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ST. JOSEPH'S COLLEGE OF COMMERCE

(Autonomous), Affiliated to Bangalore University

Re-Accredited by NAAC with "A" Grade
Recognized by UGC as College with "Potential for Excellence"
Bangalore - 560 025, Karnataka, India.

Special Issue

September 2017

One Day National Level Seminar on Banking on the Future - Vision 2020

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About the college

St. Joseph's College of Commerce, formerly was a part of St. Joseph's College which was established in the year 1882 as an educational initiative by the French Foreign Mission Fathers for the purpose of imparting higher education. In 1937, the management of the college was handed over to the Jesuits, a worldwide Catholic religious order with a special focus on education. The Jesuits also run other premier institutions in India, like Loyola College, Chennai, St. Xavier's College, Calcutta and St. Xavier's College Mumbai. The Department of Commerce was established in the parent college in 1949. In 1972, this department became an independent college under the name of St. Joseph's College of Commerce. It is recognized under Section 2(f) and 12B of the UGC Act. It became an autonomous institution in October 2004. St. Joseph's College of Commerce was recognized as a "College with Potential for Excellence" in February 2010 by UGC.

The college aims at a holistic and integral formation of its students, fostering in them a spirit of academic excellence, social concern and character formation, shaping them to become "men and women" for others

The motto of the College is 'Fide et Labore' ('Faith and Toil'), which serves as an inspiration behind the vision and the educational praxis of the college.

From the beginning, the College has striven to be a state of the art institution for commerce education. The thrust has been on the pursuit of multi-dimensional educational excellence. Currently it enjoys an 'A' grade with the National Assessment and Accreditation Council (NAAC). The college has been responsive to the significant changes and developments in the field of higher education, as well as in the domain of commerce and business.

Milestones of the Institution:

- Established in 1972– fruitful existence for 43 years and celebrated its Ruby Jubilee.
- Recognized under Section 2(f) and 12B of the UGC Act.
- Date of conferment of Autonomy – October 2005, Extension of Autonomy – September 2010.
- One of the first five Colleges conferred with Autonomy in the State of Karnataka.
- Reaccredited by NAAC with 'A' grade in the third cycle of re-accreditation.
- Recognized as a "College with Potential for Excellence" by the University Grants Commission in 2010.
- Recognized as a Research Centre in 2010 by the Bangalore University.

Principal's Message

The changes in the banking industry have truly been revolutionary and disruptive. Bankers have been forced to rethink the way they have been doing business. Traditional banking and customer service is set for a strong wave of change. With the proliferation of technology, the expectations of customers from banking services has increased. This technology has led to the mushrooming of several non-traditional firms such as FinTech firms who provide simple, cost effective products and services and the banking sector has been forced to collaborate and operate with these firms to provide better service.

Innovation has been trending in this sector- several new technologies- block chain, biometrics, robotic process automation-not heard of a few years ago are defining the way banks do their business today. While the meteoric use of technology in this sector is impressive, banks have also been prone to advanced cyber-attacks and data breaches forcing bankers to use multiple layers of security.

As customers, as researchers, as academicians, we cannot live in isolation from these sweeping changes, these are affecting us every day, proving to be truly disruptive and hence calls for inputs, debates, deliberations on these pertinent topics. It is my pleasure in having this special edition consisting of articles in the emerging banking trends. As I express my gratitude to Primax International Journal of Commerce and Management Research and their editors for their contribution towards review and compilation of articles, I also congratulate Ms. Ravi Darshini and the entire PG department for directing our attention and focus towards this very relevant area.

Rev. Dr. Daniel Fernandes, SJ

Editor Desk

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Dear All

Greetings to one and all…….

Dear Reader it is a matter of great satisfaction and pride to place the Special Issue of **PRIMAX International Journal of Commerce and Management Research.** The recent annual survey of education report (ASER) reflected that the standard of education at all levels declining faster in our county. Management programmes are not exception. As there is mismatch between present standard and required standard industrialist are jittery to gainfully employed the new breeds.

Since the changing dynamics of the business environment is moving at faster pace industrialist aspire for faster results hence they are locating for people who are passionate hardworking and committed to deliver the results.

I personally feel a good innovative inspiring article of you is not just a service; it is a philosophy and I committed to uphold this.

I bank on your innovative path breaking articles which sets new standards in management or disciple of your specialty. This definitely will equip the present and future generations to face the reality of business climate of globalization.

Through this, space I wish to reiterate '***let us strive for successes to explore new horizons and keep up our head high***'.

"The future is not something we wait; it is something we should create. The pure taste of success can only be felt with a spoon of failure".

I once again thank all my colleagues, well-wishers, friends and above all God almighty who stood by me from concept to commissioning of this journal.

Wish you all a grand success!

T. Rajeswari.

Prof. T. Rajeswari., M.Sc., M.A(Eng.).,M.B.A.,M.A(Soc)
Managing Editor- PIJCMR.

"The secret of life is not enjoyment, but education through experience". And Experience is the only source of knowledge.

- Swami Vivekananda

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ROLE OF OPEN MARKET OPERATIONS IN INDIAN FINANCIAL SECTOR

Dr. T. Helan[1] **Dr. Marimuthu.K.N[2]**

Introduction:

Open Market Operations (OMO) refers to the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system, facilitated by the Federal Reserve. The objective of open market operation is to adjust the rupee liquidity conditions. When Reserve bank of India sells government security in the markets the banks purchase them Government securities they have a reduced ability to lend the public. The reduced surplus cash contracts the rupee liquidity crunch in the economy. Similarly Reserve Bank of India buys securities in order to increase money circulation. Open market operations play an important role in India during Inflation and deflationary situations. This is the major tool used by the fed to adjust the Interest rate.It also is used to stabilise the prices of Government securities. It has a direct impact on direct Investment employment and income.Adjusting bank reserves than open market operations,which add or drain reserves through purchases and sales of securities in the open market? Indeed, open market operations are by far, the most powerful and flexible tool of monetary policy.

Focusing on open market operations, this paper offers a detailed description of how monetary policy is implemented. By tracing the economic and financial conditions that influence the actual decision-making process, it attempts to provide a sense of the uncertainties and challenges involved in conducting day-to-day operations. The paper also reviews the monetary policy formulation process, and offers a broad perspective on the linkages between monetary policy and the economy.

Monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the vault (bank reserves).Let’s all welcome Governor Rajan’s commitment to continue to conduct OMO to provide liquidity. I have estimated that the RBI needs to inject about $30 billion of permanent liquidity this year. However, the central bank, so far, has injected only $8.5 billion. Against this backdrop, we expect the RBI to (conduct) OMO of about $5 billion by March (after the Rs 200 billion government buy back) to contain the money market deficit, which is still high at Rs 1,80,000 crore (1.7% of bank book). This can then pull down bank lending rates by 50 basis points in the slack April-September season when credit demand slackens. I expect the RBI to cut its repo rate by 25 basis points on April 5.

Buying or selling bonds, bills, and other financial instruments in the open market, a central bank can expand or contract the amount of reserves in the banking system and can ultimately influence the country’s money supply. When the central bank sells such instruments it absorbs money from the system. Conversely, when it buys it injects money into the system. This method of trading in the market to control the money supply is called open market operations.

Objectives of the Study

- To view the role of Open Market Operations in Indian Financial Sector
- To find out the instrument on financial sector andthe flexibility of Open Market Operations

Methodology

This research is basically depends on theoretical based. This study is used the secondary data collecting from the different sources like; Journals, Books, Peer Reviews, Working Papers, Newspapers, Websites and others.

Open Market Operations in Indian Financial Sector

Open market operations are the major instrument of monetary control in industrial countries and are becoming important to developing countries and economies in transition. Open market operations allow central banks great flexibility in the timing and volume of monetary operations at their own initiative, encourage an impersonal, business-like relationship with participants in the marketplace, and provide a means of avoiding the inefficiencies of direct controls. Developing indirect controls is important to the process of economic development because, as a country’s markets expand,

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direct controls tend to become less effective, and markets eventually find a way around them, especially in a global world economy. With more countries seeking to deregulate and unleash the potential of market forces, many policymakers and central bankers are grappling with ways to realize the full benefits of open market operations.

For such operations to become part of monetary policy, however, other monetary instruments now in place need to be adjusted and the market infrastructure must be transformed. This paper assesses the options available to a central bank for addressing these matters and designing instruments for implementing open market operations. First, it provides a brief review of the connection between open market operations and other monetary operations. Then, it discusses how the central bank can encourage development of the necessary financial market architecture. Finally, it reviews the advantages and limitations of specific approaches to open market operations.

Open market operations affect the money supply and related financial measures through their impact on the reserve base of the banking system. As a matter of monetary policy tactics in controlling these reserves, open market operations can be conducted in one of two ways: actively, by aiming for a given quantity of reserves and allowing the price of reserves (that is, the interest rate) to fluctuate freely; or passively, by aiming at a particular interest rate, allowing the amount of reserves to fluctuate. Industrial countries, with well-developed and sensitive markets, normally employ a passive approach, although there have been exceptions. A passive approach also appears to be the norm in emerging markets that have reached a certain level of sophistication. There are advantages to a more active approach in developing countries, however. In such countries, the absence of efficient secondary or interbank markets—to transmit the influence of monetary policy-might be one reason for an active approach. Another might be that the active approach allows the central bank to define its policies more clearly, especially when control of inflation is the overriding goal. Such an approach is embodied in a number of programs supported by the International Monetary Fund for particular countries.If open market operations are to become the principal policy instrument, other monetary instruments obviously need to be given less importance, particularly the central bank's discount window, where the banking system can obtain reserves on its own initiative simply by borrowing from the central bank. Other adjustments may also be needed, depending in part on the particular strategy adopted for conducting day-to-day open market operations.

Open market operations to be effective, limitations need to be placed on the access of banks to borrowing from the central bank at the discount window. Without such limitations, open market operations could not be used as the principal monetary instrument for controlling bank reserves and overall financial conditions. The discount ratebe designed to make access to the central bank's credit less attractive in one way or another, high penalty rate or restrictive guidelines. Restrictions on the discount window need, however, to be handled with care. If a penalty rate is set well above current market conditions, the system might not react quickly enough to unanticipated liquidity demands. Guidelines that restrict access to the window ought to permit smooth adjustment when reserve shortages occur. In a tight money period, borrowing from the central bank for very limited periods allows banks to make more orderly portfolio adjustments. Such short-term borrowing at the discount window should be differentiated from longer-term structural borrowing at the window, which, among other things, allows emergency long-term advances to institutions in severe operating difficulties.

Reserve Requirements

In addition to use of the discount window, imposing reserve requirements has traditionally been used by central banks as a means of monetary control. The ability to vary the proportion of assets that banks are required to hold in reserve is an obvious means of controlling the money supply. Reserve requirements can be regarded as either an alternative to open market operations or a way of enhancing their effectiveness for monetary control purposes. Since the use of open market operations has become more widespread, central banks have, in fact, had less recourse to changes in reserve requirements, which are a relatively crude tool. In many countries, they have also gradually been lowered and, in some cases, eliminated, since such requirements can place banks at a significant competitive disadvantage to other institutions providing similar services.

A minimum binding level of reserve requirements may be useful in helping to gauge the impact of open market operations on interest rates and the money supply. The experience of some countries that, do not impose reserve ratios such as the United Kingdom. It may suggest that they are not really necessary. On the other hand, the financial crisis at the end of 1994 in Mexico, which had abolished reserve requirements, raises questions about whether such requirements—and the ability to vary them—could still play a useful role. They may be particularly useful in circumstances where bank liquidity needs to be adjusted rapidly in markets that are thin, and where the central bank needs to give clear, swift, and unambiguous signals on the need for expansion or contraction of the money supply. Even in the United States, with its highly developed money market, reserve requirements remain binding on transaction deposits.

The ability to make relatively predictable estimates of required reserves seems to be particularly useful to the Federal Reserve in its decisions on the timing and size of open market operations.

The Market and the Role of the Central Bank

As an economy grows, financial markets can be expected to broaden and deepen, but experience shows that the pace and pattern of market development may need guidance from monetary and government authorities. The associated development of open market policy instruments tends to occur in two stages. First, there is a shift away from direct controls toward use of open market operations in the primary market through auctions of new issues of securities. Later, there will be a further shift toward the use of fully flexible two-way operations in existing securities as active secondary markets develop. In addition to their policy function, open market operations in primary markets can be viewed as a prelude to—and helpful in—the evolution of active secondary markets.

Suitability of Markets

Ideal conditions for flexible open market operations exist in few developing or transition economies. Nevertheless, open market operations of one sort or another can and should be undertaken in markets that may not be entirely ideal but are at varying stages of development toward a deregulated, competitive system. In such cases, operations may need to be limited in size or employed only periodically. The participation of the central bank should hasten market development, though the bank does need to take care that this does not compromise or add to the riskiness of its own balance sheet, which may in turn diminish its credibility and stature. A central bank will be able to function more effectively if markets perceive that its portfolio of assets is highly liquid and essentially risk free.

The markets most suitable for flexible open market operations are normally those where short-term instruments are traded, though it should be possible—and may sometimes be desirable—to trade in instruments with various maturities. Well-developed markets are characterized by a large and continuous volume of trading by a variety of participants, including government, financial institutions, and other businesses.Three sectors present the best opportunities for effective open market operations. These are the markets for government and central bank securities, for interbank debt, and for short-term instruments issued by financial institutions and other corporate entities, including commercial paper, finance company paper, and bank certificates of deposit.

Given the government's ability to raise taxes, the government securities market is generally regarded to be free of credit risk and therefore the best medium for open market operations. Unstable political and economic conditions, however, may make it impossible to maintain a viable market for issuing debt. Political stability and a sustained government record of meeting interest payments and redemption schedules are therefore essential to the use of open market operations. Apart from a failure to meet such contractual obligations, a government securities market can also dry up if the central bank pursues an inflationary policy that drives investors out of the market by eroding the real value of outstanding debt. Thus, keeping inflation within acceptable bounds is also a vital precondition.

Short-term private debt, including interbank debt, is less suitable for open market operations not only because of its inherent credit risks but because it leaves the central bank with some awkward choices. If the central bank is willing to buy this debt, commercial concerns may take the opportunity to off-load riskier paper. And if the central bank suddenly refuses, the market may turn away from such paper entirely, possibly precipitating a crisis. One way to resolve this type of quandary is for the central bank to restrict its operations to paper that carries a suitable credit rating, as established by an independent rating agency. In circumstances in which the amount of government debt is low or fast declining, central banks can find that open market operations are necessarily restricted to private money market instruments. When this occurs, operations in commercial bank instruments or interbank debt may raise fewer difficult credit risk issues than in other private instruments given the on-going relationships between banks and the central bank. If a significant government debt market does not exist, a central bank may decide to create a similar balance sheet effect by developing debt instruments of its own, or through the use of a special government issue employed only for monetary policy purposes. These could serve as a permanent and liquid addition to the central bank balance sheet, substituting for private assets.

Regulatory Role of the Central Bank

Both the central bank and the government need a reliable marketplace for government securities, where participants feel secure that counterparties will perform according to their obligations and which is transparent enough to encourage wide participation. To obtain its objectives through open market operations the central bank should establish performance standards for participants. This is also the natural focal point for market surveillance through gathering statistics and publishing market aggregates.

The central bank may not wish to go beyond these functions by assuming direct regulatory and oversight responsibilities, which may unduly tax its limited personnel resources and expose the central bank to a loss of stature and credibility should scandals erupt in the government securities market—as they sometimes do. A division of labour between monetary policy operations (the responsibility of the central bank) and regulatory authority (the responsibility of some other agency or, if within the central bank, of a department separate from open market operations) may serve a nation's interest better. This said, the public will tend to look to the central bank as bearing some responsibility for markets in which it operates, whatever its precise role. For this reason alone, the central bank's market group should take steps that help rationalize the market's architecture and enhance its performance.

Market Architecture

A central bank generally prefers to operate in a transparent market that trades continuously, where communication of its operations is prompt, and in which its purposes are well understood. It can take steps to help achieve these goals, such as promoting an interbank market, designing market instruments and trading infrastructure, providing financing facilities, establishing criteria for dealing with the central bank's open market function, collecting and disseminating statistics, and encouraging safe payments and clearing mechanism.

An active interbank market is particularly important because it helps clarify the timing and volume of open market operations. Many countries have developed such a market by adjusting policy instruments. The more successful have also used discount window policies that discourage, penalize, or forbid short-term borrowing at the central bank. The central bank can also encourage interbank trading through more technical measures, such as using its transfer and settlement mechanism to assure the integrity of interbank flows.

The central bank should take the lead, along with the Treasury, in encouraging market practices conducive to competitive trading. It could, for instance, encourage a computerized system of bids and offers for securities that protects anonymity. To foster market transparency, it should also discourage trading from taking place outside the established markets. The Treasury should have equal or greater interest in competitive trading, given that the cost of national debt should fall as government securities become more liquid.Prior to the emergence of an active interbank and money market, the availability of an official financing facility can be particularly helpful at the early stages of market development. It can encourage market-makers to take positions and carry an adequate inventory, a necessary condition for a liquid market.

Many countries have been moving toward use of repurchase agreements (repos) as the most flexible and convenient form of financing. Repos, by which market participants buy or sell securities in return for cash with an agreement to reverse the transaction at a later point, are seen as an effective instrument for increasing market liquidity and helping to smooth the way to broader market development. They are usually short term, but may have longer maturities.

The central bank should make it clear that the availability of such financing depends primarily on monetary policy rather than strictly market considerations. Nonetheless, it may give a little more consideration to market needs at early stages of development. It may consider, for instance, whether a relatively favorable financing rate should be offered to encourage the emergence of active market-makers. In doing so, however, it should also take into account the political problems that often accompany subsidies and the inconsistency of treating some market participants favorably when it is trying to encourage competition. Indeed, in most cases, official financing should be provided at a competitive rather than favorable rate, even for a transitional period.

In smaller countries, the creation of a primary dealer system where the number of participants may be few may be more problematic and impractical. When a market becomes large enough, however, there is much to be said for confining operations to a group of dealers, perhaps by designating a minimum level of capital. In order to avoid charges of favoritism, the group may have to be quite large. But, by establishing such a group, the central bank will be in a stronger position to encourage dealers to establish better market-making standards, such as minimum transaction sizes for dealing at quoted prices. Of course, on-going rapid technological changes will also influence the best approach for the central bank to take toward market structure and its own counterparties.

The central bank is the natural focus for collection and dissemination of market statistics. The process of data collection, including daily figures on positions, transactions volume, and financing by type of issue, should begin at the very earliest stages of development. These figures provide the basis for surveillance. Later, when the number of participants is sufficient so that individual firm data cannot be deduced, the central bank should be able to publish aggregate data on market activity, something it should do as quickly as possible in order to enhance market transparency. Publication should be timed with sufficient lag, perhaps a week or a month, depending on the instrument, to avoid market overreaction.

The central bank should also take the lead at an early stage in encouraging the market to set delivery and payment standards. No market functions effectively without reasonable assurance that securities will be delivered on time and paid for as agreed. Although the speed and reliability of the clearing and payments systems obviously depend on the market's technical capacity and institutional arrangements, the central bank can play a powerful role in galvanizing such efforts because of its leverage as lender of last resort. It can also work together with the Treasury to introduce up-to-date technology in the government securities market, such as a book-entry system to record security ownership and a simultaneous delivery-versus-payment procedure through the central bank's deposit accounts. The monetary authority should ensure that clearing institutions obtain adequate credit lines from banks to act as a backstop in the event of delivery and payment failures.

Conduct of Open Market Operations

In practice, the accuracy of reserve estimates needs to judge against incoming evidence on interest rates from the interbank or money market and what that reveals about liquidity pressures. Interpretation of this information should be aided by continuing contacts with the market. Traders from the central bank's open market function should be continually speaking with other traders in an effort to understand the factors influencing market conditions, enabling policymakers to better assess market psychology.A short-term market rate, in particular an overnight interbank rate (interest charges on funds borrowed to meet the day-to-day residual need for funds in the banking system) may usefully serve as the primary guide for open market operations. Using such a rate does not, however, lessen the need for prompt collection of statistics on basic factors affecting the demand and supply of reserves. An inadequate statistical base would greatly hamper the central bank in its ability to judge whether daily money market rate movements are merely temporary.

Many countries use such day-to-day operating guides as a matter of tactics in pursuing the measures that they use as intermediate policy guides. For example, net domestic assets have been used as an intermediate guide in Poland and Mexico, base money in the Philippines and Brazil, M3 in India and Malaysia, and the foreign exchange rate in Egypt. In many emerging markets, it seems that central banks have generally decided to conduct open market operations on a passive basis, leaving them with more flexibility to determine the degree of day-to-day pressure on the banking system and the basic cost of liquidity.

Instruments for Open Market Operations

Without an active secondary market in securities, central banks are in practice limited to open market operations in the primary market. Typically, such operations include auctioning newly issued securities to absorb reserves or auctioning central bank credit to provide reserves. One much used open market operation involves the issue of new Treasury or central bank securities in order to absorb excess liquidity. The Czech Republic and Ghana employ both. Egypt auctions only T-bills to absorb reserves, but also mops up liquidity through the placement of commercial bank deposits directly with the central bank. In the Philippines, however, the use of both T-bills and central bank bills created some confusion and difficulties. In Indonesia, where there is no government debt, the central bank auctions its own bills only to absorb liquidity and purchases bank paper to provide reserves.

Issuing central bank securities should be no more or less costly than offering special Treasury issues created especially for purposes of monetary policy. Choosing between the two types of instruments therefore depends mostly on institutional and market considerations. Central bank issues may be useful, if not necessary; to conduct open market operations in a country, such as Indonesia, where domestic government debt is not allowed. In the Philippines, as noted, the central bank took the same course in the early 1980s because it did not have access to sufficient government debt. Its experience, however, illustrates some of the problems that can occur in a market in which both government and central bank instruments coexist. In particular, the development of an active government securities market appears to have been retarded, rather than stimulated, by large-scale issues of the central bank's own bills. The government thus came to view central bank issues as complicating its policies on interest rates and debt management because they were segmenting what was already a thin market. At the same time, the central bank was taking large losses from operations in foreign exchange and in the restructuring of weak commercial banks, thus putting its credibility into question. By 1993, the central bank was restructured and received a broad portfolio of Treasury securities to facilitate open market operations.

In the absence of an active market for government securities, a special Treasury issue might also be considered as a means of adding to bank reserves needed for long-term growth. This would involve giving the central bank authority to auction a special Treasury deposit that would be created along with the debt issue. Such a special issue, guaranteed by the government, may help strengthen and diversify the central bank's balance sheet.

Flexible Open Market Operations

As their economies expand and their markets mature, more countries are implementing monetary policy through open market operations in the secondary market, mainly in the form of repos and reverse repos. In contrast with outright operations, repos provide temporary financing of reserve shortages and surpluses, but do not directly influence demand and supply in the security that serves as collateral. Most positively, repos tend to enhance liquidity in the underlying securities, helping to develop a more active secondary market. The use of repos with a short maturity should also make it clear to the market that the central bank is encouraging participants to develop as many alternative sources of short-term lending and borrowing as possible.

Repos and reverse repos are ideally suited for offsetting short-term fluctuations that affect bank reserves. They are also useful for offsetting large shifts in liquidity caused, for instance, by a wave of capital inflows or outflows. For these reasons, repos can be expected to become the dominant tool for open market operations, as experience in various countries suggests. Repos can be used in various maturities, although short-term operations tend to dominate. In Brazil, where repos have become the main instrument of policy control, operations are undertaken through informal auctions on a daily basis, with maturities generally overnight. Mexico and Poland also undertake frequent operations with short maturities. Thailand employs an elaborate auction process twice a day, with maturities ranging from overnight out to six months. Maturities appear longest in the Philippines, where reverse repos are used to absorb liquidity, with maturities commonly between one week and one month and with a maximum out to one year.

Outright purchases and sales of Treasury securities in the secondary market are also used in many of these countries. In Brazil they are used to provide or absorb reserves on a more permanent basis. In India and the Philippines, they are considered an important instrument of monetary control and are undertaken on a daily basis. When secondary markets are still comparatively thin, however, outright transactions run a high risk of dominating the market and impeding further development, especially in longer-term sectors.

Government Debt Management

Government decisions on debt management and deposit balances obviously have an impact on the use of open market operations. Sometimes they can help facilitate operations. At other times, they can complicate the task. In all countries, the Treasury and central bank work together on these issues, though with varying degrees of tension and power. On pure debt management decisions, the Treasury in most cases makes the final decision, with the central bank serving as its agent. In areas where governmental operations have a more direct impact on bank reserves, the central bank normally has a bigger say. The particular working relationship differs according to the traditions and financial history of the country.

Whatever the relationship, open market operations will be most effective where the central bank has control over factors that affect the reserve base of the banking system. To help maintain a clear separation between monetary and fiscal policies, it is most desirable if the government debt issued to meet fiscal needs is sold directly into the market by the Treasury, avoiding any potential conflict between debt management and monetary policy needs. Such sales should be in the form of auctions, helping to develop a competitive, deregulated market system. This also avoids pressure on the central bank to facilitate primary market issues at a predetermined rate.For open market operations, it is particularly important for the central bank to be able to influence, if not control, the Treasury's operating balance with the bank, fluctuations in which affect the supply of bank reserves. It is unusual for the central bank to be given substantial discretionary power over government deposits, but there are exceptions. The Bank of Canada, for instance, has the right to transfer government deposits between it and commercial banks. Bank Negara Malaysia auctions such deposits as an instrument of policy. Germany's Bundesbank has a veto over the government's ability to hold deposits outside the central bank.

In general, open market operations will function most effectively when the government abides by, and the public believes in, a clear division between debt management and monetary policy operations. In practice, this usually involves an agreement to neutralize the monetary effect of the Treasury's balance or to delegate substantial control over it to the central bank. In virtually all countries, debt management decisions are made with ongoing input from the central bank, both informally and through formal committee structures.

Concluding Observations

India making complementary adjustments in reserve requirements consistent with the growing importance of open market operations. They have also been restricting access to the discount window, which has nevertheless remained open as a safety valve. Still, for most emerging markets and transitional economies, which are prone to surges in liquidity and sudden capital flows and with markets at varying stages of development, a complementary mix of all monetary instruments may be the best solution. Transformation of markets usually occurs in two stages: the establishment of a primary market followed by development of a secondary market. The initial transition is much easier to accomplish. Well-functioning secondary markets, however, must develop largely within the private sector, although the central bank can exert some influence through the legal, regulatory, and payments infrastructure. It is difficult for the central bank to accelerate development through transactions alone, as this risk dominating the market. Repos and reverse repos would appear to be the most effective instruments for encouraging such development. It is crucial, however, to develop an interbank market, which can then provide signals for policy. There are risks if the central bank relies excessively on operations in private paper, which can become illiquid. In the absence of an active government securities market, the use of the central bank's own issues, or of special Treasury issues designated for monetary policy purposes, might be considered as a supplement.

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UNIVERSAL BANKING SCORE-A COMPARISON OF PUBLIC AND PRIVATE SECTOR BANKS

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Abstract

Indian banking system has witnessed a history of transformation from traditional to modern services provider; from technology driven to customer service driven; from single product to universal banking model and the journey is still going on. The blurring of boundaries in the functioning of banks and financial institutions led to the emergence of universal banking or umbrella banking in 1999.An extensive survey of literature of related studies has revealed many factors and situations leading to transformation towards Universal Banks from around the world. This study is carried out to make qualitative and comprehensive evaluation of emerging and most preferred Universal Banking (UB) concept in India. The focus is to study the variety of financial services offered by Indian commercial banks. There are 62 financial services being offered by the banks which fall under various heads like personal, corporate, agriculture, NRI, e-services, cards, insurance and investment, loans etc., A Universal Banking Score is calculated for 32 public, private and foreign sector banks of India based on the number of services being provided by them. This paper is based on descriptive research design and the data is collected from secondary sources. The findings revealed that private Sector Banks gets a better Universal Score as compared to public sector banks.

Keywords: *Universal Banking Score, Financial Services, private, public and foreign sector banks*

Introduction:

Universal Banks are those banks which offer a wide range of financial services, beyond the traditional banking services, like commercial banking, investment banking, insurance, etc. Apart from the universal bank doing the traditional banking of accepting deposits and providing loans, they also offer insurance products, mutual funds, advisory services and a number of investment banking products.[1]ICICI Bank had submitted its application which was approved by RBI and it was declared as a Universal Bank in the year 2002.

Review of Literature

The universal banking is one of the latest functional banks, its objectives to get maximum profit by way of interest; fees based on income and commission through various the diversified activities. Apart from the universal bank doing the traditional banking of accepting deposits and providing loans ,will offer, insurance products, mutual funds, advisory services and a number of investment banking products**. (More, 2010).** Generally it is found that society trust public sector banks in comparison to private or foreign banks. Thus public sector banks have to explore the potential of the trust and have to transform themselves into efficient universal banks. Social sector and private UB must launch attractive and protective financial product, services and financial schemes which may be flaxy and tax saving**.(Zafar, 2012**).Technically in India, it is only ICICI Bank which has been officially designated as Universal Bank. However it is seen that most of the banks are offering services which will very well qualify under the concept of universal banking **(Goswami 2010).** It seems the strategy of 'universal banking' tends to be the dominant banking practice in recent years in India. The emergence of financial conglomerates through mergers and strategic acquisitions among banks and nonbanks.

Implicitly conveys the fact that 'big size fits well' in changing and diversified global financial landscape**. (Bhole & Dash). Sarita, 2012** is of the opinion that a movement into universality is like to promote consolidation in a healthy manner and hence should be encouraged.

Universal Banking Score: In the current study a universal banking score has been calculated for *thirty two* public sector and private sector banks keeping ICICI bank (Universal Bank)as the base bank. The score has been calculated after preparing an extensive list of financial products and services being offered by universal banks.(Refer Table 1.1) There are total *sixty two* financial services which have been considered to calculate the universal banking score. The products and services considered for calculating the Universal Score falls under following heads:

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Table - 1.1 : Financial services offered by universal banks

Personal Banking	Loans	Insurance
• Savings Account • Fixed Deposit /Recurring Dep. • iWish Flexible RD • Demat Account • Pension Account • Salary Account	• Home Loan • Personal Loan • Car Loan • Gold Loan • Loan against FD • Commercial Vehicle Loan	• Life Insurance • Car Insurance • Health Insurance • General Insurance • Card Protection Insurance
Investments	**Cards**	**Fixed income Products**
• Mutual Funds • Gold/Silver • Tax Solutions • Student Solutions • Forex • IPO through ASBA	• Credit card • Personal Loan on Credit Card • Debit Card • Travel Card	• Fixed Deposits • Bonds • Sr. Citizen Saving Scheme • PPF
Agriculture and Rural	**Agri Corporates**	**NRI Services**
• Insta Gold Loan • Farmers Finance • Agri Traders & Corp • Tractor Loan • Micro Banking (SHG, Microfinance) **Investments** • Portfolio investment Scheme • ICICI Direct A/c • Mutual Funds **Business Banking** • Current Account • Business Loan • Trade Services	• Mid Cap (SAME) • Forex & Derivatives • Factoring • Agri Investment Banking Score **Corporate Banking** • Commercial Baking • Global Markets • Investment Banking? Merchant Banking • Custodial Services /DP • Project Finance • Technology Finance (TFG)	• Rupee Accounts • Foreign Currency Accounts • Fixed Rupee Account • Priority Account • Recurring Deposit Rupee Account • NRI Insurance • Loan for NRI • Bank Referral Program • My Money

Methodology for calculating Universal Banking Score

A Universal Banking Score has been calculated for 32 private and public sector banks based on the presence and absence of universal services being offered by them. If a private or public bank is offering the service, the bank was given 1 point and 0 in case that financial service or product was not being offered by the bank . The data has been collected for seven years i.e. from the FY 2010 - FY 2017. The source of data collection was the official websites of the banks, annual reports of the banks and various online and offline newspaper articles. The ranking of the banks on the basis of the score is as follows. (refer table 1.2)

Table - 1.2 : Universal Banking Score of Indian Commercial Banks

Rank	Name of the Bank	Universal Score	Rank	Name of the Bank	Universal Score
1	ICICI Bank	62	17	Syndicate Bank	57
2	Axis Bank	58	18	Union Bank of India	57
3	HDFC Bank	58	19	Vijaya Bank	57
4	Punjab National Bank	58	20	Yes Bank	57
5	State Bank of India	58	21	Dhanlaxmi Bank	56
6	State Bank of Mysore	58	22	Indian Overseas Bank	56
7	Allahabad Bank	57	23	Tamilnad Bank	56

8	Andhra Bank	57	24	UCO Bank	56
9	Bank of Baroda	57	25	Bank of India	56
10	Corporation Bank	57	26	Oriental Bank of Commerce	56
11	HSBC Bank	57	27	Bank of Maharashtra	55
12	IDBI	57	28	Canara Bank	55
13	Indian Bank	57	29	Central Bank of India	55
14	Karnataka Bank	57	30	Karur Vysya Bank	55
15	Kotak Mahindra	57	31	CITI Bank	53
16	State Bank of Patiala	57	32	Pragathi Krishna Bank	53

Analysis: Universal Banking score (UBS[1]) is calculated for 32 private, public sector banks.(refer table 1.2) The score ranges from 62 to 53 as seen in Table . ICICI Bank (refer table 1.2), has the highest universal banking scoreof 62 because it is offering an exhaustive list the financial services to the customers under one roof. Then a score of 58 is bagged by five banks, which are Axis Bank, HDFC Bank, Punjab National Bank, State Bank of India and State Bank of Mysore. It is observed that maximum number of banks have scored a UBS of 57. They are Allahabad Bank, Andhra Bank, Bank of Baroda, Corporation Bank, HSBC Bank, IDBI Bank, Indian Bank, Karnataka Bank, Kotak Mahindra Bank, and State Bank of Patiala, Syndicate Bank, Union Bank of India, Vijaya Bank and Yes Bank. A universal banking score of 56 is bagged by Dhanlaxmi Bank, Indian Overseas Bank, Tamilnad Bank, UCO Bank, Bank of India and Oriental Bank of Commerce. Bank of Maharashtra, Canara Bank, Central Bank of India and Karur Vysya Bank have a score of 55. CITI Bank and Pragathi Krishna Bank stands last in the ranking with a minimum universal banking score of 53 .

Interpretation:

ICICI Bank has declared itself a Universal Bank in the year 1991. This is because it is offering most of the financial services to customers. That is why it has a Universal Banking Score of 62. It is followed by other banks like Axis Bank, HDFC Bank, Punjab National Bank, State Bank of India and State Bank of Mysore with a score of 58. The reason for this is that there are just few services which are not being offered by these banks. But these banks have come a long way to become universal bank.

It is observed that initially the private and public sector banks were not offering lot of financial services to their customers, because of which their Universal Banking Score was less.

Table 1.2 shows that out of 32 banks, 14 banks have a universal banking score of 57. These 14 banks are offering almost all the services as compared to the other banks with high universal score. There are just 3-4 services which are not being offered by them. “I-wish flexible RD” is a financial service which is not being offered by any of the banks. Union Bank of India does not offer travel card for its customers when they are travelling to other places. “Pocket Wallet” is another service which is not being offered by any of the banks. HSBC bank, being a foreign Bank does not have a PPF account. “Providing tax solutions” is another service which is not being offered by IDBI Bank. My money and NRI insurance is another service which is not being offered by many banks. The banks like Bank of Maharashtra, Canara Bank, Central Bank of India, Karur Vysya Bank, and Oriental Bank of Commerce have a UBS of 55. This is because there are various services which are not offered by these banks like: iWish flexible RD Account, Pocket Wallet, Bank referral program, My Money, Technology Finance Group, NRI recurring deposit rupee account etc.

The UBS (Universal Banking Score) of Pragathi Krishna Bank is 53 because it is still not offering a lot of services to its customers like iWish Flexible RD, Card Protection Insurance, Tax solutions, Forex, factoring, Bank referral programs, NRI recurring deposit account and technology finance group (TFG). Technology finance (TFG) is a financial service which is being offered by ICICI Bank and no other bank offers this service.

Seeing the trend, we can draw a conclusion that the commercial banks have realized that in order to stay ahead in the rat race and offer exclusive and innovative servicesto their customers they are slowly marching towards Universal Bank.

The following table shows the financial service wise *universal score* of banks.

Table - 1.3 : Financial Service wise Universal Banking Score Table

Universal Banking Services / Banks	Personal Banking	Loans	Cards	Insurance	Pocket Wallet	Fixed Income Prodcuts	Investments	Agri& Rural	Corporates	Bank Referral	My Money	NRI Services	Investments	Corporate Banking	Business Banking	Electronic Services	Total Banking Score
ICICI BANK	6	7	4	5	1	4	6	5	2	1	1	6	3	6	3	2	62
Andhra Bank	5	7	4	5	0	4	6	5	2	1	0	5	3	5	3	2	57
Axis Bank	5	7	4	5	0	4	6	5	2	1	0	6	3	5	3	2	58
Allahabad Bank	5	7	4	4	0	4	6	5	2	1	0	6	3	5	3	2	57
Bank of Baroda	5	7	4	5	0	4	6	5	2	1	0	5	3	5	3	2	57
Bank of India	5	7	4	5	0	4	5	5	1	0	0	6	3	5	3	2	55
Bank of Maharashtra	5	7	4	5	0	4	5	5	2	1	0	4	3	5	3	2	55
Canara Bank	5	7	4	5	0	4	5	5	2	0	0	5	3	5	3	2	55
Central Bank of India	5	7	3	4	0	4	6	5	2	1	0	5	3	5	3	2	55
CITI Bank	5	7	4	5	0	3	6	2	2	1	0	5	3	5	3	2	53
Corporation Bank	5	7	4	4	0	4	6	5	2	1	0	6	3	5	3	2	57
Dhanlakshmi Bank x	5	7	4	5	0	4	5	5	2	1	0	5	3	5	3	2	56
HDFC Bank	5	7	4	5	0	4	6	5	2	1	0	6	3	5	3	2	58
HSBC Bank	5	7	4	5	0	2	6	5	2	1	0	6	3	6	3	2	57
IDBI	5	7	4	5	0	4	5	5	2	1	0	6	3	5	3	2	57
Indian Bank	5	7	4	5	0	4	6	5	2	1	0	5	3	5	3	2	57
Indian Overseas Bank	5	7	4	5	0	4	6	5	2	1	0	4	3	5	3	2	56
Karnataka Bank	5	7	4	5	0	4	6	5	2	1	0	5	3	5	3	2	57
Karur Vysys Bank	5	7	4	5	0	3	5	5	1	1	0	6	3	5	3	2	55
Kotak Mahindra	5	7	4	5	0	3	6	5	2	1	0	6	3	5	3	2	57
OBC	6	7	4	5	0	4	6	5	1	0	0	5	3	5	3	2	56
Pragathi Krishna Grameen	5	7	4	5	0	4	4	5	0	0	0	5	3	4	3	2	51
Punjab National Bank	5	7	4	5	0	4	6	5	2	1	0	6	3	5	3	2	58
SBI Bank	5	7	4	5	0	4	6	5	2	1	0	6	3	5	3	2	58
State Bank of Mysore	5	7	4	5	0	4	6	5	2	1	0	6	3	5	3	2	58
State Bank of Patiala	5	7	4	5	0	4	6	5	2	0	0	6	3	5	3	2	57
Syndicate Bank	5	7	4	5	0	4	6	5	2	0	0	6	3	5	3	2	57
Tamilnad Bank	5	7	4	5	0	3	6	5	2	0	0	6	3	5	3	2	56
UCO Bank	5	7	4	5	0	3	6	5	2	1	0	5	3	5	3	2	56
Union Bank of India	5	7	4	5	0	4	6	5	2	1	0	5	3	5	3	2	57
Vijaya Bank	5	7	4	5	0	4	6	5	2	0	0	6	3	5	3	2	57
YES Bank	5	7	4	5	0	3	6	5	2	1	0	5	3	6	3	2	57

After the calculation of Universal Banking Score, an average score of private and public sector banks was calculated. The findings revealed that private Sector Banks gets a better Universal Score as compared to public sector banks. The public sector banks had an average universal score of 56.33 and private sector banks had an average universal score of 56.9.

Conclusion:

Private and public sector banks have moved towards universalization. They are providing a hoard of innovative financial services to their customers. Public sector banks still have to work more to compete against private sector banks since the services provided by them are not as innovative as being offered by private sector banks. This may be due to the public sector legacy of Indian nationalised banks and the protected market share which might have restricted the banks to invest in better technology and service delivery.

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AN OVERVIEW OF MONEY LAUNDERING IN INDIA

Vijayakumar Jadhav[1]

Abstract

An investigation of illegal wealth exposed by the income tax department shows that at best, only 6% of illegal wealth is stored in the form of black money. Most of them will be able to save even this cash, it seems, given how crazily India is searching in Google for How to convert black money into white, Money laundering happens in almost every country in the world, and a Single scheme usually involves transferring money through several countries in order to difficult to understand its origins.People and organizations are realizing that good anti-money laundering programs can do more than satisfy regulators they can boost the bottom line by reducing major business risks. Transnational organized crime is more profitable than ever, and money launderers are devising new methods to hide the true source of illicit gains. This paper tries to have an insight of various ways organization and their owner's finds to launder money.

Introduction

Money laundering is the act of disguising the source of money obtained via illegal means. To put it more simply, it's the act of hiding money; It is the processing of criminal proceeds to disguise its illegal origin. In simple words, it can be defined as the act of making money that comes from one source to look like it comes from another source. INTERPOL's definition of money laundering is: "any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources".

"In basic terms, money laundering is when a business has ties or connections to organized crime and suddenly starts to book incredible or even normal sales," says Beer. "That's what criminals want to achieve — take this money from drugs or human trafficking or another criminal endeavor, and put into the system to make it look clean. Then, they can buy homes and cars, and it looks like the money was made legitimately."

Background of the study

Methods and Stages of Money Laundering:

There are three stages involved in money laundering; placement, layering and integration.

Placement –This is the movement of cash from its source. On occasion the source can be easily disguised or misrepresented. This is followed by placing it into circulation through financial institutions, casinos, shops, bureau de change and other businesses, both local and abroad. The process of placement can be carried out through many processes including:

1. Currency Smuggling – This is the physical illegal movement of currency and monetary instruments out of a country. The various methods of transport do not leave a discernible audit trail.
2. Bank Complicity – This is when a financial institution, such as banks, is owned or controlled by unscrupulous individuals suspected of conniving with drug dealers and other organized crime groups. This makes the process easy for launderers. The complete liberalization of the financial sector without adequate checks also provides leeway for laundering.
3. Currency Exchanges – In a number of transitional economies the liberalization of foreign exchange markets provides room for currency movements and as such laundering schemes can benefit from such policies.
4. Securities Brokers – Brokers can facilitate the process of money laundering through structuring large deposits of cash in a way that disguises the original source of the funds.
5. Blending of Funds – The best place to hide cash is with a lot of other cash. Therefore, financial institutions may be vehicles for laundering. The alternative is to use the money from illicit activities to set up front companies. This enables the funds from illicit activities to be obscured in legal transactions.
6. Asset Purchase – The purchase of assets with cash is a classic money laundering method. The major purpose is to change the form of the proceeds from conspicuous bulk cash to some equally valuable but less conspicuous form.

Layering – The purpose of this stage is to make it more difficult to detect and uncover a laundering activity. It is meant to make the trailing of illegal proceeds difficult for the law enforcement agencies. The known methods are:

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1. Cash converted into Monetary Instruments – Once the placement is successful within the financial system by way of a bank or financial institution, the proceeds can then be converted into monetary instruments. This involves the use of banker's drafts and money orders.
2. Material assets bought with cash then sold – Assets that are bought through illicit funds can be resold locally or abroad and in such a case the assets become more difficult to trace and thus seize.

Integration – This is the movement of previously laundered money into the economy mainly through the banking system and thus such monies appear to be normal business earnings. This is dissimilar to layering, for in the integration process detection and identification of laundered funds is provided through informants. The known methods used are:

1. Property Dealing – The sale of property to integrate laundered money back into the economy is a common practice amongst criminals. For instance, many criminal groups use shell companies to buy property; hence proceeds from the sale would be considered legitimate.
2. Front Companies and False Loans – Front companies that are incorporated in countries with corporate secrecy laws, in which criminals lend themselves their own laundered proceeds in an apparently legitimate transaction.
3. Foreign Bank Complicity – Money laundering using known foreign banks represents a higher order of sophistication and presents a very difficult target for law enforcement. The willing assistance of the foreign banks is frequently protected against law enforcement scrutiny. This is not only through criminals, but also by banking laws and regulations of other sovereign countries.
4. False Import/Export Invoices – The use of false invoices by import/export companies has proven to be a very effective way of integrating illicit proceeds back into the economy. This involves the overvaluation of entry documents to justify the funds later deposited in domestic banks and/or the value of funds received from exports.

Money Laundering in India

Out of 140 countries, India has been ranked 93rd and 70th in 2012 and 2013 respectively with a score of 6.05 in 2012 and 5.95 in 2013, as compared to Norway, which has a score of 2.36 and ranks No. 1 in the Anti Money Laundering (AML) Basel Index 2013. AML Basel index is country risk ranking which focuses on money laundering/ terrorist financing risk, consisting of 14 indicators of assessment.

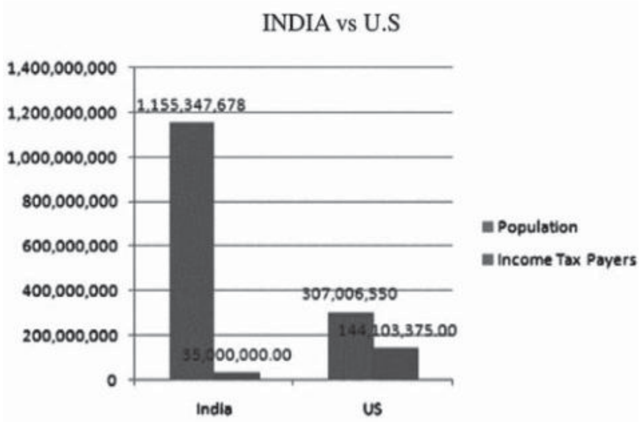

Fig. 1

This clearly shows that in India, tax payers tries to escape from paying taxes as compared to U S Indians who pay tax is very less compared to U S, even though we have more population than US, where this money goes how they convert these stolen money by not paying tax is the biggest question in front of government, In the present-day scenario, is very vulnerable to money laundering activities and is a high risk zone.

India needs to curb Money laundering as the practice is rampant across the country. It is estimated that a total of $343 billion has been laundered out of India during the period 2005-2014. This is a massive amount and prevention of money laundering must be a priority for the government!

Ways through Indians convert their black money into white

Firstly, people with black money keep very little of it in cash. They find many ways of converting it into white and holding on to it in a variety of assets. The best known of these is real estate, but there's also gold, foreign currency, foreign banks, benami accounts in Indian banks, the stock market and regular commercial enterprise.

An analysis of illegal wealth uncovered by the income tax department shows that at best, only 6% of illegal wealth is stored in the form of black money. Most of them will be able to save even this cash; it seems, given how crazily India is searching in search engines for "How to convert black money into white"

1. **Temple donations.** There are people who give their black money to temple 'hundis' or donation boxes. Temple managements will show this money as anonymous donations, exchange it for new currency notes, keep a commission for this service, and return most of it to the owner. The government in India clarified that temple hundis will not be asked questions.

2. **Formulation of Trust & doing Charity.** Another popular way used by people to convert black money to white is by formulating trust for social cause. They make executive bodies of own people in trust sometimes illiterate people like driver cook etc. They donate black money to this trust as charity to convert black money. On paper it is charity but off the shelf it is conversion of black money to white.
3. **Backdated FDs in co-operative banks and credit societies.** Since such institutions still do a lot of their work manually, they issues fixed deposit receipts in back date. Owners of black money have reportedly been able to get various FDs in such institutions in names of various villagers in back dates, and will receive new currency notes in due course, after paying a cut to those in whose name they deposited the money. Non-banking financial institutions who accept such deposits are also reportedly acting similarly in helping convert black money into white. Such institutions have long been alleged to be indulging in money laundering. The level of regulation of such institutions differs from state to state.
4. **Showing Income as Agriculture Income.** Another popular way of converting black money in to white is by showing income as agriculture income. In order to show income as agriculture income you must possess land and it must be used for agriculture purpose like plantation, garden nursery etc. However there are various conditions you need to satisfy in order to claim agriculture income.
5. **Giving loans to poor people.** Funneling money through poor people whose bank transactions will not arouse suspicion, is giving way to many creative enterprises. There are also people willing to give interest free loans to the poor
6. **Paying advance salaries.** By paying advance salaries to the employees that too in the form of cash business firms convert black money as white money.
7. **Using professional money laundering firms.** Run by chartered accountants, and tax consultants there are money laundering companies, most famously they launder money by using businesses such as highway transport which run completely on cash. These 'cash-in-hand' firms match the needs of companies which need short-term funds with those who have excess black money to park. Showing back-dated transactions in the current fiscal is not difficult for such firms.
8. **Sale of personal belonging like Jewelry.** Going to known jeweler and give him all black money you want to convert. He will give you cheque for the same amount. He will also give you purchase bill showing you sold your personal Jewelry to him. By this way your Black money is converted to white and you need not to pay capital gain tax even.
9. **Converting Black money by Investment**. Another method people use to convert black money to white is by making investment in cash. People purchase insurance policy and pay premium in cash. For example if insurance premium is 50000 Rs/- payable quarterly, than people pay first premium via cheques and rest all premium in cash. This is most simple and popular way to convert black money in white.
10. **Getting Black money as gift**. Another popular way to convert black money to white is by getting gift from relative. Modus operandi is simple you have black money and your relative has the same amount of white money. Your relative issues cheque to you as gift and you will give your black money to him/her.
11. **Depositing Black Money on name of Family members.** Another popular method for converting black money to white is to open bank account on each and every individual family member. Deposit black money on the name of every family member to convert it in white.
12. **By Real Estate.** Real estate is sector where majority of black money is parked. People use real estate deals to convert black money to white. It is observed that people do fake real estate deal exchange money and cancel these deals due to non-payment of money.
13. **Buying gold.** Instead of accumulating cash, people will buy gold, diamond and other precious metals. People buy gold in small quantities, from different shops, in the name of all members of the family.
14. **Using farmers.** Since agricultural income is not taxed, a farmer can easily say he got this much cash from the mandi by selling his production, In this way, any farmer could help launder money, from old currency notes to new ones, for a cut. An investment advisor states, "The agricultural income in this country is going to be fabulously high this year, immaterial if the crop is good or poor."
15. **Hawala Route**. Hawala is the undocumented transfer of money. Most of the hawala done now is based on net-off basis. If someone I can accept the $1000 in the US (under the radar), and payout in Pakistan (also under the radar), then the transaction is treated as a hawala. It is all about not getting the money in the documented field, so that taxation or source of funding is not questioned. In many countries, there are inherent tax benefits by surrendering your foreign currency and getting paid in local currency (Pakistan for example has this law), which is used a lot - legally, for hawala purposes.

Transaction laundering: Advanced laundering in advanced era

Transaction laundering is the new sophisticated form of money laundering and is one of the biggest challenges facing world

This advanced merchant-based fraud scheme takes advantage of legitimate payment ecosystems by funneling unknown transactions through seemingly unrelated ecommerce merchant accounts. Sleek legitimate websites act as payment processing storefronts for criminal enterprises selling firearms, illicit drugs, and other illegal goods.

Transaction laundering, also known as undisclosed aggregation or factoring, is a form of money laundering that takes place when payments for illicit purposes – such as counterfeit goods, street drugs, unlicensed gambling are processed by legitimate merchants on behalf of another party.

Three of the most common sources of transaction laundering are front companies, pass-through companies, and funnel accounts. Front companies are businesses that pass the initial due diligence tests but are used to launder crime proceeds or to sell illegal products under the guise of a legitimate business. Pass-through companies have legitimate payment accounts and allow unlawful third parties to make use of the accounts to process payments related to criminal activity. Funnel accounts are run by legitimate businesses that accept credit card charges from companies without merchant processing accounts and enter these charges as legitimate transactions within the payment processing system.

The basics of Transaction Laundering

Transaction launderers essentially tap into the payment ecosystem by using a storefront merchant account to process transactions originating elsewhere. This way, the fraudulent merchants are able to funnel unauthorized transactions through legitimate payment networks while avoiding detection, not only by regulators but even by the payment processors themselves.

Transaction laundering is often used to process payments resulting from criminal activities. It opens the door into legitimate payment systems for money launderers of all sorts: criminals, tax evaders, merchants involved in shady business practices and financing acts of terror.

Left unchecked, transaction laundering can have truly terrible consequences. It has come to light that Cherif Kouachi, one of the two terrorists who attacked the Charlie Hebdo office in Paris on January 7, 2015, had financed the attack with proceeds from counterfeit goods that he sold online.

This example shows how easily dangerous and violent criminals can set up websites through which they sell illegal goods or services (i.e. counterfeit clothes, weapons, drugs) and then process payments from these sites by routing them to legitimate, registered online stores selling innocent-looking goods. Moreover, these proceeds can later be used to finance even more atrocious crimes, such as terrorism or supporting human trafficking rings.

To add another layer of complexity to this already sophisticated scheme, in some cases, transaction takes place without any actual exchange of goods whatsoever. In this case, the criminal is not selling anything (either legal or illegal), but is rather faking the ecommerce sale in order to launder money obtained elsewhere; in other words, transaction laundering as the means for cross-border money transfers and layering activities.

Money Laundering in internet enabled era

To physically withdraw the money from the bank a cashier usually asks to present his/her ID, driver's license, passport, or the residence permit. However, in case of transferring money from the personal account to any of the possible digital wallets, the user does not have to be authenticated. This is the very loophole cyber criminals use to transfer the illegitimately acquired money to a foreign country.

The majority of digital wallet service providers are not eager to cooperate with law enforcement agencies. However, even if they agree to cooperate, the investigation process usually takes very long time. Meanwhile, the cyber criminal transfers money back and forth from one unauthenticated digital wallet service provide to another.

The evolutions of e-commerce and mobile payments have essentially enabled money laundering on a never-seen before scale. The ease of establishing an ecommerce merchant and setting up a payment environment for such a business, contributes to rapid proliferation of transaction laundering. Add to that the borderless, global aspect of ecommerce, and the minimal KYC requirements for establishing online merchants, and you get the perfect platform for performing unauthorized financial activities.

Digital wallet service providers should be more flexible and willing to cooperate with law enforcement agencies. At the same time, partner nations should implement harmonized legislative acts regarding financial transactions. If any country rejects the given process, it will remain an offshore zone for the illegitimate financial activity.

Ecommerce Payments- The Blind Spot

Although government and other regulators constantly enact ever stricter policies, the government's rules and regulations did not adequately adapt to the growing magnitude of ecommerce and the associated growth of the payments ecosystem. Current regulations and enforcement mechanisms are adjusted to other lines of business and financial services, such as banking, capital markets, and insurance and products, such as cash deposits, wire transfers and securities trading.

Ecommerce payments using credit cards, among other means, are rapidly growing, and this growth creates an ample opportunity for criminal enterprises to abuse the legitimate payments ecosystem. As things currently stand, payments in general, and card-not-present credit card payments specifically, continue to be the blind spot of the government's administration.

Impact of money laundering has been summed up here:

- Potential damage to reputation of financial institutions and market
- Weakens the "democratic institutions" of the society
- Destabilizes economy of the country causing financial crisis
- Give impetus to criminal activities
- Policy distortion occurs because of measurement error and misallocation of resources
- Discourages foreign investors
- Causes financial crisis
- Encourages tax evasion culture
- Results in exchange and interest rates volatility
- Provides opportunity to criminals to hijack the process of privatization Contaminates legal transaction

Prevention of money laundering – Indian initiatives

In India, before the enactment of Prevention of Money Laundering Act, 2002 (PMLA) the major statutes that incorporated measures to address the problem of money laundering were:

- The Income Tax Act, 1961
- The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA)
- The Smugglers and Foreign Exchange Manipulators Act, 1976 (SAFEMA)
- The Narcotic Drugs and Psychotropic Substances Act, 1985 (NDPSA)
- The Benami Transactions (Prohibition) Act, 1988
- The Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988
- The Foreign Exchange Management Act, 2000, (FEMA)

With the increasing threat of modern and sophisticated forms of transnational criminal activity, concern has arisen over the lack of effective national laws to combat organized crime and the laundering of its proceeds. India has had separate laws to deal with smuggling, narcotics, foreign trade violations, foreign exchange manipulations etc,

Conclusions

A country cannot rest or remain unworried but it should Endeavour to develop new techniques and systems to combat money laundering. It is hard to specifically differentiate between the legislation requirements of large or small states in respect of anti-money laundering activities. Moreover, since various countries are entering into multiple agreements and conventions in order to strengthen their measures to combat money laundering, the money launderers are targeting and exploiting those jurisdictions which are weak and do not have sufficient laws to deal with such an offence.

There is Directorate of Enforcement which leads all the money laundering cases and investigations related to it in the country, there is also Financial Intelligence Unit which tracks down and analyses the risk of money laundering through the agencies reporting to it and there is time to time up gradation of the legislative framework through the proposed changes

To have effective anti-money laundering measures there need to be a proper coordination between the Centre and the State. For that the tussle between the two should be removed. The laws should not only be the responsibility of the Centre but it should be implemented at the State level also. The more decentralized the law would be the better reach it will have. Therefore, to have an effective anti-money laundering regime, one has to think regionally, nationally and globally.

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NON-BANKING FINANCIAL COMPANY (NBFC)

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Abstract

Non-banking financial companies (NBFCs) have a definite and very important role in the financial sector, particularly in a prospering economy like India. It plays a significant role in promoting inclusive growth in the country, by catering to the diverse financial needs of customers not served by the banks. The NBFC sector has always played a critical role in encouraging growth of the Indian economy and hence needs to be nurtured appropriately. NBFC have traditionally complemented the role of banking sector. They have catered the needs of those borrowers who were not considered suitable by the banks. This paper mainly focuses on the role of NBFCs in India, its classification, the various problems faced by the NBFCs and growth prospectus of NBFCs and its future prospects.

Keywords- *NBFC, financial, economy*

Introduction

The financial sector in any economy consists of several intermediaries. Apart from banking entities, there are investment intermediaries (such as mutual funds, hedge funds, pension funds, and so on), risk transfer entities (such as insurance companies), information and analysis providers (such as rating agencies, financial advisers, etc), investment banks, portfolio managers and so on. All such entities that offer financial services other than banking, may be broadly called non-banking financial institutions.

Objectives of the study

To know the emergence of NBFC in India

To know the different committees formed

To understand the classification of NBFC

To lookout at the problem faced by NBFC

To know the future prospectus of NBFC

Research Methodology

Secondary data was collected from various sources like research journals, websites and articles to ensure detailed understanding of the subject and authenticity of information.

Definition of NBFC

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company)

Emergence of NBFCs- Indian Historical Perspective

The non-banking financial companies (NBFCs) flourished in India in the decade of the 1980s against the backdrop of a highly regulated banking sector. The simplified sanction procedures and low entry barriers encouraged the entry of a host of NBFCs. However, in many cases mismanagement / lack of efficient management resulted in problems arising out of adverse portfolio selection, unprudent operations, inability to manage risk both on asset and liability side. In many cases due to non availability of adequate credit from the banking sector NBFCs had to rely excessively on unsecured public deposits for their existence / survival by paying higher rate of interest. To service such high cost deposits, some NBFCs were forced to deploy their funds which carried high return coupled with high risk. This ultimately resulted in higher risks for their depositors, which in some cases had culminated in the crisis of confidence and credibility.

The Reserve Bank of India Act, 1934 was amended on 1st December, 1964 by the Reserve Bank Amendment Act, 1963 to include provisions relating to non banking institutions receiving deposits and financial institutions. It was observed that the existing legislative and regulatory framework required further refinement and improvement because of the rising number of defaulting NBFCs and the need for an efficient and quick system for redressal of grievances of individual depositors.

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Also, it was felt necessary to initiate immediate action for the protection of depositor's interest. RBI issued the Non Banking Companies (Reserve Bank) Directions, 1977, guidelines on prudential norms and various other Directions and clarifications, from time to time for governing the activities of NBFCs. Central Government, during 1974, introduced 58A in the Companies Act, 1956 which empowered Central Government to regulate acceptance and renewal of deposits and to frame rules in consultation with Reserve Bank of India (RBI) prescribing (a) the limit up to, (b) the manner and (c) the conditions subject to which deposits may be invited or accepted / renewed by companies. The Central Government in consultation with RBI framed Companies (Acceptance of Deposits) Rules, 1975.

Given the need for continued existence and growth of NBFCs, the need to develop a framework of prudential legislations and a supervisory system was felt especially to encourage the growth of healthy NBFCs and weed out the inefficient ones. Continuing this process, RBI Act, 1934 was amended in 1997 which authorised the Reserve Bank to determine policies, and issue directions to NBFCs regarding income recognition, accounting standards, NPAs, capital adequacy, etc. The amended Act, inter alia, provided for compulsory registration of all NBFCs into three broad categories, viz., (i) NBFCs accepting public deposit; (ii) NBFCs not accepting/ holding public deposit; and (iii) core investment companies (i.e., those acquiring shares/securities of their group/holding/ subsidiary companies to the extent of not less than 90 per cent of total assets and which do not accept public deposit).

Until some years back, the prudential norms applicable to banking and nonbanking financial companies were not uniform. Moreover, within the NBFC group, the prudential norms applicable to deposit taking NBFCs (NBFCs-D)

NBFCs - Committees formed

Various committees were formed in India to review the existing framework and address the shortcomings. Some of the committees and its recommendations are given hereunder:

1. **James Raj Committee (1974):** The James Raj Committee was constituted by the Reserve Bank of India in 1974. After studying the various money circulation schemes which were floated in the country during that time and taking into consideration the impact of such schemes on the economy, the Committee after extensive research and analysis had suggested for a ban on Prize chit and other schemes which were causing a great loss to the economy. Based on these suggestions, the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 was enacted.
2. **Chakravarthy Committee (1984):** This Committee headed by Shri Sukhamoy Chakravarty was formed to review the Working of the Monetary System. It made several recommendations for the development of money market.
3. **Vaghul Committee (1987):** As a follow-up to the Chakravarty committee, the RBI set up a Working Group on Money Market under the Chairmanship of Shri N. Vaghul, which submitted its Report in 1987 containing number of measures to widen and deepen the money market.
4. **Narasimhan Committee (1991):** This committee was formed to examine all aspects relating to the structure, organization & functioning of the financial system. It also recommended that the supervision of these institutions should be brought within the purview of the agency to be set up for the purpose under the aegis of the RBI. This led to the amendment of the RBI Act in 1997.

   The RBI Amendment Act 1997 introduced compulsory registration with the RBI of all existing and newly incorporated NBFCs and prescribed certain minimum capital requirements as basic entry norms for a company to be able to operate as an NBFC.
5. **Dr.A.C.Shah Committee (1992):** The Working Group on Financial Companies constituted in April 1992 i.e the Shah Committee set out the agenda for reforms in the NBFC sector. This committee made wide ranging recommendations covering, inter-alia entry point norms, compulsory registration of large sized NBFCs, prescription of prudential norms for NBFCs on the lines of banks, stipulation of credit rating for acceptance of public deposits and more statutory powers to Reserve Bank for better regulation of NBFCs.
6. **Khanna Committee (1995):** This Group was set up with the objective of designing a comprehensive and effective supervisory framework for the non-banking companies segment of the financial system. The important recommendations of this committee are as follows:
   i. Introduction of a supervisory rating system for the registered NBFCs. The ratings assigned to NBFCs would primarily be the tool for triggering onsite inspections at various intervals.
   ii. Supervisory attention and focus of the Reserve Bank to be directed in a comprehensive manner only to those NBFCs having net owned funds of Rs.100 lakhs and above.
   iii. Supervision over unregistered NBFCs to be exercised through the off-site surveillance mechanism and their on-site inspection to be

conducted selectively as deemed necessary depending on circumstances.

iv. Need to devise a suitable system for co-ordinating the on-site inspection of the NBFCs by the Reserve Bank in tandem with other regulatory authorities so that they were subjected to one-shot examination by different regulatory authorities.

v. Some of the non-banking non-financial companies like industrial/manufacturing units were also undertaking financial activities including acceptance of deposits, investment operations, leasing etc to a great extent. The committee stressed the need for identifying an appropriate authority to regulate the activities of these companies, including plantation and animal husbandry companies not falling under the regulatory control of either Department of Company Affairs or the Reserve Bank, as far as their mobilisation of public deposit was concerned. Introduction of a system whereby the names of the NBFCs which had not complied with the regulatory framework / directions of the Bank or had failed to submit the prescribed returns consecutively for two years could be published in regional newspapers. Most of the recommendations of the Committee were accepted by the Reserve Bank after an in depth analysis and the revised framework for effective supervision of the NBFCs including off-site monitoring of NBFCs is being put in place.

7. **Vasudev Committee (1998):** This committee emphasised the need for strengthening of the NBFC sector including entry norms and prudential norms, and dealt with framework for acceptance of public deposits, issues concerning unincorporated financial intermediaries and addresses issues of supervision of NBFCs. The important recommendations of this committee are as follows:

i. Present minimum captial requirement of Rs.25 lakhs to be reviewed upwards keeping in view the need to impart greater financial soundness and achieve economies of scale in terms of efficiency of operations and managerial skills.

ii. As operations of NBFCs are concentrated in remote areas, the RBI may apprise the State Governments of the companies which have been granted registration as well as the companies whose applications have been rejected.

iii. The present capital adequacy ratio requirement may be maintained at 12% for all rated NBFCs, higher rate of about 15% need to be prescribed by RBI for those NBFCs which seek public deposit without credit rating.

iv. RBI may stipulate that the NBFCs should invest at least 25% of their reserves in marketable securities apart from the SLR securities already held by the NBFCs.

v. Linking of quantum of public deposits with credit rating because apart from having the effect of conferring regulatory functions on the rating agencies, it also exposes the NBFCs to frequent asset liability mismatches arising out of changes in credit rating.

vi. RBI should consider measures for easing the flow of credit from banks to NBFCs and then consider prescribing a suitable ratio as between secured and unsecured deposits for NBFCs.

vii. Appointment of depositors grievance Redressal authorities with specified territorial jurisdiction.

viii. The procedure for liquidation of NBFCs to be substantially in line with those available for banks.

ix. A separate instrumentality for regulation and supervision of NBFCs under the aegis of the RBI should be set up, so that there is a great focus in regulation and supervision of the NBFC sector.

x. The Committee felt it was not judicious to introduce a deposit insurance scheme for the depositors in NBFCs because of the moral hazard issues, likelihood of assets stripping and likely negative impact on the growth of a healthy NBFC sector.

xi. Reserve Bank could use the services of chartered accountants with suitable experience and capabilities to carry out inspection of the smaller NBFCs.

Classification of NBFCs based on the nature of its Business

The NBFCs that are registered with RBI are basically divided into four categories depending upon its nature of business:

Hire-purchase company;

Equipment leasing company;

Loan company;

Investment company;

Infrastructure finance company

Reclassification of NBFCs w.e.f.6th December, 2006

In terms of the NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 1988 with effect from December 6, 2006 the above NBFCs registered with RBI have been reclassified as:

1. **Loan Company (LC):** Loan company means any company which is a financial institution carrying on

as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

2. **Investment Company (IC):** Investment Company is a company which is a f inancial inst i tut ion carrying on as its principal business the acquisition of securities. Investment Companies are further divided into following sub-categories:
3. **Core Investment Companies:** The Reserve Bank of India *vides* its Notification No. DNBS(PD)CC.No. 197/03.10.001/2010-11 dated August 12, 2010, a new class of NBFCs by the name of 'Core Investment Companies' (CIC) was added.

Core Investment Companies in terms of RBI's Notification means

A non-banking financial company carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet:-

i. It holds not less than 90% of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies;

ii. Its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its net assets

   Net assets, for the purpose of this provison, would mean total assets excluding – cash and bank balances; investment in money market instruments and money market mutual funds, advance payments of taxes; and deferred tax payment.

iii. It does not trade in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

iv. It does not carry on any other financial activity referred to in section 45-I(c) and 45-I(f) of the Reserve Bank of India Act, 1934 except:

   a) Investment in- bank deposits, money market instruments including money market mutual funds, government securities, and bonds or debentures issued by group companies;
   b) Granting of loans to group companies; and
   c) Issuing guarantees on behalf of group companies.

4. **Asset Finance Company (AFC):** AFC would be defined as any company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/ economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Financing of physical assets may be by way of loans, lease or hire purchase transactions. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total assets and total income respectively.
5. **Mutual Benefit Financial Company (MBFC):** Mutual Benefit Financial Company means a company which is a financial institution notified by the Central Government under section 620A of the Companies Act, 1956.

The above-mentioned types of NBFCs may be further classified into:

- NBFCs accepting public deposit (NBFCs-D) and
- NBFCs not accepting/holding public deposit (NBFCs-ND).

6. **Operating leasing entities:** Operating leasing companies do not come under the RBI definition of NBFCs since operating lease is not "equipment leasing" business as defined by the RBI. Only financial leasing is included in the RBI definition.

Further classification of NBFCs-ND based on the size of its asset

NBFCs-ND may also be classified into (i) Systematic Investment and (ii) Non-Systematic Investment NBFCs based on the size of its asset.

Problems faced by NBFC

1. Borrowing Cost: NBFCs face a higher cost of borrowings which is eventually passed on to their borrowers in the form of higher interest on loans. It increases delinquencies and reduces profit margin which affects your credit rating with the banks in turn. With a low credit rating, cost of funds goes up further.
2. Capital Adequacy: NBFCs face more problems when raising capital. The compression in profit margins impacts your ability to attract private equity investment and meeting capital adequacy norms becomes a continuing challenge.
3. Uncertainty about retail NCDs: The uncertainty about whether the non-deposit taking NBFCs will be allowed to continue to tap retail NCDs is another source of worry. It has become more acute after the recent statement by the RBI governor (in response the Saradha scam) that only banks should be allowed to access public deposits. Earlier, the Rao Committee report had expressed the opinion that

retail NCDs amount to a back-door method of raising public deposits. Strictly speaking, this is not true because NCDs are quite different from public deposits. NCDs are secured by a charge on the assets of the company while public deposits are unsecured and, in the event of default, the public stands to lose.

If the underlying thinking is that NBFCs should not raise retail funds through NCDs, that can only aggravate problems for NBFCs. In fact, NCDs represent an ideal avenue for NBFCs to broad base their borrowings. Without access to this source, NBFCs become more dependent on the banks. For small NBFCs, withdrawal of NCDs would pose a challenge to their very existence.

4. Bearish CP market: The Commercial Paper market is going through a bearish phase in line with the current downturn in the economy. This has increased the funding challenges for NBFCs.

Suggestions and Recommendations for NBFC problems

1. Developmental role: As an enlightened regulator, the RBI also has a developmental role to play. As things stand today, the RBI does play a key developmental role in relation to the commercial banks, but when it comes to NBFCs, it has a distinctly step-motherly attitude. The predominant attitude comes across as one of suspicion, and the focus seems to be to deny NBFCs space for growth. In this context, a very good precedent has been set by the National Housing Bank (NHB) that regulates the housing finance sector which has a large presence of NBFCs. In fact, the RBI should seriously consider the example of the NHB as a model worthy of emulation when regulating NBFCs.
2. Priority Sector: A large part of lending by NBFCs, including the gold loan NBFCs, is for productive purposes like micro-enterprise, agriculture etc. Accordingly, the priority sector tag should be restored for such lending. This will automatically reduce borrowing costs and benefit the end users who belong to vulnerable sections of society.
3. Customer Complaints: In recent days, regulators are paying lot of attention to customer complaints. There is an impression that the incidence of customer complaints in NBFCs, particularly gold loan NBFCs, is high. In fact, when you consider the number of complaints in relation to the size of the customer base, the gold loan NBFCs are much better than the banks. The percentage of customers with a grievance is actually far lower for gold loan NBFCs than for banks. Therefore, it’s time the RBI took an overall view of the matter.
4. Knee-jerk responses: Official policies relating to NBFCs in general, and gold loan NBFCs in particular, have been prone to knee-jerk reactions. Extreme reactions have affected the stability of the sector and eroded investor confidence. It has affected prospects for future growth.
5. ECB Window: In order to broad base funding sources, RBI should consider allowing the larger and well managed NBFCs to access the ECB window. It will mitigate systemic risk by easing the pressure on the banks.
6. Thorat Committee recommendations: Any move to hike the requirement for tier – I or equity capital as recommended by the Usha Thorat committee should be introduced in a phased manner and not be pushed through overnight. In the current depressed market scenario, the capital market and the private equity players are averse to funding NBFCs. Once a recovery is underway, this is unlikely to be an issue.

Growth prospectus of NBFC

The passage of the Banking Laws Amendment Bill 2011, has put NBFC stocks in the spotlight. This is true especially of those companies who are actively seeking a banking license. One more factor that has added to the enthusiasm is the recent recommendations by the RBI for the NBFC sector. A panel headed by the former deputy governor of RBI, Usha Thorat has made certain recommendations which will tighten the ropes on the NBFC sector as a whole but ensure a better and safer functional environment. Here are some recommendations which will help in strengthening the NBFC sector going forward:

Tier -1, or core capital of NBFCs, has been pegged at 12% from 7.5% now.

The new provisioning rules will be 90 days instead of 180 days.

The risk weights for NBFCs not sponsored by banks could be raised to 150% for capital market exposures and 125% for commercial real estate (CRE) exposures.

A minimum asset size of over Rs 50 crore is required for registering a new NBFC.

The panel has stipulated the maintenance of a statutory liquidity ratio of 15% of aggregate deposits for deposit accepting NBFCs, besides, making applicable ALM guidelines to those holding deposit of Rs 20 crore and above.

Existing NBFCs will be given a period of 2 years with milestones for achieving the minimum threshold of Rs 25 crore of financial assets.

All registered NBFCs, both deposit taking and non-deposit taking, should maintain high quality liquid assets in cash, bank deposits available within 30 days, money market instruments maturing within 30 days, investment in actively traded debt securities.

Any change in shareholding of 25%, or more, will have to be approved by the RBI besides a suitable tax deduction on provisions.

Financial entities having an asset size of Rs 1000 crore or above, holding financial assets which constitute 50% of the total assets OR generate financial income which as a proportion of the gross income is at least 50%, will need to be registered and regulated by the Bank.

As per the extant regulatory framework, the Bank has stipulated the maintenance of a statutory liquidity ratio of 15% of aggregate deposit for deposit accepting NBFCs, besides, making applicable ALM guidelines to those holding deposit of Rs 20 crore and above.

Conclusion

The non-banking financial companies (NBFC's) have emerged as substantial contributors to the Indian economic growth by having access to certain deposit segments and catering to the specialized credit requirements of certain classes of borrowers. It has a wide range of activities like hire purchase finance, loans, equipment lease finance and investments. NBFCs have greater reach and flexibility in tapping resources. It is doing more fee-based business than fund-based. They are focusing now on retail sector-housing finance, personal loans and marketing of insurance. The strong NBFCs have successfully emerged as 'financial institutions' in a short span of time and are in the process of converting themselves into 'financial supermarket' – a one-stop financial shop. The growth trend of NBFCs in India is still catching momentum. Their role in the economy cannot be neglected and RBI should also make certain policies which should help them to flourish along with care for its investors.

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A COMPARATIVE STUDY ON "ASSETS AND LIABILITIES OF CANARA BANK AND SYNDICATE BANK -2016-17"

Chitra. P.Narayan[1] **Shubha Raghavendra**[2]

Abstract

Assets and liabilities are the fundamental elements of any company's financial position. Revenue and expenses represent the flow of money through the company's operations. Accounting standards define an asset as something a company owns that can provide future economic benefits. Cash, inventory, accounts receivable, land, buildings, equipment -- these are all assets. Liabilities are a company's obligations -- either money that must be paid or services that must be performed. A successful company has more assets than liabilities, meaning it has the resources to fulfill its obligations. On the other hand, a company whose liabilities exceed its assets is probably in trouble. For the purpose of the study 2 banks are taken into consideration Canara bank and Syndicate bank. This paper focuses on Assets and liabilities which will provide proper information about the financial position of banks and it also focuses on liquidity and profitability position of above chosen bank. The tools used for the purpose of the study includes comparative statement, common size statement and ratio analysis

Keywords: *profitability, financial position, liquidity*

Introduction:

All businesses have assets and liabilities. Even you, as an individual, have your own assets and liabilities. Individual assets are anything you may own outright, such as a car, house, or cash in a bank account. Individual liabilities are considered to be anything that you make payments on, such as rent, or a mortgage, a car payment, or utilities.

Business assets and liabilities are somewhat the same as individual assets and liabilities. Business assets are considered anything that the business owns, whereas business liabilities are anything that the business owes to someone else. So, assets are any property that is owned by a person or a business. Liabilities are a debt or financial obligation owed to another person or business.

Bank plays very important role for the economic development of any country either developing or developed. Bank has to act desired role for the directional and overall development of any economy. As the basic function of the bank is to mobilize the saving and utilize it for the best development. Reserve Bank of India (RBI) issues directives to all the banks for better regulation and motivation. Banking sector reforms gave competition to the banks. Nationalization of the banks saw growth and reforms in banking sector, which were unmatched by any other country. Indian banking industry has been successful to a great extent with basic services which are imperative for any growing economy to provide to its citizens in order to move on the path of inclusive growth. New branches were not only opened in metros but also in other unbanked areas. RBI's effective policy for granting licenses for new branches led to the expansion of banking services of less developed pockets of the country.

Bank Assets

Banks have general assets and liabilities just like individuals. There are asset accounts that make money for the bank. For example, cash, government securities, and interest-earning loan accounts are all a part of a banks' assets.

A bank can have different types of assets:

- Physical (equipment, land)
- Loans (interest from consumer and business loans)
- Reserves (holdings of deposits of the central bank and vault cash)
- Investments (securities)

Physical assets include the building and land (if the bank owns it), furniture, and equipment. Loans, such as mortgages, are an important asset for banks because they generate revenue from the interest that the customer pays on the loan. Examples of interest loans include:

- Consumer loans (home loans, personal loans, automobile loans, credit card loans)
- Business loans (real estate development loans, capital investment loans)

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Bank Liabilities

Examples of liabilities for a bank include:

- Mortgage payments for the building
- Distribution payments to customers from stock
- Interest paid to customers for savings and certificates of deposit

Canara Bank is one of the largest public sector banks owned by the Government of India. Its headquarters is in Bengaluru. It was established at Mangalore in 1906, making it one of the oldest public sector banks in the country. The government nationalized the bank in 1969. As of 30 June 2017, the bank had a network of 6089 branches and more than 10519 ATMs spread across India. The bank also has offices abroad in London, Hong Kong, Moscow, Shanghai, Doha, Bahrain, South Africa, Dubai, Tanzania and New York.

Syndicate Bank is one of the oldest and major commercial banks of India. It was founded by T M APai, UpendraPai and VamanKudva. At the time of its establishment, the bank was known as Canara Industrial and Banking Syndicate Limited. The bank, along with 13 major commercial banks of India, was nationalised on 19 July 1969, by the Government of India.

Fig. 1

Objective of the Study:-

- To study long term and short term financial position of the banks
- To understand the liquidity position of the banks
- To study the overall financial soundness of the banks
- To study the profitability position of the banks

Need of the Study

Assets and liabilities are the fundamental elements of any company's financial position. Revenue and expenses represent the flow of money through the company's operations.Accounting standards define an asset as something a company owns that can provide future economic benefits. Cash, inventory, accounts receivable, land, buildings, equipment — these are all assets. Liabilities are a company's obligations — either money that must be paid or services that must be performed. A successful company has more assets than liabilities, meaning it has the resources to fulfill its obligations. On the other hand, a company whose liabilities exceed its assets is probably in trouble.

- Need to study how banks addresses the shortage of funds.
- Increases Bank's performance and ensures a competitive advantage
- Financial position is an indication to retain the stake holders of the bank, hence the study.

Research Methodology:-

This study is based on the analysis of the balance sheet of Syndicate Bank and Canara Bank with the help of secondary data collection. The secondary sources of data are banking books, annual reports of Syndicate Bank and Canara Bank, internet (websites) and research papers etc.

Source: Published data, secondary data

Scope: Canara Bank, Syndicate Bank

Limitation: Secondary data, Lack of prior research studies on the topic.

Review of literature: Canara Bank Annual Report and Syndicate Bank Annual Report.

TABLE - 1 : BALANCE SHEET OF CANARA BANK AND SYNDICATE BANK AS ON 31.3.2016 AND 31.03.2017

	CANARA BANK		SYNDICATE BANK	
CAPITAL AND LIABILITIES	**MARCH 2017**	**MARCH 2016**	**MARCH 2017**	**MARCH 2016**
Total share capital	597.29	542.99	904.54	703.37
Equity share capital	597.29	542.99	904.54	703.37
Share application money	_	_	_	740.00
Reserves	27715.10	25615.55	11684.02	10022.25
Networth	28,312.39	26,158.54	12,588.56	11,465.62
Deposits	4,95,275.24	4,79,791.56	26,873.32	2,60,560.86
Borrowings	39,503.56	17,475.52	2,61,735.34	25,501.20
Total Debt	5,34,778.80	5,06,664.88	2,78,036.38	2,87,236.54
Other liabilities and provisions	15,055.10	14,692.70	6,852.77	7,652.92
Total liabilities	5,78,146.29	5,47,516.12	2,97,477.71	3,06,355.08
ASSETS				
Cash & Balances with RBI	19,922.50	20,664.05	13,108.95	13,338.56
Balance with banks, Money @ call	38,902.96	36,069.61	12,123.23	15,876.83
Advances Investment	3,42,008.76	3,24,714.82	1,99,669.35	2,01,368.49
Gross Block	1,50,265.89	1,42,309.30	65,465.40	68,621.87
Revaluation reserve	7,168.32	7,198.10	2,428.12	2,376.00
Net Block	5,373.15	5,44.66	1,595.62	1,612.36
Other Assets	1,795.17	1,753.44	832.50	763.64
	25,251.02	22,004.89	6,252.34	6,354.80
Total assets	5,78,146.29	5,47,516.12	2,97,477.71	3,06,355.08

Note- Vital information from Profit and loss account-:

TABLE - 2

	CANARA BANK		SYNDICATE BANK (Rs in Cr)	
PARTICULARS	**MARCH 2017**	**MARCH 2016**	**MARCH 2017**	**MARCH 2016**
Operating Income	41,387064	44,022.14	23,003.79	23,197.78
Reported Net profit	1,121.92	-2,812.82	358.95	-1,643.49

Analysis

Analysis using tools like comparative statement, common size balance sheet and ratio analysis.

TABLE - 3 : Common size Balance sheet of Canara bank and Syndicate bank as on 31.03.2017

	CANARA BANK		SYNDICATE BANK	
	Amount (Rs)	%	Amount (Rs)	%
Total liabilities	5,78,146.29	100	2,97,477.71	100
Capital and liabilities: Total share capital	904.54	.16	597.29	.20
Equity share capital	904.54	.16	597.29	.20
Reserves	27,715.10	4.8	11,684.02	3.92
Net worth	28,312.39	4.89	12,588.56	4.23
Deposits	4,95,275.24	85.67	2,60,560.86	87.6
Borrowings	39,503.56	6.83	17,475.52	5.87
Total debt	5,34,778.80	92.5	2,78,036.38	93.46
Other liabilities and provisions	15,055.10	2.60	6,852.77	2.3
Assets	5,78,146.30	100	2,97,477.72	100
Cash and bank balances	19,922.5	3.44	13,108.95	4.40
Balance with banks	38,902.96	6.72	12,123.23	4.07
Advances	3,42,008.76	59.15	1,99,669.35	67.12
Investments	1,50,265.89	25.99	65,465.40	22.00
Gross block	7,168.32	1.24	2,428.12	0.81
Revaluation reserve	5,373.15	0.93	1,595.62	0.53
Net block	1,795.17	0.31	832.5	0.27
Capital work in progress	-	-	25.95	0.008
Other asset	25,251.02	4.37	6,252.34	2.10

TABLE - 4 : Comparative statement of Canara bank

CAPITAL AND LIABILITIES	March 2016	March 2017	Increase/decrease	%
Equity share capital	542.99	597.29	54.3	10%
Reserves	25615.55	27715.10	2099.55	8.19%
Net worth	26,158.54	28,312.39	2153.85	8.23%
Deposits	4,79,791.56	4,95,275.24	15483.68	3.23%
Borrowings	26,873.32	39,503.56	12630.24	47%
Total Debt	5,06,664.88	5,34,778.80	28113.92	5.55%
Other liabilities and provisions	14,692.70	15,055.10	362.4	2.47%
Total liabilities	5,47,516.12	5,78,146.29	30,630.17	5.6%
ASSETS				
Cash & Balances with RBI	20,664.05	19,922.50	-741.55	-3.6%
Balance with banks, Money @ call	36,069.61	38,902.96	2833.35	10.87%
Advances	3,24,714.82	3,42,008.76	17293.94	5.32%
Investment	1,42,309.30	1,50,265.89	7956.59	5.6%
Gross Block	7,198.10	7,168.32	29.78	.41%
Revaluation reserve	5,44.66	5,373.15	-71.51	-1.31%
Net Block	1,753.44	1,795.17	41`.73	2.38%
Other Assets	22,004.89	25,251.02	3246.13	14.75%
Total assets	5,47,516.12	5,78,146.29	30,630.19	5.6%

TABLE - 5 : Comparative statement of Syndicate Bank

CAPITAL AND LIABILITIES	March 2016	March 2017	Increase/decrease	%
Equity share capital	703.37	904.54	201.17	28.60%
Share Application Money	740.00	_	-740.00	-100%
Reserves	10022.25	11684.02	1661.77	16.58%
Net worth	11,465.62	12,588.56	1,122.94	9.79%
Deposits	2,61,735.34	2,60,560.86	-1174.48	-.44%
Borrowings	25,501.20	17,475.52	-8025.68	-31.47%
Total Debt	2,87,236.54	2,78,036.38	-9200.16	-3.20%
Other liabilities and provisions	7,652.92	6,852.77	-800.15	-10.45%
Total liabilities	3,06,355.08	2,97,477.71	-8943.37	-2.91%
ASSETS				
Cash & Balances with RBI	13,338.56	13,108.95	-22,961	-1.72%
Balance with banks, Money @ call	15,876.83	12,123.23	-3753.6	-23.64%
Advances	2,01,368.49	1,99,669.35	1699.14	-0.84%
Investment	68,621.87	65,465.40	-3156.47	4.59%
Gross Block	2,376.00	2,428.12	52.12	2.19%
Revaluation reserve	1,612.36	1,595.62	-16.74	-1.03%
Net Block	763.64	832.50	68.86	9.01%
Capital work in progress	30.91	25.95	-4.96	-16.04
Other Assets	6,354.80	6,252.34	-102.46	-1.61%
Total assets	3,06,355.08	2,97,477.71	-8,943.37	-2.91%

TABLE - 6 : Ratio Analysis

Sl no.	Particulars	Formula	Canara Bank	Syndicate Bank
1	Debt Equity Ratio	Debt/Equity	5,34778.80/28,312.39 = 18.9:1 times	2,78,036.38/12,588. 56+ 22.08:1 times
2	Current Ratio	Current Assets/ Current Liabilities	25,251.02/15,055.1 = 1.68: 1times	6,252.34/6,852.77 +.91: 1 times
3	Gross profit Ratio	Gross profit /net sales*100	1,687.04/41,387.64* 100 = 4.1%	913.14/23,003.79* 100= 3.97%
4	Net Profit Ratio	Net profit/ Sales* 100	1,121.92/41,387.64* 100 = 2.71%	358.95/23,003.79=1.56%

Observations/Findings:

1) An Analysis of pattern of financing of both the banks show that both the banks has more of debts than net worth. Both the banks are depended more on borrowed funds than its own funds, as it is shown by balance sheet out of total investments, only 4.89% and 4.23% respectively for Canara Bank and Syndicate Bank are owners funds and outsiders funds accounts for 92.6% and 93.46% respectively. Both the banks are depended more upon outside funds. In this context both the banks have good financial planning.
2) The liquidity position of Canara Bank is good compared to Syndicate Bank . As such both the banks are suffering from inadequacy of working capital. The percentage of current liabilities is more than the percentage of Current Assets in both the banks. The Syndicate bank has unfavorable working capital position than the Canara bank.

3) On comparing the short term financial position of both the banks , there is said to be improvement in both the banks short term financial position that is for Canara bank it has improved from 1.5times to 1.67 times and for syndicate bank it has improved from 0.83 times to 0.91 times. But overall the working capital position of Canara bank is better than syndicate bank.

Note ; Canara bank

Particulars	**March 2016**	**March 2017**
Current assets	22,004.89	25,251.02
Current liabilities	14,692.70	15,055.10

Syndicate bank

Particulars	**March 2016**	**March 2017**
Current assets	6,354.80	6,252.34
Current liabilities	7,652.92	6,852.77

4) The debt equity position of both the banks seems to be very good. The liquidity position of Canara bank which is 1.67 times is good compared to the liquidity position of syndicate bank which is only 0.91 times.

5) The profitability ratio of Canara bank seems to be good on comparison with syndicate bank. The net profit ratio of Canara bank is 2.71% and that of syndicate bank is only 1.56%.

Conclusion:

Both the banks face working capital problem and immediate steps should be take to have more net worth or raise long term loans to improve working capital position. Both the banks having good public image has scope to improve their profitability position. To conclude their comparative study using various tools and techniques Canara bank is doing better than syndicate bank.

Suggestions:

1. Canara Bank and Syndicate Bank can focus more investments into securities of Government and other companiesin order to enhance its future growth.
2. Both banks should focus on improving its liquidity ratio which is below the ideally accepted ratio.
3. Profitability position is favorable, and can be given more focus in order to sustain competition in the long run.

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A STUDY ON THE ASSETS AND LIABILITIES OF A BANK

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Abstract

The purpose of study on this paper is to describe the existing assets and liabilities of a bank, and to know about the latest and future innovations in the banking sector. The paper is shaped and presented as a research study. The commercial banking sector plays an important role in mobilization of deposits and disbursement of credit to various sectors of the economy. Most nations have institutionalized a system known as fractional reserve banking under which banks hold liquid assets equal to only a portion of their current liabilities. Risk is an inevitable part; be it financial risk, or operational risk, demanding skilled human resource, latest innovations and questioning the Bank's existence. There have been new banks, new instruments, new windows, new opportunities and, along with all this new challenges. A well-functioning banking system has general assets and liabilities that have to be identified and operated accordingly. The data had been collected from secondary information sources and is presented in a detailed descriptive manner in the paper.

Keywords: *Assets, liabilities, financial risk, operational risk, credit.*

Introduction

An economical institution functions in step with the supply of funds. Finance is alleged to be the science of cash management. Finance aims to cost assets according to their risk level and their expected rate of income. It includes the dynamics of assets and liabilities over time underneath conditions of various degrees of uncertainty and risk.All Banks have assets and liabilities. Even we, have our own assets and liabilities. Individual assets are something we might own, like an automotive, house, or a specific sum of money in a bank account. Individual liabilities are considered to be something that we have to create payments on, like rent, or a mortgage, an automotive payment, or utilities. Business assets and liabilities are somewhat constant as individual assets and liabilities. Business assets are considered to be something that the business owns, whereas business liabilities are something that the business owes to somebody else. So, assets are any property that's closely-held by someone or a business. Liabilities are a debt or indebtedness owed to a different person or business. A sound financial institution mobilizes the tiny and scattered savings of the community, and makes them obtainable for investment in productive enterprises. The role of banks in economic development is to get rid of the deficiency of capital by stimulating savings and investment. It's usually said that profit may be a reward for risk bearing. Banks are actually exposed to several kinds of risks. An undefeated banker is the one that may mitigate these risks and build vital returns for the shareholders on a uniform basis. Mitigation of risks begins by firstly properly identifying the various risks, why they arise and what problems will they cause. The study focuses on banking operations, acquirement of assets, settlement of liabilities, numerous risks concerned within the sector, and the way the bank overcomes these hurdles.

What does a Bank mean?

We're all aware of the fact that a bank is a financial intuition that accepts deposits from the general publicand creates credit. Lending activities are often performed either directly or indirectly through capital markets. Attributable to their importance within the money stability of a rustic, bank area units are extremely regulated in most countries. Most nations have institutionalized a system called halfway reserve banking beneath that banks hold quick assets adequate solely some of their current liabilities. Acceptance of chequable deposits from the general public and providing loans. In today's economy and society, the banking system is of utmost importance to each country.We have a tendency to all rely on the potency and quality of services that the banking system provides. With the advance in technology, the competition within the banking system has become more and more intense. Therefore, performance analyses within the banking system attractadditional attention.

What economic factors can affect banks?

Any bank, functioning in any part of the world, will have to face certain factors that might influence its activities and success or failure. The below listed factors have been categorized as crucial factors that may affect any bank regardless of the country it's situated in.

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- **The income of the country and its economic level.** There's no need to state that banks thrive under economic boom as compared to recession times. The flow of incomein a country affect banks in the amount of capital that is accessible to them and clients that are ready to start banking with them. Income plays an important role in the banking sector as it determines the spending and borrowing limits. When it comes to a country with enough income, banks which face economic difficulties can be helped out by their respective governments.
- **Inflation Rates:** Banks tend to suffer, when the inflation is high. This is because inflation tends to affect the value of currency in the country. Inflation causes instability in currencies, apart from liquidity structures and processes. It also gradually destroys client confidence especially those of foreign investors who can choose whether or not to use a particular country's currency.
- **Economic policies:** Policies of macroeconomics can often have deep impacts on the banking sector. If at all a country frames unfavorable policies, the banking sector is bound to fail while appropriate macroeconomic policies can make all the difference and enable a country's banks to grow.
- **Exchange Rates across the world**: Banks are affected by the exchange rates all over the globe. Major currencies such as the, British Pound, Japanese Yen, US Dollar, Canadian Dollar and European Euro amongst others have a cross cutting impact on other less stronger currencies and financial markets on the planet. Banking sectors can experience serious problems when the exchange rates for these currencies fall.
- **Laws and regulations**: Specific regulatory frameworks are formed for financial institutions by every country to either provide guidance, monitoring or supervising roles for these financial institutions. These laws play an important role in determining major decisions such as banking services, interest rates, loan regulations and even small aspects of banking like as opening and closing hours. A country with rigid laws and policies for the banking sector can actually curtail business. Some well-functioning banks can lose their focus while concentrating on making higher profits because a liberal regulator can prove to be quite dangerous. So it goes without saying that it is important to maintain a logical regulatory framework that take care of the needs of both the bank and its consumers.

  The banking sector experiences changes all the time and what lies ahead in the coming year can be challenging. However we can take time to pop ideas about these changes that are coming.

Bank Assets

Loans, reserves, investment securities, and physical assets are a few factors that a Bank claims. A Bank's benefits are usually recorded on the left-hand side of the balance sheet. The components owed by the Bank are said to be its liabilities. They are usually recorded on the right-hand side of the accounting report. The contrast amongst resources and liabilities is known as Net worth. The biggest resource classification of most banks is loans, which produces premium income. Security and safety of deposits is kept up through an asset category, i.e. reserves (Federal Reserve stores and vault money). While a bank possesses physical properties, for example, land, buildings, furniture, equipment and so forth, the main part of a bank's advantages are budgetary - legitimate claims on the property or the riches claimed by others. Credits and saves are the two most eminent resource classes.

Physical Assets: Some physical assets can be listed out as buildings, land, furniture and equipment, which are owned by the Bank. However these assets are relatively minor for most banks.

Cash and cash equivalents: In order to maintain solvency, a Bank must maintain a certain level of cash when compared to its liabilities. To safety of banks, some cash must be held at a minimum amount, which is determined by the Federal Reserve. Sometimes banks hold an excess amount of reserve to ensure greater safety.

Cash in the process of collection is another source of cash. When a banks receives a check, it must present the check to the bank on which it is drawn for payment, and, previously, this has taken several days. Nowadays, checks are being processed electronically and many transfers of funds are being conducted electronically in place of using checks. Thus this particular category of cash is diminishing significantly, and is most likely to disappear when all financial transactions finally turn electronic.

Minor banks usually have accounts at larger banks, called as correspondent banks, which are financial institutions that often borrow from smaller banks or perform services for them. Many of the minor banks are rural and have excess amount of reserves while larger banks in the cities have a deficiency of financial reserves.

Cash equivalents are another form of short-term assets, mainly because they are almost equal to cash. Short-term investments that cannot be used as cash can be quickly converted to cash without any loss of value, such as demand deposits, T-bills, and commercial paper. A primary characteristic of financial instruments that are identified as cash equivalents is that they have a short-term maturity period of 3 months or less, so interest rate risk is comparatively low, and they are the most highly rated securities or issued by a government that can print its own money, such as the T-bills issued by the US government, so there is little credit risk.

Loans: The asset category which comes next, and the most critical one for all banks, is loans. Loans are the essential source of interest income. Loan is a benefit for the bank, while it is a risk for the borrower. This benefit incorporates advances to various shoppers with, for example, home advances, individual advances, vehicle advances, charge card advances and organizations with land improvement advances, capital venture advances.

Reserves: The following resource classification is reserves. It is critical despite the fact that it is little in sum. Every day transactions like preparing checks or fulfilling money withdrawals are embraced by banks with reserves. These reserves are used in order to ensure the security of deposits. Vault money (the genuine paper cash and coins that is kept in the bank, that is, in the vault) and Federal Reserve (stores that banks keep with the Federal Reserve System to clear checks and aid other saving money exercises) are two sorts of stores worth nothing.

Investment Securities: Investment securities are the fourth resource classification. They go about as a cradle amongst loans and reserves. Investment securities are more secure than loans, yet not as protected as reserves. They pay more interest than reserves, however not as much as loans. On the off chance that a bank has a couple of additional reserves, yet is not prepared to secure loans as long as possible, at that point investment securities are the appropriate response.

Bank Liabilities

What a bank owes, including most eminently client stores. Bank liabilities are normally recorded on the right-hand side of a bank's asset report. Bank resources, what a bank possesses, are recorded on the left-hand side of a bank's accounting report. Total assets are the contrast amongst resources and liabilities. The most imperative obligation classification of most banks is checkable stores, which is a piece of the economy's M1 cash supply. The biggest risk classification incorporates different sorts of stores (particularly funds stores, declarations of store, and currency advertise stores) that go into the M2 and M3 fiscal totals.

Bank liabilities are the obligations caused by a bank, what a bank owes. While a bank will undoubtedly have customary business liabilities and obligations (for power, office supplies, worker compensation), the main part of a bank's liabilities are monetary - lawful cases or IOUs issued by the bank. The most critical risk class is stores - budgetary riches that others have set with the bank for supervision. The bank owes these riches to these contributors.

Exchange Deposits: The most important liability is exchanges stores. This, obviously, is the specialized name for financial records or checkable deposits. Make take note of that while financial records are resources for clients, they are liabilities for Omni Bank. Omni Bank owes these deposits to clients. Exchange deposits deserve a different posting to be decided sheet since they are a piece of the M1 cash supply.

Different Types of Deposits: As a full-benefit bank, Omni Bank has different sorts of deposits as well. Omni Bank offers investment accounts, testaments of store, currency showcase stores, and a large group of different records that discover their way into the M2 and M3 financial totals.

Different Liabilities: Most banks likewise have a couple of different liabilities. Particularly Omni Bank may get from sources other than run of the mill family and business clients that give deposits. Two normal sources of assets are Federal assets credits (advances from different banks) and Federal Reserve (advances from the Federal Reserve System).

Borrowings: Federal funds market simply means the case when bank borrows money from other banks. Funds kept in the reserve account at Federal Reserve are Federal Funds. And this account is debited and credited in between banks. Excess funds in small rural banks are transferred to larger banks in the metropolitan areas, when there is a deficiency in reserve.

The interbank advances in the federal funds market are unsecured, so banks just provide loan to different banks that they trust. Some portion of the purpose behind the 2007 - 2009 Credit Crisis is that banks didn't know which different banks were holding unsafe home loan sponsored securities that were starting to default in substantial numbers, so they quit loaning to each other, constraining banks to limit their loaning to the general population, which made the supply of cash decay and the economy to contract. Banks additionally get from non-depository establishments, for example, insurance agencies and benefits reserves, yet the vast majority of these advances are collateralized as a repurchase assertion (otherwise known as repo), where the bank gives the moneylender securities, normally Treasuries, as guarantee for a short-term advance.

If all else fails banks can likewise get from the Federal Reserve (Fed), however they seldom do this since it demonstrates that they are under money related anxiety and unfit to get financing somewhere else. Be that as it may, amid the credit solidify in 2008 and 2009, many banks acquired from the Fed since they couldn't get financing somewhere else.

Banking Risks

At whatever point we investigate any managing an account organization, we're taking a glance at two fundamental factors—the inwards a bank earns and the measure of risk. To see any bank, you have to comprehend these two parameters well. Risk is by and large comprehended as "the likelihood that something awful or upsetting, (for example, damage or a misfortune) will happen." Risk is unavoidable in many things that we do. When you drive, there's a danger of getting into a mishap. When you play, there's a danger of getting harmed. Be that as it may, we regularly neglect the significance of understanding dangers to human advancement. This idea of comprehension and measuring risk is at the very heart of the cutting edge advertise economy. Exposure signifies a position or stake in a result. Introduction is imperative in light of the fact that if a bank has no exposure to a risk, it would be sheltered. In such a situation, a bank would resemble an onlooker who hasn't put down any wager in a gambling club, and the result will have no budgetary effect on the spectator. A result is the outcome of a specific game-plan. How and when this result is perceived will move toward becoming clearer as we look in detail at the different classes of banking risk later in this arrangement. Vulnerability is not knowing precisely what the potential result will be. Best case scenario, you can make estimate the quantity of conceivable results. One of these numerous conceivable results will be the most plausible. This most likely result is known as the "base case" situation.

How risk arises

Risk emerges from the event of some normal or surprising occasions in the economy or the budgetary markets. Risk can likewise emerge from staff oversight, which causes disintegration in resource esteems and, therefore, lessens the bank's inherent esteem. The cash lent to a client may not be repaid because of the failure of a business. Likewise, cash may not be repaid on the grounds that the market estimation of securities or values may decrease because of an adverse change in loan interest rates. Another purpose behind no repayment is that a subordinate contract to buy remote money might be defaulted by a counter gathering on the due date. These sorts of dangers are inherent in the banking business.

Credit risk

The Basel Committee on Banking Supervision defines credit risk as the potential that a bank borrower, or counter party, will fail to meet its payment obligations regarding the terms agreed with the bank. It includes both uncertainty involved in repayment of the bank's dues and repayment of dues on time.

Market risk

The Basel Committee on Banking Supervision defines market risk as the risk of losses in on- or off-balance sheet positions that arise from movement in market prices. Market risk is the most prominent for banks present in investment banking. This is because they are generally active in capital markets.

Operational Risk

The Basel Committee on Banking Supervision characterizes operational risk "as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk."

Liquidity Risk

Liquidity by definition implies a bank can meet installment commitments principally from its investors and has enough cash to give credits. So liquidity risk is the danger of a bank not having the capacity to have enough money to complete its everyday operations.

Reputational Risk

Reputational risk is the danger to a bank's goodwill and open standing that happens because of some questionable moves made by the bank. Now and then reputational risk can be because of discernment or negative attention against the bank and with no strong confirmation of wrongdoing. Reputational chance prompts people in general's loss of trust in a bank.

Business Risk

Business risk is the risk emerging from a bank's long haul business system. It manages a bank not having the capacity to stay aware of changing rivalry progression, losing piece of the overall industry after some time, and being shut or procured. Business risk can likewise emerge from a bank picking the wrong technique, which may prompt its failure.

What to do when confronted with risk?

All banks have various options when confronted with an exchange including risk. These decisions incorporate, keeping away from the risk if it's economically unviable, tolerating and holding risk on a monetarily legitimate premise, expanding, lessening, or removing danger, as indicated by one's desire of an arrival, decreasing danger by differentiating a bank's arrangement of dangers, supporting danger, to a certain extent, by utilizing money related instruments and exchanging hazard by exchanging to another gathering. Keeping money can't keep running without facing risks. Most banks are exceedingly utilized monetary daring individuals.How effectively a bank explores through its risk factors by picking at least one game-plans as sketched out above decides how fruitful a bank will be over the long haul. Overlooking or not understanding danger well can have genuine results as we might find in the following piece of this arrangement.

Conclusion

In banking intuitions, risk arises due to mismatch between assets and liabilities. Bad loans have risen up from Rs 261843 cr by 135 percent in last two years. RBI had taken many measures to demolish the NPA (non-performing asset) rates in India the effect bank & they are trying to work harder to restrict the NPA level. Measures like preventive management, Lok adalats, debt recovery tributes (DRTS) are taken by RBI to reduce the level of NPA. ALM (assets liabilities management) & demonetization is a tool performed by banking institutions to manage risk. ALM manages interest rate, liquidity risk and also earns an adequate return while maintaining a comfortable surplus of assets beyond liabilities. Demonetization resulted in a permanent improvement in banking sector while inspiring large withdrawals among people in its aftermath.

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THE MODERN METHOD OF BANKING IN INDIA- DIGITAL BANKING

Mythily. R[1] **G. Prashanth Sharma**[2]

Introduction

Digital banking trend is profoundly impacting all business globally. Ubiquitous and high speed connectivity, savage computing power in smart phones, instant information. DIGITAL banking system can be considered as one of the modern aspect of banking sectors in INDIA. Through digital banking every customer as well and the banks in INDIA would take part in the cashless transactions .The functioning of banking in INDIA would become smooth and time efficient through online transactions. The banks need to perform all the activities related to users which needs huge infrastructure with more staff member. But, digital banking system allows the banks to perform the online transactions in a simple way without involving the employees for online banking, mobile banking and ATM banking. Digital banking system must be more secure and reliable because every task performed is related to customer's money. Especially authentication and validation of user access is the major task in the banking systems. Digital banking may have different meanings for different people –it may refer to the presence or future of banking. We might be there or we would get there. Internet and mobile banking services are the most crucial elements of Digital bankingbut they should also be supported by Contact Center- ATM – Kiosks – Alarm reminder services and branches.

Digital Banking:

Digital banking is the digitization (or moving online) of all the traditional banking activities and programs that historically were only available to customers when physically inside of a bank branch. This includes activities like:

- Money Deposits, Withdrawals, and Transfers
- Checking/Saving Account Management
- Applying for Financial Products
- Loan Management
- Bill Pay
- Account Services

Consumers preferences have quickly shifted to online and mobile devices, but many financial organizations have had trouble shifting their onboarding experiences online and to smaller screens.

Definition of Digital Banking:

Digital banking is "providing banking/financial services channels with very limited or no branch support".

Digital means in banking proposed a definition for the industry,digital banking is "delivering a customized but consistent fl brand experience to customers across all channels and points of interaction underpinned by analytics and automation and requiring a change in the operating model,namely products and services, organization, culture and skill and IT in order to deliver demonstrable and sustainable economic value.

Basic Principles of Digital Banking:

New digital banking technologies and non-traditional providers have reset consumer expectations for digital banking. Now that consumers have more choice-and are more connected than ever –they expect better, more personalized experiences from every digital banking .The following are some basic principles of Digital banking

- Prospectus and polished aesthetics
- Reduced complexity
- Dedicated spaces, each doing one thing well
- Integration of digital ecosystems assets
- Design with multi-channel in mind

Purpose:

The main purpose of digital banking is to access a financial institution's online banking facility a customer with internet access will need to register with the institution for the service, and set up a password and other credentials for customer verification. The credentials for digital banking is normally not the same as for telephone or mobile banking. Financial institutions now routinely allocate customers numbers, whether or not have indicated an intension to access their online banking facility. Customer numbers are normally not the same as account numbers, because a number of customer accounts can be linked to the one customer number. Technically, the customer number can be linked to any account with the financial institution that the customer controls, though the financial institution may limit the range of accounts that may be accessed to, say, cheque, savings, credit card, and similar accounts.

>The customer visits the financial institution's secure

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website, and enters the digital banking facility using the customer number and credentials previously set up. The types of financial transaction which a customer may transact through online banking are determined by the financial institution, but usually includes obtaining account balances, a list of recent of recent transactions, electronic bill payment and fund transfers between a customer's or another's accounts. Most bank also enable a customer to download copies of bank statements, which can be printed at the customer premises (some banks charge a fee for mailing hard copies of bank statements. Some banks also enable customers to download transactions directly into the customer's accounting software. The facility may also enable the customer to order a cheque, advice change of address and other routine action.

Construction

Digital banking provides mission critical solution to bankers for their short term and long term business and technological requirements. Following are the driving factors in India.

1. **Adoption:**

   Postdemonetization e-commerce & m-commerce success is largely attributed to the phenomenal growth of various digital payment technologies such as card payments, electronic fund transfers, payment gateways, e-payments, smart cards, mobile money wallets etc. Pivotal to embracing such new age payment systems are the people, technologies, and processes that have together created vast, robust and dependable networks seamless system that guarantee herculean transactional volumes at breakneck speed, and with dependable security and counter-checks built around them.

2. **Agility:**

   Today, aspect such as enhanced customer satisfaction and value through unified customer experiences, fastest possible throughput, infinite banking volumes, financial inclusions, operational efficiencies, scale of economy etc. are being sought after by leveraging digital banking and mobile technologies.

3. **Arrival of players:**

   Traditional banks should be worried about their very bastions being co-shared by a string of a new age players e.g. Payment Bank, Fintech culture around. And the end-customer is the single largest beneficiary-with a bouquet of services and service providers to choose from and along with hugely competitive pricing models.

Digitality:

Everyone wants to go digital. The first step truly understands what that means?

- For some, it's about technology.
- For others, it's a new way of engaging with customers.
- And for others still, it represents an entirely new way of doing business.

Business leaders must have a clear and a common understanding of exactly what digital means to them and, as a result, what it means to their business.

Statement Of Problems:

As there are immense opportunities of the digital banking in India. This project is on the issues and challenges in the digital banking because of the competitions of the various banks and the customer satisfaction of the services which the banks are providing and at the same time to solve the complaints of the customer and maintaining the sound relationship for the future and by this way to estimate the future growth of the digital banking.

Objetive Of Study:

- To study the issues and challenges in digital banking.
- To study the recent trends in digital banking.
- To ensure high satisfaction level and reduce percentage of complaints of customers in digital banking.
- To estimate the future growth of Indian digital banking.
- To understand optimization of digital banking channels.
- To suggest strategies for improvement in customer services.

Features Of Digital Banking:

- **Transactions:**

  Fund transfers: initiate a one-time or recurring transfer between your accounts.

  Loan payments: initiate a one-time or recurring payment to your PCU loan accounts.

  Member to Member: make a single or recurring (deposit) transfer to another PCU member's account.

  Activity center: lists transactions made online and their status.

  Add External Account: enable transfers between PCU accounts and accounts held at other financial institution.

  Verify External Account: complete the external account transfer set-up by entering micro-deposit amounts.

- **Bill pay:**

  Manage Bill Payment Accounts: add additional PCU checking accounts for bill pay purposes.

  View Bill Pay Site: pay all of bills online. Set up automatic payment and reminders, view payment histories and receive e-bills.

- **Services:**

  E-statements: view monthly account statement online. Available for all the deposit account. Posted by the 3rd business day of the month

  E-statement Opt Out: enable accounts to receive paper statements.

  Stop payment: remove overdraft privileges protection for ATM and debit card overdraft.

  Check Copy Request: order copies of cashed checks.

ADVANTAGES OF DIGITAL BANKING:

Many banks have begun to offer customers the option of digital-banking services, practice advantages of all the parties involved. The convenience of being able to access accounts at any time as well as the ability to perform transactions without visiting a local branch, draw many people to be involved. Some of the advantages are as follows

- **Customer's convenience:**

  Direct banks are open for business anywhere there is an internet connection. They are also 24 hours a day and 365 days a year open while if internet service is not available customer service normally provided around the clock via telephone. Real time account balances and information are available at the touch of few buttons thus making banking faster, easier and more efficient.

- **More efficient rates:**

  The lack of significant infrastructure and overhead cost allows direct banks to pay higher interest rates on savings and charges low on mortgage and loan rates. Some offer high-yield checking accounts, high yield certificate of deposits, and even no penalty for early withdrawal. In addition accounts can be opened with no minimum deposits and carry no minimum balance or service fee.

- **Services:**

  Direct banks typically have more robust websites that offers comprehensive set of features that may not be found on the websites of traditional banks. These include functional budgeting and forecasting tools, financial planning capabilities, investment analyses tools, loan calculators and equity trading platforms. In addition, they offer free online bill payments, online tax form and tax preparation.

- **Mobility:**

  Digital banking also includes mobile facilities. New applications are continually being created to expand and improve this capability of smart phone and other mobile devices.

- **Transfers:**

  Accounts can be automatically funded from a traditional bank account via electronic transfer. Most direct bank offer unlimited at no cost, including those destined for outside financial institutions. They also accept direct deposits and withdrawals that the customer authorizes such as pay roll payment and automatic bill payment.

Other Advantages of Digital Banking:

- Availability
- Convenience
- Performance
- Transactional speed
- Effectiveness
- Shop and Payment
- No waiting
- Set ups
- Ubiquity
- Banking from anywhere in the world
- Inexpensive

DISADVANTAGES OF DIGITAL BANKING:

- **Start up and take time:**

  In order to register banks online program you will probably have to provide ID and sign a format the bank branch. If you and your spouse wish to view and manage assets together online, one of you may have to sign a durable power of attorney before the bank will display all of your holdings together.

- **Learning curve:**

  Bank sites can be difficult to navigate at first. Plan to invest some time and read the tutorials in order to become comfortable in your virtual lobby.

- **Bank site changes**:

  Even the largest banks periodically upgrade their online programs,adding new features in unfamiliar places. In some cases, you may have to re-enter account information.

- **The Trust thing:**

  For many people, the biggest hurdle to digital banking is learning to trust it. Did my transactions go through? did I push the transfer button once or twice ?always print the transaction receipt and keep it with your bank records until it shows up on your personal and your bank account.

Benefits Of Digital Banking:

The digitization of banking has bought the joy of luxurious banking from anywhere, anytime. It has following feature namely

- **Banking made easier:**

  With the help of internet connection the service of digital banking can be made even more eaiser by time. Consumer can always keep a check on the account balances through this mode of banking. We can change our personalized details at time more effortlessly.

- **High interest rates:**

  Whena bank is going full online with its services, then the reduction in infrastructures and overhead cost leads to an increase in the interest rates on saving accounts and also lower loan and mortgage loan.

- **Eco-friendly:**

  This can be categorized as the environment-friendly initiative. Digital banking saves discarding the need for office space, construction and vehicular movement. Thus giving customers pollution free experience.

- **Mobility of services**:

  Digital banking is now available on mobile. Banks are developing responsive mobile websites so that it can be easily accessed via Smartphone or tab on the go. Money can be transferred and bills can be paid through these mobile websites.

- **Advanced websites:**

  The banks have well developed services that include financial planning tools, loan calculators, and premium calculators, tools for analyzing investment, budgeting investment, forecasting tools, tax preparations, and taxpaying platforms online.

DRAWBACKS OF DIGITAL BANKING:

Though online banking has bestowed us with the heap of benefits but it has a flipside to it as well. They are as follows…

- **Personal relationship with the bank is not established:**

  The traditional bank and the mortal bank interacts with the customer developing a mutual bond. Acquainting with the professional working in bank can be beneficial during the time to apply for a loan or if you require any special service. They might help with the issue of service charges and cutting down on the fees. In case of business loan especially this bond will help to get the required capital.

- **Issues with transaction**:

  When you have to deal with a complex transaction it is better to sit and solve it face to face. International transactions also have much concern that needs to be looked after. It is advisable that in this case you should and consult with the bank officials to resolve the issue. Making them online can lead to link failure and hampering the mode of transfer.

- **Security issue:**

  Identify theft is an issue to consider these days. If robust encryption software is not in place then all your confidential information will be available in the web posing serious threats to our finances.

TOP 10 FACTS ABOUT DIGITAL BANKING:

Many people already know that digital banking can simplify their financial responsibilities. In today's world, all transactions, payments, maintainers can be handled online. By these steps as

1) It can apply to any financial account that you can monitor online. Current balances, payment dues, deposits, withdrawals, scheduled transactions will be displayed on an account summary page. This allows you to monitor your account for any changes or transaction that you may have forgotten to record.
2) Digital banking usually recordsan image of customer's cheques. At the click of a button, you can see front and back of any cheque hat has been posted to your account.
3) Funds can be quickly transferred from one account to another. For example.From a current account to a saving account.
4) Digital banking often provides a simple way send funds to someone via wire transfer. Instead of taking cash to a wire office you can transfer the money electronically. The recipient then can pick it up at the office specified.
5) Most or all your monthly payments for credit cards, utilities, subscription etc. can be made online. Payment will post immediately, which greatly reduces the risk of late payment fees.
6) If you prefer not to pay each bill manually, many banks will allow you to set up automatic payments. On the dates you specify, money will be taken automatically from your saving or current account and paid the utilities and other accounts.
7) Bank sometime offer the ability to apply for loan online. A decision can be made almost immediately, and the loan may be deposited directly in the customer's current account.
8) With some banks, you may be able to request new debit cards or order new cheques by clicking just a few buttons.
9) Most banking systems support the ability to import account history and transactions records into the

account holder’s personal accounting software. Once imported, the records are accessible even when the internet access not available.

10) Cancelling scheduled transactions some with online banking. Customers can request a ‘stop payment’ on outstanding cheques or cancel electronic withdrawals easily.

The convenience of digital banking has become a necessity for many internet users, paying bills, searching transaction and for transferring money at anywhere and from any location, online banking account have a lot of customers to offer their customers.

Need For Digital Banking:

There are basically five principles namely

- **Purposeful and polished aesthetics:**

  A good online banking site have an updated look and feel with a modern, clean style that can be easily identified as a part of financial institution’s brand. For consumers, these attributes provide clarity and ease to use, but also help instill confidence and trust in the experience and, in turn the financial institutions.

- **Reduced complexity:**

  Financial institution should simplify the digital banking experience in the term of page layout, navigation, task flows, and content display. The most frequently used tasks should be clearly accessible and confidence for the end user.

- **Dedicated spaces, each doing one thing well:**

  Each interaction should focus on one core task with the right amount of contextual functionally where necessary. Dedicated spaces bring focus bring clarity to single actions, rather than overwhelming the user with a multitude of options.

- **Interaction of best digital ecosystem asset**:

  The best function of digital banking is that it is very easy for the entire customer to meet their workflows easily. It should be easy to navigate one task to the next and applications workflow should make sense. For instance, upcoming bills should be clearly displayed bill detail and schedule of payment.

- **Design with multi-channel in mind:**

  A growing number of consumers are banking from Smartphone and tables, yet online banking remains foundational to the digital banking experience. An ideal banking experience will resonate across digital channels with consistent design elements and simple navigation.

Conclusion:

The rise of internet banks has increased the competition for banking business. With both online and traditional banks offer unique benefits and drawbacks, it may not be wise to do banking exclusively with either options. While it’s not possible everyone, the best play may be to split your banking between both in-store and online services and enjoy the conveniences and savings of internet banks while maintaining the customer service and personal relationship physical branch can provide.

NEW FACE OF BANKING

R. Mythily[1] **D. Arun Kumar**[2]

Introduction:

A bank is a 21ST century start-up or established centuries ago, becoming a true digital bank is top of the agenda for most **c** level executives **ceos, cios, cmos** as well as the newly-minted roles of chief digital officer and chief customer officer.

Digital banking circumscribes composite services delivered over the web, which aim at serving both banks and consumers as a means of providing a convenient, faster and better experience than traditional banking. The shift from traditional and digital banking is gradual and should be rather. Described in degrees of service digitization than through a categorization into yes and no. It involves high levels of process automation and web-based services and may include APIs enabling cross-institutional service composition to deliver banking products and provide transactions. It provides the ability for users to access financial data through desktops, mobile devices and atm machines.

History Of Digital Banking:

1994

- Online banking is built into Microsoft money. 100,000 households begin accessing their bank accounts online.
- Stanford credit union begins offering banking services via their website, paving the way for credit unions and banks across the country.

2001

- Online banking hits 20 million users, with 8 different U.S. banks achieving at least a minimum of 1 million online users.

2002

- Avoca was founded to help banks and financial institutions in their digital transformations.

2007

- The launch of the iphone begins shifting digital banking from desktop computers to smartphones.

2009

- Online banking hits 54 million users in the United States.

2016

- Millennials succeed in fundamentally shifting digital banking preferences,
- Ignaling to banks that they must move all services

What Is Digital Banking?

Digital banking is the digitization (or moving online) of all the traditional banking activities and programs that historically were only available to customers when physically inside of a bank branch. This includes activities like:

- Money deposits, withdrawals, and transfers
- Checking/saving account management
- Applying for financial products
- Loan management
- Bill pay
- Account services

Consumer preferences have quickly shifted to online and mobile devices, but many financial organizations have had trouble shifting their onboarding experiences online and to smaller screens.

In addition, until the past few years, banks were not envisioning the tremendous shift in consumer behavior that occurred as a result of the millennial generation now become the largest consumers of financial product

Major Benefits Of Digital Benefits Are:

Business Efficiency:

Not only do digital platforms improve interaction with customers and deliver their needs more quickly, they also provide methods for making internal functions more efficient. While banks have been at the forefront of digital technology at the consumer end for decades, they have not completely embraced all the benefits of middleware to accelerate productivity.

Cost Savings:

One of the keys for banks to cut costs is automated applications that replace redundant manual labor. Traditional bank processing is costly, slow and prone to human error, according to mckinsey & company. Relying on people and paper also takes up office space, which runs up energy and storage costs. Digital platforms can

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future reduces costs through the synergies of more qualitative data and faster response to market changes.

Increased Accuracy:

Traditional banks that rely mainly on paper processing can have an error rate of up to 40%, which requires reworking. Coupled with lack of it integration between branch and back office personnel, this problem reduces business efficiency. By simplifying the verification process, it's easier to implement it solutions with business software, leading to more accurate accounting. Financial accuracy is crucial for banks to comply with government regulations.

Improved Competitiveness:

Digital solutions help manage marketing lists, allowing banks to reach broader markets and build closer relationships with tech savvy consumers. Crm platforms can track customer history and provide quick access to email and other forms of online communication. It's effective for executing customer rewards programs that can improve loyalty and satisfaction.

Greater Agility:

The use of automation can speed up both external and internal processes, both of which can improve customer satisfaction. Following the collapse of financial markets in 2008, an increased emphasis was placed on risk management. Instead of banks hiring and training risk management professionals, it's possible for risk management software to detect and respond to market changes more quickly than even seasoned professionals.

ENHANCED SECURITY:

All businesses big or small face a growing number of cyber threats that can damage reputations. In February 2016 the internal revenue service announced it had been hacked the previous year, as did several big tech companies. Banks can benefit from extra layers of security to protect data.

Definition:

Digital banking is the incorporation of new and developing technologies throughout a financial services entity; in connect with associated changes in internal and external corporate and personal relationships, to provide enhanced customer services and experiences effectively and efficiently. True, that's a mouthful.

Back End Banking Architecture:

A key in which digital banks can gain a significant competitive edge is developing a more robust it architecture. By replacing manual back-office procedures with automated software solutions, banks can reduce employee errors and speed up processes. This paradigm shift can lead to smaller operational units and allow managers to concentrate on improving tasks that require human intervention.

Automation reduces the need for paper, which inevitably ends up taking up space that can be occupied with technology. By using software that accelerates productivity up to 50%, banks can improve customer service since they will be able to resolve issues at a faster pace. One way a bank can improve its back end business efficiency is to divide hundreds of processes into three categories:

- **Full Automated**
- **Partially Automated**
- **Manual Tasks**

It still isn't practical to automate all operations for many financial firms, especially those that conduct financial reviews or provide investment advice. But the more a bank can replace cumbersome redundant manual tasks with automation, the more it can focus on issues that involve direct communication with customers. The obstacles currently preventing banks from investing in a more digital back end environment are:

- Banks have traditionally prioritized launching new products that are still difficult to automate.
- Mergers and acquisitions, new products and government regulations have already established complex it architecture difficult to revise.
- It teams do not always grasp business priorities.
- Many banks lack the in-house it expertise beyond traditional mainframe environments.

Direction toward Digital Cash:

Digital cash eliminates many problems associated with physical cash, such as misplacement or the potential for money to be stolen or damaged. Additionally, digital cash can be traced and accounted for more accurately in cases of disputes. As consumers find an increasing number of purchasing opportunities at their fingertips, there is less need to carry physical cash in their wallets.

Other indications that demand for digital cash is growing are highlighted by the use of peer-to-peer payment systems such as paypal and the rise of untraceable cryptocurrencies such as bitcoin. Almost anything imaginable that can be paid with physical cash can theoretically be paid with the swipe of a bank card, including parking meters. The problem is this technology is still not omnipresent. Cash circulation grew in the United States by 42% between 2007 and 2012, with an average annual growth rate of 7%, according to the BBC.

The concept of an all-digital cash economy is no longer just a futuristic dream but it's still unlikely to outdate physical cash in the near future. All digital banks are possible as a consumer option, but people may still have a need for physical cash in certain situations. Atms help banks cut overhead, especially if they are available at various strategic locations beyond branch offices.

Emerging digital solutions:

Emerging forms of digital banking are

- Baas - **banking as a service** (allows for third party integration)
- Baap - **banking as a platform** (for integrating core systems with software)
- **Cloud-based infrastructure** (allows less reliance on it staff)
- White label banking (such as co-branded credit cards)

These solutions build on enhanced technical architectures as well as different **business models.**

Future Of Digital Banking:

The decision for banks to add more digital solutions at all operational levels will have a major impact on their financial stability. While not all banks are in a position to make quick changes to its infrastructure or the architecture on top of it, banks aiming to be disrupters can move toward broad end-to-end automation can do so over about a six month time frame.

Disruptive Fin-tech Companies:

Traditional banks are facing growing competition from fintech startups, which are financial technology firms that are based on computer systems that facilitate banking and financial services. These companies have the potential for endless disruptive innovation. Examples of digital banking services and companies are:

- **Stripe -** online payment environment for private individuals
- **Ayden -** ecommerce for digital companies including Facebook
- **Lending club -** largest global peer-to-peer lending platform
- **Common bond -** marketplace for low cost student loans
- **Cabbage -** provides small business funding
- **Robin hood -** smartphone app for investing while bypassing commissions
- **Wealth front -** automated investment service providing “rob advisors”
- **Bill guard -** alerts users about scams, billing errors and hidden fees

Description:

a digital bank represents a virtual process that includes online banking and beyond. As an end-to-end platform, digital banking must encompass the front end that consumers see, the back end that bankers see through their servers and admin control panels and the middleware that connects these nodes. Ultimately, a digital bank should facilitate all functional levels of banking on all service delivery platforms. In other words, it should have all the same functions as a head office, branch office, online service, bank cards, ATM and point of sale machines.

Online Bankig:

Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution’s website. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

Internet And Customer Reluctance:

When the clicks-and-bricks euphoria hit in the late 1990s, many banks began to view web-based banking as a strategic imperative. The attraction of banks to online banking is fairly obvious: diminished transaction costs, easier integration of services, interactive marketing capabilities, and other benefits that boost customer lists and profit margins. Additionally, online banking services allow institutions to bundle more services into single packages, thereby luring customers and minimizing overhead.

First Online Banking Services In The United States.

Online banking was first introduced in the early 1980s in New York, United States. four major banks — Citibank, chase bank, chemical bank and manufacturers Hanover — offered home banking services. Chemical introduced its pronto services for individuals and small businesses in 1983, which enabled individual and small-business clients to maintain electronic checkbook registers, see account balances, and transfer funds between checking and savings accounts. Pronto failed to attract enough customers to break even and was abandoned in 1989. Other banks had a similar experience.

Since its inception in the United States, online banking has been federally governed by the electronic funds transfer act of 1978.

First Online Banking In The United Kingdom:

Almost simultaneously with the United States, online banking arrived in the United Kingdom. Kind the UK first home online bank services known as home link was set up by bank of Scotland for customers of the Nottingham building society (nabs) in 1983. The system used was based on the UKPrestelview link system and used a computer, such as the BBC micro, or keyboard (tan data td1400) connected to the telephone system and television set. The system allowed on-line viewing of statements, bank transfers and bill payments. In order to make bank transfers and bill payments, a written instruction giving details of the intended recipient had to be sent to the nabs who set the details up on the home link system. Typical recipients were gas, electricity and telephone companies and accounts with other banks. Details of payments to be made were input into the nabs system by the account holder via prestel. A cheque was then sent by nabs to the payee and an advice giving details of the payment was sent to the account holder. Bacs was later used to transfer the payment directly.

Stanford federal credit union was the first financial institution to offer online internet banking services to all of its members in October 1994.

First Online Banking In France:

After a test period with 2500 users starting in 1980, online banking services were launched in 1984, using Minitel terminals that were distributed freely to the population by the government.

Eventually, 6.5 millionmantels were installed in households in 1990. Online banking was one of the most popular services.

Online banking services later migrated to internet.

Banks and the World Wide Web:

Around 1994, banks saw the rising popularity of the internet as an opportunity to advertise their services. Initially, they used the internet as another brochure, without interaction with the customer. Early sites featured pictures of the bank's officers or buildings, and provided customers with maps of branches and atm locations, phone numbers to call for further information and simple listings of products.

Interactive Banking On The Web:

In 1995, wells Fargo was the first US bank to add account services to its website, with other banks quickly following suit. That same year, presidential became the first US bank to open bank accounts over the internet. According to research by online banking report, at the end of 1999 less than 0.4% of households in the USwe're using online banking. At the beginning of 2004, some 33 million us households (31%) were using some form of online banking. Five years later, 47% of Americans used online banking, according to a survey by garter group. Meanwhile, in the uk online banking grew from 63% to 70% of internet users between 2011 and 2012.

Features:

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Online banking facilities typically have many features and capabilities in common, but also have some that are application specific. The common features fall broadly into several categories:

- A bank customer can perform non-transactional tasks through online banking, including
- Viewing account balances
- Viewing recent transactions
- Downloading bank statements, for example in pdf format
- Viewing images of paid cheques
- Ordering cheque books
- Download periodic account statement
- Investment purchase or sale
- Loan applications and transactions, such as repayments of enrollments
- Credit card applications
- Register utility billers and make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process

Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

Advantages:

- It's generally secure. But make sure that the website you're using has a valid security certificate. This lets you know that the site is protected from cyber-thieves looking to steal your personal and financial information.
- You have twenty-four-hour access. When your neighborhood bank closes, you can still access your account and make transactions online. It's a very convenient alternative for those that can't get to the bank during normal hours because of their work schedule, health or any other reason.
- You can access your account from virtually anywhere. If you're on a business trip or vacationing away from home, you can still keep a watchful on your money and financial transactions - regardless of your location.

- Conducting business online is generally faster than going to the bank. Long teller lines can be time-consuming, especially on a Pay Day. But online, there are no lines to contend with. You can access your account instantly and at your leisure.
- Many features and services are typically available online. For example, with just a few clicks you can apply for loans, check the progress of your investments, review interest rates and gather other important information that may be spread out over several different brochures in the local bank.

Disadvantages

- Yes, online banking is generally secure, but it certainly isn't always secure. Identity theft is running rampant, and banks are by no means immune. And once your information is compromised, it can take months or even years to correct the damage, not to mention possibly costing you thousands of dollars, as well.
- Some online banks are more stable than others. Not all online setups are an extension of a brick-and-mortar bank. Some operate completely in cyberspace, without the benefit of an branch that you can actually visit if need be. With no way to physically check out the operation, you must be sure to thoroughly do your homework about the bank's background before giving them any of your money.
- Before using a banking site that you aren't familiar with, check to make sure that their deposits are FDIC-insured. If not, you could possibly lose all of your deposits if the bank goes under, or its major shareholders decide to take an extended vacation in Switzerland.
- Customer service can be below the quality that you're used to. Some people simply take comfort in being able to talk to another human being face-to-face if they experience a problem. Although most major banks employ a dedicated customer service department specifically for online users, going through the dreaded telephone menu can still be quite irritating to many. Again, some are considerably better (or worse) than others.
- Not all online transactions are immediate. Online banking is subject to the same business-day parameters as traditional banking. Therefore, printing out and keeping receipts is still very important, even when banking online.
- Online banking does have pros and cons. However, it's not only the wave of the future, it's the wave right now, and the clock isn't likely to go backward. If you take reasonable care to safeguard your personal and financial information, you'll likely find that online banking is a convenient tool that you can easily live with. Eventually, you'll probably even wonder how you ever lived without it.

Security:

Five Security Token Devices For Online Banking.

Security of a customer's financial information is very important, without which online banking could not operate. Similarly the reputational risks to the banks themselves are important.[8] financial institutions have set up various security processes to reduce the risk of unauthorized online access to a customer's records, but there is no consistency to the various approaches adopted.

The use of a secure website has been almost universally embraced.

Though single password authentication is still in use, it by itself is not considered secure enough for online banking in some countries. Basically there are two different security methods in use for online banking.

Attacks:

Attacks on online banking used today are based on deceiving the user to steal login data and valid tans. Two well-known examples for those attacks are phishing and pharming. Cross-site scripting and key logger/Trojan horses can also be used to steal login information.

A method to attack signature based online banking methods is to manipulate the used software in a way, that correct transactions are shown on the screen and faked transactions are signed in the background.

Conclusion:

Digitization represents a massive opportunity for banks to engineer a closer relationship with their customers, moving from a product provider to a virtual advisor. As such, digitization over the potential to drive substantial improvements in banks financial and operational performance, benefits can include boosting revenues per customer by more than 50%, increasing customer penetration by more than 30% and reducing operating costs by up to 20%. Nonetheless, the process of digitization remains far from finished.

PRIORITY SECTOR LENDING: A CRITICAL REVIEW

Joswin Prince Rodrigues[1]

Abstract

Priority sector lending and social banking concepts have been developed and adopted for the purpose of credit deployment. Priority sector lending quota for the commercial banks has provided a major tool for allocation of financial resources to agriculture, small scale enterprises and to the schemes for self-employment. Commercial banks play important role in financing the priority sectors of the economy. Under this research topic researcher has done this study to shed light on norms of RBI, problems faced by the bank officials in issuing PSL fund and the strategies for improvement of scheme. This research article prepared with the help of secondary data such as research article, RBI report and news article.

Key Word: *Priority Sector Lending, Commercial Bank, Agriculture*

Introduction

According to the Annual Report of RBI 2012-13, 16 out of 26 Public sector banks, 50% of private sector banks(10 out of 20) and 2 out of 41 foreign banks could not meet the targets set by RBI for priority sector lending(PSL). While this figure seems alarming, the question is why the banks have failed to achieve their targets in spite of such huge opportunities in the Indian banking sector, especially in rural areas. Is PSL a liability and a burden for the banks or an opportunity to explore the virgin market across the remotest territories?

The priority sector lending mainly refers to those sectors which do not get sufficient credit on time due to lack of 'special dispensation'. Those who are directly affected comprises of mainly weaker sections of society like farmers and small scale industries. Some of the reasons for not getting sufficient credit can be:

- **Lack of Credit Worthiness of the firm to repay the debt**
- **Lack of collateral security of the individual borrower**
- **Lack of sufficient documents needed to be eligible to get a loan**

While there is no denying the fact that in absence of sufficient proof or security, the bank has the right not to lend money, the RBI has identified certain sectors as priority sectors for easier credit. In a country where around 50% of population is in agriculture industry, 29.8% of population below national poverty level and only 35.5% Indians avail bank facility, the RBI has identified this as a vital step towards economic development of the country.

A key reason why the commercial banks have become risk averse in lending is the rising level of NPA (Non Performing Asset). Almost half of the total NPAs (47%) of public sector banks are attributed to priority sectors, reducing slightly from 52% in the year 2011. Failures to meet these targets by the banks have to be compensated by contributing towards NABARD's Rural Infrastructure Development Fund (RIDF) or funds of other financial institutions as per the specifications of RBI. This explains why the public sector banks, in spite of having extended reach in the rural areas, are still not able to meet the targets mandated by RBI.

While the commercial banks have struggled to penetrate in the untapped market in the rural areas, the Micro-finance institutions leverage on their ability of reaching out to interior parts of the country and offering credit to the people who otherwise don't have access to it. Since their cost of capital is high, MFIs charge a higher rate of interest from the beneficiaries. In spite of this they thrive well owing to their model of 'door-step' delivery of credit facilities. Rate of default is also surprisingly low. However, in 2010, Andhra Pradesh came down heavily on Microfinance Institutions in India owing to the strong-arm collection tactics followed by them, which drove a lot of farmers to suicide.

MFIs follow the Joint Liability model which was pioneered by Mohammed Yunus, founder of Grameen Bank in Bangladesh. Clients form 'groups' of five members who share the responsibilities for loan repayment for each individual in the group. These small groups are further organized into 'centres' consisting of 4-8 groups each. Weekly centre meetings are held, where borrowers pay back the weekly instalments. This kind of group lending system creates peer pressure on members in the group to repay back the loan by causing social embarrassment. The system also encouraged group members to assist

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defaulting members in cases of genuine difficulties. Within a span of nine years (2007), Vikram Akula led SKS Microfinance grew to be India's third largest MFI with 380,000 members and a portfolio of Rs. 175 crores. Effective interest rates charged by SKS Microfinance are higher owing to the labour intensive nature of their business model like holding face to face meetings weekly, travelling extensively in spite of the constraint of poor road infrastructure to the interiors in the rural India. The other notable MFIs in India are Spandana, AML, Bandhan etc. Success stories of these Microfinance Institutions in India prove the enormity of market potential which exists in India – huge and untapped in most of the areas. People are ready to pay higher interest rates provided they can avail themselves of the credit facilities in an effective manner.

Literature Review:

Uppal (2009) in their research article named "**Priority Sector Lending: Trends, Issues and Strategies"** Author made an effort to study the problems and strategies to overcome those problems which are aced under the priority sector lending. Researcher concluded the study by showing what are share of different banks in terms of PSL and also noted that banks are not lending enough under the PSL Scheme.

Rani Shilpa (2015) in their research article "**Priority Sector Lending: Trends, Issues and Strategies**" author has made an effort to study the Trends, issues and what are the strategies can be used to improve lending PSL. She had come to a conclusion PSL is not able to cater the needs of Agriculture, Small scale industry and other sector.

Raman P., Thangavel N (2011) conducted a study on **Social banking of India**. By this research article author made his effort to know whether the PSL sector lending is able to achieve the goal set by RBI.This study found that in some extent it is successful like Branch expansion in rural areas, Credit to Micro and Small enterprises, Women Entrepreneurs, Sponsored Regional Rural Banks and advances to weaker section. But according to this study PSL is not successful in some areas like agriculture.

Goya Neha, Agarwal Rachana (2016) in their research article "**A Study for Identifying Issues Faced by Bank Officials in Agriculture Priority Sector Lending"** Under this topic researcher has made an effort to o study the problem faced by bank officials while issuing as well as collecting the loan issued under the PSL scheme. Researcher has listed out many problems and they have suggested diversion of agricultural loan to the other sector should be strictly prohibited

Shabbir N. (2013) conducted a study to know the "**Sector wise priority advances in India"**. Here the researcher has done study to know whether the banks are lending directly or indirectly to the PSL sector. The study showed that lending to agriculture has increased but lending to agriculture through direct means has decreased.

Objectives

1. To study the issues of priority sector lending.
2. To study the norms of PSL lending by RBI
3. To suggest strategies to improve the priority sector lending
4. To learn the problem faced by bank official under PSL

Research Design and Methodology:

The nature of the study is Descriptive and Empirical. Data is collected through various Secondary & Primary resources. Secondary data is collected through various RBI bulletins, reports, RBI website, various bank websites, newspapers, magazines research articles etc.

Result and discussion

5.1 New Priority Sector Lending norms

The RBI has modified Priority Sector Lending norms after the recommendations of the Internal Working Group in 2015. Changes in classification of the priority sectors and targets were also made asper the new norms. Following are the main categories of PSL (credit percentage are expressed in terms of Adjusted Net Bank Credit or ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure; whichever is higher):

PSL Norms for Domestic banks

1. Agriculture 18%: Within the 18 percent target for agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.
2. Micro, Small and Medium Enterprises 7.5 percent.
3. Export Credit: Incremental export credit up to 2 percent for domestic banks and foreign banks with 20 branches and above.
4. Education: Loans to individuals for educational purposes including vocational courses up toRs 10 lakh.
5. Housing: Loans to individuals up to Rs 28 lakh in metropolitan centers (with population of ten lakhs and above) and loans up to Rs 20 lakh in other centers for purchase/construction of a dwelling unit per family.
6. Social Infrastructure: Bank loans up to a limit of Rs 5 crore per borrower for building social infrastructure for activities namely schools, health care facilities,

drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

7. Renewable Energy: Bank loans up to a limit of Rs 15 crore to borrowers (individual households- Rs 10 lakh) including for public utilities viz. street lighting systems, and remote village electrification.
8. Others: SHG, JLG etc.

From the above categories a subcategory called Weaker sections is also identified so that they can get special preference under PSL.

The New regulations stipulate that banks should give 10% of their loans to the weaker sections. Weaker sections include: Small Marginal Farmers, artisans, village and cottage industries with a credit limit upto Rs.1 lakh, beneficiaries of certain government sponsored schemes, SC/STs, SHGs, persons with disabilities, overdrafts up to Rs.5000 under PMJDY, distressed persons, individual women beneficiaries up to Rs 1 lakh, beneficiaries of differential interest rate regime.

Several changes are made (2015) in PSL norms by the RBI after the working group (2014) recommendations. The changes include new categories of PSL: medium enterprises, social infrastructure and renewable energy. A separate target for small and marginal farmers (7.5%) and microenterprises (8%) and weaker sections (10%) and inclusion of food and agro processing units under agriculture are the major changes. The priority sector non-achievement will be assessed on quarterly average basis at the end of the respective year from 2016-17 onwards, instead of annual basis as at present.

Banks (SCBs) having shortfall in lending to priority sector/subsectors vis-avis the stipulated targets, are required to contribute to the funds of Rural Infrastructure Development Fund (RIDF) and similar funds set up with National Bank of Agriculture and Rural Development (NABARD) / Small Industries Development Bank of India (SIDBI) / National Housing Bank (NHB).

PSL norm for foreign banks

Another modification is the PSL made by the RBI after the recommendations of the Working group is related with foreign banks. Foreign Banks with 20 branches and above already have priority sector targets of 40% and sub-targets for Agriculture and Weaker Sections. These targets are to be achieved by March 31, 2018 as per the action plans approved by RBI. Foreign banks with less than 20 branches will move to total Priority Sector target of 40 percent by 2019-20. The sub-target for MSME sector will be made in 2018.

Issues in PSL

In Our research I have made an effort to shed light on six problems of PSL:

1. The report does not specify an upper limit for production loans to SFMF, while for allied activities a ceiling of Rs 3 lakh has been prescribed. As a result, there might be larger misclassifications into this category, particularly as the banks have the freedom to tweak the scale of finance to suit specific geographical and crop-specific peculiarities. The advisory to increase the number of accounts to SFMF may negate this concern to an extent.
2. For the other 9% of the target to agriculture, banks will move towards the organized segment. This squeezes out direct finance to medium and large farmers. Data indicates that 5.71% and 8.43% of ANBC from public and private sector banks, respectively, was going to the non-SFMF segment. This segment will disappear.
3. The report excludes commission agents and arathias from the categorization of agriculture. Arathias are a significant link in the farm gate to food plate chain. Excluding them shows bias towards borrowers in the organized sector.
4. The committee utters platitudes on investment credit without addressing the issue head on. Capital formation in agriculture is weak and affects its productivity and long-term sustainability. The opportunity to address this important issue through a regulatory framework has not been used by the committee.
5. The report fails to address the regional skew. Ever since nationalization, the skew between urban and rural branch networks has been addressed, while the regional skew continues. The branch density and credit deposit ratios of the branches in the Gangetic plain are a good indicator to see that agricultural credit could have a better regional spread. The Nair committee could have integrated this aspect into the regulatory framework. It would have met with resistance because of its inherent complexity, but was well worth an attempt.
6. The target of 10% of ANBC is assigned to the weaker sections and advances to SFMF having a target of 9% are also considered under weaker section targets up to a maximum of 6%. Given the penal nature of the target for SFMF, this translates the target for weaker sections effectively to 4%. The committee could have just mentioned this as a target without a convoluted calculation.

   The committee has recommended a credit guarantee fund for agriculture. The credit guarantee fund for medium, small and micro-entrepreneurs (MSMEs) has had a positive impact on the flow of formal credit to MSME sector and, therefore, a similar facility for the agriculture sector will provide a framework for better flow of credit without the governmental interference of subventions, subsidies and write-offs.

Steps for the improvements of PSL

The first step is to change the attitude of the commercial banks towards priority sector lending and the following steps are suggested to achieve this objective.

1. Every bank should train a band of senior- and middle-level employees in the art of lending to the priority sector, both agriculture and small-scale industry and they should continue to be encouraged to upgrade their skills in the latest developments in this area of lending.
2. Instead of making available priority-sector lending facilities in all branches, every bank should set up specialized branches in all potential centres and extend priority-sector lending through these branches alone where trained manpower should be deployed to facilitate proper sanction and monitoring of these loans and advances.
3. The RBI should dispense with the present system of target-oriented lending to the priority sector and banks should be given total freedom to lend to all deserving and productive enterprises according to their own norms of lending without spoon-feeding the banks in this regard.
4. The present system of allocating 40% of lendable resources to the priority sector by every bank should not be insisted upon and all penal provisions for not achieving this level of lending to the priority sector should be withdrawn with a view to give a free hand to the banks to develop a portfolio of their choice in the interest of improving the asset quality of every bank.
5. Instead of a penalty-based system which exists at present to penalize the banks who do not reach the stipulated targets, the RBI should come out with an incentive-based system to encourage lending to the priority sector, as an incentivized system will receive better receptivity at all levels, and this will provide the necessary thrust to priority-sector lending by banks. And the incentives could be broadly on the following lines.
   a) The incentives proposed could be on a staggered basis and inbuilt incentives can be provided for reaching a level of 20%, 30% and 40% of their lendable resources and incentives can be considered as under:Branch licensing and the CRR /SLR requirements can be linked to these percentages.
   b) The staff working in those specialized branches lending to the priority sector can be provided with appropriate incentives based on the level of lending to the priority sector at each of these branches.
   c) A certain percentage of profit can be exempted from income-tax for those banks reaching these levels of lending to the priority sector.
   d) Any other incentive could be thought of to provide impetus for lending to the priority sector.
6. All subsidies now provided to banks for lending to certain priority sectors should be withdrawn, and in its place, appropriate fiscal incentives should be provided so as to minimize paperwork and misuse of the subsidy system.
7. In order to encourage the staff of commercial banks to improve lending to the priority sector, the bank managements, particularly in the public sector, should also change their attitude and follow the basic principle followed by banks all over the world that "error of judgment is not negligence". All loans granted by the branch managers should be viewed from this angle and appropriate protection provided to the operating staff when loans go bad due to reasons beyond their control. This will give the required comfort to staff at all levels and radically change their attitude towards priority-sector lending and help the banks to do a better job in this area of banking.
8. The farmer community in our country requires a lot of counseling and the bank officers engaged in this activity should be trained in this art of providing advice and counsel whenever needed and consider the requests of the borrowers with a humane touch.

The second step required in this direction is to develop and nurture a few specialized institutions exclusively for lending to the priority sector and the following suggestions, if implemented, will serve this cause admirably.

1. NABARD (the National Bank for Agriculture and Rural Development) should be charged with the responsibility of financing the total agricultural operations in the country. To achieve this goal, all the Regional Rural Banks (RRBs) presently operating in our county should be handed over to NABARD and all the branches of RRBs should be the lending arms of NABARD for this purpose. The RRBs should be completely under the ownership and control of NABARD, whose entire direct-lending operations to agriculture and allied occupations should be routed though the branches of RRBs, which should be funded by NABARD to the extent necessary.
2. NABARD should be repositioned as the exclusive agency for agricultural finance in the country and it should set up new RRBs in districts which are not covered by RRBs at present, so that within a period of the next five years, the entire country is brought

under the jurisdiction of NABARD for lending to agriculture and all allied activities.

3. The capital to risk weighted assets ratio (CRAR) of NABARD as on 31st March, 2011 was as high as 21.76%, which indicates that NABARD is more than adequately capitalized at present to take over this responsibility of funding the old as well as the new RRBs and the Central government should consider future requirements of capital to meet the increasing responsibilities bestowed on it.
4. The second institution that requires complete reorientation is the Small Industries Development Bank of India (SIDBI), which should play a more aggressive and pivotal role for developing the small scale industries in India. This institution should be the nodal agency for directly financing the micro, small and medium enterprises (MSMEs) in India, with the added responsibility of continuing with the refinancing activities.
5. SIDBI should set up a nationwide branch network, with the avowed objective of financing the entire requirements of small scale industries including their working capital requirements, so that the small entrepreneurs need not depend on multiple banks for their financial requirements as it happens today.
6. SIDBI should initially set up its own full-fledged branches in all district headquarters all over India within the next three years and introduce direct financing of all viable MSMEs and other microfinance institutions as well.
7. While the public sector banks are starving for capital, SIDBI has been sitting on a pile of capital with CRAR at 30.08% as on 31 March 2010. This only shows that this institution has a long way to go to achieve its objectives and a complete overhaul of its functioning is required to provide the necessary impetus to the development of small scale industries in India.
8. With over 20 years of existence, SIDBI has been able to build a loan portfolio of just over Rs35,000 crores, a major portion of which has gone to refinance the banks and other financial institutions. The financial requirements of small scale industries in our country are quite large and hence a visionary approach is required by this institution to create an impact in the development of MSMEs, which can be a game-changer for the economy of our country.
9. The present system of credit guarantees provided by the Credit Guarantee Corporation of India should be dispensed with and all commercial banks should be delinked from this guarantee institution as they no longer need such a guarantee. And this part of the institution should be handed over to SIDBI, which can enlarge the role of this organization to provide guarantees to venture capitalists that provide seed capital to projects of those small scale entrepreneurs approved by SIDBI.
10. Commercial banks, will however, continue with lending to the eligible and desirable borrowers in all sectors including the priority sector as hitherto and benefit from the incentives offered in respect of lending to socially desirable sectors, but without any compulsion of having to lend a certain percentage of their lendable resources to any specified sector as prevalent today.

To learn the problem faced by bank official under PSL

1. Recovery of funds is difficult; because farmers use the loan money for other purpose than it is actually taken. They use the loan money for social ceremonies like marriage, functions etc. and sometime it is also used for paying old debts. Apart from it sometimes farmers purchase defective assets, due to which chances of NPA increase. There is also willful default in Agriculture PSL, because farmers wait if there would be any kind of wave off.

2. Banks are not having trained officials to deal with issues under PSL sector lending

3. Due to PSL work burden of bank officials also increase. The main reason behind this is the number of accounts are more and accounts are of small amount. So pre sanction visit, post sanction visit, instalment reminder, recovery reminders and paper work increase.

4. UnderPSL there is lot of social, political and target pressure on bank officials. Bank official are under politicians and higher officer. This pressure makes the Bank officials to provide loans to the person who is renownedat local level, sometimes they need to provide loans to close relatives of local political leaders.

4. The biggest problem in PSL is that there is no motivation(incentive) for increasing such lending. Bank’s official’s performance is not considered for how many loans they have given, but it is considered on total amount of loans. Bank officials are not given any kind of monetary benefit or reward for increasing such type of loan

Conclusion

Thus by this article we found out the problems faced by the banks and also the strategies to achieve the targets are mentioned. Many banks are not able to reach the target set by the RBI, due to various reasons such as they don’t want to lend because of refund or collection problem, no trained staff, no incentives for the work what they have done etc. Therefore, it is essential that the priority sector lending behavior of these banks should be closely monitored in the national interest.

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FUTURE DIGITAL BANKING SYSTEM IN INDIA

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Abstract

Gone are the days of brick and motor banking, where you had to stand in line for hours to get a simple task done. Digital banking has taken over our lives and we are slowly reaping all the virtual benefits. It has become so popular than its regular version, that banks are giving a second thought before launching any new building plans. In the Western world, especially in the US, banks are taking extra caution, time and effort trying to improve their online experiences and in many cases even shutting down their physical entities. The consumer will bank using Robot in future. The US is the leading country in using Internet banking. In India above 60% people using Internet Banking. The Robotic process Automation, Artificial Intelligence & cognitive opportunities is necessary for the development of digital banking in India. Cyber Security are also now becoming popular. In Future2020 there will be 90% in Digital Transactions. So here is an attempt to peep into the future digital banking system in India. This paper aims to bring out the significant and impacts of new technologies in Digital banking.

Keywords: *Digitalized Banking System, Artificial Intelligence, Cyber Security, Technologies.*

Introduction

Digital Banking is considered as an adoption of various existing and emerging technologies by the banks, in concert with associated changes in internal operations as well as external relationships for providing superior customer services and experiences effectively and efficiently.

Presently there are several technologies, infrastructure and processes available to enable banks to become highly efficient and dependable banks. Adaptation and implementation of highly capital intensive global technologies, infrastructure and processes are crucial in order to remain ahead of the curve. Transition related issues viz. from traditional banking to state of the art digital banking such as data integrity, authentication (including third party authentication) and trust factors in a digital banking environment are gaining importance. Digital banking provides solutions to bankers for their short term and long term business and technological requirements. Today, aspects such as enhanced customer satisfaction and value through customer experiences, faster output, infinite banking volumes, financial inclusion, operational efficiencies, scale of economy etc. are being sought after, by leveraging digital banking and mobile technologies. Becoming a digital bank can improve the quality and efficiency of banks and provide a better customer experience.

India is headed for an tremendous increase in digital payments over the next four years, according to a new study by Google and Boston Consulting Group . The digital payments industry in will grow by 10 times to touch $500 billion by 2020 and contribute 15% of gross domestic product (GDP), the report predicted.

In the financial technology companies , big data firms, the elements which are digitalizing things quite quickly and efficiently. According to the report by the Boston Consulting Group in collaboration with FICCI and Indian Bank Association (IBA). India has around 470 million banking customers. Among these demographic, 60 million of them, amounting to 13% of the total users, use online banking and 10% prefer the hybrid model of regular online and online banking and also 1% prefer the online channels for all their banking needs. Online banking is primary channel of interaction for around 20% of customers in economies like the US and UK.

This study gives us a vision on the impacts of banking sectors in India if they adopt these digitalized technologies.

Objectives

- To review the development of banks in future if they adopt the new technologies like cyber security , fingerprint sensor , artificial intelligence , etc…
- To study the innovative banking services in India.
- To evaluate customer prospective to the innovative banking services
- To know customer services and satisfaction level.
- To review the growth and development of banks in India.
- To conduct the research for analyzing the effects of E- Banking.

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Scope

- Customers will be benefit from fair price with transparency and comparability.
- Customers will get immediate and high quality interactions with new value added services.
- The processing will be fast and secure.
- Integrated IT infrastructure.
- It will change the way of revenue generation.
- Mobile apps are the leading factor of digital banking. According to the statistics, 93% of customers are relying mobile apps for digital banking.

Need For Digital Banking

- Cash less transaction will be possible
- To make money transfer and payments will become easier
- To provide better customer services
- To save time and no need to stand in queue for every transactions
- To provide transparency and value added services.

Limitations

ATM Limitation:

In online banking customers having 24-hours access to their accounts and are able to transfer funds, make payments and view bank statements. Internet only banks don't have network of ATMs, so such customer can expect to pay ATM fees with every withdrawal.

SECURITY RISK:

In present 86 percent of online banking users been security as a concern, with four out of five people identifying desiring better security measures than just a password. In modern banking, the hackers have been responsible for robbing small to medium sized business of millions. The banks have to maintain their website safe accessing accounts on smart phones and from unprotected internet connection as by cyber-attacks.

Deposit Limitations

Many employees have implemented direct deposit, meaning that paychecks are electronically deposited into an employee's bank account. But in other instance when consumer need to deposit checks or cash they've received. This can't be done online, unless you have a Smartphone and belong to one of the banks that offers such technology, the only way to deposit funds is to make a visit to your bank, or such in the case of an online only bank, use snail mail to send the deposit in.

Problem For Illiterate And Small Income Groups

Peoples of small income groups and illiterates will be unaware about this new technologies and hence they may face difficulties to adopt this technologies.

New Upcoming Technologies In Digitalized Banking

1. **Block chain Technology**

   Block chain technology is to transform banking and financial services. It decentralizes financial management from a central authority to a wide network of computers. Financial transactions are broken down into encrypted packets/ "blocks," which are then added to the "chain" of computer code and encrypted for enhanced Cyber Security. It has been compared to "email for money" by block chain startup CEO Blythe Masters. Because the technology has the potential to improve numerous functions of banking. This is the basis for other banking technology trends like Bit coin.

2. **Upgraded ATMs**

   ATM which was first introduced in 1967 has transformed the banking system. The next revolution in ATMs will be contactless payments. The Apple Pay or Google Wallet, soon you'll have a contactless ATM transactions using a Smartphone.

   Some ATM innovations are already available overseas and might reach the U.S. shortly. For example, launched last year in India, and iris recognition is in place at Qatar National Bank ATMs. These technologies can help overall bank security by protecting against ATM hacks.

3. **Proliferation of Non-Banks**

   Banks are hoping that technology will allow them to move faster, more transparent experience to consumers. A large portion of their resources, however, is necessarily dedicated to security, compliance, and other industry-specific requirements, which has allowed non-banks — or financial service providers that are not regulated by the banking industry — to flourish, according to a 2016 report from market intelligence firm Greenwich Associates. Since these companies can have greater percentage. They may be able to innovate more than traditional banks, attracting tech-savvy customers in this process.

4. **Apple Store-Style Experience**

   In bank experience of the future might be more like shopping at an Apple store. Because so many people now can download user friendly banking apps or easily find an ATM to handle banking transactions, the typical in-bank customer today is to help involving a personal interaction. Banks aim is to increase sales in the future are considering this transformation for the customers to engage more directly with the bank and its products, and In Apple store, directing customers to interact with technologies for some transactions and reserving person-to-person for interaction or addressing needs of individual consumer.

5. **Cyber Security**

   The Cyber Security threats that keep the banks up at night, and how they plan to combat them. In the current period major data breaches amidst an ever shifting Cyber threat landscape, the people are under increasing pressure to keep customer data safe from hackers and frauds.

6. **Artificial Intelligence**

   Artificial Intelligence is a reality today and it is impacting our lives faster than we can imagine. It is already present everywhere, from siri in your phone to the Netflix recommendations that you can receive on your smart TV. The revolution brought by artificial intelligence has been the biggest in times. There is no denying that it has already become a crucial and integral part of our life. Artificial Intelligence in banking and other financial sectors is showing signs of interest and adoption.

7. **Finger print technology**

   In UK, the two banks allowing their customers to access accounts on their smart phones using Finger print recognition technology. In RBS and NATWEST customers must active future with their security information, but would have the only need to use Apple's ID. On that banks, after three attempts, customers would have re-enter their pass codes. The Royal Bank and Scotland group, said that the feature would be available on the iphone 5s, 6, 6 plus. Touch ID alone to gain access to a banking app introduced dangers that were not present when passwords and pins.

Findings and suggestions

Two important developments have the potential to indicate a new age of digital payments are the rapidly growing smartphone penetration and the abundance of bank accounts. India has over a billion mobile connections with around 240 million smartphone users and is expected to grow to 520 million by 2020 as per a report on Digital Payments by BCG and Google. The National Optical Fiber Network initiative under Digital India will connect 250,000 gram panchayats across rural India and increase adoption of data services. The Pradhan Mantri Jan Dhan Yojana (PMJDY), through 282 million accounts and 220 million cards (as on 29 Mar'17), has provided the infrastructure for universal access to banking.

The Unified Payment Interface (UPI) will provide low cost acquisition infrastructure by allowing smartphones to substitute costlier PoS devices. UPI will is a unique interface which works 24x7 across the banking system and is instant, safe, secure, cost effective and convenient to use. UPI allows payments to different merchants without the problem of typing one's card details, or net-banking password.

Block chain is the next evolutionary jump in business process optimisation technology. It combines a number of mathematical, cryptographic and economic principles in order to maintain a database between multiple participants (lenders & borrowers) without the need for any third party intermediary or reconciliation. A block is the 'current' part of a blockchain which records some or all of the recent transactions, and once completed goes into the blockchain as permanent database.

Artificial Intelligence (AI) & Machine Learning is another important technology that combines natural language queries, predictive analytics, and self evolving cyber security systems. Artificial Intelligence is the future & has already started to be part of our everyday lives. Machine learning is an approach to achieve artificial intelligence & machine is "trained" using large amount of data & algorithms that give it ability to learn how to perform the task.

Cloud computing is the another emerging practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server or a personal computer. The main advantage of the cloud are cut costs, improve flexibility & scalability, increase efficiency, serve client faster.

Conclusion

With demonetization and the subsequent thrust from the government for cash less transactions, the share of digital and online transactions have been steadily gaining importance. The relaxations given in MDM and the new tax regulations; all help in bringing in more customers for digital. Share of digital transactions will get further boost, when the internet become faster, cheaper and reliable, especially in rural and semi-urban centers. Over the next couple of years we will notice that a lot of financial innovation will be headed by incumbent banks. Finally, there is no doubt that digital banking has brought in amazing customer experience. However, increased levels of cyber threats have the potential for causing significant disruptions in their services apart from risks related to sensitive customer information and internet frauds. It is therefore important to see how information technology systems and data security risks are monitored and managed. Regulations on digitalization in India are at a promising stage and their evolution would also be important in charting the way forward for disruptive innovations in the Indian banking space. As on February 2017, India had 840mn debit cards and 29mn credit cards. Indians use primarily debit cards, and that too for ATM withdrawals. The usage of cards for POS transactions increased sharply immediately post demonetization. So there is a wide scope for digitalization and we can see a tremendous change in the banking sectors of India within the year 2020.

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MONEY LAUNDERING, PMLA 2002

Simranpreet Kaur[1]

Introduction

The purpose and object of the act is prevention of money laundering, which simply means conversion of tainted (black) money into untainted (white) money.

Black money is generated in large scale from various crimes and this black money is converted into white money so that it can be used. Thus, one way to prevent crime is to make difficult to convert black money into white money, i.e, process of money laundering. Since money laundering is an international menace, United Nations adopted a political declaration in June 1998 and asked its member states to enact national legislations for the prevention of money laundering. The present Act has been passed to implement the UN Resolution.

Definition and Meaning of Money Laundering

Whosoever:

1. Acquires, owns, possesses or transfers any proceeds of crime ; or
2. Knowingly enters into any transaction which is related to proceeds of crime , whether directly or indirectly ; or
3. Conceals or aids in the concealment of the proceeds of crime,

Commits the offence of money laundering.

"Proceeds of Crime" means any property, derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of such property.

"Scheduled Offence" means the following:

1. Offences specified under Part A of schedule to the Act. For instance, waging a war against the Government of India, offences relating to narcotics, etc.
2. Offences specified under Part B of schedule to the Act, provided that the total value involved in such offence is Rs.30 lacs or more. For instance, murder, kidnapping for ransom, offences relating to arms, wildlife, etc.

Harmful Effects Of Money Laundering

Money Laundering process may create the following harmful effects in the society:

- Widespread use of bribery in government offices leading to corruption.
- Control over vast sector of economy by handful persons through investment by unfair means.
- Infiltration of banking and financial institutions through organized crimes.
- Dampen social fabric and ethical standards prevalent in the society.
- Weakens the democratic institutions from gross-root level itself.

Process of Money Laundering

Money is laundered in following three stages:

Placement: Here, the launderer introduces his illegal profits into the financial system by breaking up large sums of money into smaller sums.

Layering: Here, the launderer engages in a series of conversions of movements of funds to distance them from their source.

Integration: Here, the launderer integrates the smaller amounts into larger sums and enters the legitimate economy by investing into real estates, business ventures, film industry etc.

Punishment for Money Laundering

Any person who commits an offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than 3 years, but which may extend to 7 years and also liable to fine, which may extend to Rs. 5 lacs. However, where the proceeds of crime involved in money laundering relates to narcotics drugs the punishment may extend to 10 yearsrigorous imprisonment. In addition to this, the tainted property is confiscated by the Central Government.

Section 5 provides that where any officer has reason to believe that any person is in possession of any proceeds of money laundering; such person has been charged of having committed a Scheduled Offence and such proceeds of crime are likely to be concealed, transferred or dealt with in any manner which may result in frustrating any proceedings relating to confiscation of such proceeds of crime, such offence may by order in writing, provisionally attach such property for a period not exceeding 150 days from the date of order

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Obligations Of Banks, Financial Institutions & Intermediaries

In Money Laundering process, generally the Banks, Financial Institutions & various Intermediaries of the Capital Market are involved. Hence, responsibility has been cast on them under this Act , to keep prescribed records & inform doubtful transactions to the authorities under the Act.

Section 12 requires every banking company, financial institution and intermediary to maintain a record of all transactions , the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions legally connected to each other, and when such series of transactions take place within a month. These information are required to be furnished to the Director within such time as may be prescribed. Banks and financial institutions are required to verify and maintain the records of the identity of all its clients, in such manner as may be prescribed. These records as mentioned above are required to be maintained for a period of ten years from the date of cessations of the transactions between the clients and the banking company, financial institution or intermediary.

Section 13 states that the Director may, either on his own motion, or on an application made by any authority, officer, or person , call for records of all transactions and make such inquiry or cause such inquiry to be made, as he thinks fit. In the course of any inquiry, if the Director finds that a banking company, financial institution or an intermediary or any of its officers has failed to maintain or retain records in accordance with the provisions of the Act, he may , by an order , levy a fine on such banking company, financial institution or intermediary which shall not be less than ten thousand rupees but may extend to one lakh rupees for each failure.

Section 15 empowers the Central Government to prescribe, in consultation with the Reserve Bank Of India, the procedure and the manner of maintaining and furnishing information for the purpose of implementation of the provisions of the Act.

Know Your Customer (KYC) Guidelines

RBI (Reserve Bank Of India) has issue the guidelines known as 'know your customer' (KYC) on November 29, 2004.

The objective of these guidelines are:

- Safeguard banks from acting as a chain in money laundering activities.
- Helps banks to know more about the clients and keep a check.

Following are the elements of these guidelines:

- Customer Acceptance Policy
- Customer Identification Procedures
- Monitoring transactions
- Management risk

Global Initiatives in the prevention of Money Laundering

Financial Action Task Force (FATF) was established in 1989. It is an international body which promotes measures taken up to counteract the worldwide impact of money laundering.

Following are the main tasks/functions of FATF:

- Review the techniques adopted for money laundering;
- Checks the initiatives made by the countries to counteract money laundering; and
- Spread awareness among non-member countries also.

Thus, FATF study, examine and evaluate the current situation, defines the policy and initiatives measures that can act as solution to this problem of money laundering.

To counteract the harms caused by money laundering and with a view to prevent the same, Prevention of Money Laundering Act 2002 was enacted.

This Act provides for offences, punishment ,confiscation, attachment and other adjudication provisions so as to ensure effective prevention of money laundering.

2020 Foresight

Some rules have not very long ago been enforced in order to strengthen the worldwide AML legal surrounding conditions.

With time, the number of illegal stealing cases has been increasing, around the world; however, the major concern is the losses caused by these events that are increasing at a high rate. Businesses in such facts or conditions that surround someone are being forced to take counter measures. Banking, related to managing money services, insurance, and government-run services and their employees are among the most targeted industry up-and-downs, and that's the reason for the demand for these solutions is significantly high in these businesses. Retail, manufacturing, transportation, real estate, healthcare, and education are other businesses where penetration is expected to be high in the coming years.

The rise in online transactions illegal things, card-related illegal things, and insurance claim illegal dishonest things are the most important factors, which are driving the growth of the FDP & AML market in the banking services, insurance, and retail areas. Verifying someone's identity is expected to remain a money income-creating pocket in the market; however, the illegal part is expected to grow at the fastest rate during the forecast period of 2014 to 2020. In the last ten years, governments and legal bodies have taken many measures to control hiding illegally-gotten money activities. This important thing has started an increased extreme importance since the major money-based problem of 2008-2009 very much impacted processes of people making, selling, and buying things across the world, developed nations especially. Following this worldwide money-based slowdown, some rules have been enforced with the purpose of strengthening the worldwide AML legal surrounding conditions, and increase pressure on banks to obey.

Limited Enforcement of AML following the law in Newly-visible processes of people making, selling, and buying things

While AML following the lawin North America and Europe is highly developed, it is yet to reach these standards in some newly appearing processes of people making, selling, and buying things in the Asia-Pacific, Middle East and Latin America. In the past, many of the countries in these areas have created AML rules, effective enforcement by local devices that control things is still proving to be the key challenge. However, governments and legal bodies in these nations have showed their interest in bringing their AML following the law in line with international standards.

Frequent Upgrades to Worldwide AML Rules Result in Increased following the law Costs.

The legal bodies of the world have not very long ago been introducing more and more strict AML rules. During the 2010-2012 period especially, devices that control things across key markets put into use many AML needed things for banks. These institutions are, therefore, focusing on improving their AML processes to avoid any legal based faults which could lead to potential related to managing money and reputation-based risks. To obey these changes, both related to managing money and non-related to managing money institutions have to invest significantly in IT upgrades and improvements in CDD customer-due-great care and KYC know-your-customer processes, resulting in increased AML following the low costs.

DIGITAL BANKING

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INTRODUCTION

Digitization gives banks the opportunity to take customer service to next level at the same time offering the possibility for much higher automation and related cost efficiencies. We believe digitization takes banks from being product providers to offering a continuous contextualized service, helping customers to understand better their financial and commercial status and take smarter decisions.

Also, there are few shortcuts to becoming truly digital. It requires banks to operate digital stack that is real-time, open and vertically integrated, enabling banks offer the right services and content, own-labelled as well as third-party, over the right channel at the right time and with the ability to fulfil all orders and enquiries instantly.

EXAMPLES OF DIGITAL SUCCESS

RAPID DEPLOYMENT – rapid deployments, retail 8 weeks, corporate 10 weeks, 2 languages, multiple devices – desktop, smartphone, Smart TV, tablet.

REDUCED COSTS – reduce maintenance costs of channel applications by up to 85%.

SPEED and UX - It only takes 15 minutes for Metro Bank to open a new customer account.

SCALABILTY – Mr.X seamlessly onboarded 3 million customers in 5 months (>10 million as of mid-2015) and has exceeded its business targets.

NEW DIGITAL BANK - Canada's EQ Bank: an online savings bank from scratch in 18 months.

WHAT IS A DIGITAL BANK?

We believe that being truly digital means enabling "experiencedriven banking". This needs to cover both the customer experience and the execution experience. A digital bank offers customers contextualized, seamless experiences that transform the customer journey. And becoming a digital bank means delivering a compelling and relevant customer and execution experience through an open, integrated and flexible architecture. True digital banking can be classified into two key and distinct factors.

A simple way to summarize what a digital bank needs to offer a customer, the solution provides it: A+B+C = D

A = Anytime, anyplace, any channel – this is what customers expect. Whether they are retail bank customers, High Net Worth (HNW) investors or corporate customers – their expectations are banking on their terms.

B = Better banking, beyond the traditional banking service – using customers' data to become a virtual advisor, helping customers to make better financial and commercial decisions.

C = Contextual – the service, communication, rewards and products you offer to meet customers' expectations, needs to be driven by data and analytics and personalized to their requirements.

= D – Digital banking

Customer Experience

The sum total experience that enables customers to self-serve, in real time, via multiple devices, with environmental context that results in a personal and relevant experience. This requires online access to all products and services as well as the real-time customer intelligence to be able to provider relevant, contextualized and personalized content and offers at the right time and on the right device.

Execution Experience

The sum total experience that enables organisations to deliver on-demand services with minimal human involvement via straight-through-processing whilst enabling internal bank users to serve clients via offline channels and continuously improve products and processes. This requires an end to end digital platform and architecture.

Digitalization-The Beginning

Most banks have implemented some form of digital transformation strategy and most are beginning to see rewards in terms of customers using cheaper to serve, self-service channels. The 2016 annual Capgemini World Retail Banking Report demonstrates how quickly customer channel preferences have changed, with mobile making up 33% of customer interactions compared to 22% in 2014.

Despite these first steps, however, many banks have failed to see the desired return on their digital

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investments. Many early adopters of online and mobile channels find they are unable to offer a fully digital banking service, as investment in channels or the front end have been insufficient

Crucially, not modernizing core systems has left these early adopters unable to deliver the required levels of customer experience. In the absence of Straight Through Processing (STP), real-time and complete customer transactional information and the ability to offer tailored products to any customer at any time, banks have become aware of the limits of quick-fix digitization. Where the data and content being served up is neither relevant nor timely and where the underlying fulfilment mechanisms are not instant and frictionless, customer satisfaction suffers. A recent report from JD Power, for instance, showed how closely satisfaction corresponds to the breadth and depth of banks' digital offerings.

Were that not enough, the investments in quick-fix digitization have actually given banks' IT estates more, not less, complex. This has added to the already massive costs of maintenance (which today stand at 80% of IT spending). It has also exacerbated several other challenges around speed to market for change and analytics as well as made it harder for banks to take advantage of new technological trends such as APIs and Open Banking.

It is not surprising, that many are reappraising their digital strategies and recognizing the importance of core renewal as a foundational step – the reason why 80% of banks are constantly looking to replace their core systems in the comming five years.

In addition to requiring core renewal, however, there are several other impediments to greater digitization.

1. There are the historical barriers to digitization such as legacy systems, data siloes and high IT maintenance costs (which has already noted account for almost 80% of banks' IT spending, crowding out investment in innovative, revenue-generating areas).
2. Regulation also plays a factor, not insofar as it directly hampers innovation but in that, indirectly, by taking up such a lot of bandwidth across the organization, it limits the time and resources that can be spent innovating. At JP Morgan, compliance headcount is up 87% since 2011 (from 23,000 to 43,000).
3. There is an inherent aversion by banking boards to taking on expensive and risky transformation projects that are lengthy and with long time to value – Capgemini estimates the average payback time to be around 4.5 years
4. As noted, initial investments have not delivered expected returns, making it harder to justify additional initiatives.
5. Fintech and other competitors have so far taken little market share – reducing the perceived urgency to act
6. Vendors' digital propositions are often largely unproven and over-hyped.

Nonetheless, the need to digitize is growing.

Many would point to new competitors entering the banking market who, unencumbered by legacy systems, can offer discrete financial services at a lower price or with better service and who, Accenture believes, could take up to 32% of banks' revenues by 2020. But, much more important is the opportunity foregone by banks themselves – to capitalize on digitization to play a much more important role in customers' lives, becoming a virtual digital advisor helping them to make smarter commercial and financial decisions as well as introducing them to a broader range of products and services offered up through the bank's platform via open banking.

Overview-Approach to Digital Banking

The Digital banking does not only empower banks to transform their customers' experience, but overcome the long-standing barriers to investment by, for example, enabling banks to progressively renovate systems, thereby speeding up time to value and lowering risk to value.

The Digital banking provides solution for banks to serve up the right customer insights at the right moment, via the right channel, at the same time as driving massive efficiencies in the back office: in short, they offer front office differentiation with back office automation.

The two are highly connected. Having a user interface that is intuitive and seamless is essential. But the quality of the overall user experience requires that banks are able to draw insights in real time and from multiple datasets. Moreover, the speed of fulfilment is also critical, and so it really matters that the digital solution is front-to-back.

The Digital banking stand apart from other solutions in the market based on four factors: their completeness (they are fully front-to-back), their modularity (they can be deployed in stages, allowing for faster time to value and lower risk), their upgradability (meaning that banks always stay ahead of market trends) and their openness (meaning that banks are able to take advantage of innovation and services from third parties using APIs).

The Suites cover front, middle and back office capabilities in a single, integrated solution. The Suites bring together therefore all of the benefits of a modern core system, such as fast product launches, real-time and complete transactional information as well as the instant fulfilment offered by 99%+ STP, with predictive analytical capabilities operating across an open catalogue of products, (covering own-labelled and third-party products), with a user experience platform offering a rich, seamless and consistent customer interface across all channels. As such, it gives banks the ability to offer truly personalized customer experiences, tailoring products and content to individual customer needs and offering them up at the time and on the device they are needed, as well as fulfilling customer demands instantaneously.

Since the solution is made up of integrated, yet modular, parts, it can be implemented in stages. Many of our customers choose to implement channels and front office initially and then go on to replace core banking or vice versa. Some choose to replace line of business by line of business. Some, like Equitable Bank, even choose to start completely new banks to which they can migrate existing business over time.

The advantage of these implementation options are obvious but still worth stating. They break projects down, meaning that the initial capital outlay is lowered and the payback on that spend is quicker. They reduce risk since each project can be broken into tightly scoped, easily manageable parts. They allow banks to address their biggest pain points first, whether that be, say, cost of maintenance or the look and feel of banks' mobile channels.

They also allow banks to deliver on the business case and so unlock the next stages of investment, overcoming any board level misgivings. But, ultimately, the bank ends up with the fully integrated solution that allows for front office differentiation and back office automation, delivering the best digital experiences at the best price point to end customers.

As with all Temenos software, the key constituents of the Digital solution are independently upgradable. The use of cutting-edge enterprise architecture keeps them decoupled from one another, enabling banks to pursue optimal renewal and innovation cycles – faster in the area of customer/user interaction (channels and banking apps), and slower in the area of underlying business systems. As a result, once our customers have made the investment, they never fall behind again.

Now we are going to see how a software or technology helps in day to day banking system.

How the Temenos Suites deliver the 10 critical necessities for digital banks

Below, we offer our checklist of the capabilities that a bank needs if it is to be truly digital. While many solutions providers could also lay claim to providing some of the capabilities, it is unlikely many can provide all. In particular, we believe that having a modern, real-time core banking system that is fully integrated with channels and front-office is essential to provide some of the capabilities – namely, true customer centricity, instant fulfilment, fast time to market, cost efficiency with low operational risk and truly contextualized analytics.

1. **Banking anytime, anywhere and on any device**

   With mobile as the fastest growing channel and soon to overtake internet, it is not surprising that many banks are following a mobile-first strategy. Temenos' solution fully supports this, with a channels solution that covers all mobile operating systems and devices, allowing a consistent user experience across them and other channels, building once and deploying multiple times. It also has the benefit of being future-proofed, to embrace new and emerging channels such as chat-bots.

2. **Contextualized and personalized customer analytics**

   Temenos allows banks to create an analytics-driven experience for their customers. It enables banks to harness their wealth of customer and market data and transform it into valuable business intelligence to support better decision making across the enterprise and to enrich all interactions with customers. The analytics are embedded in the front office platform, predictive and available to front office staff through visual dashboards of customers' profitability, loyalty, attrition risk and number of products, meaning staff can use this data to tailor customer experience accordingly. The analytical capabilities also real-time and combine transaction data with locational and contextual information derived from social media or otherwise, allowing the bank to provide the right, personalized content and compelling product offers at the right time and over the right device. Traditional CRM implementations that rely on complex integration and which emphasize process but without the context have failed and banks now recognize context is key. Digital Engagement, part of the Temenos Suites, brings CRM, product origination, product manufacturing, social media into one platform to deliver real time campaigns that are relevant and contextual at the time of interaction with the customer through any channel, anytime.

   In addition, not only does the Temenos platform allows banks to offer customer insights and recommendations that are relevant, timely and personalized, but its product building capability allows banks to offer products that are unique to individual customers. With Temenos product builder, which groups product components to allow for re-use and thus personalization at scale, banks can create products tailored to individual customers, with pricing, rates and terms that suit them and their lifestyles.

3. **Customer-centric**

If a bank just modernizes its digital channels without addressing its siloed core banking infrastructure, it will fail to deliver a wonderful, customer-centric experience. As well as slow customer fulfilment and irrelevant offers, customers won't be able to use all products over all channels nor see a complete and real-time view of their financial affairs.

Conversely, with the Temenos Suites, all products and services are available over all channels, with seamless integration. Because the product catalogue and product origination are at the heart of the solution seamlessly integrated with the front and back office, any product, in house or third party, can be originated over any channel or device: banks customers can even originate and secure a mortgage over a mobile channel in just a few minutes. In addition, our solution gives customers a real-time and complete view of their financial affairs. Since the Temenos front office platform is seamlessly integrated with its core banking platform, they can access customer information in real-time and give customers a fully current view of their financial affairs. In addition, since the core banking platform is built around customers, not products, the information offered is complete: that is, customers can see not just a real-time view of their financial information but a complete view of all of their balances – available over any device, anytime.

4. **Instant fulfilment**

It is easy to miss or overlook the importance of the digital infrastructure and assume that the richness of the visual interface is really the only thing that counts. But, as discussed, that customer experience is heavily dependent on the content, the context and quality of data and how quickly it can be analysed and served up. In addition, customer enquiries and transactions must be fulfilled instantly. This is where an end-to-end stack matters. Temenos' core banking solution is automated from front-to-back, resulting in extremely high levels of straight-through processing. This means minimal human intervention is needed in handling any orders, which in turn means that customers' demands are fulfilled instantly providing the necessary levels of gratification. It also means that transaction information can be served up in real-time, whether balance enquiries or product offers.

5. **Extendable: Embrace the power of open banking**

Open banking represents a massive opportunity for banks. It gives the means for them to provide a broader range of products and services than just their own manufactured offering. As such, banks will be in a better position to act as trusted advisors, helping customers understand their affairs to make the best possible financial and commercial decisions, including selecting the right services. Regulations, such as PSD2 in Europe, are also bringing the concept of open banking to the fore by forcing banks to share transactional data with thirdparty providers. But, notwithstanding the threat from third parties, banks see the potential: in the most recent Temenos annual banking survey, 69% of respondents saw open banking as much more of an opportunity than a threat.

Temenos solutions support banks' open banking strategies in three important ways.

Firstly, Temenos' technology, particularly the Interaction framework, plays a big role in helping banks to manage their API strategy to leverage a partner ecosystem and the innovation available to them. In addition, Temenos Model Banks, our pre-configured localized and specialised versions of our solutions, include standard APIs used across the Temenos customer base as well as an API Designer for banks and third-parties to develop and extend APIs.

Secondly, Temenos has opened its own Marketplace, which offers our community of over 2,000 banking customers access to the most innovative products and services, pre-integrated and ready to deploy.

Thirdly, Temenos offers an extensible product catalogue, catering for own-labelled as well as third-party products. Products can be collected to form marketing catalogues which bring together the products and services that are relevant to specific customers. Due to the integrated nature of the Temenos solution, these products, along with third party products are available to Product Origination and the Digital Engagement Platform, so any product – own-labelled or third-party can be originated over any channel to any customer any time.

6. **Cost efficient, low operational risk**

Very high levels of integration and automation coupled with an open architecture also lead to very high cost efficiency. This is because banks can operate with much lower levels of back-office and IT staffing as well as consolidate hardware and maintenance. In addition, the open architecture allows the Temenos solutions to be easily integrated (code-free) with the rest of the bank's IT estate and APIs allow for easy sharing of information and business events. All in all, these are the reasons why banks running Temenos Suites operate with dramatically better cost efficiency (on average, an 8.6 percentage point lower cost to income ratio compared to peers) and why Temenos customers are able to redirect money away from running the bank towards changing the bank. On average, Temenos customers spend 44% of IT costs on maintenance compared to the 80% spend by banks in general.

Running Temenos Suites also translates into much lower operational risks. In a legacy landscape, with manual hand-offs and re-keying of information in different systems, the risk of processing errors is high. Furthermore, multiple interfaces introduce multiple points of failure, compounded when transactions are queued up all day to be processed in batch. To evidence this, we could point to the many recent instances of high-profile outages with associated reputational damage recently. However, with the Temenos Suites, the high levels of integration and automation together with real-time processing minimize operational risks.

7. Always up-to-date, no risk of technology obsolescence

All Temenos' clients run on packaged, upgradable software and have done for 20 years. This mission applies as much to the software used for managing customer interactions across digital channels as it does for backoffice processing or sales and distribution in the front office. Banks over the years have built up a patchwork of interconnected but not seamlessly integrated applications to manage their record-keeping, processing accounting and CRM. This led to latency, data duplication, high risk of failure – as well as massive maintenance bills. Banks have started to unpick this mess, but they should be very wary about creating the same problems in the front office by buying different systems for different channels, for analytics, for processing, etc. So a packaged approach should be taken for both front and back office applications. And since innovation cycles in the front office and channels are faster than in the back office, upgradability is even more important for front office and channel solutions.

What is more, with fast and differing innovation cycles, it essential not just that all product are upgradable, but that they are upgradable independently of each other. Temenos open architecture allows for partial upgrades.

8. Fast time to market for change and new products

Of 65 senior banking executives surveyed by Ovum in Europe, 80% said outdated core banking systems were causing them to struggle to bring new products to market quickly, while 75% felt that existing systems do not support regulatory change. Legacy systems are typically not parameter-driven, taking months of coding and testing to launch new products or to extend the product or service range to accommodate customers' particular needs. With the Temenos Suites, new products – personalized to individual customer needs (see earlier) – can be brought to market in minutes since the solution is so easily to configure as since it uses a system of inheritance to allow product properties to be easily constructed. Furthermore, the Suites are extremely easy to update for all sorts of changes, such as regulatory updates. Banks can typically make these changes by themselves with minimal testing requirements, dramatically improving the time to make changes and reducing the costs and risks associated; another reason Temenos clients operate with a run-the-bank ratio of below 50% of IT expenditure.

80% of surveyed banking executivesconsider outdated core banking systems to hinder the quick launch of new products to market.

9. Scalable

The workload being placed on systems is rising exponentially. This is because, as banking dematerialises and moves online, the transactional volumes are increasing as micropayments and instant payments are becoming the norm. In addition, since people can access their information easily and over any device, the look to book ratio (the ratio of enquiries to transactions) is exploding. Hence, scalability is key. In the next 10 years banks need to plan for 100-fold increase in the number of transactions and enquiries handled by their banking platforms.

The Temenos core banking has been engineered to be linearly scalable. As a result, it can handle massive volumes of transactions. In a recent benchmarking exercise with a large European bank, the platform was able to handle over 12,000 retail banking transactions per second with an average response time of under 100 milliseconds on a superbly cost efficient, commoditised and open architecture infrastructure stack.

To ensure that the front office platform is able to scale to the same extent, Temenos uses an asynchronous order flow. We use this event-based asynchronous integration architecture for three reasons. Firstly, for scalability: all interactions are recorded and confirmed before being sent to the core banking system, meaning that there is never any delay in the capturing of orders. Secondly, because in the world of open banking (see later), banks will be taking orders for third-party as well as own-labelled products, meaning that some orders are executed outside of the platform. Lastly, because it removes friction by allowing your bank to send an instant confirmation to customers of the service they have requested as well as an update when the service is complete.

10. **Cloud enabled**

Temenos has developed its products to ensure they run natively on the cloud which they already do today. Not all institutions are ready to run core processing in the public cloud today. However, we believe such a move will be necessary if banks are to 1) drive transaction processing costs to their lowest possible level (operating costs can be as much as 50% lower compared to an on-premise installation) 2) have the scalability and agility to cope with ever-rising levels of digital transactions and interactions and 3) raise security standards further (since the datacentre providers can invest significantly more to protect against cyber and other security risks). The situation is already changing. In Temenos' annual banking survey, we have seen a marked change in banks' readiness to put core applications in the cloud and much of this related to a change in regulators' attitudes. In the UK, for example, the FCA believes that greater use of cloud technology, by lowering upfront IT costs (which typically account for two-thirds of a start-up's initial costs), will promote competition and choice in the UK market. For others, like the Dutch government, the cloud operators have made concessions, such as around audit rights, which have left them feeling more comfortable about widespread usage. Also, the Monetary Agency of Singapore has released new guidelines for the use of cloud services.

Whenever banks are ready to make the move, they'll find that our solutions have already been optimized for cloud deployment and this can significantly enhance the already massive benefits of running Temenos software on-premise.

Guiding you through migration

As mentioned previously, many banks consider core renewal as a foundational step to digitization – the reason why 80% of banks are reportedly looking to replace their core systems in the next five years. But with core banking systems being 100% mission critical, there is still hesitation to initiate the change. Temenos takes more customers live on its software than any other vendor of mission critical banking systems. In the last 12 months, Temenos took live 148 customers on our solutions.

With our network of Services partners who provide exceptional valueadded consulting and systems integration capabilities, Temenos banking software projects are delivered end-to-end, on time, on budget and to specification. Temenos' service partner consultants, are trained on Temenos products and certified in our Temenos Certified Consultant Program (TCCP) exams.

There are several progressive renovation options available to banks on their digital journey

The first option is to implement the Temenos Suites in stages. Examples abound of customers who implement the Temenos Suites but start by only going live with the channels and front office capabilities, banks such as Banque International de Luxembourg. In such examples, the front office capabilities interface with the banks' existing legacy core banking system, so that they become operational quickly and the banks can prove the business case. However, for the reasons already stated, such as lack of instant fulfilment and poor analytics, this situation is unsustainable and so we move to replace middle and back office functions over time.

The converse also happens, with examples such as Julius Baer, where the banks replace their middle and back office systems first. The rationale can be manifold, such as too high operational risk and too slow time to make. In such cases, the Temenos Suites for a temporary of time connect to the banks existing front office and channels solutions. Over time, in order to deliver the instant fulfilment couple with fully contextualized analytics, the banks then go live on the rest of the Temenos Suites.

The other approach, which is gaining in popularity, is to create a new bank. This new bank is built to be truly digitally native, using the Temenos Suites (normally running in the cloud) and with new processes and new branding. The offering tends to be small to begin with – savings, deposits – but grows over time. And the bank takes the opportunities to move more and more business from its other franchises to this new bank. We call this "build and migrate".

Whatever choice the bank makes, the point is that the historical problems of long projects that are slow to deliver value, cost more than budgeted, introduce too much risk and ultimately fail to deliver on expectations are gone. Temenos and its partners now progressively modernize banks' IT estates to maximize return and minimize risk.

UXP

Temenos' Channels solutions are built on our mature, proven UXP, a single, consistent User Experience Platform (UXP) which can be upgraded and enhanced without impacting any backend business processes. Temenos' UXP is the only UXP in the market which lets financial institutions intuitively create and manage web & mobile apps and content with a single toolset & skillset. Banks can build once and deploy easily across all channels/ devices. Temenos' UXP has been distinguished as a Market Leader in Ovum's reference guide, the Ovum Decision Matrix (ODM): Selecting a Digital Banking Platform, 2017-18.

The UXP, that shall be used to create & run other apps beyond Temenos, has a solid future roadmap, so is always at the forefront of development and innovation in UX and digital technologies.

Temenos' UXP includes a Content Management System ("CMS") which makes a bank to provide finely-tailored and highly-relevant content to their web and mobile banking customers. It in turn helps the banks to get increased sales, responsiveness, security, efficiency and productivity.

UXP Provides

Accelerated speed to market of new products and services by up to 4 times.

Use of components to provide maximum business reuse and business agility.

Potential to be the enterprise-wide single platform underpinning all of the bank's channel solutions.

Seamless integration to Core Banking with open integration to 3rd party systems.

Maximum flexibility and agility to respond to market opportunities and changing conditions, by being highly customizable and configurable.

Future-proofing through ability to embrace new innovative technologies and devices.

Low total cost of ownership and reduced maintenance costs by up to 85%.

Analytics

Analytics makes the banks to harness wealth of data they have and transform it into valuable business intelligence, to support better decision making across the enterprise and to enrich all interaction with your customers.

By using banking specific, high-value, analytical applications in every department including Finance, Marketing, Operations, Treasury, and Risk Management, it enables banks to transform into being analytically driven. Thus, it does provide a significant competitive edge in the digital world.

Analytics allows you to:

Empower business users.

Gain deep customer insight.

Embed intelligent analytics into your core system.

Integrate real-time data.

Provide customers with contextual, relevant product offers and advice.

Integrate analytical capabilities.

Better understand and predict performance.

Improve ROA..

Front Office

Front Office is designed to support the daily interactions and long-term relationships that banks have with retail, corporate, mass affluent and U/HNW customers. It integrates seamlessly with both back office data, extensible product engine and digital and self-service channels, to provide a consistent customer experience.

It is completely compatible with existing banking systems, enabling you to deploy and control a flexible range of multi-channel, next generation marketing and banking services for your customers – efficiently, securely, cost effectively and profitably.

Front Office solution enables banks to digitally engage with and empower customers by providing rich, compelling user experiences at every touchpoint.

A fundamental feature of Digital Engagement is its unified command centre -– the idea of the 'SingleBrain', an intelligent decision-making platform unifying all channels and data sources. The SingleBrain enables a 360° view of all customer activity, monitors all internal and external events in real-time and consolidates product data to form a single product catalogue.

The SingleBrain performs a cycle of processes, driven by analytical data, delivering rich insight on the customer profile, behaviour, lifestyle and preferences. It consists state of the art machine learning techniques, enabling it to continually improve the overall customer experience or services by ensuring campaign programs are relevant, engaging and ultimately effective.

Back Office

Temenos Back Office combines rich functionality with cuttingedge technology that allows for easy integration and virtually unlimited scalability, in turn making banks to significantly outperform their peers.

A modern core has an essential part to play in digital banking.

Real-time, complete customer information – enabling financial institutions to offer their customers the right products at the right time.

Product builder – allowing for extremely quick time to market for new products, which are personalized to individual customers.

Virtually unlimited scalability – the solution runs on any software stack and is engineered to be linearly scalable, allowing customers to generate significant economies of scale.

Redirect maintenance spending to innovation - against the industry average of 78.8% of IT budgets being spent on maintenance, X customers spend 44.3%.

Boost profitability - on average core banking customers have a 36% higher Return on Equity than banks running legacy software.

Technology Enabling Digitalisation

The Interaction Framework shows up the bank and its digital engagement capabilities to third-party userinterfaces, such -as speech-driven apps and chat-bots, and also enables banks to leverage the vast array of devices which form the Internet of Things (21 billion connected devices by 2020).

Our Interaction offering enables you to easily build and maintain an outstanding digital customer experience that can evolve fast and cost-efficiently. It plays a big role in helping you manage your API strategy. API's are the key to creating a seamless experience where the customer perceives all the data and service is being managed by you.

Innovation - make your banking services readily available in a standard way to innovation partners and to any third-party user-interface (UI).

Flexibility - easier to evolve UIs at a faster pace than underlying business systems.

Cost-efficiency - build your own UIs, enhance the re-usability of APIs and UIs that you create, and pre-empt data openness regulatory requirements.

Integration technology

Data products provide banks with a unified data platform, helping them deal with the massive data volumes of the digital banking era by efficiently managing their data, unlocking and better accessing their data, and extracting value from their data.

Integration provides agility by enabling fast and easy real-time integration with other business systems of importance to engagement. Our Integration offering makes your bank more competitive and profitable. Most importantly, it enables you to offer a superior customer experience.

Integretion products enhance:

Agility - the ability to integrate any business system up to 3x faster, without detailed, vendor-specific coding work, faster response to evolving business needs.

Competitiveness - the ability to provide multi-channel banking services in real-time 24/7.

Profitability - reduce the costs of performing and maintaining integration, and the ability to exploit Cloud-based applications.

Scalability - the ability to preserve the performance as business volumes grow.

Reliability - protects your bank from regulatory scrutiny and reputational damages.

Data technology

Integration technology

Temenos' Data products provide banks with a unified data platform, helping them deal with the massive data volumes of the digital banking era by efficiently managing their data, unlocking and better accessing their data, and extracting value from their data.

It enables banks to strengthen customer-centricity and support business decisions even when the volume of business data is growing fast.

Integration provides agility by enabling fast and easy real-time integration with other business systems of importance to engagement. Our Integration offering makes your bank more competitive and profitable. Most importantly, it enables you to offer a superior customer experience.

Scalability - the ability to efficiently process massive volumes of both transactions and reporting queries without increasing costs, preserving customer and business user experience as you scale

Productivity - supports advanced near real-time reporting capabilities that provide business decision-makers with value-adding perspectives, and customers with fast responses to online queries

Competitiveness - the ability to exploit your business analytics solution to its fullest capabilities with near real-time data

Agility - the ability to integrate any business system up to 3x faster, without detailed, vendor-specific coding work, faster response to evolving business needs

Competitiveness - the ability to provide multi-channel banking services in real-time 24/7

Profitability - reduce the costs of performing and maintaining integration, and the ability to exploit Cloud-based applications

Scalability - the ability to preserve the performance as business volumes grow.

Reliability - protects your bank from regulatory scrutiny and reputational damages.

Developed as a self-service, online digital store with products available such as widgets, apps, integrations and solutions, Market place provides a showcase platform for its wider community of Fintech providers.

Market place allows financial institutions to:

Experience the latest innovations in financial services technology through its ever-growing range of products.

Deploy them directly into their business solutions quickly and securely.

By getting Fintech providers and financial institutions together Market place helps you to differentiate from competitors and demonstrate innovation.

Conclusion

Digitization represents a massive opportunity for banks to engineer a closer relationship with their customers, moving from a product provider to a virtual advisor. As such, digitization over the potential to drive substantial improvements in banks' financial and operational performance. Benefits can include boosting revenues per customer by more than 50%, increasing customer penetration by more than 30% and reducing operating costs by up to 20%*. Nonetheless, the process of digitization remains far from finished.

THE ROLE OF PRIORITY SECTOR LENDING IN BRIDGING MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) ACCESS TO FINANCE

Dr. M. Muninarayanappa[1] **Fatin**[2]

Abstract

The main intention of Priority Sector Lending is to ensure that the banking system assist to those sectors of the economy which otherwise have not received adequate support from the financial institutions. This paper concentrates on priority sector lending to Micro, Small and Medium Enterprises (MSMEs) in India. It focuses on the trend of Priority Sector Lending to MSMEs in India by the Scheduled Commercial Banks. It also highlights the problems faced by the MSMEs in accessing finance. This paper concludes that even though the MSMEs have a lot of growth potential they are still yet to reach their capability due to their accessibility to easy finance. However the banks are not able to reach the targets prescribed target of lending to the priority sectors. Nevertheless, the trend of financing for these enterprises is that they are looking into other alternatives of financing rather than relying heavily on the bank lending.

Key Words: *MSMEs, Priority Sector Lending, Finance.*

Introduction

The Micro, Small and Medium Enterprises have been an apparatus to accelerate economic growth in the Indian Economy. They contribute to the entrepreneurship, industrial production, GDP, employment generations and exports. When large industries are shifting to workforce reduction in that context MSMEs become very vital for an economy like India where unemployment is at large.

The MSMEs contribute tremendously to the Indian Economy. It employs close to 40 per cent of the Indian workforce and also contributing to 45 per cent of the India's manufacturing output. It also plays a very critical role in generating millions of jobs, especially in low-skill level. They provide the highest employment in India after its main occupation of Agriculture. MSMEs produce more than 6000 quality products. It shows that this sector shows much promise and opportunity for expansion and diversification in other sectors.

Even though MSMEs contribute significantly to the economy but they face a lot of challenges is lack of access to adequate and timely credit, high cost of credit, lack of access to global markets and low levels of technology to name a few. The finance gap is quite large for the MSMEs. The finance gap means difference between the demand for funds and supply for funds **(Park et al. 2008).** To accelerate growth in this sector direct government support of MSMEs will help the countries to start reaping the due benefits from their entrepreneurship.

The Indian Banks apart from dealing on purely commercial basis, they have to fulfil certain socio-economic obligations of prescribed directed credit. This directed credit is mandated by the Reserve Bank of India (RBI) to the lending banks even the foreign banks in India. The targets set by RBI in terms of percentages of net bank credit lent by the bank should be lent to certain sectors which do have access to an organised credit market in their normal course is called as Priority Sector Lending **(Mohua Roy, 2006).**

Review Of Literature

Rani and Garg (2015) observed the trends of the priority sector advances by public, private and foreign banks during 2011-12 and 2012-13. It also observed the targets achieved by the public, private sector and foreign banks while lending to the priority sector. It concluded that both public sector and private sector could attain the target set by the RBI. This paper also highlights the issues faced by banks and strategies to overcome these issues.

Selvi (2014) highlights the role of Scheduled Commercial Banks in India in priority sector lending, sectoral deployment of gross bank credit and retail credit portfolio. This paper projects the progressing trend of the lending pattern of the banks, trends analysis, exponential growth rate, correlation and percentage analysis. It shows positive strides in all sectors except food credit and the proportion of priority sector advances.

Roy (2006) observed that the increase in the bank credit in the last few years reflects in the improved balance sheet of the banks. This paper also observed that even though there is growth in the overall credit, the expansion in agricultural credit and credit to small scale industries have not kept up with the pace.

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Lakshmi and Reddy (2016) evaluates the priority sector advances and its share in total credit by Indian banks to understand better the banks role in the growth of the economy along with ground level sectors development. It concludes that the advances by the commercial banks to priority sector have gradually increased from 2002 to 2013 without any deviations. There has been a steady improvement in the share of priority sector in the total advances over the years and appreciates the performance of the scheduled commercial banks in India.

Objectives Of The Study

1. To study the trend of Priority Sector Lending to MSMEs by the Scheduled Commercial Banks in India.
2. To highlight the challenges faced by the MSMEs when it comes to accessing finance.

Methodology

This study is based on the secondary data which has been collected from the reports of the Reserve Bank of India and research papers collected from various journals.

PRIORITY SECTOR LENDING

Priority sector lending is the scheme which has been proposed by the RBI to make sure that the priority sectors are getting loans. These sectors are termed as priority sector as they may not get adequate and timely credit in the absence of this special privilege. The priority sector includes agriculture, micro and small enterprises, education, housing, export credit, and advances to weaker sections.

Results and Discussion

Table - 1 : Sectoral Deployment To Priority Sector By Scheduled Commercial Banks

(in Rs. Billions)

Item	March 2013	March 2014	March 2015	March 2016	March 2017
Gross Bank Credit	49642	56572	61023	66500	71347
Priority Sector	15398	18781	20103	22259	24357
Agriculture & Allied Activities	5899	6694	7659	8826	9909
Micro & Small Enterprises	5623	7511	8003	8476	9020
-Manufacturing	2843	3852	3800	3715	3697
-Services	2779	3659	4203	4761	5322
Housing	2672	3034	3224	3423	3683
Micro Credit	165	174	177	188	189
Education Loans	526	579	592	601	604
State sponsored Organisations for SC/ST	1	2	3	5	6
Weaker Sections	2734	3862	4049	4774	5546
Export Credit	422	483	426	424	425

*(**Source:** Compiled from RBI bulletin)*

The sector deployment by the Scheduled Commercial Banks to the priority sectors is given in table 1. The data is provisional and relate to select banks which cover 95 per cent of total non-food credit extended by all scheduled commercial banks (excludes ING Vysya which has been merged with Kotak Mahindra since April 2015).

In above table we can make out that every year there is an increase of priority sector lending to micro and small industries from Rs. 5623 billions in the year 2013 to Rs. 9020 billions in the year 2017. This shows that there has been a commendable increase in the sector deployment by the Scheduled Commercial Banks to priority Sector.

PROBLEMS FACED BY THE MSMEs IN ACCESS TO FINANCE

There's a needs a step back to be taken from bank intermediation and a step towards funding in the capital markets which needs to be taken which would at least address the chronic lack of long term credit available to MSMEs. Even though MSMEs have a lot of high growth potential they have relatively high credit risk. There exists a severe information asymmetry also in this segment of enterprises. There is a need to build a credible SME Information Sharing System where banks will have easy accessibility to information about the enterprises and take timely and accurate decisions about lending to MSMEs **(Costin, 2015).** Banks always hesitate to lend to these enterprises also because these enterprises collaterals are very less. These enterprises are also looking into alternative sources of financing their business apart from just depending upon the so called bank lending which look at them with hidden despise, they have to lend to them because they should, since it has been prescribed by the RBI to do so.

Banks perceive SMEs to bear more risk than larger companies, preferring to lend their money to large corporate **(Paulet et al., 2014).** Another issue in bank lending is Granularity. Granularity is a situation where the risk grading system at banks does not the appropriate capability to be able to discriminate between good and bad risks. This situation makes the banks to tighten the credit terms for the enterprises **(Sreejith and Anil, 2017).**

Conclusion

This study highlights the priority sector lending by the Scheduled Commercial banks from the year 2013-2017. The Priority Sector Advances to MSMEs has raised from Rs. 5623 billions in the year 2013 to Rs. 9020 billions in the year 2017. Even though the MSMEs have a lot of growth potential they are still yet to reach their capability due to their accessibility to easy finance. The transparency of the financial conditions of the MSME is still far behind. The banks need to have a proper business plan and a credit scoring model which will help it to make a correct decision regarding lending and building lasting customer relationships. Credit scoring offers an alternative method of evaluating loans for small businesses and take the right decisions. Nevertheless, the trend of financing for these enterprises is that they are looking into other alternatives of financing rather than relying heavily on the bank lending.

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FUTURE OF BANKING PERFORMANCE: "IMPACT OF NPAS WITH REFERENCE TO PUBLIC SECTOR BANKS".

Alice priya[1] **Chandrima Rani Ghosh**[2]

Abstract

Non- Performing Assets (NPA) is the unrecovered money from the customers for the loans provided by the banks. Loans are a source of asset to the bank, on which interest and principal payments are made that create a stream of cash flow. Therefore, defaults in receiving the repayment of these loans, amount to NPA. A high level of NPA decreases the creditability of the banks, which directly affects the profitability and net worth of the banks. This study focuses on how to improve the creditability of the bank, which can be constantly checked and monitored. The researcher examines ways to improve the functioning of funds and income from assets by the way of interest. The study focuses on future estimation based on the past analysis, as it encompasses a comprehensive understanding of NPAs and its effects on the performance of commercial bank in upcoming years of speculations in the banking sector.

Keywords: *Non-Performing Assets, Credibility, Default Loans, Commercial Banks.*

Introduction

The banking industry has undergone a lot of change after the first phase of economic liberalization in 1991 and also in credit management. Deposit mobilization helps in promoting the economic wealth by supervising the money flow in the economy and canalizing for development and productive purposes. In order to mobilize deposits, the public sector banks undertake deposit through various deposit schemes suited to the different sections of the people. The other sources of funds namely capital, reserves and borrowings make the sources of funds for the banks. The lending and investment activities of the bank are based on the sources of funds.

While the primary activity of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but nowadays the banks have become very particular in lending loans. The reason is the rising non-performing assets (NPAs) and nowadays this is one of the major crisis faced by the banks.

A Non-performing asset (NPA) refers to a categorization for loans on the records of the monetary organization that is in default or is in arrears on fixed payment of premiums of principal and interest. In almost all cases, debt or outstanding payment is noted as non-performing asset when loan payments have not been made for a period of 90 days.

Review Of Literature

1. **Ankit Garg (2016)**this paper analysis non-performing-assets with reference to Indian banking system. The researcher has concluded with findings of impact of NPA, suggesting on preventive measures and methods to identify the NPA.
2. **AyubAhamed KS and VishwanathPanwar (2016)** comparative study on NPA of public and private sector banks, as this paper shows that public sector banks have higher NPA compared to private sector banks.To reduce NPA policies and procedures must be followed by government and banks.
3. **B.Selvarajan&Dr. G. Vadivalagan (2013)** emphasised study on NPAS with reference to Indian banks and public sector banks. Indian banks' lending is more towards priority sector compared to public sector banks. NPA management by Indian bank is better compared to public sector banks. Banks must not only concentrate on recovery of NPAs but also on future growth of banks.
4. **DebasishBiswas(2014)**this paper specifies on the norms and standards to be followed by banks and financial sector set by RBI and other regulatory body. Bankers must adopt various technology to reach the borrowers early as possible. Banks must initiate various methods to reduce NPA.
5. **VivekRajbahadur Singh (2016)** has made a major focus on commercial banks which has lent a lot of funds to priority sector banks. The recommendations made by researcher on control of NPA have a significant stand for reduction. NPAs have a greater impact on profitability of bank and follow up on Indian economy.
6. **Laveena and Kulbir Singh Guleria (2016)** this paper has made an attempt to use the secondary resource data to find the causes of NPA and prevention measures to be taken to control NPA.

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Objectives

- To study the currentNPAs of public sector Banks.
- To ascertain the effect of continuing NPA in future performance of Public sector banks
- To offer suitable suggestions for successful revival of public sector banks.

Research methodology

This study is based on secondary data. The data is collected from the year 2008 to 2016. The data obtained for further analysis of this study is from the sources like RBI report, publications, journals, magazine, websites and annual publications.

Table - 1 : Gross Advances and Gross NPAS of Public Sector Banks(Amount in Rupees Billion)

Year	Gross Advances	Gross NPAs (Amount)	Gross NPAs (Percentage)
2008	18,191	405	2.2
2009	22,828	450	2.0
2010	27,335	599	2.1
2011	33,465	747	2.2
2012	39,428	1,173	3.0
2013	45,601	1,645	3.6
2014	52,159	2,273	4.4
2015	56,167	2,785	5.0
2016	58,275	5,400	9.3

The above table consist of the data related to Gross advances and Gross NPA.

There has been an increase in Gross NPA from Rs. 405 billion to Rs. 5400 billion from the year 2008-2016. Similarly, Gross NPA percentage shows an upward trend from 2.2% to 9.3% from the year 2008-2016. There is a drastic increase of 7.1 % from the year 2008 to 2016.

Table - 2 : Net Advances and Net NPAS of Public Sector Banks

(Amount in Rupees Billion)

Year	Net Advances	Net NPAs (Amount)	Net NPAs (Percentage)
2008	17,974	178.36	1.0
2009	22,592	212.55	0.9
2010	27,013	294	1.1
2011	33,056	360	1.2
2012	38,773	594	1.5
2013	44,728	900	2.0
2014	51,011	1306	2.6
2015	54,762	1602	2.9

The above table depicts the Net Advances, Net NPAs. From the year 2008 to 2015there has been an increase in Net Advances from 17974 billion to 54762 billion, Net NPA from 178.36 billion to 1602 billion. Net NPA percentage has increased from 1% to 2.9%. There is increase in Net NPAof 1.9% compared from 2008-2016.

Table - 3 : NPAs Recovered Through Various Channels (Amount in Billions)

Year	Sr. No.	Recovery Channel	LokAdalats	DRTs	SARFAE Si Act	Total
2012-2013	1	No. of cases referred	8,40,691	13,408	1,90,537	10,44,636
	2	Amount involved	66	310	681	1057
	3	Amount recovered*	4	44	185	233
	4	3 as percent of 2	6.1	14.2	27.2	22
2013-14	1	No. of cases referred	16,36,957	28,258	1,94,707#	18,59,922
	2	Amount involved	232	553	953	1738
	3	Amount recovered*	14	53	253	320
	4	3 as percent of 2	6	9.6	26.6	18.4
2014-2015	1	No. of cases referred	29,58,313	22,004	1,75,355	31,55,672
	2	Amount involved	310	604	1568	2482
	3	Amount recovered*	10	42	256	308
	4	3 as percent of 2	3.2	7	16.3	12.4
2015-2016	1	No. of cases referred	44,56,634	24,537	1,73,582	46,54,753
	2	Amount involved	720	693	801	2214
	3	Amount recovered*	32	64	132	228
	4	3 as percent of 2	4.4	9.2	16.5	10.3

Notes: *1.*: refers to amount recovered during the given year, which could be with reference to cases referred during the given years as well as during the earlier years.*

2.#: Number of Notices Issued, 3. DRTs- Debt Recovery Tribunals.

From the above table data derived are on the basis of NPAs Recovery from different channels i.e. LokAdalats, Debt Recovery Tribunals and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest act (SARFAESI Act). In the year 2013-14, there is an increase in the NPAs recovered from the recovery channels to 320 Billion comparatively from the previous year 2012-13 where the NPAs was 233 Billion.

In the year 2015-16, there is a decrease in NPAs recovered from Recovery channels to 228 Billion compared to previous data of recovery which is summed up to 308 Billion in the year 2014-15.

Finding

- Highest NPA as of now is the year 2015-16 as the business sector in India are increasing and because of which even the small retailers or businessman are taking up loans.
- Bank should spend more money on the growth of thebusiness instead of wasting on the recovery of NPA.
- DRTS and SARFAE Si Act are of the major recovery method used by the banks for the recovery of money.
- An analysis of the present situation brings us to the point that the problem has roots in economic slowdown; disturbing business climate in India; shortages in the legal system; and the operational shortcoming of the banks.
- NPA effects the value, reputation and especially the interest rate of the bank moreover it decrease in profitability and creditability of banks.
- The main reason for NPA are the default of borrowers, economic conditions, mismanagement, and diversion of funds.
- When banks are unable to recover the principle or interest payments, liquidity problems arises which results in cash crunch after a certain movement of time.
- The collateral provided by borrowers can be acquired by Government if proper inspection are not conducted.
- In the year 2014-15 the total amount involved for recovery was 2482 billion and in that most of the money recovered by SARFAE SI ACT as in this act the bank can acquire the security of the customer who have not paid the loan, banks find this easy to recover the money in an easy way.

- Due to recover of NPA there will be decrease in the cost of resources to bank and the shareholders are adversely affected.
- The recovered money helps in recycling of funds and increase current earnings of bank.

Suggestion

- The time limit prescribed to the borrowers are high, banks should not wait for 90 days or more for the loan repayment as it turns to become substandard asset instead reduce the date and sell the collateral as early as possible for the recovery of funds.
- The collateral provided must be valued properly and the value of collateral must be higher than the loans amount improved.
- Banks should have appropriate reserves while lending loans to public, as it doesn't face crisis in course of functioning of bank.
- RBI should intake some strict credit policy rules for the borrowers.
- As per the latest reports there will be an increase ofNPA in the near future. So the Oversight Committee (OC) of the RBI will have a decisive say in the resolution of debt.
- A new scheme name S4A scheme which is an acronym for Scheme for Sustainable Structuring of Stressed Assets. This act helps the banks to reduce NPAs which helps a banker an insight view of recoverable and non-recoverable NPAs.
- The RBI should allow quick and easy possession of assets by banks in case of willful defaults.
- Asset management companies are one of the measures which contribute to reduction in NPA.
- Conduct the asset quality review to classify the stressed assets.
- Use better technology and infrastructure and also issue guidelines for compliance of NPA.

Conclusion

Looking at the size of the banking industrygrowth, there can be hardly any doubt that the menace of NPAs needs to be curbed. It poses a big threat to the stability of the Indian economy. The government can't be expected to rescue the state-run banks with tax-payer's money every time they fall into a crisis.But this kind of big hope has given the banking a lot for empowerment in the journey of the organisation. As per the past data analysis our conclusion that right steps, timely and proper actions and a revival of the Indian economy will put to an end on NPAs. As on the perspective of future 2020 , there will be high rate of NPA so the government and the banking sector has to take proper measures, at the right time for the prevention of the loss for the sector .So prevention, however, has to become a priority than cure.

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A STUDY ON NPA - A THREAT TO INDIAN ECONOMY

Mohammed Anjal .K.V[1] **Akhil .G**[2]

Abstract

NPA refers to classification for loans on the books of financial institutions that are in arrears on scheduled payment on principal or interest. NPA's are inevitable burden on the banking industry. However, the only problem of the public sector banks these days are the increasing level of the non-performing asset. Despite the Reserve Bank of India (RBI) announcing numerous restructuring schemes, the bad loans have risen up from Rs 261,843cr by 135 per cent in last two years. The Non-payment of interest or principal reduces cash flow for the lender, which can disrupt budgets and decreases earnings of national income. The paper is in the form of research by using the secondary data

Keywords: *NPA, ARREARS, NON-PERFOMING LENDERS*

INTRODUCTION

The banking system in India consist of commercial and cooperative banks, the main function of banks is to lend money and accepting deposit hence accepting deposit is not a big deal the problem mainly situates in the lending sector if the amount interest is not collected by the bank even after a period it is termed as NPA Non-performing asset. This paper is study about how the NPA affect the Economy in India and it also shows the gross increase in NPA in our Nation. The NPA level is decreasing in the public-sector bank year by year compared to the other bank. RBI had taken many measure to demolish the NPA rates in India the affect the bank and they are trying to work harder to restrict the NPA level.

NPA Non-performing asset–An overview

Non-performing asset NPA is referred to the credit facility or interested amount which can't be captured by bank after a fixed period it is treated as NPA.

In India, the definition of NPA is has changed over time as per the Narasimha committee of 1991 (advance, bills discounted, overdraft cash credit etc.) interested and or installment money amounts of these types of asset been not collect by bank after a quarter 180 day should beconsidered as NPA thus as per the present delegates a nom performing asset refer to loan or an advance where

1. Interest and/or installment of principal remain unpaid even after a fixed period i.e.90 in respect of term loan
2. The account become out of date for the time more than 90 days of accounts like overdraft cash credit (od/cc)
3. When the bill amount been unpaid for a time of more than 90 days cases like bill purchase and discounted
4. In the cases of an advance guarantee for agricultural purpose the interest or installment of principal remain unpaid for two harvest seasons but not exceeding a two and half year

Norms for Asset classification/Classification of NPA

The loan account in the bank are classified as four. mainly three are considered as NPA on these four

1. **Sub-standard Asset**

   Before March 31, 2001 it is classified as NPA for period not exceeding two years but from March 31, 2001, it changed period to 18 months and treated as NPA. With the effect from 31 March 2005 the things got changed to that a sub-standard Asset would be one which remain NPA for a period less than or equal to 12 months.

   In those cases, borrower/guarantors current net worthy or the present market value of the security ensure to take over the dues of the banks in full

2. **Doubtful Asset**

   Before March 31, 2001 it was termed as NPA when the time exceed two years but after 31 March 2001 the time changed to 18 months with the effect from March 31, 2005 it further reduced the time to as like the sub-standard category of 12 month

3. **Loss Asset**

   It is that the loss has been identified by the bank or the auditor or else the RBI directly but the amount is not being written off by the bank wholly. In other term, it is said to be such asset is considered uncollectible and of such little value that is continuance as a bankable asset is not warranted somehow there may be a depreciation value left with the asset.

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However, only those are said to be loss asset where no security is left with us. In account where some security/ ECGC/DICGC cover is available, and these kinds of accounts are not added to the loss assets category

The Fourth type of loan accounts. Which is not added to the category of NPA is Standard Asset. This asset is which doesn't reveal any sort of problem and it only takes normal kind of risk pinned to the business.

Causes of NPA

1. Table 1 causes of Non-Performing Asset

BORROWER	BANK	OTHER
Poor credit collection	Lack of inspection	Less infrastructure
Ambitious project	Poor recovery system	Less government support
Large borrowing	Bad technical support	Government policy
Depends on a single customer	System overloaded	Natural calamity
Planning problem condition	Poor credit appraisal	Various in economy

Effects of NPA in Indian Economy

Normal person treated NPA as bad debt or loans they are not knowing how NPA affect them RBI mentioned every bank to record the NPA and so the individual banks record their NPA rate in the financial statement of the account. And when the account shows the NPA so the lender should maintain provision for the account in balance sheet and the provision idles made from their profit itself. As a part of it the, higher the NPA the profit of the lender is decreasing. And instead of reducing the profit the lenders the higher level of NPAs haves mulch wider impact which is not really understood board appreciate in India until recently. The lenders be it in the bank for earning the Inspected marginal profit lays between the cost of fund and return to the landing. It refers that the interest which they got on loan and deposit is taken. If any account gone wrong the interested income accepted there will be hidden. And so,the tension will be given to the lenders so that they charge higher rate of interest on the basic account for retrieving the loss. And as a part of it the lender will pay leaser interest to the depositors. This will probably increase the cost of fund to the borrowed of various sectors

Difference in Gross NPA and NET NPA

The outstanding amount which held in the borrowers account is treated as Gross NPA in the books of accounts which has not been debited to respected borrowable Net NPAs the amount of gross NPAs less,

1. Intrest debited on the borrower and not yet recovered and not treated as income yet but keep in interest suspense,
2. The actual amount of NPA which held in respect of it,
3. The amount of claim received and not appropriated

RBI define Net NPA as

Net NPA = Gross NPA – (balance in interest suspense account + DICGC/ECGC claimed received and pending adjustment + part payment received and kept in suspense account + Total provision held)

NPA	NET NPA%	GROSS NPA%	STRESSED ASSET%
MAR 13		3.4	9.2
SEP 13	2.3	4.2	10.2
MAR 14	2.2	4.1	10
SEP 14	2.5	4.5	10.7
MAR 15	2.5	4.6	11.1
SEP 15	2.8	5.6	11.3
MAR 16	4.6	7.6	11.5
MAR 17	8.5	9.3	

The table above shows that depict the% of Net, gross NPA and stressed asset of the period 2013 to 2016% increases continuedly year by year. it forecast that in 2017 it will reach at 8.5 and 9.3 and it will be critical for banking system

Strategies for Overcoming NPAs

1. **Preventive management:**

   Early warning signals the flourishing of NPA lies on the quality of management credit assessment. Banks should have some adequate preventive measure, fixing PR sanctioning appraisal responsibility and having an effective post-disbursement supervision. Continuance monitoring of loan to identify the accounts that have an intensity to become a Non-performing

   It's important to have an early warning bell to remind the account holder to repay the request amount so it won't become non-performing Most banks in India have laid down a series of operational financial, transactional indicators that could serve to identify raising problem which have in the credit exposure at an early stage.

   Further it shows that the indicators which may trigger early warning system depend not only the payment system but also the other factors like deterioration in operating and the financial performance of the borrower. Early warning signals can be classified as five

   1. Financial
   2. Operational
   3. Banking
   4. Management
   5. External factor

Financial related warning generally seen from the borrower's balance, Chas flow, Receivable statements etc. Following warning sign are carefully checked by some banks having relatively developed EWS.

Operational warning signals

1. Loss of critical customer
2. Frequent labor problem
3. Operating loss
4. Declining sales
5. Rising sale and fall of default in repayment of obligation
6. Persistence irregularities in account

Management related warning signals

1. Lack of co-operation from key person
2. Poor financial control
3. Diversion of funds
4. Family dispute
5. Diversion of funds

Banking related warning signals

1. Natural calamity
2. Changes in government policy
3. Activation of new competition
4. Day today requests of loan
5. Technological birth

Curative management

This helps in recovering the NPAs which had left with the bank and not to get jumped into any further kind of NPA. The RBI and central government had taken control to incidence of fresh NPAs

1. **One-time investment**

   All sectors got covered on this-standard asset, doubtful or loss asset as on 31 March 2000. Action took on this which bank initiated act under SRFAESI and the cases which is pending on the Court/DRTs/ BIFR are covered even though the cases like will full default and fraud and misfeasance are not yet cleared. OTS scheme says that the value under 10core the minimum amount of 100% should be collected of outstanding balance left in the account

2. **Lok Adulates**

   The scheme helps the banks to settle the dispute which in the account of doubtful and loss category of having a 5-lakh settlement of compromise under this scheme Lok Adalaj. This scheme is applicable on above the debt amount of 10 lakh.This system is too good in recovery of the small amount. This system is expected to pick up in the coming years

3. **Debt Recovery Tribunal (DRTs)**

   This was established by Government of India under the Act (Act 51 of 1993) for expeditious adjudication and debt Recovery which is left with banks and financiali nstitution. The recovery of dues bad debt of financial institution and banks passed in March 2000 has helped in the strengthening the function of DRT. It helps in the speedy recovery of NPAs management, protection and preservation of property are expected to provide necessary teeth to the DRTs even DFIs can't attain this type of speedy recovery Underlying reason for NPA in India. A internal study of RBI shows that in order of prominence the following are the thing contributed to NPAs

Liberalization of economy/removal of restrictions

A large no of borrowers doesn't survive the business because of the large variety of product available in the market and the selling point of a medium marginal profit and some of them affect by political, physical and social compulsion, compounding the pressure from liberalization

Lax monitoring of credit and failure to recognize early warning signals

The loan is providing to the borrowers through the different obstacle that had in the bank rules. But they refuse to check some stages and so the earliest warning signal is lost banks being protective measure to prevent this. Partly due to this the adverse trend in the borrower's performance were not noted and the position further decoration before the action was taken

Funding the mismatch

Sometimes the long-term finance is classified under the short-term finance and so the borrowers become in the hedge trouble some time the alternate may happen

Will full defaulters

There are several borrowers who have strategically default on the debt service obligation realized that the legal resources available to cr

Conclusion

Only through a perfect planning the NPA level in the Indian economy can be maintained. It poses a big threat in the macroeconomic stability in an analysis of the present situation proves that the main problem is multi-faceted and it also have an impact in economic slowdown. To step up the efficiency and profitability, the NPAs must be scheduled. The RBI and Government of India took several measures in curing this situation. But still the NPA standard compared to the international banks we are leaping very slow. It too difficult to make the NPA level zero

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Observation

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About the Department

The fast changing business scenario poses to the department a challenge of continuously updating its curriculum and faculty to be able to provide state of art education to the students. Changes both major and subtle have been made by the department to be better prepared for tomorrow. The post graduate department at St. Joseph's College of Commerce was established in 2005 with M.Cm course. In the Year 2007, Post graduate diploma course were started. M.Com (International Business) was started in the Year 2008. M.Com (Financial Analysis) started in the year 2017. The department has in house faculty who are doctorates and have vast experience in teachingand also experts from the industry and professional bodies. The department has collaborations with ICAI, ICSI for conducting various seminars and conferences.

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