Articles

Credit Innovations for the Small/Marginal Farmers

- K G Karmakar

Farming at best is a risky proposition and even more so for the small/marginal farmers whose average landholding is increasingly being fragmented. Farmers constitute the largest private sector in the land but lack credit access, market access, insurance, infrastructure, quality inputs, storage, extension services, etc. The institutional credit system has been unable to edge out the ubiquitous moneylender who provides a range of services for a very high fee.

Various innovations in rural credit delivery like SHGs/JLGs/KCC/SCC have been able to provide some financial services to very poor rural people, especially women. There are innovations needed for providing deposits and credit products for small/marginal farmers and also insurance products as well as money transfer facilities. Micro-finance agencies proliferate where the rural banking system is already strong and not in the eastern/north-eastern areas where the banking network is weak. The RRBs and Cooperative Banks need further strengthening and use of computers for better efficiency. Demand side issues need to be addressed as investment credit demand is weakening. Doubling of Agriculture Credit over three years has been effective but may not be sustainable unless investment credit is enhanced.

Managing Risk : Prevention of Money Laundering in Banks

- Indrani Banerjee

Compliance with Anti-Money Laundering (AML) Regulations and Know Your Customer (KYC) Norms has assumed urgency in the light of developments such as notification of obligations of banks and financial institutions under the Prevention of Money Laundering Rules, 2005 and the move towards adoption of a risk-based approach for prevention of money laundering, in line with international best practices. By its nature, because of its ability to move funds rapidly, the banking system is especially vulnerable to money laundering. Institution of requisite internal controls can prevent banks and financial institutions from being used as intermediaries for the transfer or deposit of funds derived from criminal activity. At the same time, by adopting operational perspectives for managing AML risk, banks can also achieve synergies in compliance with other requirements such as under Basel II.

Cheque Truncation : An Innovative Way to Improve Customer Service in Banks

- Dhrub Kumar Phitkariwala

Presently, time taken for clearing of cheques is very long and entire clearing cycle depends on the movement of physical cheques. Delay in realization of cheques is a major reason of customer dissatisfaction. To facilitate quicker settlement of clearing outstation cheques, a new process called "cheque truncation" is being introduced in which electronic records of cheques generated through digital image process will be transmitted to clearing houses/drawee banks instead of sending physical cheques and payment will be effected based on these electronic images. Necessary legal formalities for introducing this technologically advanced process has already been completed. Based on the recommendations of expert committee, suitable modalities for successful implementation, operation and prevention of frauds have already been formulated and no doubt it will revolutionalize the payment mechanism in the country giving a big jump towards the efforts of providing better and technology based customer service by banks.

Implementing Basel II in the Compliance Continuum

- Arun Pingaley & Kiran Narsu

Here we have identified several stages of Basel II compliance programme. Banks can benefit enormously from understanding the continuum of stages in their journey to Basel II. The first stage consists of Data availability, Data Movement and Data Quality challenges. Stage two of modeling explores the compliance of banks in estimating PD and LGD. The third stage details the Capital Computation and Credit Risk Computational Challenges.

Retail Banking in India : Prospects and Challenges

- R M Srivastava & Divya Nigam

Retail banking with its multiple attributes can be immensely helpful to Indian banks to enhance their productivity, profitability, reduce risks and enhance global competitiveness. Although retail banking is becoming increasingly popular with retail portfolio constituting about 22 per cent of total banks' advances as on March end 2004, it is still much lower by international standards. In view of growing economic prosperity, increasing income levels of middle class people, changing consumer demographics and preferences, retail banking has a bright future. However, the challenges are equally daunting. To what extent retail banking can exploit growth opportunities would depend upon the banks' core competency to meet the challenges and leverage opportunities profitably, the kind of technology used and the efficiency of the operations.

Financial Inclusion : A Commentary

- V S Kaveri

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have access to any source of funds – institutional or otherwise. Hardly, one-fourth of the rural households are assisted by banks. Hence, the major task before banks is to bring most of those excluded, i.e. 75 per cent of the total rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGOs and local development agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood. In this regard, the present article shares certain findings of the survey of the informal sector.

Learning the Art of Valuation

- Supriya Ray

In the present competitive market environment, in particular the era of Basel II, it is imperative that the branch managers/loan officers are sensitized to the nuances of valuation methods. Needless to mention, the starting point for credit risk management emanates from proper valuation. The proper credit decision including pricing, quality of loan assets, appropriate monitoring/ supervision and so on are the results of a good valuation system.

Notes & Comments

Basel II

- Tapash Guha Roy

MicroFinance : A Note

- D S Sangwan

Booknotes

- Bibha Ganguly