samvad

Igniting Thoughts of Tomorrow

Banking

August 2016

S.P. MANDALI'S
weschool
Welingkar Education

About Us

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.

We school 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's edition 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.

As we begin a new journey with 2016, 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.

Wishing everyone a very happy and prosperous new year.

Prof. Dr. Uday Salunkhe,
Group Director

From the Editor's Desk

Dear Readers,

Welcome to the August Issue of Samvad for the year 2016!

The response to Samvad has been overwhelming and the support and appreciation that we have received has truly encouraged and motivated us to work towards bringing out a better magazine every month. With renewed vigour and passion, we bring to you the August Issue of Samvad which revolves around the theme of "Banking".

With WeSchool having courses pertaining to all spheres of management, it was natural for us to cater to all kinds of readers. And that has made us one of the few magazines in the country which invites articles from all spheres of management giving a complete holistic view.

We work on the platform of "***Igniting Thoughts of Tomorrow***" and we will constantly strive to provide articles which are thought provoking and at the same time adding value to your management education.

We hope you stay with us, read with us, share with us and grow with us!

Hope you have a great time reading Samvad!

Best Wishes,

Team Samvad.

"For last year's words belong to last year's language
And next year's words await another voice."

T. S. Eliot.

Acknowledgments

Team Samvad would like to extend their 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 **Prof. Deepa Dixit**. Her insight and expertise is our driving force to ensure the sustainability of our magazine.

We appreciate **Prof. Indu Mehta** for help in selecting the best marketing articles.

We would also like to appreciate **Prof. Jyoti Kulkarni** for her help in selecting the best articles on general management.

The Human resources article was scrutinized by **Prof. Rimmi Joneja**. We thank her 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 with the website updates 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 incomplete without her.

Contents

WE CHAT

MRS. PRAVEENA KALA (GM, SBI)

Team Samvad

Q1. Could you please describe your journey to becoming a General Manager at SBI?

It has been a very long journey. Now that I look back, it seems only yesterday. I joined SBI in 1987 with a Graduation in Civics from Lucknow University and an MSc. I started as a revisionary officer and worked in various capacities. I've worked in various geographical locations such as: Delhi, Dastan (rural posting), Mumbai, Lucknow, Moradabad, Allahabad and Mauritius. After heading the Jharkhand region of the bank and the Chairman Secretariat in Mumbai, now I am heading the Government vertical of SBI. I've also worked in various department of banking like- credit and large credit, separate credit, forex, treasury, retail banking as well as government banking. Touching upon all the aspects of the banking sector.

Q2. What are the major challenges faced by banks in the rural areas?

The major challenges faced by banks today can be traced back to what happened post-independence in India. The government's idea was that there should be money in people's hands so that they create wealth. This introduced the concept of DIR (Differential Interest Rates). DIR loans were given at 4% and the rest was compensated by the government for lower income group individuals across India. By doing this, we taught people to take loans, we never taught them to save in a bank account. So, the habit of savings didn't develop in India. Now after so many years after independence we came up with the Jan Dhan Account, because now we understood the importance of savings. Whether, it is Rs.10, Rs.50 or Rs.1000,it will eventually help

us to see a horizon, we can buy a particular product or send my child to school. Even today, this habit hasn't been adopted. They still dig the land and put it in there, as in olden days rather than save it in banks or they live on credit only, from their local baniya or bank, which sometimes they will be able to return and sometimes not.) The culture of savings and credit from organised sector is still not very prevalent. When that's adopted the growth will be exponential. Currently that is one challenge we face. Of course, in rural areas, the road, telecom and IT infrastructure- since VSAT (very small aperture terminal) that allow internet connection have a limited capacity, posing some of the operational challenges.

Q3. What was SBI's strategy to ensure maximum participation in the Jan Dhan Yojana in the rural areas?

We have a huge system of business correspondence like SBI has over 16000 branches while other group members have around 3000-4000 branches. Besides, that we have 70,000 kiosk banks allowing banking through biometrics device for the number-literate villagers. These do not require filling up of any forms, just validating through thumb impressions. These machines are talking machines- that help a customer withdraw, deposit cash and update passbook in Hindi or other vernacular language. These are game changers as the villagers now don't feel that they are being duped. This was our effort towards financial inclusion. The operations and infrastructure required for such machines involve high costs, however SBI took this initiative in an effort to contribute to nation building.

Q4. In your opinion, has demonetisation paved the way for development of digital infrastructure in rural India?

Certainly. Demonetisation has done two important things: one- the fake currency in the system was expunged. Second- now people have started opening bank accounts. Once, started opening bank accounts. Once, they make an account, it gives a push to operate it too. Along with the accounts, various applications and e-wallets have come up, such as BHIM provided by the government for UPI payments of all the banks. Another game changing technology that we will see in the near future is the AEPS (Aadhar-Enabled Payment System) that enables merchants and individuals to pay and receive money only by using biometrics (finger print) of a person.

Q5. What are the differences between the digital banking services provided in rural and urban areas?

There are no differences. The only thing is the accessibility or proximity of a bank in rural areas is lesser. All the products and services are the same for rural and urban areas. Of course, the loan products for rural areas differ in that we provide more KCC (kisan credit cards) and usage/need based products.

Q6. Budget 2017 was drafted keeping in mind the growth of the rural economy. What role does it play in boosting digital banking in India?

The AEPS has been brought in by the government, which has invested a lot in trying to get everyone under the UID- Aadhar scheme. This is help in boosting digital banking to a large extent, at least for the next 8 years. Also, we must understand there are huge amounts of subsidies that the government rolls out under these budgets. these subsidies used to be allotted to either Gram Panchayats or some agency, that would then distribute it manually, as the villagers weren't account holders.

Naturally, there were lot of leakages in this system. Now, these subsidies reach their rightful owners through their accounts. Schemes like NREGA (National Rural Employment Guarantee Act) provide minimum 100 days of work and thus money directly from the Government of India straight into the accounts of the worker. So, now the layers that deteriorate the amount have been eliminated and the time taken has also been reduced. This empowers them.

Q7. The biggest issue in digital rural banking is the poor internet infrastructure of the country. So how do banks plan to overcome this issue?

This is why parallelly, we operate on radio frequency and line frequency. Of course, we have VSAT, that is satellite. By operating on radio frequency, we are not dependent on the line. So, issues such as marriage functions, or non-replenishment of generators after power cuts, don't affect the day-to-day operations.

Q8. What would be your advice to students who want to pursue this line of work in their career path?

Banking is one of the most interesting and happening sectors to be in future to be innovative and intelligent to be in this sector. There's a lot of innovation happening currently, and so much to do for any student, whether you are an IT student or you want to be in risk management. In banking, we manage risks every day, all the time or you want to be in the markets- you could get into treasury, buy-ing and selling mutual funds. And if you like to serve people, go for retail banking. The satisfaction you get at the end of the day is amazing. The love that you get from people is beyond measure. Like me if you want to get into large credits, handling industry level borrowers, there is immense learning, as you have to know all the industries like wind or solar energy, before extending credit and for assessing creditworthiness. I know it looks drab from outside but I assure its very exciting.

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OPERATIONS

BLOCKCHAIN: DISRUPTING OPERATIONS IN THE BANKING INDUSTRY

Rohit Iyer, MBA, NMIMS, Mumbai

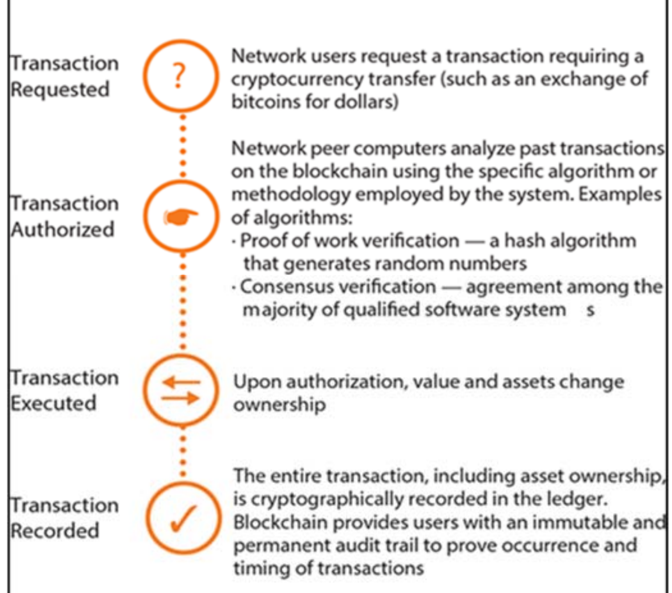
Operational efficiency in Banks revolve mainly around Business Process efficiency and IT efficiency. A business process is said to be more efficient if it is able to achieve the same level of output (as a product) or the same level of customer satisfaction (as a service) by using reduced amount of resources to run those processes. One of the key bottlenecks in the banking industry is the transaction processing time or the time it takes for the system to clear an existing transaction.

Blockchain, a technology that underlies the Bitcoin crypto currency, has got a lot to offer to the banking industry from an operations standpoint. The first and foremost is that Blockchain technology would **make it possible to clear transactions in seconds or minutes instead of T+1.**

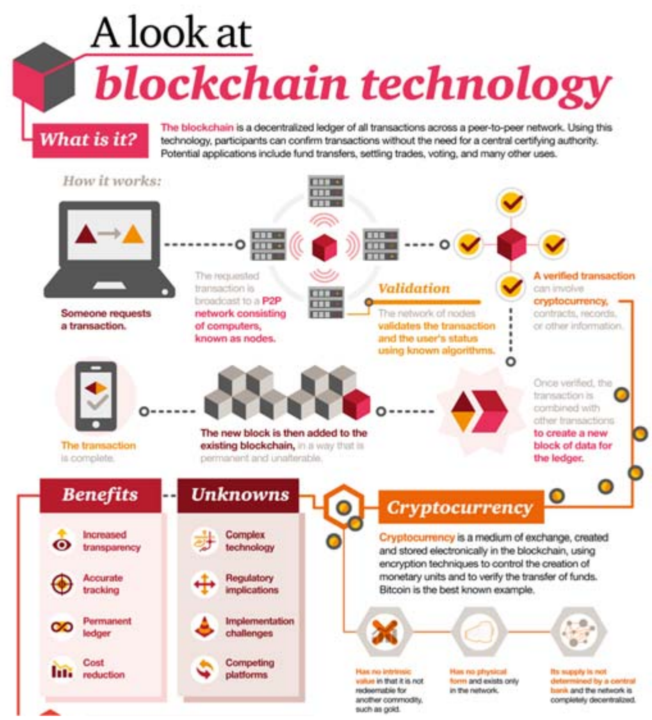
At the outset, Blockchain is a shared ledger technology, It is a data structure that makes it possible to create a digital ledger of transactions and share it among a distributed network of computers. It uses cryptography to allow each participant on the network to manipulate the ledger in a **secure way without the need for a central authority.**

Blockchain is a distributed database that maintains a continuously growing list of data records, chained together against revision and tampering. Here's a look at the Blockchain Technology from the lens of PwC and Strategy& as we go about explaining how exactly would this disrupt the operations involved in the banking industry.

Exhibit 1: The Dynamics of a Blockchain (Distributed Ledger)



Source: Strategy&



Information held on a blockchain exists as a shared — and continually reconciled — database. This is a way of using the network that has obvious benefits. The blockchain database isn't stored in any single location, meaning the records it keeps are truly public and easily verifiable. Hosted by millions of computers simultaneously, its data is accessible to anyone on the internet.

A network of so-called computing "nodes" make up the blockchain.

The distribution of data works on a peer-to-peer basis, rather than client-server. Peer-to-peer is like a gossip network where everyone tells a few other people the news, and eventually the message gets to everyone in the network. This is as opposed to client-server is more like a conventional organization where a boss tells subordinates the news, and the boss is a central point of reference, and potential failure.

Instead of a bank or other intermediary maintaining a private database of records, blockchain technology **makes all records public.**

For example, if person (A) transfers money or information to person (B) this transaction will be logged in the blockchain with a certain code. The blockchain creates trust because: a complete copy of the chain, which shows every transaction, is held by the entire network. If someone attempts to cheat the system or steal, they can be easily identified.

The elimination of intermediaries brings with it a number of benefits.

- Significant Cost-Cutting
- High security
- Trustless environment (no need to have separate systems to maintain trustworthiness)
- Rapid transaction processing time
- Decentralization
- No middlemen (Clearing House) costs and delays in clearing process
- High efficiency

Banks & governments for example, often impede the free flow of business because of the time it akes to process transactions and regulatory requirements.

The blockchain could enable people and businesses to trade much more frequently and efficiently. This would significantly boost local and international trade. Blockchain technology would also eliminate expensive intermediary fees that have become a large burden on individuals and businesses. Think about the amount of money you spend on bank fees every year.

Financial institutions are experimenting with many different blockchain implementations from different vendors. Under the R3 consortium, a recent test of a private blockchain among banks took place on a private instance of open-source blockchain technology from Ethereum and hosted on a virtual private network in Microsoft's Azure cloud. These include the following banks - Banco Santander, Bank of America, Barclays, BBVA, BMO Financial Group, BNP Paribas, BNY Mellon, CIBC, Commonwealth Bank of Australia, Citi, Commerzbank, Credit Suisse, Danske Bank, Deutsche Bank, J.P. Morgan, Goldman Sachs, HSBC, ING Bank, Intesa Sanpaolo, Macquarie Bank, Mitsubishi UFJ Financial Group, Mizuho Financial Group, Morgan Stanley, National Australia Bank, Natixis, Nomura, Nordea, Northern Trust, OP Financial Group, Scotiabank, State Street, Sumitomo Mitsui Banking Corporation, Royal Bank of Canada, Royal Bank of Scotland, SEB, Societe Generale, Toronto-Dominion Bank, UBS, UniCredit, U.S. Bancorp, Wells Fargo and Westpac Banking Corporation.

IBM is leading an initiative called The Open Ledger Project together with JP Morgan, the LSE, Wells Fargo and others to develop an open net Of Things, contracts, supply chains in addition to crypto-currency functionality.

Wouldn't it be great to transfer money at no cost? There are also security benefits. Hacking attacks and fraudulent activities that commonly impact large central intermediaries would not be possible with blockchain technology. These are just some of the probable benefits blockchain technology could deliver. The technology could profoundly disrupt hundreds of industries apart rom banking that rely on intermediaries.

NASDAQ completed its first trade using blockchain technology in Dec 2015 and it is likely that the first production financial services blockchain networks will emerge in 2016/2017. This is a technology that will have an enormous impact on the way financial services firms interact with each other, their customers, how they operate internally and associated regulatory change.

Organizations that fail to revamp their operations to ride this blockchain wave of change may will find themselves paddling to catch up.

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FINANCE

REVIVAL OF STRESSED ASSETS

Ishita Shah, PGDM-Ebiz (2015-17), We School, Mumbai

In the past few years Stressed Assets in the Indian Economy has grown at an alarming rate. Stressed Assets are the assets under Financial stress. And it is an important indicator of the health of the Indian Banking Sector.

Stressed Assets = NPA + Restructured Loans + Written off Assets

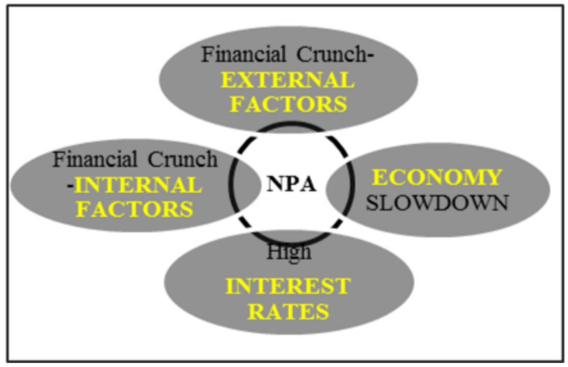
Assets for a Bank are loans given and other investments made by the bank. The quality of the asset is equally important and one of the parameters to judge the quality of the asset is NPA. An Asset turns out to be an NPA when the borrower fails to pay either the principal or the interest on the loan for the period of more than 90 days in respect of.

Non Performing Asset as per Reserve Bank of India

Banks	NBFC
Term Loan	
Interest/Principal overdue > 90 days	Lease Rental and Hire-Purchase Assets : Overdue > 9 months. Assets other than Lease Rental and Hire-Purchase Assets: Overdue > 5 months.
OD/CC and BP/BD	
Overdrawn > 90 days	NA
Overdue > 90 days	NA
Infrastructure Projects	
Not commenced within 2 years from DCCO	Not commenced within 2 years from DCCO
Other Projects	
Not commenced within 1 year from DCCO	Not commenced within 1 year from DCCO

Source:
https://rbi.org.in/scripts/BS_ViewMasCirculardae

Reasons of an account turning into NPA



For the revival of corporates facing financial crunch also to recover accounts turning into NPA various initiatives considered by RBI are as follows:

- CDR - Corporate Debt Restructuring
- Rectification
- 5:25 Scheme
- SDR – Strategic Debt Restructuring
- ARC Sale

CORPORATE DEBT RESTRUCTURING (CDR)

The CDR Mechanism is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). Corporates resort to CDR when it faces Financial Stress in its Business and it is not able to honour its debt constancy. And the problem is significant enough to lead it to bankruptcy. It is often received by reducing the immediate burden of debts on a company by increasing the time a company has to pay the obligation back and/or decreasing the interest rate, or even by issuing a fresh loan. Banks may also offer a Moratorium. A CDR case is approved if at least 75% of the banks by value of the loan and 60% by number agree to the proposed loan recast.

Overall Status of CDR (Since Inception) As on 31st march 2016

Cases Withdrawn on account of package failure		Cases exited successfully		Live cases in CDR	
No. of cases	Aggregate Debt	No. of cases	Aggregate Debt	No. of cases	Aggregate Debt
213	**88,552**	**86**	**62,217**	**231**	**2,52,235**

Source: http://www.cdrindia.org/pdf/CDR%20Performanc

Possible Reasons for CDR Package Failure:

- The creditors/lenders might had been hasty in agreeing to recast the debt and failed to adequately evaluate the ability of the borrowers to meet their restructuring commitments.
- The lenders did not release the funds agreed upon in Restructuring agreement.
- Non-compliance by borrowers with the terms of the restructuring agreement.

RECTIFICATION

Banks in India are allowed to resolve the issue of stressed assets in three ways -Restructuring, Rectification, Recovery**.**

Unlike CDR the accentuation in Rectification has been to recognize stress early and to formulate Corrective Action Plan (CAP) within 45 days. Joint Lender Forum (JLF) is formed by the company's lenders for the same. The JLF mechanism came in to effect from April 2014 as part of the Framework for Revitalising Distressed Assets in the Economy. RBI in the regulatory framework has directed Banks to mandatorily form a JLF in case any loan worth Rs. 100 crore or more is due for more than 61 days. In the JLF the decisions to be enforced on the CAP must be approved by minimum 75% of creditors by value and 50% (revised value) of creditors by number.

Once the CAP is finalised by the JLF it is put forward for approval.

FLEXIBLE STRUCTURING SCHEME - 5:25 SCHEME

The Eight core industries in India are coal, crude oil, cement, steel, natural gas, Petroleum Refinery, Fertilizers and Electricity. And the major Infrastructure sectors are power, road, ports, bridges, dams etc. Development of these industries is substantially important for the upliftment of the overall economy. But the biggest challenge is, these Projects have a fairly long gestation period with a humongous Capital investment and initial risk.

Due to Asset-liability mismatch and limited availability of funds banks have restricted their tenor of financing long term loans maximum of 12-15 years. While the economic life of these projects is of 25 years. On 15th July 2014, RBI released a circular on 'Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries'.

The motif of the scheme was overall Asset Liability Management (ALM) and optimum liquidity planning.

The scheme is for the loans whose total exposure of the lenders is more than Rs. 500 Cr. In 5:25 scheme the residual value or the economic life of the project is considered to set the stint of the long term loan. And the refinancing period is fixed for the loan(ie.5 or 7 years) Repayments are made to the same lender or a new set of lenders at the end of each refinancing period.

The loans under 5:25 Scheme accounts for Rs 1.25 lakh Crore for which provisioning was to be are made to the same lender or a new set of lenders at the end of each refinancing period.

The loans under 5:25 Scheme accounts for Rs 1.25 lakh Crore for which provisioning was to be made by March 2016.

STRATEGIC DEBT RESTRUCTURING (SDR)

Restructuring procedure is based on the principle that shareholders bear the first loss rather than the debt holders. SDR was introduced to have a greater involvement of the promoters in reviving stressed assets and giving banks a major control in the change of ownership. SDR can be invoked only when the promoter fails to meet the viability milestones and/ or fails to adhere to the critical conditions as stipulated in the restructuring agreement.

Invocation of SDR is a reliable solution where change in ownership would improve the economic value of the asset and the recovery of their loans. JLF has the option of invoking SDR if the Rectification/ Restructuring process as a CAP has failed for the borrower's company. Under SDR, conversion of Debt into Equity comes into effect such that lenders collectively holding 51% or more equity shares in the borrower's company. Thus, resulting in change in management of the borrower's company.

The lenders need to divest 26% of the equity shares to the new promoters within 18 months from invocation date. Currently about Rs. 30,000 Crore loans are under SDR clause.

ASSET RECONSTRUCTION COMPANY(ARC) SALE

ARCs are specialised agencies that facilitate Bad Loan resolutions for Banking System.

Thus, helping banks to focus on their primary function of lending.Currently there are 14 ARC in India. When all of the above discussed mechanisms fail Banks resort to ARCs.A financial asset may be sold to the ARC by any bank/ FI.

ARC Methods:

- Changing or take over of, the management of the business of the borrower
- Sale or lease of a part or whole of the borrower's business
- Rescheduling of payment of debts payable by the borrower
- Conversion of any portion of debt of a borrower company into debt

Unlike Bank/FI, ARC has wider range of options, like reschedule , management alteration, additional funding, sale of non-core assets.

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MARKETING

DEMONETIZATION AND THE RISE OF DIGITAL WALLETS

Tanmay Kapdeo, MMS (2015-17), WeSchool, Mumbai

The recent demonetization drive ushered in by our honorable Prime Minister Mr. Narendra Modi probably had an equal no. of people for and against it. The effects of the said drive are difficult to measure, especially the amount of Black Money which has come forward and the same can be said about the effects of such a drive on the economy, i.e. nobody can determine with a 100% accuracy whether demonetization per se will have an adverse effect or will it be good for the economy in the long run.

They say "make hay while the sun shines" and that is precisely what the **Digital Wallet** start-ups have done. They have received a boost, a shot in the arm, thanks to the recent demonetisation drive. The sights of being greeted to "we accept Paytm" or other digital wallets as payment has grown multi-fold as of late and will continue to grow in the aftermath of the demonetisation drive.

The business of the likes of Mobikwik has registered a phenomenal 15 times growth in the state of Kerala. Freecharge and Oxigen Wallet have also gained a considerable business share in their rush to have a pie of the digital payment market in states like Kerala, Bihar, Uttar Pradesh, Jharkhand, who have become the latest states to adopt the digital wallet system. With the provision and comfort of paying at petrol pumps, grocery stores, chemists, parking, phone recharging, shopping and bus, auto and taxi travel etc., these digital wallets are definitely the next big thing.

Paytm, which is backed by the Alibaba group of China and has been the largest Indian mobile payment wallet with more than a 100 million users and 2 million transactions per day, has witnessed app downloads going up by three times and payments for offline transactions going up by five time in the first two days following the government's move. It has been able to add one million new saved credit/debit cards in two days, cards that are used to refill the wallet. If you are accepting payments using Paytm, one has the option of adding money to your bank account digitally. Paytm will deduct 1% of the total as a fee. This is significantly lower than the 2.5 or 3% that is usually charged in case you accept payment via credit/debit cards.

The Digital wallet start-up Freecharge has witnessed a 10-fold increase in the number of retail merchants signing up in the past few days, with most of the queries coming from grocery stores, pharmacies, food joints including the road side tea and Chaat vendor as they battled low sales for a period of over a month after demonetization came into effect, due to inadequate liquid cash with the customers.

As of now, any organization with a digital payment solutions arm is now focusing on getting people on using their solutions for offline transactions - and not merely for purchases made online. And that is where the opportunity and the scope for expansion exists, considering the fact that online transactions are still a tiny proportion of the overall transactions in India, both by value and absolute numbers. Today you can simply walk into a McDonald's or Cafe Coffee Day or a Mad Over Donuts (MOD) and use a digital wallet on your phone to pay for your purchase. Digital payment companies have spent crores of rupees during demonetization on customer acquisition and to ensure that their platforms are widely accessible in auto-rickshaws and taxis and at the smallest of stores and street vendors. Paytm and Mobikwik had 150 million and 35 million users before the demonetization announcement which surged to 158 million and 40 million respectively within a fortnight of the announcement.

How exactly are they doing it?

After the discontinuation of Rs 500 and Rs 1000 notes as legal tender, almost everyone has found him/herself in the discomforting situation of being completely cashless. Paytm has taken it to the next level and now suggests where you can go and use your Paytm wallet based on your current location. Paytm now offers the Nearby feature which allows you to search for Paytm-enabled stores. As a customer, you can scan through a vast number of registered Paytm sellers and then categories them as per your individual needs, be it according to distance or category of service or both. This is a win-win situation for both Paytm as well as the retail merchants as it also helps with discovery and drives more traffic to Paytm sellers, which in turn prompts more sellers to sign up in the first place.

The Reserve Bank Of India (RBI) recently decided to increase the limits on mobile wallets spend from Rs 10000 per month to Rs. 20,000 per month for users and to Rs. 50,000 per month for merchant bank transfers in response to the cash crunch affecting millions of customers as well as retailers following the demonetization of high-value currency.

From traditional to digital media, the wallets launched marketing blitzkrieg post demonetization.

For November and December, Paytm increased its marketing budget by 10X from 3 cr to 30cr. All the digital wallet firms re-started offering cashbacks for adding money to their wallets for the new users., offering an incentive of anywhere between 5-10%.

In the pre demonetisation era, it was the likes of Paytm, Freecharge, Mobikwik and other such digital wallets who were running after the customers and vendors, to get them on-board. But now the trend is opposite, these firms are seeing a large no. of tie-ups in a single day, which would have earlier taken them anywhere from 15-20 days.

The prime minister of India recently tweeted "Your mobile phone is also a bank. It can be used for purchasing things, making payments," Who knew he was talking about a change he would indirectly usher in and that too growing at such a frantic pace.

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HUMAN RESOURCES

SBI MERGER: A BOON OR A BANE?

Rakesh Roshan, PGDM-HRM (2015-17), XLRI, Jamshedpur

"It is great news, it will help the banking industry" said one. The other snarled "what about the private banks, do you think they will sit and watch?" This was the ensuing discussion between two senior employees of SBI about its merger with SBI's associate banks.

The merger is going to create an entity that will have an asset base 5 times the second largest bank in India- ICICI. The asset base of the new behemoth will be around 37 lakh crores. The employees of State Bank of Travancore, State Bank of Mysore and Mahila Bank will have better perks now as they will be at par with other employees of same scale in State Bank. SBI will have a global name as the giant may have enough cash to get into corporate lending to big business houses. Everything seems so rosy, but is that all that has happened?

There was a recent scandal in Bank of Baroda which went unnoticed for a long time. This forex scam involved unauthorized transfer of around 1 billion $ to accounts in Hong Kong. Despite having strong checks and balances in place, a scam this big was not found for long. What could be the reason? A bank as big as Bank of Baroda (regarded as India's International Bank) has so many branches and employees that it is very difficult to ensure the audits are take care of properly. Punjab National Bank went in to losses running into hundreds of millions of rupees for the first time. The primary reason was corruption and unethical practices in the industry.

When it is difficult to get things working at level of these public sector banks, what may happen to SBI? The hegemony that SBI will now have will be unsurpassed and may create havoc on already struggling public sector banks.

Private Banks target the premium segment of population as they keep minimum deposit requirements of around few thousand rupees. The same is not the case with public sector banks all of which have same minimum deposit of 500. The intended purpose of creating an organization which will be able to compete with private sector banks and get more customers from the premium segment will probably not be achieved due to this reason. The upper middle class are ready to pay premium charges for best facilities which are provided by the private sector banks. Along with this, the kind of customer care that is provided at private sector banks has no comparison with public sector services where the employees lack a lot in soft skills. PSBs were relatively cheaper and the target market was so big that despite so many of them being present, all were running into profits. With this merger, there is a high probability that the customer base of smaller PSBs will shift to SBI and may cause them to incur losses. A big percentage of cash infusion in PSBs comes from the lower end of the pyramid as the number of customers is huge. This cash is used for lending which brings in profit. With this new arrangement, banks will face cash crunch incurring further losses.

There is already a huge percentage of NPAs with PSBs and this number will only increase with customers shifting from smaller PSBs to SBI. People from lower strata of the society tend to trust government banks but when the choice is between two of them, the one which provides better service and is bigger and renowned is preferred. SBI will have last laugh in this situation and soon there may be long queues outside other PSBs for account closure.

It may seem to be easy going for SBI with its market share increasing but very soon the merger decision may bite the hand that fed it.

With a company as big as this, a rigorous system will be needed to ensure NPAs remain low and also the lending business goes on without hitches. Insider stories reveal that many a times, the processes get so tedious that they are not followed. This leads the higher management to ignore or bypass the system leading to risky loans. These are the cases which have happened on large scales in most public sector banks and caused huge NPAs as the rules are not followed in letter and spirit. If this happens in SBI, the pebble will snowball into a myriad of problems and may cause the entire banking industry to fall sooner or later.

It is high time that the government takes cognizance of the possible problems which are bound to happen. It will not be right to roll back the merger plan but a lot could be done to ensure that common people's hard earned money does not go to corporates like Vijay Malaya who squander it away for personal gratification.

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GENERAL MANAGEMENT

FINANCIAL INCLUSION IN INDIA: BANKING THE UNBANKED

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"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."

-Franklin D. Roosevelt

Introduction

The Committee on Financial Inclusion (Government of India, 2008) defines financial inclusion as *"the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups at an affordable cost."* The term 'financial inclusion' has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion plays a major role in driving a way the poverty from the country. The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population. It not only enhances overall financial intensity of agriculture but also help in increasing rural non-farm activities which lead to development of rural economy and improve economic condition of people.

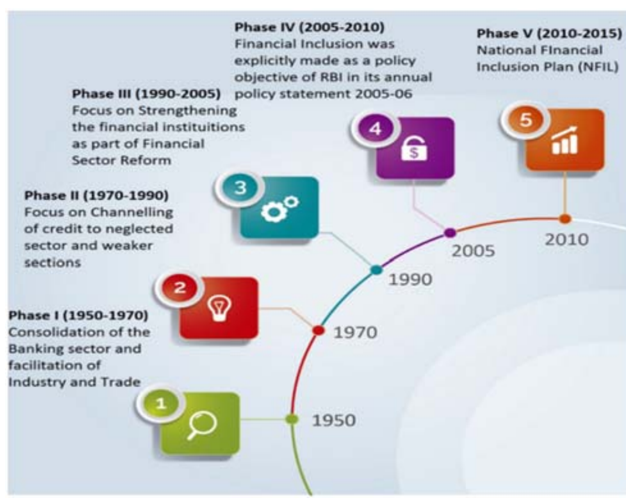
Need of Financial Inclusion in India

Since India is moving towards becoming a developed country from being a developing country, so in this, the contribution of each and every section of the society is needed - rich and poor, urban and rural. For this financial untouchability, people have to be made financially inclusive so that they all contribute in development. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. However, for attaining the objectives of inclusive growth there is a need for resources and for resource generation and mobilization, financial inclusion is required. Financial inclusion through appropriate financial services can solve the problem of resource availability, mobilization and allocation particularly for those who do not have any access to such resources.

Level of Financial Inclusion in India

The level of financial inclusion in India can be measured based on three tangible and critical dimensions.

1.**Branch Penetration:** Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.



2.**Credit Penetration:** Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

3.Deposit Penetration: Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed.

Approaches to achieve Financial Inclusion

In India, various measures were taken by banks, GOI and RBI for financial inclusion plan.

Product Based Approach

- No-Frill Accounts: Accounts with zero balance or very minimum balance requirement for the under-privileged.
- Kisan Credit Cards (KCCs): Provides farmers adequate credit support from single window banking system for their farming needs.
- General Purpose Credit Cards (GCC): Facilitates credit up to Rs.25000/- without any collateral requirement for rural and semi urban people.
- Saving account with overdraft facility: Provides overdraft (OD) facility in saving account and Small Overdrafts in No-frills accounts.

Bank Led Approach

- Self Help Group (SHG): Banks involve themselves with a group of local people with the idea of enabling them to pool up their savings.
- Business Facilitators (BFs)/ Business Correspondents (BCs): The intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services.

Regulatory Approach

- Simplified KYC Norms: RBI has relaxed a number of norms for accounts opened by people who plan to keep balances not exceeding INR 50,000 and whose total credit in all the accounts taken together is not expected to exceed INR 100,000 in a year.
- Bank branch authorization: RBI has permitted banks to open branches without taking authorization in tier 3 to 6 city, towns, or villages.

Technology based Approach

- -Mobile Banking: The banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc.
- Kiosk/ ATM based Banking: In some states, the state government has taken initiatives for providing kiosk based model for access to financial services. Also banks have used the technology to enable their ATMs to virtually act like a 24x7 branches.
- Aadhaar Enabled Payment Services: While making payments to people for working under initiatives like MGNREGA or various subsidy schemes, the departments use Aadhaar number for directly crediting the money to the beneficiary's account.

Knowledge based Approach

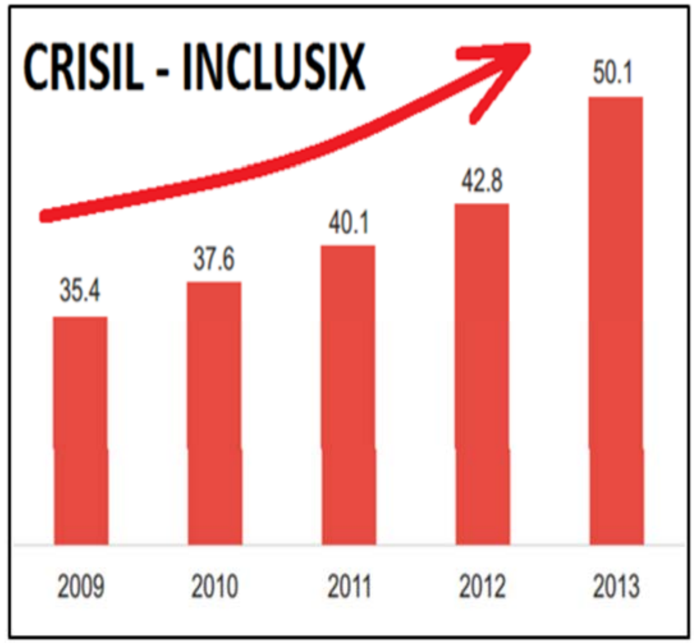
Financial education, financial inclusion and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

Government Initiatives

- Induction of SHG-2
- Women SHGs Development Fund
- Swarnjayanti Gram Swarozgar Yojana (SGSY)
- National Rural Livelihood Mission (NRLM)
- The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
- Aadhaar
- Pradhan Mantri Jan Dhan Yojana

Status of Financial Inclusion in India

On June 25, 2013, CRISIL, India's leading credit rating and research company launched an index to measure the status of financial inclusion in India. CRISIL – Inclusix is a relative index that has a scale of 0 to 100, and combines three very critical parameters of basic financial services — branch penetration (BP), deposit penetration (DP), and credit penetration (CP) — into one single metric. For each of these parameters, CRISIL evaluates financial inclusion at the national/ regional/ state/ district level vis-à-vis a defined ideal. A CRISIL Inclusix score of 100 indicates the ideal state for each of the three parameters.



The Reserve Bank of India has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board approved financial inclusion plans. Out of 3,445 rural branches opened during 2014-15, 2,230 branches were opened in unbanked rural centres. Around 155 million basic savings bank deposit accounts were added taking the total basic savings bank deposit accounts to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits (KCCs) and 1.8 million small non farms sector credits (GCCs), the total number and 9.2 million respectively.

Challenges and Benefits of Financial Inclusion for Indian Economy

Challenges of Financial Inclusion
Lack of Financial Literacy
Too large volume of accounts
Need for Manpower Planning
Secure Environment
Malpractices
Accounts are not operative
Ease of Transaction
BCs high attrition rate
Risks in using technology

Benefits from Financial Inclusion
Faster Growth of Economy
Reduction in Income Inequalities
Likely increase in national income
Increase in employment
Faster growth of economy
Effective distribution of subsidies
Global admiration and recognition
Safety of assets from disruptions
Increase in Risk taking ability
Freedom from moneylenders
High level of financial literacy

Conclusion

In achieving inclusive growth in India, the financial inclusion will play a vital role and help the nation to drive away not only the rural poverty but also urban poverty in India. It is duty of every Indian citizen to ensure that all the Indian will have bank account and everybody should take part actively in achieving 100% financial inclusion in India. Setting up financial literacy centre and credit counselling at pilot basis launching a financial literacy campaign etc. are some initiatives currently under way of furthering financial inclusion. Thus financial inclusion has enough scope for economic growth, raising living standard of people, equality etc. It is rightly said by the Prime Minister Narendra Modi. "Mahatma Gandhi tried to end untouchability in the society, if we want to eradicate poverty; we need to get rid of financial untouchability".

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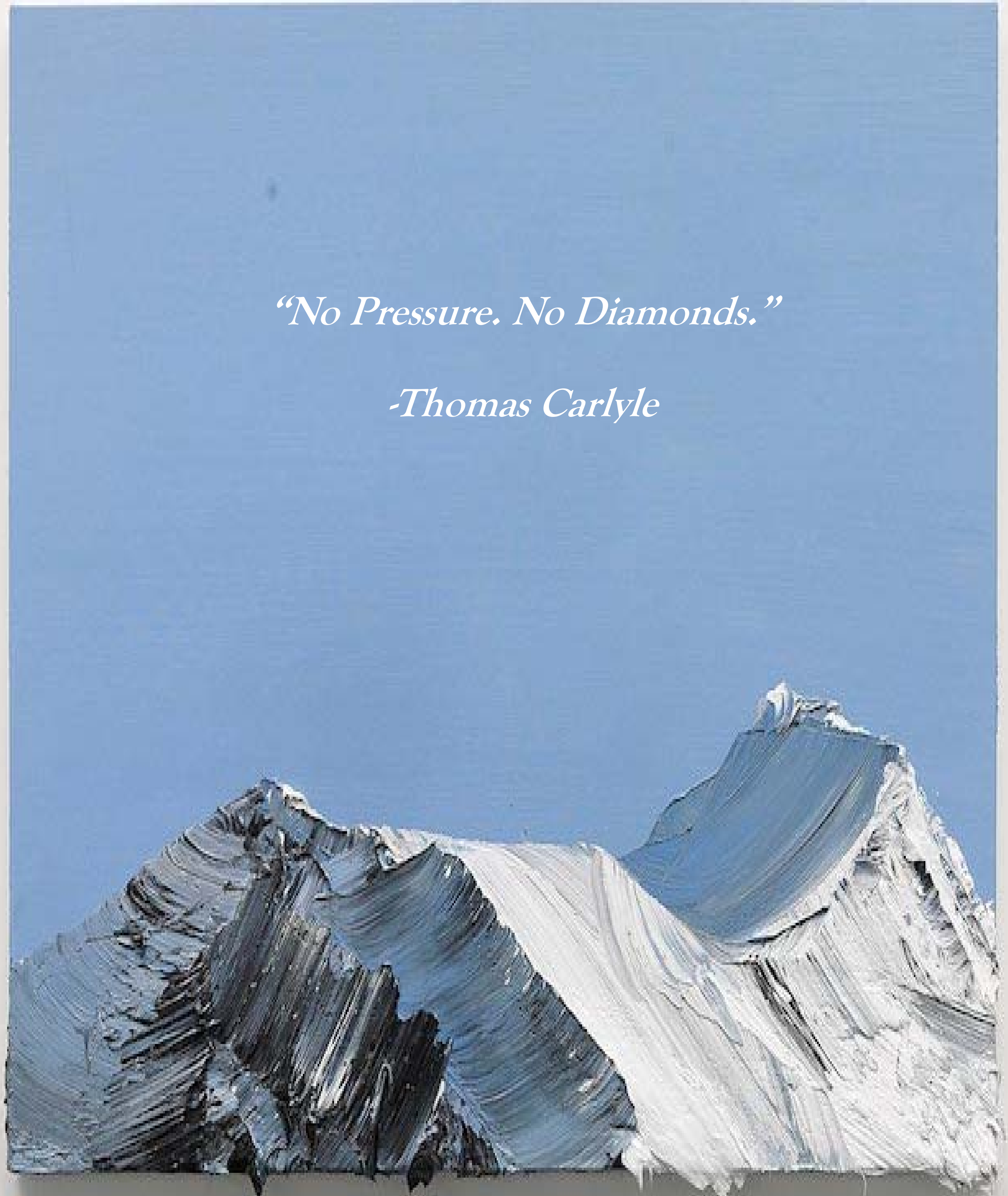

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