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Articles

- **The 'Strategic Differentiators' of State Bank of India**
  – *Ashwini Mehra*

What is it that makes the State Bank of India the largest bank in the country? What was the objective behind the setting of this banking institution that paved the way for national development and changed the role of a bank from being a mere repository of the community's savings and a lender to creditworthy parties to purposeful banking, sub-serving the growing and diversified financial needs of planned economic development? The article highlights the role played by the State Bank of India in taking the country's banking and financial industry foward

- **Basel Accords and their Implications on Banking Business**
  – *S V Kuvalekar*

The Basel Accords primarily focuses on prudential norms for bank capital under the aegis of which banks are required to ensure adequate capital to cover losses on account of significant risks in their business. Banks use deposits and borrowings for commercial and investment banking business. These two liabilities together form more than 90% of the total liabilities of a bank. Due to this, banks are considered as highly leveraged lending institutions. Further, on account of deregulation of the markets, banks are exposed to market risk in their commercial and investment banking business. Therefore they need to have adequate capital proportionate to risk. In the past banks maintained capital as per the provisions contained in the Banking Regulation Act of 1949. At present the Reserve Bank of India (RBI) has prescribed a capital adequacy ratio i.e. capital risk asset ratio (CRAR) under the Basel Accords. The capital of a bank must have a relationship with the risk it takes. This article is an effort to review the Basel Accords with regards to bank capital and liquidity ratios and its implications on the banking business.

- **Enabling Credit Growth**
  – *Alok Srivastava, N Muniraju, Vinayak Bhishikar & Sanjeev Rohilla*

  Credit growth in the Indian banking sector has been a cause for concern for bankers. According to a banker quoted in a popular newspaper, "Traditionally, bank credit has been growing at two-and-a-half times the growth of the gross domestic product. But in recent years the composition of growth is changing and a large part of the growth is coming from the services sector where demand for credit is lower." Therefore, the time has come to take aggressive measures in order to give the necessary boost to credit growth and ensure a more healthy credit offtake.

  While several factors such as lack of industrial growth, growing NPAs, etc. have been blamed for the lack of growth in credit offtakes, there are several steps that banks can take in order to help the cause. For one, the credit appraisal process needs to be strengthened and adopted in a robust manner in order to ensure good quality of assets in banks. While this may be a generic problem, several banks have adopted appropriate measures to tackle this problem. The shortage of skilled credit appraisal officers needs to be taken up in dead earnest. The momentum that leads to higher credit growth has been stunted by the rising NPAs and the sword of vigilance hanging heavy over the heads of bank officers in charge of sanctioning of advances.

- **Insolvency and Bankruptcy Code for Early Liquidation of Bank Debts from Corporates**
  – V S Kaveri

The Government of India has recently come out with a much awaited legislation on Insolvency and Bankruptcy Act which is in the larger interest of both creditors and banks. This would attract foreign direct investment (FDI) in India since the present status of 'ease of doing business' in India is expected to improve. For corporates, the process to wind up a business entity has been made simple, which in turn would help in faster loan recovery for banks. Hence, with the passage of the Insolvency and Bankruptcy Bill, banks have to develop a good understanding of the process involved in seeking corporate insolvency and bankruptcy under the new Act for effective loan recovery. Various provisions of the Act are quite interesting for bankers.

- **Is Letter of Credit Losing Ground in International Trade?**
  – *Ravi Kant*

Letter of credit (LC) is one of the most popular methods of trade settlement used equally both in domestic as well as in international trade. Besides giving good non-funds-based income to the banks, LC reduces payment uncertainty by the buyer as there is a guarantee of payment by the LC-issuing bank. Over a period of time it is found that due to various issues traders are switching over from LC to open account for settling their trade. Open account carries the risk of settlement and various other issues that are not found in LC. The International Chambers of Commerce (ICC), a body of international traders, has also expressed its concern on the reducing level of LC business and the risk of open account. This article is drafted on the declining trend of LC business and it highlights the importance of LC. It is found that even though the total volume of business through LC is declining, the usage of MT 700 messsages for opening LC is increasing. It concludes that it is not the merit of LC transactions but rather the demerits of other competitive products such as open account/BPO) which will keep the LC business alive in the near future.

- **Introduction to Valuation of Immovable Properties**
  – *K C Jhavar*

Valuation report is a vital input in any credit decision of a banker. Public sector banks (PSBs) are the biggest users of valuation reports. Hence, if the bank staff is familiar with the basics of valuation principles and practices, they will be in a position to make more effective use of valuation reports. With this end in view some basic information about the valuation of immovable properties is presented in this article.