive, hence there is limited use of technology.
4. Small scale industries are flexible and adaptable to a changing business environment, unlike the large industries.
5. Small scale industries work in a restricted area which makes them able to meet local and regional requirements.
6. Small scale industries use resources that are local and readily available, which helps the economy fully utilise the natural resources and bear minimum wastage.

Objectives of Small Scale Industries :

The objectives of small scale industries are as follows :

1. To create job opportunities for the population.
2. To help in the development of the rural areas of the economy.
3. To play an active role in reducing the regional imbalances in the nation.
4. To help in improving the standard of living for people in rural areas.
5. To ensure there is equal distribution of wealth and income

Role of Small Scale Industries in the Indian Economy :

1. They are the major sources of employment for the people living in rural areas and therefore, play a vital role in generating employment in an economy.
2. Small scale industries account for almost 40% of the total goods and services in India hence, is a very important contributor to the economy.
3. Small scale industries help in promoting the Make in India initiative which helps in increasing demand for local made products.
4. Majority of the export materials are provided to the Indian companies from the small scale industries. It is estimated that around 50% of all the material exported are produced from such industries.

Examples of Small Scale Industries :

Some examples of small scale industries are :

1. Paper Bags industries
2. Leather belt manufacturing industries
3. Small toys manufacturing industries
4. Bakeries
5. School stationeries
6. Water bottles manufacturing industries
7. Beauty parlours
8. Pickle manufacturing industries
9. Incense stick manufacturing industries
10. Paper plate manufacturing industries

9.4 INTRODUCTION-HOUSING FINANCE :

There are various ways by which a man can build a house, as building a house is one of the most important dreams of every individual. Everyone aspires to have a home for themselves, but the capital needed can't come from their savings. So, in this case, people need to have money.

Then comes the help of housing finance, it not only helps us to have a house but also fulfils our dream. Housing finance is a matter of online lawyer consultation; it is advised to consult a lawyer in this regard.

What is Housing Finance ?

Housing finance refers to the process of providing funds or financing for the purchase, construction, or improvement of a home.

This can include mortgages, home equity loans, and other types of financing that are used to help individuals and families purchase or improve a home.

Housing finance can also refer to the industry that provides these financial services, including banks, mortgage loan companies, and other financial institutions.

Why do We Need Housing Finance ?

- Housing finance is needed because buying a home is often one of the largest and most important investments that an individual or family will make.
- The cost of a home can be quite high, and many people are unable to pay for it all upfront, which is where housing finance comes in.
- Housing finance allows individuals to borrow money to purchase or improve a home and then pay it back over time with interest.

- This makes it possible for people who may not have enough money saved up to buy a home to become homeowners.
- Additionally, housing finance can also help individuals to improve their existing homes, which can increase their property value and improve their quality of life.
- Moreover, a healthy housing finance sector can also help to promote economic growth by making it easier for people to purchase homes, which can stimulate demand for new homes and construction, creating jobs and boosting the economy.
- In summary, housing finance enables individuals and families to purchase a home and improve their quality of life; it also helps to promote economic growth by creating jobs and stimulating demand for new homes and construction.

What are the Types of Housing Finance in India ?

There are several types of housing finance available in India; some of the most common include :

- Home Loans : Home loans are the most popular type of housing finance in India. They are provided by banks and housing finance companies to individuals and families to purchase or construct a house is also a type of housing finance.
- Home Equity Loans : Home equity loans are another type of housing finance in India. These loans are provided to individuals who have already purchased a home and have built up equity in it. The loan is secured against the equity in the home and can be used for various purposes, such as home improvement, debt consolidation, or even investing in a business is also a type of housing finance.
- Construction Loans : Construction loans are a type of housing finance in India that are provided to individuals or developers to fund the construction of a new home or building is also a type of housing finance.

Home Improvement Loans :

Home improvement loans are provided to individuals to renovate or improve their existing home is also a type of housing finance.

- Reverse Mortgages : Reverse mortgages are a type of housing finance in India that are designed for senior citizens. They allow senior citizens to convert their home equity into cash without having to sell their homes or make any monthly payments is also a type of housing finance.
- Pradhan Mantri Awas Yojana (PMAY) : Pradhan Mantri Awas Yojana is a government housing scheme in India that aims to provide affordable housing to the economically weaker sections of society. It provides interest subsidies on home loans to eligible beneficiaries and is also a type of housing finance.

These are some of the common types of housing finance available in India; depending

on the specific needs and circumstances of the borrower, different types of housing finance may be more appropriate.

Importance of Types of Housing Finance for young couples dreaming of building a house together

Each type of housing finance has its own advantages and disadvantages, and the best type of housing finance for young couples dreaming of building a house for themselves will depend on their specific needs and circumstances. However, some of the general importance of different types of housing finance for young couples include :

1. Home Loans : In this type of housing finance, Home loans are the most popular type of housing finance in India and are often the most appropriate option for young couples looking to purchase or construct a house.

   These loans provide a significant amount of funds that can be used to purchase or construct a house and can be paid back over a period of time with interest.

2. Home Equity Loans : In this type of housing finance, these loans can be a good option for young couples who have already purchased a home and have built up equity in it.

   These loans allow them to use their home's equity as collateral to secure a loan, which can be used to make home improvements or to pay off other debts.

3. Construction Loans : In this type of housing finance, Construction loans are designed specifically for individuals or developers to fund the construction of a new home or building.

   These loans can be helpful for young couples who want to construct their own home and have a clear plan in place.

4. Home Improvement Loans : In this type of housing finance, Home improvement loans are designed to help individuals renovate or improve their existing homes.

   These loans can be useful for young couples who want to make changes to their home but do not have the funds to do so.

5. Pradhan Mantri Awas Yojana (PMAY) : In this type of housing finance, PMAY is a government housing scheme in India that aims to provide affordable housing to the economically weaker sections of society.

   This can be a good option for young couples who are looking for a home in the lower income group bracket.

   Ultimately, the importance of different types of housing finance for young couples depends on their specific needs and circumstances, as well as their financial situation. It's recommended that they take the help of a financial advisor to find the best option for them.

In India, there are several types of housing finance available, including home loans,

home equity loans, construction loans, home improvement loans, reverse mortgages, and government schemes like Pradhan Mantri Awas Yojana. All these schemes are matters of legal consultation.

Conclusion :

In conclusion, housing finance is an important aspect of the economy, allowing individuals and families to purchase or improve a home, even if they do not have the funds to do so upfront. It is a necessary tool that enables people to become homeowners and improve their quality of life.

9.5 AGRICULTURAL FINANCE :

Agriculture finance is one of the most common and prominent things, especially for the farmers. It is only provided to the farmers by many banks and commercial sectors. Any farmer can take agriculture loans to buy the equipment related to his farming or production. The need for agriculture finance is the purchase of digging and tube wells, agricultural implements, seeds, marketing of agricultural produce, livestock, repair of wells, fertilizers, affecting permanent improvements on the land, manures, payment of wage, etc.

Agricultural finance commonly means examining, studying, and investigating the

financial elements of the farm business. The farm business is also known as the core sector of India. The financial characteristics comprise money significance conveying to the production of agricultural products and their disposal.

Definition of agriculture finance :

Following is the definition of agriculture finance. If you want to know about it, you must know it through three. These are;

Murray (1953) described agricultural finance. Agriculture finance is also known as "a financial analysis of borrowing funds and reserves by farmers, the operation of farm lending agencies, association and of organization interest in loans for agriculture ."

Another definition of agriculture finance is given according to Tandon and Dhondyal (1962). He specified the term "agricultural and another in finance." It is known as an associate of agricultural economics, which negotiates with financial or economic resources that all are connected to individual farm divisions."

Types of Agricultural Loans in India :

The farmers can take a loan for the various activities of agriculture. These activities include Storage purposes, Expansion of the production, product marketing, Finance, conducting day-to-day processes, Buying land, and Purchasing farming equipment or machineries such as tractors and harvesters. There are too many types of agricultural loans in India. If you want to know about them, you can follow the below-given points.

- The first type of agriculture finance is Crop Loan. Any farmer can take a crop loan through the National Bank for Agriculture and Rural Development Bank and other commercial sector banks.

- Apart from this, the Kisan Credit Card is also another type of agriculture loan in India. It was launched in India for the first time by the Indian banks in 1998. Any farmer can take the borrowed funds at 7 percent per annum and more than amounts up to Rs. 3 lakh.
- Apart from this, another type of Agricultural loan in India is the Combine Harvester Loan, Multipurpose Gold Loan, Drip Irrigation Loan, Tractor Loan, Poultry Loan, and Dairy Loan.
- The National Bank for Agriculture and Rural Development is one of the best banks to take loans for farmers. The NABARD is the exclusive and most wondrous bank that provides financial help to the farmers. The Kisan Credit Card Scheme, Loans by Nationalized Banks, Private Sector Bank Agricultural Loans, and Loans by State Bank of India is also a type of agriculture loan.

So, these are the Types of Agricultural Loans in India. Any farmer can benefit from these loans from specified banks and agricultural sectors.

The Need for Agriculture Finance :

The need for agriculture finance in this current time is more than before. Some farmers take this aid especially to accomplish their production needs and buy various kinds of farming instruments. Moreover, the other needs of the Agricultural finance are to meet various needs of the farmers like agricultural marketing, post-harvesting storage, and transport of produce, supply of power, need for good quality seeds, procurement of fertilizers, diseases, and issues like low rainfall, meeting the risks like damage due to pests, etc. So, all these are the needs of agriculture finance.

Conclusion :

Thus, all this information is given in detail about Agricultural Finance. Agriculture finance is essentially the most valuable finance. It is specially provided only to the farmer to give aid to produce their products with sufficient money and proper instruments. There are too many types of Agricultural Loans in India. The farmers can avail of agricultural loans for these activities such as Running day-to-day operations, Storage purposes, Buying farm types of machinery such as harvesters, tractors, et cetera, Purchasing land, Product marketing loans, and other Expansion. If you would like to know about the Agriculture finance definition and The need for agriculture finance, then you must follow the above-given information.

9.6 WHAT IS LOAN SYNDICATION :

The term "loan syndication" refers to the process of involving a group of lenders that fund various portions of a loan for a single borrower. Loan syndication most often occurs when a borrower requires an amount that is too large for a single lender or when the loan is outside the scope of a lender's risk exposure levels. Multiple lenders pool together and form a syndicate to provide the borrower with the requested capital.

Understanding Loan Syndications :

Loan syndication is often used in corporate financing. Firms seek corporate loans for

a variety of reasons, including funding for mergers, acquisitions, buyouts, and other capital expenditure projects. These capital projects often require large amounts of capital that typically exceed a single lender's resource or underwriting capacity.

There is only one loan agreement for the entire syndicate. But each lender's liability is limited to their respective share of the loan interest. With the exception of collateral requirements, most terms are generally uniform among lenders. Collateral assignments are generally assigned to different assets of the borrower for each lender. The syndicate does allow individual lenders to provide a large loan while maintaining more prudent and manageable credit exposure because the associated risks are shared with other lenders.

The agreements between lending parties and loan recipients are often managed by a corporate risk manager. This reduces any misunderstandings and helps enforce contractual obligations. The primary lender conducts most of the due diligence, but lax oversight can increase corporate costs. A company's legal counsel may also be engaged to enforce loan covenants and lender obligations.

The Loan Syndications and Trading Association is an established organization within the corporate loan market that seeks to provide resources on loan syndications. It helps to bring together loan market participants, provides market research, and is active in influencing compliance procedures and industry regulations.

Special Considerations :

For most loan syndications, a lead financial institution is used to coordinate the transaction. This institution is often known as the syndicate agent. This agent is also often responsible for the initial transaction, fees, compliance reports, repayments throughout the duration of the loan, loan monitoring, and overall reporting for all lending parties.

A third party or additional specialists may be used throughout various points of the loan syndication or repayment process to assist with various aspects of reporting and monitoring. Loan syndications often require high fees because of the vast reporting and coordination required to complete and maintain the loan processing.

Example of a Loan Syndication :

Let's say Company ABC wants to buy an abandoned airport and convert it into a large development with a sports stadium, multiple apartment complexes, and a mall. To do this, it needs a $1 billion loan.

The company goes to JPMorgan. The bank approves the loan. But because it's such a large amount and greater than the bank's risk tolerance, it decides to form a loan syndicate.

JPMorgan acts as the lead agent and brings together other banks to participate. It contracts Bank of America, Credit Suisse, Citi, and Wells Fargo to participate in the loan. JPMorgan contributes $300 million to the loan, and the remaining $700 million is shared between the other syndicate members. Bank of America lends out $200 million, Credit Suisse $100 million, Citi $250 million, and Wells Fargo $150 million.

As the lead bank, JPMorgan also organizes the terms, covenants, and other details needed for the loan. Once complete, Company ABC receives the $1 billion loan through the loan syndicate.

9.7 THE CONCEPT OF FEDERAL FINANCE :

In usual parlance federation is defined as an association of two or more states. The federal setup is characterized by the existence of a union government (Central government) on the one hand and state government for different constituent units.

It is a form of political association in which two or more states constitute a political unity with a common government, but in which the member states retain a measures of internal autonomy. Encyclopaedia Britannica defines federation "as a form of government in which the essential principle is that there is a union of two or more States under the central body for certain permanent objectives."

Sir Robert Garran defined federation as a foam of government in which Sovereignty or political power is divided between the central and the local governments, so that each of them within its own sphere is independent of the other.

As far as functions and resources are concerned the two sets of government are independent. Actual federations are however of different forms. For example India is more a unitary than federal type, where there is large concentration of power in the hands of central government.

Whereas USA is more of a federal than unitary type Country, Where there is lesser concentration of power with centre and larger exercise of power by provincial and local governments.

Thus depending on the type of federation fiscal responsibilities is shared between central, state and local governments. Therefore federal finance means divisions and coordination of different items of income and expenditure between central, state and local governments. This multilevel decentralized fiscal system is known as fiscal federalism.

In this context Dr. R. N. Bhargava opines **"federal finance refers to the finance of the federal as well as of the state governments and the relationship between the two."** However the concept and definition of federal principles is still a controversial issue.

Prof. K. C. Wheare states :

"By the federal principle I mean the method of dividing power so that the general and regional governments are each, within a sphere, Co – ordinate and independent."

Therefore federation is characterized by certain basic principles like :

(a) Division of power and functions,

(b) Supremacy of the constitutions,

(c) Constitutional independence of the constituent units, and

(d) Federal predominance.

Principles of Federal Finance :

In a federation functions are distributed among different layers of government. Since each government is responsible for its own sphere of activity there should be adequate provision for source of revenue and its efficient administration for discharging the assigned functions independently and satisfactory.

Therefore the pool of total revenue source should be divided between the centre, state and local governments scientifically and reasonably. This warrants some mutually beneficial and sound principles, for the division of revenue source.

What should be the guiding principle regarding the division of functions and resources among different layers of government.

A host of economist provided an array of guiding principles in determining the resource allocation. Prof. Seligman prescribed three principles on the basis of which revenue sources i.e., taxes should be divided between the different layers of government.

These fundamental principles governing resource allocation are :

(a) Efficiency,

(b) Suitability, and

(c) Adequacy.

Efficiency norms insist that tax allocation among different layers of government should be decided by the capacity of feasibility to administer the tax effectively. There will be taxes, which can be best administered by the centre. Such taxes should be assigned to the central government. For example income tax in India.

Likewise there are some taxes which can be administered by the state government. Such taxes should be assigned to the state government. Best example is agricultural income tax. Suitability criterion insists that the nature of tax is an important aspect determining allocation.

Taxes will possess wider or narrow jurisdiction. Taxes with narrow jurisdiction should be allocated to regional or local governments rather than central government. The adequacy norms insist that revenue assigned to a particular layer of government should be sufficient to carry out the functions and responsibilities assigned to them.

The non-coordination between functions of government and revenue allocated to discharge the functions generate crucial problem in federal finance. Prof. Seligman in his Essays in Taxation observes” no matter how well intentioned a scheme may be or how completely it may harmonies with the abstract principles of Justice, if the tax does not work administratively, it is doomed to failure”.

Therefore as a matter of fact there are no uniform principles which determine the

resource allocation in federal finance.

Prof. B.P Adarkar in his master piece "Principles and Problems of Federal Finance." laid down three principles governing the working of Federal Finance. Later economists added a few more principles based on certain practical situations.

These principles are briefly explained below :

1. **Independence and Responsibilities :**

   The success of fiscal federalism is conditioned by the two fundamental requisites- Financial independence and financial responsibility. It means that the central and state government must be financially independent within their own spheres.

   Each government should possess separate and independent sources of revenue. Government at different layers should have full power to tax, to incur expenditure and to borrow to perform the assigned functions effectively.

   Prof. Adarkar observes, "Taxing autonomy and spending autonomy should go hand in hand. In the broader interest of the nation the centralization of revenue in the hands of the central government seems to be good. However too much dependence of state government on central government for resources is not a healthy practice in federal finance."

   Prof. Adaekar Says, "full freedom of financial operations must be extended to both federal as well as state governments in-order that they may not suffer from a feeling of Cramp in the discharge of their normal activities and in the achievements of their legitimate aspirations for the promotion of social and economic advancement."

   Therefore, the centre and state government should be financially independent and autonomous in respect of taxing with in their own spheres.

2. **Adequacy and Elasticity :**

   Adequacy implies that allocation of resources should be based on distribution of functions. The sources of revenue assigned to each layer of government, should be sufficient enough to discharge the functions efficiently and effectively.

   For achieving this financial structure should be elastic, flexible and adaptable to the changing conditions of economy. The resources should be capable of expression in response to the rapidly growing needs and responsibilities of government otherwise the federal finance system will create rigidities during times of economic stress and strain.

   As John Athan Says "if a federal system with real independence in the states is to continue, the state must have financial resources under their own

control reasonably adequate to meet their responsibilities." Justifying the principle of adequacy and elasticity.

Dr. R. N. Bhargawa observes "the scheme of resources must be set up on elastic system because no scheme, howsoever good, can be final for all times to come; under changing conditions, any argument is bound to become out of date in course of time. The scheme of division must, therefore, incorporate provisions for such changes when they become necessary in the national interest."

3. Administrative Efficiency and Economy :

Tax resources should be assigned to different layers of government considering efficiency and economy in administration. The administrative Cost should be minimized. There should be no scope for fraud and evasion.

While allocating resources the administrative efficiency should be adhered. For example it is better and economical to allocate land tax to local bodies, excise tax on alcohol to state government and income tax to central government.

Here each layer of government is assigned such sources of revenue which it can administer efficiently. As point out by prof. Seligman, the nature of tax and character of administration determine the effectiveness of different taxes. This will ensure optimum utilization of revenue potential and help to prevent corruption and evasion in revenue mobilization and realization.

4. Other Important Principles :

a. Principle of Uniformity and Equity :

In a federation there may be regional variation in the level of economic development, owing to a number of economic and non-economic factors. Therefore contribution of each state in federal resources structure should be based according to its ability or economic condition.

Hence the principles of equality in the distribution of tax burden are another guiding principle of federal finance. Principles of uniformity insist that there should be no discrimination between citizens of different states in a federation.

Adequate provision should be there to protect the interest of backward regions and states and even weaker sections of the community, under conditions of difference in resource endowments, tax burden should be distributed on the basis of marginal sacrifice principle.

For the success of fiscal federalism there should be proper integration and co-ordinations of the financial system of different layers of government. Judicious uses of scarce resources are affected by well co-ordinated and integrated intergovernmental fiscal policy.

b. Principles of Accountability :

In a federal form of political set up federation and democracy are considered as sister institutions. So in a federation each layer of government should be accountable to its own legislature for its taxing and spending decisions.

Utmost transparency should be retained in all financial and administrative matters. Each government spending and taxing decisions should be done with regard to their effect on other governments.

c. Principle of Financial Access :

This principle implies that there should be no bar on centre and state governments in exploring new source of resources, to meet the growing financial requirements. In a sense resource should grow along with growth in responsibilities.

Moreover in order to develop healthy financial relation between different units in a federation each government unit will have to work under certain self-imposed discipline. Moreover division of resources should be subject to flexibility.

It is a reality that a number of problems arises and exist in federal finance. We should not try to overshadow these problems by putting certain rigid norms and principles.

A pragmatic approach towards finding solutions to problem is needed. Since socio-economic conditions differ from time to time and from state to state the division of resources should be subjected to flexibility and adaptability. In a federal fiscal system, there is only scope for adjustment in the light of changing circumstances

Problems of Federal Finance :

Federalism whereby two or more sovereign units of government Coexist within the same political environment, provides the primary basis for the intergovernmental fiscal problems. It is very difficult to decide which level of government will perform the specific functions as per community preference.

In addition the revenue sources necessary to finance these expenditure functions must be allocated among the various levels of government in a specified manner. A considerable divergence exist between the sources of revenue and functional expenditure obligations among the government of a federation.

Therefore some government may find it easier to than others to meet their expenditure responsibilities from their own revenue source. This situation is a form of imbalance between revenue and expenditure, that too between different levels of government.

The problems of a decentralized fiscal system in fiscal federalism, as it is called, have received much attention, in public finance literatures during the past 3 decades. This is partly due to the fact that there are different sovereign levels in the political

system and because of the extension of the theory of public goods, at the national, state and local levels.

It has also been partly due to certain development in federal fiscal structure including the imbalance in the distribution of resources and needs among different levels of government. This has called forth a reconsideration of the fiscal rules to be performed by various levels of government and there relations to one another. In this context it is worth to analyses some of the important problems in federal fiscal system.

For the smooth functioning of a federation division of functions and resources is imperative. However for the last several years, there is a growing conflict between centre and state in matters regarding the distribution of financial resources, between the units in a federation, owing to political and ideological grounds.

There is multiplicity of taxing and spending activities in a federation. The allocation of functions between the centre and the state government differ from country to country. Generally the functions which are of national importance like defence, foreign affairs interstate activities etc. is usually shouldered by the central government.

Whereas matters which are of regional interest remain in the hands of regional government. Performance efficiency is the basis criteria for allocating functions among different constituent units in a federation.

As such functions like defence, foreign trade foreign affairs, post and telegraph etc. are put under the jurisdiction of central government. Subjects of regional interest like education, health service, public works, internal law and order etc. are assigned to the local government. This necessitates a proper co-ordination of the policies and activities of the centre and state governments.

Vertical Fiscal Imbalance :

In many democratic countries a large divergence exists between the revenue source and expenditure obligations among the governments of a federation. Some constituent governments in a federation many find it easier than others to manage their expenditure responsibilities from their own revenue source.

Whereas some others find it difficult to manage the revenue-expenditure programme in a balanced manner. Nowadays there is a continuous and persistent increase in the expenditure programmes of the state and local governments due to increasing welfare oriented programmes.

Expenditures on activities like education public health, social welfare, urban management, welfare schemes for weaker sections rural development activities etc. are on a continuous increase.

Whereas majority of revenue source under the control of state and local governments is inelastic in nature. This creates a situation of imbalance between growing expenditure requirements and poor yield of revenue source for state and local governments.

Contrary to this, the central government always possesses surplus revenue owing to control over more elastic sources of revenue. There occurs a situation of greater expansion of financial resources of central government, and shrinking of resources bases of state and local governments, coupled with increasing responsibilities of state and local governments due to growth of welfare activities.

This type of resource gap between the centre states is called vertical fiscal imbalance. The situation of imbalance of revenue and expenditures vertically between levels of government is referred to as the problem of non-correspondence or vertical fiscal imbalance.

Fiscal federalism tries to bridge this gap and attain a balance through vertical co – ordinations between the centre, state and local level public expenditure and resources needed to finance them.

The important methods adopted to achieve vertical fiscal equality between the centre and regional governments in a federation are :

1. Tax sharing,
2. Tax credit,
3. Tax deductibility,
4. Tax denial,
5. General grants-in-add, and
6. Selective grants-in-aid.

Under tax sharing arrangement a tax is levied and collected by single administration. But the proceeds are shared either wholly or partly with two or more units.

The allocation of the share to constituent units require some criteria which may be either within in the constitution or left to be determined by the national government or it may be determined by periodical agreement between the centre government and constituent units.

Under the tax credit, a superior government unit allows a credit against its tax to anyone who pays the same kind of tax to subordinate units. This method eliminates tax competition problem and thereby increases the capacity of the subordinate units.

Tax deductibility is another method to correct vertical imbalance. Under the method permission is granted by one government to deduct tax paid from the tax payers upon which another government levies taxes.

Under the tax denial the government may put restrictions on state and local government taxing powers. It includes denial of power to subordinate jurisdictions to levy certain taxes, putting a ceiling on the tax rule used by the lower level governmental

units; Any upward change in the tax rate requires the approval of the central legislature. These methods of tax co-ordination are known as tax denial or tax restrictions.

In order to avoid overlapping of taxes and duplication of administration and to ensure uniformity of the base of taxation, the method of tax supplement must be used. The higher level government collects the tax with an additional duty imposed by the lower level governments.

Another method of collecting vertical imbalance in fiscal resources transfer is grants-in-aid. Three types of grants are used to transfer revenue to lower level of government viz. General (Block or unconditional) grant, or selective grant (restrictive or conditional grant and matching or non-matching grants.

Horizontal Fiscal Imbalance :

Horizontal imbalance exists between units at the same level of sovereignty. When fiscal imbalance occurs between different units of government at the same level of government in a federation, it is known as problem of equalization or horizontal fiscal imbalance.

In a federation differences exist in the per capita distribution of income and wealth and the volume of trade among different states. Regional difference in resource endowment among different communities leads to variation in per capita revenue potential among communities.

Horizontal fiscal imbalance is corrected and the principle of fiscal equity is achieved through equalization of fiscal residue. Prof. J. M. Buchanan defines fiscal residue as "net benefits from tax-expenditure programme i.e., benefit from expenditures minus disutility from tax payment."

Due to difference in resource endowment, level of development and variation in the implementation of tax expenditure programmes among different states in a federation, the central and state taxes generate unequal fiscal residue for their citizens. Thus a gap in fiscal residue arises and the some must be equalized to achieve, what is called horizontal fiscal balance.

This gap in fiscal residue can be filled by interstate transfer of resources. That is there should be a federal arrangement for transferring resources from richer states to poor states.

This will help to reduce interpersonal fiscal inequality. Musgrave put it as realization of horizontal equality however it is unlikely that rich states within a country will voluntarily agree to transfer adequate resources to the resource deficient poor states. Foe affecting such a transfer a strong political set up at the centre is needed.

Another problem in federal set up is the tax competition, In order to attract more capital and trade from other parts of the country, one state government may reduce or abolish certain type of taxes, this policy may sometimes benefit backward states. However this type of competitive tax reduction may hinder the smooth flow of interstate trade.

9.8 SUMMARY :

Women entrepreneurs are assembling themselves into groups or confederacies. The reasons behind this trend have to do with the desire to establish solid women business networks, where members can collectively pool resources and expertise together. Also, the government schemes and the numerous women Entrepreneurship associations like Federation of Indian Women Entrepreneurs have been instrumental in providing an incentive as well as the resources to step into the world of entrepreneurship. It's no coincidence that states with higher literacy rate have more number of women entrepreneurs. In fact, women entrepreneurs in the four southern states and Maharashtra account for over 50% of all women-led small-scale industrial units in India. Entrepreneurship is a learning experience and even the most successful business owners have had to learn new things throughout the development of their company. Entrepreneurial activity creates growth, prosperity and solutions for social problems. And today's trends show that women will be a driving force of entrepreneurial growth in the future.

In small scale industries, the manufacturing of goods and rendering of services are done with the help of smaller machines and very limited manpower. Small scale industries or SSIs are known as the lifeline of an economy, which is very important for a country like India. Being a labor intensive industry, it is very helpful in creating employment opportunities for the population of the country. They are also a crucial part of an economy from a financial standpoint, as they help in stabilising the per capita income of the country.

There are various ways by which a man can build a house, as building a house is one of the most important dreams of every individual. Housing finance refers to the process of providing funds or financing for the purchase, construction, or improvement of a home.

This can include mortgages, home equity loans, and other types of financing that are used to help individuals and families purchase or improve a home.

9.9 KEY WORDS :

Rollover :

The process of extending a maturing forward foreign exchange contract.

Sanctions :

A coercive governmental action that restricts trade with a specific country (e.g., embargo) for a political purpose rather than for an economic need.

Seller's Option Contract :

When the seller has the right to settle a forward contract at their option anytime with in a specified period.

Shell – Branch :

See *Offshore Branch*.

9.10 SELF ASSESSMENT QUESTIONS :

1. Discuss about Women Entrepreneurs.
2. Briefly explain about Small Scale Industries.
3. Define Housing Finance.
4. Write about Agricultural Finance.
5. Loan Syndication.
6. What is the Concept of Federal Finance?

9.10 SUGGESTED READINGS :

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Venna Sakunthala

LESSON – 10

SOCIAL BANKING

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of social banking
- describe the brief history of social banking
- financial inclusion

Structure of the Lesson :

10.1 Introduction – Historical background

10.2 Meaning – Social banking

10.3 Evolution of social banking

10.4 Major social banking schemes

10.5 Price of social banking

10.6 From social banking to financial inclusion

10.7 Recent developments

10.8 Social banking and finance – more relevant than ever before

10.9 Social banking also needs to promote inclusion to address poverty

10.10 Multi agency approach

10.11 Challenges to social banking

10.12 Summary

10.13 Key Words

10.14 Self Assessment Questions

10.15 Suggested Readings

10.1 INTRODUCTION – HISTORICAL BACKGROUND :

(A) Better the village, better the nation :

India is a welfare state and its policies are aimed to achieve the socialistic pattern of living for the residents. After independence, the country adopted a mixed economy system with strong public sector and vital private sector under takings. These sectors cover the social, economic and welfare sectors of the country. The development of the economy of the country is covered by the financial sectors. Banks, Financial institutions, Cooperatives are a part of the financial sector. The banking sector is a key constituent of

the country's economy. It aims to serve the basic social and economic goals and prevent monopolistic tendencies, concentration of power and improper use of resources.

(B) Banking sector reforms :

In 1955, the Imperial Bank of India was nationalized and named as "State Bank of India" under the State Bank of India Act, 1955. Its role was to act as the principal agent of RBI and handle banking transactions all over the country. Seven other banks forming subsidiaries of State Bank of India were nationalized in 1960. The V. V. Pai Anandikar's Report to the government of India highlighted the fact that new entrepreneurs and businesses had not been able to secure adequate credit from the banking system. The banks had failed to cater to the requirements of agriculturists and small industrialists. Such that to overcome these defects the report recommended social control of banks. Social control of banks was expected to –

1. Improve the position of agriculturists and small industrialists.
2. Enable the government to effectively implement the Five Year Plans.
3. Bring about wider representation in the boards of Directors of banks and in the actual decisions with respect to advances.

This led to passing of the Banking Laws (Amendment) Bill, 1967. However, in 1969 and 1980 respectively fourteen major private banks and six other banks were nationalized. The aim was to make them direct their activities for the development of society, instead of concentrating on profits i.e. to achieve the socialistic goal enshrined in the Preamble of Indian Constitution. By the year 1980 almost 80% of the banking sector in India was under government's ownership. After nationalization the Indian banking system had wide-spread branch expansion especially in rural and semi-urban areas, Lead bank scheme, Service Area Approach etc. All these developments primarily stemmed from the socialization of banking. While these developments made banking services easily accessible to the masses, especially the weaker sections of the society, there was a growing concern regarding the deterioration of the banking services. The main objective was to control the heights of the economy, to meet progress and to better serve the needs of development of the economy inconformity with national policy and objectives.

With the adoption of New Economic Policy, 1991 the Government appointed Narasimham Committee to make recommendations for revamping the functioning of commercial banks in India. As a result of the suggestions, the Banking Regulation Act was amended in 1993 which opened gates for the new private sector banks. These branches of nationalized banks are working as what is called social banking. Social banking promotes a direct impact of credit on the distribution of income such that welfare is ensured which is different from the commercial banking system where the concentration is more on profit maximization, efficiency and economic growth. Thus, the banks are now expected to function as instruments of social banking with sustained profitability.

From 1977 to 1979, Commercial Banks were told that for each branch setup in a metropolitan or port region, four ought to be set up in unbanked rural areas. In June 1969 and December 1985 the all out number of Commercial Bank offices developed from 8262 to 52,398 (counting12,606 Regional Rural Bank offices). The quantity of rustic branches expanded from 1833 to 30,944.

10.2 MEANING – SOCIAL BANKING :

Dr.Roland Benedikter defined social banking as 'banking with a conscience'. The main focus of the banking sector is on putting resources into local areas, giving freedoms to the hindered, and supporting social, ecological and moral planning. Banks currently under scores on accomplishing triple main concern of benefit, individuals and planet. Social finance represents the focal point of the different exercises of commercial banks towards the up-liftment of poor people and discouraged with the aim of accomplishing a socialistic example of society. For example – Government – sponsored credit programmes and disbursement targets for Weaker Sections.

The role of the state here is to influence the allocation of credit by social class. The three main objective of social banking are –

A. Equity

B. Economic Growth and welfare objectives

C. Financial viability

10.3 EVOLUTION OF SOCIAL BANKING :

The evolution of social banking in India can broadly be traced into three phases –

1. During the **First Phase** (1960-1990) i.e nationalization of banks in which the main focus was on providing credit to the neglected sectors especially weaker sections of the society through branch multiplication of commercial banks and Priority Sector Lending.

Era of Government sponsored credit programmes :

In order to continue the intervention in the credit delivery system, the Indian Government has promoted special programmes in an attempt to broaden the base of credit demand in rural areas. Some Examples are –

i) Massive Agricultural Production Programme launched in 1983 to promote investment in minor irrigation

ii) Special Scheme for Biogas launched in 1973

iii) Self – Employment Scheme for Educated Unemployed Youth (SEEUY) launched in 1983.

iv) Self – Employment Programme for the Urban Poor (SEPUP) launched in 1986.

v) Integrated Rural Development Programme (IRDP) introduced on a pilot basis in 1978 and extended to the whole country in1980 under the Sixth Five Year Plan.

2. **Second Phase** (1990 – 2005) zeroed in basically on fortifying the monetary foundations as a piece of monetary area changes. This period saw the coming up of Self Help Group (SHG), Bank Linkage Program and Kisan Credit Cards (KCC). Later, Self – improvement Gathering Bank Linkage Program was dispatched by NABARD in 1992, supported by Reserve Bank of India, to help strengthen cohesive exercises by poor people in order to give them simple admittance to banking.

3. During the **third phase** for example from 2005 onwards, the monetary incorporation was broadly practiced on public level with fundamental accentuation on giving essential financial offices through NFAs.

10.4 MAJOR SOCIAL BANKING SCHEMES :

1. Village Adoption Scheme :

This scheme involved adoption of a particular village to cater to financial needs of the targeted population with formulation of projects, infrastructure development etc.

2. Service Area approach :

It was introduced in 1989 with the objective of planned development in banking services so that all the targeted population is covered in a given area in coordination with the urban banks and rural banks. It led to development of each area with micro level financing.

3. Lead Bank scheme :

It was introduced in 1969 with the objective to supply credit in a district and assist at primary lending services with a lead bank in motion.

4. Priority Sector Lending :

This was introduced as part of implementation of First five year plan goals i.e. growth of agriculture sector, village development, irrigation etc.

5. Differential Rate of interest scheme :

It was introduced in 1972 to provide a reasonable rate of interest to low income groups in population to achieve the welfare objection and growth of production. This also involved monitoring the consumption of the loans provided.

6. Micro Financing :

It involved giving small credit loans to poor and backward populations. The idea was introduced by Muhammad Yunus. This is done through the establishment of Grameen Bank, Self help groups, NGOs etc.

10.5 PRICE OF SOCIAL BANKING :

1. India's post nationalization mass financial projects declined into libertarian plans which monetarily destroyed the banks. The government officials might be not able to oppose the short – run prizes to modest credit arrangements - invigorating extension of supply, yet driving banks to work at a misfortune, disintegrating their capital base and driving them over the long haul to insolvency or ongoing reliance upon the state. Hence coming into play of government officials with monetary area.

2. Credit ought to be utilized as an instrument of reallocation instead of the more ordinary techniques like tax collection, government backed retirement, work conspires, etc. Opening new branches in country zones without appropriate execution, development, arranging and management of end utilization of credit or making of essential foundation offices implied that branches stayed simple flag posts.

3. In a developing country like India, post financial reforms and crises, it is not enough just to provide credit for production to the masses. Production itself must be increased with the adoption of improved skills, access to markets and inputs and technology advancement coupled with individual growth. This idea of social revolution resulted in the setting up of a counter revolution. One such example is the failure of the IRDP incentive which in itself accounted for 40% of the losses incurred by commercial banks.

4. Excess supply of credit (comparative with accessible venture openings) brings about low capital base, lower benefit and gradual pay per advance, on account of market immersion, deficiency of sources of info and High level of Non performing resources. This thus makes borrowers reimburse less and, in the event that credit supply is decreased accordingly, a negative input framework to such an extent that like an advance waiver of 1989 which was a toppingon the cake.

10.6 FROM SOCIAL BANKING TO FINANCIAL INCLUSION :

The middle and low-income households in villages and urban areas do not just require credit but also access to a wide range of services, including skill development, insurance, savings, access to inputs and remittances giving idea towards a formal policy of financial inclusion to be adopted by the government. While the goals of both social banking and financial inclusion are similar i.e. to achieve the welfare objectives and socialistic goals, one important difference between both is that the inclusive credit financial inclusion model also aims to provide households full access to a suite of financial services unlike social banking.

It involves two broad initiatives –

1. Opening of basic bank accounts for all unbanked house holds

2. The business correspondent (BC) model i.e., promotion of agent – based banking.

This is done in furtherance to social banking i.e. in order to extend banking access. The government mandate required banks to establish bank branches in all villages with over 2000-3000 population and resident citizens. In 2005, the Reserve Bank of India (RBI) compelled banks to offer a basic banking. No Frills Account either with zero or low minimum balance maintenance. In 2006 the RBI started with the concept of Business Correspondents.

10.7 RECENT DEVELOPMENTS :

The Pradhan Mantri Jan – dhan Yojana (PMJDY) was launched on 15 August 2014. According to the project, every citizen in the country will need to have a bank account or one bank account in every household, irrespective of his or her income level. Apart from the credit facilities it will also help people overcome money laundering activities. Moreover, account holders will receive RuPay Debit Card along with Rs1,00,000/- accident cover policy. Apart from opening the account itself, offering literacy about finances is a major integral part of the mission. The literacy program will provide the beneficiaries with the necessary knowledge to use the Financial services made available to them.

Institute for Development & Research in Banking Technology (IDRBT) along with National Payments Corporation of India (NPCI) are working to contribute continuously by offering new technology products meant for the banking industry. One such is the Core banking solution which promoted the use of NEFT, RTGS, Internet Banking, Mobile Banking and ATMs. Furthermore, the latest products such as e-KYC, AEPS, and IMPS, mobile banking and electronic wallet will help tap the potential of the left out population across the country.

Many committees have been formed in the past to work on financial inclusion. Recent recommendations of the Nachiket or committee have opened up the idea of licensing new types of banks such as Small Finance Banks and Payments Banks by RBI. The recent committee report by Deepak Mohanty on Medium – term path on financial inclusion talks about a five year measurable action plan for financial inclusion.

CONCLUSION :

The concept of social banking has been created since nationalization of the Commercial Banks in India. It lies on the target of shaping a coordinated monetary frame work with a public inclusion, fit for reacting viably to numerous administration strategy destinations, yet saving a sound capacity to oppose neighbourhood political pressing factors. The fundamental goal is assignment of assets to the denied, disposing of restraining infrastructure of personal business houses and corporate families on banks, expanding banking the nation over and lessening regional imbalances. However this system suffered a backlog with change of administrative and political circumstances such that it was used as a means of vote bank politics, large scale corruption in implementation of schemes and improper planning. As a result of which the banking and economic institutions suffered major losses due to non recovery of loans and less credit flow. The situation was controlled with substituting other schemes like the idea of Financial Inclusion. It was done to ensure that all citizens and every household become a part of financial service, receiving at the end

all the benefits for their growth and thereby resulting in economic growth of the country. Thus the idea of development can be ensured not just with credit availability but also inclusion of financial services like access to inputs, financial knowledge, skills and technology.

10.8 SOCIAL BANKING AND FINANCE – MORE RELEVANT THAN EVER BEFORE :

Why has social banking and finance become so relevant now? The global financial and economic crisis has had a significant negative impact on lives of individuals globally. People have lost their livelihoods, their homes and savings in the aftermath of the crisis. One of the prominent reasons for the crisis was that the financial system was focussed on furthering its own interests and lost its linkage to the real sector and with the society at large. The relevance of social banking and finance also arises from the realization that free market forces do not always result in greater efficiency in the financial system, particularly while protecting the interests of the vulnerable sections of society. This is due to the information asymmetry working against these sections, thereby placing them at a severe disadvantage.

Post crisis, social banking has become an important theme across the globe. The need for banks to be relevant to society, besides pursuing their own business interests, has been reflected in various measures introduced through legislations and regulations in several jurisdictions. The fact ,that developments in the financial world can have severe spillover effects on the real sector, thereby materially impacting the lives of the masses – has been the thought process behind these measures. The stability and strength of the financial system is, thus, a matter of public concern and is reflected in these steps.

It is pertinent to note that banks are an integral part of the social system. They draw resources such as manpower, funds, support services, etc. from the community, which also acts as customers for banks' services. Banks are, therefore, heavily reliant on society for their operations and it is, thus, fair to expect that banks reciprocate by ensuring that the interests of the society are taken care of through social banking measures.

History of social banks :

Historically, the first social banks were founded in Italy in the 15th century. Their primary responsibility was to be an intermediary between those with money to save and those who needed money to do business. In India, the history of co-operative banks goes back to the year 1904, when the Co-operative Credit Societies Act was enacted. Thus, social banks are not a new concept but rather an idea that has had a long history both globally and in India.

Distinguishing features of social banking :

The critical difference that sets social banking apart from conventional commercial banking is that though earning profit is one of the objectives of social banking, it would not be their *raison d'être*. Social banking would also be concerned about the community, about contributing to the well – being of the masses and ensuring that their activities are carried out in a manner that is in congruence with the broader goals of the society. They would not

encourage businesses that harm the ecosystem and would support sustainable environmental practices through their lending policies.

Social banking would seek to closely understand the requirements of customers and develop products that are best suited to their needs. They work towards developing technology leveraged models that bring down the costs of providing services and make banking affordable to the masses. By extending the reach and penetration of banks, social banking tries to make banking services available to the marginalized segments of the society.

10.9 SOCIAL BANKING ALSO NEEDS TO PROMOTE INCLUSION TO ADDRESS POVERTY :

About 2.5 billion people across the globe do not have access to basic banking services. The unbanked population, which lives primarily in developing countries, comprises nearly half of the world's working – age population. Their exclusion from the formal financial system restricts their participation in the global economy and severely curtails the opportunities available to them to pull themselves out of poverty.

Banks should have a vested interest in poverty alleviation as improvement in the economic status of the poor would enable the latter's joining the formal financial system and becoming prospective bank customers. Social banking can contribute to poverty alleviation by developing low cost products customized to the needs of the poor and providing them access to affordable credit for entrepreneurial and emergency purposes. Social banking can, through financial literacy initiatives, generate awareness among the poor about financial products and their utility. Banks can also contribute towards making the poor credit worthy through training and counseling programmes.

Let us now briefly discuss the social banking initiatives in India :

Social banking as an instrument for financial inclusion – Indian experience

Though social banking initiatives were introduced in India long back through measures such as the cooperative banking movement, nationalization of banks, creation of Regional Rural Banks, etc, their success was largely constrained by the size and population of the country and non – availability of banking services. This constraint could be overcome only through the emergence of suitable technology and hence, in the last decade, with the developments in technology, financial inclusion has received a big boost in India and greater efforts have been laid on inclusive banking.

Inclusive growth in India – a key objective :

- The Eleventh Five Year Plan (2007–12) envisioned inclusive growth as a key policy objective. The Plan document noted that economic growth had failed to be sufficiently inclusive, particularly after the mid-1990s. Though the Indian economy achieved high growth rates between 2003–04 and 2007–08, it did not result in unemployment and poverty reducing to tolerable levels. Thus, the Eleventh Plan Document tried to restructure the policies in order to make the growth faster, broad- based and inclusive. Huge investments in education, health and rural infrastructure were the key elements of the inclusive growth

strategy as envisaged.

- Broadly, the policies aimed at increasing the income and employment opportunities and the financing of programmes capable of making the growth more inclusive, such as development of agriculture and small scale industries.
- It was recognized that state governments have an important role to play in achieving the objectives, especially in providing suitable infrastructure / extension support for facilitating enhanced credit flow to agriculture.

10.10 MULTI AGENCY APPROACH :

We have a multi – agency approach to financial inclusion in India.

- The Financial Stability and Development Council (FSDC) is mandated, *inter alia,* to focus on Financial Inclusion and Financial Literacy issues.
- In order to further strengthen the on-going financial inclusion agenda in India, a high level *Financial Inclusion Advisory Committee* has been constituted by the Reserve Bank of India. The collective expertise and experience of the members of the committee will be utilised to pave the way for developing a viable and sustainable banking services delivery model focusing on accessible and affordable financial services, for developing products and processes for rural as well as urban consumers presently outside the banking network and for suggesting appropriate regulatory framework to ensure that financial inclusion and financial stability move in tandem.
- Financial Sector Regulators including the Reserve Bank are fully committed to the Financial Inclusion Mission.

Financial inclusion – what has been done so far :

Some of the steps initiated for enhancing financial inclusion in India include –

- ICT based Business Correspondent (BC) Model for delivery of low cost door step banking services in remote villages is being implemented.
- Board approved Financial Inclusion Plans (FIPs) of banks for 3 years, starting April 2010 are being implemented, with close monitoring by RBI.
- Roadmap to cover villages with population above 2000 by March 2012 was prepared and successfully implemented. Process of ensuring coverage of villages with population below 2000 is underway.
- Mandatory opening of 25% of new branches by banks in unbanked rural centres.
- Introduction of Basic Saving Bank Deposit Account for all individuals.
- KYC documentation requirements significantly simplified for small accounts.
- Guidelines for convergence between Electronic Benefit Transfer and FIP have been issued.

- Pricing for banks has been totally freed. Interest rates on advances have been fully deregulated.

Approach adopted by RBI–some specifics :

- In India, we have adopted a bank-led model for financial inclusion which seeks to leverage on technology. The financial inclusion initiatives would have to be ICT based and would ride on new delivery models that would need to be developed by the market participants to best suit their requirements.
- Our experience shows that the goal of financial inclusion is better served through mainstream banking institutions as only they have the ability to offer the suite of products required to bring in effective/meaningful financial inclusion.
- Other players such as mobile companies, etc. have been allowed to partner with banks in offering services collaboratively.
- We recognize that technology is the key to our financial inclusion efforts.Technology needs to be leveraged both for improving access to financial services and for bringing down the cost of providing these services. As a starting point, we have insisted that all bank branches including RRBs should be on CBS. We have encouraged a multi-channel approach including mobiles, hand held devices, smart cards, micro-ATMs, kiosks, etc for providing financial services. However, the front- end devices need to be seamlessly integrated with bank CBS systems.

Coverage :

A village is considered to be covered by banking service if either a bank branch is present or a BC is physically present or visiting that village.

Availability :

Availability of Banking Services means availability of a minimum off our products

i) A Basic Savings Bank Deposit Account (formerly termed as No – Frills account) with Overdraft Facility.

ii) A Remittance Product for Electronic Benefit Transfer and other remittances.

iii) A Pure Savings Product, ideally a recurring or a variable recurring deposit.

iv) Entrepreneurial Credit such as General Credit Card, Kisan Credit Card.

10.11 CHALLENGES TO SOCIAL BANKING :

The concept of social banking, despite its inherent merits, faces several significant challenges in the process of scaling up. An efficient business/ delivery model that is capable of delivering banking services to the masses in a cost effective manner is yet to be implemented by banks. While several delivery models have been experimented with, the same has not yet stabilized. Similarly, several alternate technology options are being tried

out. However, the alternative that would be able to handle high volume low value transactions, cost efficiently, is yet to be crystallized. Banks also have to refine their pricing practices in order to ensure that the basic goal of social orientation is maintained while ensuring viability and sustainability of social banking initiatives.

Sensitization of bank's manpower on their role in implementing the bank's social banking measures is also a significant challenge as the rationale and guiding spirit behind the initiatives need to be conveyed to the operational staff on the ground. This is of utmost importance as they serve as the frontline contact of the bank with the target groups and hence, are a vital cog in the implementation of bank's social banking initiatives. Besides being technologically conversant with the innovative platforms being adopted by banks, the staff needs to have a behavioural orientation that grooms them to empathize with the vulnerable groups and gain their confidence.

The way forward :

With the introduction of banking technology and the realization that poor are bankable, the coverage of unbanked population into the financial system is expected to improve. Financial inclusion, along with Government's developmental programmes, is expected to result in overall financial and economic development in the country. As in the case of most developing countries, extending the banking services to unbanked groups is expected to be the key driver for inclusive growth.

Developing innovative delivery channels would be the key to our financial inclusion initiatives. There are several success stories globally where market players have worked out innovative models, often harnessing on technology, to overcome financial exclusion barriers. Mobile phone services for instance, have been harnessed by several jurisdictions such as Kenya, through their M – PESA model, for providing access to financial services to people. The fact that there is a huge mass of people with mobile phones, but no bank accounts highlights the potential available through this channel. Similarly, use of microfinance, banking agents, etc. by various jurisdictions has resulted in impressive gains from a financial inclusion perspective.

In India, the policy framework is already in place. However, an efficient business model and delivery platform for provision of services by financial service providers is still evolving. Banks, in collaboration with other stakeholders and civil society, are working towards stabilizing and scaling up their models for social banking. As mentioned previously, we are pursuing bank – led model which leverages on technology to expand coverage and minimise cost of providing service. We are technology neutral and banks can select any technology option. We encourage banks to develop models which can operate in a viable and sustainable manner.

Conclusion :

In the wake of the financial crisis and growing disenchantment among the general public, reflected in the "Occupy Wall Street" and similar protest movements worldwide, the consequent reform measures have focussed on promulgating laws which seek to exercise greater control over the investment practices of banks and to limit speculation. What appears

as a more promising approach in the long run is to develop socially, morally and ethically responsible banking practices oriented towards all stakeholders, even while pursuing profit motives. Social banking model can emerge as a very sustainable model that can emancipate the global financial system from some of the ills that plague it at the present moment.

The impetus for social banking can come from two approaches – one of them being through legal and regulatory requirements. This approach could, however, result in social banking being pursued only from a compliance perspective. The other alternative, which holds greater promise, requires a realisation by market players that social banking could be a viable business proposition. For this, banks need to be fully convinced that social banking is in their own interest and that success in pursuing this business model would ensure their long run sustainability and growth. It is well recognized that without voluntary efforts by banks, it would not be possible to scale up social banking into a viable alternative. Accordingly, in India, we have encouraged financial inclusion initiatives to be bank – driven and to be guided by Financial Inclusion Plans developed by the individual bank Boards with self – set targets.

As highlighted by the Nobel Peace Award Laureate and former Russian President Mr. Mikhail Gorbachev, the imperatives for a better future are – peace, fighting poverty, promoting global social justice & common wealth, and protecting the environment. In our attempts to achieve these objectives, social banking would have to play a significant contribution.

I congratulate Financial Times and YES Bank for organizing this Summit and once again thank them for providing me the opportunity to be present here today. I look forward to an interesting and stimulating discussion with my learned fellow members on today's panel and hope that the session succeeds in generating ideas that financial market players, regulators and civil society can work on so as to make social banking a sustainable idea.

10.12 SUMMARY :

The idea of social banking was introduced through banking reforms to ensure banking for the marginalised population, developmental needs, easy access to regularised credit, minimum requirements to open accounts etc. Thus, shifting the orientation of policies towards serving the common mass is known as social banking.

Although banks do many things, their primary role is to take in funds – called deposits – from those with money, pool them, and lend them to those who need funds. Banks are intermediaries between depositors (who lend money to the bank) and borrowers (to whom the bank lends money).

10.13 KEY WORDS :

Soft Currency :

A currency that is not freely convertible into other currencies.

Soft Loans :

Loans with exceptionally lenient repayment terms, such as low interest, extended amortization, or the right to repay in the currency of the borrower.

Sole of Exchange :

A phrase appearing on a draft to indicate that no duplicate is being presented.

Sovereign Risk :

The risk that the government of a country may interfere with the repayment of debt.

Space Arbitrage :

The buying of a foreign currency inone market and selling it for a profit in another market.

10.14 SELF ASSESSMENT QUESTIONS :

1. Define social banking.
2. What are the major schemes of social banking?
3. Challenges to social banking.
4. What are the recent developments in social banking?

10.15 SUGGESTED BOOKS :

1. Address by Dr. K. C. Chakrabarty, Deputy Governor, RBI at St. Xavier's College (September 6, 2011) on Financial Inclusion.
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3. Social Banking and Social Finance: Answers to the Economic Crisis, Springer, New York, 2010.
4. Draft Five Year Plan Document (2007–12), Planning Commission, New Delhi, 2007.
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6. Deepak Pant Joshi, Social Banking – Promise, Performance and Potential, Foundation Books (2012)
7. M.L.Tannan, Banking Law in India,Vol.1, Lexis Nexis Publication (2015).

NAME OF THE LESSON WRITER ?

LESSON – 11

THE CONCEPT OF SOCIAL BANKING

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of social banking
- describe the challenge of sustainable finance
- reposition of social banks

Structure of the Lesson :

11.1 Introduction

11.2 Traditional Typologies

11.3 The Challenge of Sustainable Finance

11.4 Repositioning Social Banks

11.5 The banking practice

11.6 A triptych typology

11.7 Summary

11.8 Key Words

11.9 Self Assessment Questions

11.10 Suggested Readings

11.1 INTRODUCTION :

Defining the concept of social banking is not an easy task. There is not a universally agreed definition among scholars, who routinely use the notion of social banking as mutually interchangeable with other similar terms. Roland Benedikter (2011), who has conducted one of the most serious attempts in this regard, notes that "this notion[of social banking] currently includes 'ethical banking', 'cooperative banks and credit unions', the so-called 'new social banks', 'private and community shared development banks', and 'microfinance banks.'" (p. 49). Similarly, the Institute for Social Banking, a charitable association specialized in this specific domain since 2006, fully acknowledges this difficulty when they state: "a generally accepteddefinitionof'socialbaking'doesnotexist,and—giventhevarietyofitshistoric origins and underlying values—arguably cannot exist."[1]

Indeed, the general idea of social banking is often confused with other similar notions, suchasalternative,civic,value-driven,ethicalorsustainablebanks(deClerck,2009,p.214). Within a larger societal movement which calls for a move towards more social and environmental responsibility in the financial sector, the concept of social banking is also associated with

more specific notions, such as narrow / safe banking (Kobayakawa & Nakamura, 2000) or slow money (Tash, 2008). Conversely, it might appear paradoxical to note that the concept of social banking is not always directly related to the already firmly established notion of social business, at least as defined by Mohammad Yunus (2007).

Not surprisingly, when definitions of social banking are given, they turn out to be pretty dissimilar in their scope. In that sense, all authors would initially convey the idea that, unlike their mainstream peers, social banks do not see profit-making as an end in itself. But beyond this common ground, the precise characterization of social banks will quickly diverge. Some authors propose very broad definitions, emphasizing for instance that social banking is first and foremost about supplying financial services that aim to have a positive impact on people and environment (Guene & Mayo, 2001; Weber & Remer, 2011). But what is a positive impact? How to measure it?...Other authors, on the contrary, propose very narrow definitions that, for instance, restrict social banking to the exclusive role of fighting against poverty (Reifner & Ford, 1992). A more balanced characterization is thus needed.

In the mean time, this ambiguous situation allows that even mainstream banks could proclaim the social and environmental commitment of their institutions. Long chapters in their annual reports will illustrate, with colorful photographs and astonishing data, how sincere their commitment is. Given the fiduciary nature of their business, mainstream banks will not hesitate to self – proclaim as well the ethical basis underpinning all their activities. So, at a glance, all banks — social and not social — look the same, thus increasing the misunderstanding.

Within this context, the aim of this chapter is to draw a clear distinction between the concept of social banking and other related banking practices.

11.2 TRADITIONAL TYPOLOGIES :

The notion of social banking is relatively new. At least, no such category exists in any of the traditional typologies used by scholars to apprehend the diversity of the banking industry. And yet, the idea of introducing a certain social dimension in the banking practice is not new at all. Keeping this in mind, this section will briefly explore the origins of social banking before its actual appearance as a distinct category.

Taking into account traditional parameters such as the structure of ownership and the forms of governance, the banking industry is most often divided into two main categories: shareholder – based banks and stakeholder – based banks. The shareholder approach originates from the neo – classical theory of the firm, whereby the aim is to increase economic efficiency as a means of increasing shareholder wealth (Jensen & Meckling, 1976). Consequently, a shareholder bank will attempt by all means to maximize profits in order to amplify shareholder value. They are thus profit – driven institutions focused on short – term financial return to shareholders, who as owners of the firm provide the capital and bear the risk of failure. Outstanding examples of this type of institution in the financial domain are commercial banks and investment banks.

Alternatively, stakeholder theory suggest that the firm should be managed addressing

the interests of other parties involved, such as employees, suppliers, trade unions, public authorities, and society in general (Freeman, 1984). This means that, in addition to the financial objective, the firm develops other social goals, such as enhancing the welfare of the communities in which they are located. It is precisely because stakeholder banks are not subject to the short – term pressure of capital markets and the myopic focus on the share price, that they can pay some attention to safeguard the longer – term stakes of other groups. This combination of social and financial objectives, commonly known as "double – bottom" line orientation or blended value (Emerson, 2003), are typical features of financial institutions such as cooperative banks and savings banks (Ayadi, Schmidt, Carbo, Arbak, & Rodriguez, 2009; Ayadi, Llewelyn, Schmidt, Arbak, & Pieter, 2010; Anguren & Marqués, 2011).

It is easy to infer from the ongoing discussion that social banking is inherently closer to the stakeholder paradigm. Notice, however, that the social vocation of banks is neither to be found in all savings or cooperative banks, nor it is exclusive to them. One can thus not equate social banking with these two types of financial institutions. But having said that, it would be interesting to have a quick insight at the origins of savings and cooperative banks for better understanding their "intrinsic" affinity with what would be later called "social banking".

Not for profit oriented banks can be traced back to the late middle Ages with the creation of charitable organizations such as the "Mounts of Piety" run by mendicant orders in Italy (Milano,2011). Their original goal was quite simple: offering an alternative for the poor to exorbitant interest loans proposed by money lenders and Jewish bankers. Savings and cooperative banks will appear later during the 19th century in Germany and then spread quickly to other European countries (Koch, 2000; Kluge, 1991). Both institutions were set up with a similar mission : giving access to some banking services to large segments of population that, for different reasons, were financially excluded.

At that time, conventional banking resources were mostly devoted to the funding of public debt, established businesses, landowners with sufficient collateral, and few other people from the more affluent classes. Serving private households from the middle / lower classes, farmers with few properties and volatile income, or small and medium enterprises, was considered too risky and economically unattractive for profit – oriented bankers. For these "unbankable" people, making appeal to money lenders was not a real solution either, since they practiced very high interest rates. There were thus two main reasons where by stakeholder banks were created : fighting against financial exclusion and financial exploitation.

In terms of scope, savings and cooperative banks were originally focused on retail banking and provided a limited range of relatively simple financial services. Since the very beginning they were conceived as "down – to – earth" institutions, close to their clients and with local outreach. Their lending orientation, also predominantly local, was meant to foster regional development in the less developed areas, hence preventing "capital drain". It was thus by increasing banking access in neighborhoods where other banks were less present, by facilitating credit and fostering thrift to financially excluded people, and by promoting economic activity at the regional level that an intrinsic social dimension of stakeholder banks

is denoted. In order to make this social commitment still more visible, certain stakeholder banks conveyed their specificity through a number of underlying values and principles. This is particularly the case of cooperative banks which, on one hand, are supposed to be based on the values of self – help, self – responsibility, democracy, equality, equity and solidarity. On the other hand, their activity is purportedly shaped by the so-called Rochdale cooperative principles[2] :

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for community

With the passage of time, this original spirit of stakeholder – based banks began to dilute. The number of their banking activities was progressively enlarged, the products they developed became gradually more complex, and the services proposed turned out to be increasingly monetary – bounded. In fact, many stakeholder banks have been evolving towards full service universal banks that appear to be indistinguishable from their profit – maximizing peers. Their traditional social commitment has been clearly decreasing, and simultaneously, competition constraints obeying a purely commercial rationale have been steadily gaining in importance. The tension so created became particularly noticeable from the 1990s onwards, when the evolving process of globalization began to impose implicitly a number of important changes in the banking industry : significant applications of rapid technological progress, appearance of new and ever more sophisticated products, increased liberalization of rules, unprecedented circulation of capital flows, broader integration of financial markets, drastic rationalization of the operating costs, etc. (Pastré, Blommestein, Jeffers, & Pontbriand, 2005).

Under the pressure of this highly competitive market, stakeholder – based banks had to show that, in terms of efficiency, they were banking institutions "like the others".

Consequently, they initiated a concentration process to improve their economies of scale in areas such as information systems, risk management or business diversification. Local or regional entities thus delegated this type of functions to a central authority at a national level. In doing so, the original bottom – up model of stakeholder banks shifted into a more top – down arrangement. The wide range of powers given to DG – Bank (Deutsche Genossenschafts – Bank) and Deka – Bank (Deka bank Deutsche Girozentrale) in the case of the German cooperative and savings banks would be an outstanding example in this regard (Krahnen & Schmidt, 2004; Edwards & Fischer, 1994).

Another important consequence of the above mentioned process of concentration has been the improvement of stakeholder – based banks to wholesale funding. Let it be reminded

that, unlike their conventional peers, stakeholder – based banks are not always allowed to issue equity in financial markets. Consequently, they have traditionally relied on retained profits to increase their capital levels. This limitation creates important difficulties in order to achieve the new regulatory requirements, namely in terms of capital requirements (Basel III).

Different strategies have been recently put in place to circumvent these restrictions. In Germany, for instance, the upper layer central institutions (DG – Bank and Deka – Bank) have the competence to perform investment banking activities. In other countries like France, stakeholder base banks have been able to extend the range of their business activities by creating cooperative holdings where wholesale and investing banking activities are carried through specialized subsidiaries (Ory, Gutner & Jaeger,2006). The case of Caissed Epargne – Banque Populaire Groupe (BPCE) perfectly illustrates this point.

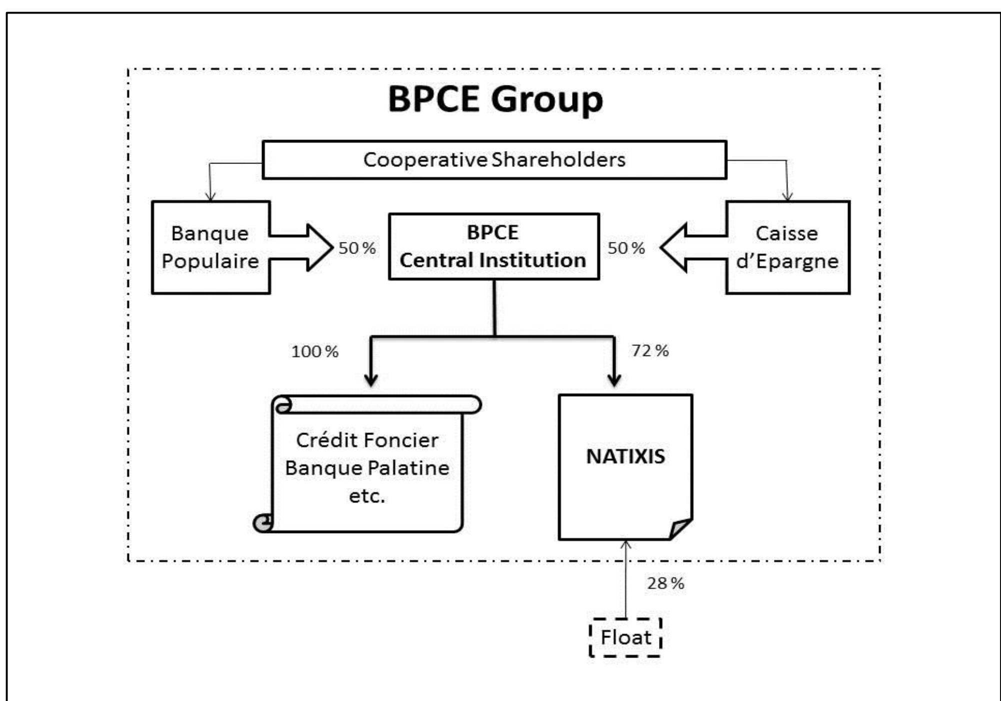

Figure.1 : Structure of the BPCE Group as of February 14, 2015.

As can be seen (fig. 1), the organization chart of the BPCE Group includes, among other institutions, the shareholder-based bank Natixis. It is jointly owned at equal stake of 72 % by the two parent cooperative banks, the remaining float being listed on the Paris Stock Exchange. This specialized financial institution was created in 2006 with the specific purpose of raising capital from financial markets on behalf of the BPCE group through investing management operations. It is thus with this hybrid structure that the BPCE Group is able to transcend the traditional limitations of cooperative banks and compete with the same tools as their shareholder-based peers in an increasingly competitive market.

But looking at these initiatives from a different perspective, one cannot fail to notice that the original spirit of stakeholder – based banks is being simultaneously undermined. By

trying to see everything through the lens of economic efficiency and showing by all means that they are “normal banks”, stakeholder – based financial institutions seem indeed to be losing their initial commitment. For example, the fact that cooperative banks are now able to raise capital on public stock markets through hybrid structures creates agency conflicts between traditional members and new shareholders (Paulet, 2010). In addition, the emergence of this second class of shareholders, who compete with members for governance control, can eventually be interpreted as a dilution of cooperative principles 2 to 4 (see above). By all means, the risk of compliance with the profit maximizing sector is so great that when one enters nowadays in a cooperative or savings bank and looks around at the people, the products or services offered, it is difficult to see at a glance any of the fundamental differences that allowed conceiving stakeholder – based institutions as seed for social banking.

11.3 THE CHALLENGE OF SUSTAINABLE FINANCE :

In the most extreme cases, the pressure exerted by market forces on stakeholder-based banks has led to a process of demutualization and / or privatization (Redler, 1994; Mc.Knight, Fraser, & Gething, 1996). The fortune of British building societies during the 1990s would be an interesting case in point, though similar developments also occurred in other Anglo – Saxon countries (Cook, Deakin, & Hughes, 2001; Chaddad & Cook, 2004; Davis, 2007). It is worth noting that even the DG-Bank, the central clearing house for cooperative banks in Germany, has adopted the legal form of a stock corporation. It is not yet listed in the stock market and for the moment all shareholders are cooperative banks, but given the recent trends it is difficult to foresee what the future holds.

Despite this evidence illustrating the thesis of continuing degeneration, some authors still think that the new financial environment can be seen as an opportunity for stakeholder banks (Gijselinckx & Develtere, 2008). These institutions are certainly undergoing a transformation, but not necessarily in the sense of diluting their social commitment. Invoking the theory of a life – cycle, they argue that there is a renewal of their original mission through a new unavoidable concept now affecting all firms: corporate social responsibility (CSR). It is thus via their contribution to sustainable development and responsible finance that stakeholder – based banks can reaffirm their original identity in a new form.

Let it be reminded that the idea that firms should pay more attention to the extra – financial consequences of their business is not really new, but it acquired a whole new dimension by the end of the 1980s after the publication of the famous Brundtland Report (1987). Since then, the notion of sustainable development became a buzzword and civil society began to pressure firms for accountability of their social and environmental responsibility. The firms’ response soon took shape through the concept of corporate social responsibility (CSR) (Garriga & Melé, 2004).

Interestingly, the NGO campaigns in the 1990s were still mostly focused on polluting industries (Hoffman, 2002). . No one did realize at that time the importance of the financial sector. So just when the chemical industry was fully engaged in CSR policies, banks were proud to show that they also contributed to sustainable development by recycling their paper

from photo copies or by using energy – efficient light bulbs. The situation changed when people recognized that the significance of the banking sector does not lie in its direct impact on environment or society, but mostly in its indirect role through the clients and projects they finance. Since then, pressure for recognition of the extra-financial responsibility of firms shifted from the heavy and extractive industry to the banking sector.

The so – called Collevecchio Declaration (2003), a global coalition endorsed by more than 200 organizations, is in that sense an outstanding example of the efforts made by civil society to unveil the role of banks in advancing environmental and social sustainability.[3] More specifically, this declaration calls on financial institutions to embrace six main principles that reflect best practice from the CSR movement. Acknowledging that financial institutions, like corporations, operate in a given society and should act in the public interest, they claim that banks should take their share of responsibility in promoting the protection of environment, universal human rights and social justice. This commitment to sustainability would require banks to fully integrate the above – mentioned issues into corporate strategies and core business areas such as credit granting, investing, underwriting, advising, etc.

Within this context, stakeholder – based institutions would turn out to be the pioneers of social responsible banking. Owing to their historic origins and their specific way of functioning, stakeholder – based banks are supposed to have a special link with the concept of sustainable development which is not to be found in other banking institutions. Their distinct profit allocation (with limited return on equity and profits distributed in proportion to business volume rather than capital investment) or their particular way of decision – making (with equal voting rights based on one member, one vote) would be just two specific features revealing this intimate relationship. More generally speaking, stakeholder – based banks should actually be seen as undisputed "champions" of CSR simply because, rather than being guided by profit – maximization, their business operations are meant to be vehicles for reaching social goals. What changes in the new context is the scope of their social dimension : traditionally it was rather inward – looking, with particular concern for the business – members and the local community in the narrow sense of the term; now it is more outward – looking, with social concern encompassing the whole society (Levi,2001). This results into a shift from traditional single – stakeholder institutions to a newly multi – stakeholder entities. In either case, one may say that CSR has always been an integral part – though not always explicit – of stakeholder banking institutions.

The challenge of sustainable development in the financial industry would thus allow transforming the traditional typology (shareholder vs. stakeholder) into a new classification that would distinguish between mainstream or conventional banks on the one hand, and socially responsible banks on the other (fig.2). Many people would then mechanically relate social banking with the latter category, but reality is not that simple. If it is rather easy to understand how the focus of stakeholder-banks on CSR could help them to reconquer their "relinquished" identity, this very same endeavor can conversely be seen as an instrument of mimetic isomorphism (DiMaggio & Powell, 1983). Indeed, it should be reminded that CSR was originally designed for profit – driven firms, quite often as a simple communication device. When stakeholder – based institutions rely on this very same tool to assert their

identity, what they are actually doing is to validate the thesis that market forces have a strong power of homogenization of all business practices (Richez – Battesti & Boned, 2008). Since all banks use the concept of CSR as a benchmark to emphasize their social commitment and all provide similar kind of financial services, it is indeed easy to conclude that e they are all roughly the same. But in fact they are not. So if stakeholder – based banks really want to make a difference, they should develop their own specific sustainability – related instruments.

More importantly, it is far from clear that stakeholder – based banks are indeed the "champions" of sustainable finance. A recent survey on the CSR reporting of European banks shows that the different sustainability policies are not dependent on the legal status (Lavedeau, Lafarie, & Husson – Traore, 2012). Cooperative banks, for example, do not particularly excel in this regard. While Credit Agricole and Rabo bank are indeed ranked at the top among the most virtuous institutions, Credit Mutuel is conversely positioned at the bottom among those with less satisfactory performance. Others like the BPCE Group fall somewhere in between with a passable reporting. It is thus not entirely true that stakeholder – based banks are "intrinsically" better than their shareholder – based peers in their sustainability practice.

TRADITIONAL TYPOLOGY **NEW TYPOLOGY**

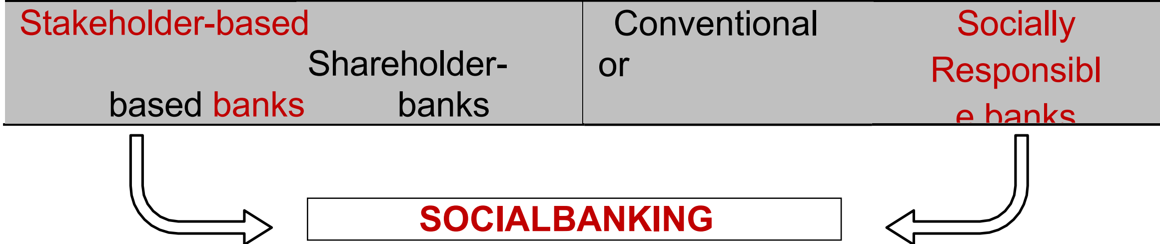

Fig.2 : The context of social banking Source : author

As figure 2 shows, setting apart conventional and socially responsible banks in a new typology makes full sense in a context where sustainable development has become an inescapable challenge of our present day society. But it would be misleading to think that this new categorization is directly linked to the legal status or the corporate governance structure. Eventually, what really matters for discerning if a given bank fits into one category or the other is to examine the nature and the concrete implementation of their policies as regards the environment, social impact, transparency, integrity and ethical behavior. The precise content of day – to – day business practice is far more important than the legal form of a given institution.

Within this new typology, social banking would clearly be positioned on the social responsibility side of the banking spectrum. The problem is that while most banks are ready to adopt an environmental rhetoric in their discourse, little sincere commitment follows to change in depth their attitudes (Relano & Paulet, 2014). Green-washing is rather easy. It suffices to issue a certain number of ethical funds to its clients, to devote some money to social patronage, to promote a number of internal environmentally-friendly attitudes, to

adhere to international principles which do not compromise the core of the business, and finally to publish an annual extra – financial report in which all these initiatives are appropriately highlighted.

Let us illustrate this rather generalized attitude with the concrete example of Deutsche Bank. The leading German bank has indeed put in place a powerful and efficient marketing policy to communicate about their extra – financial policies. Besides producing once a year and externally audited CSR report, which is thick (almost one hundred pages),their sustainability – related activities are deployed in a web – page specifically devoted to these issues.[4] Their efforts seem to be rewarded by the above mentioned survey about CSR reporting which ranks Deutsche Bank among the financial institutions with most responsible practices. The overall picture would never – the – less be incomplete without mentioning, for example, that Deutsche Bank also topped the ranking of financial institutions with the largest number of subsidiaries operating in tax havens (Merckaert, Nelh, & Estival, 2010). More shocking and disturbing is still to note that, either as direct lender or simply as under writer in the issuance of shares / bonds for a particular company, Deutsche Bank has been actively participating in a series of controversial dealings (Van Gelder, Denie, & Scheire, 2009).

Most profit – oriented banks fall in this contradiction between boasting proclamation of good intentions and poor reality testing, but they are not the only ones. Cooperative bank Credit Agricole also makes ample use of specialized subsidiaries in tax havens; the BPCE Group was fully involved, through Natixis, in the Madoff investment scandal; Rabo bank has been severely fined for fraudulent manipulation of Libor rates; several *Landesbanken*, which are part of the German Savings Bank Finance Group, had large exposure and were substantially hit by the subprime crisis. More generally speaking, many of the banks which self – proclaim to be socially committed continue to trade and speculate with sensitive products having potentially negative social impacts such as agricultural commodities derivatives.

And yet, all banks are not the same. As the next section will show, green – washing attitudes demand going beyond the CSR paradigm. This will allow seeing social banking in a new light and permit a better understanding of their true nature as regards other banking institutions.

11.4 REPOSITIONING SOCIAL BANKS :

The main reason whereby there is an obvious gap between overstated intentions on sustainability and real facts is that mainstream banks have tried to satisfy the customer's simultaneous demand for increasing profitability on the one hand, and higher standards of ethics on the other. Unfortunately, this is just not possible, at least in the short term. Companies firmly committed to being socially responsible necessarily incur in additional costs. Conversely, they will eventually be rewarded with enhanced reputation and lower risks, but this creates a new competitive advantage only in the long run. So those banks which are not ready to renounce the dogma of profit maximization can only be engaged in the idea of sustainable finance in a rather superficial manner. This has been so far the most common attitude amongst conventional banks. Obviously, most of them offer their clients the

possibility of investing in a wide range of ethical funds and do have a number of credit lines especially devoted to environmental or social issues. But their general strategy has not changed. In their mind, the development of these new products must serve one invariable objective: more benefits. In fact, since the idea of "greening" the environment is now in fashion, mainstream banks have used this tendency to win new clients, thus making still more profit.

Socially responsible banks, on the contrary, work with the idea that man, planet and society come first. They obviously need to be sustainable businesses, with decent profits, but profit – making is not the same as profit – maximizing. One may summarize their distinct approach by saying that socially responsible banks work *with* capital rather than *for* capital. It should be noted, however, that one can obtain "decent profits" by using different means. The problem is to determine whether the means used matter as much as the end goal or not. Here is precisely where various sub-groups of socially responsible banks begin to diverge. In particular, a distinction should be made between socially-oriented and ethically-oriented banks. Their respective characterization will become manifest when taking into account their distinct underlying philosophy on the one hand, and their banking practice on the other.

The underlying philosophy :

There are two major traditions in modern philosophy regarding how to determine the ethical character of actions. One argues that actions have no intrinsic ethical character but acquire a moral status from the consequences that flow from them. It is thus a results-oriented perspective, since it is the outcome and not the specific quality of the action itself that decides what is morally appropriate. The whole concept can be summarized in one passage from Machiavelli's *Prince* :

"In all men's acts and in those of princes most especially, it is the result that renders the verdict when there is no court of appeal." (ed. 1981, p. 63)

Jeremy Bentham was the first to develop this point comprehensively in his *Introduction to the Principles of Morals and Legislation* (1781). More precisely, he argued that something is morally good to the extent that it produces a greater balance of pleasure over pain for the largest number of people involved. This principle of utility, which sustains Bentham's whole manuscript, has often been subsequently abridged in the popular formula :

"the greatest good for the greatest number" (Bentham, ed. 2000, pp. 14-18).

When translated into the banking perspective, this attitude would eventually justify the following reasoning : first to invest in the stock market, even if this action potentially harms nature or society, and then, with the maximum profits so obtained, to make the biggest possible investments in environmentally or socially – friendly sectors. In general, social banks are very much in agreement with this philosophy. Even a microfinance institution like *Compartamos* is proud of having issued an initial public offering (IPO) in 2007 to raise capital for its socially – oriented activities.

The second perspective is based on Immanuel Kant's treatment of morality in his *Foundations of the Meta – physics of Morals* (1785). The German philosopher believed that

he had discovered the fundamental law that would determine the ethical character of a given action irrespectively of its consequences. He called this moral law the "categorical imperative", i.e. a command that holds no matter what the circumstances. In one of its simplest versions, it says :

"Act only according to that maxim by which you can at the same time will that it should become a universal law" (ed.1959,p.421).

So, unlike Bentham and his followers, Kant believed that actions have an intrinsic moral value. The act itself, not its outcome, is endowed of ethical virtues. In general, ethical banks would tend to comply with this principle, but this would be better appreciated when examining the banking practice.

11.5 THE BANKING PRACTICE :

Exploring the whole range of banking activities is beyond the scope of this chapter. We will thus confine the current analysis to a quick overview of a few basic features that allow appreciating the most significant differences. Beginning with ethically – oriented banks, one of their most defining characteristics is that they refuse to participate in speculative operations of the financial markets. According to them, doing so would be inherently unethical because this forms part of an economic logic that pushes to prioritize short-term profit irrespective of the social or environmental consequences. Financial speculation is actually accused of being at the origin of many current international crises, social inequalities and ecological problems. Most fundamentally, such a proceeding would entail a deep – rooted inconsistency between short – term actions and the long – term goal. Consequently, ethical banks prefer to focus on the original business of banks : financing the real economy by lending money entrusted to them by savers to local entrepreneurs they know well through a triple bottom line approach (Relano, 2008).

Social banks have a more nuanced position. Since their primary goal is to induce a positive impact on people and environment through their banking activities, they would partly agree on the above reasoning. The difference is that social banks accept to make a "reasonable" use of financial markets. They believe that doing so might eventually bring about positive spill – over effects on society in the long term. Simply said, this means that higher profits are liable to being used for strengthening social impact. In any case, renouncing this financial instrument would be tantamount to confining their institutions to the status of in consequential "niche banks", pure in their principles but with insignificant capacity to generate real change. So, without taking a stand for the profit – maximizing rationale, social banks will tend to make a moderate use of financial markets with the hope that this will maximize social benefits. In fact, what they actually do is to subordinate their use of financial markets to their founding values and principles, whereas ethical banks refuse "on principle" to do so.

Interestingly, what the banks actually do is ultimately reflected in their financials. Eastern Bank (Massachusetts, US), for example, is a widely praised institution for its commitment to local communities and champion of social – justice causes, namely as heir of former Wainwright Bank. It looks at a glance like an ethical bank. However, its everyday

practice, as reflected in the balance sheet, shows a level of financial transactions that regularly exceeds 25 % of total assets. This percentage has nothing to do with that of mainstream banks such as HSBC or Deutsche Bank, whose investing and wholesale banking activities routinely represent the most important part of their net income. But, conversely, trading activities in financial markets are almost negligible in other institutions such as GLS Bank (Germany).

Somewhere in between, Eastern Bank might thus be considered as a social bank. What is important to know is how a bank earns money, and not just how they use and distribute their profits. Certain institutions like Ethik Bank (Germany) or Green Bank (US) might look pretty ethical at a first glance, but then comes the structure of their financials. Both dimensions have to be consistent for apprehending the real nature of a given financial institution. This is why the next sub – section proposes one last typology that brings together these two elements and allows seeing social banking repositioned in a more enlightening form.

11.6 A TRIPTYCH TYPOLOGY :

The difference between mainstream and socially responsible banks has been firmly established quite a long time ago. But within the latter group, the difference between ethically and socially – oriented institutions has never been clearly determined. Contrary to the pervasive confusion that most authors still show in this regard, the following typology draws the contours of social banking by placing this category within a new banking setting (composed of conventional, social and ethical banks) shaped by four parameters (ultimate goal, operational means, business approach and underlying philosophy).

	Conventional Banks	**Social Banks**	**Ethical Banks**
Goal	**Maximizing profit**	**Maximizing social value**	**Optimizing social value**
Means	**Global Financial Market**	**Global Financial Market**	**Local Savings / Loan activities**
Philosophy	**Philanthropy (out of business)**	**Utilitarianism (results oriented)**	**Categorical imperative (action oriented)**
Approach	**Diachronic**	**Diachronic**	**Synchronic**

Fig. 3 : Triptych typology for banking institutions

Mainstream banks are essentially for – profit – maximization institutions. They also claim to be very much concerned with the social and environmental problems of the planet, but the analysis of their financials shows that they obtain their profits mostly through wholesale and investing banking operations. There is thus a big gap between what they “say” and what they actually “do” (Relano & Paulet, 2014). Their social/environmental activities are conceived as a marketing device put in place to improve their image without generating real commitment. So, whatever the extent of their “green” promises, the original business

model remains substantially unchanged. This is because their social and environmental commitment is actually conceived as a complementary or even as an "out of the business" activity, occasionally financed by majority – owned foundations. Banca Prossima (Italy) is in that sense an interesting case in point. Though essentially devoted to financing the non-profit sector, the fact that it is a fully-owned subsidiary of Intesa Sanpaolo group, excludes any possible consideration of this organism as a socially – responsible bank. Finally, let it be noted that the business logic of conventional banks is clearly diachronic (Benedikter, 2011, p.78): first to maximize profits by "playing tough" in business, often through unethical and unfair competition practices, as the Libor scandal illustrates, and then make the Good Samaritan by allowing an inconsequential part of the benefits to sponsor social patronage or to promote a number of environmentally-friendly attitudes. A recent survey on the banking industry as regards UN guiding principles on business and human rights would be a case case in point (Brightwell, 2014).

Social banks see things differently. Their main goal is not to maximize profits but to strengthen a positive impact on society. Unlike mainstream banks, their commitment to CSR policies is deep and sincere, but they obtain social benefits by doing "business as usual".

Certainly, the use that social banks make of speculative products in global financial markets cannot be paralleled with that of conventional banks, but it exists. Their overall banking philosophy is resolutely utilitarian. It is by obtaining profits according to mainstream rules that Eastern Bank (US) can best take care of certain deprived segments of the American society. The same applies, for example, to Umwelt Bank in Germany or Banca Etica Adriatica in Italy. Most of cooperative banks might also eventually be considered as social banking institutions. Their generalized process of demutualization and mimetic isomorphism with mainstream banks is indeed quite symptomatic of their real nature. Ultimately, cooperative banks share with the rest of the social banking institutions the following rule: controversial means, even with potential negative externalities, may justify a respectable end.

Most poverty – alleviation banks and community – development finance institutions share this very same endeavor (Scheire & De Maertlaere, 2009). Some reinforce their social commitment through membership to the Global Alliance for Banking on Values (GABV), whose laudable mission is to inspire profound changes in the mainstream banking industry that public regulation to date has been unable to achieve.[5] But compliance with sustainable and socially responsible principles is not a sufficient condition for being considered as a social bank. At least two other prerequisites are needed. From an operational perspective, it is first necessary that these institutions are not dependent on external donations or borrowed funds for financing their activities. Otherwise, we would be entering in the field of philanthropy (see above Banca Prossima). Secondly, and perhaps more importantly, they must possess a full banking license and comply with the associated requirements. Otherwise, they cannot be compared with mainstream banks (cf. microfinance institutions). So, despite the human potential of most development finance institutions, the fact that many of them do not comply with the aforesaid conditions prevents them from being globally considered as social banks.

The third group is ethical banks. Unlike building societies or credit unions, that may

be partly or wholly exempt from banking license, ethical banks are full – banking institutions offering a whole range of financial services. They must thus abide by the same rules as social and mainstream banks, but they conduct their business in a very different way. At level of underlying philosophy, for example, ethical banks believe that one cannot separate the yearning goal from the means used to attain it. So rather than *maximizing* social added value by all means, as social banks do, ethical banks prefer to *optimize* their social impact by following strict principles. They believe that actions have an intrinsic moral value, and that of using the financial markets is considered as inherently unethical for reasons that have already been previously expounded. This implies working with less financial return but, unlike their social and conventional peers, ethical banks believe that even with lower profits one can finally obtain higher impact in society. They actually think that "less is more", simply because doing business while doing good (synchronic approach) means that ethical banks are internalizing, on a voluntary basis, the costs of a better society. So rather than repairing the harmful consequences inherent to certain activities, ethical banks try to integrate in their business model the production of global common goods, which would otherwise be paid by the collectivity. In a nutshell, this means that social, environmental and financial concerns are really embedded within the organization, not sit in its periphery or out of business.

In practice, recent studies show that focusing on core banking operations, addressing the resources to the real economy at the local level, working with lower levels of financial collateral if the project financed is worth it in other terms, or simply fostering transparency in the funding policy, is not only possible from a socially responsible grounding but also sound from a purely business perspective (Paulet, Parnaudeau, & Relano, 2015). The ongoing concentration process in main stream and social banks, coupled with their generalized focus on the most profitable segments of society, creates a niche market for those who prefer giving sense to their money rather than waiting passively for the maximum capital return. The recent financial crisis has actually resulted in an unprecedented performance of this type of institutions in terms of the balance sheet (Weber, 2014). So much so, that the great dilemma now is whether ethical banks can continue to grow without diluting their original spirit. In this regard, the general strategy of institutions such as Triodos Bank (Netherlands) on the one hand, and Freie Gemeinschafts bank (Switzerland) on the other, are likely to diverge in a near future. But for the time being both still share one of the most basic principles that divide social and ethical banking: what matters most is not "what" they want to do (both types of institutions generally agree at the level of goals and principles) but "how" are they actually going to achieve it.

Conclusion :

The triptych typology shows that only ethical banks are really at variance from the mainstream logic of traditional banks. Social banks are somewhere in between. By using investment banking operations, even moderately, social banks differ from conventional banks only in quantitative terms. Intrinsically, in qualitative terms, they are fairly similar. Since both use the same tools, there is a difference of "degree" but not of real "nature". The related idiosyncrasy of conventional and social banks can eventually be visualized as variations within the same paradigm. Only the banking practice and an underlying philosophy of ethical

banks represent a distinct business model. Ethical banks are actually the worthy heirs of the pioneering spirit inaugurated by Raiffeisen and Schulze – Delitzsch that no longer holds in social banks. The whole ambiguity of social banks is crystallized in this intermediate position.

It is very difficult to assess if this ambiguity of social banks will last over time. This will depend to a large extent on the mutual interplay between ethical and social banks. On the one hand, the exponential growth of the former financial institutions cast some doubts on their capacity to remain faithful to their original idiosyncrasy. The reason is that changes in the banking practice are very often linked to modifications in the underlying business philosophy. Triodos bank would be in that sense an outstanding example of a financial institution at the borderline of their original category. On the other hand, the recent financial crisis and the consequent loss of trust among costumers on mainstream banking and sophisticated financial engineering techniques has decided many social banks to move closer to the business model of ethical banks. Circumstances change. Banks change. Typologies evolve to see what are the principles that remain the same. These are, in addition, the lens through which we apprehend the reality of their banking practice. Future research will thus say to what extent the “glasses” proposed in this paper allow to see better.

11.7 SUMMARY :

Social banking as mutually interchangeable with other similar terms. Roland Benedikter (2011), who has conducted one of the most serious attempts in this regard, notes that “this notion [of social banking] currently includes ‘ethical banking’, ‘cooperative banks and credit unions’, the so-called ‘new social banks’, ‘private and community shared development banks’, and ‘microfinance banks’. (p. 49). Similarly, the Institute for Social Banking, a charitable association specialized in this specific domain since 2006, fully acknowledges this difficulty when they state: “a generally accepted definition of ‘social baking’ does not exist, and ―given the variety of its historic origins and underlying values― arguably cannot exist.

The notion of social banking is relatively new. At least, no such category exists in any of the traditional typologies used by scholars to apprehend the diversity of the banking industry. And yet, the idea of introducing a certain social dimension in the banking practice is not new at all. Keeping this in mind, this section will briefly explore the origins of social banking before its actual appearance as a distinct category.

11.8 KEY WORDS :

BASIX :

Bhartiya Samruddhi Finance Limited

CASHPOR :

Credit and Savings tor the Hardcore Poor.

CDS :

Community Development Societies.

DHAN :

Development of Human Action.

Sovereign Risk :

The risk that the government of a country may interfere with the repayment of debt.

Space Arbitrage :

The buying of a foreign currency in one market and selling it for a profit in another market.

11.9 SELF ASSESSMENT QUESTIONS :

1. Discuss Traditional Typologies.
2. What are The Challenge of Sustainable Finance?
3. Repositioning Social Banks.
4. Define A triptych typology.

11.10 SUGGESTED READINGS :

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NAME OF THE LESSON WRITER ?

LESSON – 12

SOCIAL BANKING ECOSYSTEM

Objectives :

After studying this lesson, the student be able to :

- Understand the meaning and concept of social banking ecosystem
- describe the brief history of social apps

Structure of the Lesson :

12.1 Success in Consumer Banking

12.2 The New Social Banking Customer

12.3 Beyond Improving Cost – Effectiveness

12.4 The Next – Generation Social Banking Ecosystem

12.5 Social Apps

12.6 Mitigating Risks Related to Privacy and Security of Customer Data

12.7 Winning in the Next Generation Social Banking Ecosystem

12.8 Summary

12.9 Key Words

12.10 Self Assessment Questions

12.11 Suggested Readings

12.1 SUCCESS IN CONSUMER BANKING :

Success in Consumer Banking will be redefined by Transparency, Simplicity and renewed Customer – Centricity.

From 2000 to 2007, top–performing banks had an average return on equity of 26 percent. Today, many of these same banks are looking at returns of 8 percent if they are still in business. Growth is hard to find, revenue is under intense pressure, and the cost of doing business continues to increase. Banks are operating under tighter supervision at a time when they are also trying to restore declining customer trust. Regulators are both curbing fee – based income and increasing the cost of compliance. And disruptive technologies are strengthening the competitiveness of non – traditional, low – priced competitors and new entrants in areas such as payments.

Competing in the New Customer Demand–Driven Environment :

With limited avenues for growth, it will be critical for banks to :

1. Retain profitable customers

2. Capture a bigger share of wallet
3. Combat the growing adoption of disruptive technologies (for e.g. mobile wallets, remote retail, contactless payments) offered by new and non – traditional entrants that threaten to chip away at banks' payment revenues.

Given the challenging revenue climate, most banks are tempted to raise fees on customers to compensate for the short fall. But imposing new or higher fees risk alienating customers and reveal a narrow, short – term, transactional view of the interaction that too often fails to take into account the overall customer relationship to the bank *(Figure.1)*.

Figure.1 : Moving beyond transactions to capture Customer Life-time Value

Adroitly targeting specific customer segments, creating products and offers that go beyond deposit and checking accounts, and delivering those products through highly competitive (physical and virtual) sales environments will be competitive necessities. As the banking value chain rapidly digitizes, banks will need to raise their game by improving the user interface / customer experience by partnering with retail and technology firms to personalize offers, deals, engage with customers and build loyalty.

12.2 THE NEW SOCIAL BANKING CUSTOMER :

Two megatrends will force retail financial institutions to rethink their operating models : digitization, which is de-integrating the front-to back-office value chain; and consumer expectations *(Figure. 2),* which are relentlessly rising. Banks will need to invest in these technology advances–specifically, social computing, cloud, analytics and mobility to meet customer expectations, which are increasing as innovative nonbanks step into the space and solve the following common, long–standing customer "pain points":

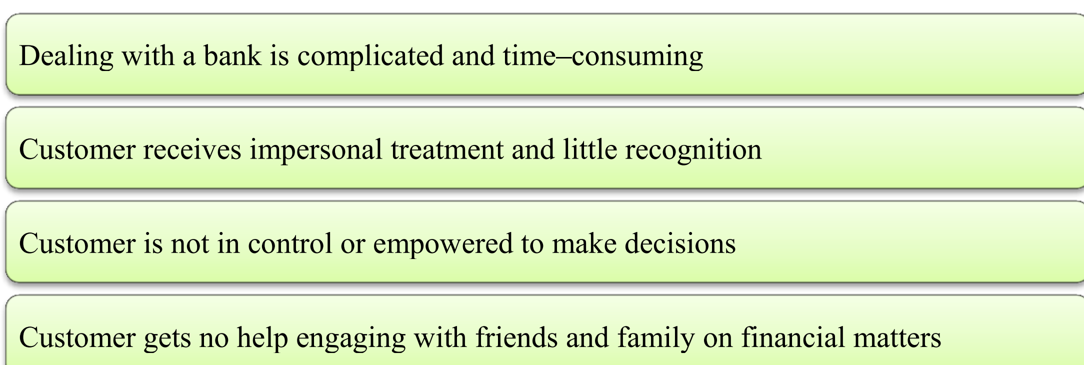


Figure.2 : Investing in social technologies

This will allow banks to address customer "pain points"(above) and improve their ability to demonstrate value to customers, which is essential for increasing pricing power and acceptance.

Finally, banks will have to contend with shifts in consumer behavior – none more

significant than the rise of the social consumer, accelerated by the mobile and tablet revolution. Banks will have to deliver superior customer experience to a generation that has much greater choice and is likely to be more price–sensitive.

12.3 BEYOND IMPROVING COST – EFFECTIVENESS :

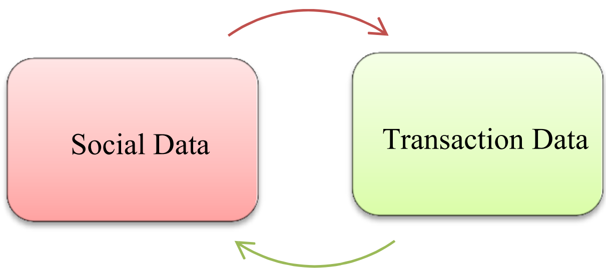
Using technology to improve Customer Relationships

Successful banks are embedding new capabilities of all kinds into their operating models–risk analytics, customer analytics, pricing optimization–so they can deliver more personally relevant products and services based on customer needs.

Product innovations like so called green mortgages, which offer discounts for energy–efficient homes, will address consumers' growing environmental and social concerns. These and similar customer–and community–focused product initiatives and offers will not only create new income streams but also provide banks with the opportunity to build and improve customer relationships.

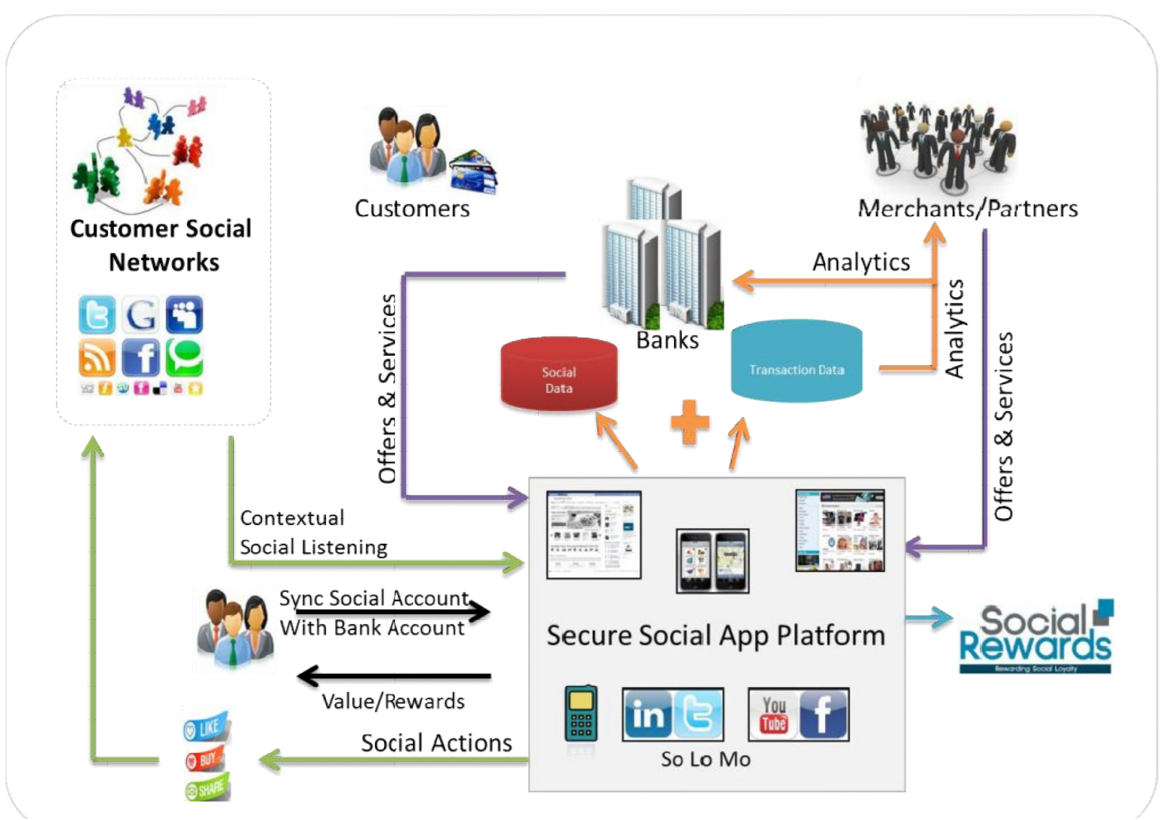
12.4 THE NEXT – GENERATION SOCIAL BANKING ECO SYSTEM :

However in order to truly capture the life time value of the customer, it will be critical to fully understand the customer – her motivations, likes, dislikes, friends, social influence and preferences. Of course, it's no revelation that banks possess copious amounts of customer data. What is less well known is that most banks struggle to glean truly valuable intelligence or insight into their customers' preferences. Banks need to capture comprehensive customer information (syncing customers' transaction data with social data through Social Apps), update it continually, and understand it in a holistic way to differentiate customer experience and deepen customer relationships.



Combining a customer's transaction data with social data through Secure Social Apps provides keener understanding of the customer's Tastes, Preferences and Social Influence.

Note : *Social Data is the collective information such as likes, dislikes, tastes, interests, hobbies, friends, peer networks, demographic & psychographic data produced by millions of people as they actively participate in online social activities(for e.g. on Facebook, Twitter, blogs, reviews).*



The New Social Banking Ecosystem Gives Banks Richer Insights into Customer Preferences by Combining Social Data with Transaction Data Using Secure Social Apps to Create Deeper, More Meaningful Relationships.

12.5 SOCIAL APPS :

To get a holistic view of the customers, banks use Secure Social Apps. Social Apps enable customers to sync their social data with their bank accounts.

Social Apps help convert a bank's casual social presence into a powerful sales and advocacy channel helping customers conduct transactions (avail targeted offers, deals, buy) in a private and secure environment with the added ability to share and promote their experience among peer networks.

- Relevant targeted offers : The rich data shared by customers via Social Apps will help banks craft more relevant, targeted products and services. A bank's merchant partner, who originally had access to only "anonymized" transaction history, can now create offers and deals that are more suited to customer tastes and preferences for better redemption increasing share of wallet.
- Social Rewards & Loyalty : Customers are rewarded for their loyalty and advocacy : "Social Actions" such as "sharing", "reviewing", "influencing", "advocating" and "recommending" – moving focus away from just transaction

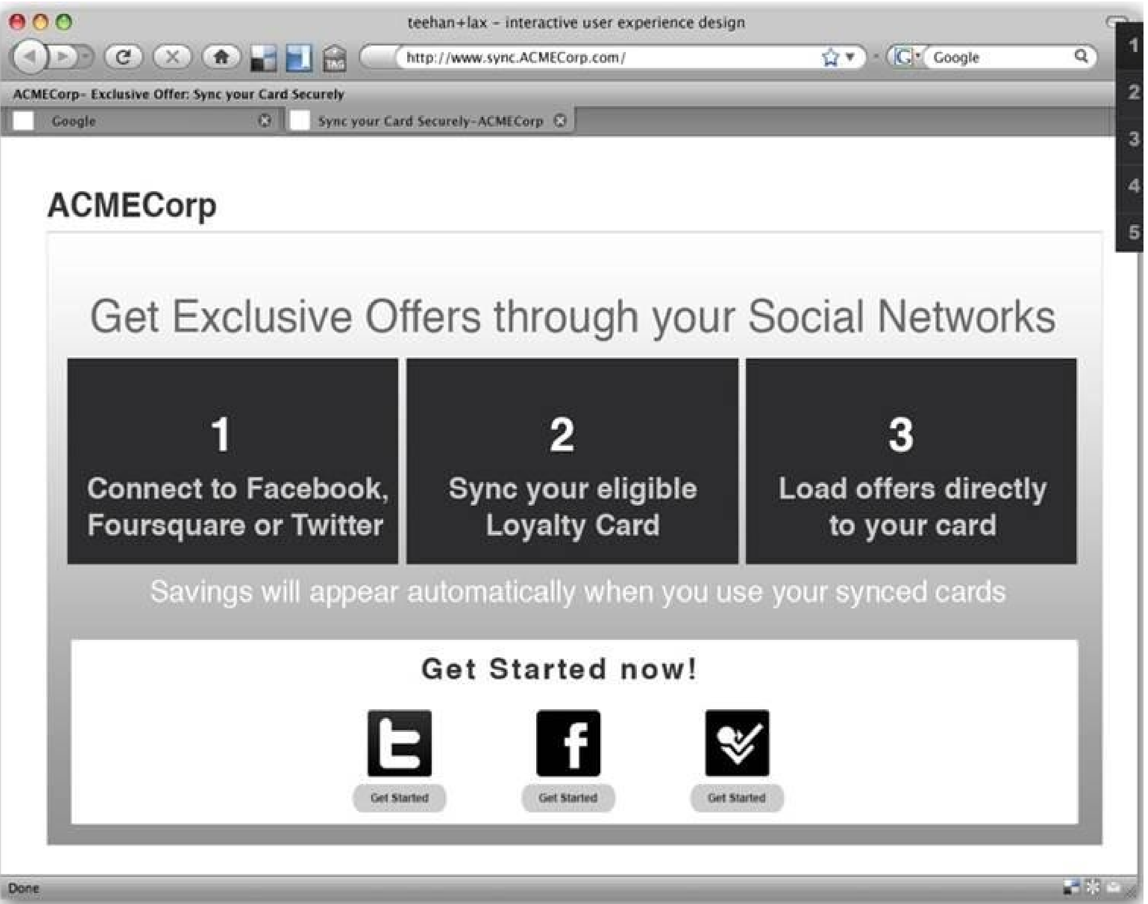
history to a renewed focus on a customer's overall relationship to the bank and her influence and "social clout" (the size of an individual's network/group and influence over the members in the network)to increase stickiness, loyalty and advocacy.

- Combating disruptive forces from new and non-traditional entrants: Traditionally, electronic payments offered tremendous margins to banks. However, disruptive, customer–centric innovations such as mobile payments, mobile wallets and contactless payments being offered by new and non-bank entrants threaten to chip away at banks' margins. Many banking and financial institutions have cutting edge technology strategies. However, when it comes to social and mobile payment innovations, most are "fast followers". The Social App platform will enable banks to move forward quickly as "catalysts" in a robust, secure manner.

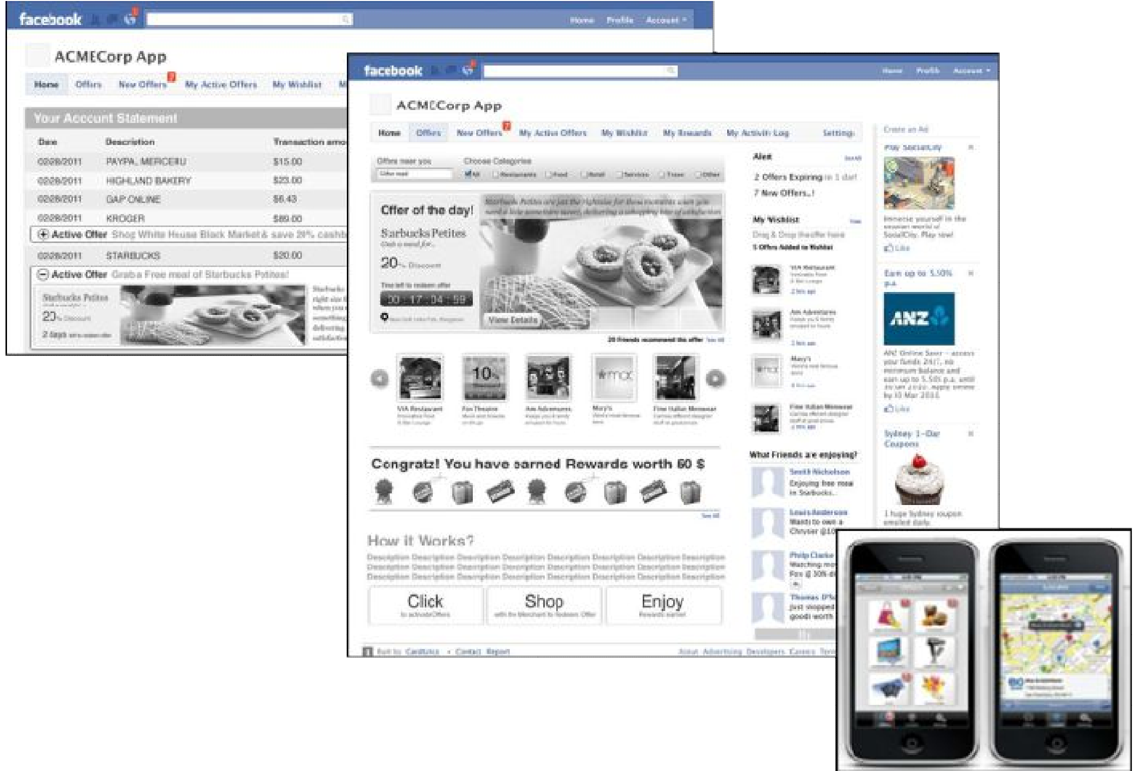
Happiest Minds Social App Platform enables Social Apps to be designed, deployed and accessed over multiple channels and devices with capability to integrate with different internal / external systems.

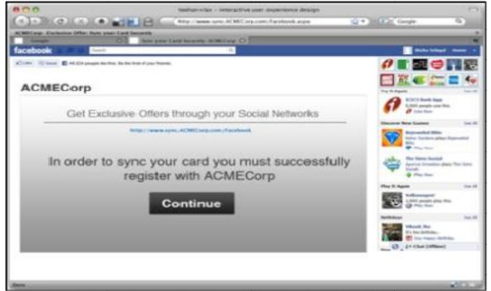
Sample Representation of a Secure Social App for a Top–Tier Bank :

Step – 1 : Bank's customers are provided information on the secure Social App with necessary privacy and security details, features and benefits.



Step – 2 : Customers complete a simple registration process which allows them to sync their social profile (from a variety of options such as Facebook, Twitter, Foursquare, etc.) with the bank 's customer profile "on- file" and provides permissions to use their social data.





Sample representation of a secure social app for a Top -Tier Bank :

Step – 3 : After syncing a customer's social data (*social profile*) with transaction data (*bank profile*), a bank can provide customers with more relevant, targeted offers and products that align better with her tastes and preferences. The Happiest Minds Social App platform enable success via multiple devices, channels (such as on the web, tablet & mobile devices).

Combining Social and Transaction data using Secure Social Apps enables banks to create :

- Deeper, More Meaningful Customer Relationships through Richer Engagement
- Better understanding of Customer Tastes and Preferences through Social Data : Leading to opportunities for capturing increased Share of Wallet
- Opportunities with merchants to craft more relevant services, innovative products, co–branded offers and deals
- Loyalty and Advocacy by Rewarding Customers for their Social Influence, Clout and Overall Relationship
- Increase Brand Foot print among non – customers : Build Spontaneous Awareness

Benefits of combining transaction data and a customer's social data using Social Apps

12.6 MITIGATING RISKS RELATED TO PRIVACY AND SECURITY OF CUSTOMER DATA :

While banks have always been on the cutting–edge of technology adoption, due to the strict regulation of client privacy and data and the concern that any activity could constitute financial advice, banks have been slow to engage in social media.

However, Social Apps will mitigate the risk related to privacy and security by giving customers the control over the kind and amount of social data that is shared. The social app also captures and leverages customer data available in public domains such as blogs, reviews, Q&As, Twitter, etc.

How Social Data can enable understanding of "Who your customers are " & " What are they saying about you" ?

As custodian of customer data, banks can combine social and transaction data using secure social apps to develop a deeper understanding of customer tastes and desires and provide more relevant offerings, deals and services. This allows banks to create opportunities for further engagement and loyalty. For example, insightful customer data such as :

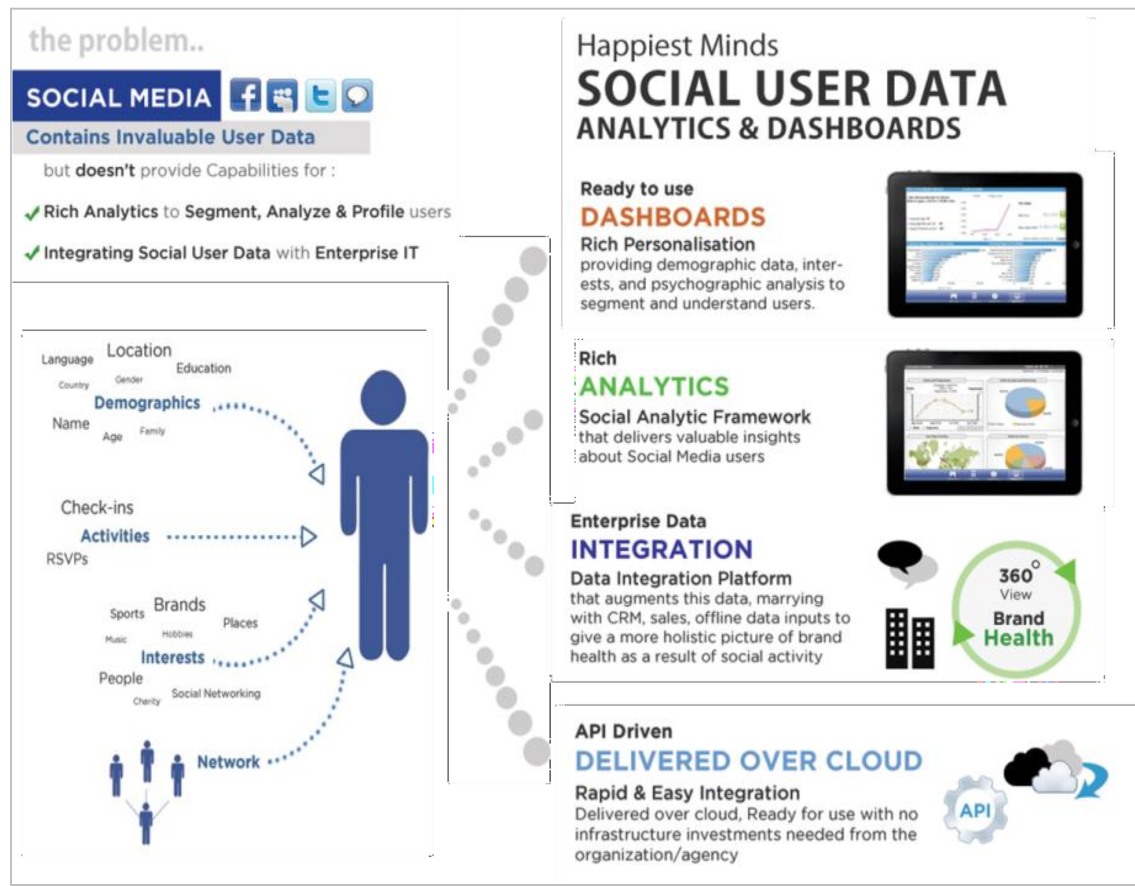
- *Mary K. is a 30 year old ,female, college graduate and entrepreneur; own some of Boston's hippest boutiques; a lover of sail boats and Italy; travels*

internationally for 3months a year.

- *John S., 22year old, male from Charlotte, a Rhodes Scholar; aspires to start an innovative educational institution in developing countries; drives a Porche (a gift from his wealthy grandfather).*
- *Lisa M. is a 40 year old ,female; immigrant from Ukraine, part – time mom and home maker, successful real – estate agent living in Long Island, NewYork.*
- *Roger T. is 62, retired after working for 35 years in the Underwriting department of ABC Insurance; extremely active, golfs twice a week, is proud of his garden and is also an avid fisherman.*

To accomplish this, banks must tap into this invaluable social user data to develop a more intimate understanding of "who their customers are"? Happiest Minds has developed powerful User Data Analytics and Dashboards to enable banks to :

1. Perform Rich Analytics to Segment, Analyze & Profile Users
2. Integrate Social User Data With Enterprise IT to offer the most appropriate and profitable products, tools and services to targeted segments



Happiest minds can create custom social user Data Analytics & Dashboards to help banks better understand "Who their customers are?"

Additionally, up to 70% of consumer spending is influenced by Web, mobile research, social preferences and influences. For Banks, understanding "what is being said", what are customers thinking, reviewing and influencing therefore, becomes very critical.

For e.g.,

- *Mary is asking her friends for a recommendation on a good international credit card that waives transaction fees on certain categories.*
  Opportunity for bank : Pitch a relevant credit card offer.

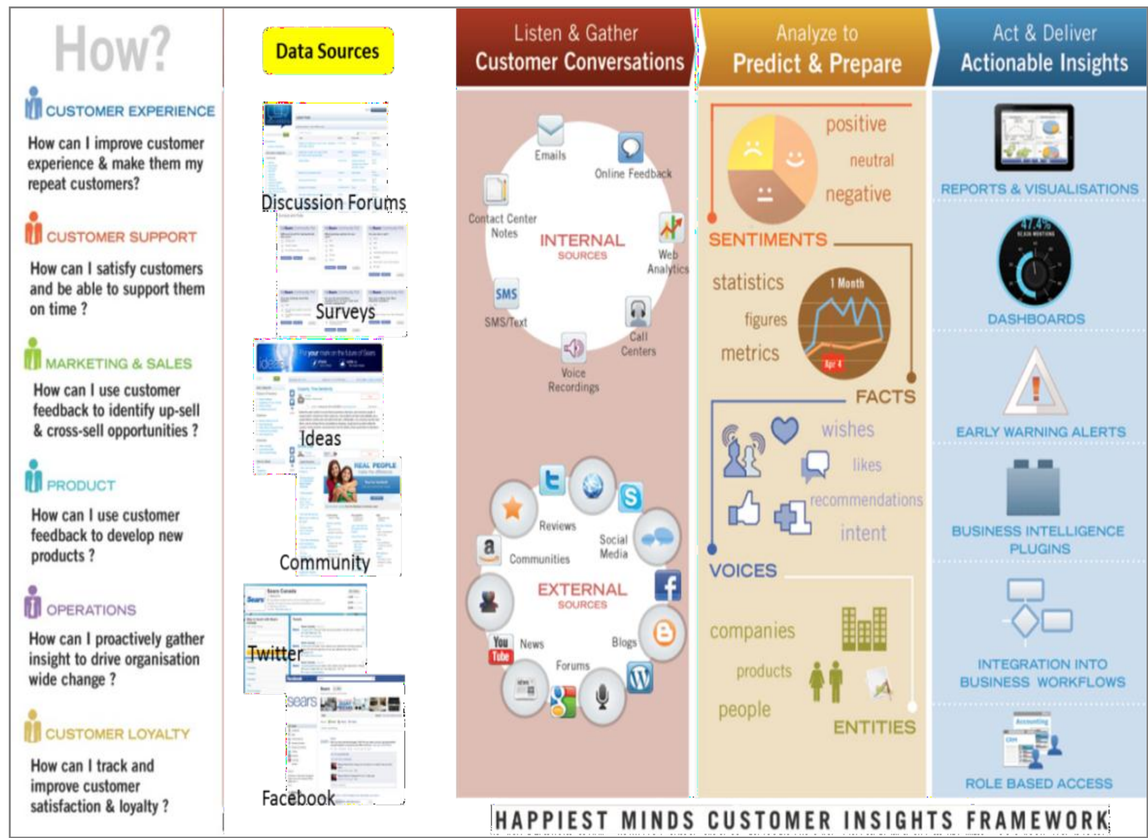
- *John is persuading his friends to invest in his business idea and also seeking a small business loan to start his entrepreneurship venture.*
  Opportunity : Loan product and a merchant offer for international flight ticket booking.

- *Lisa is ranting about how unresponsive her local bank's sales manager is in helping her customers.*
  Opportunity : Improving customer service

- *Roger plans to start a weekend recreational fishing crew and is soliciting support and funding from his 1000+ friends on Facebook.*

  Opportunity : Tap into Roger's network and leverage his influence.

The Happiest Minds Customer Insights Framework provides banks with a universal view of their customers to enable :



- Banks to leverage the voice of the customer as a business asset.
- Extract valuable insights to drive business decisions.
- Provide customer service & marketing departments the ability to listen, analyse, relate and act on customer conversations, no matter where they take place– internally in CRM notes, emails and customer surveys, or externally on blogs, review sites or social media platforms.

Happiest Minds Customer Insights Framework provides a universal view of the bank's customers by implementing Social Master Data Management, which captures "what customers are saying"?

12.7 WINNING IN THE NEXT GENERATION SOCIAL BANKING ECOSYSTEM :

Customers today approach a sale empowered by technology and transparency, with more extensive information from more sources than ever before. They expect to engage with banks when and how they want, in person, online and on the go. And they want these methods to tie together seamlessly.

Using Secure Social Apps, a bank's customers are presented with more meaningful offers and deals that take into account their social interests and preferences as well as their transaction history resulting in better redemption rates.

Customers are also rewarded for their overall relationship with the bank, their social influence and clout and less for specific purchases. Customers feel more empowered as relevant offers are presented to them resulting in greater perceived value relative to competition.

Social apps help customers get more value by making new connections : for example, connecting customers with friends nearby and connecting with people who they don't know but share similar interests (Apps that are social, location-based, mobile ("SO-LO-MO") and encourage group-buying, sharing, reviewing).

For Banks, multichannel excellence is all about providing choice, convenience, and value for the customer—including easier access, reduced purchase risk, and better price transparency. In order to achieve this, banks will need to develop a keener understanding of their customers "social lives" (leveraging Customer Insights and User Analytics) and overall relationship to the bank; going beyond mere transactions and purchase history.

Banks can gain a higher share of wallet, in terms of both frequency of purchase and ticket value, improving cost efficiency through higher capacity utilization across innovative channels such as social networks and mobile.

"SOCIAL REWARDS" REDEFINES THE LOYALTY PARADIGM :

Traditional loyalty and rewards programs are primarily transaction–oriented, taking into account only a customers' spending history with less focus on the overall customer relationship, a customer's social influence or clout. Going forward, banks will need to achieve a far higher level of customer-centricity, trust worthiness and overall service

excellence by embracing this next-Generation Social Banking Ecosystem and redefining the loyalty paradigm : moving away from transactions (short–term) to overall customer relationship (long–term focus) to thrive in the post–crisis environment.

12.8 SUMMARY :

However in order to truly capture the life time value of the customer, it will be critical to fully understand the customer – her motivations, likes, dislikes, friends, social influence and preferences. Of course, it's no revelation that banks possess copious amounts of customer data. What is less well known is that most banks struggle to glean truly valuable intelligence or insight into their customers' preferences. Banks need to capture comprehensive customer information (syncing customers' transaction data with social data through Social Apps), update it continually, and understand it in a holistic way to differentiate customer experience and deepen customer relationships.

Customers today approach a sale empowered by technology and transparency, with more extensive information from more sources than ever before. They expect to engage with banks when and how they want, in person, online and on the go. And they want these methods to tie together seamlessly.

12.9 KEY WORDS :

Swap and Deposit :

A combination of swap transactions that enable the borrower to have use of both currencies for the duration of the transaction.

Swap Position :

A situation where the scheduled inflows of a given currency are equal to the scheduled outflows, but the maturities of those flows are purposely mismatched. The expectation in a swap position is that the swap rate will change and that the gap can be closed at a profit.

Swap Rate :

The difference between the spot exchange rate of a given currency and its forward exchange rate.

Swap Swap :

A swap transaction involving one forward maturity date against another forward maturity date.

Swaption :

An option on a swap. It gives the buyer the right, but not the obligation, to enter into an interest-rate swap at a future time period.

12.10 SELF ASSESSMENT QUESTIONS :

1. Success In Consumer Banking.

2. Write about The New Social Banking Customer.
3. How to Improving Cost-Effectiveness?
4. Explain about The Next-Generation Social Banking Ecosystem.
5. What are Social Apps?
6. Mitigating Risks Related To Privacy And Security Of Customer Data.
7. Winning In The Next Generation Social Banking Ecosystem.

12.11 SUGGESTED READINGS :

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LESSON – 13

TRENDS & ISSUES OF SOCIAL BANKING

Objectives :

After studying this lesson, the student be able to :

- Understand the recent trends and developments in banking
- describe the social and innovative banking strategies
- social responsibility and reporting

Structure of the Lesson :

13.1 Introduction

13.2 Recent Trends and Developments in Banking Sector

13.3 Development in Banking Sector

13.4 Social and Innovative Banking Strategies for Sustainable Banking in India

13.5 Bank Marketing Mix and Strategies

13.6 Social Banking in India

13.7 Social Responsibility and Reporting

13.8 Rural and Social Banking Issues

13.9 Innovation in Banks in terms of Services

13.10 Service Innovation Models

13.11 Application of Innovation Models

13.12 Analysis of Service Innovation In Banks

13.13 Role of Technology In Banking

13.14 Summary

13.15 Key Words

13.16 Self Assessment Questions

13.17 Suggested Readings

13.1 INTRODUCTION :

The banking system in India is significantly different from other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and

technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth–led exports rather than the "export led growth" of other Asian economies, with emphasis on self–reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in successive five- year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order for the banking industry to serve as an instrument of state policy, it was subjected to various nationalization schemes in different phases (1955, 1969, and 1980). As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centers) because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system.[1] Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small–scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers). The banking system's international isolation was also due to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad. These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as their Government dominated ownership structure has reduced the conflicts of interest that private banks would face.

13.2 RECENT TRENDS AND DEVELOPMENTS IN BANKING SECTOR :

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the paramount of all the banks.

The RBI's most important goal is to maintain monetary stability (moderate and stable inflation) in India. The RBI uses monetary policy to maintain price stability and an adequate flow of credit. The rates used by RBI to achieve the bank rate, repo rate, reverse repo rate and the cash reserve ratio. Reducing inflation has been one of the most important goals for some time.

Growth and diversification in banking sector has transcended limits all over the world. In 1991, the Government opened the doors for foreign banks to start their operations in India and provide their wide range of facilities, thereby providing a strong competition to the domestic banks, and helping the customers in availing the best of the services. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism.

There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, internet and phone banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

13.3 DEVELOPMENT IN BANKING SECTOR :

1) Internet :

Internet is a networking of computers. In this marketing message can be transferred and received worldwide. The data can be sent and received in any part of the world. In no time, internet facility can do many a job for us.

It includes the following :

- This net can work as electronic mailing system.
- It can have access to the distant database, which may be a newspaper of foreign country.
- Customers can exchange their ideas through Internet and can make contact with anyone who is a linked with internet.
- On internet, one can exchange letters, figures / diagrams and music recording.

Internet is a fast developing net and is of utmost important for public sector undertaking, Education Institutions, Research Organization etc.

2) Society For Worldwide Inter–Bank Financial Telecommunications (Swift) :

SWIFT, as a co–operative society was formed in May1973 with 239 participating banks from 15 countries with its headquarters at Brussels. It started functioning in May 1977. RBI and 27 other public sector banks as well as 8 foreign banks in India have obtained the membership of the SWIFT. SWIFT provides have rapid, secure, reliable and cost effective mode of transmitting the financial messages worldwide. At present more than 3000 banks are the members of the network. To cater to the growth in messages, SWIFT was upgrade in the 80s and this version is called SWIFT–II. Banks in India are hooked to SWIFT–II system. SWIFT is a method of the sophisticated message transmission of international repute. This is highly cost effective, reliable and safe means of fund transfer.

- This network also facilitates the transfer of messages relating to fixed deposit, interest payment, debit–credit statements, foreign exchange etc.
- This service is available throughout the year, 24 hours a day.
- This system ensure against any loss of mutilation against transmission.

It is clear from the above benefit of SWIFT that it is very beneficial in effective customer service. SWIFT has extended its range to users like brokers, trust and other agents.

3) Automated Teller Machine (ATM) :

ATM is an electronic machine, which is operated by the customer himself to make

deposits, withdrawals and other financial transactions. ATM is a step in improvement in customer service.

- ATM facility is available to the customer 24 hours a day. The customer is issued an ATM card.
- This is a plastic card, which bears the customer's name. This card is magnetically coded and can be read by this machine. Each card holder is provided with a secret personal identification number (PIN).When the customer wants to use the card, he has to insert his plastic card in the slot of the machine.
- After the card is a recognized by the machine, the customer enters his personal identification number.
- After establishing the authentication of the customers, the ATM follows the customer to enter the amount to be withdrawn by him. After processing that transaction and finding sufficient balances in his account, the output slot of ATM give the required cash to him.
- When the transaction is completed, the ATM ejects the customer's card.

4) Cash Dispensers :

Cash withdrawal is the basic service rendered by the bank branches. The cash payment is made by the cashier or teller of the cash dispenses is an alternate to time saving.

- The operations by this machine are cheaper than manual operations and this machine is cheaper and fast than that of ATM.
- The customer is provided with a plastic card, which is magnetically coated. After completing the formalities, the machine allows the machine the transactions for required amount.

5) Electronic Clearing Service :

In 1994, RBI appointed a committee to review the mechanization in the banks and also to review the electronic clearing service. The committee recommended in its report that electronic clearing service–credit clearing facility should be made available to all corporate bodies / Government institutions for making repetitive low value payment like dividend, interest, refund, salary, pension or commission, it was also recommended by the committee Electronic Clearing Service–Debit clearing may be introduced for pre–authorized debits for payments of utility bills, insurance premium and installments to leasing and financing companies. RBI has been necessary step to introduce these schemes, initially in Chennai, Mumbai, Calcutta and New Delhi.

6) Bank net :

Bank net is a first national level network in India, which was commissioned in February 1991. It is communication network established by RBI on the basis of recommendation of the committee appointed by it under the chairmanship of the executive director T.N.A. Lyre. Bank net has two phases : Bank net–I and Bank net–II.

7) Chip Card :

The customer of the bank is provided with a special type of credit card which bears customer's name, code etc. The credit amount of the customer account is written on the card with magnetic methods. The computer can read these magnetic spots. When the customer uses this card, the credit amount written on the card starts decreasing. After use of number of times, at one stage, the balance becomes nil on the card. At that juncture, the card is of no use. The customer has to deposit cash in his account for re–use of the card. Again the credit amount is written on the card by magnetic means.

8) Phone Banking :

Customers can now dial up the bank's designed telephone number and he by dialing his ID number will be able to get connectivity to bank's designated computer. The software provided in the machine interactive with the computer asking him to dial the code number of service required by him and suitably answers him.

By using Automatic voice recorder (AVR) for simple queries and transactions and manned phone terminals for complicated queries and transactions, the customer can actually do entire non-cash relating banking on telephone anywhere, anytime.

9) Tele–banking :

Tele–banking is another innovation, which provided the facility of 24 hour banking to the customer. Tele–banking is based on the voice processing facility available on bank computers. The caller usually a customer calls the bank anytime and can enquire balance in his account or other transaction history. In this system, the computers at bank are connected to a telephone link with the help of a modem. Voice processing facility provided in the software. This software identifies the voice of caller and provides him suitable reply. Some banks also use telephonic answering machine but this is limited to some brief functions. This is only telephone answering system and now Tele–banking. Tele–banking is becoming popular since queries at ATM's are now becoming too long.

10) Internet Banking :

Internet banking enables a customer to do banking transactions through the bank's website on the Internet. It is a system of accessing accounts and general information on bank products and services through a computer while sitting in its office or home. This is also called virtual banking.Itismore or less bringing the bank to your computer. In traditional banking one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts etc. but internet banking has changed the way of banking. Now everyone can operate all these type of transactions on his computer through website of bank. All such transactions are encrypted; using sophisticated multi–layered security architecture, including fire–walls and filters. One can be rest assured that one's transactions are secure and confidential.

11) Mobile Banking :

Mobile banking facility is an extension of internet banking. The bank is in association

with the cellular service providers offers this service. For this service, mobile phone should either be SMS or WAP enabled.

These facilities are available even to those customers with only credit card accounts with the bank.

Conclusion :

In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide business opportunities to harness. As banking in India will become more and more knowledge supported, capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures.To conclude it all, the banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. The economic growth of the country is an indicator for the growth of the banking sector. The Indian economy is projected to grow at a rate of 5–6 percent and the country's banking industry is expected to reflect this growth. The onus for this lies in the capabilities of the Reserve Bank of India as an able central regulatory authority, whose policies have shielded Indian banks from excessive leveraging and making high risk investments. By the government support and a careful re–evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby setting the stage for expansions into a global consumer base.

13.4 SOCIAL AND INNOVATIVE BANKING STRATEGIES FOR SUSTAINABLE BANKING IN INDIA :

1. Introduction :

Indian Banking Sector has witnessed a number of changes. Most of the banks in India have begun to take an innovative idea towards banking with the objective of creating more value for customers and to attract more and more customers in the banking network. If we see the history of Indian Banking, it is found that Indian banking has already undergone a huge transformation in the years since Independence. The rate of transformation was particularly high in the 1990s and 2000s, when a number of innovations changed the way banking was perceived and it was the result of autonomous and induced necessities of the environment. In the 1990s, the banking sector in India pronounced greater emphasis being placed on technology and innovation. Banks began to use technology to provide better quality of services at greater speed. Information technology has made it convenient for customers to do their banking from geographically diverse places which earlier remain uncovered. Banks also enlighten their focus on rural markets and introduced a variety of services geared to the special needs and desire of their rural customers (Murthy & Murthy, 2006 [[i]]). Banking activities also shifted their traditional scope and new concepts like personal banking, retailing, investment banking and bank assurance were introduced. Further, Banking sector in India was also moving rapidly towards universal banking and electronic transactions, which were expected to change the way banking would be perceived in the future (Jayakumar & Anbalagan, 2012[[ii]]).

It is observed that technology has been playing a crucial role in the tremendous improvement of banking services and operations. Important events in the evolution of new age payment systems in India which includes arrival of card–based payments, debit card, credit card - late 1980's and early 1990's; introduction of Electronic Clearing Service (ECS) in late 1990's; Electronic Funds.

Transfer / Special EFT (EFT/SEFT) in the early 2000's; Real Time Gross Settlement (RTGS) in March 2004; NEFT (National Electronic Funds Transfer) as a replacement for EFT / SEFT in 2005/06; Plan for implementation of cheque truncation system as a pilot programme in New Delhi in 2007 and further implementation in 2013; migration from cash and cheque based payment system; it has become a necessity to electronic fund transfer system and many more.

In recent time, we have witnessed that the world economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. The scenario has become very uncertain causing recession in major economies like US and Europe (Goyal &Joshi,2012[[iii]]. This poses some serious questions about the survival, growth and maintenance of sustainable development.

However, amidst all this turmoil India's Banking Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non–performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong (FICCI Annual Survey, 2010[[iv]]). Indian banks have begun to revise their growth approach and re–evaluate the prospects on hand to keep the economy rolling (Gumparthi, Khatri, and Manickavasagam, 2011[[v]]).

Today, Indian banking industry is enriched both in terms of offering value added services and delivering quality service. Researcher and thinkers all over the world thought that the world financial crisis would impact the Indian banking sector in a serious manner. But this was not so happen because of strong foundation of Indian banking system with the support from well structured financial systems and the anticipated impact of the world crisis was almost insignificant [[vi]]. Instead, it helped the banks to get strengthened further and become closer to the customer with innovative approaches [[vii]]. It is observed that Banks in India appear to be on the path of achieving sustainability and a long–term survival because of innovation. This study aims at identifying the initiatives of some public and private sector banks in India towards sustainability through a planned and systematic service innovation. Study also focuses on some of the recent innovative trends in banks in India. Innovation models of Bessant and Tidd (2007[[viii]]) and Six Dimensional Model of Service Innovation developed by Pim den Hertog et al. (2010[[ix]]) were used for this purpose.

Review of Literature :

In recent years, the service sector has become a dynamic component of economic activity and growth. The observable growth in internet, web-based services and high–

technology environmental services indicates that knowledge intensive services are having a greater value–added role in economic growth. Within the services, the banking sector plays a significant role in the economic development of the country. The size and composition of banking transactions signifies the economic happenings in the country (Vaish, 1978[[x]]). Liberalization of financial services and technological developments have made a sea change in the banking system, from a totally regulated environment, the banking sector has gradually evolved into a market driven competitive system.

Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. Janki (2002[[xi]]) analyzed that how technology is affecting the employees' productivity. Hua (2009[[xii]]) investigates the online banking acceptance in China by conducting an experiment to investigate how users' perception about online banking is affected by the perceived ease of use of website and the privacy policy provided by the online banking website. Jalan (2003[[xiii]]) articulated that IT revolution has brought about a fundamental transformation in banking industry and opined that perhaps no other sector has been affected by advancement in technology as much as banking & finance. Mittal & Dhingra (2007[[xiv]]) and Padhy (2007[[xv]]) studied the role of technology in banking sector. Sachan and Ali (2006[[xvi]]) observed that the diffusion of information and communication technologies (ICT) has been a prime vehicle of technological progress and services in general and banking in particular are the main beneficiaries of investment in ICT. Empirical evidence suggests that technological innovations in banks have been larger than in the rest of the economy. Bradley and Stewart (2003[[xvii]]) observed that the financial services environment has been subject to changes on many fronts.

Technological change and the advent of the internet are among the most dramatic and challenging areas of change for the sector. Technological innovations have shown the increased productivity as stated by Rishi and Saxena (2004[[xviii]]). Study identified that technological innovations in the banking sector in industrialized countries have been shown to increase productivity of banking industry around the world. Arora (2003[[xix]]) highlighted the significance of bank transformation. Technology has a definitive role in facilitating transactions in the banking sector and the impact of technology implementation has resulted in the introduction of new products and services by various banks in India. Mohan (2003[[xx]]) expressed his views regarding the transformation in Indian Banking that if Indian Banks are to compete globally, the time is opportune for them to institute sound and robust risk management practices. Sandhu (2003[[xxi]]) observed the impact of IT and particularly e-delivery channels on the performance of Indian banking system. Shapiro (2000[[xxii]]) studied the effects of cyberspace on efficiency and productivity of banks.

Another study by Ferreira and Godinho (2005[[xxiii]]) has identified the relationship between innovation and performance for services sector in Portugal. As per Roberts and Raphael (2007[[xxiv]]) the vast majority of observed innovative activity is based on ideas sourced from outside the focal firm and innovation diffused very quickly across the competing banks. The study puts emphasis on relationship between innovation and competitive advantage. Jha et al. (2008[[xxv]]) have analyzed the use and effectiveness of information technology in the Indian Banking sector. The study observes that the technology

access, up–gradations and innovations in various functional areas of banking are of the highest level in India and banking being one of the fastest growing sectors of the Indian economy, where technology is customer–oriented service.

Kumar and Gulati (2008[xxvi]) examine the issue of convergence of efficiency levels among Indian public sector banks (PSBs) during the post-reform period. Lewrick (2008[xxvii]) gives innovativeness, capabilities and potential (ICP) model which can be used to audit the management capability to innovate and to monitor how sales increase. The model has been found to be effective in predicting the success of the innovation strategy used by the company.

From the above reviews it is observed that the banking industries itself adopted various innovative schemes for further acne of their business and to attract more and more customers. These has resulted their sustainability and keep their brand image even in the competitive environment. Further, technology is one of the important segments where maximum stresses are provided for dissemination of innovative ideas and it is observed that major innovation took place in this field in recent years.

13.5 BANK MARKETING MIX AND STRATEGIES :

Marketing approach in banking sector had taken significance after 1950 in western countries and then after 1970 in India (Vadhar,2011[xxviii]). The first major step in the direction of marketing was initiated by the State Bank of India in 1972, when it recognized itself on the basis of major market segments, dividing the customers on the basis of activity and carved out four major market segments (Muraleedharan, 2010[xxix]). New banking perceptiveness oriented toward market had influenced banks to create new market. Banks had started to perform marketing and planning techniques in banking in order to be able to offer their new services efficiently.

Marketing scope in banking sector should be considered under the service marketing framework. Performed marketing strategy is the case which is determination of the place of financial institutions on customers' mind. Bank marketing does not only include service selling of the bank but also is the function which gets personality and image for bank on its customers' mind (Gunal Once, 2001[xxx]; Muraleedharan, 2010[xxxi]). On the other hand, financial marketing is the function which relates uncongenitalies, differences and non–similar applications between financial institutions and judgment standards of their customers.

The marketing comprehension that is performed by banks since 1950 can be shown as in following five stages (Gunal Once, 2001[xxxii]):

a. Promotion oriented marketing comprehension

b. Marketing comprehension based on having close relations for customers

c. Reformist marketing comprehension

d. Marketing comprehension that focused on specializing in certain areas

e. Research, planning and control oriented marketing comprehension

In our developing economy, the formulation of a sound marketing mix is found a difficult task. The nationalization of the Reserve Bank of India is a landmark in the development of Indian Banking system that have paved numerous paths for qualitative–cum quantities improvements in true sense (Vadhar, 2011 [[xxxiii]]). Subsequently, the RBI and the policymakers of the public sector commercial banks think in favor of conceptualizing modern marketing which would bring a radical change in the process of quality up gradation and village to village commercial viability(Vadhar, 2011 [[xxxiv]]; Saraf et al., 2010[[xxxv]]).

The first task before the public sector commercial Banks is to formulate that Bank marketing mix which suits the national socio–economic requirements. Some have 4 P's and some have 7 P's of marketing mix. The common P’s of bank marketing mix are as follows :

Product :

First among the P’s of bank marketing is product mix. Product stands for both goods and service combination offered to the public to satisfy their needs. In the highly regulated banking industry all offered the same type of products. But the drawback is that no brand can be marketed with unique selling proposition for long because it can be copied immediately. Thus, it is better to focus on some selected ideas relating to products, which have immediate operational utility as well as feasibility on banks.

In the evolution of bank products, the products can be categorized into three groups. They are Core products, Formal products, and augmented product. Core products are those products, which define the business. For a bank, some of the core products are Savings Bank Account, Current Account, Term deposit, Recurring deposit, Cash credit, Term loan, overdraft and the like. In the line product evolution, the next type of product is Formal product. Formal product is usually a combination of two or more core products and they have strong marketing content as they cater to some specific customer needs augmented product is made out of formal product which itself has a strong marketing content. It is further reinforced through value addition. A very good example for augmented product is Smart Money Account with

Hong Kong Bank. When one opens a Smart Money Account, an account holder will also get free Any Time Money Card.

Price :

Price is a critical and important factor of bank marketing mix due numerous players in the industry. Most consumers will only be prepared to invest their money in search of extraordinary or higher returns. They are ready to pay additional value if there is a perception of extra product value. This value may be improved performance, function, services, reliability, promptness for problem solving and of course, higher rate of return.

Promotion :

One of the most important elements of marketing mix of services is promotion. The promotion is to inform and remind individuals and persuade them to accept, recommend or use of a product service or ideas. Promotion is a demand stimulating aid through communication. When a bank comes out with a new product, it makes its target customer

segment aware of it only through marketing promotion. It may be in various forms like press advertisement, sales campaign, word of mouth, personal interaction directly mailing. Making the customer may be enough if the product is unique or in great demand.

Bank Marketing is actually is the marketing of reliability and faith of the people. It is the responsibility of the banking industry to take people in favor through word of mouth publicity, reliability showing through long years of establishment and other services.

Place :

The most important element in distribution strategy relate to this issue of location of the banks to render their service. Distribution means delivery of the products or service at the right time and at the right place. The place where the banking products or service are delivered is an important element in bank marketing. The place strategy of Indian banks has been on the basis of too many parameters. Prior sanctions from RBI and responsibility of banks towards development of banking habit in remote unbanked areas have been some of the important given parameters. So from the marketing stand point, place strategy is not fully positive to Indian baulks. The choice of location and time to make a product available will have significant impact on the customers. Customers often need to avail banking services fast for this they require the bank branches near to their official area or the place of easy access.

Process :

The process is crucial to the bank marketing strategy. It gives value to the buyer and an element of uniqueness to the product. It is very significant because it provides competitive advantage to the bank. The importance of process in bank marketing strategy is based on 'value chain concept' given by Michael Porter (1996[[xxxvi]]).The concept basically stresses close attention to all the organizational activities which go into marketing the final product to the customer. In the banking context, a typical value chain would encompass all activities right from the product conceptive stage down to its marketing at branch level. All these ultimately lead to the customer's satisfaction with the product that the customer has purchased.

People :

The Indian banking industry is not an exception to the modern forces of changes and competition. Many new ideas and strategies have been introduced since the introduction of the new economic policy. Like any other service industry, banking is a labor intensive industry. The human factor plays a pivotal role in the running of the businessmen unlike machine have varying attitudes, moods, heterogeneous cultures, feelings and above all, different aspirations. People are crucial to the success of any business. It is far more so in a service oriented industry like banking.

Physical Evidence :

Physical evidence is the strategic tool for the bank marketer. Banking products are intangible. Tangibilising the intangible commodity is a major challenge to the bank marketer. One among the important methods is the upkeep of branch premises and interior decor. This is relevant not only from the point of view of physical evidence but also for tangibilisation

strategy. Another strategy is imaginative designing of bank stationery used by customers. Product packaging could be another tangibilisation strategy and marketers called it as a separate 'P' of marketing strategy.

Personal Selling :

Due to the characteristics of banking services, personal selling is the way that most banks prefer in expanding selling and use of them. Personal selling occurs in two ways. First occurs in a way that customer and banker perform interaction face to face at branch office. In this case, whole personnel, bank employees, chief and office manager, takes part in selling. Second occurs in a way that customer representatives go to customers' place. Customer representatives are specialist in banks' services to be offered and they shape the relationship between bank and customer.

Public Relations :

Public relations in banking should provide avenues for establishing most effective communication system, creating sympathy about relationship between bank and customer, and giving broadest information about activities of bank.

13.6 SOCIAL BANKING IN INDIA :

The concepts of social control emerged after takeover of banks operating in 1955 and 1959, in 1967 to serve better the needs of development in conformity with national priorities. It was seen that every bank in India had to earmark a minimum percentage of their loan portfolio to sectors identified as 'priority sector'.

Social banking provides the basic financial support required by the economically weaker sections of the society and thereby enables them to participate and benefit from the developmental programmes of the Government. Once this is achieved, social banking leads to the desired goal of sustainable development. Social banking plays a pivotal role for poverty alleviation through the network of commercial banks, cooperative banks, Regional Rural Banks, microfinance institutions, primary agriculture credit societies and Self Help Groups. However, availability of credit alone may not alleviate poverty. It is also important to carry out other allied reform which enables better absorption of microfinance. Thus, the banks and financing institutions enable and ensure flow of credit to the poor to strengthen their economy.

Social banking policies were made to shift the focus of commercial banks from "selective banking" to "mass banking". Social banking is rightly defined by Benediktar (2011[[xxxvii]]) as banking with a conscience. Here, the bank focuses on investing in community, providing opportunities for the disadvantaged, and supporting social, environmental and ethical agenda. Rather than just concentrating on traditional bottom line i.e. profits, bank emphasizes on achieving triple bottom line of profit, people and planet [[xxxviii]].

The Social Banking era in India can said to be originated from nationalization of banks. Fourteen commercial banks were nationalized on 19th July 1969 with the main objectives of allocating funds to the deprived so as to enhance social welfare, eliminating the

monopoly control of private business houses and corporate families on banks, extend banking across the country, reducing regional imbalances etc. The second significant landmark in social banking was branch multiplication in license raj. Here for obtaining a license to open a branch in banked area, a commercial bank was asked to open 4 branches in unbanked region. Because of this 1:4 license rule, there was tremendous increase in branches of banks. Thirdly, commercial banks were asked to divert 40% of their advances towards priority sector.

The social banking initiative undertaken by the banking companies in India under the initiative of RBI and the BR Act were undernoted in Table 1

Table1 : Social Banking Initiatives in Indian Banking Sector

Date	Major Land marks
Dec 1967	Introduction of Social Controls over banks with a view to securing a better alignment of the Banking system of the needs of economic policy.
22 Dec 1967	National Credit Council set up to provide a forum to discuss and assess credit priorities on anal India basis. Council was to assist RBI and Government to allocate credit.
19 Jul 1969	14 major Indian Scheduled Commercial Banks with deposits of over Rs 50 crores nationalized ‘to serve better the needs of development of the economy in conformity with national policy objectives’.
Dec 1969	Lead Bank Scheme introduced which envisaged an area approach to banking to meet the credit gaps in the economy.
Feb 1970	The Agricultural Credit Board setup with Governor as Chairman to formulate and review policies in the sphere of rural credit.
14 Jan 1971	Credit Guarantee Corporation of India Ltd. Established. To facilitate bank landings to the priority sectors. It guaranteed credit extended by scheduled commercial banks to small borrowers and for other priority purposes.
1972	Priority Sector lending
26 Sep 1975	Regional Rural Banks were setup as alternative agencies to provide credit to rural people in the context of the 20 Point Programme. These were expected to “combine the rural touch and local feel,…with the modern business organization….”
1975	20 point economic programme introduced.
1976	Village Adoption Scheme for banks introduced.
1977	Integrated Rural Development Programme (IRDP) initiated as a poverty alleviation measure.
27 May 1978	The Deposit Insurance Corporation (DIC) took over the undertaking of the Credit Guarantee Corporation of India Ltd.(CGCI)to form the Deposit Insurance and Credit Guarantee Corporation (DICGC) i.e. July 15, 1978.
1979	Rural Planning and Credit Cell setup in the Reserve Bank of India to ensure proper Implementation of the multi-agency approach to credit in rural areas.
1980	6 more banks nationalized
1992	SHG Banking

Source : Survey of Literature

13.7 SOCIAL RESPONSIBILITY AND REPORTING :

Social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviors that is consistent with sustainable development and the welfare of society and takes into account the expectations of stakeholders [[xxxix]]. To highlight the role of banks in corporate social responsibility the RBIcirculatedanoticeonDecember20, 2007 for all the scheduled commercial banks, with title "Corporate Social Responsibility, Sustainable Development and Non–Financial Reporting – Role of Banks" (RBI Notification, 2007[[xl]]). Major things that pointed out in the notice were regarding Corporate Social Responsibility, Sustainable Development, and Non–Financial Reporting. Briefing about the corporate social responsibility programme to other member commercial banks RBI followed many international initiatives to highlight the importance of this notice like United Nations Environment Programme Finance Initiative (UNEPFI), Global Reporting Initiative (GRI), International Finance Corporation, The Equator Principles, and Declaration on Financial Institutions.

However, the main thrust of social responsibility activities in India can be better depicted in the below Chart.

Chart – I : CSR Activities in Banking Sector (Philosophy on CSR)

Social Banking
Rural Banking
Innovating Banking

Basis of CSR

Establishing Trust (Central Office)
Centralized Activity (Head Office) (Range of CSR activities)
De-Centralized Activity (Branch wise)

Fund Based
Non fund Based and Banking activities

Donation
R&D Fund
Welfare Fund
Loan Grant

Priority Sector Lending loans to weaker sections Loans under Govt. welfare programme
Micro financing
MSME Financing

1. Blood donation camp
2. Health check-up camp
3. Educational support
4. Vocational training
5. Environment protection
6. Promotion of sports
7. RSETs
8. Tourism promotion
9. Rural development
10. Heritage promotion
11. Promotion of cultures
12. Community development

It is observed that for the Indian banking institutions whatever the CSR activities are happening are centered on education, rural up-liftment, helping the physically challenged and so on. Some of the CSR initiatives, the major banking companies have undertaken are Education for all, Community development, Adoption of Children, Vocational training, Rural Development, Environment protection, Socio–economic development of the vulnerable sections of society.

13.8 RURAL AND SOCIAL BANKING ISSUES :

Since the second half of 1960s, commercial banks have been playing an important role in the socio–economic transformation of rural India. Besides actively implementing Government sponsored lending schemes, Banks have been providing direct and indirect finance to support economic activities. Mandatory lending to the priority sectors has been an important feature of Indian banking. The Narasimham committee had recommended for doing away with the present system of directed lending to priority sectors in line with liberalization in the financial system. The recommendations were, however, not accepted by the Government. In the prevailing political climate in the country any drastic change in the policy in this regard appears unlikely. The banking system is expected to reorient its approach to rural lending. 'Going Rural' could be the new market mantra. Rural market comprises 74%of the population. Bank's approach to the rural lending will be guided mainly by commercial considerations in future.

Commercial Banks, Co–operatives and Regional Rural Banks are the three major segments of rural financial sector in India. Rural financial system, in future has a challenging task of facing the drastic changes taking place in the banking sector, especially in the wake of economic liberalization. There is an urgent need for rural financial system to enlarge their role functions and range of services offered so as to emerge as "one stop destination for all types of credit requirements of people in rural / semi–urban centers".

Barring commercial banks, the other rural financial institutions have a weak structural base and the issue of their strengthening requires to be taken up on priority. Co–operatives will have to be made viable by infusion of capital. Bringing all cooperative institutions under the regulatory control of RBI would help in better control and supervision over the functioning of these institutions. Similarly, RRBs as a group needs to be made structurally stronger (Shroff, 2007[[xli]]). It would be desirable if NABARD takes the initiative to consolidate all the RRBs into a strong rural development entity.

Small Scale Industries have, over the last five decades, emerged as a major contributor to the economy, both in terms of employment generation and share in manufactured output and exports. For SMEs, banks should explore the option of E–banking channels to develop web–based relationship banking models, which are customer–driven and more cost-effective. With SME sector emerging as a vibrant sector of the Indian economy, flow of credit to this sector would go up significantly. Banks will have to sharpen their skills for meeting the financial needs of this segment. Some of the Banks may emerge as niche players in handling SME finance. Flow of credit to this Sector will be guided purely by commercial considerations as Banks will find SMEs as an attractive business proposition.

Thus, the process of social banking in India can broadly be classified into three phases.

During the First Phase (1960-1990), after nationalization of banks wherein main emphasis was on channeling of credit to the neglected sectors especially weaker sections of the society through “branch multiplication and Priority Sector Lending”.

Second Phase (1990-2005) focused mainly on strengthening the financial institutions as a part of financial sector reforms. During this period social banking was exercised mainly through Self Help Group Bank Linkage Programme and Kisan Credit Cards etc. Self Help Group Bank Linkage Programme was launched by NABARD in 1992, backed by Reserve Bank of India, to assist cohesive group activities by the poor so as to provide them easy access to banking.

During the third phase i.e. from 2005 onwards, the financial inclusion was extensively exercised on national level with main emphasis on providing basic banking facilities through no frill accounts.

13.9 INNOVATIONIN BANKS IN TERMS OF SERVICES :

Innovation means something new. Innovation is introduction of a new good, introduction of new method of production, the opening of a new market, the conquest of a new source of supply, carrying out of the new organization of any industry (Schumpeter, 1971[[xlii]]). Different researcher suggests that the term ‘innovation’ can be defined in terms of a new or innovative idea applied to initiating or improving a product, process, or service. Innovation is idea, practice or object that is perceived as how by an individual or other unit of adoption (Rogers, 1995[[xliii]]). Andrew (1986[[xliv]]) described innovation as a new idea, which may be recombination of old ideas, a scheme that challenges the present order, a formula or a unique approach, which is perceived as new by the individuals involved. According to Cabral (2003[[xlv]]), innovation is a new element introduced in the network, which changes, even if momentarily, the costs of transactions between atleast two actors, elements or nodes in the network. Innovation means new ways of doing something. It may refer to incremental, radical, and revolutionary changes in thinking products, processes or organizations (Mckeown, 2008[[xlvi]]). In other words, innovation is the successful introduction of a new thing or method. Innovation is the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services (LueckeandKatz,2003[[xlvii]]). Innovation carries the organization from efficiency to creative heights and growth.

Broadly the innovations are of two types: technological (Information and communication technologies); and non-technological (R&D, human capital, intangible assets). Different types of innovations in the services sector maybe are: opening of new markets, new ways of managing finance, new ways of organizing administration, new sources of raw material, new methods of production, creation of new services and new processes (National Knowledge Commission, 2009[[xlviii]]).

Innovation has been a buzz word in banking right from beginning. Many researchers have contributed their best towards developing frameworks for innovation. Several authors

have developed various frameworks, drivers, and steps on how to be innovative from an organization perspective. Innovation inputs are information and communication technology, R&D and human capital, which brings organizational change and outputs are productivity, profitability, efficiency and growth. An analysis of service sector innovation and performance in tertiary sector, in general, and of banking sector, in particular is need of time. Some of the innovations in banking sector are: introduction of ATMs, credit card, debit card, smartcard; increased categories of loans, demat account, young stars account, senior citizens account, money transfers, core banking, various kinds of insurance products, mobile banking, internet banking, mutual funds, filing IT returns and online taxation, updating current market trends, investing in diversified portfolio, employees retaining schemes so on and so forth.

Financial innovations lower cost of capital, reduce financial risks, improve financial intermediation, and hence enhancing welfare. The primary function of financial system is to facilitate the allocation and deployment of economic resources in an uncertain environment (Merton, 1992[xlix]). Financial innovation is helpful in ensuring smooth functioning and improves the overall efficiency of the system by minimizing cost and reducing risk. More generally, financial innovation has been a central force driving the financial system toward greater economic efficiency (Merton and Bodie, 2005[l]). Avasthi & Sharma (2001[li]) have analyzed that advances in technology are set to change the face of banking business. Innovation has always been a sought after area for organizations in any country. Innovation is identified as the main driver for companies to prosper, grow and sustain a high profitability (e.g. Drucker, 1988[lii]; Tufano (2002[liii]) discussed some of the key arguments for innovation in financial services as innovation exists to complete inherently incomplete markets; Innovation persists to address inherent agency concerns and information asymmetries; Innovation exists so parties can minimize transactions; search or marketing costs; Innovation is a response to taxes and regulation; and Increasing globalization, Technological shocks and risk motivate innovation.

The attempt towards innovation has been more so in India due to the country's emergence and growth, more or less, in all the sectors. The banking industry has been on an unprecedented growth trend during the past decade in the country (RBI, Annual Report, 2010). The sector today is fast paced and is constantly in the throes of change, with new regulations, new processes and new policies in place [liv].Technology has played a critical role in the past in shaping the way things are today, and will continue to do more than ever before. From being just a support function, technology is now regarded largely as a strategic function aiding banking organizations. Most of the success achieved by this industry can be attributed to the ever changing innovative trends in technology. Service operations like Service Delivery Systems and Service Quality have dramatically become customer- centric during the past decade [lv]. The importance of service delivery and its impact on improving satisfaction and retention of customers, improving sales and market share, and improving corporate image cannot be overstated.

Innovative banking means the broader application of new methods and techniques, new scheme in the field of deposit mobilization, deployment of credit and bank management, for the example bank have introduced various types of schemes like retirement scheme,

Akshaynidhi scheme, pension plan, money lending scheme such as education loans, car finance, home loans, household goods finance etc. Besides these, many banks have started Sunday bank branches, anytime anywhere banking module and mobile banking for the benefit of the customers. Innovative banking is a higher order constructed which consists of several distribution channel, it should be noted that electronic banking is provide a bigger platform than just banking via internet.

13.10 SERVICE INNOVATION MODELS :

Several innovation models have been proposed by various authors under various titles. Innovation has been categorized into business model innovation, operations innovations, product innovation etc. Business model innovation refers to activities that considerably change the structure and/or financial model of a business. Every company has a business model, whether they articulate it or not. At its heart, a business model performs two important functions: value creation and value capture. Operations innovation defines improvements in the effectiveness and efficiency of fundamental business processes and practices, while product/services/markets innovation refers to the creation of new or fundamentally differentiated products, services or activities in markets.

For the purpose of this study, two models of innovation are considered. The first one is Bessant and Tidd'smodelof4P'sofInnovationandsecondoneis,Pim den Hertog's Six-Dimensional Service Innovation Model (2010).

4Ps of Innovation :

Bessant and Tidd (2007) identified 4Ps of innovation : Product Innovation, Process Innovation, Position Innovation and Paradigm Innovation. Product Innovation is new designs of products or features seen in tangible products such as house appliances, etc. Process innovation consists of fundamental changes in fabrication procedures or modifications in manufacturing methods, sequence, or equipment used to create products. Position innovation refers to contextual shifts with regard to the way products / services are introduced. Finally, paradigm innovation refers to changes in mental models which frame the actions or behaviors of a social entity and motivates their interest in performing new routines or engaging in practices that may have previously been devalued. Thus, a paradigm innovation may lead to shifts in perceptions, values, and belief systems that generate new actions and behaviors as well as motivate new practices or routines.

Satisfied customer is the best guarantee for stability of the organization in the long run. Banks can satisfy their customers only by providing customized, cost effective and timely services. With the help of technology banks are able to provide plethora of products and services to their customers which suit them. Major services provided by the Indian banks that are of international standards are Anytime banking, Anywhere banking, Global ATM and Credit Cards, Internet banking facility etc.

Six Dimensional Service Innovation Model :

A conceptual framework for service innovation was developed by Pim den Hertog (2010) through a Six- Dimensional Service Innovation Model. They define Service

Innovation as a new service experience or service solution that consists of one or several dimensions. The first dimension is Service Concept or Service Offering. The second dimension is the New Customer Interaction and the role customers play in the creation of value. The third dimension is the New Value System or set of new business partners who co-produce a service innovation. The fourth dimension is related to new revenue model. The fifth dimension is the new delivery system; personnel, organization, culture. The sixth dimension is technological, which is a new service delivery system.

13.11 APPLICATION OF INNOVATION MODELS :

The two models of innovation were applied on innovative strategies of the selected banks in India. The new innovative ideas of these banks in terms of services offered are mentioned below. For the purpose of study, recent and innovative services are only considered.

State Bank of India :

State bank of India, the largest public sector bank in India, offers the following innovative services.

SMS Unhappy : This innovative idea was of SBI wherein any customer who wants to lodge a complaint sends the message “Unhappy” to a specified number. The Happy Room then calls the customer and records the details of the complaint. The complaint is then forwarded and settled. Other banks in India have also started imitating this service.

Crorepati Only Branch : SBI has launched first of its kind branch for High Net worth Individuals (HNI)where it takes minimumRs1croretoopen an account, and that too on invitation only. This branch offers specialized banking facilities like relationship managers, 24/7 lockers, extended banking hours, doorstep pick-up and drop facilities, in addition to pampering customers five–star amenities at the branch. According to SBI, an attractive feature of the branch is 24 hour open lockers. The bank also is providing special dressing rooms for customers to cater to the needs of late night function goers segment.

One Rupee Bank : In its urban financial inclusion initiative, SBI has started a new innovation through ‘One rupee bank’. A customer can open an account with just onerupee through the bank’s kiosks. This is a part of SBI’s service through kiosks, an initiative to provide banking services to under–banked sections of society.

Other Innovative Strategies : Other innovative strategies of SBI also include, Online Education, Online Home, Online SME, Online Demat, Online Car Loans, USA Patriot Act Certification, SBI Loan for Pensioners, e-Invest (IPO investments. SBI Yuva Card (18-30 years), CAG (Corporate Accounts Group), Cyber Plus and Swarojgar Credit Card etc.

ICICI Bank :

ICICI Bank, the pioneer of Private Sector banking in the country, has lot of innovative feathers in its cap. Some of its recently launched innovative services namely, Online Account Opening, Money Manager, Gold Online, Mutual Funds Online, Forex Online, Life Insurance Online, Shop on iMobile, Mobile Money Transfer (IMPS), Investments at ATM, Payments

and Transfers at ATM, Compliments and Complaints and TV Banking.

YES Bank :

YES Bank, one of the leading Private sector banks in the country undertaken some of the innovative initiatives which includes

Outsourcing : Outsourcing is the major innovative strategies of YES Bank. The bank is engaged in outsourcing of technologies, ATMs and even branch buildings.

Knowledge Banking : Apart of providing common banking solutions, the bank executives also act as consultants delivering business solutions.

Microfinance Direct : YES Bank is the earliest private sector bank to start offering micro-loans directly to poor customers.

Futuristic Branch : A chip embedded in the debit cards of top customers alerts staff when one walks in. An executive meets him and greets him by name. This technology is on trial in the South Extension branch in Delhi.

Double Security : Besides the irregular password, a second code is also generated just in time, and delivered to the customer's mobile.

Honey Farming : The bank has extended small loans of about Rs 25,000 each to over 2,000 bee farmers. The farmers provide their stocks of honey as collateral.

YES–Professional Entrepreneurship Programme (YPEP) : The bank tapped the B-school alumni network to hire top–notch graduates unhappy with the jobs they had chosen. That's now become a campus strategy.

Responsible Banking : A key differentiator for the bank, the programmes aim is to develop innovative business solutions for social and environmental problems.

Money Monitor : Savings account customers get an online personal finance and wealth management software.

YES Assist : An innovative service operation to provide Concierge Services, Medical Assistance, Home Assistance, Automobile Assistance and Travel Assistance YES Bank's Direct Banking strategy focuses on leveraging of technology to bring about a paradigm shift in the way Banking services are provided to the customers in India. YES Bank has adopted a complementary "Bricks & Clicks" model and developed a Unique Direct Banking proposition to reach out to its customers with superior product delivery and internationally benchmarked service proposition.

BANK of Baroda :

Products Bank of Baroda provides various banking products and services to its customers. These include Retail Banking, Rural/Agri. Banking, Wholesale Banking, SME Banking, Wealth Management, Demat Product Enquiry, Internet Banking, NRI Remittances, Baroda e-Trading, and ATM / Debit Cards.

HDFC Bank :

Housing Development Finance Corporation Bank also acquired the Japanese technique for smooth running of work and effective work place organization. Five 'S' Part of Kaizen is the technique which is used in the bank for easy and systematic work place and eliminating unnecessary things from the work place. The five S stands for S–1 SORT, S–2 SYSTEMATIZE; S-–3 SPIC–N–SPAN; S–4.

STANDARDIZE; and S–5 SUSTAIN. The bank also offers Premium Banking and Private banking services for the benefit of customers. HDFC BANK offers cutting edge investment and merchant banking services to a wide range of corporate of different sizes across sectors. The bank has excellent relationships with domestic and international banks, financial institutions, mutual funds, insurance companies, PE funds, VC funds, sovereign funds, multilateral development agencies etc, which enable them to arrange diverse debt and equity funding requirements of corporate in a cost-effective and timely manner.

HDFC Bank was the first bank in India to launch an International Debit Card in association with VISA (VISA Electron) and issues the MasterCard Maestro debit card as well. The products offered by the Investment Banking Division include Project appraisal, structured finance, loan syndication and debt capital markets; Equity Placement; M&A and Corporate Advisory Services; and Capital Market Advisory Services. HDFC Bank provides correspondent bank services to Co-operative Banks, Private Banks, Foreign Banks & RRB's. Banks can leverage HDFC bank's branch network, technology and product capability. The bank has a wide range of products engineered to suit the needs of the banking sector this is backed up by a dedicated Relationship Management Team and dedicated servicing department.

Punjab National Bank :

The innovative idea adopted by PNB is well accepted by the bank customer from opening of accounts to providing of value additive services. A lot of innovation took place in offering value added services. The new facility allows PNB customers to find out their savings account balance by giving the bank a missed call. The PNB Krishi Card Scheme is the presently the best product of its kind, available in the market under which farmers can withdraw cash for meeting short term production needs as well as domestic requirements. No bills/receipt is asked for financing up to Rs. 5 lacs.

Punjab National Bank (PNB) launched two new products, the PNB World Travel Card and the PNB Platinum Debit Card, in association with MasterCard to meet customer expectations to celebrate the bank crossing a major milestone of enrolling more than10 Million Debit Card holders.

PNB Global is a truly international Credit Card which is welcomed at over 29 million merchant establishments & 1 million Visa ATMs worldwide. PNB offers Internet Banking, Mobile Banking and Phone Banking. The unique Money Transfer Service Schemes includes Xpress Money, Money Gram, Xoom.com, Ezremit and Western Union.

Bank of India :

Bank of India is also the leading pioneer in the field of innovative banking. The BOI Cash management services specifically for Corporate Customers, which offers fast track cheque collections, speedier release of funds and profitable funds management, at a reasonable cost. The Bank was first to introduce ‘Indian Green Card’ for the farmers in the banking industrywaybackin1980s. The concept has been adopted in all the Banks, thereafter with further modifications. The bank offers a large number of products with value additions such as Kisan Suvidha Card, Kisan Gold Card and Kisan Samadhan Card etc.

ING VYAS Bank :

The bank is in the forefront in providing innovative services. The bank offers ‘Easy Banking solutions’ in the form of ING–Mobile Banking service, ING-SMS Banking service, ING-Phone Banking service, IMPS – Instant fund transfers on Internet and so on.

ING–Private Client Group brings wealth management solutions to High Net worth individuals and entities. This includes individuals, families, small businesses, large corporations and institutions. The bank’s approach is based on mature insights, total transparency and a comprehensive range of products and services on a non-discretionary platform.

Wholesale banking is a reflection of ING's ability to provide its corporate clients in India a full range of commercial, transactional and electronic banking products. The bank offers a wide array of client-focused corporate banking services, including working capital finance, trade and transactional services, foreign exchange, investment management and cash management.

13.12 ANALYSIS OF SERVICE INNOVATION IN BANKS :

The service innovation of the above Eight banks have been analyzed and various services offered by these banks were tried to fit into the 4P’s Innovation Model and Six Dimensional Service Innovation model. The results of the analysis are presented in the following Tables 2 and 3 respectively which are self explanatory.

Table – 2 : 4P's of Innovation Model

	SBI	BOB	BOI	ING	PNB	HDFC	YES BANK	ICICI
Product Innovation	One Rupee Bank	Baroda Utsav Deposit Scheme / Baroda SME Gold Card / PENSION AADHAR CARD	E- Commerce	Online Account Opening	PNB Xpress Money Remit Card	International Debit Card / Treasury Business	Honey Farming	Online Account Opening
Process Innovation	SMS Unhappy	Online Complain SPGRS	SMS Based Grievances Redressal	Online Mobile Money Transfer	PNB Biometric Cards / Smart Card Miscall to know Balance	Online Account Opening / Money Transfer	Responsible Banking / Sustainable Investment Banking Division	Investments in ATM
Position Innovation	Expansion abroad	"Project – Navnirmaan"	International Travel Card / Stare remit	IMPS	Expansion abroad	IMPS	Professional Entrepreneur -ship Programme	IMPS
Paradigm Innovation	Mobile Banking	Customer Education Service Delivery / Service Quality and Brand	Mobile Banking	Mobile Banking	Door-step Banking Services / Mobile Banking	Five 'S' part of Kaizen	Bricks and Clicks Model	Customer Friendly

Table – 3 : Six Dimensional Service Innovation Model

	SBI	BOB	BOI	ING	PNB	HDFC	YES BANK	ICICI
Service Concept or Service Offering	SMS Unhappy	Responsible Banking	Relationship beyond Banking	Online Mobile Money Transfer	Single Window Service	Relationship Banking / Straight from the Heart	Knowledge Banking	Visa Money Transfer
New Customer Interaction	Crorepati Branch	4 in 1 AC / SARATHEE to promote financial inclusion / Mobile Banking Vans	STAR ABHILASHA CARD	ING Fortuna (3 in 1 Account)	Financial Inclusion Initiatives / 2 in 1 AC	Business Ki Baten	YES First for Women / Bricks & Clicks	Financial I inclusion Initiatives / 3 in 1 AC
New Value System	Link with Kirana Shops	Baroda e – Shoppe/ Central Pension Processing Centre(CPPC)	Credit Counseling Service	ING FD+ / Travel Insurance / Forex Travel card	Online Banking	Japanese Technique	Money Monitor / Sustainable Investment Banking division	Online Banking
New Revenue Model	One Rupee Banking	Wealth Management / Wholesale Banking	Trade Finance / STAR CASH Management Services	Wealth Management / Wholesale Banking	Merchant Banking / Insurance	Wealth Management / Invest Banking	Micro Finance Direct	Money Manager / Power Transfer
New Delivery System	Online Account Opening	Online Account Opening / Money Transfer / Mobile Banking Vans	Online Account Opening / Money Transfer	Online Account / Insurance Opening	Door-step Banking Services / Mobile Banking	Online Account Opening / Money Transfer	Double Security	Online Account / Insurance Opening
New Technology	Banking Anywhere / Cutting Edge Technology	Net Banking	Banking Through Mobile / TV Banking	Easy Banking	Smart Invest / Online Banking	Net Banking	Technology Edge and Out-source Banking	TV Banking / B2 Digital Banking

CONCLUSION :

Banks have changed in their operations and moved towards universal banking along with the increased usage of technology and technology-based services offering alternate channels such as smart cards, ATMs, usage of the internet, mobile and social banking. Banks have started deploying core banking, human resource management (HRM) and enterprise risk (ERP) management and process re-engineering etc to improve on their performance and productivity. Majority of banks are insisting on cashless and paperless payment modes. According to a KPMG study[[lvi]], a research analyst says, as of FY2012, non-cash payments constituted 91 per cent in value terms as compared to 88 per cent in FY in 2010 and 48 per cent in terms of value from 35 per cent in FY 2010.

As per the above discussion, it could be that the biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful we will be in meeting their needs. Greater customer–orientation is the only way to retain customer loyalty and stay ahead of competition. In a market–driven strategy of development, consumer preference is paramount. Gone are the days when customers used to come to the doors of the banks and now banks are required to chase the customers. Thus, only banks that are customer-centric and extremely focused on the needs of their clients will succeed and there is need to change the mindset of banks at all levels on this issue.

Public sector banks in particular need to bring about total customer-orientation not only in their products / services but their policies and strategies should also be customer–focused. In fact, they must realize that customer is the only profit center and all others are overheads. Identification of profitable customers, understanding their needs and preferences, improving the delivery systems and reducing the transaction costs for them should become important strategic issues for banks, if they want to survive in the fiercely competitive environment. Enhancing the customer base, cross selling of products / services and strengthening the customer relationship management will be the most important aspect.

In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges.

Finally, it is observed that banks in India are moving towards sustainability through social banking and innovative service operations and offerings. The sample considered here for analysis has proved this point very clearly. The trend is evident in both public sector as well as private sector banks. It is found that both types of banks have embraced service innovation as a part of their future banking strategy and are moving continuously towards customer–centric and service–centric banks. It is also found that the innovation is not limited only to product or process innovations but also to business model innovation, operations innovation, markets innovation, and more importantly, paradigmatic innovations. These banks must create and sustain an environment that promotes creativity, leverages diversity,

and facilitates multidimensional collaboration of resources and technologies in pursuit of desirable social and economic outcomes in future. The rate at which innovations are adopted by firms constitutes an important part of the process of technological change.

Given the new environment, banks can't remain unaffected by the changes round and challenges before them. Therefore banks need to restructure themselves.The following practices need to be adopted on urgent basis

- Greater professionalism.
- Greater emphasis on diversification and sources non interest income.
- Consultancy services.
- Equipping them to operate in the deregulated environment.
- Necessary changes in the legal stipulations.
- Cost management.
- Bench marking of service standards to improve productivity and Proficiency.
- A self–regulatory organization to monitor the activities of banking

Banks have made several innovations for sustenance by using the CRM System such as :

- The expansion of ATM networks including Biometric ATMs.
- Introduction of Single Window Service.
- Extension of Internet Banking services suitable for rural & semi–urban customers.
- Introduction of Plastic Money i.e. Credit Card, Debit Card, Smart Card.
- Mobile and E-Mail Alerts
- Introduction of more than one service in one Account.
- Introduction of new loan schemes as per the customer's needs viz. Renovation Loans and Tourism Loans etc.

13.13 ROLE OF TECHNOLOGY IN BANKING :

1. Introduction :

Banking is a financial service of monetary and lending to the borrower. Technology plays a vital role in banking sectors to make the work more easier and reduce the human efforts. At starting, technology was used by the business organizations and entrepreneurs mostly for work related activities. Indian banking industry in the middle of an information technology. The JAM (Jan Dhan, Yojana, Aadhaar) has brought a new shift in the way of look at banking. Aadhaar has become the financial backbone with over 90 per cent population in India. Indian banking industry in the middle of an information technology. If anyone from our family wants to open a account in bank, have to give only just need to provide 12 digit number to bank account agent. Increase of competition has led to an

importance of whole banking automation in this industry. Now a day technology includes mobile phones, transport vehicles, computer networks, gadgets with internet, network software, online money transfer, mobile banking apps, internet banking etc. It completely alter the feature of Indian banking system completely.

Objective of the study :

- To study the role of technology in banking sector.
- To determine how the digitalization create impact in banking industry.
- To consult the ease of banking regulations.
- To study the impact of technology on service delivery.

Scope of the study :

The revise covers the technology has been used by the banking sector for providing services to the people. More specifically latest technology delivery channels, namely ATM/ debit card, credit card, Internet Banking, Mobile Banking etc. Factors like paradigm shift, and digitalization of payment discussed evidently. It pursued the government policies for development of technology.

2. Technology overview :

Indian government started implementation of varied policies for development of technology. These policies includes, Scientific Policy Resolution (1958), Technology Policy Statement (1983), Science and Technology Policy (2003) and eventually Science, Technology and Innovation Policy(2013). As of now, technology and innovation have a good impact on economic process and social development in Republic of India. Indian Technology paved its means in streams like banking and finance, software, industry, nuclear technology, area technology, medical advancements, education, cars, communication sector etc.

3. Review of literature :

Rishi gupta (2017) He talking about the impact of technology in facilitating cashless banking transaction. Technology enabled business correspondent(BC) model has been introduces in 2005 marked as the appearance of the digital led low–cost model for banking access to the last mile. He has stated that next five years will be a critical as current development put India on a digital express way. From banking reach to adopting various technology such as UPI(united payment interface, wallets, smart phones, etc and in the larger context of creating a digital economy, the India stack technology platform–a set of APIs that allow government, business, start-ups and developers to utilise a unique digital infrastructure has a potential to promote cashless, paperless and presence–less transactions.

Khan & Mahapatra (2009). The main aim of this article was evaluating service quality of internet banking from customer’s perspective. The survey was done by questionnaire containing 44 quality items with various target groups. There exist seven quality dimensions in this survey. It was explained that gender is hardly a bias for use and evaluation of service quality in most of the cases across various categories of customers according to demographic

analysis of data. Using regression analysis, a valid mathematical model is proposed to assess the overall service quality. Finally the results found that the customers are satisfied in four dimensions like reliability, accessibility, privacy/security, responsiveness and fulfillment. Whereas in dimension called "user–friendliness" they are least satisfied. Inspite of empirical findings, this article also provided guidelines for bankers to focus on things to needed to be improved.

Malhotra & Singh(2007). The purpose of this article is to examine the relationship between various banking characteristics, customer behaviour and banking adoption decision. This article consists information of financial years 1997–1998 to 2004–2005 collected from 88 banks panel data. The relationship is measured by logistic regression technique. The main limitations of this study are its scope and samples collected. This article provides empirical literature on diffusion of financial innovations and technology in banking sector.

Ashiya (2006) examined developments created by electronic payments. Author has completely evaluated about the different mode of electronic payment used across the world. The objective this study is to find out the present offerings and development provided by the electronic payment. The different mode of e-payments that author has seek out are plastic cards, credit cards, debit cards, sensible cards, electronic cheques etc. These electronic ways which provide excellent instrument for the payment system. Though it become a good enough tool, the security makes more concern. However the technology may be use as a tool for the improvement of client loyalty and business of banks because it had reduced the danger & value and will increase the client loyalty.

Jain and Hundal (2006) represented the importance of mobile banking and barriers within the adoption of mobile banking. The paper examined the forces which will act as barriers in mobile banking services adoption. The main aim of the study is to seek out the explanations why the customers had not absolutely accepted the technology though it provided profuse advantage to the bank customers as compared to the previous technologies. This study spot out the barriers in access issues, inability of service suppliers within the adoption of mobile banking services. The result from this study is all about that the buyers got demoralized by the difficult perform whereas accessing the mobile banking services that cause rise in their discontentedness level, as no correct steerage was provided to them. The researchers instructed that service supplier sought to bear in mind of the issue of their customers.

Loforet and Li (2005) in their study investigated the market level of standing of online and mobile banking in china. The main aim of this study was to spot the target customers for online and mobile banking and to match the angel of users and non users towards e-banking with relevance variety of things like technology, security, convenience, etc. The results how led that online and mobile banking users were predominantly males not essentially young and extremely educated. Security was the fore most issue that threaten Chinese shopper for the adoption of online banking.

Hogarth and Hilgert (2004) decorated that electronic banking technology represents a spread of various services, starting from ATM convenience and direct deposit to automatic

Bill payments (ABP), Electronic fund transfer (EFT) and pc banking, the utilization of e–banking technologies have been grown up with in the USA, where as others are adopting it slowly. The author has advised that e–banking technologies couldn't be aggregate into one class and thus, "one size fits all" wouldn't work. The utilization of e–banking depends upon however it helps in saving time, decrease the errors, up in accurate accounting and preventing in manipulation of information.

4. Aspects about technology in banking sector :

The banking industry is the one that has heavily dealing on computerized records and the ability to access crucial information quickly and easily. However the benefits of technology in banking have become more even noticeable in recent years as phone, online and mobile banking has revolutioned the way we take care of our finance.

In previous generation, the only way to know about the how much money you had in the bank was to keep a detailed logbook or to visit to our local branch and ask the teller to check the ledger of our account. Then along came with the innovation known as ATM machines, which allows us to withdraw the cash from convenient location and check our balance while we are at it. Now–a–days with mobile banking apps its possible to check our balance any time and any place.

Another one of the key benefits of technology in banking is that allow us to pay the bills quickly and without bother. We can arrange to have them paid by direct debit every month at a time that suit us, or we can make the transfers as and when the bills come in. This means that there is no physical visit to the branch for the bill payment and we can make it on time. People who find difficult to manage their money can arrange for as many bills as possible to be paid just after their salary clear their account so that they came to know the essential are covered before they can spend on useless.

But perhaps one of the most exciting benefits of technology in banking is that no need to carry around a wallet full of notes and coins. The role of technology will be crucial in the cashless society as all our financial information will be stored on swipe cards and key fobs. Already many retail outlets are offering smart pay solution which allows you to make payment easily eg; paytm, google pay, phonephe apps which helps to be smarter in the payment. More than this, our smart phone are going to play bigger role in the cashless transactions. Apple, Samsung have already launched their payment systems. You just need to use phone to pay anywhere.

At the other end it turns to be a threatening to the customers, Security is one of the most important aspects of the online banking. Previously if a thief wants to steal a person's money, they have to do physical work like breaking walls of houses. Whereas now, after online banking, just by getting person's details they can steal their money in bank accounts. This is the biggest threat for people who are using online banking. Hacking of bank accounts is becoming more common now–a–days.

Online banking apps, net banking, ATM machines typically doesn't work thanks to technical errors. These technical problems embrace improper net access, network failure,

devices shutdowns etc. Some day technical problems could incur variant losses to banks.

5. Suggestions :

The banks need to provide enough awareness about the internet banking to the irrespective customer.

1) Many customers are feeling risk in e–banking so the banking industry needs to eliminate those risks accordingly.

2) Maintenance of the software should be done at the periodic interval to avoid the technical interruption during the transaction.

3) Security measures should be taken by all the banks to safe guard the customers details from the hackers.

4) Customers need to avoid the usage of apps like paytm, phonephe, googlepay rather than bank apps.

Conclusion :

On the basis of analysis, it can be resulted that, updating of banking services with technology made tremendous changes in providing services. Technology in banking sector eliminates people as well as bank efforts, cost, time. At the future it become fully automated and traditional way of banking system will comes to an end.

The only problem that exists with current technologies is threat of losing bank account details. If the banking industry takes appropriate measure to avoid these hacking and threats, technology will become a great advantage for the future generation.

13.14 SUMMARY :

The banking system in India is significantly different from other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth- led exports rather than the "export led growth" of other Asian economies, with emphasis on self-reliance through import substitution.

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the paramount of all the banks.In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide business opportunities to harness. As banking in India will become more and more knowledge supported, capital will emerge as the finest assets of the

banking system. Ultimately banking is people and not just figures.

Finally, it is observed that banks in India are moving towards sustainability through social banking and innovative service operations and offerings. The sample considered here for analysis has proved this point very clearly. The trend is evident in both public sector as well as private sector banks. It is found that both types of banks have embraced service innovation as a part of their future banking strategy and are moving continuously towards customer-centric and service – centric banks. It is also found that the innovation is not limited only to product or process innovations but also to business model innovation, operations innovation, markets innovation, and more.

13.15 KEY WORDS :

Value Today :

An arrangement by which spot exchange must be delivered and paid for on the day of the transaction instead of two business days later.

Value Tomorrow :

An arrangement by which spot exchange must be delivered and paid for on the business day following the transaction instead of two business days later.

Tradable Amount :

The minimum amount accepted by a foreign exchange broker for the interbank market, for example, 100,000 Canadian dollars or 50,000 pounds sterling.

Trade Acceptance :

A draft drawn by the seller (drawer) on the buyer (drawee) and accepted by the buyer. Also called a trade bill, customer acceptance, and two-name trade paper.

Tied Loan :

A loan made by a governmental agency that requires the borrower to spend the proceeds in the lender's country.

Time Draft :

A draft drawn to mature at a fixed time after presentation or acceptance.

13.16 SELF ASSESSMENT QUESTIONS :

1. Discuss about the Recent Trends and Developments in Banking Sector.
2. Explain about Social Banking in India.
3. What are the Issues of Rural and Social Banking.
4. What are the Innovation Service Models.
5. Write about the Application of Innovation Models.
6. What is the Role of Technology in Banking.

13.17 SUGGESTED READINS :

1. Aditi Mittal and Sumit Gupta "Emerging role of information technology in banking sector's development of India" Acme International Journal of Multidisciplinary, Volume – I, Issue – IV April – 2013 ISSN: 2320 – 236X.
2. Deolalkar G.H."The Indian Banking Sector on the Road to Progress".
3. Indian Banking 2010 Special issue 2004, vol. 26 No I, IBA bulletin, IBA Mumbai.
4. Indian Banks : Performance benchmarking report FY12 results kpmg.com/in.
5. Kapoor N. D. Elements of Mercantile Law–Sultan Chand & Sons, New Delhi, 2006.
6. Reddy, Y.V. (1998) "Financial Sector Reforms : Review and Prospects". RBI Bulletin, December.
7. Vijayaragavan S.P., Karthik B., Kiran T.V.U., Sundar Raj M., Robotic surveillance for patient care in hospitals, Middle - East Journal of Scientific Research, v- 16, i-12, pp-1820-1824, 2013.

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