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INSTITUTE OF MANAGEMENT
(DEPARTMENT OF FINANCE)

presents

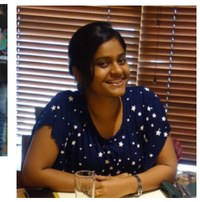
NISHKA

A Financial Newsletter

BANKING: FROM SCRATCH TO NOW

Nishka

IN THIS ISSUE



HISTORY OF BANKING

-Ajisha George, Anubhav Yadav, Sabrina Mathews, F1,(IMCU KENGERI)

The history of Banking begins with the first prototype, banks of merchants, of the ancient world, which made grain loans to farmers and traders who carried goods between cities. It began in Assyria and Babylonia. Later, in the ancient Greece and during the Roman Empire, lenders based in temples made loans and added two important innovations. They accepted deposits and changed money. Archaeology from this period in ancient China and India, also shows evidence of money lending activity.

The history of banking is intertwined with the history of money. Ancient types of money known as grain-money and food cattle-money were used from a time of around at least 9000 BC, as two of the earliest things understood as things to be made use of for the purposes of barter

In ancient India, there is evidence of loans from the Vedic period. Later during the Maurya dynasty (321 to 185 BC), an instrument called adesha was in use, which was an order on a banker desiring him to pay the money of the note to a third person, which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in large towns gave letters of credit to one another.

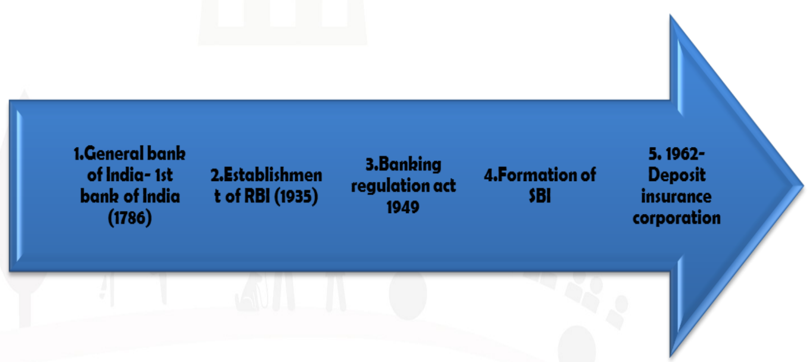
The origin of western type commercial Banking in India dates back to the 18th century. The story of banking starts from Bank of Hindustan established in 1770 and it was first bank at Calcutta under European management. The Bank of Calcutta, established in 1806 immediately became Bank of Bengal. In 1921, three banks merged with each other and Imperial Bank of India got birth. Imperial Bank of India was later renamed in 1955 as the State Bank of India. Thus, State bank of India is the oldest Bank of India.

Allahabad Bank, which was established in 1865, is working even today. The oldest public sector Bank in India, having branches all over India and serving the customers for the last 145 years is Allahabad Bank. Allahabad bank is also known as one of India's oldest joint stock bank. The first Indian commercial bank which was wholly owned and managed by Indians was Central Bank of India which was established in 1911. So, Central Bank of India is called India's First Truly Swadeshi bank.

From Bank of Hindustan in 1770, the evolution of banking in India can be divided into three different periods as follows:

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases.

I. THE FOUNDATION PHASE - PHASE I (1786-1965)



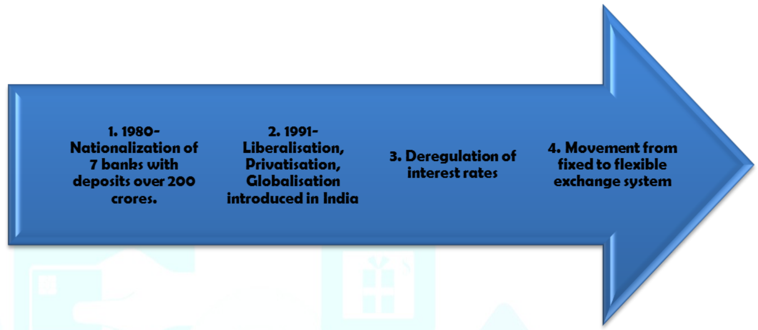
This phase saw the establishment of the necessary legislative framework for the consolidation and re-organization of the Indian banking system, thus delivering what is required for the Indian economy.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949 as per Amendment Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive power for supervision of banking in India as the Central Banking Authority.

During those days public had lesser confidence in banks. As an aftermath, deposit mobilization was slow. Moreover, funds were largely given to traders. Abreast of it the savings bank facility provided by the Postal department was comparatively safer.

II.EXPANSION PHASE - PHASE II: (1965-1981)

This phase began in the mid-1960s but only gained impetus in 1969 after the nationalization of 14 private banks and continued till 1981. The most notable factor of this phase was the determination to make banking facilities available to the Indian masses. The branch networks were widened rapidly, which was achieved in spite of many hindrances like poor infrastructure, inaccessibility and harsh living conditions. Doing so inversely affected the banks in terms of asset quality, yielded negative profits and decreased the competitive efficiency of the system.



In 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi wherein 14 major commercial banks were nationalized.

III.CONSOLIDATION PHASE - PHASE III (1981-1991)

The RBI undertook several policy initiatives which resulted in a slow-down of branch expansion from 1985. The banks laid more emphasis on improving the customer service, housekeeping, staff productivity, credit management and profitability of the banks.

This phase introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was setup by his name which worked for the liberalization of banking practices.

The rapid expansion of banks from public sector banks to a whole new level of private banks into the foray, we can be rest assured that the functions of banking have also become diversified. From going online (E-banking) to having kiosks that perform functions without manual labor, we’ve seen it all and it’s just the beginning.

Although history has altered the fine points of the business model, a bank's purpose is to make loans and protect depositors' money. Even if the future takes banks completely off the street corner and onto the internet, or has you shopping for loans across the globe, the banks will still exist to perform this primary function.

Piyush Kansal
1527019

TYPES OF BANKS

As per the Indian Banking Regulation Act (1949), banking can be defined as the function of accepting for the purpose of lending or investment of deposits, money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise. From this definition, we can say that to be recognized as a bank, the institution must use the deposits to give loans to the general public.

But if an organization accepts deposits from public and uses it for their personal use, or if an organization uses their own money for the purpose of lending, then these organizations cannot be recognized as a bank. Some organizations like Post office, savings banks, LIC etc are not banks, because they accept chequable deposits from public but do not lend money to general public. These organizations are regarded as the non-banking financial institutions as they do not create money.

<u>Types of Banks:</u>

There are various types of banks that operate in the economy according to their functions. Some of the banks that are working in various economies like India are discussed under-

(a) **Organized and unorganized banking:**

In the Indian economy, banks can be broadly classified in two categories, i.e.-

Organized banks
Unorganized banks

There are various banks in the economy that are not controlled by the Central Banks (Reserve Bank of India).Such banks fall under the category of Un-organized banking. For example, Indigenous banks, Muthoot Finance etc are not controlled by RBI hence come under Un-organized banks.

Whereas, organized banking system refers to that part of the Indian banking system which is under the influence and control of the Reserve Bank of India. For example: Commercial Banks, Industrial Banks and Agricultural Banks.

(b) **Central Bank:**

In every country, there are a large no of banks operating. Therefore in order to bring together the operations of these banks, a Central Authority is needed. This apex authority is known as Central Bank (RBI in India). The function of the central bank is to control money supply in the economy. It acts as a banker to the government and commercial banks. It acts as a lender of last resort in case of any miss happening in the bank. It controls all the banks in the economy and their functions. It is also responsible for the inflation in the economy.

(c) **Scheduled and Non-scheduled banks:**

The third category in banking system is-

Scheduled banks
Non scheduled banks

Banks which are listed under the 2nd schedule of Reserve Bank of India Act, 1939 are known as Scheduled Banks. To be a scheduled bank a bank must have a paid up capital and a reserve of not less than Rs 5, 00,000. These banks are eligible for loans from the central bank and can also enjoy the membership of clearing house function of central bank. All Commercial Banks, Regional Rural Banks, State Cooperative Banks are Scheduled Banks.

On the other hand, banks with total paid up capital of less than Rs 5, 00,000 are termed as Non-Schedule Banks. These banks are not listed under 2nd schedule of RBI Act and cannot enjoy the rules of RBI.

Under scheduled banks there are various banks which are discussed below.

Commercial Bank:

Commercial banks are one of the types of Scheduled Banks. These banks perform the core functions of banking. These banks deal with general public. These banks accept deposits from the public with the purpose of lending or investing in projects. These deposits can be withdrawn through cheques, drafts and other. The functions of commercial banks help in creating credit in the economy. Other than these functions commercial banks perform various other functions like discounting of bills, agency functions and security to the precious items. The banks like ICICI, HDFC, Punjab National Bank, Bank of India etc are examples of commercial banks. Commercial banks can be referred to as a Universal bank which provides all the financial services like insurance, banking, financing etc. under one roof. Now under this segment there are banks that can be classified under different categories.

On the basis of Ownership-

Private Sector banks- These are the banks which are owned by private owners. In India, at present there are 30 private banks out of which 22 are old banks and 8 are new banks. The major leaders in the Private sector banks are AXIS Bank, HDFC Bank and ICICI Bank.

Public Sector banks- These are also known as nationalized banks. These banks are owned and controlled by government. At present in India there are 27 nationalized banks out of which 8 are State Bank of India and its subsidiaries and other 19 are banks like Bank of India, Punjab National Bank, Canara Bank etc.

On the basis of Nationality-

Foreign banks- These are banks which are based in a foreign country and have several branches in India. Examples of foreign banks are HSBC bank, Standard Chartered bank etc. Standard Chartered Bank of United Kingdom is the largest foreign bank with 102 Branches in India. There are a total of 46 foreign banks operating in India with 325 branches.

The Regional Rural Banks- These banks came into effect in 1975 under the RRB Act. The major objective to bring these banks was to lend loans to the rural and agricultural sector of the economy. These banks work in a small area and are owned by State Government and a Holding bank which are nationalized along with a State Cooperative bank. An example of these type of banks is Prathama Bank, located in Moradabad in U.P.

Co-Operative Banking:

These banks are organized on a cooperative basis to perform retail and commercial banking functions. Retail banking functions include building societies, mutual savings bank etc. These banks were originally organized to help the Agriculture sector by providing cheaper loans. But now the level of operations of co-operative banking has increased and many other types of cooperative banks are working in the economy. These banks are -

Credit Union- The main objective of this bank is to provide credit to its members at reasonable rates. The members of this bank are required to share a common bond i.e. locality, religion, employer etc.

Cooperative banks- Likely to credit unions , these banks are also controlled and owned by its customers. Cooperative banks are regulated by both banking and cooperative legislation. They provide financial services to members as well as non members. Local branches of cooperative banks select their own board of directors and take their own decisions. But for important decisions they require head office approval.

Land development banks- LDBs provide loans for a long period of time. The objective of LDBs is to promote the development of land, agriculture and agricultural population.

Development Banks:

Development banks are specialized financial institutions. The objective of these are to contribute in the economic development by providing long term and short term loans to entrepreneurs at lower rates. Examples of these banks are Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI) etc. NABARD is one of the most important banks covered in this category.
National Bank for Agricultural and Rural Development (NABARD):

The objective of this bank is to provide micro credit to the farmers. This bank was established in 1982 as an apex institution to work in the field of rural credit.

There are other types of banks functioning in the economy that is discussed below.

(d) **Indigenous Bankers**:

Indigenous banks are working in India from ancient times. These banks are different from modern western banks. These banks are organized and formed by the family or individual businesses. These banks perform both the functions of a commercial bank i.e. accepting of deposits and lending of loans. But all the transactions are done through cash. Example of indigenous banks is moneylenders, shroffs, sahukars, mahajans etc. They vary in their size from petty money lenders to substantial shroffs.

(e) **Exchange Banks:**

These banks are established to promote International Trade by engaging themselves in buying & selling foreign exchange. Example of Exchange bank is Western Union.

(f) **Exim Bank:**

These banks are known as Export Import Bank. These banks provide the important documents and financial assistance to importers and exporters.

(g) **Payment Banks:**

Payment bank is a differentiated bank that will undertake only certain restricted banking functions that the Banking Regulation Act of 1949 allows. Initially, they are allowed to collect deposits up to Rs 1 lakh per individual. They can facilitate money transfers and sell insurance and mutual funds. Besides, they can issue ATM/debit cards, but not credit cards. They cannot set up subsidiaries to undertake non-banking financial services activities. More importantly, they are not allowed to undertake lending activities at all. At present there are 11 payment banks in India including Reliance Industries Limited, Vodafone M-Pesa Limited.

These were the types of banks that are controlled either by government or by private societies or by both. But all these are controlled by one apex authority i.e. Central bank because banking sector is the most important financial sector for the smooth growth of the economy.

Interesting facts about banking:

- Banking started from the Mesopotamian civilization. In Mesopotamia, temples were used to store precious metals, grains, expensive clothes and other valuable items as temples were considered the safest place because of the sanctity attached to them. These items, mostly grains were lent to people in exchange of more grains in the future or other precious items. This led to the inception of the concept of banking.

RESERVE BANK OF INDIA

Siddharth Tomar (1527327)

Krushi Kiranraj (1527344)

Did you ever consider how did RBI come into the picture? Who gave RBI the power? Why did RBI become the banker of banks?

It all started in the 1920's…

The Royal Commission on Indian Currency and Finance (Hilton Young commission) recommended to start a Central Bank in India in 1926. The chief objective of such recommendation was:

⇒ To separate the control of currency and credit from the government

⇒ To augment banking facilities throughout the country.

A bill was introduced in the Legislative Assembly in 1927. But it was withdrawn as many people did not agree for it. In 1931, a fresh bill was passed to revive the issue of establishment of a Central Bank and hence, RBI commenced working on 1st April 1935 as the banker to the Central Government. Prior to RBI Imperial Bank was the banker to Central Government. Imperial bank was established in 1921 by merging 3 Presidency banks. The Imperial bank was largely a commercial banks but acted as a banker to the Government as well, thus creating a need for a bank for the Government alone.

The guidelines and working of RBI was conceptualized by referring "The Problem of the Rupee- Its origin and Its Solution" which was written by Dr. B.R. Ambedkar. These guidelines then became the provisions for the Reserve Bank of India Act in 1934.

The bank was originally a shareholders' bank. It was started with a share capital of Rs. 5 crore and the entire capital was owned by private shareholders. Later, out of these 5 crores the Central Government held shares worth Rs 2, 20,000 (2200 shares).

After Independence, RBI was nationalized in 1949 and from 1st January 1949, RBI started functioning as a Government owned Central Bank of India.

So, now as a banker's bank, RBI ensures the credit flow and liquidity in the market through CRR, bank rates and open market operations. It makes certain smooth inter-bank transfer of funds and also acts as a lender in last resort to commercial banks when they are in a dire need. RBI is the one who prints money and also ensures the foreign cash reserves are maintained. Over all it supervises the functioning of commercial banks and takes action against them if need arises.

This is the timeline of RBI from how it started off as a recommendation to now where it is the regulator of banks.

INDIA'S FIRST FEMALE PRIME MINISTER LEAVES A MARK BEHIND

S.S. Unnithan

1527322

"Even if I died in the service of the nation,
I would be proud of it.
Every drop of my blood... will contribute to the growth of this nation
and to make it strong and dynamic."
– Indira Gandhi

The Base

In 1969, Prime Minister Indira Gandhi declared the Nationalization of 14 Banks. The history of nationalization of Indian banks dates back to the year 1955 when the Imperial Bank of India was nationalized and re-christened as State Bank of India (under the SBI Act, 1955). Later on July 19, 1960, the 7 subsidiaries of SBI viz. State Bank of Hyderabad (SBH), State Bank of Indore, State Bank of Saurashtra (SBS), State Bank of Mysore (SBM), State Bank of Bikaner and Jaipur (SBBJ), State Bank of Patiala (SBP), and State Bank of Travancore (SBT) were also nationalized with deposits more than 200 crores.

Why were these banks nationalized?

The nationalization of banks was a significant move undertaken by the government for the development of the country. Firstly, it instilled public confidence in the banking system encouraging the masses to save and invest. It allowed for elimination of regional bias and promoted opening up of branches in the remote areas of the country as well, thus strengthening the banking network. By elimination of monopoly or credit competition, nationalization streamlined banking practices in the country, thereby directing funds where it was most necessary – towards industrial and sectoral development – as planned by the RBI and the Indian government.

Nationalization in Two Phases

By the early 1960s, the Government of India realized that a significant share of deposits coming from the masses of India was controlled by 14 privately owned commercial banks. Indian agriculture and industries were booming and the need for finance was high. Financial regulations were also very important at that time since those would help shape the nature of the country's economy for decades to come. Nationalization became the watchword even the state airline, Air India, was nationalized in 1953. Acquisition of the Imperial Bank of India in 1955 was the next big step. With Mrs. Indira Gandhi's taking over as the Prime Minister of India, the Indian National Congress rallied for a state takeover of some of the major banks in the country. In what can be deemed a rather hasty move, the government promulgated an ordinance - the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 - thereby nationalising all the 14 banks that were under consideration with effect from the midnight of 19 July 1969. As a follow-up to passing the ordinance, the Banking Companies (Acquisition and Transfer of Undertaking) Bill was taken up by the Parliament for discussion. It received a clear majority as well as the assent of the President within a month of issuing the ordinance. In 1980, when Mrs. Gandhi was re-elected as the Prime Minister for her third term at the PMO, she initiated a second spate of bank nationalization. This time about six banks were nationalised and the Government of India controlled over 90 percent of the banking business in the country. Of the 20 banks that were nationalised, New Bank of India was later (in 1993) merged with Punjab National Bank.

plays a lesser or negative return on investment makes the entire portfolio of investments of the bank unattractive.

Another important concern regarding public sector banks are increasing level of bribary that happens due to the low income received when compared to the employee counterparts in the private domain.

Published from Bombay, Delhi and Ahmedabad

THE TIMES OF INDIA

BOMBAY: SUNDAY, JULY 20, 1969

14 TOP BANKS ARE NATIONALISED

Ordinance follows unanimous Cabinet decision

"The Times of India" News Service

NEW DELHI, July 19.

WITHIN an hour of the formal exit of Mr. Morarji Desai from the Union Government, the Cabinet today decided to nationalise 14 major commercial banks, thus providing an immediate economic justification for the Prime Minister's political decisions taken during the week.

The momentous decision, which evoked mixed reaction in political circles in the capital, pushed into the background the party polemics arising out of Mr. Desai's resignation after he was stripped of the Finance portfolio by Mrs. Gandhi on Wednesday.

The Cabinet decision, which is understood to have been unanimous, was followed by an ordinance signed by the outgoing acting President, Mr. V. V. Giri, who will be relinquishing office tomorrow morning.

The Home Minister, Mr Y. B. Chavan, who attended today's Cabinet meeting, the former Congress President, Mr. K. ...

Nationalised banks

By A Staff Reporter

Nanda called to Delhi

Prime Minister, Mrs. Indira Gandhi, snapped in New Delhi on Friday.

A vital step, says Indira

"The Times of India" News Service

NEW DELHI, July ...

Kamaraj, Chavan happy

"The Times of India" News Service

NEW DELHI, July 19.

THE Prime Minister, Mrs. Gandhi, receive tonight bouquets and brickbats for nationalising 14 major banks in the private sector.

New era

P.T.I. & U.N.I. add:

'Syndicate' in disarray as Morarji goes

"The Times of India" News Service

NEW DELHI, July 19.

REBUFFING the pressures for a compromising, Mrs. Gandhi accepted Mr. Morarji Desai's resignation this afternoon. But she managed at the same time to dwarf the resignation issue by nationalising banks which brought her immediately handsome plaudits from Mr. Desai's principal backers—Mr. Chavan, Mr. Kamaraj and Mr. Atulya Ghosh.

Emergency meeting

Assam flood worsens: heavy havoc

"The Times of India" News Service

NOWGONG (Assam) July 19.

Disadvantages of nationalization of banks

Low efficiency of bank employees due to the surety of chair is a major concern. The low efficiency of the employees causes Poor service standard because of which the nationalized banks looses business.

Another major challenge faced by nationalized banks is the political interference. The influence of the higher ups on the operational decisions hampers the working culture of the bank, thereby decreasing the focus on customer retention due to poor customer service provided to its customers and thus lead to inducing more funds for the customer acquisition rather than retention. This favouritism causes banks to increase their cost.

The unbalanced distribution of credit which is tilted more towards the priority sector that dis-

Did you know?

- The Taula de la Ciutat opened in Barcelona in 1401 was the first ever official bank in the world. The oldest continually operating bank in the world is Banca Monte dei Paschi di Siena, which has been operating as a bank in Italy since 1472.The oldest bank in India is the "State Bank of India". It was started in the year 1806 as "Bank of Bengal".

BASEL NORMS: A COMPARISON

Aman Singh (1527202)

INTRODUCTION

In the recent few days, we have heard a lot that government has been infusing lot of money in the public sector banks and to understand why, We have to first understand what **BASEL ACCORD or BASEL NORMS** are all about.

Basel is a city in Switzerland, which is also the headquarters of Bureau of International Settlement (BIS). BIS fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations. The Bank for International Settlements (BIS) established on 17 May 1930,is the world's oldest international financial organization. There are two representative offices in the Hong Kong and in Mexico City. In total BIS has 60 member countries from all over the world and covers approx 95% of the world GDP.

The purpose of the accord is to make sure that the bank has adequate capital to meet the unexpected losses and obligations. Till date 3 BASEL NORMS have been given.

So before moving forward lets understand what is CAR and RWA:

Capital adequacy ratio- A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures. Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors..

$$CAR = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Risk weighted assets - In terms of the minimum amount of capital that is required within banks and other institutions, based on a percentage of the assets, weighted by risk. It means that we all know that is much larger risk in personal loans in comparison to the housing loan, so with different types of loans the risk percentage on these loans also varies.

BASEL I:

The first accord was the Basel I. It was issued in 1988 and focused mainly on credit risk by creating a bank asset classification system. It stated that the bank must maintain a capital level that is 8% of its risk weighted assets. For example if bank had RWA of 100 crores then it must have a capital of 8 crores at least.

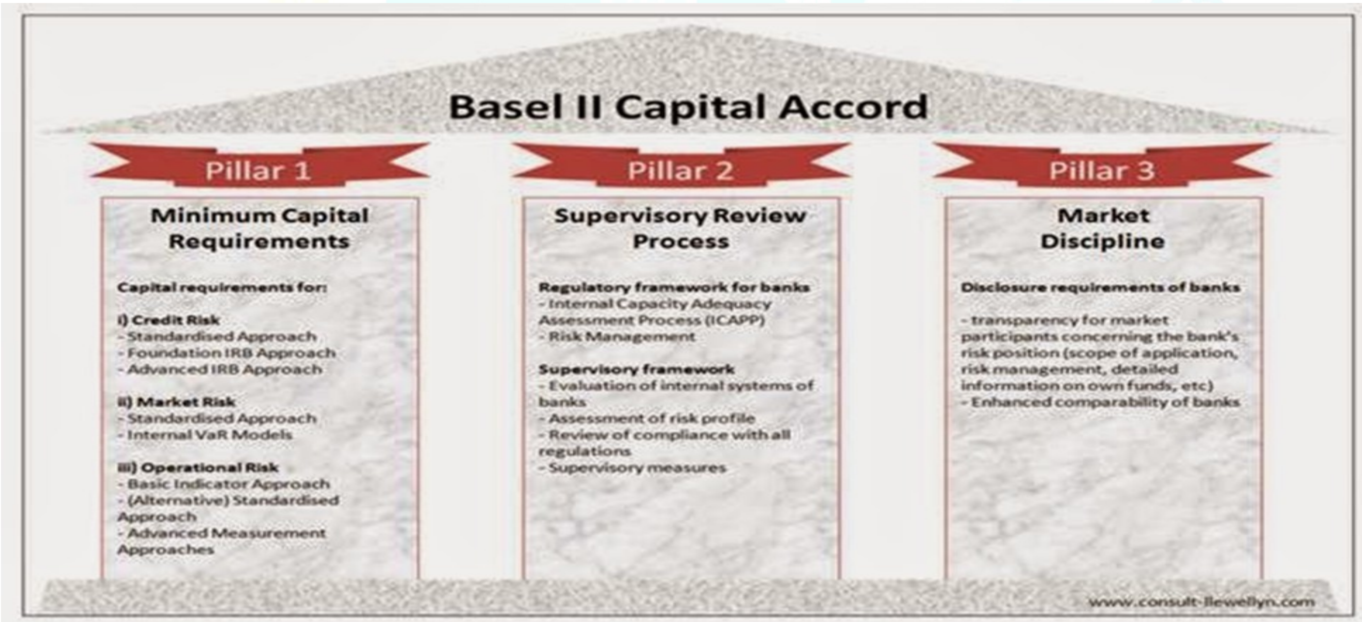
The 5 categories of bank's assets are:

0% - Cash, central bank and government debt and any OECD government debt
0%, 10%, 20% or 50% - Public sector debt
20% - Development bank debt, OECD bank debt, OECD securities firm debt, non-OECD bank debt (under one year maturity) and non-OECD public sector debt, cash in collection
50% - Residential mortgages
100% - Private sector debt, non-OECD bank debt (maturity over a year), real estate, plant and equipment, capital instruments issued at other banks

BASEL II:

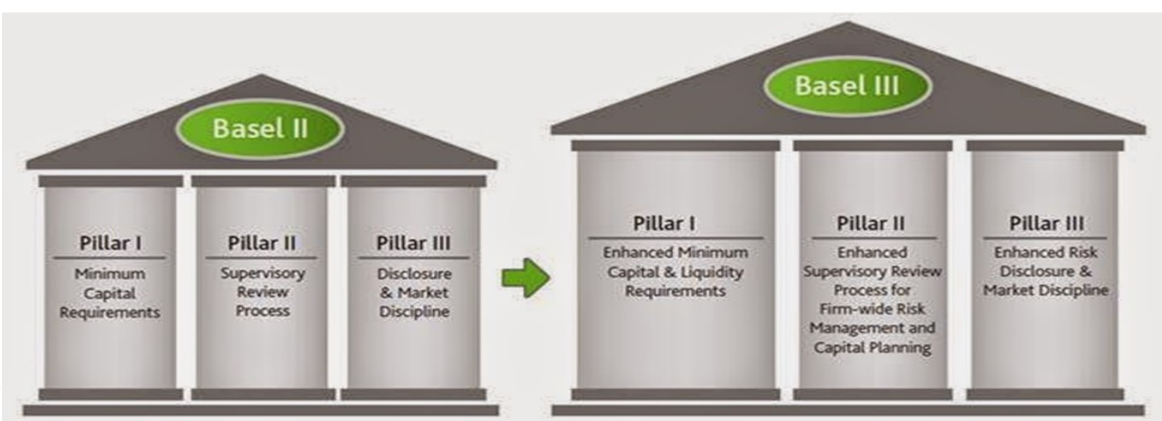
It is a refined version of Basel 1 norms. It states that bank should keep aside a certain amount of cash reserve in order to meet the risks associated to its operating, investing and market risks. These rules sought to ensure that the greater the risk to which a bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and economic stability. Basel II attempted to accomplish this by establishing risk and capital management requirements to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending, investment and trading activities.

THE 3 PILLARS OF BASEL 2:



BASEL III:

Basel 3 norms were the result of 2008 financial crisis. In 2008, Lehman Brothers collapsed in September 2008, the need for a fundamental strengthening of the Basel II framework had become apparent. Basel III norms aim at making most banking activities such as their trading book activities more capital-intensive. The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.



A COMPARISON:

Now that we are done with the basic understanding of what the three Basel norms state, here is a comparison of the three

BASEL 1	BASEL 2	BASEL 3
Basel 1 was the set of most basic rules and regulations for the banks where measuring credit risk was the major point. The norms focused on capital adequacy and risk weighted assets of the banks. The main motive was to prevent banks and major financial institutions from falling into the prey of financial crisis, or to face liquidity issues. The indirect motive would be the smooth operations of the banks with enough capital to meet unexpected obligations and losses.	Basel 2 was an extension of Basel 1 norms, where Basel 1 norms couldn't fulfill the needs. Basel 2 also focused on the fact that the banks should keep aside enough money in order to be firm in the times of risk or crisis. It introduced the need of risk management in banks, where people having proper sill sets in risk management could guide the financial institutions to avoid risk incurrence. The focus was to have enough cash to face three major types of risks namely market, operational and financial risks	The financial crisis of 2008 gave rise to the BASEL 3 norms. It focuses more on monitoring and supervising the credit practices followed by banks and financial institutions. Proper risk management and capital planning to be done by the banks. Banks to follow credit rules, disclosure of all types of risk to the authorities and follow market discipline. The four dimensions to be focused on are **capital, leverage, funding, and liquidity.**

So, in conclusion all the three basel norms aim at improving the credit functions of the banks by providing guidelines to manage its assets and capital in such a way that the financial institution is able to meet any kind of un-foreseen risks and obligations, and to avoid major crisis as of "2008". The Basel 3 norms have not been regulated in INDIA yet but would be synced in the banking system by 31st March 2019 as per Reserve Bank of India.

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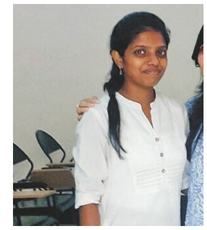
BANKING OMBUDSMAN SCHEME



Jothsiana

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Mr. Kumar is allegedly harassed by the bank recovery agents to pay the bill for a credit card which he had cancelled 3 months back. Who is at fault ? Mr. Kumar for filing for credit card cancellation or the bank for not executing the cancellation? Where can he complain for such mishandling and behaviour by the bank? There are many other cases- e.g. : credit card complaints, deficiencies in banking services provided, levying service charges without prior notice and unfair practices adopted by banks.

To make sure that the consumer does not fall prey to such misbehaviour, RBI brought out the Banking Ombudsman Scheme in 1995 and revised it in the year 2006. Under this, any complaint related to banks and their services can be registered by the consumer.

Banking Ombudsman Scheme is applicable all over India and has jurisdiction over:

I. All commercial banks (scheduled and non scheduled, public and private)

ii. Regional rural banks

iii. Scheduled primary co-operative banks

iv. NBFCs

What is the procedure to file for a complaint against a bank?

Each bank has a grievance cell. One can send a complaint in writing or email; banks also have toll free numbers to register complaints. Once the complaint is lodged, the customer shall wait for a maximum of 30 days for the bank to address the grievance.

If the bank does not respond within 30 days, one shall approach a banking ombudsman for help. It is mandatory that the customer should have first approached the bank before seeking assistance from banking ombudsman; else the application will be rejected. The application can be given in any format: written or online.

The Banking Ombudsman endeavours to make a settlement of the complaint by agreement between the complainant and the bank named in the complaint. If the terms of settlement (offered by the bank) are acceptable to one in full and final settlement of one's complaint, the Banking Ombudsman will pass an order as per the terms of settlement which becomes binding on the bank and the complainant.

One striking feature of this scheme is : The bank cannot appeal against the award granted by the ombudsman. but the customer can.

Grounds on which complaints can be rejected by Banking Ombudsman:

- Complaint not received by the accused bank.
- Complaint made to banking ombudsman after 1 year from the date when the customer had received/ not received the reply from the bank.
- Complaint has been dealt before by another forum.
- Complaint matter is frivolous.
- Compensation sought is more than Rs.10 lakh.
- The complaint is outside the jurisdiction of the scheme.

What if Banking Ombudsman cannot settle the matter?

The aggrieved can file an appeal to the appellate authority within 30 days of receiving the award. The appellate authority could be consumer courts, RBI, consumer redressal forums etc.

SHIFTING OF NBFC'S TO BANKING

Ankit Aryan

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"Behind every Google Map, there is a much more complex map that's the key to our queries but hidden from our view." *– Alexis C. Madrigal*

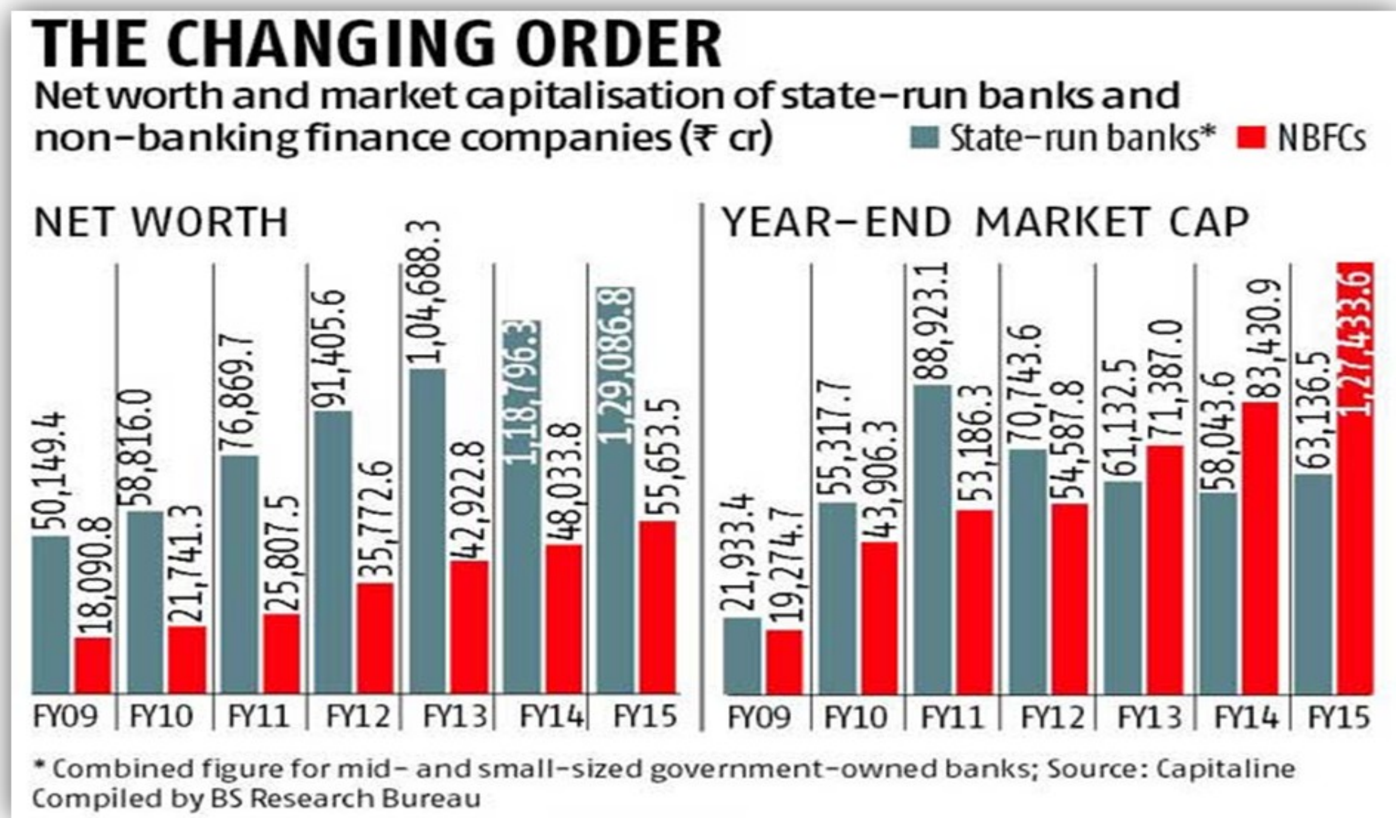
For a large and diverse country like India, ensuring financial access to fuel growth is a critical priority. Banking penetration continues to be low, and even as the coverage is sought to be aggressively increased, the quality of coverage and ability to access comprehensive financial services for households as well as small businesses is still far from satisfactory. NBFCs in India are trying to mitigate the constraints of these traits. The story of NBFC is also similar to those hidden complex maps behind Google map. It plays a crucial role in boosting up the economy. This article discusses the framework of NBFC regulations and looks at their shift towards banking in India. The discussion closes with a broad look on the road ahead for them.

In today's scenario, the Non-Banking Finance Companies (NBFCs) have scripted a story that is truly remarkable. From large infrastructure financing to small microfinance, it has innovated over time and found ways to address the debt requirements of every segment of the economy. NBFCs are emerging as an alternative to mainstream banking. Besides, they are also evolving as an integral part of Indian Financial System and have made commendable contributions towards Government's agenda of financial inclusion. They have been providing credit to retail customers in the underserved and unbanked areas. Moreover they have a key role in the development of important sectors like Road Transport and Infrastructure which are the life lines of our economy.

"We need banking but we don't need banks anymore." Do you really think so?

NBFCs are passing through a very crucial phase where RBI has issued a revised regulatory framework with an objective to harmonize it with banks and financial institutions and address regulatory gaps and arbitrage. Banks may not be able to live up to all expectations. So there are opportunities that are easy to capture but there are also many issues that require significant innovation or specialized skills that are conventionally not banks' strengths. The latter opportunities are at the extremes of spectrum. Very large ticket, long term infrastructure lending requires risk management expertise that goes beyond traditional credit appraisals at banks. There will be significant space for specialized entities in risk assessment and structuring of infrastructure finance. All of these call for sophisticated risk management and cost control that is not easy in business model of conventional banks. Gaps in SME finance can be filled with asset based lending, operating leases, and factoring. These are niches, but each one of them is individually large to sustain significant balance sheets. NBFCs can play a major role in these aspects where banks are actually facing difficulties.

In November 2014, in order to bring NBFC norms in line with those of banks, RBI had unleashed stringent rules for NBFCs. According to the new guidelines, NBFCs will require higher minimum capital; have less time to declare bad loans, and also board approved fit and proper criteria for appointment of directors.



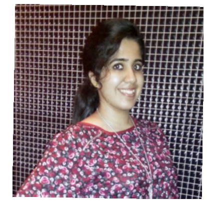
Under the revised regulatory framework, the asset classification norms and the provisioning requirements have already been modified for NBFCs to bring them on par with banks. Tax benefits available to banks also made available to NBFCs. However the extension of Tax benefits has been a much needed relief to NBFCs which is strictly constrained due to tight profit margins and high cost funding.

In conclusion, the theme reveals that the growing asset size of the NBFCs has increased the need for risk management in the sector. Moreover, RBI has been trying to strengthen the risk management framework for streamlining the regulations and plugging regulatory gaps so as to prevent regulatory arbitrage between banks and NBFCs. Therefore, in the context of growing economy, a stable regulatory environment will provide opportunities to NBFCs to continue to grow in the financial ecosystem and will bring radical changes in this sector.

Did you know?

- In terms of total assets, “Industrial and Commercial Bank of China” is the largest bank in the world. Its total assets are 3,616.39 billion USD. This is twice the size of the GDP of India. In terms of market capitalization the American bank “Wells Fargo & Co” is the largest bank in the world with a market capitalization of 263.60 billion USD.

LOOPHOLES IN BANKING SECTOR

Anuja Yadav Kavneet Kaur

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Significant losses incurred by the banks of our economy suggest the need for improved management of risk and internal controls to avoid past mistakes. Also, in our opinion, more than the existing regulatory actions, what we really require is a stronger ethical culture.

The logic follows a very basic principle. Whenever we go to a bank, we expect the internal controls employed by the banking industry to be effective and most importantly, strong. After all, we are going to deposit our hard earned money. Also, apart from security, funds should be available to be withdrawn easily, when needed.

That is why the banking industry should have good governance, effective risk management, strong ethical culture, measures to avoid conflicts of interest and steps to minimize the possibility of excessive self-serving risk taking. However, the recent announcements of the losses by the banks, especially the Public sector banks demonstrate that regulatory efforts to ensure and attain these objectives have been ineffective and insufficient. So, what do we really need? The answer is a stronger ethical climate.

Let us look into the necessity for a stronger ethical environment to cover the losses of the public sector banks:

1. Lack of capital, especially in state owned PSBs. Government has totally helped with Rs. 7940 crores for PSBs. But they still require additional 34000 crores. So, here comes a situation wherein the banks lack money and scams come into news. Syndicate Bank and Bank Of Baroda have come into limelight for all the wrong reasons. But, if investigated at the ground level, this issue is arising due to lack of funds. When banks fail in generating capital, they indulge in giving loans without strict checking and indulge in black money dealings.

2. Last year, government allowed a flow of foreign investments into the private sector which helped them in sectoral investment of 74% without any change in control of management.
As the capital requirement and number of NPAs are increasing in PSBs, they need a fresh inflow of capital. Thus PSBs are looking forward to 49% of foreign investment (FDI & FII) which is 20% as of now. This will also lessen the burden on government to fund PSBs.

3. The Non-Performing Assets (or bad loans) in the Public Sector Banks have been a matter of concern for both the Government and the Central Bank. And although the sources of the problem and the corrective measures are known, NPAs aren't going away. The portion of NPAs in PSBs as compared to those of the total banking sector has grown to 86% from 75%. Rising Non Performing Assets lead to provisions, bad debts and hence, losses.

4. Whenever there is a change in the top management of PSBs, there is a significant fall in the working/ performance of bank. Taking note from this, RBI has taken action for changing the governance structure of many PSBs. Finance Minister Arun Jaitley launched the Indradhanush scheme to revamp the functioning of PSBs which includes elements like new appointments, capitalization,

reforms etc. But again, there is no deadline for these implementations.

5. One of the major sectors in which PSBs lag is adoption of technology. Even if they do it, they are far behind the private sector. It is seen that very less young and active participation is there in terms of workforce. A change we analysed in terms of technology was mainly in **Payments.**

Technology is changing the payments segment of the banking industry at an extraordinary rate. Key developments include:

- Competition from non-bank Payment Service Providers (PSPs) offering services such as mobile banking.
- Customer demand for quicker, cheaper, anytime/anywhere payments.
- More transactions managed through exchanges affected by regulation of over-the-counter derivatives.

Heightened focus on systematic risk reduction and control due to post-crisis regulations.

In India, the dynamics are very interesting. The existence of foundational building blocks like Aadhaar and eKYC, financial inclusion programmes like the Jan DhanYojana, and tech savvy entrepreneurs may cause India to once again leapfrog the rest of the world to pole position. This exposes a huge risk to India's banking, still dominated by public sector banks (PSBs). Even the best PSBs in the world are struggling with this disruption. This is because banks are designed to be risk-averse with cultures that are unsuited to rapid change and unable to attract the best technological talent. In India, the challenge is profoundly greater as our PSBs are facing an existential crisis of weak balance-sheets and huge non-performing assets.

Hence, we feel that the loopholes exist in the Banking sector primarily due to political influences, disruptive technologies and inability to adapt to them, slow policy implementations, limited capital and existence of corruption. But, the recent RBI norms on NPA Clearance, KYC norms and capital infusion by both government and foreign investment cumulatively would certainly bring about a change. We expect the banking sector to emerge with great opportunities in the coming future and good reforms to regulate the processes in banks to cover the loopholes discussed in this article.

ARE FOREIGN BANKS BETTER THAN INDIAN BANKS?

Vani Jhanji

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"Opening up to foreign banks and other financial firms and to foreign direct investment in the financial sector has many potential benefits. These include the introduction of financial innovations and sophisticated financial instruments by foreign financial firms, added depth in domestic financial markets due to foreign inflows, and more efficiency in the domestic banking sector through increased competition."

- Raghuram Rajan Committee Report on Financial Sector Reforms, 2008

A Snapshot of foreign banks in India

There are currently **43** foreign banks operating in India of which **22** are operating as representative offices. The **share** of foreign banks in total branch network is a meagre **1%** (327 branches). The establishment of foreign banks such as Standard Chartered and HSBC find their roots in the need for financing the trade between Asia and the rest of the world during pre independence era. The major ports in India (Kolkata and Mumbai) provided the main routes for trade and were important drivers of making India a place for setting up these banks. Liberalisation of FDI norms further provided opportunity for them to enter through the strategic route of NBFCs providing specialised services such as stock broking, leasing, merchant banking etc.

Foreign banks- Niche Players

Foreign banks basically serve a niche market in India with major focus on financing trade, external commercial borrowing, wholesale lending and treasury activities. Some of the large foreign banks have also extended their services to private banking in retail sector, wealth management, transaction banking, cash management and remittance products.

But with India emerging as the major IT service provider in 21st century, many foreign banks have set up BPO centres in India providing data analytics and data backed solutions.

Exhibit 1: Foreign banks' share of banking assets and profits

	Foreign banks	Public sector banks	Private sector banks
Number of banks	43	26	20
Number of branches	327	75,779	16,001
Share of deposits	4%	77%	19%
Share of assets	6%	74%	20%
Share of off-balance sheet assets	63%	18%	19%

Source: Database on the Indian Economy, a profile of banks 2012-13, RBI

What makes foreign banks better?

These banks have always been innovative in providing services. They have been able to bring in capital and global best practices to Indian Banking. They have been successful in identifying the specific needs of the market and creating products that best serve those needs. **For example**, in 1990s, Citibank identified the inefficiencies in cash collection and processing and came up with its innovative solutions- Citicash and Citicheck.

Since their entry in India, these banks have always had an advantage in terms of their exposure to latest technology and have used it to provide premium services in terms of risk management, cash management, 24 hours mobile banking, internet banking, securitisation, forex & interest rate derivatives trading and KYC solutions. **For example**, the first Automated Teller Machine (ATM) was set up in India by HSBC in 1987. This focus on innovation has helped foreign banks build profitable business. No doubt they operate at higher levels of efficiency and have low NPA ratios.

Foreign banks have also been successful in creating a pool of talented employees in India. They have trained and nurtured talent in India by providing them access to latest developments in banking technology, international experiences and specialised knowledge.

Effect of Entry of Private Banks

Prior to 1990s, foreign banks easily distinguished themselves vis-a-vis public sector banks. They used technology to their maximum advantage by creating and often maintaining the leading position in providing premium services. But the banking landscape changed dramatically post the entry of private sector banks. Not only did foreign banks face competition from the private sector banks (which were often run by groups of ex-employees in banking providing opportunity to take quick decisions and upscale in a fostering environment using local technology), but also from some of the public sector banks which did well on account of what was then called 'computerisation' and better ways of engaging with the customer.

Recently HSBC announced closure of its private banking operations in India following RBS and Standard Chartered. Competition from local private and public sector banks, which enjoy a large share of the market with no limit on the number of branches they can have, has made India a tough market. Foreign banks need the Reserve Bank of India's (RBI) permission to open more branches, which local banks do not. Given this challenge, these banks are struggling to increase revenue.

Are foreign banks really worth it?

With the focus of Indian government on '**financial inclusion'**, banks need to come up with the strategy to expand the reach of financial services in India. When foreign banks were set up in India they were given a choice of operating model. They 'cherry-picked' the most profitable businesses and affluent customers residing in metropolitan and urban areas. They were averse to providing services to the poor as they found such customers to be less lucrative. They tend to follow 'financial exclusion' and not 'financial inclusion' by serving just a profitable clientele. What good would the international experience, best technology and specialised knowledge do when they fail to provide basic banking services to small farmers, landless workers and poor urban dwellers who form the backbone of the country?

Conclusion

Foreign banks can be perceived as better than Indian banks only if they are able to make use of their innovations and specialised knowledge to bring about financial inclusion in India by opening up '**No Frills Accounts'** and meeting the targets set by RBI.

BANKING – THE AAM AADMI WAY!!

Sanjana Hirawat

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"If you can trust yourself when all men doubt you,
But make allowance for their doubting too"

Excerpts taken from the poem "If" by Rudyard Kipling which Mr Raghuram Rajan stated in his first speech at the RBI Office. The above lines purely define how the 2nd youngest governor showcased his calibre surpassing all the criticisms and reforming the backbone of the economy.

The Banking Industry took a plunge into the "dramatic remaking" to grow into something which the people never imagined. Rajan commented that Banking Reforms need to be in pace with the growing economy of a country as populous as India. His main focus was on participation by improving the transparency, protection against abusive practices and contract enforcements. He foresees a huge change in the banking sector with infusion of newer players in the market. Is our Banking Sector ready for this change? Mr Rajan has an answer to this with his Five Pillars, a strategy adopted from Japanese Prime Minister Shinzo Abe's Three Arrows.

The FinMin and the RBI have together taken steps to reform the industry and ensure that services reach to those who are at bottom of the pyramid. Financial Inclusion became the hot topic in the market. The most commendable step taken this year was the issuance of payment bank licenses to 11 applicants thus focusing on the untapped market. Bandhan Bank became the first microfinance company to start operations in India as a full fledged scheduled commercial bank. To focus more on the Aam Aadmi, the "in-principal" approval was granted to 10 Small Finance Banks to provide banking services to farmers and micro industries.

The "Modi"fied government has taken strong measure to improve the growth trajectory of this industry. Modi's first ever Banker's Retreat was an ingenious move to enhance the efficiency of Banking Sector. Project Indradhanush and Pradhan Mantri Jan Dhan Yojna, another ambitious project launched to provide zero balance accounts for the common man. The project attracted 1.5crores of bank accounts on the very first day.

Technology has now become the lifeline of any business model and to conquer the Banking Sector, it has made it mark. The revolution struck when the sector went 24*7 and introduced real time services. With the help of smart phones, there was a boost in the "app-commerce" market as banks offered their services to the public including the rural markets. One among these is the "Kotak Bharat" app launched by Kotak bank to provide branchless banking services in the form of short message services. The "IndPay" app launched by Indian Bank to provide services anytime and anywhere. SBI also launched a Mobile wallet app named "SBI Buddy". The growth of M-Banking was exponential and the transactions value rose from Rs 1800 crore in 2012 to over Rs 1.03 trillion in 2015(Live Mint).

Government has Education also in its top priority list and to improve it they launched a web-based portal www.vidyalakshmi.co.in for students seeking educational loans. This website also monitors scholarship and schemes under the Pradhan Mantri Vidya Lakshmi Karyakram(PMVLK). This scheme focuses on the Umbrella Approach to bring educational loans under one roof.

When M-Banking and App-Commerce is growing, why would Social Media be left out? ICICI Bank pioneered this segment by introducing "Pockets by ICICI" that uses Facebook as a platform to provide banking services. Similarly Business Correspondent Agents or Bank Mitras paved their way for branch-less banking through agents, numbers speak as BCs increased from 80,000 BCs in 2011 to 4,00,000 in 2014.

For better security, enhanced payment systems have been introduced. Everything going online has led to invention of free communication technology(NFC), contactless debit/credit cards to make transactions easier. Axis Bank launched the first contactless debit/credit card and Multi Currency Forex Card. ICICI Bank and other PSBs have also adopted this measure. Radical changes were seen in ATMs also after RBI issuing guidelines to allow White Label ATMs to be run by third parties called as Independent ATM Deployers(IAD). Their revenue model is based on charging the transactions. TATAs have taken the first mover advantage by setting up "Indicash", first White Label ATM in the country. The Union Cabinet has also allowed 100 per cent FDI under the automatic route for White Label ATM operations.

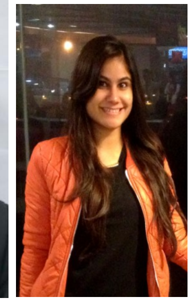
Despite these reforms, most banks are devoid of opportunities due to stressed assets that they posses. Due to higher provisioning requirements, their capital positions are worsening affecting the capital raising ability of the banks. As everything doesn't come free, RBI and FinMin have created a competitive environment by providing more capital to only those public sector banks which are run efficiently and not to others. The fight to survive is on which indirectly improves efficiency of banks. The Ministry is planning to infuse Rs 70,000 crore equity capital in PSBs in the next 4 years. With a member of G-30 in the chair of RBI governor and a stable government in the Parliament, one can expect more revolutionary changes in the banking industry in the days to come.

Thus the vision of "Ache Din Aane Wale hai" holds true for the Indian Banking Sector. With better policies and effective management, our Banking sector has a huge way ahead adding to the growth and stability of the economy.

Did you know?

- Comptoire d' Escompte de Paris of France was the first foreign bank to open a branch in India. Whereas HSBC was the first bank to introduce ATMs in India (in 1997). In 1946 " Bank of India" became the first Indian bank to open a branch abroad by opening a branch in London.SBI today has more than 140 branches in more than 32 countries around the world

FUTURE OF BANKING

Nitigya Kumari 15272350

Simran 1527160

History deals with the past, not with the future. We use history to avoid the mistakes of the past, not to recreate the very same events. You cannot.

-Teodoro A. Agoncillo

Have you ever wondered what banking will look like in the next 10 years? Intelligent machines are set to replace humans in our high street banks, cash machines will have video chat capabilities and your bank will play personal shopper texting you deals from partners on products you are likely to buy. In short, the bank as we know it will become a thing of the past; instead banks will be replaced by platforms that are run almost entirely by algorithms and robots.

Certain facts which prove that machines will take over Banking industry in future-

- **Younger smartphone owners with bank accounts use mobile banking more regularly than similar consumers over age 66.**
- **Mobile payments are used most frequently for online shopping and funds transfers.**
- **All groups had relatively high awareness of major mobile payments brands, which allow consumers to make mobile purchases at a variety of online and brick-and-mortar retailers—through services such as PayPal, Apple Pay, and Google Wallet—and to buy coffee at Starbucks, currently the most popular mobile payments app.**
- **Nonusers found potential incentives—cash back, reward points, discounts and coupons, and free items—enticing and suggested that they might use mobile payments if these were offered.**

While other things which mark the building of a better future of banking are-

Payments banks are a new category of banks that RBI introduced to further financial inclusion by providing small savings (up to Rs 1 lakh) and payment/remittance services to migrant workers and low-income households. Bharti Airtel, Vodafone, Reliance Industries, Paytm and Fino PayTech are among the companies that won payments bank licenses. These banks can issue debit cards and offer internet banking, but they are not allowed to lend or issue credit cards.

The second category of new banks - the SFBs - will be similar to existing commercial lenders, and will undertake basic banking activities, such as accepting deposits and lending to sections that are either not served or under-served by traditional banking. Their loan size and investment limit exposure to single and group obligators cannot be more than 10 per cent and 15 per cent of their capital, respectively. Also, at least 50 per cent of their loan portfolio has to include loans and advances of up to Rs. 25 lakh. Only future can tell us that how these new banks work. Due to their cost efficiency, these banks might succeed in offering high interest rates on CASA, hence leading to stiff competition.

Banks also have exciting new opportunities to create services around securing customer data. Banks are trusted to store and protect money today. Tomorrow, they could be trusted to store and protect data too. Banking will be split between specialty players and customer-broker combining a series of low-cost marketplaces and platforms to serve specific customer needs with speed and adequate value for money. Banks will be severely hit by over-the-top competitors, scaling down size and employees.

Future also has something else in store for banks: a hybrid banking system, which will be a hybrid between a bank and an IT-company. Let us start by explaining- What 'hybrid' means?

The expression "hybrid" stands for the mixing of various additives. Hybrid Banking implies that you have a few alternatives for a goal, in different words, inside the presence of exclusive choices collectively you need to contain for the cause to carry out. Hybrid Banking is a kind of half and half of banking that makes it conceivable on the idea of many kinds of units of well worth to lead exchanges with each other. It's far an investigative attempt to suppose outside the normal framework and the concerning optional methods.

The way buyers execute is experiencing move, with computerization managing an account (whether web or portable) which is quickly turning into the favored medium for exchanges. Truth be told, all real research houses expect that by 2016 computerized managing an account will be the standard in exchanges, with 60% of the worldwide masses executing on the web. Nearly in parallel, banks are gaining critical ground towards settling after the monetary emergency, dispatching various activities to enhance capital, productivity, incomes, and expenses. With the relative exchange cost of the branch being nearly 50 times higher than that of online and versatile, and 5 times higher than that of self-administration, it seems that genuinely grasping the hybrid bank model is truly a restricted affair.

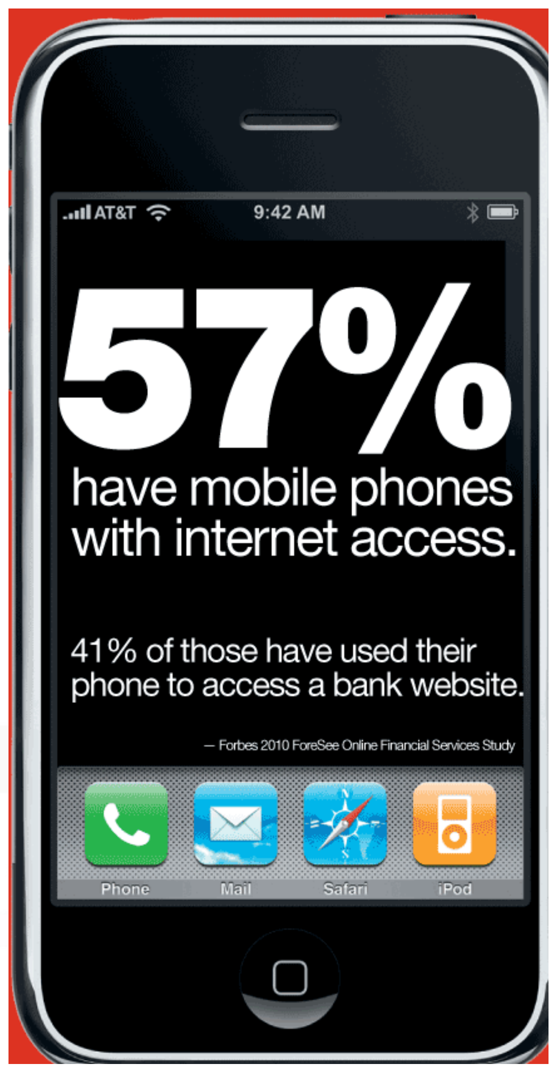
Changing over the branch into a spot for correspondence and guidance, while exploiting the 'advanced potential' will convey gigantic points of interest to banks to decrease costs while expanding deals, offering a new tailor-made client experience.

Banks need to re-evaluate the way they work and set down precisely definite arrangements that will let them to stay supportable and productive. To strengthen the innovation, the new mixture bank model is as of now accessible.

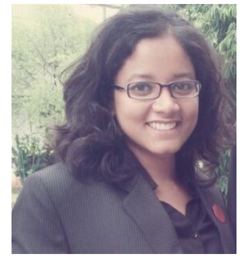
To realize success in future, banks must:

- Shift their operating philosophy from a product-oriented organization to a customer-driven organization.
- Embrace and integrate new technologies, channels and strategies.

For the consumer - whether urban and rural, rich or poor - banking is surely going to become easy. For bankers, it isn't going to be an easy journey as competitive intensity spikes. As forecasted by Arundhati Bhattacharya for the new banking environment: "It is going to be a dog-eat-dog world."



BOOK REVIEW:



Ritwika Nath

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BANKER TO THE POOR BY MUHAMMAD YUNUS WITH ALAN JOLIS

"It's not people who are not bank worthy. It is the bank which is not people worthy." With such provocative thought Muhammad Yunus had led to the creation of an institution that serves 20 million lives now. The institution which was initially condescended by the World Bank and now receives consistent and contingent funds. The story of this Grameen Bank, a sustainable micro credit and microfinance unit which has challenged the untamable poverty prominent across the world till today. Poverty is a paralysis that creeps to the unfavoured and underprivileged of a country and traps them into a vicious circle and passed onto further generations.

With the backdrop of 1974 famine all over Bangladesh, the economic professor of Chittagong University could no longer believe in the very subject he was teaching as the policies or formulations that were taught in the world somewhere failed to address the ongoing mass starvation. Death was omnipresent and it was due to unavailability of one meal in the day was unbelievable for the person was teaching his students of an absolute hypothetical world.

The author's journey in discovering the root cause of a huge problem poverty surfacing at that time. Was it that people could not earn or they were not eligible to have a meal a day or they were just dying because they could not earn a minimum *taka* for their livelihood? In the village of Jobra, where the seeds of effort were sowed, are reaping huge benefits from the breakthrough creation of micro-credit.

Just as the rest of the world, Jobra was also involved in the normal lending and borrowing mechanism to its people. However, the parallel economy that we hear in a rural scenario was in a way implemented that any formal institution like Grameen would find it immensely difficult to pervade. It was mostly due to the conservatism of people, a patriarchal domination, unworthiness of women in the society and other social taboos that could lead a country in destitution. Dr. Yunus was courageous to challenge such societal inhibitions and brought about an institutionalized way of lending unlike the traditional and conventional banks operating around. The key thoughts behind such setup was empowerment, sustenance, and a hope to overcome poverty. With extensive surveys and various data, professor observed that the most underprivileged of the society were women who were treated as a burden to her own family and later to her in-laws. If a handful money is given to a man with family, he would spend it on him and then think of feeding his family, unlike a woman who prioritize feeding their family. Such prominent difference in behavior remained unnoticeable until the professor used it as an effective tool to start his work for Grameen. He targeted the poorest of poor woman in the society and explained to them how Grameen works. Despite the taboo of *purdah* system, where women are not allowed to go out of her house and it is men who handles money, the professor brought a transformation not only to their lives financially but also resolved domestic turbulences that had occurred due to women shifting their roles in the family. Even the banks were formed only to cater the needs of men and also refrained from lending to the poorest poor. It is unfortunate that there were credit systems in the society but not for the poor or women who would want to get out this circle if given a chance. The reason being they were unable to produce collateral and defaulting on payment is tagged to their background. The *mullahs* or moneylenders took advantage and charged usurious interests or convert them into bonded slaves.

Grameen Bank catered to the needy and who wanted to transform their lives. It has worked to maximize operational simplicity i.e. a simple weekly repayment scheme as he believed in the power of small steady incremental gains. It prevents the psychological hurdle to "parting with all that money" and ensured regular repayments in miniscule. It enhanced self-discipline among people who had never borrowed before in their lives and gave them the confidence that they could manage it. The Grameen Bank has also incorporated the system of solidarity lending where a small group of women borrows collectively and encourages each other to repay. In such groups, the borrowers feel morally responsible for the money and avoids being a default. It also helps the group to become self-reliant and save another in case of trouble through various repayment solutions. This simple concept was replicated in different national context without compromising on the fundamental of target population and recovery rate. It is currently present in 60 countries. This community development bank has proved success in Nepal, India, Sri Lanka, Malaysia, Glasgow, Norway, Finland etc.

The vision was simple – "a poverty free world" which has proved that it could be achievable and not through charity but through employment and social and economic order. Professor Yunus transformed villages from the prey of predatory lending and created a sustainable system that generates funds of its own. Grameen Bank followed the principle that loans are better than charity to interrupt poverty: they offer people the opportunity to take initiatives in business or agriculture, which provide earnings and enable them to pay off the debt and relieve from financial distress.

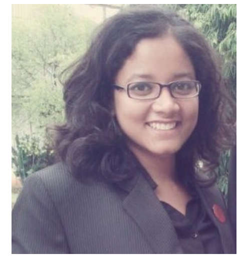
FAQs

The Grameen Bank Project (Grameen means "rural" or "village" in Bangla language) came into operation with the following objectives:

- *Extend banking facilities to poor men and women;*
- *Eliminate the exploitation of the poor by money lenders;*
- *Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh;*
- *Bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; and*
- *Reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".*

MOVIE REVIEW:

WAS ENRON THE WORK OF FEW BAD MEN OR THE DARK SHADOW OF THE AMERICAN DREAM?



Ritwika Nath

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The documentary revolves around few crusaders who in order to change the world was engulfed in their own vicious pride. This Texas based energy, commodities, and services company, was listed one of the most innovative company in Fortune's 500 for six consecutive years while involved in abnormal misappropriation of transactions. Despite the fact that the company showed very suspicious high profit, it remained unnoticed that falsified bank records were presented and the company profits were diverted to personal accounts. Enron's traders were manipulating earnings, destroying daily trading records and gambling way beyond their minutes. This entire accounting fraud was questioned and brought under light by journalist Bethany Mclean in **"Is Enron overpriced?"** co-authored with Peter Elkind on the scandal in **Enron: The Smartest Guys in the Room**.

Ken Lay, was aware of the outrageous risks Enron was getting into, however in order to keep the stock prices soaring he needed a man with big ideas who would aid in achieving his money making dream. Then comes Jeff Skilling into the picture as a visionary who proved to be worthy to take Enron to new heights. Instead of the physical pipeline transmission of energy he pitched in an idea of transforming energy into financial instruments into stocks and bonds hence became the largest buyer and seller of natural gas in North America recreating the entire energy industry.

To keep its stock price climbing, Enron created good quarterly returns out of thin air. One accounting tactic was called "mark to market," which meant if Enron began a venture that might make $50 million 10 years from now, it could claim the $50 million as current income. In an astonishing in-house video made for employees,
Jeff Skilling stars in a skit that satirizes "HFV" accounting, which he explains stands for "Hypothetical Future Value." Little did employees suspect that was more or less what the company was counting on.

It also followed a mechanism of "Pumping Dump" where top executives would push the stock prices up and cash in their multimillion options and it was driven by the profits of Enron. The projections of the company were inflated where in reality they were headed in the opposite direction. Their win-at-all-costs strategy included suborning financial analysts with huge contracts for their firms, hiding debts by essentially having the company loan money to itself.

After a huge failure and loss on the Dhabol project in India, Enron shifted its focus to the newly deregulated electricity market of California by merging with Portland General Electric and manipulated state's energy supply.

As opposed to the theme "Ask Why", Enron failed to live up to its own values. They were desperate to create the illusion of profitable business with Blockbuster being in broadband services but it ended up being a complete meltdown.

The collapse of such big corporate house is definitely a wakeup call to all the authorities who missed reading the numbers efficiently or be aware of such frauds lurking behind the money of the investors, pensioners and retired employees. The filmmaker posits the Enron scandal not as an anomaly, but as a natural outgrowth of free-market capitalism and the inescapable fate that followed to those pride owners.

BANKING

A Collection of everyday terms and concepts

Debleena Bose

1420440

Deadbeat

It is a term used by the credit card companies for their customers who pay their bills in a timely manner. They are supposed to be the less profitable customer for the credit card companies as they are unable to charge any late fees from them. Still the deadbeats are preferable because they don't create significant losses for the company and the credit card companies earn a fee from the merchant on every credit card transaction which is around 3% of the amount.

Adverse Action Notice

It is a letter sent, when an application made for loan, credit or insurance is denied. It is done based on the information provided in credit report. Accordingly the Fair Credit Reporting Act (FCRA) demands an adverse action notice to be sent by the creditors or lenders to the person whose application is denied, which includes the contact information of the credit bureau and the reasons of the rejection. It can be done either verbally or in written, within a reasonable span of time.

ChexSystems

It is a network which provides a verification service that provides information on a regular basis regarding the usage of the deposit accounts by the consumers. Its services include identity verification, monitoring of transactions and providing reports on account history reports. It examines past 5 year data submitted by the banks and accordingly reports on its irregularities such as fraudulent account handling, unsettled accounts, overdraft etc. it is consumer credit reporting agency owned by the subsidiary of Fidelity National information services.

Customers can refer the Chexsystems report annually without any charge. It is dominant in U.S. as it constitutes 80% of the commercial banks to screen applicants for checking and savings accounts. Its services are spread over almost 9000 banks in U.S.

Closed-End Credit

It is a type of credit which needs to be settled on a specified date i.e. generally at the end of the term, in full amount. The amount includes the interests as well as the financial charges agreed upon during its agreement. The payment can either be periodically or at once at the end of the term. This kind of credit is generally seen in case of real estate and auto loans.

Frozen Account

It is an account form which funds cannot be withdrawn until some specific obligations are met. It may require legal approval from the court to make the account available for withdrawal, which generally happens when there is dispute regarding the true ownership of the account. Also a bank account can be frozen on the basis of the creditors' report. The creditor can freeze twice the amount owed to him.

Garnishment

It is a legal process where a debt is a paid by a third party on the behalf an individual who owes it. The third party can be the employer of the individual and is known as the garnishee. The most common type of garnishment is wage garnishment where the debt is satisfied, deducting the amount from the compensation of the employee, as a result of a court order. Garnishment is generally used for debts such as unpaid taxes, fines, student loans etc. It becomes a part of the payroll process when employee's lack immediate funds.

Kiting

It is an activity which involves a check or draft being issued or altered with insufficient funds. Thus it is a fraudulent scheme where a check is issued from a particular bank for an amount greater than the account balance, then issuing a check from another bank account with non-sufficient funds, in order to cover the funds which does exist in the first account. This is done in order to prevent a check getting bounced, by misrepresenting the balance of a checking account being inflated.

Revolving Credit

It is a type of credit agreement which does not include fixed number of installment payments. It is an arrangement which allows a customer to withdraw, repay or redraw the loan any number of times and in any form. The borrowing of the amount is within a pre-agreed credit line. Accordingly the amount available fluctuates in respect of the withdrawal or repayment. This is basically practiced to maintain the liquidity of an organization. The borrower's net payment includes the amount borrowed plus interest. The repayment of the loan can either be in the form of periodical payment or payment at the termination of the loan.

When a revolving loan has been undertaken in order to refinance another revolving loan, it is called rollover loan, provided that it matures on the day of drawing of the second loan and the procedure is done in same currency.

Underwater Mortgage

It is a home loan on which the homeowner owes more than the house is worth. The loan amount is higher than the free-market value of the house. The homeowner cannot sell the house until he pays the loss amount and also he cannot refinance. The borrower's inability to pay the mortgage amount to the lender on a continuous basis, leads to the situation of foreclosure. In case of foreclosure the borrowers can still find their defaulting mortgages reasonable as they might have a perception that they are reducing their losses as they consider it as an unrewarding investment.

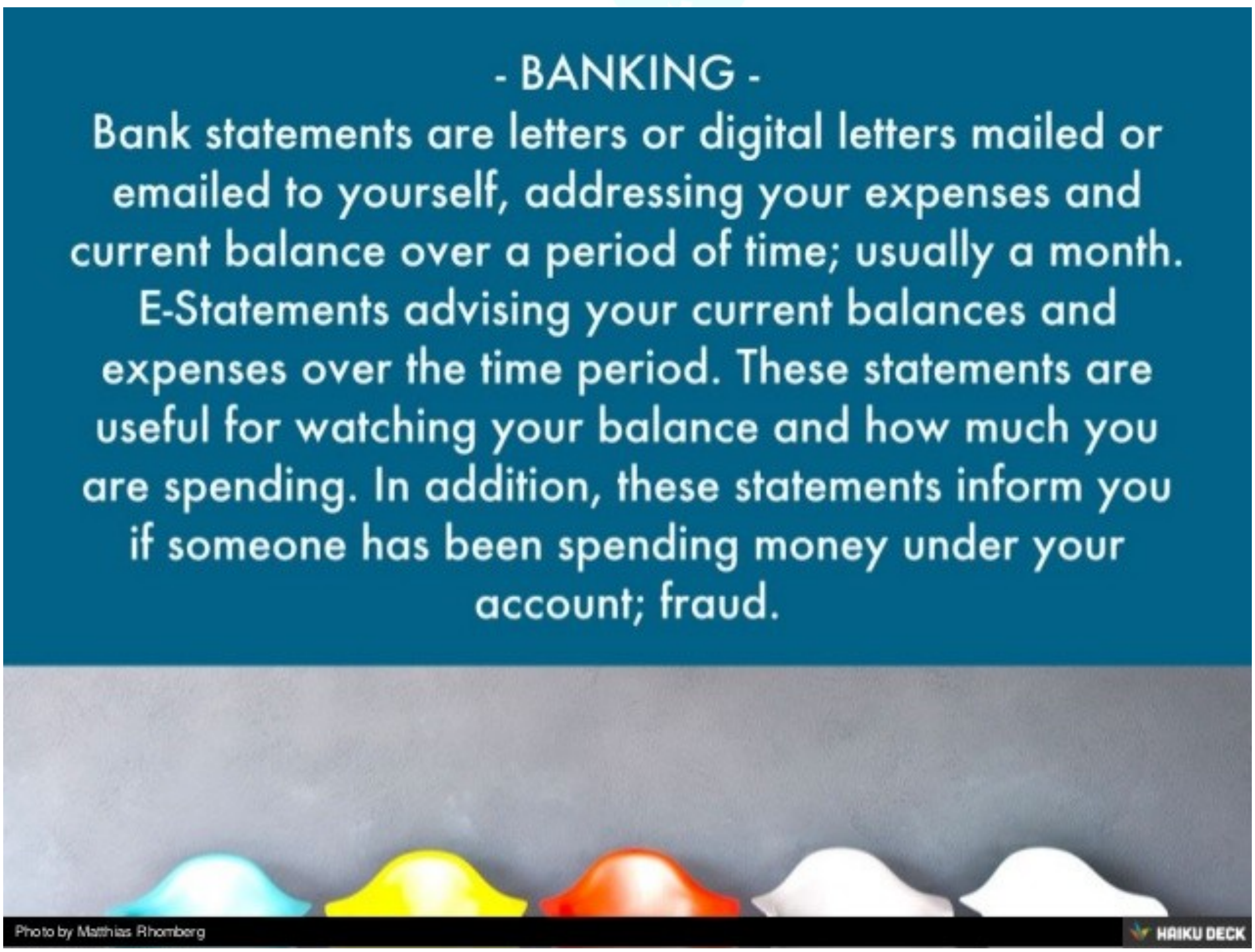
3-6-3 rule

This is a banking regulation which was adopted during the 1950's till 1980 in U.S. The rule implied that the depositors would be getting 3% interest on their deposit, banks lending at 6% and then playing golf at 3 pm. This depicted a picture of the bank's nature of lending at a higher rate than paying to its depositors. The practice resulted in great depression which led the government to tighten the money circulation in the economy.

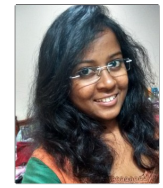
Reference:

http://www.gobankingrates.com/personal-finance/banking-terminology/

http://www.helpwithmybank.gov/dictionary/index-dictionary.html



STOCK MARKET ANALYSIS



Ahrthee P K

1420436

Global equity markets have been on a rollercoaster ride since the blood-bleed in stocks was initially triggered by an economic slowdown in China, the world's second largest economy, was spinning out of control during Oct-Nov 2015. Further fuel was added by EU Quantitative easing and continuous heavy-drop in global oil price and other commodity prices. December began with BSE Sensex closing at 26,169, being highest in the past 3 months (Dec-Feb). Since then market has not touched beyond it, though it managed to reach 26,160 on Jan 01, 2016. When the market was looking for impending January-effect, global cues were turned upside down with the further slump in the stock prices, starting Jan 1st 2016 (26,160) and slowed down continuously until Jan 21st, 2016 (23962) with 8% bear market rally.

After a decade, the most-awaited fed rate hike became reality on 16th Dec 2015, with a meagre increase of 25bps. Indian stock market reacted positively with continuous growth until end of the month and had set-off the anticipated fears of negative impact. On the backdrop, Global crude supply glut was continuously depicting historical low rates each day without any further improvements and US oil price caught in brought slump at the lowest level of $27/barrel in 2016, pulling the global market to southern tip, being the reason behind January sell-off. Monetary actions in China and US were the increased short term money supply for Lunar new year eve before February and the interest rates left unchanged in the mid of January, which gave BSE Sensex a little push to move upwards from 24000 mark

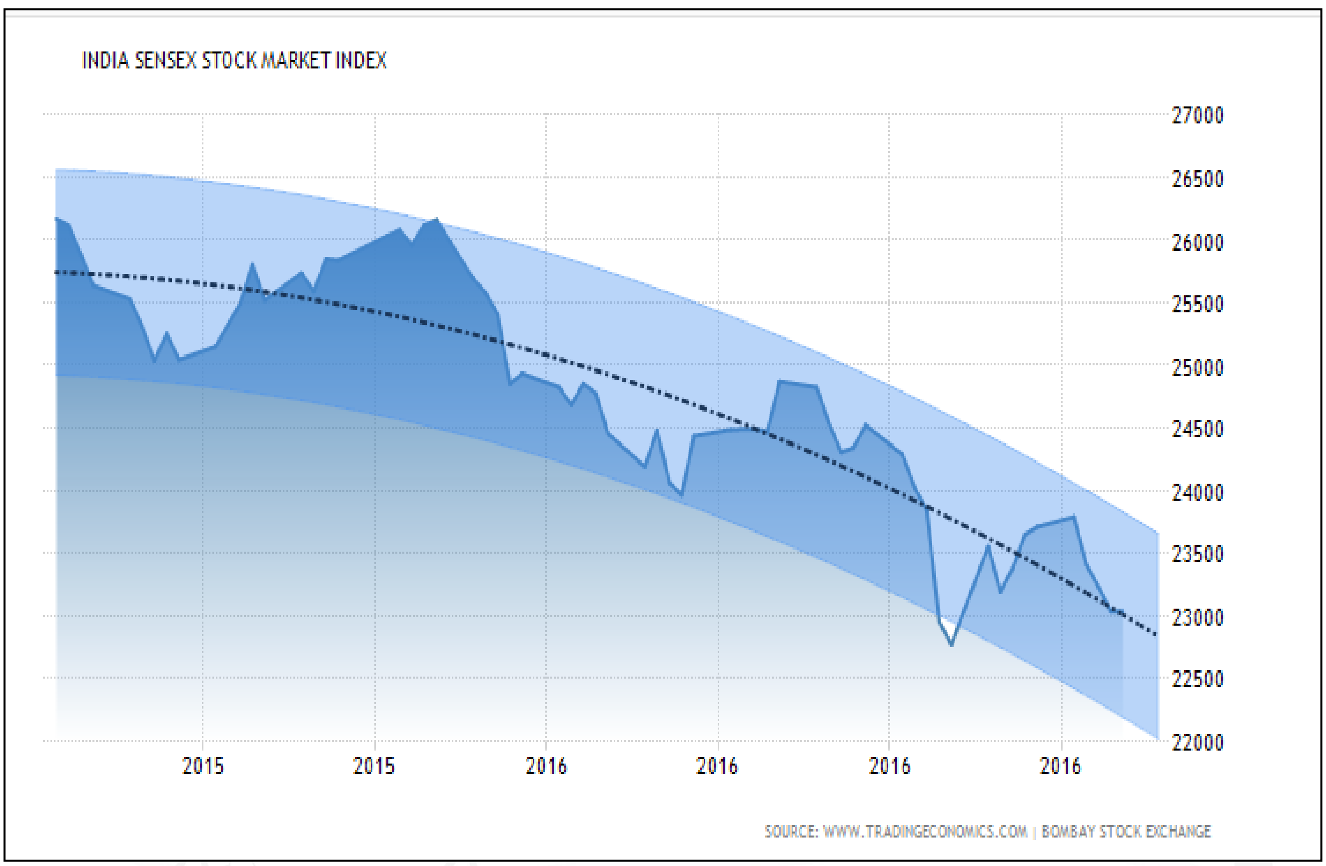
During February, Sensex worsened with 7% bearish rally within 5 trading days starting Feb 5, 2016 (24,616) to Feb 11, 2016 (22,951), being the lowest in past 3 months. This bearish rally in Indian stock market during Jan-Feb,2016 had been highly attributed to the adversity of Q3 India Inc. results.

Apart from the global sentiments, poor earnings are the prime reason which failed to lift investor sentiment. Aggregate sales de-grew 3.2%, EBITDA was up 1.4% while PAT declined 10.3%. Excluding oil marketing companies and PSU banks, PAT registered 0.5% growth. Due to the rupee devaluation, IT stocks were just insulated from negative rally, but not great. With the new RBI regulations on NPA definition (classifying early bad debts as NPA), banks results worsened with skyrocketed NPA numbers and market sentiment impacted the bank index in the month of February. Though high volatility in Indian stock market is keeping everyone under check due to global turmoil, India's growth numbers are in positive trajectory and market will soon enter the bullish rally. Hence, "Every dip is a great opportunity to build a healthy portfolio".

Big movers on NSE (NIFTY) – As on 26th Feb, 2016

TOP GAINERS IN NSE				TOP LOSERS IN NSE		
Company	Price	% Gain		Company	Price	% Loss
Coal India	311.45	4.02		Bajaj Auto	2,238.10	-3.61
Hindalco	69.45	3.43		Hero Motocorp	2,555.40	-2.52
Vedanta	71.8	3.16		Lupin	1,726.75	-1.89
SBI	155.9	2.7		Bharti Airtel	317.95	-1.43
Cairn India	123.8	2.61		ACC	1,190.90	-0.75

Sensex movement from 1st Dec 2015 to 28th Feb 2016



Asha Nair

1420339

ECONOMIC ROLLERS

Rates	Rates as on 1 Dec, 2015	Rates as on 27 Feb 2016
Repo Rate	6.75%	6.75%
Reverse Repo Rate	5.75%	5.75%
CRR	4%	4%
SLR	21.50%	21.50%
MSF	7.75%	7.75%
Base Rate	7.75%	7.75%
Call Money Rate (Weighted Average)	5.6 - 7 %	5.6 - 7 %
91 days T-Bill (Primary) Yield	0%	0%
364-Day Treasury Bill (Primary) Yield	7.28%	7.28%
10 years Govt. Securities Yield	7.72%	7.72%
RBI Reference Rate and Forward Premia		
INR-US$ Spot Rate (□ Per Foreign Currency)	66.42	68.7775
INR-Euro Spot Rate (□ Per Foreign Currency)	72.14	76.0404
Forward Premia of US$ 1-month	6.32	6.39
3-month	6.23	6.83
6-month	6.41	6.63

RBI COLUMN

- Nimmy Mathew

1420054

Ploughing back Agri-Interest Subsidy into Crop Insurance

- The RBI has recommended removing interest subvention schemes and using this subsidy amount into a universal crop insurance scheme for small and marginal farmers.
- The committee headed by RBI executive director Deepak Mohanty has recommended that a mandatory universal crop insurance scheme covering all crops has to be introduced to small and marginal farmers at affordable rates.
- The insurance should be mandatory for all agricultural loans with the farmer paying a nominal premium and the balance coming from government subsidy.

Repo Rate Unchanged at 6.75%

- The RBI kept the Repo rate and CRR unchanged, at the same rate at 6.75 per cent and 4 per cent respectively.
- The Reserve Bank continues to be accommodative even as it leaves the policy rate unchanged in this review, while awaiting further data on the development of inflation and keeping a close watch on the Budget.

RBI to issue Rs. 10 coins on Ambedkar's 125th Birth Anniversary

- In its move to commemorate the occasion of 125th birth anniversary of B R Ambedkar, the RBI will soon issue Rs. 10 coins.
- The coin will bear the portrait of Ambedkar in the centre and inscribed below '125th BIRTH ANNIVERSARY OF Dr B R AMBEDKAR' in English on the lower periphery.
- The coin will also carry the year '2015' written in the international numerals below the portrait of Ambedkar.

Gold Monetization Scheme to be more Customer- Friendly

- In its attempt to make the Gold Monetization more customer friendly, the RBI decided that the depositors will be allowed to withdraw medium term and long term government deposits prematurely after the minimum lock-in period of 3 years in the case of medium term deposits and after 5 years in the case of long term deposits.
- However, there will be penalty in the form of lower rate of interest for premature withdrawals.
- Government will also pay the participating banks a total commission of 2.5 per cent (1.5 % handling charges and 1 % commission) in the first year.

HIT THE BUZZER

Shalini S

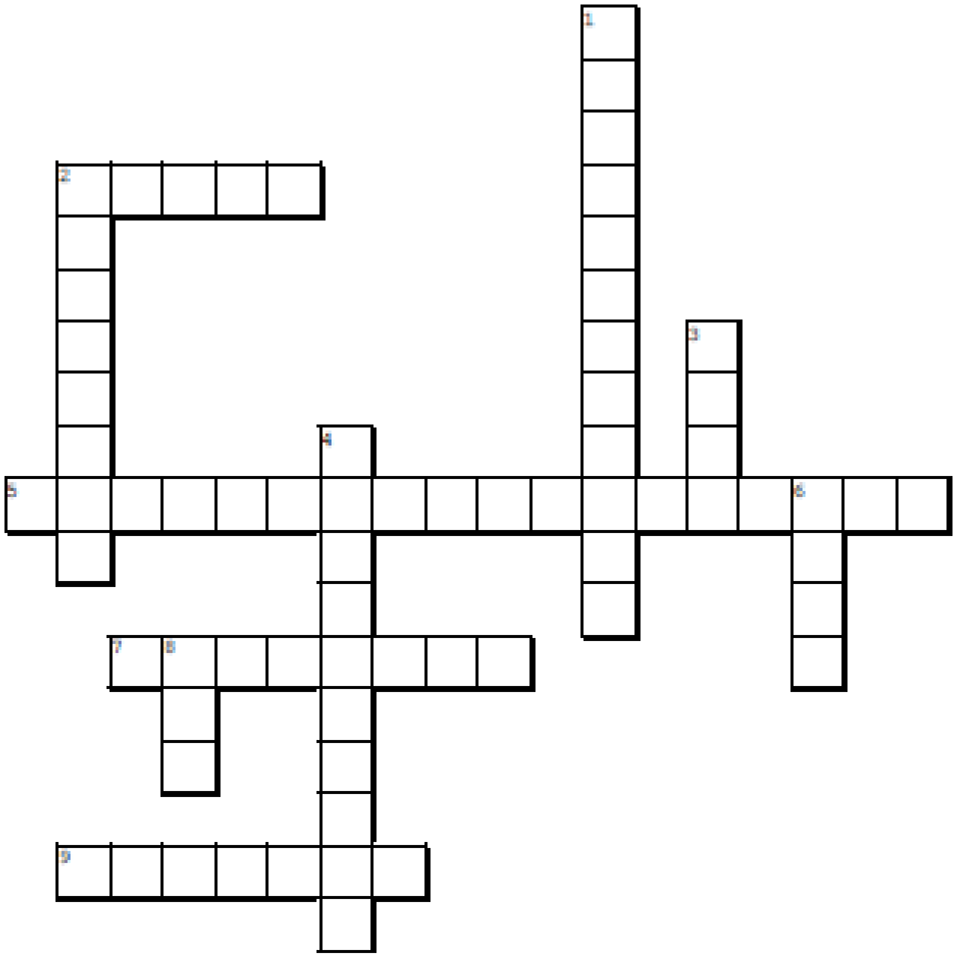
1527058

1. As per the agreement with RBI and Union Government, RBI will aim to bring down the inflation below _______ by January 2016.
2. Which bank is going to wind up its private banking business in India?
3. Indian Railways launched prepaid RuPay Debit Cards collaborating with which Bank?
4. HDFC Bank has partnered with _______ to develop instant money transfer app called "chillr" and the maximum amount that can be transferred via HDFC app chillr is Rs._______
5. Barack Obama has appointed which of the following Indian- American politician as an Executive Director to Asian Development Bank?
6. Prime Minister Narendra Modi has launched "Neev Fund" to invest in small infrastructure projects in eight low-income states. Name the co-investors in this fund.
7. Which Indian Bank is all set to become the first bank to launch mobile wallet service for feature mobile phone "Batua"?
8. On which Bank did RBI impose Rs 1 crore penalty for non-adherence to KYC and anti-money laundering guideline?
9. The holidays of Banks are declared as per ______________________________ Act.
10. The concept of 'Universal Banking' was implemented in India on the recommendation of?
11. Who is the first Indian Governor of RBI?
12. Insurance cover for bank deposits in our country is provided by ________
13. 'CAMELS' is the type of Bank Rating System. In CAMELS, what does 'C' stand for?
14. ATMs which are set up, owned and operated by non-banks are called as?
17. ECS in banking stands for?

CROSSWORD

Sumit Yadav

1527033



Across:

2. A scheme by central government aimed at financial inclusion

3. Process by which banks verify the identity of their clients

7. Mechanism through which banks can recover their bad loans without intervention of the court

9. One of the banks to get universal banking license in 2015

Down:

1. Initiative by government for revival of PSB'S
2. Luring an internet user to reveal personal A/C details on fake WebPages

3. Currency which has no intrinsic value and is solely used as a means of payment

4. Asset kept as security against a loan other than primary security

6. The rate which will replace base rate wef April 2016

8. This was the mechanism suggested by the government for management of loss assets

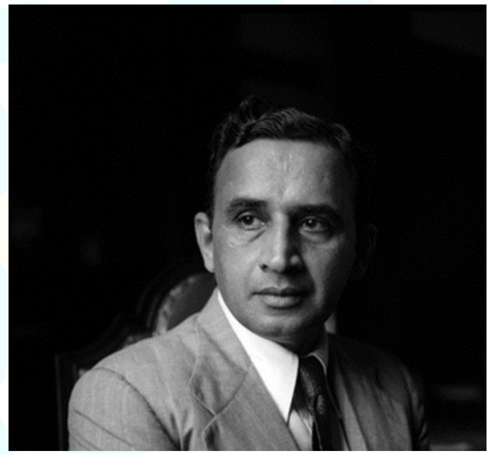
DO YOU KNOW THEM?????????

Suchismit

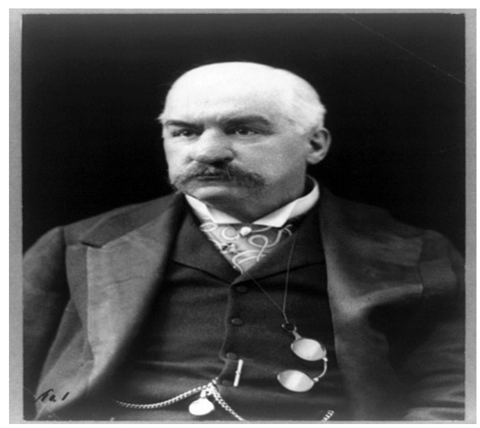
1527032

1.

2.



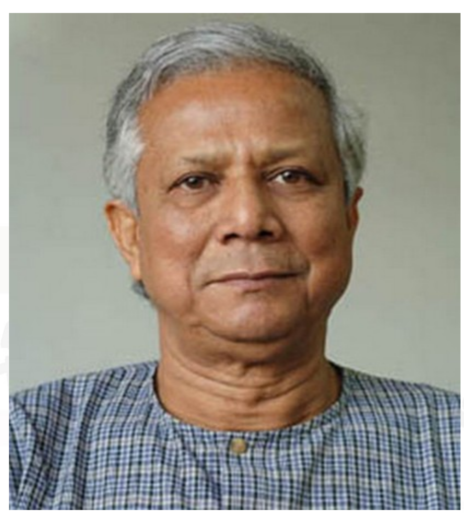
3.



4.

5.

6.



Answer to crossword:

Across:

1. PMJDY
2. KYC
3. SARFAESI
4. BANDHAN

DOWN:

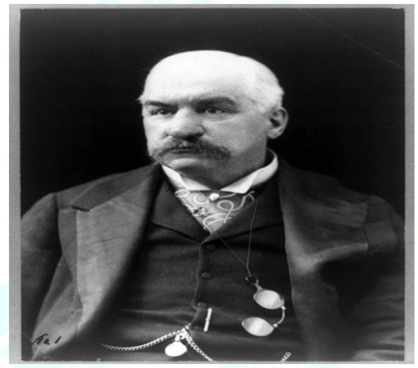
1. INDRADHANUSH
2. PHISHING
3. FIAT
4. COLLATERAL
5. MCLR

Answers to quiz:

1. 6%
2. HSBC
3. Union Bank of India
4. MobME ; Rs. 50,000
5. Swati Dandekar
6. UK Department of International Development and SBI
7. SBI
8. Dhanlakshmi Bank
9. Negotiable Instruments Act
10. RH Khan Committee
11. C.D. Deshmukh
12. DICGC
13. Capital adequacy
14. White Label ATMs
15. Electronic Clearing Service

Do you know them??

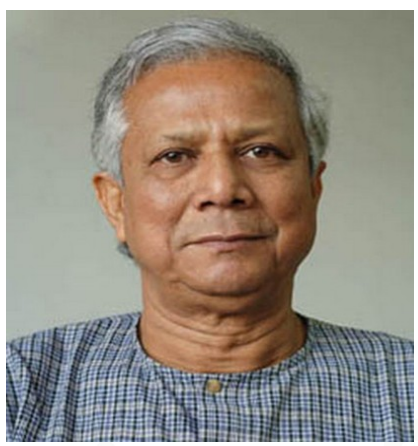
Answers:



__Lloyd Blankfein__ (Present CEO of Gold-man Sachs)

Sir C.D.Deshmukh (First Indian Governor

J.P.Morgan (Founder of J P Morgan & co)



Michael E. O'Neill (Chairman, Citigroup Inc.)

Prof Muhammad Yunus (Founder of Grameen Bank)

Nachiket Mor (inventor of financial devices to deliver banking service to villages)

TEAM NISHKA

Nishka is a quarterly newsletter brought by the students of the Finance Club of Christ University Institute of Management, Kengeri Campus. Nishka aims at nurturing the writing skills and establishing a learning amongst the students, which helps them to gain an insight about the world of finance.

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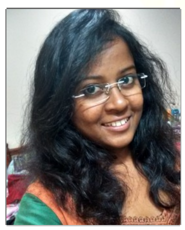

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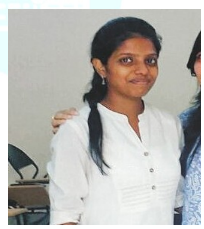

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Suchismit

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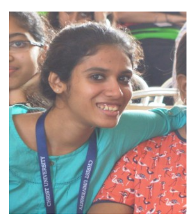

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