Samvad

Igniting Thoughts of Tomorrow

BANKING

WeChat

Mr. D.G Patwardhan
CEO, FEDAI

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Featured

Analysis of NPA's in Public Sector Banks

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August 2014

S.P Mandali's weschool
Welingkar Education

OUR VISION

"To nurture thought leaders and practitioners through inventive education"

CORE VALUES

Breakthrough Thinking and Breakthrough Execution

Result Oriented, Process Driven Work Ethic

We Link and Care

Passion

"The illiterate of this century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn." - Alvin Toffler

At WeSchool, we are deeply inspired by these words of this great American writer and futurist. Undoubtedly, being convinced of the need for a radical change in management education, we decided to tread the path that leads to corporate revolution.

Emerging unarticulated needs and realities need a new approach both in terms of thought as well as action. Cross disciplinary learning, discovering, scrutinizing, prototyping, learning to create and destroy-the mind's eye needs to be nurtured and differently so.

WeSchool has chosen the 'design thinking' approach towards management education. All our efforts and manifestations as a result stem from the integration of design thinking into management education. We dream to create an environment conducive to experiential learning.

Message from the Group Director

Prof. Dr. Uday Salunkhe,
Group Director

Dear Readers,

It gives me great pride to introduce Samvad issues every month. Our Samvad team's efforts seem to be paying off and our readers seem to be hooked onto our magazine. At WeSchool we try to acquire as much knowledge as we can and we try and share it with everyone. I sincerely hope that Samvad will reach new heights with the unmatched enthusiasm and talent of the entire Samvad Team.

Here at WeSchool, we believe in the concept of AAA: Acquire Apply and Assimilate. The knowledge that you have acquired over the last couple of months will be applied somewhere down the line. When you carry out a process repeatedly it becomes ingrained in you and eventually tends to come out effortlessly. This is when you have really assimilated all the knowledge that you have gathered.

At WeSchool, we aspire to be the best and to be unique, and we expect nothing but the extraordinary from all those who join our college. From the point of view of our magazine, we look forward to having more readers and having more contributions from our new readers.

Samvad is a platform to share and acquire knowledge and develop ourselves into integrative managers. It is our earnest desire to disseminate our knowledge and experience with not only WeSchool students, but also the society at large.

Prof. Dr. Uday Salunkhe,
Group Director

About Samvad

Prof. Dr. Uday Salunkhe introducing the first issue of Samvad

OUR VISION

"To facilitate exchange of ideas that inspire innovative thought culture"

MISSION

To Dialogue

To Deliberate

To Develop

To Differentiate

As the student magazine of WeSchool, Samvad is greatly inspired by the words of Alvin Toffler backed by a strong vision of facilitating exchange of ideas that inspire innovative thought culture. Samvad is a platform for the next generation leaders to bring forth their perspective on management to the world and gives the readers an opportunity to learn, unlearn and relearn on a continuous basis.

The team of Samvad is driven by a set of strong WeSchool values which enable us to create a dialogue leading to knowledge gaining and sharing, to deliberate on the information, to develop a sense of creativity and differentiate our minds with innovative thoughts of tomorrow; today.

From the Editor's Desk

Dearest Readers,

Greetings from Team Samvad!

It gives me and the entire Samvad Team immense satisfaction to bring to you the latest issue of Samvad on the theme "Banking".

India is considered among the top upcoming economies in the world, with tremendous potential for its banking sector to flourish. The last decade witnessed a significant upsurge in transactions through ATMs, as well as internet and mobile banking. In the next 5-10 years, the sector is expected to create up to two million new jobs driven by the efforts of the RBI and the Government of India to expand financial services into rural areas.

To give you more insights on a career in this sector, we have Mr. D.G Patwardhan CEO, Foreign Exchange Dealers Association of India (FEDAI)), a distinguished personality in the field of Banking. Hope the interview adds lot of value to your reading. The featured article gives a detailed analysis of Non-Performing Assets in Public Sector Banks and also gives a framework to address the issue of NPA's.

We are thankful for all the wonderful comments, compliments and suggestions for improvisation by you all and we are striving for the best. We hope with this issue we provide you with different perspectives on this sector. We will be happy to hear if you personally wish to enter this sector or have a vision to bring about a disruptive change at the grassroots level. It's time we ignite our thoughts in to actions for a better tomorrow.

Hope you will like reading this issue. Feel free to give us your feedback. The team will strive hard to make your readership experience more worthwhile.

Read Better to know Better…!!!

Best Regards,

Anurag Chatterjee

Editor

Samvad - Igniting Thoughts of Tomorrow

Acknowledgements

Team Samvad would like to extend its heartfelt thanks to certain key members of the WeSchool family for their special efforts towards the making of this magazine.

We deeply appreciate the constant motivation & encouragement that our beloved **Group Director Prof. Dr. Uday Salunkhe** has always given us. His vision & result orientation has been the driving force in creating brilliant leaders and making WeSchool a name to reckon with, not only in India but also globally. His focus on the core values of Passion, We Link & Care, Result Oriented Process Driven Work Ethic and Breakthrough Thinking has formed the foundation of all the activities that we undertake as students of this esteemed institute.

We deeply appreciate the help and support given to us by both **Prof. Amarkant Jain** and **Prof. Deepa Dixit**. Their insight and expertise is our driving force to ensure the sustainability of our magazine.

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The Finance articles were scrutinized by **Prof. Sapna Mallya** and we thank her for choosing the most relevant and informative articles.

We appreciate the efforts of **Prof. Ragini Mohanty** for selecting the most interesting articles in General Management domain.

The Human Resources articles were scrutinized by **Prof. Anjali Joshi** and Operations Section by **Prof. Kavita.** We thank them for choosing the best articles

We would like to thank **Ms. Yashodhara Katkar**, General Manager - Liaison, WeSchool and her PR team for helping us to reach out to our readers. Also, we thank **Ms. Prachi Shah** and her team for helping us out in the PR activities of Samvad

We are indebted to **Prof. Jalpa Thakker** for all her help and guidance in the making of Samvad. Her insight and suggestions have been of tremendous benefit to us. The Samvad Team would truly be in-complete without her.

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By: Team Samvad

(Chief Executive Officer, Foreign Exchange Dealers' Association of India)

1. Could you please take us through your professional journey right from the start of your career?

For a M.Sc. degree holder in Mathematics, making a career in banking was more of an accident. I started my professional career as a lecturer in Mathematics. While continuing my lectureship, I applied for SBI's and Bank of India's Probationary Officers exam, fortunately passed both of them and ultimately joined Bank of India in 1974, worked there for 31 years and that was how I got "involved" into banking. Subsequently, I worked in United Western Bank for three years and my last posting was in SBI as Chief General Manager. Eventually after my retirement in 2011, I joined FEDAI as the Chief Executive.

I worked in core banking operations, forex banking, risk management and also handled some of the IT projects when computerization of bank branches was taking its toll. From manually handling all the operations to the era of computerised banking, from nationalisation of banks to the entry of private sector banks, in all these years, I can proudly say that I have witnessed some of the real changes in the Banking Sector in India.

2. How is the Indian Banking System different with respect to the Foreign Banking System?

I have worked in Singapore and Hong Kong and I feel that earlier it used to be very different. If you look at the era up to the 90s, Indian Banking was aimed at moving from class banking to mass banking. But, today it is more or less similar. We talk about retail products, housing loans, housing and asset bubbles just as they do. One point of difference could be that the Indian Banking is more of regulatory in nature (for e.g., we still do not have capital account convertibility) whereas the Western world, until the subprime crisis had a far lesser regulations as compared to us. Well, the regulatory perspective has its own pluses and minuses but so far we have witnessed more advantages as we successfully avoided the 2008 subprime crisis and the recent Libor debacle.

3. Do you think that the banking sector in India should be made more competitive by RBI approving some more licenses?

RBIs can always approve licenses in the deserving cases but ultimately it should be left to the requirement of the market whether the market needs more banks or not .It means that RBI window for granting banking permits would be open through the year. At the same time, RBI should also enforce the license so as to keep a check on whether the purpose for which those banks have been granted licenses is served.

4. There are talks about the increasing NPAs and inefficiency of the asset quality of the public sector banks. What are your views on this?

The public sector banks are being compared to the private sector banks in terms of the inefficiency, to which I kind of disagree as there are lakhs of accounts that are to be handled in PSBs so there are chances of earning a lesser business per person as compared to that of private sector banks. As mentioned earlier, the main motive of nationalisation was to move from class banking to mass banking, increase the reach and to fulfil the national priorities.

PSBs have helped in achieving financial inclusion; have helped technocrats and businesses to grow by providing them loans at times when their businesses were on a downside. So, of course there are higher chances of loans becoming bad.

The condition could definitely be improved from the first step itself that is the selection of the borrower, doing a proper background check of the customer, understanding his business and never providing a loan through a middleman. If these pre-requisites are not done properly, the foundation is not solid. These preventive measures could help in a better future growth.

5. What measures should the new government take to recapitalize the state run banks which are currently suffering bad loans totalling 100 billion $?

Whether the banks have a bad loan or a good loan, the government has to recapitalise because there are more and more requirements under different set of norms. Any bank which comes with any issue, gets subscribed. There hasn't been any problem so far. Hence, if the government wants to maintain its own stake, they should subscribe under the right issue.

5. The percentage contribution of the Indian forex market to the global forex market is just 1%. Do you think that it is expected to increase further in the coming future?

We must really not worry about the turnover as it is not the correct criteria for judging the forex business. RBI is trying to make rupee as the acceptable currency for Indo-foreign operations. Like suppose, there is an import to or an export from India, the invoicing should happen in rupee. Therefore, the rupee invoicing or rupee business would increase the turnover and more than that it would help to increase the importance of rupee and eventually would create a demand for rupee.

6. Lastly sir, what will be your suggestion for the students planning to take up Banking as their professional career ahead?

You should be passionate towards your work and having joined a bank, you must be flexible enough to work at various locations especially in case of public sector banks. Ambition is what matters the most and today we have so many women in the top management of various banks. Though private sector banks look more glamorous and exciting in terms of the salary they provide but working in a PSB ensures that you get more exposure and greater freedom towards your work. My only suggestion would be that for any job, a background isn't necessary but you must be enthusiastic enough to gain in-depth knowledge to grow in your career.

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An analysis of NPAs in Public Sector Banks

By: Ganesh Prabhu & Suverna Jain, PGDM E-biz (2013-2015), WeSchool, Mumbai

Exactly one and half year ago, any retail or foreign institutional investor would have had the theory of "Must own" for stocks of Indian PSBs in his portfolio, but the same doesn't hold true today. The reason is very clear. The gross bad loans of 40 listed Indian banks had surged to Rs 2.43 trillion as of December 2013. There is a rise of about 36% from last year which obviously doesn't look good.

As per ICRA in its banking update, by March the gross non-performing assets (NPAs) of public and private banks together could rise to 4.2-4.4% from 4.1% as on December 2013. The gross NPAs of state-run banks could rise to 4.8-5% of total loans in the banking system. Gross NPAs of public sector banks increased to 5.17% of their advances at the end of December 2013, against 4.18% one year before. The highest NPAs, at 7.21% of advances, are in loans to small and medium enterprises followed by agriculture at 5.99%. HDFC Bank had a gross non-performing loan ratio of about 1% at the end of 2012-13.

All said and done it is important to know what factors have piled up into High NPA for public sector banks .One of the many truths is also that the State run banks have got to finance infrastructure projects. Many Highway projects which had estimated good returns are now considered as failure. A study of six highway projects across India by CRISIL revealed that the project returns have dropped to 8-14 % which is half of 24-26% of returns that were estimated by National Highway Authority of India. This in turn has created a problem for developers as they will have to bring additional capital to pay back their loans to the PSBs. Ultimately these loans have now turned into NPAs.

The advanced strategy followed by private banks is that they give more emphasis to retail loans and short-term working capital credit. Thus, the burden falls on PSBs (public sector banks) to take higher exposure in infrastructure, manufacturing sector and term loan financing. As a result private banks are much comfortable compared to the PSBs in terms of NPAs.

Also recently it has been observed that, banks have also been facing an increasing number of cases of willful defaulters, or companies, which have the means to pay back but wouldn't do so. If stats are to be believed SBI alone had given a figure of 1,187 willful defaulters for loans amounting to 9,980 crores and it often becomes difficult to recover money from such defaulters especially when they are corporate defaulters. King Fisher Airlines being the recent example as declared by the United Bank.

However, failure of such projects and willful defaults are not the only factors but it is also observed that the public sector banks are uncompetitive as they feel secured and safe by the government's implicit guarantee to save them. This is supported by the fact that the government has been compelled to periodically recapitalize public sector banks and has provided between Rs10,000 crore and Rs 20,000 crore in each of the last three years. Due to lack of maturity in public sector banks they have ended up in accumulating 86 per cent of the non-performing assets (NPAs) of the banking sector compared to their asset base of 75 per cent.

At the same time, public sector banks are suffering with large numbers of inadequately trained or demotivated personnel who cannot be retrenched. According to recent press reports, recently the finance ministry has supposedly informed the Cabinet Committee on Economic Affairs that the cancellation of the allotment of 62 coal blocks would lead to an increase in NPAs of about Rs 1 lakh crore. This has occurred at the time when NPAs have increased sharply over last 1 year. Public sector banks would be among the banks that would be hit hard. It was separately reported that the government proposes to use proceeds from disinvesting in PSUs to fund the recapitalization of public sector banks.

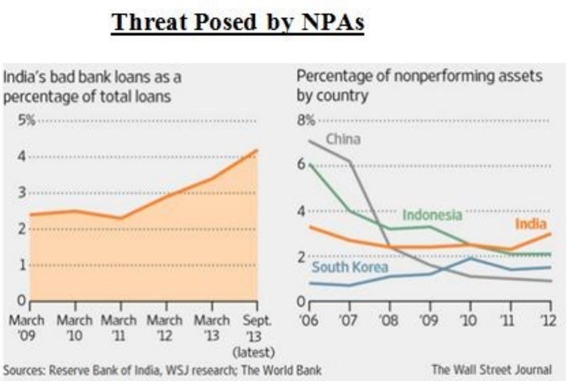
However the state owned banks are also under immense pressure from government and the majority shareholders to recover loans and also reducing the bad debt.

The growing NPAs in the public sector banks lower the profitability of the banks and also shake the confidence of the investors, depositors and lenders. Thus, the credibility and the financial soundness of the banking system are greatly impacted.

Secondly, the recycling of funds becomes difficult and decreases the lending ability of the banks. It also has serious implications on the future credit growth as banks would then not easily extend credit to the sectors that exhibit higher NPAs, leading to an economic slowdown.

Thirdly, banks are required to maintain a defined capital adequacy ratio against their risk prone assets as per the BASEL norms. Increase in the levels of NPA leads to addition in the risk weighted assets leading to a higher provisioning and in turn, a higher capital.

Lastly, the banks' business is also impacted. Since the profitability of the banks is reduced, they tend to lower the interest rates on the deposits.



Source: RBI and Wall street Journal.

Image source: Business Standards

Thus, shareholders do not get a good return on their investments and sometimes even the value of their investments goes down. They also levy higher interest rates on the advances to maintain their profit margin. Eventually, there is a negative effect on those who repay their loans on time.

Framework to address the issue

The steps taken by the finance minister to provide exemption in CRR and SLR to banks to finance infrastructure is seen to be positive in nature. Also RBI has allowed banks to refinance infra loans through take-out financing, such that banks have to find new lenders for only 25 percent of the refinanced loan, an amendment to the 50% cap earlier. The time period is also expected to exceed about 85% of the project period, this whole change comes as a relief to the banks as well as the borrowers and they can now extend their project to say 25-30 years which will ultimately ease their cash flow.

This moderation of taking out finance strategy will largely help infra and power projects and the ultimately proves a lifeline for banks and infra companies. This should definitely add some positive sentiment among the holders of PSU banks stocks and infra bonds. However it is said that prevention is better than cure and hence making sure that the problem is curbed at a very initial stage is important.

PSBs should take sufficient steps to analyze the borrowers. This should be backed by proper information sharing about the credit history of borrowers and also big corporates. It is mandatory to perform proper analysis of last 5 years' cash flow statements of the companies. It is also observed that the existing credit appraisals are also responsible for the banks to give more loans and banks can avoid NPAs at a very early stage of credit consideration inducing appropriate loan monitoring and credit appraisal mechanisms into the system. Lets hope that the steps taken by RBI and finance minister act as early diagnosis of this NPA disease which otherwise can worsen the financial health of the country.

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Shadow Banking System

By: Harshit Vyas, MBA IB (2014-2016), IIFT, Kolkata

Introduction

What is seen is often far off from reality. In the physical manifestation what is perceived is mostly in accordance with what is seen; in economics it is not so. So while an institution appears like a bank, lends like a bank & works like a bank, it is often not a bank. It is a shadow bank.

According to Financial Stability Board (FSB), a framework with representatives from the major economies of the world designed to guard against impending future crises, shadow banking is one of the most vital issues posing dangers to the global economy. Though the global size of the shadow banking market is disputed, most big shot reporting firms, including Bloomberg, peg it to be over $70 trillion! Financial Stability Board also reported this number to be $71 trillion in 2012. This is unfathomable considering that a decade ago the picture was very different.

The graph below highlights the growth of shadow banking market in absolute terms over the last decade.

What is shadow banking?

Shadow banking is defined as the process of lending credit by institutions other than the regulated scheduled banks in the country. These institutions serve as intermediaries between short-term investors and long-term borrowers thus making profits from either the fees or the arbitrage in interest rates or both. Shadow banking surely has the characteristics to play a party pooper for economies across the world. Given the vulnerabilities that this system is exposed to and the astonishing growth path it has witnessed in the last decade it has become imperative to safeguard economies against its ill-effects.

How are shadow banks different from formal banks?

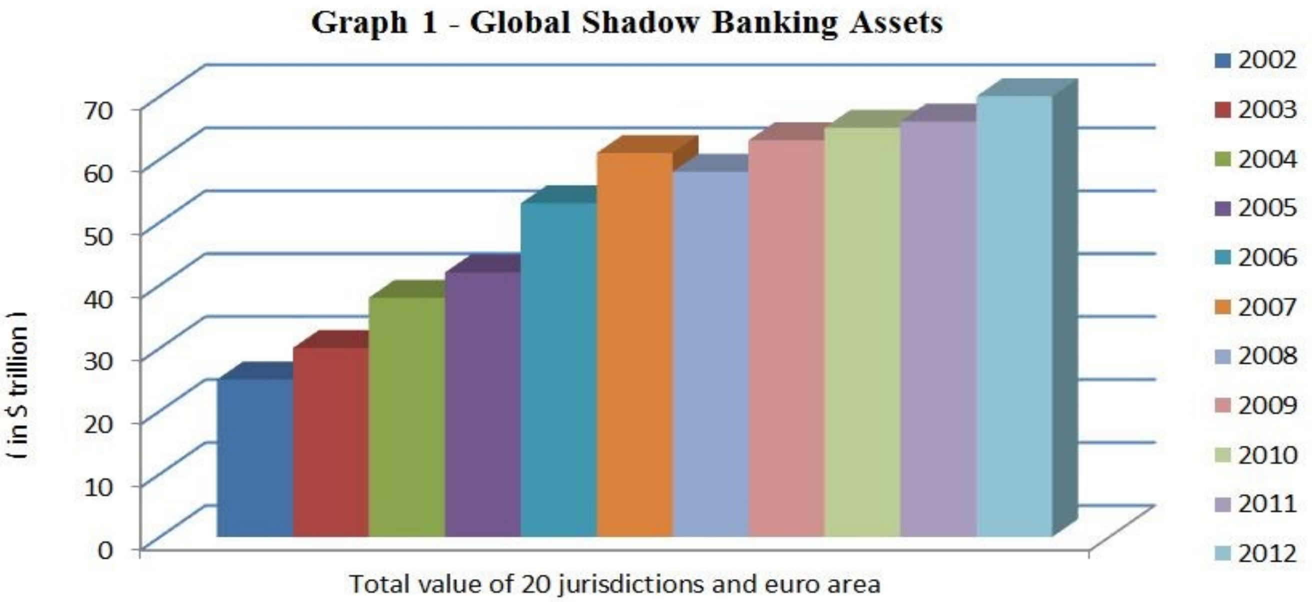


Image source: Financial Stability Board

Unlike a conventional bank which depends on taxpayers and savings account depositors for their sources of funds, shadow banking system relies on short term investors in the money market. Prima facie this might seem to be a perfectly dependable option to source funds, but it is not because of its dependencies on the outside market and investor's whims and fancies.

Every lending institution engages in the process of maturity transformation to lend money in the market. For example, when banks use the depositor's short term funds to finance long term loans they engage in maturity transformation. Non-banking entities, which form the shadow banking system, do the same exercise but with a slightly different mechanism. They buy assets, say mortgages, and then bundle them into a pool to finally split and create securities out of it. These securities are then sold to the investors. This forms the major chunk of funds sourced by SB entities. The value of the security is backed by the value of the mortgage asset and the earnings on the MBS are paid from the regular interest and principal payment by the homeowners on their mortgage loans.

Shadow banks have been in the fore of late especially because of their ability to securitize mortgages.

<u>Why is shadow banking a concern around the world?</u>

Shadow banking is touted as one of the biggest threats to the global economy. But isn't it good enough if banking ancillary services are offered by institutions outside the banking industry? Doesn't it create more competition among the banks and improves the quality of services as a whole?

Actually the potential point of concern here is not provision of banking facilities alone but provision of credit. If a non-banking entity, say Amazon, tomorrow comes up and helps people to manage their funds and assets, it would be welcomed rather than being questioned. The problem with shadow banking is the lending exercise they engage in. This is primarily because lending institutions are inherently fragile and play around maturity transformation to maximize profits. In this effort they tend to create enormous "maturity mismatches" and if at all there is a run on the institution they fall short of liquidity.

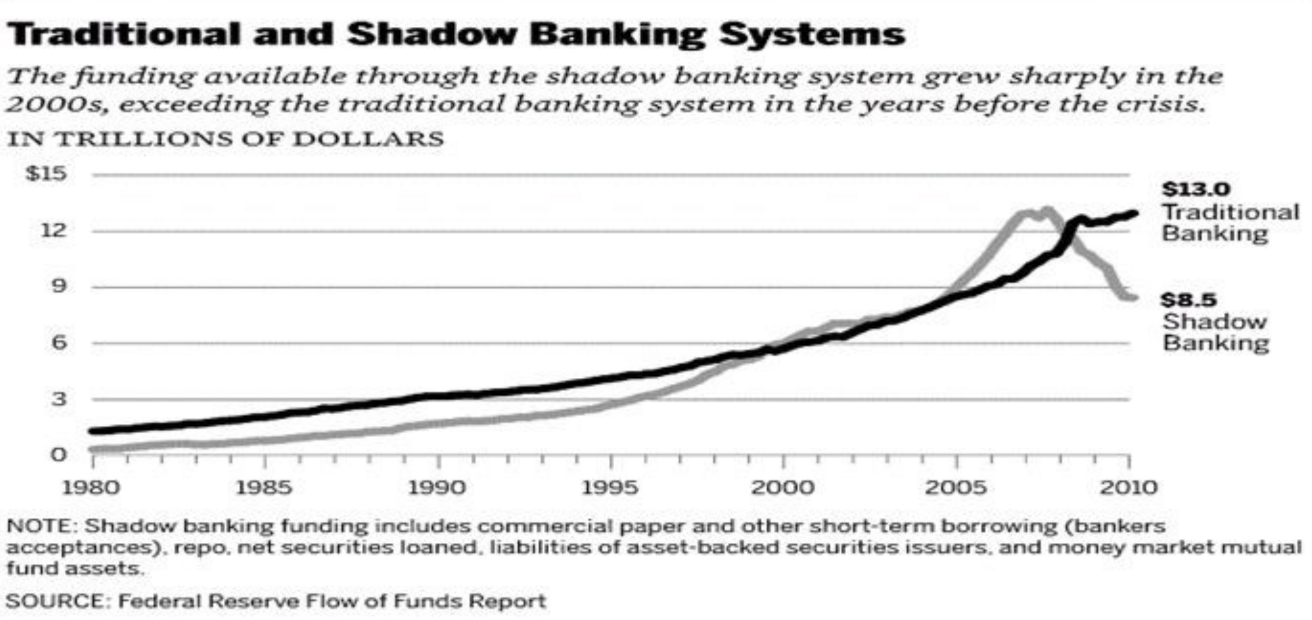
Having said that, here is where the problem starts – traditional banking system is highly regulated by the central bank which is a watchdog to keep the banks within their safe lending limits. So, the capital adequacy of a bank is upheld. In addition to this, conventional banks are also backed by the government which acts as a safety net in case the banking system collapses. Both of the above mentioned points that help the traditional banks gain stability and credibility are elusive to the shadow banking system which is largely unregulated and not backed by any sovereign fund. This makes the SBS a trifle times more vulnerable and prone to market sentiments. SBS also got itself into bad light due to its engagement in lending using financial instruments that are called Off Balance Sheet (OBS) vehicles in financial parlance. These loans have no mention in the books of the institution which makes them very difficult to track and assess. OBS vehicles are typically considered to be separate from the banks but in practice are dependent on them.

<u>How did the Shadow Banking System achieve its present size and avatar?</u>

The birth of Shadow Banking system can primarily be attributed to the wariness of the scheduled commercial banks to lend money to small and medium scale businesses. The banks, beaten and battered, still coping with the bruises of the financial crisis are on the back foot and tend to retrench their expenses. Post crisis the banks have also been, rightly so, forced upon by more regulations which makes granting loans a lot more regulated activity now.

A typical supporting example is that of Republic of China. In China unlike other countries where market parameters play a vital role in setting the interest rate, it is the government that pins the interest rates for commercial lending. These regulative norms is to guarantee risk free profits

2 – Graph showing growth of global Shadow Banking Operations



for The government also imposes limits on loans and deposits that the banks can offer. The objective behind the banks. But, this leaves no incentive for the banks to remain competitive in the market by offering attractive lending rates to the customers.

The result is focused lending only to the state owned enterprises, which have near zero chances of default and are always backed by the government. Small and medium scale enterprises are thus left out of the official financial system and have no scope of borrowing money from the banks that are part of this farce system. As a result, SMEs look up to non-bank entities for credit which spawns the growth of institutions that engage in credit lending at high interest rate and take advantage of the situation. This constitutes the web of non-bank entities that make up the SBS. The Diplomat reports that China has grown to be the epicenter of 'covert banking' in recent times and shadow banking in China has grown by a startling 40% last year. Apparently, China is one country where shadow banking operations have grown at a rate more than formal banking operations have! JP Morgan pegs the size of the Chinese shadow banking operations to close to 46-50 trillion Yuan or $7.5-8 trillion which is about 30% of their total bank assets.

<u>What conclusion can we draw from it?</u>

The authorities around the world are concerned about the shadow banking activities that have seen a manifold increase in the recent past - so much so, that shadow banking operations have affected the traditional financial sector and also the economy in general. Economists are examining more and more data closely to find the hidden vulnerabilities in this system and devise a solution for it. The most important step being taken by the authorities is to bring the area of operation of shadow banks under their purview so that the sector can be regulated and overseen thoroughly. One thing is for sure, shutting down shadow bank operations abruptly is out of question now; the way out lies in exercising greater control and expanding the scope of regulation in the financial market across all domains and sectors.

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Another 'BRICS' in the wall

By: Sainath Zunjurwad, PGDBM (2013-2015), SIMSREE, Mumbai

The Background

The United Nations, the World Bank and the International Monetary Fund (IMF). Three of the most important and powerful multilateral organizations that exist today. The World Bank and the IMF- the Bretton Woods institutions- were established in 1945, and have come to define the economic policies of almost all the countries over the past half century. IMF directors have wielded more power than the elected leaders, heads of states of most of the world. When these apparatchiks descended upon the capitals of impoverished (needy) countries, from their abodes in Washington, the local countries had little choice than to accept the policy treatments that they prescribed.

Image Source : Camdessus-IMF MD (Left) and Suharto (President Indonesia)

For the monetary help that these indigent nations so sorely needed, came with these riders. The policy prescriptions might well have been the right ones, (though more often than not they were ill conceived and misguided directives from mandarins sitting in London or New York who knew nothing about the ground situation), the manner was thoroughly humiliating . The picture of the IMF chairman breathing down the neck of Indonesian President Suharto to force him to sign the agreements is worth a thousand words.

Countries in dire need of capital were browbeaten to accept 'packages' (Aid+ policy prescriptions) they would never have.

For institutions with such leverage, one might expect that they would have adequate representation for all member countries. One could not be more wrong. The Americans and the Europeans have a 'gentlemen's agreement'. In the past 68 years of its existence, the World Bank has had 12 presidents. All Americans. 11 gentlemen have graced the office of the managing director of the IMF in the same years. All Europeans.

For the countries that preach democracy to the whole world, this has been a conspicuous undemocratic tradition. Institutions that had been set up to redress the problems faced by the post war world –wars, ethnic clashes, genocides (the UN); poverty (the IMF); infrastructure and development (the World Bank) have been reduced to being mere playthings of the rich and powerful countries at best, and instruments of at worst. The imprint on these august institutions has been unquestionably Western.

A whole lot of nations resent the hegemony of the West over these institutions and understandably so. The UN and the Bretton Woods institutions have proved to be an instrument of the West.

Granted that they have marginally succeeded in alleviating poverty, hunger, diseases in places such as Africa. But they have seen abject failure in places where the interests of the powerful Western countries conflicted with those of the local people.

A glaring example of this is the Middle East and the emerging economies which did not take kindly to the lecturing tone of the foreigners, and had to see their aid drying up.

The Challenge

A new sun has now risen over the horizon. It desires to carve out a place for itself. China. Its star is on the rise.

At the present, China does not have adequate say in the multilateral institutions that exist today. The cacophony of the Western powers is drowning out its voice. It emphasizes that it had no role in framing the regulations that govern the international bodies. It feels underrepresented there. The IMF, the World Bank, and the UN are all tilted in favor of the Americans. The Europeans' refusal and the Americans' failure to bring in reforms in the IMF and the World Bank isn't helping the matters much. It is not satisfied with the seat on the Security Council, it demands more powers, more teeth, as suits its mighty military and economic prowess.

This was not forthcoming. But the powerful usually get their own way. Somebody mooted the idea of a rival organization to the UN. And hence BRICS was born.

Image source: http://www.eurasiacenter.org/

The Roadmap

For a long time, BRICS remained a mere acronym, albeit an attractive one. The heads of state met once in a year or so. Those summits accomplished little more than providing a platform to rail against the West. However on 15 July 2014, the nations signed the long-anticipated document to create the $100 billion BRICS Bank-New Development Bank. A step towards solidifying the group and binding its members together. This, if realized, could prove to be a milestone in World politics. It can rival the existing Bretton Woods institutions. It could potentially serve the interests of the so called Southern hemisphere, which has largely been neglected by the IMF and the World Bank(as was seen during their refusal to help out after the collapse of the Asian Tigers in 1990's, but bailed out the European nations in the 2008 crisis).

Image Source: Jan de Vries and RobbertHuijsman, Supply chainmanagement in health services

So the need has been real. The so called emerging economies are need of capital in terms of several trillions annually. With their meagre resources, they are simply unable to service these needs. China has huge reserves money reserves. It urgently needs to diversify from its US treasury bills. It can open its taps to the emerging economies for the right price. The Chinese have an edge in the financial and technical fields also, with considerable experience and expertise.

The Pitfalls

Nobody should have much illusions about this new institution, which is an acronym for Brazil, Russia, India, China and South Africa. These countries represent emerging economies. They hold similar grovels as the Chinese against the Western powers. India, Russia, Brazil have rising economies, and huge potential power. They are regional satraps. They desire for a bigger share in the pie. China has craftily aligned itself with these nations and consolidating its position against the American Hegemony. But make no mistake about its true intentions.

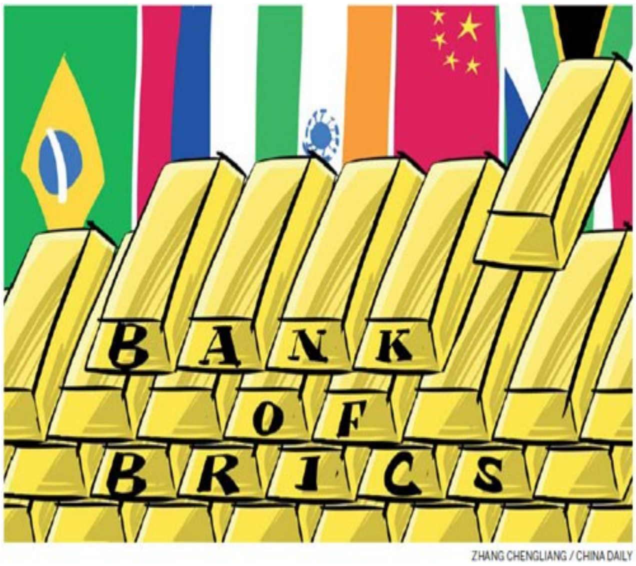

Image Source: http://www.corbettreport.com/wp-content/uploads/2014/09/bricsbank.jpg

BRICS has been compared to the NATO, the European Union. The NATO is dominated by the USA, as surely will the BRICS be by China. However, the defense interests of the NATO nations are aligned. Excepting America, the other states do not possess sizeable armies. BRICS, in stark contrast, has former and potential adversaries in India and China, Russia and China. India suffered a brutal defeat in the 1962 border war with China, and the bitter memories linger. The former Soviet Union and China had their armies facing each other for many years. Trust issues could potentially derail this exercise.

The Conclusion

The million dollar question lingers. Will China extract its pound of flesh like the IMF and World Bank did at the behest of America? There are already simmering tensions in the BRICS. With China and India squabbling over the Bank's headquarters, Brazil and India over its first presidency. Each member has differing agendas, ulterior motives in forming the Bank. China wishes to be the preeminent world economic power (its Renminbi to be the preferred global currency). Russia feels slighted by the West. Brazil, India, South Africa blame the West for the 2008 crisis, which decelerated their GDP growth. The only commonality is the shared detest of the West, and the potential benefits of coming together. Will it prove sufficient to hold this disparate group together? Or will the challenge prove insurmountable? Will the BRICS and its new bank become the proverbial harbinger of change? Only time will tell.

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Building a compelling Employee Value Proposition in Banks.

By: Ruchi Mehta, PGDM-EBIZ(2013-2015), WE School, Mumbai

Veering off from one bank to another requires astonishingly low stimulus for majority of customers – an unsatisfactory service, a higher saving rate or a new bank closer to home. Customer churn is foreboding for all banks today. But what is even more fretful is Employee Attrition!

Attrition erodes consumer loyalty and hurts the brand reputation. In a service-driven environment like banking, Employee Attrition can affect the bottom line directly. M.D.Mallya, CMD, Bank of Baroda believes "In the competitive banking scenario, organisations have the same products; operate in the same environment and regulatory systems. Our people are the differentiating factor." Offering an impressive Employee Value Proposition (EVP) therefore becomes a critical factor for retention of employees and success of the business for banks.

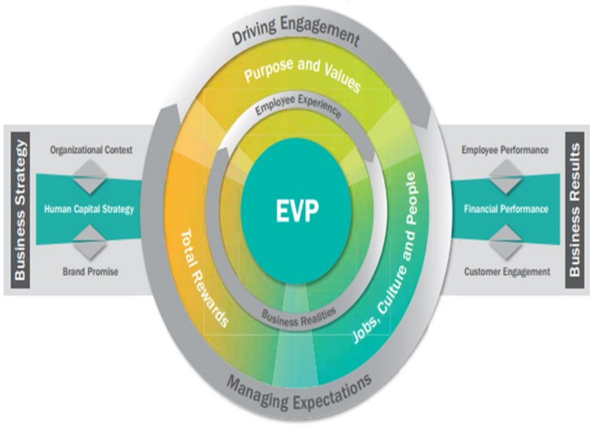

Image Source: http://www.corbettreport.com/wp-content/uploads/2014/09/bricsbank.jpg

<u>What is it?</u>

Employee Value Proposition is defined by SHRM as "what is offered by an employer in exchange for the productivity and performance of an employee. It includes the entire employee "experience" from their rewards and benefits, to the opportunity for career development and also the more intrinsic elements of management style, work environment and culture."

Let us see how some banks have succeeded in building an EVP and managed their talent affectively.

<u>Yes Bank</u>

Yes Bank rides on the belief that for a brand to be communicated to the existing and potential Customers, it should first be internalized by the employees of the company. The Core Values of the company can only be inculcated into its employees when they can identify themselves with a brand and hence, deliver the brand promise to the customers.

Among many initiatives to engage employees, 'YES - GOLDEN PIN' is the bank's most sought-after and highly prominent recognition program for path-breaking and exemplary performance leading to business excellence. The acclaimed employee gets a Golden Lapel Pin and an appreciation letter from the MD & CEO. Another recognition program called "CEO's league of Excellence" Awards is an Exclusive League of high performing YES Bankers who are awarded for exceptional contributions in the areas of Customer Relationship Management & Origination, Superior Service Delivery, Productivity Management, Business Support & Branch Profitability, towards delivering core business objectives in their respective functions.

Kotak Bank

Kotak conceits in their work culture and have created a unique EVP for their employees to be able to become a preferred employer in the sector. They have formalised their EVP by calling it FLAME which stands for: **F**ocus on Results, **L**eadership, **A**ctive Involvement/ Inclusiveness, **M**aximum Challenge, **E**ntrepreneurial Creativity.

For a more lucrative opportunity, Kotak goes beyond conventional rewards for their employees. Career Enhancement, Recognition Schemes, Accelerated Growth, Service Awards and Individual Development come under the wide umbrella of rewards at Kotak. To further motivate employees, Kotak ensures maximum open positions are occupied by the existing employees by providing them relevant learning and development opportunities and sufficient opportunities to meet their professional aspirations.

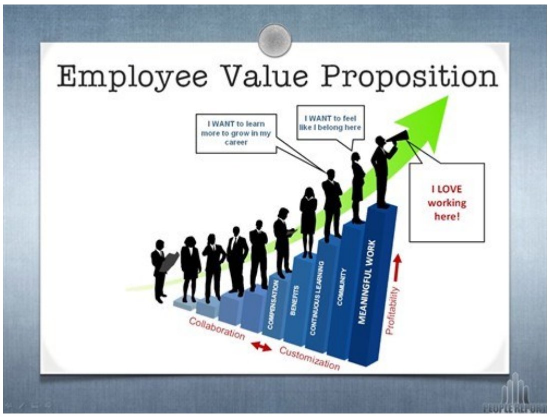

Image Source: http://www.lbisoftware.com/blog/wp-content/uploads/2013/12/employee-value-prop.jpg

CIMB

CIMB's EVP is based on the pillars of Thriving on Diversity, Obsessed with Talent Growth, Competitive Remuneration, Corporate Responsibility Leadership & A Dynamic Workplace. CIMB commits itself to dedicatedly investing in its talent pool's development to achieve personal and professional growth. They provide various platforms like Global Employee Mobility where employees can have a short spell in another business/country, and they also partner with top institutions for strategy capability building.

A very unique program is the Staff Rejuvenation Program that lets employees to take upto six months off for their personal commitments, without this letting their career development or benefits being affected.

What makes EVP so important?

Being a dynamic sector with one of the highest attrition rates, EVP plays an important role for banks from Talent Acquisition to Talent Engagement. It helps them to define and manage their 'Employer Brand' in a more effective and lucrative manner. It communicates the underlying 'package' that the company is offering to its employees and what do they get out of the employment deal.

Devising an EVP does involve an outlay of time and commitment from across the business. But a well-designed EVP provides many benefits on the people front and can act as a solution to the exodus of employees!

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New Technologies in Banking

By: Arijit Chowdhury, PGDM (2014-16), Goa Institute of Management

MOBILE PAYMENT APPLICATIONS

Mobile commerce is a natural successor to electronic commerce. The capability to pay electronically coupled with a website is the engine behind electronic commerce. Electronic commerce has been facilitated by automatic teller machines (ATMs).A mobile payment or m payment may be defined for our purpose as a device which can be used to initiate financial values in terms of services.

Mobile payment can be complement to cash, cheques and credit cards. It can be used to payment of bills with access to account-based payment instruments such as electronic funds transfer, Internet banking payments etc.

Image Source: http://ingenico.us/wp-content/uploads/2012/07/mobile_payments.jpg

Mobile payment is being adopted all over the world in many ways .In 2008 the market for all types of mobile payments was projected to reach more than $600B globally by 2013 which would be double the figure as of February, 2011.

Features of ideal mobile payment service

- Simple and friendly in nature.
- Speed should be high
- Should be universal in nature

Mobile payment solutions

Bank account based: Banks have several customers and telecommunication operators also have several customers. A collaboration of these two sectors will provide an m-payment solution it is a win-win situation for both industries. In this model, the bank account is linked to the mobile phone number of the customer. When the customer makes an m-payment transaction with a merchant, the bank account of the customer is debited and the value is credited to the merchant account.

Credit based M-payment : In credit card based m-payment model, the credit card number is linked to the mobile phone number of the customer. When the customer makes an m-payment transaction with anyone the credit card is charged and the value is credited to the merchant account.

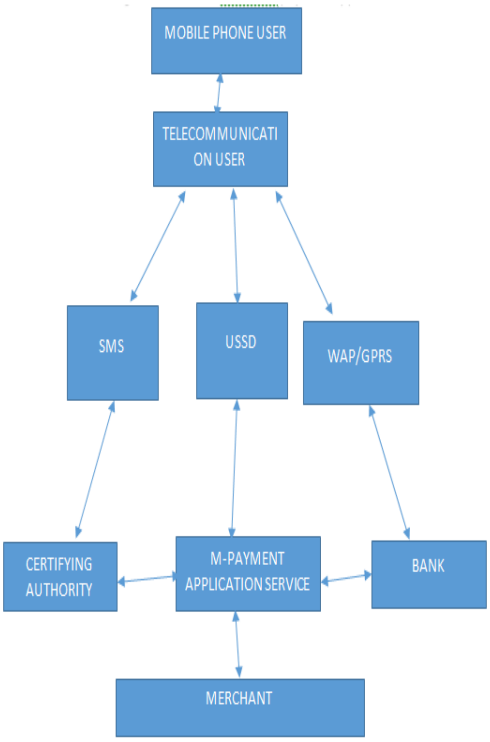
Telecommunication Company Billing of payments : Customers may make payment to anyone using mobile phone and this may be charged to the mobile phone bills of the customer. The customer then settles the bill with the telecommunication company.

Technologies for Mobile payments

Short message service: This is a text message service that can be transmitted from a mobile phone.

WAP/GPRS: GPRS is a mobile data service available to GSM users.

Unstructured Supplementary Services Delivery (USSD)



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Payment Banks

Payment banks can be used to open savings and current account. Payment bank can be mobile service provider, supermarket chain and non banking finance company. Payment banking makes handling cash a lot easier. We can easily transfer money to another bank or to another mobile phone holder and also receive amounts through our device. The payments bank will pay an interest rate on these accounts, though the rates are not specified by the RBI. Existing mobile money services offered by operators pay an interest of 4 per cent on balances held. We can maintain a maximum balance of 1 lakh. These deposits are covered by the DICGC (deposit insurance).

The RBI has stipulated that every payments bank must have an equity capital of 100 crore to start off and should maintain a capital adequacy of 15 per cent. In addition to this, it will need to meet cash reserve requirements and needs to invest in specific securities to meet the statutory liquidity ratio. These entire amounts are to be invested in government securities or treasury bills. The promoter's holding must be at least 40 per cent for the first five years and eventually will be reduced to 26 per cent over 12 years.

Satellite Banking

Satellite banking is an upcoming technological innovation in the Indian banking industry. This technology which is expected to help in solving the problem of weak terrestrial communication links in many parts of the country. The use of satellites for establishing connectivity between branches will help banks to reach rural and hilly areas in a better way and offer better facilities particularly in relation to electronic funds transfers. A satellite banking unit is provided for use with a drive-through bank teller station such as a bank teller window or an automatic teller machine.

Electronic Meetings

Teleconferencing with a bank teller or loan officer instead of personal meeting can be one important big player in future banking technology.

Photo bill payment applications

Photo bill payments facilitates payment to companies that only issues hard copy bills and invoices. In this technology transfers information from bill into an individual bank's account using a digital photograph of the bill.

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Call for Articles

We invite articles for the September 2014 Issue of Samvad.

The Theme for the next month: September 2014 - "**Business in Real Estate Sector**"

The articles can be from Finance, Marketing, Human Resources, Operations or General Management domains.

Submission Guidelines:

- Word limit: 1000 words or a maximum of 4 pages with relevant images.
- Cover page should include your name, institute name, course details & contact no.
- The references for the images used in the article should be mentioned clearly and explicitly below the images.
- Send in your article in .doc or .docx format, Font size: 12, Font: Constantia, Line spacing: 1.05' to **samvad.we@gmail.com. Deadline for submission of articles : 25'th September, 2014**
- Please name your file as: <YourName>_<title>_<section name e.g. Marketing/Finance>
- Subject line: <YourName>_<Course>_<Year>_<Institute Name>
- Ensure that there is no plagiarism and all references are clearly mentioned.
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Samvad Blog

As said by Ann Morough Lindburg, "Good communication is as stimulating as black coffee and just as hard to sleep after." Samvad, which means 'to converse' in Hindi, is exactly the motive of our team Samvad. Our readers and writers are of utmost importance to us at Samvad. We don't like to interact with you only once when the issue is released. So, we thought, what next? Then came the idea of a blog - the ideal platform for meaningful discussion on a more regular basis. Hence, we present to you 'The Samvad Blog'. The Samvad Blog, as the name suggests is a blog dedicated to sharing of information, insights and opinions that allow exchange of some valuable ideas by stimulating your intellectual senses. It will include some interesting reads on management gurus, book reviews, and relevant articles among many other varieties of food for thought.

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Don't forget to comment with your opinions. Always have a healthy debate we say! As progression lies not in agreement, but debate!


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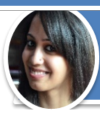
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