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FROM DIRECTOR'S DESK

In a fast-changing banking sector, the importance of re-skilling, re-deployment and retention of manpower needs no emphasis. If one looks at the human resources from a holistic perspective in a banking entity, the present-day challenges of the banking system including asset quality concerns can be tackled by qualified and competent personnel at different levels. In a highly competitive banking market, it is the quality of manpower that differentiates an entity from peers. Training of personnel though not new, has assumed greater importance today than ever before.

Indian Institute of Bank Management (IIBM) Guwahati, an institute sponsored by RBI, NABARD and five PSBs has been active in the area of capacity building in commercial banks, cooperative banks, RRBs, SFBs and NBFCs through training intervention. IIBM is also mandated to be a repository of knowledge with the responsibility of dissemination of the same amongst its stakeholders through magazine, seminars, workshops and so on. IIBM Digest, a biannual publication from IIBM Guwahati is one such initiative.

In the present issue of IIBM Digest, the optimal utilization of technology for furthering financial inclusion in north-east region has been comprehensively addressed by the key-note address delivered at a National Seminar organized at IIBM Guwahati. Supplement to this paper is a paper on UPI from Ms. Namrata Shukla, DGM RBI and Faculty IIBM. A write-up on centralized loan processing initiative for agricultural and MSME loans of a PSB in north eastern region prepared by Dr H. Barman Faculty and the Director IIBM is an interesting read. For the benefit of practicing bankers, Shri S Majumder Faculty IIBM has prepared a case on working capital assessment. A summary of the NAFSCOB sponsored research report on Short-Term Cooperative Credit Structure in NER undertaken by IIBM is also part of this Digest. The last paper on NBFCs, prepared by Dr Pinky Dutta Faculty IIBM attempts to capture the performance dimension in the context of crisis-like situation in the sector.

I am happy to place before you IIBM Digest, July 2019. I shall be glad to receive your suggestions to improve this digest in future.

Dr. K. Ramesha
Director, IIBM

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DISRUPTIVE TECHNOLOGY REGIME AND FUTURE OF INDIAN BANKING

Dr Debabrata Das, Professor,
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Prologue

The banking sector in India is undergoing a very challenging time. When the whole of the banking and the financial world abroad is preparing to cope up with the disruptive technology, Indian counterpart is engrossed with the cleaning up of the balance sheets. Worse asset quality of the banks and unethical governance has weakened the entire sector. Amidst the rough drive, the banking sector in India during for last few quarters, the sector has finally turned around reporting a collective net profit in the quarter ended December 2018 with 154 crores which may be the positive signal. However, the scenario of the public sector banks is still far from the safe zone. I am still not sure how the INDRADHANUSH will react to the current gloomy situation of public sector banking.

The financial services industry once considered most resistant to disruption, is being rapidly transformed by technological innovations. Incumbents, start-ups, markets, and regulators are looking to use machine learning, big data, blockchain, cloud computing, and cryptographic methods to stay ahead of changing business trends. The start of the fourth industrial revolution and disruptive technology era may be justified with certain facts that India among the top 3 countries in the world with the highest number of Fintech start-ups (NASSCOM). The Indian Fintech software market is forecasted to touch USD 2.4 billion by 2020 from a current USD 1.2 billion, as per NASSCOM (KPMG). According to NASSCOM, the Indian Fintech market is expected to grow at a CAGR of 22% in the next five years (Inc42).

Cashless and Digital Banking

Cashless economy is a system where the exchange of funds is done through debit/credit cards, internet banking, electronic fund transfer, and other digital means rather than the use of cash. Individuals need not have to carry cash everywhere which in turn will reduce chances of theft and eliminate the hurdles of storing and handling cash. A major advantage of cashless economy is that the transaction will be done through an organized channel which will increase the tax base in the economy and result in increased Government revenue. People who used to keep their money at home will now deposit their money at banks, it will harvest their money by giving them interest on the deposit and the banks can use these deposits to provide loans to small businesses, startups, etc. Cashless transactions also help in reducing the risk of counterfeit currency and fights against money laundering and other criminal activities. In India, the cashless transactions started increasing after demonetization in the year 2016 and are achieving its growth day by day. The announcement under Jan Dhan Yojana to not only opening accounts for the unbanked families but also expanding the program of Direct Benefit Transfer in order to transfer the subsidies of different Government schemes directly to the PMJDY account holders is one of the numerous steps taken towards promoting cashless payments. It included cash benefit transfer by the Government to the individual beneficiaries. Example include PAHAL scheme (LPG subsidy transferred to the account of the consumers). The Digital India Programme is a flagship program of the Government of India to transform India into a digitally empowered society. Cashless economy is one of the progressed roles of digital India. E-wallet is an important cashless payment option. It can be used to purchase products such as grocery, airline and train tickets. In order to use this facility, the customer and the merchant requires a smartphone and an internet connection. One of the most popular examples of E-wallet is Paypal. A person can link the credit or debit cards with the e-wallet ids and can use it for fund transfer and online shopping. If a person does not have a smartphone or internet connection, he or she can use the services of Unstructured Supplementary Service Data. The person needs to dial *99# from any mobile phone and use this service. SBI, ICICI, Axis bank supports USSD payment option.

An important challenge to achieve a cashless economy is that the provided infrastructure is in place. A study by Deutsche Bundesbank from Germany revealed that 96%

* This article is an abridged version of the key note speech delivered in the National Seminar "Banks and Financial Institutions in North-East Region: Prospects and Challenges, held at IIBM, Guwahati, on 8 March,2019.

of the Swedish population own a debit/credit card and 89% of the payments are made using mobile wallets, payment apps. Active bank accounts and access to the internet will drastically improve digital payments in India. In order to encourage cashless transactions, the Belgium Government has imposed a limit of 3000 euros in cash transactions. While in India right after demonetization the limit was Rs 24,000 which has been increased to Rs 3,00,000. The absence of internet and infrastructure in the rural areas creates hurdles in digital payment structure. M Pesa which brought a digital revolution in Kenya, it enabled people to open an account on their phones and deposit money.

A mobile app known as Sixdots which is extensively used by the people of Belgium has helped in digital payments. Almost all the banks in Belgium supports this app so that banking transactions can be conducted smoothly without the need to resort to cash. The people can synchronize their bank accounts with the payment app. In India, steps have been taken to encourage the rural people to use mobile wallets and internet penetration has been improved by the Government in order to drive the move towards going digital. India is ranked 28th for online payments adoption by Government E-Payments Adoption Ranking (GEAR). The rank of India was 36th when the second edition was released in the year 2011(GEAR Ranking, Economic Times). The current ranking of India shows that tremendous efforts have been taken by the Government to promote digital payment.

Financial Inclusion through Digital Banking

In order to increase financial access, the RBI has issued Aadhar OTP & eKYC to facilitate the account opening process. It also created entities such as payment banks and small banks to offer basic financial services to the unbanked. As per PwC's Global Fintech Survey, 82% of the financial institutions expect to increase partnerships with Fintechs in the next 3-5 years (PwC Report,2017). These partnerships are leading to enable financial inclusion in segments such as small and medium-sized enterprises. Retail customers and Small and Medium Enterprises without proper documentation, KYC and forecasted repayment capability cannot have access to formal credit because traditional lending is highly regulated and requires strong credit history. Banks and Fintech companies are partnering to create alternative credit decision-making frameworks to lend money to this section of society. Remittance has been a problem in rural areas, the villagers have to travel a long distance to collect remittances that are due to them. Many banks have adopted a technology-based model to help people to solve the problem of remittances and enable them to send money in any place by using a mobile phone. The introduction of UPI by the National Payments Corporation of India is helping in driving financial inclusion among masses through digital transformation.

Yet another initiative is taken by the RBI issuing most Payment Bank licenses to telecom players and mobile wallet operators with a view to bringing telecom subscribers into the banking channel. The Government also expects to further its existing campaigns via PBs. For instance, from Payment Banks, its expectation is to further the "Pradhan Mantri Jan Dhan Yojana", "Aadhaar Act", and "Digital India".

Digital Risk Management

According to the McKinsey Report, a digitized risk function provides better monitoring and control and more effective regulatory compliance. It said that digital risk initiatives can reduce cost by 20%-30%(McKinsey Report,2017). Digital risk involves digital enablement that improves efficiency and effectiveness through decision automation and early warning. The approach uses advanced analytics and machine learning.

The accelerating pace of change in the banking industry is placing unprecedented demands on risk management functions. In response, the most progressive banks are making their risk management functions of the future. In the future, the risk management functions will increasingly measure and manage cybersecurity, employee behavior and other types of risks. It will help in anticipating and responding to the needs of the customers in the digital world. Manual processes in the collection of data, documentation, etc. hamper credit delivery which in turn affects customer experience.

Digital credit risk management uses automation and digital delivery. It improves customer experience in real-time decision, self-service, credit applications, and instant credit approvals. It will increase the accuracy of credit risk models and reduces the frequency of judgment-based errors.

Artificial Intelligence and Banking and Financial Services

Artificial Intelligence is an area of computer science that deals with the creation of intelligent machines that work and react like humans. It is a way of making a computer-controlled robot or software that thinks intelligently in a similar manner as a human thinks. China is undoubtedly the world leader in Artificial Intelligence.

The virtual assistant Nina of Swedbank provides a human-like conversational experience and provide quick access to information. Luvo is used by the Royal Bank of Scotland to provide better customer service. It also provides answers to the queries of the customers. Mitra and Candi's robots have been introduced by Canara Bank at its two offices at Bengaluru. Mitra performs the functions of a receptionist while Candi is used to providing answers to customer's queries. Singapore's DBS bank opened a "mobile only" bank in India known as Digibank powered by Kasisto. This will help the customers access their banking needs through mobile SMS or Facebook messenger. It can answer questions, update accounts, and provide information regarding current interest rate and other offers. These help in improving the customer experience and reduces the time in providing access to financial services. This helps in reducing the operational cost of the banks and enables employees to devote time to more complex questions. Thus, this helps in processing large amounts of data, helps in resolving the issues of the customers. It will increase productivity by updating information, it can help in decision making by predicting financial trends. A venture capital firm in Hongkong has put a robot on its Board of Directors because it could pick up on market trends and quickly make objective decisions. As Artificial Intelligence is error free it can be used to reduce fraud and minimize the errors. The capability of computers to perform a complex task with greater accuracy and unimaginable speed is giving birth to various innovations.

The error rate of Artificial Intelligence compared to humans if coded properly will be very low. Therefore, it provides incredible precision, accuracy, and speed. It will replace humans in repetitive and tedious tasks, organize and manage records, detect fraud in card-based systems and other systems. The chatbots in Artificial Intelligence interact with customers and solve problems before any human staff is involved. Through machine learning, the artificial intelligence can process large amounts of data. Its immense speed brings efficiency in financial services and helps in providing customized services to the customers. It also helps to combat fraud and improve compliance. Apart from having unique ideas, successful Fintech companies leveraging Artificial Intelligence nowadays is the one that has helped in applying technology to solve business problems challenging traditional banking and financial players and provides a variety of services. Mobile and web-based payment applications help in enabling the user's mobile devices to be used as their credit/debit cards, distributed ledger technologies allow peer-to-peer transactions and offer other types of benefits. Fintechs such as Kabbage does not require loan applicants to fill out lengthy documents to establish creditworthiness. On the other hand, it draws upon a wide range of customer information from data sources such as Paypal transactions, Amazon and eBay trade information. Robo-advisors provide financial advice online with moderate to minimal human intervention. It provides digital financial advice based on mathematical rules or algorithms.

According to the Deloitte report, India is quickly becoming a digital economy with over a billion mobile phones, 330 million internet users and 240 million smartphones. By using Artificial Intelligence, a voice authenticated fund transfer will let us move our money by simply telling the mobile device who we want to pay and how much. After authenticating our voice and verifying our pin, the funds will be transferred immediately. Another element known as Intelligent Personal Budgeting provides predictive financial advice to save the way we want to. The budgeting software will analyze the spending patterns to provide flexible savings option. The Artificial Intelligence will also provide frictionless banking, the customer can enter any branch and it will automatically identify and preload the account details for tailored service. The customers can simply tab his/her phone or the tablet into the frictionless terminals and instant access to services such as cash withdrawals, fund transfer all will be personalized.

The use of Artificial Intelligence in loan disbursement will help in reducing the burden and fear of NPAs in the banking sector because the process will not include any human intervention and emotional interference. The loans will be disbursed on the basis of the capacity to repay. The use of cloud computing and robot banking through Artificial Intelligence will help in this regard. It can

provide a history of customer's loan record, bounced cheques from the current or savings account to the bankers to sanction loan to the right customers. Artificial Intelligence can also ease the task of the processors and underwriters when it comes to reviewing the forms and information. In the coming years, all these functions will be done by visual recognition through Artificial Intelligence. This will allow the staff to engage in other activities.

In asset management, Artificial Intelligence has become an emerging tool. It can read billions of data helping the portfolio managers, investors to predict future prices with accuracy and without the burden of emotional investing. Asset management in Artificial Intelligence can shift the capital of the investors in more diversified investment vehicles. With the help of Artificial Intelligence, the uncertainty can be handled by an algorithm where the prediction will be automated. The robotic and programming interfaces will provide a number of opportunities to the Asset Management Firms. Artificial Intelligence will help the firms by tracking the market activity and helping the firms in effectively utilizing its resources. It will help in client profiling by providing them personalized services.

Blockchain Technology

Blockchain is a technology that creates a ledger of transactions on the internet that is secure, tamper proof and easily accessible. This makes it efficient and helps in reducing the cost of transactions. It is made up with a series of blocks of data each of which records a patch of transactions. The blocks are electronically chained together and locked up with advanced cryptography in order to create a permanent and public record of every transaction. The Blockchain was first used in 2008 when digital currency Bitcoin was introduced.

Goldman Sachs and other giants have all established their blockchain laboratories to work with close collaboration with blockchain platform and pays significant emphasis in its potential to reduce operational cost by eliminating intermediaries. “Blockchain could help create a more stable global financial system”(Adriano Lucatelli). The finance sector has soon realized the power of Blockchain technology. A large number of financial institutions is planning to use blockchain technology for international money transfer, Know Your Customer, security purpose, etc because the transactions are extremely fast, processing fees are minimum and recorded data is unable to be changed. Cost savings has become so appealing that many major financial institutions are investing a lot of money to understand the best way of implementing the blockchain technology. The KYC processes have to be performed individually by every bank, the banks have to upload the KYC data but by using blockchain the client's updates will be available to all banks in near real-time. In order to reap the benefits of blockchain technology, many central banks across the globe have started to develop a digital version of their currency. “Axis Bank is exploring Blockchain use cases in collaboration with startups as a part of its ‘Thought Factory’ initiative. Muthoot Fincorp is likely to focus on identity management/KYC application” (Delloite Report on Banking on the future vision 2020).

Challenges and Road Ahead

Quite a few challenges are emerging before the banking industry and more so in the emerging economies like India. Continuous expansion of the breadth & depth of regulation focusing on the impacts of Financial Crisis, Financial Crime, increased demand for Global & Domestic compliance with Govt. regulatory standards is taking place. The shift in customer expectation with changes in technology has posed a challenge to focus on "Real-time answer" & "Tailored prices/products". Adoption of new risk-management techniques, often coupled with advanced analytics due to shifting in technology is to be emphasized ensuring cheaper, faster computing power and data storage, enabling better risk decision support and process integration. There are non-financial types of risks like “Contagion Risk”, “Model Risk” & “Cyber-attacks”; wrong decisions caused by unrecognized biases which will influence the risks in the future.

Today disruption, change, and competition is the new paradigms for the banking industry. Minimizing manual interventions, collaborating more closely with businesses becoming a strong advocate of corporate values and principles are essential to cope with the emerging challenges in banks. Developing and hiring people with different (and emerging) skills who can build and manage the new models and datasets and collaborate with businesses and other functions are an order of the day.

Artificial Intelligence does not come cheap, it costs a lot of

money and time to build and repair. The robotic repair can result in reduced time and humans need to fix it and that will cost more money and resources. Finally, under Artificial Intelligence different skill set of people will be required and they need to understand the aspects of A.I. For blockchain technology to operate successfully there should be an alliance between the participating parties. In finance and banking sector the blockchain would need to handle a large number of data, therefore, extensibility is utmost important. The requirement for a larger blockchain database needs growth in its applications. The processing speed of blockchain technology needs to be very high to handle a large amount of data.

There is a need for deeper search on these issues of the Indian banking sector to find out the issues and challenges of the future of banking in India.

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A STUDY ON SHORT TERM COOPERATIVE CREDIT STRUCTURE IN NORTH EASTERN REGION

IIBM Research Team*

Introduction

Cooperative Credit Institutions play an important role in the credit delivery system in India, especially in rural areas. These banks are registered under the Cooperative Societies Act of the respective states or Multi-State Cooperative Act. These institutions are regulated by the Reserve Bank of India (RBI) for their banking related work and by Registrar of Cooperative Societies in administration and management aspects.

The Cooperative Credit System in India is classified as Short Term and Long-Term Credit Institutions. The Short-term Cooperative Credit Structure was designed to take care of the crop loan and investment (medium term) credit needs of the farmers. These structures are categorized by a three-tier or a two-tier structure. The three-tier structure includes Primary Agricultural Cooperative Societies (PACS) at the village level, District Central Cooperative Banks (DCCBs) at the District level and State Cooperative Banks at the State level whereas the two-tier structure consists of State Cooperative Banks at the apex and PACS at the bottom of the structure. cooperative credit structure in the NER consists of two tiers i.e. the state cooperative banks at the apex level and the primary agriculture credit societies (PACS) at the bottom level. The PACS are also known as Gram Panchayat Samabai Samiti (GPSS) in many parts of the region.

The North Eastern Region (hereafter NER) of India has considerably poor penetration of the banking services. Reserve Bank of India, in its recently released data, points out that indicators like Credit Deposit ratio of not only scheduled commercial banks but also RRBs in NER have been quite low relative to the national average (as of March 2018). Also, the penetration and expansion of banking services in this region are comparatively poor and that NER lags behind other parts of the country in terms of the development of banking or other financial services. This is inferred from a higher average population per branch, low credit-deposit ratio and low credit penetration (Mohanty, 2011). In this context, it is seen that the co-operative banks can play an important place in extending formal financial services to the people of NER given the nature of the economy dominated mostly by agriculture. The cooperative banks have to play a key role in extending basic banking services such as timely credit particularly to agriculture and its allied activities. The State Cooperative Banks in NER have not only the opportunity or potentials to expand the business, but also a responsibility towards the region in terms of extending financial services to all sections/sub-regions.

However, recent data from NAFSCOB, RBI, and NABARD reveal a low/poor performance of cooperative banks in this region. Despite the huge scope, cooperative banks in NER fail to expand their banking services. At the same time, it is observed that chronic default in credit as a result of dormant primary credit societies has, among other reasons affected the financial health of the cooperative banks in NER. It is in this context; the present study attempts to understand and examine the financial health of the cooperative banks in NER. The present study examines the growth of cooperative banks in terms of financial parameters such as credit, deposit, investment, etc.

Statement of the Problem

The study aims to understand the framework and functioning of the cooperative banks in NER under aspects such as management and governance, capacity building, human resource management, etc so as to make suggestions for improving the role of these banks in the financial landscape of NER.

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* This paper is an outcome of a project study completed by Indian Institute of Bank Management (IIBM) Guwahati, funded and supported by the National Federation of State Cooperative Banks Ltd. (NAFSCOB). This project study is carried out by a research team at IIBM. The team includes Dr. Hemanta Barman, Dr. Pinky Dutta, Dr. K Ramesha from IIBM and Dr. R. Bhaskaran Ex CEO IIBF and Advisor for the Research Project.

Terms of Reference

Against the backdrop of the Terms of Reference, the following specific objectives were set out and examined.

1. Status of Short-Term Credit Cooperatives in NER
   a) Performance Assessment of State Cooperative Banks and PACS
   b) Credit Flow to Key Sectors- Agriculture, Allied Activities and MSMEs.
2. Financial Position and Compliance to Regulatory Norms
3. Identification of Organizational and Capacity Building Issues
4. Preparation of a Roadmap for Strengthening State Cooperative Banks/PACS.

Methodology of the Study

The study was based on both primary and secondary information/data. The main sources of data for the study were the Annual Reports of StCBs and data/reports of RBI, NABARD, and NAFSCOB. Based on some predetermined criteria four StCB were selected for study (Table 1). It is important to emphasize that the secondary sources especially the annual reports of banks were not adequate to address all the objectives laid out in the study. Therefore, to supplement the information gathered from secondary sources, field visits and Focused Group Discussions (FGD) were also held. The field visits and FGD have helped in overcoming some of the limitations of the data such as inaccuracy, inadequacy, and outdated data, etc. Out of the eight StCBs in NER, a sample of four banks from Arunachal Pradesh, Assam, Manipur, and Meghalaya were selected for collection of data through field visits for detailed study (Section 2.3). The primary data from the StCBs and PACS/GPSS was gathered by using two systematically designed research questionnaires and one interview schedule.

Table 1: List of Banks selected for study

SN	Name of the banks
1	Assam state co-operative Bank
2	Manipur state co-operative apex bank
3	Arunachal Pradesh state co-operative apex bank
4	Meghalaya state co-operative apex bank

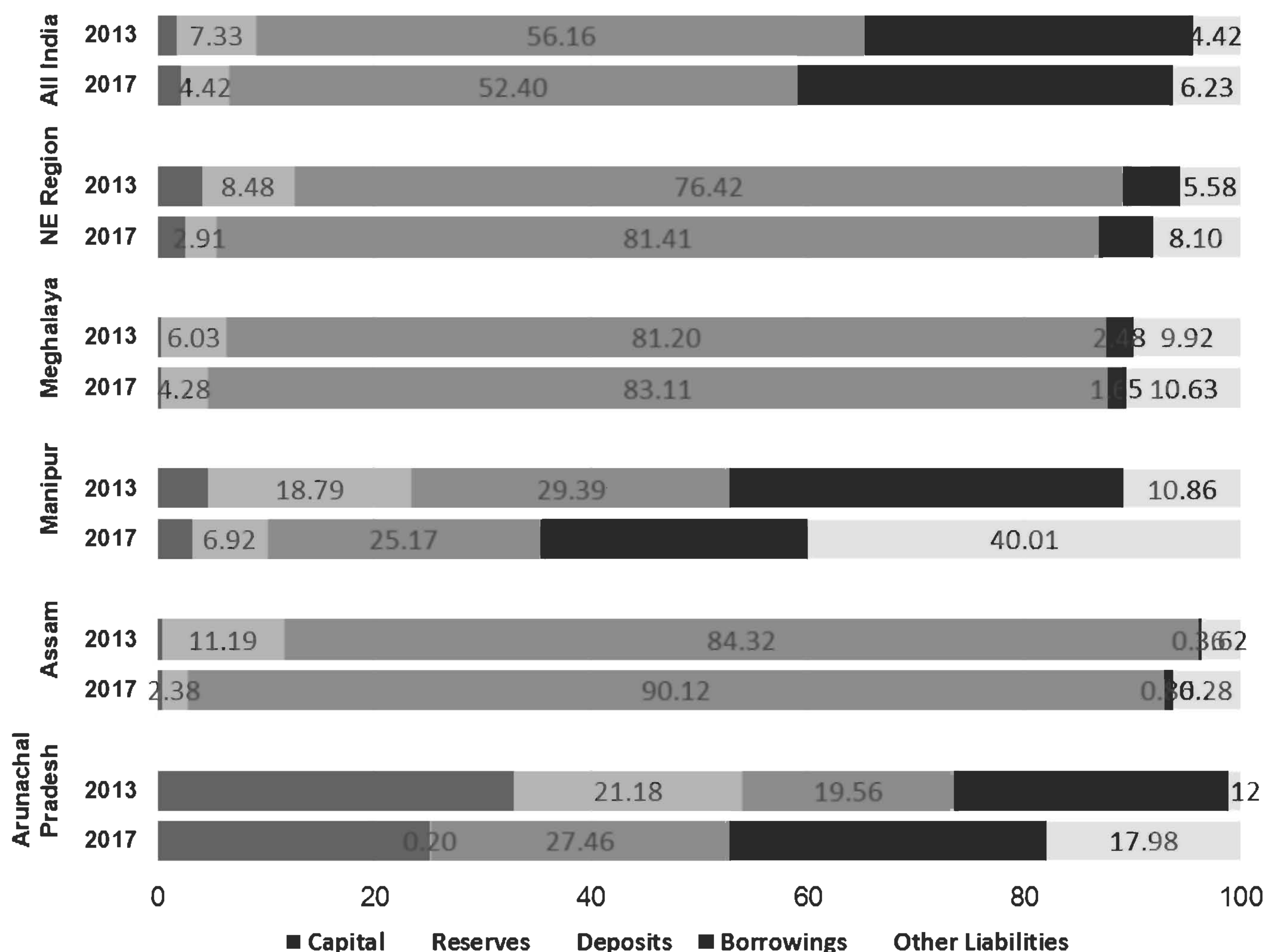
Some Important Observations

Financial performance of the StCBs

The next section highlights the financial parameters of StCBs in NER and compares the same with the StCBs of all India. It was observed that the financial performance of the StCBs in the NER in general and the four sample StCBs, in particular, are not good in comparison with the national average. Though the performance is similar to the other two tier SCBs, the deterioration in financial parameters in NER, in the last five years has been more pronounced.

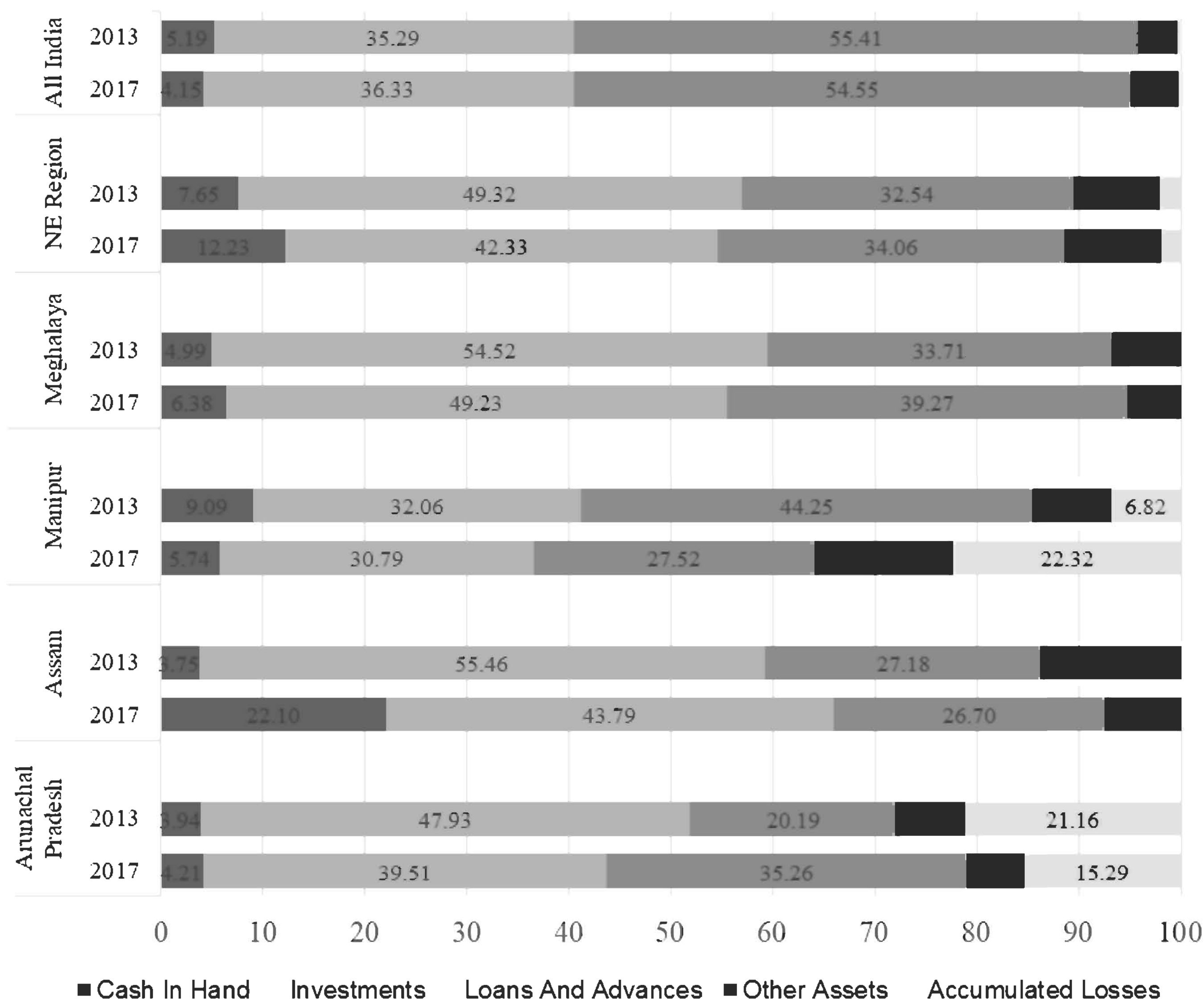
In asset-liability composition, it was noted that the share of owned funds, particularly reserves in total assets has considerably and consistently declined in all four selected StCBs. The decline in reserves indicates the possibility that these banks could have used reserves either for writing off bad loans or for other purposes (Figure 1). With regard to the composition of deposits, it was noticed that the share of the fixed or term deposits has increased substantially during the last five years. The StCBs are mobilizing deposits at an attractive rate (high rate) but perhaps not able to channel the deposits efficiently or as desired. Thus, it is important for these banks to explore the avenues to efficiently deploy the deposits failing which the spread/margin would not be sufficient to cover even operating expenses.

Figure 1: Composition of items of Liabilities for the Year 2013 and 2017



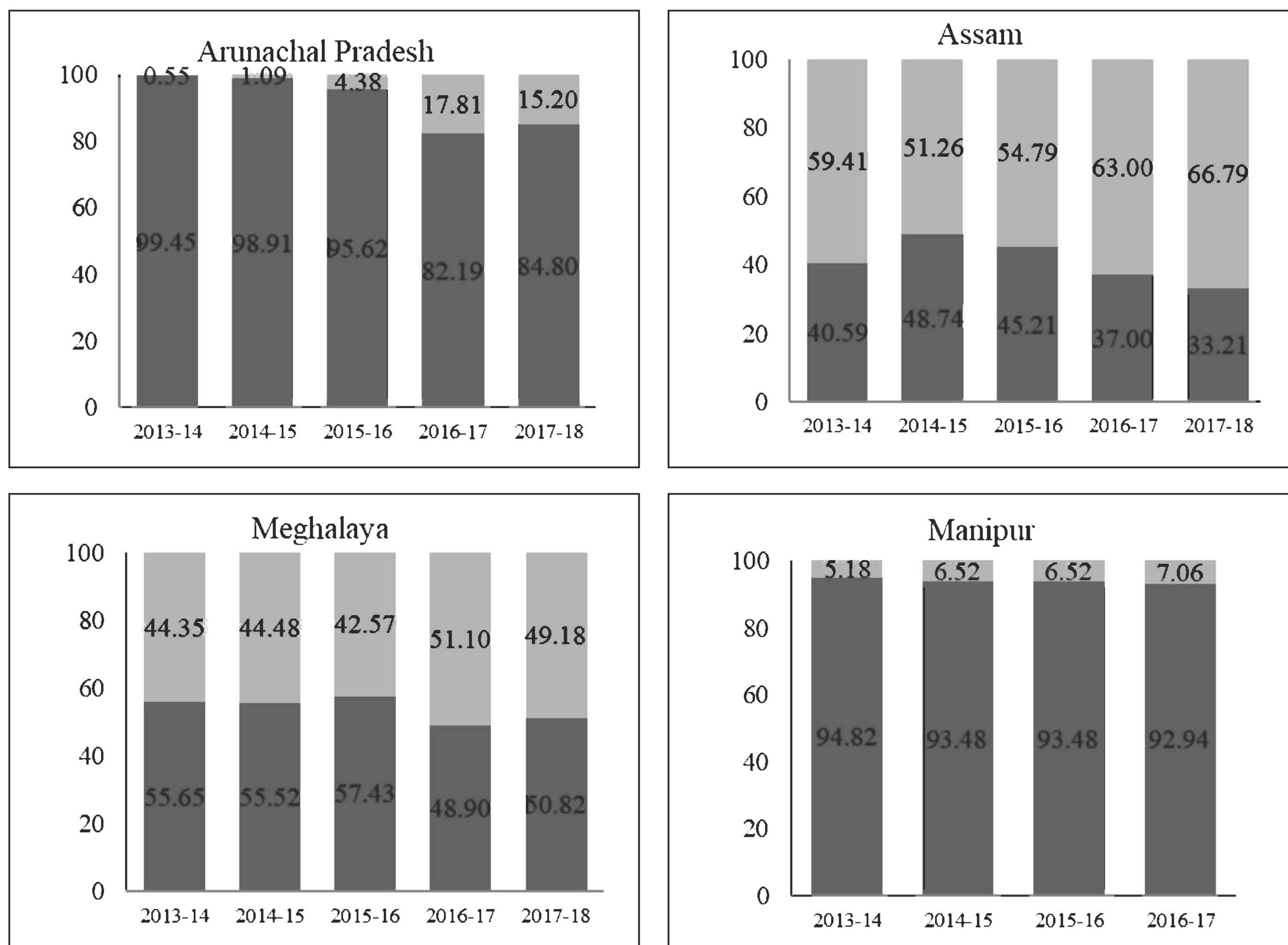
On the asset side, the fast-declining flow of credit to agriculture, in a way, question the very purpose and existence of StCBs (Figure 2). With regard to agricultural credit, it may be safely said that there almost no connection between StCBs and PACS and as such the roles of these two in supporting agriculture at present has become insignificant. Though there is evidence to suggest that the StCBs are more interested/focussed on non-agricultural sectors like personal/retail loans, their success so far in terms of efficient and cost-effective credit with recovery in this segment is yet to be demonstrated. With regard to the asset quality of the selected StCBs or StCB in NER, the NPA levels are rather alarming and much higher compared to all India average for all StCBs. The rising proportion of doubtful assets in total NPA in the last five financial year should be a matter of grave concern for the StCBs in NER. However, a consoling fact is that during the last five financial years, the NPA level has declined marginally for Assam and Manipur StCBs while the same has increased for Meghalaya. It is observed that the position of NPA is worsening in most of the StCBs and recovery to demand ratio is also very low.

Figure 2: Composition of Assets for 2013-14 and 2016-17



Generally speaking, the investments portfolios of StCBs in NER are heavily inclined towards SLR and in particular, investments in the form of deposits. What is disturbing is the yield on investment is not even covering the cost of funds which is high on account of high-cost deposits. The Manipur StCB and Arunachal Pradesh StCB invested mostly in SLR securities. Whereas, in the case of Assam and Meghalaya StCB, investment in non-SLR securities has seen an increasing trend during the last five years.

Figure 3: SLR and Non-SLR investment pattern of selected SCBs



The profitability indicators which are linked to the credit recycling capacity of the StCBs in NER has been deplorably low. As one would guess, high cost of funds coupled with a very high level of NPAs has resulted in low profitability/negative profits in StCBs in NER. The analysis of profit per branch or profit per employee supports these aforesaid statements. The profitability indicators such as profit per branch and profit per employee are quite low in comparison to all India figures (Table 4.4). In contrast, the staff cost of the StCBs in NER is much higher than all India level. It ranges from 20 to 40 percent of the total expenditure. Whereas for all India StCBs the staff cost ranges between 15 to 17 percent of total expenditure. These banks are not in a position to take advantage of the investment route to augment the revenue. Further, low credit off take and absence of third-party products have also contributed to low profitability.

Primary Agricultural Credit Societies (PACS)

As part of the study, primarily to understand the Short-Term Cooperative Credit Structure in a comprehensive manner, a few PACS in four selected states have been visited. The PACS in NER based on field observations. It is observed the sample PACS are plagued with chronic NPA problem. Due to high NPA and shortage of funds, these PACS have diverged from their basic objective of extending agriculture credit. In addition, inadequate quantity and quality of human resources of the PACS have aggravated the situation (Section 5.4). The infrastructure is also found to be insufficient in most of the PACS as evidenced by those that were visited during the study. The lack of coordination between the StCBs and PACS/LAMPS is a matter of concern. Neither the State Government/RCS/StCB nor NABARD has detailed and updated information about membership, share capital, deposit, borrowings, loans advanced, NPAs, etc., in respect of PACS of NER.

Focused Group Discussion (FGD)

Further to understand the problems and challenges of the cooperative banks in this region, the one-day FGD program on was organized on 7th February 2019 at the premises of Indian Institute of Bank Management Guwahati. The discussions mainly focused on issues like financial, operational, regulatory and governance-related aspects. The key points emerged during the discussions are presented below.

- Agriculture credit has become unviable for StCBs, as most of the PACS have become dormant or defunct and also on account of the high level of NPAs.

- The FGD highlighted that apart from the internal administrative reasons, the general perception that co-operative bank extends a loan on behalf of the Government is pervasive amongst the customers both potential and existing. Moreover, it was observed that in many Government sponsored schemes, banks have no choice in selecting the borrowers.

- The StCBs do not have administrative control over PACS. Most of the PACS are not willing to borrow funds or less inclined to deal with StCBs.

- All the StCBs are presently suffering from a chronic NPA problem. It was felt that even the new loans are also slipping into NPA adding to the stress of the bank.

- The regulator has set certain eligibility criteria for banks to introduce various digital banking options. Given the financial weakness of the banks in NER and as most of them are non-scheduled banks they have not been able to move ahead in this area. There exist certain restrictions on credit as well. The FGD emphasized on the need to address a solution to these issues.

- On governance, the need to induct independent directors with banking experience was highlighted.

- The FGD highlighted the urgent need for overhaul the HR and training policy to adequately support the staff and official of the StCBs in NER to improve their competency and efficiency required for modern banking.

- To revive the PACS in NER, coordination among Registrar of Co-operative Society of the respective State Governments, NABARD along with the concerned StCB is imperative. Such coordination can help in taking a multidirectional approach in reviving the PACS and building a better linkage between PACS and StCBs.

Conclusion

The study of the four selected StCBs and the NER cooperatives, in general, show that the performance of these banks on all fronts is not comparable to their counterparts in other parts of the country. The study observed many constraints which hinders the performance of the StCBs in NER. The StCBs in NER is not able to raise resources, especially from NABARD. The accumulated losses and high NPA hampers the profitability of the StCBs in NER.

The agriculture and rural credit have not received the required attention from StCBs and or the PACS in NER. StCBs among other things, consider that the stress in the agricultural portfolio in terms of higher NPA is one of the major constraints for increasing the flow of credit to agriculture in NER. The StCBs are reluctant in extending credit to PACS because of the mounting NPA of PACS and difficult recovery of existing loans.

Further, it is also observed that the StCBs are diverted its attention to retail loans. However, it is observed that the NPA is a concern for all types of loans. The StCBs in NER in all fronts are not strictly comparable to their counterparts in other parts of the country. Most of these two-tier banks in NER are not eligible for refinancing from NABARD on account of poor exposure to agricultural loans or inability to comply with NABARD refinance norms on, security for refinancing, CRAR and NPA.

On discussion with the StCBs, it was found that the banks have in place Risk Management, ALM and other policies. But a closer dialogue with the banks revealed that these policies are seldom referred and used. Though banks are using core banking solutions, important MIS such as NPA is not system generated.

Apparently, StCBs are not functioning like efficient short-term cooperative credit institutions. The business mix of these banks resembles Urban Cooperative Banks (UCBs). In the case of UCBs the CRAR, NPA and Exposure Norms are much sharper. If StCBs are not keen on extending loans to agriculture the Government/RBI must consider if these banks should conform to UCB norms.

UNION SAMRIDDHI KENDRA-A CASE ON CENTRALIZED LOAN PROCESSING FOR AGRICULTURAL AND MSME LOANS

Dr Hemanta Barman, Faculty and Dr K Ramesha, Director, IIBM, Guwahati

Introduction

Despite the declining share of the GDP, agriculture remains the backbone of the Indian economy. This sector is crucial for providing employment to a huge section of the labour force. As per the 2011 census, about 70 per cent of workforce resided in rural areas and agriculture and related activities continue to be the prime sector of rural economy and rural employment. In addition, agriculture is also critical in improving food security by meeting the growing food need of the country. Thus, strategies for sustained development of agriculture in the Indian context continues to be critical for overall economic growth.

Since the late sixties, public policies have been focusing on the development of the agricultural sector with the primary objective of improving productivity through modernization and technological interventions. However, the investment in the agricultural sector in particular public investment has not been adequate. It is in this context that the institutional credit assumes greater importance. Though several committees and commissions have gone into the problem of lack of institutional credit to agriculture and several experiments have been conducted, institutional credit to agriculture remains an issue in terms of adequacy, timeliness and cost. Of late, the credit recycling in the agricultural sector has taken a hit on account of repeated interventions by the public authorities both at the Union and State level vitiating the credit culture.

The scheduled commercial banks in India are mandated to lend to the agriculture sector under the Priority Sector Lending targets of Reserve Bank of India (RBI). According to the priority sector lending targets, every domestic scheduled commercial bank and foreign banks with at least 20 branches are mandated to lend at least 40 per cent of their Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to the priority sector. These priority sectors include eight specified sectors which are Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy and Others. Further, given the importance of agriculture in the economy, the scheme stipulates that among the eight priority sectors, 18 per cent of bank credit should be extended to the agriculture sector. Moreover, within the 18 per cent target for agriculture, a target of 8 per cent is prescribed for Small and Marginal Farmers. These apart, the RBI has also persuaded banks to double the credit to the agriculture sector which banks did a few years back.

In order to meaningfully lend to the agricultural sector as also to meet the PSL targets, the commercial banks have taken different initiatives. One such recent initiative is the "Union Samriddhi Kendra" introduced by Union Bank of India. Union Bank of India has designed this initiative to extend timely and hassle-free credit, particularly to agriculture and MSME sector by setting up a technology driven central processing hub. In this short commentary, we aim to highlight the concept, functions and a sketch of the Union Samriddhi Kendra (USK) located in Barpeta district of Assam.

Union Bank of India - Snapshot

Union Bank of India (UBI) was established in the year 1919 with its headquarters in erstwhile Bombay. During 1969, when the Government of India initiated the policy of bank nationalization, UBI had a network to 240 branches spread across 28 states. Presently, UBI has an extensive network of more than 4300 branches across the country with over Rs. 7 lakh crores business.

Union Bank of India has always been a pioneer in extending banking services to agriculture and other priority sectors. According to the Annual Report 2017-18 of the bank, the credit outstanding to priority sector recorded a growth of about 20 per cent as compared to the previous year. Moreover, the Annual Report points out that the priority sector advances constituted more than 47 of the adjusted net Bank credit (ANBC) as against the stipulated target of 40 per cent. In line with the priority sector, UBI is also significantly contributing in

expanding banking services such as adequate and timely credit to the agriculture sector. In its Annual Report 2017-18, UBI states that advances to agricultural (excluding RIDF) have increased by about 4 per cent during 2016-17 to 2017-18. As at the end of March 2018, the bank had advanced about Rs.46,000 crores to agriculture. It is worth mentioning that, according to the Annual Report, the bank has maintained a surplus target as against 8 per cent of ANBC, for lending to small and marginal farmers. Moreover, in 2017-18, about Rs. 22,000 crores were disbursed under the special agriculture-credit plan (SACP).

In its efforts to ensure timely and hassle-free credit to agriculture, Union Bank of India has come up with an innovative model namely "Union Samridhhi Kendra. The main objective of this initiative is to accelerate the credit flow to retail, agriculture & MSME sectors; to reduce the average time of loan processing; to improve credit appraisal through developing the expertise required for processing credit particularly to these segments and finally to reduce NPAs through an effective monitoring system.

Union Samriddhi Kendra (USK): A Recent Initiative by Union Bank of India

The primary objective of the USK is to provide hassle-free loans to customers of rural/semi-urban branches in the shortest possible time. This apart, like other loan processing cells, better quality of credit appraisal leading to better quality loan assets are also expected from USK. The USK operates under a "Hub and Spoke Model". The Hub is designated as Union Samriddhi Kendra (USK). With this Hub, the nearby branches are attached (Spoked) for credit dispensation. Union Samriddhi Kendra which is headed by Chief Manager or Sr. Manager works independently and not directly linked to the Credit Department of the Regional Office. To explain it in detail, under this initiative of UBI, about 15-20 rural/semi-urban branches linked/attached through technology to a loan processing cell known as Union Samriddhi Kendra (USK). This USK is designed as the nodal office in that locality and works as the main processing hub for loan proposals or leads generated by the rural/semi-urban branches attached to it. The entire process of advance from lead generation to actual disbursement of loan can be broadly grouped into four stages.

In the first stage, the Business Correspondents (BCs) and Bank Branches in a locality play active roles in lead generation for advances. It is the BCs or the Branch which generates the lead then refers it to Rural Development Officer (RDO).

The second stage involves the visit of RDO/AO to the village from where the loan lead was received with a tablet computer equipped with internet and geo-tagging facility. The geo-tagging facility allows the officer to pinpoint the latitude and longitude, distance, name of the place and the time of the visit. Thus, the device would help the officer in finding and updating a wide variety of location-specific information associated with the loan lead. Moreover, with the help of the tablet computer, information on the type of crops, house, property, among others can also be recorded. Apart from this, the officer can also instantly scan the required documents and upload the same so as to enable USK access. This process significantly reduces the time required in the documentation as all the required documents are collected by using the tablet computer. In short, the activities associated with loan granting such as the collection of documents, creation of an application, field visit, partial due diligence, etc. are completed in one go that too in a shortest possible time.

Once the proposal/application for a loan is uploaded, the next stage which is primarily processing is done at USK. The processing officers at USK make necessary entries in the Lending Automation System (LAS). These data include KYC, land records and other relevant information. Following the data updates, the concerned officer performs an appraisal of the proposal as per the bank guidelines. In the process, the processing officer coordinates with the RDOs and Branch for missing or incomplete documents. Subsequently, credit is sanctioned by the chief of USK or by RO if the amount sought is higher than the powers of the chief of USK along with an advice to the specific branch from where the lead was generated. The branch concerned would complete all other formalities that are required before the disbursement of a loan. It is important to emphasize that a customer in need of a loan need not visit USK at all and will have to visit Branch to complete documentation before the disbursement. Generally, the loan is granted in two or three days under this scheme.

A Glimpse of Union Samriddhi Kendra – Barpeta Road, Assam

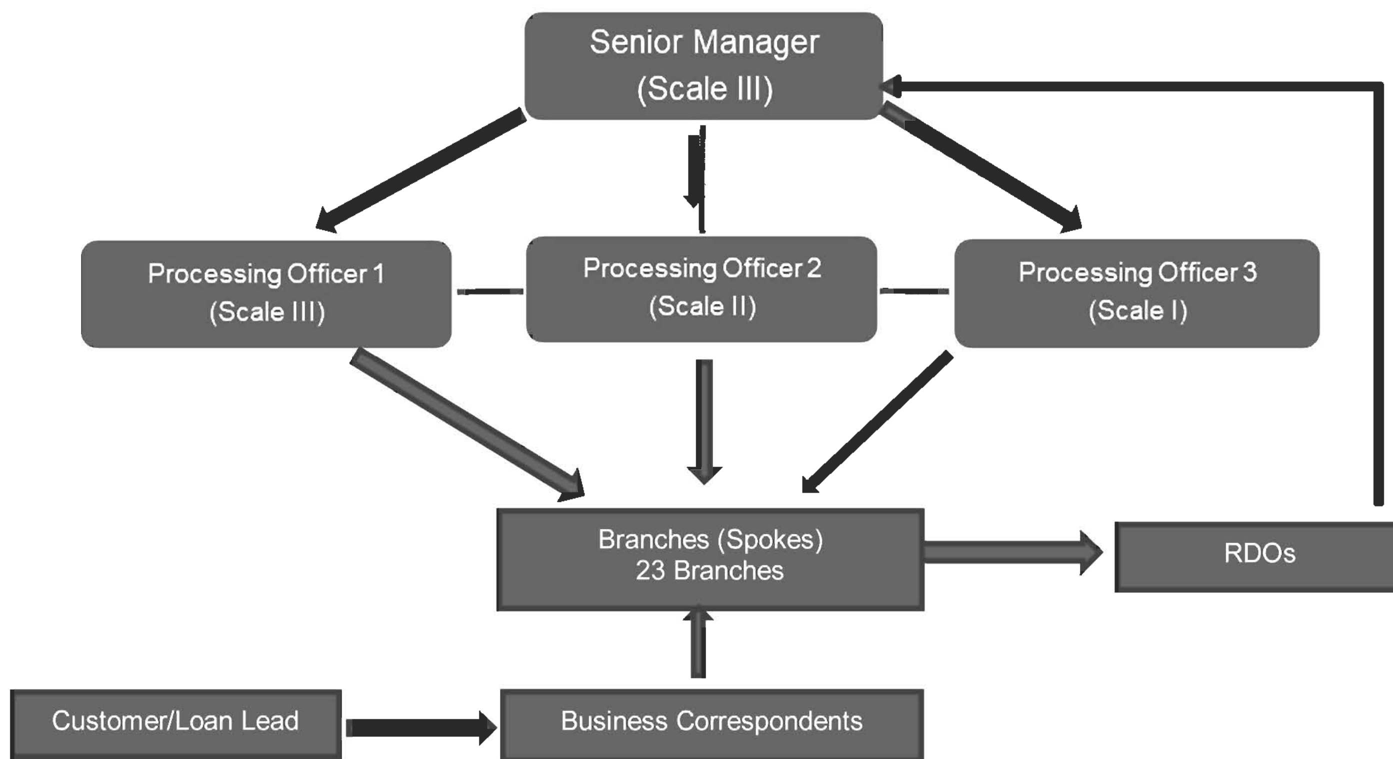
A pilot project under the initiative Union Samriddhi Kendar was stated by UBI in two regions i.e. Nasik in Maharashtra and Karnal in Haryana. Encouraged by the success in these two regions, recently such a hub has been operationalized in the Barpeta district of Assam which is the only USK in the entire North Eastern Region. This initiative of UBI is expected to augment the credit flow to agriculture and MSME sector as the primary objective of the USK initiative is to ease the process of appraisal and improve the Turnaround Time. The Hub would operate as the Central Digitized Processing Centre for uniform and seamless credit administration.

In order to get insights into the functioning of USK, a visit was made to USK, Barpeta Road, Barpeta District of Assam. The district of Barpeta is located in the western part of Assam and about 150 KMs from the state capital Dispur (Guwahati). The USK in Barpeta Road was inaugurated and commenced its operation in the month of February 2019. The USK, Barpteta Road is connected to 23 branches (spoke branches) across several districts in Assam which includes Dhuburi, Kokrajhar, Bongaigaon, Goalpara, Barpeta, Nalbari, Baksa, Chirang, Darang and Udalguri.

In the last three months, the USK Barpeta Road has sanctioned more than 132 loan proposals which are about 44 proposals per month and about 2 proposals per month per branch. It is to be specially mentioned that these loans processed by USK Barpeta Road cover all types of loans from retail, agriculture and MSME sectors. The staff of USK Barpeta Road believes that the number of proposals processed would go up in the months to come. It may be highlighted that the staff of USK are assigned no other duties like marketing/lead generation for instance, and are involved in loan processing only.

The USK is presently headed by a Senior Manager and three processing officers. The organization chart of the USK is presented in Chart 1. The Senior Manager is the sanctioning officer while the other pressing officers assist him in processing the loan proposal.

Chart 1: Organization Chart of USK Barpeta Road



The discussions with the Chief and other officials of USK Barpeta Road revealed the following.

i. The bank's thrust areas are MSMEs, the agriculture sector and also the retail sector. In the North Eastern Region, the bank could not grow its loan book at a higher rate largely on account of the difficult geographical terrain. Now that the branches/RDOs are acting as spokes, the customers from a large geographical area and wanting loans can be catered effectively, in a hassle-free manner and with reduced TAT.

ii. The appraisal skills required especially for agricultural loans and MSME loans are not available at all branches and deployment of skilled staff may not always be possible in all branches. The USK has taken this responsibility of a thorough credit appraisal as the staff at USK have the required techno-financial knowledge and undergone adequate training in these areas. It is quite possible that the focused approach and specialized knowledge of the staff in USK not only results in efficiency but also a better credit quality.

iii. The branches in North Eastern Region excepting those located in urban centres, have historically believed in walk-in approach for loan products. Now that the banking market is competitive, the branches are now freed from the responsibility of credit appraisal and loan sanction and therefore, the manager/staff can also participate in the marketing efforts of the bank.

Conclusion

Given the thrust of the Government on employment generation, promotion & development of MSME sector and augmentation of agricultural income, the digitized loan processing cell with a special push on agriculture and MSME loans is a welcome initiative. If one looks at the North Eastern Region, this initiative assumes greater importance. The USK which is technology driven, therefore, can be considered as a significant initiative in facilitating a smooth flow of bank credit to critical sectors such as agriculture and MSMEs. With a large and vast untapped potential, the USK can also positively influence the profitability of bank with uniform and specialized approach to under-writing of loans.

While the success or otherwise of this initiative in terms of USK can be assessed only after another year or so, it is imperative that the management of the bank continues to handhold the USK to establish itself as a facilitator to branches. Therefore, the quality of manpower, empowerment of the chief, training of personnel on an ongoing basis and creating awareness and ensuring acceptability amongst branch staff are critical in shifting the onus of loan appraisal/sanction from branch to USK. Further, the coordination between RDOs, branches and USK is also quite important in ensuring compliance to bank's norms especially TAT. It would not be a bad idea to create a small team of RDOs as part of USK at a later stage especially if the USK is located in a cluster of MSMEs or agri-businesses.

Shri Subhajyoti Majumder,
Faculty, IIBM Guwahati

Calcutta Engineering is a partnership firm. The names of the partners are Mr. B. K. Desai and Mr. S. K. Khara. The firm is engaged in manufacturing corrugated boxes. During the year the firm purchased raw materials worth Rs. 1,50,000/- and achieved sales turnover of Rs. 2,05,000/-.

The firm has received orders worth Rs. 2,03,000/- with a lucrative price for supplying corrugated boxes within the next six months. The company has requested a cash credit limit of Rs. 45,000/- against stocks and book debts. At the moment, the company is not enjoying any credit facility from any bank. However, it is maintaining a current account with Guwahati Branch of Lord Krishna Bank. Operations of the current a/c are satisfactory.

The following is the balance sheet of Calicut Engineering.

Liabilities			Assets	
Capital	9,000		Land and Building	3,500
Add profit	10,000		Plant and Machinery	21,500
	19,000	9,000	Furniture and Fixtures	2,000
Less drawings	10000			
Loans from Mrs. Desai		6,000	Stocks	26,000
Loans from Mrs. Khara		6,000	Debtors	17,500
Trade Creditors		60,000	Cash in hand and at Bank	9,500
			Preliminary Expenses	1,000
		81,000		81,000

The reputation of the firm is satisfactory.

As a branch manager of the Guwahati branch of Lord Krishna Bank, please comments whether you will consider the working capital limit of Rs 45,000/- against stocks and book debts.

Solution

1) Total Debt Equity Ratio $= \dfrac{\text{Outside liabilities}}{\text{TNW}} = \dfrac{72{,}000}{8{,}000} = 9:1$

2) Current Ratio $= \dfrac{\text{CA}}{\text{CL}} = \dfrac{53{,}000}{60{,}000} = 0.88:1$

3) Debtors' Velocity $= \dfrac{17{,}500 \times 12}{2{,}05{,}000} = 1$ month (approx.)

4) Creditors' Velocity $= \dfrac{60{,}000 \times 12}{1{,}50{,}000} = 4.8$ months (approx.)

5) Stock Turnover Ratio $= \dfrac{26{,}000}{2{,}05{,}000} \times 12 = 1.50$ months (approx.)

From the above, it can be said that the total debt equity ratio and current ratio are not satisfactory. From the balance sheet, it is seen that short-term funds of the firm utilized for long term sources. High total Debt Equity Ratio indicates that the long-term solvency of the firm is not satisfactory. Creditors velocity is more than debtors velocity. It is a good sign. Creditors' velocity of 4.8 months indicates that the firm is running the business on the strength of Trade Creditors. It is not desirable.

Assessment of Bank Finance for working capital requirement as per the turnover method

The firm has received large order worth Rs. 2,03,000/- with a lucrative price for the supply of corrugated boxes in the next six months. If it is annualized, the estimated sales turnover stands as Rs. 4,06,000/-. Since the order received at a lucrative price, it is expected it will generate more profit. Considering the projected turnover of Rs. 4,06,000/-, the quantum of Bank Finance for working capital requirement may be computed as per the turnover method as follows

Projected Annual Turnover	Rs 4,06,000/-
Gross working capital requirement – 25% of Projected Annual Turnover (25% of Rs 4,06,000/-)	Rs. 1,01,500/-
Amount of Bank Finance for working capital requirement - 20% of Projected Annual Turnover (20% of Rs 4,06,000/-)	Rs. 81,200-
Amount of Margin – 5% of Projected Sales Turnover (5% of Rs 4,06,000/-)	Rs. 20,300/-
Permissible Bank Finance	Rs. 81,200/-

Against Permissible Bank Finance of Rs. 81,200/-, the firm has requested for a cash credit facility of Rs.45,000/- against stocks and book-debts, which is justified for the following reasons.

(i) The proposed borrower estimated increases in sales turnover from Rs. 20,5000/- to Rs. 40,6000/- (i.e. around 100% increase in sales turnover). It is expected that the amount of stocks and book debts will also be increased proportionately, say stocks would be increased to Rs. 52,000/- and book-debts would be enhanced to Rs. 35,000/-.

(ii) As per the turnover method, the party is eligible for a working capital limit of Rs. 81,200/-, but the firm has requested for working capital of Rs. 45,000/-.

In order to improve the long-term solvency of the firm, it may be suggested to the partners of the firm to include their wives as partners and also to convert their loan to the firm as the capital of the firm. Hence, the member of partners of the firm will increase to 4 (four) and the amount of capital will also increase from Rs. 9,000/- to Rs. 21,000/-. After inclusion of the wives as partners, the total debt-equity ratio of the firm would be as follows-

$$\frac{6,000}{21,000-1,000} = \frac{6,000}{20,000} = 3:1$$

It indicates, if the wives are included as partners and also convert their loans to the capital of the firm, the total debt-equity ratio of the firm will be within the benchmark level. However, it will not solve the problem of negative current ratio. In order to prevent the flow of fund from short term sources for long term uses, there are following alternatives before the proposed borrower/bank

a) To raise the capital of the firm and utilize the fund to reduce trade creditors.

b) The firm may mobilize term loan from friends and relatives and reduce trade creditors to shift short term liability to long term liability.

If the firm fails to raise capital as well as to mobilize loans from friends and relatives, there will be no alternative before the proposed borrower but to apply for term loan

against existing Plant and Machinery. It will be a prudent decision on the part of the bank to sanction term loan to firm against the existing Plant and Machinery to enable the firm to reduce his trade creditors, thereby shifting his short-term liability to long term liability.

Suppose the bank agreed to sanction term loan of Rs. 15,000/- to reduce trade creditors from Rs. 60,000/- to Rs. 45,000/-. It will reduce the current ratio to 1.17:1 (53000/60000-15000), which is quite satisfactory.

The question may arise that after availing working capital limit of Rs. 45000/-, the total debt-equity ratio of the firm will be adversely affected. However, this can be checked by restricting the withdrawal of funds from the firm by the partners. The increase in profit and restriction of withdrawal of fund will positively influence the long-term solvency of the firm.

The action point may be summarised as follows:

i) Wives of partners to be included as partners along with their loans to the firm to be retained in the business as capital to strengthen the long-term solvency of the business.

ii) If the firm fails to raise capital or to raise loans from friends and relatives, the bank has to come forward to sanction term loan of Rs. 15000/- against plant and machinery to repay trade creditors. It will ensure improvement in the current ratio.

iii) The firm is to ensure the reduction of trade creditors gradually to maintain the desired level of current ratio (1.10:1) so that the firm does not face any problem to avail of the working capital limit of Rs.45,000/-. In other words, it can be said that in order to enjoy drawing power of Rs.45,000/-, the proposed borrower must reduce trade creditors gradually in the ensuing year. Alternatively, the release of the working capital limit of the bank may be linked with the reduction of trade creditors.

iv) The firm is to ensure the plough back of profit in the business along with a restriction on drawings to strengthen long term as well as short term solvency of the business.

UNIFIED PAYMENT INTERFACE (UPI) SIMPLIFIED

Ms. Namrata Shukla, DGM RBI and
Faculty, IIBM Guwahati

Unified Payments Interface (UPI) is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. It is a common interface or a platform for all digital payment systems in India. It is built over the IMPS infrastructure and allows you to instantly transfer money between any two parties' bank accounts. NPCI is the owner, network operator, service provider, and coordinator of the UPI Network. It was launched on April 11, 2016, by the then RBI Governor Dr. Raghuram G Rajan. As at the end of December 2018, 129 banks were live on UPI and 620.17 million transactions amounting to Rs 1025.95 billion have so far being carried out using UPI.

What makes UPI unique

i. Immediate money transfer through mobile device round the clock 24*7 and 365 days.

ii. User can consolidate multiple banking relationships using a single UPI App. It also enables personal mobile to be used as a primary device for all payments including person to person, person to entity, and entity to person i.e. using UPI, users can seamlessly make or request payments with ease and security to/from friends, merchants or pay their bills, etc. without the need to share banking credentials.

iii. The payments can be done using any of the following modes Aadhaar Number or Virtual Payment Address (VPA), or Account Number & Indian Financial System Code (IFSC), or Mobile Number & MMID (Mobile Money Identifier).

iv. UPI allows users to create their unique Virtual Payment Address (VPA) thus enabling them to make payments only by providing a payment address without the need to provide sensitive details like bank account numbers or credentials on third-party applications or websites.

v. It uses One-click 2-factor authentication for safe and secure payments using a personal mobile phone without the need for any separate acquiring devices or physical tokens. The user's mobile phone acts as a single device both to authorize and authenticate the payment.

vi. The payments can be initiated both by the sender (payer) and receiver (payee). This enables a personal mobile to be used to "pay" someone (push) as well as "collect" from someone (pull).

vii.With its standard set of APIs, UPI has allowed different banks to communicate with each other and has enabled interoperability between disparate bank payment systems.

viii. In UPI there are no intermediaries like in card networks, which allows for low transaction costs and instant settlement.

ix. Moreover, all merchant payments can be done with Single Application or In-App Payments.

x. It is the best answer to making Cash on Delivery cashless since the merchant can initiate a pull transaction i.e. request for funds.

xi. The feature of scanning the QR code eliminates the need for even entering the VPA, this is especially useful in case of people who are in a rush or those who are not literate.

xii. Sharing of a bill amongst friends is possible with the special feature built in the UPI app.

xiii. Any complaints in case of a disputed transaction can be raised directly from the Mobile App.

Participants in UPI

i. Payer Payment System Player

ii. Payee Payment System Player

iii. Remitter Bank

iv. Beneficiary Bank

v. NPCI

vi. Bank Account holders

vii. Merchants

There is a limit of Rs 1 lakh per transaction in UPI.

Performing a UPI Transaction:

A. PUSH – sending money using a virtual address

i. User logs in to UPI application

ii. After a successful login, the user selects the option of Send Money/Payment

iii. The user enters beneficiary's/Payee virtual id, amount and selects an account to be debited

iv. The user gets a confirmation screen to review the payment details and clicks on Confirm

v. The user now enters UPI PIN

vi. The user gets successful or failure message

B. PULL – Requesting money

i. User logs in to his bank's UPI application

ii. After a successful login, the user selects the option of collect money (request for payment)

iii. The user enters remitters/payers virtual id, amount and account to be credited

iv. The user gets a confirmation screen to review the payment details and clicks on confirm

v. The payer will get the notification on his mobile for request money

vi. Payer now clicks on the notification and opens his banks UPI app where he reviews payment request

vii. Payer then decides to click on accept or decline

viii. In case of accept payment, the payer will enter UPI PIN to authorize the transaction

ix. Transaction complete, payer gets successful or declines transaction notification

x. Payee/requester gets notification and SMS from the bank for credit of his bank account

Benefits of UPI

For banks:

i. Single click Two Factor authentication

ii. Universal Application for transaction

iii. Leveraging existing infrastructure

iv. Safer, Secured and Innovative

v. Payment basis Single/ Unique Identifier

vi. Enable seamless merchant transactions

vii. Low transaction costs and instant settlement.

For end Customers:

i. Round the clock availability

ii. Single Application for accessing different bank accounts

iii. Use of Virtual ID is more secure, no credential sharing

iv. Single click authentication

v. Low transaction costs and instant settlement.

vi. Raise Complaint from Mobile App directly

For Merchants:

i. Seamless fund collection from customers - single identifiers

ii. No risk of storing customer's virtual address like in Cards

iii. Tap customers not having credit/debit cards

iv. Suitable for e-Com & m-Com transaction

v. Resolves the COD collection problem

vi. Single click 2FA facility to the customer - seamless Pull

vii. In-App Payments (IAP)

viii. Low transaction costs and instant settlement.

Conclusion

UPI has enabled a mobile phone to be used as a primary payment device for making and accepting payments. It leverages high teledensity in India to enable every bank account holder to make digital transactions using a mobile phone. India, which has a poor merchant payment acceptance infrastructure, it enables even the smallest merchant to start accepting digital payments without the need for any POS machine. It has also done away with the need to know the complicated payment details of the transacting parties, which makes payments easy and seamless for transacting parties. While all other digital modes of payments like cards etc. take days to complete the transaction and settlement process, UPI allows payment to be completed in seconds. UPI works on a safe, secure and robust platform with ample security features to make it more secure than any extant payment systems. UPI can be a great enabler for financial inclusion in India and allow a huge set of the population to be a part of the digital economy. Compared to all other payment systems it can be safely said that it is by far the most advanced payment system in the world.

PERFORMANCE SCENARIO OF NON-BANKING FINANCE COMPANIES IN INDIA

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Introduction

In India, the Non-Bank Finance Companies (NBFCs) have emerged as an alternative source of credit to the country's small and medium enterprises, retailors, homebuyers and consumers (RBI 2018). At present, there are 10,190 NBFCs, registered with the Reserve Bank of India, of which 108 are deposit accepting (NBFCs-D) and 276 are systemically important non-deposit accepting NBFCs (NBFCs ND-SI) (FSR December, 2018).

Being an important part of the Indian financial system, the NBFCs are regularly monitored and supervised by the Reserve Bank of India (RBI). Thus, with the guidance and supervision of the regulators, the NBFCs are growing robustly in recent years. From 2009-2018, the loan book of the NBFC sector grew at a compound annual growth rate of 17 percent (Vardhan and Sengupta, 2019). At present the NBFCs constituted 75 percent of the total assets in the Non-banking financial institutions (NBFI) and reported 13.4 percent growth in credit in comparison to the previous year (RBI 2018). This growth was partly due to the slowdown in lending by public sector banks and partly due to credit delivery model of these NBFCs (Srinivasan, 2019). Despite promising growth, there are some concerns about the operations of the NBFCs at the end of 2018-19. The debt default and temporary asset-liability mismatches of Infrastructure Leasing & Financial Services (IL&FS), caused a huge outcry among the lenders and depositors. Consequent to defaults, rating agency ICRA downgraded the ratings of IL&FS short-term and long-term borrowing programs. This has adversely impacted the business of NBFCs, by restricting the flow of funds and raises concerns of systematic risks.

Apart from this, there are some other concerns for the NBFC sector, such as deteriorating asset quality with expanding credit disbursement, which needs greater monitoring (RBI report on Trends and Progress in Banking Sector, 2017 and 2018). Further, RBI canceled registration of 1,490 NBFCs in last two years, for various reasons such as non-compliance with mandatory requirements (minimum net-owned funds of Rs 20 million), non-submission of statutory returns, and companies are not being traced at the addresses they gave (Lele, 2018). Thus, the regulators are quite strict about the compliance and monitoring of the NBFCs.

Therefore, the NBFCs in India are undergoing a turmoil phase, with liquidity crunch and regulatory constraint. With this background, the present study analyzed the current situation of NBFCs in India. The present study seeks to empirically compare the performance parameter of the Indian NBFCs for the period of five Financial Year (FY) viz. 2013-2018.

Research Design

The primary objective of the study is to compare the performance of NBFCs in India for the period of five years i.e., from 2013-14 to 2017-18.

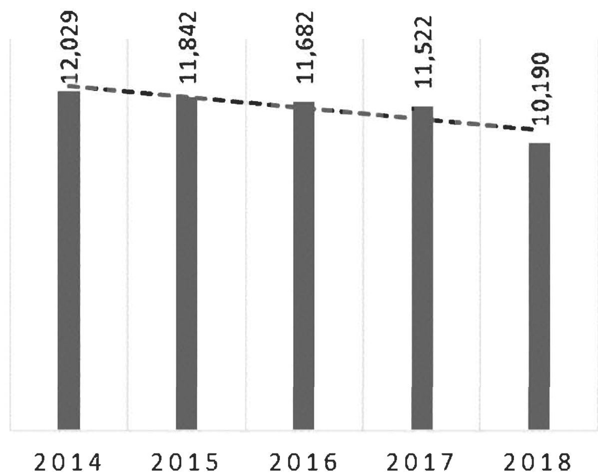
NBFCs in India at a glance

The NBFC sector in India has undergone a significant transformation over the past few years. In the meantime, it is also exposed to various risk factors which affected their growth (PWC 2015). They are heterogeneous in nature and are engaged in twelve different categories of activities at the end of September 2018 (FSR 2018). However, recently RBI has decided to merge three categories of NBFCs- Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC) (RBI 2019). The three categories cover nearly 99 percent of the NBFCs by number.

The number of NBFCs registered with RBI declined by 18

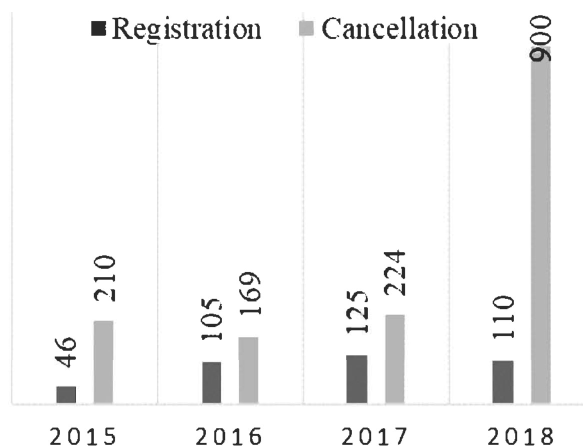
percent in the last five years (Figure 1). This is partly due to the strict compliance followed by RBI is issuing Certificate of Registration to NBFCs. It was observed that the number of NBFC registrations cancelled by RBI are more than the number of NBFCs registered (Figure 2). For instance, in 2018, 900 NBFC registration was cancelled whereas only 110 were registered.

Figure 1: Number of NBFCs registered with RBI



Source: RBI Reports

Figure 2: Registration and Cancellation of CoR of NBFC

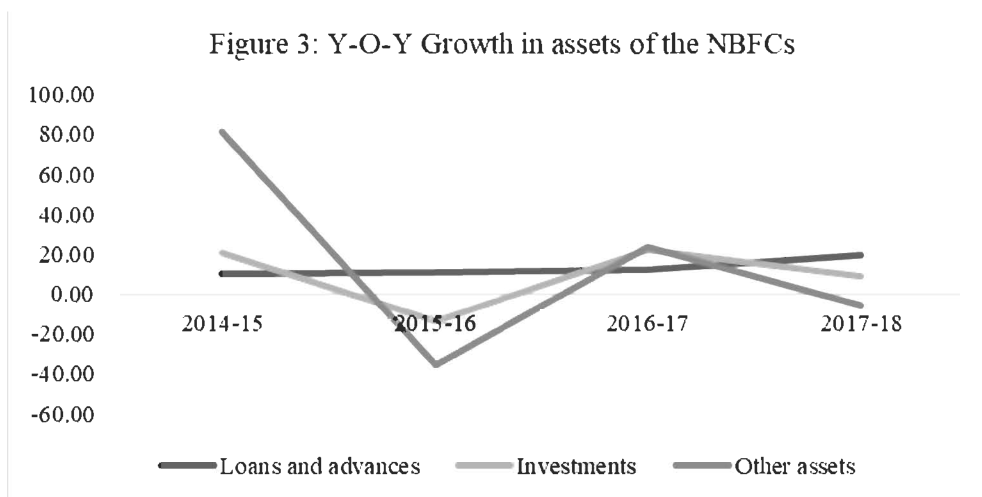


The NBFCs are broadly categorized into NBFC-D and NBFC-ND based on their liability structures. Further, the NBFC-ND with asset size of Rs five billion or more are classified as NBFC-ND-SI . The NBFCs-ND-SI are subjected to stricter prudential regulations as compared to NBFCs-ND (RBI, 2018).

NBFCs Asset growth and Composition of Advances

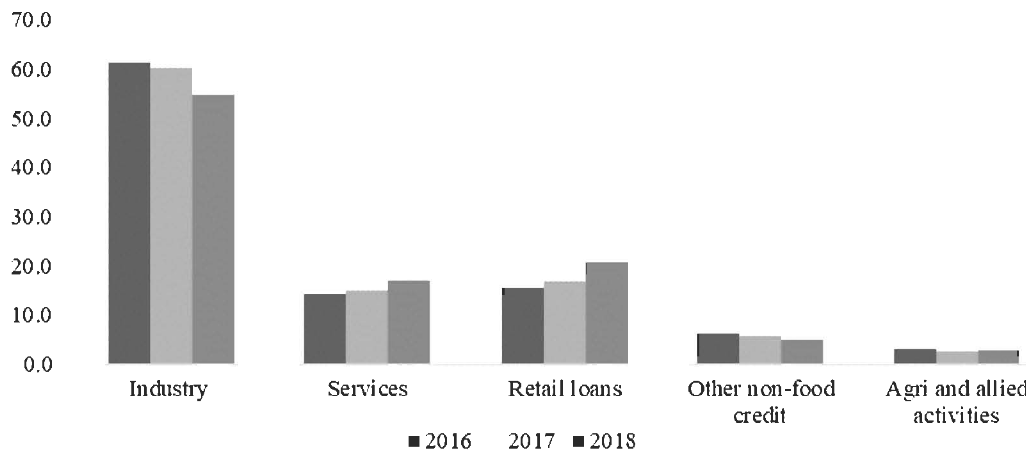
NBFCs have grown rapidly in India and that is reflected from their asset growth pattern over the years. The aggregate balance sheet size of the NBFC sector increased to Rs 22.2 trillion in 2018 from Rs 19.7 trillion in 2017, reported a compounded annual growth rate (CGAR) of 11.9 percent from 2013 to 2018.

Harmonisation of different categories of NBFCs, February 22, 2019, https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11483&Mode=0
NBFCs authorised to accept and hold public deposits
NBFC-ND do not accept public deposit but raise debt from market and banks.
NBFC-ND-SI stands for NBFC non-deposit taking systematically important



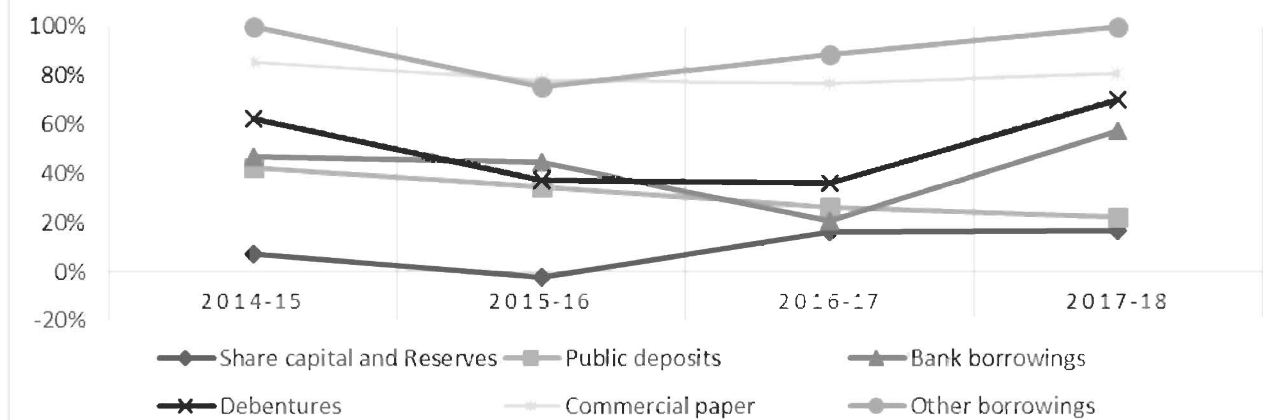
Loans and advances comprise more than 75 percent of total assets, increased from 2015 to 2018, due to a combination of factors (Figure 3). This included reduced credit disbursement by the banks, decline NBFCs' cost of lending and an aggregate increase in continued credit in the economy (Ghosh, 2018). Expansion in loan books is due to credit to industry (micro, small and medium enterprises) and retail sector. Industry accounts for more than half on the total loans followed by retail and service sector. Retail loans increased by 46.2 percent in 2017-18 in comparison to 21.6 percent in the previous year due to increased demand in vehicle loan segment. Credit to the service sector, which includes commercial real estate and retail trade increased by 62 percent from 2016 to 2018, due to the reluctance of SCBs' to extend credit to this sector (RBI, 2018). In contrast to this, loan to agriculture and the allied sector accounts for merely 2-3 percent of total credit. In the year 2018, the demand for loan from the retail and service sector accelerated (Figure 4).

Figure 4: Distribution of NBFCs credit in different sectors in last three years



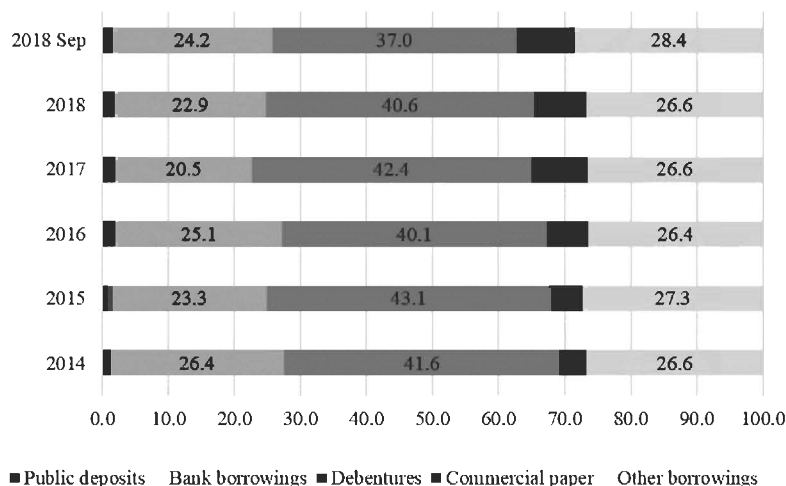
Another important component of an asset is the investments, which increased by only 9.13 percent in 2017-18, in comparison to 22.4 percent increase in 2016-17. In 2016-17, NBFCs invested in equity shares in the wake of the ebullient market (RBI, 2016-17).

On the liability side, the share capital of NBFCs reported 10.47 percent CGAR from 2014-15 to 2017-18, with a dip of 2.18 percent in 2015-16. Borrowings by NBFCs from various sources accounts for more than 70 percent of total liabilities, increased by 12.38 percent (CGAR) in the last five financial years.



Among the various sources, the bank borrowing increased by 28 percent in the year 2017-18 from that of the previous year. In contrast, the commercial paper increased by only 8.9 percent in the year 2017-18 from 51.53 percent increase in the previous year. Also, the proportion of fund raised by CPs was significantly low (CARE, 2019). There was 14 percent decline in the share of a fund raised by NBFCs via CPs from July 2019 to January 2019. Growth in public deposits decelerated, due to the revised guidelines issued by RBI (2014), which mandated that only rated NBFCs-D can accept and maintain deposits.

Figure 4: Funding mix of NBFCs



After the IL and FS crisis (in October 2018), NBFCs are finding it difficult to get funds from other sources like mutual funds or even directly from the market through the commercial paper. The volume of commercial paper issuances came down to Rs 6.1 lakh crore in Q3 FY19 from Rs 7.95 lakh crore in Q2 FY19 (RBI, 2019). Usually, NBFCs used to constitute over 30 percent of all CP issuances, which dropped by 11 percent in October 2018. Though it has recovered back to 25 percent in the month of December 2018 (Palepu, 2019).

Also, the exposure of Mutual Funds to NBFCs reduced after the last year (Allirajan,2019). The share of funding from AMC-MFs to NBFCs declined from 30 percent in June 2017 to 26.4 percent in September 2018 (FSR Dec 2018). After the liquidity crisis, the MFs reduced almost 1/4th of their investments from commercial papers (CPs). As of January 2019, debt MFs held Rs 1.16 lakh crore funds in CPs of NBFCs .

Thus, the situation has affected the borrowing costs and created a liquidity shortage of around Rs one lakh crore for the NBFCs. Thus, the dependence on market borrowings got shifted to bank borrowings. The bank lending increased by 4.4 percent in the December 2018 quarter from that of the previous quarter. Banks also offered support to the NBFCs by purchasing their loan portfolio in securitization deals to help them tide over in liquidity mismatches after the crisis. The recent step of RBI, allow the banks to increase their exposure to individual NBFCs.

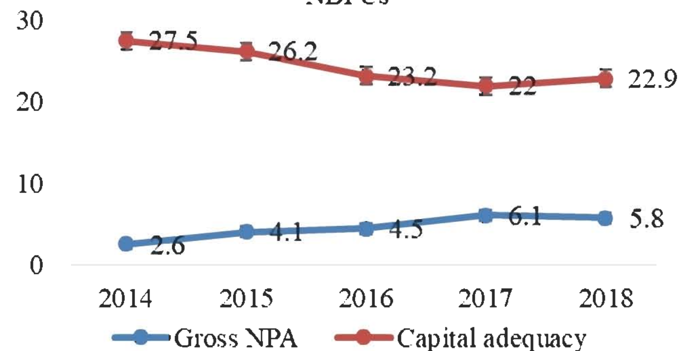
Profitability and Asset Quality of NBFCs

The net profit of NBFCs declined during 2017-18 mainly because of increased expenditure. The NBFCs' profitability indicators—return on equity (RoE) and return on assets (RoA)— were higher during 2017-18 than a year ago (Table 1). The decline in RoA in last five years is due to the deteriorating asset quality. The NPA increased from 2.6 percent in 2014 to 5.8 percent in 2018. though the net interest margin decreased, reflecting higher interest expenses (RBI 2018).

Table 1: Financial Ratios of the NBFCs					
	2014	**2015**	**2016**	**2017**	**2018**
(a) Financial ratios (as per cent of total assets)					
(i) Income	11.8	11.6	12.4	11.7	11
(ii) Expenditure	8.8	8.6	9.4	9.3	8.6
(iii) Net profit	2.2	2.1	2.1	1.6	1.7
(b) Cost to income ratio	74.6	74.4	76	78.9	77.9
(c) Return on Assets	2.2	1.9	2.1	1.6	1.9
(d) Return on Equity	9.1	8.7	9.7	6.9	8.4

In the last five years, the asset quality and capital adequacy of the NBFCs have deteriorated. The non-performing assets (NPAs) of NBFCs are about 5.8 percent in 2017-18. Though the overall NPA of NBFC is lower than that of the commercial banks (11.6 percent), the NPA in some specific sectors such as NBFC-MFI and infrastructure finance companies is as high as 7.9 percent. The CRAR for NBFCs is stipulated at 15 percent. The NBFCs are well capitalized, with CRAR higher than 20 percent. The decline in CRAR is due to an increase in NPAs of the NBFCs (Figure 5).

Figure 5: Capital Adequacy and Asset Quality of NBFCs



Conclusion

The defaults by IL&FS and the panic it created, even if short-lived, forced discussions on deeper, systemic issues such as liquidity or Asset liability management for the NBFC sector. In response, the regulator introduced regulatory changes and necessitated changes in the risk management framework for NBFCs (Assocham, 2018). The NBFCs in India need to address the mismatch between long-term lending and borrowings. They need to diversify their borrowing sources as lending through mutual fund declined by 2.3 percent in 2018 from that of the previous year. Though with the intervention of RBI the bank funding for NBFCs is increasing, they have to change the way they borrow and look for new funding avenues from abroad and also lend to a wider range of sectors. The NBFCs need to reconfigure the funding mix by replacing short-term borrowings with the long-term fund.

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