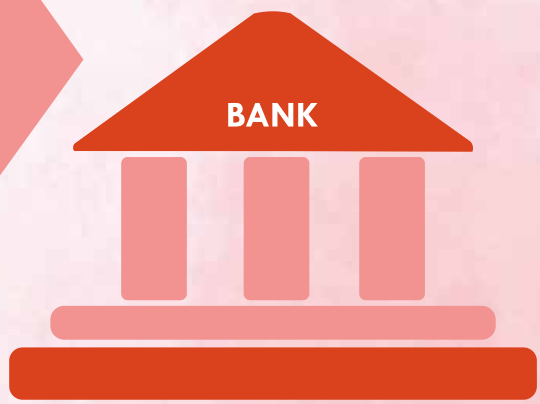
THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

ISSN 0972-3528

January 2019 | VOL 54 | NO. 01 | Pages - 124 | ₹ 100

UGC APPROVED JOURNAL



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- **THE INSTITUTE OF COST ACCOUNTANTS OF INDIA** (erstwhile The Institute of Cost and Works Accountants of India) was 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**

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We have expanded our Readership from 1 to 94 Countries

Afghanistan, Algeria, Argentina, Australia, Azerbaijan, Bahrain, Bangladesh, Belgium, Benin, Botswana, Brazil, British Indian Ocean Territory, Bulgaria, Cambodia, Cameroon, Canada, Chile, China, Colombia, Croatia, Czech Republic, Djibouti, Egypt, France, Gambia, Germany, Ghana, Great Britain, Greece, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Iraq, Ireland, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kuwait, Lebanon, Liberia, Lithuania, Malawi, Malaysia, Mauritius, Mexico, Morocco, Myanmar, Namibia, Nepal, Netherlands, New Zealand, Nigeria, Oman, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Rwanda, Saudi Arabia, Serbia, Seychelles, Singapore, Slovakia, Slovenia, South Africa, Sri Lanka, Suriname, Sweden, Switzerland, Syria, Taiwan, Tanzania, Thailand, Turkey, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States of America, Vietnam, Zaire, Zimbabwe.

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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on behalf of The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700 016, P. S. New Market, West Bengal
e-mail: editor@icmai.in

PRINTER & PUBLISHER - Dr. Ketharaju Siva Venkata Sesha Giri Rao
on behalf of The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700 016, P. S. New Market, West Bengal

PRINTED AT - Spenta Multimedia Pvt. Ltd., Plot 15, 16 & 21/1 Village - Chikhloli, Morivali, MIDC, Ambernath (West), Dist: Thane - 421505
on behalf of The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700 016, P. S. New Market, West Bengal

PUBLISHED FROM - The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700 016, P. S. New Market, West Bengal

CHAIRMAN, JOURNAL & PUBLICATIONS COMMITTEE - CMA Dr. I Ashok

ENQUIRY

- **Articles/Publications/News/Contents/Letters/Book Review/Enlistment**
  editor@icmai.in
- **Non-Receipt/Complementary Copies/Grievances**
  journal@icmai.in
- **Subscription/Renewal/Restoration**
  subscription@icmai.in
- **Research/Collaboration/Association/Promotion/Events**
  research@icmai.in

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The Management Accountant technical data

Periodicity : Monthly
Language : English

Overall Size: - 26.5 cm x 19.5 cm

Subscription
Inland: ₹1,000 p.a or ₹100 for a single copy
Overseas: US$ 150 by airmail

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

The Management Accountant Journal is Indexed and Listed at:

- Index Copernicus and J-gate
- Global Impact and Quality factor (2015):0.563
- UGC enlisted journal [Journal No. 42202]

EDITORIAL

Greetings!!!

Happy New Year 2019!!!

India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Banks are considered the backbone of a country's economy. Banking in India is not only strong but also growing very fast. The Banking sector in India is poised for a high trajectory growth with prospects for a bright career to thousands of new entrants. According to the different studies, banking sector is one of the fastest growing industries in the country.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. India Post Payments Bank incorporated as a public sector company under the department of posts offers a range of products—savings and current accounts, money transfer, direct benefit transfer, bill and utility payments, enterprise and merchant payments. The payments bank also provides access to third-party financial services such as insurance, mutual funds, pension, credit products and forex.

In the context of economic liberalisation and growing trend towards globalisation, various banking sector reforms have been introduced in India to improve the operation efficiency and upgrade the health and financial soundness of banks so that Indian banks can meet internationally accepted standards of performance.

India has leapfrogged into the era of innovation in banking by adopting the latest in technology. Today's digital age and hyper-connected environment requires banks to re-imagine their business continuously and Indian banks are making great strides when it comes to true digital transformation.

Banks are core part of any economy. They channelized the money to the smooth functioning of different sectors. Initiatives of Green Banking made the banks to transform conventional banking services into modern banking services. The products and services are offered through electronic devices with the help of internet. Digital Banking means more than just going paperless. Leading players are offering a new and improved customer experience and delivering faster and more efficient services.

Banks also sharpened their focus on rural markets and introduced a variety of services geared to the special needs of their rural customers. Banking activities also transcended their traditional scope and new concepts like personal banking, retailing and banc assurance were introduced.

The advent of Insolvency legislation, "Insolvency and Bankruptcy Code, 2016", is indeed a big shot in the arm for banking industry. Insolvency & Bankruptcy Code has been playing an important role in addressing the non-performing assets (NPA) of the banking sector. The IBC seeks strict time-bound initiation of corrective action even at the stage of the very first default either to the bank or to the business counter parties. By ensuring certainty and clarity in all aspects of the process, the Code hopes to achieve speedy resolution, higher recoveries and, in course of time, encourage lenders to go in for higher levels of debt financing.

Management accounting has always been an area dedicated to support decision making processes, thus taking into account dynamic changes in the Banking environment. CMAs can provide sufficient and reasonable support to the concerned sector in taking appropriate and wise decisions. CMAs can play major roles of proper managerial planning with proper product mix, low cost and higher quality for growth of the Banking sector in India.

This issue presents a good number of articles on the cover story theme 'Indian Banking Scenario: Dynamism and Optimism' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at *editor@icmai.in*. We thank all the contributors to this important issue and hope our readers enjoy the articles.

THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

-: PAPERS INVITED :-

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

Theme: February 2019 — Contemporary Issues in Corporate Governance

Subtopics

- Corporate Governance Global Framework
- Corporate Governance in India & SEBI Regulations
- E-governance
- Governance and Sustainability
- Corporate Governance and its Impact on Audit Practice
- Corporate Law and Corporate Governance
- Mergers and Takeovers
- The Role of Institutional Investors in Corporate Governance

Theme: March 2019 — Artificial Intelligence – An Emerging Trend of Technology

Subtopics

- Artificial Intelligence AI: New Horizons for Cost Estimation and Modeling
- The Digital Transformation of Accounting and Finance - AI, Robotic Process Automation and Chatbots
- AI in Project Management
- AI in Powered Banking Sector
- AI and Robotics: Redrawing the Healthcare Landscape
- AI - a catalyst for reducing cost in Digital Marketing
- AI - reshaping the contour of Supply-Chain and Logistics Industry
- Role of CMAs

Theme: April 2019 — Public Sector Accounting

Subtopics

- Public Sector Accounting and Financial Reporting: Today and Tomorrow
- Public Sector Accounting System and Public Governance
- Developments and Challenges in Public Sector Accounting
- Ethics and Integrity in Public Sector Accounting
- Pros and Cons regarding International Public Sector Accounting Standards (IPSAS) implementation in the Public Sector
- The Impact of International Financial Reporting Standards (IFRS) adoption on Public Sector Financial Statements
- Reforms in Public Sector Accounting
- Strengths and Weaknesses of existing system of Public Sector Accounting in India
- Role of CMAs

Theme: May 2019 — Big Data Analytics in Accounting and Auditing

Subtopics

- Big Data Analytics in Financial Reporting and Accounting
- Big Data in Business Analytics: Implications for the Audit Profession
- Big Data Analytics: Opportunity or Threat for the Accounting Profession
- Leveraging Big Data Analytics for Auditing: Towards a Taxonomy
- Big Data Analytics as KPIs (Key Performance Indicators) in Managerial Accounting
- Using Bots to Reduce Errors and Complete Time-consuming Accounting Tasks
- Current Practices of Data Analytics in Internal Audit and its Impact
- Data Analytic Competencies in the Accounting Curriculum from the Perspective of Academicians/Practitioners
- Role of CMAs in Data Analytics

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 latest by the 1st of the previous month.

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"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."

-- Charles Darwin

CMA AMIT ANAND APTE
President
The Institute of Cost Accountants of India

My Dear Professional Colleagues,

Namaskaar!!!

I would like to take this opportunity to wish you and your family a wonderful and memorable New Year 2019. I am thankful to all for the continued support and dedication to the development and growth of the Institute. I am sure that our profession will touch a new high this year and will play its role of helping the society, stakeholders and country effectively.

We are proud to inform you that **CMA (Dr.) P V S Jagan Mohan Rao**, Central Council Member of the Institute has assumed office as President of **South Asian Federation of Accountants (SAFA)** for the year 2019 w.e.f. January 1, 2019. On the eve of his taking over as President of SAFA, we met Shri Suresh Prabhu, Hon'ble Union Minister of Commerce & Industry to extend New Year greetings.

Partnership with Government of India to train accountants

I am delighted to share that the Institute of Cost Accountants of India will partner the Government of India to train more than one lakh accountants specifically on GST related compliances and accounting in the next six to eight months. The move of the government is tipped to help 12 million GST assesses in filling their returns in a hassle free manner. This course can be pursued by anyone with the background of accounting. The detailed curriculum of this course is expected to be announced by the Government very soon.

59th National Cost Convention & SAFA Events in Pune

As you all are aware that the Institute is organising its 59th National Cost Convention (NCC 2019) during its Platinum Jubilee Year on the theme "Cost & Management Accountants - Power of the Past – Force of the Future" on 20th & 21st January, 2019 at Hotel JW Marriott, Pune. We would also be hosting various SAFA events on the sidelines of the NCC. I earnestly request all the members of the Institute to block your dates, participate actively in this Annual National event of the Institute in large numbers to show the strength of CMA profession and make this mega event a grand success.

Global Student's Summit 2K19

I am happy to share that the Institute is organising a Global Student's Summit 2K19 on the theme "CMAs - Today's Student, Tomorrow's Executive" at Thrissur, Kerala on 6th & 7th February 2K19. This Global Student's Summit will host Students from various parts of the country and abroad, participating in Brain storming sessions on Motivation, Leadership, Career Grooming, Management Competitions, Paper Presentation, Quiz Biz and Elocution Talents.

Meeting with Hon'ble Chief Minister of Kerala

I wish to share that representatives from the Institute met Hon'ble Chief Minister of Kerala, Shri E P Jayarajan, Hon'ble Industries Minister of Kerala, Shri Sivasankar IAS, PS Government of Kerala and Shri B Raghavan, Chairman, SC/ST Development Corporation Government of Kerala. During the visit, Hon'ble Industries Minister of Kerala explained Skill Development Project ASAP new venture to the Institute's representatives. Hon'ble Industries Minister received CAT E-Bulletin of the Institute and Research Bulletin was given to Shri Sivasankar IAS, PS Government of Kerala which was released by Hon'ble CM of Kerala.

Empanelment of Auditors by C&AG

The CAG of India has issued a notification through which C&AG has invited applications from Chartered Accountants for empanelment of auditors for the year 2019-20 under Sections 139 (5) and 139(7) of the Companies Act 2013. Section 139 deals with Appointment of "Financial Auditor" and Section 139(5) / 139(7) deal with appointment of auditor for Government Company or any other company owned or controlled, directly or indirectly, by the Government.

During the earlier years, this empanelment was called for auditors without mentioning sections. This used to create a confusion as to whether the same is for the purpose of internal auditor also. However with the present notification, it is clear that the empanelment of Chartered Accountants with CAG is meant for audit of financial record only and not for Internal Audit under section 138 of the Companies Act.

This initiative of CAG should remove difficulty that the Cost Accountants used to face while filing tenders of Internal Audit since many companies used to also ask for CAG empanelment number as one of the conditions in the tendering process.

We are thankful to CAG of India for considering our representation wherein the Institute had highlighted the difficulty faced by our members and bringing about this change in the notification.

The Institute had represented to C&AG that in order to ensure unbiased implementation of the provisions of section 138 of the Companies Act, 2013 relating to internal audit and to bring parity between the two professions, the ideal way is to have empanelment of both Chartered Accountants as well as Cost Accountants by the C&AG for Internal Audit purpose. However since C&AG office does not have any panel for Internal Audit, it was requested to issue a clarification stating that the empanelment of Chartered Accountants with C&AG is for Audit under Section 139 (Financial Audit) of the Companies Act only and not for Internal Audit as required under Section 138.

Activities At Regional Councils & Chapters

Regional Council and Chapters Co-ordination Committee

The Regional Council and Chapters Co-ordination Committee had organized Regional Council and Chapters Co-ordination Meet for the Chapters under Western India Regional Council at Indore, Madhya Pradesh on 01st December 2018, where the representatives from the Western India Regional Council & Chapters discussed the issue being faced by them, ways to readdress the issues and gave suggestions for the development of the Profession.

Annual Seminar 2018 of Asansol Chapter

I along with my council colleagues attended the Annual Seminar of Asansol Chapter of the Institute organized on the theme "New Corporate India- CMAs as Facilitators" at Asansol on 2nd December, 2018.

Inauguration of CMA Bhawan, Pune

I am happy to share that CMA Bhawan at Pune was inaugurated at the auspicious hands of Shri Prakash Javadekar ji, Hon'ble Union Minister Human Resource Development on 9th December, 2018. I congratulate the Managing Committee members of Pune Chapter and CMA Dhananjay V. Joshi in particular for the efforts taken in coming up with this state of art infrastructure.

40th Cost Conference of EIRC

Eastern India Regional Council of The Institute of Cost Accountants of India jointly with Durgapur Chapter of Cost Accountants organised the 40th Cost Conference-2018 on the theme during "Changing Economic Realities – Role & Challenges for CMAs" on 15th & 16th December, 2018 at CMERI Auditorium, Durgapur.

Banking and Insurance Committee

As informed in my earlier monthly communiqué, we commenced observance of **"Insurance Month"** across the country. The period of celebrations is from 16th December 2018 to 15th January 2019. Banking & Insurance Committee organized a Seminar on the topics "Insurance & Sustainability" and "Health Insurance Affordable Healthcare" at Chennai on 27th December 2018. The Regions and Chapters are requested to organize programs on various aspects of Insurance during the month and give suggestions and guidance on specific matters to be taken with the feedback from members from insurance sector in their area.

I urge the members to give constructive suggestions, ideas to *bi@icmai.in* to make this endeavor a grand success.

International Affairs

International Road shows on IBC and meetings

I wish to share that FICCI organized an International Road shows on IBC with the support of IBBI on 5th December, 2018 at New York, USA and 7th December 2018 at Toronto, Canada with the primary focus of evincing interest of foreign investors in IBC, dissemination of current opportunities in stressed assets, addressing investors' concerns, etc. Our council members attended the event and shared views and thoughts as a speaker in the session on "Ensuring Certainty and sustained approach to IBC for ensuring Investor Confidence" held on 5th December, 2018 at New York, USA.

Meeting with CPA Canada

Our council member had a meeting with Ms Tashia Batstone, Senior Vice President- CPA Canada in Toranto, Canada on 7th December, 2018 to take forward Institute's discussions about possibilities of mutual recognition of the professional qualifications and professional development programmes offered by both Institutes.

SAFA meetings & events

SAFA International CFO Conference under the theme 'The Future of Finance: Digitize, Drive and Transform" was organised by the Institute of Cost and Management Accountants of Bangladesh on 8th December, 2018 in Dhaka, Bangladesh. I am happy to inform that our council member joined the conference as resource person in Session on "Challenges of Future Corporate Reporting". Representatives from the Institute attended the SAFA Committee meetings on 9th December, 2018 and 56th SAFA Board meeting & 89th Assembly Meeting on 10th December 2018 in Dhaka, Bangladesh.

Insolvency Professional Agency (IPA) of Institute of Cost Accountants of India

The Insolvency Professional Agency of the Institute organized various Round table Interactions, workshops and webinars during the month on: Draft Specimen of Evaluation Matrix and Information Memorandum, Draft Specimen of Request for Resolution Plans and Resolution Plan, Online Disclosure Module & New Monitoring Policy of IPA of Institute of Cost Accountants of India, Facility for storage and retrieval of Information for Insolvency professionals provided by NeSL.

IPA also organized IP Conclave at Hyderabad jointly with IBBI, ICSIIIP and IIIPI and Awareness Program on IBC, 2016 jointly with IBBI at Guwahati and Shillong.

IPA jointly with ICSIIIP is organizing a National Conclave on Corporate Insolvency and Valuation on 8th January, 2019 at Pune.

I am happy to inform that representative from the Institute attended the conference on "Insolvency and Bankruptcy Code, 2016: A Roadmap for the Next Two Years" being organized by the Insolvency and Bankruptcy Board of India and the Vidhi Centre for Legal Policy on 18th December 2018 at the India Habitat Centre, New Delhi. The conference featured a key-note address by speaker Shri Arun Jaitley, Hon'ble Union Minister for Finance & Corporate Affairs and the valedictory address by Dr. Rajiv Kumar, Vice Chairperson, NITI Aayog.

Membership Department

With the new financial year around the corner, I would like to gently remind the respected members in practice that their current Certificate of Practice (CoP) is valid till 31st March, 2019. To avoid last minute rush CoP holders can renew their CoP well in advance, for which a separate advisory will be hoisted soon in the Institute's website.

I take this opportunity to welcome all the new 52 Fellow members who were upgraded from Associate memberships and also to all the 286 new Associate members who were granted membership during the month of November 2018.

Professional Development and CPD Committee

National CMA Practitioners Convention 2018

I am happy to inform you that the Institute under Chairmanship of the Chairman of PD Committee in association with the Bhubaneswar Chapter organized National CMA Practitioners' Convention (NCPC-2018) on the theme "Emerging Professional Avenues: Capacity Building of CMAs" on 23rd December 2018 at

Bhubaneswar, Odisha. I Congratulate the Bhubaneswar Chapter for successfully organising the event.

Shri Shashi Bhushan Behera, Hon'ble Cabinet Minister, Finance, Excise and Public Enterprise, Government of Odisha was the Chief Guest of the event and Shri Bhartruhari Mahtab, Hon'ble Member of Parliament, Lok Sabha was the Guest of Honour of the NCPC 2018. Technical sessions in the NCPC were taken by the eminent Professional Experts. Professional Development Committee released the Guidance Note on Special Economic Zone (SEZ) on this occasion.

Programs with MSMEs

I wish to inform that I was invited to address Professional members and Industrialists in a seminar organised by PD & CPD Committee of the Institute with Tamilnadu Small and Tiny Industries Association (TANSTIA) at Guindy Chennai on 06th December 2018. Shri KT Raghavan, Secretary State, BJP and Senior Advocate, High Court of Madras, Shri M. Hindunathan, General Secretary, TANSTIA and Shri S. Anburajan, President TANSTIA graced the occasion with their presence.

PD & CPD Committee & Branding Cell in association with TANSTIA organized Seminar with SALEM Productivity Council & TANSTIA on 19th December, 2018 at SPC Bhawan, Salem Tamilnadu. CS S. Solaiyappan, Former Chairman of ICSI, Salem Chapter graced the occasion as the Chief Guest of the Seminar.

Representation to Government, PSUs, Banks and Other Organizations:

PD Directorate is sending representation letters to various organizations for inclusion of cost accountants for providing professional services. I am pleased to inform you that on the basis of the representations sent by the PD Directorate, UP Housing & Development Board, Lucknow included the Firm of Cost Accountants for preparation of Accounts & Audit Manual.

Further, National Health Mission, Panchkula Haryana, Hutti Gold Mines Company Limited, Odisha State Police Housing & Development Corporation LTD., Madhya Pradesh Power Transmission company Ltd. Jabalpur, Food Corporation of India Assam , District Health & Family Welfare Society, Intelligent Communication Systems India Ltd. (ICSIL), NLC India Limited, Bharat Heavy Electricals Limited (BHEL) Haridwar, West Bengal Tourism Development Corporation Limited, Artificial Limbs Manufacturing Corporation of India (ALIMCO), MMTC, National Aluminium Company Limited (NALCO), Andaman and Nicobar Islands Khadi & Village Industries Board, Port Blair, Chhattisgarh State Cooperative Marketing Federation Ltd, Dedicated Freight Corridor Corporation of India Ltd., UP Housing & Development Board, Lucknow etc., have included Cost Accountants in their Tenders/ EOIs during the month of December 2018.

Continuing Professional Development Committee

I sincerely appreciate our Regional Councils and Chapters for organizing more than 50 programs, seminars and discussions on the topics of professional relevance and importance for the members such as, Reformed Taxation System-Catalyst to Sustained Economic Growth, Contemporary Role of CFO, Industrial Finance & Stock Audit, GST Audit, Annual returns & TDS under GST, Internal Audit of Upstream Oil Companies, The Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018, Assessment Procedures in Direct Taxation, VAT and GST, CMA Value Proposition, SARFAESI Act and its Amendments, Cost Audit and so on.

The Institute was associated with Confederation of Indian Industry for "9th Financial Markets Summit 2018" on 7th December 2018 at Mumbai and associated with Centre for Excellence in Project Management for "26th Global Symposium-Managing Uncertainties in Today's Competitive Environment" on 10-11th December, 2018 at New Delhi. The Institute was also associated with PHD Chamber of Commerce & Industry for conducting conferences on "Annual Return & Audit" on 3rd December 2018 and 12th December 2018 and on "Tax Laws & Systems in India-Way Forward" on 19th December 2018. I hope our members would be immensely benefited with these programmes.

Cost Accounting Standards Board (CASB)

I am happy to note that the CASB in association with Dehradun Chapter of the Institute organized a Seminar on Cost Governance on 7th December 2018 in Dehradun. Chairman, CASB addressed the delegates and highlighted the role of Cost Accounting Standards and Standards on Cost Auditing in Cost Governance. There was also a session on Practical aspects of Cost Governance. I hope that the delegates found the seminar enriching and fulfilling.

CASB has also planned another seminar on Cost Governance jointly with the CAASB in Jaipur on 5th January 2019 in association with the Jaipur Chapter of the Institute. The details are available on the website.

Cost Auditing and Assurance Standards Board (CAASB)

I wish to inform you that the CAASB has released the Exposure Draft of FAQs on Standards on Cost Auditing (SCAs 101- 104) seeking public comments upto Jaunary 21, 2019. The exposure draft of FAQs is available on the website of the Institute. I request the members to go through the same and offer their comments / suggestions within the last date.

I am pleased to inform that the CAASB in its 36th meeting held on 29th December 2018 at Mumbai has discussed the draft of Standard on Quality Control to be issued by the Board. The Board is expected to come out with the Exposure Draft of the same in its next meeting. I wish the CAASB success in its initiatives.

Corporate Laws Committee

I am pleased that in order to create awareness and capacity building in the area of Corporate Laws, the Corporate Laws Committee of the Institute is celebrating "Corporate Laws day" on pan India basis on 4th January 2019. During the day the Regional Offices and Chapters of the Institute will be organising the workshops / seminars and quizzes to be attended by the members, students and representatives from Corporates. Regions and Chapters will also be organising Career counselling in colleges / universities in their respective jurisdiction on that day. I urge the members and students to attend the events in large numbers and make this initiative a grand success.

Committee on Public Finance & Government Accounting

The Committee organized Seminars on the theme "Unexplored Areas for CMAs" on 16th December 2018 & 29th December 2018 at Dehradun and Meerut respectively.

Technical Cell

I am pleased to inform you that the Technical Cell of the Institute has come out with the Guidance Note on Responsibility of Directors as regards Maintenance of Cost Records as per clause (xi) of sub-rule 5 of rule 8 of the Companies (Accounts) Rules, 2014. The Guidance Note was released on 9th December 2018 in Pune by Hon'ble Shri Prakash Javadekar, Union Minister of Human Resource Development. The Guidance Note will be available for sale shortly. I appreciate the Technical Cell for taking this initiative in such a short period.

Taxation Committee

It gives me immense pleasure to congratulate Team – Tax Research and Chairman Taxation Committee for his torch bearing guidance, on the successful conduct of 3 days National Seminar on Taxation at Bhubaneshwar from 21st to 23rd December 2018, on the theme "Reformed Taxation System – Catalyst to Sustained Economic Growth". The Seminar was inaugurated by His Excellency; Hon'ble Governor of Odisha, Shri Ganeshi Lal. Shri Surjya Narayan Patro, Hon'ble Cabinet Minister Co-operative and Food Supplies, Government of Odisha, Shri Sashi Bhushan Behera, Hon'ble Cabinet Minister, Finance, Excise and Public Enterprise, Government of Odisha and Shri Bhatruhari Mahtab, Hon'ble Member of Parliament, Lok Sabha also graced us with their presence. The seminar has been a huge success with above 400 corporate delegates and participants. Six noteworthy publications were released on the burning issues on Direct and Indirect Taxation namely: (i) Handbook on TDS, (ii) Compilation of GST Notifications and Circulars, (iii) Revised Hand-Book on E-way Bill, (iv) International Taxation and Transfer Pricing, (v) Export under GST, (vi) Guidance Note on GST Audit. The department has also successfully launched the Third Batch of Certificate Course on GST across 10 locations. Further, the Tax Research Department of the Institute in association with Indore- Dewas Chapter organized a seminar on "GST Regime - A Road Map for Make in India" on 1st December, 2018 at Indore.

I wish prosperity and happiness to members, students and their family on the occasion of New Year, Guru Gobind Singh Jayanti, Lohri, Birthday of Swami Vivekananda, Makar Sankranti, Pongal, Netaji Subhas Chandra Bose Jayanti, Basant Panchami and Republic Day and pray for the success in all of their endeavours.

Thanking you!!!

Warm Regards,

CMA Amit A. Apte
1st January, 2019

CHAIRMAN'S COMMUNIQUE

"Efficiency is doing things right; effectiveness is doing the right things." – Peter Drucker

CMA (Dr.) I. Ashok
Chairman
Journal and Publications Committee

New Year's Greetings!!!

Wishing you and your family a very happy, prosperous, peaceful and successful new year 2019.

First of all, I would like to express my heartfelt thanks to the President and the august Council of the Institute for giving me this great opportunity to serve the Institute as Chairman of the Journal and Publications Committee. I firmly believe that the Committee will be able to deliver its responsibility and task bestowed upon towards fulfilling the mission and vision of the Institute in particular and the society at large.

Our mission is to establish the Journal and Publications department as a premier research body in the country to raise public awareness about policy issues in business, trade, society and economy and to facilitate solutions that will contribute to national development.

Change in today's world is riding an accelerated pace and we need to pause and reflect it on the entire education system. That reminds me of the great words of wisdom by Aristotle, "Educating the mind without educating the heart is no education at all." Education is a dynamic process in which new-fangled thoughts are supplemented persistently to construct the education in progressive approach.

In today's era of communication and technology, people round the clock want to keep themselves abreast of the latest changes and developments happening around them. The core purpose of our Journal and Publications Department is to inform, educate and enlighten the masses on various issues revolving them.

The Journal & Publications Department of the Institute is dedicated to the goal of connectivity and focus on incorporating new features and relevant cover stories of national and global importance in the journal and providing best efforts to reach the unreachable through persistent value addition.

The monthly journal and the official organ of the Institute - The Management Accountant, with its modern layout and rich and informative contents is highly commendable amongst the readers; the quality of articles has also been improved immensely over the past few years. The basic focus is to elevate the Journal to a global standard and create a brand on its own. We are proud to announce that now the Journal is enlisted under UGC – approved list of journals and indexed under important international journal databases.

January 2019 of the Journal "The Management Accountant" is based on the theme "Indian Banking Scenario: Dynamism and Optimism" which is quite relevant since India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. The Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

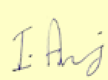
As a result, there has been a distinct change in the way in which banking business is being done in India. Efficiency, competitiveness and quality have emerged as key success factors in the changed environment. Moreover, an integrated system for Cost and Management Accounting is an essential pre-requisite for adopting modern management practices like Benchmarking, Business Process Reengineering (BPR) etc.

The following publications are being published regularly by the Directorate of Journal and Publications:

- The monthly journal 'The Management Accountant'
- Quarterly 'Research Bulletin'

I am glad to inform you that 'The Management Accountant' Journal has gained its recognition worldwide and the readership has already reached 94 countries across the globe. We are receiving overwhelming responses from the International subscribers and giving our best efforts to enlist 'The Management Accountant' Journal in E-Library section internationally. It is noteworthy to mention that the Journal is also indexed and listed at Index Copernicus and J-gate.

We solicit your feedback, suggestions and concerns for the overall development of the Journal and Publications Department. Please send us emails at editor@icmai.in / journal@icmai.in for various issues relating to Journal and Publications. We are committed to achieve the desired goals and expectations of the stakeholders. We are extremely hopeful to achieve a higher yardstick to fulfil the expectations of the readers and subscribers.



CMA (Dr.) I. Ashok
1st January 2019

CMA (Dr.) Dhananjay V. Joshi
Former President and Chairman,
Technical Cell (Cost Audit, Compliance & Others) of the Institute

APPEAL TO MEMBERS

Dear Professional Colleagues,

A meeting of Technical Cell (Cost Audit, Compliance & Others) was held in Bengaluru on 24th and 25th October, 2018. It was decided that the Institute should document the suggestions given by our Cost Accountants whether working in industry or in practice, to their companies or clients **subject to maintenance of Cost Records or Cost Audit.** These suggestions must have benefitted the industry. We request our members to provide the same in the format of case study as per the guidelines given below-

1. Name of the Cost Accountant with Membership number, firm name, address and email id and contact number.

2. Photograph with high resolution should be provided by the Cost Accountant.

3. Name of the company to which the case study refers. This is optional and you may or may not give the name of the company. If the name is not provided, it will be called as ABC Company. If the name is provided, it is the responsibility of the concerned member to obtain the consent of the company.

4. Industry/ product /sector/ service to which the company belongs.

5. The write-up is to be given in the following format only

- Brief Background of the case study (Maximum 200 words)
- Suggestions given by the Cost Accountant (Maximum 150 words)
- Benefits derived by the company (Maximum 150 words)
- Microsoft Word Document Font Type – Arial, Font Size – 11 as attachment.

6. The case study should be forwarded to **CMA Tarun Kumar, Joint Director & Secretary (Technical Cell) on email id – technicalcell@icmai.in**

7. The last date for submission of the Case Study is 10th January 2019

8. The case studies received will be placed before the screening committee of Technical Cell.

9. A publication of the Case Studies is planned to be released in the forthcoming National Cost Convention of the Institute as Publication of Technical Cell of the Institute.

10. It is presumed that the cost accountant furnishing the case study has given his full consent for publication of the same by the Technical Cell of the Institute. Ensuring the norms of plagiarism will be the responsibility of the member and the Technical Cell will not be responsible for the same.

It is believed that such a published document will enhance the value of Cost Records and Cost Audit mechanism and will also recognize the contribution of CMAs in the growth of Industry and economic development of the country. It will also serve as guidance to the CMAs in identifying the areas of Value Addition through this Mechanism.

A model case study for the guidance of the members is annexed to this appeal.

We look forward to your full cooperation in this endeavor of Technical Cell of the Institute.

CMA (Dr.) Dhananjay V. Joshi
1st January 2019

Annexure

Model Case Study for the Publication of Utility of Cost Audit

1. **Name of the Cost Accountant with Membership number, firm name, address and email id and contact number.**

CMA Dr. Dhananjay V. Joshi

4923

Dhananjay V. Joshi & Associates (Firm Regn No. 000030)

"CMA Pride", Ground Floor, Plot No.6, S. No. 16/6,
Erandawana Co. Op. Hsg. Soc., Erandawana
Pune 411 004.

dvjasso@eth.net

Phones: M- +91 9422001082, (020) 2543 6408, 2545 3595.

Telefax : (020) 2543 6408

2. Photograph with high resolution should be provided by the Cost Accountant.

3. Name of the Company to which the case study refers. This is optional and you may or may not give the name of the company. If the name is not provided, it will be called as ABC Company. If the name is provided, it is the responsibility of the concerned member to obtain the consent of the company.

ABC Ltd.

4. Industry/ product/ sector/ service to which the company belongs.

Edible Oil – CTA 1507 to 1518

5. The write-up is to be given in the following format only

a. Brief Background of the case study (Maximum 200 words)-

The company was the manufacturer of "Vanaspti Ghee, Refined oils and Edible Oils". The process of manufacture of vanaspati ghee involves process of hydrogenation. Hydrogen gas was required as an input in the process of hydrogenation. Chemical formula of water is H_2O basically means that water contains 2 atoms of Hydrogen and 1 atom of Oxygen. It means two molecules of hydrogen and one molecule of oxygen. Together they make water. The company use to disintegrate water and hydrogen was separated out and used in the process of hydrogenation. The oxygen gas was released in the air. **(words 97)**

b. Suggestions given by the Cost Accountant (maximum 150 words)

It was suggested by the Cost Auditors that the oxygen gas which is released in the air can be a product by itself, if it is collected and bottled. This can fetch a large revenue for the company for which only additional cost will be that of bottling plant. The company immediately took the action and carried out technical study, feasibility study and financial projection and it was established that the suggestion from the cost auditor will be a large revenue earning activity for the company. Accordingly, based on the suggestions from the cost auditors the Oxygen plant was set up by the company. **(words 104)**

c. Benefits derived by the company (Maximum 150 words)

Large revenue and surplus was generated by sale of Oxygen gas cylinders by the company. It was also subsequently noticed that the cylinder cost which is in fact a capital item, the cost per cylinder was less than Rs. 5000/- and hence, the company could claim 100% depreciation in the first year of purchase of cylinders as per Companies Act 1956 Sch. XIV. Subsequently, these cylinders were rented out to the customers and as an industry practice, since the cylinders are returnable, large cylinder rentals could be collected as a running income for years together. The cylinders were estimated to have minimum 10 to 15 years useful life for which the rent could be collected. **(words 108)**

CMA H Padmanabhan
Council Member (2015-19)
Chairman, National Students' Convention 2019

Dear Professional Colleague,
Greetings from the Institute!!

I wish you and your family Healthy, Happy & Prosperous New Year 2019.

Trust this finds you and your beloved ones in good health and cheer.

We had already shared with you through our earlier mail that the Institute for the first time is organising National Students' Convention. It will be held on 6th Wednesday and 7th Thursday February 2019 at THRISSUR, Kerala, India.

The Regions, Chapters, Extension Centers of Chapters of the Institute, ROCCs and CMA Support Centers are hereby requested to bring it to the notice of the student fraternity.

PAN India similar competition is to be conducted for the student fraternity to participate, show their talent and skill. The Regions, Chapters, Extension Centre of Region or Chapter, ROCCs, CMA Support Centers and Institute HQ after the selection process should send maximum students to be part of the National Students' Convention to be held at Thrissur, Kerala, India on 6th and 7th February 2019.

The THREE common competitions suggested from our side to be organized at all places are as follows:

1. Paper Presentation (Topics related to the Profession and Management only)
2. Quiz Competition (Topics related to Corporate, Business Management, Economy and Profession only)
3. Elocution Competition (Topics of interest can be on Management, Corporate, Economy and Profession)

(Please note to conduct the competition for students of Foundation Course, Intermediate Course and Final Course separately)

The winners of the various competitions can be sent to the National Students' Convention by the Regions, Chapters, Chapter's EC, ROCCs and CMA Support Centers.

We are also pleased to share with you that GLOBAL CMA Student SUMMIT 2K19 Convenor is CMA Manas Kumar Thakur, Chairman T & EF and President ICAI 2016-17, CMA Suresh R Gunjalli, Chairman ICAI SIRC and CMA A Siddharth, Chairman Thrissur Chapter, ICAI are Co-Chairmen. CMA Sankar R Panicker, Secretary ICAI SIRC and CMA Jojo John Chungath, Secretary Thrissur Chapter ICAI are Co-Convenors of the Summit 2K19.

Thanks and Regards,

CMA H Padmanabhan
Email : pappaniob@gmail.com
hp – 9447855775 / 9551789321 / 7907454105

CMA Biswarup Basu
Chairman, Members in Industry Committee

Dear Professional Colleagues,

Greetings!!!

I am sure this will find you and your loved ones in good Health and Spirit.

I express my heartfelt thanks to the President, Vice President and my colleagues in the Council for giving me this great opportunity to serve the Institute as Chairman of the Members in Industry Committee (2018-19).

The Cost and Management Accountant professionals play very important roles in various industries across the Globe. The professional members of this Institute have the key role of facilitating organizations to achieve cost competitiveness and excellence in operations. This requires them to keep abreast the latest developments in various Industries and other business domains. The Institute is racing ahead with the changes that are taking place at a fast pace in tune with the Government policies, Economic developments and the evolving economic progress. The Institute is focused on building the right capacity of CMA professionals who would prove to be the right fit in industries across the world.

The Members in Industry Committee of the Institute, in its continuous endeavour to improve the services to the members, has started publishing an electronic journal, 'CMAs Industry Bulletin'. It provides to its readers valuable articles, interviews of corporate leaders and various economic updates and Industry focus. Contribution from distinguished industry experts and authors make it a media of knowledgeable resource and value addition for the readers. The Committee would be holding Webinars and Seminars inviting industry experts who would share their views with our participants for greater value addition to our profession. I request the members of the Institute to participate in the Webinars and Seminars in large numbers to make them successful. Keeping in view the objective of developing a professional body of members and playing a vital role in the context of providing leadership, the Committee would be embarking on programmes of sharing, disseminating and providing to various industries the valuable role of CMAs.

I request continuous support from every corner in the quest for value creation through the activities of this Committee. The Members of this Committee is continuously providing their valuable assistance and best efforts with their commitment for the betterment of the Institute.

Wishing you all a Happy and Prosperous New Year!!

Thanking you

With Warm Regards,

Biswarup Basu

CMA Biswarup Basu
1st January 2019

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016, Ph: +91-33-2252 1031/34/35
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003, Ph: +91-11-24622156/24618645

Toll Free: 1800 345 0092/1800 110 910 : **Website:** www.icmai.in

HAPPY NEW YEAR 2019

Members, Students, Employees & Well Wishers of the Institute
Wishing you a Happy, Healthy & Prosperous New Year 2019

JANUARY

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ONLY CENTRAL GOVT. GAZETTED HOLIDAYS*

JANUARY
26 Republic Day
MARCH
04 Maha Shivaratri
21 Holi
APRIL
17 Mahavir Jayanti
19 Good Friday
MAY
18 Buddha Purnima
JUNE
5 Id-ul-Fitr
AUGUST
12 Id-Uz-Zuha (Bakrid)
15 Independence Day
24 Janmashtami
SEPTEMBER
10 Muharram
OCTOBER
2 Mahatma Gandhi's Birthday
8 Dussehra
27 Diwali (Deepavali)
NOVEMBER
10 Milad-un-Nabi or Id-e-Milad (Birthday of Prophet Mohammad)
12 Guru Nanak's Birthday
DECEMBER
25 Christmas Day

* https://dopt.gov.in/sites/default/files/holiday%20list%202019%202_1.pdf

Mission
"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."

Motto
असतोमा सद्गमय
तमसोमा ज्योतिर् गमय
मृत्योर्मामृतं गमय
ॐ शान्ति शान्ति शान्तिः

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

The Journal started its journey in 1966

We have Expanded our Readership to 94 Countries

ISSN 0972-3528

Index Copernicus and J-gate Global Impact and Quality factor [2015]:0.563

UGC approved Journal [Journal No. 42202]

Behind every successful business decision, there is always a CMA

To
The Editor,
The Management Accountant
The Institute of Cost Accountants of India
Kolkata

Date: 18.12.2018

Dear Sir,

Congratulations on the excellent December issue on Corporate Social Responsibility (CSR). The company law requires the prescribed minimum application of the profits under section 135 of the Companies Act, 2013 for purposes listed in Schedule VII leading to all aspects of development for poor relief, education, empowerment of women, health care, environmental sustainability, enhancing vocational skill and other social business projects, besides matters which may be prescribed. But what is most deplorable is the effort to neutralise CSR by the Income-tax Department by moving in the reverse direction disallowing this compulsory expenditure in the computation of taxable income, burdening the taxpayer by enhancing the income by the CSR liability by insertion of an Explanaton to section 37(1).

The deduction for CSR was always permissible under the law, because such expenditure contributed to the improvement of the business by the publicity is attracted, so that there was a commercial advantage for it so as to be a deductible expenditure in computation of business income as decided in CIT v. Madras Refineries Ltd. (1997) 228 ITR 354 (SC). The expenditure which was found admissible by the Supreme Court on merits under the provisions of the income-tax law now also made mandatory under the company law is now specifically disallowed by the introduction simultaneously with the CSR by insertion of Explanation to section 37(1). The reason for the introduction of the disallowance given in Circular No.1 of 2015 (2015) 371 ITR (St.) 22 is truly amazing:

"13. Corporate Social Responsibility (CSR)

13.1 Under the Companies Act, 2013 certain companies (which have net worth of Rs.500 crore or more, or turnover of Rs.1000 crore or more, or a net profit of Rs.5 crore or more during any financial year) are required to spend certain percentage of their profit on activities relating to Corporate Social Responsibility (CSR). Under the existing provisions of the Income-tax Act, expenditure incurred wholly and exclusively for the purposes of the business is only allowed as a deduction for computing taxable business income.

13.2 CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company. Moreover, the objective of CSR is to share burden of the Government in providing social services by companies having net worth/turnover/profit above a threshold. If such expenses are allowed as tax deduction, this would result in subsidizing of around one-third of such expenses by the Government by way of tax expenditure."

The justification that the expenditure is for application of income and not for earning income is in direct contradiction to the decision of the Supreme Court in Madras Refineries Ltd.'s case (supra), which had pointed out that the expenses are incurred not only in discharge of responsibility of a corporate citizen, but it is linked with the benefit for its own employees besides providing drinking water facility for the residents around the area for refinery also earning goodwill among the local community, regulatory agencies and society at large with greater scope for business to succeed with the aid of such goodwill, so that it is also a commercially viable expenditure. It is a necessary expenditure in the modern concept of business as emphatically decided in this case.

This decision of the Supreme Court was followed in a number of cases. Unfortunately the persistent effort of the Income-tax Department to have it reviewed resulted in the Supreme Court remitting the matter to the High Court for considering the matter further (2009) 313 ITR 334 (SC) rendered on 8th September, 2008 more than ten years ago, so that the Income-tax Department continues to disallow such payments because of its pending review.

My comment on the above case on remission of this decision for fresh consideration in Income-tax Reports (2009) 313 ITR (Journal) 44 points out the law which was expected to be thenceforth to be followed as under:

"Business expenditure –Social welfare:

The Madras High Court in CIT v. Madras Refineries Ltd. [2004] 266 ITR 170 had held as under :

"The concept of business is not static. It has evolved over a period of time to include within its fold the concrete expression of care and concern for the society at large and the people of the locality in which the business is located in particular. Being known as a good corporate citizen brings goodwill of the local community, as also with the regulatory agencies and the society at large, thereby creating an atmosphere in which the business can succeed in a greater measure with the aid of such goodwill. Monies spent for bringing drinking water as also for establishing or improving the school meant for the residents of the locality in which the business is situated cannot be regarded as being wholly outside the ambit of the business concerns of the assessee, especially where the undertaking owned by the assessee is one which is to some extent a polluting industry."

The decision was heralded as a welcome judgment recognising expendi-ture incurred as a good corporate citizen in the light of modern concept of business, where social responsibility is stressed. Social accounting and social audit having become an integral part of modern business, apart from its value for neutralising adverse reaction against the pollution that might be generated by the business, which was a refinery in this case. This decision was followed in Cheran Engineering Corporation Ltd. v. CIT [1999] 238 ITR 892 (Mad), where a contribution to labour welfare fund to ensure strike-free service from labour was found deductible in the context of expenses of labour welfare generally construed as deductible. In addition, a similar view was taken in Chennai Petroleum Corporation Ltd.' case, which was also heard along with the appeal in Madras Refineries' case (supra) and Cheran Engineering Corporation's case (supra) in CIT v. Madras Refineries Ltd. [2009] 313 ITR 334 (SC). The decisions of the High Court were found to be lacking in reasoning in a short judgment, so that they were remitted back to the High Court for fresh examination. In all these cases, the finding was that the expenses were in the course of business for purposes of business in its contemporary perspective. Social responsibility is expected from Corporations by the public as part of business ethics as compensation for pollution and other stresses caused in the neighbourhood. It is hoped that these sound decisions would not be reversed in fresh hearings ordained by the Supreme Court."

The amendment seeks to neutralize the existing favourable judgement. Further it provides an enhanced base for reckoning the liability to tax by disallowance of an expenditure legitimately incurred for the purposes of business apart from its being mandatorily required to be spent under the company law. It is necessary that trade and industry and the professional associations should point out the anomaly in introducing a provision which is constitutionally vulnerable by requiring n artificial definition of income requiring the taxpayers to bear the expenses legitimately incurred in their businesses promoting the objective of the Government. This needs review. Any discussion on the subject of CSR cannot possibly ignore the adverse self-contradictory policy of the Government.

There are even cases, where an expenditure may be overlapping in that they may fall within the scope of Corporate Social Responsibility (CSR) expenditure, but at the same time allowable under section 80G or 80GGB, where it is for a purpose, which permits deduction as a business expenditure or otherwise specifically admissible as a deduction. However, in respect of donation to Rajiv Gandhi Relief and National Welfare Trust, it was found that it is deductible under section 37 and/or section 80G on merits. It is in this context, it was found, that the Income Tax Act will override other enactments including Companies Act, a view, which would favour deduction of certain expenditure under the Income Tax law, though not admissible as CSR expenditure, which is to be disallowed under Explanation 2 to section 37(1). In a case, where the assessee had incurred expenditure of Rs.1.92 crores on corporate social responsibility (CSR), it was disallowed by the Assessing Officer but allowed in first appeal, since the genuineness of expenditure had not been doubted. The Tribunal found that the amendment to section 37 by the Finance Act, 2014 had put an embargo on admissibility of such expenses, but the assessment in this case related to a year prior to this amendment, which was not retrospective and that at any rate, where a claim is found admissible in view of the fact, that it was for welfare of local community, which thereby improved the corporate image of the assessee to the future of the assessee in Dy.CIT v. Godawari Power and Ispat Ltd. (2018) 68 ITR (Trib)(S.N.) 19 (Raipur) following Dy.CIT v. Hira Ferro Alloys Ltd. I.T.A.Nos.358 to 360/RPR/2014 dated January 1, 2018.

Yours faithfully,
(S. Rajaratnam)
Chennai

ICAI-CMA SNAPSHOTS

Inauguration of CMA Bhawan at Pune at the auspicious hands of Shri Prakash Javadekar, Union Minister Human Resource Development.

National Seminar organised by WIRC of the Institute on New India 2022 on 23rd & 24th November 2018 at Y B Chavan Centre, Mumbai

CMA Amit A. Apte, President of the Institute,
Dr. A.R. Deshmukh, MD, Maharashtra State Cooperative Bank,
CMA Laxman D.Pawar, Chairman WIRC,
CMA P.V. Bhattad, Past President and CCM of the Institute,
CMA Debasish Mitra, Chairman
P D Committee WIRC, CMA Pradip H.Desai,
Vice-Chairman WIRC, CMA Shriram N. Mahankaliwar, Secretary
WIRC and CMA Harshad Deshpnade, Treasurer WIRC during
inaugural session of the seminar.

Release of Souvenir by eminent dignitaries at the seminar.

Asansol Chapter organized an Annual Seminar-2018 on 2nd December, 2018 at Confluence, Burnpur on the theme "MAKING NEW CORPORATE INDIA-CMAs as ENABLERS"

Chief Guest, Shri Prem Sagar Mishra, CMD, ECL, CMA Sanjiv Soni, Director (Finance), ECL, CMA Amit Anand Apte, President of the Institute, CMA Balwinder Singh, Vice President of the Institute, CMA PVS Jagan Mohan Rao, Vice President SAFA, CMA S.K. Bhattacharyya, Chairman EIRC, CMA Amal Hom Ray, Chairman of the Chapter, CMA SP Padhi, Former Chairman, EIRC and CMA Aloke Bardhan, Dy. Director, SFIO were among eminent dignitaries present during the seminar.

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1. CMA Balwinder Singh, Vice-President and Chairman, CASB of the Institute inaugurating the Seminar on Cost Governance in Dehradun on 7th December 2018 in the presence of other dignitaries.

2. CMA Balwinder Singh, Vice-President and Chairman, CASB of the Institute addressing the participants during the Seminar on Cost Governance in Dehradun on 7th December 2018.

3. CMA Amit A. Apte, President of the Institute addressing Professional members and Industrialist in a seminar organised by PD & CPD Committee of the Institute with Tamil Nadu Small and Tiny Industries Association (TANSTIA) at Guindy Chennai on 06th December 2018. Shri KT Raghavan, Secretary State, BJP and Senior Advocate, High Court of Madras graced the seminar.

4. CMA P. Raju Iyer, Chairman Professional Development &CPD committee, Shri M. Hindunathan, General Secretary, TANSTIA, CMA Amit A. Apte, President - ICAI, Shri KT Raghavan, Secretary State, BJP and Senior Advocate, High Court of Madras and Shri S. Anburajan, President TANSTIA at PD & CPD Committee seminar with Tamilnadu Small and Tiny Industries Association (TANSTIA) at Guindy Chennai on 06th December 2018.

5. Participants attending, PD & CPD Committee seminar with Tamilnadu Small and Tiny Industries Association (TANSTIA) at Guindy Chennai on 06th December 2018.

6. CMA H Padmanabhan, Council Member and Chairman, Banking and Insurance Committee of the Institute addressing in Insurance seminar on December 27, 2018 at CMA Bhawan, Chennai.

CMA Jyothi Satish, Vice Chairperson, SIRC, CMA M Gopalakrishnan, Former President of the Institute, CMA Suresh R Gunjalli, Chairman, SIRC, CMA Dr V Gopalan, Director, Janhar Management Consultancy Pvt Ltd and the Resource Person and CMA K. Suryanarayanan, Treasurer SIRC are also seen on the dais.

7.CMA M Gopalakrishnan, Former President of the Institute and Resource Person, CMA Dr V Gopalan inaugurating Insurance Seminar on December 27, 2018 at CMA Bhawan, Chennai with CMA H Padmanabhan, Council Member & Chairman Banking and Insurance Committee of the Institute and other eminent dignitaries.

8.CMA M Gopalakrishnan, Former President and Chairman, Insurance Seminar addressing in the presence of Resource Person CMA Dr V Gopalan, Director, Janhar Management Consultancy Pvt Ltd, CMA S Bhargava, DGM Costing, Apollo Hospitals Chennai, CMA Suresh R Gunjalli, Chairman, SIRC, CMA Jyothi Satish, Vice Chairperson, SIRC and CMA H Padmanabhan, Council Member and Chairman, Banking and Insurance Committee of the Institute at Insurance seminar on December 27, 2018 at CMA Bhawan, Chennai.

Glimpses of 3-Day National Seminar on Taxation organized by Tax Research Department & Bhubaneswar Chapter on "Reformed Taxation System- Catalyst to Sustained Economic Growth" 21-23 December, 2018, KIIT University, Bhubaneswar, Odisha

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DIGITAL BANKING – JOURNEY OF A NATION

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Abstract

Banking sector play a very crucial role in the financial system of an economy. It facilitates the creation and maintenance of a robust payment system to meet the requirements of businesses, the government and general public. It also serves as a credit delivery mechanism, which can be accessed by those who are in need of funds. Overall, the banking sector represents the centre of the economic activities of a nation Thus, a strong and healthy banking system is essential for economic growth. The Indian banking sector, at present is witnessing an IT revolution and is heading towards digitalisation. The internet and IT has entirely changed the way of functioning of banks and the financial institutions.

The Information technology was introduced in the Indian banking sector in the late eighties. However, current phase of IT revolution is more intense and impactful, which probably has the potential to change not only the banking landscape, but the overall structure and direction of the economy. The modernization of banking sector, after the introduction of IT and internet has benefitted both the customers as well as banks. The banking now is not just limited to transactions in the branches, but it has made its way into hand held devices like smartphones and tablets. The current phase of banking may be aptly called as 'Digital Banking'.

"If your business is not on the internet, then your business will be out of business."

Bill Gates

Background

The world in which we are living is continuously on the move. It is changing every day and consequently compelling us to change the way we live. Every now and then a new invention, innovation or technology is finding its way into our life and effecting a change in our lifestyle. Technology has become an essential part of our life and it is definitely having its impact on every facet of our life. With each passing day, we are becoming more and more dependent on technology for our daily needs.

If we have to single out and name one such technology which has changed the world in the last 50 years or so, then unquestionably it has to be internet. After the introduction of internet and its subsequent widespread popularity and use, almost all the inventions and innovations have been focused around the usage of internet.

The internet has revolutionized the computerized communications world like never before. It is at once a worldwide broadcasting capability, a mechanism for information dissemination, and a medium for collaboration and interaction between individuals and their computers with regard to geographical location. The internet represents one of the most successful examples of the benefits of sustained investment and commitment to research and development of information infrastructure.

The internet and IT has completely changed the way the business is done. The customer perception towards the business has also changed. They expect that business should not only provide quality goods and services, but those should be delivered at a lightning speed. To meet the ever increasing expectations of the customers combined with rising competition in the market and to survive in an environment of technological innovations, businesses need to act proactively and evolve themselves continuously.

The role of financial sector plays is a very crucial one in the economic development of a nation. And banking sector can be considered as the lifeline of an economy. It facilitates the creation and maintenance of a robust payment system to meet the requirements of businesses, the government and general public. A strong and healthy banking system is essential for economic growth. The Indian banking sector, at present is witnessing an IT revolution and is heading towards digitalisation. The internet has completely changed the way of functioning of banks and the financial institutions.

The Information technology was introduced in the Indian banking sector in the late eighties. However, current phase of IT revolution is more intense and impactful, which probably have the potential to change not only the entire banking landscape, but the whole of the economy. The modernization of banking sector, after the introduction of IT and internet has benefitted both the customers as well as banks. The banking now is not just limited to transactions in the branches, but it has made its way into hand held devices like smartphones and tablets. The current phase of banking may be aptly called as 'Digital Banking'.

Objective

The objective of the present paper is to discuss the emergence of Digital banking landscape in India and the challenges which are lying ahead, which need to be tackled so that the nation can go ahead in the path of becoming a digital economy.

Digital Banking

We are familiar with the term 'E-Banking', which is also known as Online Banking or Virtual Banking or Internet Banking. It is a system which enables banking transactions like transfer of funds, payment of loans and EMIs, deposits and withdrawals of cash virtually with the help of internet and without having the need to visit the bank branches. Under e-banking, a customer can get the benefit of a number of services like Internet banking, SMS banking, ATMs, Mobile banking, e-cheques and debit/credit cards.

Digital banking is another term which is often used as synonymous to e-banking. Both the terms are used interchangeably. But strictly speaking, digital banking means no or very minimal use of paper currency. However, the paper currency is still very much in use. At present ATMs are vital part of the banking system, which facilitate customers in withdrawal of cash as and when there is a need. A digital economy is one where cash transactions are very less.

Generally we consider cash as something which is free. However, use of cash comes at a significant cost. A research article by Harvard Business Review titled "The countries that would profit most from cashless world" explains about the cost of cash. The cost of cash include cost to consumers (including ATM fees, money changers etc. and the implicit cost of time spent to collect cash), cost to businesses (for handling cash and ensuring its security and transportation to safe locations), cost to banks and other institutions (for moving and storing cash, operating and maintaining ATMs), and cost to government (from foregone tax revenues and costs of printing money. India's cost of cash sore among the highest in a global comparison.

Now imagine a banking system where use of cash is very less. This will result in massive reduction in costs benefitting both the banking sector as well as the customers.

Going Digital – Indian Banking Sector

Earlier manual system of recording and retrieval of banking data was in use. Nowadays, all banks have adopted the use of electronic banking. It has become a rule rather than an exception. Under traditional banking, the functions of the banks were more or less limited to accepting deposits and giving loans and advances. With the advent of Information Technology, the banking and financial sector has moved forward and we are witnessing innovation in the product designing and their delivery to cater to needs of the customers.

The need for computerization was felt in the Indian banking sector in the late 1980s in order to improve customer service, book keeping and MIS reporting. Reserve Bank of India set up a Committee on Computerisation in banks in 1988, which was headed by Dr. C. Rangarajan. The report of the committee was the most comprehensive road map for bank automation paving the way for computerization in banks.

The game changer was the introduction of new economic policy in 1991. In the same year, the recommendations of the Committee on Financial System, headed by former RBI Governor M. Narasimham were implemented. One of recommendations of the Committee was to allow the entry of foreign and private players in the Indian baking sector. These players changed the entire banking landscape. They brought in new and advanced technologies and started delivering technology based world class quality services to the customers through Automated Teller Machines (ATMs), credit cards and internet banking.

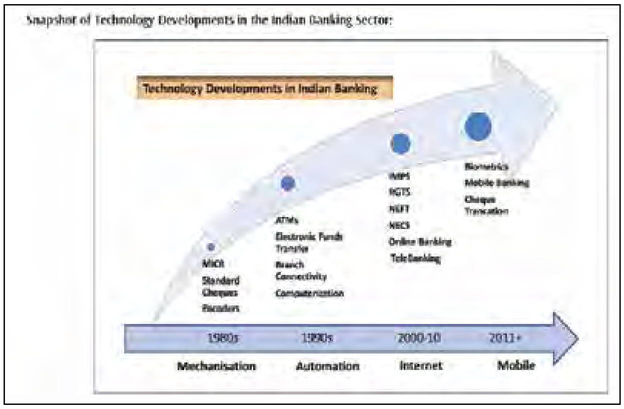
It was the beginning of an era, where the rigorous use of IT in banking was to become a norm.

At the initial phase, banks used IT with the introduction of standalone PCs and then there was a gradual shift to LAN connectivity. With the passage of time, there was further advancement and the banks adopted the Core Banking platform. With this, there was a change in the way banking was done as the banking transformed from Branch banking to Bank banking. Core Banking Solutions (CBS) enabled the banks to enhance the convenience of customers through anywhere and anytime banking. A number of CBS platforms started to gain popularity which included FINACLE by Infosys, BaNCS by TCS, FLEXCUBE by I-flex.

As mentioned earlier, opening up of economy in 1991, to a very great extent, helped the process of computerization in the banking sector gain pace. The public sector banks, which were sailing smooth until now, were suddenly facing the storm of competition from the new entrants, i.e., private sector and foreign banks. These new entrants started operating with advanced and new age technologies providing smoother and faster services which started attracting more and more customers towards them. The public sector banks were left with no other option but to upgrade themselves to counter the moves of the private and foreign banks and remain competitive and relevant in the market.

There is no doubt that customers were the ultimate beneficiary of this new approach of the banks as they experienced a new and wider range of services, which were provided through innovative channels and at a faster pace than what was done earlier. But banks themselves were also benefitted by adopting newer technologies. Ever increasing cost of operations is a major challenge for banking sector, which magnified with increased competition after the entry of private and foreign banks. E-banking has resulted in reducing costs drastically and also helped the banks to generate revenue through various channels. As per estimates, cost of a bank transaction on Branch banking is in the range of Rs. 70 to Rs. 75, while it is around Rs. 15 to Rs. 16 on ATM, Rs. 2 or less on online banking and Rs. 1 or less on mobile banking.

The trends and progress in the technology developments in the Indian Banking sector is show:



Source: The Management Accountant, January 2017

The picture is quite clear from the above. After 2011, the digital banking wave has been driven mainly by mobile phones. The increasing sale of smartphones, introduction of high speed 4G internet services and huge number of young tech-savvy users are the combined factors which are clear indication of the direction in which the digital banking bandwagon is heading. As per a study by eMarketer, a US based market research firm, the number of smartphone users in India was 291.6 million by the end of 2017, which is expected to increase to 337 million by the end of 2018 and to 500 million in 2020. These numbers itself suggest there is huge scope for all digital players including banks and FIs.

Moreover, the government of India is aggressively promoting digital transactions. The launch of United Payments Interface (UPI) in April 2016 and Bharat Interface for Money (BHIM) in December 2016 by National Payments corporations of India (NPCI) are significant steps for innovation in the payment system domain. UPI is a mobile interface where people can make instant funds transfer between accounts in different banks on the basis of virtual address without mentioning the bank account. It allows instant, seamless fund transfer between bank accounts using a smartphone.

In August 2016, around 93,000 UPI transactions (cumulatively valued at Rs.3.1 crore) took place through 21 banks. This, in July 2018, multiplied manifold to 23.5 crore transactions (valued at Rs. 45,843 crore) through 114 banks. The shift towards UPI gathered pace post-demonetisation, when there was a scarcity of cash in the market.

BHIM app, which was launched in December 2016 has also seen a huge jump in the transactions from a mere 43,000 at the beginning to 1.64 crores in July 2016. The value of transaction has increased to Rs. 6692 crores from

Rs. 1.83 crores. It saw 5 million downloads within a week of its launch. It has reached more than 32 million downloads now.

Demonetisation Effect

The story of digital transformation of Indian economy is incomplete without a chapter on demonetization. 8th November 2018 was an eventful day not only for the Indian economy, but for the whole of India. The central government took a very bold step which led to withdrawal of 86 percent of Indian currency. There was an immediate ban on highest denomination bills of Rs 500 and Rs 1000. Due to this sudden move, there was immediate shortage of cash in the market. As a result retail sales went down, wholesale markets tumbled.

Indian economy is one of the largest economies in the world. But there are millions of businesses and hundreds of millions of people having either no access to banks or don't have bank accounts. These businesses use cash for their day to day dealings and the individuals need cash to pay for everything from groceries to hospital stays to land purchases.

Then there is a shadow economy which exists alongside the main economy comprising of countless hidden transactions, which are almost impossible to trace. This shadow economy, which is believed to be about a quarter of the country's Gross Domestic Product, operates in cash. The current demonetization exercise is not the first one in India. A similar attempt was made in 1970s to curb the corruption, but eventually it failed in its purpose. Since then, the shadow economy or the underground economy has grown immensely.

The main objective behind the whole demonetization exercise was to curb the menace of black money and weeding out the counterfeit currencies out of circulation. However, it went out to serve another useful purpose. It pushed people towards digital money as they searched for alternatives of cash.

The result of the demonetization was a situation of chaos with people standing in long queues outside the bank branches to exchange their old currency notes which were no longer a legal tender. To reduce the discomfort of the general public, the government continued expanding options for digital payments to reduce the economy's dependence on cash. Non-cash payments saw a surge immediately following the enactment of demonetization policy in November 2016, when cash circulation fell by two-thirds. Digital transactions volume grew 43 percent between November and December 2016.

The government set a target of Rs. 25 billion cashless transactions for the fiscal year ending March 2018. According to a report, by the end of March 2018 digital initiatives such as digital wallet payments, electronic toll payments, Aadhaar-based and bank-to-bank electronic money transfers accounted for about Rs 20 billion worth of transactions, but fell short of the target. The performance of private sector banks was better than the public sector banks primarily on account of the concentration of their operations in urban areas. Even though the target was not achieved, the standalone figures indicate that the achievement is commendable.

Challenges Ahead

The demonetization exercise has given a much needed push to the Indian economy towards going digital. However, the journey is not a cakewalk, as there are many challenges ahead. Some of these challenges are discussed below:

1. Internet Penetration

As per a report titled "Internet in India 2017" by Internet and Mobile Association of India (IAMAI) and Kantar IMRB, the number of Internet users stood at 481 million in December 2017, which is second highest in the world. Urban India with an estimated population of 455 million has 295 million internet users whereas rural India, with an estimated population of 918 million as per 2011 census, has only 186 million internet users leaving out potential 732 million users in rural India. This indicates a very low internet penetration, which is a major obstacle in the path of digital banking.

2. Internet Shutdowns

Internet shutdowns are one of the major hindrances in seamless connectivity which is required for digital banking. In the current year, India has already witnessed 95 internet shutdowns as against 79 such cases in the whole year of 2017, as per the data compiled by Software Freedom Law Centre (SFLC), a legal services organization. Although the problem of shutdown exists across many states, Jammu & Kashmir and Rajasthan are leading states. Frequent internet shutdowns result in serious disruptions and tremendous loss to individuals and businesses, and may prevent the nation from realizing the benefits of digital economy.

3. Inadequate Infrastructure

India is having the highest number of bank branches in the world, but people in rural areas still have to travel miles to access banking interface. Although India is a huge country, it has only 2.3 lakh ATMs and 14 lakh Point of Sale (PoS) terminals. Though digital channels like apps, websites, SMS/Text, ATM, video teller machines (VTMs) and e-kiosks are narrowing the gap between banks and customers, rural Indians are more comfortable with physical cannels.A 2015 Ernst and Young report said there were only 693 machines per million of India's population, compared to similar emerging countries such as Brazil, which has 32,995 terminals per million people and China and Russia, each of which has around 4000 terminals per million people. Number of ATMs per million population has been growing in almost every country. There are countries with 1,000-plus ATMs per million population –South Korea (2423 ATMs), Canada (1859), France (1745), Russia (1537) and Australia (1338) – while the number is 180 for India, which is lower than China (538) and South Africa (516).

4. Financial Literacy

A survey was conducted by Standard & Poor's Financial Services LLc, where it was found that 76 percent of Indian adults are unable to understand key financial concepts, which is seven percentile points lower than the worldwide index. With better financial literacy will help these individuals in the selection of products that best suits their requirements. A financially aware individual is more likely to adopt the digital banking services and channels.

5. Cyber Crime and Security

Digital banking has brought in comfort, convenience and flexibility in banking services. The flip side is that it has increased the risk of cyber crimes. Most banking and financial applications are subject to cyber-attacks. With so much money at stake, there is always a risk involved. There are hackers who employ innovative techniques to siphon funds, either as large amounts in a single shot, or minuscule amounts from hundreds and thousands of accounts, over a long period of time. Also, there is always the threat of valuable personal data being compromised. Banks need to ensure that their system is well maintained and upgraded to counter any threats from cyber crimes.

Conclusion

Indian economy has come a long way from late 1980s when the computerization in banking sector has just begun to the present era of digital banking where smartphones are ruling.

The demonetization exercise of November 2016 was very much instrumental in giving a push to the economy towards going digital. Although, cash is still considered very much essential by the customers, the popularity of alternate modes of payment like mobile wallets and platforms like UPI and BHIM app is on the rise.

There is little doubt that digital banking has brought in amazing customer experience with significant improvement in the delivery of banking services. However, Indian banking sector will have to overcome many challenges to make digital banking pervasive. Internet connectivity and associated digital infrastructure is to be ensured for making the digital dream a reality. Then there is the risk of cyber threats which may cause significant disruptions in the banking services apart from risks related to sensitive customer information and internet frauds. It will be interesting to see how these challenges are dealt with by the banking sector. The government and other stakeholders have an important role to play here. That will decide the pace and direction of the digital journey of our nation. MA

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NPA WOES IN INDIAN BANKING SECTOR

–A CASE STUDY

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Reserve Bank of India said today that banks will witness further deterioration in their non- performing assets (NPAs) or bad loans due to the 'economic situation prevailing" in the current fiscal.

Abstract

The issue of non performing resources has been talked about finally for monetary framework everywhere throughout the world. The issue of NPAs isn't just influencing the banks yet in addition the entire economy. Indeed abnormal state of NPAs in Indian banks is only an impression of condition of wellbeing of the business and trade.NPA mirror the execution of banks. An abnormal state of NPAs recommends high likelihood of an extensive number of credit defaults that influence the gainfulness and net worth of banks and furthermore disintegrates the estimation of the advantage. The NPA development includes the need of provissions, which diminishes the general benefits and investors esteem. In managing an account industry both Public and Private part banks assuming indispensable job in serving the general population. However both the said areas struggling with the issue of non performing resources in their monetary records. Indian bank's gross non-performing assets (NPA's), or terrible loan, stood at Rs.10.25 lakh crore as on 31st walk 2018. On quarter, the heap has developed by Rs.1.39 lakh crore or 16 percent from Rs.8.86 lakh crore as on 31st December 2017. For monetary year 2018, the aggregate terrible advances of these banks ascended by an astounding Rs.3.13 lakh crore. Among the bank groups, PSB's GNPA proportion may increment from 15.6 percent in March 2018 to 17.3 percent by walk 2019 under extreme pressure situation. While PVBs (private banks) GNPA proportion may ascend from 4 percent to 5.3 percent, the CRAR (Capital to Risk weighted Assets) proportion may descend from 13.5 percent to 12.8 percent amid the period. The present paper is led to introduce the NPA Performance of select banks in both public sector and private sector in late time.

Introduction

The issue of nonperforming assets (NPAs), the reason for the worldwide budgetary crisis essentially like an energizing ride does, has deserted some with a flood of adrenaline and others understanding wiped. The growing level of NPA asks for the need of courses of action to the detriment of net income and banks publicize regard.

What is NPA?

The benefits of the banks don't perform (suggests – don't bring any entry) are called nonperforming assets or horrendous credits. Banks assets are the credits and advances given to customers. In case customers don't pay either interest or part of principle or both, the credit changes into horrendous development.

As shown by RBI, the term credits on which interest or part of preeminent remain late for a period of more than 90 days from the complete of a particular quarter is called Non Performing Asset.

Reasons for the rise in NPA in recent years

- Relaxed lending norms especially for corporate honchos.
- GDP Slow down.
- Priority sector lending.
- Majority of credit to the industries.

Objectives of the Study

1. To know the NPAs of various public and private sector banks in the year 2018.
2. To present the remedies taken by RBI and Government to overcome the problem of NPAs.

Research Methodology

The data for the current study has been collected from the RBI reports, annual reports of various banks and other news bulletins, websites of selected banks.

Sample of the Study

From each sector i.e. public and private sector 5 banks has been selected based on the convenience sampling.

Analysis of the Study

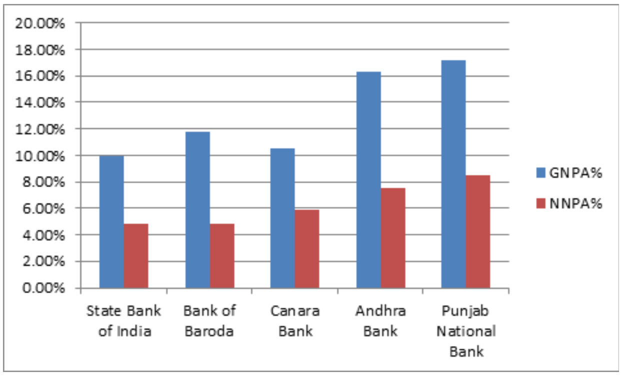
The below table 1.1 represents the gross NPAs and Net NPAs of selected public sector banks during September quarter 2018.

Table 1.1 PUBLIC SECTOR BANKS NPAs

BANK	GNPA%	NNPA%
State Bank of India	9.95%	4.84%
Bank of Baroda	11.78%	4.86%
Canara Bank	10.56%	5.92%
Andhra Bank	16.36%	7.49%
Punjab National Bank	17.16%	8.45%

Source: moneycontrol.com

Graph 1.1 NPAs of select Public Sector Banks



From the above examination, it has been seen that the both GNPA and NNPA of the Andhra and Punjab national bank high contrasted with that of staying three chosen open segment banks. Punjab national bank has been going under the misfortunes according to past reports. The PNB made arrangements and possibilities of 17.16 % (Rs.81,250.83 crore) as GNPA and 8.45% as NNPA toward the finish of the September 2018..Coming to the Andhra Bank, it has uncovered a net misfortune in the past quarter ,the central reason referred to for this gigantic misfortune was the higher non-performing resources .Andhra bank had an augmented gross NPA with 16.36% and Net NPA with 7.49%. The canara bank sees enhancement in awful credit proportions in coming quarters. The bank sees its gross non-performing advantages for associate with 9 percent and net NPA to be beneath five percent before the finish of this financial year. The bank taking great move in recuperating its awful credits from different enterprises. Bank of Baroda is a turnaround bank that has been enhancing its execution quickly. The BOB is likewise one PSB which is keeping up more beneficial asset report in late time, BOB is in third position in the said test in keeping up the less NPAs. SBI GNPA declined from walk quarter June quarter i.e. from Rs.2,23,427 to Rs.2,12,840 crore as on June 18. Contrasted and the walk quarter, the bank has seen minor enhancement in the NPA proportion. On the credit recuperation as well, the bank has seen some alleviation and that decrease in NPAs proceeded in September quarter moreover. The gross NPAs enhanced a consecutive premise to 9.95% at September end contrasted and 10.7% in the past quarter.

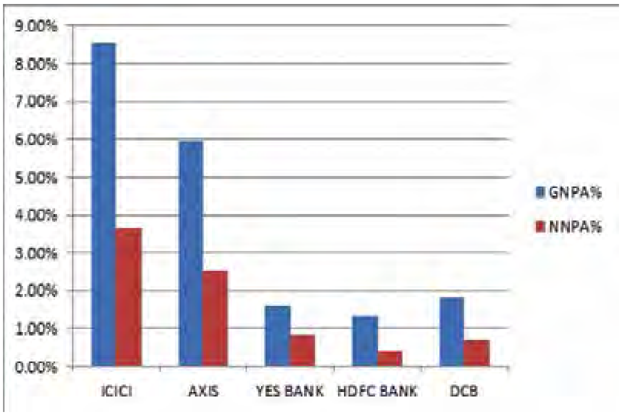
Table 1.2 Private Sector Banks NPAs

BANK	GNPA%	NNPA%
ICICI	8.54%	3.65%
AXIS	5.96%	2.54%

BANK	GNPA%	NNPA%
YES BANK	1.60%	0.84%
HDFC BANK	1.33%	0.40%
DCB	1.84%	0.70%

Source: moneycontrol.com

Graph 1.2 NPAs of select private Sector Banks



Net Nonperforming resources of India's biggest private division bank i.e.ICICI by resources became 22.5% to Rs.54,486.96 crore for the quarter finished 30 September against Rs.44, 488.54 crore in the year-back period. As a level of aggregate advances GNPA remained at 8.54% in the September quarter contrasted and 8.81% in the June quarter and 7.87% in the year – back September quarter.

The Axis bank's gross non-performing resources (NPA) proportion – awful advances as a level of gross advances – remained at 5.96%, the bank seeing an enhancement in the general resource quality condition and every single key metric, for example, new NPA development, recuperations, credit expenses, and NPA proportions, keep on observing solid enhancement.

The Yes bank resource quality standpoint stable, extent of NPAs down in a year. The bank net NPA have declined to 1.35 percent as on September 2018 from 1.82 percent the year prior.

HDFC bank India's biggest bank by market capitalization and second biggest loan specialist by resource estimate got 20 percent ascend in the benefit after duty for the money related year 2018-19. On the benefits front, HDFC Bank's NPA proportions were steady, when contrasted with on a quarterly premise.

The DCB NPA appears responsible for the administration; the gross non-performing resource was 1.84 percent of gross advances toward the second's end quarter contrasted with 1.8 percent toward the finish of September 2017. Net NPA, in any case, diminished to 0.7 percent from 0.9 percent which is great sign for the eventual fate of the advantage quality administration of the bank.

H0: There is a significant difference between the GNPAs of select public sector and private sector banks.

Table.1.3

Particulars	Public sector banks	Private sector banks
Mean	13.162	3.854
Variance	11.3021	10.4753
Standard deviation	3.3619	3.2366
N	5	5
t	4.46	
Degrees of freedom	8	
Critical value	2.306	

Result: As the calculated t exceeds the critical value (4.406>2.306), it is concluded that there is the significant difference between the gross nonperforming assets of the public and private sector banks.

H1: There is a significant difference between the NNPAs of select public sector and private sector banks.

Table.1.4

Particulars	Public sector banks	Private sector banks
Mean	6.312	1.626
Variance	2.5969	1.9776
Standard deviation	1.6115	1.4063
N	5	5
t	4.8991	
Degrees of freedom	8	
Critical value	2.306	

Result: As the calculated t exceeds the critical value (4.8991>2.306),it is concluded that there is the significant difference between the Net non performing assets of the public and private sector banks.

Highlights

- The State Bank of India (SBI) the country's greatest open part advance expert, recorded its most imperative non-performing asset (NPAs) of Rs. 1.1 lakh crore in 2017-18,almost comparable to what it had selected in the earlier decade, as shown by information available through Bank's yearly report.
- Referring to the 11 state – asserted banks under its incite helpful movement framework (PCA), the RBI said that they may contribution" an intensifying of their GNPA extent from 21 percent in March 2018 to 22.3 percent by this financial end.
- The offer of immense borrowers in SCBs indicates credit portfolios and likewise their offer in GNPAs declined scarcely between September 2017 and March 2018.
- The GNPA extent in the Industry part rose from 19.4 percent to 22.8 percent between last September and March 2018 while concentrated on advances extent extended from 23.9 percent to 24.8 percent.
- The Indian banks GNPAs or horrendous credits stayed at Rs.1.25 lakh crore as on 31st March 2018. On quarter, the load has created by Rs.1.39 lakh crore or 16% from Rs.8.86 lakh crore as on 31-12-2017.

Measures Taken by RBI and Government to Curb NPA

a) Short term Measures

- A separate of the NPAs shows that 21 open division banks saw their horrendous credits stack create by Rs.1.19 lakh crore to Rs.8.97 lakh crore in the March 2018 quarter, appeared differently in relation to December 2017 figures, while that of 18 private banks overwhelmed by Rs.19,446 crore or 17.9 percent to Rs.1.28 lakh crore in the March 2018 quarter from Rs.1.09 lakh crore in the December 2017 quarter.
- The net horrible credits of these banks stayed at Rs.5.18 lakh crore in the March 2018 quarter as against Rs.4.69 lakh crore in the December 2017 quarter.

Review of NPA'S/Restructured progresses We have to survey the suitability case by case. Practical records should be given more back for turnaround and unviable records ought to either be given to Asset Reconstruction Company or Management/proprietorship rebuilding or allowing banks to assume control over the units.

- Bankruptcy code ought to be passed as quickly as time permits. Liquidation code will make it less demanding for banks to recuperate credits from unviable undertakings.
- Government ought to set up Asset Reconstruction Company (ARC) with value commitment from the administration and the Reserve Bank of India (RBI). The set up ARC should take the tumor (of non-performing resources or NPAs) out of the keeping money framework. An ARC procures terrible credits from banks and budgetary establishments, more often than not at a markdown, and attempts to recoup them through an assortment of measures, including offer of benefits or a turnaround controlled by expert administration. Mitigated of their NPA load, the banks can center around their center action of loaning.

(b) Long term Measures

- Improving credit hazard administration, this incorporates credit examination, credit observing and productive arrangement of settling responsibility and investigating patterns in gathering influence to which the getting firm has a place with:
- Sources/structure of value capital-Banks need to see that advertiser's commitment is supported through value and not obligation.
- Banks should direct vital affectability examination and possibility arranging while at the same time assessing the activities and it should fabricated sufficient protections against such outside variables.
- Strengthen credit checking Develop an early cautioning component and exhaustive MIS (Management Information System) can assume an imperative job in it. MIS must empower opportune location of issue accounts, hail early indications of wrongdoings and encourage auspicious data to administration on these angles.
- Enforce responsibility Till now bring down ring authorities considered responsible despite the fact that advancing choices are taken at more elevated amount. In this way endorse authority ought to likewise share the weight of duty.

- Restructured records should regarded as non performing and specialized benefits where Banks expel NPA'S from their accounting reports Permanently ought to be shed.

- Address corporate administration issues in PSB. This incorporate express fit and legitimate criteria for arrangement of best administrators and organizing arrangement of an open market wide look for Chairman.

Conclusion

Non-performing resources have dependably been an issue for the Indian banking sector as it is having a coordinate effect on the benefit of the banks. The disappointment of the keeping money division may have an antagonistic effect on different segments. Along these lines, there is a need to guarantee that the banks make legitimate strides to determine it, in this manner guaranteeing reasonable and effective recuperation of credits so keeping money division proceed to work without pressure. The investigation uncovers that the degree of NPAs is relatively more in open division banks when contrasted with private area banks. The administration is making numerous moves to lessen the issue of NPAs however banks ought to likewise must be more proactive to receive a organized NPAs approach to keep the non-performing resources and ought to pursue stringent measures for its recuperation. Investors ought to likewise think about the ROI on a proposed undertaking and give advances to clients who have better acknowledge value as aversion is in every case superior to fix. MA

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INSOLVENCY & BANKRUPTCY CODE - THE BIGGEST REFORM IN BANKING

Abstract

The advent of Insolvency legislation, "Insolvency and Bankruptcy Code,2016", is indeed a big shot in the arm for banking industry. Speed is essence of this Code. All this exercise under new Code is to maximization of value of assets in a time bound manner to promote entrepreneurship and availability of credit, to balance the interests of all the stake holders. There is a clear behavioural change of the Corporate Debtors who paid up the defaulted amounts to the Banks to avoid resolution proceedings thanks to Insolvency Code. As on 30.9.2018, as per the study by reputed rating agency ICRA, 52 Resolution Plans had been approved by the NCLTs and the Financial Creditors/Banks had received Rs.58,400 crores. In respect of applications filed by financial creditors before the NCLT under IBC,2016, applications were withdrawn before admission of 12 loan accounts in which banks have recovered an amount of Rs 449.76 crore till September 2018. Now, clearly there is hope for Banks to resolve NPAs quickly.

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The advent of Insolvency legislation, "Insolvency and Bankruptcy Code,2016", is indeed a big shot in the arm for banking industry. In fact, the law of insolvency is not new to India. The Presidency Towns Insolvency Act, 1909 as applicable to the erstwhile presidency towns such as Calcutta, Bombay and Madras, while the Provincial Insolvency Act, 1920 which is applicable to the whole of India, except these towns, are already in the field. However, these Acts are applicable to individuals only and there was no law to address the insolvency of Companies except that there was a provision in the companies Act for winding of the companies for their inability to pay debts. The jurisdiction to wind up companies was vested with High Courts till the advent of the new Insolvency Code. The Courts have been slow in granting orders of liquidation of companies or discouraging creditors form invoking the provisions of winding up if the same are purely for recovery of debt. In the case of **IBA Health (I) Pvt. Ltd. vs. Info-**

Drive Systems Sdn. Bhd. (23.09.2010 - SC) : MANU/SC/0772/2010, the Supreme Court held as under :

"A party to the dispute should not be allowed to use the threat of winding up petition as a means of enforcing the company to pay a bona fide disputed debt. A Company Court cannot be reduced as a debt collecting agency or as a means of bringing improper pressure on the company to pay a bona fide disputed debt. Of late, we have seen several instances, where the jurisdiction of the Company Court is being abused by filing winding up petitions to pressurize the companies to pay the debts which are substantially disputed and the Courts are very casual in issuing notices and ordering publication in the newspapers which may attract adverse publicity. Remember, an action may lie in appropriate Court in respect of the injury to reputation caused by maliciously and unreasonably commencing liquidation proceedings against a company and later dismissed when a proper defence is made out on substantial grounds. **A creditor's winding up petition implies insolvency and is likely to damage the company's creditworthiness or its financial standing with its creditors or customers and even among the public."**

Further, there were no time limits either under the said insolvency laws or company law within which the process is required to be completed and the proceedings were highly time consuming. It is also not correct to wind up companies for mere inability to pay debts if the company can otherwise make a turnaround if its fundamentals are strong and insolvency is addressed by changing the management or other means. In the year 1985, Sick Industrial Companies (Special Provisions) Act, 1985 was enacted and a Board called Board for Industrial Finance and Reconstruction (BIFR) was established thereunder to address the sickness of the Companies. The Act did provide for winding up of companies if its rehabilitation/resolution was not possible. The mechanism evolved thereunder is somewhat similar to the present insolvency law but the same was not comprehensive and no time limits were prescribed for their resolution there under either.

The Legal environment was not conducive for quick resolution of the insolvency of the Companies. The only remedy for recovery available was to file suits before the Civil Courts for adjudication of claims and execution of decree. But, it involved labyrinthine court procedures for proving the claims like framing of issues, admission of documents, examination and cross examination of witnesses of the Bank and the borrowers, final arguments, passing of Preliminary and Final decrees etc. which was very time consuming. On obtaining a decree, Banks needed to move the execution courts separately for their execution. The trial used to get protracted for years together on flimsy technical grounds and by filing interim applications and appeals against the interim orders.

The Government of India appointed Narasimham Committee in August 1991 to look into all aspects of the financial system in India. It had advocated setting up of Special Tribunals for Banks and Financial Institutions for speedy disposal of cases filed by the Banks. Accordingly, an Ordinance called **"The Recovery of Debts Due to Banks and Financial Institutions Ordinance, 1993"** (RDDB Act) was promulgated by the President of India on 24 June, 1993. The Statement of Objects for enactment of the said Act are reproduced hereunder to understand the legal environment that was there for recovery of debts by the Banks and the poor health condition :

"Banks and financial institutions at present experience considerable difficulties in recovering loans and enforcement of securities charged with them. The existing procedure for recovery of debts due to the banks and financial institutions has blocked a significant portion of their funds in unproductive assets, the value of which deteriorates with the passage of time. The Committee on the Financial System headed by Shri M. Narasimham has considered the setting up of the Special Tribunals with special powers for adjudication of such matters and speedy recovery as critical to the successful implementation of the financial sector reforms. An urgent need was, therefore, felt to work out a suitable mechanism through which the dues to the banks and financial institutions could be realised without delay. Whereas on 30th September, 1990 more than fifteen lakhs of cases filed by the public sector banks and about 304 cases filed by the financial institutions were pending in various courts, recovery of debts involved more than Rs. 5622 crores in dues of Public Sector Banks and about Rs. 391 crores of dues of the financial institutions. The locking up of such huge amount of public money in litigation prevents proper utilisation and re-cycling of the funds for the development of the country."

The Banking industry was in such a grave situation. With this mechanism in place, the objective with wh.ich the DRTs have been established seemed possible. Initially there was some success with this experiment and euphoria in the air. But, the success of these Tribunals proved to be limited and time consuming.

One of the measures recommended by the Narasimham Committee in its Second Report was to vest the Banks through special statutes, the power of sale of the assets without intervention of the courts and for reconstruction of the assets. Accordingly, to tackle the menace of NPAs, SARFAESIA was enacted by the Parliament which came into force from 21st June, 2002. Hitherto, Banks could recover their debts only with the intervention of the courts by filing suits which had proved to be time consuming. SARFAESIA, a stronger legislation, empowered the Banks to enforce their securities without intervention of the courts. This has indeed helped the Banks and raised hopes of quick recoveries. The Act also provided for licencing and registration of Asset Reconstruction Companies and presently there are **22 ARCs** in India. In a recent study conducted by the ASSOCHAM, ARCs have purchased about **Rs. 2.44** lakhs crores worth of NPAs from Banks and Financial Institutions since the year 2003. **Though, this tool is proved to be effective, but the delay in obtaining District Magistrates' assistance for taking possession of secured assets and intervention of High Courts and Civil Courts despite repeated counsel by the Supreme Court, the expectations of Banking Industry have not completely met.**

On the part of Reserve Bank of India, the following systems have been devised to resolve and turnaround the companies.

- ✤ Corporate Debt Restructuring (CDR).
- ✤ Strategic Debt Restructuring (SDR)
- ✤ Scheme for Sustainable Structuring of Stressed Assets (S4A).

However, these schemes addressed the stress of big corporate accounts to some extent. However, these were voluntary and non-statutory in nature and succeeded only in a few cases. In all other cases, Banks had to resort to legal measures for enforcement of Securities and Guarantees through intervention of the courts. NPAs of PSBs increased from Rs 2.26 lakh crore in March 2014 to Rs.8.96 lakh in March 2018.

It is in these circumstances that the Insolvency law (IBC,2016) came to be passed by the Parliament which is truly a paradigm shift. The report of the Bankruptcy Law Reforms Committee stated that speed is essence for working of this Code and further stated as under :

"Speed is of essence for the working of the bankruptcy code, for two reasons. First, while the 'calm period' can help keep an organisation afloat, without the full clarity of ownership and control, significant decisions cannot be made. Without effective leadership, the firm will tend to atrophy and fail. The longer the delay, the more likely it is that liquidation will be the only answer. Second, the liquidation value tends to go down with time as many assets suffer from a high economic rate of depreciation.

From the viewpoint of creditors, a good realisation can generally be obtained if the firm is sold as a going concern. Hence, when delays induce liquidation, there is value destruction. Further, even in liquidation, the realisation is lower when there are delays. Hence, delays cause value destruction. Thus, achieving a high recovery rate is primarily about identifying and combating the sources of delay."

In the case of **D F Deutsche Forfait Vs.Uttam Galva Steel Ltd.** [(2017)204CompCas430] the NCLT, Mumbai Bench stated as under :

We all know how much time is taking for logical end to winding up proceedings, by the time company liquidation happens, not even bones remain to creditors. All this exercise under new Code is to maximization of value of assets in a time bound manner to promote entrepreneurship and availability of credit, to balance the interests of all the stake holders.

Under IBC, an initial period of 180 days is prescribed for completion of Company Insolvency Resolution Process (CIRP). The said period of 180 days can be further extended by another 90 days with the approval of National Company Law Tribunal (NCLT). This 270 days period is mandatory and no further extension is allowed. If no resolution plan comes forth, the Corporate Debtor would be ordered to be liquidated and the liquidation proceedings shall have to be completed within a period of two years. Therefore, action under IBC is time bound unlike other modes of recovery through DRT and Civil Court. **The NCLT, Hyderabad had passed the first Insolvency Resolution Order within 180 days under this Code in the matter of Corporate Debtor "Synergies-Dooray Automotives Ltd." The Petition was admitted on 23.1.2017 and the Resolution Plan was submitted on 21.7.2017, i.e. exactly on 179th Day.** In the first successful case among the high value cases, Tata Steel acquired Bhushan Steel Ltd (BSL) for about Rs 36,400 crore. The total claims of financial creditors were Rs 56,018 crore and that of operational creditors of Rs 843 crore while the liquidation value for Bhushan Steel was Rs 14,541 crore. In the second case, Vedanta Ltd acquired a majority stake in Electrosteel Steels Ltd for Rs 5,320 crore and the Banks had received their share. In normal course, this would have taken at least a decade for resolution. Similarly, Essar Steel had been acquired by the Arcelor Mittal for Rs.42,000/- crores. The promoters of Essar Steel Ltd. in the last minute even offered to repay 100% dues of the creditors, i.e.Rs.54,389 crore. Binani Cement Ltd. had been acquired by UltraTech Cement of Aditya Birla Group for Rs.7950.34 crores. The Insolvency code could instill fear among the promoters that they may lose assets from their hand and in several cases settled the dues of the Banks. **In a first of its kind, Banks had even initiated Insolvency Resolution Process against a State owned Public Sector Enterprise West Bengal Essential Commodities Supply Corporation Ltd. which forced them to settle long pending dues of the Banks to the tune of Rs.1000 crores.**

Amendment to the Banking Regulation Act, 1949:

The Government had amended the Banking Regulation Act, 1949 authorising RBI to direct banks to initiate insolvency resolution process to recover bad loans. Following the amendment, the RBI had identified 12 accounts each having more than Rs 5,000 crore of outstanding loans and accounting for 25 per cent of total NPAs of banks for immediate referral for resolution under the IBC,2016. The loan defaulters identified by the RBI include, Essar Steel Bhushan Steel, ABG Shipyard, Electrosteel and Alok Industries. This is famously called as first list of RBI. As discussed above, out of these 12 cases, four high value cases had already been settled and Banks had received their share of money which in the normal course would have taken a long time to resolve.

Subsequently in August, 2017, RBI had directed the Banks to initiate insolvency resolution process in other 29 high profile cases, whose outstanding loans are about Rs.1.80 lakh crores if no resolution is made by December, 2017, and these cases are at several stages of resolution. **RBI has now dismantled all other forms of restructuring/resolution of bad loans like CDR, SDR etc.**

There is perceptible behavioural change of the Corporate Debtors who paid up the defaulted amounts to the Banks to avoid resolution proceedings thanks to Insolvency Code. In respect of applications filed by financial creditors before the NCLT under IBC,2016, applications were withdrawn before admission of 12 loan accounts in which banks have recovered an amount of Rs 449.76 crore till September 2018. As on 30.9.2018, as per the study by ICRA, 52 Resolution Plans had been approved by the NCLTs and the Financial Creditors/ Banks had received Rs.58,400 crores. Now, clearly there is hope for Banks to resolve NPAs quickly.

Individual Insolvency:

Though NPA of Corporates is much higher in terms of amount involved, there is individual delinquency also and their quantum is high. The IBC, 2016 deals with individual insolvency also. However, the provisions related thereto are yet to be notified. The Government is gearing up to provide the necessary infrastructure for implementation of individual insolvency cases and the provisions are likely to be notified shortly. Once notified, this will further boost recovery of the Banks and Banks are optimistic about good amount of recoveries. The legal environment for Banks raised hopes and the situation is like never before.

Issues & Concerns:

The number of applications to the NCLT is rapidly increasing and challenging the existing resolution infrastructure resulting in significant delays. According to a recent study by ratings agency ICRA, the number of corporate debtors increased nearly 13% to 816 as on September 30, 2018, from 723 at the end of the first quarter. The number of cases admitted by the NCLT also witnessed a decline to 216 in Second quarter compared to 244 in the previous quarter even though the Applications to NCLT remain significantly high, thereby highlighting the infrastructure issues and the over-burdening of the NCLT benches. Of the above-mentioned 816 debtors under the corporate resolution insolvency process (CIRP), about 30% have already exceeded the 270-day deadline specified by the IBC for completing the resolution process. Out of the RBI's first list of 12 companies to be referred to the NCLT last year, so far, only four have been successfully resolved while seven cases remain unresolved even after more than 450 days of being admitted by the NCLT as they are mired in litigation. **ICRA had even advocated for reduction in timelines for completion of the resolution process and to increase the threshold limit from Rs.1.00 lakh to Rs.1.00 crore to strengthen the IBC, 2016.**

Procerural Delays:

The Code has provided strict time lines for admission of cases by NCLT so that there is no delay for completing the procedures. Section 7(5) of the IBC,2016 provides that the NCLT may reject the application filed if there are any deficiencies. The Proviso thereto stated that before rejecting the application, the

NCLT shall issue a notice to remove the defects within 7 days. However, in the case of **Surendra Trading Company Vs. Juggilal Kamlapat Jute Mills Co.Ltd.[AIR 2018 SC 186],** the Hon'ble Supreme Court held that the time limit of Seven days to remove defects is only directory and not mandatory. Further, as per Section 7(4) and (5) of the Code, the NCLT shall, within a period of fourteen days of the receipt of the application, by an order, either admit the application or reject the application. In the case of **J.J.Plastalloy Pvt.Ltd. Vs.Mitech India Pvt.Ltd.[MANU/NC/0196/2017],** Mumbai Bench of NCLT held that the 14 day period was mandatory and rejected the application filed by the Applicant for restoration of its case dismissed for default which was beyond 14 days. However, in the above cited case of Surendra Trading Company, the National Company Law Appellate Tribunal (NCLAT) held that fourteen days time provided to the adjudicating authority for admitting or rejecting the application for initiation of insolvency resolution process was not mandatory and only directory. The NCLAT has further held that fourteen days period is to be calculated 'from the date of receipt of application'. The NCLAT has clarified that date of receipt of application cannot be treated to be the date of filing of the application. Since the Registry is required to find out whether the application is in proper form and accompanied with such fee as may be prescribed, it will take some time in examining the application and, therefore, fourteen days period granted to the adjudicating authority under the aforesaid provisions would be from the date when such an application is presented before the adjudicating authority, i.e. the date on which it is listed for admission/order.

Further, in the case of **Quinn Logistics India (P) Ltd.Vs.Mack Soft tech (P) Ltd. [(2018) 144 CLA 484],** the NCLAT held that it is always open to the NCLT to exclude the time period for the purpose of counting of total period of 180 days or 270 days, in unforeseen circumstances. The NCLAT had illustrated some of the circumstances under which the NCLT may exclude the time period as under :

1. If the resolution process is stayed by the adjudicating authority, NCLAT or the Supreme Court;
2. In case of lack of functioning of a resolution professional;
3. The period between the admission of insolvency application and the actual date from which the resolution professional takes charge of the matter;
4. When an order is reserved by the adjudicating authority, NCLAT or the Supreme Court;
5. When the NCLAT sets aside the corporate insolvency resolution process or when its decision is reversed by the Supreme Court.
6. Any other situation that would justify the exclusion of a certain period from the 270 days count.

Based on the above decision of the NCLAT, NCLTs had excluded the time taken in litigation from the mandatory period of CIRP in several cases like **RBL Bank Limited Vs. MBL Infrastructures Limited [2018]144CLA467].** As discussed above, out of the first list of RBI's 12 cases, only four cases had been resolved and rest have even completed more than 450 days and their resolution is not in sight.

Conclusion

Overall, the Insolvency Code has worked wonders for the Banks. Already, two more benches of NCLT have been added taking it to 13 from initial 11 Benches and the Government is contemplating to increase the strength of the Members in places where large number of cases are being filed. The IBC,2016 being nascent legislation, though currently mired in litigation, it is hoped that the law will be settled and litigation will be reduced over a period of time. With improvement in infrastructure, the Code is definitely promising. It is surely a game changer for the Banking industry. MA

Reference

Bank of Maharashtra Vs West Bengal Essential Commodities Supply Corporation Ltd.-CP(IB) No.240/KB/2017 before NCLT, Kolkata bench

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NPA WOES

SARFAESI – BRAHMASTRA IN BANKERS' HANDS

Abstract

One of the biggest challenges facing banks is the huge Non Performing Accounts. Even though the picture looks gloomy, there are effective tools in the hands of banks to recover NPA accounts. Among these tools, taking action under SARFAESI Act is the most powerful method to recover NPAs.

Through SARFAESI action banks can recover their dues, without going through the hassles of filing a case in a civil court

The article presents the systematic approach for SARFAESI action and step-by-step procedure.

There are certain eligibility criteria for taking action under SARFAESI, such as the minimum in account balance and the balance outstanding as a percentage of money already recovered from the borrower.

The first step is to issue a Demand Notice giving 60 days' time to the borrowers/mortgagors for paying the full dues. If the borrower/guarantor needs clarification on the contents of the notice, the bank has to send a reply for the same. After the notice period, the bank takes possession of the property. Such possession can be either actual possession or a symbolic possession. Possession notice is dispatched to the borrowers/mortgagors. It is also published in two newspapers.

A fresh valuation is taken and the SARFAESI committee discusses and arrives at the floor price for auction.

A sale notice is issued and the borrowers/mortgagors are given 30 days' time for repayment of dues. Steps are simultaneously taken for making the auction a success.

E-auction is conducted and the sale is concluded. The sale proceeds are credited to the NPA account.

The article gives certain Court judgments relating to banks taking action under SARFAESI Act.

SARFAESI action will certainly bring the desirable results and the bank dues can be recovered within 100 days, if the steps are taken with utmost care and caution.

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Indian Banking finds itself at cross-roads today, with a lot of challenges to face. The two big concerns are Pressure on capital and large Non Performing Assets. Recovery in NPAs can ease the issue of capital requirements, because recoveries can lead to the flow of provisions, to the profit and hence capital.

The big question remains as to how to recover the NPAs. Even though the picture looks gloomy, there are many effective recovery tools available for bankers. The most powerful of weapon is recovery through SARFAESI action. It is like Brahmastra- the ultimate weapon and it will help the banks in NPA recovery. We will discuss the scope and possibility of taking action under SARFAESI Act.

Accounts eligible for invoking SARAESI action:

- The minimum dues to be recovered from the borrower should be Rs.100,000/-
- The present outstanding in the loan account should be more than 20% of the total dues of the borrower to the bank
- The collateral security against which action is proposed to be taken should not be an agricultural land

Salient features of SARFAESI Act:

a. Recovery is envisaged without the intervention of a civil court

b. Action should be taken, such as issue of Notices and taking Possession, by a Bank officer of Scale IV rank and higher

c. SARFAESI being a powerful took, care has to be taken at every stage of the proposed action

Steps to be taken by the Bank:

1. Issue of Demand Notice under Section 13(2) of the Act:

Bank should issue a demand notice for the recovery of the dues with the up-to-date interest. This notice has to be issued to the Borrower(s), guarantors and mortgagors of the property. The demand notice should contain the date of loan, amount of loan and related details. The present outstanding with interest payable should be invariably mentioned.

The Demand notice should described the property mortgaged as security to the Bank. The borrowers should be asked to pay the entire dues with up-to-date interest within 60 (sixty) days from the date of the Notice.

This Demand Notice is not just a Loan Recall notice. It has the power of an attachment order, in so far as the borrower/mortgagor, once the notice is received by them cannot make any alterations, additions, demolition or alienation of the property.

If the notice issued by the Bank is not received by any of the borrowers, guarantors or mortgagors for any reason, the Bank should arrange to publish the Demand Notice in two newspapers – one a national English daily and another a vernacular newspaper. In the vernacular newspaper, the contents of the notice should be translated into the local language.

2. Replying the letter, if any, received the borrower/guarantor relating to the Demand notice:

Sometimes, the borrower/mortgagor may write to the Bank disputing the loan, or calculation of interest or any other aspect of the Demand Notice. The Bank should reply to such letter within 15 days. This is mandatory.

3. Taking possession of the property:

If there is no response from the borrower or mortgagor even after the lapse of the notice period, Bank should initiate steps for taking possession of the mortgaged property. Such possession can either be a physical possession or symbolic possession.

Physical possession: The bank takes the possession of the house/office/go-down and seals the property. If the bank feels that there may be some issues/resistance in taking possession, the help of a magistrate can be sought. Such magistrate will appoint an advocate commissioner who will assist the bank in taking physical possession. Possession notice is pasted in a prominent location of the property and is also served in person or sent by post to the borrowers/guarantors/mortgagors.

Symbolic possession: If actual/physical possession is not possible, then the Bank pastes the Possession notice in a prominent position on the building and takes photograph. The possession notice copy is also handed over to the occupants against acknowledgement.

Possession notice should be served on all the borrowers, guarantors and mortgagor. Such notice should also be published in two newspapers as above.

Under SARFAESI Act, both physical and symbolic possession s are valid.

4. Taking a valuation of the property:

The Bank then arranges a fresh valuation of the property. In addition to the panel value's valuation, the Bank officials can also arrive at a desk-top valuation by making local enquiries.

5. Arriving at floor price and issuing sale notice:

The Bank then discusses the valuation reports and arrives at the floor (base) price for auction.

Sale notice is issued to the borrowers/mortgagors and guarantors, giving them 30 days' time to pay the entire dues with up to date interest, as otherwise the property would be sold in auction.

Such sale notice is also published, in short version, in two newspapers as was done earlier for demand notice and possession notice.

The Bank takes steps for the auction of the property by giving wide publicity through newspapers, leaflets, pamphlets and by informing the customers and others about the auction, so that the auction will be successful.

Banks have their own panel of e-auctioneers. If the borrowers do not pay up the dues even after 30 days, the bank, with the help of e-auctioneers, sells the property to the highest bidder after receiving the entire dues.

Thus, SARFAESI action comes to a smooth conclusion, without the intervention of civil court and the efforts and delay involved in the elaborate processes.

We may now discuss certain court cases relating to SARFAESI action, which serve as a great source of motivation and help Banks:

a. Agriculture property taken as collateral security:

Even though agriculture property cannot be sold through SARFAESI, Hon.Courts have held that the term "agricultural land" cannot be viewed in a wide scope and they should be seen in a narrow scope. In other words, if the mortgaged land does not evidence any agricultural/related activity, then it would not be treated as agricultural land for the purpose of SARFAESI action.

b. SARFAESI action can be taken even when DRT case is pending:

Hon. Courts have held that even when a civil suit is pending in DRT/High court, SARFAESI action can simultaneously be taken by banks. It has been held that SARFAESI action is only an additional remedy.

c. No civil suit is maintainable against SARFAESI action:

SARFAESI act is a special act enacted to help banks recover bad loans, which are public money. Intervention of civil courts is not envisaged. Therefore, courts have held that no civil suit is maintainable against SARFAESI action taken by banks.

d. In case of recovery through SARFAESI proceedings, banks will have anterior claim over the claims of the State:

Hon.Courts have held that in case of recovery made in a loan account through SARFAESI proceedings/auction, Banks will have anterior claim over the dues of the State such as Sales tax and banks' claim will sub-serve the claims of the State. This means that banks can first adjust their dues in case any claim is made by the State.

Precautions to be taken by banks when they invoke SARFAESI action:

- Banks must exercise utmost care/caution when they take each step in SARFAESI action.
- Acknowledgements received from the borrowers/guarantors as well as paper publication copies must be preserved
- The calculations must be accurate, when the borrower is informed about the dues payable by him.
- If the bank feels that the borrower may approach DRT for stay action, caveat petition must be filed to pre-empt the action of the borrower.

Conclusion:

SARFAESI action is a powerful tool in the hands of the bank. If steps are taken in right earnest, within 100 days, the dues can be recovered. There are no hassles which may normally be encountered in a civil suit. SARFAESI is like Brahmastra. Like the powerful weapon, SARFAESI fulfills the mission – the mission of NPA recovery- successfully and does not go in vain. MA

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CASHLESS INDIA:
THE WAY AHEAD

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Abstract

In a cashless economy absolute absence of cash transactions in the economic setting is not essential rather need for cash transactions is to be kept to the barest minimum.. In this study an attempt is made to discuss the concept cashless economy, present status of cashless economy in India. This article also discusses benefits of cashless economy to the country, company and individual. A large number of cashless transaction mode are described in this article. This article concludes with hurdles to cashless economy and the way ahead.

1. The Concept of Cashless Economy:

Cashless economy does not refer to an economic system where goods and services are exchanged for goods and services (the barter system) rather it is an economic setting which discourages use of currency as a medium of exchange and encourages digital mode as an alternative. Cashless economy is a setting of monetary system in which there is minuscule movement of currency and monetary consideration in most of the transactions is executed either through banking instruments like cheques, drafts etc. or through digital platforms. In a cashless economy absolute absence of cash transactions in the economic setting is not essential rather need for cash transactions is to be kept to the barest minimum. (Kumari & Khanna, 2017)

2. Cashless India:

An Initiative of GOI: Among the various flagship programmes started by the Indian government, Digital India is prominent one. Its vision is to transform India into a knowledge economy and a digitally empowered society. "Faceless, Paperless, Cashless is one of professed role of Digital India" (Ministry of Electronics and Information Technology, Government of India, 2017).

"A cashless economy is one in which all transactions are made using credit/debit cards or digital devices (e.g., point-of-sales machines, digital wallets, etc.), and the circulation of liquid money or paper currency is minimal. In this economy, a third-party such as the government or a public/private sector bank possesses an individual's money and can circulate that money whenever it is not needed by the individual." (Singh, 2017).

After demonetisation digital payment habit has changed as the economic environment forced the people to make digital payments specially those who were earlier hesitant for the same and the dream Cashless India seems to become a reality with digital payments booming with galloping pace post demonetisation (Kumar & Chaubey, 2017). According to (Maiti, 2017) demonetisation may boost use of technology in transactions. Demonetisation definitely attacked on cash economy and pushed the objective of digitalization and cashless economy which in turn will reap long term benefits (Jain, 2017).

According to (Digital Payments India, 2018) total transaction value in the digital payments segment amounts to US$50,215m in India as compared to US$1,269,792m in China in 2018. The largest segment in digital payments is digital commerce with a total transaction value of US$46,572m in 2018.

3. Benefits of Cashless Economy:

The cashless economy offers a large number of benefits to all the stakeholders of the society. Here few important benefits to the country at a large, to the company as a business enterprise and to the Individual as a common man are discussed:-

3.1. To a Country:

3.1.1. Positive Effect of Economy and Growth: Cashless economy has higher potential to grow faster than traditional cash based economy. (Oyewole, J.G.El-Maude, M., & Onuh, 2013)

3.1.2. Fall in Interest Rates: In cashless economy more money lies with banks for longer time which in turn leads to lager liquidity in monetary system and would ultimately lead to lesser interest rates.

3.1.3. Reduction in Black Money: Cashless economy helps in curbing generation of black money as transactions happen through banking channels.

3.1.4. Controlling Real Estate Prices: Most of black money is invested in real estate which inflates the prices of real estate markets. Since cashless reduces black money, it in turn controls real estate prices.

3.1.5. Affordable Housing: Since real estate prices are controlled by cashless economy, people can get own shelter at affordable prices.

3.1.6. Reduced Red Tapism and Bureaucracy: In cashless economy transactions are through electronic means which are easily traceable the and hence they make people accountable , which in turn reduces corruption and improve service time

3.1.7. Hygiene: Cashless economy also helps in improving hygiene as less number of currency notes and coins exchange hands and therefore bacterial spread through handling notes and coins reduces.

3.1.8. Crime Control: Physical cash related robberies and other cash-related crimes become almost impossible due to cashless economy.

3.1.9. Economies of Scale in Banking Services: Cashless economy enhances the volume of digital transactions, gives economies of scale to digital banking architecture and thereby makes scope for efficient utilisation of digital banking infrastructure, which in turn brings down cost of banking services. Digital way is a cost effective approach then the traditional currency based setting. (Kumari & Khanna, 2017)

3.1.10. Anti Money Laundering & Tax Avoidance: "An increased use of digital payment instead of cash would enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers which reduce tax avoidance and money laundering". (Agrawal, 2017).

The digital payment changed the buying behaviour of Indian society. It prevents black money market. It helps the government to maintain a record of all transaction (Kumar & Chaubey, 2017)

It is apparent from the above discussion that cashless economy has large number of benefits for any country which adopts it in letter and spirit.

3.2. Benefits to a Company:

3.2.1 Reduces Queuing times: Cashless tills operate much faster than cash tills. Thus integrating with cashless economy offers time saving for company's staff.

3.2.2. Eliminates Cash Handling Costs: In cashless system there are no possibilities for cash floats. This means the company need not incur any costs on handling cash.

3.2.3. Less Accounting: Since receipts and payments are automated, the need to count and match daily cash ledger disappears. It saves from lot of accounting work burden.

3.2.4. Reduce Physical Risk: Cashless system eliminates risk of theft from external parties and reduces risk of embezzlement by staff.

3.2.5. Helps in Management Information and Decision Making: Cashless processing of transactions give real time management information in form of soft databases and the analysis of all aspects of spending and receipts is fast and agile. This helps the management in quick decision making. (Benefits of Cashless Payment Systems to your Company, 2006). Even cashless processing of wages helps in engaging employees.

3.2.6. Helps in Human Resource Management: Human resource management is not only important for organisations looking for standalone growth but also for inorganic growth e.g. it is very important to bring coordination in HR issues even for better synergy in Mergers &Acquisitions (Shastri & Shastri, 2014).

India is likely to have the world's largest workforce by 2027, with a billion people aged between 15 and 64 (India's Burgeoning Youth are the World's Future, 2017). Thus Millennials are going to form substantial proportion of workforce in growing economies like India. Millennials have grown up with internet, smartphones, laptops, real-time media and communications channels and various social media platforms. This also lowers their level of patience and at the same time make them expect immediate feedback from their managers. They are uncomfortable with rigid corporate structures and dislike information silos. Cash based system may create a Skill gap for such Millennials. Skill gap is not only harmful for career prospects of the employee but also create hindrances for firm performance, value and growth (Shastri, Wadhwa, & Rampal, Skill Gap in Accounting Education for Prospective Managers, 2018). Cashless system helps in bridging the skill gap.

Employee engagement has a significant positive impact on firm value (Shastri & Rajpurohit, Employee Engagement Analytics: Enhancing the Firm Value, 2017). Use of technology is important in engaging Millennial employees (Shastri & Rajpurohit, Engaging the Millennials: Need of the Hour for Indian PSBS, 2018). Thus cashless system helps a firm in improving engagement levels of its employees. It can be inferred that cashless system helps in bringing superior HR practise, and it is vital, as inferior HR and Ethical practices may even lead to corporate frauds (Mittal & Shastri, 2018).

3.2.7. Helps in Enhancing Investor Trust: According to (Eccles, 2001) shows that companies with fuller disclosure win more trust from investors e.g. (Shastri, Shastri, & Agrawal, Mandatory Cost Audit and Investor Trust, 2015) found that Mandatory cost audit enhances investor trust. But it has the potential to do so directly if investors are educated about cost audit and its reports are made public through innovation in reporting mechanism. Since cashless system also brings better disclosure and transparency, it is likely to improve investor trust.

3.3 Benefits to an Individual:

3.3.1. Ease of Transacting:. In cashless payment there is no need to carry currency notes or coins. It even eliminates the need to stand in long queues in bank. There is no need to while travelling.

3.3.2. No fear of Burglary or Theft: Since there are no currency notes or coins involved, the risk of theft or burglary is almost eliminated in cashless system. Further a lost currency can never come back but it is very easy to block a lost credit card or mobile wallet remotely.

3.3.3. Track on Spending & Receipts: Individuals may easily track their spending and receipts as every transaction is recorded online and can be retrieved anytime. (Kumari & Khanna, 2017).

3.3.4. Consumer Discounts and Waivers: Government is offering various discounts an waivers to consumers who switch to cashless system e.g.

3.3.4.1 "Service tax: Waiver of service tax of 15% on digital transactions up to 2,000.

3.3.4.2. Fuel: 0.75% discount on digital purchase of fuel through credit/debit cards, e-wallets or mobile wallets.

3.3.4.3. Rail tickets: 0.5% discount on monthly and seasonal suburban railway tickets from 1 January 2017. Online rail ticket buyers get up to `10 lakh free accident insurance too.

3.3.4.4. Rail catering: 5% discount on digital payments for railway catering, accommodation, retiring rooms, etc.

3.3.4.5. Highway toll: 10% discount on NH toll payment via RFID or fast-tags.

3.3.4.6. Insurance: 10% discount by government general insurers on premium paid online via their portals. 8% discount on new LIC policies bought online via its site" (Cashless Payments Benefits , 2016).

4. Cashless Modes of Transaction:

To make cashless economy successful the Government of India enabled large number of alternatives for digital transactions which are described hereunder:-

4.1. Banking cards: "Banking cards offer consumers more security, convenience, and control than any other payment method. The wide variety of cards available – including credit, debit and prepaid – offers enormous flexibility, as well. These cards provide 2 factor authentications for secure payments e.g. secure PIN and OTP. RuPay, Visa, MasterCard are some of the example of card payment systems. Payment cards give people the power to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. They save both customers and merchants' time and money, and thus enable them for ease of transaction". (Banking Cards, 2017)

4.2. Unstructured Supplementary Service Data (USSD): "The innovative payment service *99# works on Unstructured Supplementary Service Data (USSD) channel. This service allows mobile banking transactions using basic feature mobile phone, there is no need to have mobile internet data facility for using USSD based mobile banking. It is envisioned to provide financial deepening and inclusion of underbanked society in the mainstream banking services" (Unstructured Supplementary Service Data, 2017)

4.2. Aadhaar Enabled Payment System (AEPS): "AEPS is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication. Transaction takes place recipient's bank account and the host's bank account that are linked with the Aadhar card. Incase of two or more accounts linked with one Aadhar card, the account used for LPG subsidy will be considered". (Aadhaar Enabled Payment System (AEPS), 2017)

4.3. Unified Payments Interface (UPI): "Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience. Each Bank provides its own UPI App for Android, Windows and iOS mobile platform". (Unified Payment Interface, 2017)

4.4. Mobile Wallets: "A mobile wallet is the most popular way to carry cash in digital format. User needs to link his credit card or debit card information in mobile device or to the mobile wallet application or you can transfer money online to mobile wallet. Instead of using physical plastic card to make purchases, user can pay with his smartphone, tablet, or smart watch. User›s account is required to be linked to the digital wallet to load money in it. Most banks have their e-wallets and some private companies. e.g. Paytm, Freecharge, Mobikwik, Oxigen, mRuppee, Airtel Money, Jio Money, SBI Buddy, itz Cash, Citrus Pay, Vodafone M-Pesa, Axis Bank Lime, ICICI Pockets, SpeedPay etc." (Mobile Wallets, 2017)

4.5. Banks Pre-Paid Cards: "A prepaid credit card is a secured card issued by a financial institution that has been secured with a prepayment. These cards can be compared to prepaid debit cards which use preloaded funds for transactions" (Bank Prepaid Cards, 2017).

4.6. Point of Sale: "A point of sale (PoS) is the place where sales are made. On a macro level, a PoS may be a mall, a market or a city. On a micro level, retailers consider a PoS to be the area where a customer completes a transaction, such as a checkout counter. It is also known as a point of purchase" (Point of sales, 2017). There are three types of PoS- Mobile PoS, Virtual PoS, Physical PoS. These are characterized based on there necessities. Mobile PoS requires Smartphone, App from bank, Integrated or external card and /or bio-metric reader, Reader connects using jack or Bluetooth, Internet connectivity 2G/3G/4G, or Wi-Fi, QR code and Bar code reader. Virtual PoS requires Smartphone and /or Web browser, Internet connectivity 2G/3G/4G, or Wi-Fi or landline, E-payment gateway, Virtual A/c for transactions, may need QR code. Whereas a Physical PoS requires Handheld Device with card and /or bio-metric reader, Merchant Bank a/c, Internet connectivity GPRS/ Landline.

4.5. Internet Banking: "Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website or an app" (Internet Banking, 2017).

4.6. National Electronic Fund Transfer (NEFT): "Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country" (Internet Banking, 2017). Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT, maximum of 50000 Rupees. NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays. (Internet Banking, 2017).

4.7. Real Time Gross Settlement (RTGS): "RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is 2 lakhs. There is no upper ceiling for RTGS transactions" (Internet Banking, 2017).

4.8. Electronic Clearing System (ECS): "ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premia, card payments and loan repayments, etc., which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks / companies / corporations / government departments, etc., collecting / receiving the payments" (Internet Banking, 2017).

4.9. Immediate Payment Service (IMPS): "IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives" (Internet Banking, 2017).

4.10. Mobile Banking: "Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct different types of financial transactions remotely using a mobile device such as a mobile phone or tablet. It uses software, usually called an app, provided by the banks or financial institution for the purpose. Each Bank provides its own mobile banking App for Android, Windows and iOS mobile platform(s)" (Mobile Banking, 2017).

4.11. MICRO ATMS: "Micro ATM meant to be a device that is used by a million Business Correspondents (BC) to deliver basic banking services. The platform will enable Business Correspondents (who could be a local kirana shop owner and will act as 'micro ATM') to conduct instant transactions. The micro platform will enable function through low cost devices. This would enable a person to instantly deposit or withdraw funds regardless of the bank associated with a particular BC on a mobile phone connection and would be made available at every BC. Customers would just have to get their identity authenticated and withdraw or put money into their bank accounts. This money will come from the cash drawer of the BC. Essentially, BCs will act as bank for the customers and all they need to do is verify the authenticity of customer using customers' UID" (Micro ATMs, 2017)

5. Hurdles in Cashless Economy:

Cashless economy is facing certain hurdles in India like:-

5.1. High Cash Dependency: Total cash flow to GDP is above 12% which is very high amongst developing countries. This shows that we are a cash dependent economy.

5.2. Lack of Digital Infrastructure: For cashless economy digital infra is a must but majority of our population leave in rural areas and do not have access to smart phones and are not aware about cashless payments through basic handsets. This needs an improvement on both smart phone penetration as well as cashless modes education.

5.3. Online Fraud: Cashless economy may Increase in cyber crimes and online banking frauds. Therefore merchants and common public would not prefer to do any kind of online transaction and rather would prefer the old traditional techniques of carrying on transaction. "Given the tedious process and poor grievance redressal, people will have no easy recourse if they lose money online," adds Nagpal. There is no stringent legal process to deal with this kind or scale of fraud. Add to it the mass identity theft from banks' or companies' databases and it can turn into a financial nightmare akin to the data breach in the Indian banking system in October this year" (Dave, 2016).

5.4. High Merchant Discount Rate: These are the percentage deducted from each purchase a merchant makes by the card issuing authority or bank. For smaller merchants, it does not provide enough incentive to make the shift from cash. (Jasjeet, 2017).

6. The Way Ahead:

Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. For instance, mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets. A study by Boston Consulting Group and Google in July noted that wallet users have already surpassed the number of mobile banking users and are three times the number of credit card users" (Kumari & Khanna, 2017).

According to (Digital Payments India, 2018) total transaction value in digital payments is expected to show an annual growth rate (CAGR 2018-2022) of 21.1% resulting in the total amount of US$108,007m by 2022.

"A material transition to a cashless economy will depend on a number of factors. First, the availability and quality of telecom network will play an important role. Presently, people face difficulties in making electronic payments even in metro cities because of poor network. Second, as one of the biggest beneficiaries of this transition, banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions. Third, the government will also need to play its part. It will have to find ways to incentivize cashless transactions and discourage cash payments. The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take over. Further, the cashless initiative needs comprehensive planned awareness, especially in more rural areas. Participation by rural and cooperative banks, post offices and other financial institutions to create awareness and education programmes will ultimately pave the way for a cashless economy. Training will be a necessity in urban parts of the country, too. Awareness is all well and good, but some people will still need help to understand how to install and use digital payment systems. Although it would be impossible for any country to become a cashless economy in the short amount of time since, it is definitely something the country can look forward to" (Kumari & Khanna, 2017).

In nutshell India is all set to grow towards a cashless economy, however financial literacy, basic awareness about digital transaction alternatives, robust IT and telecom infra, high end IT security and Government incentives certainly needs to be uplifted. MA

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Research Award

Our heartiest congratulations to CMA Dilip Kumar Pal for being awarded Ph.D Degree by the University of Kalyani (a NAAC accredited A Grade University) with effect from September 25, 2018 in Business Administration under the faculty of Engineering, Technology and Management under the supervision of Prof. Satyajit Dhar.

We wish CMA Dilip Kumar Pal the very best for all his future endeavours.

A STUDY ON 'THIRD COST' IN BANKS

(Rent, Taxes and Lighting)

(Schedule 16 – Operating Expenses of Banks' Balance Sheet)

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Abstract

Banking is the lifeline of the economy of the country. 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 frequent 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.

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 organizations, it is expected that their operations are profitable.

Sustainability, Competitiveness, Liquidity and profitability are the general performance indicators of the banks. In 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. Such an exercise will enable the banks to undertake eliminating the wasteful costs, discontinue the loss making business propositions and lay more focus on profitable products and services.

Cost control in banks will be more of a strategic planning exercise, whereas, cost reduction will be both strategic and tactical. While introducing cost control strategies, banks would be taking steps to identify their major cost centers, identify major types of cost within each cost centre and choose the costs to focus on first.

On expenditure side the highest cost is "Cost of Deposits" followed by Payment to and Provisions for Employees and the Third Cost which is Rent, Taxes & Lighting – RTL (Other than operating expenses relating to insurance business and other expenditure). As spreads of the banking business is decreasing on account of increase in cost of deposits and decrease in yield on advances / investments and increase in NPAs. Control of every cost is essential, other-wise the rating of the banks will decrease and it is difficult to attract or mobilization of additional capital through public issue. If banks adopt good strategies, there is a lot of scope to control overheads by better utilization of alternate delivery channels instead of branch banking channel. This article is focused on how to minimize the Third Cost i.e., Rent, Taxes and Lighting overheads in Banking Sector.

Except TWO public sectors banks, rest of the banks bottom line is badly affected on account of decrease in spreads (yield on advances minus cost of deposits), increase in overheads, increase in technology costs and increase in provisions for non-performing assets etc. for the financial year ending 2018. Age of alternate delivery channels in Indian banking system has completed one and half decade. Most of the customers were migrated from branch banking to alternate delivery channels. Hence, there is scope to control overheads (Rent, Taxes and Lighting) by better utilization of alternate delivery channels instead of branch banking model / channel.

In earlier days, primary channel of banks i.e., BRANCH is used to sell the bank products. This channel is a costly one. Over a period of time for the sake of customer convenience and also to reduce the high cost of primary channel, banks had developed many alternate or alternative delivery channels.

One of the objectives of introduction of number of alternate delivery channels in Banking System like ATMs, Cash Deposit Machines (CDMs), Internet Banking, Mobile Banking, Central Processing Centres (CPCs) for Retail Advances (for Home Loans, Car Loans, Mortgage Loans, Education Loans etc.), CPCs for MSME Advances (for Working Capital and Term Loans), Liability Processing Centres (for processing of Savings Bank Accounts, ATM Cards, Cheque Books etc.), Trade Finance Processing Centres (for processing of LCs, BGs and discount of Trade Bills), Cheque Clearing Processing Centres, Pension Processing Centres, Exclusive Locker Branches and Call Centres etc. is to reduce the per transaction cost of bank transactions and also for customer convenience. Now CPCs became manufacturing units for processing various bank products and as a result it reduces footfalls of bank customers at bank branches. Present Banking system is divided into TWO i.e., Marketing of bank products and Processing of bank products. Marketing function is being handled by branches and operations / processing function by Central Processing Centres (CPCs) and other alternate delivery channels.

Thereby Banks' primary channel i.e., branches became purely marketing / selling outlets to sell various bank products including cross selling of various third party financial products and central processing centres (CPCs) are taking care of 75% to 80% of workload i.e., operations / processing functions of branches particularly at Tier-I, Tier-II and Tier-III cities / towns. Whereas in rural areas still the primary channel i.e. branch continues to be an important channel to sell and processing bank products.

As per annexure-I, Top five banks in business performance for the financial year ending 2018 is as follows:

Name of the Bank	Total Business (Deposits + Advances) (In Crs.)	Average Business per Branch (In Crs.)
State Bank of India (SBI)	46,41,223	207.07
Punjab National Bank (PNB)	10,75,961	153.84
Bank of Baroda (BOB)	10,18,747	186.34
Canara Bank (CB)	9,06,475	145.92
Bank of India (BOI)	8,62,234	166.26

Analysis

Average per branch business is highest in IDBI Bank (Rs.219.03 Crs.) followed by SBI (Rs.207.07 Crs.), BOB (Rs.186.34), UBI (Rs.167.95), BOI (Rs.166.26 Crs.). Lowest per branch business is in United Bank of India (Rs.96.27 Crs.). Average per branch business of public sector banks is Rs.195.10 Crs. BOB and BOI retain their position both in total business as well as average per branch business i.e., 3 and 5 ranks. To arrive, the optimum usage of bank branch, per branch business is the best indicator by comparing with industry average.

For better utilization of bank branches, banks should segregate total business of the branch into Digital Business Vs Non-Digital Business i.e., total business minus customer transactions through branch is Digital Business of the branch.

About Third Cost

Main source of revenue to the Banks is Yield on Advances followed by Exchange on remittances, forex transactions, Commission on various services offered by the bank branches and Discount on Trade Bills (Usance and Sight Bills). The following is Schedule 16 i.e., Operating Expenses of State Bank of India.

Schedule 16 - Operating Expenses

(000s omitted)

		Year Ended 31.03.2018 (Current Year) ₹	Year Ended 31.03.2017 (Previous Year) ₹
I.	Payments to and provisions for employees	35410,62,16	35691,20,50
II.	Rent, taxes and lighting	5392,58,19	5270,90,67
III.	Printing & Stationery	603,44,87	544,30,58
IV.	Advertisement and publicity	1997,56,23	600,28,87
V.	(a) Depreciation on Fixed Assets (other than Leased Assets)	3094,39,40	2911,03,48
	(b) Depreciation on Leased Assets	10,67,70	3,64,95
VI.	Directors' fees, allowances and expenses	6,53,54	9,52,63
VII.	Auditors' fees and expenses (including branch auditors' fees and expenses)	296,38,24	311,82,32
VIII.	Law charges	501,90,13	414,86,73
IX.	Postages, Telegrams, Telephones, etc.	1031,49,33	975,44,05
X.	Repairs and maintenance	971,89,71	870,95,63
XI.	Insurance	2774,59,09	2479,26,16
XII.	Other Operating Expenses relating to Credit Card Operations	1155,03,28	1655,63,91
XIII.	Other Operating Expenses relating to Insurance Business	29377,02,59	24228,69,27
XIV.	Other Expenditure	13530,22,81	11322,28,44
TOTAL		**96154,37,27**	**87289,88,19**

On expenditure side the highest cost is "Cost of Deposits" followed by Payment to and Provisions for Employees and the Third Cost is Rent, Taxes & Lighting – RTL (Other than operating expenses relating to insurance business and other expenditure).

As per Annexure-III TOP five Banks spent on Rent, Taxes and Lighting (RTL) for the Financial Year ending 31.03.2018 is as follows:

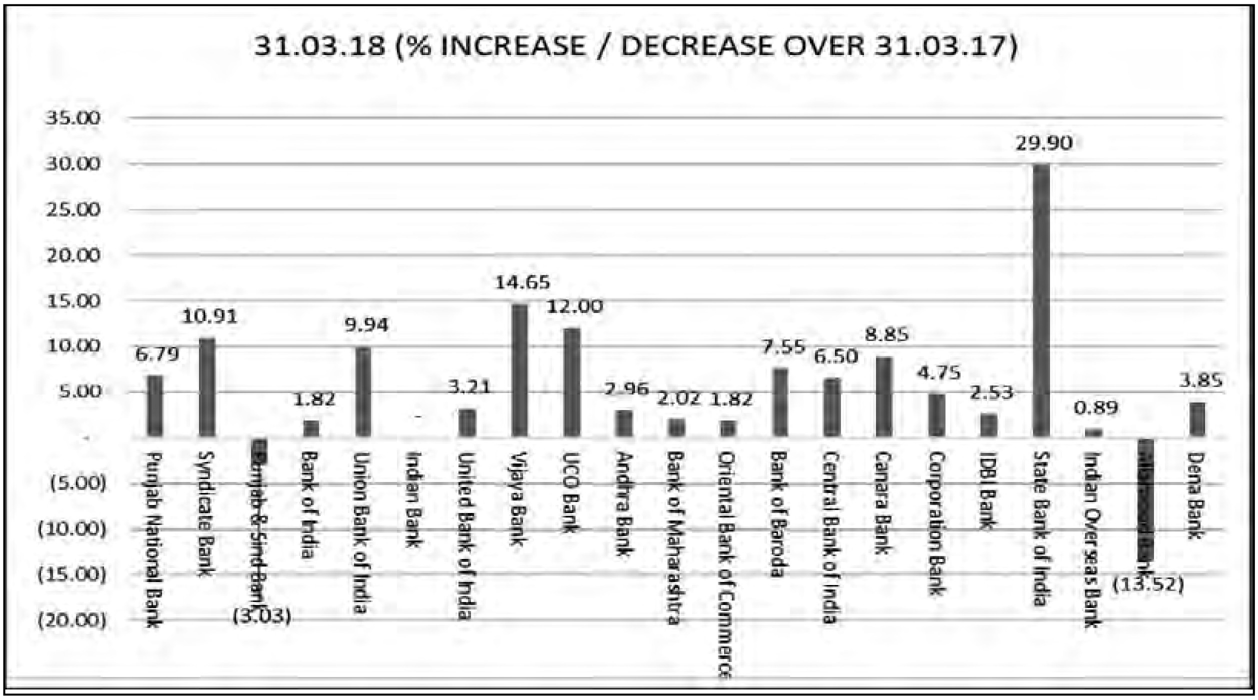
Name of the Bank	Rent, Taxes and Lighting 31.03.18 (Rupees in Crs.)
State Bank of India (SBI)	5,140
Bank of Baroda (BOB)	1,011
Canara Bank	922
Punjab National Bank	739
Bank of India	670

Analysis

Highest amount of RTL spent by SBI followed by BOB. This is due to more number of branches, ATMs and Zonal / Regional Offices of the bank. On account of merging of Associate Banks and Bharatiya Mahila Bank with SBI, the RTL is high.

Best strategy to reduce high amount RTL is merger of nearest branches. While merging, study the branch profile based on locational advantage, rent and electricity paid by the branches, staff pattern, type of customers, potential of business in particular place and profit contributed by of these branch etc. then take a decision for merging the branch by increase in the grade of the nearest branch or shifting the branch to unbanked areas in order to increase in business levels of the bank and to control RTL.

Percentage of Increase in RTL over 31.03.17



The following chart shows the percentage of increase in Rent, Taxes and Lighting costs of the banks in 31.03.18 financial year over 31.03.17 financial year.

Analysis

Average growth rate is 3% in RTL is considered to be reasonable, exceeding which will have effect on Bank's Profit. In Allahabad Bank and Punjab & Sind Bank the growth rate of RTL is negative; these two banks reduced substantially the RTL overheads by 13.52% and 3.30% when compared to previous year. Control of RTL not only reduces the overheads of the bank but also indirectly reduces the manpower costs. In Indian bank neither increase nor decrease in RTL. Whereas in IOB, OBC, BOI, Andhra Bank and BOM has nominal growth and when compare to average growth of public sector banks i.e. 3%.

Percentage of in RTL in Total business of the bank

Following table shows percentage of RTL as on 31.03.18 in total business of the banks.

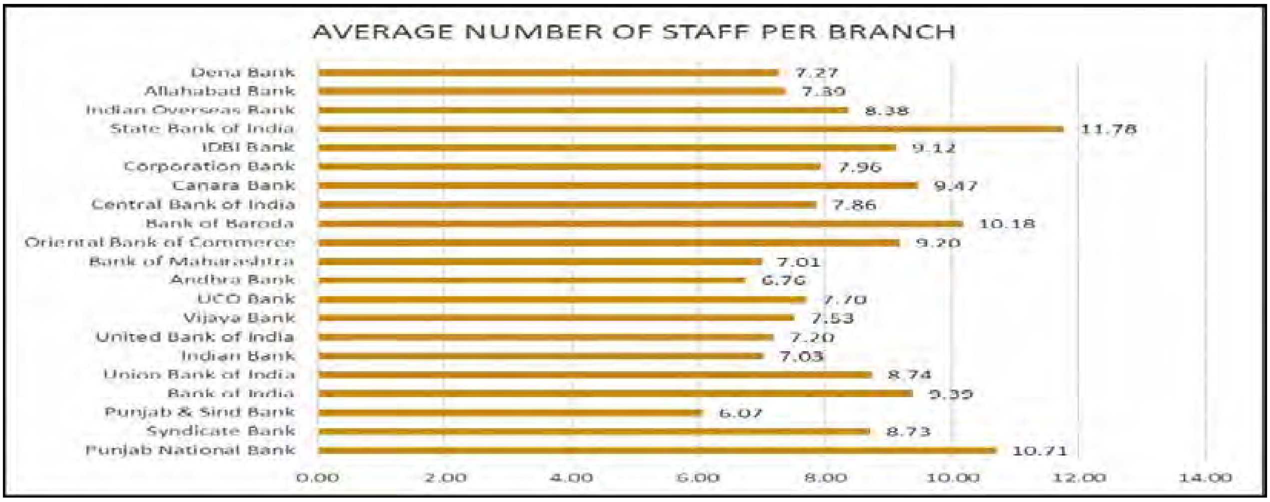
Name of the Bank	% of RTL in Total Business as on 31.03.18
Dena Bank	0.
Allahabad Bank	0.
Indian Overseas Bank	0.
State Bank of India	0.
IDBI Bank	0.

Analysis

Average percentage of RTL in total business should not exceed 0.10%, banks mentioned in the above table is more than the 0.10%. Whereas in Punjab National Bank, Syndicate Bank the percentage is 0.07% Punjab & Sind Bank, Bank of India and Union Bank of India is 0.08%. The ideal percentage is 0.05% on account of increase in alternate delivery channels and shifting of back office operations to central processing centres. Review of existing premises, usage % of alternate premises, RTL Policy, growth rate in business, competition / market share of the branch etc. are the parameters to control the RTL overheads.

Average Number of employees per branch

Following chart shows average number of staff per branch in banks as on 31.03.18.



Analysis

The number of branches and total number of employees is high in State Bank of India, followed by PNB. If we take average number of employees per branch SBI is more and followed by PNB. In view of increase in alternate delivery channels in the banking system, number of employees per branch is to be reduced gradually. The average number of employees of PSBs is around 10 per branch. In Punjab & Sind Band and Andhra Bank is 6.07 and 6.76. Once the branches are trimmed on account of increase in alternate delivery channels and CPCs, proportionately the manpower costs will be reduced and cost of banking operations will also reduce.

Branch vs. ATM

Following table shows number of ATMs and Branch vs. ATMs data as on 31.03.18 for six branches with high Branch vs ATM ratio.

Name of the Bank	ATMs	Branch vs. ATMs
State Bank of India (SBI)	59,541	2.66
Bank of Baroda (BOB)	9,704	1.78
Punjab National Bank (PNB)	9,668	1.38
Canara Bank (CB)	9,395	1.51
Union Bank of India (UBI)	7,642	1.78
IDBI Bank (IDBI)	3,779	1.97

Analysis

Number ATMs are high in SBI followed by BOB. If we take the ratio of Branch vs. ATM, the ratio is more in SBI followed by IDBI. If more number of ATMs is installed, the foot falls of the customers will reduce drastically. This ratio is very low in Allahabad Bank and Punjab & Sind Bank i.e., 0.34 and 0.81. Due to less number of ATMs, the customers of the bank are forced to use other bank ATMs, thereby service charges are to other banks. Thereby customers are forced to open the accounts with other banks where number of ATMs are more. Some of the banks are using White and Brown labeled ATMs to reduce the cost of capital expenditure and other revenue expenditure to the bank. This is one good strategy to the banks to control the capital expenditure. But sometimes, if number of hits are more in a strategic location, it is beneficial to the bank to install own ATMs instead of using white and brown labeled ATMs. Instead of installing ATMs, banks should go for ATM-cum-CDM, thereby the cash receipts transactions at the branch reduced further. Whenever the life of the ATMs is over, it is better replace with combo type alternate delivery channel like ATM-cum-CDM, thereby further cost of transaction will reduce further.

Strategies to Control Rent, Taxes and Lighting (RTL) Costs

Develop "Rent, Taxes and Lighting Policy" of the bank: As spreads of the banking business is decreasing on account of increase in cost of deposits and decrease in yield on advances / investments and increase in NPAs. Control of every cost is essential, other-wise the rating of the banks will decrease and it is difficult to attract or mobilization of additional capital through public issue. To control RTL costs, banks have to develop RTL Policy. Policy guidelines of RTL should be discussed by the bank management on monthly, quarterly basis in review meetings of the regional / zonal / head office performance review meetings. Thereby RTL costs can be reduced / controlled substantially.

Review of the existing space of all branch premises: Alternate delivery channels were introduced in bank 15 years back; at present most of the bank customers are habituated to use alternate delivery channels. Review of the existing space is one of the important strategy i.e., reduce or to increase the branch space based on the customer foot falls, number of the transactions held at the branches, business levels of the branch, demand deposits vs. time deposits, term loans vs. working capital loans, segmental customers like retail or SME or corporate, educated customers or non-educated customers, number of alternate delivery channels linked to the branches, shifting of back-office operations to central processing centres, number of staff members, rent paid by the bank with prevailing market price, capital expenditure spent by the bank for interiors, number and distance of branches situated surrounding to the existing branch etc. all these factors are to be verified while reviewing the existing space of the branch premises.

Searching for alternate premises: While searching new or alternative premises, factors to be considered by the bank are amount of rent to be paid per sq. ft., number of other bank branches located, number of business establishments, type of customers located, potentiality for bank business, number of years to reach break-even-point of the branch. Due to increase in alternate delivery channels of the banks and implementation of the concept "bank customer not branch customer" etc, prime locality is not a vital factor in selection process of the branch.

Shifting of ATMs to the branch premises: To save the rent and other infrastructure facilities costs of ATM, ATMs are to be shifted to branch premises instead of ATM located near to the branch, if the branch is situated in prime location. This way, Cash replenishment costs can be reduced and customers of the branch can be encouraged to use the branch ATM instead of using branch for cash requirement. Requirement of ATM space is normally 100 Sq. Ft. , this space can be easily arranged by the branch in premises.

Merging of branches: The ideal distance between two branches of one commercial bank is in the range of 3 to 5 km in metros and in other locations 10 km. In metro, urban, semi-urban branches are crowded in same locality and the pie of the total business is shared among the branches. In crowded places, competition among branches is more, growth of the business is nominal and in some cases stagnated and negative growth is observed. In few branches the growth is on account of inflation and not real growth.

Hiring of unutilized own premises: In some cases, own premises of the banks are underutilized, due to decentralization of organization structure of the bank, decrease in business levels due to opening number of other banks in surrounding places. If under utilization of own premises is observed, bank should explore to hire the premises to other commercial establishments, and thereby it increases the revenue resources of the banks. In case of rented premises, de-hire the excess premises to the landlord; thereby RTL will reduce to some extent.

Close / Shift low hits ATM premises: At initial stages most of the banks have installed number of ATMs at different locations as a new initiative. For every location banks are incurring overheads like rent for the ATM Room, security staff, capital expenditure for interior decoration and also air-condition system and depreciation thereon, cash replenishment on monthly basis etc. Shifting of ATM to strategic location is one strategy to reduce the cost of operations of the bank.

Trimming of the branch premises wherever feasible: Trimming the branch premises is one strategy to reduce overheads of rent and electricity costs. Forecasting of business sometimes may not be achieved by the bank due to various reasons. Solution in this case is either de-hiring or trimming of the branch premises. This clause to be included in lease agreement with the landlord while hiring the premises. Some of the branches are holding like old records, furniture etc. for so many years in the branch premises. If retention limit of old records is over and furniture which is not useful, either it may be shifted to needy branches or to sale furniture through auction, thereby premises can be used in a better manner.

Optimum utilization of own premises: Some banks are having own premises, due to decentralization in the organization structure or decrease in business levels and opening of number of banks in surrounding areas, usage of branch premises decrease substantially, these premises are to be reviewed by the controllers and explore the possibility of shifting Central Processing Centres, Whenever surplus of space is available on account of decentralization of organization structure, the premises can be hiring to other commercial organizations. Thereby revenue will be generated to the bank.

Develop Standard Operating Procedure (SOP) for Rent, Taxes and Lighting Costs: Standard Operating Procedure (SOP) is a tool to the Controller of the branches to do the activity in a defined manner. It gives an idea to the operating staff, how to complete the specific task. SOP is to be circulated to all the branches, thereby it is a tool for the branches to follow the guidelines of the bank without any deviation.

Re-design the branch with current requirements: After introduction of alternate delivery channels by the banks in large scale, footfalls of the customers are gradually reducing. Banks are encouraging the customers to use the alternate delivery channels and Head Offices of the Banks have also allotted targets to the Branches like number of ATM Cards to be issued, Internet Banking and Mobile Banking kits to be issued. Thereby it is beneficial both to the bank (Cost Angle) and also Convenience to the Customers (i.e., 24 x 7 banking services).

This is a good opportunity to the bank to re-design the branches as per the current requirements, thereby substantial reduction of RTL and Fixed Assets cost like furniture and electrical gadget will come down. This not only reduces the RTL but also results in reduction in capital expenditure incurred by the branch for interior design etc.

Sale of outdated and redundant furniture / stationery laying at Head Office / Zonal Office / branches: Old furniture like computer monitors, broken chairs, old stationery, old record (even after retention period is over) are to be disposed off, thereby it creates space at the branch. Old iron furniture always consumes more electricity (if the branch is in air-conditioned) than wooden furniture. Old furniture not only occupies the costly branch space, but also leads to bad ambience. Once disposed or sale of old furniture / stationery by the branch, some revenue will be generated. Good maintenance always improves the face lifting / ambience of the branch.

Use of LED bulbs to save electricity: Electricity bill reduces by using Led Bulbs instead traditional lighting. Still bank branches are using traditional electrical systems (these may be in good condition) but it consumes more electricity. Even though it requires some additional capital expenditure but revenue expenditure will reduce substantially in the long run and also the new systems increase the face lifting of the branch.

Use of sensors in the branches / offices: In some branches / offices even though employees are not working in their work stations, still electricity appliances like lights, air-condition is ON position. It not only increases the monthly electricity bill but also the life the electrical appliances will decrease. Installation of sensors at important places in the branch decreases electricity cost substantially. Educating the staff is very important to control the RTL costs as they are users of the branch in addition to the customers.

Use of Solar panels on the terrace of zonal office / head office / ATM rooms: Banks should encourage use of solar panels on the top of the branch premises (wherever feasible), thereby they can avoid stand-by generator system at the branches. Most of the branches are having standby generator system and recurring expenditure like oil, rent and operator salary is to be paid by the branches, but branches are using generator mostly in summer season. If branches install solar panels for electricity it not only reduces the electricity costs but also reduces the dependence on alternate current system. Best example is Thiruvananthapuram Airport which is operated on solar energy system.

Digital Banking: Banks and Government of India are encouraging Digital Banking, it not only reduces the cost of bank operations but also customer convenience i.e., 24 x 7 banking. Digital banking reduces the circulation of money with the public and thereby there is cost reduction to the regulator in printing of currency and forged notes problem can be avoided. Here lot of customer education is required particularly regarding various risks in digital banking system. This is one way to reduce the overheads of RTL.

Channel-wise Costs figures: To control the cost and also to arrive cost-benefit-analysis of various channels of the banks, banks have to be develop channel-wise costs reports i.e., Internet banking, Automated Teller Machines, Mobile Banking, Central Processing Centres (for advances) etc. Through this data banks can take cost control measures in various channels of banking operations and popularize the best channels both from bank and customers point of view.

Parking space and Customer space: While selecting branch premises, parking space is an important aspect. Particularly high net worth customers prefer to visit the branch when adequate space of parking is available. If customers visits to the branch is more, up-selling and cross selling of the bank products are possible. On account of cross selling and up-selling business of the branch, RTL can be recovered through additional business of the branch.

Documents Archival Centres (DAC): While selecting a bank branch, provision for additional space for storage of old records, vouchers, documents etc are to be made. Some banks established "Documents Archival Centres (DAC)" at outskirts of the City / Town (where low cost rent premises is available), at periodical interval the documents, old records, vouchers of all branches linked to DAC shifted at regular intervals. This type of initiative further reduces the requirement of branch space which can be trimmed further to save the RTL costs further.

Premises Department or Subsidiary: In some banks, premises issues are handled by a separate department i.e., premises department, entire portfolio of bank's premises (own / rent) will be handled by the premises departments, they develop Standard Operating Procedures (SOP) for RTL and closely monitor the same. Here, specialist staff like civil engineers, electrical engineers to be recruited to check / control the various costs of bank own / rented premises and this department closely monitors and controls the budget given by the bank.

Some public sector banks opened a separate subsidiary and placed specialist staff like civil engineers and electrical engineers. Under this model, subsidiary of the bank is profit centre and not cost centre like premises department of the bank. Subsidiary of the bank not only providing services to the parent bank but also to the other banks for ambience works with the help their own staff and earn profits. This model gives additional revenue to the bank.

Leased Accommodation to Staff Members: Year-on-year rents payable by the banks for the leased accommodation provided to the staff members is on increasing trend. To arrest this situation wherever own space is available, banks may construct staff quarters to reduce overheads of rent paid to the staff members for the leased accommodation. To reduce the overheads of rent of staff accommodation and also to increase the productivity levels of staff, banks may provide staff quarters instead of paying amount for hiring accommodation to staff members.

Conclusion

To conclude, public sector banks spent Rs.6,997 Crores for rent, taxes and electricity for the financial year ending 2018. This is only recurring and direct expenditure, other indirect expenditure like depreciation of capital expenditure on ambience, manpower costs etc. for the primary channel is not considered in above analysis. Some of the banks are having their own premises like Head Offices, Zonal Offices, District Head Quarters Branches etc, rent for these premises is not taken into account (had it been hired to others) while arriving total rent paid by the banks. If we take all direct and indirect expenditure, the primary channel is a costly one.

Without branches Paytm's registered users are 300 million, over 7 million of Paytm merchants and average number of daily Paytm transactions are Rs.5 million from rural to metro in India (mobilization of funds from customers). Credit Cards holders are 3,74,84,955 with number of transactions as 12,80,77,981 and volume of Rs.4,46,774 Million transactions on March, 2018 (lending to customers).

Popularizing digital banking not only reduces the cost of primary channel but also helps in optimal utilization of Information Technology costs incurred by the banks. Implementation of cloud computing, black chain technology, data warehousing and mining, educating the customers about benefits of digital banking particularly to rural and semi-urban centres, results reduce dependency on primary channel. Along with the above implementation and review of RTL policy will help banks to decrease / control RTL costs and other overheads. MA

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Annual reports of Public Sector Banks for the FY 2017-18.

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AN INTERACTION OF CREDIT RISK AND LIQUIDITY RISKS AND ITS IMPACT ON BANK STABILITY:

EVIDENCE FROM INDIAN COMMERCIAL BANKS

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Abstract

*Banks are indispensable in everyone's lives. The effectiveness of the country's financial system largely depends on the well-functioning of banking and deposit taking institutions. Banks are currently operating in highly volatile environment and are facing numerous risks such as liquidity risk, credit or default risk, operational risk, foreign exchange rate risk, interest rate risk, market risk, reputation risk and other risks. These risks are influencing on the success and failure of banks. However, among all these risks default risk and liquidity risk are not only crucial but also directly connected to the success and failure of the banks. The aim of the paper is to examine the relationship and interaction between default and liquidity risk and their individual and joint impact on stability of commercial banks in India. To achieve the very purpose of the study the quantitative research approach with survey method adapted. The study uses panel data econometric approach with Simultaneous equation approach by employing Two Stage Linear Regression (2SLS) and The Generalized Methods of Movements (GMM). The results shows that the credit risk is significantly influenced by Size, ROA, Loan Assets, Income diversity, priority sector lending, ownership type, inflation and GDP and liquidity risk influenced significantly by credit risk, priority sector lending, ownership type and GDP growth. We found there is no evidence of any significant economic relationship between default and liquidity risk. The GMM result shows bank stability is significantly influenced by credit risk, liquidity risk, the interaction between default and liquidity risk (CR*LR), along with other variable such as Loan growth, Size, ROA and inflation. The results indicates that joint management of default risk along with liquidity risk can increase the bank stability significantly and provide better insights to the regulators and bank management to improve the overall stability of the banks with framing the policies of joint management of default and liquidity risks. The results are in line with the current regulatory framework of Basel III which emphases on the significance of the joint risk management policies to manage liquidity and default risks effectively.*

Introduction:

Banks are indispensable in everyone's lives. The effectiveness of the country's financial system largely depends on the well-functioning of banking and deposit taking institutions. The banks are crucial in financing most of the business firms. All the banks are currently operating in highly volatile environment and are facing numerous risks such as credit or default risk, liquidity risk, interest rate risk, market risk, operational risk, exchange rate risk, reputational risk and other risks. These risks may influence the success and failure of banks. The changes in environment and economic conditions have a major impact on bank stability and risk taking attitude. The bank failures have a negative and significant effect on the entire financial system and real economy. Particularly in an economic environment characterised by imperfect markets it is essential to protect the bank customers, depositors and other creditors against bank failures (Dewatripont and Tirole, 1994). Hence it is essential to recognize the sources of vulnerability of banking system.

According to Cecchetti and Schoenhotz (2011), commercial banks are exposed to different risks, these risks includes the chance of sudden withdrawal of deposits by depositors (Liquidity Risk), not repaying their loans by borrowers (Credit/Default Risk), failure of certain operational systems (operational risk), and changes in interest rates (interest rate risk). However, among all these risks liquidity risk and credit risk are not only very vital but also directly connected to the success and failure of the banks. The classical microeconomic theories of banking support the view that liquidity risk and default risk are closely connected. Recently a body of literature has evolved with concentrating on the relationship and interface between credit and liquidity risks and their effect on the banking stability (Imbierowicz and Rauch, 2014; Acharya and Mora, 2013; He and Xiong, 2012; Acharya and Shin, 2010). As per the theory and literature, credit and liquidity risks are positively correlated.

According to Dermine (1986), "the liquidity risk is considered as profit lowering cost, and a loan default (credit risk) raises liquidity risk because of lowered cash inflows and depreciation it triggers". On the other side, due to the asymmetric information in the credit or loan market, banks are not able to cover the credit risk (Heider et al., 2009). The interaction of liquidity risk and credit risk may effect on bank failures. In the context of liquidity issues and interaction of liquidity and default risks have played a crucial role in the intensification of the bank failures. In view of the above facts, it is vital to consider the effect of interaction between liquidity risk and credit risk on the bank stability and soundness. Moreover, the past researchers (Acharya, Mehran and Thakor, 2016; Imbierowicz and Rauch, 2014; Acharya and Mora, 2013; He and Xiong, 2012c) suggests that liquidity and default risks can be regulated jointly.

In India, past studies mostly focused on the analysis of profitability and efficiency of banks but very less attention is given to the important aspect of interaction of liquidity and credit risk. The paucity of the studies in the context of Indian banking, analysis of the interaction of liquidity and credit risk and their joint impact on the banking stability is very essential. Hence the purpose of this research paper is to contribute to the existing banking literature and providing tool to bank mangers for effective monitoring of the factor that influencing credit and liquidity risks in the banks and devise the strategies to prevent adverse influences on bank stability. Therefore; the objective of the research study is to examine the interaction of the liquidity risk and credit risk and their joint affect on bank stability in the case of commercial bank in India and provide answers for research questions such as, 1) What is the connection of liquidity and credit risks? And 2) How the interaction of liquidity and credit risk effect the bank stability?

Literature Review

Banks occupy an important position in the financial system and promote economic development with channelizing the resources from saving units to the borrowers through intermediation process. The efficient functioning of banking system is a prerequisite of efficient financial system. Understanding the financial risks faced by banks and specially about credit and liquidity risk is essential to know their individual and joint effect on bank stability.

2.1 What is Liquidity risk and Credit risk of a bank?

Banking business is risky. Banks are vulnerable to numerous risks because of the type of business activities they do. These risks include but not limited to liquidity risk and credit risk, "the chance that depositors will suddenly withdraw their deposits (liquidity risk)", "that borrowers will not repay their loans (credit risk) The inability of the bank to meet short term payments and repay of the deposits to its depositors when they asked for it is known as liquidity risk". In other words the chance of sudden withdrawal of deposits by the depositors of a bank and thrift institution is known as liquidity risk. Credit or default risk is defined as the chance that a bank customer or borrower will fail to meet their commitments in accordance with the loan agreement. In other words banks inability to recollect the loans from the borrowers when they fall due.

2.2 The relationship and interaction between liquidity and credit risk

According to the theory of financial intermediation there exist a relationship between liquidity risk and credit risk (Diamond and Dybvig, 1983). Samartin (2003) shows that liquidity risk and default risk positively related and collectively influence on bank stability. Diamond and Rajan (2005) shown that there exist a positive relationship between liquidity risk and credit risk. The indication of a positive relationship between liquidity and default risk is also supported by recent research. DeYoung and Torna (2013) shows that credit risk play vital part in bank stability, but the impact of liquidity risk largely ignored. Imbierwizc and Rauch (2014) conducted a study on US banks. The study shows that there exist positive relationship between both the risk and no reciprocal relationship between them. (Ghenimi, et al 2017) shows that credit and liquidity risks do not have any significant relationship, but they individually and jointly influencing on the bank stability.

2.3 The impact of liquidity and credit risk on bank stability

Wagner (2007) shows that "an increased liquidity of bank assets, illogically, increases banking instability and the externalities associated with banking failures". Wagner argues that that though banks benefit from a more liquid asset side in terms of stability, crises become less costly for banks and they are thus more prone not to prevent these from happening.

Gatev, Schuermann and Strahan (2009) shows that transaction deposits are helpful to a bank's liquidity risk in times of heightened default risk because they facilitate banks to hedge against draw-downs of loan commitments.

Berger ad Bouwman (2009) shows that before 2007 banking crisis US banks created substantial liquidity in the system. Demirguc Kunt and Huizinga (2010) shows that the probability of banks bankruptcy increases when banks overly depends on the interbank markets.

Imbierwizc and Rauch (2014) conducted a study on 4300 US commercial banks. The study result shows that both credit and liquidity risks jointly effects the probability of default. "Joint occurrence of liquidity and credit risks plays a tremendous role for banks and their stability and that banks do not account for this joint occurrence in their risk management systems".

The responsibility of banks as liquidity creators and liquidity providers is very much vital at the time of financial crisis (Acharya & Mora, 2013). "The study shows that banks which failed or nearly failed attract deposits by offering high interest rates. Indirectly, the results indicate that the joint presence (occurrence) of the liquidity and credit risks could push banks into default". Hence, understanding the relationship between liquidity risk and credit risk and their individual effect and combined effect on the bank stability is very essential. In the context of above the literature of banking in India is very scarce. Thus, to fill this gap, there is a need to study the relationship between liquidity risk and credit risk and their individual and joint effect on stability of the banks.

Research Design and Methodology:

The quantitative research approach with survey method adapted for the study to meet the overall objective of the study and to answer research questions under it. According to Creswell (2009), a quantitative method with survey approach permits the researcher to test the empirical theories by building the cause and effect relation between the variables. To achieve its very objective, in the study panel data approach is used. Accordingly a sample of 40 banks (21 public and 19 private banks) is chosen for the study based on their continued existence of 13 years starting from 2005 to 2017. The data collected from RBI Database for selected banks and accessed financial statements of all the banks and for all the years. In first step Different financial ratios are calculated and truncated to 4 digits with the use of MS-Excel, and then descriptive statistics for the selected ratios are calculated. In second step the study uses panel data econometric approach with Simultaneous equation approach is used to investigate the reciprocal relationship between the variables, finally the effect of liquidity and credit risk and their interaction on bank stability is estimated by using Generalized Methods of Moment (GMM) approach.

3. Econometric modeling and data

We use different methods to assess the relationship between liquidity risk and credit risk and examine the individual and combined effect of the liquidity risk and credit risk on the bank stability. First we investigate the possible lagged relationship between credit and liquidity risk with the use of a simultaneous equation approach. Secondly to examine the effect of liquidity and credit risk and their interaction on the bank stability by using the Generalized Methods of Moments (GMM) approach.

3.1 Two-Stage Least Squares (2SLS) Model:

To examine the relationship between liquidity and credit risks we use the simultaneous equation model approach:

$$CR_{i,t} = \mathrm{C} + \beta_1 CR_{i,t-1} + \beta_2 LR_{i,t} + \sum_{j=1} \beta_j j\, Bank^{j}_{i,t} + \sum_{l=1} \beta_l Macro^{l}_{i,t} + \varepsilon_{i,t} \;---\; (1)$$

$$LR_{i,t} = \mathrm{C} + \beta_1 LR_{i,t-1} + \beta_2 CR_{i,t} + \sum_{p=1}^{P} \beta_j j\, Bank^{p}_{i,t} + \sum_{Q=1}^{Q} \beta_l Macro^{q}_{i,t} + \varepsilon_{i,t} \;---\; (2)$$

Where i=1,...N denotes the bank and t=1, ...T denotes the time period. CRit and LRit denotes credit risk and liquidity risk of the bank i at time t. and are one period lagged values of CRit and LRit.

Bank Jit and Bank Pit denotes the ban specific variables namely the Return on Assets (ROA), Capital Adequacy Ratio (CAR), Bank Size, Net Interest Margin, Loan Assets, Assets growth, Priority Sector Lending, Efficiency, Liquidity Gap, Income structure, and ownership type. Macroeconomic variables such as real GDP growth and Inflation Rate are used in the model. These variables have been used by past researcher in their studies.

3.2. Modeling of Bank ZScore

In this paper we followed the empirical model prosed by Imbiorowicz and Rauch (2014) and used by Ghenimi et al (2017), which can be specified as follows.

$$\begin{aligned} Zscore_{it} = \beta_0 + \beta_1 ZScore_{i,t-1} + \beta_2\, LiqdityRisk_{it} + \beta_3\, CreditRisk_{it} + \beta_4\, LiquidityRisk \\ * CreditRisk_{it} + \beta_5\, LoanGrowth_{it} + \beta_6\, Size_{it} + \beta_7\, CAR_{it} + +\beta_8\, NIM_{it} \\ + \beta_9\, IncomeStruture_{it} + \beta_{10}\, Efficiency_{it} + \beta_{11}\, Priory\ Sector\ Lending_{it} \\ + \beta_{12} Return\ on\ Assets_{it} + \beta_{13} BankType_{it} + \beta_{14}\, Inflation_{it} \\ + \beta_{15}\, GDPGrowth_{it} + \varepsilon_{it} ----------- \quad (3) \end{aligned}$$

where i represents the bank (40 commercial banks); t represents the time (2007-2017 eleven years); ZScoreit denotes banki stability at time t; Zscoreit-1 is the first lagged dependent variable which captures the persistence in bank stability over time. b0 is the parameter to be estimated; and ε is the error term. b2, b3, b4, b5, b6, b7, b8, b9, b10, b11, b12, b13, b14 and b15 are coefficients to be estimated.

To estimate the coefficients we used one-step dynamic panel estimation by GMM estimation method developed by Blundell and Bond (1998). All the variables use in the study have been established by the previous research studies on bank risk and bank stability

3.3. Data Sources and Collection Method:

In this paper we use the bank annual reports data and macroeconomic data collected from RBI Data Base on Indian Economy (DBIE). The data panel includes 40 banks (21 Public and 19 private banks chosen based on continued existence during the period) over the period of 13 years from 2005 to 2017. To achieve its very objective, Different financial ratios are calculated and truncated to 4 digits with the use of MS-Excel. The bank specific variables describe the variables which are considered to be explanatory variables. The dependent variable is bank Z-score which is the measure of bank distance to default. We use the Z-Score as a measure of bank stability explained by Boyd and Graham (1988) and expressed as;

Bank Stability Measure; $ZScore = \dfrac{CAR + \mu ROA}{\sigma ROA}$

Where; µROA and σROA are the 3 years moving Average Returns on Assets and Standard deviation of assets, µCAR is the 3 years moving average Capital Adequacy Ratio. To avoid the asymmetry of the variables used in the study, we use the log of the Z-score as used in Houston, Lin, Lin, and Ma (2010).

Table 1 shows the description of different variables used in the study and their respective measures used as follows; the descriptive statistics of the variable with their respective mean and standard deviation (Std. Dev.) are presented in Table 2.

Table 1: Description of the variables used in the study

Variables	Computation of Measures
Credit Risk (CR)	Net Non-Performing loans to total loans
Liquidity Risk, inverse of Liquidity	Liquid assets to Total Assets
Interaction of Credit and Liquidity Risk	Credit Risk * Liquidity Risk
Bank Stability (BS)	Z Score measured as (CAR+µROA) / σROA
Capital Adequacy Ratio (CAR)	Tier-I & Tier-II capital to Assets Ratio
Liquidity (GAP) Spread	Logarithm of (Assets-Liabilities)
Loan Assets	Net Loans to Total Assets
Loan Growth	Annual Growth Rate of Loans and advances
Deposit Growth	Net Annual Growth in Deposits
Efficiency	Cost to Income Ratio
Income Diversity (Structure)	Non-Interest income to Total income ratio
Size of the Bank	Logarithm of total assets
Net Interest Margin (NIM)	Net Income to Total assets
Return on Equity (ROE)	Net income to Equity ratio
Profitability Return on Assets (ROA)	Net income to Assets
Ownership of the Bank	Public or Private
GDP Growth	Annual GDP Growth rate
Inflation	Annual Inflation Rate

Table 2: Descriptive Statistics of the study variables

> tionRate LZScore

Variable	Obs	Mean	Std. Dev.	Min	Max
CAR	440	13.50805	3.958096	7.51	56.41
SIZE	440	5.914508	.6212402	4.0594	7.4323
Liquidity~p	440	4.734368	.6052482	3.0963	6.2748
Liquidity	440	7.768714	4.306245	3.0107	32.7661
Credit_Risk	440	1.889364	2.205918	.01	13.99
Interactio~R	440	13.37166	19.33476	.036	240.9066
LoanAssets	440	59.78978	4.911905	39.7247	69.0508
LoanGrowth	440	19.66706	17.20704	-45.7829	161.3
NIM	440	2.69029	.711011	.5768	5.6181
ROA	440	.8422955	.6863222	-2.04	2.02
Inc_Struct~e	440	11.813	4.186693	3.5729	26.4787
Efficiency	440	19.99855	5.470937	9.9638	45.4726
PSL	440	33.53286	6.841183	14.8715	58.3173
GDPGrowth	440	7.281818	1.741268	3.9	10.3
InflationR~e	440	7.672727	2.259313	4.7	10.6
LZScore	440	1.83647	.4511246	.3967	3.4686

The average of CAR in banks is 13.5080%; Average size of 5.9145; average liquidity in banks is .767; the average of credit risk is 1.8893, the average loan assets 59.7897; the average of loan growth is 19.667%, the average of NIM is 2.6902% and the ROA is .8422%. Indeed, the Efficiency is 19.9985. Regarding the interaction or connection between liquidity and credit risks, the liquidity gaps, the Z-score, the priority sector lending, the inflation, and the GPD, there are 13.3717, 4.7343, 1.8364, 33.5328%, 7.6727 and 7.2818 respectively. The banks have the highest volatility which is measured with Standard Deviation in terms of Liquidity, interaction of CR and LR, loan growth, Income structure, efficiency and Priority sector lending with the standard deviation of 4.3062, 19.3347, 17.2070, 4.1867, 5.4709 and 6.8412 respectively.

4. Data analysis, Results and discussion

4.1 The relationship between liquidity and credit risk

In this section, the casual relationship between credit risk and liquidity risk is analyzed with the use of simultaneous equations.

The table 3 shows the results estimated by using 2SLS regression in which liquidity (inverse of liquidity ratio) is proxied by ratio of liquid asset to total assets and credit risk is proxied net non-performing loans to total loans.

Table 3: The modeling of relationship between credit and liquidity risk (Dynamic panel-data estimation, one-step system GMM)

Independent Variables	Credit risk (Model-1)		Liquidity(Model-2)	
	Coefficients	P-Values	Coefficients	P-Values
Constant	2.615992	0.2640	-14.41904	0.0250**
Credit Risk	-	-	0.2646034	0.0610*
Liquidity	0.0048301	0.8870	-	-
Size	0.5854685	0.0510**	3.630113	0.1990
ROA	-1.476391	0.0000***	0.4055782	0.3530
NIM	-	-	0.0471123	0.8900
Loan Assets	-0.0562678	0.0150**	-	-
Income structure	0.0789785	0.0390**	-	-
Efficiency	-0.0170177	0.3870	-	-
Liquidity Gap	-	-	-2.56115	0.3490
Priority sector lending(PSL)	0.0528995	0.0000***	0.1268234	0.0870*
CAR	-	-	-0.1025185	0.2620
Ownership type	0.9403381	0.0060***	-1.167208	0.0720*

GDP growth	-0.1686098	0.0000***	0.4668364	0.0000***
Inflation	-0.2313314	0.0000***	-0.0380046	0.8110
AR2 Test	-1.39	0.165	-0.74	0.4620
Hansen J Test	35.3	0.454	31.82	0.6220

Note: AR(2) test is the test of second order autocorrelation in first difference and Hansen J test refers to the overidentification test for the restrictions in GMM estimation. *,**,*** denotes 10%, 5% and 1% level of significance.

The Arellano-Bond AR (2) test is used to show whether there is any correlation or not between the residuals and the transformed error terms. The Hansen test was used to test the over-identifying restrictions. The null hypothesis (Ho) of the over identifying restrictions cannot be rejected. The tests result shows that p-values of AR (2) are higher than 0.10, hence it indicates that there is no serial correlation in the transformed residuals. The Hansen J test results shows that the p-value is greater than 0.10, and indicates that over identification restrictions are valid and the specified model is correct. These rests indicates that the instruments used in the specified models are valid.

Table 3 shows the two models, the first model is of credit risk and the second model is of liquidity. The results of first model shows, that the impact of liquidity on credit risk is very little and insignificant at 10% significance level. The impact of credit risk on commercial banks liquidity (Inverse of liquidity risk) is significantly positive at 10% level, which indicates that the reverse causation is positive but insignificant. The result shows that there is no statistically significant reciprocal relationship between credit and liquidity risk. This is in line with the results of Ghenimi et al (2017) and Imbiowicz and Rauch (2014) who found no reciprocal relationship between credit and liquidity risks.

4.2. The impact of credit risk, liquidity risk and the interaction of both on bank stability: The GMM Estimation

To explore the importance of credit risk and liquidity risk of the banks, we examine how credit and liquidity risk jointly have an impact on bank stability. The absence of meaningful economic relationship between the credit and liquidity risk found in our previous analysis indicates that the absence of joint management of these risks in Indian banks. To see the separate and joint impact of credit and liquidity risk on bank stability, we estimate the empirical model with following GMM estimation according to the approach proposed by Arellano and Bond (1991), Arellano and Bover (1995), and Blundell and Bond (1998). The table 4 shows the results of the GMM estimation.

Table 4 GMM Estimation of Bank ZScore.

Independent Variables	Coefficients	P-Values
LZScore L2	-0.1244722	0.0090***
Credit Risk	-0.0490603	0.0120**
Liquidity	-0.0195738	0.0830*
Interaction of CR*LR	0.0024669	0.0920*
Size	0.5419814	0.0220**
ROA	0.3201464	0.0000***
Loan Growth	-0.0035277	0.0750*
Income Structure	0.0075455	0.3840
Efficiency	-0.0013706	0.8320
Priority sector lending(PSL)	-0.0008623	0.8910
CAR	0.0118857	0.1300
Ownership type	-0.0116014	0.8530
GDP growth	0.0190727	0.2290
Inflation	0.0420312	0.0010***
AR(1)	-2.77	0.0060
AR(2)	-1.22	0.2210
Hansen J Test	26.57	0.5420

Note: AR(2) test is the test of second order autocorrelation in first difference and Hansen J test refers to the over identification test for the restrictions in GMM estimation. *,**,*** denotes 10%, 5% and 1% level of significance

The table 4 shows the empirical results of the banks and presents the AR(2) test results which shows the p-value of the test is greater than 0.10 and indicates that there is no autocorrelation in the transformed residuals and error term. The Hansen J Test of over identification results shows the p-value of the test is greater than 0.10, hence the over identification restrictions are true and valid and the model specification is correct. The lagged depend variable Zscore-2 is significant at 1% level, which gives the dynamic

nature of the model specification. At this level, we validate the use of a dynamic specification of the model in the study.

First, with regards to the credit and liquidity risks which are negative -0.0490603, and -0.0195738 and significant at 5% and 10% level with the bank stability and indicate that these risks are amplify the risk of bankruptcy. The result shows that, as credit risk increases, the bank stability decreases. On the other hand liquidity risk (reverse causation of liquidity ratio) is negative and significant impact on bank stability. It indicates that banks which are more liquid are more stable. Then the effect of interaction term (LR*CR) on the bank stability is found to be positive and significant at 10% level. Hence this result suggests that there is a joint influence of liquidity and credit risk on the bank stability.

Concerning to the bank specific variables table 4 indicates that Return on Assets (ROA) has a significant positive effect on bank stability at 1% level and shows that most profitable banks are creditworthy and stable. The size of the bank has positive and significant effect on the bank stability at 5% level and indicates that larger banks are more stable than the small banks. The loan growth rate has significant negative impact on bank stability at 10% level and indicates banks with higher loan growth are prone to defaults in the future. Other variable are insignificant in terms of bank stability.

The macroeconomic control variables GDP growth has a positive and insignificant effect on bank stability. On the other hand the inflation rate has a positive and significant effect on bank stability at 1% level. The above discussed results indicate that the liquidity and credit risk separately and jointly contribute to bank instability. Therefore, the impact of liquidity and credit risks and their interaction on bank stability in the Indian banking is very vital.

Conclusion

The liquidity and credit risks are the two vital factors for bank stability and future survival. The aim of the paper is to examine the relationship and interaction between default and liquidity risk and their individual and joint impact on bank stability by using a panel data of 40 commercial banks operating in India over a period of 2005 -2017. The results shows that the credit risk is significantly influenced by Size, ROA, Loan Assets, Income diversity, Priority sector lending, Ownership Type, inflation and GDP and liquidity risk influenced significantly by credit risk, Ownership Type and GDP. We found that liquidity and credit risks don't have a meaningful economic reciprocal relationship. But each of the risk and their interaction has a significant impact on bank stability. The GMM result shows bank stability is significantly influenced by credit risk, liquidity risk, the interaction between default and liquidity risk (CR*LR), along with other variable such as Loan Growth, size, ROA and inflation. The results indicates that joint management of default risk along with liquidity risk can increase the bank stability significantly and provide better insights to the regulators and bank management to improve the overall stability of the banks with framing the policies of joint management of default and liquidity risks. The results are in line with the current regulatory framework of Basel III which emphases on the significance of the joint risk management policies to manage liquidity and default risks effectively. MA

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SWOT ANALYSIS OF INDIA POST AND INDIA POST PAYMENTS BANK AND THEIR ROLE IN FINANCIAL INCLUSION

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Abstract

Access to formal finance has become a major policy issue under the term financial inclusion. This paper is an attempt to present why India Post and its new look of India Post Payments Bank should be associate as prime partners of banks in financial inclusion policies. The study furthers undertake SWOT analysis and also enumerates what role CMAs can play in the growth of these two entities.

The causes and consequences of financial exclusion have become a policy concern in both developing and developed nation in recent years. In rural regions, accessibility of financial services is the main issue (Maity & Sahu, 2017). Though, bank as a mainstream financial institution India Post also have an important role to bring low-income families into the formal monetary sector (Midgley, 2005), not as a social obligation, but as a clean business proposal.

Today India Post is facing more aggressive competition and unlimited opportunities. Though, this paper evaluates the scope of financial inclusion in India we also suggest various measures to make financial inclusion more effective and far reaching through India Post and India Post Payments Bank (IPPB) so that even disadvantaged low-income groups of society can have access to formal financial services.

Importance of Financial Inclusion

Why financial inclusion is so important today till after independence of 71 years, these have been enumerated below. To achieve inclusive growth it is very much important as:

- 70 % of Indian population (more than 750 million people) live in 0.6 million villages.
- Nearly 50 % of rural India does not have bank account.
- 50,860 rural bank branches (March' 2017) cater to 0.6 million villages (<9%)
- National average of 1 bank branch per 9,883 population (March 2017). Ratio is much adverse in under banked/ unbanked geographies.
- 58.70 % of households availing banking services (2011, Census data).
- Lack of financial literacy – biggest hindrance in country's economic growth.
- Inclusive growth – not possible without outreach to unbanked villages.

Objective of the Study

The paper is prepared with the objective of study the role of India Post and IPPB in financial inclusion, undertake SWOT analysis of the two entities and further what role CMAs can play in the growth of these two entities.

Research Methodology

The paper is basically descriptive one. While preparing the paper secondary data as on March 2017 have been collected from annual reports and website of India Post and Reserve Bank of India. The data also collected from the website of World Bank, India Post Payments Bank and Census of India. Based on the secondary data conclusions are drawn and at last suggestions are made.

A field of opportunities for India Post

Worldwide, Posts have been active in the field of financial services since nineteenth century. According to World Bank study, there are almost twice as many postal agencies and post offices as commercial bank branches in developing world. Other than banks, India Post is the other largest and most credible outreach infrastructure with its rural presence and number of branches (Maity, 2016). It is also largest financial service delivery network (Malakar, 2013).

India Post typically manages a dense network of counters with a unique coverage of rural areas where banking sector is totally non-existent. It has several decades of experience in delivering bank accounts, payments across the country and especially to the poor. India Post has a long tradition in finance, having offered saving accounts since 1882. India Post plays an important role in India's financial inclusion policy because it has a unique presence in rural and poor areas ignored by the banking sector (Alcantara & Gautier, 2013).

It touches lives of citizens in many ways by accepting deposits, delivering mails, providing life insurance, providing retail services like sale of forms, bill collection and among new innovation facilities of mobile banking, ATMs, net banking etc. India Post also acts as an agent for Government in discharging of old age pension payments and wage disbursement.

India Post has most widely distributed postal network in the world. At present, there are 21 State run banks, 20 private banks and 44 foreign banks – in all 85 commercial banks. Their sizes vary along with their reach. The ownership pattern ranges from state-run to private and foreign. Of these 85 banks they have total 140,462 numbers (142,642 as on March, 2018) of branches whereas India Post alone has 154,965 branches capacity as on March, 2017.

Either directly or through various partnerships, 356.71 million savings accounts have been opened with India Post by the end of March, 2017 with ₹ 5392.76 billion outstanding balance. The post is one largest insurance player in Indian life insurance game with 19.36 million postal life insurances. Also processes 65.9 million Money Orders during 2016-2017, most of them migrants' remittances with ₹ 59.87 billion money order values.

In many small villages post office is the only government agency, it has traditionally enjoyed the trust and confidence of local people and is highly accessible to all sections of society (Priyadarshee et al., 2010). Given their extensive presence in poor and rural areas, post offices can play a leading role in proceeding financial inclusion.

India Post ayments Bank the Road Ahead

In 2014 to drive financial inclusion, the RBI has given in-principle approval to two applicants. Microfinance lender, Bandhan Financial Services Ltd. and infrastructure lending company, Infrastructure Development Finance Co.

(IDFC) win the race of the twenty five applicants for setting up full-fledged banks.

In second phase RBI has given licenses of payment banks and small banks. The Department of Post unsuccessful in race for universal bank licenses, succeeded in second phase of licenses as payments bank i.e., India Post Payments Bank (IPPB). IPPB began its operations on January 30, 2017 by opening two pilot branches (Raipur and Ranchi) with a target to conversion of all India Post offices to branches of IPPB by 2018.

Banks often avoid extending their services to lower income groups because of initial cost of expanding the coverage which may sometimes exceed the revenue generated from such operations. Post Offices are the only way to include the excluded masses into the banking stream by reaching them at their place of residence or work i.e. by providing doorstep banking through cost effective technology driven model. Post Offices have the requisite infrastructure to effect doorstep delivery of financial services (Priyadarshee et al., 2010). IPPB has the opportunity to utilize these infrastructures.

Payment bank license to India Post will accelerate India's financial inclusion journey into the top level. As per payment banks' norm, IPPB can accept deposits (either current or savings accounts) restricted to 1 lakhs per customer and issue debit card, and allowed to pay interest on deposit. Presently IPPB provides three types of savings account viz., regular, digital and basic savings account. It also provides services mobile banking, SMS banking, missed call banking, phone banking and QR card facility without need to remember password/PIN, as transaction can be initiated by using biometric authentication. To bridge the gap between rural and urban India with banking services new IPPB has major role in ensuring financial inclusion.

Role of Cost and Management Accountants

In recent past RBI has given payment bank licenses to India Post and it has started their new way of journey from January, 2017 as India Post Payments Bank. Government and RBI have taken this initiative to utilise its wide rural network. So that financial inclusion can be achieved with the help of vast rural branches of India Post. Researchers have present here, how the Cost and Management Accountants (CMAs) fraternity can play a significant role from different angles in the growth of India Post and IPPB.

Presently, responsibilities of CMAs are not only bound to costing in manufacturing industry. The CMAs are performing in all the areas of finance, production, accounts, costing, taxation, administration and marketing with their vast knowledge and experience. Syllabus of the course also covers every aspect of these areas. CMAs with expertise knowledge in costing can analyse every component cost and see that India Post will be able to keep the lower cost of service in future also.

When all the 0.155 million post offices in the country will be linked to IPPB system responsibility towards the nation will be much bigger. In this regards CMAs can play a very significant role in India Post to stay alive of their existing presence as well as for the new looks of India Post Payments Bank. Only CMAs can be given the role of their branch audit to compete with the larger courier companies and for existing business growth and to provide low cost financial services to the poor and underprivileged for achieving the target of financial inclusion which ultimately faster growth and development of an economy. The CMA uses the various cost and management accounting tools like: Planning and Budgeting tools. Role of CMAs can bring the nation in the top position.

The CMAs with expertise knowledge of costing, management, accounting and taxation may advice the government in such a way that India Post and IPPB may be able to fully utilize all the opportunities which prevail in the present situation. They may also advice how actively and efficiently strength of India Post may be utilized. At the same time advice how they will be capable to overcome its weakness. The CMAs also will make aware about the threats that may come in near future from the other mail and financial service providers.

With unprecedented growth of business and more and more competitions appearing in the horizon responsibility of managers are also being more complex. In this era the CMAs can play major roles of proper managerial planning with proper product mix, low cost and higher quality for growth of India Post and IPPB. CMAs can also perform advising on matters relating to rising and investing funds in the most judicial manner so that government wealth would be maximize. CMAs in all the areas can provide sufficient and reasonable support to the government in taking right decisions.

SWOT Analysis

We may focus on perspective of India Post and IPPB by carrying out a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. This analysis reveals the position of India Post and IPPB in respect of its internal as well as external environment. The following table below provides the SWOT analysis for the India Post and IPPB.

Table 1: SWOT analysis

Strengths	Weaknesses
• Offering a wide range of banking and financial services to retail customers through a variety of delivery channels. • 154965 number of post offices in the country. • 89.74 per cent of post offices in rural areas. • 129380 number of Gramin Dak Sewak Post Offices. • 184417 number of departmental employees. • 249000 number of Gramin Dak Sewak. • Average 7753 people are served by a Post Office. • In rural areas, a Post Office serves 5995 people. • Average area served by a Post Office is 21.56 sq. km.	• Most branches are below standards of operating efficiency. • Most offices in rural areas with low business strength. • Banking sector remains dominated by scheduled commercial banks. • Lack of strategic planning. • Low R&D investment. • Various Ponzi schemes are available in Rural India. • Lack of computer equipment in rural post offices. • Market research conducted too rarely.
Opportunities	**Threats**
• Conversion of all India Post branches into IPPB. • Around 70 per cent of India population live in villages. • Nearly 50 per cent of rural India does not have bank account. • Only 50860 rural bank branches (March' 2017) cater to 0.6 million villages. • An opportunity for more expansion of branches. • New innovative products. • Increase of revenue and government wealth.	• Applying new methods of information technology in all branches. • Upgrading skills of staff and management. • IPPB • Is confined to holding a maximum balance of rupees one lac. • Can't issue credit cards. • Can't set up subsidiaries. • Not allowed to accept NRI deposits. • Restricted to offer any other financial/ non-financial services of promoters along with banking services.

Source: Authors'
Note: Above data relate to March, 2017

Conclusion

As we require covering banking business in all unbanked areas, history says the RBI and Government of India have taken several initiatives from bank nationalization to expand of bank branches all over India (Priyadarshee et al., 2010). Even after initiatives taken in India towards financial inclusion, macro-level empirical evidence at the all India level reveals that, an illimitable segment of poor, farmer households and marginal sections of society, do not have access to any formal financial services and there is a wide disparity throughout the economy or across the regions, in financial inclusion (Maity, 2016). Large sections of population are waiting for small loans and banking services (Maity & Sahu, 2017).

IPPB has been launched with vision of building most accessible, affordable and trusted bank for common man and spearheading financial inclusion agenda for under-banked populace. Leveraging the reach of India Posts, IPPB aims to be the largest payments bank for the common man. The unlimited unbanked population in remote regions provides IPPB an opportunity to tap new markets. Efforts to improve financial inclusion also make business sense, and translate into profits for the service providers.

The SWOT analysis reveals that there are many opportunities are available for their business growth. This strength should be utilized to the benefits of opportunities. SWOT analysis will hopefully yield a good basis for formulating a policy advice regarding proper utilization of resources and enhanced of output services.

As a payment bank it has few limitation on banking business so regulators should think on full fledge banking license to India Post rather as payments bank. Cost accounting, audit and control methods are also to be implemented. MA

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At the Helm

Our heartiest congratulations to CMA Debasish Mitra being assumed the position of General Manager (Finance) in Konkan Railways Corporation Ltd (KRCL). Before assuming charge as General Manager (Finance), he was working as Sr. Deputy General Manager (Debt) in DB Power Limited (Dainik Bhaskar Group). CMA Debasish Mitra has more than 24 years of rich experience in the areas of Project Finance, Corporate Finance, Treasury, Corporate Accounts, Capital Budgeting etc. CMA Debasish Mitra is presently the Regional Council Member and Chairman of Professional Development Committee of WIRC of the Institute. He was previously the Chairman of WIRC in the year 2015-16.

We wish CMA Debasish Mitra the very best for all his future endeavours.

INDIAN BANKING SCENARIO – DYNAMISM AND OPTIMISM

Abstract

This article is on Indian Banking Scenario - Dynamism and Optimism and covers the following areas:-

Banking sectors influence in our personal lives right from account opening, funds transfer, payments, deposits etc.,

Rupay cards an alternative to existing Master / Visa Cards.

Demonetization and less cash - how it is difficult to change Indian mindset.

Changing Indian mindsets with respect to Asset acquisition and huge influence of EMI culture.

Digitization and importance of cyber security.

Relevancy of customer centricity in digitial age.

Challenges in the current era of social media + banking.

Implications and need to take care of Senior Citizens, Pensioners in the digital world.

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Sr. DGM (Cost)
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If there is one sector which has made a significant impact in our personal lives in the last decade or so, undoubtedly it should be the Banking Sector. Right from opening an account, deposits, withdrawals, funds transfer, payments, till closing of an account, today, all can be done digitally and most importantly, at our own comfortable time & location. Most significant advantage is 24/7 access. ATM's has done a phenomenal change in our relationship with Banks. Further, we can now access money from any Bank ATM's. Technology has facilitated this with strong connectivity of respective servers.Strictly speaking there is no additional charge, if you can plan and withdraw money within the stipulated amount as well as within the number of times allowed. Also,gone are the days where we were at the mercy of Bank Branch Officials even to collect a deposit / withdrawal slip, print a pass book etc., Today's CDM (cash deposit machine) allows us to Deposit cash and add instant credit to our account without paperwork or queues. Similarly, most of the bank branches have got machines to print pass books. Most of the Indians, particularly Senior Citizens / Pensioners, still have a thrill in pass book updation, particularly when all the entries are printed legibly and the pass book balance exactly matches with our records / expectations. Ofcourse,exception is the millennials group who strongly believe in the concept, "Please Consider your Environmental Responsibility before printing - Save Paper". They are really environment conscious as they are the ones who are going to live in this planet in the future. Fundamentally they believe digital storage is sufficient for future reference & retrievals.

Nationalism, RuPay Cards

After demonetization, pace of change in the usage of ATM's is very rapid and expected to reach greater heights. A recent report says that, Mastercard has lodged a protest with US Government over RuPay payments Network. Infact, it further says that our PM was using nationalism to promote the use of domestic payments network as he has mentioned in various occasions that usage of RuPay Cards serves as a "kind of national service". US payment giants, Mastercard and Visa, both feel that India's protectionist policies will hurt foreign payment companies. RuPay payment system is now used for more than half of India's 1 billion debit and credit cards. One of the world's biggest payments growth is expected to happen in India. Hence, global payment giants want to ensure that there is a level playing ground so that they can also participate in this growth. While they welcome our Government's move towards digital payments they don't want it to be done through protectionist measures which are detrimental to them.

Demonetization, less-cash

One of the objectives in the demonization exercise was to move to a "less-cash" society. The currency in circulation was Rs.17.9 lac crore in November 2016 and in October 2018 it rose to Rs.19.6 lac crore. It appears that Indians will continue to show preference for cash and the reasons may be many. Another report says that Rs.50,000 crore cash got drained from banks as Indian account holders withdrew huge amounts of cash ahead of festivals (Durgapooja, Diwali etc.,) It appears that as per RBI, currency in circulation shot upto Rs.20.2 lac crore (9th November 2018) and recorded the highest ever growth post-demonetization. While Bankers are confident that money will come back to the system after festivals (Individuals spend money, Businesses deposit the cash back in banks), they need to find out how they can divert the above cash transactions into digital mode. There is a tremendous potential for further digitisation. Appropriate incentives can be brought in so that both business & individuals will prefer the transactions in a digital way.State elections are scheduled, followed by 2019 parliamentary elections. Former RBI governor once made a comment, "Around election time, cash with public does normally increase...You can guess as to reasons why, we can also guess". This is still relevant despite very bold initiatives taken by our Election Commission. This is another opportunity for our Indian Banks to innovate & deploy digital solutions so that there will be more transparency, traceability.

Asset acquisition through financing

Indians have also made a major shift to acquire assets through financing. Sometime back, it was a taboo to buy anything on credit. Widespread usage of housing loan EMI's has given many Indians the required confidence to go for various types of loans. As the economy grows and millennials joining the workforce, this momentum is expected to sustain atleast for the next decade. A significant point to note is that Non-Banking Financing Companies are making a major contribution in this. Major part for this shift is because of digitisation and simple process. It appears that better availability of credit information, easy / attractive / flexible finance schemes are enticing the customers into buying aspirational premium products. Further, NBFC's penetration from metros to tier 1 & tier 2 cities will aid in this shift. Banks have to compete in this segment as there is a general perception that the traditional loan schemes of banks are quite tedious and tardy on delivery of finance. Another key point is the availability of NBFC representatives at the Dealer Place. This helps in quick conclusion of sale along with required documentation (physical or digital). Private sector banks have taken the clues and there is lot of visibility of their representatives. Further, special camps are also conducted to facilitate sales. Public Sector banks are not completely laggards but motivation level is significantly low. Timely rewards & recognitions will address this issue in the Public Sector Banks and make them to aggressively compete as they also have made significant investments in the relevant technology particularly in core banking solutions. Public Sector Banks have a major advantage in cities beyond tier 2 and in rural areas. Higher financial inclusion, another pet theme of current government, has given a significant opening. But, people in those areas still distrust the digital means due to cyber frauds and enormous time in its resolution. Digital red-tape encourages cash transactions. Of course, for merchants it is the burdensome transaction charges. If these issues are addressed there is a very high chance of Win-Win across all the stakeholders in the value chain.

Processing time reduction, Digital Initiative

Recently, our Prime Minister made another big push in digital finance. "Rs.1 Crore loan in 59 minutes" – Government's website for MSME borrowers offers automated processing of loan that provides in-principle approval in less than an hour. Currently, the website allows automated, contact-less business loan approvals (Rs.10 lac to Rs 1 Crore). Now, the turnaround time is expected to come down to 59 minutes from 20 – 25 days. It is expected, that after approval, the loan amount will be disbursed in about a week's time.

Cyber Security

Data theft is one of the major nightmares for all of us more so in banking sector, since any financial loss affects our mental health. The process of finding a solution has now been simplified and it is the duty of the individual to report immediately so as to avoid or minimize the loss. This will become more important as more & more Indians are switching over to Digital mode by using Point of Sale machines. POS usage in commercial establishments like restaurants, bars, petrol pumps etc., where bills are settled with credit or debit cards on a daily basis are most vulnerable. Individuals have to take all the necessary precautions advised by the banks periodically and it also advisable to check the month end balances. Data theft is now becoming more organised where the modus operandi is now primarily in creating trust by people posing as bank executives. The most vulnerable segment is "senior citizens / pensioners". Many stories are reported and common theme is establishment of trust before committing crime. Similar to Physical crimes, Financial Crime can also create a major turbulence in their lives and also significantly affect their health. Indian Banking sector should create a separate risk protection measures for this group and they need to be periodically educated, assured about their bank balances. There are also gangs that send out thousands of phishing emails, supposedly from banks or government bodies asking people to update their details. The unsuspecting targets fill in the details and because they suffer no monetary loss, they do not realize that an offence has been committed. Trust gets created. Next time, emails contain links loaded with malware. Once the target clicks on the link, their device becomes compromised and all sensitive data is stolen. Malwares are specifically programmed to look for data like passwords, PIN's on the target's device. Ultimately, caution is after all an individual choice; it can only be suggested, not enforced.

Is Digitisation cure for all ills?

Well, there are no straight forward answers. Most of us are part of social media (Facebook, Twitter, Whatsapp etc.,). Their influence in elections is very well known and still debate continues on whether Russia influenced US Presidential Elections. This is primarily due to select data leakages. Even Facebook Founder, Mark Zuckerbug, has acknowledged there was a data breach. He further apologized and assured all the necessary steps are being taken not to repeat the same in the future.

Similarly, ecommerce has revolutionized the business transactions and all of us spend enormous amount of time in the digital market place as compared to physical market place. E Commerce giants like Amazon, Walmart etc., have entered India and have very high business targets. Abuse of dominance by tech giants is definitely a major threat and we have to tread the path carefully. It is only hoped that Competition Commission of India has necessary authority to order an investigation, if necessary or required. Because it appears that the competition law, as it is, presently talks of assets and turnovers. In the entire digital economy and e-commerce ecosystem, in terms of assets there may be nothing. But, the turnovers are pretty high. Most of the giants are not listed in India, Hence, SEBI authority and jurisdiction is also not clear. Similarly, financials are not available in public domain and it is difficult to assess their financial strengths. This will gain importance as they are also coming into payments system, Amazon Pay, Google Pay etc., while there have been news reports that they should have servers in India and store the data locally. It is not clear whether they will own or take the servers on rental basis. This has got its own ownership, taxation issues.

Customer Centricity in a digital age

"Get closer than ever to your customers. So close, in fact, that you tell them what they need well before they realize it themselves."

– Steve Jobs

There is always a debate, "Customer focused Vs Competition obsessed" and this is expected to continue in the near future. In the past, agencies and marketers decided how customer-centric a company is. But, now the customer decides. The need to be customer centric is highly relevant for the banking sector. A decade back, mobile banking, e-wallets, chatbot etc., were in the customer's wish list. Today it's a reality and many customers have experienced it. It allows the banks to come up with more innovative & relevant products for different banking customers. Broadly, in the banking sector, customers are classified into Personal and Corporate. One size fits all is not possible because again within the above there are various sub-classifications. In the age of internet banking and robo-investing, besides relationship manager, a conversational assistant, powered with artificial intelligence can be a great support. AI based conversational chatbot is already visible. CBA (conversational banking assistant) can help customers in funds transfer, order a cheque book, clearing emi dues, clearing bills, recharging mobile phone, temporary enhancement in credit card limits, switching off debit / credit cards temporarily and the list goes on. It has to be remembered that customers are in a time-starved world and they expect the banking sector to know what they like & want. As per the recent report (Innovation in Retail Banking), it appears that after existing digital channels (online, mobile) it will be digital assistants, social media and third party channels are expected to be the primary channels for banking by 2022. Further, AI is expected to have a significant impact in transforming customer service / support by 2022.

In the above context, millennials are going to constitute a significant customer base in the future. Obviously, their banking needs are mostly in digital mode. Banks can participate in a potential long-term growth opportunity with millennials through timely support in everyday financial needs as well as in important life events. There financial needs are beyond the traditional banking products & services. Millennials customers are thinking about their needs. Therefore, Banks should keep it simple and don't overstep. Ex. Make payments as smooth as possible by allowing customers to use a multitude of payment options to help fit their need of the moment: Card, Mobile, third-party apps etc., Try to understand their life journey and address a pain point ex. buying a first home. Banks should help them to navigate through guides, walkthroughs and advice. Journey is important and it should cover all the key milestones. Banks has to design the best journey possible and also allow customers to design their new journeys. This flexibility will become critical and will have a major say in the customer – banker relationship. Banks should move from 360 degree view (complete customer view from a banking perspective) to 720 degree view (a holistic understanding of customer from social spheres in tandem with 360 degree view). Based on the bank credits in a savings account per month, if spending habits are analysed and reported, then they will start relying on banks information. They may avoid the need to transfer the data into third party apps and get the same analysis. Ability to predict next life events, to guide personalized banking product recommendations, to develop a deep understanding of customer lifestyle, to design meaningful touch points will all play a key role in establishing and sustaining a strong customer base.

Social Media + Banking

I keep wondering at night, 'Will I have a bank the next morning, or will some technology company be doing banking without needing a bank?'

-Uday Kotak,Kotak Mahindra Bank.

People expect personalisation and convenience. Social Media – Facebook, Whatsapp, Google etc,., provides plenty of opportunity. People also expect similar experience in Banking. Despite data privacy issues, Millennialswould prefer to do the payment transactions through Apple, Google, Samsung etc., Peer to Peer transactions is one of the potential area for this. Many experts believe that this will be a route into banking for the tech giants. They already have the customer base and customer shopping details. This can be effectively used to offer personalised banking products. As customers own their data, they can also share it with firms who may help them to manage their personal finances. If tech giants decide to enter this segment then there will be a potential threat to banking sector. It is still debatable whether customers will be willing to trust big tech firms with their private banking transactions in view of recent data concerns. But, will customers be willing to go extra mile for the sake of convenience and share the data. May be if the trust level goes up with the tech giants, they may do. Based on how much data, younger consumers are willing to share with major players,so that they can access their latest services & offers, it appears that convenience may win over security concerns. Business ethics, if carefully preached and practiced by tech giants, will give them a better chance in this. Otherwise, millennials may put off banking with them. Many experts across the globe expect that Facebook, Google, Amazon, Apple to take the role of banks in the next five years. If relevant regulations are brought in to ensure global financial stability, then they will be a major threat to traditional banks. Ofcourse, in this game, Indian Banks also will get affected.

Technology Impact

Current government thrust on Financial inclusion has resulted in 330 million new bank accounts through Jan DhanYojana. This is a great opportunity for investment in

Indian Banking. Our PM also stressed this fact in the recent Fintech Festival in Singapore. He also emphasized that we are living in an age of historic transition through technology, as we have moved from desktop to cloud, from internet to social media, from IT services to Internet of things etc., All these has been done in a very short time and this has been possible through careful deployment of technologies. Long-time back, Traditional banking has taken a back seat and paved the way for ATM's & Internet Banking. Today, it has moved further to mobile banking. Aided by Smart Phones, there is significant shift towards mobile banking.

Many banks have introduced 3in1 – convenience of opening an online trading, demat& bank account instantly. One of the major beneficiaries is the stock market. Retail investors were largely depended on dealers and relationship managers to trade in the stock market. Now, they are switching over to mobile phones to trade. Primarily, this is due to increased focus on technology by brokerages, deep penetration level of smart phones and affordable data plans. A point to note is that trading applications of leading brokerages feature among the popular finance apps in both, Android &iOS platforms.

In the India Mobile Congress, Mr.MukeshAmbani, Reliance Industries Ltd., mentioned that by 2020, India should be fully 4G and will be ready for 5G technology. He also claimed that transition from 2G/3G to 4G in India is the fastest transition anywhere in the world. He was confident that network quality in India will match with Global Standard. This will have its own implications for banking sector. Speed and convenience in the payments, funds transfer, trades etc., due to 5G technology will provide further impetus towards digitisation. India is a massive country with 1.3 billion people and the growth opportunities are very huge. Therefore, huge investments will continue in our Banking sector both by Indian & Global Investors.

Technology breakthrough can also happen whereby a single card can be used for credit as well as debit cards. IndusInd Bank has already launched one. Card will carry two EMV chips as well as two magnetic stripes. One can either swipe or insert the card to complete the POS transaction. Card holder is expected to be aware about the implications, since interest charges are very high in credit card transactions, if the payment is not made within the due date. Wrong usage like withdrawal of cash through Credit Card in an ATM will result in huge interest.

Senior Citizens, Pensioners

"Someone is sitting in the shade today because someone planted a tree a long time ago."

- Warren Buffett

This is one of the vulnerable groups and an easy target for cyber criminals. Special effort has to be made by Indian Banks for their contribution made to our country during their working age. We are enjoying today because of their efforts made in the past. Any changes including software migrations should be properly communicated. Digital Assistance may not help them at all times. If necessary, physical assistance will be required so that they continue to live with dignity. Mistakes are bound to happen. Clarifications may have to be repeated. Solutions may have to be provided, differently. Most importantly, time bound & peaceful resolution of disputes is the need of the hour. Repeated visit to banks is not possible in our country due to hot weather and poor public infrastructure. In most of the cities, banks even do not have proper parking facilities, ramp facilities etc.,Bank Balance assurance in a periodical manner, Tax related support, Pension related support etc., have to be treated as Basic Banking Services and should be provided universally (urban, rural areas).

Our view is that younger customers love our digital offering, our mobile banking applications and so on. Older customers expect relationship managers and want much more personal attention in terms of their needs.

- Uday Kotak, Kotak Mahindra Bank

Similar to universal basic income (UBI) concept, there should be certain minimum banking services to all the customers irrespective of bank balance, age and location. Bankers should try to show their human face and hone their HR skills accordingly. It is certainly tough for the banking professionals to do, as they have to simultaneously deal with millennials. Therefore, it is advisable that a separate team within the bank is created and trained to handle this group – Senior citizens / Pensioners.

"Your most unhappy customers are your greatest source of learning."

– Bill Gates

Dynamism, Optimism

Based on the above, Indian Banking was, is and will continue to be dynamic in line with changing personal / corporate needs and also shift towards ecommerce. Optimism in any sector is possible only when it is relevant and assures / mitigates risks to the customer in a time bound manner (in banking sector, financial burden should be either zero or kept at the barest minimum).Accordingly, risk mitigation measures have to be developed and deployed so that banking customers can have a wonderful and peaceful experience.

When you get an email from your Bank which says, "Safeguard your account against Phishing and SIM Swap, here's how you can stay secured".

Be Dynamic – To check the mail contents andact appropriately like password updations etc.,

Be Optimistic – Bank Balance (as displayed in the screen) gets reconciled with your records. MA

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Interview with The Expert

CMA Asim Kumar Mukhopadhyay
VP & Head - Business Finance
Tata Motors Ltd.

Mr. Mukhopadhyay is a Fellow Member of the Institute of Cost Accountants of India and an Associate Member of The Institute of Chartered Accountants of India and the Institute of the Company Secretaries of India. He has also done specialized Iron and Steel Industry Training Course from British Steel Consultants Limited in UK. He has more than 36 years of industrial experience in different areas viz. manufacturing industries, automotive, steel, refractories etc. in various capacities.

He has received many prestigious awards:

- *Best CFO Award 2017 of the Institute of Chartered Accountants of India in Engineering and Capital Goods sector;*
- *Bharat Jyoti Award for Excellence in 2015 by IIFS for excellence in the field of Strategic Cost Management for Industries;*
- *Best Citizens of India in 2015 by International Publishing House for contributions in the field of finance and accounts.*
- *His profile has been published in Biography International and Reference Asia and National Unity Award for Excellence in 1995 by All India National Unity Conference for imparting finance related training.*

Q1: You are the Vice- President of a leading global automobile manufacturer- Tata Motors. What is your view on managing disruption in industries in general and on auto industry in specific?

A: There is a proverb, Quote: There is nothing certain but the uncertain. Unquote.

I strongly believe that to manage disruption one needs to be a strong believer of the substance of the proverb. We are living in a VUCA (volatile, uncertain, complex and ambiguous) world. Hence the mettle of even the strongest company is being challenged when disruption hits the industry. These challenges emanate from technology, cyber physical systems, autonomous robots, horizontal and vertical system integration etc. including social, environmental, economic and market trends leading to customized demand and customized products.

To address the second part of the question, I must mention that auto industry is one industry that is sharing a lot of disruption.

The challenges here come from shared mobility, connectivity services, frequent feature upgrades, new business models apart from technological and regulatory issues including challenges from electric vehicles.

In India, stricter emission norms, straight movement from BS IV to BS VI by March 2020 after a span of only 3 years and emerging presence of electric vehicles to tackle worldwide *challenge of climate and pollution norm with more prominent in the country are clear issues of disruption.*

In my view OEMs need to anticipate opportunity while protecting value to ensure strategic gains are realized. They need to prepare strongly for the uncertainties, leverage partnership, drive transformational changes including making efforts to reshape the value proposition. India being a center for frugal engineering, hub for low cost and high quality managerial talent, certainly has immense opportunity to reinvent the business model and address the challenges from disruption effectively.

Q2: *What in your opinion would now make an automobile company most successful player in modern times?*

A: *The industry being always in flux with new models and designs, rapid emission related challenges coupled with technology revolution, the key to success is cost effective design and addressing the customer value proposition. To be more explicit, the winner will be the one who can optimize on design to cost and to cash and address customer profitability coming out of better value proposition for the product and lower TCO (Total cost of ownership).*

Q3: *What in your opinion are the key drivers to be cost competitive in Auto industry?*

A: *Most of the costs (as high as 80% in some cases) gets built at the designing stage. Hence due care and rigorous efforts need to be put to lower one's cost base as much as one can. Targets need to be put in place to arrive at the products with right positioning for the right customer providing right set of features. Any divergence from these would lead to lower returns on the costs incurred. Automobile sector is capital intensive with a long lead time on returns made in the sphere of research and development. Hence a clear strategy can go a long way in defining the future of a company. Modular approach to capacity building and flexibility of production of different configurations on the same line can be a boon for companies during lean periods and would save on costs front. Finally the concept is the mindset to undertake journey from what it does cost to could cost and should cost. Should costing is the practice followed globally by automobile players both in commercial and engineering domain. Hence in my opinion an effective cost engineering with should cost imbibed in it is the key factor for cost competitiveness in Auto industry.*

Q4: *The CMA professionals are trained to be cost competitive, utilize available resources in an efficient and cost-effective manner through cost optimization, efficient deployment of scarce resources leading to cost control, cost reduction and cost consciousness. Please suggest in what ways Cost and Management Accountants (CMAs) may offer their expertise more effectively in this quest?*

A: *Evolution of CMA role is required to deliver more relevant information, more quickly and with a forward looking view, to meet the needs of stakeholders as they seek real time information which other statutory reports do not provide.*

The advent of big data and advanced analytics capabilities will provide opportunities to enhance transparency, produce more relevant and insightful financial and non-financial reporting and standardized and automated reporting. This opportunity to be addressed by CMAs.

Further understanding the future technology requirements to support reporting will make it 'fit for purpose' to meet the challenges of increasing regulatory and compliance requirements.

Further CMAs need to adapt techniques to address disruption. Data & analytics, cloud technology, robotic process automation and block chain technology will help to evaluate predicted outcomes, build connected & flexible system; and recognize patterns to adapt to new norms.

Currently most of CMAs are engaged conventionally in maintenance of books, preparation and analysis of monthly financial and cost information, budgeting, variance analysis, cost audit etc.

There need to be a paradigm shift and it would also cover helping the top management in decision making, Changing the focus from controlling to business fundamentals, using data analytics to estimate company's competitive position and also working as value integrator by involving efficiency and insight.

Q5: *What is your view on the role of a Contemporary CMA as leader in any industry?*

A: *The role to address performance are creation of value i.e. developing strategies for sustainable value creation and enabling value by supporting the governing body to make decisions.*

And further the role of conformance would cover reporting value i.e. ensuring compliant, relevant and useful internal and external business reporting and also preserving value i.e. asset and liability management, managing risks and implementing and monitoring effective controls.

CMAs need to be effective business partner and play the role of cost champion, controller, risk manager, growth champion, performance leader, chief strategist and change catalyst.

Finally, I believe that when an egg is broken from outside, a life comes to an end. But when the egg breaks from within, a new life begins. Similarly great things and great Management accountants as business partners always begin from within and do not wait a knock from outside.

STANDARD COSTING AND MATERIAL COST VARIANCE

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Abstract

The article contains various methods of calculating material variance which is used in standard costing controlling cost of production. It is an attempt to out the results readily (momentary) by filling the given values in the formulae given in the article. It will help the industry to find out the variance in an easy way and to apply to curtail the cost of production as for as possible.

Standard costing is an effective cost control system. It is a measure of efficiency of various factors of production. Production costs are pre-estimated , depending upon the normal working conditions . In this system of costing , cost of consumption of various factors of production is determined and the same is compared with the standard cost required for the same level of production. The main purpose of standard costing is to have a check on the cost of production. Standard cost is a pre-determined cost in the production process depending upon the normal working conditions or otherwise. Standard costing has a wider meaning , the present standard in the normal working conditions or otherwise for the various factors of production are compared to the actual consumption , variation in the standard cost required and the actual cost incurred is found out and is left out for the decision makers to know the various reasons of any variation (favourable or unfavourable) and then to take an appropriate remedial measures.

In the terms of Chartered Institute of Management Accountants London the standard cost and standard costing has been defined as follows:

A predetermined calculation of how much costs should be under specified working conditions. It is built up from an assessment of the value of cost elements and correlates technical specifications and quantification of material, labour and others costs to the prices and/ or wages rates expected to apply during the period in which the standard cost is intended to be used. Its main purposes are to provide bases for control through variance accounting for valuation of stock and work in progress and in some cases for fixing selling prices.

It is very clear from the above definition that it is a system of predetermined calculation of the costs required in the specific working conditions and comparing it with the actual. The main purpose of standard costing is to control and to have a check on the actual cost incurred during production . It is also useful in valuation of stock, work in progress and estimating the selling prices.

Eric L. Kohler has defined standard cost as Standard Cost is a forecast or predetermination of what actual cost should be under projected conditions serving as a cost control and as a measure of production efficiency or standard of comparison when ultimately aligned against actual cost. It furnishes a medium by which the effectiveness of current results can be measured and the responsibility for deviation can be placed.

So from the above definition it is clear that under specific working conditions it is a forecast of what the cost of production should be, what is the actual cost and provide bases for control through various analyses, fixing the responsibility of the decision makers and taking the remedial actions.

Let us take the first and the most important factor of production i.e. material and try to find out the variance from different angles. As we know production is nothing but only the process to change or to enhance the utility as required of the various available commodities. Material is the main element in the production process so let us try to find out its various types of variances.

Material Cost Variance

The material cost variance measures the variation in the standard cost of standard material required for actual production and actual cost incurred.

Material cost variance = (standard rate × standard quantity of material required for actual production) – (Actual cost of the material used for the actual production)

Material Price Variance

Material cost variance can be judged from two angles i.e from price of the material used and from quantity of material used . Material price variance is a part of material cost variance which is due to change in the prices of the input material. The difference in the standard price of the actual quantity of the material used and the actual cost of the material used is the material price variance.

i.e. Material Price Variance = (Standard rate × Actual quantity of material used) – (Actual rate × Actual quantity of material used) .

Material Usage Variance

It is also a part of material cost variance which is due to difference in standard cost of standard material required for actual output and the standard cost of the actual material used.

Material Usage Variance = (Standard rate × Standard quantity) – (Standard rate × Actual quantity)

Material Mix Variance

When in the production process more than one type of the materials are used, material mix variance is found out for an in depth analysis of the material variance. It is the portion of the material usage variance which is due to difference in standard and actual composition of the input material . It is the difference in the standard cost of standard composition of mix required for actual quantity of the material and standard cost of the actual composition or mix.

MMV = (Standard cost of standard mix required for actual quantity of input material) - (standard cost of actual mix).

Material Yield Variance

Material yield variance as it is clear from the word meaning is the quantity of output (may be in different units say liters, meters, kilograms etc.) after the consumption of the input material. It arises when there is a difference in the standard output and the actual output. Various reasons are there for more or less standard and actual output i.e. may be due to difference in standard and actual wastage, bad or good workmanship, bad or good governance, control etc. Here we are not concerned with these but concerned with to find out the particular variance i.e. the yield variance. First step to find out the material yield variance is that standard rate of standard yield is found out and then it is multiplied by the difference in the actual yield and the standard yield for the actual mix or input material.

Material yield variance = $\frac{\text{Standard cost of standard mix}}{\text{Standard yield of st.mix}} \times [\text{Actual yield} - \text{st. yield for the actual mix}]$

Formulae to calculate material variances :-

1. Material cost variance (MCV) $= \sum_{i=j=1}^{n}\left[\left(\frac{Ay \times Si}{Sy} \times SRi\right) - (Aj \times ARj)\right]$

2. Material price variance (MPV) $= \sum_{i=j=1}^{n} Aj(SRi - ARj)$

3. Material usage variance (MUV) $= \sum_{i=j=1}^{n} SRi\left[\frac{Si \times Ay}{Sy} - Aj\right]$

4. Material mix variance (MMV) $= \sum_{i=j=1}^{n} SRi\left[\frac{Si \times (\sum Aj)}{(\sum Si)} - Aj\right]$

5. Material yield variance (MYV) $= \frac{\sum_{i=1}^{n}(Si \times SRi)}{Sy}\left[Ay - \left(\frac{Sy \times (\sum Aj)}{(\sum Si)}\right)\right]$

Where	Ay	=	Actual yield
	Sy	=	Standard Yield

Si = Standard quantity of input shown by standard of the company.

SRi = Standard rate of ith item as given in the standards of the company.

Aj = Actual quantity input shown in the sequence of actual inputs.

ARj = Actual rate of jth item shown in the actuals of the company.

ΣAj = sum total quantity of the actual inputs.

ΣSi = sum total quantity of the standard inputs.

STANDARD OF THE COMPANY			
Standard of material (Si)		Standard rate per unit (SRi)	Total Standard cost
Material type	Units		
Material A	S_1	SR_1	$S_1 \times SR_1$
Material B	S_2	SR_2	$S_2 \times SR_2$
Material C	S_3	SR_3	$S_3 \times SR_3$
Material D	S_4	SR_4	$S_4 \times SR_4$
Material E	S_5	SR_5	$S_5 \times SR_5$
Total Standard Mix	ΣSi =........	Total Standard Cost	Σ(Si×Sri) =............

Standard yield (units) = ...Sy

ACTUAL OF THE COMPANY			
Actual quantity of material (Aj)		Actual rate per unit (ARj)	Total Actual cost
Material type	units		
Material A	A_1	AR_1	$A_1 \times AR_1$
Material B	A_2	AR_2	$A_2 \times AR_2$
Material C	A_3	AR_3	$A_3 \times AR_3$
Material D	A_4	AR_4	$A_4 \times AR_4$
Material E	A_5	AR_5	$A_5 \times AR_5$
Total Actual Mix	Σ Aj = ...	Total Actual Cost	ΣAj×ARj =............

Actual Yield (units)= .... Ay

Take material Cost Variance

$$MCV = \sum_{i=j=1}^{n}\left[\left(\frac{Ay\times Si}{Sy}\times SRi\right)-(Aj\times ARj)\right]$$

$$= \sum_{i=j=1}^{n}\left(\frac{Ay\times Si}{Sy}\times SRi\right)-\sum_{i=j=1}^{n}(Aj\times ARj)$$

By adding and subtracting $\sum_{i=j=1}^{n}(Aj\times SRi)$ we get

$$= \sum_{i=j=1}^{n}\left(\frac{Ay\times Si}{Sy}\times SRi\right)-\sum_{i=j=1}^{n}(Aj\times SRi)+\sum_{i=j=1}^{n}(Aj\times SRi)-\sum_{i=j=1}^{n}(Aj\times ARj)$$

$$= \sum_{i=j=1}^{n}SRi\left(\frac{Ay\times Si}{Sy}-Aj\right)+\sum_{i=j=1}^{n}Aj(SRi-ARj)$$

$$= \sum_{i=j=1}^{n}SRi\left(\left(\frac{Si\times Ay}{Sy}\right)-Aj\right)+\sum_{i=j=1}^{n}Aj(SRi-ARj)$$

= MUV + MPV

= MPV + MUV

so material cost variance = Material price variance + Material usage variance.

$$\text{Material usage variance} = \sum_{i=j=1}^{n}SRi\left[\left(\frac{Si\times Ay}{Sy}\right)-Aj\right]$$

$$= \sum_{i=j=1}^{n}SRi\left(\frac{Si\times Ay}{Sy}\right)-\sum_{i=j=1}^{n}SRi\times Aj$$

adding and subtracting $\sum_{i=j=1}^{n}SRi\left(\frac{Si\times\sum Aj}{\sum Si}\right)$ we get

$$= \sum_{i=j=1}^{n}SRi\left(\frac{Si\times Ay}{Sy}\right)-\sum_{i=j=1}^{n}SRi\left(\frac{Si\times\sum Aj}{\sum Si}\right)+\sum_{i=j=1}^{n}SRi\left(\frac{Si\times\sum Aj}{\sum Si}\right)-\sum_{i=j=1}^{n}SRi\times Aj$$

$$= \sum_{i=j=1}^{n}\frac{SRi\times Si}{Sy}\left(Ay-\frac{Sy\times(\sum Aj)}{\sum Si}\right)+\sum_{i=j=1}^{n}SRi\left(\frac{Si\times(\sum Aj)}{\sum Si}-Aj\right)$$

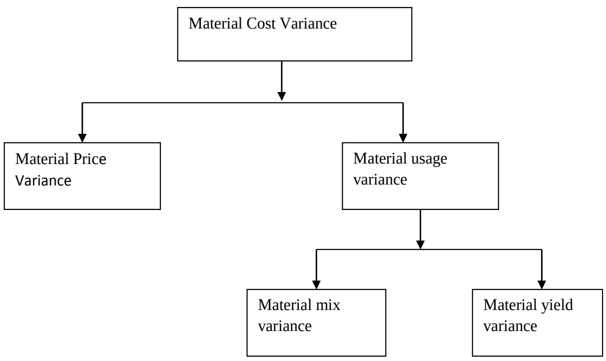
$$= \frac{\sum_{i=j=1}^{n}SRi\times Si}{Sy}\left(Ay-\frac{Sy\times(\sum Aj)}{(\sum Si)}\right)+\sum_{i=j=1}^{n}SRi\left(\frac{Si\times(\sum Aj)}{(\sum Si)}-Aj\right)$$

$$= \frac{\sum_{i=1}^{n}SRi\times Si}{Sy}\left(Ay-\frac{Sy\times(\sum Aj)}{(\sum Si)}\right)+\sum_{i=j=1}^{n}SRi\left(\frac{Si\times(\sum Aj)}{(\sum Si)}-Aj\right)$$

= MYV + MMV

= MMV + MYV

Flow chart showing the material variances



Let us try to solve a problem to calculate the material variance with the above formulae

Prob: SV Ltd. manufactures a simple product, the standard mix of which is

Material A	60% @ Rs. 20 per kg.
Material B	40% @ Rs. 10 per kg.

Normal loss in production is 20% of the input. Due to shortage of material A, standard mix was changed. Actual results for March, 2010 were

Material A	105 kg @ Rs. 20 per kg.
Material B	95 kg @ Rs. 9 per kg.
Input	200 kg
Loss	35 kg
Output	165 kg

Calculate (i) material price variance (ii) material usage variance (iii) material mix variance and (iv) material yield variance.

Sol. Here

S1 = 0.6 kg SR1 = Rs. 20

S2 = 0.4 kg SR2 = Rs. 10

ΣSi = 1.00 kg.

Sy = 0.80 kg.

and

A1 = 105 kg AR1 = Rs. 20

A2 = 95 kg AR2 = Rs. 9

ΣAj = 200 kg

Ay = 165 kg

Material Price Variance = $\sum_{i=j=1}^{n} Aj\left(SRi - ARj\right)$

(MPV)

= [105(20-20)] + [95 (10-9)]

= 0 + 95

= Rs. 95 (F)

Material Usage Variance = $\sum_{i=j=1}^{n} SRi\left(\frac{Si \times Ay}{Sy} - Aj\right)$

(MUV)

$$= \left[20\left(\frac{0.6\times165}{0.8} - 105\right)\right] + \left[10\left(\frac{0.4\times165}{0.8} - 95\right)\right]$$

= [20(123.75-105)] + [10(82.5-95)]

= 375 + (-125)

= Rs. 250 (F)

Material Mix Variance = $\sum_{i=j=1}^{n} SRi\left[\left(\frac{Si \times (\sum Aj)}{\sum Si}\right) - Aj\right]$

$$= 20\left[\frac{0.6\times200}{1} - 105\right] + 10\left[\frac{0.4\times200}{1} - 95\right]$$

= 20 [120-105] + 10(80-95)

= 300 - 150

= Rs. 150 (F)

$$\text{MYV} = \frac{\sum_{i=1}^{n}(Si \times SRi)}{Sy}\left[Ay - \frac{Sy \times (\sum Aj)}{\sum Si}\right]$$

$$= \left[\frac{0.6\times20 + 0.4\times10}{0.8}\right]\left[165 - \frac{0.8\times200}{1}\right]$$

$$= \frac{(12+4)}{(0.8)} \times [165-160]$$

$$= \frac{16}{0.8} \times 5$$

= Rs. 100 (F)

Total Material Cost Variance =

$$= \sum_{i=j=1}^{n}\left(\left(\frac{Ay\times Si}{Sy}\times SRi\right) - \left(A_j \times AR_j\right)\right)$$

$$= \left(\left(\frac{Ay\times S_1}{Sy}\times SR_1\right) - \left(A_1\times AR_1\right)\right) + \left(\left(\frac{Ay\times S_2}{Sy}\times SR_2\right) - \left(A_2\times AR_2\right)\right)$$

$$= \left(\left(\frac{165\times0.6}{0.8}\times20\right) - (105\times20)\right) + \left(\left(\frac{165\times0.4}{0.8}\times10\right) - (95\times9)\right)$$

= (2475 – 2100) + (825 – 855)

= 375 – 30

= 345 (F)

MA

References

1. *Cost Audit & Management Audit by V K Saxena & C D Vashist*

2. *Advanced Cost & Management Accounting Problems & Solutions by V K Saxena & C D Vashist*

3. *Ratnam's Costing Adviser by P.V. Rathnam*

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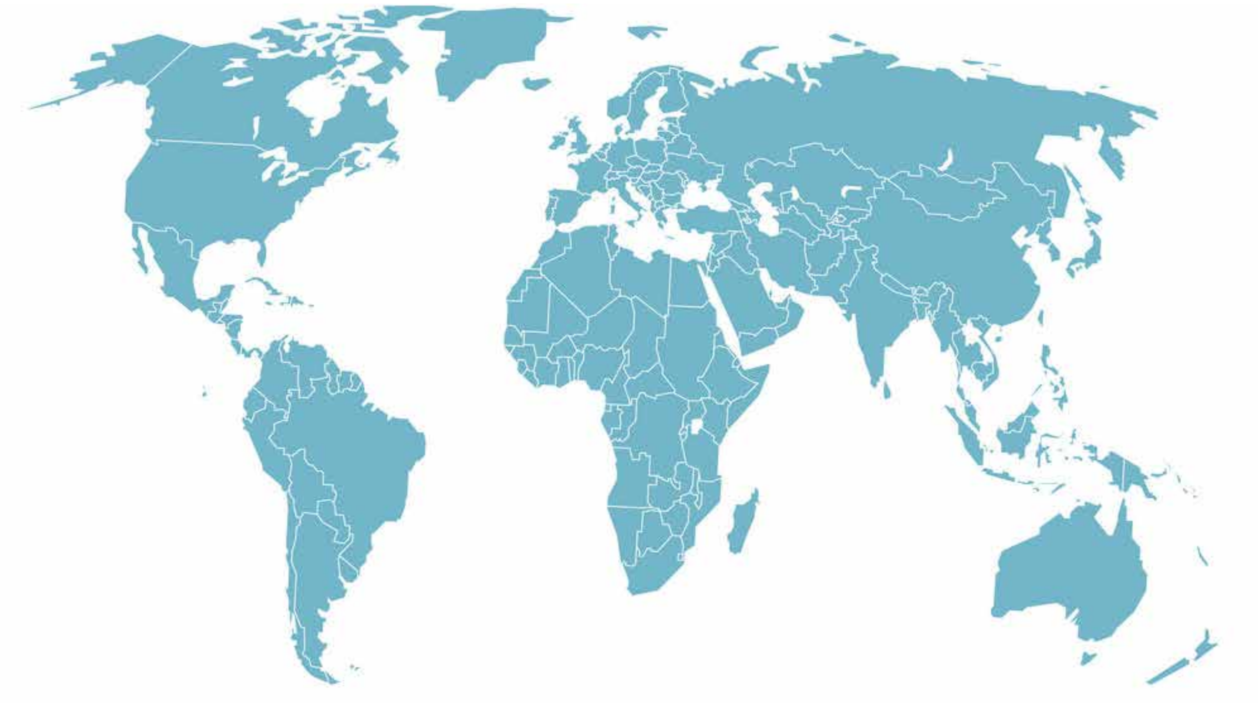
MANAGEMENT ACCOUNTING:
AN INTERNATIONAL PERSPECTIVE



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The Thirteenth World Congress of Accounting Educators and Researchers was held in Sydney (November 8-10, 2018) jointly organised by the International Association for Accounting Education and Research (IAAER) and The University of Sydney Business School, Sydney, Australia. The Congress comprised seven well organised Symposia and seven concurrent sessions on emerging topics, namely, IFRS Adoption, Capital Markets (2), Management Accounting, IFRS Reporting, Financial Accounting, Small and Medium Businesses and Innovation, Auditing (2), Disclosure, Disclosure and Economic Consequences, Corporate Governance, Taxation, Goodwill Accounting, Earnings Management, Accounting History – Mediaval Times, Accounting History – Recent Past, Education, Education and the Profession, Non-Financial Reporting (2), andNot-for-Profit Sector. In each concurrent session only three papers were listed for presentation (20 minutes for presentation and 10 minutes for Q&A). Each of these concurrent sessions was chaired by one of the designated presenters.

In the session earmarked for Management Accounting the papers which had been listed for presentation were:

(i) Financial Constraints and Cost Stickiness by Mabel D. Costa, Massey University, New Zealand

(2) Do Firms Really Overproduce to Management Earnings? A Re-examination of the Production Cost Proxy by Zhaoyang Gu and Wing Hei Sao, Chines University of Hong Kong, and

(3) The Role of ICAI in Developing Cost Accounting Standards (CAS) for Cost and Management Accounting: the Indian Experiment by Bhabatosh Banerjee, University of Calcutta (also chaired the session).

The main objective of the present paper is to state the development of management accounting at the international level, as reflected by these three papers at the 13thWorld Congress. More specifically, it aims at:

- Giving a brief account of each of the three papers;
- Highlighting some of the contributions and limitations, and
- Suggesting future areas of study/research to be undertaken by the cost and management accountants and academic researchers in India.

The paper is organised as follows: Section 2 gives some details of these three papers. Section 3 points out the contributions and limitations of each. Section 4 gives suggestions for future research in management accounting. The paper is concluded in section 4.

Summary of the Papers Presented

(1) Financial Constraints and Cost Stickiness

Cost stickiness is an important topic the analysis of which may facilitate strategic cost management. It refers to the cost increment caused by the increase in business volume in greater than the cost decrement caused by the decrease in business volume (Anderson, Banker, and Janakiraman, 2003).

Anderson, Banker and Janakiraman found that in the actual operation of the enterprise, the cost increment caused by the increase of business volume is greater than the cost decrement caused by the decrease of business volume, presenting a certain "sticky" characteristics, which is inconsistent with the traditional theory of cost behaviour. However, costs can also be non-sticky, i.e., their decrement with sales is higher than their increment due to the increase in sales. Cost stickiness/anti-stickiness can be defined as 'good' and 'bad'. Cost stickiness for long-term value creation is good whereas such behaviour to operationalise managerial opportunism or empire building is bad. Both external objective environment and internal management subjective wills would exert influences on cost control and cost management of enterprises. The enterprise's cost stickiness is put forward to help the enterprise's cost management based on objective reality, optimize the decision-making of enterprise management and realize the maximization of enterprise value (Kening Yao, 2018).

The paper examined cost anti-stickiness of the financially constrained firms in the US during 1976 to 2016. It documented that, financial constraints can cause cost anti-stickiness behaviour, e.g. non-availability of external or internal finance options influence a firm to reduce its unutilized assets while there is a decrease in business activities. Such anti-stickiness of cost occurs throughout the economic cycle, and it is more noticeable during economic contraction. The paper also dealt with the existence of cost anti-stickiness in the context of agency problem, measured by the magnitude of free cash flows (FCF). Certain contextual factors influence the association between financial constraint and cost anti-stickiness. The financially constrained firms with a high FCF, low earnings management incentives, low future value-creating potential of selling, general and administrative costs, restrict growth opportunities, and high R&D investment tends to show good anti-stickiness behaviour. The methodology was good and conclusions were well-founded.

(2) Over-production for Management of Earnings

According to Healy and Wahlen (1999), "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting practices". Earnings can be managed by manipulations of either accruals or real activities. Roychowdhury's (2006) research paper provides evidence of how real earnings management occur through the manipulation of operational activities, such as, sales manipulation, reduction of discretionary expenditures, and overproduction. It also developed empirical proxies for detection of such manipulations. Production costs, defined as an aggregate measure of the cost of goods sold (COGS) and inventory, are taken as the proxy for overproduction. Overproduction causes an abnormal rise in inventory and a reduction in the reported COGS and a subsequent increase in earnings.

The paper of Gu and Sao questioned Roychowdhury's (2006) measurement of production cost to predict overproduction of the firms that are suspected for earnings management. It disaggregated the components of production cost to re-examine Roychowdhury's (2006) findings. Gu and Sao documented higher abnormal COGS and insignificant abnormal inventory change for suspect firms, which is inconsistent to the overproduction hypothesis for earnings management.

(3) Development of Cost Accounting Standards by ICAI

Cost Accounting Standard setting is not new. Although four industrialized countries, viz. the USA, Japan, the U.K. and Germany, started it long ago (in 20th century), India joined these countries in 2002 and between 2002 and 2016 issued 24 standards. The Institute of Cost Accountants of India (ICAI) has been empowered by the provisions of the Companies Act. Admittedly, the Institute gained not only from international experience but also from the environment within the country i.e. accounting standards for financial accounting.

Cost Accounting Standards (CAS) are issued to ensure uniformity, consistency and accuracy in cost statements. Such uniformity and consistency are aimed at in classification, measurement and assignment of costs to products and services. This promotes decision usefulness of cost information and enhances competitive advantage of the firm. The paper examined the standard setting process adopted by the ICAI and stated nature, objectives and scope of each standard issued by ICAI with the approval of the Government of India. The study is explorative in nature and mainly covers the period 2002 to 2016 apart from referring to earlier developments also.

Overall **objective** of the paper was to study the role of ICAI in developing Cost Accounting Standards (CASs) for Cost and Management Accounting in India. More specifically, the paper took into consideration the following aspects:

- The meaning and purposes, 'due process' in standard setting and whether the process is internationally competitive.
- How does the ICAI issue cost accounting standards and guidance notes?
- Does the composition of the Cost Accounting Standards Board (CASB) cover representatives of all important sectors of the economy? Also, what are its functions?
- Does the Institute follow a definite format for standard-setting? What about revision of the standards issued in keeping with changing requirements to make the standards up-to-date and competitive?

Because of constraint of volume, only a few among the above issues are considered in the following paragraphs.

On conceptual aspect of standard, there is considerable volume of literature starting from early days of financial accounting particularly in the field of accounting standards for preparation of financial statements. According to Moen (2003), it is an agreed upon response to a problem and codification of the response for communication and compliance. The use of codified response will lead to 'predictable results' so as to 'reduce uncertainty'. This is what is being followed currently throughout the world. A standard is not an end in itself, it is rather a means to an end.

The function of setting cost accounting standards is entrusted on a Board, called Cost Accounting Standards Board (CASB). The objectives of CASB are to develop "high quality" CASs to enable management to take informed decisions based on more reliable cost information. Secondly, standards are intended to enable regulators to function more effectively by integrating, harmonizing and standardizing cost accounting principles and practices. The functions of the Board are well-defined and it follows a definite format for standard setting. CASB comprises 32 members, covering all important sectors of the economy, including 3 from neighbouring countries.

Transparency in standard setting is one of the desirable attributes. Accordingly, CASB follows a well-defined due process (http://icmai.in). The Institute issued 24 Accounting Standards, CAS-1 to CAS-24, between 2002 and 2016 (for details vide http://icmai.in/CASB/index.php). 3 out of 24, viz. CAS-1, Classification of Cost, CAS-2, Capacity Determination, and CAS-3, Overheads, have been revised following the same procedure.

A CAS becomes mandatory from the date of its issue. The mandatory status implies that while discharging their attest functions, it will be the duty of the cost auditors to certify that CASs have been complied with in preparing the general/special purpose cost statements. At present, standards are applicable to manufacturing and service sectors. Cost statements cannot be described as complying with the CASs unless they are in conformity with the requirements of each applicable standard. In the event of any deviation, the auditors shall have to make adequate disclosures in their cost audit reports so that the users of cost statements may be aware of the same. The Institute issues application guidance from time to time for the standards released. Application Guidance is explanatory to the corresponding CAS. Revision of a standard may lead to revision of application guidance. A standard becomes relevant ('living') when it takes care of changing economic conditions.

CASB undertakes revision of Standards and Guidance Notes based on the subsequent legal or professional requirements or any other national or international developments in the field of Cost Accounting. The procedure followed for revision is the same as that followed for formulation of a new standard or guidance note, as the case may be.

Contributions and Limitations

All the papers discussed in the previous section add to our existing knowledge and are capable of producing literary, managerial and social contributions. But they are not free from certain limitations.

The first paper examines the cost behaviour of the financially constrained firms, thus contributes to the literature on cost-stickiness and cost management. The argument made in this paper, i.e. financial constraint fosters cost anti-stickiness, is based on the assumption that, resources drive costs. However, other macroeconomic and firm specific factors influence cost behaviour e.g. the government sometimes subsidizes financially constrained firms during an economic downturn. Moreover, the extent to which costs are fixed or variable may also influence their stickiness to sales. The non-discretionary fixed costs tend to show more sticky behaviour than discretionary fixed and variable costs.

The paper only mentions literary contribution. However, analysis of cost-stickiness may provide valuable insight to the managers in predicting expenses and earnings, which may generate broader economic benefits.

The second paper raises a question: 'Do firms overproduce to manage earnings'? It shows that the production costs proxy used by Roychowdhury (2006) would result in an invalid inference of overproduction. In a narrow sense, the paper seems to have a significant methodological contribution in drawing our attention to the flaw of a widely used proxy for detecting overproduction and its subsequent effect on earnings management. Broadly, it draws our attention to an age-old puzzle of management accounting literature: why would managers consciously produce more than that is demanded by the customers? However, the paper limits itself in suggesting any alternative measurement(s) of overproduction, doing which, could enhance the extant literature.

The third paper demonstrates the role of ICAI in developing CASs in India.The due process followed by the Institute is commendable because it is internationally competitive. It shows the objectivity on the part of the ICAI in discharging its responsibility. The Institute also makes efforts in periodically revising standards whenever that is warranted by the exigencies of the situation. So, standards always remain 'living standards'. Although the aim is to issue 'high quality' accounting standards, the parameters of quality are not defined anywhere. It is presumed that if the standards are issued following a defined 'due process', it becomes high quality standards which is debatable and is hard to accept. Secondly, what about the effectiveness of standards? How is it measured? The opinion of the stakeholders is very important and there should be some case studies from time to time.

Suggestions for Further Research

The critical reviews of the papers have provided an overarching logic to identify the avenues for future research in India that can be explored within the scope of management accounting literature. We remain confined to 'cost stickiness', 'earnings management', and 'accounting professionalism and regulations'.

a. Cost stickiness of Indian firms: There is a dearth of academic literature on cost stickiness of Indian firms. Some of the critical but untapped research questions can be: Are Indian firms cost-sticky or cost anti-sticky? What are the determinants of cost stickiness behaviour? What are the macroeconomic and firm-specific factors that moderate the association between cost stickiness and its determinants in the peculiar settings of India?

b. Non-performing assets and cost behaviour: Non-performing Assets have assumed an alarming proportion in the banking sector in India and they have been eating into vitals of Indian economy. The aggregate non-performing assets of this sector stands at Rs.6.5 trillion, or 8.6% of loans, at the end of June 2016 (www.rbi.org.in). Some of the important research issues can be: the impact of non-performing assets on the cost behaviour of the Indian banks, the association between non-performing assets and cost strategies, etc.

c. Strategic cost management and cost behaviour: In the context of 'Make in India', strategic cost management has an important role to play. Porter suggested cost leadership strategy and differentiation strategy for cost management. When the desired advantages of following these strategies cannot be achieved or sustained for long, firms are forced to adopt a third generic strategy, confrontation strategy(Cooper,1995). He explains how this can be done through analysis and management of survival triplet. So, some of the research issues may be: How can Indian companies, particularly those in the manufacturing sector, can develop a competitive advantage to promote the Government's 'Make in Programme'? How best the confrontation strategy can be managed? Because of the benefits flowing from an application of ABC, there has been growing interest in its application in India. How do strategic cost management techniques and approaches influence cost behaviour and performance of the Indian firms? What are the challenges and benefits of strategic cost management techniques in Indian companies?

d. Overproduction and earnings management: Overproduction has been widely accepted as an earnings management strategy. The possible research questions are: Do Indian firms overproduce to manage earnings? The Companies Act, 2013 requires, in the context of preparation and presentation of Financial Statements, development and implementation of a risk management policy and operation of effective Internal Financial Controls by the Board of Directors for a listed company. Accordingly, what should be an appropriate internal oversight mechanism to curb overproduction and earnings management?

e. Development and implementation of cost accounting standards: Some qualitative research can be undertaken at the firm level to answer the following important research questions: What are the challenges and benefits of adopting CASs by Indian companies? Are the implementation procedure and outcome differ in relation to the firms and industries? What are the changes to an organisation that occur due to compliance with the CASs? How does the compliance with the CASs interact with other reporting (e.g. financial reporting) and functional (e.g., management control systems) systems of an organization?

f. Accounting professionalism and regulations: Standards issued with the support of the government certainly fosters the institutional establishment of a professional accounting body. So, it is interesting to know what are the motivating factors for issuing CASs and how does the issuance influence the institutionalisation process of the ICAI and its members through their social and regulatory recognition. Moreover, revealing the challenges confronted by the ICAI in issuing the CASs could enrich the literature on accounting professionalism.

Concluding Observations

The accounting profession in India is the second largest, that is, after the profession in the US but before that in the U.K. and Australia, in that order. Accordingly, ICAI has a greater responsibility along with the Institute of Chartered Accountants of India. After a modest slow down, the Indian economy is performing well. India is now the fastest growing emerging economy. She has overtaken China in 2018 and UN estimates show that she will continue to maintain this position with a projected growth rate of 7.7% in 2019-20 (http://www.worldbank.org). Cost and management accountants have to grab this opportunity by providing more useful services to the profession and the economy. Other emerging economies can also benefit from Indian experience of cost and management accounting including cost standard setting.

Acknowledgement: Standard setting is one of the important components of an ongoing research project, Development of Cost and Management Accounting in India: the Role of Institute of Cost Accountants of India (1944-2017), undertaken by the first author. He acknowledges the support received from Dr. Debaprosanna Nandy, Director Research, ICAI. MA

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Obituary

The Institute and its members deeply mourn the demise of CMA N R Bhattathiri who left for heavenly abode on 13th December 2018 at his residence. He was the founder member of the Kottayam Chapter and served as Chairman, Vice Chairman, Secretary, Treasurer and Managing Committee Member in the past periods.

He retired as Joint Director (Finance) from Rubber Board (Ministry of Commerce & Industry). During his service in the Rubber Board, he has developed accounting procedures applicable for rubber plantation which is still being followed by the Institute for application of Cost Accounting Standards and Cost Audit methodology.

May his family have the courage and strength to overcome the loss.

ENTREPRENEURIAL CHARACTERISTICS AS DETERMINANT OF BUSINESS PERFORMANCE OF MICRO AND SMALL ENTREPRENEUR IN THE DISTRICT OF DARJEELING

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Abstract

We found entrepreneurial characteristics are one of the major factors, which determines also determines the performance of the business. This study is based on micro and small entrepreneur in the district of Darjeeling. The data are collected from DIC Siliguri, directory of local business association and business association. Respondent is interviewed though the questionnaire method. The data are analyzed and verified by Factor Analysis of Statistical applications. In conclusion, we tried to find out which characteristics directly influence an entrepreneur.

The creation of wealth is one of the fundamental tenets of economic development. The essence of entrepreneurship leading to wealth creation is studied under Indian context. Firms or business entity, either run by the Government or private ownership is one of the major drivers of wealth creation. It depends upon the competitiveness of its firms and this in turn relies fundamentally on the capabilities of its entrepreneur. In the study of entrepreneurship and economic development it has been found individual as a rational decision maker who assumed the risk and provided management of the firm. Micro & Small enterprises (SMEs) which account for over 60 % of enterprises in India under the ministry of SMEs, Government of India, are an important source of output and employment.

This research emphasizes the characteristics of an entrepreneur either successful or failure under this framework. A great deal of research on the personality characteristics and socio-cultural backgrounds of successful entrepreneurs were conducted in the 1980s and 1990s. Our research is restricted with micro and small entrepreneur. The study is based on various characterizes derived from different study under four heads. They are behavioral characteristics, human capital, social approaches and economic factors. This study is an attempt to empirically test the impact of entrepreneurial characteristics on business performance of micro and small scale enterprises in the district of Darjeeling. This attempt will open up new area for further study.

Literature Survey:

The definition of an entrepreneur has been derived from various research study national and international level, which reflects the characteristics of an entrepreneur. Our research interest lies under the framework of micro & small enterprises. The lack of a single definition is partly due to the differentiated traditions within the field of entrepreneurship research, including anthropology, social science, economics and management. In the study of entrepreneurship and economic development (Kibly, 1971) (1) described the individual as a rational decision maker who assumed the risk and provided management of the firm. According to the study of promise of entrepreneurship (Venkataraman & Shane, 2000) (2) the entrepreneurial function implies the discovery, assessment and exploitation of opportunities. In other words, new products, services or production processes, new strategies and organizational forms, new markets for products and inputs that did not previously exist (Lumpkin & Dess, 1996) (3). Further, according to Palmer (1971) (4) risk bearing is a prime factor in the entrepreneurial character and functions.

According to Nadir Ahmad and Richard G. Seymour (as cited in Cantillon, 1755/1931) study entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty. According to Schumpeter (1934) (5) innovation was the central characteristic of the entrepreneurial endeavor. His emphasis on this point is revealed in his declaration that one behaves as an entrepreneur only when carrying out innovations. According to Drucker (1985) (6) entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity. According to Lumpkin & Dess (1996) (7) entrepreneurship is a context dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities. In the study of entrepreneurial characteristics and competency (Sarwoko, Surachman, Armenia, & Hadiwidjojo, 2013) (8) it has been found the factors that affect the business performance of small and medium enterprises can be classified into two groups which focus on aspects of the personal and other focus on aspects of the organization.

Method of Study:

The study will be empirical in nature, focusing on the characteristics of micro and small entrepreneur in urban and rural set up within the district of Darjeeling. Micro or small scale industry Darjeeling comes under Food Products, Beverages, Tobacco products, Wool, cinchona, Jute, Hemp & Mesta textiles, Wood Products, Paper products & Printing, Leather products, Chemical products, nonmetallic mineral products, Electrical Machinery and Apparatus, Servicing and Repairing activities.

The research is conducted to through questionnaire method. The target audiences are District Industrial Center, various local chambers of commerce members. We have interviewed approx 150 respondents. After verification of data 110 nos are used for analysis. The data are collected under four major areas, Behavioral Character, Human Capital, Social Issue and Economic Factors. The questions are based on the Richter scale range from 1 to 5.

Analysis of Data

Cronbach's alpha, measures reliability, or internal consistency. "Reliability" is how well a test measures what it should. It tests to see if multiple-question Likert scale surveys are reliable. These questions measure latent variables hidden or unobservable variables. In general, a score of more than 0.7 is usually okay. In our case the value is more than 8, which signifies good.

Reliability statistics	
Cronbach's Alpha	No of items
.845	110

Factor Analysis Results: The Factor Analysis was applied for the identification of the core factors affecting the performance of the characteristics of the entrepreneur. This technique was considered appropriate as it requires no pre-existing of functional relationships and is a well known for data reduction. It is used to reduce large number of variables into a few numbers of core factors.

The Kaiser-Meyer-Olkin is the measure of sampling adequacy, which varies between 0 and 1. The values closer to 1 are better and the value of 0.6 is the suggested minimum. The Bartlett's Test of Sphericity is the test for null hypothesis that the correlation matrix has an identity matrix. Taking this into consideration, these tests provide the minimum standard to proceed for Factor Analysis.

Test hypothesis regarding interrelationship between the variables.

Null Hypothesis H0 :There is no statistically significant interrelationship between variables affecting the performance of Mutual Fund Scheme.

Alternate Hypothesis **H1** :There may be a statistically significant interrelationship between variables affecting the performance of Mutual Fund Scheme.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.802
Bartlett's Test of Sphericity	Approx. Chi-Square	80.159
	df	45
	Sig.	.001

As p <α, we therefore reject the null hypothesis H0 and accept the alternate hypothesis (H1) that there may be statistically significant interrelationship between variable.

The Kaiser-Meyer Olkin (KMO) and Bartlett's Test measure of sampling adequacy was used to examine the appropriateness of Factor Analysis. The approximate of Chi-square is 80.159 with 45 degrees of freedom, which is significant at 0.001 Level of significance. The KMO statistic of 0.802 is also large (greater than 0.50). Hence Factor Analysis is considered as an appropriate technique for further analysis of the data.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.139	41.390	41.390	4.139	41.390	41.390
2	1.520	15.200	56.589	1.520	15.200	56.589
3	.943	9.427	66.017			
4	.856	8.562	74.579			
5	.713	7.133	81.712			
6	.532	5.322	87.034			
7	.455	4.551	91.585			
8	.349	3.491	95.076			
9	.303	3.032	98.108			
10	.189	1.892	100.000			

Extraction Method: Principal Component Analysis.

We consider those values where the total Eigenvlaes is greater than 1. On the basis of Varimax Rotation with Kaiser Normalization, 2 factors have been extracted. Each factor is constituted of all those variables that have factor loadings greater that 0.5. 10 variables were clubbed into 2 factors. Two factors were extracted from the 10 variables used in the study. These 2 extracted factors explained 55.589% of the variability the characteristics of the entrepreneur.

The Rotated Factor Matrix represents the rotated factor loadings, which are the correlations between the variables and the factors. The factor column represents the rotated factors that have been extracted out of the total factor. These are the core factors, which have been used as the final factor after data reduction. According to the grouping of the factors, each group of factors is named which will represent the grouped factor and represent the factors.

Rotated Component Matrix[a]		
	Component	
	1	2
Family members support your business	.338	**.681**
You start a project in spite of myriad obstacles	.536	-.409
You are ready to pay tax	**.760**	.291
You are ready to accept new ideas	**.866**	-.058
Financial support in the time of crisis	-.032	**.859**
Education is important in business	**.676**	.492
Willing to work without compensation for new results	**.762**	.108
Prior experiences to run a business	.596	.224
Risk taker	.387	.283
Business needs proper plan	**.736**	.070
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a		
a. Rotation converged in 3 iterations.		

The above matrix gives the correlation of the variables with each of the extracted factors. Usually, each of the variables is highly loaded in one factor and less loaded towards the other factors. To identify the variables, included in each factor, the variable with the value maximum in each row is selected to be part of the respective factor. The values have been highligtened in each of the rows to group the 8 variables into 2 core factors.

Factor	Variable Included	Name of the factor
1	❖ You are ready to accept new ideas ❖ You are ready to pay tax ❖ Willing to work without compensation for new results. ❖ Business need Proper plan ❖ Education is important in business	Personal factors
2	❖ Financial support at the time of crisis ❖ Family members support of business	Social factors

Conclusion

The Factor Analysis has thus identified 2 core factors that affect the characteristics of the entrepreneur. They can be categorized as under: -

1 Personal Factor : This factor defines the 42% of the variability of the characteristics of the entrepreneur. An entrepreneur mind is ready to accept new ideas, which clearly defines the word innovation is the key for success. The same results reflect in the case of work without compensation. The e-commerce era is clearly defines compensation comes as after success. Finally education has become one of the key factors in the knowledge economy. Proper business plan only support above discussed factors only.

2 Social factor : This factors defines 15.2% of the variability of the characteristics of the entrepreneur. Family support is one of the area which come from business family background. On the same category support in the time of crisis plays an essential role for running of business. MA

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MYSTERY SHOPPING AS A DECISION MAKING TOOL – THE INDIAN SCENARIO

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Abstract

The purpose of this paper is to bring out Mystery Shopping as an indispensable tool for Decision Making, specifically for the Indian Market. Mystery Shopping refers to anonymous evaluation of businesses against parameters laid down (usually) in Standard Operating Procedures (SOPs). Mystery Shopping is a widely used tool across industries globally with an intent to find areas of improvement in service delivery. The ultimate goal of Mystery Shopping activity is to use the findings and results in improvising the service standards of any organization. The Mystery Shopping industry in India is a little over a decade old in terms of age but still has a long way to go. This research paper is aimed to highlight the utility of Mystery Shopping across areas and functions within any organization.

Design/methodology/approach *– An exploratoryresearch was conducted by getting inputs from top level executives across industries in India. Data were collected through an online questionnaire distributed among 45 C-Level & V-Level executives. Online response method was chosen keeping in mind the demographic spread of respondents as well as the constraint of time available with the senior level executives. The respondents were chosen randomly and were a mix from various industries. The author has ensured that no Mystery Shopper was a part of the study, so as to bring out unbiased views. The questionnaire consisted of 17 closed ended questions to understand the views of respondents in terms of utility of Mystery Shopping within their respective organization(s). For the purpose of this study, the industry and organizational details of the respondents were not collected. A meta-analysis of the data thus collected, was done using Microsoft Excel as a tool.*

Findings *– Mystery Shopping is an effective and indispensable tool which can be used across functions within any organization. The respondents found Mystery Shopping results as "Very Important" and which can be used as a Decision-Making tool across various functions within any organization. It was also observed that those who knew of Mystery Shopping, thought there is no other tool which can replace it.*

Research limitations/implications *– The research was conducted in wide variety of industries. In order to gauge the industry wise utility, an industry targeted approach shall be used and results be compared thereof.*

Practical implications *– The paper can be used for further research on Mystery Shopping as an indispensable business decision strategy tool in the ever-growing Indian Economy. It also carves a way for discussion on introducing Mystery Shopping as a part of Management Studies Curriculum.*

Originality/value *– No such study has ever been carried out by the author. The respondents were never subject to any study on Mystery Shopping as a research tool despite having implemented it over years.*

Mystery Shopping is an age-old technique used across globe and industrywide to measure, monitor and assess the service delivery quality. In research terms it is a form of participant observation, or "disguised observation" (Hair et al., 2003). The mystery shoppers taste the customer experiencefirst-hand with the instruction to test it methodically, usually against a specific service standard (Wilson and Gutmann, 1998). They complete a report on their service experiences, often using numerical rankings on a series of statements prepared in advance. It provides a "snapshot" of the service being provided at one place at one time, unaffected by previous experiences (Guzman, 1992), so can provide reinforcement of what otherwise can only be guessed at or assumed to be happening (Czopak, 1998). Mystery Shopping is often confused with Customer Satisfaction surveys or Feedback surveys whereas it is far different from both. While the later ones target the customers of an organization, the former one is a well-designed tool wherein trained personnel are sent to visit the business locations with a predefined motive in mind. In India, Mystery Shopping is being used across industries. The early usage seems to have started near 2005 and has picked up pace over last 10 years. The practice is currently being extensively used in sectors like retail, banking, hospitality, education and entertainment. The data thus collected and collated is used to serve as a blood test reportfor the Standard Operating Procedures in any organization. The tool is also used extensively by hospitality industry as a part of Performance Appraisal with the results mapped to the KPIs of staffing personnel. The only association across globe which lays down the ethics for Mystery Shopping companies is Mystery Shopping Providers Association, which has a global reach spread over three broad regions of the Americas, Europe, and Asia/Pacific.

Through this paper, the author has brought forward the current scenario of Mystery Shopping in India. The paper suggests the wide acceptance of the tool across industries and the utility thereof. The paper analysis the awareness of Mystery Shopping as a Decision-Making tool across industries. Despite being an old technique and tool, Mystery Shopping is yet to become a widespread tool in Indian Economy. The paper also aims at bringing out the Acceptance of Results of Mystery Shopping in strategic business decisions. The paper also discusses how likely are the results thus collated, to be implemented for business decisions. The study attempts to highlight the functions/ verticals within an organization where Mystery Shopping Can be used. The respondents were also asked about their experience in implementing the Mystery Shopping across areas and the paper, thus presents the verticals where the tool has actually been implemented by the respondents in general, yielding satisfactory Business Decisions for continual improvement.

Mystery shopping

Mystery Shopping, also known by various names like Secret Shopping, Mystery Evaluation, Undercover Shopping, Shadow Shopping or Phantom Shopping, the term 'Mystery Shopping', essentially refers to visiting any place or business 'anonymously' (hence the word 'mystery') with an intention of reviewing it against a standard or the laid down organizational procedures. It is a unique and common tool used by many companies to gauge their, and, at times, the competitors' service standards and customer experience. People who perform Mystery Shopping are referred to as "Mystery Shoppers" or "Mystery Evaluators" and get paid per shop basis post the successful submission of their reports along with requisite proofs. (Mystery Shopping – Mock It & Fill Your Pocket, 2013). Mystery shopping (related terms: mystery consumer, secret shopper) is a tool used externally by market research companies, watchdog organizations, or internally by companies themselves to measure quality of service, or compliance with regulation, or to gather specific information about products and services. The mystery consumer's specific identity and purpose are generally not known by the establishment being evaluated. Mystery shoppers perform specific tasks such as purchasing a product, asking questions, registering complaints or behaving in a certain way, and then provide detailed reports or feedback about their experiences (Wikipedia).Karia, 2005 stated that mystery shopping in India is of not a much scope but some of the big corporate have started to do mystery shopping for increasing their service delivery. (Karia, 2005). Mystery shopping is necessary for companies to get an objective opinion on how their business is doing. If they used their own employees to evaluate their service and operations, it would be biased. So, mystery shoppers, who don't already have a connection with the company, are used to provide honest and unbiased feedback. (A. Velsamy, 2013). Mystery shopping refers to a performance evaluation method that assesses the quality ofcustomer service (Wilson, 1998a). The method stems from cultural anthropology and representsa form of a concealed participant observation. The method could be viewed as "researchwhereby individuals measure any type of customer service process by acting as actual orpotential customers and in some way report back on their experiences, in a detailed and, as far aspossible, objective way" (Turner, 2007, p. 333). In other words, the evaluation is conducted bymystery shoppers – trained professionals who act as customers and evaluate their customerexperiences using some pre-determined criteria. This interaction could occur during a visit to theorganization, a phone call, or e-mail exchange with its representatives (Douglas, 2015).All participating shoppers use the same criteria, and a number of shoppers are usually used toobtain data. The results of this appraisal method are usually used to improve the process of customer service, to benchmark, or to change employee behavior (Calvert, 2005; Wilson, 1998a). To change employee behavior, the results are used to "to encourage, develop and motivate service personnel by linking with appraisal, training and reward mechanisms" (Wilson, 1998a, p. 417). Mystery shopping is used along with or instead of other service evaluation methods that include focus groups, managerial observations, peer feedback, complain analysis, and customer surveys, interviews, and comments (Ford et al., 1997). These methods help management measure whether standards of customer service are being met by service providers and remain competitive in the industry. Compared to other methods of customer service evaluation, mystery shopping has several advantages. First, the evaluation occurs at the intersection of service provision and service consumption allowing for a customer interaction with the service provider (Douglas, 2015). Therefore, mystery shopping enables organizations to collect facts and not perceptions or recollection of the service (Wilson, 1998a). Mystery shoppers document their experiences using checklists and comparing their experiences with pre-determined criteria, such as standards of customer service. For performance evaluation, these standards are broken down into specific, observable, and measurable behaviors that could be observed by a mystery shopper. For example, at a restaurant, mystery shoppers could be asked to note how much time they waited in a queue, whether a required greeting was used by an employee or what specials of the ay are offered. Such structured data collection method also makes mystery shopping objective, accurate, and reliable (Douglas, 2015). In recent years, more studies conducted in different parts of the world have been reported in academic literature. For example, Minghetti and Celotto (2013) reported on how mystery shopping was used at tourist information offices in mountains in Italy and Austria. Tarantola et al. (2012) discussed how mystery shopping was used to evaluate the quality of banking services in Greece, and Liu et al. (2014) explored the use of the method for ranking 500 best restaurants in Taipei, Taiwan. Štěrbováa et al. (2015) discussed how mystery shopping was used to evaluate the quality of sales personnel communication with customers in telecommunications stores in the Slovak Republic. Some new research has been published on the method itself. For example, Douglas (2015) researched mystery shoppers' perspective on their job, including their training, evaluation, and difficulties that they encountered. Several other researchers have suggested new applications for the mystery shopping method. For instance, Ford et al. (2011) explored how to use mystery shopping to coach employee performance improvement. Also, Peterman and Young (2015) used the method to evaluate the quality of scientists' interactions with the audience during public speaking events while Mattsson (2012) used the method to explore the quality of B2B relationships among consultancy companies in Scandinavian countries. Mystery shopping is also gaining popularity in public and private libraries and information services (Calvert, 2005; Kocevar Weidinger et al., 2010). Due to its many benefits and wide applicability in the service and retail industries, mystery shopping will probably continue to spread to more countries and industries (Calvert, 2005; Turner, 2007). As the use and knowledge of the method grow, mystery shopping also adapts to new technologies. For example, the internet and other applications become incorporated to recruit and train mystery shoppers, collect and analyze data, and report the results (Turner, 2007).

Method

Setting

The research was conducted by connecting with top level decision makers across industries in Indian Subcontinent. 45 C-Level and V-Level respondents were chosen. It was not known beforehand prior to the research whether the respondents had previous exposure to Mystery Shopping or not.

Survey Administration

A questionnaire was created online using a Questionnaire Tool, JotForm (www.jotform.com). Link to questionnaire was sent to respondents directly on their email ids. The respondents were informed about the purpose of the research and anonymity of their responses.

Questionnaire Design

The questionnaire consisted of 17 closed ended questions. The respondents were asked about the awareness of Mystery Shopping. The respondents who had heard of Mystery Shopping as a tool for Decision-Making were then asked about the usage and implementation of Mystery Shopping results in their business environment. Major organizational functions involving strategic business decisions were outlined in below categories:

- C-Sat

- SOP (Standard Operating Procedure) Compliance
- TNA (Training Need Analysis)
- Integrity Checks
- Marketing Effectiveness
- Fraud Detection
- Quality Check
- Service Quality Improvement
- Visual Merchandising Effectiveness
- Market Operating Price (MOP/MSP) Checks
- Competitive Analysis

The respondents were requested to choose the scope of Mystery Shopping in the above organizational functions. They were also asked to choose the functions where they had used Mystery Shopping as a tool.

The respondents were grouped on the basisof awareness and usage of Mystery Shopping. The first group was labeled "Used Mystery Shopping" and included respondents who were aware of Mystery Shopping and had used the same for business decision making. The second group was labeled, "Heard but not used" which included respondents who were aware of Mystery Shopping but had not used it as a decision-making tool in their business. The third group, "Not heard", included the respondents who had not heard of Mystery Shopping as a process or tool for Business Strategic Decision-Making. A brief introduction about Mystery Shopping was given to them within the form based on their choice of answer.

"Mystery shopping (related terms: mystery consumer, secret shopper) is a tool used externally by market research companies, watchdog organizations, or internally by companies themselves to measure quality of service, or compliance with regulation, or to gather specific information about products and services. The mystery consumer's specific identity and purpose are generally not known by the establishment being evaluated. Mystery shoppers perform specific tasks such as purchasing a product, asking questions, registering complaints or behaving in a certain way, and then provide detailed reports or feedback about their experiences. Source: https://en.wikipedia.org/wiki/Mystery_shopping". The responses were grouped accordingly.

Data Analysis

Awareness

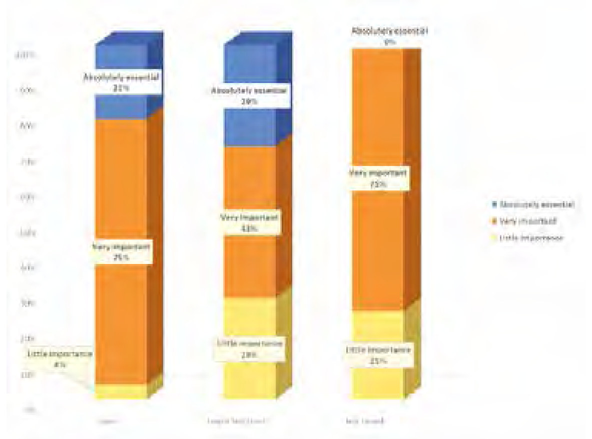
35 respondents (almost 78 percent) of the chosen people completed the questionnaire. Of these 35 respondents, 11 percent (4 respondents) had not heard of Mystery Shopping at all. Rest 89 percent (31 respondents) were well aware of Mystery Shopping as a Strategic Business Decision-Making tool. Out of those who were aware of the tool, 77 percent (24 respondents) responded having used the tool for business, directly.The pie chart below (Fig. 1) represents the distribution of respondents.

Figure 1: Respondents Mix – Mystery Shopping awareness and usage

Analysis: Mystery Shopping as an essential Decision-Making tool

Of the respondents who had used Mystery Shopping as a part of their strategic business decision making, only 4 percent found it of little importance. Remaining 96 percent of the respondents rated Mystery Shopping as Absolutely Essential (21 percent) and Very Important (75 percent) tool as a part of their decision making. Of the respondents who have heard but not used the tool directly, 72 percent rated it as Absolutely Essential (29 percent) and Very Important (43 percent) tool. For the respondents who had not heard about Mystery Shopping, after a brief introduction of the tool, 75 percent found it to be Very Important for their strategic business decision making.

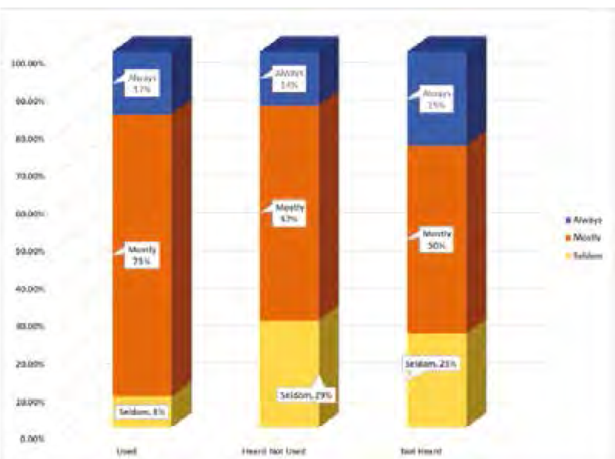
Figure 2: Mystery Shopping as an essential Decision-Making tool



Analysis: Implementation of Mystery Shopping results in Decision Making

The respondents were further asked about the implementation of results shared by Mystery Shopping activity and analysis shows that the Decision Makers who have used the tool have implemented its results and findings in 92 percent of the cases towards the betterment of service quality within their organization. For the respondents who had just heard but not used the mystery shopping results, 71 percent were confident of implementation of the Mystery Shopping results. Those who were introduced to the tool afresh, were confident of implementation in 75 percent of the cases.

Figure 3: Implementation of Mystery Shopping findings



Analysis: Scope of Mystery Shopping results usage across functions [Group 1 – Used Mystery Shopping]

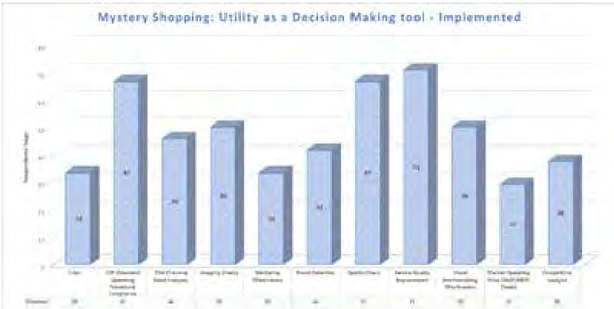
On analyzing the functional utility of Mystery Shopping within an organization, the results showed that respondents who had used Mystery Shopping as a tool, suggested that it is useful in all the functions laid down in the questionnaire. Interestingly, 92 percent of such respondents found it as an important tool for service quality improvement and 88 percent rated it as useful for SOP compliance. The functional mix used for this analysis was: C-Sat, SOP (Standard Operating Procedure) Compliance, TNA (Training Need Analysis), Integrity Checks, Marketing Effectiveness, Fraud Detection, Quality Check, Service Quality Improvement, Visual Merchandising Effectiveness, Market Operating Price (MOP/MSP) Checks, Competitive Analysis. For critical business areas like Fraud Detection and Integrity Checks measurement, the 67 percent and 71 percent respondents considered Mystery Shopping indispensable, respectively. The below graph (Fig. 4) depicts the magnum of functional utility of Mystery Shopping tool.

Figure 4: Scope of Mystery Shopping results usage across functions (Group 1)

Analysis: Implementation of Mystery Shopping results usage across functions [Group 1 – Used Mystery Shopping]

On analyzing the responses to actual implementation of the Mystery Shopping results, the respondents who had used the tool for Decision-Making in their organization 71 percent have actually implemented the results of Mystery Shopping activities for Service Quality Improvement. 67 percent of the respondents had implemented the findings for SOP Compliance and Quality Checks. The below graph (Fig. 5) depicts the actual implementation of functional utility of Mystery Shopping tool.

Figure 5: Implentation of Mystery Shopping results usage across functions (Group 1)



Analysis: Scope of Mystery Shopping results usage across functions [Group 2 – Heard but not used Mystery Shopping]

On analyzing the responses for functional utility of Mystery Shopping within an organization the respondents were able to see the utility of the tool all across the functional scope laid down in the questionnaire, majorly for Visual Merchandising Effectiveness (71 percent), Competitive Analysis (71 percent), Service Quality Improvement (57 percent), Integrity Checks (57 percent), Marketing Effectiveness (57 percent) and C-Sat (57 percent). The below graph (Fig. 6) depicts the magnum of functional utility of Mystery Shopping tool as understood by Group 2, i.e. respondents who had heard of Mystery Shopping but not used it.

Figure 6: Scope of Mystery Shopping results usage across functions (Group 2)

Analysis: Scope of Mystery Shopping results usage across functions [Group 3 – Not heard of Mystery Shopping]

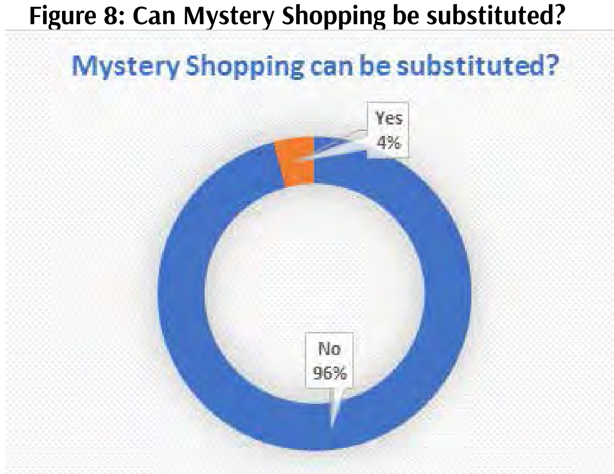
On analyzing the responses for functional utility of Mystery Shopping within an organization the respondents were able to see the utility of the tool all across the functional scope laid down in the questionnaire, majorly for Marketing Effectiveness (75 percent). The below graph (Fig. 7) depicts the magnum of functional utility of Mystery Shopping tool as understood by Group 3 which covered respondents who had not ever heard of Mystery Shopping.

Figure 7: Scope of Mystery Shopping results usage across functions (Group 3)

Analysis: Mystery Shopping – Can it be substituted?

All the respondents were asked a common question to find out whether, in their opinion there is a substitute tool which can yield results similar to Mystery Shopping. Interestingly, 96 percent of the respondents were unable to mention any other tool which could bring out the results similar to Mystery Shopping. One of the respondents (constituting 4 percent) thought that self-surveys were an alternative to Mystery Shopping. This response further need to be understood, in terms of definition of self-surveys. The figure below (Fig. 8) shows the responses for the above analysis.

Figure 8: Can Mystery Shopping be substituted?



Conclusion

After reviewing the (admittedly limited) literature on Mystery Shopping in India, and analyzing the research work done globally, the author wants to present some tentative conclusions and suggestions, open to further research. Prima facie, Mystery Shopping is an indispensable tool available to organizations all across the industries. A well-designed Mystery Shopping program not only serves as an extensive blood test report but also forms the basis of strategic business decisions across functions within any organization. Mystery Shopping as a tool can be used to improvise the service delivery as well as find out grey areas which require constant measuring and do not come to light using other tools such as feedback surveys or customer satisfaction surveys. Further research to understand the penetration of the tool in Indian economy can help confirm the above conclusions. MA

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RISK MANAGEMENT STRATEGIES IN ENERGY SECTOR: A BRIEF OVERVIEW

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Abstract

Frequent movement of energy input and out prices exposes the energy companies to a significant market risk and thereby causing financial distresses to the firm. Use of effective risk management strategies with hedging tools and constant monitoring of the dynamic market environment to revise those strategies can help companies to arrest a fall on their profit margin.

Risk is a surprise to the management of any business organisation. But the gamut of risk may be minimal or may be of such dimension that it necessitates a strategy to mitigate the risk to minimize the shocking impact on financial results. We have already come across the various types of risks faced by a business like credit / default risk, demand risk, enterprise risk, input risk, legal /liability risk, market or price risk, liquidity risk, political risk, environmental risk and so hence so forth. In this article discussion is limited to market risk and price risk faced by the Companies in petroleum industry and airline industry who are either producers or users of energy.

In 1973, the first oil price shock hit the world when the Organisation of Petroleum exporting Countries (OPEC) resorted to cutback of oil production in a bid to push up the crude prices which observed crude oil price spiralling from US$ 3 to US$ 12 per barrel over a one year period. Financial risk soon emerged as a top concern in the field of risk management and there was a need felt for tools to manage these risks. Within a few years the financial institutions and the industry utilized these tools which are commonly termed as "derivatives".

In the context of this study it may be noted that with the dismantling of Administered Price Mechanism (APM) scenario in the year 2004, Indian petroleum industry both upstream (crude oil producers) and downstream operators (refiners) are exposed to the opportunities and threats existing in the international market which is totally demand-supply driven. Factors which influence the international market price encompass various factors like changing scenario of demand for oil in emerging and developing economies, output of OPEC (Organisation of Petroleum Exporting Countries), US crude and product inventories, refinery utilisation rate, geopolitical situation, speculative buying and selling are major drivers. Now to mitigate the risk of changing market conditions and prices of the crude oil and petroleum products, industry has to put in place an effective risk management strategy. Here comes the need for "Hedging" the risk. Hedging is a risk management strategy to neutralize or minimize the impact of financial distress on the results of operation of the companies due to market price volatility. In the context of energy finance, the users of energy want to hedge against the rising price of energy and the producers of energy wants to hedge against the falling price of energy. Now while formulating a hedging strategy one needs to establish the following basics very clearly:

i. Set the hedging objectives
ii. Establish the hedging level (ie risk exposure level)
iii. Execute the hedging strategy
iv. Constantly monitor the strategy and effectiveness of hedging
v. Quantify the final outcome

Why do firms hedge and how hedging add to firm value

Energy companies have different exposure to risks. A crude oil and or natural gas producer is always concerned about the falling prices of the products in the future period.

A refining company on the other hand is concerned about the rising prices of crude oil and natural gas as it is the main input for the refineries producing petroleum products for end use. Consumers of energy like airlines and utility companies also face risk rising input prices of energy. Through hedging these companies may try to minimise the or partly get rid of the financial distress due to unfavourable market price conditions on which firms have hardly any insight into or control over. For integrated companies many of the risks faced are considered to be hedged naturally and offset each other. However, this is not necessarily true under all conditions because with global operations, many outputs will not be available in the same location/ country where the input is needed along with other problems.

Following are some of the areas where hedging can increase the value of a firm:

- Have greater debt capacity, which has a larger tax shield for interest payments
- Lower cost of capital
- Avoid cost of financial distress
- Prevent underinvestment so that firm can make use of the optimal capital budget without having to raise external capital in years of lower cash flow due to price volatility

Note: Energy price volatility is defined by annualized standard deviation of the energy commodity price return.

Understanding derivatives and terminologies

For the purpose of managing risks entities invest in various instruments which are called derivatives. A derivative in a simple term is an instrument or financial contract which derives its value from the movement in price of the underlying asset or commodity. Other essential features of a derivative are it requires very little or no investments and it is settled at a future date. We have come across various terms like forward contracts, futures, options etc are some of the example of derivative. We will know study some examples as to how with use of some of these financial instruments/contracts an energy producer or user hedges his risk against price volatility.

Forward Contracts:

A forward contract is simply a contract between two parties to buy or to sell an asset at a specified future time at a fixed price agreed today. These contracts require physical delivery and traded over the counter. For example, assume that on October 1, 2016 ABC Oil Company Limited agrees to buy and counter party XYZ Limited agrees to sell 50,000 barrels of crude oil at Oklahoma in January 2018 at a price of US$ 75.00 per barrel. In this forward contract example contract quantity is 50,000 barrels of crude oil, forward price fixed today is US$ 75 per barrel, delivery place is Oklahoma and delivery period is January 2018 which is a future date at the time contract is entered.

Futures contract:

Futures and forwards are essentially same except that Futures contract happens on Futures exchanges, which act as a market place between buyers and sellers. These contracts are standardized and do not require physical delivery of the underlying asset/commodity. Future contracts are traded in organized exchanges like NYMEX in New York (USA), BSE and NSE in India etc. The buyer of a contract is said to be long position holder, and the seller is said to be short position holder.

Before we discuss the further the examples it is necessary to understand terminology and how derivatives are traded.

Spot Price: The price established today for delivery of the asset today. In other words it is the price for immediate delivery.

Forward Price: The price established today for delivery at a designated future date. If this is the price on a Futures contract, it is referred to as Futures Price.

Prompt Month: Nearest month for which prices are published during the trading month.

In India, Futures and Options contracts have maximum three month trading cycle. Those are termed as near month (one month), next month (two months) and far month (3 months).

Open Contracts: Total number of contracts outstanding at the end of a trading day.

Volume of Trading: Number of trades on a given trading day.

Future contracts are settled on a daily basis at the end of a trading day using the last traded price to value the investor's position. All outstanding contract positions are adjusted to the settlement price set by the exchange at the close of the trading day. Future exchanges require customer to keep an initial margin in their account in the form of either cash or collateral when the contract is entered. The margin account is also marked to market at the end of each trading day according to the price movements.

Futures contracts are mostly closed out before maturity date by entering into an offset trade. If the investor is holding long position (the seller), he must sell the contract to close the long position.

Example of a Hedge using NYMEX Crude Oil Futures Contract. Say an oil refining company which uses crude oil as input wants to hedge its purchase of crude oil planned for a future date (say January 2018). Assume current period is October 2017. The company buys in October 2017, crude oil futures January 2018 at US$ 88.41 per barrel of a contract size of 100 barrel. On the day of buying the contract, spot price is US$ 88.81 per barrel. The company then sold back the futures contract on January 02, 2018 at US$ 95.50 per barrel to off-set the position. The spot price of crude oil on January 02, 2018 is US$ 96.10 per barrel. Now let us understand the impact on the financial results in January 2018 with hedging and without hedging.

With hedging: Hedging gain is calculated at (US$ 95.50 – US$ 88.41) = US$ 7.09 per barrel. This is the difference between the January 2018 futures price on the day when the contract originated on October 1, 2017 and the price at which the futures is closed on January 2, 2018 to offset the position. Now the refining company buys the crude oil from the cash market at US$ 96.10 per barrel. Financial statements for January will reflect the crude oil purchase cost at US$ 96.10 per barrel and a hedging gain of US$ 7.09 per barrel. Hence, net cost to the company is effectively (US$ 96.10-7.09) = US$89.01 per barrel. The hedging gain of US$ 7.09 offsets the increase in spot price of crude in January 2018 by ($ 96.10 – 88.41) =US$ 7.69 a barrel.

Without Hedging: The oil refining company will purchase crude oil in January 2018 by paying US$ 96.10 per barrel and in effect cost to the company would increase by US$ 7.09 per barrel (i.e. Spot price in January 2018 less Net Price with Hedging option).

Options contract:

An option is a contract which gives the buyer (the owner or holder of the option) the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on a specified date, depending on the form of the option. Option contract can be of two types namely “Calls” (Call Option) and “Puts” (Put Option). The holder of an option contract will exercise his right only when it is profitable to do so.

Call Option: A “Call” option gives the buyer a right (but not an obligation) to buy from the writer of the option a certain quantity (contract size) of an underlying asset / commodity at a specified price (Strike Price) up to a specified period (Expiration date).

Put Option: A “Put” option gives the buyer a right (but not an obligation) to sell to the writer of the option a certain quantity (contract size) of an underlying asset / commodity at a specified price (Strike Price) up to a specified period (Expiration date).

For every buyer of the contract, there is a seller of the contract and both buyer and seller have opposite payoff position. The value of an option is called the “premium” and is determined by the intrinsic value of the option and time value remaining in the option. Intrinsic value of an option contract is the difference between the strike price and spot price of the underlying asset.

The intrinsic value of a Call option is Max (S – X, 0) and for a Put option just the opposite i.e. (Max X – S, 0) where S is the Spot price of the underlying asset and X is the Strike price. A call option is said to be in the money when spot price is more than strike price, at the money when both are same and out of the money if strike price is more than spot price. In case of put option the position is exactly opposite.

Now let us understand with examples when to use a call option or a put option and how call and put options can be used by energy companies to manage their input or output price risk. It must be clear that:

- Calls are purchased to cap prices when there is an expectation that future price will rise. Normally an energy user like an oil refining company, electricity generation company or an airline company where crude oil or natural gas is a key input material would be interested in hedging the input price risk.

- Puts can be purchased to set a floor under the price when there is expectation that futures prices will fall. Crude oil and natural gas producers would be concerned about the falling prices of the output produced by them. They may use put options to hedge against output price risk to set-off the impact on the financial results of the company.

Example: Call Option on Natural Gas

In June 2017 a natural gas user company (companies that use natural gas fuel) is concerned about the rising prices of natural gas during the winter months. The risk manager of the company decides to buy November 2017 Natural Gas futures contracts trading at US$ 5 per MMBtu (Million British Thermal Units – a unit of measurement of energy across world). The risk manager wants to take advantage of the future price declines if any, so he decides to buy a Call option. He buys a November 2017 NG Call option of US$ 5 per MMBtu by paying a premium of US$ 0.24 per MMBtu to lock the price. His intention is to hedge against the price risk in case the future price is more than US$ 5 and at the same time to take advantage if the price declines. The breakeven purchase price of natural gas in November is US$ 5.24 (including premium) which means the company will gain if the spot price of natural gas (NG) in November happens to be more than US$ 5.24 per MMBtu. The actual spot price in November 2017 is US$ 6 per MMBtu. The risk manager will sell back the call option to the market and earns a premium of US$ 1 per MMBtu. Net hedging gain to the company in the case is (US$ 6.00 – 5.00 – 0.24) = US$ 0.76 per MMBtu. The effective price per MMBtu is (US$ 6.00 - 0.76)= US$ 5.24. If the future price goes below the breakeven price of US$ 5.24, the holder of call option will not find it profitable to exercise his right.

Example: Put Option on Crude Oil

A producer and seller of crude who feels that future prices of crude may fall and distress its profits, he may purchase a put option to hedge against his output price risk. Buying a put option sets the under the floor prices. If the price of November 2017 crude oil futures is US$ 65 per barrel, he wants to lock this price and still wants to take benefit from price rises. He buys a November 2017 Crude Oil Put option with a strike price of US$ 65.00 per barrel by paying a premium of US$ 2.00 per barrel. His breakeven price in this case is US$ (65 – 2) = US$ 63 per barrel. In November he closes the put option contract when the spot price is US$ 60.50 per barrel at a premium of US$ 4.50. Net hedging gain to the crude oil producer company is US$ (65 – 2 - 60.50) = US$ 2.50 per barrel. The effective sale price received by the crude oil producer per barrel is (US$ 60.50 +2.50) =US$ 63.00. If the future price rises above the breakeven price of US$ 63, the holder of put option will not find it profitable to exercise his right.

Collar Strategy

Call and Put options can be used together to construct a hedging strategy which is called Collar strategy. The main objective of the hedger in this case is to set a price cap they pay by buying a call and at the same setting a floor price they pay by selling a put if the hedger wants to hedge the input price risk of a commodity he is going to buy (for example an airline company or oil refiner). Similarly if the hedger wants to manage the risk against the output, he would buy a put and sell a call. To summarize:

- Collar strategy to hedge input risk – Buy a call and sell a put
- Collar strategy to hedge output risk – Buy a put and sell a call

SWAPs

A swap is a contract in which two parties agrees to pay each other a series of cash flows over an agreed period of time. For example one party wishes to pay at a fixed rate but is exposed to a floating rate. The party may have the opposite situation. For example an airline company enters into a Swap position. The company pays fixed price and receives a floating price and both are indexed to expected jet fuel price during each monthly settlement period. The volume to be hedged is negotiated as it is a customized contract. During the life of the Swap contract the airline company buys jet fuel in the cash market as usual but Swap contract makes up the difference when price rise and removes the difference when price declines. The result for the airline it ends up paying a fixed charge for the jet fuel. Now assume that size of a Swap contract is 42,000 gallons of heating oil and 18 months Swap contract is being traded in NYMEX at US$ 2.80 per gallon. Suppose the futures average daily price for the month is US$ 2.90 per gallon. A hedger will receive a payment from the counter party of (US$ 2.90 – 2.80) x 42,000=US$ 4,200. The hedger will continue to purchase the fuel from cash market. The gain on the futures contract will effectively reduce the cost of purchasing fuel at a higher rate from the cash market.

We have discussed above various risks management strategies available to hedge against input and output price risk in the energy sector. Various trading exchanges are available worldwide to provide a platform for trading on the derivative products. In India Multi Commodity Exchange of India Ltd (MCXNSE) has launched trading options on crude oil futures contract. This also provides a good opportunity to the investors in energy sector, all upstream and downstream companies in petroleum industry to manage risks associated price volatility of the input and output. However formulation of a risk management strategy with use of hedging requires constantly monitoring the risk exposures, ongoing assessment of the chosen strategy in view of the constantly changing market conditions. MA

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Eastern India Regional Council

The Institute of Cost Accountants of India- Bankura Chapter

The Chapter organized student counselling programme at Christian College, Bankura as per the instruction of the Institute on November 27, 2018. CMA SC Samanta, chairman of the chapter elaborated on the formation of the chapter and CMA Manas Kumar Thakur, past president and central council member of the Institute urged that students having passed 10+2 class of any stream may join the course. CMA Dr DP Nandy, Director of Advanced Studies narrated on the course, admission procedures etc. CMA GB Gupta, secretary of the chapter explained about the future prospects of the CMA Course. CMA Nibaran Sinha Mahapatra, treasurer of the chapter extended his vote of thanks. On the same day a round table discussion with Bank Managers of Bankura District on "Role of CMAs in Banking Sector" was arranged by the chapter at the premises of State Bank of India, Bankura Branch. CMA Manas Kumar Thakur, past president and central council member of the Institute explained the present scenario of Banking Industry in respect of study of project reports for easy loan sanctions and utilities of professional services of CMAs regarding the same.

Northern India Regional Council

A seminar on "Emerging issues under GST being faced by Industry-May lead to Litigations & Input Tax Credit" was organized by NIRC on 24th November 2018 at CMA Bhawan, Lodhi Road, New Delhi which was attended by more than 100 CMA members. The seminar was conducted by CMA Ravi Kr. Sahni, RCM and he welcomed keynote speaker CMA Rakesh Bhalla & participants of the seminar. CMA S.K. Bhatt & CMA Navneet Kr. Jain, RCM-NIRC also joined the seminar and shared their views on the topic. Key Note speaker at this seminar was CMA Rakesh Bhalla, Past Chairman-NIRC who explained various issues being faced by Industry & other stakeholders under GST regime & different provisions related to Input Tax Credit. Mr. Bhalla discussed various GST issues related to Matching concept, Anti-profiteering, Reverse charge mechanism, E-way bill, GST annual return etc.

A seminar on 'GST Audit & Annual Return Filing and Valuations' was organized by NIRC in association with Gurgaon Chapter at Hotel Hari's Court, Gurgaon on December 2, 2018. CMA D.C.Bajaj, Past-President of the Institute & other senior luminaries of the profession, CMA S.P. Singh graced the dais along with CMA S.K. Bhatt, Past

Chairman & RCM, NIRC, CMA Ravi Sahni, Past Chairman & RCM, NIRC and CMA Gulshan Kr. Narang, Chairman, Gurgaon Chapter. Key note speakers were CMA S.K. Bhatt, Past Chairman, NIRC, CMA PR Jat, Past Chairman,Jaipur Chapter and CMA Aseem Jain, Practising Cost Accountant. CMA Gulshan Kr. Narang, Chairman, Gurgaon Chapter delivered the welcome address. CMA Aseem Jain discussed about the valuations , who can be a registered valuer and how can CMAs play role in valuations and areas available for valuations. NIRC conducted career counseling programme at Birla Public School, Pilani, Rajasthan on December 5, 2018. CMA Rajendra Singh Bhati, Secretary & Treasurer, NIRC & CMA Harendra Pareek was the career counsellor of the day. Both explained the details/benefits of course and future opportunities available in CMA Course. NIRC in association with Noida Chapter of the Institute organised a seminar on Emerging issues under GST being faced by Industry-May lead to Litigations & Input Tax Credit" on 15th December 2018 at CMA Bhawan, NOIDA. The seminar was conducted by CMA Anil Sharma, Vice Chairman, NIRC and CMA Swati Chaturvedi, Secretary of the chapter. They also welcomed keynote speaker CMA Rakesh Bhalla & participants of the seminar. Key Note speaker at this seminar was CMA Rakesh Bhalla, Past Chairman-NIRC who explained various issues being faced by Industry & other stakeholders under GST regime & different provisions related to Input Tax Credit. CMA Rakesh Bhalla discussed various GST issues related to Matching concept, Anti-profiteering, Reverse charge mechanism, E-way bill, GST annual return etc. NIRC of the Institute participated in the Career Fair organized at Ramjas Sr. Secondary School, New Delhi.

The Institute of Cost Accountants of India - Kota Chapter

The Chapter organized communication & soft skill orientation training program for Intermediate Students at CMA Bhawan, Kota. CMA S.N.Mittal, Chairman of the Chapter, CMA R.P. Vyas, Faculty, CMA M.B.Sonkhiya, Former Chairman and students of Intermediate Dec.18 semester participated in the program and discussed about the subject to students.

The Chapter organized a seminar on "Companies (Cost Records & Audit) Rules 2014" on 28th October, 2018. CMA S.N.Mittal, Practicing Cost Accountant and CMA R.P.Vyas, Practicing Cost Accountant discussed about applicability & maintenance of Cost Records Rules in different Companies, rules for appointment of Cost Auditor, preparation of Cost Audit Report. On November 18, 2018 the Chapter organized a press meet in which CMA Balwinder Singh, Vice-President, CMA Vijender Sharma, CCM, CMA S.N. Mittal, Chairman of the Chapter, Members of the Chapter and other Reporters from Press Media participated in the Meet. On 18 Nov.2018, the Training and Placement Committee of the Institute in association with the Chapter organized a mega career counselling, CMA Summit Avenues for CMA

& felicitation of Commerce Faculties and Head of College /School Institutions. During the Summit, faculties were felicitated by CMA Balwinder Singh, Vice President, CMA Vijendra Sharma, CCM &Chief Guest, Shri Mahesh Vijay, Mayor-Kota. Prof. Smt. Nileema Singh,Vice- Chancellor, University of Kota, Shri Govindji Maheshwari, Director Allen Career Institute, Shri Akhelesh Kr. Jain, Asstt. Director, Secondary Education, Kota Divison, CMA B.L. Jain, Former NIRC Chairman, Principal were the guests of honour of the programme. Jaipur Chapter Chairman, CMA Rakesh Yadav was the special guest of the programme. Members from Faridabad, Jaipur and other places, principals, commerce faculties, Head of Education Institutes, Members and Students of the chapter participated in the CMA Summit. The Chapter organized two career counselling programmes on November 20 and 22, 2018.

The Institute of Cost Accountants of India-Jaipur Chapter

The Chapter organised a seminar on "Role of CMAs in Banking Sector" on 14th November, 2018. CMA A.K. Shah, Managing Director, Fingrowth Co-operative Bank Ltd., CMA M.K. Jain, Branch Head, Punjab National Bank, Mansarovar, Jaipur and CMA S.L. Swami, Sr. Manager, Apex Bank and Vice-Chairman of the chapter were among eminent panelists present in the seminar. CMA Rakesh Yadav, Chairman of the Chapter welcomed all the speakers and participants. The avenues, challenges and capacity building for CMAs were discussed at length by all the three speakers and Role of CMAs in Stock Audit was discussed in detail. The Chapter conducted Career Awareness and Counselling Programme at Schools and Colleges during the month of October and November 2018. The Chapter organised donation program on 24th November 2018 for needy girls at Govt. Aadarsh Girls Senior Secondary School, Kartarpura Phatak, Jaipur The Chapter organised a Seminar on “Annual Return and Audit under GST” on 1st December 2018 at its premises. Chairman of the Chapter CMA Rakesh Yadav briefed the members about recent activities of the Chapter. Key Speaker of the Seminar Shri Ranjan Mehta explained in detail about the latest provisions relating to Annual Return and Audit under GST. The programme was conducted by CMA S.L. Swami, Vice-Chairman of the Chapter. At the end of the programme CMA Rakesh Sharma, Executive member thanked the Key Speaker and all the participants.

The Institute of Cost Accountants of India - Coimbatore Chapter

The Chapter conducted a second PD programme on Banking month on 30th November, 2018. Sri S. Vinoth Kumar, Assistant General Manager, REPCO Bank, Coimbatore spoke on “Non-Performing Asset Management”. Career counselling programmes were conducted in different dates of November and December 2018 at different colleges and schools during Career Counselling Month – November, 2018. Preamble to the Constitution was read out by the Chairman along with MC Members, staff members and students of the Chapter on 26th November, 2018. As a part of celebration of Communal Harmony week, the Chapter Chairman addressed the students on the importance of Communal Harmony on 25th November, 2018. The Chapter successfully conducted GST certificate course and the closing ceremony was conducted at the chapter on 2nd December, 2018 and GST certificates were distributed to the successful candidates. CMA Vidhya Shankar, member of the chapter conducted a session on how to be successful in the examination to the oral coaching students on 3rd December, 2018.

The Institute of Cost Accountants of India- Bangalore Chapter

The Chapter organized Regional CMA Convention on November 23 and 24, 2018 at J N TATA Auditorium Malleshwaram, Bangalore. CMA Suresh R Gunjalli, chairman SIRC, CMA Raveendranath Kaushik, chairman of the chapter, CMA Y H Anegundi, Member SIRC, Shri Sudhakar S Shetty, President FKCCI, CMA Manjula B S, secretary of the chapter, CMA C B Ananthakrishnan, Director Finance HAL, CMA G N Venkataraman, Past President of the Institute were among eminent dignitaries present in the Convention. Key Note Address was organized on “A Strategy for Steady Leadership in an Unsteady Environment” and CMA K Sanyasi Rao, Member SIRC, CMA Dr PVS Jagan Mohan Rao, CCM, Dr. R Vaidyanathan, Retd Prof in Finance at IIM-Bangalore were among eminent persons present in the address. There were five technical sessions during the session and CMA V Murali, Member, SIRC, CMA P Raju Iyer, CCM, CMA P Thiruvengadam, Former Sr Director, Deloitte, India, Prof Dr Anuja Sreedharan, CMA Gurudath A S, Member of the chapter , CMA Jyothi Satish, Vice Chair Person SIRC, CMA H Padmanabhan, CCM, Sri Gopinath Rao, Joint Director, MSME, GOI, CMA Dr Chidambara G, Project Director-Asia Pacific PMO, Oracle, CMA S Narasimhan, Director-Finance & CFO, Schneider, CMA Vijayalakshmi K R, Member BCCA, CMA D Zitendra Rao, Member SIRC, CMA Dr I Ashok, CCM, Dr Srinidhi K Parthasarathi, Registrar S-VYASA Yoga University , Dr Puneeth K Nagendra, Pulmonologist , CMA Satish R etc were among eminent dignitaries present in the convention. CMA Amit Anand Apte, President, CMA Suresh

R Gunjalli, Chairman SIRC, CMA N Raveendranath Kaushik, Chairman of the chapter, CMA Sreepada H R, Vice Chairman, Shri Govinda Karajola, Ex Minister, GOK, CMA Shankar P Panicker, Secretary SIRC, CMA Manjula B S, Secretary of the chapter were present during the valedictory session of the Convention. Kannada Rajyotsava celebrations were organized on November 29, 2018 and CMA Raveendranath Kaushik, Chairman of the chapter, CMA Sreepada H R, Vice Chairman of the chapter and CMA Manjula B S, Secretary of the chapter were present during the celebrations.

The Institute of Cost Accountants of India- Visakhapatnam Chapter

The Chapter organized a Professional Development Programme on 22nd November 2018 at their Chapter's Premises on " Whole Sale and Long term Finance Banks – A new thought " by speaker CA, CMA Narendra Boyina . Secretary of the Chapter, CMA S. Ramprasad welcomed the gathering for the Meeting and Chairman, CMA P.V.N. Madhav chaired the session. Speaker explained the WLTF banks will focus on lending to the corporate sector, small and medium businesses and the infrastructure sector.

The Institute of Cost Accountants of India- Trivandrum Chapter

The Chapter organised a Professional Development Program on "Recapitulation of GST Audit & Annual Return" by CMA Raja Padmanabhan, Sr Finance Manager, Popular Vehicles and Services Ltd on 2nd November, 2018. He has given a presentation explaining in detail about the records, returns and other documents to be maintained or furnished by the taxable person under the Act and Rules, detailed examination of those records, returns and other documents and its verification of correctness reconciliation of tax liability and payment and its compliance required for. As directed by the HQ, the International Accountants Day was celebrated by the Chapter on 10th November 2018. CMA Raman Pushpakumar, chairman of the chapter reminded the students and staff members about the Father of Accounting Shri. Luca Barolomeo de Pacioli who had published an epic tome in the year 1494 covering book-keeping practices to be followed up giving out an advice that those who perform the accounting work need to be appreciated with rewards and due recognition. Faculty members, CMA Gopakumar B, CMA Suresh, CMA Manoharan Nair, past chairman of the chapter and student members gave their speech highlighting its importance of celebrating the Day. The Chapter conducted a Career Counselling Program for the students of the St. Mary's Central School, Poojapura, Trivandrum on 10th October, 2018 . The Chapter conducted the first PD Program "Risk Governance for Banks And Institutions " with the directions from the Banking & Insurance Committee of the Institute on 4th November 2018 as NOVEMBER Month - BANKING MONTH at Trivandrum Club, Trivandrum. Mr Salim Gangadharan , Non-Executive Part time Chairman of South

Indian Bank ltd, who was also the former Regional Director of RBI ,former Nominee Directors on the Boards of Syndicate Bank and currently holding the position of the Short –term Expert of the IMF and the independent Director of NSECCL and KIIFB, was the chief guest who delivered the speech and the presentation on "RISK GOVERNANCE FOR BANKS AND INSTITUTIONS". Round table panel discussions were held by distinguished special invitees from IOB, SBT, UBI and from a firm of Chartered Accountant. Past Presidents, CMA PV Bhattad , CMA Manas Kumar Thakur , Past Vice President CMA H Padmanabhan and the Central Council Member CMA Dr. I Ashok graced the occasion with their short speech highlighting the scopes for CMAs in Banking Sector. CMA Deepak Narayanan, PD Committee Chairman and the other Management committee members were present to make the program a grand success. CMA Raman Pushpakumar , chairman of the chapter in his welcome speech gave a brief profile of Shri.Salim Gangadharan to the audience. The program came to close with vote thanks by CMA Ramkumar H, secretary of the chapter. As directed by the HQ, the Constitution Day was celebrated by the Chapter on 26th November 2018. The programme was chaired by CMA Pramode Chandran P G., past Chairman and Chairman of Students Welfare Committee. The oath was administered by CMA Pramode Chandran P G to the students and members present. CMA S Hariharasubramanian, senior member of the chapter also participated along with other members and students..

The Institute of Cost Accountants of India- Mettur Salem Chapter

The Institute in association with Salem Productivity Council (SPC) & Tamil Nadu Small and Tiny Industries Association (TANSTIA) organised an Industry awareness programme at Salem on Business sustainability through Cost Management Strategies, Practical issues on GST and MSME schemes of Central government. Mr. D. Vijay Anand, General Secretary of SADISSTIA & EC member of TANSTIA welcomed the dignitaries by pointing out the significance of seminar for the entrepreneurs particularly MSMEs. CMA P. Raju Iyer, chairman, professional development committee of the Institute highlighted the requirement for professionals and industry interaction. He has addressed the significance of cost management for Micro and Small Industries as their sustainability depends on effective management of cost as the price is determined by market forces and effective working capital management. CMA Raju Iyer highlighted how the Institute members and Entrepreneurs will be able to add mutual value for win win relationship and guided on availing the benefits of the schemes on timely manner. CMA K.M. Krishnamurthy, chairman of the chapter informed the gathering regarding the chapter services and courses offered in details. Mr. S. Ramachandran, G.M., D.I.C., Salem highlighted the issues faced by MSMEs. The Chief Guest, CS Solaiyappan stated the importance of professionals in economy and detailed the initiatives of government and authorities. CMA Gopala Krishna Raju, deliberated on the Schemes of Central Government available to MSMEs and discussed at length on important schemes with values. CMA S Natarajan, practising cost accountant discussed about the amendments and notifications in GST with its impact and deliberated on Input Tax Credit, Monthly returns and Practical issues on GST. The queries and practical issues raised by delegates were clarified.

Western India Regional Council

The Institute of Cost Accountants of India -Ahmedabad Chapter

A CEP on GST E-Way bill and GST Audit was organized on 27th Oct'2018 at Ahmedabad. CMA Ashish Bhavsar, chairman of the chapter welcomed participants and the faculties. CMA D S Mahajani was felicitated by offering bouquet and memento by CMA Ashish Bhavsar, Chairman of the Chapter. CA Nitesh Jain was felicitated by CMA

Ashwin Dalwadi, Chairman of PD Committee and CMA Malav Dalwadi was felicitated by CMA Haren Bhatt, Secretary of the chapter. On 22nd Nov'2018, the chapter celebrated Flag Day under communal harmony campaign week. The Chapter celebrated 125th Birth anniversary of Dr. B R Ambedkar on November 26, 2018 as a constitution day.

A CEP on Cost Sense was organized on 27th November'2018 at the chapter. CMA Ashish Bhavsar, Chairman of chapter welcomed participants and the faculty CMA Dr. Sreehari Chava. CMA Dr. Sreehari Chava submitted presentation and explained on subject.

The Institute of Cost Accountants of India- Pimpri Chinchwad Akurdi Chapter

The Chapter jointly with Western Maharashtra Tax Practitioners Association conducted a half day seminar on "GST Audit, Reconciliation and Annual Return" on 3rd November 2018 at CMA Bhawan, Pimpri. CMA L D Pawar, Chairman, WIRC & Shri Navneetlal Bora, President - Western Maharashtra Tax Practitioners Association was the chief guest of the program. CMA Mahendra Bhombe, Chairman of the Chapter welcomed all dignitaries on the dais. Shri Navneetlal Bora, CMA L D Pawar,Shri Ashok Pagariya, CA Maheshwar Marathe and Advocate Shri G Y Patwardhan. CMA L D Pawar felicitated all the dignitaries, Shri Navneetlal Bora, Shri Ashok Pagariya, CA Maheshwar Marathe and Shri. G Y Patwardhan by offering a memento. Shri Navneetlal Bora addressed the gathering and welcomed all the participants. He also thanked to CMA L D Pawar and all managing committee members of PCA Chapter for arranging such type of program in association with Western Maharashtra Tax Practitioners Association for the benefit of peoples in Pimpri-Chinchwad area. CMA L D Pawar said GST Audit is must whose Annual Turnover is exceed Rs.2 Crores. Advocate Amol Mane, the eminent speaker in his speech focused on the topic GST Audit, Reconciliation and Annual Return. The Chapter conducted Career Counselling program on 30th November 2018 at CMA Bhawan, Pimpri for creating more and more awareness about CMA Course.

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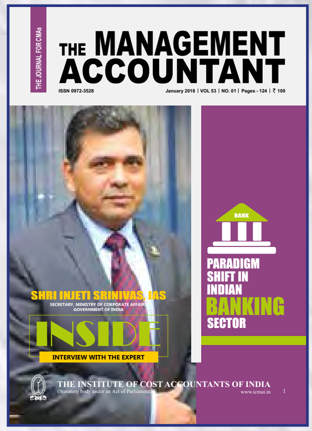
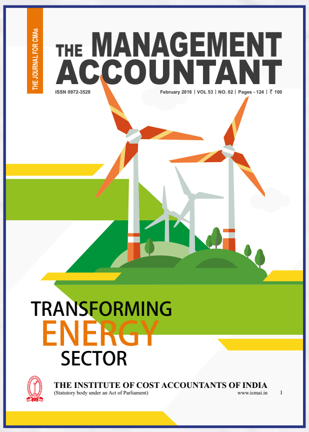
FLASHBACK 2018

January-Paradigm Shift in Indian Banking Sector

Indian banking sector is poised with efficacy for robust growth which will play a pivotal role in flourishing Indian economy. The Indian Banking industry is currently utilizing the latest technologies like internet and mobile devices to carry out transactions and communicate with the masses. Reform agenda is the highest priority of the government which has to be implemented along with capitalization in the New Year. Indian banks are saddled with bad loans and the government has made it a top priority to lift banks out of the extant non-performing assets (NPA) crisis. A whole lot of reforms will come so that genuine borrowers don't suffer and get hassle-free, need-based credit. As part of its resolve to bring down burgeoning NPAs, the government issued two ordinances - Banking Regulation (Amendment) Ordinance, 2017 and Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 - during the year. The Banking Regulation (Amendment) Ordinance, 2017 gave way to the Act permitting the Reserve Bank of India (RBI) to direct any bank to initiate insolvency proceedings and give directions for resolution of stressed assets. In a blow to defaulting promoters seeking to reclaim their firms that are under insolvency proceedings, the government promulgated an ordinance to bar wilful bank loan defaulters as well as those with NPA accounts from bidding in auctions being done to recover loans. The ordinance, which is yet to be considered by Parliament, aimed at putting in place safeguards to prevent unscrupulous persons from misusing the provisions of the Insolvency and Bankruptcy Code (IBC). The amendments would be applicable to cases where the resolutions are yet to be approved.



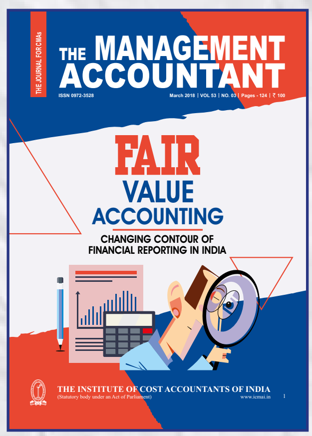


February - Transforming Energy Sector

The Indian energy sector has been rapidly evolving and has witnessed several changes in recent times. One can say that it's undergoing a transformation and disruption at the same time. Key trends that are redefining the energy sector landscape include – Decarburization, Decentralization and Digitalization. India has gained global attention for its ambitious clean energy targets. India is now expected to play a major role in global energy transformation, by maintaining its own pledges, holding to account the developed world and thus, building global confidence. In view of the growing need of the Indian Economy, Government of India has embarked upon a massive programme to provide 24x7 power ('Power for all') across the country by 2019. Special focus has been given to Rural Electrification, under Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY); and Urban Electrification under Integrated Power Development Scheme (IPDS). Several landmark decisions have already been taken in thermal power generation, hydel and more importantly in solar, wind and other green energy, besides strengthening of transmission and distribution, separation of feeder and metering of power to consumers. These also include not only achievements in capacity addition but also important reforms being undertaken on increasing energy efficiency of the present infrastructure and thereby reducing power losses, including increasing accountability and transparency by launching Mobile applications and websites like URJA app, SAUBHAGYA portal, National Power Portal, MERIT portal etc.

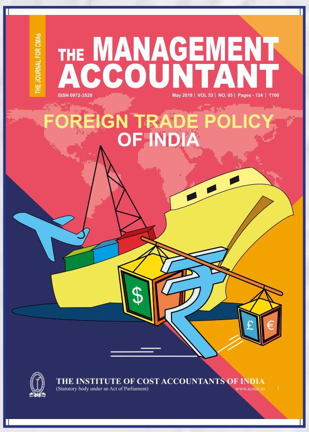
March - Fair Value Accounting: Changing Contour of Financial Reporting in India

In India, Firms have been using Historical Cost Model for measuring assets & liabilities due to multiple reasons. According to the Ministry of Corporate Affairs, India, the country adopted IFRS from April 01, 2013. The adoption of IFRS ensures a speedy shift from Historical Cost Accounting to Fair Value Accounting. Fair value accounting requires a firm to disclose extensive information about the methodology used, the assumption made risk exposure, related sensitivities and other issues that result in a thorough financial statement. Fair value measurement aims at fair recording of a business transaction so that the financial statements are able to show a true and fair view of the profitability and financial position. Fair value continues to be an important measurement basis in financial reporting. It provides information about what an entity might realize if it sold an asset or might pay to transfer a liability. In recent years, the use of fair value as a measurement basis for financial reporting has been expanded, even as the debate over its usefulness to stakeholders continues. The increased use of fair value requires companies to refresh measurement policies and procedures. Companies should analyze how fair value is determined when no active market exists, and establish procedures to develop the appropriate disclosures. Valuation professionals may need to be involved early in the process.



April- Capital Market & Derivatives

Capital market in any nation plays a crucial role in the growth of the economy and meeting the country's socio-economic objectives. They are an imperative constituent of the financial system given their role in the financial intermediation process and capital formation of the country. The significance of capital markets cannot be under-emphasized for a developing economy like India which needs considerable amount of capital for development of strong and sustainable infrastructure. In the Indian scenario, efforts were made right since Independence, to create a healthy and efficient capital market through legislative measures. The Capital Issues (Control) Act, 1947 was the first piece of legislation passed in India to control the capital market. Subsequently, The Companies Act was enacted in 1956 and revised again in the year 2013. A capital market is a market for securities where business enterprises and governments can raise long-term funds. Financial regulators, such as SEBI and RBI regulate and oversee the capital market in their designated jurisdictions to ensure orderly development of the market and protection of investors. Securities and Exchange Board of India (SEBI) has given priority to the development, promotion and regulation of the capital market and to investor protection. It strongly believes that investors are the backbone of the capital market as they are the providers of the capital for the economic growth of the country and also are the fulcrum around which the trading in securities takes place. SEBI has laid down guidelines for almost all constituents of the capital market-from issuers on one hand to stock exchanges on the other hand and all other intermediaries like stock brokers, merchant bankers and underwriters. It also regulates the intermediary fund managers like mutual funds, portfolio managers and collective investment schemes.



May - Foreign Trade Policy of India

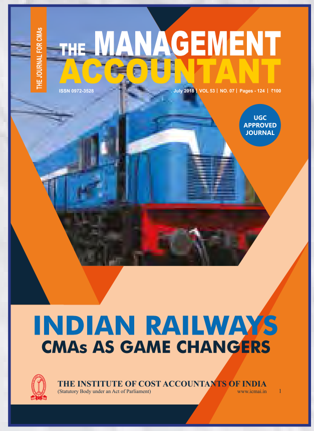
India is presently known as one of the most important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths have attributed to its standing as one of the most sought-after destinations for foreign investments in the world. Also, technological and infrastructural developments being carried out throughout the country contributes well for the trade and economic sector in the years to come. An investor-friendly business climate will not only foster job-driven inclusive growth, but it will also project India as an attractive market for both foreign trade and foreign investment. The Foreign Trade Policy (FTP) was flagged off in the financial year of 2015-16 and will remain effective until the 31st of March, 2020. During this period, all the exports and imports of the country will be governed by the policy. The Government strives to make India a significant partner in global trade by 2020. Foreign Trade Policy, 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in keeping with the 'Make in India' vision. The focus of the new policy is to support both the manufacturing and services sectors, with a special emphasis on improving the 'Ease of Doing Business'.

June - Block chain Technology: A Game Changer in Accounting

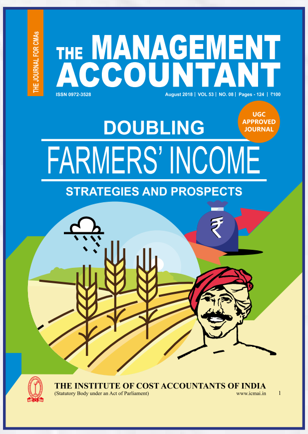
Innovations in technology in the last fifty years have enabled the finance function to move from hindsight to insight. 2017 saw the Indian economy make significant headway in technology deployment. Cloud-based transactions, artificial intelligence (AI), the Internet of Things (IoT), Big Data analytics, augmented and virtual reality (AR and VR), and blockchain became buzzwords across the country, thanks to the digital push by the Indian government, a flourishing startup ecosystem, and automation in the commercial space. India's thrust in building a robust broadband infrastructure, coupled with its high mobile penetration and boosted technology adoption further. Blockchain started as a distributed ledger for bitcoin. It gets its name because it processes the transactions in a group known as the block, and it adds each new block to the end of the ledger - or at the end of the chain. It's resilient by distributing a copy of the ledger to each computer on the network. It's immutable by using what's called hashing algorithms to mathematically link each of those blocks together and to prevent them from being changed once they are on the chain. And it does this all without a third party. The settlement of those transactions is automated by the computers that are on the network using a consensus algorithm. In addition to automation, blockchain supports other technologies like artificial intelligence, robotic process automation, and things like that. Blockchain serves up that data, provides access to that data, and provides the transparency to that data that's going to fuel the analytics and the machine learning. So, blockchain pulls double duty. As innovation continues to drive forward complexity, so professionals must keep abreast of the latest developments. From automation to blockchain, big data to the cloud, they need to be able to advise clients and their bosses about how to get the best from the latest technological advances. The ability to explain complex issues simply and competence to adapt has been the hallmark of good professional for years. It will be tested more than ever at a time when the pace of change is accelerating.

FLASHBACK 2018

July - Indian Railways: CMAs as Game Changers



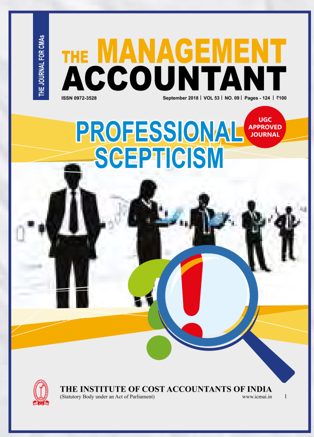
The Indian Railway network is growing at a healthy rate. In the next five years, the Indian railway market will be the third largest, accounting for 10 per cent of the global market. Indian Railways, which is one of the country's biggest employers, can generate one million jobs. In order to achieve long-term objectives of the Indian Railways, the Ministry of Railways has come up with a 2-year Vision Document termed as Indian Railways Visions and Plans 2017-2019 to streamline the non-fare revenues, Indian Railways has planned to enhance its advertising strategies by spending on Rail Display Networks, Out of Home Advertising, Train and Station Branding and Monetization of Soft Assets. All new light provisions will be LED luminaire and all Railway stations to be covered with LED luminaire in next 2 to 3 years while 32 stations and 10 coaching depots have been identified for installation of water recycling plants in the coming years. The government has launched Digital Receipt Note, Receipted Challan & Digital Bill Submission to enhance trust in the Railway-Vendor relationship and is a significant step in the direction of Indian Railways' journey towards "Digitisation", "Transparency" & "Ease of Doing Business. A Big step in enhancement of transparency through digitization has been taken by NF Railway through the implementation of full automation train Signal Register (TSR) at Rangiya Station of Assam. Cost and Management Accountants can act as a catalyst in "Gati" and "Pragati" of India with the implementation of cost reduction and cost controlling techniques and strategic management. Freight revenue constitutes major share in gross receipts of Railways. CMA can help to suggest measures for increasing market share of freight transport by Railways. The innovations in the different facets will enable Indian Railways to be cost competitive and the benefits will be surpassed to the customers. CMAs can actively take part in the formulation and implementation of innovative strategies. CMA can analyze the operating expenses and revenues and can suggest the measures to improve the operating ratio and operational efficiency, thereby acting as a game changer for the pride of India.



August - Doubling Farmers' Income: Strategies and Prospects

The Government has set a target of doubling of farmers' income by the year 2022. Parallely, the Government is aiming to reorient agriculture sector by focusing on income centeredness. In order to realise net positive returns for the farmer, schemes as follows, are being promoted and implemented in a major way through the States/UTs viz :- Soil Health Card, Pradhan Mantri Krishi Sinchayee Yojana, National Agriculture Market scheme (e-NAM), Pradhan Mantri Fasal Bima Yojana, National Food Security Mission, National Mission for Sustainable Agriculture, National Mission on Agricultural Extension & Technology , Rashtriya Krishi Vikas Yojana and many more. In addition, schemes relating to tree plantation, Bee Keeping, Dairy and Fisheries are also implemented. All these schemes are implemented to enhance production and productivity of agriculture and thereby enhance the income of farmers. Minimum Support Price (MSP) is notified for both Kharif & Rabi crops based on the recommendations of the Commission on Agriculture Costs & Prices (CACP). MSPs are considered as an important pillar of Indian Agricultural price policy rolled out with an intention of providing price security to farmers. Theoretically, the support prices are to benefit farmers of most of the crops in the entire nation. The CMAs can analyze and recommend most apt MSP, considering relevant factors such as domestic demand, global prices, export competitiveness and ecological sustainability of crops; consequently assisting the Government towards decision-making for fixation of MSP. The Institute aspires to carry out Agricultural Awareness Programme in support of Government's flagship idea of doubling farmers' income and improve Gross Value Added (GVA) percentage in Agriculture. The CMA professionals are competent enough to assist farmers to get the best prices for their produce through the market linkages, by providing constant information about prices, helping with warehousing, assisting in buyer agreements too.

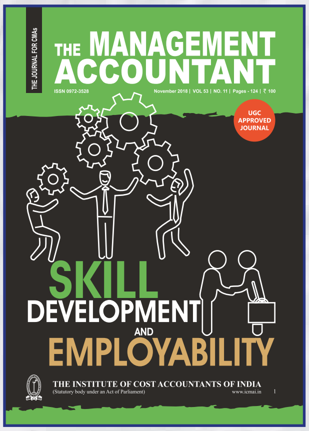
September - Professional Scepticism



Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. Professional scepticism is a foundation of the auditing profession that we need to maintain and evolve to support the audit of the future. In the world of artificial intelligence, auditors will need to understand and be sceptical about how the software is working and learning, as well as understand why outputs from an artificial intelligence tool were possible, and interpret what they mean in the context of individual and unique client situations. Applying professional scepticism, when reviewing audit evidence, is a critical aspect. Audit evidence has to be both sufficient and appropriate as well as covering the relevant audit assertions. CMAs can demonstrate professional scepticism by questioning and considering both the sufficiency and appropriateness of the audit evidence gathered in light of the circumstances. In case of doubts concerning the reliability of information or where the evidence points to potential fraud risk, he needs to investigate further and determine what additional procedures are necessary to resolve the issue.

October - *Global Management Accounting Research*

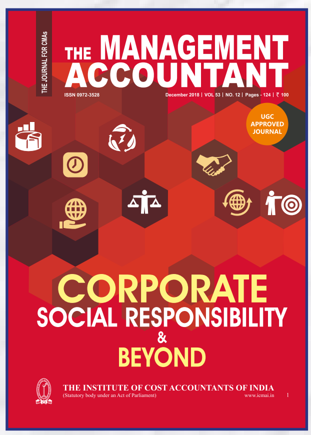
The global management accounting research is applying the accounting and financial management principles in order to create value, protect and increase, for the shareholders of the institutions for profit or non-profit in the public body and private sector. In short, it is interested in the intra-business information and measuring this information for the sake of organizational control and development. In this sense, the management accounting research has been important from the past until now for both the production facilities and the service facilities. Especially in recent years, within the context of accounting applications, the management accounting practices have developed considerably. Modern management accounting techniques have also made great changes in process management. The changing roles of Management Accountants have redefined them as corporate decision makers, business consultants, business partners and analysts. Management accounting has always been an area dedicated to support decision-making processes, thus taking into account dynamic changes in the business environment.



November - *Skill Development and Employability*

India is one of the youngest nations in the world, with over 62% of the population in the working age group. Approximately 250 million young people will be joining the workforce over the next decade. The government had launched the Skill India initiative, which aims to train over 40 crore people in India in different skills by 2022. Since then, various schemes have been launched like Pradhan Mantri Kaushal Vikas Yojana (PMKVY) to further the aim of skill development, in order to enable a large number of youths in the country to take up industry-relevant skill training that will help them in securing a better livelihood. Around 6.5 lakh youths are being provided with various training through Technological Centres. Technical Service Centres of National Small Industries Corporation, a PSU under MSME Ministry have come forward in parting training to around 2 lakh youths during the last four years. National Institute for Micro, Small and Medium Enterprises (NIMSME) and Mahatma Gandhi Institute for Rural Industrialization (MGIRI) has also been given the responsibilities for training the rural youths for self-employment. The Ministry has introduced "A Scheme for Promoting Innovation; Rural Industry & Entrepreneurship" (ASPIRE) which would set up Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs) across the country.

December - *Corporate Social Responsibility & Beyond*



Corporate Social Responsibility (CSR) is viewed different from philanthropy. When properly implemented, it should become ingrained in the values and culture of a company, and positively affect the way the company does business. It can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes. CSR should become inherent in the mission and message of an organization, and also hold a strong place in marketing and advertising. Companies should be aware that promoting their CSR model only benefits the company if they are already acting on their plan. Otherwise, falsely claiming to bring social change to those in need could lead to bad publicity. Corporate social responsibility is more than just a business trend. Businesses that want to stay relevant to new generations and who want to help people in need around the world while increasing their own revenue and efficiency will benefit from embracing CSR. Businesses that ignore corporate social responsibility run a risk to their bottom line and their brand. Having a bad reputation socially and environmentally can create serious negative effects on the overall profitability and success of a company, as nowadays consumers want to spend their money on products and services that they believe in, and engage with companies that follow ethical practices that meet their own beliefs.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License to post without prepayment, WPP License No. : MR/TECH/WPP/KOL RMS/354/2019
Posted at Mumbai Patrika Channel Sorting Office, Mumbai 400 001
Posting Dates : 10th, 11th & 12th day of each English month only.
Date of Publication : 10th of every month.