SPECIAL FOCUS INSIDE

The Economics of Apartheid and Mandela's Struggle for Freedom

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

JANUARY 2014 VOL 49 NO. 1 ₹100

Efficiency

Speed

Quality

Cost

STRATEGIC COST MANAGEMENT IN BANKING AND INSURANCE

MA ranks Indian banks on Cost Efficiency

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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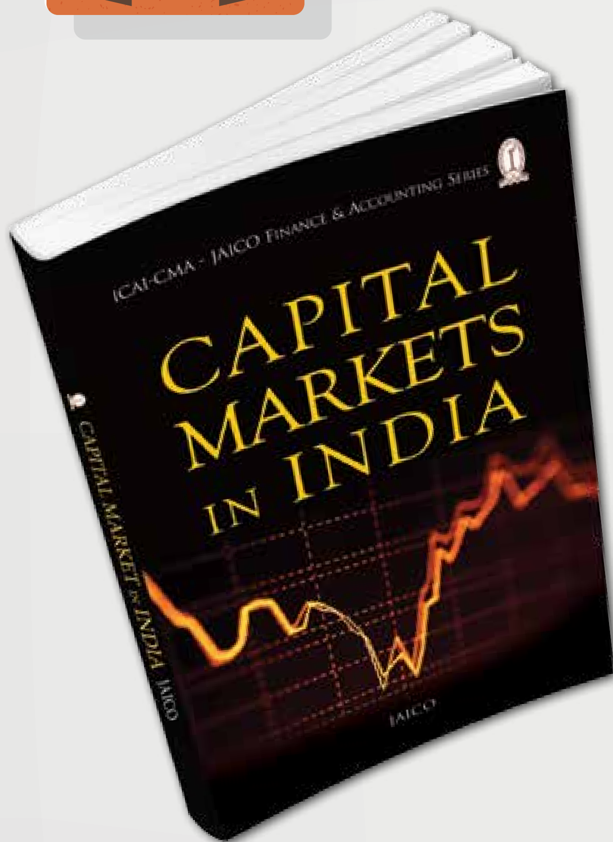
FIRST RESEARCH PUBLICATION FROM THE ICAI-CMA – JAICO INITIATIVE

ICAI-CMA – JAICO FINANCE & ACCOUNTING SERIES

CAPITAL MARKETS IN INDIA

Amal Krishna Dey & Pankaj Kumar Roy

J-2104 ₹695 520p ISBN 978-81-8495-232-2



THE EMERGENCE OF THE INDIAN CAPITAL MARKET as an attractive avenue for international investors has been an important financial story of recent times. The entry of world players has revolutionized Indian capital markets, largely for the better. But problems of understanding the management systems and behaviour of the capital market scientifically are vastly ignored by general investors and good times for investors may not last long without proper and scientific vision.

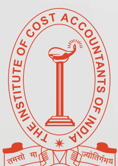
This book has been written keeping the above mentioned aspects and the basic subject matter of capital markets in mind. The book provides a comprehensive idea about the role and functioning of the capital market in India and will be a great help to students of business management, economics, business journalism and cost & management accountants in understanding the scientific parameters of the capital market mechanism in India.

CONTENTS

1. Capital Markets and Stock Exchanges and their History
2. Different Instruments of the Indian Capital Market
3. Investment, Trading and Transactions in Share Scrips
4. Movements of Share Prices
5. Role of Different Financial Institutions in the Capital Market
6. Laws and Regulations Affecting the Capital Market
7. Role of Income Tax Laws in the Capital Market
8. Role of Derivatives, Futures and Options
9. Computer Screen Based Trading
10. Security of Investors

Appendix: Investment Terminology Glossary

For further information about the book, please mail at research@icmai.in



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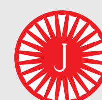

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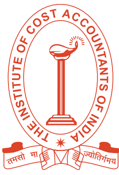

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The Institute of Cost Accountants of India

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

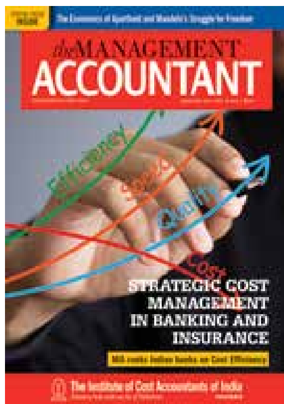
VISION STATEMENT

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments

Behind every successful business decision, there is always a CMA



JANUARY 2014 VOL 49 NO. 1 ₹100

The Management Accountant, official organ of The Institute of Cost Accountants of India, established in 1944 (founder member of IFAC, SAFA and CAPA)

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PRINTER & PUBLISHER
CMA S C Mohanty
President, The Institute of Cost Accountants of India
12 Sudder Street
Kolkata 700 016
and printed at
Hooghly Printing Co Ltd
(a Government of India Enterprise)

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January 2014

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The Management Accountant technical data

Periodicity: Monthly
Language: English

Overall Size: - 26.5cm x 19.5cm
Screens: up to 130

Subscription
Inland: ₹1,000 p.a. or ₹100 for a single copy

Overseas: US$150 for airmail or US$100 for surface mail

Concessional subscription rates for registered students of the Institute: ₹300 p.a. or ₹30 for a single copy

Advertisement rates

	Rs.	US $
Back Cover	50,000	2,500
Inside Cover	35,000	2,000
Ordy. Full Page	20,000	1,500
Ordy. Half Page	12,000	1,250
Ordy. Qrtr. Page	7,500	750

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FROM THE EDITOR'S DESK

Greetings!

Strategic Cost Management is the application of cost management techniques in order to continuously identify and analyze cost drivers to lower costs and maximize total value. An effective Strategic Cost Management programme can not only lower costs of an organization but also create a strategic competitive advantage. It also provides a framework for decision making, enables measurement of progress, provides a guideline for objective assessment etc. Strategic Cost Management is very crucial for an organization to maintain its sustainability and profitability.

In this difficult economic environment, there is great urgency to reduce costs and improve efficiency. But cutting indiscriminately or too deeply may severely hamper the ability to grow revenues when the economic outlook improves. Strategic Cost Management helps financial services companies like bank and insurance to measure profitability more accurately and in richer detail in two key ways: it helps capture and update cost information across multiple dimensions, and it extends cost modeling to include the customer dimension in cost and profitability analysis. It works in the following ways to enhance profitability and efficiency:

- Find out various avenues to minimize cost
- Using a smart combination of tactical cost reductions, proactive cost governance and strategic cost management initiatives to achieve high performance efficiency
- Minimize staff related costs
- Reduce the operating cost by optimizing the operating model
- Rationalize the product portfolio so that it offers standardized components and reusable product features to the customers
- Adopting cost governance
- Adopting Cost management benchmarking and planning
- Classify the cost drivers so that bank or insurance company can take efficient investment decision
- Strategically allocate resources with accurate profitability and cost information
- Managing aggressive cost reduction initiatives
- Developing and continuing sustainable cost management programmes
- Ensuring competitive advantage
- Effective utilization of resources
- Strategic decision making

Presently, banks have to fight on two areas, viz. speedy recovery of bank dues from the existing NPAs on the one hand and arresting further slippage in standard loans on the other. For these purposes, the NPA portfolio needs to be analyzed to determine the reasons for loan default both due to external and internal factors. External factors, over which the bank may not have much control, include economic slowdown, low industrial growth, debt crisis in euro zone and a global meltdown, rupee depreciation, high lending rates, etc. However, internal factors, such as inadequate result oriented recovery efforts and weak credit monitoring system in the banks have also contributed towards the present high level of NPAs.

Corporate Debt Restructuring is another important area to be addressed properly. It is basically a mechanism by way of which company endeavors to reorganize its outstanding obligations. Debt restructuring should aim to transform and reduce debt in a timely manner to restore solvency, reduce leverage, and restore credit to viable firms, as well as to improve the capacity to provide financial intermediation.

This issue has a quite a good number of articles and interviews by distinguished experts and authors on 'Strategic Cost Management in Banking and Insurance', the cover story theme of this issue. A new section, 'Letters to the Editor' that started a few issues ago, continues. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all contributors for this important issue and hope our readers enjoy the articles.

Wish you all a very happy New Year.

Need to create wider awareness on the relevance of Cost Accounting, Cost Management and Cost Audit

CMA Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

No matter how dark things seem to be or actually are, raise your sights higher and see the brighter possibilities for they are always there for you to reach. – Norman Vincent Peale

ISH all of you, your family and friends a great start to 2014. The New Year will bring its own successes and challenges and if our direction is clear and vision is focused we will achieve our objectives and create a better sustainable world for the next and future generations.

At the outset, I express my sincere gratitude to all of you for the cooperation, support and guidance extended to submit the suggestions with justifications on the Draft Companies (Cost Records & Cost Audit) Rules, 2013 and for mobilizing support of VIPs and stakeholders in favor of the existing provisions. The representations on restoration of existing Cost Accounting Records and Cost Audit Report Rules, 2013 has been sent to Hon'ble Prime Minister, Hon'ble Finance Minister, Hon'ble Minister, Ministry of Corporate Affairs and also to regulators like Chairperson-CBDT, Chairperson-CBEC, Chairperson-Competition Commission of India, Chairman-SEBI, Chairman-Tariff Commission and DGAD (Ministry of Commerce & Industry) etc. who have been using cost data / information for various activities mandated by statute or their respective Acts.

I sincerely urge for your active support in creating wider awareness on the relevance of Cost Accounting, Cost Management, authenticity of Cost Information for Policy Decisions and Cost Audit in the interest of the Industry, Regulators, Government and for overall public interest.

Friends, you are kindly aware that new opportunities have been provided in the New Companies Act, 2013 such as signing declaration for incorporation of Company, appointment as Internal Auditor, as Administrator, as Company Liquidator, as Professional Assistant to Company Liquidator, as Technical Member of the Tribunal, as Legal Representative, to appear before Tribunal for examination of Promoters & Directors and to certify the Scheme of Merger and Amalgamation of Companies etc. The Institute has been working continuously to develop different standards and technical materials besides creating awareness on the Cost and Management Accounting Profession in association with the industry bodies and Government departments. I am sure that CMAs will grab the new opportunities to contribute to the growth of the Indian Economy and to ensure equity with their professional services.

I sincerely believe that it is the time to consolidate our effort with professional maturity to overcome the critical situation so that we could win the race.

New initiatives in 2014

In order to provide comprehensive inputs to resource persons for conducting training programs for members in 2014, the Institute has finalized time bound Action Plans which include preparing Action Plan for CMA Vision 2030 with guidance and support from the National Advisory Board, Working module for Centre of Excellence, Reading mate-

rial for Internal Audit, Systems Audit, Indirect Taxes, Direct taxes, Companies Act 2013, Cost Accounting Standards & Cost Audit and Assurance Standards, Relevance & Utility of Cost & Management Accounting in Banking and Financial Sector, CGPA module for ICLS and Navy Officials, Training to existing Students, Training to newly passed out Students and Technical Guides on Business Valuation, Risk based Internal Audit, Risk Management, Strategic Cost Management and Sector-wise Guidelines on Risk Management & Internal Audit and Reading material for Diplomas in Business Valuation, Internal Audit and System Audit.

Various Directorates of the Institute have been assigned the above tasks, which have to be completed in a time bound manner. I sincerely hope that once accomplished, the above will result in very effective reference material for the members, students, resource persons and other stakeholders.

Session on the Companies Act 2013

I was invited by the Cuttack Branch of EIRC of ICAI to chair the session on the Companies Act 2013 during their annual conference. I shared my views on the Companies Act 2013 with the delegates and said that the Government has put new company law in place with best intentions and it is now up to the professionals to demonstrate their commitments through smooth implementation of the provisions of the Companies Act. One of the major challenges that the Act poses is the absence of transition provisions. As professionals, we need to understand the responsibility in the wake of globalization, liberalization and privatization sweeping the corporate world to come up to the expectations of not only the corporate sector but also the entire society.

NFCG programme

I got an opportunity to attend the Conference on Corporate Governance on 12th & 13th December 2013 at Chennai, organized by National Foundation for Corporate Governance (NFCG) to promote good Corporate -Governance Practices, to foster business growth, encourage investment, innovation and entrepreneurship. Mr. Sachin Pilot, Hon'ble Minister for Corporate Affairs was the Chief Guest at the Conference.

PHD Chamber of Commerce

I was invited to the inaugural session of the Presentation of PHD Chamber Annual Awards at New Delhi on 20th December 2013 by the PHD Chamber of Commerce and Industry. Shri Kamal Nath, Hon'ble Minister of Urban Development, Government of India presented the awards as Chief Guest.

To apprise all the members about the activities / initiatives undertaken by the Departments/ Directorates of the Institute, I now present a brief summary of the activities.

TO PROVIDE COMPREHENSIVE INPUTS TO RESOURCE PERSONS FOR CONDUCTING TRAINING PROGRAMMES FOR MEMBERS IN 2014, THE INSTITUTE HAS FINALIZED TIME-BOUND ACTION PLANS

Examination Directorate

The Intermediate and Final Examinations for December 2013 term were successfully conducted from 10th to 17th December 2013 at 115 examination centers including 3 overseas centers and a new center at Andaman Islands. This year the Foundation examinations were successfully held in online mode on 28th & 29th December 2013 for the first time. I congratulate the examination directorate for this achievement. I wish the examinees to come successful in their endeavour and become a part of the CMA fraternity.

Technical Directorate

Exposure Draft on Cost Statement for Determination of Cost of Goods has been hosted on the website for comments. Exposure Draft of the format of Reconciliation Statement relevant for CAS - 4 (Annexure 1AR) has been hosted on website for comments. A Letter has also been sent to all the Excise Commissioners for their valuable suggestions/comments on this Exposure Draft. The Institute has also hosted on the website, the Exposure Draft of Cost Accounting Standards on Royalty and Technical Know-how Fee (CAS-20) and Quality Control (CAS- 21) for comments of the Stakeholders and general public. The comments on both these drafts will be taken up for discussions during the next meeting of the CASB. I request all the members to give their valuable comments / suggestions on these drafts.

Membership Department

As you all are aware that the membership fee for FY 2013-14 became due on 1stApril 2013 and the last date for payment of the same has already expired on 30th September. However, even after three months, membership fee payments for FY 2013-14 is outstanding in respect of some of

our colleagues. I take this opportunity to urge the esteemed members to make payment of their membership fees at the earliest to help the Institute to retain their name in the Register of members.

I am happy to share with you that during the month, 436 members have been admitted to the Associateship, 80 members have been admitted to the Fellowship of the Institute. Also, 11 members of IMA, USA and 04 members of IPA Australia have been admitted to the Associateship of the Institute and 1 member of IPA, Australia to the Fellowship of the Institute.

CAT Directorate

I am pleased to share with you that the CAT under Kerala ASAP has progressed well and the second phase of admission under this module has crossed 2500 nos. It is a matter of pride that few more State Governments have expressed their willingness to adopt CAT Course as part of their Skill Development Initiatives.

Training Department

Training Directorate has successfully completed ICMAT 100 hours module for the students who could not either undergo Training or having experience to become eligible for December2013 final examination. The registration for second batch of ICMAT has already been started. I am happy to inform that your Institute has developed an On-Line Platform enabling the students to register their training/practical experience on-line. This will, I am sure, go a long way in facilitating a seamless process of registration to the students.

Directorate of Advanced Studies

The Viva Voce examination was conducted for the participants of the Business Valuation and Corporate Restructuring programme. The Diploma in Management Accountancy examination was conducted, for the first time for December, 2013 term by the Directorate of Advanced Studies.

The Institute signed MOU with ISACA and the course on Systems Audit is launched. The duration of the course is 12 months and there will be 240 hours of learning through distance mode. The details are hosted on the institute's website. I would sincerely look forward for a good number of enrolments so as to enable the Institute to move to the concerned Regulator(s) for recognition of the Course.

I am also pleased to inform you that we will be signing MOU with Institute of Internal Auditors shortly and am quite confident that this will benefit the members to grab new opportunity created under the Companies Act, 2013. The details are being hosted on the website shortly.

CPD Programs

I am pleased to inform that during the month, the Regional Councils and Chapters organized many programs, seminars and discussions for the members on the contemporary subjects such as Draft Companies (Cost Records And Cost Audit) Rules, 2013, TDS-Services, NSDL & Income Tax, Indian Rupee and Indian Ethos, Service Tax Voluntary Compliance Encouragement Scheme 2013, Internal Control and Introduction to COSO, Emerging Issues in Direct and Indirect Taxation, Rupee Devaluation and so on. During the month a webinar was organized for members on "Understanding Financial Derivatives".

ICWAI MARF Programs

The programs on 'Service Tax- Issues and Problems' and 'Finance for Junior Finance and Accounts Officers & Non-Executives (F&A)' organized at Jodhpur during 03-06 December, 2013, were attended by Senior, Middle and Junior level Officers from different organizations. The programs on 'Emerging Issues in Direct and Indirect Taxation' and 'Risk Based Internal Audit for Effective Management Control' were held at Shirdi during 17-20 December, 2013 and was attended by Senior level and Middle level Officers from different organizations. The programme on 'Management of Taxation' for Power Transmission Corporation of Uttarakhand Limited was organized during 09-14 December, 2013 at Dehradun in two batches of 25 Officers each.

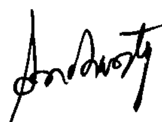
55th National Cost Convention

The revised brochure of the 55th National Cost Convention (NCC-2014) of the Institute has been uploaded on the Institute's website and sent to all concerned for extending necessary support and adequate participation. I request all of you to visit Bhubaneswar, the land of Lord Jagannath, during 23rd and 24th February 2014 to participate in the convention in large numbers so as to make this national event of the Institute a grand success and to showcase the strength of CMA profession to the world.

Several initiatives by the Tax Research Department of the institute are on the card for proper recognition of the profession and to create better opportunities for our members.

I wish all the members, their families and friends a very happening 2014. I convey my best wishes on the occasion of Id-e-Milad, Guru Govind Singh Jayanti, Makar Sankranti, Pongal, Lohri, Netaji Subhas Chandra Bose Jayanti and Republic Day.

With warm regards,



CMA Suresh Chandra Mohanty
1st January 2014

LETTER TO THE EDITOR

Unquestionably, *The Management Account* is a proud symbol in the field of research, academic and profession. Being a regular reader, I think that several issues of the magazine can be regarded as a valuable resource in various fields. The planning and design of all the articles indicate a resolute commitment to quality. The questions and answers are bonus points to our knowledge bank. In fact, each issue of the journal can be regarded as valuable enrichment. I am hopeful about its further. My appreciation goes out to the full squad of the editorial team for their brilliant efforts to achieve new heights of editorial excellence. I request you to include the following:

- Notes and data on India's economy.
- Important business events in the country as well as around the world.
- Annual financial indicators of the top 500 companies in India.

Dr. Basanta Khamrui,
Chandannagar

Attention Members

You are requested to kindly verify and update your journal mailing address through the online membership system and/or contact the membership department for correcting the same. This would help you in receiving the journals regularly. Please visit the Instute's website at *www.icmai.in* for details

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

CLARIFICATION

Ref. No: BOS/01-12/13-14 — Dated: Kolkata, 18th December,2013

Clarification on applicability of Companies Act,2013 for CMA Examinations

In continuation with the earlier clarification reference no.BOS/01-08/13-14, which was already hosted in the website on 26th August,2013.

It is further clarified for general information that the provisions of "The Companies Act,2013" shall not be applicable for the CMA Intermediate and Final Course Examinations for June,2014 term of Examination.

Regarding applicability of the Companies Act,2013, for/from December 2014 CMA Examination, necessary communication would be intimated in due course.

All concerned are hereby requested to make a proper and wide publicity to meet the concern of stakeholders on this stated subject.

This issues with an approval of the competent authority.

CMA Chiranjib Das
Secretary to the Board of Studies Committee

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ICAI-CMA SNAPSHOTS

1. CMA S.C. Mohanty, President of the Institute felicitating CMA Kulamani Biswal, Director (Finance) at NTPC on December 9, 2013 at New Delhi

2. Release of the Knowledge Study Series by joint collaboration of the Institute and Assocham at SMEs Excellence Award 2013 held on December 6, 2013 in New Delhi. Among the dignitaries on the dais present were Shri K.H Muniyappa, Hon'ble Minister of State (I/C) for MSME, Government of India, CMA S.C. Mohanty President of Institute, Shri P.K. Jain, Chairman, National Council for SMEs, Assocham, Shri N.K Maini, Deputy Managing Director, Small Industries Development Bank of India, Shri Manguirish Pai Raiker, Co-Chairman, National Council for SMEs, Assocham and other eminent dignitaries

3. CMA S.C Mohanty, President of the Institute and Shri PK Jain, Chairman, National Council for SMEs, Assocham at the seminar on 'SMEs - The Growth Drivers of the Economy' held on December 6, 2013 in New Delhi

4.CMA S.C Mohanty, President of the Institute delivering his speech at the seminar on 'SMEs - The Growth Drivers of the Economy' held on December 6, 2013 in New Delhi

5.CMA Kaushik Banerjee, Secretary (Acting) and CMA R.N Pal, Sr. Director (Studies) of the Institute welcoming Prof. E Balagurusamy, former Vice Chancellor, Anna University, Chennai, and former member, Union Public Service Commission, New Delhi and of Planning Commission, Tamil Nadu during his visit to the Institute.

RELEVANCE AND UTILITY OF COST AND MANAGEMENT ACCOUNTING IN THE PRESENT SOCIO-ECONOMIC SCENARIO

Management accounting now plays bigger roles in organizations. Management accountant not only play the role of internal analyst and consultant, but participate in top level decision making

CMA Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

No management can succeed unless it is very cost conscious… As Cost Accountants, you have a wide field… Cost Accountancy is not audit as such, nor is it ordinary accountancy that is looking into what money is spent and how it is spent. The job of the Cost Accountant is to see from the very beginning how the enterprise has been planned… Cost Accountants should be associated with and should have a full share in the planning of enterprises from the very beginning – Shri Morarji Desai, former Prime Minister of India

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The global business environment is characterized by intense competition from domestic players and multinational companies. Formulating the right strategy is inevitable in order to establish competitive advantage. As a strategist, the management accountant is critically involved in deciding and negotiating appropriate strategic moves and also helping managers determine their most important customers, competitors, substitute products in the market, core competence, adequacy of resources to support a strategy and the like. In a bid to strengthen their strategic role, management accountants concentrate their time and effort on strategic management accounting.

With the pressure of globalization, which has increased the intensity of competition, advancement of technology and pressure to get information almost on real time basis, Management accounting now plays bigger roles in organizations. Management accountant not only play the role of internal analyst and consultant, but participate in top level decision making.

Management accounting continues to focus on value creation through effective use of resources. In other words, management accountants play an important role in preserving and adding value to the organization by managing resources, activities and people to fulfill the organizations' objectives.

Effective rules for maintaining cost accounting records and cost audit encourage use of technology and scientific tools

like quantitative techniques, technical/ benchmarked standards, integrated software, etc and help preparing realistic budgets based on such tools. Thereby, it helps identifying wasteful expenditure, underutilized resources, other inefficiencies and frauds. Such outcomes are not expected from traditional accounting and financial audits, which are essentially concerned with recognition and audit of contractual and statutory transactions for the entity (company) as a whole. As such, the purpose of financial accounting and financial audit are quite different from cost audit and they focus on reporting company's financial state of affairs, primarily to shareholders and creditors. On the other hand, cost accounting & cost audit are meant for internal use of those who are in charge of governance in assessing productivity of resources, emerging opportunities and risks. Financial accounting and financial audit have neither designed for looking into internal transactions within an enterprise for build-up and justification of income-expenditure nor have reasons for doing so unlike in cost accounting and cost audit.

Relevance of Cost Audit in India

The Cost Accounting Record Rules and Report Rules (CARR and CART) were introduced in the backdrop of the misuse of national resources and the intimidation of market forces in the 1970s and 1980s. But these rules were used by the policy makers mainly as interventionist policies.

In the recent past, the country has experienced suffering of public interest due to weak corporate governance, adversely affecting trust and confidence of investors and stakeholders. The Indian economy has to migrate from the current status to the top end position of the global competitiveness index in a short/ medium time span. Considering the maturity levels of cost and management accounting in Indian economy, caused by the legacy of protected environment, we have a long way to traverse without the luxury of time. We do not have the luxury of a long learning curve for this to happen and need to work out the strategies including policy interventions, which will position cost and management accounting as a soft architecture towards building national competitiveness. Mere collection of financial information for financial reporting is not sufficient but the same should be supplemented with a Costing system drawing from the same data and proper analyses helping the management to make right decisions.

In India, regulatory mechanism is

being strengthened for each and every sector. Availability of detailed cost data is a pre-requisite for the effective functioning of any regulator. Today, more than 80% of international trade disputes relate to transfer pricing which in-turn requires cost data to determine the arms' length price. Benchmarking and assessment of competitiveness for different industries requires cost data. Competition Commission has been continuously seeking cost data for many sectors. Cost information plays a critical role in transfer pricing, predatory pricing, fixation of margin of dumping for the purpose of levying anti-dumping duty, free trade agreement, consumer protection, revival of sick companies and corporate governance.

Cost audit provides a reasonable assurance that the organization's cost accounting records are so maintained as to give a true and fair view of the cost of each product or activity. Therefore, cost audits can be used to the benefit of management, Board, consumers and shareholders by

- Helping to identify weaknesses in cost accounting systems,
- Ensuring data integrity and
- Helping to drive down costs by detecting wastage and inefficiencies.
- Helping the company management to improve its performance, productivity, competitiveness and governance mechanism.

It is a tool to protect the interests of investors with timely information on wastage and optimum utilization of scare resources.

- Cost audit is a potent tool for detecting and preventing frauds and is essential to support the functions of the Serious Fraud Investigation Office (SFIO), which has been strengthened by incorporating new provisions in the Companies Act 2013.
- Both the Central Excise Authorities and Income Tax Authorities use cost audit reports extensively in Tax assessment and to minimise tax evasion. The Income Tax authorities have made it mandatory to file Cost Audit Report along with Tax Audit Report. Further, with the introduction of Revised Schedule VI, cost audit report is the only source of authentic quantitative data of production and sales, which is essential to safeguard the revenue. The cost accounting records and audit thereof also ensures a structured and systematic inventory valuation.
- The information derived from cost records and cost audit reports maintained under existing statutes facilitates Corporates, Bankers, Financial Institutions and Regulators etc. in deciding matters related to risk assessment and efficient risk management as the parameters prescribed extensively cover relevant information for managerial decision-making to ensure performance and governance.
- Authenticated cost information derived from Cost records and Cost Audit Reports even facilitates the Tariff Commission in making technical evaluation, based on cost & financial analysis, which provides study-based inputs for informed decision making by Government. The emphasis of the Tariff Commission studies is enhancing the competitiveness of the domestic manufacturers focusing on areas delineated in the National Manufacturing Policy.
- The information derived from cost accounting records and cost audit reports facilitates in making effective study unit-wise, product-wise, process-wise and forms a tool for enabling informed decision making and analysing the data/information from inter-alia competitiveness perspective of the studied Product/Sector/ Industry/ Organisation.
- SEBI has also recommended for mandatory maintenance of cost records and cost audit with a suggestion to be conducted for even half-yearly or quarterly audit or limited review in case of listed companies as they would be a real measure of performance as compared to satisfaction of compliance by mere annual reporting. It was further recommended as a part of external financial reporting to appropriately consider in circulation of selected information to the shareholders of the company, containing cost trends, key performance indicators, risk assessment or key risk indicators, CSR details, trends or factors like external economic conditions and internal efficiency, etc., as part of the management analysis section of the annual report to meet with the overall objectives of good corporate governance.
- Further, making proper reference to Cost Audit Reports and Cost Accounting Records, as per existing provisions, shall even strengthen the risk-evaluation tool for banks and financial institutions while deciding upon grant of loans and advances to corporates, thereby ameliorating the degree of risk from being NPAs.
- The Government is entering into Free Trade Agreements (FTA) with various countries. To choose products under FTA, basic cost data is required. In India, regulatory mechanism is being strengthened for each and every sector. Availability of detailed cost data is a pre-requisite for the effective functioning of any regulator. Today, more than 80% of international trade disputes relate to transfer pricing which in-turn requires cost data to determine the arms' length price. Bench-marking and assessment of competitiveness for different industries requires cost data.
- The cost accounting records and cost audit report shall facilitate both the assessee and the DGAD to arrive at a fair estimation, to determine the nature of injury and dumping of margin. There can be proper ref-

erence made in the following issues also to bring about par for making comparison.

Benefits of maintaining Cost Records

The following are the benefits that the Country derives from the maintenance of cost records and use of cost information / data:

- Cost Management and Cost Assurance leads to improvement of the productivity of all the resources, resulting in optimum utilisation of resources and minimization of wastages.
- Costing system is required for strategic planning and decision making as it provides timely warning signals thus enabling management to take appropriate decisions for sustained growth.
- Effective management of Cost leads to price reduction in a reasonably competitive environment and thus, benefits consumers by bridging the wide gap between Cost and Price.
- Supports inclusive growth as cost management help companies to provide goods and services at a price that is affordable by marginal consumers in the rural, semi-urban areas and the common man.
- Helps in detection / identification and thus to plug the leakages of direct and indirect taxes.
- During the last decade Indian banking sector has written off huge amounts as Non-Performing Assets. This was mainly due to lack of effective and timely monitoring. Costing system provides relevant data for appraisal and continuous monitoring of borrowers account and thus helps the banks to prevent NPAs.
- The Competition Commission of India (CCI) ensures and guards against unfair trade practices, non-injurious price, price under cutting and predatory pricing. Relevant cost records maintained as per Generally Accepted Cost Accounting Principles enable CCI to identify cases of unfair trade practices.
- Cost Audit (Assurance) mechanism is a potent tool for detecting and preventing fraud, and therefore essential to support the activities of the Serious Fraud Investigation Office (SFIO), which has been strengthened by incorporating new provisions in the Companies Act 2013.
- Both the Central Excise Authorities and Income Tax Authorities use cost audit reports extensively to ensure avoidance of tax evasion. The Income Tax authorities have made it mandatory to file Cost Audit Report along with Tax Audit Report from the year 2012-13.
- Cost Assurance mechanism protects the interests of the investors through focus on waste minimization, and optimum utilization of scarce resources.
- It leads to better corporate governance and value creation by focusing on efficient use of resources and thus enable Indian enterprises to effectively compete in the dynamic market environment.
- With changing social landscape and growing income levels, demanding customers and enhanced public awareness, Cost Audit can be a powerful tool to ensure inclusive growth.
- Cost information is vital for providing the necessary inputs for making various Government plans so that the productivity and efficiency of resource utilization is kept in focus.
- Product/ activity wise cost details are highly useful to the Independent Directors to effectively and efficiently discharge their duties as envisaged in the Companies Bill.
- The cost of maintaining cost records is negligible compared to the enormous benefits to the companies and the nation.
- It plays a critical role in transfer pricing, predatory pricing, fixation of margin of dumping for the purpose of levying anti-dumping duty, free trade agreement, consumer protection, revival of sick companies and corporate governance.
- It is an instrument for continuous improvement and helps in evaluating corporate performance and its economic / operational efficiency.
- It provides information for validation of financial statements and prevents inventory manipulation.
- Maintenance of proper cost records is also essential for fulfilling the objectives laid down under National Voluntary Guidelines (NVG) for economic, environmental and social responsibilities of business as the information provided by the cost records is compatible with the information requirements under NVG.
- In order to make the Indian economy competitive and also to overcome the current account deficit, the productivity and efficiency of the various sectors of the economy viz industry, services and agriculture etc needs to be improved. This requires continuous monitoring of their performance based on relevant cost information.
- Reliable Cost Accounting data and Cost Assurance are essential for early identification of industrial sickness.
- The Institute has set out the following major objectives for the year 2013-14 in line with the above areas:
- To strengthen the cost competitiveness of Indian Industry by inculcating cost management focus through propagating best practices in cost management and cost accounting.
- To provide low-cost accounting services to firms operating in the MSME sector and voluntary organisations by building accounting capabilities at the school level across the country and by creating a cadre of accounting technicians.
- Extending the reach across the accounting value chain by rolling out the Accounting Technician Certification Programme.
- Initiate projects for issuing industry

specific technical guidance on risk management, internal audit and cost & management accounting.

- Organize chain seminars across the country on Internal Audit, Indirect Taxation, CAS, CAAS, risk management and Corporate Governance.
- Actively participate in Faculty Development Programme to improve the quality of teaching, robust training mechanism with special focus on soft skills at the college, university and CMA support centers.
- Collaborate with the Government, industry and academic institutions to undertake studies, research and innovation in the core sectors of the Indian economy.

THE CHANGING ROLE OF MANAGEMENT ACCOUNTING IS IN SYNC WITH THE CHANGING MARKET ENVIRONMENT AND GOVERNANCE STRUCTURE

Key actions chalked out under CMA - Vision 2030

- Identify key areas where CMAs can add value for society and country-create a niche through effective advocacy
- Identify value proposition for stakeholders
- List out suggested action plans
- Prioritize action
- Identify what needs to be done over the next 6 months
- Identify who will do what

Industry

- Prepare a presentation for the Banks to highlight skills set possessed by CMAs and how that can be gainfully utilized in the Banking Sector
- Identify target banks and make presentation
- Organize seminars on niche areas-Internal Audit, Sustainability Reporting, Enterprise Risk Management, Cost Optimization, Fraud Detection, Integrated Reporting – identify dates/venue/faculty/participants
- Develop a Consultancy Division within ICAI – Position as consultancy provider to the Government and Industry
- Engage with MSME Chamber and SIDBI – to provide Cost Management & efficiency improvement support to the MSMEs

Government

- Identify ministries/departments and make presentation to various Government Ministries/Departments to show case the need and capability of the ICAI to carry out Cost, Efficiency and Performance studies & Research, and how CMAs can assist in evaluating/monitoring of Government Schemes.

Students

- Prepare a presentation for School/ College level students to create awareness about CMA career
- Identify schools/colleges and make presentation
- Focus on imparting soft skills training to the students
- Focus on and extend reach of CMA Centers

Members

- Prepare a profile of the members-age, qualifications, experience
- Involve senior CMAs and Academicians in Developing Technical Guides, Standards, & Guidance Notes on various aspects of Cost and Management Accounting
- Encourage Non-Members and ICON awardees to write articles on the services that CMAs can offer to the government and Industry
- Organize seminars on niche areas – Internal Audit, Sustainability Reporting, Enterprise Risk Management, Cost Optimization, Fraud Detection, Integrated Reporting – identify dates/venue/faculty/participants

The Internal Audit Guidance Notes for the sectors like, Pharmaceutical Industry, Stock Brokers and Depository Participants, Service Industry, Telecomunication Industry, Power Industry, Mining and Metallurgy Industry, Construction Industry, Plantation Industry, Process Industry, Downstream – Oil Sector, Upstream – Oil Sector, Intellectual Property Industry, Non-Banking Finance Companies (NBFC), Sugar Industry, Manufacturing Industry, Engineering Industry **are being developed by the Institute.**

The changing role of Management accounting is in sync with the changing market environment and governance structure. From only providing information for the purpose of internal business activity, it has already moved towards creating value demanded by customer and other stakeholders. Moreover, Cost & Management Accountants now a days have more responsibilities than before as a result of decentralization and delegation of authority. Precisely, the role of management accountant is now shifted from "works accountant" or "information-provider" to a strategist. Consequently, management accountant should have adequate training and should be equipped with the required skills in order to become significant decision maker, strategic planner and market analyst and make value addition for a sustainable world. MA

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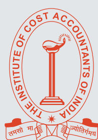
*the*MANAGEMENT ACCOUNTANT
THE JOURNAL FOR CMAs
ISSN 0972-3528

PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the four forthcoming months.

Issue months	Themes	Subtopics
February 2014	Economics of the Power Sector	• Microeconomics of power sector • Cost viability • Tariff mechanism • Subsidy mechanism • Funding of power infrastructure • PPP Model
March 2014	Strategic Cost Management in Transport and Logistics	• Ownership of Infrastructure • Freight transport and containerization • Multimodal transport operation • Cost efficiency • Transport costing • Transport economics and forecasting • PPP Model
April 2014	Cost Management in the Education sector	• Performance Management System • Regulatory aspects of education in India and abroad • Public vs. Private Education system • Cost effectiveness as a strategic priority • Equity of access to quality education • Pricing Mechanism • Governance and Management
May 2014	Price and Cost Competitiveness	• Global perspective • Strategic price setting • Relative price indicators and benchmarking • Competitive pricing • Turning cost cutting into cost competitiveness • Cost efficiency • Competitive cost reduction and sustainable growth • Cost competitive index • Case studies

The above subtopics are only suggestive and hence the articles may not be limited to them only.
Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in by the 1st of the previous month.



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ECONOMY UPDATES

Banking

- Revision of General Credit Card (GCC) Scheme vide circular RPCD.MSME & NFS. BC.No.61/06.02.31/2013-14 (RBI/2013-14/389) (*Dec 2, 2013*)
- Interest rate ceiling prescribed vide circular RPCD.CO.RRB.BC.No.22/03.05.33/2013-14 dated August 19, 2013 will remain unchanged till January 31, 2014 - RPCD. CO.RRB/RCB.BC.NO. 63 /03.05.33/2013-14 (RBI/2013-14/391) (*Dec 2, 2013*)
- RRBs - Periodicity of payment of interest on Rupee Savings/Term Depos - RPCD. CO.RRB.BC.NO. 62 /03.05.33/2013-14 (RBI/2013-14/393) (*Dec 2, 2013*)
- Charges levied by banks for sending SMS alerts - UBD.CO.BPD. (PCB).Cir. No.42/12.05.001/2013-14 (RBI/2013-14/403) (*Dec 6, 2013*)

Income Tax

- Central Board of Direct Taxes hereby makes Income –tax (19th Amendment) Rules, 2013 to amend the Income-tax Rules, 1962 – Notification 96 (*Dec 23, 2013*)
- Deferred Tax Liability for amounts transferred to Special Reserve from the year ending March 31, 2014 onwards should be charged to the Profit and Loss Account of that year vide Circular BOD. No.BP. BC.77/21.04.018/2013-14 (RBI/2013-14/412), dated: December 20, 2013. If the expenditure due to the creation of DTL on Special Reserve as at March 31, 2013 has not been fully charged to the Profit and Loss account, banks may adjust the same directly from Reserves. The amount so adjusted may be appropriately disclosed in the Notes to Accounts of the financial statements for the financial year 2013-14.
- As per Notification: 94, dated: 18/12/2013 Central Government hereby makes the following scheme called Rajiv Gandhi Equity Savings Scheme, 2013. This scheme shall apply for claiming deduction in the computation of total income of the assessment year relevant to a previous year beginning on or after the 1st day of April, 2013 on account of investment in eligible securities under sub-section (1) of section 80CCG of the Income-tax Act, 1961(43 of 1961). The objective of the Scheme is to encourage investment of savings of small investors in the domestic capital market.
- Issue of Intimation under section 143(1) of Income Tax Act, 1961 beyond time – Order -Instruction No.18/2013 (*Dec 17, 2013*)
- Clarification regarding applicability of provisions of section 40(a)(ia) with regard to amount not deductible in computing income chargeable under head 'profits and gains of business or profession' on conflicting interpretations by judicial authorities - Circular No. 10/dv/2013 (*Dec 16, 2013*)

Provident Fund

- EPFO ask firms to file PF claims well in time: EPFO to Field Staff (*Source: PTI, Dec 15, 2013*)
- India allows greater flexibility for pension fund investments (*Source: Reuters, Dec 4, 2013*)
- Many brokers and intermediaries are hard selling bank bonds to provident funds (PFs), stoking concern about the credit risk of these securities following the rating downgrades of mid-size public sector banks in the last two months (*Source: ET Bureau, Dec 5, 2013*)

Customs

- Amendment of Notification no. 12/2012-Cus, dated 17.3.2012 to increase the non-advalorem rate of BCD on natural rubber from Rs 20/kg to Rs 30 /kg vide Notification No. 51/2013 (*Dec 20, 2013*)
- Amendment of Notification no. 10/2008-Cystoms, dated 15th January, 2008 so as to further deepen the tariff concessions in respect of goods covered under the Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore vide Notification No. 50/2013-Cus (*Dec 16, 2013*)
- Seeks to revoke the imposition of anti-dumping duty on import of Polypropylene, originating in or exported from Oman vide Notification 32/2013 – Cus (ADD) (*Dec 2, 2013*)

Central Excise

- Extension of warehousing and acceptance of LUT in place of Bank Guarantee for export warehousing for Status Holder Manufacturer Exporter - Circular 976/10/2013 (*Dec 12, 2013*)

Service Tax

- Clarifications on Service Tax Voluntary Compliance Encouragement Scheme vide Instruction issued in F. No. B1/19/2013-TRU (Pt.) *(Dec 11, 2013)* (For details visit: http://www.servicetax.gov.in/st-circulars-home.htm)

SEBI

- Rationalization of Periodic Call Auction for Illiquid Scrips - vide CIR/MRD/DP/38/2013 (*Dec 19, 2013*)
- Declaration and Undertaking regarding PCC, MCV or equivalent structure by FIIs – vide Notification CIR/IMD/FIIC/21/ 2013 (*Dec 19, 2013*)
- Deposit Requirements for members of the Debt Segment - CIR/MRD/DRMNP/37/2013 (*Dec 19, 2013*)
- Establishment of Connectivity with both depositories NSDL and CDSL – Companies eligible for shifting from Trade for Trade Settlement (TFTS) to Normal Rolling Settlement - CIR/MRD/DP/ 36 /2013 (*Dec 16, 2013*)
- Exchange Traded Cash Settled Interest Rate Futures (IRF) on 10-Year Government of India Security – CIR/MRD/DRMNP/35/2013 (*Dec 5, 2013*)

- Simplification of demat account opening process - CIR/MIRSD/12/2013 (*Dec 4, 2013*)
- Illustrative format of Statement of Assets & Liabilities in SEBI (ICDR) Regulations, 2009 - CIR/CFD/DIL/15/2013 (*Dec 3, 2013*) (For details visit: *http://www.sebi.gov.in/sebiweb/home/list/1/7/0/0/Circulars*)

Foreign Trade Policy

- As per Notification No. 58 (RE-2013)/2009-2014 dated: 18 December, 2013 Foreign Trade Policy has been amended to include Limited Liability Partnerships (LLPs) in the definition of "Group Company". Neither partnership nor proprietorship firm would come within the ambit of definition of a "Group Company".
- As per Notification No 59 (RE-2013)/2009-2014, dated 19 December, 2013 export of onion for the item description at serial number 51 & 52 of Schedule 2 of ITC (HS) Classification of Export & Import Items shall be permitted subject to a Minimum Export Price (MEP) of US$ 350 per Metric Ton F.O.B.
- Relaxations in policy for export of Wood Charcoal to Bhutan vide Notification No. 60 (RE- 2013)/2009-2014 *(Dec 23, 2013)*
- Procedure for export of Value Added products of Red Sanders wood by Government of Andhra Pradesh - Public Notice No. 42 (RE-2013)/2009-2014 *(Dec 3, 2013)*

Foreign Exchange Management Act

- As per Circular No. 81 A.P. (DIR Series)-RBI/2013-14/416, dated: December 24, 2013 it has been decided to permit such resident entities / companies in India, authorized by the Government of India, to issue tax-free, secured, redeemable, non-convertible bonds in Rupees to persons resident outside India to use such borrowed funds for the purpose of lending / re-lending to the infrastructure sector; and for keeping in fixed deposits with banks in India pending utilization by them for permissible end-uses.
- Amendment of the existing policy on issue of shares by unlisted Indian Companies under FCCB/ADR/GDR, pursuant to the Foreign Currency Convertible Bonds and Ordinary shares (Through Depository Receipt Mechanism) (Amendment) Scheme, 2013- FEMA - No. Press Note No. 7 (2013 Series) *(Dec 3, 2013 - FDI GUIDELINES)*
- External Commercial Borrowings (ECB) by Holding Companies / Core Investment Companies for the project use in Special Purpose Vehicles (SPVs) – Circular - FEMA - No. 78 *(Dec 3, 2013)*

Value Added Tax

- Renotify Bank of Maharashtra located in National Capital Territory of Delhi as appropriate Government Treasury for the purpose of deposit of Value Added Tax dues - *F.7 (400)/Policy/VAT/2011/PF/1107-1120 - dated 20-12-2013 - Delhi Value Added Tax*
- As per Notification No.F.3(393)/Policy/VAT/2013/1086-1096 dated: 19/12/2013, the department of Trade and Taxes has made it mandatory w.e.f. 1st fortnight of January, 2014, that details of programes/ functions to be organized in Banquet Halls/ Farm Houses/ Marriage or party halls, Hotels, Open Ground etc where food and/or liquor items are served and cost of booking exceeds Rs 1 Lakh per function is to be submitted through return in Form BE-2 at least 3 days before the start of fortnight.
- Certain procedures need to be followed by Special Auditor for conducting Special Audit under Section 58A of the DVAT Act, 2004 vide Circular VAT - Delhi - No. F/V Audit/Spl. Audit/2012/4231-39 *(Dec 19, 2013).* For more details please visit: *http://www.charteredonline.in/2013/12/procedure-to-be-followed-by-special.html*
- Filing of R.10 block of Form 1 for 2009-10, 2010-11, 2011-12 and 2012-13 and for 2nd quarter return of 2013-14 – extension of period thereof – *Circular - VAT - Delhi - No. 29/2013-14 (Dec 12, 2013)*

Companies Law

Clarification with regard to applicability of section 182(3) of the Companies Act, 2013vide Circular No. 19/2013 *(Dec 10, 2013).*

Indian Economy

- Passengers flying into India will have to fill in a new customs form on their arrival from the New Year while the need to fill immigration form for returning Indians is being done away with *(Source: PTI, Dec 22, 2013)*
- RBI kept key rates unchanged to push growth, says Montek Singh Ahluwalia (*Source: PTI, Dec 18, 2013*)
- A pick-up in retail inflation to its fastest pace on record will likely force Reserve Bank of India chief Raghuram Rajan to raise interest rates for a third time, crimping growth prospect Source: *(Reuters, Dec 13, 2013)*
- Retail inflation jumps to 9-month high at 11.24 pct in November (S*ource: The Financial Express, December 26, 2013)*
- Telecom operators owe government a huge amount of Rs 17,980.77 crore in licence fee and spectrum charges, but the outstandings are under litigations *(Source: PTI, Dec 11, 2013)*
- Indian 2014 gold imports seen at half usual levels *(Source: Reuters, Dec 7, 2013)*
- Private sector output drops for fifth successive month: HSBC *(Source: PTI, Dec 4, 2013)*
- State oil firms now sourcing all dollars from market: RBI *(Source: Reuters, Dec 2, 2013)*

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA E-Bulletin, Jan 2014, Vol 2, No. 1, at 'Research and Publications' section.)

STRATEGIC COST MANAGEMENT IN THE BANKING SECTOR

The Capital Adequacy framework prescribed by the Basel Committee for Banking Supervision aims at strengthening the shock absorbing capabilities of the banks. But it also enhances the cost of capital, impacts the interest rates and acts as a check on business expansion. It would therefore be appropriate to dwell upon the new Capital Adequacy framework in the Indian context

J D Sharma
President, Indian Overseas Bank Officers' Association

Joint General Secretary, All India Bank Officers' Confederation

Director, Indian Overseas Bank

The introduction of the recommendations of the Narasimham Committee in the year 1992 was a watershed in the Indian banking industry. It was in the specific context of introduction of prudential accounting norms. The prudential accounting norms included the following:

(i) Capital Adequacy Ratio
(ii) Asset Classification
(iii) Income Recognition
(iv) Provisioning norms

All these norms had a significant bearing on the allocation of the sources of the bank and the resultant cost of such resources. It also had an impact on earnings of the bank on one hand and a charge on profit in the form of provision for impaired loan assets on the other. Though the beginning of the implementation of these norms was quite mild, Reserve Bank of India over the years has been making these norms more and more stringent. Introduction and implementation of Basel-III Norms of Capital Adequacy and the proposed framework for revitalizing distressed assets of the banking institutions deserve a special mention in this regard.

It is broadly understood that the health of the banking sector is closely integrated to the health of the economy. The economy is traditionally subjected to the boom and recessionary cycles at infrequent intervals. During the period of boom in the economy, the business of banking becomes relatively safer, profitable and robust. Conversely, during the period of recession, the business of banking undergoes stress with soaring impaired assets and reduced profitability. It is during the recessionary period the capital of the bank also comes under stress which may even lead to failure of banking institutions which are not adequately capitalized. Like any other business, the capital carries a cost in banking sector too.

The core business of banks is to accept the deposits for the purpose of lending. The deposits being the resources carry a cost, while the lending constitutes the assets of the banks and hence a source of income. Since the banks are commercial organisations, it is expected that their operations are carried out profitably. To achieve this end, the lending operations should be so undertaken that the interest earned on loans and advances carries a healthy spread over the interest payable on deposits. The efficient use of funds and the efficiency of operations also significantly impact the profitability of the banks. Since money lending is a risky business, it is likely that some portion of loans and advances given by the banks to its constituents will become bad and doubtful of recovery.

Against this background, it becomes imperative for the banks to undertake a cost-benefit analysis of their activities, people, processes, products, infrastructure etc., to help determine the areas which are profitable and the areas which are less profitable or unprofitable. However the concept of cost management in banking sector in India has not assumed the required level of significance for obvious reasons that the country having a large population with lower banking coverage, the focus continues to bring the unbanked population into the banking fold. It led to the social banking continuing to occupy a place of prominence as the sector is predominantly owned and controlled by the Government. India being a member of G-20 has subscribed to Capital Adequacy framework prescribed by Basel Committee for Banking Supervision. The Capital Adequacy framework aims at strengthening the shock absorbing capabilities of the banks. But it also enhances the cost of capital, impacts the interest rates and acts as a check on business expansion. It would therefore be appropriate to dwell upon the new Capital Adequacy framework in the Indian context.

Basel-III

The US Financial Crisis 2008 had shaken the financial system world over. It was triggered by sub-prime lending

which was being considered as a risk return trade-off. But the crisis, which witnessed the collapse of global financial powerhouses and giants, exposed the hollowness of their perceived financial strength. The financial crisis led to rethinking on the part of G-10 and to bring in more stringent framework for enhanced Regulatory Capital in the form of Basel-III norms. It would be appropriate to have a look at the shortcomings of Basel-II Accord before analyzing the cost implication of implementation of Basel-III framework.

Shortcomings of Basel-II

- Core capital was inadequate to withstand the huge losses arising out of financial crisis.
- The counter-cyclicality aspect of risk was ignored. The capital requirement is pro-cyclical. When the economy is at boom and asset prices soar, the counter party risk associated with the borrowers is on decline and capital requirement is lower. But the reverse is true in the event of recession.
- Basel-II failed to factor the serious aspect that recessionary tendencies will result in higher NPA and raise the requirement of capital of the banks thus restraining their lending capacity.

The financial crisis of 2008 erupted on account of unregulated and unbridled expansion of financial assets like securitization of mortgage loans. Trading in such financial assets without proper regulation was the major cause of the bubble burst in the financial sector which was led by the failure of banking institutions. The core capital of the banks can play a reasonable role in absorbing the normal business losses. But to expect the core capital to absorb phenomenal business losses caused by reckless banking was unwise on the part of regulatory authorities in United States and many other countries which had deeply integrated their economy with that of US in the wake of globalization. The study of emerging economies and many developed economies reveals that those countries which had earlier experienced the financial crisis either on account of currency crisis or on account of debt crisis had put better institutional and regulatory framework in place to guard against the similar crisis. That was the major reason for many emerging economies including India not getting severe hit of US financial crisis. The impact of the crisis in India was limited to the real sector and in the process some loan accounts of the affected firms turned impaired thereby causing indirect concern for the banks. It has cost implications for the banks in India as the impaired assets do carry cost.

Basel-II framework had three mutually reinforcing pillars as under:

Pillar-1: Minimum capital requirement as prescribed by Basel Committee for Banking Supervision (BCBS).

Pilla-2: Provision of supervisory review of Capital Adequacy.

Pillar-3: Market discipline of Basel-II Capital Adequacy Framework through public disclosures.

Basel-III framework continues to be based on the above three pillars of Basel-II framework. Basel-III is a global regulatory framework for making the banks more resilient during the periods of stress. Introduction of counter-cyclical buffer and capital conservation buffer is considered as a macro prudential aspect in view of US Financial Crisis. It is intended to protect the banking sector from stress during the period of excessive credit growth. The intentions of regulatory authorities in introducing Basel-III framework of Capital Adequacy are pious. But the acid test of the adequacy and effectiveness of Basel-III framework would depend on the magnitude of any future financial crisis erupting in major economies that have got deeper integration with emerging economies and the success of the mother country of the crisis in exporting the crisis to other integrated economies. The strength of the real sector lies in its adaptability to diversify to new markets which in country like India happen to be within with huge potential as the size of the middle class grows.

Basel-III also addresses the following:

(a) Pro-cyclical amplifications of risks over time.
(b) Seeks to raise quantity and quality of capital to enhance bank's ability to absorb losses.
(c) Increases the risk coverage of the capital framework.
(d) Introduces leverage ratio to serve as a backstop to risk based capital measures.
(e) Raising the standard for supervi-

Transitional Arrangement for implementation of Basel-III (01.04.2013 to 31.03.2018)

Minimum Capital Ratios	1st April 2013	31st March 2014	31st March 2015	31st March 2016	31st March 2017	31st March 2018
Minimum Common Equity Capital (CEC) – Tier I	4.50	5.00	5.50	5.50	5.50	5.50
Capital Conservation Buffer (CCB)	-	-	0.625	1.25	1.875	2.50
Minimum CEC Tier I + CCB	4.50	5.00	6.125	6.75	7.375	8.00
Additional Tier I Capital	1.50	1.50	1.50	1.50	1.50	1.50
Minimum Tier I	6.00	6.50	7.00	7.00	7.00	7.00
Minimum Total Capital	9.00	9.00	9.00	9.00	9.00	9.00
Minimum Total Capital + CCB	9.00	9.00	9.625	10.25	10.875	11.50

sory review process.

(f) Attempts to address the system wide risk arising out of stress market conditions.

While the Basel-III norms have maintained the requirement of minimum total capital at 9% of risk weighted assets value, the provision of capital conservation buffer and counter-cyclical buffer would take the minimum total capital plus buffer capital to 11.50% at the end of 31st March 2018 in a phased manner. The transactional arrangement for implementation of Basel-III norms in India is given hereunder:

The components of Tier I & Tier II capital are given below:

(i) Tier I capital (Going concern capital)

(a) Common Equity Capital = 5.5%

(b) Additional Tier I Capital = 1.5%

Total Tier I Capital = 7.0%

(ii) Tier II (gone concern capital) = 2.0%

Minimum Regulatory Capital = 9.0%

Total capital conservation buffer = 2.5%

Minimum Total Capital Ratio (CRAR) =11.5%

Additional Tier I capital will not reckon if Capital Conservation Buffer and Common Equity Capital is not at a minimum of 8% of Risk Weighted Assets Value (RWA).

Computation of capital under Basel-III norms:

$$\text{Common Equity} = \frac{\text{Common Equity Capital (Tier I)}}{\text{Credit Risk RWA} + \text{Market Risk RWA} + \text{Operational Risk RWA}}$$

$$\text{Tier I Capital Ratio} = \frac{\text{Eligible Tier I Capital}}{\text{Credit Risk RWA} + \text{Market Risk RWA} + \text{Operational Risk RWA}}$$

$$\text{Total Capital Ratio (CRAR)} = \frac{\text{Eligible Total Capital}}{\text{Credit Risk RWA} + \text{Market Risk RWA} + \text{Operational Risk RWA}}$$

There are three distinct options to compute capital requirement for each of the risk namely Credit Risk, Operational Risk and Market Risk as under:

Credit Risk

The types of approaches to compute capital requirement for credit risk are

(a) The Standardised approach

(b) Foundation Internal Rating Based approach

(c) Advanced Internal Rating Based approach

Operational Risk

The types of approaches to compute capital requirement for operational risk are

(a) The Standardised approach

(b) Basic Indicator approach

(c) Advanced Measurement approach

Market Risk

The types of approaches to compute capital requirement for market risk are

(a) The Standardised Duration approach

(b) The Standardised Maturity approach

(c) Internal Model approach

Reserve Bank of India aims to establish consistency and harmony with international standards by adopting Standardised Approach for credit risk, Basic Indicator Approach for operational risk and Standardised Duration Approach for market risk. The Capital Adequacy Framework is expected to be complied with at consolidated (group) level and stand-alone (solo) level.

Elements of Common Equity Capital

Tier I

1) Paid up Equity
2) Share Premium
3) Statutory Reserves
4) Capital Reserves
5) Other disclosed Free Reserves
6) Balance in Profit & Loss Account
7) Current year's profit on quarterly basis after factoring provisions for NPAs

Additional Tier I Capital

1) Perpetual Non-cumulative Preference shares (PNCPS)
2) Stock surplus (share premium)
3) Debt capital instruments
4) Any other type of instruments as notified by RBI from time to time

(Less: Regulatory adjustments/ deductions)

Tier II

1) General Provision and Loss Reserves
2) Debt Capital Instruments issued by banks
3) Preferential Share Capital
4) Stock Surplus on Tier II instruments
5) Revaluation Reserve discounted at 55%

Pressure on return on equity

Raising capital from market will push the interest rate up and in turn the cost of capital will also increase. The return on equity in this process will come down. To compensate for their loss on return on equity, the banks may increase their lending rates. This will adversely affect the effective demand for loans thereby reducing the interest income of the banks. The banks in India have to look for raising share capital through Medium Term Note (MTN) and Global Depository Receipts (GDR) at cost effective rates to contain the cost of capital. As per the study conducted by Mckinsey, Basel-III implementation would reduce return on equity for the average bank by about 4% points in Europe and about 3% in the US provided other factors remain the same. Similar impact on banks in India is also expected.

Thus Basel-III norms' cost implications for the banks operating in India and its impact need to be studied to determine the precise effect.

Non-Performing Assets (NPA) management

Definition: A loan asset is defined as 'Non Performing' if any instalment or interest remains unpaid for 90 days or more in case of loans; the account remains in excess for 90 days or more after being classified as out of order in case of cash credit accounts and an instalment or interest remaining unpaid for one crop season in case of crop loan not exceeding one year.

NPAs are categorized as:

a) **Sub-standard:**
if it remains NPA upto 12 months;

b) **Doubtful:**
if it remains NPA from 12 months to 36 months;

c) **Loss asset:**
if it remains NPA beyond 36 months or is so certified by the internal/ external/statutory auditors.

The banks are required to make provision as per Regulatory guidelines as under:

Standard Assets - 0.25%
Sub-standard assets - 10.00%
Doubtful Assets -
D1 - 20% to the extent of security shortfall
D2 - 30% to the extent of security shortfall
D3 - 100% to the extent of security shortfall
Loss Assets - 100% if not already written off.
Restructured Accounts - 2.75% (to be raised to 5% from 1st April 2015)

The non performing assets are called Gross NPA to the extent of book outstanding and the NPA net of provision is called Net NPA.

The Gross NPA of banking system in India is of the order of about Rs.1.76 lakh crore as at the end of June Quarter 2013. The rate of Regulatory provision required to be made at the rates mentioned above clearly shows that the NPAs are a huge drain on the profits and profitability of the banks. It therefore assumes greater significance to endeavor to minimize the size of NPAs to lower the amount of provisioning being charged to profits and eventually post higher Net Profit. The NPAs can be contained by –

a) Preventing slippages
b) Recovering the critical overdue component in a loan account
c) Rescheduling the loan instalments
d) Restructuring the credit facilities
e) Recovering through One Time Settlement (OTS)
f) Recovering through Out of Court Settlement (OCS)
g) Referring to CDR/BIFR

The banks also end up losing substantial amount on account of frauds committed by the customers and also employees. There are several frauds which are related to misuse of technology, credit/debit card etc., coming under the definition of cyber crime. The amount involved in such frauds vis-à-vis the number of frauds is significantly low whereas the amount involved in frauds relating to loans & advances, more particularly mortgage related frauds is quite large in spite of the number of frauds being significantly lower. The amount involved in frauds is straight away classified as 'Loss Asset' which entails 100% provision if the amount so classified is not written off.

The NPAs resulting into a regulatory charge on profit of the bank carry costs. It is generally factored in computation of rate of interest charged on loans & advances. But such factoring the cost of NPA in interest rate is based on the past experience and cannot be construed as scientific or accurate computation. It is therefore an under-recovery in the form of interest charged. It can also be construed as cross-subsidization where the good borrowers covertly subsidize the bad borrowers. Such a situation offers a huge potential to carry out a detailed research in this field and evolve more realistic model of interest computation and recovery of NPAs.

New framework to revitalize distressed assets:

The Reserve bank of India has put a discussion paper on 'Framework For Revitalizing Distressed Assets in the Economy' in public domain. The discussion paper is prompted by the increasing NPAs and restructured accounts in the wake of slow down of the Indian economy. Since the financially distressed assets produce less than economically possible income for the bank and they also deteriorate quickly in value, it becomes a costly proposition for the banking institutions to carry such distressed assets in their portfolio. RBI is of the view that the system needs to ensure early recognition of financial distress in their borrowal accounts and takes prompt initiatives to resolve it so that the lenders and investors have the advantage of fair and early recovery. New Governor of RBI had indicated that improving the system's ability to deal with corporate distress and financial institution's distress by strengthening real and financial restructuring as well as debt recovery should be treated as one of the five pillars on which RBI intends building developmental measures for improving the financial system for the next few quarters.

Banks in India have got a system of identifying the borrowal accounts under "WATCH CATEGORY" if the interest is not serviced or the monthly instalments are not paid for 2 months. RBI now proposes to streamline the concept of Watch Category accounts by introducing a scientific methodology of identifying the accounts as "Special Mention Accounts (SMAs)" on the basis of not only the financial criteria of non recovery but also on the strength of non financial signals of incipient stress. Apart from this, it

is also proposed to set up a Central Depository of Information on Large Credits (CRILC) and make it mandatory for the banks to furnish credit information on all the borrowal accounts where aggregate fund based and non fund based exposure is Rs.50 million & above. RBI also proposes formation of Joint Lenders' Forum (JLF) with an objective of formulating a joint corrective action plan for early resolution of stress in the account. The lender with the highest exposure will be convener of JLF. The focus of JLF will be on early regularization of the account which will include the borrowers bringing in additional money or getting an investor to help turnaround the company without changing the terms of lending arrangements. The restructuring may be resorted to only if the account is prima facie viable and the borrower is not a wilful defaulter. An account can be referred to CDR Cell only after conducting a preliminary viability study.

The early measures detailed in the preceding para will entitle the lending banks for certain incentives in the form of leniency in loan provisioning while the defaulters not adhering to the measures will be penalized. The broad proposals of RBI in this regard are furnished below:

(i) Early formation of a lenders' committee with timelines to agree to a plan for resolution.
(ii) Incentives for lenders to agree collectively and quickly to a plan – better regulatory treatment of stress assets if a resolution plan is underway, accelerated provisioning if no agreement can be reached.
(iii) Improvement in current restructuring process: Independent evaluation of large value restructurings mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors.
(iv) More expensive future borrowing for borrowers who do not cooperate with lenders in resolution.
(v) More liberal regulatory treatment of asset sales –

a) Lenders can spread loss on sale over two years provided loss is fully disclosed.
b) Takeout financing / refinancing possible over a longer period and will not be construed as restructuring.
c) Leveraged buyouts will be allowed for specialized entities for acquisition of 'stressed companies'.
d) Steps to enable better functioning of Asset Reconstruction Companies mooted.
e) Sector-specific Companies/ Private equity firms encouraged to play active role in stressed assets market.

THERE IS NEED TO SEEK THE INTERVENTION OF THE CENTRAL VIGILANCE COMMISSION (CVC) TO EVOLVE A BETTER DISCIPLINARY PROCEEDING MECHANISM

The success of the proposed measures will greatly depend on the quality of credit appraisal while granting the loans and also the quality of credit investigation carried out at the time of entertaining the proposal. The bankers would need to strengthen not only their training establishments but also the credit culture in the banks. The banking institutions are essential financial intermediaries in their own right and hence there should be little scope for subcontracting this function by allowing engagement of financial consultants to mediate between the potential borrowers and the banks. Such engagements increase the cost of borrowings for the firms and have certain impact both financial and psychological that often determines their intentions. Such an unhealthy practice also brings about an undesirable change in the attitude of the borrowers towards the bankers and also the repayments. It therefore leads to wilful default and eventual classification of borrowal accounts as NPAs adding extra cost to the banks. RBI also needs to address this malady and enforce it strictly. Such a measure must precede recruitment, on-boarding, skilling and re-skilling and adequate pool of competent credit experts. The officers representing the lending institutions must conduct themselves as lenders having right to demand the money lent to a firm back as per the terms of lending arrangements instead of expressing their miseries and helplessness before the borrowers and seeking his patronage in terms of part payments to avoid disciplinary action for the accounts turning distressed. There is need to seek intervention of the Central Vigilance Commission (CVC) to evolve a better disciplinary proceeding mechanism which gives strength and confidence to the honest officers of the banks and bring down the element of fear in their minds on this count. It will also enhance the efficacy of the measures being proposed by RBI to deal with the problem of distressed assets of the banks. MA

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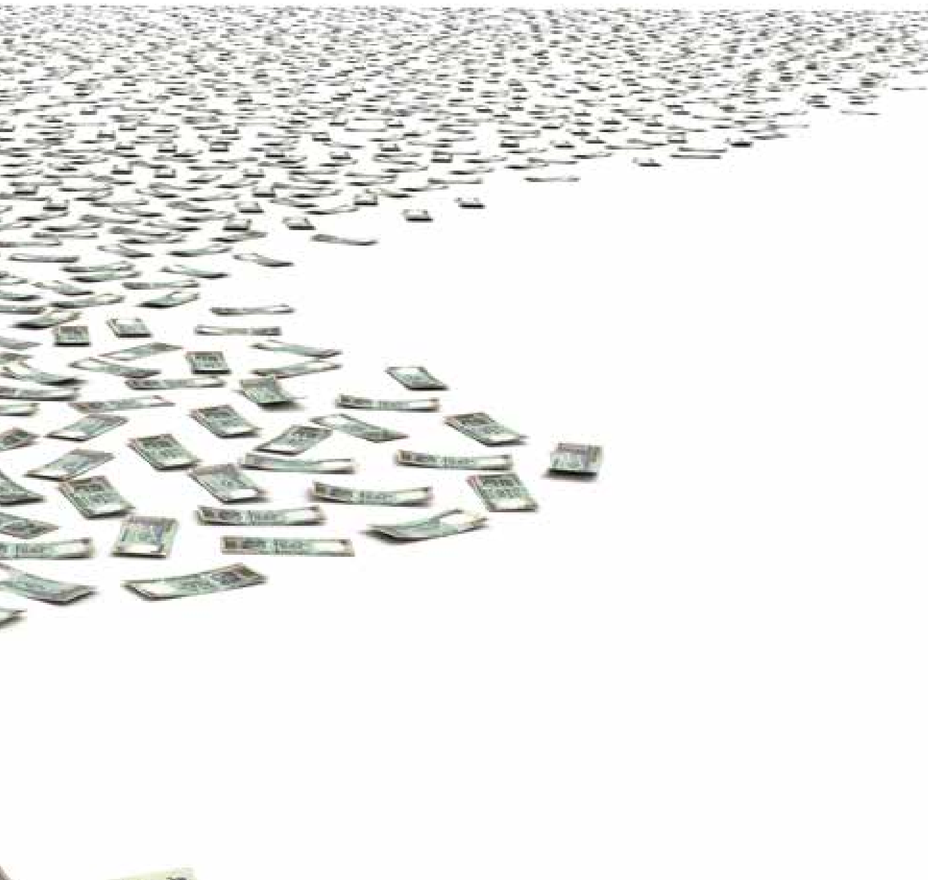
A COMPARATIVE ASSESSMENT OF MANAGEMENT OF NON-PERFORMING ADVANCES (NPAs) IN INDIA AND CHINA

Given that the two economies have many similarities such as a gigantic public sector banking system, directed lending programme, government intervention in credit allocation, and the pressure of an enormous population, the author attempts to compare the broad policies and measures that have been adopted to deal with the NPAs in the two countries

Management of NPAs as an integral part of banking sector reforms has assumed greater significance in view of the recent financial crisis. Different countries have adopted different approaches to deal with the problem. In this paper an attempt has been made to compare the broad policies and measures that have been adopted to deal with the NPAs in two emerging economic powers of the Asia – India and China.

Introduction

The last two decades witnessed a lot of instability in the banking sector all over the world. This was not confined to



the transitional economies alone. Even the developed countries like Japan and Sweden and developing countries of Latin America and South East Asia suffered a lot from such crises (Dell'Ariccia et al., 2005). Several studies [Beattie et.al (1995), Jackson (1996), Olson and Lou (2001), etc.] indicate that the occurrence of Non-Performing Advances (NPAs)[1] was by far the most common cause of such crises. As such, several countries like China, India, Malaysia, Thailand, Japan, etc. have incorporated prudential regulation and NPA management as an integral part of their banking sector reforms which they embarked on during 1990s.

As banks deal with lending of fund, there is an inherent possibility of some of their lending decisions would turn bad or doubtful. The staggering level of NPAs, however, is ominous both for the viability of operation and existence of the bank concerned for more than one reasons. As Andrew Crockett, the then General Manager of Bank for International Settlement (BIS) observed "Initially, NPLs may not seem to have serious negative effects. Banks remain liquid, and depositors retain their confidence in the system. Over time, however, the size of the problem grows, especially if banks are allowed to accrue interest on their NPLs. Eventually, the efficiency of the banking system is comprehensively undermined as the task of making new loans to productive enterprises takes second place to juggling a portfolio of bad loans whose collectivity is very low. The fiscal cost of clearing up the banking system can become so large as to be itself an obstacle to needed action" (BIS, 1999). That is why the occurrence of NPAs over and above the minimum acceptable limit (internationally, 2 – 4 percent of advances) is considered unhealthy for the banking system and overall economy all over the world. And countries with high level of NPAs, therefore, have to devise appropriate policies to deal with the NPAs on an urgent basis.

'INITIALLY, NPLS MAY NOT SEEM TO HAVE SERIOUS NEGATIVE EFFECTS... HOWEVER, THE SIZE OF THE PROBLEM GROWS, ESPECIALLY IF BANKS ARE ALLOWED TO ACCRUE INTEREST ON THEIR NPLS. EVENTUALLY, THE EFFICIENCY OF THE BANKING SYSTEM IS UNDERMINED'

The countries, inherently different in terms of the nature and composition of their banking systems, quite naturally responded in different ways to deal with the problem (Mukherjee, 2003). It is in this context, that the present paper attempts to compare the broad policies and measures that have been adopted to deal with the NPAs in two emerging economic powers of the Asia – India and China. Given that the two economies have many similarities such as, a gigantic public sector banking system, directed lending programme, government intervention in credit allocation, pressure of enormous population,

[1] NPAs are also known as Non-Performing Loans or in short, NPLs. Throughout the paper, the term NPA is used to denote bad and doubtful loan of banks.

cautious approach with respect to capital account liberalisation and gradual transformation from the planned economic regimes to free market based economy, such comparison will point out the effectiveness or otherwise of the NPA management policy of our country. Such comparison is also helpful in depicting the relative status of our banking system with respect to NPAs.

Methodology of the study

The present study is both descriptive and analytical in nature. It aims at describing the development of policies and measures, over the years, with respect to management of NPAs both in India and China in a systematic and coherent manner so as to facilitate the comparison between the countries. The study also analyses the resultant progress in the reduction of NPAs in India and China over a period of 1998-2010. The data are collected from secondary sources, mostly from Annual Reports of RBI and China Banking Regulatory Commission (CBRC).

Meaning of NPA

In simple terms, what we call 'bad and doubtful debts' in trading and manufacturing concern is known as NPAs in case of a banking institution with the only difference that in the later case advances granted as per contract become bad or doubtful rather than the usual debts arising out of sales in case of the former. From banking point of view, a contract of lending generally includes a binding regarding the payment of interest and principal by the borrower. If any one of them is not performed duly, then the advance should be termed as NPA. More specifically, if the interest and/or installment of principal have remained overdue[2] for a 'specified period of time', it is called a Non-Performing Advance (NPA).

This 'specified period of time', however, differs widely from one country to another and even in different time periods within the same country. This acts as an obstacle in having a universally accepted definition of NPA. Asian Development Bank (ADB), however, is of the view that the accepted international standard for classification of loans as non-performing is 90 days or more overdue (www.adb.org). This view is supported by many developed and developing country through their practices. Thus, three months time period or 90 days norm may be considered to be prudent enough to reflect the actual gravity of the problem. Therefore, an advance becomes NPA if interest and/ or installment of principal have not been paid over three months or 90 days from the due date specified in the loan agreement.

Management of NPAs in China

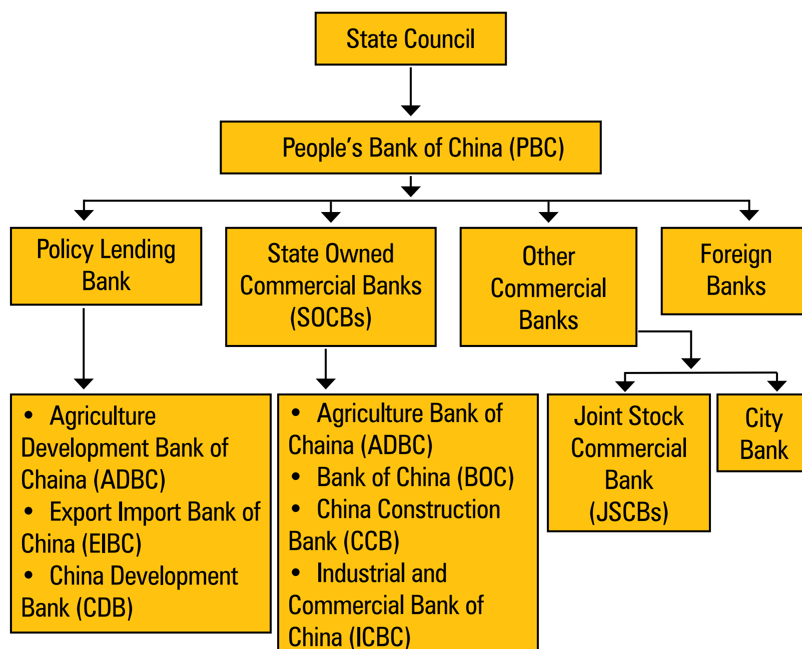
China started reforming its economy as early as in 1979. In the initial phase (1979 – 1994), the reforms in the banking sector was confined within the institutional restructuring measures in the form of establishment of a two-tier banking system comprising of a central bank and four specialised banks owned by the Central Government. By the end of 1994, the Government completed the process and immediately embarked on the second wave of financial reforms.

At the very beginning, commercial lending was separated from the policy lending with a view to facilitate better performance measurement of banks. As a result, the Commercial Bank Law, 1995, gave rise to a de-facto two-tier commercial banking system that consists of:

(i) Commercial banks that are subject to prudential regulations and are supervised by Peoples Bank of China (PBC) and

(ii) Three policy lending banks which are not subject to this law and whose operations are guided by individual charters (IMF, 1996).

Thus, a broad framework of Chinese banking system emerged, which is presented in **Figure 1**.



[2]Overdue means an amount due but has not been paid on the due date fixed by the bank.

During this 2nd phase the authorities became more concerned about the increasing level of NPAs in the Chinese banks particularly in the major commercial banks comprising of SOCBs and JSCBs which dominate the banking sector both in terms of deposit mobilisation and allocation of credit. Principally, China adopted 'centralised process of resolving NPAs' through Asset Management Companies (AMCs)[3] along with some supplementary measures. We will now discuss them in the following sub-sections.

Table 1: Splitting of NPAs from the SOCBs through AMCs

Good Bank (After separation of NPA)	Respective AMCs (Bad banks with NPA)	Modus operandi
Bank of China (BOC)	China Orient	The AMCs acquire 20% of gross loan book consist of NPAs mainly advanced before 1995 and which were overdue for more than one year by the end of 1998 through outright purchase at original face value. Thus, the responsibility for resolving the bad loans had been passed to the respective AMCs
Agriculture Bank of China (ABC)	China Great Wall	
Industrial and Commercial Bank of China (ICBC)	China Huarong	
China Construction Bank (CCB)	China Cinda	

Idea Source: Jain, V. (2007)

Establishment of Asset Management Companies (AMCs)

The Chinese authorities felt that the separation of the historical NPAs from the ongoing operation of the banks would be more appropriate to deal with the NPAs. Accordingly, the Central Government established four AMCs in 1999 – one for each SOCB to acquire NPAs of the respective SOCBs (as shown in **Table 1**). This so-called split between the good bank (one with performing loans) and the bad bank (essentially, the AMCs with NPAs) was done with a view to clear the balance sheet of the banks in one hand and to provide a focused approach to NPA resolution on the other. The ultimate loss incurred by the AMCs in resolving these NPAs is expected to be covered by the Central Government.

These AMCs remain under the supervision of PBC and financed by the Ministry of Finance (MOF) and PBC. Together, they acquired US$ 170 billion of NPAs in 1999, which enabled the four SOCBs to reduce NPAs by 10 percentage points from 35% to 25% (Shirai, 2002 and NPL Asia, 2006). Subsequently, SOCBs transferred RMB 1252 billion worth of NPAs in the year 2002 and RMB 456 billion by ICBC in the year 2005 (Okazaki, 2007).

In order to facilitate the disposal off NPAs acquired by the AMCs, Government introduced auction based market mechanism. Foreign participation is allowed to boost up the market for the sale of NPAs. It also cut the direct relationship between the SOCBs and their respective AMCs by allowing the AMCs to acquire NPAs of any commercial bank and financial institutions.

Supplementary Measures

Apart from the above centralised approach, there are other supplementary measures that have been undertaken by the government to facilitate the effective resolution of NPAs. These include the followings:

- The new five category loan classification system based on risk assessment was first introduced in the year 1998 in major branches of SOCBs and was formally applied to all banks from 2002 in accordance with a guidelines issued in December 2001. This new system replaced the old system under which loan assets were classified under four categories based on payment status of the borrowers (Lardy, 1999).
- Recapitalisation of distressed banks by the government and the foreign players was explored as a strategy to deal with the problem. Accordingly, the government in 1998 injected Y 270 billion in capital to the SOCBs through the issuance of bonds. The International Finance Corporation (IFC) also invested funds in the equities of non-state small and medium sized banks in the country.
- Mergers of distressed banks are explored to consolidate the banking structure and thereby enable the merged entity to deal with the problem of NPAs more efficiently. In this regard, more than 2000 Urban Credit Cooperatives (UCCs) were merged into 88 City Banks during 1995-98 (Shirai, 2002).
- Government introduced conversion of debt into equity of State Owned Enterprises (SOEs) to keep them out of bankruptcy. During 1999, when the first lot of NPAs was transferred to AMCs, 580 SOEs had converted their debt into AMC held equity. This enabled them to avoid interest payment in one hand and bought time to repurchase those AMC held equity within the ten years time period.
- Closure of insolvent financial institution is considered as the last resort to deal with the problem of NPAs.

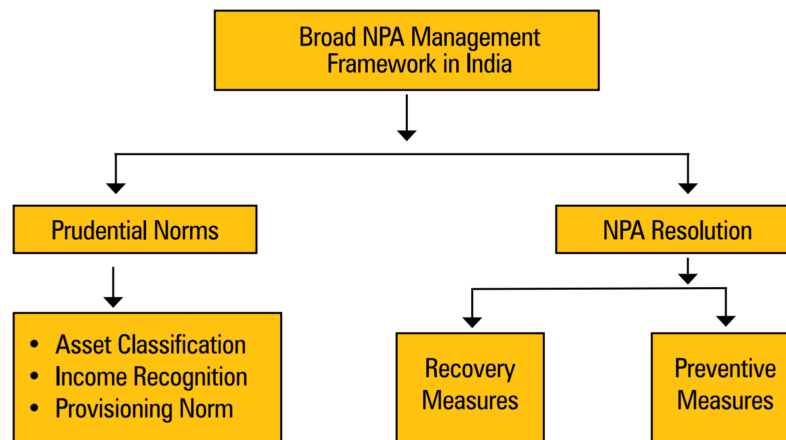
The banking system in China, however, face some difficulties in implementing the prudential regulations because few banks have taken up the new guidelines issued by the PBC and as a result, there exists difference in the NPA estimates of government and that of independent agencies like Fitch Ratings, Standard and Poor, etc. (Jain,

[3]AMC is also known as Asset Reconstruction Company (ARC).

2007). The system of loan classification suffers from the judgment bias and lack of information provided by the borrowers to assess the risk of lending. On the other hand, slow recovery rate of AMCs acts as a stumbling block for the effective resolution of NPAs. It is estimated that about US$ 200 billion worth of NPAs are still on the books of the AMCs (Okazaki, 2007).

Management of NPAs in India

In India, the problem of NPAs was first highlighted by the Narasimham Committee (1991). The committee placed emphasis on adoption of prudential norm relating to income recognition, asset classification and provisioning and suggested some measures to deal with them. The second Narasimham Committee (1998) suggested more comprehensive reforms on this area. Subsequently, the Verma Committee (1999), formed with the objective to deal with weak Public Sector Banks (PSBs), recommended the setting up of Asset Reconstruction Companies (ARCs). The CII Report (1999), representing the view of the Indian corporate sector, also endorsed the Verma Committee recommendation. In line with the recommendations of these committees, a number of measures have been taken to deal with the NPAs in Indian banking system. As a result, a broad framework has emerged, the components of which are presented in **Figure 2**.



Prudential Norms

RBI issued Master Circular on Prudential Norm in 1998 and revised the same time and again so as to make the norm more stringent and close to international standard. Accordingly, banks are to identify and report NPA on the basis of objective criteria (period of overdue) under three categories - Sub-Standard, Doubtful and Loss assets. Banks are restrained to account for income on those advances which are categoriesed as NPAs. Along with this, RBI suggested minimum provisioning norm for different categories of assets including standard advances. All these measures are strongly enforced so as to make the accounting and disclosure of NPAs more effective and transparent.

Recovery Measures

Recovery measures are applicable for the existing NPAs which are hard to be revived. These measures can be grouped under two heads – Regulatory measures and Non-regulatory measures. Over the years, efforts have been made to strengthen the regulatory measures. These are:

- Formation of a fast track judicial system in the form of Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) under the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and its subsequent amendments.
- Establishment of Corporate Debt Restructuring (CDR) mechanism in the year 2001 with the objective to ensure timely and transparent mechanism for restructuring of corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned.
- Establishment of Lok–Adalats and empowering the same in adjudicating cases of loan compromise in a speedier and effective way.
- The promulgation of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), 2002 is the most drastic step towards the strengthening of the recovery rights of the lenders without stepping into the court of law known for its lengthy, cumbersome and time-consuming procedure.
- Establishment of Asset Reconstruction Company of India Ltd. (ARCIL) in the year 2003 provides lenders with the opportunity to transfer their NPAs to ARCIL and thereby focused their attention to their core activities.
- Making Civil Courts more effective to deal with the bank specific cases.

The non-regulatory measures, on the other hand, combined both conventional measures (e.g., continuous follow up in the form of sending periodical reminders, properly coordinated visits to the borrower premises, etc.) and innovative practices like organising recovery camps during harvest seasons (for agricultural loans), lien and set off, loan compromise schemes, hiring of professional agencies to recover loans, redesigning of unpaid loan installments in

case of genuine difficulties of the borrowers, etc.

Preventive Measures

The Reserve Bank of India (RBI) with active support of the banks has developed a balanced NPA preventive mechanism. Important preventive strategies can be summarised as under:

- Establishment of the Credit Information Bureau of India Limited (CIBIL) in the year 2001 provides the much needed institutional mechanism for sharing credit information on existing and prospective borrowers. Thus, it helps in averting credit to less credit worthy customers at the initial stage of credit assessment.
- Publication of list of willful defaulters[4] and prohibition in raising finance from money and capital markets.
- Identification of early warning signals and taking Prompt Corrective Action (PCA) is being developed as a supervisory tool. The system was put in place in the year 2003.
- Introduction of Risk-Based Supervision (RBS) in the year 2003-04.
- Induction of professional acumen to the credit appraisal system to arrest the occurrence of NPAs at the initial stage.
- Up gradation of credit monitoring and follow up mechanism.
- Flexibility on the part of the banks to redesign recovery pattern.

Apart from the above, the RBI has taken a gradual but steady approach to align its prudential norms to international best practices in one hand and on the other, has compelled banks to adopt the prudential norms relating to income recognition, asset classification and provisioning along with strict disclosure norms attached with them. The adoption of these internationally aligned norms helped Indian banks to achieve transparency in accounting and disclosure of NPAs. It has also taken care of the other two vital aspects of NPA management – the objective identification and provisioning of NPAs. In this context, it is worth mentioning that Indian asset classification norms are tighter than the international best practices in certain regards (Report on Trend and Progress of Banking in India, 1998-99). Merger of distressed bank with a healthy bank to avoid huge social cost involved in liquidating the distressed bank is also explored in extreme cases. For example, the merger of Global Trust Bank with the Oriental Bank of Commerce in 2004

Indian banks also face some difficulties in resolving NPAs. The DRTs, Lok-Adalats and civil courts have been failed to bring about the improved changes in the recovery of NPAs. The political interference in lending decisions of banks and the loan-waiver schemes of the Government affect adversely the loan repayment culture of the country and thereby hamper the prevention of NPAs. Inspite of having a stringent provisioning norm, the banks in India failed to achieve full provisioning against NPAs.

Comparative assessment of reduction of NPAs in India and China

As both the countries strengthened the NPA resolution measures from 1998 onwards, the level of NPAs started to decline. From the table 6.1, it is found that the level of NPAs in terms of percentage of total advances is much lower in India as compared to China from 1998 to 2007. For example, in the year 1998, 35% of Chinese loan portfolio was bad as compared to 14.4% in case of India. The ratio then declined continuously and reached 6.5% and 2.5% respectively in the year 2007. Therefore, the gravity of the problem is not that much alarming in India as compared to China. Both the countries, however, showed steady progress in the reduction of NPAs as a percentage of total advances over the period 1998 -2007.

But there is a difference. NPA ratio of SCBs[5] in India declines because of recovery, write off and credit surge in India. Recovery performance of the SCBs (last column of table 5.1) has been improving as the time progresses. In case of China, however, the major reduction in the year 1999, 2002, 2004 and 2005 were largely because of the transfer of NPAs from major commercial banks to the AMCs.

The noteworthy difference in the reduction of NPAs between the countries is that in case of India, whatever reduction has been done so far is mostly by the banks themselves by using multiple channels as discussed in section 5. Although transfer of NPAs to ARCIL is available as a medium to clear the balance sheet of banks since 2003, the route is in developing stage and hence very few NPAs have been transferred to it. Whereas, China relay heavily on the centralised disposal of NPAs through the AMCs and starting from 1999 several rounds of transfer of NPAs have been made. Detailed disclosure regarding the progress of disposal of NPAs by the AMCs is not available. China Banking Regulatory Commission (CBRC), however, discloses data on the disposal of NPAs that were transferred in the year 1999. Even in that case, the average percentage of cash recovery is less than 20% as at the end of 2006 (CBRC, 2006). Moreover, a large portion of the transferred NPAs remain indisposed. As of December 2005, AMCs still bear approximately 40% of the 1999 transfer

[4]Willful Default broadly covers deliberate non-payment of dues despite adequate cash flow and good net worth, siphoning off of funds to the detriment of the defaulting unit, assets financed have either not being purchased or have been sold and proceed misutilised, misrepresentation /falsification of records and disposal /removal of securities without bank's knowledge.

[5]SCBs stand for Schedule Commercial Banks in India and represent nearly the whole banking system in India.

loans in their balance sheet (NPL Asia, 2006). Fitch Rating 2006 put the estimate around US$ 200 billion.

Another dimension of management of NPAs is to build healthy provisions for impaired loans. Starting from 1993 to 2002, the commercial banks of China were required to make bad loan provisions of 0.6 percent of outstanding loans at the beginning of the corresponding year. Thereafter, the ratio was allowed to rise by 0.1% every year until it reached 1%. After the issuance of comprehensive guidelines on provisioning of loan losses in the year 2002, the provisioning practices improved a lot (as shown in Table 6.1). Because of the improved provisioning norm, the provision coverage ratio of major commercial banks of China increased from a mere 6.9% in the year 2002 to 34.3% at the end of 2006. There from it started to increase sharply and reached 217.7% at the end of 2010 because of the strengthening of provisioning practices by the CBRC by allowing the Chinese banking sector to dynamically adjusting the provisioning requirements in line with the cyclical economic developments, as well as the difference of banks in terms of quality of loan portfolio and profitability. Specifically, banks are required to draw a higher level of provisions during the economic upturn, and a relatively lower level of provisions during the economic downturn (CBRC Annual Report, 2010).

India, on the other hand, has been following a stringent provisioning norm since 1993 and as a result, its provision coverage ratio is much better than that of China in the initial years (up to 2006). The data of provision coverage ratio, however, was available from 2002. As per the data shown in Table 6.1, the coverage ratio of Indian banks increased from 43.39% in 2002 to 58.93% in the year 2006. From 2007 onwards, the coverage ratio decreased and reached the level of 51.5%. Therefore, on provisioning ground, the Chinese banking system has performed much better way and the level of provisions for impaired loans in China is better than the international standard. Whereas the India's provision coverage ratio is not compatible with international standard, wherein provision coverage ratio is often as high as 140% (Report on Trend and Progress of Banking in India, 2001-02).

Table 2: Movement of NPA Ratio, Provision Coverage Ratio of India and China

Year	% of NPAs on Total Loans		Provision Coverage Ratio		Recovery of NPAs in India (Rs. Crore)
	China	India	China	India	
1998	35	14.4	NA	NA	NA
1999	28.5	14.7	NA	NA	9716 (cumulative)
2000	22.4	12.7	NA	NA	2256
2001	29.8	11.4	NA	NA	4436
2002	23.2	10.4	6.9	43.39	11180
2003	17.9	8.8	19.7	46.94	5714
2004	13.2	7.2	14.2	56.64	4039
2005	8.9	5.2	24.8	60.3	6072
2006	7.5	3.3	34.3	58.93	8971
2007	6.1	2.5	41.4	56.1	7318
2008	2.4	2.3	116.6	52.6	10459
2009	1.6	2.25	153.2	52.1	7426
2010	1.1	2.39	217.7	51.5	7514

Source: 1. IMF, Global Financial Stability Report, April 2004 & Shirai, 2002
2. RBI, Annual Report 2001-02
3. RBI, Report on Trend and Progress of Banking in India, 2004-05 – 2009-10.
4. CBRC, CBRC Annual Report, 2006 and 2010

Concluding observations

Internationally, there are two broad policies regarding NPA management, both having their respective pros and cons. One is the centralised approach through AMCs or ARCs and the other is the decentralised creditor-led approach which includes loan loss provisioning, write off and recovery actions by the lending institution itself. The above discussion clearly points out that while China adopted the first way along with some additional measures to deal with the problem, India combined the two approaches. Therefore, India offered a more comprehensive and flexible framework with a wide range of options for the lenders to take care of the NPA menace. RBI has a balanced approach that facilitates the prevention of NPAs in one hand and strengthening the recovery power of the lenders on the other through a range of regulatory and non-regulatory measures. As a result, India achieved a steady progress in the resolution of NPAs as compared to China during 1998 to 2007.

Post 2007 China, however, surpassed India both in terms of reduction of NPAs and building of healthy provisioning in line with international standard. But various agencies have expressed doubts over the level of compliance with the

INDIA HAS BEEN FOLLOWING A STRINGENT PROVISIONING NORM SINCE 1993 AND AS A RESULT, ITS PROVISION COVERAGE RATIO IS MUCH BETTER THAN THAT OF CHINA (UP TO 2006)

regulations by the Chinese banks. The assessment of performance of centralised market driven recovery process becomes difficult because of the non-transparent accounting and disclosure practices followed by the AMCs. Nevertheless, the regulatory framework and enforcement of norms are two important areas that offer lot of scope for improvement in both the countries. In case of India, the provisioning practices need to be strengthening either by encouraging banks to make provisions in excess of the minimum provision suggested by the RBI or by increasing the minimum level in order to achieve international standard.

The Chinese model, however, offers two valuable lessons for Indian banking system. Those lessons stem from the separation of policy lending from commercial lending for better performance measurement and enforcement of responsibility and accountability on the part of banks and opening up the foreign participation in developing market mechanism for the disposal of NPAs..

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COVER STORY

STRATEGIC COST MANAGEMENT IN THE LIFE INSURANCE INDUSTRY: A COMPARATIVE STUDY

The author discovers that private insurers have procured market share by increasing the management expenses in general and operating expenses in particular. LIC, on the other hand, has shown its economical and efficient nature

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In the present epoch of volatile changes in business environment organisations confront complexities in managing the business affairs. In order to tackle such challenges organisation endeavour to apply newer, better and effective approaches viz. total quality management, employee involvement and empowerment, business process reengineering, continuous improvement and others. These philosophies need organization to be responsive, nimble and flexible in profitably catering value-added products and services to customers at competitive prices. Therefore, organizations are now searching several tools to cope with the environmental changes. Amongst, strategic cost management is one of the approaches used by the organisations to gain competitive edge over the rivals. Life insurance industry is not the exception as concerned to external changes. The first decade of the 21st century witnessed so many changes such as setting of a regulatory body i.e. IRDA and entry of private and foreign players. Therefore, the current life insurance market has become competitive and the market share of LIC of India has been gradually dipping down.

Objectives of the study

- To review the conceptual framework of strategic cost management.
- To examine the commission expenses and its ratios of life insurers.
- To analyse the operating expenses and its ratios of life insurers.
- To assess the market share of life insurers.

Methodology

The study is exploratory in nature, thus, focuses on the different issues of strategic cost management. It is a comparative study of public and private life insurers in relevance of strategic cost management which has been discussed in the life insurance industry. The secondary data have been extracted from IRDA Annual Reports and literatures have been used from reputed texts. The period of the study covers from 2005-06 to 2011-12. Further, the data have been analysed through percent-

age, ratio and average, and presented through tables.

Conceptual framework of Strategic Cost Management

Strategic cost management, like other philosophies and approaches, is understood in various ways in literature. Cooper and Slagmulder (1998) argued that strategic cost management is "the application of cost management techniques so that they simultaneously improve the strategic position of a firm and reduce costs." In other words, they lay stress on three elements such as application of cost management techniques, reducing cost and improving the strategic position of a firm. Furthermore, Cooper (1995) reveals that strategic cost management needs to entail all aspects of production and delivering the product; the supply of purchased parts; the design of products and manufacturing of these products. Thus, strategic cost management should be innate to each stage of a product's life cycle. According to Welfle and Keltyka (2000) strategic cost management is a field of study that holds exciting possibilities for accountants. They further state that strategic cost management assists in improving the strategic position of an organisation along with reducing cost. In order to improve strategic cost position, an organization must compete in terms of cost, quality, customer service, flexibility and cost reduction efforts. Shank and Govindarajan (1993) define strategic cost management as "the managerial use of cost information explicitly directed at one or more of the four stages of strategic management: (1) formulating strategies (2) communicating those strategies throughout the organisation (3) developing and carrying out tactics to implement the strategies, and (4) developing and implementing controls to monitor the success of objectives." According to Hovarth and Brokemper (1998), strategic cost management has emerged as a key element to attain and sustain a strategic competitive advantage through long term anticipation and formation of costs level, costs structure and costs behavior pattern for products, processes, and resources. To serve this purpose, strategic cost management must cater different information to managers. Strategic cost management also considers products, processes, and resources as creative objects to achieve strategic competitive advantage. Unlike traditional cost management, strategic cost management is a proactive approach. They further lay stress on the determination and analyses of long term cost determinants (economies of scale, experience etc.) and their impact on costs level, cost structure and cost behavior pattern. At last, in order to avoid the costs early in the product life cycle, strategic cost management should start with participation during R&D and design stages of the product.

Another strategy Guru Porter (1998) contributed significantly in the area of strategic cost management. He revealed that a firm has three options (generic strategies viz. cost leadership, differentiation, and focus) in order to attain sustainable competitive advantage. The first one is strongly concerned with the strategic cost management; therefore, he advocates the application of strategic cost analysis. During the process of strategic cost analysis a firm has to identify its value chain which can be referred as the linked set of activities all the way from raw material sources to the ultimate end-use products delivered to the final consumers. The value chain consists of five fundamental activities along with a num-

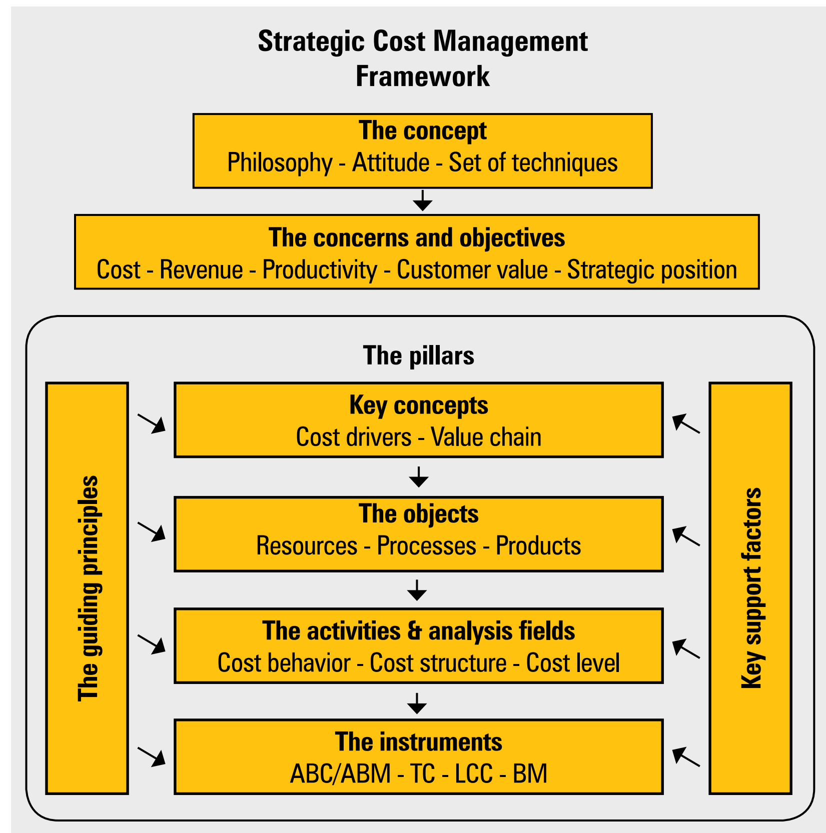


Table 1							
Commission Expenses of Life Insurers (Rs. In Crore)							
Years	Commission Expenses of LIC of India			Commission Expenses of Private Life Insurers			Life Insurance Industry
	First Year Premium	Renewal Premium	Total Premium	First Year Premium	Renewal Premium	Total Premium	Total
2005-06	3630.33	3469.85	7100.19	1362.91	180.19	1543.10	8643.29
2006-07	5203.75	3969.82	9173.58	2802.69	306.96	3109.65	12283.24
2007-08	4963.81	4650.89	9614.69	4511.15	578.46	5089.61	14704.30
2008-09	4783.72	5271.37	10055.09	4597.11	880.78	5477.89	15532.98
2009-10	6626.85	5505.71	12132.56	4911.64	1030.42	5942.06	18074.62
2010-11	7391.25	5956.04	13347.29	3849.75	1132.28	4982.03	18329.32
2011-12	7986.53	6076.53	14063.06	3337.44	1120.62	4458.05	18521.11

Source: Annual Reports of IRDA (Various Issues)

ber of support activities. The former one encompasses inbound logistics, operations, outbound logistics, marketing and sales, and services while the latter entails firm's infrastructure, human resource management, technology and procurement. In the value chain, costs and assets are assigned to each activity. The cost behavior pattern of each activity depends on causal factors that are known as cost drivers. It is the management's skill and success to cope with cost drivers in an efficient and effective manner. In addition, an organization has to recognize the value chain and cost structure of rivals to know the relative competitiveness. Porter recommend that organizations should utilize this information to identify opportunities for cost reduction, either by improving curb of the cost drivers or by reconfiguring the value chain. The latter includes the determination of value chain areas having competitive advantage. It is indispensable that the cost reduction performance of both the organization and its' primary rivals is continuously monitored if competitive advantage is to be sustained.

The current market of the life insurance industry is complex and competitive. As a result, attaining competitive advantage is of paramount significance... Controlling costs and improving strategic market position are the primary concerns of strategic cost management

In his study Hinterhuber (1997) implied that cost management is "a necessary course of action which acquires strategic significance the more it increases the number of options for discovering new opportunities or investing new markets. Strategic cost management tends to be an integrated, proactive part of strategic management aimed at satisfying all key stakeholders." Furthermore, he concluded after an interview with executives of European companies that strategic cost management should be a part of the strategy of businesses in order to attain a radical and long term enhancement in the value of the company. Strategic cost management needs the assistance and support of employees, top management and information technology to ensure effective and timely communication and proper implementation.

According to McIlhattan (1992), strategic cost management is the skillful handling or directing of costs. Horngren (2000) pointed out that cost management is not practiced in isolation, but a part of general management strategies. They, define strategic cost management as the set of actions that managers take to satisfy customers while continuously reducing and curbing costs. Sakauri (1992) speaks of a cost down mentality as a synonym for cost management. Kato (1993) added that in today's ever changing environment, pursuing every possible cost reduction opportunity is surely a good strategy, but warns that it is essential to avoid reduction costs without regard for the quality functions, and characteristics of the product from the customers' perspective.

Thus, it is obvious that strategic cost management has a wider focus; it involves the continuation reduction of costs and curbing of costs, management's use of cost information for decision-making. Most of the authors have emphasised on the cost reduction along with the increasing revenue through the application of strategic cost management. Cost management knowledge and information are vital for the success of an organization. Moreover, in the current dynamic business environment, cost, value, and revenue are the significant forces that play crucial role in the success of an organization. Finally, the strategic cost management is a philosophy, an attitude and a set of techniques that contribute in shaping the future of the company.

Data analysis and finding

The current market of life insurance industry is complex and competitive. As a result, attaining competitive advantage is of paramount significance. An appropriate set of tools or strategies may serve the purpose. Controlling costs and improving strategic market position are the primary concerns of strategic cost management. In life insurance industry, costs encompass the management expenses which are further segregated into commission expenses to individual agents and other intermediaries and operating expenses such as employee salary and welfare benefits, training expenses, and advertisement and publicity expenses. However, there is a prescribed limit in regard to management expenses for the life insurers under the Section 40 B of the Insurance Act, 1938. Such expenses entail commission and any amounts of capitalised expenses. Thus, a comparative figure of expenses of LIC and private insurers has been discussed. Management expenses of the corporate giant LIC has been continued within the allowable limits. Alternate channels of distribution like bancassurance, direct marketing, internet and telemarketing have reduced costs and enable insurers besides accessing a broader customer base. On-line sale of policy has also contributed in cutting the costs. The following analyses present the commission expenses, operating expenses and market share of the life insurers.

Table 1 shows the commission expenses of the life insurers' viz. LIC of India and private life insurers. It is evident that total commission of the industry has been increased by more than double times during the period under consideration. In respect of first year premium, LIC recorded commission expenses from Rs. 3630.33 crore in 2005-06 to Rs. 7986.53 crore in the year 2011-12 while private insurers accounted more times than LIC from Rs.1362.91 crore and to Rs. 3337.44 crore for the same periods. Further, it is surprisingly to know that LIC's commission for re-

Table 2

Commission Expenses Ratios of Life Insurers (In Percent)

Years	Commission Expenses Ratio of LIC of India			Commission Expenses Ratio of Private Life Insurers			Life Insurance Industry Ratio
	First Year Premium	Renewal Premium	Total Premium	First Year Premium	Renewal Premium	Total Premium	Total
2005-06	12.73	5.57	7.82	13.27	3.74	10.23	8.16
2006-07	9.26	5.54	7.17	14.45	3.48	11.02	7.87
2007-08	8.27	5.17	6.42	13.38	3.24	9.87	7.30
2008-09	8.99	5.06	6.39	13.59	2.87	8.49	7.00
2009-10	9.27	4.81	6.52	12.80	2.51	7.48	6.81
2010-11	8.49	5.11	6.56	9.77	2.32	5.65	6.28
2011-12	9.76	5.02	6.93	10.40	2.15	5.30	6.45

Note: Commission expenses ratio is the ratio between commission expenses and the premium underwritten by life insurers.
Source: Annual Reports of IRDA (Various Issues)

Table 3						
Operating Expenses and Operating Expenses Ratios of Life Insurance Industry						
Years	Operating Expenses			Operating Expenses Ratios		
	LIC	Private	Industry Total	LIC	Private	Industry Total
2005-06	6041.56	3569.48	9611.04	6.65	23.66	9.07
2006-07	7085.84	6500.01	13585.85	5.54	23.01	8.70
2007-08	8309.32	12032.46	20341.78	5.55	23.34	10.10
2008-09	9064.29	16763.03	25827.32	5.76	25.99	11.65
2009-10	12245.82	16561.11	28806.93	6.58	20.86	10.85
2010-11	16980.28	15962.02	32942.30	8.35	18.10	11.30
2011-12	14914.40	14760.19	29674.59	7.35	17.53	10.34

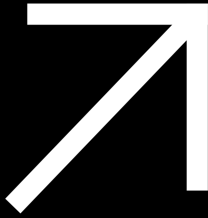
Note: Operating expenses ratio is the ratio between operating expenses and the premium underwritten by the life insurers.
Source: Annual Reports of IRDA (Various Issues).

Table 4						
Market Share of Life Insurers						
Years	Market Share of LIC (In percent)			Market Share of Private Life Insurers (In percent)		
	First Year Premium	Renewal Premium	Total Premium	First Year Premium	Renewal Premium	Total Premium
2005-06	73.52	92.82	85.75	26.48	7.18	14.25
2006-07	74.35	89.03	81.92	25.65	10.97	18.08
2007-08	64.02	83.42	74.39	35.98	16.58	25.61
2008-09	60.89	77.43	70.92	39.11	22.57	29.08
2009-10	65.08	73.64	70.10	34.92	26.36	29.90
2010-11	68.84	70.48	69.77	31.16	29.52	30.23
2011-12	71.85	69.91	70.68	28.15	30.09	29.32

Source: Annual Reports of IRDA (Various Issues)

newal premium has been enhanced by less than double times whereas private insurers jumped by more than six times. The total premium commission expenses of LIC have been moved by two times while private players booked three times approximately. It is thus, obvious that private insurers have distributed more commission than LIC to motivate the intermediaries for the selling of the policies.

Table 2 presents the commission expenses ratio of the life insurers. It reveals that LIC's commission ratio has been almost 10 percent, 5 percent and 7 percent in the first year premium, renewal year premium, and total premium respectively whereas the private insurers' commissions have been near to 13 percent, 3 percent and 11 percent in the said categories. Except 2010-11 and 2011-12, LIC has been economical in commission payments than private players. Its commission ratio has also been low than industry at most of the times.



ECONOMIES OF SCALE, WIDER DISTRIBUTION NETWORK, TRUST LEVEL, EXPERIENCE IN THE INDUSTRY, ETC. ARE THE MAJOR REASONS FOR LIC'S RESULTS AND LEADERSHIP

The operating expenses its' ratios have been shown through the **Table 3** on next page. It is clear from the table that LIC is more efficient than private insurers in managing the operating expenses. LIC's operating expenses have been increased by more than two times while private players recorded more than four times enhancement in operating expenses. LIC's operating expense ratio has been less than industry while private insurers suffered more than industry ratios. Thus, it is obvious that private insurers are spending too excessively on operation activities. In contrast, LIC has maintained its operating expenses in a significant manner.

Table 4 throws light on the market share of the life insurers. It is apparent that private players showed an impressive growth in market share over the years. The market share of private sector was 14.25 percent in total premium in the year 2005-06 which enhanced to 29.32 percent in 2011-12 while LIC's market share fell down to 70.68 percent from 85.75 percent in the same category and periods. In term of renewal premium private players' market share jumped by four times i.e. from 7.18 percent to 30.09 percent while LIC faced loss of market share from 92.82 percent to 69.91 percent. The first year premium market share has been 70:30 ratios in LIC and private sector. It is clear that private insurers have snatched market share from the LIC within past years.

Concluding remarks

From the above analyses it is evident that private insurers have procured market share by increasing the management expenses in general and operating expenses in particular. LIC has showed its economical and efficient nature. Economies of scale, wider distribution network, trust level, experience in the industry, and government's guarantee etc. are the major reasons for the LIC's results and leadership. Despite the fact, its' market share has been eroded over the years. The private insurers have attained progress in their business operations by using smart marketing, innovative products, and strategic market operations. Peter F. Drucker also advocates effectiveness rather than efficiency. As private players incurred much management expenses but also gained market acceptance. Therefore, the importance of strategic cost management gets enhanced which emphasizes on improving the strategic market position along with curbing the costs. LIC should ponder about the declining market share besides the management expenses.

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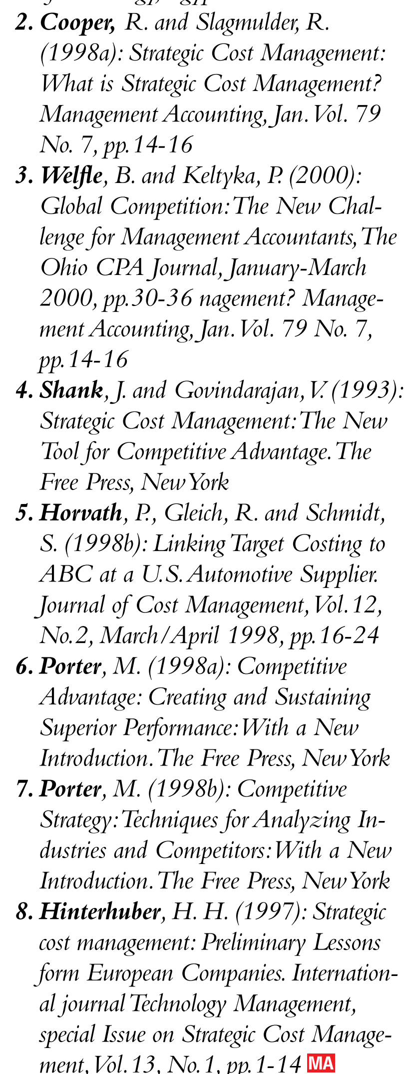

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THE FINANCIAL PERFORMANCE OF SELECT COMMERCIAL BANKS IN INDIA USING THE CAMEL APPROACH

The study analysis the relative performance of sample banks based on capital adequacy, asset quality, management efficiency, earnings quality and liquidity and provides a rankings under each parameter

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The Indian banking sector has witnessed a colossal transformation in the last two decades. Thus, this paper attempts to gauge the relative financial performance of ten select commercial banks (incorporating five public sector and five private sector banks) in India during the period 1998-1999 to 2012-2013. The CAMEL approach has been used for the purpose of such study. This approach takes into consideration five aspects – Capital adequacy, Asset quality, Management efficiency, Earnings quality and Liquidity. The relative position of the sample banks under each of the five aspects has been ascertained and eventually a composite ranking has been arrived at by taking into consideration all the five aspects as a whole.

Introduction

The Indian banking sector forms the backbone of the Indian economy. This sector became an important area of concern for the economy a long back in 1960s when the nationalization of banks was initiated. Again the 1990s forms a major transitory period for the Indian banking sector. The recommendations of Narasimham Committee-I (1991) report and Narasimham Committee- II (1998) report were implemented to recover the dark areas in banking sector and raise its potential to great heights. The Narasimham Committee- I conducted a study on the structure, organization, functions and procedures of the financial system and suggested measures for improving their productivity and efficiency. Mounting Non-Performing Assets (NPAs) mostly arising from priority sector lending was one of its major issues of studies. Narasimham Committee- II was mainly entitled to make a review of the banking sector reforms initiated in 1992. Besides that it also focused on the size of banks and capital adequacy ratio. NPAs were also matter of serious concern. As a result of which a new legislation was implemented and this came to be known as Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Moreover, the Basel Accord issued by the Basel Committee on Banking Supervision (BCBS) first in 1988 (i.e Basel I) also started giving the banking sector a fine shape. Further refinements were brought into this accord and Basel II was published in 2004. It took into consideration market risk and operational risk which were neglected in Basel I. All these made the Indian banking sector quite robust and thus the banks survived the 2008 financial crisis relatively unscathed. Presently the Basel III, a refinement over the previous one is ready to be implemented. This paper tries to gauge the financial performance of Indian public sector and private banks in the milieu of these new vistas in the Indian banking sector using

CAMEL approach.

Objectives

From the above discussion it is very transparent that the period starting from 1990s till date is very relevant for the Indian banking sector. Thus, this paper tries to make a review of the financial performance of the banking sector during such late 1990s till date.

The objectives of this study are as follows:

i. To study the relative performance of sample banks during the period under study based on the sub-parameters under each parameter (Capital adequacy, Asset quality, Management efficiency, Earnings quality and Liquidity) of CAMEL approach.

ii. To gauge the relative performance of each sample bank by providing ranks under each parameter based on sub-parameter ranking.

iii. To apply a composite ranking technique to trace the overall relative position of each sample bank

Database and methodology

The study encompasses ten banks selected randomly – including five banks from the public sector and the other five from the private sector. The sample banks for this study are State Bank of India, Bank of Baroda, Bank of India, Union Bank and Corporation from the public sector and Axis Bank Ltd., ICICI Bank Ltd., HDFC Bank Ltd., IndusInd Bank, ING Vysya Bank Ltd. from the private sector. The period covered in this study is 15 years ranging from 1998-1999 to 2012-2013. Data required for this purpose has been obtained from the Capitaline - 2000 Database Package.

CAMEL (Capital adequacy, Asset quality, Management efficiency, Earnings quality and Liquidity) approach has been applied to track the relative financial performance of the sample banks. The CAMELS approach was first developed in the US for measurement of financial condition of financial institutions. Accordingly, the "Uniform Financial Institutions Rating System" was established by the Federal Financial Institutions Examination Council in the US. Here, the acronym "CAMELS" stands for Capital adequacy (C), Asset quality Management efficiency (M), Earnings Quality (E), Liquidity (L) and Sensitivity to market risk (S). In 1995, RBI set up a committee under the chairmanship of S. Padmanabhan and this recommended the "CAMELS" model based on the lines of the international model. In this acronym C, A, M, E, L stands the same as that represented in the international model. Only "S" stands for Systems and controls.

In this study, C, A, M, E and L (i.e CAMEL model) has been considered. The Banks are not rated as such, in fact the relative position of the sample banks have been detected by the method of ranking. At first the banks are ranked under each sub-parameter (i.e each ratio) based on the average of that particular ratio during the study period of 15 years (1998-1999 to 2012-2013). Average of the ranks of the sub-parameters are computed and based on that group ranks of each of the five parameters are assigned. Eventually a composite ranking is done based on all the five parameters taken together. This shows the overall relative position or rank of each bank.

Analysis and interpretation

The CAMEL model has been used to find out the relative position of the banks in terms of their financial performance. It is basically a ratio-based model in which ratios are classified under each parameter. The following ratios have been considered for this study:

Capital Adequacy

It represents whether the bank has enough capital to absorb unexpected losses. The ratios under this parameter basically act as an indicator of bank leverage. The following ratios have been used:

Capital adequacy ratio (It is a measure of the bank's core capital expressed as a percentage of its risk-weighted assets), Advance to Asset ratio and Government Securities to Total Investment ratio.

The ranking under these sub-parameters and the capital adequacy parameter as a whole has been shown in **Table 1** in the annexure. In the overall ranking under capital adequacy, IndusInd Bank has occupied the first position, followed by Corporation Bank and Bank of India and Axis Bank Ltd. has been outperformed by all the other banks and thus occupies the last rank.

Asset Quality

Under this parameter a study is made on the quality of assets. Some assets may not be income-generating ones i.e there may be some Non-Performing Assets (NPAs) in the asset mix of the banks. Assets also include investments, income from which does not form the core income of banks. Thus the following ratios have been used to determine asset quality:

Net NPAs to Net Advances, Net NPAs to Total Assets and Total Investments to Total Assets.

Table 2 represents the ranking under this parameter. Corporation Bank tops the list followed by HDFC Bank Ltd and the third rank is held jointly by Bank of Baroda and ICICI bank Ltd. State Bank of India ranks the last.

Management Efficiency

This parameter is very much important for any institution. With the advent of globalization and rising awareness among the shareholders, the role of management in banking sector becomes utmost essential. The following ratios are used to gauge the efficiency of management:

Return on Net Worth, Business per employee and Profit per employee.
The ranking under this parameter is depicted in **Table 3** in the annexure. Axis Bank Ltd. occupies the first position, followed by HDFC Bank Ltd. There is a tie in the third position which is occupied by Corporation Bank, ICICI Bank Ltd. and IndusInd Bank. Bank of Baroda lies at the end of the list.

Earnings quality
It helps in gauging the profitability of the banks and thus predicting its sustainability and competitive advantage over its rivals. It is also very prudent to know the composition of such earnings of the banks i.e what is the composition of the operating income and the non-operating income. The following ratios have been incorporated in this study:

Operating Profit to Average Working Fund, Return on Assets and Profit After Tax (PAT) growth rate.

HDFC Bank Ltd. holds the first position and the 2nd and 3rd positions are occupied by the private banks – Axis Bank Ltd. and ICICI Bank Ltd. respectively. State Bank of India is found at the end of the list. The detailed ranking is shown in **Table 4** in the annexure.

Liquidity
It is the prime function of banks to accept deposits from their clients and pay that back on maturity or on demand. Thus, banks should possess the ability to meet their obligations. Such ability is nothing but liquidity. The ratios for measuring such liquidity are stated below:

Liquid assets to Total deposits, Liquid assets to Demand deposits and Government Securities to Total assets.

Table 5 in the annexure shows the ranking under Liquidity. Bank of Baroda occupies the 1st position. The 2nd and 3rd positions are held by State Bank of India and ICICI Bank Ltd. respectively. Axis Bank Ltd. occupies the 10th position.

Composite ranking
The composite ranking is based on the average of the ranks obtained under each of the parameters – Capital adequacy, Asset quality, Management efficiency, Earnings quality and Liquidity.

Table 6 in the annexure shows the details of this composite ranking. HDFC Bank Ltd. tops in the list. Next position is jointly held by Corporation Bank and IndusInd Bank with a ranking of 2.5. Then comes ICICI Bank Ltd., Bank of Baroda, Axis Bank Ltd. and Union Bank in the series in the order of their ranking. State Bank of India and Bank of India with a joint ranking of 8.5 follows the banks mentioned before. ING Vysysa Bank Ltd. occupies the last position.

Conclusion
The CAMEL approach is a very comprehensive tool for assessing the financial performance of the banks. It focuses on all the aspects relating to financial performance. This study depicts the financial performance of the sample banks during 1998-99 to 2012-13. HDFC Bank Ltd. has been found to be the best bank among all the sample banks, based on its overall performance, according to this study. Moreover, it is also the winner of "Best Private Sector Bank" award given by Dun & Bradstreet – Polaris Financial Technology Banking Award 2013 [http://www.hdfcbank.com/htdocs/aboutus/awards/dnb-awards-2013.html]. The best performers in each group as per this study are as follows:

- IndusInd Bank is the best one in terms of Capital adequacy.
- Corporation Bank tops the list in case of Asset quality ranking.
- Management efficiency of Axis Bank Ltd. is the best among all the sample banks.
- Earnings quality of the HDFC Bank Ltd. is the best.
- Bank of Baroda is the best one in terms of Liquidity.

This study is confined only to determination of the relative position of the banks. Detailed analysis of the financial soundness of individual bank is beyond the scope of this paper.

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ANNEXURE

Table 1: Capital Adequacy Ranking

Banks	Capital Adequacy Ratio (%)		Advance to Asset Ratio (%)		G-sec to total investment Ratio (%)		Group Rank	
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
State Bank of India	12.42	7	49.61	8	79.83	1	5.33	5.5
Bank of Baroda	12.72	5	52.77	6	74.48	5	5.33	5.5
Bank of India	11.69	9	57.41	1	75.83	3	4.33	3
Union Bank	11.93	8	55.02	2	74.86	4	4.67	4
Corporation Bank	14.38	1	53.16	4	73.88	6	3.67	2
Axis Bank Ltd.	12.44	6	49.67	7	61.25	10	7.67	10
ICICI Bank Ltd.	14.12	2	48.78	9	61.97	9	6.67	7
HDFC Bank Ltd.	13.37	3	45.46	10	64.74	8	7	8
IndusInd Bank	12.83	4	53.84	3	79.04	2	3	1
ING Vysya Bank Ltd.	11.64	10	52.80	5	73.15	7	7.33	9

Source: Data generated

Table 2: Asset Quality Ranking

Banks	Net NPA / Net Advance (%)		Net NPA/ Total Asset (%)		Total Investment/ Total Asset (%)		Group Rank	
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
State Bank of India	3.34	9	1.46	7	32.92	8	8	10
Bank of Baroda	2.57	5	1.20	5	29.07	3	4.33	3.5
Bank of India	3.36	10	1.79	10	27.12	1	7	8
Union Bank	3.24	8	1.55	9	30.83	5	7.33	9
Corporation Bank	1.15	2	0.57	3	31.76	6	3.67	1
Axis Bank Ltd.	1.78	3	0.85	4	34.55	9	5.33	5.5
ICICI Bank Ltd.	2.08	4	0.52	2	32.71	7	4.33	3.5
HDFC Bank Ltd.	0.38	1	0.16	1	37.75	10	4	2
IndusInd Bank	2.93	6	1.49	8	28.63	2	5.33	5.5
ING Vysya Bank Ltd.	3.16	7	1.42	6	29.30	4	5.67	7

Source: Data generated

Table 3: Management Efficiency Ranking								
Banks	**RONW (%)**		**Business/ Employee (Rs. Cr)**		**Profit/ Employee (Rs. Cr)**		**Group Rank**	
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
State Bank of India	16.21	7	3.94	10	0.03	8.5	8.5	8
Bank of Baroda	16.38	6	6.28	6	0.04	6.5	18.5	10
Bank of India	17.66	5	6.06	7	0.03	8.5	6.83	7
Union Bank	20.75	2	5.31	8	0.04	6.5	5.5	6
Corporation Bank	18.71	4	7.72	4	0.06	5	4.33	4
Axis Bank Ltd.	21.70	1	10.60	2	0.09	2	1.67	1
ICICI Bank Ltd.	13.78	9	8.46	3	0.10	1	4.33	4
HDFC Bank Ltd.	19.72	3	6.91	5	0.08	3	3.67	2
IndusInd Bank	15.24	8	11.17	1	0.07	4	4.33	4
ING Vysya Bank Ltd.	10.02	10	4.16	9	0.02	10	9.67	9
Source: Data generated								

Table 4: Earnings Quality Ranking								
Banks	**PAT (growth rate %)**		**Operating Profit/ Average Working Fund (%)**		**Return on Assets (%)**		**Group Rank**	
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
State Bank of India	19.32	9	2.01	8	0.83	8	8.33	10
Bank of Baroda	21.74	7	2.09	7	0.95	5	6.33	6
Bank of India	27.63	6	1.94	9	0.79	9	8	9
Union Bank	21.56	8	2.10	6	0.90	7	7	7.5
Corporation Bank	16.39	10	2.67	3	1.36	2	5	5
Axis Bank Ltd.	47.85	3	2.69	2	1.27	3	2.67	2
ICICI Bank Ltd.	52.89	2	2.35	5	1.16	4	3.67	3
HDFC Bank Ltd.	36.92	5	3.04	1	1.56	1	2.33	1
IndusInd Bank	41.43	4	2.48	4	0.91	6	4.67	4
ING Vysya Bank Ltd.	58.13	1	1.61	10	0.59	10	7	7.5
Source: Data generated								

Table 6: Composite Ranking (based on all the parameters taken together)

Banks	Liquid Assets/ Total Deposits (%)		Liquid Assets/ Demand Deposits (%)		G-sec/ Total Assets (%)		Group Rank	
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
State Bank of India	15.81	3	101.41	6	26.44	1	3.33	2
Bank of Baroda	16.15	2	182.52	1	21.33	6	3	1
Bank of India	13.35	9	164.38	3	20.32	9	7	8.5
Union Bank	11.25	10	100.84	7	22.86	4	7	8.5
Corporation Bank	13.60	8	99.72	8	23.32	3	6.33	6.5
Axis Bank Ltd.	14.26	5	91.67	9	21.02	8	7.33	10
ICICI Bank Ltd.	18.71	1	167.01	2	20.06	10	4.33	3
HDFC Bank Ltd.	14.69	4	58.75	10	23.41	2	5.33	5
IndusInd Bank	13.70	6	128.58	4	22.60	5	5	4
ING Vysya Bank Ltd.	13.65	7	120.11	5	21.28	7	6.33	6.5

Source: Data generated

Table 6: Composite Ranking (based on all the parameters taken together)

Banks	Capital Adequacy	Asset Quality	Management Efficiency	Earnings Quality	Liquidity	Average of Ranks	Composite Rank
State Bank of India	5.5	10	8	10	2	7.1	8.5
Bank of Baroda	5.5	3.5	10	6	1	5.2	5
Bank of India	3	8	7	9	8.5	7.1	8.5
Union Bank	4	9	6	7.5	8.5	7	7
Corporation Bank	2	1	4	5	6.5	3.7	2.5
Axis Bank Ltd.	10	5.5	1	2	10	5.7	6
ICICI Bank Ltd.	7	3.5	4	3	3	4.1	4
HDFC Bank Ltd.	8	2	2	1	5	3.6	1
IndusInd Bank	1	5.5	4	4	4	3.7	2.5
ING Vysya Bank Ltd.	9	7	9	7.5	6.5	7.8	10

Source: Data generated

BUSINESS PROCESS RE-ENGINEERING IN INSURANCE INDUSTRY AND ITS COST IMPLICATIONS

In the intensely competitive insurance market, differentiation through innovative technologies like BPR is an important and effective way of strategic cost management to maintain or increase market share and profitability

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Perspective

Most of the challenges faced by Indian insurance companiesare low market penetration, increasing competition, slackening product demand, tight credit controls,deregulation of the insurance sector, the collapse in the global economy and volatile investor confidence. At the same time in order to capitalize the market's high-growth potential, these companies have emphasized on cost management to balance their efforts to drive revenue growth with attention to cost controls in order to ensure healthy profits. An effective cost management can only be possible with the improvement of efficiencies across the enterprise,from fixed cost management to human resources deployment and their accompanying monitoring mechanisms. Business Process Re-engineering (BPR) helps Indian insurers to address these issuesand to enhance strategic cost optimization skills to develop a strong value proposition. The mission of the BPR project in an insurance company irrespective of its mission and business objective is to reduce operating expenses, increase the number of policies captured and underwritten per day, increase the number of claims assessed per day and reduce fraudulent claims.

The concept of Business Process Reengineering came into being in the early 1990s when western companies realized why the Japanese used the concept of JIT (Just in Time) principles for manufacturing which introduced a product oriented factory layout. This concept helped the Japanese companies to get remarkable benefits improving co-ordination of the rate of workflow and reducing work-in-process. After that in early 1990s, many companies of the United States of

America introduced business process re-engineering programmes to improve their performance and they got success. Thereafter BPR became a vast global business movement. During the following years, a fast growing number of publications, books as well as journal articles, was dedicated to BPR, and many consulting firms embarked on this trend and developed BPR methods.

Conceptual issues

Business process reengineering is also known as Business Process Redesign, Business Transformation, or Business Process Change Management. Different definitions are available. Following are the definitions provided in notable publications in the world:

Hammer and Champy (1993) define BPR as "... the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed."

Thomas H. Davenport (1993), another well-known BPR theorist, uses the term process innovation, which he says "encompasses the envisioning of new work strategies, the actual process design activity, and the implementation of the change in all its complex technological, human, and organizational dimensions".Additionally, Davenport points out the major difference between BPR and other approaches to organization development (OD), especially the continuous improvement or TQM movement, when he states "Today firms must seek not fractional, but multiplicative, levels of improvement "10x rather than 10%."

Finally, *Johansson et al.* (1993) provide a description of BPR relative to other process-oriented views, such as Total Quality Management (TQM) and Just-in-time (JIT), and state "Business Process Reengineering, although a close relative, seeks radical rather than merely continuous improvement. It escalates the efforts of JIT and TQM to make process orientation a strategic tool and a core competence of the organization. BPR concentrates on core business processes, and uses the specific techniques within the JIT and TQM toolboxes as enablers, while broadening the process vision."

Besides, *Von Bormann*, *Armistead and Rowland, Michael Hammer, Clelland Johnson, Dr. Chris Bondalso* defined BPR in their ways. However, according to Du Plessis BPR is defined as "BPR is the fundamental analysis and radical re-design of every process and activity pertaining to a business - business practices, management systems, job definitions, organizational structures and beliefs and behaviour. The goal is dramatic performance improvements to meet contemporary requirements – and IT is seen as a key enabler in this process" (Du Plessis, 1994:39-42).

If we summarise the above definitions, we found six key elements of BPR-

- Radical Change
- Change in orientation (beliefs and behaviours)
- Re-design the business processes
- Change the organizational structure
- Technological improvements, and
- Improvement of customer service and reduction of costs, which imply the development of new performance measurement systems.

BPR derives its existence from different disciplines and four major areas can be identified as being subjected to change in BPR. These are Strategy, Organization, Technology, and People. Business strategy is the primary driver of BPR initiatives and when the business strategy is changed through BPR, consequently other three dimensions are bound to change. The organization dimension reflects the structural elements of the company, such as hierarchical levels, the composition of organizational units, and the distribution of work between them. Technology is concerned with the use of computer systems and other forms of communication technology in the business. In BPR, information technology is generally considered as playing a role as enabler of new forms of organizing and collaborating, rather than supporting existing business functions. The people/human resources dimension deals with aspects such as education, training, motivation and reward systems. The concept of business processes- interrelated activities aiming at creating a value added output to a customer - is the basic underlying idea of BPR. These processes are characterized by a number of attributes: Process ownership, customer focus, value-adding, and cross-functionality.

The most important characteristics of BPR are as follows:

1. BPR changes the beliefs and behaviours of employees to place significant emphasis on the importance of customer service. Profitability will only improve once customers are satisfied with the service levels. BPR also points out that- customers do not include only the traditional customers, but every person dealing with a certain aspect within the business.
2. BPR converts departments into processes where work is performed by teams. The principle of involving staff in a process instead of a single task will result in staff being interested in the end-result, which involves customer satisfaction which means that employees will perform complex jobs within simple processes. Working in teams significantly improves communication within the organisation;
3. BPR strongly recommends that teams are structured in such a way that there will only be one customer contact to ensure quality customer service and facilitate easy interface with the business.
4. BPR changes the organisational structure into one where titles are unimportant and where non-value added tasks, which are normally performed by middle management, are eliminated. Processes owners are leading the teams within each process to ensure

The insurance industry is tackling issues like automating the underwriting process, better analysis of risk and improved decision making during this de-tariffed regime. At this juncture of a tariff-free regime, insurers have developed world-class solutions that encompass data capture, risk analysis and management and decision-support abilities

effective co-operation of team members and

5. BPR changes the remuneration structure by evaluating staff members on the performance indicators particular to their job within the team as well as the overall performance of the team. In order to evaluate these performance indicators, management systems that provide this information is critical to the success of BPR.

Modus operandi of BPR

Although the names and steps being used differ slightly between the different methodologies, they share the same basic principles and elements. Simplified diagram of using a business process approach are shown in the box below:

Also within the management consulting industry, a significant number of methodological approaches have been developed. A set of short papers, outlining and comparing some of them can be found here, followed by some guidelines for the companies considering contracting a consultancy for a BPR initiative which involves Overview; framing the requirements; various facets of reprocessing; guidelines for changes / comparison; and guidelines for BPR consulting clients.

BPR in insurance business

The main areas of BPR in Insurance field relates to:

A. Underwriting Solutions;
B. Business Intelligence and Data Analytics;
C. Claims Processing Solutions;
D. Re-insurance Solutions;
E. Insurance Work-flow Interface Solutions.

A) Underwriting Solutions

The insurance industry is tackling issues like automating the underwriting process, better analysis of risk and improved decision making during this de-tariffed regime. At this juncture of a tariff-free regime, insurers have developed world-class solutions that encompass data capture, risk analysis and management and decision-support abilities. The BPR Process may help in the underwriting area of the insurers to:

1. Maintenance and Support of legacy systems and applications
2. Migration from proprietary systems to open platforms
3. New application development
4. Customization of standard software packages
5. Modernization of legacy applica-

A. Visualize new processes	D. Process redesign
1.Secure management support 2.Identify reengineering opportunities 3.Identify enabling technologies 4.Align with corporate strategy	1.Develop alternative process scenarios 2.Develop new process design 3.Design HR architecture 4.Select IT platform 5.Develop overall blueprint and gather feedback
B. Initiating change	**E. Reconstruction**
1.Set up reengineering team 2.Outline performance goals	1.Develop/install IT solution 2.Establish process changes
C. Process diagnosis	**F. Process monitoring**
1.Describe existing processes 2.Uncover pathologies in existing processes	1.Performance measurement, including time, quality, cost, IT performance 2.Link to continuous improvement 3.Loop-back to diagnosis

tions through development of E-commerce and Web based applications

In India, various BPR Consultants have their team of domain and technical experts who are focused on providing the best possible solution to the various organizers (customer) in their need. BPR Experts are delivering the following important benefits to the insurance companies:

1.Increased revenues over the years;

2.Improved decision support;

3.Increased profitability.

4.Increased efficiencies at least by 20% at lowered costs.

B) Business Intelligence and Data Analytics

The Insurance industry handles huge volumes of data. Therefore, solutions are required to organize and integrate data across the enterprise. Data analytics help the insurance customer to provide better service to their customers. The process of Business Process Engineering implemented through efficient consultants help the spread of knowledge and expertise to help insurance companies with their data warehousing needs.The desired objectives can be achieved through BPR in the following areas:

1. Data Modelling
2. Data Mining
3. Data Transformation
4. Data Scrubbing and Cleansing
5. Population of Data Warehouses
6. Migration of data across platforms
7. Develop Decision Support Applications
8. Development of Intelligent User Interface

The use of information technology (IT) is considered as a major contributing factor to obtain the achievable benefits of BPR fully. Traditionally IT has been used to support the existing business functions, i.e. it was used for increasing organizational efficiency, but it plays a role as enabler of new organizational forms, and patterns of collaboration within and between organizations. Now, it is considered as a major enabler for new forms of working and collaborating within an organization and across organizational borders.

In the mid-1990s, especially workflow management systems were considered as a significant contributor to improved process efficiency. Also ERP (Enterprise Resource Planning) vendors, such as SAP, positioned their solutions as vehicles for business process redesign and improvement.

The concept of data warehousing engagements has delivered valuable benefits to the insurers in the following ways:

1. Improved efficiency in data processing by almost 20%
2. Reduced transaction processing costs by up to around 30%
3. Improved decision making leading to increased profits by approximately 12%

C) Claims Processing Solutions

Most critical function of an insurance business is claims processing. BPR and its associated technology can play a significant role in improving efficiencies in claims processing. This, in turn, leads to improved financial performance.

The Business Process Re-Engineering is proficient at addressing the challenges involved in handling multiple channels for exchange information, different formats of data and complex decision making process. In the area of claims processing,following are the areas where the concept of Business Process Re-engineering applications is possible:

1. Custom Application Development
2. Migration of legacy applications
3. Modernization of legacy applications
4. Maintenance and Support of legacy applications
5. Porting and Re-hosting
6. Documenting existing applications

In India a good number of companies with their team of experts, who combine a deep understanding of the insurance industry as well, have technology skills. This business process re-engineering in the areas of claim settlement ensures that the company stays current with the latest happenings in the industry and thus provides the best possible services to their customers.

Following are the benefits gained from various business processes re-engineering application in claims management in the global market:

1. Reduced transactional costs by around 35%;
2. Increased end customer satisfaction ;
3. Improved efficiencies of settlement by almost 40%, etc.

D) Re-insurance Solutions

Reinsurance processing is paper-intensive, and settlement of claims is prolonged and expensive. Business process re-engineering like electronic standards for claims filing has helped streamlining the process. However, there are many opportunities for technology to improve performance further. Business Process Re-engineering experts understand the complexities in reinsurance. The professional outsourced experts have team of consultants with deep knowledge of reinsurance and experience in facultative and non-facultative reinsurance. Further, they have an expert technology team helping deliver the best solution to their customers.

The services in the field of re-insurance which are offered by BPR are as follows:

1. Custom Application Development
2. Migration of Legacy applications
3. Modernization of legacy applications
4. Maintenance and support of legacy applications
5. Web enabling of applications
6. Documenting existing applications

The following benefits are brought about to the customers by the implementation of business process:

1. Engineering in Re-insurance
2. Improving efficiency through automation of processes
3. Improved performance of business processes
4. Reduced costs of processing by as much as 40%

E) Insurance Work-flow Interface Solutions

The experts in this field have the essential knowledge and experience in providing workflow solutions to leaders in the insurance industry. They have addressed the entire life-cycle of processes while providing workflow solutions. The BPR Experts have extensive experience in working with File Network flow systems and have developed:

i. Document Centre
ii. Image Requester
iii. Management Information systems based on File Nets Visual Workflow Solution
iv. Systems using Business Process Manager
v. Document Management and Retrieval System

At the time of claim processing in the insurance industry effective workflow management solutions help:

i. Reduce transactional costs
ii. Adhere to regulatory needs
iii. Lessen risks of bottlenecks
iv. Decrease losses due to delays and inefficiencies in business processes
v. Improve profitability

Business process reengineering is a management approach aiming at improvements by means of elevating efficiency and effectiveness of the processes that exist within and across theorganization. To improve business process through employee orientation organisation may initiate:

i. 360 degree Performance evaluation;
ii. Creation of self-introspection forum;
iii. Re-inventing Study circle.

Following are the basic structure on how processes, support functions and teams should be put together in order to apply BPR principles in an insurance company:

A. The overall process flow within the business
B. Identifying processes and how support functions can be integrated within these processes
C. Re-engineering each process and setting up teams to function within the processes and
D. The corporate structure and performance evaluation

A. The overall process flow

An Insurer wishes to make use of three different distribution channels, which include:

Direct sales by using the Internet
Direct sales by telephone
Indirect sales by using brokers

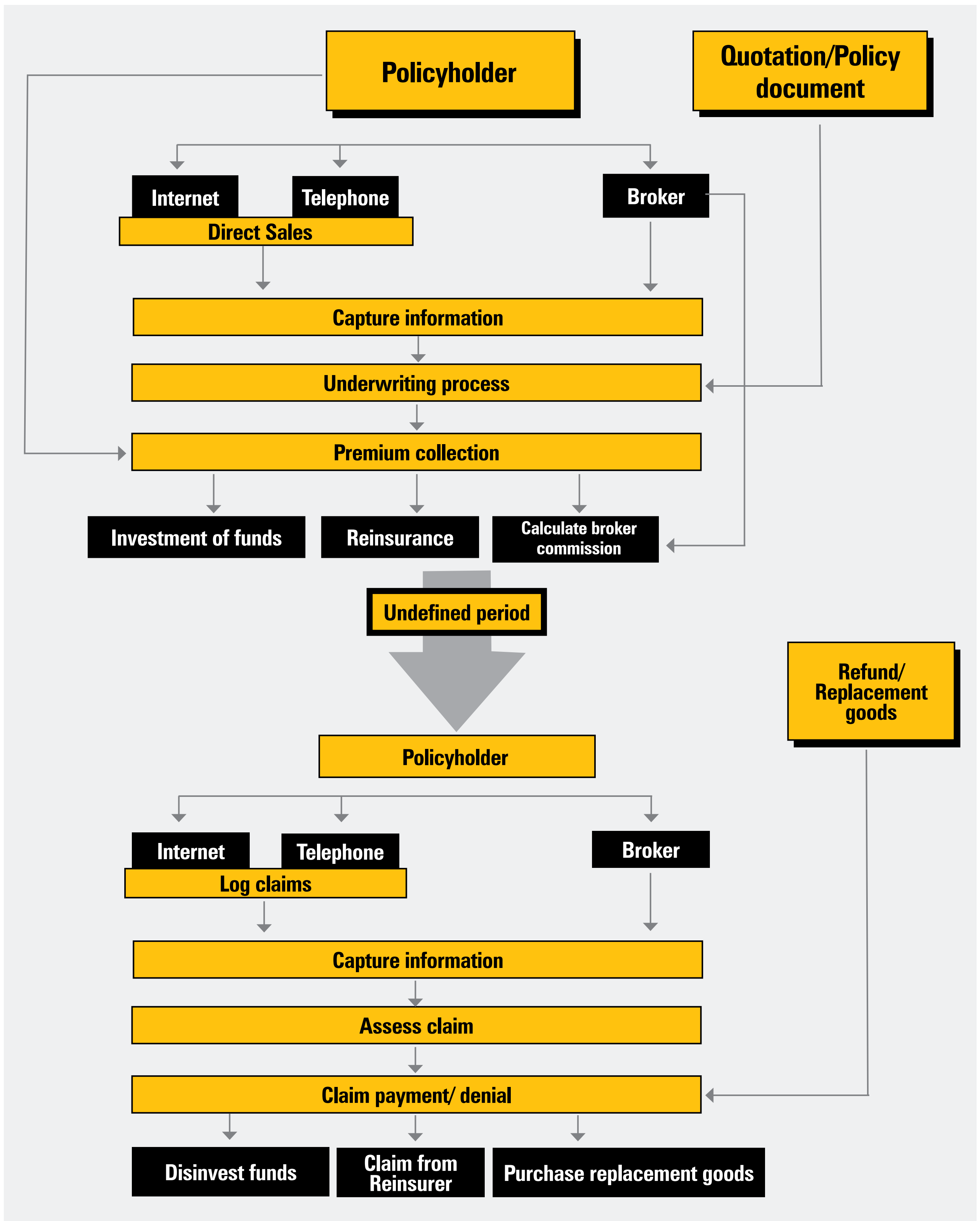
Potential policyholders as well as current policyholders who wish to update their personal or policy information will use the same processes in order to capture information. The following figure explains the most important process flows within an insurance business. The first section explains the new business and premium collection process, while the second section explains the claim process (*see flow chart on opposte page*)

B. Defining processes and its relationship with functions

Defining processes is one of the most difficult and critical success factors in the execution stage of the BPR project. When processes are defined, the BPR team should consider all aspects in terms of:

- BPR principles
- Practicality
- Team size and number of employees
- Skill availability automation
- Customer segmentation

The newly defined processes can change the total structure of the current back-office in the non-life insurance industry. The processes are defined in terms of the customer seg-



Policyholder
Quotation/Policy document
Internet
Telephone
Broker
Direct Sales
Capture information
Underwriting process
Premium collection
Investment of funds
Reinsurance
Calculate broker commission
Undefined period
Refund/ Replacement goods
Policyholder
Internet
Telephone
Broker
Log claims
Capture information
Assess claim
Claim payment/ denial
Disinvest funds
Claim from Reinsurer
Purchase replacement goods

mentation, which will be the different geographical areas in India.

C. Defining teams within the processes

The team members will be selected from various functions (former departments) and grouped together to operate in terms of a process. It is possible that, certain functions will be performed by the IT systems and that the involvement of team members is limited.It is recommended that teams be grouped together in workstations in an open-plan area. This principle improves communication between different team members as well as different teams.

There will be three different access points to the process:

1. A potential customer or existing policyholder enters via the internet
2. A potential customer or existing policyholder phones the company
3. A potential customer or existing policyholder contacts a broker who enters the process.

It is recommended that the broker should enter the process via the internet. However, if it is impossible, the broker should phone the company. As products are fairly simple and standard, it should be possible to automate the majority of underwriting and claim assessment tasks by programming the rules into the IT applications. Broker commission and reinsurance (both new business and claims) could also be automated.Each process should include the following team members:

1. Process owner(the CEO)
2. New business clerk responsible for direct sales
3. New business clerk responsible for broker sales (if necessary)
4. Reinsurance clerk
5. Claims clerk for direct sales
6. Claims clerk for claims logged by broker (if necessary)
7. Purchase of replacement goods
8. Financial analysts (if necessary)
9. Debtors collection clerk and
10. Marketing clerk

Depending on the size of the company the following functions could be allocated to more than one or to all processes:

1. Product development
2. HR function and
3. Training coordinator

D. Corporate structure of the business

Although business functions are performed in processes, it is important that the functions within each process are also controlled and monitored.This is especially necessary where functions require special skills. The senior management team should also function as a team, which should include a CEO and team members from each function and process within the business.

E. Performance evaluation of processes and team members

Performance evaluation should be measured in terms of employees' own performance due to the specific skills required in certain functions as well as the importance of each team member. However, a portion of the compensation should also be measured in terms of the performance of the team to ensure the team operates successfully as a team.It is necessary to consider the performance indicators that should determine the compensation of employees. Traditionally, performance has been evaluated in terms of profit.

Underwriting profits will also be directly influenced by the risks related to the region which will have a negative impact on the underwriting results of the process. It would, therefore, be unfair to measure the performance of the teams only in terms of underwriting profits. However, it is important that individual members operate as a team and that the rest of the team provide the team member responsible for product development and risk analysis with regular feedback regarding customer requirements, trends, fraud, profit/losses etc. To a limited extent, the team is still responsible for underwriting profits. Management expenses and commission are also included in the calculation of it, which can be controlled by the team members.

It is recommended that a detailed analysis of each employee's job description is done and that a percentage of his/her compensation is based on specific skills requirements and performance. This should be compared with employees performing the same functions in other processes, e.g.

- Number of claims logged and completed per day by the claims clerk in each process should be compared
- Long outstanding debtors according to age analysis of debtors, should be compared, etc.

The performance of the team should also be measured in terms of service levels and performance in terms of objectives set out in the functional strategy. A limited proportion of the remuneration of team members should also be based on the financial performance of team, which should be based on underwriting results. It is important that these performance measures be identified as early as possible to ensure that they are incorporated in the IT systems.

Cases of BPR application

BPR, if implemented properly, can give huge returns. Therefore, despite several criticisms, a huge number of firms, which were striving for renewed competitiveness, which they had lost due to the market entrance of foreign competitors, their inability to satisfy customer needs, and their insufficient cost structure quickly adopted this idea.

For insurance companies, the constant challenge is to maintain profitability and market share in a rapidly changing business environment, manifested by increased competition in the market place and the changes to insurance products required by the market. In order to meet these challenges, insurance companies world-

wide have decided to re-engineer their existing Underwriting Process both life and non-life. The main objectives are to reduce the cost of underwriting, to speed up the underwriting process and provide customers with a better service, and to target key distribution channels such as large brokerages.

Hibernian in Ireland achieved their Business Process Re-engineering objectives in two stages. Stage 1 involved redesigning the New Business System, which is used to process new life insurance proposals, while the more recent Stage 2 involved increasing the level of automatic underwriting carried out by the original New Business System. In 1990 Mutual Benefit Life (MBL) was losing to innovative competition. They noticed that they offered an inferior customer on boarding experience and it cost those more to deliver it. They adopted BPR. Now they are delivered at a lower operating cost than their peers'. MSIG Mingtai is one of the five major non-life insurers in Taiwan. In 2009, Mingtai launched a Business Process Reengineering (BPR) project. The company had encountered structural transformation in the industry, including increased competition and new types of products. In addition, government regulations had been changing every year and sometimes every quarter. To overcome these difficult circumstances, Mingtai decided to review the structure of its operations. Croatian Institute for Health Insurance, the state-owned health insurance institution in Republic of Croatia established cost-effective and more efficient set of business processes across the whole organization, by redesigning, reorganizing and reengineering of all existing business processes. In South Africa insurance industry implemented BPR to ensure a flexible, dynamic, industry in 2001.

In India National Insurance Company Limited launched of the ambitious IT enabled Re-engineered Business Process through Enterprise Architecture Solution for Insurance (EASI) in the year 2009-10. Extensive SystemRequirement Study(SRS) has been conducted for several applications simultaneously, which include Core Insurance, Portal, Master Data Management,Document Management System, Identity Management, Financial Application, Customer Relationship Management, Human Resource Management and Data Warehouse Application. Based on SRS, an integrated solution is being designed and developed by the system integrator,viz. HCL(Technologies) Pvt. Ltd. The company is obtaining the assistance of BPR consultant, viz. Pricewaterhouse Coopers for conducting the User Acceptance Test.

The BPR exercise, which was initiated in another Indian insurance company, New India Assurance Company Limited in September 2007, to reorient the company to meet the challenges of competition and customer expectations, has reached the stabilisation stage as of March 2010. The initiatives are showing good results, and our organisation has steadily crossed the milestone of Rs.6000 crore (Indian business only) in spite of massive rate reduction after de-tariffing and severe competition in all fronts. For the re-engineering exercise, a prioritized roadmap was developed by the New Energy (BPR) team, consisting of initiatives in three waves, with a tight monitoring programme. A brief account of the targets and results achieved under each initiative is given hereunder.

Private insurer in India, Cholamandalam MS General Insurance also adopted BPR programme through Designing, Developing and implementing workflow solutions across the organization.

Cost implications of BPR

BPR is most important components of strategic cost management. So far as insurance business is concerned, it provides following positive effects on cost management:

- Helps to reduce capital expenditure by reducing the need to invest in the assets required to perform a service internally
- Organises information and documents with electronic document management systems and processes, for example transition to electronic invoicing
- Minimise document loss and information leakage
- Help the business to focus on what is does best, while outsourcing some processes to specialist providers
- Improve operational efficiency and customer service levels
- Mitigate risk by improving compliance to legal standards
- More efficient and comprehensive premium accounting in comparison to the previous application;
- Monitor process flow and measure process performance, since the new applications will become part of the workflow management system;
- Improve Cash Management System (CMS) and investments process for driving higher returns, reduction in float, streamlined process and better vendor negotiation/ management
- Positive impact on customer servicing, premium accretion and profitability. Simultaneously, implementation of the redesigned performance management system with incentive structure is expected to translate into highly motivated work force, with improved productivity.
- Reducing payouts and decreasing backlog of TP claims since Motor Third Party (TP) claims management process will be redesigned;
- Improve health insurance profitability through hospital relationships and improved TPA performance.

Conclusion

In the intensely competitive insurance market, differentiation through

innovative technologies like BPR is an important and effective way of strategic cost management to maintain or increase market share and profitability. Insurers can achieve numerous qualitative and quantitative advantages across the value chain by implementing BPR. The 'Controlled Migration' approach helps insurers' lower risks and overcome the challenges of a BPR implementation for core processes so insurers can reap the benefits of a successful business process management.

BPR, if implemented properly, can give huge returns. Therefore, despite several criticisms, a huge number of firms, which were striving for renewed competitiveness, which they had lost due to the market entrance of foreign competitors, their inability to satisfy customer needs, and their insufficient cost structure quickly adopted this idea

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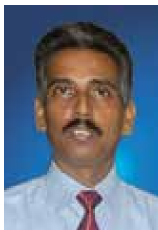
NON-PERFORMING ASSETS: NIGHTMARE FOR BANKS ?

In absolute terms, the Gross NPA has increased from Rs. 70,063 crore in 2008-09 to Rs. 1,93,194 crore, a jump of about 175% in 4 years. This is alarming and there is no way that one can even try to ignore that



CMA Sankar Majumdar
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The area that is of paramount importance to the bank management today is the worsening quality of assets, which primarily consist of advances. The deterioration in quality of assets has become a matter of grave concern and a prolonged dull economy is not also helping things either. That portion of the advances, which is qualitatively bad and does not earn any revenue for the bank, is termed as NPA (non-performing assets) and management of the same has become the call of the day.

Definition of NPA

As per RBI, with effect from March 31, 2004, a non-performing asset shall be a loan or an advance where:

(i) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.
(ii) The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft / Cash Credit.
(iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
(iv) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Overdue means any amount due to the bank under any credit facility which has not been paid by the due date.

In respect of Cash Credit or Overdraft, an account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power and in cases where although the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the same period.

The NPA norms for agricultural advances is a little bit different and with effect from September 30, 2004 the following revised norms are applicable to all direct agricultural advances :

a) A loan granted for short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons.
b) A loan granted for long duration crops will be treated

as NPA, if the installment of principal or interest thereon remains overdue for one crop season.

Here, 'long duration' crops would be crops with crop season longer than one year and crops, which are not so would be treated as short duration crops. The season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each state.

Asset Classification

As per RBI guidelines, Banks classify their assets into following broad groups :

Standard Assets - Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset is not an NPA.

Any asset other than standard asset is NPA and is classified under the following three groups :

Sub-standard Assets – With effect from March 31, 2005 as asset would be classified as sub- standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

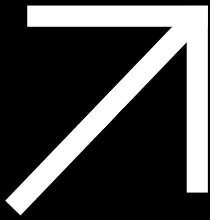
Doubtful Assets - With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tier I banks, the 12-month period of classification of a substandard asset in doubtful category is effective from April 1, 2009. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss Assets - A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Main reasons of NPA

The following, inter alia, are some the reasons for a loan becoming NPA

- Target oriented approach of advancing loans resulting in poor quality of lending where fulfilling a certain value quota is a priority rather than providing quality advances. This is particularly applicable in case of Govt. sponsored loans and more pertinent for rural branches.
- Wilful default in payment of loan taking advantage of ineffective relevant legislation and slow pace of litigation process. However, with the introduction of SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, 2002 which empowers the banks and financial institutions to auction the mortgaged assets to recover their NPA without the intervention of courts, the scenario has become a little better.
- Ineffective, inadequate and incompetent supervision owing to shortage of qualified manpower as well as absence of structured monitoring mechanisms. Subsequently the concept of centralized as well as specialized loan advancing hub came into being leading to marginal improvement.
- Lack of entrepreneurship and knowledge on the part of borrowers about proper use of funds coupled with absence of proper guidance by the lending institution.
- Occasional connivance between borrower and loan granting authority further supplemented by improper discharge of responsibilities by lawyer in respect of scrutiny of title of properties, valuer in respect of proper valuation of the mortgaged assets and even auditors by being very casual and mechanical in their approach.
- General economic slump and sometimes doldrums in specific sectors making pre-determined amount of repayments an uphill task.
- Loan mela etc. organized by Government where politics gets the better of economy and in the bargain to obtain a share of government fund as deposits, banks sometimes succumb to the pressure of government agencies in advancing loans which are effectively charities.
- Diversion of funds by the borrower remaining unnoticed by the lending institution either advertently or due to lack of understanding.
- Delay in disbursement of loan of various phases in project implementation throwing the same off track, thereby increasing project implementation cost.
- Political pressure for restructuring a loan as well as waiver of the same.
- Comfort of some of the lending authorities in collateral securities which does not enthuse them to have a proper monitoring of the end use of a loan.
- Lack of proper payment culture mainly in Priority Sector Advances where there are numerous instances of loan waiver by the political establishment of the day. The



PSU BANKS HAVE FARED VERY POORLY COMPARED TO PRIVATE BANKS JUSTIFYING THE CONTENTIONS OF GOVERNMENT SPONSORED ADVANCES FORCED ON THEM

borrowers expect their loan to be waived off and the banks also do not feel the necessity to follow a particular segment of advances vigorously with the hope that one day or other they would have the advances reimbursed by the Government.
- Lack of networking among the banks where one particular bank is not aware of the default history of a particular borrower with other banks.

Detrimental impact

The important detrimental effects of NPA are –

- Negative impact on Net Interest Margin (NIM) since a portion of advances does not fetch any return and consequently profitability gets a hit. Interest on NPAs can not be accrued, it is to be accounted for on cash basis.
- Capital adequacy ratio is worsened necessitating infusion of additional capital.
- Negative impact on the credibility of the institution which hits the banks in the private sector more than the PSUs.
- Shrinkage in funds available for further advance resulting in lesser projects being financed consequently generating less employment.
- Lowering of NIM forces the banks to reduce interest on deposit where depositors get a lower return forcing some of them to look at volatile capital market.
- NPAs affect the Asset Liability Management (ALM) system of the bank and may result into liquidity problem sometimes.

Measures for management of NPA and prevention of slippage

These measures may be divided into two types – preventive and curative.

Preventive measures

- Reformulation of the credit appraisal techniques/systems need to take place. There should be specialized and dedicated credit processing cell which should be equipped with persons having knowledge in project appraisal and should be aware of risk assessment and management techniques.
- Dedicated monitoring department which would keep a track on end use of fund and conduct periodical physical monitoring of the progress of the project and should be capable to pre-empting the potential danger in serviceability of an advance.
- Fixation of realistic repayment schedules in a manner that the periodical payments are not a hindrance to the smooth flow of financial operations of a unit and is not a burden. For this, the Debt Service Coverage Ratio (DSCR) needs to be put under microscope while financing a project.
- Use of database of Credit Information Bureau of India Limited (CIBIL) to have a fair idea about the credit worthiness of the prospective borrower.
- Constant training and updation of the knowledge base of the staff specialized in advance processing and monitoring need to be organized.
- Close monitoring of the SMA (special mention account) list which represents potential NPAs.
- Shun the practice of deferring the identification of an NPA. Technol-

ogy can assume big role in proper determination of classification of NPA. More often than not, it had been the experience that under manual systems, the determination of a loan as NPA is postponed to the sweet will of the management. Sweeping the problem under the carpet was a common practice across the board. However, with the introduction of Core Banking, this problem could be eliminated to a great extent.

- Pro-active internal inspection system as well as external auditing where the earliest signs of distress are identified and necessary actions initiated.

Curative measures

- To file a suit with appropriate authority in applicable cases or resorting to facilities available under the SARFAESI Act as soon as possible without unwarranted delay. The procedural formalities in some banks in filing a suit or initiating action under SARFAESI is too lengthy.
- To counsel the borrower, understanding the nature of default – whether willful or not and initiate processes for either compromise settlement or one time settlement if found to be the best alternative under the circumstances.
- To restructure the debts of viable units giving them some elbow room to be again on projected track.

Narasimham Committee report 1998

The Ministry of Finance set up various committees for analysing India's banking sector and recommending legislation and regulations to make it more effective, competitive and efficient. Two such expert Committees were set up under the chairmanship of M. Narasimham. They submitted their recommendations in the 1990s in reports widely known as the Narasimham Committee-I (1991) report and the Narasimham Committee-II (1998) Report. These recommendations are believed to have helped minimising the impact of global financial crisis starting in 2007. The 1998 report blamed poor credit decisions, behest-lending and cyclical economic factors among other reasons (in addition to 'priority sector lending') for the buildup of the non-performing assets of the banks to uncomfortably high levels. The Committee recommended creation of Asset Reconstruction Funds or Asset Reconstruction Companies to take over the bad debts of banks, allowing them to start on a clean-slate. The option of recapitalization through budgetary provisions was ruled out. Overall the committee wanted a proper system to identify and classify NPAs, with NPAs to be brought down to 3% by 2002 from about 15% in 1998 and for an independent loan review mechanism for improved management of loan portfolios. The committee's recommendations led to introduction of a new legislation which was subsequently implemented as SARFAESI Act, 2002.

Present scenario

The recommendations of the Narasimham Committee bore fruit in the sense that as on 31.03.2009, the level of Gross NPA was only 2.31% for all commercial scheduled banks and was well below the committee's benchmark of 3% for 2002. The present level of Gross NPA seems to be a fairytale if one compares the same with the level of 1993-94 when the Gross NPA ratio was about 25%. However, the level of 2008-09 seems to be gradually worsening since then and over the years, the Gross NPA ratio showed an increasing trend. This has forced the RBI to state in their Monetary Policy Statement of 17.04.2012 that the asset quality of banks is one of the most important indicators of their financial health and also reflects the efficacy of banks' credit risk management and the recovery environment. The RBI opined that it is important that the signs of distress in all stressed accounts are detected early and those which are viable are also extended restructuring facilities expeditiously to preserve their economic value. The Central Bank proposed that to improve the banks' ability to manage their non-performing assets (NPAs) and restructured accounts in an effective manner and considering that almost all branches of banks have been fully computerised, they should :

- put in place a robust mechanism for early detection of signs of distress, and measures, including prompt restructuring in the case of all viable accounts wherever required, with a view to preserving the economic value of such accounts; and
- have proper system generated segment–wise data on their NPA accounts, write-offs, compromise settlements, recovery and restructured accounts.

However, RBI in their circular dated 14.09.2012, has observed that existing MIS on the early warning systems of asset quality, needs improvement. They advised the banks to review their existing IT and MIS framework and put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level.

The concern of the RBI as articulated in their above circulars is very much relevant as would be evident from the data enclosed that the growth of NPA has been phenomenal in the last 3-4 years. The table would show that the Gross NPA ratio of all scheduled commercial banks went up from 2.31% as on 31.03.2009 to 3.23% as on 31.03.2013. In absolute terms, the Gross NPA has increased from

Rs. 70,063 crore in 2008-09 to Rs. 1,93,194 crore, a jump of about 175% in 4 years. This is alarming and there is no way that one can even try to ignore that. The PSU banks have fared very poorly in this respect as compared to private banks again justifying the above contentions of government sponsored advances forced on them.

As per Annual Report of RBI for 2012-13, the ratio of gross NPA to gross advances for scheduled commercial banks increased markedly, from 2.36 per cent in March 2011 to 3.92 per cent in June 2013. Public sector banks account for a disproportionate share of this increase, with the new private sector banks managing to lower their NPA ratio in this difficult climate. The amount of restructured advances has been considerable during this period. For the system as a whole, restructured standard assets as a percentage of gross advances more than doubled, from 2.6 per cent in December 2010 to 6.1 per cent in June 2013. The slippage ratio, which captures fresh NPAs, increased from 2.1 per cent in March 2011 to 3.1 per cent in September 2012, but declined subsequently to 2.8 per cent in March 2013. Macro stress tests suggest that under a severe stress scenario the gross NPA ratio may rise to 4.4 per cent by March 2014.

However, a lot of analysts doubt these declared figures of NPA. They are of the opinion that the CEOs of banks suppress actual figures to exhibit rosy picture before RBI and Ministry of Finance. In their opinion, suppressed reporting starts from field level under guidance from top level officials and at the time of compilation and audit, various tactics are used to get the data certified. Now that banks have adopted CBS technology, the RBI is constrained under public pressure to insist system generated figure for NPA from all government banks. They are also eager to know what would be the actual figure if RTI is resorted to in this respect.

TABLE1: INDIA VIS-À-VIS SOME DEVELOPED AND BRICS COUNTRIES

NPA comparative study (in Rs lakh)

Countries	Gross NPA Ratio			
	2009	2010	2011	2012
BRAZIL	4.2%	3.1%	3.5%	3.6%
RUSSIA FEDERATION	9.5%	8.2%	6.6%	6.7%
INDIA	2.3%	2.5%	2.4%	2.9%
CHINA	1.6%	1.1%	1.0%	0.9%
SOUTH AFRICA	5.9%	5.8%	4.7%	4.6%
USA	5.4%	4.9%	4.1%	3.9%
UK	3.5%	4.0%	4.0%	N.A.
FRANCE	4.2%	4.3%	4.3%	N.A.
AUSTRALIA	2.0%	2.2%	2.0%	1.9%
JAPAN	1.6%	2.5%	2.4%	N.A.

Table2: Category of assets	Amount of provisioning
Sub - Standard (secured)	15% of outstanding amount without making any allowance for ECGC cover and securities available
Sub – Standard (unsecured)	25% of outstanding amount without making any allowance for ECGC cover and securities available
Doubtful Assets (secured) - upto 1 year	25%
Doubtful Assets (secured) - more than 1 year and upto 3 years in doubtful category	40%
Doubtful Assets (secured)-more than 3 years	100%
Doubtful Assets (unsecured)	100%
Loss Assets	100% net of ECGC/DICGCI/CGTSI claim received and government guarantee

As per reports published in *Business Standard* beta, speaking about NPAs of banks to PTI in April 2013, RBI Deputy Governor Mr. K.C. Chakrabarty attributed a majority of them to poor administration and risk management practices of lenders and went to the extent of terming it as 'non-performing administration'. He added that lending rates would have been far lower if banks had got their NPAs down and stated that, if NPAs would have been 1%, banks' lending rates would have been 4% lower with the same inflation, and same repo rate.

However, there may be some good news at this point in time. In a recent news item in *The Telegraph*, it was reported that the asset quality of banks is unlikely to deteriorate further and analysts feel that the growth in bad loans is set to decline because of focus on recoveries and up gradation although in absolute terms the figure may increase.

From **Table1**, it seems that India does not fare too bad.

Provisioning norms

The banks are required to make pro-

Table3					
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Net NPA ratio	1.05%	1.12%	0.97%	1.28%	1.68%

Table4			
PSU BANKS		PRIVATE BANKS	
State Bank of India	2.10%	HDFC Bank	0.20%
Punjab National Bank	2.35%	ICICI Bank	0.77%
Oriental Bank of Commerce	2.27%	Axis Bank	0.36%
Union Bank of India	1.61%	Yes Bank	0.01%
Canara Bank	2.18%	IndusInd Bank	0.31%

visions against non-performing assets to provide a cushion at the times of loans becoming and unrealizable as well as to reflect a logical profit which is not inflated. The general provisioning norms for NPA is given in **Table2**.

After the provision is made, the figure of Gross NPA less such provisions is called the net NPA and when it is compared with net advances, the Net NPA ratio is calculated.

Net NPA ratio of all scheduled commercial banks over the last five years are are given in **Table3**.

Net NPA ratio of some PSUs as compared to some Private Banks as on 31.03.2013 (**Table4**).

The figures speak for themselves.

Like alleged suppression of NPA as stated in foregoing paragraphs, inadequate provisioning is also an ill that is believed to be widely prevalent. In April 2013, RBI Deputy Governor K.C. Chakrabarty, in an interview with PTI, has come down heavily on banks showing higher profits without providing adequately for bad loans, and said if need be, the central bank may hike provision coverage ratio (PCR) levels.

The RBI had done away with its earlier requirement of forcing banks to maintain the PCR, or the ratio of provision to gross non-performing assets (NPAs), at 70% which was increased to 70% after the Lehman crisis in 2008 and was applicable till September, 2011. While almost all private banks have higher PCR, majority of the state-run lenders could not meet this deadline.

The RBI has floated a discussion paper to explore having dynamic provisioning which requires banks to keep aside money during good times for a rainy day, rather than providing after an account has gone bad.

Corporate Debt Restructuring

As per RBI, the objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

However, more often than not, CDR as an instrument has been fiddled with and in all the cases the purpose of doing that was not necessarily bona fide.

Taking into cognizance, the rising cases of corporate debt restructuring (CDR) in the current round of economic gloom, Dy. Governor of RBI said in the same interview that there is nothing bad with the method "if CDR can give life to the borrower". He added that "if the banks do an appraisal, re-appraisal and they are happy that the unit can come out then only restructure. Otherwise, it is better for the account to die". According to him, "CDR is not a concern; CDR converted into an NPA is a concern".

Wilful defaulters, big corporates

The problem of NPA is prominent not in case of individual borrowers but with large corporates and institutional lending. It is more pronounced because of the fact that there are a lot of willful defaulters among them.

The borrowers who have defaulted on loan repayment to banks despite having adequate cash flows and a healthy net worth are willful defaulters. The ones who have not utilised the funds borrowed for specific purposes and diverted those for other purposes have also been categorised as willful defaulters by the Reserve Bank of India (RBI).

An article published in Business Standard beta in April 2013 reports that Government-owned banks have started cracking the whip on willful defaulters, with the finance ministry asking them to recover dues from the top 50 defaulters as the first step. Banks have been asked to furnish the information of the top-50 immediately. The finance ministry has asked chief executives of public-sector banks to take approval of their boards and begin proceedings for penal measures. The ministry has also asked banks to lodge formal complaints against the auditors of the borrowers with the Institute of Chartered Accountants of India, if they find the

auditors were negligent or deficient in conducting the duty. The ministry has also mandated banks not to provide any additional facility to these companies and to bar their promoters for five years from availing of institutional financing for floating new ventures. The move has come within days of Finance Minister P Chidambaram's comments on the corporate sector's willful defaulters. He had said after a meeting with chiefs of public-sector banks last week: "We cannot have an affluent promoter and a sick company."

It has also come to light that in the case of some corporates, the amount of debt outstanding is even more than the market capitalization. In a television programme, it was revealed that there is a renowned corporate house whose debt of Rs. 40,859 crore is higher than its market capitalization of Rs. 23,784 crore. Two other reputed companies also were named in the programme and in their cases the debt and market capitalization are Rs. 1,339 crore and 805 crore and Rs. 23,650 crore and Rs. 22,309 crore respectively.

There may be certain situation where the huge quantum of advance given to a corporate entity has gone bad and to tackle such a situation the debts are even converted into equity. Although it reduces the NPA, it does not generate any revenue straightway for the lending institution.

Regional Rural Banks' (RRB) performance and NPA

In the consolidated review of performance of RRBs as on 31.03.2011 published by Department of Financial Services, Ministry of Finance, the following important information came to light :

- The loans outstanding stood at 98,917 crore
- Number of profit making RRBs stood at 75 out of 82 RRBs
- Loans issued under agriculture amounted to 43,965 crore
- Recovery percentage improved to 81.18%
- Percentage of Gross NPA to total loans outstanding increased marginally at 3.75% (3.72% as on 31.03.2010)
- At Net level, NPA percentage increased to 2.05% (1.8%as on 31.03.2010).

There has been an improvement in the recovery percentage over the years from 80.09% as on 30 June 2009 to 81.18% as on 30 June 2010. The aggregate overdues, however, increased by Rs. 933 crore to Rs. 9,805 crore as on 30 June 2010.

The Gross NPA of RRBs which was Rs. 3,085 crore as on 31.03.2010 (i.e. 3.72%) has increased to Rs. 3,712 crore as on 31.03.2011 (i.e. 3.75%). The Net NPA of RRBs which was Rs. 1,423 crore as on 31.03.2010 (i.e. 1.8%) has increased to Rs. 1,941 crore as on 31.03.2011 (i.e. 2.05%). The data revealed that 15 RRBs had gross NPA percentage of less than 2%, while 45 RRBs were having gross NPA percentage above the national average (3.75%) as on 31 March 2011.

Role of Inspectors, Auditors and Cost Accountants

In the present scenario, it has become all the more important for RBI's mandatory inspection to act as an effective deterrent for banks so that banks cannot flout applicable prudential norms by resorting to lower provisioning for NPAs.

The basic role in preventing NPA is to be proactively played by the banks' own Inspection team. They are in a position to devote enough time to assess the initial signs of stress and also know the in and out of their own organisation. Inspectors advertently overlooking a potential NPA and sweeping it under the carpet are doing a gross injustice not only to their institution but also to the economy of the nation. With the introduction of core banking, it has become easier to analyse the advance accounts at any level, but to form an opinion about the adequacy of the loan documents and to visit the unit to have a firsthand idea about its performance and financial health, one will have to be at the micro level.

The author's practical experience suggests that it would probably be an impractical idea to expect Statutory Auditors play a proactive role in either identifying or preventing a potential NPA. By the nature itself, the statutory audit of the banks is a post mortem and the maximum that an Auditor can do is to report if any NPA has been left unreported, which just helps providing a true and fair picture but neither the NPA has been prevented nor it has been a fresh identification. The software of most banks is designed in such a way that it treats an advance as an NPA only when it is flagged or marked – it may so happen that an advance despite being NPA may be left unmarked and also may miss the scrutiny of the auditors because the Statutory Auditors, in most of the cases, do not have the time, doggedness and sometimes the inclination to insist that a proper picture of NPA should emerge out. Any NPA which has been left out or any advance which has not been properly categorized needs to be reported through a statement known as Memorandum of Changes (MOC) which is addressed to the Central Statutory Auditors by the Branch Auditors. Those who have conducted statutory audit of a bank branch would agree that the MOC is like a taboo for the Branch Manager, most of them can go to any extent in resisting it tooth and nail. The Statutory Auditors, being human beings, more often than not, succumbs to the stubbornness and in some case non-cooperation of the branch management. The Auditors have hardly any time to go through

numerous pages of the advance statement and analyse the payment records of borrowers, although they should do that for at least the big borrowers. The branch management even resorts to various tactics not to provide the auditors with the details of potential NPAs which are generally reflected through a statement called SMA (Special Mention Accounts). In most of the cases, the audit at branch level, for all practical purposes, becomes a mere ritual. The Auditors at the branch level, apart from the normal reporting, is required to submit an additional report termed as Long Form Audit Report (LFAR) where there are enough scopes to do a system audit of the sanctioning, documentation, disbursement and follow up of advances. It has immense scope to report about advances which are NPA or potential NPA as well as providing concrete suggestions to improve the situation. But in reality, branch auditors hardly give the importance to the report that it deserves.

In some of the cases, even if an advance is marked as NPA, it may be done so in a deferred manner. As per prudential norms, when an advance is marked as NPA, banks should stop charging further interest and the unrealized portion of interest should also be reversed. A deferment in declaring NPA helps the bank in charging interest for the deferred period and thus inflates the profit.

In an article in Business Standard beta of April 15, 2013 issue, Mr. K P Shashidharan, DG, CAG office, New Delhi had written that as banks are allowed to choose its auditors from the empanelled audit firms, the regulatory body of audit firms, the Institute of Chartered Accountants of India has expressed its concern about possible conflict of interest and dilution of independence of auditors, which is of course a sad refection of the professionalism of auditors. The change in the policy of choosing auditors by public sector banks from the empanelled list of audit firms, deviating from the erstwhile practice of appointing bank auditors by a committee consisting of members of the banking division of the Ministry of Finance, RBI and CAG is intended for ensuring level playing field among all Indian banks in respect of appointment of the auditors.

Impartially speaking, the professionals who can really add value in this aspect are the Cost Accountants. At the first instance, it would be the Cost Accountants along with may be an Engineer, who will be in a better position to understand the detailed project report as well as the techno economic viability study of a project and form an opinion whether the project is a viable one or everything is so called hunky dory. When the project is being implemented, he would be the person who can supervise its progress and pre-empt whether there would be any cost and time overrun. During the project's commercial operation, he would be the person to analyse the QIS data, stock valuation reports and find loopholes, if any. He can undertake stock audit and find if the cash credit borrowing is sufficiently covered by net current assets. Subsequently cost data or a cost audit would also be helpful to the management to compare it with the projections and see where the project's product or service cost stands vis-à-vis its competitors. Thus the earliest sign of stress in the project, if any, would be pre-empted, properly addressed and the project can again be put on track. The banks may consider whether on these grounds they may like to appoint Cost Accountants in the specialised advance cell or like to outsource the services to professional Cost Accountants' firms.

Prevention is better than cure

The old proverb 'prevention is better than cure' fits the bill perfectly here. Pre-empting an NPA and preventing it to happen provide a great service to the economy. To put the project on track through proper guidance and restructuring, also adds immense value to the economy. When an advance becomes NPA, it is basically a legal process to recover and in the process the project, in all likelihood, faces inevitable death. In case a borrower is not a wilful defaulter, the bank is duty bound to provide it enough guidance to put it back on track and at times of stress should also provide enough support to make it viable again through restructuring or whatever processes they can apply.

Undoubtedly, the banks, in present scenario have a vital role to play in making the economy a robust one. In doing so, first step will be to prevent a loan from turning bad, even if it turns bad, best efforts should be there to bring the project on track and make it viable. If they fail to do so, it will be a long drawn litigation process to recover their money. They may be successful in doing so, but in the process the project may face a pre-mature death and thereby shattering the dreams and aspirations of all it stakeholders. The banks are expected to be propeller of growth in the overall progress of the economy and not become a mere collection agency for bad loans.

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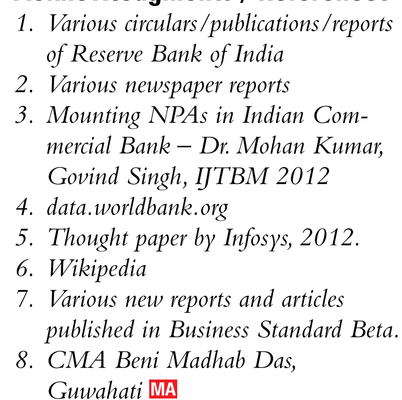

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STRATEGIC COST MANAGEMENT IN THE INSURANCE SECTOR

While cost control has been there for a long time, what has changed is the strategic focus that it has gained in insurance companies where the focus is the long-term impact

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The insurance industry is a dynamic and yet very challenging one. The dynamism is mainly on account of the various changes this industry has seen, primarily on account of regulatory and market changes. The industry also has a unique challenge of having a long gestation period for break-even and the direct co-relation between length of policy being inforce and profitability. In India, another challenge has been the entering of many companies within a short period of the industry opening up. The major shift in customer purchase pattern over the last decade and proactive measures from the regulator has also

changed the way the insurance business started & evolved over these few years. Naturally the focus for companies is cost control so as to keep the operating costs under a leash & drive profitability.

While cost control has been there for a long time, what has changed, is the strategic focus that it has gained in insurance companies. While traditional cost control revolves around items like procurement, flat organizational structure, etc, the focus of strategic cost control is the long-term impact. Strategic cost control focuses on areas like enterprise wide process reengineering, new business model leveraging on current setup, outsourcing, etc.

Some organizations take the pure cost management route to deliver short-term gains, which may look as the best solution to tide over a situation or give immediate relief. More often than not, pure cost reduction in the form of expense reduction impacts organizations more than its pre-cost reduction status. A simple example is where organization embarks on major employee reduction measures upon a encountering an adverse external environment/lower business volume. Often, in such initiatives, the service capability is ignored (which is so very crucial in service industry like insurance) which in-turn leads to lower capability to service existing customers thus further impacting new sales. The cyclical reaction soon causes much higher negative impact and at the same time, takes the organization a much longer time to get back to its position.

Strategic cost management, on the other hand, enables organization to plan and position itself for much higher levels of efficiency and profitability. The primary focus here is long term. One of the most common example, that successful companies have adopted, is focus on technology implementation. While in the immediate run, it results in the need for investment on a technology solution or capability, it enables the company to drive enterprise wide technology integration resulting into better profits and ability to service scale. Looking at end to end process and its rationalization/simplification is a key strategic cost management exercise which enables one to look beyond a functional silo resulting in better and sustained benefits.

LOOKING AT END TO END PROCESS AND ITS RATIONALIZATION/ SIMPLIFICATION IS A KEY STRATEGIC COST MANAGEMENT EXERCISE WHICH ENABLES ONE TO LOOK BEYOND A FUNCTIONAL SILO RESULTING IN BETTER AND SUSTAINED BENEFITS

Strategic cost management also enables one to bring unique models/processes into practice which is not available in traditional cost management methods. Unique models like enterprise level outsourcing, shared services for technology, self service model for customer service is something that has been bringing about a decisive change in the way efficiencies are looked at and delivered. A shining example in insurance industry has been the launch and popularization of e-sales for both life and non-life products. Here sales & service models based on unique differentiators and yet relying on the same backend service mechanism has transformed the industry. This has also led to companies offering self service platform to the customers on "e" platform. The result has been lower premium for the customers and better profitability and customer retention. Increasingly call center queries are being shifted to IVR and web which offers lower cost of providing service. It is therefore not a surprise with increasingly, such service options being offered creating a win-win situation for all.

The other areas of strategic cost management which is making a major impact are business process outsourcing and application management outsourcing. Rather than reduce the facilities or systems, outsourcing them to large players can get the cost benefit and yet enable to provide these facilities to its internal and external customers.

Another interesting area is the shift of sales remuneration from fixed to variable cost structure. This, while providing lower per transaction/activity costs, also enables a better skew of remuneration towards performers in the organization. This also enables the company to cushion itself against a seasonal drop of business to a large extent as the fixed cost of running business is relatively lower. However, one has to be careful a 100% variable model is more a myth and therefore needs a right balance of implementation.

The objective is not to state that organization should not resort to short term initiatives at all as business dynamics do require some of these to be done. However it is critical that the leadership team of the company ensures that the primary focus is to achieve long term gains and enable them to latch on the next wave to take the organization to the higher levels of efficiency, profitability and leadership. MA

(The comments/views in the article, are the Author's Personal Views, and do not reflect the views of the organization.)

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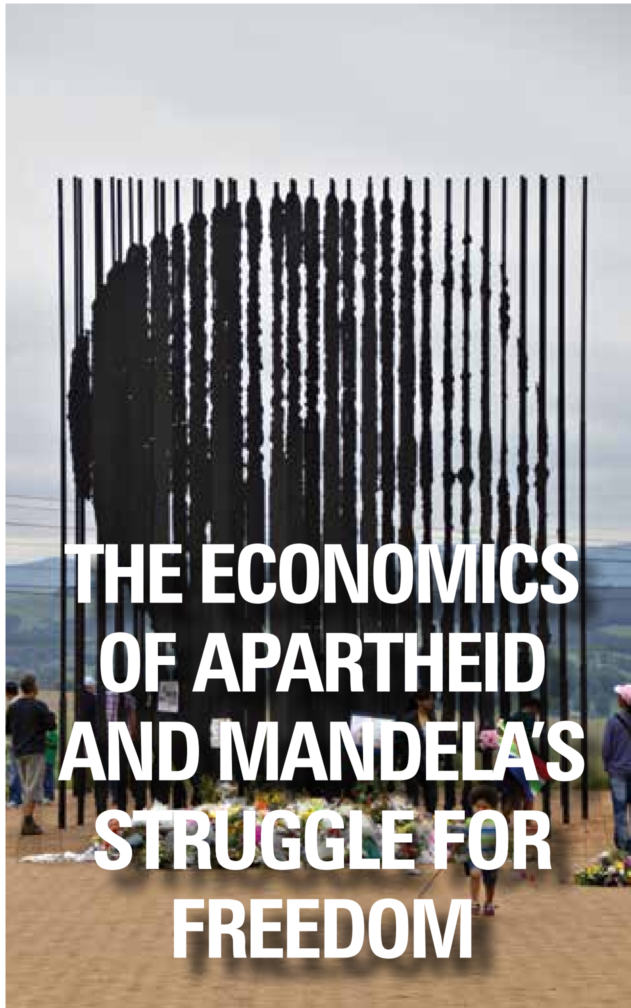
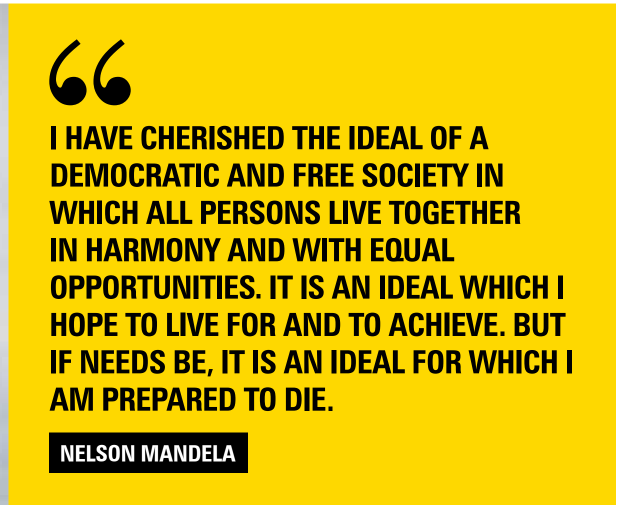
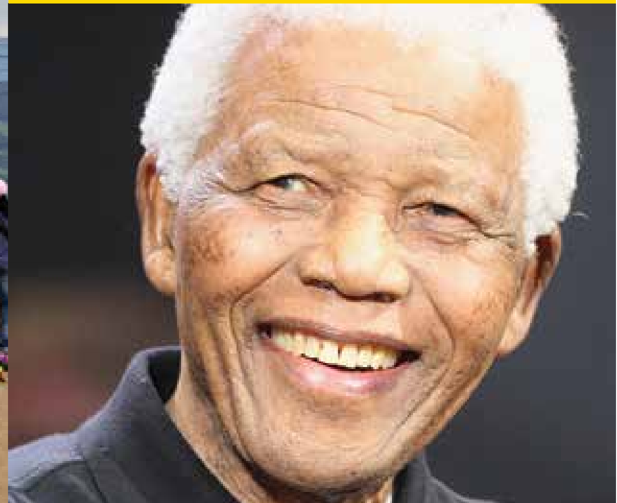


THE ECONOMICS OF APARTHEID AND MANDELA'S STRUGGLE FOR FREEDOM



> I HAVE CHERISHED THE IDEAL OF A DEMOCRATIC AND FREE SOCIETY IN WHICH ALL PERSONS LIVE TOGETHER IN HARMONY AND WITH EQUAL OPPORTUNITIES. IT IS AN IDEAL WHICH I HOPE TO LIVE FOR AND TO ACHIEVE. BUT IF NEEDS BE, IT IS AN IDEAL FOR WHICH I AM PREPARED TO DIE.
>
> NELSON MANDELA



The white governance in South Africa clearly underestimated the social and economic costs of racial segregation despite already celebrated pieces on the economics of discrimination

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In the year 1893 when Mr. M. K. Gandhi was thrown out of the first class compartment in the Pietermaritzburg station of Kwazulu-Natal province of South Africa on his way to Pretoria, Mr. Nelson Mandela had not been born. That both these personalities became household names within the next five decades in their respective tirades to stop oppression against the natives of their countries was not a mere accident of nature. As in most cases of tyranny veiled under the practices of limited democracy, it was the outcome of the persistence of a ruler who would not quit, as much as the persistence of the resistance groups

in various forms, which prolonged the struggles to almost never-ending squabbles spilling over generations. Despite the outwardly similar characteristics of the struggle towards independence and equality, South Africa, renamed the Republic of South Africa in 1961, had (unlike India, or worse, Zimbabwe) long gained independence from the United Kingdom following the Statute of Westminster in 1931. It was no longer under the dominion status entered into in the year 1910 by the South Africa Act of the British Parliament. However, South Africa's problems were not merely with the passage towards independence from a foreign ruler, but of the racial segregation initiated by the minority (20%) white rulers in the form of the Natives' Location Act, the Pass Laws and the Natives' Land Act that continued to jeopardize the society and economy of South Africa for the next six decades. It was not until 1993 that the racial segregation was completely abolished from the country and the first universal election was held in 1994 with transfer of power and policies and the government in all nine provinces containing the historic cities of Cape Town, Durban, Pretoria, Port Elizabeth and Johannesburg also as the major centers of economic activities. This was principally an outcome of the determination and persistence of Madiba Rolihlahla Mandela and his comrades, such as, Oliver Tambo. The transition with successful negotiation between Nelson Mandela and F.W. de Clarke happened shortly after Nelson Mandela was released from the Robben Island after 27 years of life imprisonment following the well known Rivonia Trial of 1962, in which he and seven associates were implicated for sabotage, violent conspiracy and treason. Mandela had by then stopped believing in non-violence, simply because the repeated massacres of unarmed, peaceful black protestors by the white government had forced him

A view of Cape Town now where in the 1970s in District Six, a former inner-city residential area of the city, over 60,000 of its inhabitants were forcibly removed by the apartheid regime and the area made whites-only

to redress ideals in the form of seeking guerilla training in Algeria and staging sabotages. That he was not the one who would seek retaliation after the African National Congress assumed absolute power, was ruled out with his clear message on co-existence that stirred the world even during the Rivonia Trial of 1962 (the epilogue).

This article argues that the white governance in South Africa clearly underestimated the social and economic costs of racial segregation despite already celebrated pieces on the economics of discrimination, of which the color or ethnicity-based discrimination is a major component. The reinstating of non-discriminatory practices in South Africa via the transfer of governance to the African National Congress has unambiguously conferred economic benefits in a relatively short time compared to the long regime of segregation, such that, South Africa has turned itself into a major player in the global economy alongside, Brazil, China, India and Russia. The reason behind such turnaround should be clear when one looks carefully into the losses that the economics of discrimination generates for itself. When Madiba passed away on December 5, 2013, he finally left behind a country that he cherished for all through his life. The accomplishments of Mr. Mandela or of his American contemporary Dr. Martin Luther King Jr. rising against the vices of discrimination along racial lines or any other form are the strongest testimonials of the bad economic and societal understanding that often shrouds the minds of the powerful. The economics of Apartheid, as much as the sociology and politics of it, are mere accounts of global losses although admittedly it makes only a few practitioners of it rich, unconditionally. This is inherent in the definition of economic discrimination.

An enormous literature, starting with Gary Becker's 1957 book "The Economics of Discrimination", explores the economics of discrimination. The treatment of discrimination in economics can be divided into two classes: competitive and collective. Competitive analysis of discrimination studies individual maximizing behavior that may factor in discrimination in several fronts, including, access to resources. In collective models, groups act collectively against each other. Almost all economic accounts have focused on analysis of competitive behavior, which can further be divided

into taste-based and statistical modes of discrimination. However, first, we need to define discrimination. For our purposes, discrimination is when members of a minority are treated differently (less favorably) than members of a majority group with identical productive characteristics. In a complete turnaround to this definition, the members of a majority group (the black South Africans, but minority in the governance) were actually discriminated against by a minority (white South Africans, or the ethnic Europeans) group that held access and rights to exploit all resources in South Africa including the minerals and the agricultural land. At the height of the racial segregation, the land ownership among the several tribes (such as the Xhosa-Thembu, which Mandela belonged to as a royal descendant; the Zulu; the Bantu, etc.) in South Africa comprising of 80% of the population was no more than 7% of the total land resources. This is one way of looking at the extremely unequal distribution of income that results from imposed discrimination and consequent socio-economic exclusion. Other forms of exclusion included restricting the passage and activity of ethnic Africans into fairly limited quarters, leaving the industry and agriculture entirely under the control of the white rulers. Does it at all raise the economic gains from creating an artificial divide along color or ethnic lines? The answer is clearly no, since there are strong counterarguments that the imposed restrictions are usually self-defeating in purpose. Like Prof. Gary Becker, another Nobel Laureate in economics, Prof. George Akerlof too believes that if an employer mired in taste-based discrimination uses the average quality of a given race to predict the quality of individuals of that race, then discrimination is evidently harmful. It is easy to see that if a racial yardstick is used as an indicator of individual productivity, it will destroy all incentive for self-improvement for that race, since all individuals of the race are judged the same and therefore paid the same wage regardless of individual merit. In this way prejudice may produce a lower level equilibrium trap: if a race is deemed by prejudice to be unqualified, no incentive is given to become qualified, and the prophecy is

self-fulfilling. The long history of the caste-based discrimination in India is an example of how a large population was restricted to low productivity jobs; barred from self-improvement and partaking of any activity that would be deemed valuable for the society and economy, simply owing to some strange mandates of the ' strategically derived' and 're-interpreted' Hindu religious texts. Once again, but for Mahatma Gandhi and soon thereafter Dr. B. R. Ambedkar, the social segregation of the 'untouchables' in India would have persisted long enough to cast a deeper shadow on the Indian economy and society. It needs to be admitted that the caste and religion based divides are still very potent in India, easily capable of turning themselves into major socio-economic catastrophes. Although, such racial divides are often deployed by cunning and yet ill-educated politicians in the country, the severity of these tensions have been remarkably subdued for quite some time now – thanks to the economic success in major parts of this vast country that followed the liberalization of the Indian economy and bureaucracy.

For the whites in South Africa, the opposite happened: the white minority by the strength of intimidation and their colonial superiority reserved everything for themselves. Albeit jobs were guaranteed in the industry; that they did not have to bear the burden of economic downturns; that land was made easily available to them; etc; prosperity for the handful did not come for free. All of these are expected to create a huge problem with incentive compatible actions among the economically endowed population, which in the long run would have anyway made the policy of apartheid unsustainable. However, such tyranny would have also by then drained out the productive capabilities of the black majority leaving South Africa into much bigger economic and social conundrum that an individual practitioner of discrimination totally fails to internalize. The recent murders of white landowners in Zimbabwe are fallout of what could happen if the economy of a country, that has practiced racial segregation for a long time, hits the abyss. Nelson Mandela had seen these problems way ahead of the rulers and continually urged for a mutual and peaceful co-existence in the same manner as an accomplished social planner mindful of the negative externalities associated with socially pervasive discrimination would consider upholding above everything else. In terms of keeping the contentious groups together and still marching ahead in search of prosperity, Nelson Mandela actually performed much better than Mr. Gandhi who accepted the religion-based partition of India at the time of the independence. The stakes were never lower for South Africa if one recounts the intensity of the racial crisis.

It is generally felt that the economic account of the apartheid would be incomplete unless one makes room for any distinction between an earlier period in the history of southern Africa when the main (or only) white economic activity was agriculture and animal husbandry and the subsequent development of gold mining and industry, where the techniques of production differed considerably from the early white agriculture. With respect to the first point, it has been shown (Mats Lundahl, American Economic Review, 1982) how the Boer expansion in South Africa and the subsequent white intrusion in Zimbabwe were both founded upon land alienation from the Africans by the whites. It was the land alienation policy – the establishment of African reserves – which created what was later interpreted as an "unlimited" supply of labor in the sense of Arthur Lewis. Arthur Lewis described how the expansion of industry slowly engulfs the agricultural production and frees labor from land to be stationed as a reserve army to be summoned at the beck and call of the industrialists. By the time the landless labor moves out of their demesne they are at the mercy of the industrial producers for survival. Similarly, by reducing the land area at the disposal of the Africans the scope for white agriculture increased and the supply of African labor that was essential to the maintenance of the European standard of living in southern Africa could be increased in the white economy. Land alienation took place in South Africa both during the period of agricultural expansion by the Boers up to the discoveries of diamonds in 1867 and gold in 1886, and during the ensuing expansion of the "modern" sector of the economy up to World War I when the demand for unskilled mining labor increased drastically. In Zimbabwe, the sequence that followed was somewhat different. Land was at first alienated not for use in white agriculture, but as a means of ensuring a large enough number of whites to assist in the search for a second Witwatersrand in Zimbabwe. Subsequently, however, when it was clear that no second Rand would be found, the expansion of white agriculture became one of the prime interests of the white settlers and this expansion took place along the same lines as those already tried in South Africa. The article by Mats Lundhal expands and refines a similar economic analysis by Richard Porter of the University of Michigan (published in the American Economic Review, 1978). Note that, while USA unlike now did not jump into military intervention in a foreign country trying to stop 'possible' civil war, its intellectual circle had been long denouncing such practices through clear mandates in flagship and highly revered outlets such as the American Economic Review. The South African government was not to yield so easily of course.

In terms of the rural-urban migration and economic growth in developing countries, it is often assumed, as in

Richard Porter (1978) that labor yields a constant returns to scale (meaning one unit increase in input raises output by the same amount always) output since land does not constitute a binding constraint on production in the reserves sector. Thus if natives populate the reserve, there will always be unused land which may be put into production to ensure a constant standard of living in the reserves. Lundahl argues that this runs contrary to the observed historical pattern. As the African population grew, dependence on a smaller land resource created pressure on living standards. Diminishing returns to labor were reinforced by increasingly denied access to the complementary production factor – with falling per capita incomes, over-grazing, and erosion in the reserves as unavoidable outcomes.

The discrimination also manifested itself readily into its treatment of white and black wages. In a historical perspective, the point made above with regard to land alienation assumes some importance. The clue to the supply of African labor in the white economy, as well as to unskilled wages in the white sector, is to be found in the alternative that was available for the Africans: that of remaining in the African part of the economy, that is, in the reserves. A policy that dictates a wage rate which falls short of what the Africans can obtain by staying in the reserves would never have been successful, nor would it be necessary to offer a wage much higher than what could be earned there. Migration from the reserves into the white sectors was limited by means of pass laws so that unskilled wages in white agriculture and industry are determined by the marginal productivity of labor in these sectors, and by the amount of African labor permitted to migrate from the reserve

Turning to the wage rates of white workers, these were determined via a process of collective bargaining between trade unions and employer organizations. Historically these wage rates have not been unrelated to the productivity of white labor. The case of South African mining is illustrative. In 1911, the Mines and Works Regulation Act laid down the principle of the color bar in mining and reserved jobs in the sector for whites. Nevertheless, the mine owners did their best to substitute Africans for Europeans, since black laborers were willing to work for lower wages than whites. It was not until after a series of strikes organized by the white trade unions and the so-called Rand Rebellion that the white miners managed to vote out of power the government which refused to give legal sanction to the color bar. After 1924, a number of laws ensured white-worker domination in the labor market. The significant point about the historical development of the South African labor market had been the fact that white wages were endogenously determined within a framework where restrictions on the supply of black labor played a central role.

Many of these points are also succinctly discussed in the Economics of Apartheid, a book by Stephen R. Lewis Jr. written in 1990. It describes the development of the South African economy from its modern origins, with the discovery of gold and diamonds over 1867-87, to its complex state of race-based factor-market misallocations and inequalities a century later. Lewis' discussion of the economic slow down in South African during the decade of the 1980s implied that the internal contradictions of the factor-market inefficiencies were an important cause, that "the South African economy is too far advanced to be able to sustain apartheid" (p. 133). We too have argued above that the racial segregation leading to economic problems does not automatically correct itself. Richard Porter in a later review also pointed out that this "evolutionary hypothesis" is built on the belief that the microeconomic inefficiencies involved will generate an erosion of the racial discrimination. Albeit it has been frequently argued in South Africa (and anywhere such discrimination reaches a critical degree), there is little evidence that it has. The bigger costs associated with racial segregation in a 'strategically conscious' world would stem from the costs of international sanctions. The costs of internal insurgencies, that almost any country currently has sustained experience with, are also extremely costly and as Jagdish Bhagwati would have put it are, "directly unproductive activities". The interplay between the economic, the political, and the psychological aspects of sanctions must add to such rising bills for a government that wishes to use it as an instrument of governance. In terms of numbers, South Africa seems everywhere to save $2 billion per year (1993 prices) in reduced costs with the ending of apartheid. The savings of this nature were accounted for by various categories including: (a) the end of the oil boycott; (b) the post-apartheid dividend resulting from the elimination of the costs the apartheid system has placed on South Africa; (c) the removal of international sanctions (including the oil boycott) which takes care of the poor trade balance; (d) possible reductions in defense and internal security spending; and (e) the reversal of divestments and capital outflows that followed the height of apartheid in the country. The full reversals would also not be without its standard costs for an economy, including creation of pressure groups, black unions, etc. Nevertheless, it would be so for a free country where people are at least equal in the eye of the law. The removal of the color-based distortion of the South African economy was undoubtedly an achievement for which Nelson Mandela shall remain immortal throughout the history of mankind. MA

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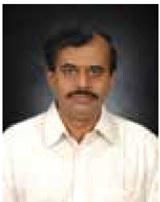
STIRRING THE POT: YEAR-END CHANGES IN THE CENTRAL EXCISE VALUATION RULES

The Rules have been blind-sided and will cut across the board. While getting at vitiated sales to related persons is a legitimate objective, the new Rules may unwittingly add to margin pressures for the affected manufacturers



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It was really believed since July 2000 that the introduction of transaction value in the Central Excise Valuation System put paid to long-running uncertainties in determining the central excise assessable value of excisable goods. Despite the wide berth given to the meaning of transaction value in the central excise valuation provisions, the concept was marked by some clarity and certainty. The advantage of adopting transaction value was further boosted by eliminating a bench-mark requirement of comparing similar prices of the same goods when sold to other unrelated buyers. The new statutory provision mandated that transaction value would apply to each removal of excisable goods. The relative success of the new transaction valuation system was best ex-

emplified by the fact that the extent of disputes in excise valuation declined substantially in the period since July 2000. The tranquil scene on the transaction value front was recently unsettled by the unexpected but landmark verdict of the Hon'ble Supreme Court of India vide Commissioner of Central Excise, Mumbai vs M/s. Fiat India Pvt Ltd {2012 - (283) ELT 161}. A detailed analysis of this important Apex Court judgment can be seen in the 'Management Accountant' issue dated December, 2012. The decision in the Fiat India case shook the conventional understanding of transaction value hitherto held. The Court imparted a new meaning to the concept of 'sole consideration' which is one of the requirements of transaction value. The statutory requirements for the acceptance of transaction value have been as follows:

- Transaction value applies to each removal of the excisable goods.
- The excisable goods should be sold by the assessee.
- For delivery at the time and place of removal.
- The assessee and buyer should not be related to each other.
- The price charged should be the sole consideration for the sale.

The Supreme Court dealing with below-cost prices charged by Fiat India as a market penetration strategy ruled that the price in such circumstances cannot be treated as having been the sole consideration for sale of the cars made by Fiat India. According to the Court, the price was vitiated by the market penetration consideration which resulted in the company selling the cars below-cost. The Court went on to rule that the

5.	How will valuation be done in cases of captive consumption (i.e consumed within the same factory) including transfer to a sister unit or another factory of the same company/ firm for further use in the manufacture of goods?	For captive consumption in one's own factory, valuation would be done as per rule 8 of the Valuation Rules i.e. the assessable value will be 115% of the "cost of production" of the goods. If the same goods are partly sold by the assessee and partly consumed captively, the goods sold would be assessed on the basis of "transaction value" [provided they meet the conditions of sec.4(1)(a)] and the goods captively consumed would be valued as per Rule 8 of the Valuation Rules. This is because, as per new section 4, transaction value has to be determined for each removal. Where goods are transferred to a sister unit or another unit of the same company valuation will be done as per the proviso to rule 9.
12	How will valuation be done when goods are sold partly to related persons and partly to independent buyers?	There is no specific rule covering such a contingency. Transaction value in respect of sales to unrelated buyers cannot be adopted for sales to related buyers since as per section 4(1) transaction value is to be determined for each removal. For sales to unrelated buyers valuation will be done as per section 4(1)(a) and for sale of the same goods to related buyers recourse will have to be taken to the residuary rule 11 read with rule 9 (or 10). Rule 9 cannot be applied in such cases directly since it covers only those cases where all the sales are to be related to buyers only.
14	How will valuation be done when inputs or capital goods, on which CENVAT credit has been taken, are removed as such from the factory, under the erstwhile sub rule (1C) of rule 57AB of the Central Excise Rules, 1944, or under rule 3(4) of the Cenvat Credit Rules, 2001 or 2002?	Where inputs or capital goods, on which credit has been taken, are removed as such on sale, there should be no problem in ascertaining the transaction value by application of sec.4(1)(a) or the Valuation Rules. [provided tariff values have not been fixed for the inputs or they are not assessed under Section 4A on the basis of MRP] There may be cases where the inputs or capital goods are removed as such to a sister unit of the assessee or to another factory of the same company and where no sale is involved. It may be noticed that sub rule (1C) of Rule 57AB of the erstwhile Central Excise Rules, 1944 and Rule3(4) of the Cenvat Credit Rules, 2001(now 2002), talk of determination of value for "such goods" and not the "said goods". Thus, if the assessee partly sells the inputs to independent buyers and partly transfers to its sister units, the transaction value of "such goods" would be available in the form of the transaction value of inputs sold to an unrelated buyer (if the sale price to the unrelated buyer varies over a period of time, the value nearest to the time of removal should be adopted). Problems will, however, arise where the assessee does not sell the inputs/capital goods to any independent buyer and the only removal of such input/capital goods, outside the factory, is in the nature of transfer to a sister unit. In such a case proviso to rule 9 will apply and provisions of rule 8 of the valuation rules would have to be invoked. However, this would require determination of the 'cost of production or manufacture', which would not be possible since the said inputs/capital goods have been received by the assessee from outside and have not been produced or manufactured in his factory. Recourse will, therefore, have to be taken to the residuary rule 11 of the valuation rules and the value determined using reasonable means consistent with the principles and general provisions of the valuation rules and sub-section (1) of sec.4 of the Act. In that case it would be reasonable to adopt the value shown in the invoice on the basis of which CENVAT credit was taken by the assessee in the first place. In respect of capital goods adequate depreciation may be given as per the rates fixed in letter F.No.495/16/93 –Cus VI dated 26.5.93, issued on the Customs side.

Central Excise Assessable Value cannot, in effect, be less than the cost of production. The Fiat judgment has created some uncertainty in the central excise valuation and has a diminishing effect on the scope of commercial freedom of choice in setting the transaction value even to unrelated buyers. Virtually every major industry has been affected since there would be cross-subsidization of products in many cases. Apart from the objective of market penetration to create demand for new products and services, it is normal for manufacturers or even traders (and service providers included) to clear unpopular or slow-moving items by offering to sell them at attractively low prices which could often be below their cost of manufacture. Even public sector undertakings engaged in product cost subsidization could be affected by the Fiat India case. The central excise department has been quick to seize the advantage by asking assessees to furnish data where products have been sold below cost, in order to issue additional duty demands.

The Central Excise Valuation Rules will apply when even if one of the ingredients or requirements of the transaction value is absent. Then the transaction value for central excise purposes has to be determined in line with the methods stipulated in the Valuation Rules. Even though Section 4 of the Central Excise Act stipulated that transaction value would apply on each removal of the goods, in reality, in regard to instances of captive consumption under Rule 8 of the Central Excise Valuation Rules, 2000 and instances of sales to or through related persons/inter-connected undertakings under Rules 9 & 10, the comparative price of the same goods when sold to unrelated buyers has been widely adopted as established through the ratio of well-established case laws as well as by CBEC's circular No.643/34/2002-CX dated 1.7.2002. The relevant portions of the circular dated 1.7.2002 are extracted here as follows:

Some of the leading case laws accepting the adoption of available prices of the same goods substantially sold to independent buyers in this connection are as follows:

A. CCE, Delhi Vs Kanam Foam Industries – (2004) 170 ELT 237 (Tribunal)

B. Plus Cosmetics Pvt Ltd Vs CCE – (2002) 143 ELT A268(SC)

C. Goodyear South Asia Tyre Pvt Ltd Vs CCE – 2005 (189) ELT 304 (Cestat)

Statutory changes made with effect from 1st December, 2013

In an obvious push for greater revenue collections in situations governed by Valuation Rules 8, 9 & 10, the department has amended the relevant rules by Notification No.14/2013-Central Excise (N.T) dated 22.11.2013. The relevant portion of the notification is as follows:

"2. In the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 (hereinafter referred to as the said rules), for rule 8, the following rule shall be substituted, namely:-

"8. Where whole or part of the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles, the value of such goods that are consumed shall be one hundred and ten per cent of the cost of production or manufacture of such goods."

3. In the said rules, in rule 9, for the words "when the assessee so arranges that the excisable goods are not sold by an assessee except to or through a person who is related in the manner specified in any of the sub-clauses (ii), (iii) or (iv) of clause (b) of sub-section (3) of section 4 of the Act, the value of the goods shall be the normal transaction value", the words "where whole or part of the excisable goods are sold by the assessee to or through a person who is related in the manner specified in any of the sub-clauses (ii, (iii) or (iv) of clause (b) of sub-section (3) of section 4 of the Act, the value of such goods shall be the normal transaction value" shall be substituted.

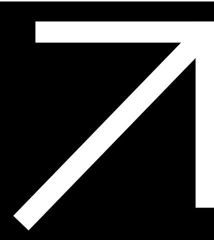
4. In the said rules, in rule 10, for the words "When the assessee so arranges that the excisable goods are not sold by him except to or through an inter-connected undertaking, the value of goods shall be determined in the following manner, namely:- "the words "Where whole or part of the excisable goods are sold by the assessee to or through an inter-connected undertaking, the value of such goods shall be determined in the following manner, namely:-" shall be substituted".

The CBEC rationale for the statutory changes:

The CBEC has issued a circular No.975/09/2013-CX dated 25th November, 2013 on these statutory changes to rules 8, 9 & 10 of Central Excise Valuation Rules. According to the circular, the changes were inspired by para 70 of the Supreme Court judgment in the Fiat case to the effect that Central Excise Valuation Rules are not required to be followed sequentially (unlike Customs Valuation Rules). However, the intention to garner additional revenue through the statutory modifications is the clear objective behind the changes. The relevant portions of the CBEC circular are extracted as follows:

"Section 4 – Valuation of excisable goods for purposes of charging of duty of excise – (1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to their value, then, on each removal of the goods, such value shall

2) Rules 8, 9 and 10 of the Central Excise Valuation Rules, 2000 dealing with determination of assessable value in case of captive consumption and sale to related person have been amended vide notification No.14/2013 – Central Excise (N.T.) dated 22.11.2013 to clearly state that these rules apply irrespective of whether the whole or a part of the clearances of manufactured goods are covered by the circum-



THE AMENDMENTS PREPARE THE GROUND FOR REVENUE ACTION BY AIMING AT GETTING OVER THE OBSTACLES POSED BY THE ESTABLISHED CASE LAWS

stances given in these rules. Each clearance is required to be assessed according to section 4(1)(a) or the relevant rule dealing with the circumstances of clearance of the goods, as the case may be.

3) For example, if an assessee clears his goods in such a way that first removal of goods is to an independent buyers, some goods are captively consumed, second removal is to such a related person who is covered under rule 9 and third removal is to a person who is covered under rule 10, then the first removal should be assessed under section 4(1)(a), captively consumed goods should be assessed under rule 8, second removal should be assessed under rule 9 and third removal should be assessed under rule 10 of these rules. It may be noted that Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 are not required to be followed sequentially. Each of these rules provides for arriving at the assessable value of goods under different contingencies as noted by Hon'ble Supreme Court at paragraph 70 in case of Commissioner of Central Excise, Mumbai vs M/s. FIAT India Pvt Ltd [2012 (283) ELT 161 or 2012-TIOL-58-SC-CX].

4. Serial No.5, 12 and 14 of the Circular No.643/34/2002-CX dated 1.7.2002 are deleted in view of the amendments in the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, as these amendments address the issues on which these clarifications were issued. The amended rules and accordingly this circular shall apply with effect from 1st December, 2013".

What the amendments have in store for the manufacturers

The Central Excise Department has thus far been unable to deploy the Rules 9 & 10 to the extent that the assessees make sales both to related and unrelated buyers. The Tribunal has consistently held that Rules 9 & 1o do not apply where the assessee sells the same goods both to related and unrelated buyers. The Rules were held to apply only when the entire goods were sold to or through related persons/inter-connected undertakings. If the amended Rules are used, the re-sale prices of related parties/ inter-connected undertakings would become the benchmark for central excise valuation and if there were no such re-sale, then 110% of the cost of production as per Rule 8 would become the norm. CAS-4 certification would be in greater need henceforth. In the days to come, the Central Excise department is certain to issue additional duty demands where the existing assessable value adopted by the assessee is less than the value determined as per the methods stipulated in amended Rules 8, 9 & 10 of the Central Excise Valuation Rules. In the case of excise duty becoming payable on situations governed by Rule 8, the cost of production plus 10% would become the governing norm for fixing the assessable value. Cost Accountants would now have considerable assignments on this account.

Conclusion

The manifest reason behind the changes in the Rules is to soak in additional revenue by targeting sales to or through related persons/interconnected undertakings. The amendments prepare the ground for revenue action by aiming at getting over the obstacles posed by the established case laws. The changes will impact genuine common pricing of goods to all buyers, whether related or unrelated. The Rules have been blind-sided and will cut across the board. While getting at vitiated sales to related persons is a legitimate objective, the new Rules may unwittingly add to margin pressures for the affected manufacturers. Coupled with the significant impact unleashed by the Fiat India case, this double whammy on the Central Excise Valuation front may just add its contribution to the inflationary expectations in the economy. Inflation worsened by negative tax changes is an area that has not been adequately recognized in this country. MA

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TAX-FREE SALARIES

The new Company Law provides an opportunity for negotiating remuneration between the company and the employee taking into account the tax implications for both. It will be interesting to watch how the law develops in this regard

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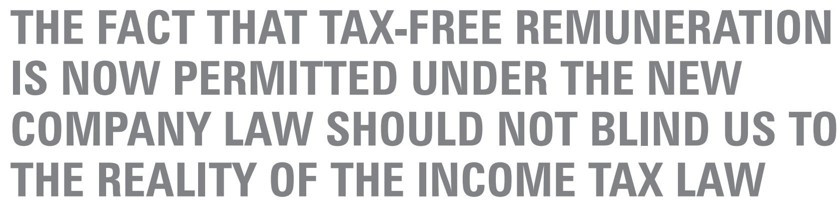
A significant change has been made with regard to remuneration to managerial personnel in the Companies Act, 2013. Section 200 of the Companies Act, 1956 barred payment of tax-free remuneration. No company shall pay to any employee, whether in his capacity as such or otherwise, remuneration free of any tax, or otherwise calculated by reference to, or varying with, any tax payable by him, or the rate or standard rate of any such tax or the amount thereof. In the notes on clauses 299 of the Company Law Bill of 1956, it was clarified that the intention behind this bar on tax-free remuneration was that the actual amount paid should be made known to the shareholders and other persons concerned. This was on the model of Section 189 of the English Companies Act, 1948. The Cohen Committee in England pointed out that payment of tax-free remuneration created a class of persons who are immune from any future increase in taxation. Such a practice has the effect of making it difficult for shareholders to assess the burden imposed on the company by its salaries and wages Bill (Report: Para 88).

There was an exception to Section 200 of the Companies Act, 1956. This is to be found in Section 10 (6) (vii) (a) (ii) of the Income-tax Act, 1951. In the case of a foreign technician specified in that Section and employed by a company, the tax on his income chargeable under the head 'Salaries' may be paid by the company for a period of 60 months following the expiry of a tax-free period of 36 months from the date of his arrival in India.

Why did the Companies Act, 2013 remove the bar on payment of tax-free remuneration? Obviously it was felt that the Indian companies must be able to attract the best talent from all over the globe. Experts should not be daunted from accepting employment in the Indian corporate sector because of tax considerations. The eminent management guru Peter Drucker had stipulated that the maximum remuneration to any officer of any company should not be more than 30 times the remuneration payable to the lowest of the company staff. This is an advice ignored completely in actual practice. Remuneration received by the likes of Ambanis, Marans etc., can be sky high. The new Act requires that there should be a board resolution containing terms and conditions of appointment including remuneration. This stipulation was not to be found in the Act of 1956. Every listed company shall henceforth disclose in the board's report the ratio of remuneration of each director to the median employee's remuneration and such other details as may be prescribed.

Schedule V of the Act of 2013 disqualifies from appointment to the position of managing director or whole time director or manager any person convicted of an offence under the Prevention of Money-Laundering Act, 2002. This was not a disqualification under Schedule XIII of the 1956 Act. The age limit under the new law permits any major person even below the age of 25 years to be appointed as manager or director. This will require a special resolution. Thus, the minimum age limit is 21 years. Unlike Schedule XIII of the Act of 1956 which caped remuneration at Rs.48 lakhs per annum, Schedule V of the 2013 Act provides for removable of remuneration cap on the basis



of the quantum of effective capital; the limits can be doubled by passing a Special Resolution. Schedule V places a limit on remuneration at 2.5% of current relevant profit in certain situations. Section III of Part II of Schedule V has special provisions for newly incorporated companies for 7 years after incorporation. In these cases and also in the cases sick companies, remuneration in excess of limits in Section II of part II can be paid without Central Government's prior approval. This was not the case under Schedule XIII of the Act of 1956.

Tax implications

The fact that tax-free remuneration is now permitted under the new Company Law should not blind us to the reality of the income tax law. Section 17 (2) (iv) defines the term 'perquisites' as including any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Lord Atkinson said in North British Railway Company vs. Scott, 8 TC 332 (HL) that the sum paid by the employer to satisfy the debt which the employee owes to the Revenue remains part of the profits derived from the employment. Where the salary is paid tax-free, the employee has to include in his total income the gross salary i.e. the aggregate of the net salary received plus the amount of tax paid on his behalf by the employer (see Takenaka vs. CIT 237 ITR 112). Section 195A of the Income Tax Act, 1961 provides for grossing up the tax. This will mean tax on tax.

Multiple tax gross-up

Section 10 lists incomes not included in total income. In the case of an employee, being an individual deriving income in the nature of perquisite, not provided for by way of monetary payment, within the meaning of Section 17(2), the tax on such income can be exempted at the option of the Employer, despite Section 200 of the Companies Act. The question was raised recently whether tax paid by the employer can be considered a 'perquisite' at all and if so, it can be considered 'non monetary perquisite' eligible for exemption under Section 10 (10CC) of the law. Despite the bar on payment of tax-free remuneration under the Act of 1956, Section 10, (10CC) of the Income Tax Act, 1961 provided for exemption of tax on 'non monetary perquisites' actually paid by the employer on behalf of the employee in the case of the Assessment of the Employee. However, tax paid by the employer claimed as exemption under Section 10 (10CC) is not deductable as business expenditure from the employer's income. The Uttarakhand High Court has rendered a useful Ruling on this subject recently in Director of Income Tax vs. Sedco Forex International Drilling Inc. The High Court had held that the tax paid by the employer is no doubt a perquisite which can be considered non monetary in nature. Thus, instead of adding the tax paid by the employer to the employee's income on a multiple gross-up basis, a single stage tax gross-up may be done. Instead of applying a multiple gross-up, the employer can pay tax on the employee's behalf on the value of the non-monetary perquisite on a single stage gross-up basis. Applying the rate of 30% on an income of Rs.100/- , the multiple stage gross up will mean a tax of Rs.43/-. Under the single stage gross-up, the tax will be Rs.39/- . There can be a tax saving of Rs.4/- for the employer. There is a caveat to be entered here. Revenue has not accepted the contention that tax paid by the employer will fall in the definition of 'non monetary perquisite'. Litigation is pending in several High Courts with the Uttarakhand High Court deciding the matter in favour of the taxpayer.

Conclusion

The new Company Law provides an opportunity for negotiating remuneration between the company and the employee taking into account the tax implications for both. It will be interesting to watch how the law develops in this regard. MA

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TAX TITBITS

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NO RIGHT TO INTEREST ON INTEREST – A SET BACK

Assessees right not only to right to interest, but also right to interest on interest, where there is a delay in payment of interest on refund under section 244A was recognised by the Supreme Court in Sandvik Asia Ltd. v. CIT [2006] 280 ITR 643 (SC). This decision came up for review before the Supreme Court at the instance of revenue in a group of cases in CIT v. Gujarat Fluoro Chemicals [2013] 358 ITR 291 (SC). The Supreme Court has now understood Sandvik Asia Ltd.'s case (supra) as one rendered in the context of inordinate delay of more than a decade in the grant of interest, so that it was treated as one on facts of the case. It has held, that interest on refund has to accord strictly with the provisions of section 244A, which does not provide for interest on interest.

STAY OF PENALTY PROCEEDINGS PENDING APPEAL – IT IS A LEGAL RIGHT

The law provides for stay of penalty proceedings pending the outcome of appeal against additions in the assessment in respect of which penalty proceedings are initiated. It is, however, not uncommon for the authorities to deny such stay and levy penalty. In one such case, where the assessee filed a writ petition against the proceedings undertaken after rejection of the petition for deferment of penalty proceedings till appeal, the High Court in Asst. CIT v. GE India Industrial Pvt. Ltd. [2013] 358 ITR 410 (Guj) allowed the petition in a matter, where the merits were pending before the Tribunal with a direction to the Appellate Tribunal to give an early hearing and directions to all the parties concerned to ensure participation in such hearing. This would be a better solution, since any levy of penalty in a matter where the outcome of the appeal would have been favourable to the taxpayer may render the appeal itself nugatory in such cases as pointed out by the Supreme Court in ITO v. M.K. Mohammed Kunhi [1969] 71 ITR 815 (SC) in the context of stay of disputed demand. The High Court further pointed out, that when the law allows stay of penalty proceedings and extends the time limit for completion of penalty proceedings by six more months after the outcome of the dispute on merits, there is absolutely no justification for declining stay of penalty proceedings pending appeal.

PENALTY IN MATTERS OF SURRENDERED INCOME

There had been conflicting views from the Supreme Court itself in respect of penalties on additions which are surrendered by the assessee during the course of assessment. But these decisions are not irreconcilable, since the decisions in such cases has to depend upon the facts and the circumstances in which the income is

surrendered. The Supreme Court itself has stated the law on the subject in Union of India v. Dharamendra Textile Processors [2008] 306 ITR 277 (SC) and CIT v. Atul Mohan Bindal [2009] 317 ITR 1 (SC). The Supreme Court in Mak Data P. Ltd. v. CIT [2013] 358 ITR 593 (SC) referred to these cases pointed out that the Assessing Officer should not be carried away by the plea of the assessee by the expressions like "voluntary disclosure", "buy peace", "avoid litigation", "amicable settlement" etc., where the surrender of income is after the concealment having been established. In the particular facts of the case, the concealment was inferred from materials gathered during a survey ten months prior to the date on which the assessee filed its return. If the assessee wanted to avoid penalty, all it had to do was to voluntarily disclose the income in the return filed by it. After all, it is the duty of the assessee to file the correct return.

In view of the complexities in our law and for avoiding litigation, there is need for a provision in the statute to encourage admission at whatever stage by way of concessional penalty as had been provided for post-search cases. An alternative solution is to substitute penalty by an additional tax at 50% of the tax on addition as prevailing under sales tax law in some States and as suggested in the draft Amendment Bill, 1987 but dropped when the Bill became law.

EXEMPTION FOR STATE ORGANISATIONS FOR CARRYING OUT PUBLIC ACTIVITIES

There is no reason why State institutions carrying out public duties of charitable character should not be spared liability as is available for all trusts and institutions under section 11 of the Act. Many State institutions do enjoy such exemption, but for a drastic amendment to the definition of charitable purpose under section 2(15) effective from A.Y.2009-2010 taking away right to exemption for those with the object of general public utility, if they have any activity of business nature as by charging of fees for carrying out their objects. One such institution affected by the amendment according to the Assessing Officer was a regulatory authority set up by the Central Government for standardisation and certification of quality standards with the primary and predominant object of ensuring public benefit in Bureau of Indian Standards v. Director General of Income-tax (Exemptions) [2013] 358 ITR 78 (Del). The High Court in this case pointed out, that merely charging fees for its services would not tantamount to business. The institution was enforcing standards for public benefit coupled with investigation and enforcement of law with the charges having been prescribed with no intent to carry on trade or commercial activity. The High Court found that charging of licence and certification fees could only be treated as part of regulatory functions in its capacity as an instrument of the State. It was entitled to exemption under section 10(23C)(iv) as decided in writ petitions against refusal of approval under the section. It follows that such institutions would qualify for exemption under section 11 as well. This case illustrates the damage done by the drastic amendment to section 2(15) targeting those trusts and institutions with the object of general public utility. The amendment is also possibly unconstitutional. The writ petitions challenging the constitutionality of the amendment had been admitted by the Madras High Court in W.P Nos. 2012 and 2013 and W.P.Nos. 2035 and 2036 dated 30.1.2012 with no counter as yet filed.

NO TDS FOR SERVICE TAX

Where payments were made by Urban Development Department of Government of Rajasthan to technical and project consultants and others with deduction of tax at source on the amounts paid under section 194I and 194J without including service tax reimbursed to the service providers under the agreements with them, the question arose whether there was any short deduction by not considering the service tax as part of payment liable for tax deduction at source. The High Court in CIT v. Rajasthan Urban Infrastructure Development Project [2013] 359 ITR 385 (Raj) found that the words "any sum paid" under these provisions cannot possibly include service tax which is to be treated as contractually payable and not as part of the payment for items covered by these provisions, so as to require inclusion of service tax. This is a welcome decision. This judgement would spare not only liability for deduction of tax from service tax component but also spare the consequent compliance requirements expected by the authorities administering service tax. MA

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M. Narendra
Chairman and Managing Director
Indian Overseas Bank

NPA a double-edged sword for banks, says CMD of Indian Overseas Bank

MA Are 'big tickets' advances the cause of NPAs?
Not necessarily. If we consider the amount involved as these Big Ticket Advances are with Loan outstanding of Rs. 1 Crore and above, even a few accounts slipping into NPA category will have have an impact on NPA level of the Bank. In terms of number of accounts Big Ticket NPA is less than 1% .

Slippages have been taking place in all sectors in small and big accounts. While the amount involved is more in the big ticket accounts, the number of accounts that slip to NPA in small value accounts is very much higher, though the total amount involved is lower in these accounts.

MA If yes, what are the remedial measures?
Banks are closely following up these accounts for recovery by resorting to SARFAESI action, filing suits, declaring the borrowers as willful defaulters and also filing cases with CBI in case of fraud. The top 50 NPA accounts of the bank are personally monitored by CMD, EDs and GMs / Credit Verticals. In genuine and eligible cases, where the borrower requires hand holding, we are restructuring the advances / referring the cases to CDR, to help the borrowers to come out of their problems/mismatch in cash flows.

The top 30 accounts of the banks are being individually reviewed by the Ministry at regular intervals. The weekly recovery information is also being sent to the Ministry for their information. A Board level Committee has also been formed where the top 50 accounts of the bank are reviewed individually by the Government Nominee Director through Video Conference.

MA Why do accounts slip to NPA?
Accounts slip to NPA due to various reasons. The present economic downturn has affected the business sector to a very great extent. Besides, the economic scenario, delay in realization of receivables, devolvement of LCs, delay in implementation of infrastructure projects due to delays in getting Government Approvals have been the major factors for accounts slipping to NPA.

MA What role concurrent auditors / internal inspectors can play in NPA management?
Concurrent Auditors / Internal Inspectors have a major role to play in NPA management. Identification of issues / problems in the early stages at the time of releasing the advance or immediately after the release will enable the branch to rectify / solve the issues in the early stages and thus prevent slippages. Auditors / Inspectors should also be involved / made responsible for rectification of deficiencies.

MA What, according to you, is the involvement of your staff (clerical, managers, top management)?
Business decisions at times do go wrong. There are Accountability Policies formulated by banks. All cases will be investigated by the Banks and in case deliberate malafide intentions are proved suitable actions will be initiated against the concerned in line with the Policy of the Bank.

MA What is the composition of NPA in your bank?

	% to Domestic NPA
a) Agriculture	15.49%
b) Industry	55.14%
c) Services	23.78%
d) Personal	5.59%

MA How does NPA affect the banking sector as well as the Indian economy?
NPA is a double edged sword for the Banks. Not only the asset stops

earning for the Bank, but also has to be provided for in the books of the Bank as per extant guidelines. It undermines the capital accruals and thereby restricts the lending capacity of the Banks (Banks have to maintain Capital in relation to RWA as per Basel Norms). High NPA causes Slowdown in the economy and higher cost of funds. High level of NPA is the root cause of the global financial crisis and the world is still trying to recover from the after effects of the crisis. The banking system has shown moderate rise in instability due to increase in NPA. In fact, the global economic crisis that began in 2008-09 was triggered by the financial crisis in the banking sector with increase in NPA. Many Banks failed. NPA, therefore, affects the stability of the banking sector and leads to reduced profits on account of increased provisions, which has a detrimental impact on the profitability of the banks. Higher NPAs have also led to reduced credit as it causes poor recycling of funds and erosion of profits in banks.

An efficient banking system is a prerequisite for economic growth. Increased NPA level leads to sluggish growth in the economy. High NPAs lower the bank's credit rating and credibility and also its ability to raise fresh capital. Banks are to maintain reasonable Capital Adequacy Ratio (CAR) to keep the problem within limits and to maintain the stability of not only the Banking System but the economy as a whole.

MA What are the concerns of RBI relating to NPA management?

RBI has been highly concerned of the growing NPA and the resultant instability in the Banking System. Though the Central Bank has spoken with concern on the rising NPAs, RBI Chief had pointed out that the situation is not alarming. RBI has, however, instructed all Banks to improve NPA management for improved recovery and reduction in NPA levels.

MA What percentage of NPAs is recovered through One Time Settlement, Restructuring of advances, court cases?

a) Percentage of NPA recovered through One Time Settlement - 0.39%
b) Percentage of NPA recovered through Court Cases - 1.10%

MA How does the government monitor the NPA management by banks?

The top 30 accounts of the banks are being individually reviewed by the Ministry at regular intervals. The weekly recovery information is also being sent to the Ministry for their information. A Board level Committee has also been formed where the top 50 accounts of the bank are reviewed individually by the Government Nominee Director.

MA How much of the Restructured Assets can go bad?

GNPAs Ratio and Restructured Standard Advances Ratio (PSBs) in %

S. No.	PSBs	March 2011	March 2012	June 2012	Sept 2012	Dec 2012	March 2013
I	GNPA Ratio	2.32	3.17	3.57	4.02	4.18	3.78
II	Restructured Standard Advances Ratio	4.24	5.74	6.67	7.34	7.41	7.07
III	**TOTAL: GNPA Ratio and Restructured Standard Advances**	**6.56**	**8.91**	**10.24**	**11.36**	**11.59**	**10.85**

- The Infrastructure sector (Road and power), textiles, Iron and Steel sector have lions share in banks' restructuring book.
- In the case of Rs. 2,72,000 crores of loans before CDR cell by September 2013, around a sixth is loans to infrastructure sectors like roads, power and another fifth is to the steel sector.
- Several projects are held up when the government's policy changes or the government does not put in its own share of capital due to fiscal restraints. Mining laws and environment clearance, litigations, power cuts etc are the other factors which affect the recovery performance in Restructured advances.
- It is expected that one fifth of all recast loans are likely to go bad this year, as compared to 15% till last year.
- As regards our Bank, The percentage slippage from Restructured portfolio was around 4-5% and it is below the level in peer banks. During the current year the slippage from Restructured accounts in our bank will be around 6-7%.

MA Is there any role of Cost & Management Accountants in helping the banking sector to check this problem? Please suggest how CMAs can offer their expertise in this area.

The Cost Accountant can play a major role in helping the banking sector to check the problem faced by them with regard to effective NPA Management.

1. Pre Sanction Level

- Professional advice on proper appraisal of the advance. –TEV study - Overall Industry level performance.
- Specific Industry Study.
- Market Report, checking expertise and integrity of the borrower.
- If it is a new unit – issues relating to Break Even level, assessing contribution per unit – buy or manufacturing decisions.
- If it is an existing unit – issues relating to capacity utilisation/ cost control measures taken by the unit and profitability of various divisions/centres.
- Cost effectiveness/ profitability of future plans of unit for expanding its business/diversification of its business.

2. Post Sanction Level

- Monitoring of the advance
- End use of Bank funds/periodical progress report of projects
- Regular unit visits - movement of stocks, checking of obsolete stocks and cycle period of the production – from raw material to end product – industry analysis/comparison.
- Verifying the Book debts/assessing quality of Book Debts and details of long standing debtors- the reasons therefor and measures to be taken for recovery.

3. Monitoring of the stressed accounts

- The reasons for slippage of the account into NPA – deficiency in appraisal and monitoring of the account, historical study of accounts turning into NPA, portfolio analysis/stress testing.
- Effectiveness of monitoring the account through various statements like ERI, Watch category accounts and Special watch category accounts – help the bank to take remedial measures either for reviving the unit or for timely exit.
- Training of operating level staff in detecting incipient sickness/ understanding alert signals.

Adesh Jain
Honorary President,
PMA, India,
former Independent
Director of NTPC Ltd.,
Honorary Chairman
of China Project
Management Committee

Risk and Project Management in the Banking Sector – an interview with Adesh Jain

What are the main challenges & concerns of ERM in banks?

ERM is a risk-based approach to managing an enterprise. It integrates concepts of

- Strategic planning,
- Operations management,
- Performance management
- and Internal governance and control.

So Banks will have to take a more holistic view considering Risks at different level of the organization which will go beyond the traditional financial risk considerations.

As you know, bank deals with the future and future is nothing but risky as well as uncertain. ERM is the backbone of the financial banking and insurance companies. Unfortunately, quite often, banks confine themselves to financial risks. The risks associated in lending money as a part of project of a customer is not done so scientifically that it often could have a good probability of becoming a non performing asset.

How does Enterprise Risk Management differ from traditional risk management in the financial sector?

Traditional risk management in Financial sectors are more concerned with risks at operational levels. Such as,

• Credit risk or the risk of default, that is that a borrower will fail to repay the principal borrowed and/or the interest on the amount borrowed
• Liquidity risk
• Interest rate risk. The risk of changing interest rates and the effect this has on the bank's margin between the borrowing and lending rate
• Market risk. The loss in the value of a portfolio of trading assets

ERM on the other hand looks at many other aspects. Such as, what is the risk involved if a bank's customer database is lost due to system malfunction? It looks at the 'whole' and builds part by part. It compels professionals to be on the ground floor and at the Balcony at the same time.

Do you think the process of implementing ERM is the same for every financial company or does it vary from firm to firm?

There are three levels of Strategic and Business Risks:
a) Macro Level (Strategic): threats originating from geopolitical and macroeconomic environment in which all businesses operate e.g. Global economic recession
b) Sector Level (Strategic and Business): Changes in the sector specific business environment e.g. Govt policy on Financial Sectors
c) Operational level (Business): Risks which affect day-to-day operational and project performance of the organization

The category of business risk are unique to the environment of a particular organization. Business risks will vary between organizations within an industry and between various industries ERM implementation will vary from Firm to Firm at Business or operational levels.

There are some models like COSO or ISO which could be taken as a standard and within it, we could evolve specific to a sector. This is quite innovative to do so.

Can you give an example of effective ERM applied in practice at various banks?

Almost all Banks have some form of risk management in place. Annual Report of various Banks mention their risk management activities. For example, in October 1999, the risk management function in ICICI Bank was reorganized and integrated into a distinct and independent Risk Management Department. The Risk Management Department works in close association with the business units to implement various risk management strategies and identifies, assesses, monitors and manages all major risks in accordance with well-defined policies, procedures and practices. Bank risk managers should have full appreciation of the essentials of project and programme management including portfolio management. Bank Risk Officers should be certified project managers as well based on demonstrating the competency based assessments. International project Management Association (IPMA) is the only federal structure based organization comprising of 57 countries from all the continents that have 4 levels of project management certification with heavy emphasis on risk management. China has 43% of the total certified project managers of the globe as it has placed heavy emphasis on competency based qualifications.

What is the role of the treasury and insurance in an ERM environment?

The treasury department or the corporate treasurer has responsibility for managing financial risk. Treasury is concerned with the relationship between the business and its financial stakeholders, which include shareholders, lenders and taxation authorities.

Insurance involves protection against hazards by taking out an insurance policy against an uncertain event. The premium cost will be influenced by the extent of risk management carried out by the insured in order to prevent or mitigate risks from eventuating such as fire prevention precautions

What role could professionals like Cost and Management Accountants play to develop sound ERM environment in your organization?

Cost overruns in project implementation is a major risk in successful project implementation. Cost management professionals can provide valuable inputs in terms cost estimation and cost control of a project. CMAs are very important in contributing to ERM. Cost related risks are very high in financial sector. CMA should also able to promote certification in cost engineering etc.

How effective has the Internal Auditors been in implementing ERM in banks?

It depends on the internal control and governance policies set forth by the Board of Directors and the top management. Internal auditors, most likely will have the task of investigating the fraud and should review the adequacy of internal controls.

The core internal auditing roles that relate to ERM are:
• Giving assurance on risk management processes.
• Giving assurance that risks are correctly evaluated.
• Evaluating risk management processes.
• Evaluating the reporting of key risks.

IN MY VIEW, THE ROLE OF GOVERNMENT IS TO CREATE FRIENDLY POLICIES IMPROVING THE CONFIDENCE LEVEL OF THE INVESTORS. INVESTORS MUST BE REASONABLY ENSURED TO GET HIS REASONABLE ROI AND THAT CAN HAPPEN IF THE PROJECT IS COMPLETED WITHIN THE STIPULATED TIME AND COST BUDGETS

• Reviewing the management of key risks.

Unfortunately, Auditors often do not have as much as necessary the exposure the finer aspects of project risk management as well as ERM concepts at a broad level. They should also be certified in project management.

In the advanced countries, banks have been rolling out project management around cost efficiencies and risk management, how far do you think the practice has been advanced in India ?

Indian Banks also do proper feasibility studies and due diligence before project financing. But project implementation in India is very complicated and risky due to various external factors such as Political, Social, Legal environment in which we work. Projects often are over budget and behind schedule.So the initial cost estimation often does not work. India needs to develop as a country the project mindset. For Nation's prosperity, project mindset is MUST. Project mindset in simple terms implies the 'holistic' thinking and planning First and then speedy implementation of its 'parts' to make the whole. Upfront planning is most necessary to be done based on realism in giving time and cost estimates keeping in view the necessary buffers for the risks associated. In today's context, there is no room for time and cost overruns. Mere one day delay of 600 MW Power Plant can be 10 crores. If you want to see the impact on the total economy including indirect benefit to industry to have well deserved energy, it could be 3 to 4 times i.e. the total loss could be of the magnitude of 30 to 40 crores just by delaying a power plant of 600 MW. If you go even a step further in computing the impact on the 'happiness factor' i.e. having one day of extra light in the midst of darkness in the rural areas, it could be significant. We the professionals have no reason what so ever to accept delays. The delays can only be acceptable if the force majeure conditions apply. We got to have 'fire in the belly' to complete projects. Our lack of due diligence at the project appraisal and planning stage and over optimism of overcoming all the hurdles etc. give rise to demoralization and tardy progress of projects in India. We have some successful stories and should able to replicate with simplified processes of approvals and good planning and risk management templates and mindset.

How different is project financing from traditional corporate lending?

Corporate Lending could be for day-to day operations for working capital and cash requirement. Operations are fundamentally less risky as future is not too uncertain.

Project Financing is much more risky due to the points mentioned above. In undertaking projects and in particular, the infrastructure and capital intensive, project financing is the backbone.

Post the global financial crisis, how do you see the project financing market in India, especially during an economic downturn?

I think current economic downturn is more linked with political uncertainty prevailing in the country at the moment. Ups and downs are always there in an economy. India fundamentally needs lot of investment in developing infrastructure and hence project financing is a must. However, one has to make sure successful implementation of these projects within specified Time and Cost by applying modern project and risk management techniques.

I once again lay emphasis on certification of risk managers and project managers with the world renowned IPMA 4 Level Certification. Unfortunately, today professionals have not understood the main difference in exam based certifi-

cation which some organizations in USA promote heavily to competency assessment based qualifications in which you do need to demonstrate the competencies in three distinct domains i.e. Technical, Behavioral and Contextual covering 46 elements. Exam based certification is like obtaining the drivers license where competencies assessment based qualifications is demonstrating the skills in driving in multi lane and multimode highway systems. There is lot of difference between the two. Exam based certification is just a base to build on.

The government has recognized the importance of infrastructure development as prerequisite catalyst of growth, what sort of support does it give banks to enhance project financing?
Government support should come by way of removing bureaucratic hurdles in regulatory clearance, resolving land acquisition issues etc.

If these external factors can be controlled more projects will be successful and therefore the risks will be mitigated.

In my view, the role of government is to create friendly policies improving the confidence level of the investors. Investors must be reasonably ensured to get his reasonable RoI and that can happen if the project is completed within the stipulated time and cost budgets. Delays make the projects go for six and all the financial calculations go haywire. PPP can only work if we have trust all around amongst all the players. Each player must have its share of profit making which is appropriate and reasonable for their efforts

Project financing involves complex & challenging transaction, especially in these days of economic downturn, there is more chance of the assets going bad, how do you thing professionals like the Cost & Management Accountants contribute and help you in his regard?
Cost Management and Project Management professionals can complement each other in terms proper financial feasibility analysis, Cost estimation and budgeting of a project.

In a way, cost management is one of the three legs of project management stool. Cost estimation itself is a big science. In India, as a whole, we lack certified cost engineers.

Growth remains contingent on upgrades & development to facilities across power, roads, rail, ports & social infrastructure, do you see project financing a huge area of the business in future?
Absolutely. No doubt about it.

In most of the developed countries, project financing has been carried out under the governments private finance initiative, how has the concept of Private Public Partnerships (PPP) featured in India in this regard?
The union government has estimated an investment of more than $300 billion in the infrastructure in the 10th plan. The major infrastructure development projects in Maharashtra (more than 50%) are based on the PPP model. In the 2000s, other states such Karnataka, Madhya Pradesh, Gujarat, Tamil Nadu also adopted this model.

Sector-wise, the road projects account for about 53.4% of the total projects in numbers, and 46% in terms of value. Ports come in the second place and account for 8% of the total projects (21% of the total value). Other sectors including power, irrigation, telecommunication, water supply, and airports have gained momentum through the PPP model.

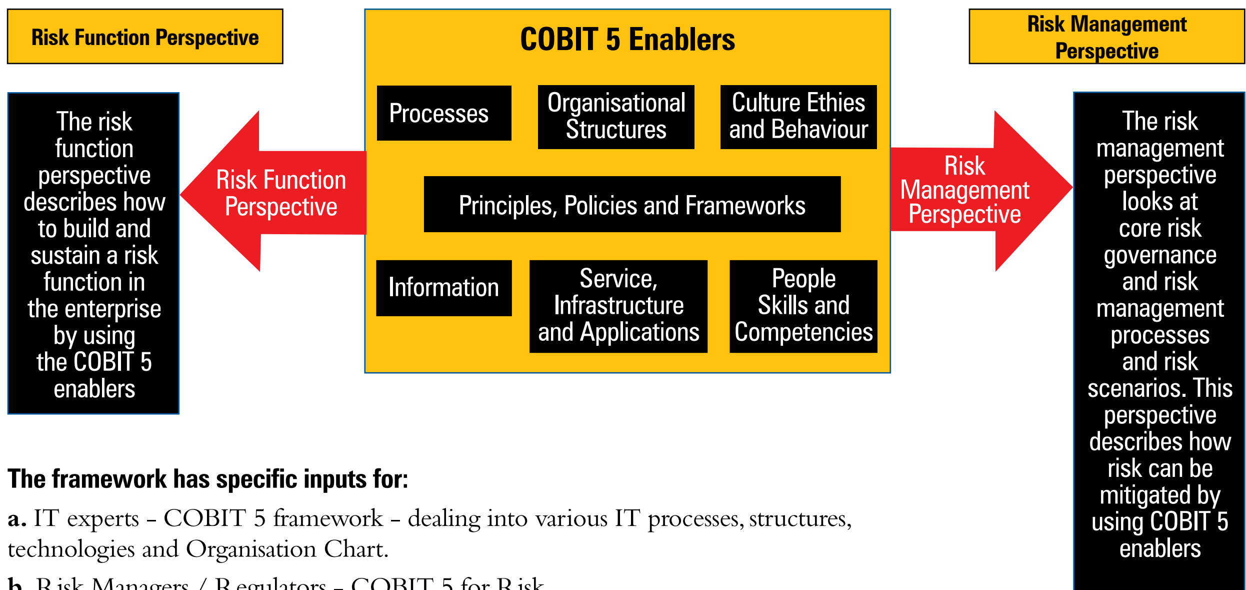
Recently at the opening of the 21st Global Symposium with the theme of 'Linking project mindset to nation's prosperity', Dr. Verrappa Moily addressed you as the 'Bhisma Pitamah' of project management. You are also the Honorary Chairman of China Project Management Committee besides Government of Turkey released postal stamp in 2010 for your contribution to project management, what suggestions you have for us in India!
I am a good student and always ready to acquire more knowledge to be applied in real life situations. Thank you for your recognizing some of my achievements. I am clear that India's progress in general in management of projects is far below the potential we have in terms of achieving excellence. We have some successful stories but those are exceptions and cannot be the rule of the profession. We must look at the big picture first and we can do so if the functional silos are demolished. The big picture is not by owned by a party or a group but owned by the majority of the stakeholders. It is the big picture which needs to paint gradually with quality built into it at every stroke of the brush. We must understand clearly that delaying decisions could be due to lack of boldness or belief or could be partly impacted by politics. In any case, decision deficit would not able to create the future which we all want to have. Risk management is the key. Future is unknown and we must be prepared to go wrong in our decisions inspite of taking all the factors in account. We need to build self confidence in stating where we went wrong and for what reasons. Learning from our mistakes could be the most beneficial asset entry in our balance sheet of 'Corporate Competiveness'. We must be transparent to our actions and in our thoughts. We must replace the last element of hidden agenda with transparency. Intellectual Integrity is the Ultimate in building effective teams and that is what we need more of that in India to be a role model for other countries and to serve our own huge number of stakeholders with smiles on their faces. MA

USE OF COBIT 5 BUSINESS FRAMEWORK FOR RISK MANAGEMENT

S. V. Sunder Krishnan
Chairman – ISACA India Task Force and Advisor – ISACA Mumbai chapter
Mr Krishnan is also the Chief Risk Officer of Reliance Life Insurance

ISACA (Information Systems Audit Control Association) International has launched a Business oriented framework called as COBIT 5 framework. This is master of all and forms an umbrella framework over all other frameworks such as VAL IT, RISK IT, Governance of Enterprise IT and the like. COBIT 5 provides a comprehensive framework that assists enterprises to achieve their goals and deliver value through effective governance and management of enterprise IT.

The framework has two perspectives



The framework has specific inputs for:

a. IT experts – COBIT 5 framework – dealing into various IT processes, structures, technologies and Organisation Chart.

b. Risk Managers / Regulators – COBIT 5 for Risk

c. Governance specialists / Government and Regulators – COBIT 5 for GRC

d. Assurance Specialists (Auditors and Certifying bodies) – COBIT 5 for Assurance

The framework lays down the following seven enabling auspices

a. Principles, Policies and Frameworks

b. Processes

c. Organizational Structures

d. Culture, Ethics and Behaviour

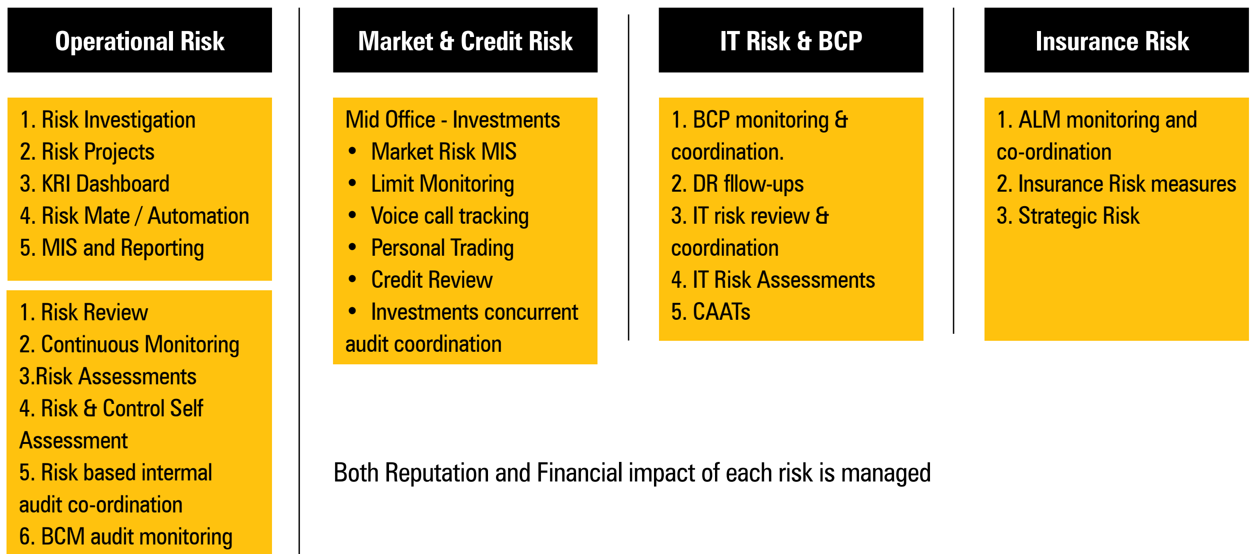
e. Information

f. Services, Infrastructure and Applications

g. Peoples, Skills and Competencies

ISACA has also provided a mapping document to enable enterprises that have already implemented other frameworks like COSO, GRC, ISO 32001 to easily adopt COBIT 5.

Given below is a typical Risk Management Structure of an Insurance Company



Given below are the building blocks of an Enterprise Risk Management System

Risk Management - The Building Block

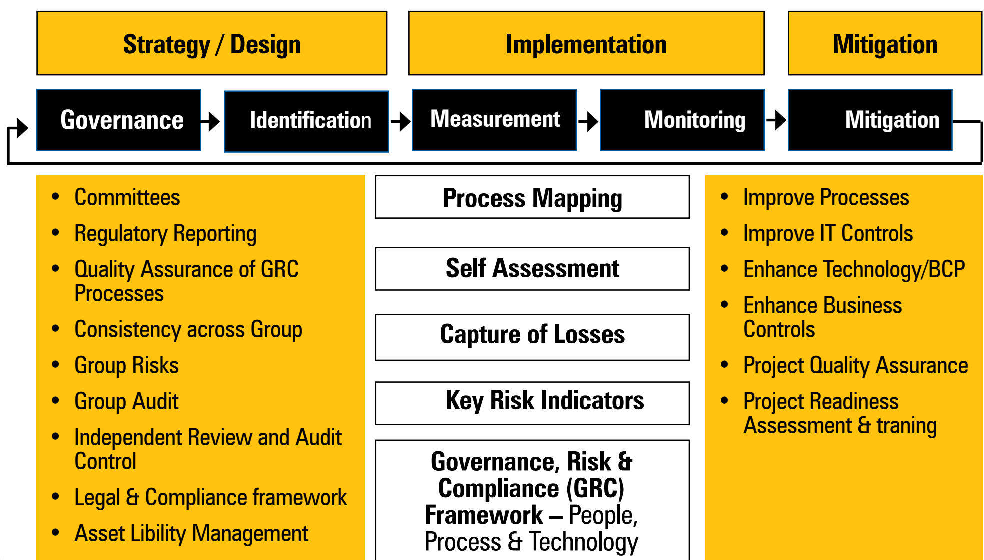
Governance: Establishment of policies and the definition of the framework to implement these policies

Identification: Stipulation and documentation of risk exposure along process and project lines

Measurement: Qualification and quantification of risk and loss in financial value and quality

Monitoring: Identification tracking and control of risk events and resolution thereof

Mitigation: Proactive management of risk exposure



Maturity path of aligning IT security and risk management to business risk management

COBIT 5 framework provides a golden opportunity for Business - IT professionals to evolve and mature in large Organizations to the main business stream. With a help of applications such as IT GRC and / or smart work flow applications COBIT 5 could be easily implemented to reap the benefits. The Board of the above enterprises would now be in a position to deep dive into the world of IT Risk Management and IT Security with the help of business friendly IT risk dashboards.

Simple Risk Management Questions answered by COBIT 5 (where to find guidance)

a. What is Risk?

Section 1 of COBIT 5 Framework defines risk, and describes briefly how the COBIT 5 principles can be applied to risk management-specific needs.

b. How do the COBIT 5 enablers relate to providing risk management?

In general, two perspectives on how to use COBIT 5 in a risk context can be identified:

• ***The risk function perspective***

Describes what is needed in an enterprise to build and sustain efficient and effective core risk governance and management activities

• ***The risk management perspective***

Describes how the core risk management process of identifying, analyzing and responding to risk, can be assisted by the COBIT 5 enablers

These perspectives are introduced in section 1.3.1.

c. How do I set up an efficient Risk Function? What is the Risk Function perspective?

Section 2A provides guidance on what is needed to set up and maintain an effective and efficient risk function. It does so by listing and briefly describing the COBIT 5 enablers required, e.g., processes, organisational structures, culture, ethics and behaviour. Putting these enablers in place will result in a performance risk function adding value for the enterprise.

Appendix B includes detailed descriptions for each enabler listed in section 2A.

d. How does Risk Related to COBIT 5 Principles?

Risk is defined as the potential of enterprise objectives not being achieved or as any opportunity that can enhance enterprise objectives. Maintaining an optimal risk level is one of the three components of the overall value creation objectives of an enterprise, which in turn is supported by the five COBIT 5 principles.

e. What are the key aspects from Risk Management in practice?

Key components of practical risk management are the risk scenarios. In section 2B, risk scenarios and all related topics are explained.

f. Are there any practical examples on Risk Scenarios and how to address them?

Yes. Section 2B, chapter 4 contains a comprehensive list of example IT-related risk scenarios. The section also contains some practical advice on how to best use these example scenarios. In appendix D, a set of detailed examples is given on how risk scenarios from each category can be mitigated by using a combination of COBIT 5 enablers.

g. How does COBIT 5 for risk help me in responding to Risk?

COBIT 5 for Risk makes the link between risk scenarios and an appropriate response. If the response of choice is "mitigate", COBIT 5 contains a wealth of 'controls'—enablers in COBIT 5 terminology—that can be put in place to respond to the risk. Appendix D contains a comprehensive set of examples on how that can be done in practice.

h. Does COBIT 5 align with Risk Management Standards?

Yes. A detailed comparison, in the form of a mapping or qualitative description, is included in section 3.

These are the standards discussed in this section: ISO 31000, ISO/EC 27005, COSO, ERM and ISO Guide 73. *(please refer to www.isaca.org for further guidance on various risk analysis methods)* MA

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Notification

It is hereby notified vide Notification Nos. 18-CWR (3604-3634)/2013 dated 25th October 2013, 18-CWR (3635-3674)/2013 dated 28th October 2013, 18-CWR (3675-3694)/2013 dated 29th October 2013, 18-CWR (3695-3714)/2013 dated 7th November 2013, 18-CWR (3715-3736)/2013 dated 11th November, 18-CWR 2013 (3737-3754)/2013 dated 13th November 2013, 18-CWR (3755 – 3804)/2013 dated 15th November 2013, 18-CWR (3805 – 3838)/2013, 18-CWR (3839 – 3871)/ 2013 dated 19th November 2013, 18-CWR (3872 – 3906)/2013 dated 20th November 2013, 18-CWR (3907 – 3955)/2013 dated 21st November 2013, 18-CWR (3956 – 4004) dated 22nd November 2013, 18-CWR (4005 – 4050)/2013 dated 25th November 2013 and 18-CWR (4051 – 4083) dated 26th November 2013 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of members, details of which are uploaded on the Institute's website www.icmai.in

THE MANAGEMENT ACCOUNTANT STUDY ON INDIA'S COST EFFICIENT BANKS 2013

26 public sector banks and 20 private sector banks in India operating in 2011-12 and 2012-13 were selected for the study

The present research study makes an effort to rank Indian domestic commercial banks on the basis of cost efficiency. Cost efficiency may be achieved when a firm finds a combination of inputs that is processed to produce the desired outputs at the minimum cost. It may be defined as the ratio of minimum costs to actual costs for a given output vector computed by measuring the distance of its observed (cost) point from an idealised cost frontier (Sinha et al, 2013). We measure cost efficiency of each of the select Indian public and private sector banks for the year 2011-12 and 2012-13 using a very popular and relevant methodology of "Data Envelopment Analysis (DEA)" technique.

Methodology in detail

Data Envelopment Analysis (DEA)

DEA is a linear programming based technique for measuring relative efficiencies of a homogenous set of decision making units (DMUs) in the presence of multiple input and output factors. DEA technique was inroduced by Charnes *et al*, in the year 1978 in the operation research.

DEA at a glance

- DEA constructs an efficient frontier by yielding a piece-wise linear production surface i.e., identifying best practice DMU(s) from the identical inputs and outputs data set available from the DMUs under evaluation.
- Frontier defines multiple inputs and multiple outputs productivity
- Frontier defines the (observed) efficient trade-off among inputs and outputs within a set of DMUs.
- Relative distance to the frontier defines efficiency.
- DMUs on the frontier are efficient and DMUs off the frontier are inefficient.
- Nearest point on frontier defines an efficient hypothetical DMU of the inefficient DMUs.

Strengths of DEA model

- DEA produces a single score for each unit rather than population average, which makes the comparison easy. DMUs are directly compared against a peer or combination of peers.
- Its main strength lies in its ability to handle multiple inputs and outputs situation effectively i.e. to capture the multidimensional nature (of inputs/outputs) in the production process which is the prevalent characteristics of many units under evaluation.
- It places no restrictions on the functional form of the production relationship. That is it doesn't require an assumption of a functional form relating inputs to outputs.
- DEA modelling allows the analyst to select inputs and outputs in accordance with a managerial focus.
- Furthermore, the technique works with variables of different units (units invariance) without the need for standardization. There is as such no limit to the number of inputs and outputs. This is not possible through traditional ratio analysis.
- There is no requirement for any a priori views or in-

Box 1	
Input Variables	**Output Variables**
1. Fixed Assets as Physical Capital 2. Number of employees as Labour 3. Loanable Fund (Deposits + Borrowings) Prices of Inputs: 1. Price of Physical Capital = (Rent, taxes, lighting + Printing and Stationary + Depreciation on Bank's property + Repairs and maintenance + Insurance) / Fixed Assets 2. Price of Labour = Payment to and provisions for employees / No. of Employees 3. Price of Loanable Fund = (Interest on deposit + Interest on Borrowing) / Loanable Fund	1. Interest Income 2. Non-interest Income

Table1:Cost-based Efficiency Scores and Ranking of Public Sector Banks

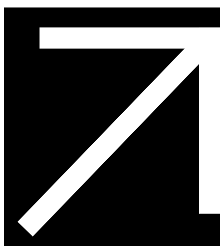
SL No	Banks	2013		2012	
		Score	Rank	Score	Rank
1	Punjab National Bank	1	1	0.999	3
2	State Bank of India	1	2	1	2
3	Bank of Baroda	0.998	3	1	1
4	State Bank of Bikaner & Jaipur	0.983	4	0.971	6
5	UCO Bank	0.975	5	0.931	17
6	State Bank of Hyderabad	0.974	6	0.959	9
7	State Bank of Mysore	0.973	7	0.933	16
8	Bank of India	0.971	8	0.938	13
9	Syndicate Bank	0.967	9	0.965	8
10	Union Bank of India	0.965	10	0.957	10
11	Andhra Bank	0.964	11	0.986	5
12	Bank of Maharashtra	0.962	12	0.936	14
13	Indian Bank	0.956	13	0.998	4
14	Dena Bank	0.953	14	0.955	11
15	United Bank of India	0.949	15	0.95	12
16	Oriental Bank of Commerce	0.946	16	0.929	18
17	IDBI Bank Ltd.	0.942	17	0.896	24
18	Allahabad Bank	0.936	18	0.97	7
19	Corporation Bank	0.934	19	0.923	19
20	State Bank of Patiala	0.925	20	0.936	15
21	Indian Overseas Bank	0.916	21	0.911	20
22	State Bank of Travancore	0.914	22	0.908	21
23	Canara Bank	0.905	23	0.9	22
24	Central Bank of India	0.9	24	0.884	25
25	Punjab and Sind Bank	0.893	25	0.858	26
26	Vijaya Bank	0.89	26	0.898	23

Table2: Cost-based Efficiency Scores and Ranking of Private Sector Banks

Sl No	Banks	2013		2012	
		Score	Rank	Score	Rank
1	HDFC Bank	1	1	1	1
2	Axis Bank	1	2	1	2
3	Jammu & Kashmir Bank	0.985	3	0.985	3
4	Tamilnad Mercantile Bank	0.946	4	0.925	6
5	ICICI Bank	0.944	5	0.913	8
6	Nainital Bank	0.932	6	0.97	4
7	Kotak Mahindra Bank	0.926	7	0.917	7
8	Federal Bank	0.893	8	0.942	5
9	IndusInd Bank	0.891	9	0.894	10
10	City Union Bank	0.881	10	0.896	9
11	Yes Bank	0.878	11	0.871	13
12	Karur Vysya Bank	0.87	12	0.886	11
13	South Indian Bank	0.869	13	0.867	14
14	ING Vysya Bank	0.838	14	0.815	17
15	Karnataka Bank	0.829	15	0.819	16
16	Ratnakar Bank	0.816	16	0.879	12
17	Development Credit Bank	0.815	17	0.791	18
18	Lakshmi Vilas Bank	0.813	18	0.831	15
19	Catholic Syrian Bank	0.771	19	0.775	19
20	Dhanlaxmi Bank	0.742	20	0.685	20

formation regarding the assessment of the efficiency of DMUs. The weights for outputs and inputs are obtained by calculating the DEA models, rather than being given artificially.

- Another advantage of DEA that attracts analysts and management is its ability to identify the potential improve-



EFFICIENCIES WERE ESTIMATED CONSIDERING TWO SEPARATE SAMPLES OF PUBLIC AND PRIVATE BANKS FOR GIVING MORE EMPHASIS ON THE CRITERIA OF HOMOGENEITY CONDITION

ment for inefficient units by providing both the sources and the amount of inefficiency.
- One could not only arrive at a conclusion about the technology efficiency, but also calculate the economic efficiency, allocative efficiency and pure technology efficiency, which makes it possible to conduct a comprehensive evaluation and should be regarded as a comprehensive assessment index of achievements.

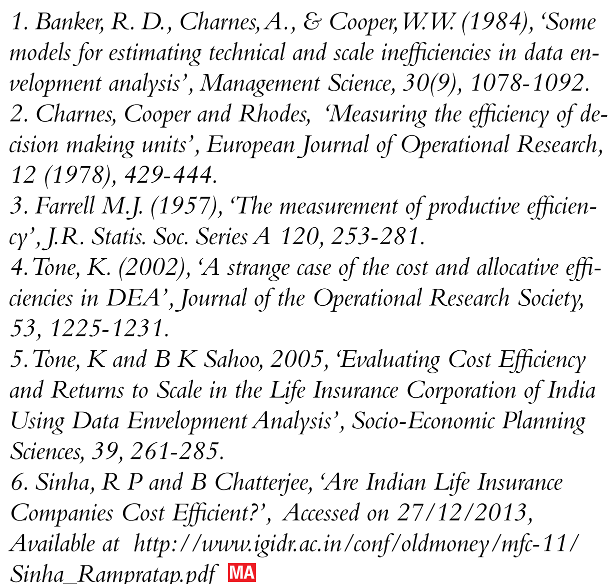
Selection of Input and Output Variables
The most challenging task to the researchers for estimating efficiency of banks through DEA methodology is to select appropriate and relevant inputs and outputs. The choice of inputs and outputs largely affects the derived efficiency level. In the context of banking efficiency measurement, there are mainly two approaches to deal with this problem: Production Approach and Intermediation Approach. The main difference between these two approaches is the use of deposit as input or output. Berger and Humphrey (1997) suggested that intermediation approach is best suited for analyzing bank level efficiency where production approach for branch level efficiency. Hence, the present study adopts Intermediation Approach for selecting input and output variables for estimating bank level cost efficiency.

All the variables are measured in values (rupees in millions) except Number of Employees in actual number.

Sample banks
The present study selects 26 public sector banks and 20 private sector banks in India operating in 2011-12 and 2012-13. Efficiencies are estimated considering two separate samples of public and private banks for giving more emphasis on the criteria of homogeneity condition.

Data source
All the data are annual and secondary in nature. Annual bank level data are obtained from the published annual accounts (Balance Sheet and P&L Account) in Annual Reports of the individual banks, collected mainly from the 'Statistical Tables relating to Banks in India' and 'Report on Trend and Progress of Banks in India' available on the official website of Reserve Bank of India (http://rbi.org.in).

How the banks are ranked
Estimated cost efficiency scores clearly distingush the select banks into two groups viz. Efficient banks having score equal to 1 and inefficienct banks having score less than 1. It is not a problem for ranking of inefficient banks as because of their different scores. For ranking of efficient ones we follow their frequency count in refrence set.The DMUs (here banks) which provide the best practice of input utilization form a reference set of the inefficient one/ ones are called "Peer DMUs". Magnitude of frequency in reference sets measures the extent of robustness of efficient banks relative to other efficient banks. In other words, higher the frequency the more robust it is. Here, efficiency scores are measured using the new cost efficiency approach suggested by Tone (2002).



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The research study was conducted by Dr. Debaprosanna Nandy, Director (Research & Journal), The Institute of Cost Accountants of India, Dr. Manas Kr. Baidya, Malda College, Malda and the Research team of the Institute.

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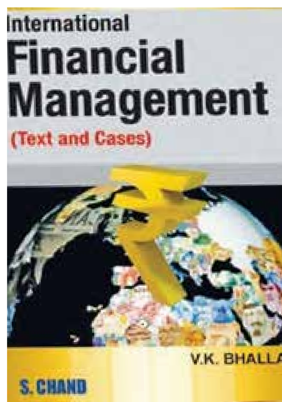
Well written with international financing exposure in diversified areas



International Financial Management
(Text and Cases) By V. K. Vhalla (ISBN 81-219-4291-8)
S. Chand Publishing, New Delhi 1st Edn. (2014)
Pages 1073, Price Rs.800

The financial globalisation is a vehicle for economic growth and development. The globe's financial markets and capital markets have practised a remarkable augment in globalisation in recent past. The speediest increase has been qualified by advance economies, but emerging markets and developing countries have also become more financially incorporated worldwide. The new millennium is likely to pose new challenges for the international financial managers as the demand for investment capital for the new entrants into the international market economy is growing.

This book is the first all-inclusive prized edition and well written text book with international financing exposure in diversified areas in international business both at macro and micro level. The volume is divided into 41 Chapters under 6 Parts with a rational approach. The book discusses the various aspects of international financial management with text and the problems and also incorporates some case studies for better understanding of the concept.

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Finally, the book also incorporates glossary of important terms, a complete bibliography and suggested readings highlights the efforts undertaken in compiling this magnum composition.

Hope this valued edition which is intended for the under graduate and post graduate students of Business Administration and Business Economics including professional courses will benefit even researchers, scholars, faculties and executives in corporate houses all over the country and abroad. MA

Dr. Parimal Kr. Sen, Associate Professor (WBES)
Goenka College of Commerce & Business Administration, Kolkata
parimalsen123@gmail.com

Notice
CD of List of Members, 2013 will be made available for sale to the Members at a price of Rs.100/- per copy. Members interested to procure the same may remit Rs.100/- by Demand Draft in favour of "The Institute of Cost Accountants of India", payable at Kolkata, addressed to the Secretary, The Institute of Cost Accountants of India.

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

55th National Cost Convention-2014

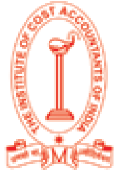
Venue : Hotel Mayfair Lagoon, Bhubaneswar(Odisha)

Theme :

Nation Building through Cost Competitiveness and Responsible Governance

on 23rd-24th February, 2014 at Bhubaneswar (Odisha)

Behind Every Successful Business Decision, There is Always a CMA



The Institute of Cost Accountants of India

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55th National Cost Convention - 2014

Theme : Nation Building through Cost Competitiveness and Responsible Governance

Dear Sir/Madam,

The term competitiveness is interpreted in many ways aimed at the sustainability and growth of any business entity, be it in technology, quality, business process, market share or customer orientation. Cost competitiveness subsumes all of those as it examines the long-term growth and sustainability of the business model. It takes into account the business, economic, legal, governance and ethical environment of the business.

The drive to emerge as a winner by any means has entangled many a corporate into scams which have been result of unbridled greed for short term wealth generation, sacrificing the governance and control aspects at its alter. This has resulted in Government, Regulators and Professional Institutes stepping in to stem the tide and introduce tight legislation and stricter control, which add to compliance costs, but are essential for protecting the public interest.

As Cost and Management Accountants it is vital for the profession, to build the cost competitiveness on a solid foundation built on responsible governance as envisaged in the Companies Act, 2013. Although we CMAs are "behind every successful business decision", it is imperative for us to have a 360 degree vision to ensure that the governance and ethical best practices are kept sight of, while inculcating cost competitiveness. The 55th National Cost Convention -2014, delves into these aspects, which have become key pillars of capacity building for CMA professionals.

The various sessions have been designed with those aspects in view, starting with the Companies Act, 2013, dealing mainly with radical changes in legal, governance and ethical environment, the focus on MSMEs which deals with the current reality of their humungous contribution to the economy and employment and services sector which accounts for a significant proportion of the country's GDP, the internal audit taking the hue of operational and management audit, tough provisions for auditors, and a new orientation to the Cost Audit, effective tax and Government expenditure monitoring mechanism as an enabler of investment and growth.

Each convention brings an element of fresh thinking and ideas for taking the profession forward in the face of new opportunities and threats. This convention is no different.

Looking forward for your co-operation and active participation & wishing you a very prosperous and eventful New Year 2014.

Thanking You

With best regards

CMA Dr. A. S. Durga Prasad
Chairman
Convention Committee

CMA Chitra Agarwal
Co-Chairperson
Convention Committee

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Programme Schedule

DAY 1 : 23rd February,2014 (Sunday)

Time	Session	Topic
08:30 a.m. to 09:30 a.m.	**Registration**	
09:30 a.m. to 11:00 a.m	**Inaugural Session**	
11:00 a.m. to 11:30 a.m.	**Tea Break**	
11:30 a.m. to 01:00 pm	**Plenary Session**	: Cost Competitiveness for Inclusive Growth (CEO Forum)
01:00 p.m. to 02:00 p.m.	**Lunch Break**	
02:00 p.m. to 03:30 p.m.	**Technical Session I**	: Transition from Regulatory to Affirmative Corporate Action
03:30 p.m. to 04:00 p.m.	**Tea Break**	
04:00 p.m. to 05:30 p.m.	**Technical Session II**	: Professional Perspective – Response to the Emerging Challenges and Opportunities
7:30 p.m. to 10:00 p.m.	Cultural Programme followed by Convention Dinner	

DAY 2 : 24th February,2014 (Monday)

Time	Session	Topic
09:30a.m. to 11:00 a.m.	**Technical Session III**	: Energizing MSMEs for Sustained Economic Development
11:00 a.m. to 11:30 a.m.	**Tea Break**	
11:30 a.m. to 01:00 p.m.	**Technical Session IV**	: Government Perspective – Tax & Expenditure Management
01:00 p.m. to 02:00 p.m.	**Lunch Break**	
02:00 p.m. to 03:30 p.m.	**Technical Session V**	: Service Sector as a Key Enabler for Sustainable Growth
03:30 p.m. to 04:30 p.m.	**Valedictory Session**	: CMA Growth Perspective (CFO Forum)

Venue : Hotel Mayfair Lagoon, Jaydev Vihar, Bhubaneswar-751013 (Odisha)
Phone : +91 674 666 0101

Contact Details

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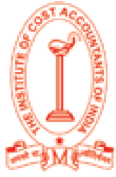

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55th National Cost Convention - 2014

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55th National Cost Convention - 2014

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Dear Sir/Madam,

We invite you/ your company to register / sponsor delegates for the 55th National Cost Convention 2014 to be held on 23rd and 24th February, 2014 at Hotel Mayfair Lagoon, Bhubaneswar, Odisha in association with the Eastern India Regional Council and Cuttack-Bhubaneswar Chapter of Cost Accountants.

Participants

Corporate Directors, CFOs, Cost and Management Accountants and other Senior Management Executives in the Corporate Sector, Practicing Professionals in Secretarial, Financial, Legal and Management Discipline, Researchers, and Academicians who would benefit from participation in the Convention.

DELEGATE FEE

Particulars	Fees(₹)
Corporate Delegates	5,500
Members	4,500
Cost Accountant-in-Practice	3,500
Student	2,500
Spouse	2,500
Foreign Delegates	US $ 200

The entire fee is payable in advance and is not refundable once the nomination is received. The Delegate Registration Form duly filled in along with delegate fees may please be sent to:

The Chairman,
Delegate Committee,
The Institute of Cost Accountant of India
3, Institutional Area, Lodhi Road,New Delhi-110003

Thanking You,

Yours Sincerely,

CMA Manas Kumar Thakur
Chairman
Delegate Committee

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The Cheque / Demand Draft to be drawn in favour of "ICAI-55th National Cost Convention 2014" payable at New Delhi. Details for NEFT Payment : Punjab National Bank, Lodhi Road, New Delhi-110003

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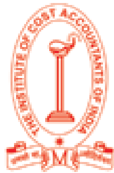

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

55th National Cost Convention - 2014

ADVERTISEMENT TARIFF FOR SOUVENIR

Dear Sir/Madam,

The Institute of Cost Accountants of India, established under an Act of Parliament is the premier professional body imparting Education, training and propagating Cost and Management Accountancy in India and abroad. There are over 64,000 members in Service and Practice. The members in service with Government, Public and Private Sectors, are occupying high positions like Chairman & Managing Directors, CEOs, CFOs and so on.

We are proud to inform you that the 55th National Cost Convention-2014 is being organized by the Institute of Cost Accountants of India in association with the Eastern India Regional Council and Cuttack-Bhubaneswar Chapter of Cost Accountants.

The theme of the Convention is **"NATION BUILDING THROUGH COST COMPETITIVENESS AND RESPONSIBLE GOVERNANCE".** The convention is scheduled for 23rd and 24th February, 2014 at Hotel Mayfair Lagoon, Bhubaneshwar (Odisha). This mega Convention will be attended by a large number of delegates from India and abroad. On the occasion of this Convention, the committee has decided to bring out a Souvenir which will be released in the Valedictory Session. The Convention of this nature can be success only with your support in the form of Advertisements.

We request you to participate in this mega convention by releasing an advertisement in the souvenir. A souvenir Advertisement form is enclosed.

Looking forward to your kind co-operation and active participation.

Thanking you,

Yours Sincerely

CMA Dr. Sanjiban Bandyopadhyaya
Chairman
Souvenir Committee

Advertisement Space	Size	Tariff (₹)
Back Cover	18 cm x 24 cm	75,000
Front Inside Cover	18 cm x 24 cm	50,000
Back Inside Cover	18 cm x 24 cm	50,000
Center Spread (Colour)	18 cm x 24 cm	25,000
Special Full Page (Colour)	18 cm x 24 cm	20,000
Ordinary Full Page	18 cm x 24 cm	15,000
Ordinary Half Page	18 cm x 24 cm	10,000

For enquiry and further details, please contact at

- **The Institute of Cost Accountants of India,** CMA Bhawan 12, Sudder Street, Kolkata-700016
  Phone : +91 33-22521031-34-35, Fax No. +91 33-22527993, Mobile : +91 90516 15252
- **Delhi Office,** CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi-110003
  Phone : +91 11-24622156-58, 24666100, Fax No. +91 11-24666 166, Mobile : +91 93133 75254
- **Eastern India Regional Council :** CMA Bhawan 84, Harish Mukherjee Road, Kolkata-700025
  Phone : +91 33-24553418/5957, Fax No. +91 33-24557920, Mobile : +91 98364 46669
- **Cuttack -Bhubaneswar Chapter :** A-122/2, Nilakantha Nagar, Nayapalli, Bhubaneswar -751012
  Phone : +91 674-2396622/2395622, Fax No. +91 674-23956622, Mobile : +91 97789 40481

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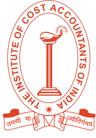


THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

Brochure of IS Audit and Control

The Vision

CMAs are preferred finance professionals who provide the financial leadership in enterprises across the globe.

One of the objectives of the institute is "To develop the professional body of members and equip them fully to discharge their functions and fulfil the objectives of the Institute in the context of providing financial leadership of enterprises globally."

The Institute constantly endeavours to enable its members upgrade their competencies and skills to provide management accountancy services to commercial and not-for-profit enterprises to enable them to adequately address new challenges in a dynamic environment in which they operate.

IS Audit and Control

The Programme

This is a Certification programme of the Institute. The Programme adopts the curriculum of ISACA and seeks their help in choosing the right faculty and examiners. ISACA (International Systems Audit and Control Association) - is an international professional association focused on IS Audit, IS Security, IT Governance and IT Risk Management.

Raison d'être of the Programme: Post liberalization, India has chosen the path of market-driven economy. The way of doing business has undergone a paradigm change, thanks to the technological changes, and constantly changing the customers' aspirations, geographical boundaries, and regulatory environment.

The Revolution in the realm of computing has brought in its wake, speed, flexibility and mobility. Along with the Risk of losing, stealing, and manipulating the precious data has increased by many times.In the days of click and portal, the emphasis is on online transactions, divorcing in a large way, the pen and paper mode. These developments no doubt have susceptibilities and it is a constant challenge for an Auditor to overcome and ensure protection of the business interests of the Auditor and the client.

The above revolution has posed serious challenges to Accountants and Audit professionals. Today's business enterprises are totally automated with very few manual dependencies. Processes and controls are in-built in modern technologies and therefore need to be reviewed with a fresh perspective by using latest tools and techniques.

The Programme aims to build capabilities among the members of the Institute to take those challenges and to handle challenges in auditing in an IT environment using IT tools.

ISACA

ISACA, is a non-profit global association that was formed, and continues to exist today, to meet the unique and diverse technology needs of the continually developing IT field. In an industry in which change is constant, ISACA has moved with agility and speed to bridge the needs of the international business community and the IT control community

The Curriculum

The Institute has adopted the ISACA Model curriculum for IS audit and control (3rd edition).

The topics covered by the model are grouped into five content domains. These domains are divided into major topic areas, and subtopics are provided within each topic area, along with the number of contact hours needed to adequately cover the topic, which total **250** hours. The Domains are:

- The Process of auditing information systems
- Governance and management of IT
- Information systems acquisition, development and implementation
- Information systems operations, maintenance and support
- Protection of information assets

Benefits to Members: The ISACA model curriculum entitles the programme to be posted on the ISACA web site, and graduates of the programme shall qualify for one year of work experience toward the CISA certification. ICAI members would be entitled to two years of further credit. Therefore, of the total requirement of five years of work experience in the IS Audit Domain, members successfully undergoing this course would need only two more years of relevant experience. The course curriculum would give them the required technical impetus and exposure to successfully complete the remaining two years of training requirement.

It is envisioned that the contact hours would typically be in some type of classroom, but the model is designed so that the contact could be accomplished through other education delivery methods, including distance learning programs.

Duration

One Year

Pedagogy

Self learning mode in the form of periodical contact sessions and web based learning through webinars

Scheme of Evaluation:

Since the course requires a dedicated and disciplined approach, the evaluation is being carried on periodically and topic wise. The IT tools will be used. Weekly test are being contemplated as part of continuous evaluation

Examination

With duration of six months, examinations will be conducted twice in a year. Examinations will be conducted by the Examination Department of the Institute.

The Pattern of Examination

The Question Paper will be Objective with multiple choice questions.

The Eligibility Criteria

Only members of the Institute are eligible for registration for the programme.

Registration Process

Registration will be online and the link will be provided to applicants. For registrations please visit the Institute's web site www.icmai.in

Fee

Rs.20,000 (Twenty thousand rupees only). The fee does not include examination fee and the cost of course material, if any.

Eastern India Regional Council

The Region had organised members' meet on November 30, 2013 & December 7, 2013 to discuss issues related to CMA profession. It had also organised a member's programme on Project Finance & Appraisal. Mr Manoj Parida & Shri Debasish Chatterjee deliberated on various issues of project financing and the criteria have to be fulfilled for sanction of a project.

The region had participated in career fair entitled 'Career for you' organised by M.C. Kejriwal Vidyapeeth, Liluah. A team comprising of CMA P.K. Sikdar with other officials of the region visited the fair to share the relevance of cost as a subject and the prospects of career option of CMA to the students. On December 9, 2013 organised a career counselling programme at Barrackpore Rastraguru Surendranath College where CMA Bibekananda Mukhopadhya & CMA Chiranjib Das shared the prospect of CMA Profession to the students.

Cuttack-Bhubaneswar Chapter of Cost Accountants

The Chapter had organized a panel discussion on draft Companies Cost Records and Cost Audit Rules, 2013 on November 24, 2013. CMA S.C. Mohanty, President of the Institute addressed the gathering on the occasion. He highlighted in detail the changes made in the draft Companies Cost Records and Cost Audit Rules, 2013 issued by the Ministry of Corporate Affairs and sought suggestions from the Practicing Cost Accountants and other members present in the panel discussion. CMA C.K. Biswal, Chairman, coaching committee, CMA S.B. Samal, Chairman, PD, were among the dignitaries who also addressed the occasion. The practicing cost accountants, members and managing committee members had made a detailed discussion and also expressed their dissatisfaction on the changes made in the draft Companies Cost Records and Cost Audit Rules, 2013 and would intimate their valuable suggestions/views and reaction to the Ministry of Corporate Affairs for the benefit and betterment of both the profession and professionals.

Southern India Regional Council

Hyderabad Chapter of Cost Accountants

The Chapter organized a seminar on the New Companies Act 2013 and Draft Rules on October 4, 2013. The programme held throughout the day aimed at initiating the basic understanding of the new act. It also highlighted all important changes relating to provisions and made detailed analysis on selected subjects important to finance professionals. Dr. CMA A.S Durga Prasad, Vice President of the Institute delivered the inaugural address and Shri V.M.V Nawal Kishore, Director, office of the Principal Director of Commercial Audit & Ex-officio member of Audit Board, Hyderabad was the chief guest of the seminar. The Chapter organized an industrial trip on October 19, 2013 to Usha International Limited, Hyderabad, a Siddharth Shriram Group company, which is

one of India's leading consumer durable manufacturing & marketing companies. Member and Faculty at the chapter, CMA Chandra Sekhar coordinated the trip. Since Usha International has an enviable distribution network spread across the length and breadth of the country, the students were fortunate to get an overview of the same. On the same day, the Chapter organized a programme on 'Success Story of Hyderabad Metro Rail Project' which was facilitated by CMA D Surya Prakasam, General Manager (F&A), Hyderabad Metro Rail Ltd and also Managing Committee member of the Chapter. A workshop on 'Case Analysis and Case Writing for Executives' was held on October 27, 2013. Prof. K.V. Achalapathi, Department of Commerce, Osmania University and Asst. Prof. Dr. A. Patrik were the speakers of the workshop. On 22nd, 28th & 29th of October, 2013 the Chapter organized several interactive sessions to collect the suggestions and comments on 1st, 2nd & 3rd tranche of Draft Rules under the Companies Act, 2013 by CMA Dr. P.V.S. Jagan Mohan Rao, Central Council Member, of the Institute. These various investor awareness programmes were conducted by the Chapters in different institutes and colleges on different dates of November and December, 2013, which were attended by several practicing cost accountants who delivered their valuable lectures on various topics. On November 16, 2013, CMA N. Krishnan delivered a brief speech on CAS - 4, i.e. Cost of Production for Captive Consumption which according to him is one of the remunerative areas for Cost and Management Accountants. On November 23, 2013 a career counseling programme was conducted by the Chapter at Indian Institute of Management & Commerce, Kairtabad where CMA A. Vijay Kiran, Secretary & Chairman-Coaching Administration briefly explained about the institutes' courses to the students. An emergency meeting was conducted by the Chapter on November 24, 2013 for all the practitioners where it has been elaborated on new Draft Rules on Cost Accounting and Cost Audit Rules 2013 notified by the Ministry of Corporate Affairs since it drastically reduced the scope for cost audit and cost compliance. CMA D.L.S. Sreshti, Central Council Member of the Institute presided over the meeting. The Vice President of the Institute, CMA Dr. A.S. Durga Prasad had discussed with the action plan members were advised to send their feedback on the new rules in large numbers.

Coimbatore Chapter of Cost Accountants

A PDP meeting on 'Entrepreneurial Success' was conducted on November 8, 2013 by the chapter. Dr. G. Loganathan, proprietor, the Imperial Textiles Buying House, Tirupur shared his valuable experiences with the members of the chapter. On November 14, 2013, the Chairman of the Coimbatore Chapter had arranged a meeting for students, addressed by the Central Council Member of the Institute, CMA Dr. P.V.S. Jagan Mohan Rao at the chapter hall, where a brief on Companies Act 2013, had been discussed. All the students participated enthusiastically and found the meeting very useful. CS. M.R. Thiagarajan, practicing Company Secretary gave a brief lecture on Companies Act, 2013 covering important changes of the Act. A members' meet was also organized by the chapter to discuss on latest draft on Cost Accounting Records and Cost Audit Rules on November 26, 2013. A detailed discussion had been made and it was decided to meet industries to get support and suggestions.

Mysore chapter of Cost Accountants

On November 17, 2013, the chapter arranged a seminar on Impact of Indirect Taxation on Manufacturing Industries. The seminar was inaugurated by Mr. Pradeep Swaminathan, Director Finance, BEML Ltd, and presided over by CMA P. Raju Iyer, Chairman, SIRC. The session was handled by resource persons, Mr. K. Bhaskar, Director, Indirect Tax and Mrs. Rashmi Somasekhara, Manager, Indirect Tax, from M/s Deloitte, Bangalore, where they made a detailed discussion on the Service Tax issues. More than 60 participants attended the workshop where in an open forum of participants interacted with the resource persons. CMA T.L. Sangameswaran, Chairman of the chapter welcomed the gathering while CMA Purushothaman expressed the vote of thanks.

Trivandrum Chapter of Cost Accountants

On November 24, 2013, a Professional Development Programme had been conducted by the chapter. The topic was on Financial Inclusions and the guest speaker was Mr. Lazar Thomas Mani, Associate Professor, Department of Commerce, St. Albert's college, Eranakulam. CMA Joseph Louis, Chairman of the chapter presided over the meeting and he mentioned that sharing of National Wealth to, the least and last of the society is the basic principle valued in Financial Inclusions and CMAs have dominant role in achieving this social obligation. The programme was very lively and many students participated in the session.

Visakhaptnam Chapter of Cost Accountants

The chapter organised a seminar on Soft Skills for students on December 8, 2013. CMA Tanakala Harinarayana, secretary of the chapter welcomed the students and invited dignitaries on the dais. CMA Prakash Uppalapati, chairman of the Chapter addressed the students and informed them the importance of soft skills in their day to day professional life. Chief Guest Sri K.V. Raju, Executive Director (Operations) Hospira Health Care India Pvt. Limited, while addressing the students informed them of the requirement of professional cost accountants in the industry. He said the cost accountants' services are very much required by all the industries, where with their analytical skills they can involve in decision making process. Dr. Chitra Krishnan, associate professor in Andhra University, college of engineering enlightened the students on the requirement of soft skills for their growth in the profession. CMA Ch. Sundara Murthy, chairman, Coaching Administration Committee of the chapter proposed vote of thanks at the end.

Western India Regional Council

Nagpur Chapter of Cost Accountants

The chapter organised a workshop on Service Tax at its premises recently, for its members. The chairman of the chapter, CMA N.P.Viswanathan, working as Chief Manager (F) with Western Coalfields Ltd., a subsidiary of Coal India Ltd. and looking after its Corporate Indirect Taxation Cell, was the facilitator who took the members through his slide show of the passage of the Service Tax from its evolution to the latest voluntary compliance encouragement scheme, explaining with illustration various provisions of the Tax. Members in large numbers attended the workshop and made it very lively by raising relevant queries which were deftly replied to by the speaker. The workshop was prominently attended by Dr. Shreehari Chava, CMA P.V. Bhattad, Central Council Member of the Institute, CMA G.R. Paliwal, Regional Council Member, CMA Shriram Mahankaliwar, Vice-Chairman, CMA Vivek Chawan, Secretary and other members of the Managing Committee of the chapter.

Nasik Ojhar Chapter of Cost Accountants

The chapter had taken lots of initiatives in protesting the Draft Rules for Cost Records & Cost Audit issued by Ministry of Company Affairs and had conducted meetings of students and members regarding protest against Draft Rules for Cost Records and Cost Audit. Several meetings were organized by the chapter on different dates of November & December raising a concern on the issue and to find probable solutions out of it. Chairman of the chapter, CMA R.K. Deodhar, Vice Chairman CMA S.W. Parnerkar, and other chapter members briefed the members about the Draft Rules & appealed to the members to protest against the same. A press conference was called by the chapter in which Chairman CMA R. K. Deodhar did the briefing to the press reporters about the Draft Rules & explained as to how these Rules were not in the interest of the professionals & the society at large.

ICAI opposes proposed cost records & audit rules

देशातील ५ लाख विद्यार्थ्यांवर गदा

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants

The chapter organized a seminar on Emerging opportunities to CMAs as per Companies Act 2013 on November 27, 2013. CMA Laxman Pawar, Chair-

man of the chapter presided over the function and gave a brief background of the Companies Act 2013. The guest speaker was CMA Rakesh Singh, Immediate Past President of the Institute, who deliberated a speech regarding the opportunities available to CMAs as per the Act. CMA B M Sharma, Past President of the Institute gracing the occasion requested the members of the chapter to give positive feedback to MCA regarding draft rules.

Bhopal Chapter of Cost Accountants

The chapter organized a seminar on Professional Opportunities and Challenges for Cost Accountants in Madhya Pradesh, on October 27, 2013. The seminar was inaugurated by Chief Guest, CMA Ashish P. Thatte, Chairman, WIRC, who highlighted the professional avenues available before the Cost Accountants and the internal & external threats thereto. He also briefed on the highlights of the Draft Rules under Companies Act 2013. There were two sessions held in the seminar. CMA S. M. Ramanathan, chairman of the chapter delivered the welcome address and CMA Biswabandhu Mohapatra, secretary of the chapter briefed about the academic activities of the chapter.

Pune Chapter of Cost Accountants

The chapter organized a CEP programme on 'Enhancing the vision- imperatives for Management Accountant of the Modern Era', with special reference to the happenings in global finance, on November 9, 2013. It was conducted by Mr. S. Kalidas, a finance and forex expert, who provided a very lucid perspective of the same. The programme was attended by twelve members who had good interaction with the facilitator. A practioners' meet was held on November 15, 2013 and it was addressed by CMA Sanjay Bhargave, CMA Amit Apte, Central Council Members and CMA Neeraj Joshi, Regional Council Member. A total of 21 members attended the meet when various subjects of mutual interest were discussed. On November 25, 2013, a members' meet to discuss the draft Cost Audit Rules by MCA was organized by the chapter, which was attended by 61 members. The members actively voiced there objections and suggestions on the draft rules. Subsequently, a dharna was organized on November 27, 2013 by WIRC in protest to draft Cost Audit rules.

Cost accountants protest against new cost audit draft rules

EXPRESS NEWS SERVICE
PUNE, NOVEMBER 29

COST Accountants (Pune Chapter) on Friday protested outside the Pune Municipal Corporation (PMC) against the new cost audit draft rules published by the Ministry of Corporate affairs. The accountants have demanded an immediate withdrawal of the rules claiming it detrimental to their field.

The recently published draft Cost Records and Cost Audit Rules 2013 severely curtail the scope of the Cost Audit Mechanism—a system put in place in 1965 and expanded steadily with a view to curb profiteering and other malpractices in the corporate sector. The draft rule proposes to exempt much of the private sector from this mechanism, while the focus remains only on government funded companies.

The proposed dilution of Cost Audit Mechanism is regressive in nature and will adversely affect the cost consciousness and cost competitiveness of the Indian industry and will put consumers to a great disadvantage.

Madhuvanti Sathe, Chairman, Pune Chapter of Cost Accountants, said the draft rules if finalised may come into effect from April 1, 2014.

The ministry has sought reactions till December 14. Currently, of the around 15,000 companies, only 600 companies will require cost audit. Most of these would be public sector companies. This will not only affect cost accountants but will also make it difficult for the government to keep prices and inflation under check, added.

Currently, there are around 65,000 cost accountants, of which 25,000 are in the western region with around 1,500 in Pune.

SPECIAL HONOUR

Congratulations to Prof. Bhabatosh Banerjee, a fellow member of the Institute of Cost Accountants of India and President, IAA Foundation and former Professor of Commerce and Dean of Commerce and Management, University of Calcutta, on receiving the 'Eminent Teacher' award from the University of Calcutta at its Annual Convocation on 29 November 2013 for his outstanding contribution to teaching and research for over two decades. He had also served the Institute as Director of Research during 1984-85.

Quality articles invited

We invite quality articles and case studies from members in the industry with relevance to Cost and Management Accountancy, Finance, Management, and Taxation for publication in the journal. Articles accompanied by colour photographs of the author can be sent to: editor@icmai.in

Quotations on CMAs

Yesterday's book-keepers had been converted by the Institute into members of the management team of today… The Cost Accountant has an important role to play in the cause of the nation… The Govt. should extend reasonable patronage to the I.C.W.A of India because it was very important for putting the national economy on a sound footing – *JAGJIVAN RAM, former Minister for Food, Agriculture, Commodity Development & Co-operation, Former Minister of Communications and Transport, Former Minister of Defence*

The Cost Accountant has a positive role… To my mind, therefore, a Cost Accountant has a superior place. I do not want to be gheraoed by non-cost accountants. But to my \mind the Cost Accountant has a superior place than the ordinary Accountant or Auditor as far as the promotion of economic development is concerned – *DR. V. K. R. V. RAO, former Planning Adviser Food Department, former Union Cabinet Minister for Transport and Shipping, former Union Cabinet Minister for Education & Youth Services, former Director, Institute for Social and Economic Change, Bangalore, former National Professor, Government of India*

The ability of Cost Accounting Departments to reveal the true state of affairs and to guide management in the right direction has been adequately illustrated in the results of many companies which have them. Sooner or later competition will oblige those who still lag behind to follow suit – *NEVILLE N. WADIA, Industrialist*

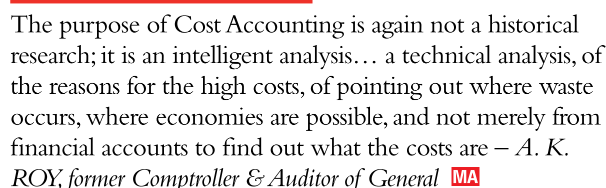
Cost Accounting is a specialised off-shoot of general accounting… You are best fitted to advise the managements on the most effective way of obtaining the maximum production at the minimum cost… The scope for skilled Cost Accountants is unlimited in our developing economy – *D. SANJIVAYYA, former Union Minister for Industry, former Minister of Labour and Employment.*

The I.C.W.A. is performing a very useful task in training a body of men for discharging a highly specialised and important work in the field of industry and commerce… In this matter of economic utilisation of resources the Cost Accountants play a very vital role – *A. K. ROY, former Comptroller & Auditor General of India*

It is hardly necessary for me to emphasise the importance of this profession… The Cost Accountant keeps a vigilant eye over the various processes… it is he who finishes essential data required by managements… for assessing the utilization of man-power and machinery – *NITYANAND KANUNGO, former Union Minister for Commerce, former Governor of Gujarat, former Governor of Bihar*

The profession of Cost Accountancy is without doubt one of the most valuable contributions to the cause of industrial development made by modern methods of training… Cost Accountant is a friend, philosopher and guide of the management. – *MORARJI DESAI, former Prime Minister of India*

In respect of corporate bodies, while financial accounting deals mainly with Company Law, Income Tax and allied matters, the Cost Accountant is primarily concerned with basic problems of industry such as Cost Control, management and production control, price fixation etc. From the stand-point of entrepreneurs an accountant should yield ready information for decision making – *R. N. SINGH DEO, former Chief Minister of Odisha*



The purpose of Cost Accounting is again not a historical research; it is an intelligent analysis… a technical analysis, of the reasons for the high costs, of pointing out where waste occurs, where economies are possible, and not merely from financial accounts to find out what the costs are – *A. K. ROY, former Comptroller & Auditor of General* MA

CMA DOSSIER

A directory of some research papers on **Cost Competitiveness** that appeared in various journals/periodicals/magazines across the world is presented below for the reference of readers. The articles are available at the link provided next to them.

Name of The Topic	Author(s)	Publication and date	Link
Christmas Price Hike In The Greek Protected Telecom Oligopoly	Rewheel Flash Report – December 2013	Rewheel One Step Ahead December, 2013	http://rewheel.fi/downloads/rewheel_flash_report_dec_2013_greek_protected_oligopoly_price_hike.pdf
Lost In Competitiveness	Agnès Bénassy Quéré Cercle & Des & Économistes	Lecercledeseconomistes. Asso. Fr, December, 2013	http://www.lecercledeseconomistes.asso.fr/img/pdf/agne_s_be_nassy-que_re_.pdf
Shipbuilding: Regulatory & Policy Benchmarking	D & B	www.dsir.gov.in December, 2013	http://www.dsir.gov.in/reports/isr1/shipping/9_7.pdf
Competitiveness, "A Dangerous Obsession"?	Thibault Mercier	Bnp Paribas Eco Week December 2013	http://economic-research.bnpparibas.com/views/displaypublication.aspx?type=document&idpdf=23326
China's Prospects For Export-Driven Growth	East Asia Forum Economics, Politics And Public Policy In East Asia And The Pacific	Brendan Coates, Dougal Horton And Lachlan Mcnamee, Australian Treasury March, 2013	http://cei.56.org.cn/doc/jjnk01/2013041119531.pdf
Competitiveness And External Imbalances Within The Euro Area	A Team Of The Working Group On Econometric Modelling Of The European System Of Central Banks	Occasional Paper Series No 139 / December 2012	http://www.ecb.europa.eu/pub/pdf/scpops/ecbocp139.pdf
Compositional Effects on Productivity, Labour Cost And Export Adjustments	Zsolt Darvas	Bruegel Policy Contribution June 2012	https://www.econstor.eu/dspace/bitstream/10419/72099/1/718151070.pdf
Can Governments Reverse First-Mover Advantages of Foreign Competitors?	Armando Jose Garcia Pires	Economics Bulletin May, 2012	http://www.accessecon.com/pubs/eb/2012/volume32/eb-12-v32-i2-p147.pdf
The Cost Competitiveness of European Industry In The Globalisation Era - Empirical Evidence on the Basis of Relative Unit Labour Costs (ULC) at Sectoral Level	Richard Lewney Jörg Claussen Graham Hay Evripidis Kyriakou Günther Vieweg	Enterprise and Industry Directorate – General European Commission April, 2012	http://edz.bib.uni-mannheim.de/daten/edz-h/gdb/12/2012_iperp_unit_labout_costs_en.pdf
Managing Global Financial Flows at The Cost of National Autonomy China and India	Sunanda Sen	Institute for Studies in Industrial Development March, 2012	http://58.68.105.147/pdf/wp1201.pdf
Heat Distribution and The Future Competitiveness of District Heating	Urban Persson and Sven Werner School of Business And Engineering, Halmstad University, Po Box 823, Se-30118 Halmstad, Sweden	Applied Energy Volume 88, Issue 3, March 2011, Pages 568–576	http://www.sciencedirect.com/science/article/pii/s0306261910003855
Engines of Growth. Innovation and Productivity in Industry Groups	Francesco Bogliacinoa, Mario Piantac European Commission, Joint Research Center - Institute For Perspective Technological Studies, Sevilla, Spain Universidad Eafit And Rise Group, Medellin, Colombia University Of Urbino, Italy	Structural Change and Economic Dynamics Volume 22, Issue 1, February 2011, Pages 41–53	http://www.sciencedirect.com/science/article/pii/s0954349x10000780
Levelised Costs of Wave and Tidal Energy in The UK: Cost Competitiveness and the Importance of "Banded" Renewable Obligation Certificates	Grant Allana, Michelle Gilmartina, Peter Mcgregora, Kim Swalesb Fraser Of Allander Institute, Department Of Economics, University Of Strathclyde, Uk Department Of Economics, University Of Strathclyde, Uk Francesco Bogliacinoa, Mario Piantab, Universidad Eafit And Rise-Group, Medellin, Colombia and University of Urbino, Italy	Energy Policy Volume 39, Issue 1, January 2011, Pages 23–39	http://www.sciencedirect.com/science/article/pii/s0301421510006440
Innovation and Employment: A Reinvestigation Using Revised Pavitt Classes	Francesco Bogliacinoa, Mario Piantab Universidad EAFIT and RISE-group, Medellin, Colombia University of Urbino, Italy	Research Policy Volume 39, Issue 6, July 2010, Pages 799–809	http://www.sciencedirect.com/science/article/pii/s0048733310000739
Strategies for 2nd Generation Biofuels in EU – Co-Firing to Stimulate Feedstock Supply Development and Process Integration to Improve Energy Efficiency and Economic Competitiveness	Göran Berndesa, Julia Hanssona, Andrea Egeskoga, Filip Johnssonb Department of Energy and Environment, Division of Energy Technology, Chalmers University of Technology, Se-412 96 Göteborg, Sweden	Biomass and Bioenergy Volume 34, Issue 2, February 2010, Pages 227–236 A Roadmap for Biofuels in Europe	http://www.sciencedirect.com/science/article/pii/s0961953409001494
Macroeconomic and Territorial Policies for Regional Competitiveness: An EU Perspective	Roberto Camagni, Roberta Capello	Regional Science Policy & Practice Volume 2, Issue 1, Pages 1–19, June 2010	http://onlinelibrary.wiley.com/doi/10.1111/j.1757-7802.2010.01016.x/abstract
Mediated Effect of Environmental Management on Manufacturing Competitiveness: An Empirical Study	Chen-Lung Yanga, Shu-Ping Lina, Ya-Hui Chana, Chwen Sheub, Department of Technology Management, Chung-Hua University, Hsin-Chu 300, Taiwan Department of Management, Kansas State University, Manhattan, KS 66506, USA	International Journal of Production Economics Volume 123, Issue 1, January 2010, Pages 210–220	http://www.sciencedirect.com/science/article/pii/s0925527309002916

ADMISSION TO MEMBERSHIP

The Institute of Cost Accountants of India Advancement To Fellowship

Date of Advancement: 11th December 2013

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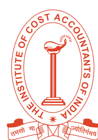

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

Ref. No: DOS/8/2013-14 Dated: 13th December, 2013

Circular on Revised Cut-off dates for Admission to the CMA Foundation Course

Pursuant to publication of The Gazette of India, Part III, Section 4, Ministry of Corporate Affairs, The Institute of Cost Accountants of India, notification CWR(2),2013 dated Kolkata, the 29th November,2013, to be implemented from the date of their publication (dated 6th December,2013) in the official gazette.

The following modification/amendment has been brought in /incorporated in the Cost and Works Accountants Regulations, 1959, in Regulation 20B, in clause (a),

(A) for the item (i), the following item shall be substituted, namely:-

"(i) he has been admitted to the Foundation Course under regulation 20A and has been enrolled for undergoing postal or oral or e-learning tuition for at least one hundred and fifty days prior to the commencement of such examination;",

(B) for item (iii), the following item shall be substituted, namely:-

"(iii) he makes an application in the form approved by the Council, at least forty-five days prior to the commencement of the examination;

Provided that the Council may extend the said period for not more than ten days with such late fees as it thinks fit."

Considering the date of holding CMA Foundation Course examination, in line with this revised regulation, the cut-off dates for admission to the "CMA Foundation Course" only, stands revised as follows:

Term of Examination	Existing cut-off date	Revised cut-off date
For December term examination (Example: If for December 2014 term of Examination, the existing cut-off date is 31st May 2014, which shall stand revised to 30th June, 2014)	31st May of the same year	**30th June of the same** year
For June term examination (Example: If for June 2015 term of Examination, the existing cut-off date is 30th November,2014, which is now revised to 31st December,2014)	30th November of the previous year	**31st December of the previous year**

This revised cut-off dates shall be effective for all admission to CMA Foundation Course for December, 2014 term and onwards, until further notification to this effect.

This issues with an approval of the competent authority.

CMA R.N.Pal
[Sr. Director (Directorate of Studies) and Secretary to the T&EF Committee]

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959

REGISTRATION NUMBERS CANCELLED FOR JUNE-2014 TERM OF EXAMINATION UPTO
ERS/007780
NRS/011516 (EXCEPT 10928-11000, 11101-11150, 11161-11500)
SRS/000001 - 026999,031001 - 031257
WRS/015708
RSW/081159
RAF/005907

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 31st Dec-2006) as above but desire to take the Institute's Examination in June-2014 must apply for DE-NOVO Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For DE-NOVO Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H. Q. at Kolkata or from the concerned Regional Offices on payment of Rs.5/-) along with a remittance of Rs.2000/- only as Registration Fee through Demand Draft drawn in favour of THE INSTITUTE OF COST ACCOUNTANTS OF INDIA, payable at KOLKATA.

Wishing you a very Happy & Prosperous New Year

Date: 19th December , 2013

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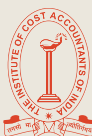

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ISSN 0972-3528
Registered KOL RMS/139/2013-2015
Publication date: 10 January 2014 RNI 12032/66

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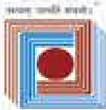

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