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Bank Quest

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MISSION

The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

संस्थान का ध्येय मूलत: शिक्षण, प्रशिक्षण, परीक्षा, परामर्शिता और निरंतर विशेषज्ञता को बढ़ाने वाले कार्यक्रमों के द्वारा सुयोग्य और सक्षम बैंकरों तथा वित्त विशेषज्ञों को विकसित करना है ।

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Dr. J. N. Misra
Chief Executive Officer,
IIBF, Mumbai

In today's world of diverse investment requirements of customers, various investment instruments are now in offer. The household savings are invested in various investment avenues depending upon the risk appetite & return expectations of investors. One such prudent investment vehicle is a Mutual Fund. The present issue of Bank Quest is therefore on the theme "Mutual Funds" to dwell on the subject more deeply. We have tried to bring some insightful articles on the theme as well as some contemporary articles on banking in this issue. We hope that the readers will appreciate this collection.

The first article of this issue is penned by Mr. Navneet Munot, Chief Information Officer, SBI Mutual Fund on "A shift in household savings and investment". Mr. Munot has discussed the growth of the Mutual Fund industry with the shift in the pattern of household savings & investment.

The second article is written by Mr. Jashvant Raval, Chartered Accountant & Principal Partner - JCR & Co. on "Risks in Mutual Fund Business". This article mentions that investors should not select schemes basis past returns but on the basis of specific parameters such as long term goal, risks involved, consistency of performance of the scheme, expense ratio of the scheme, lock in period, risk management practices, set processes, systems, reputation etc.

The third article is authored by Mr. Sharad Kumar, Assistant General Manager, State Bank of India on "Mutual Fund: The journey from 'Collective lending' to Wealth Creation". The author has argued that the rise of Mutual funds as an alternative asset class for investment returns is a sign of financial deepening. It draws a simile to the rise of other sources of credit such as external borrowing, bonds etc. other than the traditional means of bank credit.

The fourth article is contributed by Mr. Ashwini Mehra, Former Deputy Managing Director, State Bank of India and Dr. M. R. Das, Former Assistant General Manager (Economist), State Bank of India on "Cross-selling: A Blueprint for PSBs". The authors have done an analytical study on cross-selling in Public Sector Banks (PSBs) and suggested an action plan.

The fifth article is written by Mr. Deepak Pande, Former Senior Vice President, Axis Bank on "Financial Planning & Managing Personal Finance". Mr. Pande has discussed various aspects of financial planning through this article.

The sixth article in this issue is written by Mr. Girish Mainrai, Chief Manager, Bank of India on "Peer to Peer Lending -The Way ahead". The author has concluded that P2P lending is at a nascent stage but the activity is steadily picking up as the awareness about it is increasing. The simplicity, flexibility and accessibility aspects are the reason for its growing popularity.

The seventh article is written by Mr. L. Srinivasan, Former Senior Manager, Indian Overseas Bank on “Operational Risk Management in Banks - Role of branches”. Through this article, the author has explained the role of branches in managing the operational risk of banks.

The eighth article in this issue is authored by Ms. Manjula Wadhwa, Assistant General Manager, National Bank for Agriculture and Rural Development (NABARD) on “भारतीय म्यूचुअल-फंड बाजार - निवेशकों की सोच-रुझान, चुनौतियां -समाधान”. The author has given an investor’s perspective for investing in Mutual Funds through this article.

The ninth article of this issue is written by Mr. Sanjay Gupta, Chief Manager (Research), State Bank Institute of Credit and Risk Management on “निर्माणाधीन संपत्तियों पर कर देयता – जीएसटी का प्रभाव”. The author has explained the effect of Goods and Services Tax (GST) on housing projects in this article.

We are also carrying a Book Review by Mr. Brij Raj on the book “Skin in the Game: Hidden Asymmetries in Daily Life” written by Nassim Nicholas Taleb.

We are also publishing the summary of Diamond Jubilee & CH Bhabha Banking Overseas Research Fellowship Report (2016-17) on “Measuring Impact of Insurance, including Jan Suraksha, Schemes on Insurance Consumption in India”, by Dr. Tapas Kumar Parida, State Bank of India.

The Institute is continuously working towards its mission “to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs”. The publication of Bank Quest is an attempt to motivate bankers and other professionals to strive hard towards excellence.

I hope the readers of Bank Quest & members of the Institute will continue to support the academic activities of the Institute.

Dr. J. N. Misra

A Shift in Household Savings and Investment

Navneet Munot *

India's savings patterns are likely to see a tectonic shift, with far-reaching implications for the economy and financial system. We expect Indian savers (households) to diversify away from real estate, gold, bank deposits and cash into longer-term investment such as mutual funds and pension products. This, in turn, will provide productive capital to fund infrastructure and business investment in India. It will also provide the domestic liquidity to both debt and equity market going ahead and may keep the valuations rich for an extended period of time.

India's high savings rate has been a crucial driver of its economic boom, providing productive capital and helping to fuel a virtuous cycle of higher growth, higher income and higher savings. Domestic Savings in India has shown an uneven uptrend up until FY08-09, led by the rising private savings. Between FY57-58 to FY08-09 (~50 years), Savings as a percentage of GDP rose from 10% to 40% of GDP. From the peak of FY09, domestic savings fell to 30% of GDP in FY17 (29% estimated for FY18). Both household (from 23% of GDP to 19%) and corporate savings (from 17% to 14% of GDP) fell during the period. Weak corporate earnings (from 2014 to 2016), near double-digit inflation (2008 to 2014) leading to negative real rates, high fiscal deficit and issues of policy paralysis explain the fall in savings. Nevertheless, the rate still compares very favourably with other emerging economies. Further, looking ahead, it appears that savings rate has bottomed out.

Households account for majority of savings in India

Domestic savings have been dominated by household savings (60-70% share) and particularly physical household savings. Saving in physical assets, which had a whopping share of almost 90% of total household saving in 1950s, came down to around 40% in late 1990's. It has risen since then and hovered around 55-62% in the last five years. Consequently, the last five year period (FY12 to FY15) has seen the lowest financial savings by the household (average of 38% of total household savings).

In the present scenario when Indian Government is likely to stay in deficit mode, private sector and particularly household savings continue to remain crucial to sustaining a strong savings rate.

Demography and weak social security system warrants higher savings in India

64% of the Indian population falls in working age group (15-64 years) and the ratio is likely to stay favourable for next few decades, implying larger pool of savers than dis-savers in India. Additionally, India is one of those few economies with declining age-dependency ratio. Falling age-dependency increases the proportion of income available to save. However, weak job-prospects dent the demography impact. As of census survey 2011, 40% of the Indian population is employed. This means that while the working age population is 64%, only 40% people are employed

*Executive Director & Chief Investment Officer, SBI Mutual Fund.

(either willingly or unwillingly) implying the higher dependency and implying that demography factors will take longer to play out (as economy grows and per-capita income improve).

On the other hand, the woeful inadequacy of India's social security systems dictates that personal savings remain vital to meet long-term needs such as home buying, children's education, retirement and healthcare. Lastly, while the retail loans are rising fast and need to be watched, many Indians still remain averse to taking loans (household debt is 28-30% of GDP, 37% of household income). All these factors put an automatic floor to the savings rate in India.

India Households typically save in the form of cash and bank deposits; that is changing

Historically, households in India have traditionally preferred to invest in low risk assets with bank deposits and currency accounting for 50-60% of gross financial savings. This also explains why bank credit is the key source of funding business investment in India, leading to gross asset-liability mismatch and hence the current situation of NPAs. Investment in equities, both direct and via Mutual Fund (MF), gained traction for a short period between FY86-96 and then in FY06-08 but owing to couple of instances of stock market scams, retail investors have typically shied away from equities. Investments in other long-term financial products (particularly insurance and pension funds) have also been low (around 30% of gross financial savings and 4-5% of GDP) suggesting a weak penetration of these products in India.

These trends have been changing since last four-to-five years (since FY15). Bank deposits are gradually losing their sheen. Between FY15-FY18, households have put 45% of their financial savings in bank deposits. In parallel, savings in long term financial products (MF+ insurance+ pension funds) has risen from 34% of financial savings in FY14 to 44% by FY18.

Cyclical Factors too, favour higher financial savings - particularly the longer term products

Real-rates have turned positive for four years now. Analysis suggests that financial savings are positively correlated with real rates.

Further, banks' term-deposit returns presently hover around 7% (depending on tenor) compared to the historical trend of double digit returns (FD rates were as high as 20% in 1990's). Given the view of contained inflation, term-deposits will gradually loose traction and households will be forced to search for higher yields. We expect the long-term financial products to be a structural beneficiary here as already evidenced in rising SIPs, premium collection and pension fund deposits. The financial literacy initiatives being adopted by the financial regulators and measures to enhance the regulatory guidelines for the financial investments are also helping to lure the households to channelize their money away from the traditional products.

For instance, Mutual Fund AUM has depicted 21% CAGR in last four years with the Assets Under Management (AUM) size doubling from ₹10 trillion at the start of 2015 to ₹23 trillion as of 2018 end.

Insurance sector premium collection is posting a CAGR of 13% in last three years (FY16-FY18) compared to 6% CAGR during FY12-FY15.

Inflows are also coming through the National Pension Scheme (NPS, very similar to 401k in US) and The Employee Provident Fund Organisation (EPFO)- the two key pension fund schemes in India. In FY16, EPFO had flows of ₹1.02 trillion and an AUM of ₹6.34 trillion. While in early 2018, EPFO's AUM had nearly doubled to ₹11 trillion.

Mutual Fund Industry to be the biggest beneficiary

We estimate that domestic mutual funds will be the largest beneficiary to a coming boom in financial savings. As discussed previously, Mutual Fund AUM has grown by ₹13 trillion in the last 4 years (21% CAGR) with retail + HNI investors accounting for 63% of the incremental contribution. The key driver here is a focus on systematic investment plans (SIPs). Flows via SIPs have grown at a 50% CAGR over 2014-2018.

These developments are favourable from the point of funding the business investment and long-term infrastructure investments in India, particularly when the country is keen to contain its current account deficit to 2% of GDP and below. As an aside, the improving domestic liquidity explains the rising valuation premium in India. The financial savings ascent can keep India's relative multiples higher for long and equity market less vulnerable to FII flows, thus reducing the Indian equity correlations with the other emerging markets. **A caveat here is that, rising economic growth and healthy market returns are absolutely critical for equity ascent of household financial savings as households respond very quickly to unfavourable returns.** Retail investors are typically fast fleeting. Any deep market turmoil will drive them back to the safety of bank deposits, reducing the amount of capital available to mutual funds and other longer-term financial products and possibly risk the growth of the financial-services industry as a whole.

To sum up, the household savings and particularly the financial savings are crucial to sustaining a strong growth in India. We see that the tide has turned in favour of growth and the financial savings are getting increasingly channelized towards longer-term financial products. We expect Mutual Funds to be one of the significant beneficiaries of this turn of tide. This would not only deepen and stabilise the financial markets, but also, help fund India's infrastructure needs.

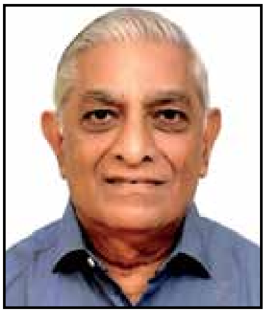
☯

Regulatory Framework for Government-Owned NBFCs

There are currently 42 government-owned NBFCs registered with the Reserve Bank. Of these, 16 are owned by the central government and 26 by the state governments. Of these government NBFCs, 23 NBFCs are classified as non-deposit taking systematically important NBFCs (NBFC-ND-SI), 12 are non-deposit taking NBFCs (NBFC-ND) and 7 are deposit taking NBFCs (NBFC-D).

Government owned NBFCs have been, till now, exempted from various provisions of the RBI Act, 1934 as well as prudential norms since they cater to various social obligations. However, it is recognised that their high exposure to certain sectors may have adverse financial stability implications, especially where the scale of operations is large. Further, as entities raising public funds, they have high level of interconnectedness with the formal financial sector. Accordingly, deposit taking and systemically important government-owned NBFCs were advised in 2006 to submit a roadmap for complying with the prudential regulations applicable to other NBFCs. Although all central government NBFCs and 12 state government NBFCs submitted their road map, their implementation has been disparate. Hence, it was decided to require government-owned NBFCs *vide* notification dated May 31, 2018 to adhere to the Bank's prudential regulations, and instructions on acceptance of public deposits, corporate governance, conduct of business regulations and statutory provisions, in a phased manner. A phase-in period till 2022 has been prescribed to ensure that the withdrawal of exemptions takes place in a non-disruptive manner.

Source : Reserve Bank of India, Annual Report 2017-18.



Risks in Mutual Fund Business

Jashvant Raval*

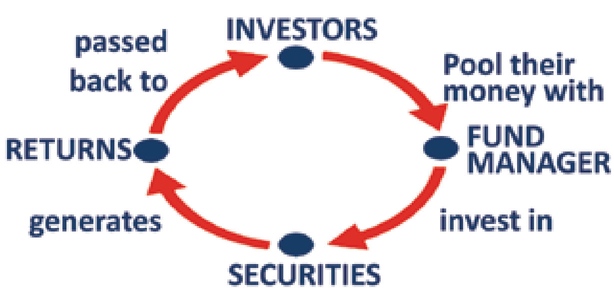
1. Introduction

Mutual Fund (MF) is basically a mechanism of pooling together the savings of a large number of small investors for collective investment, with a common financial goal.

India has a strong and a rapidly growing mutual fund industry over the recent years. Since the 1990's when the mutual fund sector was liberalized, the industry has traversed a long path, adapting itself continuously to the regulatory changes and investor preferences. The industry has grown from a single entity in 1963 to 43 mutual funds recently.

The AUM of the Indian MF Industry has increased from ₹4.13 trillion as on 31st December 2008 to ₹22.86 trillion as on 31st December, 2018, about 5 ½ times increase in the span of a decade. The total number of accounts (or folios as per mutual fund parlance) as on December 31, 2018 has crossed a landmark of 8 crore and stood at 8.03 crore (80.3 million).

The below image provides a bird's eye view of the mutual fund functioning.



2. Regulatory Framework

- *Securities and Exchange Board of India (SEBI)*

  The regulatory body authority, namely, the Security Exchange Board of India (SEBI) was established in 1992, that regulates and supervises the mutual fund industry in India for establishment of sound and stable financial system, protection of mutual fund unit holders, market efficiency, privatization and opening of markets, etc. All Asset Management Companies (AMCs) have to be approved by SEBI for managing the investments. The Securities and Exchange Board of India (Mutual Fund) Regulations, 1996 ('MF regulations') govern, inter-alia, the establishment and operation of mutual funds in India. The provisions of the MF Regulations are administered by the SEBI. Mutual funds in India are setup as a trust under the Indian Trusts Act, 1882.

  With the introduction of MF guidelines in 1992, all MF's were brought under a common regulatory framework to ensure greater degree of transparency and to take care of interests of investors. SEBI regulates the entire framework of operations and have provide guidelines with respect to, launch of funds, advertisement code, code of conduct, employee dealing, NAV computation and accounting, portfolio restrictions etc. all to ensure that the investors interest is protected.

*Principal Partner, JCR & Co.

- *Association of Mutual Funds in India (AMFI)*

  AMFI is the industry body dedicated in the development of the Indian mutual fund industry. It helps in upholding high standards of integrity, professionalism and ethical conduct amongst the mutual fund players. The primary interest being to support SEBI in its cause to protect and promote investors interests.

  AMFI, the industry association of all SEBI registered mutual funds was incorporated on August 22, 1995, as a non-profit organization. As of now, all the 43 Asset Management Companies that are registered with SEBI, are its members.

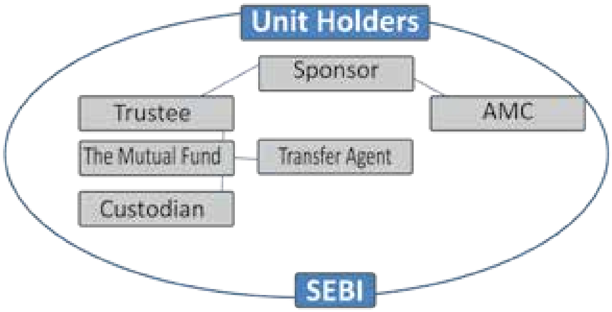
  Mutual Funds are highly regulated to overcome conflict of interest of investor and Fund Manager. Such conflict of interest can compromise the interest of investors and expose them to risk of poor portfolio selection, higher churning leading to higher operating cost, higher portfolio risks than indicated in the Scheme Information Document. It may also result in risks such as delayed settlement of transactions.

3. Structure of a Mutual Fund

A. *Framework of a Mutual Fund*

As explained earlier, Mutual Fund pools together the savings of a large number of small investors for collective investment, with a common financial goal.

The funds accumulated are invested in various asset classes such as, money market instruments, corporate bonds, listed and unlisted securities, gold, exchange traded instruments etc. The revenue generated from such investments and capital appreciation on such investments is accounted for by the funds and shared amongst the investors (unit holders) of the funds in the proportion of the units held by them. Mutual Fund offerings help in investing in a well-diversified professionally managed portfolio of securities at a relatively lower cost.



a. **Sponsor -** The Sponsor(s) as per the MF regulations "means any person who, acting alone or in combination with another body corporate, establishes a mutual fund". The sponsors are those who setup the mutual fund Trust, the Asset Management Company (AMC) and bring in capital.

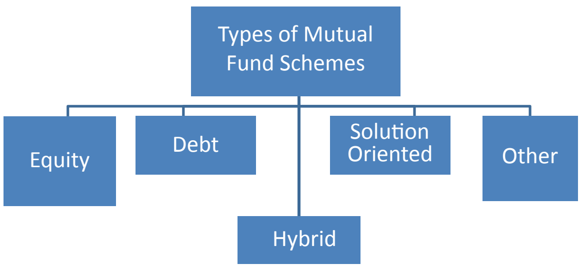
b. **Board of Trustees or Trustee Company -** The Trustees of a Mutual Fund could be constituted as a 'Board of Trustees' or could be incorporated as a 'Trustee Company. The Sponsor appoints the trustees for the mutual fund. Trusteeship fees are paid by mutual fund schemes.

c. **AMC -** The AMC is the entity that manages the pooled fund contributed by the investors. The Trustee's or the Sponsor delegates the investment management function through an investment management agreement for a management fee. The AMC is responsible to launch funds, comply with regulatory framework, manage the overall schemes and funds of the mutual fund. The AMC also appoints engages other service providers to facilitate the functioning of the fund.

B. *Mutual Fund Schemes*

There are various types of schemes that a mutual fund provides typically these are either open ended or closed ended. Within these the schemes have different investment patterns generally categorized as equity, debt, money market / liquid, arbitrage, index, sector, fund of funds, Exchange traded funds etc.

SEBI in 2017 introduced a guideline to bring rationalisation and consolidate mutual fund schemes to bring uniformity, avoid confusion of the various offerings by the mutual fund. The funds have to be categorised amongst the 36 categories provided within 5 broad parameters viz., equity, debt, hybrid, solution oriented and others.



Large cap, Mid cap, Small cap etc. are the examples of Equity schemes. Overnight fund, Liquid Fund, Ultra Short Term Duration Fund etc. are the categories of Debt Fund. Dynamic Asset Allocation, Arbitrage, Equity Savings are the categories of Hybrid Fund. Retirement Fund and Children Benefit Fund are the Solution Oriented Schemes. Index Funds, Exchange Traded Fund (ETFs) and Fund of Fund are the categories of other type of schemes.

As per the said circular, only 1 scheme per category has been permitted by SEBI except for Index Funds, Fund of Fund scheme and sectoral or thematic funds.

4. Advantages and Disadvantages of Mutual Funds

Advantages of Mutual Funds

Disadvantages of Mutual Funds

5. Governance of Mutual Funds

Mutual Funds are registered under Trust Act, 1882. Mutual Funds are highly regulated by SEBI in order to ensure that the investors interest is protected. Consequently, various regulations are formed to ensure that there is a strong governance framework including setting up of separate entities within the overall structure of the Mutual Fund. It also requires that the Board of Trustees have at least 2/3 Trustees that are independent of Sponsor or its affiliates. Similarly, the AMC Board of Directors need to have at least ½ of its Directors independent.

Additionally, approval of unit holders of the Trust is required for bringing any changes to the attributes of the schemes. SEBI (Mutual Funds) Regulations also provide for winding up of a scheme of a Mutual Fund in specific circumstances subject to fulfillment of certain conditions.

6. Risk Management System in Mutual Funds

In the world of investment and return on investment, the term 'risk' is inseparable from performance and is simply necessary. In common parlance, risk defines the idea of no pain no gain.

"Mutual fund investments are subject to market risk, please read the offer document carefully before investing."

We all might have heard this statutory warning, stipulated by SEBI, to carry in every product documentation, advertisements now and then.

Have you ever thought about the risks associated with the mutual fund? Over the years, SEBI has strengthened the mutual fund regulations in order to minimize the risk, but it is rather impossible to avoid the risks of all kinds.

In fact, risk is in every business, but, not every industry stipulates a warning message to its customer upfront as a part of the sales package. For example, when you buy a cosmetic product there is a risk of an allergy or reaction but no such warning is stipulated in its advertisements. Almost all cola drinks have an impact on a customer's health and are considered unhealthy but no such warnings are stipulated.

The most important and crucial aspect in asset management is the task of managing risks. Mutual funds have grown notably over the years across the world. This has only been achieved by managing the interest of the investors and upholding the trust of efficient and effective management including the risk and returns of the pooled funds.

AMC's have been able to attract investors by investing the money responsibly, building a good track record of risk and returns and being transparent in administering the overall affairs of the mutual fund. Hence, it is critical for the AMC to have effective risk management framework and practices.

Investment Managers have to deal with a variety of risks viz., regulatory, counterparty, credit, reputation, market, operational and so on. Regulatory Risk refers to the change in regulations affecting the industry, security or fund. Counter party and Credit Risk refers to the risk of loss due to a default by the borrower in fulfilling its commitment. Reputation Risk in simple terms means threat to the goodwill of the company. Market Risk refers to the adverse movement in market prices including unpredictable changes in interest rates, fluctuations in exchange rate. Operational Risk refers to failure in operational processes;

Risk Management Process

Businesses are prone to risks. Risks in business cannot be completely eliminated, however steps can be taken to manage the risks. Risk Management is a combination of processes involving identifying potential risks, assessing its magnitude, estimating controls to mitigate risks, evaluating effectiveness of controls to cover identified risks in order to achieve the objectives of the organization.

Risk management is an ongoing and permanent process. Typically risk management process comprises of objective setting, identifying the risks for the said objectives and measuring its criticality, identification and implementation of controls to mitigate the risk, assessing effectiveness of controls and ongoing monitoring & reporting of the movement of risks.

Mutual Fund's aim is to maximize performance of schemes at acceptable level of risk. To achieve this, objectives are set at the individual scheme level. Risk identification helps to find factors which can prevent the scheme from achieving its individual objectives which will also result in failure of the mission of the Mutual Fund. [1]

In applying the risk management process, a mutual fund scheme may establish various objectives and goals e.g. to maximize return on investment in the scheme, to safeguard investor's interests within scheme mandate, to maintain a certain degree of investor servicing, to make sure that assets in mutual fund business are safeguarded, to ensure that all relevant laws are being complied without any deviation, to preserve the name and repute of the mutual fund etc.

In order to achieve all such objectives, it becomes imperative for the fund house to ensure that all the operating procedures and controls covering identified risks are effectively.

Risk dimensions may vary depending upon various factors. Risks can be connected to each other or overlapping with other risks. Although the source of the risk remains the same, the nature and the type of risks emanating from such source may differ. The outcome of all such risks may vary in each case. Therefore, a Mutual Fund should identify and assess the potential impact of not achieving objectives of the scheme mentioned in its Scheme Information Document and accordingly design and implement controls to manage such risks.

Mutual funds in India are highly regulated. SEBI (Mutual Funds) Regulations, 1996 provide for the code of conduct to be strictly abided by AMC. Further, Trustees are entrusted with the responsibility to monitor whether the required level of due diligence is exercised by the AMC. AMFI on SEBI's advice had formed a Committee to study the current system of risk management and mutual fund's current practices on risks management. SEBI vide circular dated September 30, 2002 provided the risk management framework for Mutual Funds.

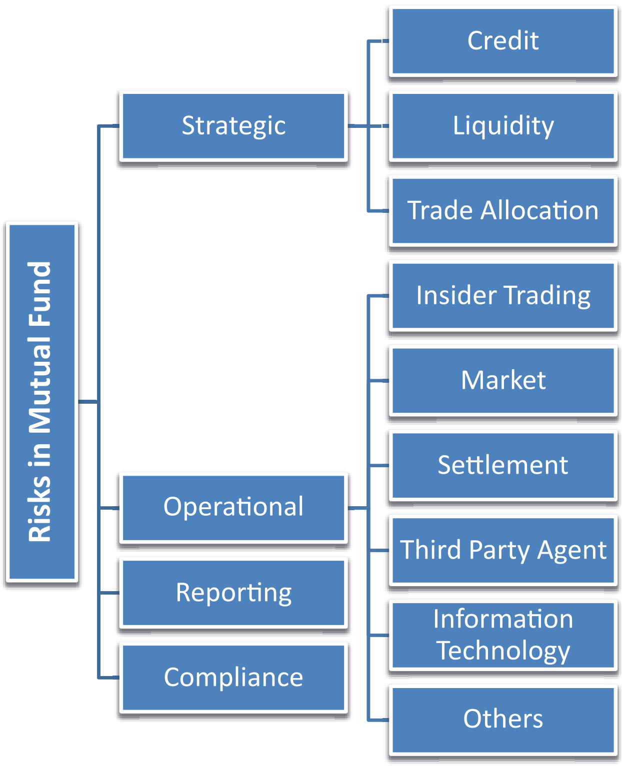
The said SEBI Circular giving the risk management framework intends to serve as a model which will help Mutual Funds to monitor and mitigate risks, and to create value for business and investors. The Risk Management Framework is broadly categorized into 3 parts:

- Mandatory
- Recommended Best Practice and
- Existing Industry Practice

The following areas of mutual fund operations are covered in the risk management framework:

- Fund Management
- Operations
- Customer Service
- Sales and Marketing
- Other Business Risks

The risks identified in these areas are divided in three dimensions i.e.: policies and procedures, systems and organization. Also, additional risk measures have been prescribed in order to cover specific risks involved in each of these areas.,



Strategic Risks

1. **Credit Risk –** Credit risk arises when any committed debt payment by a borrower is defaulted. For e.g. A mutual fund scheme invests in a debenture or a bond with a specified maturity period with a fixed or variable rate of interest due at a defined frequency or date. When the issuer does not manage to pay either the interest or the principal amount on maturity period the scheme faces credit risk. Also, even when there is no default, the price of a security may change with expected changes in the credit rating of the issuer. Credit risk deals with the absence of intention of the counterparty to pay the dues.

   Credit risk and rating of debt securities have inverse relationship. Low credit rating suggests higher risk attached to the debt instrument. Also, the risk and return has inverse relationship. Higher risk means more return. Default in repayment for a debt security may lead to downgrade in rating which will result in increase in yield and fall in its price.

   Credit risk can be managed by exercising due diligence in security selection and diversifying the portfolio of the scheme.

2. **Liquidity Risk -** These are market events that cause excessive strain on the treasury of the fund house resulting in mismatch of cash flow. They lead to unexpected high value redemptions causing liquidity crunch. Liquidity risk occurs when securities within the portfolio can't be sold when required at the desired price.

   In mutual funds, liquidity risk generally arises due to huge redemptions. At such times if the mutual fund scheme holds securities which are thinly traded or not listed then, it becomes difficult for the scheme to sell the securities and generate cash for managing redemptions.

Liquidity risk can be mitigated by diversification of portfolio, exercising due diligence.

3. **Trade Allocation Risk –** The manner in which the common trade transactions are allocated among schemes poses a risk.

Operational Risks

1. **Front Office and Insider Trading -** Front Running by dealer may result into reputational risk and financial loss to AMC. It may also include leakage of sensitive information to insiders or breach of investment restrictions / norms.

   Insider trading in a mutual fund refers to making use of available non-public key information on portfolio dealings of the mutual fund scheme(s) to trade and achieve personal gains.

   The risk of front running and insider trading can be mitigated by restricting the personal mobile phones inside the dealing room, recording the landlines of dealing room and securing the chat messages.

2. **Market Risk -** Market risk refers to the movement in prices including unpredictable changes in interest rates, fluctuations in exchange rate. Market risk refers to appreciation or deprecation in value of securities due to market movement and change in share prices. There are a lot of factors which affect the market. Share prices in the market may get affected due to changes in political conditions, fall in economy, natural calamity, terrorist attack, inflation etc.

   Market risk can be of the type price risk, interest rate risk, inflation risk, sociopolitical risk, currency risk and country risk.

   Market risk can be managed by diversification of portfolio. Hedging can be one of the best way to counter market risk.

3. **Settlement Risk -** Settlement risk means the counterparty does not settle the deal. In equity shares, stock exchange mitigates the counterparty risk. However, debt securities carry the risk of settlement i.e. the counterparty may fail to deliver the security on the value date. Settlement risk can impact the churning of portfolio and result in downward movement of net assets.

   Settlement risk can be mitigated by involving a third party guaranteeing the performance of agreement.

4. **Third Party Agent** – Investor information may be shared with third parties for personal or professional gain. This may lead to operations of the AMC getting affected and loss to AMC.

5. **IT Risks -** IT risk is threat to data, critical systems etc. IT risks refers threat to data and security due to virus attacks, processing incorrect data on account of a human error, spam mails or phishing attacks, data becomes unusable for reading or any other usage, unauthorized access, absence of disaster recovery (DR) / business continuity plan (BCP), limited audit trails, etc. There also involves specific or targeted criminal threats from hackers, computer frauds, sharing of passwords and using someone else's password to steal critical information.

   With the advent of technology while it has eased a lot of aspects, if technology fails, business halts. Therefore, it is important to have a continuity plan in place. The plan should specify getting back to business in case of unwarranted service failures.

6. **Other Risks -** Computation of incorrect Net Asset Value (NAV - NAV is the price of per unit of mutual fund scheme), management override (ability of management to manipulate controls and achieve personal gains. It mainly relates risk of mis-statement of financial accounts), employee frauds including collusion and conflicting functions, fraudulent financial reporting, misfeasance by brokers, business continuity and disaster recovery etc.

Reporting Risks

It may include publishing of incorrect Net Asset Value (NAV) by Mutual Fund. Also, SEBI mandates various reports to be submitted at a predefined frequencies.

Compliance Risks

Compliance risk refers to the change in regulations affecting the industry, security or fund. It includes non-adherences with regulatory and internal requirements leading to a loss of reputation and loss of investor confidence. Non-compliances encompass investment risk, risks related to onboarding of investor etc. Violations of legal requirements may result in penalties and fines and put the reputation of the organization at risk.

To summarize, risk management at mutual fund and AMC is an ongoing and continuous process. It becomes important to identify all possible risks and implement controls to mitigate such risks. The mutual fund and AMC should have encompassing policies and procedures. It should also put in place strong computer systems and network to process transactions. It may not be possible to completely eliminate all risks in mutual funds, however risks can be managed effectively and mitigated.

Trustees in mutual funds have a fiduciary role to protect the interest of investors. Trustees shall ensure that AMC conducts its operations diligently. In order to ensure that AMC practices are in line with expected due diligence standards, it is imperative to have strong and extensive risk management practices.

Investors should not select schemes basis past returns but, basis specific parameters such as long term goal, risks involved, consistency of performance of the scheme, expense ratio of the scheme, lock in period, risk management practices, set processes, systems, reputation etc.

Pilot Project on Centres of Financial Literacy (CFL)

A hub-and-spoke approach to strengthen the financial capabilities of communities has been adopted wherein CFL function as a hub for training and learning, creating trained human resources from communities within the block. Subsequently, these trained human resources drive outreach in their respective communities as spokes.

NGOs work with low income communities to build their financial capabilities. The trainers and community financial health workers engage with the community and deliver financial education. *Anganwadi* teachers, *Asha* workers and self-help group leaders who demonstrate good communication skills are recruited from amongst the community. Peer learning and participatory learning methods are among the key components of the pedagogy.

A mass awareness campaign is initially conducted targeting 100 people in a village. Subsequently, interested participants are divided into batches of 25 and focused 3 day training programmes are conducted for these participants for about 3-4 hours per day. This reinforcement helps the participants build knowledge and skill to choose appropriate financial products and services.

As a first step, influencers, *viz*., members of SHGs, farmers federations, *panchayati raj* institutions and health workers are identified and named as “Change Agents - CAs”. They are then nurtured and equipped with knowledge, and ways of behaviour change, through a series of multiple and repeated literacy sessions.

A suitably designed digitally equipped vehicle is being utilised to reach out to ensure that both illiterate people and people in far-flung areas are targeted. This Digital Financial Literacy Vehicle contains financial literacy material, audio/video (power point, demo equipment, *etc.*) and is managed by a block counselor.

Source : Reserve Bank of India, Annual Report 2017-18.

Mutual Funds: The journey from 'Collective Lending' to 'Wealth Creation'

"Wide diversification is only required when investors do not understand what they are doing." - Warren Buffett

Sharad Kumar*

The quote of Warren Buffett aptly fits the area of our reading. Mutual Fund is all about diversification and creation of wealth in a relatively non-complex risk – return matrix. We all are living in a financially integrated world and it would not be any exaggeration if we say that it is the global inter-flow of capital which is fuelling the growth and development of the world economy. Money is a resource, which drives up the business and growth of the economies. While money is required for the businesses to run, the investors are also always on a lookout for enhancing their returns. This creates a symbiotic relationship in which one of the entities needs funds at competitive pricing and another entity wishes to have the best returns on his/her investible surplus resources.

Augmenting Wealth: The rise of Mutual Funds

In one of the insightful writings on Mutual Funds by Sadhak H, (2003), he said that, 'The importance of financial development was amply acknowledged by classical economist (Adam Smith and others) and neo- classical economist (Alfred Marshall and others), who believed that there is a close relationship between capital accumulation and the process of economic development. However, the importance of financial factors in the development process was largely ignored and forced savings were considered the best means for financing development. But, 'the resultant financial repression is thought to be a major cause of low savings rates and the underdevelopment of the financial sector' (Hossain and Choudhury, 1996).

This phase did not last long and it was soon realised that the banking system and the non-banking financial intermediaries have the capabilities to create a supply of investment which can be far above than the "forced savings", as thought before. There have been a series of institutional changes in the last quarter of the 19th century which has also seen a subtle shift from the "only Credit" based system to a "financial" system, wherein, in addition to the banks, we have insurance, pension funds and mutual funds playing an important role in the growth and development of the economy.

Though, there is an exhaustive list of funding channels as well as investment avenues available in the market, mutual funds stand high as one of the tools which provide better side of both the instruments. As against the factors which increase the risk of investing in instruments such as capital market, bond market etc. or the relatively lower returns on low risk instruments, mutual funds provide an option of getting better returns without compromising on the risk perspective. Mutual Funds also are large subscribers of Commercial Papers (CPs) and generates returns from equity market by subscribing to public issues in primary market and by also actively playing in the secondary market. It provides the volume boost to the investment being made in the market.

The Mutual Fund Journey:

It would be imprudent to discuss about Mutual funds without analysing its origination. The investment option or the tools made available historically,

*Assistant General Manager, State Bank of India.

emerged as an outcome or solutions to the politico–economic issues of that time. Mutual fund was also one of them. Another striking feature worth noting is that the roots of mutual fund lies not as an investment avenue but as a lender of what we can call now as collective lending by people to mobilise large chunk of money in the absence of any alternate source.

It is said that necessity is the mother of invention. If not completely, at least, if we trace back the financial history of the Mutual Funds, we would see that it was an outcome of a financial crisis, which hit Europe in the early 1770s. The history gets closely connected to India as at that point of time, we were also one of the colonies of the British Union. No one of us would be oblivious of the history of India. It was in the early 1600's during the reign of Mughal Emperor Jahangir that the East India Company first approached India to establish a factory. In the years going forward, the British East India Company had to resort to heavy borrowings which could fund its colonial expansion plans, beginning with North America. As with any industry, the expenses continued to increase without a matching revenue from the colonial business interests. Eventually, the company sought financial refuge with the British Treasury in 1772. However, to their ill-fate, the British treasury was already passing through period of financial stress. In the current milieu, we can relate it to a situation of a systemic important company failing in business causing a ripple effect on the business across nations and across the world.

History would let us know that the Dutch, English and the Portuguese were all traders putting all their efforts in capturing the market to generate revenues. During this period the Dutch who were very aggressive merchants, were also exploring the world across seas in search of business opportunities. While the opportunities were there, so were the challenges of business and financing.

At this crucial juncture, it was a Dutch Merchant Adriaan van Ketwich, pooled money from multiple people as subscribers to his pool and drew an Investment Trust, which later came to be known as the world's first Mutual Fund, way back in the year 1774. The key element of this pool of funds was the diversification of financial risk which was achieved by having subscribers from different countries and colonies of US etc., where the investments were backed by income from activities such as plantations.

In the same year, 1774, Abraham van Ketwich, a Dutch broker invited subscriptions from investors to form a trust named Eendragt Maakt Magt-the maxim of the Dutch Republic, "Unity Creates Strength". The fund, created by Van Ketwich's, survived only till 1824 but, the concept he created is still considered as a symbol of personal investing.

As already discussed in the beginning, the Mutual Fund journey began as a lending concept, but coming back to the present times, the first modern-day mutual fund was Massachusetts Investors Trust, which got its foundation laid down in the year 1924. Now, we have open ended and close ended schemes, however, during that period it was the first mutual fund with an open-end capitalization. In just a time span of one year, the fund catapulted itself with much force and grew from an asset size of $50,000 to a size of $392,000. The fund later became to be known as MFS Investment Management after going public in the year 1928.

Mutual Funds in India:

In India, the first mutual fund was launched in the year 1964, though it continued to move at a very slow pace until 1980s. This phase was dominated by UTI. It was in the late 1980s that non-UTI public sector mutual funds also entered the market and the first in the series was SBI Mutual Fund which was launched by SBI in November 1987. This was followed by Canbank Mutual Fund and LIC Mutual Fund and others. The final phase of the mutual fund history in India can be traced back to 1993, when the market was opened for the private sector funds. The first of such fund was Kothari Pioneer Mutual Fund in November 1993. This was followed by ICICI, 20th Century, Morgan Stanley and Taurus Mutual funds.

The free entry of Mutual Funds exposed the Indian market to some inherent weaknesses in the Indian financial market. The loose links found during this period were tightened through several measures initiated by SEBI from 1995-96 to 1999-2000 to streamline the operations.

In India, the Mutual Fund industry is regulated by SEBI. The industry is also supported by Association of Mutual Funds in India (AMFI), which is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

Why Mutual Funds?

Any individual with surplus funds can move around in the market and choose one of the many available investment options, which may be offering assured returns such as bank deposit or government saving schemes or variable returns in options such as stock market. In case of an enterprising risk taker, he or she can venture into the domain of segments such as futures and options or commodity trading etc. The question arises, then why Mutual Funds has emerged as one of the best available asset classes. Is it an income maximising tool; a risk optimising instrument or may be a speculative investment. What exactly is it? Let us try to unravel this mystery and understand things better from an investor's, perspective.

In case of Mutual Funds, the best premise what I understand is that of risk diversification, better portfolio allocation and the best risk-return matrix. Though, there cannot be a strict definition of Diversification, it being an investment concept, Investopedia does provide a definition, which says that Diversification is a technique that reduces risk by allocating investments among various financial instruments, industries, and other categories. It aims to maximize return by investing in different areas that would each react differently to the same event. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk.

An investment is always subject to risk and return matrix. The more the expected return, more would be the risk. Though, any Investment is subject to a large variety of risk, it can be basically classified into systematic risk and unsystematic risk.

The systematic risk also called as market risk or undiversifiable risk is at the macro level and is applicable to all the companies or industries operating within a relatively common environment. It may relate to factors such as inflation, exchange rates, political instability, war, interest rates or other macro numbers. This kind of risk is not company specific or industry specific and is quite generic in nature, it cannot be managed through diversification at individual micro level. This gets managed by a combination of factors which require policy interventions at global and national levels, and so have to be as such built into the risk calculations.

The second type of risk is the unsystematic risk. This risk is associated with a specific company, industry, market, economy, or country and can, therefore, be controlled through diversification. Though there are a number of risk factors, the most common sources of unsystematic risk are business risk and financial risk. The aim of an efficient Fund Manager, therefore, should be to ensure that the investment of the pooled resources is done in such a way across various assets so that they do not get affected the same way by market events.

Why Should You Diversify:

In the financial world, the birth of Mutual Funds as an investment option was nothing less than a revolution in itself. The investing power, hitherto, being thought to be with the affluent class tricked down to the common small investor community and the people with little surplus money got an option of pooling their resources to a fund management firm, which was professionally managed and ensured that the money received from small retail investors is put in a diversified basket of investments. This was as against the expensive proposition of purchasing individual stocks carrying different risks.

We are hearing a lot on the oil prices front, so let us take the same example and assume that you have a portfolio of oil stocks only. In case of an increase in global oil prices, the downstream sector of oil and gas industry would suffer and your portfolio may suffer. However, if you would have taken other sectors of industry in your portfolio, the chances of balancing the loss with gain in others would be higher. This gets more balanced if you add retail stocks also in the bucket to further diversify. The key lies in the mix. The more unrelated and uncorrelated your stocks are, the better prospects are there for minimising the losses.

If we think one step further, it is important to diversify among different asset classes. Different assets - such as bonds and stocks - will not react in the same way to adverse events. A combination of asset classes will reduce your portfolio's sensitivity to market swings. Generally, bond and equity markets move in opposite directions, so if your portfolio is diversified across both areas, unpleasant movements in one will be offset by positive results in another.

In case of investment in mutual funds, you are not tied up with a certain stock or a group of stocks. On top of this, you are not alone and responsible for the ups and downs you face in your investment. The most conventional view argues that an investor can achieve optimal diversification with only 15 to 20 stocks spread across various industries.

Performance of MFs in India:

As on March 31, 2018, there were 45 mutual funds registered with SEBI, of which 34 were in the private sector and seven (including UTI) were in the public sector.

The number of Indians investing in capital markets has traditionally been low, and most of the people parked their funds in bank deposits. But, a study shows that mindset is slowly changing; as bank deposit rates fell, mutual funds have been able to garner a proportionately higher share of household savings.

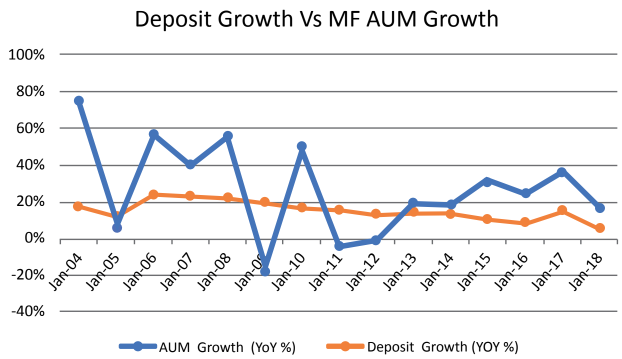
The growing potential of Mutual Funds gains resonance with SEBI mentioning in its annual report that ‘buoyed by robust capital inflows and strong participation of retail investors, the asset base of the mutual fund industry again produced record breaking numbers in 2017-18. The Average Asset Under Management (AAUM) of MF industry for the year 2017-18 was ₹21.46 lakh crore. However, mutual funds AUM to GDP ratio of 12.8 per cent in 2017-18 indicates a large untapped market potential and very low penetration vis-a-vis global and peer benchmarks’.

Between 2014-15 to 2017-18, Assets Under Management (AUMs) of mutual funds doubled from ₹10.83 lakh crore to ₹ 21.36 lakh crore. (According to AMFI data, the Asset Under Management (AUM) of the industry, comprising 42 players, climbed from ₹22.23 lakh crore at the end of October, to ₹24.03 lakh crore in November-end). In comparison, bank deposits rose about 34 per cent to ₹114.26 lakh crore from ₹85.33 lakh crore in the same period. While the bank deposit pool remains significantly large, the steady increase in the share of mutual funds in total incremental savings deployed in deposits and mutual funds increased from 12.6 per cent in 2014-15 to around 19 per cent in 2017-18.

The table clearly reflects the growing influence of the mutual funds as an alternative safe investment avenue, which so far was only deposits.

Year	Mutual Fund AUM	SCBs Agg Deposit	MF as a %age of Deposit
Mar-93	0.48	2.69	17.77
Mar-03	0.79	12.81	6.25
Mar-04	1.40	15.4	9.28
Mar-05	1.50	17.00	8.80
Mar-06	2.32	21.09	10.99
Mar-07	3.26	26.12	12.50
Mar-08	5.05	31.97	15.80
Mar-09	4.17	38.34	10.88
Mar-10	6.14	44.93	13.67
Mar-11	5.92	52.08	11.37
Mar-12	5.87	59.09	9.94
Mar-13	7.01	67.50	10.39
Mar-14	8.25	77.06	10.71
Mar-15	10.83	85.33	12.69
Mar-16	13.50	93.27	14.47
Mar-17	18.29	107.58	17.00
Mar-18	21.36	114.26	18.69

If we see the growth pattern also, then we would see that the growth of AUM has been relatively higher than the deposit growth, though the variations are also on a higher side owing to the risk and volatility attached to the mutual fund investment as compared to the deposit which offer a lower but risk free return.



The increasing interest of the household investors towards mutual funds or other asset classes like this gets corroborated, when we see the movement in the household savings.

Components	2011-12	Average Eleventh Plan	2012-13	2013-14	2014-15	2015-16	2016-17	Average Twelfth Plan
Gross Savings in Financial Assest	11.1	13.7	12.4	13.8	15.0	16.1	16.4	14.7
Net House hold Financial Savings	8.0	10.4	9.0	10.0	10.8	11.6	11.9	10.7
House hold savings physical assets	14.3	13.0	13.2	12.7	12.2	11.7	11.7	12.3
House hold savings total	22.3	23.4	22.8	22.7	23.0	23.3	23.6	23.0
Savings by the private corporate sector	7.2	8.1	7.3	7.7	8.0	8.5	8.5	8.2
Savings by the public sector	1.3	2.0	1.5	2.0	2.5	3.1	3.9	2.7
Gross Domestic Savings	**30.8**	**33.5**	**31.0**	**32.4**	**33.5**	**34.9**	**36.0**	**33.6**
Finance for Investment	**35.0**	**36.1**	**35.8**	**36.2**	**36.5**	**37.7**	**38.5**	**36.9**
Sorurce Planing Commission								

The table above clearly shows that the gross savings in the financial assets have been increasing consistently and this shows the confidence of the households in financial assets.

The data indicates that the investor community is becoming comfortable with the financial markets and the mutual fund route is the best way to ensure retail participation in the equity and debt market of the country.

The economy as such is passing through a declining interest rate cycle, which may continue for some more time to assuage the credit market and provide them succour in the form of affordable lending rates. While this is also critical to support the business community in times of stress, in such a scenario, a risk averse investor looks to other risk mitigated investment avenues of which Mutual Fund emerges as the best option.

Conclusion:

The risk appetite of a common customer has been increasing over the period. The customers are looking out for better returns and are not feeling shy of making investments in slightly riskier assets. Mutual fund gives them the opportunity of choosing their returns based on the individual risk appetite of the customer. While the trend can be further firmed up after couple of years, there is another view coming out in relation to their preference within Mutual Fund as an asset class, which indicates that there has been a movement of customer to equity oriented MFs, which hitherto was focussed only on the balanced funds. One of the reports published by Care ratings says that there has been an increase in the share of growth or equity schemes with the share moving up from 24.6% to 35.1% during the period between 2012 and 2018.

As the economy is growing, the financial markets are also evolving. Rise of Mutual funds as an alternative asset class for investment returns is a sign of financial deepening. It draws a simile to the rise of other sources of credit such as external borrowing, bonds etc. other than the traditional means of bank credit.

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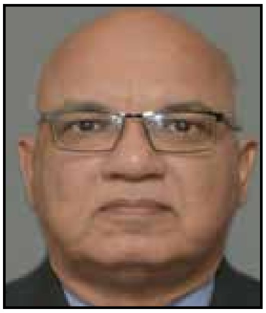
BANK QUEST THEMES FOR NEXT ISSUES

The themes for next issues of “Bank Quest” are identified as:

- Ethics & Corporate Governance in Banks: April - June, 2019
- Emerging technological changes in Banking: July - September, 2019



Cross-selling: A Blueprint for PSBs

Ashwini Mehra*

Dr. M.R. Das**

In the world of banking, cross-selling refers to banks selling or rendering non-bank products or services which may not be the same as banking products or services but, at the same time not entirely unrelated. Cross-selling provides an opportunity to banks as well as non-banks to mutually upscale their operations and increase their profits, and simultaneously offer a one-stop solution for customers' diverse financial requirements. Thus, banks/non-banks stand to reap economies of scale and scope, and consumers benefit by way of minimizing the cost of search, maximizing convenience and gaining from professional advices. Thus, cross-selling is designed to be a win-win for both financial services providers and customers, and therefore, many researchers have conceptualized banks as financial superstores.

In the western world, the origin of cross-selling in financial services is a post-80's phenomenon that began with the Prudential Insurance Company, the then insurance major, acquiring Bache Group Inc., a mid-sized stock broking firm with the objective of providing cross-selling opportunities for its life insurance agents and Bache's stockbrokers. Some of the subsequent big mergers such as Sears Roebuck (credit cards) with Dean Witter (stocks, bonds and money market funds), and American Express Company (credit cards) with Shearson Loeb Rhoades (stocks and bonds) also aimed at capitalizing on cross-selling.

As for banks, the mergers of Wells Fargo & Co., with Wachovia Securities, and Bank of America with Merrill Lynch Wealth Management strived for boosting their declining profits by strategizing cross-selling. Today, several MNC banks are financial superstores that rely on cross-selling not only to increase their customer base and revenues, but also, to diversify their risks. However, in exchange, such financial conglomerates create regulatory risks and sometimes become so big that if they fail, they have to be rescued even at the cost of taxpayers' money (commonly referred to as 'too-big-to-fail' in finance literature). The 2008-09 financial crisis amply exemplifies this.

The Indian Story

Cross-selling is relatively new to the Indian banking. Historically, the Public Sector Banks (PSBs) were rather 'compelled' to enter into cross-selling in the 2000's; the compulsion was to protect their profit frontiers from the onslaught by (a) sharp reduction in Net Interest Income (NIM), triggered by the interest rates deregulation leading to lending rates declining faster than deposit rates, (b) downward stickiness in 'Burden', mainly sourcing from 'autonomous' increases in wages and salaries of their employees and (c) application of the prudential norms. The situation exacerbated in the 2010s following economic slowdown and the associated clamor for lending rate reductions, and largescale loan defaults.

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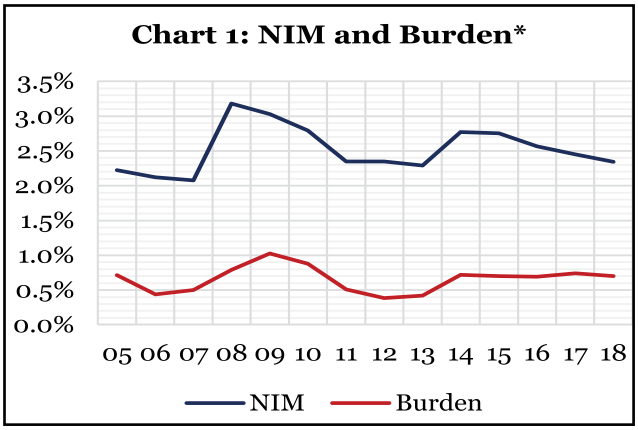
Chart 1 illustrates the behavior of NIM and Burden for the period 2005-18 for PSBs.



** Ratio to Total Assets. Based on RBI data.*

Thus, the 'compulsion' to enhance profits through new activities, especially fee-based ones, which, unlike lending, didn't attract the prudential norms, by utilizing the existing manpower and brick-and-mortar set-up, pushed banks to consider cross-selling.

This was aided by regulatory enablers jointly instituted by the Securities and Exchange Board of India and Reserve Bank of India (RBI) (for marketing Mutual Funds – MF - and capital market related services), and the Insurance Regulatory and Development Authority of India (IRDAI) and RBI (for marketing insurance products). Besides, the Banking Regulation Act, 1949 was congenially amended.

Cross-selling by Banks - Status

Basically, banks sold insurance - life and general (including health) - and MF products. Sale of insurance products by banks (commonly referred to as bancassurance) also included those under government-sponsored programmes for weaker sections. Besides, a few undertook such capital market related services as Depository Services and Broking facility to their demat account holders, Cash Management Services and Cards business.

Although considerable time has elapsed, PSBs' performance in regard to cross-selling remains lackluster. Before providing quantitative evidence for this, it must be stated that there is no reliable aggregative database for cross-selling. The data, as disclosed in bank Annual Reports, are scanty, unclear, poorly classified and internally inconsistent, which may be reflective of banks' lightheartedness towards cross-selling. There are conceptual issues too, as many banks report MF activities under bancassurance. Annexure 1 presents an indicative format for banks to report data related to cross-selling activities in their Annual Reports.

Income from Cross-selling

Income from cross-selling has been computed for 2017-18 encompassing a cross-section of 41 Scheduled Commercial Banks (SCBs) – 21 PSBs comprising State Bank of India (SBI) and 20 Nationalized Banks (NBs), and 19 Private Banks (PBs) comprising nine New (NPBs) and 11 Old (OPBs). Results have been derived after making minor but prudent adjustments to the published data in the bank Annual Reports. Results are analyzed by the bank groups.

Aggregate Income

Table 1 presents the total income from cross-selling.

Table 1: Total Cross-selling Income

(₹ billion)

Bank	Total Cross-selling Income
SBI (1)	16.3
NBs (20)	10.3
PSBs (21)	**26.6**
NPBs (9)	55.7
OPBs (11)	1.9
PBs (20)	**57.6**
All Banks (41)	**84.2**

During 2017-18, PSBs generated an income of ₹26.6 billion from cross-selling, which was whopping 53.7% below that accrued to PBs at ₹57.6 billion (52.2% below NPBs). Thus, out of the ₹84.2 billion of income that accrued to SCBs, PSBs contributed just 31.6% as against PBs at 68.4%. It is noteworthy here that within the PSBs segment, SBI contributed 61.2%, and within the PBs segment, the nine NPBs contributed 96.7%.

Activity-wise Income

Table 2 presents the income analysis decomposed into various cross-selling activities undertaken by banks. It must be noted that, since segment-wise incomes were not available for one OPB and one NPB, those were excluded from computation in Tables 2 and 3. Therefore, to that extent, the 'PBs' and 'All Banks' figures differ from those in Table 1.

Table 2: Business Segment-wise Cross-selling Income

(Amount in ₹ billion)

Bank	Insurance	Mutual Funds	Capital Market related	Others	Total
SBI (1)	9.3	5.6	0.1	1.4	16.3
	(56.8%)	(34.4%)	(0.3%)	(8.5%)	(100.0%)
NBs (20)	9.3	0.8	0.01	0.2	10.3
	(90.2%)	(8.1%)	(0.1%)	(1.5%)	(100.0%)
PSBs (21)	**18.6**	**6.4**	**0.1**	**1.5**	**26.6**
	(69.8%)	**(24.2%)**	**0.2%)**	**(5.8%)**	**(100.0%)**
NPBs (8)	34.0	20.0	-	0.9	54.9
	(62.0%)	(36.4%)	(0.0%)	(1.7%)	(100.0%)
OPBs (10)	1.7	0.04	0.03	0.001	1.8
	(95.9%)	(2.2%)	(1.8%)	(0.1%)	(100.0%)
PBs (18)	**35.8**	**20.0**	**0.03**	**0.9**	**56.7**
	(63.1%)	**(35.3%)**	**(0.1%)**	**(1.6%)**	**(100.0%)**
All Banks (39)	**54.4**	**26.5**	**0.1**	**2.5**	**83.4**
	(65.2%)	**(31.7%)**	**(0.1%)**	**(3.0%)**	**(100.0%)**

Figures in brackets give percentage to total.

For PSBs, insurance business yielded 69.8% of their cross-selling income - NBs at a high of 90.2% and SBI at 56.8%. Contrastingly, PBs received 63.1% of their cross-selling income from insurance - NPBs (62.0%) and OPBs (95.9%). NPBs were more active in MF business, with 36.4% of their cross-selling income emanating therefrom. SBI was close on heels at 34.4% as against NBs at 8.1%.

Income from Insurance – Life vs. General

Table 3 presents data on the composition of income from insurance.

Table 3: Cross-selling Income from Insurance - Composition

(Amount in ₹ billion)

Bank	Life	General	Total
SBI (1)	7.1	2.1	9.3
	(77.1%)	(22.9%)	(100.0%)
NBs (20)	6.2	3.1	9.3
	(66.2%)	(33.8%)	(100.0%)
PSBs (21)	**13.3**	**5.3**	**18.6**
	(71.6%)	**(28.4%)**	**(100.0%)**
NPBs (8)	29.1	4.9	34.0
	(85.6%)	(14.4%)	(100.0%)
OPBs (10)	1.3	0.5	1.7
	(73.2%)	(26.8%)	(100.0%)
PBs (18)	**30.4**	**5.4**	**35.8**
	(85.0%)	**(15.0%)**	**(100.0%)**
All Banks (39)	**43.7**	**10.6**	**54.4**
	(80.4%)	**(19.6%)**	**(100.0%)**

Figures in brackets give percentage to total.

Life insurance business dominated across bank groups; total income in respect of PBs being more than double that in respect of PSBs. As for general insurance, although PSBs and PBs earned almost the same income, the share in respect of the former was a little below twice of the latter.

Inequality in Cross-selling Income

Table 4 reveals the extent to which cross-selling income was unequally distributed across banks in the bank groups.

Table 4: Cross-selling Income - Distribution among Banks

Bank Group	Share of the Top	Share of the Rest (Range)	Group CV*
NBs	**Five** banks (BoB, BoI, Canara, PNB and Union): 65.5%	15 banks: 0.2% - 6.5%	255.9%
NPBs	**Three** banks (Axis, HDFC and ICICI): 84.8%	Six banks: 0.2% - 8.1%	220.6%
OPBs	**Four** banks (Federal, J & K, KBL and RBL): 70.5%	Seven banks: 0.5% - 8.6%	104.1%

** Coefficient of Variation.*

Among NBs, the distribution of cross-selling income was highly skewed with only five banks cornering nearly 66%; among NPBs, three banks cornered as much as 85%, and in the case of OPBs, four banks commanded over seven-tenth. The CV values indicated the highest skewness among PSBs, followed in succession by NPBs and OPBs.

In general, PSBs and NPBs with Joint Ventures (JVs)/ subsidiaries for cross-selling businesses performed better than the others.

Contribution to Other Income

Let us examine the extent to which cross-selling income supplemented the ‘fee-based income’ of banks, as it was one of the objectives postulated in favour of diversification by banks into non-bank businesses. For this purpose, ‘fee-based income’ has been taken as the “commission, exchange, brokerage income” as in Schedule 14 of the bank balance sheets. Chart 2 presents the ratio of cross-selling income to fee-based income.

The 41 banks derived a little over a tenth of their fee-based income from cross-selling. In respect of

PBs, the contribution of cross-selling income to fee-based income at 13.7% was more than double that of PSBs. Within PSBs, the contribution in respect of SBI exceeded that of NBs by 130 bps. Within PBs, the contribution in respect of NPBs was more than twice that of OPBs.

Chart 2: Contribution of Cross selling Income to Fee based Income

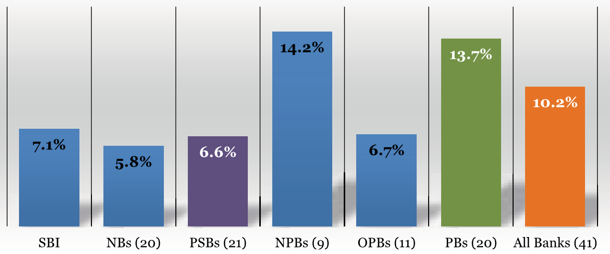


Table 5 presents the frequency distribution of the contribution bank group-wise.

Table 5: Cross-selling Income/Fee Income - Frequency Distribution of Banks

Range	SBI	NBs	NPBs	OPBs	Total
< 5%		10	3	2	15
=>5% but < 10%	1	7	0	3	11
=>10% but < 15%		2	3	1	6
=>15% but < 20%		0	3	1	4
=>20%		1		4	5
Total	***1***	***20***	***9***	***11***	***41***
CV		*77.38%*	*64.99%*	*89.75%*	*101.71%*

Half of the NBs contributed below five percent. It was slightly better in respect of OPBs with nearly half of them contributing less than 10% and almost a third =>20%. The NPBs can be said to have put forth the best show with two-third contributing =>10% to <20%.

In sum, cross-selling activities are at an embryonic stage in the Indian banking sector, especially in the case of PSBs. PSBs would need considerable time to achieve meaningful width and depth. Fortifying these activities, in a sustainable manner, would necessitate (a) PSBs' willingness to harness the opportunities and (b) an adequately supportive regulatory regime which should also ensure a level-playing field among various player groups. Some of the policy proposals are discussed below, which may also be applicable to bank groups other than PSBs.

Action Plan

Spurring PSBs' Engagement

Even allowing for differences in regulatory treatment between PSBs and PBs, the above-mentioned performance 'dichotomy' is clearly reflective of the PSBs' lackadaisical attitude towards cross-selling. However, given the financial conditions of PSBs today, increasing the cross-selling income needs to be considered as a 'necessary virtue'. Working towards this, PSBs need to reinvigorate their policy stance and operational endeavors.

First, at the corporate level, PSBs need to accord 'explicit' recognition to cross-selling as a 'major' revenue generator and create a 'dedicated' vertical for this purpose.

Second, non-bank products are genetically 'push' products, and the markets are fiercely competitive with several established and specialized players, including non-banks. Moreover, the regulatory playing field is skewed against PSBs in some respects. Therefore, PSBs need to generate the required marketing thrust by establishing a dedicated army of staff with relevant qualifications and special skillsets, to be bolstered by bank-specific training, instead of routine staff postings. Remuneration must be a judicious mix of salary and performance-linked incentives not only to ensure optimum results and innovations, but also, to eschew poaching or job hopping.

Third, India, unequivocally, provides a fertile ground for non-bank businesses; for example, insurance penetration is woefully low (2017: 3.69)[1], and peoples' blooming interest in MF investments is as recent as the post-Demonetization period. Further, the country is home to novel techno-financial prerequisites. Therefore, PSBs need to do their own SWOT (Strength, Weakness, Opportunity, Threat) analyses and decide on entering the cross-selling turf.

Fourth, there is innate, howsoever denied, resistance among the PSB staff as to why should they sell nonbank products in preference to banking products, in which they are adept and which gives them their living? Thus, mindset changes are necessary through appropriate incentives and motivational training so as to iron out incompatibilities between bank and non-bank cultures. For example, Bank of America lost Merrill Lynch brokers because the former 'insisted' that the latter sold bank products to their investment clients.

Finally, it is observed that PSBs who have their own JVs/subsidiaries for non-bank products, generally the stronger ones, garner more income from cross-selling; but such a step is well-nigh impossible in the near future, as several PSBs are deplorably capital-deficient with many under Prompt Corrective Action regime.

Making Regulations Simple

Regulatory signals have been conflicting, recently. The January 2018 Enhanced Access and Service Excellence (EASE) reforms agenda by the Department of Financial Services had proposed PSBs to be developed as "Suite of financial services for one-stop access to customers". Subsequently, in September, the Department advised them not to pay commission to their employees selling non-bank products but book it as income for the bank.

Mis-selling in non-bank businesses is common and a global phenomenon, and attributing it to higher commission *alone* would be strategically wrong. One of the most significant, empirically observed factors is pressure from CXOs on the sales force to achieve targets (e.g., Wells Fargo 'misconduct' of 2016 in pursuance of their "Good to Gr8" strategy). Moreover, in the Indian context, routinely posting unskilled personnel as sales agents and their lack of comprehensive product knowledge, especially while simultaneously handling both banking and cross-selling; no customer discipline on agents; financial innumeracy about non-bank products which are more complex than banking products; and poor grievance redressal systems[2] instigate mis-selling. Therefore, efforts must be made to ameliorate these, instead of annulling incentives.

Concluding Remarks

Ultimately, PSBs need to decide whether to diversify into non-bank businesses or not. Increased digitization, along with the avalanche of techno-financial innovations that is advancing, will, slowly but surely, open new vistas for cross-selling. However, sans specialized and dedicated manpower, and appropriate incentive structure and quantum, PSBs should stick to "Pure Banking, Nothing Else" (once SBI's tagline). Simultaneously, the authorities need to be considerate while asking each PSB to become an Amazon superstore, until a durably supportive policy regime is instituted.

References

1. Bank Annual Reports
2. Investopedia
3. IRDAI, Annual Report, 2017-18
4. RBI, Statistical Tables Relating to Banks in India, 2018

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1 IRDAI, Annual Report, 2017-18, pp.5.

2 Despite the RBI notification dated June 23, 2017, which widened the scope of its Banking Ombudsman Scheme 2006 to include deficiencies arising out of selling insurance, mutual fund, and other third-party products by banks.

Annexure: Suggested Indicative Format for Banks to Report Cross-selling Details in their Annual Reports For the Financial Year:

Bancassurance Activities

1. Number of companies on behalf of which business was solicited:
    a. Life
    b. General (including health)
2. Number of policies sold:
    a. Life
    b. General (including health)
3. Number of government-sponsored policies sold and included under serial Number2
    a. Life
    b. General (including health)
4. Premium income earned:
    a. Life
    b. General (including health)
5. Commission earned:
    a. Life
    b. General (including health)
6. Commission distributed among the staff, agents, etc.:
7. Commission recognized as income under P&L Account:

Mutual Fund Activities

1. Number of AMCs on behalf of which business was solicited:
2. Commission earned:
3. Commission distributed among the staff, agents, etc.:
4. Commission recognized as income under P&L Account:

Other Non-Bank Activities

(List the activity, total commission earned, commission distributed and commission recognized as income in P&L Account.)

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Financial Planning & Managing Personal Finance

Deepak Pande *

Financial Planning is a Goal based planning in order to accomplish various goals namely buying a dream house/Car, Overseas Vacations, Children Education/ Marriage and Retirement Planning. One goes on to say "***Proper Planning Prevents Poor Performance***." Three stages to be considered in Financial Planning comprise of Wealth Creation, Wealth Preservation/ Accumulation and Wealth Distribution.

Financial Planning process involves understanding requirements, preparing a tentative-cum-final plan for execution followed by periodical reviews and re-balancing. ***Financial Planning concept*** includes building an Investment as well as Insurance Portfolio, linked to Income and Savings. Asset allocation to be done based on the risk profile along with Tax Planning and Estate Planning.

Normally, income is derived from *active* sources as well as *passive* sources. Combining these two, one has to allocate expenses in a certain proportion with emphasis on savings. While preparing Financial Plan, existing assets as well as liabilities to be considered for fund allocation to various goals. There are *flawed* ***notions*** that Financial Planning is only for rich, which is not so, even one with surplus/savings of *₹500/- per month* could start Financial Planning to achieve various goals.

While planning, one has to always set aside funds equivalent to 3-6 months' Salary/Income for meeting contingencies of Life where ups and/or downs are bound to happen. These funds should be kept in the form of Cash or Cash Equivalents, so as to redeem them as soon as possible. The contingency could be medical reasons, loss of job, economic slowdown in business and unforeseen circumstances. The Cash Equivalents could be defined as Savings Deposit, Liquid Funds, Short Term Fixed Deposits and 2-in-1 Bank accounts.

Usually, Investors aim to build an ***Investment Portfolio*** only whereas ***Insurance Portfolio*** is equally important as Investment. Investments could be in Real Estate, Direct Equity (Shares), Equity-linked instruments (Equity & Balanced MF Schemes), Bonds (Tax-free & Taxable), Debentures, Debt MF Schemes, Government Small Savings Schemes, Fixed Deposits, Bullion/Metal, Currency, Commodities, Art & Artefacts and Alternate Investment Funds.

Insurance Portfolio should aim to cover protection in the form of *Term Insurance* equivalent to at least 10 times of annual income. The purpose is to make provision for regular income to the dependent family, in case of demise of the earning member. The endeavour should be to get the protection immediately after commencement of employment/business. This will ensure adequate coverage at low premium that gets blocked for a longer duration to cover the risk, depending upon annual income. Second aspect is to cover oneself with *personal accident* insurance

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cover for which a nominal premium may be required or it could be obtained as rider with Term Insurance Cover. Personal Accident Insurance cover takes care of permanent disability coverage even when one is alive.

Health Insurance (family floater) for self and family is required to cover hospitalization expenses. In case employed with Government/PSU/Corporate, health coverage is provided by the employer but, additional coverage is advisable depending on cost of hospitalization or non-availability of health insurance cover post-retirement. *Critical-illness* is an expensive proposition for which an exclusive policy may be obtained or a top up insurance cover could be taken along with health insurance cover. While Health Insurance benefit is available, generally, upon hospitalisation. Critical illness coverage results in lump sum payment upon identification of illness.

Post coverage of Insurance Portfolio, one has to understand ***Risk Profiling*** part of the Investors, based on certain questions derived out of individual/entity behaviour to ups and downs (volatility) of the prices. This risk profiling would be more related to Stock Markets performance although it applies to all asset classes. Generally, risk is classified into three types namely, ***Conservative***, ***Moderate*** and ***Aggressive***.

Risk vs. Return

Returns are linked to the risk taking ability of an individual. *Risk-Return* profile of an individual is one's level of *tolerance*. A high risk venture/investment is generally associated with high returns. Securities and Exchange Board of India (*SEBI)* has categorized three risk-return profiles for investors: -

Conservative: One takes *minimal risks* ensuring one's fund remains secure. One would prefer investing in Government Small Savings Schemes, Bank Fixed Deposits and Government Securities where one gets *guaranteed* kind of returns on the funds invested.

Moderate: One is willing to take *some risks* when one is inclined to invest in market-linked investment schemes. Generally, these type of investors prefer investing in combination of Equity and Debt funds, which are also called Balanced Funds and/or Hybrid Funds.

Aggressive: One is willing to take *high risk* and prefer investing in direct equity, mid-cap and small cap equity, Alternate Investment Funds, Commodity markets and derivative instruments where one may even ***lose*** part of the capital.

Risk profile might undergo change during the course of employment/business. Therefore, monitoring, periodical review and re-balancing of investments is advisable. SEBI has allocated colour coding basis risk profile of an investor; *Blue* colour depicts Principal at *low* risk, *Yellow* colour represents Principal at *medium* risk and *Brown* colour means Principal at *high risk.* While it is advisable to start building retirement corpus as soon as one *commences earning* for a sizable corpus at the time of retirement but one could start investing whenever surplus funds are available either in *lump sum* or through *Systematic Investment Plans.*

There are two maxims which apply for *Risk Averse and Aggressive* Investors in the form of *"Lower risk lower gains" and "Higher risk higher gains" respectively.*

In order to *inculcate savings habit* among citizens, Government provides certain Tax Savings benefits, which is an avenue for *Tax Planning* by investors. These types of investments from citizens, are also part of the Government long term borrowing program. In other words, investments by Citizens into Tax Saving instruments are a borrowing by the Government where it has to pay interest on the borrowed funds.

These Savings are utilized by Government for funding various development plans and/or Citizen Welfare schemes.

Individuals earning income, above exemption limit, beginning of Financial Year is the most opportune time to make *Tax Planning* for the running year when *Salaried Employees* have to submit *Investment declaration* under various Tax Saving Schemes. Based on the declaration made, TDS is deducted every month till the time employer asks for the Investment proof during last quarter of FY, to validate the declaration. Thereafter, proportionate TDS is recovered from the Salary for the remaining period of the FY. Similarly, *Businessmen, Self-employed* and *Professionals* earning income beyond threshold could also make their Tax Planning well in advance rather than waiting till the end of FY. Let us discuss important sections of Income Tax Act, 1961, as modified from time to time, where investment could be planned to get tax deduction: -

Section 80 C: Maximum Deduction ₹*150,000*/- Investments in Provident Fund (*PF)*, Public Provident Fund *(PPF)*, National Savings Certificate (*NSC*), Bank Fixed Deposit (*FD),* Life Insurance Premium (*LIP*), Equity Linked Savings Scheme (*ELSS*), Housing Loan *Principal* repayment and National Pension Scheme (*NPS*).

Section 80 CCD (1B): Exclusive Deduction ₹ *50,000*/**-** National Pension Scheme *(NPS)* only.

Section 80 D: Maximum Deduction ₹*25,000*/**-** for Self & Family; ₹ *50,000*/**-** for Senior Citizen and/or Parents (SC) in the form of *Health Insurance* Premium.

S*ection 80 E: No limit* on Interest on *Education Loan* for self or dependent.

Section 80 TTA: Maximum limit of ₹*10,000*/**-** for interest earned on *Savings Deposit.*

Section 194 A: Maximum limit of ₹*50,000*/- for interest earned on *Deposits* in Banks and Post Offices for ***Senior Citizens*** only.

Section 24: Maximum Limit of ₹*200,000*/**-** for Interest on *Home Loan*

Retirement is that period of life when an individual is no longer working or is at the commencement of such a period. In case of attaining superannuation or a *planned* retirement there are no issues but it is worrying when it is *unplanned;* when the wage or salary is the only means of income; when one's home life is unhappy and working was an escape; when there is pre-existing bad health, according to a *Harvard* Study.

Post retirement *challenges* are likely to be to maintain healthy lifestyle; socialize; travel; keep oneself engaged and plan one's finances well to retain pre-retirement life style. The activities undertaken post retirement could be part-time employment, volunteering for a social cause, engage in third full time careers, provide consultancy and last but not the least - keep enjoying retired life.

Why *Retirement Planning* is important? The purpose is to help one to maintain the required lifestyle; to ensure self-sufficiency at retirement; provide for contingencies and achieve pending goals, if any. The *Financial Challenges* faced post retirement includes Inflation, Tax on income, Discretionary spending, Healthcare and Personal responsibilities & Issues.

Considering aforementioned challenges one need to ask oneself - Is one *ready* for the retired life? One can lead a *normal* retired life, other option is to lead a *luxury* life and third one is to live a *super luxury* lifestyle. The choice would depend on the financial planning process adopted in the pre-retirement period. Whether you preferred *investments to savings* as investments provide higher returns to make you *wealthier* whereas savings is to keep cash aside or deposit funds in savings account. If one takes housing and education *loans* for meeting goals of House and Child education respectively then it makes sense to *avail tax benefits.* Otherwise it is *risky* proposition to avail loans for the purpose of investments.

Estate Planning is also an important aspect of Financial Planning where seamless transfer of Wealth after your demise to successor or legal heirs is ensured. *Wealth* means all assets one owns which includes property, vehicles, jewellery etc. If there are any liabilities of the deceased those also get transferred. While Investors in India do focus on *wealth accumulation* as well as *wealth preservation* processes they are ignorant about importance of *wealth distribution*. In India, family legacy could get passed on to the inheritors, minors are exceptions, without much of the *tax incidence*, hardly requiring an *expert advice* on these matters. This scenario has changed over a period of time when reputed *family conflicts* surfaced in the *public domain*, in the absence of proper *Estate Planning*.

Wealth accumulation takes place for *financial security; upgraded lifestyle;* legacy for *future generations* and fulfilment of *expensive hobbies/goals*. Wealth transfer, in the absence of Estate planning, is one of the major reasons for *loss of assets* that can be addressed by having discipline in using assets immaculately and preserving it. Wealth transfer planning may not mean *seamless transfer* but it certainly forms *building a block* for a good estate plan.

Estate Planning is necessary to avoid *family disputes; dependents survival;* perpetual existence of *business/enterprise;* ensuring use of wealth for *causes and charities* planned; preservation of *family objectives; Taxation and inheritance costs*.

In view of the challenges likely to be faced in the absence of succession planning, it becomes pertinent to have Estate Planning for *seamless transfer* of wealth/estate, post one's demise, to successors and/or legal heirs. Wealth does mean all assets owned by the head of the family that includes real estate, financial assets, bullion, family business, movable assets and Art & Artefacts. Even liabilities also get transferred along with assets.

Wealth distribution could be ensured by way of *nomination*, formation of *family/private trusts,* preparing a *registered will* or ***codicil*** and transfer for *charity* purpose.

Last but not the least, the vital part of Financial Planning is monitoring investment at periodic intervals and re-balancing to be carried out wherever required. The timings of the financial goals are dynamic in nature, which keep changing based on the circumstances. As one's income keeps growing the living standard also goes up. The investments should also be commensurately enhanced gradually. Financial Market conditions depend upon the growth of the Economy, Conducive environment, liquidity, fresh inflows by FIIs and DIIs, Corporate Results and Global cues.

Concluding Financial Planning by writing about *flawed notions*: Financial Planning is for *affluent*; *Insurance* cover is Financial Planning; *Tax Planning* is Financial Planning; *when to start* Financial Planning; *Ambiguity* between Financial Planning and Investing, and last but not the least *Liquidity* versus Investments.

Managing Personal Finance

There are four types of *economic activities* for the individual consumers.

**** Earning***
**** Spending***
**** Savings/Investing***
**** Borrowing***

Earnings could be *active* earnings or *passive* earnings. Earnings by way of *Salary* when employed; running a *business/profession* are active earnings. When one receives pension, annuity, rental**,** interest and dividend on Investments, these are called as passive earnings. An individual's Career Choice, getting an employment and ability to grow in career/business/ profession determines one's likely earnings and standard of living. Coming to the factors those could potentially affect *earnings* are Career chosen/type of job, Geography of employment, Education level, Employability skills, Prior Experience/Performance, Economic Environment, Workplace trends and opportunities, Competence to grow in career/ profession/business.

Spending is money consumed for purchasing goods and services. The way one spends money determines the value received, and influences economy. Every purchase contributes to the demand for product or services. An economy can't produce all goods and services that consumer want, and majority doesn't have resources to get what they want, which is also called as *Law of Scarcity***.**

Scarcity prevents choices among alternatives; When making a choice, alternatives are sacrificed; Highest valued alternative is sacrificed when choice made is based on the Opportunity cost; Choosing one item above other is called Trade-off; *Responsible Spending* includes researching & planned purchases, and making wise choices in the light of opportunity costs and Trade-offs that apply.

Next economic activity is *Savings*, which means putting aside funds for use at a later date. The form of savings used determines the return on the investment. Keeping cash at home for one full year would mean depreciation in its value by equivalent inflation rate. Putting funds in Savings deposit of a Bank would give a return of 3.5% to 7%, depending upon the Bank/Entity where funds are parked. Making a Fixed Deposit or investing in Government Small Savings Schemes would give you a return from 6.5% to 8.3%. All the aforementioned investment returns are taxable except PPF, Tax Free Bonds and Sukanya Samruddhi Yojna, to name a few. There are other asset classes where funds could be invested depending upon risk appetite of the investor. Savings and Investments are two sides of a coin where investment means deploying funds judiciously. Later usage of *Savings/Investing* could be Contingencies, Routine Expenses, Future Purchases, Financial Goals and Retirement Planning. Benefits arising out of Savings/Investment could be earning passive income, produce a robust economy, provide financial security, growth opportunities for business ventures, *Responsible investing* forms the habit of regular saving and finding avenues yielding higher returns. Equity MF schemes and Debt MF schemes provide market-linked returns on the investments.

Borrowing means procuring funds, goods and/ or services today, with a promise to pay at a future date. Maxim applied is "*Buy now and Pay later*". Some of the examples of borrowing could be usage of credit cards, purchases on EMIs, Pay day loans, Cash Advances and availing retail loans. Reasons for borrowing could be major purchases, meet contingencies, convenience, planning for future goals and taking advantage of attractive discount Sales/Offers. *Responsible borrowing* means timely repayment of loans as and when due.

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Peer to Peer Lending -The Way ahead

Girish Mainrai*

Introduction

According to Section 5(B) of Banking Regulation Act, 1945, "Banking means the accepting for the purpose of lending or investing of deposit of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise." Thus, according to this definition banks play the role of intermediary between depositors and borrowers. This role of intermediation played by the banks is the very source of disruption being witnessed in the financial sector. Thus, services like money deposit, withdrawal, transfer, bill payments etc. are being offered by niche players like Paytm, Tez from Google, small banks, payment banks and microfinance companies. No one imagined lending traditionally considered as risky, involving risk of default, could be disrupted. This notion that lending can be done only through brick and mortar model is broken by online platform known as P2P lending or peer to peer lending.

P2P lending or peer to peer lending is concept of bringing together fund seekers or borrowers and fund givers or lenders through online medium. The requirements of borrowers and lenders are matched by these online platforms. Thus, in P2P lending the online medium plays the role of intermediary which assist in providing various services like verification, assessment and even recovery. An analogy can be drawn to matrimonial website, wherein prospective brides and bridegrooms register their details like age, work profile, religion etc. According to the requirements the company shortlists the available profile on its website. Similarly, in case of P2P, the borrowers and lenders are brought together by registering on to the site of the P2P player. Now the question arises that with the availability of so many players like banks NBFCs, Microfinance companies why would one borrow directly from individual or company. The answer lies in the assessment of loan by these players as traditional players like banks select borrowers with regular and high income. The business model, process adopted by these intermediaries such as banks naturally create a lacuna, leaving a space for niche P2P platforms to encash on. In India prominent players in the space are faircent Indian money mart cap zest to name a few.

A simple representation of P2P could be as under:

The intermediaries or P2P companies perform a number of functions like e-KYC, verification which includes reference checks, extracting and analyzing credit information reports, ITR's, bank statements and physical verifications also. The other functions include credit risk assessment of the borrowers as it affects the pricing, documentation and agreement through electronic mode. The platform also arranges for insurance covering death, disability or loss of job. The company may also assist in recovery of loans. The model operates on fees charged for the above mentioned services which in turn depends upon the degree/ amount of services availed by the customers.

*Chief Manager, Bank of India.

Difference between Banks and P2P

Though in same line of activity, the model adopted by P2P companies is quite different to that adopted by banks. The difference being as under:

Income - A P2P platform sources its income in the form of fee charged from borrowers as well as lenders, whereas in case of banks, the primary source is the margin or interest income arising as difference between interest income and interest expended. The platform performs host of functions like verification, documentation, recovery etc. entailing income for the platform in the form of fees charged to the customers.

Risk - In case of lending the intermediary is exposed to risk of default, i.e. non-payment of loan by the borrower. In banking, this risk is borne by the intermediaries, i.e. the banks themselves whereas in case of P2P, the risk is not borne by the platform but by the lenders themselves. Though these platforms use a number of risk mitigation tools like insurance, holding cheques and fractionalization to name a few.

Assessment - The other minor difference lies in assessment of loans, for which banks rely heavily on income/cash flow for decision regarding credit dispensation. P2P companies apart from income, leverage technology in decision making rely on psychometrics, online behavior, algorithm technics etc.

Power to choose - The other distinction being that the lender has the power to choose, whether to lend or not to a particular borrower, whereas in the case of banks the money deposited by depositors is lent to borrowers. In a way the depositors have no say in the credit decision as the decision is made by the banks.

The popularity of P2P lending is increasing on account of number of reasons which are as under:

1. Simplicity - This aspect accrues on account of tedious process adopted by traditional players like banks. Banks lend to borrower considering age, income, deposit, existing relationship and involve lengthy documentation. Whereas P2P is simple, going beyond these aspects to identify prospective borrowers. For example, an individual above 65 years of age may be denied a loan by a bank but it is not the case with P2P.

2. Pricing - The other reason for increasing popularity of this platform is the potential for offering premium to both lender and borrower. Both can expect good returns as the model operates through online medium thus, reducing operating costs contrary to brick and mortar model of traditional banking.

3. Speed - P2P companies have the potential of offering low TAT (Turn Around Time) as they leverage technology at all stages from registration to final agreement thus enabling speed in whole process.

Regulatory Model

The regulation of P2P ranges from exempted to fully prohibited in some countries, which is as under:

1. **Unregulated** - Either P2P activity is not regulated or it is not defined, example -China and Ecuador.
2. **Intermediary regulation** - In this type, regulation of platform is an intermediary, example- Australia, North Korea.
3. **Banking Regulations** - On account of their lending activities, P2P platforms are regulated as banks example being France, Germany and Italy.
4. **US Model** - In this type the regulation is at twin level at Federal and State level classic example being USA.
5. **Prohibited** - The P2P activity is completely banned. For example - Israel and Japan.

RBI directions on Peer to Peer Lending

RBI issued directives under NBFC Peer to Peer Lending Platform (Reserve Bank) Directions 2017 Dated October 04, 2017 (updated as on 23/02/2018), according to which the net owned fund of the company engaged in P2P lending should not be less than ₹20 million. There are certain restrictions imposed like NBFC P2P cannot lend on its own, not provide any credit enhancement or guarantee, nor engage in cross selling of any product and not allow international flow of funds. These directions laid exposure norms for lenders as well as borrowers. The lending exposure of a particular lender cannot exceed Rs 10 lakhs, similarly the loans taken by a borrower is subject to a limit of ₹10 lakhs across all platforms. The exposure of a lender to a same borrower cannot exceed ₹50,000/- across all P2P's.The tenure of the loans can be maximum 36 months. The companies engaged in P2P are mandated to submit data to all CIC's (Credit Information Companies). These directions also lay down disclosure norms both for lenders and borrowers like amount, ROI (Rate of Interest), details about lender and borrower, etc.

Conclusion

P2P lending is at a nascent stage but the activity is steadily picking up as the awareness about it is increasing. The simplicity, flexibility and accessibility aspects are the reason for its growing popularity. Globally the growth of P2P lending is contagious as more and more countries are adopting and promoting this activity. This is evident as many studies have reported phenomenal growth of P2P lending. As per stasicica.com, the P2P activity is slated to touch one trillion U. S. dollars by 2050. P2P lending has the potential to disrupt lending business on account of its inherent simplistic structure. This activity though having high element of risk, is not dithering investors from venturing into it on account of high upside potential. The investors are willing to take risk for higher returns. The platform on its part is managing risk through mitigants /measures like insurance, fractionalization, strict verification etc. No one imagined that companies like OLA and Uber can run transportation business without owning the vehicles. In same parlance no one imagined that lending can be carried out without accepting deposits or borrowing of funds.

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Operational Risk Management in Banks - Role of Branches

L. Srinivasan*

Introduction

Banking is defined in Banking Regulations Act 1949, as the acceptance of deposits for the purpose of lending or investment. Later, banks realized that Banking is not as simple as the definition suggests. The South East Asian crisis of the last decade of the 20th century taught banks that Banking is more of Assets-Liability Management (ALM) and also Liquidity Management. Banks understood that they should be able to meet cash and collateral obligations without incurring losses. However, Basel summits and rich experiences have taught banks that Banking can most appropriately be termed as Risk Management. Hence, we may say that Banking operations mean Enterprise-wide Risk Management.

Risks associated with banking functions

Banks today need to manage a host of risks such as liquidity risk, market risk, operational risk, credit risk, foreign exchange risk, sovereign risk and strategic risk. Every bank, especially in our nation, has a dedicated risk management policy, risk management department and risk management committees both at the apex level. Though risks are associated with various banking activities, banks cannot avoid or by-pass risks. Banks have to take risks and manage them. Risk Management has four components- identifying risks, measuring risks, monitoring risks and mitigating risks. When banks do the fine act of balancing risk management and business promotion activities, they will emerge as successful Corporates.

Operational risk management and the role of branches

Among the various risks associated with banks, many are addressed by the Head Office. Virtually, the branches (service outlets) down the line, have little or no role to play in the mitigation of such risks. For example, risks such as market risk, strategic risk, sovereign risk and liquidity risk are studied by teams of researchers at the apex level and mitigation steps are taken. These are spelt out in the Risk Management Policy and are disseminated to the field functionaries.

Perhaps, the only risk where the branch staff-the field functionaries- can actively take part in understanding, monitoring and mitigating, is the operational risk that arises in the normal course of banking business. In fact, every employee in the organization can contribute to the management of operational risk. Let us discuss a few aspects of such operational risk management.

Various operational risk situations/circumstances in day-to-day Banking and their management:

a. *Compliance of KYC norms*: The regulators attach much significance to the total compliance of KYC norms by banks. Getting officially valid documents (OVD) from the prospective customers, verifying such documents with the original ones/authentic websites and periodical review of such activities are of much importance. Customer Due Diligence at the time of opening of accounts and thereafter at periodic intervals is crucial to minimize operational

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risk. Banks have found, by bitter episodes of fraud that the fraudsters had managed to open their accounts by submitting fake/invalid documents. If only the concerned officials had exercised a little care, these frauds could have been averted at the beginning stage itself.

b. *Suspicious transactions and money laundering*: RBI and the Ministry of Finance have been advising banks, time and again, to help the country nab the persons who launder money. Money launderers operate mostly through bank accounts and hence, banks can play an effective role in identifying and preventing such nefarious activities. Fixing threshold limits for customers' monetary transactions in tune with the income levels, monitoring transactions which breach these limits, identifying suspicious transactions which defy common sense and reporting such transactions to the apex office so that they can be escalate to the Financial Intelligence Unit (FIU) of Government of India can be done by the field functionaries. Some KYC-compliant customers act as "money mules" by allowing the operations of their known/unknown clients in their accounts. Branches have the closest contact with the constituents and can monitor their transactions and get the clarifications for transactions which are unusual or abnormal.

c. *Branch upkeep/house-keeping of the service outlets*: Even though it has become common knowledge that Closed Circuit TV (CCTV) can play a vital role both in the prevention of crimes and in the nabbing of criminals, many incidents of daylight dacoits/ robberies have taken place in various banks and regretfully, either CCTV was not installed or it was not functional. This makes the police and investigating authorities grope in the dark, without any vital clues. On the other hand, many such crimes have been solved and money recovered with the help of CCTV footages wherever they were made available.

   In an incident involving a branch of a nationalized bank where dacoits had, in broad day light, decamped with a huge cash haul after threatening the staff at gun-point, it was found that there was no CCTV at the branch; luckily, another nearby bank branch had installed CCTV. The dacoits were identified with the CCTV clippings, because they had earlier made a reconnaissance at that bank branch. This helped the police to identify and nab the criminals.

   Each Bank should have a policy or frame appropriate guidelines on the necessity of visits to the branch by branch staff on days of continuous holidays. These visits by the branch officials can be on rotation, preferably twice a day. Such guidelines and visits by branch officials will help in checking that no untoward incidents have taken place/attempted. The strength of the grill/wooden windows and possible entry into the strong room/locker room through the back side of the premises should be periodically checked by the branch staff and necessary corrective steps should be taken by reporting rectifications to their controlling offices.

   At many bank branches, the house-keeping is very poor. Files and papers are kept/dumped near electrical points. There is water logging and dirt in the UPS room; the UPS room does not have ventilation and high temperature is generated inside the room. If branches/service outlets take effective steps, such situations can be avoided and possible fire incidents can be prevented.

d. *Customer service and operational risk management:* In many banks, signatures of the customers are not scanned at the time of opening of accounts. This results in return of cheques at the Clearing Houses and the banks are embarrassed when the customer points out to the lapse that though funds were available in the account, cheque had been returned. Undelivered debit/credit cards, PIN mailers, cheque books can pose serious threats to the satisfactory customer service. Many frauds have taken place in the past in these areas. Moreover, deficiency in customer service, can lead to customer escalating his grievance to Banking Ombudsman and consumer court, seeking compensation. This is a big operational risk.

Attending to customers and disposing them in optimum time, not only results in customer delight and mitigation of customer complaints, but will also ensure that potential fraudsters are on guard. Fraudsters find it easy to decamp with cash and other valuables, when the premises are crowded.

Even a polite question "May I help you?" posed to an intruder will put him in check. In a robbery involving a bank branch, a robber had come to the branch and walked into various desks and places within the premises including accessing the cash room and locker room and peeping into the cashier's cabin without any body, not even one employee, asking him what he wanted. Ultimately, he entered the cash cabin and decamped with a huge cash haul.

e. *Disaster recovery and business continuity plan (DR & BCP)*: Branch staff should know the escalation points in case of any disaster-like situation. They should know whom to contact in case of system failure, log-in failure and connectivity issues. They should be aware of the contact numbers/contact personnel /vendors in regard to telephone, fire, police, printer, locker issues. Customers cannot afford to wait for a long time for service to resume and therefore, branch staff should rise to the occasion and ensure Business Continuity with minimum inconvenience to their customers.

f. *Digital banking and operational risk management*: Digital banking has taken the country by storm. Banks have felt the most powerful impact on this. There is no doubt that customer service has improved with the advent of digital products and services but digital banking comes with a lot of operational risks, which banks have to manage. The employees at the grass-roots level-branches and service outlets, should educate their customers on the precautions to be taken in handling digital products and services such as ATM cards and e-commerce transactions through debit and credit cards, internet banking and mobile banking. The staff should advise the customers that their log-in id, password, bank account details should never be shared with any one even when purportedly asked by bank officials.

Conclusion

As we discussed earlier, many of the risks associated with banking operations are addressed and mitigated at the apex level-Central Office or Head Office as they are called. But operational risk is an area where all employees – Branch Head, officers and other staff can play an effective role. If individual branches, from wherever they function-rural, urban or metropolitan sector- work as a team and take conscious steps in identifying, monitoring and mitigating the Operational Risks, they will contribute to their banks' total risk management, since operational risk happens only in the field-level and awareness of branch staff will prevent legal risks, customer complaints, fraud, pilferage, theft. Such an awareness will help in disaster recovery and business continuity.

भारतीय म्यूचुअल-फंड बाज़ार-निवेशकों की सोच-रुझान, चुनौतियां-समाधान

मंजुला वाधवा*

एक ज़माना था जब म्यूचुअल फंड की दुनिया में एक ही बड़ा नाम हुआ करता था - यूनिट ट्रस्ट ऑफ इंडिया, आज आलम यह है कि भारतीय बाज़ार म्यूचुअल फंड कंपनियों से पटा हुआ है और उनमें भी आपस में गलाकाट स्पर्धा हो गयी है, अपने अस्तित्व को बरकरार रखने, अपना व्यवसाय बढ़ाने, नए-नए उत्पाद लॉन्च करने और अधिक से अधिक ग्राहकों को आकर्षित करने के प्रयोजन से नित्य नयी रणनीतियां बनाने के लिए साक्षरता स्तर बढ़ने, प्रिंट व इलेक्ट्रॉनिक मीडिया में भरपूर विज्ञापन आने और पहले के मुकाबले ग्राहकों के अधिक सजग हो जाने के कारण आज आमजन इन फण्डस में निवेश करने लगे हैं। लिहाज़ा, बेहद जरूरी हो जाता है कि इस बाज़ार के बारे में निवेशकों की सोच, धारणाओं और रुझान का पता लगाया जाए। इस काम में हम तभी कामयाब हो सकते हैं जब हम निवेशकों की सोच, फण्डस में निवेश करने के उनके मकसद, फण्डस के आकार-प्रकारों, वित्तीय सलाहकारों और एजेंटों की इस बाज़ार में भूमिका, निवेशकों को आने वाली समस्याओं, म्यूचुअल फंड कंपनियों द्वारा दी जा रही सेवाओं में पाई जाने वाली कमियों आदि का गहराई से विश्लेषण करें।

भले ही नीदरलैंड, स्विटज़रलैंड जैसे देशों में म्यूचुअल फंड 18वीं शताब्दी में और यूएसए में 19वीं शताब्दी में अस्तित्व में आ गए हों, हमारे देश में यह अवधारणा 1960 में देखने, सुनने में आई। तब से 58 साल बीत जाने के बावजूद हमारे देश में म्यूचुअल फंडों में निवेश जीडीपी का केवल 7%-8% है जबकि वैश्विक स्तर पर यह आंकड़ा 37% से भी अधिक है। भारत के निवेशक शुरू से ही कम आय होने व बाज़ार की जानकारी न होने आदि के कारण सीधे शेयर मार्केट में निवेश करने से घबराते रहे हैं, म्यूचुअल फंड बहुत पहले ही उन्हें अच्छा रिटर्न देने के मामले में बेहतरीन रास्ता हो सकता था क्योंकि ये फंड कार्यकुशल और अनुभवी बाज़ार विशेषज्ञों द्वारा चलाए जाते हैं निवेश के विविधीकृत फंडों के आ जाने के कारण निवेश-जोखिम भी काफी हद तक कम हो गयी हैं, नतीजतन, पिछले दो दशकों में म्यूचुअल फंड बाज़ार काफी बढ़ा है, समय के साथ

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इन निधियों को बेचने के तरीकों में भी काफी बदलाव आ चुका है। लिहाज़ा, म्यूचुअल फंडों में निवेश क्यों किया जाए, नीचे दिए गए चित्र से स्पष्ट हो जाता है:-

आज के कड़ी स्पर्धा वाले वैश्वीकरण के माहौल में किसी भी निवेश माध्यम की सफलता बाज़ार में उसके चलने और अच्छा निष्पादन करने पर निर्भर करती है। आज निवेश के इतने आकार, प्रकार, माध्यम और चैनल आ गए हैं कि निवेशक अपनी गाढे पसीने की कमाई इस प्रकार निवेश करना चाहते हैं जिससे उन्हें अच्छा और शीघ्र रिटर्न मिल सके रिटर्न के अलावा, निवेशकों का दूसरा बड़ा उद्देश्य होता है आयकर बचाना। उन्हें इस बात का ज्ञान तो हो गया है कि बैंकों में एफडी, आरडी रखने से उन्हें कुछ खास फायदा नहीं होने वाला क्योंकि आम भाषा में कहें तो महंगाई और तकनीकी भाषा में कहें तो मुद्रा स्फीति तेज़ गति से बढ़ रही है और बैंकों की ब्याज दरें काफी अर्से से कम होती जा रही है । रही-सही कसर पूरी हो जाती है, जब उनके रिटर्न का एक हिस्सा टीडीएस में चला जाता है। आयकर बचाने की सुविधा वाले म्यूचुअल फंडों में निवेश करने से उन्हें लगता है, थोड़ा ही सही पर दोहरा फायदा होगा यानी सरकार द्वारा निर्धारित सीमा तक आयकर की बचत होगी और शेयर बाज़ार बढेगा तो उनके निवेश पर मिलने वाला प्रतिफल भी बढ़ेगा। उन्हें इस बात का विश्वास तो हो चुका है कि यदि म्यूचुअल फंड बाज़ार में निवेश करने में वे सोचा-समझा जोखिम भी लेंगे तो कम से कम उनका मूलधन तो सुरक्षित रहेगा। आखिर एक आम भारतीय निवेशक के ज़हन में उसकी कमाई की सुरक्षा और अर्थसुलभता तो हमेशा से ही अहम रहे हैं, जिनके आधार पर वे विभिन्न उपलब्ध विकल्पों में से सुरक्षित विकल्प का चयन करते हैं।

अब देखते हैं, किसी म्यूचुअल फंड की क्या खास विशेषताएं होती हैं जो आम भारतीय निवेशक को आकर्षित करके उसमें निवेश करने के लिए प्रोत्साहित करती हैं. वैसे तो उसके इस निर्णय के पीछे बहुत से कारक होते हैं, जैसे फंड का पिछले कुछ सालों में रहा निष्पादन, उसका पोर्टफोलियो कैसा है यानि किन-किन कंपनियों में निवेशकों से इकठ्ठी की गई राशि निवेश की जाती हैं, फंड मैनेजर कौन है, क्या कंपनी निवेशकों को लाभांश देती आ रही है, एंट्री और एग्जिट लोड हैं या नहीं आदि परंतु सच पूछिए तो सबसे महत्वपूर्ण बात जिसके आधार पर निवेश निर्णय लिए जाते हैं वह है, उस म्यूचुअल फंड के कार्यनिष्पादन का पिछला रिकार्ड। बात सही भी है क्योंकि अगर बुनियाद ही कमज़ोर होगी तो इमारत के भरभरा कर गिरने का अंदेशा तो बना ही रहेगा ।

अगला अहम सवाल, म्यूचुअल फंडों में निवेश का फैसला लेने के लिए निवेशक किस पर भरोसा करते हैं, बेशक परंपरागत तरीका तो आज भी अख़बार और यार-दोस्त ही हैं किंतु आईटी के जमाने में गूगल ने धूम मचाकर रखी है, खास तौर पर बैंकों, बहुराष्ट्रीय कंपनियों, कॉरपोरेट हाऊसों, उच्च सरकारी पदों पर काम करने वाले युवावर्ग के बीच। इंटरनेट से बेहतर जानकारी उन्हें कौन उपलब्ध करा सकता है? हर रोज़ माऊस के एक क्लिक पर वे बाज़ार की नब्ज़ टटोलते रहते हैं और फिर तुलनात्मक अध्ययन करके अपने अहम वित्तीय निर्णय लेते हैं। आज-कल हर शहर, कस्बे में आपका वास्ता पड़ता है वित्तीय सलाहकारों, फंड एजेंटों से जो फोन, ई-मेल, व्यक्तिगत संपर्क हर जरिए से ग्राहकों से उन फंडों में निवेश करने के लिए आग्रह करते रहते हैं, जिनमें वे काम कर रहे हैं जाहिर है यहां निहित स्वार्थ भी

हो सकते हैं, ग्राहकों को लुभावने, टैक्निकल जार्गन से प्रभावित करके गलत निर्णय करवाने में। आम तौर पर देखने में आता है कि ये तथाकथित वित्तीय सलाहकार स्वयं ही सही और तथ्यपरक जानकारी नहीं रखते और जो रखते भी हैं उन्हें केवल अपने इन्सेंटिव का लालच होता है फिर वास्तव में वह फंड सही चलेगा या नहीं, उनकी बला से जुलाई 2009 से सभी म्यूचुअल फंड कंपनियों ने एंट्री लोड लगाना बंद कर दिया है, जो निवेश निर्णय के पीछे एक अदद कारण हो सकता है किंतु इसका महत्व ज्यादा नहीं, एग्ज़िट लोड देना भी पड़े तो क्या गैर निष्पादक और अनर्जक फंड में बने रहना समझदारी होगी। अध्ययन बताते हैं कि लगभग 40% ग्राहक किसी भी फंड में निवेश तब करते हैं जब उसका पिछला ट्रैक रिकार्ड अच्छा रहा हो। म्यूचुअल फंड का स्थायित्व, निरंतरता अगले अहम कारण होते हैं। आम निवेशक इतना जरूर देखता है कि उस विशेष फंड पर कितना रिटर्न अब तक मिलता आ रहा है, उस कारोबार की दूसरी योजनाओं में कितना रिटर्न मिल रहा है, उसके लिए जयादा अहमियत नहीं रखता। न तो उसके पास पैसे हैं बहुत-सी योजनाओं में लगाने के लिए और न ही इतनी बारीक समझ कि वह तुलना करके भविष्य में कंपनी की वित्तीय स्थिति में होने वाले उतार-चढ़ावों का अंदाज़ा लगा सके। बाज़ार सूचकांक रिटर्न (market index returns) के मुकाबले उसका फंड कितना रिटर्न दे सकता है, यह पता लगाना तो औसत भारतीय निवेशक के बूते की बात नहीं।

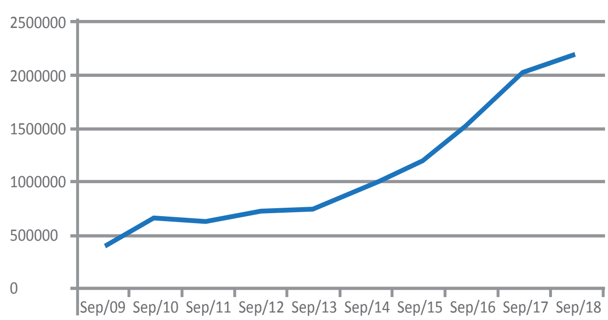
फंड हाऊसों के कामकाज में पाई जाने वाली कमियों पर भी विचार करना जरूरी होगा। पहली बात जो निवेशकों को खलती है, हतोत्साहित करती है वह है, पारदर्शिता की कमी। आमजन में फंडों की कार्यप्रणाली के बारे में जानकारी का अभाव, निविष्ट राशि की विवरणियां समय पर न मिलना, पैसा डूबने का भय और फंडों पर लगने वाले व्यय और प्रभार अन्य कारण हैं।

एक और खास बात है- खुदरा निवेशकों में लीक से हटकर कुछ भी करने के प्रति उदासीनता। टीबीएनजी कैपिटल एडवाइज़र्स के संस्थापक तरूण बिरानी ~ की मानें तो आज भी आम भारतीय जमीन-जायदाद और सोने में लगाया गया पैसा निकालकर म्यूचुअल फंडों में निवेश करने के प्रति ज्यादा इच्छुक दिखाई नहीं देते, इसके मूल में कारण है सोने और जमीन के प्रति उनका भावनात्मक जुड़ाव और मोह, जिससे मुक्ति पाने की न तो उनमें इच्छा है और न ही कोशिश। वित्तीय अनुशासन की कमी इस बाज़ार के विकास में एक बड़ी बाधा है। 10 साल पहले अगर किसी फंड में पैसा लगाया था और उसमें आज भी कोई खास बढ़ोत्तरी नहीं हो रही तो भी किसी लाभदायी फंड में शिफ्ट करने या उसे बेचकर नए फंड में लगाने का निर्णय आम भारतीय के लिए बेहद मुश्किल है, इस डर से कि कहीं भविष्य में उनका पुराना फंड चमक जाए और उसका फायदा लेने से वे चूक जाएं।

निवेशकों के व्यवहार और रुझान की जटिलता का एक आम रूप है, यदि किसी फंड में निवेश बहुत लाभकारी सिद्ध हो रहा है तो वे इस भ्रम में रहते हैं कि वह लगातार तेज़ गति से बढ़ता रहेगा जबकि वास्तव में बाज़ार इस सोच से बिल्कुल नहीं चलता। ऐसी स्थिति में उस निवेशक को अपने यूनिट्स रिडीम करने के लिए तैयार करना खाला जी का घर नहीं होता, उन्हें लगता है जब बाकी सब खरीद रहे हैं तो वे कैसे बेच दें। वे अगर तुलना भी करते हैं तो केवल रिटर्न की, कितने समय से पैसा बंधा पड़ा है, यह उनकी सोच के दायरे में

जगह ही नहीं बना पाता। एक फंड लगातार हर साल एक जैसा निष्पादन तो नहीं दे सकता आखिर व्यवसाय में उतार-चढ़ाव तो आते ही रहते हैं।

समय सीमा का निर्धारण अगर बाकी कामों में जरूरी है तो म्यूचुअल फंडों में किए निवेश के मामले में भी उतना ही अहम है। यही कारण है कि आम भारतीयों का रुझान आजकल सुनियोजित निवेश योजना (SIP) की ओर बढ़ रहा है। उन्हें अब समझ आने लगी है कि यह तरीका अपनाने से बाज़ार ऊँचा-नीचा होने की स्थिति में उन्हें औसत के सिद्धांत का लाभ मिल पाएगा और 1, 2 या 3 साल, जितनी भी अवधि उन्होंने चुनी है, के बाद वे उस फंड से निकल कर किसी अन्य योजना में निवेश कर सकते है। पिछले 2-3 वर्षों के दौरान बेशक आम निवेशकों का रूझान इक्विटी-आधारित फंडों की प्रति बढ़ा है। सितम्बर 2018 के आंकडे बताते हैं कि भारत में म्यूचुअल फंडों के कुल एयूएम में 2017 के मुकाबले 2018 में बड़ा उछाल आया, यहाँ कि छोटे व खुदरा निवेशकों की संख्या में भी 17% तक उछाल आया और ऋण-आधारित फंडों में 5.5% तक। इस प्रकार एयूएम 2003 के 0.79 लाख करोड़ रु से बढ़कर 2017 में 25 लाख करोड़ रु का आंकड़ा पार कर चुकी हैं। वस्तुस्थिति निम्न ग्राफ से स्पष्ट हो जाती है:-



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छोटे निवेशकों का एयूएम में हिस्सा सितम्बर 2016 के 45.3% से बढ़कर 1 ही साल में यानी सितम्बर 2017 तक 48.5% हो गया है। इसके कारणों पर गौर करें तो हाल ही की नोटबंदी ने हमारे छोटे निवेशकों को सबक सिखाया है कि सोने या नकदी में बचत रखना सुरक्षित नहीं। ज़मीन-जायदाद का बाज़ार भी ठहराव के कगार पर पहुँच गया है, अत: निवेश के वैकल्पिक तरीके खोजते हुए उन्हें म्यूचुअल फंडों का महत्व समझ आने लगा है। बाजार के उतार-चढ़ावों से डरकर गलत फैसले लेने की प्रवृत्ति कम हो रही है, बाज़ार बढ़ने पर तर्क का दामन छोड़कर लालच के बहाव में चलने की प्रवृत्ति पर भी कुछ हद तक अंकुश लग रहा है। दूसरी बात, वर्तमान सरकार ने टैक्स चोरी करने वालों पर नकेल कस दी है जिसके कारण बहुत-सा काला धन म्यूचुअल फंडों में लगाकर उसे सफेद करने की होड़ भी दिखाई दे रही है। हालांकि गहराई से विचार करें तो पता चलता है कि आज भी बैंक एफडी के मुकाबले फंडों में एयूएम केवल 18.3% है जबकि अमेरिका में 150.2%। निम्न तालिका के माध्यम से इसे समझना आसान हो जाता है:-

भारत (रु करोड़ में)	सितम्बर 2017
बकाया मांग और मीयादी जमाराशियां	11452000
एमएफ - एयूएम	2094604
एमएफ - एयूएम -बैंक जमाओं के % के रूप में	18.30%
यूएसए $ ट्रिलियन	$ ट्रिलियन
यूएस जमाराशियां	11.88
यूएस एमएफ - एयूएम	17.84
एमएफ - एयूएम - बैंक जमाओं के % के रूप में	150.20%

स्रोत ^ फिनपेग रिसर्च

सच पूछिए तो, हमारे देश में म्यूचुअल फंड कंपनियां आज भी बहुत-सी चुनौतियों का सामना कर रही हैं। सबसे बड़ी चुनौती है अस्थिरता से भरी अपनी तथा पूरे विश्व की अर्थव्यवस्थाओं में पल-पल रंग बदलते शेयर बाज़ार में अपने निवेशकों को न्यूनतम सुनिश्चित प्रतिफल देना, म्यूचुअल फंड बाज़ार में ग्राहकों का विश्वास बरकरार रखने के लिए इतना तो कम से कम ज़रूरी है। अगली बड़ी चुनौती है ग्राहकों को वित्तीय रूप से शिक्षित करने की। आज़ादी के 71 साल पूरे होने के बावजूद जिस देश में केवल 24% लोग वित्तीय दृष्टि से साक्षर हैं, यकीनन इस चुनौती का सामना करने में बहुत समय लगेगा और श्रम भी। कस्बों-गावों की तो बात ही छोड़ दें, टियर-2 शहरों और महानगरों के बाशिंदों को भी - जोखिम - प्रतिफल, आस्ति-आबंटन, पोर्टफोलियो विविधीकरण जैसी अवधारणाओं की जानकारी नहीं है। एक चुनौती है- इन क्षेत्र में नवाचार, नयी पहलों, अभिनव कदमों की कमी। आज भी एनएफओ पुराने ढ़र्रे पर ही निकलते हैं, जिंदगी की बड़ी जरूरतों जैसे शिक्षा, स्वास्थ्य, विवाह, आवास आदि को पूरा करने पर कोई बल नहीं दिया जाता, लिए जाने वाले शुल्क और प्रभार भी लचीले नहीं, जैसे विकसित देशों में होते हैं उद्देश्य और प्रयोजन के हिसाब से। ग्राहकों की हैंड-होल्डिंग में भी कमी है, वितरक/एजेंट निवेश करवाने तक ही रूचि लेते हैं और कंपनी से अपने इन्सेंटिव लेने के बाद बिक्री-पश्चात् की सेवाएं देने से कतराने लगते हैं। अगली बात है इस बाज़ार में सार्वजनिक क्षेत्र की कम भागीदारी, डाक विभाग जो दूरदराज के कस्बों-गाँवों तक फैला है, केवल 5 एएमसी की योजनाएं बेचता हैं और मात्र 250 डाकघरों में म्यूचुअल फंड बेचने की सुविधा है। किसी इन्श्योरेन्स कंपनी की यूलिप में निवेश करने के लिए पैन कार्ड जरूरी नहीं है, किंतु म्यूचुअल फंड खरीदने के लिए पैन कार्ड अनिवार्य है, जिसके कारण निचले तबके के छोटे निवेशक फंडों में निवेश नहीं कर पाते। जनवरी 2004 से शुरू की गई राष्ट्रीय पेंशन योजना (NPS) के प्रावधानों के अनुसार एएमसीज़ को पेंशन फंडों के प्रबंधन के लिए अलग से कानूनी इकाई स्थापित करने के निदेश दिए गए हैं जिसके कारण म्यूचुअल फंडों के खर्च और भी अधिक बढ़ गए हैं।

समाधान क्या?

- ❖ भारत जैसे देश में यदि वास्तव में म्यूचुअल फंड बाज़ार को बढ़ाना है तो पहली खास जरूरत है भारी भरकम तकनीकी शब्दावली वाले दस्तावेज, ब्रोशर, फंड रिपोर्ट तैयार करने की बजाय हिंदी और क्षेत्रीय भाषाओं में आसान शब्दावली और शैली में इन्हें छापा जाए ताकि आमजान इनमें दी गई बातों को आसानी से समझकर अपने महत्वपूर्ण वित्तीय फैसले ले सकें।
- ❖ चूंकि आम निवेशक मानकर चलता है कि उसके फंड के प्रबंधक अपने विषय और बाज़ार की अच्छी जानकारी रखते हैं तो उनकी कसौटी पर खरे उतरने के लिए आवश्यक है कि म्यूचुअल फंड कंपनियां ऐसे फंड मैनेजर नियुक्त करें जो विशेषज्ञ होने के साथ-साथ ईमानदार और निष्ठापूर्ण भी हों। कौन-सी कंपनियों में कब, कितना, कैसे निवेश करना है, इसकी सारी जानकारी उन्हें हो ताकि वे समझदारीपूर्वक निर्णय लेकर अपने फंड और निवेशकों दोनों का ही लाभ सोच सकें और उन्हें वाजिब मुनाफा देने के साथ-साथ उनकी साख

भी बढ़ा सकें, वह गुडविल जो किसी भी व्यक्ति या संस्था के लिए उतनी ही अहम अमूर्त संपत्ति होती है जितनी उसकी भौतिक सम्पत्ति व संपदा।

- ❖ एएमएफआई (AMFI) और सेबी (SEBI) कड़े नियम, विनियम बनाएं और उतनी ही कड़ाई से उनका अनुपालन भी सुनिश्चित करवाएं ताकि म्यूचुअल फंडों में हमेशा इस बात का डर बना रहे कि निर्धारित नियमों का उल्लंघन करने पर उन्हें लेने के देने पड़ सकते हैं।
- ❖ इतने ही कड़े नियम फंडों के ब्रोकरों और एजेंटों के लिए भी हों ताकि वे स्वार्थ की चिता पर अपने ग्राहकों की गाढ़ी कमाई दांव पर लगाकर अपनी रोटियां न सेंक सकें।
- ❖ सच्चाई और साफगोई से भरे तरीके अपनाकर ही म्यूचुअल फंड कंपनियां ग्राहकों का न केवल मनोबल बढ़ाकर उनका नज़रिया सकारात्मक कर उनसे निवेश करवा सकती हैं अपितु वर्षों तक उन्हें अपने साथ जोड़े भी रख सकती है, आखिर ग्राहक ही तो उनके व्यवसाय का आधार हैं।
- ❖ आज जब सभी बैंक, सरकारी व निजी कंपनियां एसएमएस के ज़रिए ग्राहकों से निरंतर संपर्क कर रही हैं तो क्या यह बेहतर नहीं होगा कि फंड हाऊस अपने निवेशकों को कम से कम मासिक आधार पर एसएमएस भेजकर उनके फंड-वैल्यू की जानकारी देते रहें ताकि ग्राहकों को अद्यतन एनएवी और अन्य महत्वपूर्ण सूचनाएं नियमित रूप से मिलती रह सकें।
- ❖ जहां तक सहयोग निधि यानी म्यूचुअल फंडों के बारे में लोगों को जागरूक बनाने की बात है, जरूरी है कि महिलाएं, जो देश की आधी आबादी है, पुरानी पीढ़ी के बुजुर्ग जो आधुनिक निवेश तरीकों के प्रति आज भी उदासीन हैं और खासकर मध्यम-आय वर्ग को जानकार और सजग बनाया जाए। इससे निवेशकों की संख्या और निवेश धनराशि का प्रवाह बढ़ाने में मदद मिलेगी।
- ❖ फंड निवेश प्रक्रिया और कार्यविधियों को भी सरल बनाने की आवश्यकता है ताकि अब तक आम लोगों और फंड हाऊसों के बीच जो अविश्वास की खाई बनी हुई है, उसे पाटा जा सके।
- ❖ उदासीन निवेशकों में वित्तीय अनुशासन लाने के प्रयास करना उतना ही जरूरी है जितना कि उन्हें म्यूचुअल फंड बाजार की बुनियादी जानकारी देना। वित्तीय सलाहकारों, म्यूचुअल फंड नियामकों को लगातार भरपूर प्रयास करने होंगे छोटे निवेशकों को यह समझाने के लिए कि केवल पैसा नहीं बल्कि उन्हें अपना थोड़ा समय भी निवेश करना होगा ताकि वे समय-समय पर अपने निवेशों की समीक्षा करके ऐसे निर्णय ले सकें जिनसे उनकी आय और प्रतिफल बढ़ सके।
- ❖ बेहतर होगा कि भारतीय पारस्परिक सहयोग निधि संघ (AMFI) सभी एसेट मैनेजमेंट कंपनियों के लिए एक साझा ऑनलाइन प्लेटफॉर्म विकसित करे ताकि ग्राहकों तक पहुँच बढ़ाई जा सके, वितरण लागतें कम की जा सकें और परिचालन संबंधी समस्याएं भी हल की जा सकें।

आगे की राह:- वक्त आ गया है कि सभी फंड हाऊस मिलकर अपनी रणनीतियां ऐसी बनाएं जो ग्राहकों के

हित, पसंद और सुविधा की जरूरतें पूरी कर सकें, लागत प्रबंधन के लिए ठोस कदम उठाएं, अपने प्रबंधन में सुधार लाएं ताकि म्यूचुअल फंड उद्योग दीर्घकालिक आधार पर लाभप्रद साबित हो सके और देश के समूचे आर्थिक विकास में सक्रिय भागीदारी कर सकें।

संदर्भ सामग्री:-

~ टीबीएनजी कैपिटल एडवाइज़र्स के संस्था पक तरूण बिरानी के मत का उद्धरण

* financialexpress.com

^ फिनपेग रिसर्च

**एलपिस पिलर्स (Elpis Pillars)

नीचे दिए गए एलपिस पिलर्स इस काम में उनकी मदद कर सकते हैं:-

निर्माणाधीन संपत्तियों पर कर देयता - जीएसटी का प्रभाव

संजय गुप्ता*

यदि आपने किसी बिल्डर से कोई संपत्ति/भवन/फ्लैट, जीएसटी व्यवस्था के लागू होने से पहले बुक कराया है, और उसकी किस्तें देना अभी बाकी हैं, जो आपको जीएसटी व्यवस्था आने के बाद अदा करनी हैं, तो आपकी किस्तों पर जीएसटी का क्या असर होगा? आप अवश्य यह जानना चाहेंगे कि आपकी किस्त इससे बढ़ेगी या घटेगी? इसकी वास्तविकता पढ़कर निश्चय ही आप चौंक जाएंगे।

जीएसटी व्यवस्था के पूर्व की स्थिति :

जीएसटी से पहले की कर प्रणाली खरीदारों के लिए बहुत जटिल थी। खरीदारों को पहले संपत्ति के निर्माण की स्थिति और संबंधित राज्य के आधार पर करों का भुगतान करना होता था। जीएसटी से पूर्व की व्यवस्था में खरीदार को निर्माणाधीन संपत्ति की खरीद पर उत्पाद शुल्क, वैट, सेवा कर, स्टांप शुल्क और पंजीकरण शुल्क आदि का प्रत्यक्ष/अप्रत्यक्ष रूप से भुगतान करना पड़ता था, हालांकि यह सभी कर उसे दिखते नहीं थे। इसके अलावा, चूंकि वैट, स्टाम्प शुल्क और पंजीकरण शुल्क राज्य लेवी थे, प्रत्येक राज्य द्वारा लगाए जाने वाले करों की दरें अलग-अलग थीं। सेवा कर एक केंद्रीय लेवी था और इसे निर्माण पर लगाया गया था। इस प्रकार पहले की व्यवस्था में खरीदार के लिए करों की गणना समझना अत्यंत कठिन था। उसे पता ही नहीं था कि उसके द्वारा चुकाई जा रही कीमत में कितने कर शामिल हैं।

जीएसटी व्यवस्था के पश्चात की स्थिति :

1 जुलाई, 2017 से जीएसटी लागू होने के पश्चात निर्माणाधीन सम्पत्तियों के मामले में, कर की दर संपत्ति के मूल्य का 12 प्रतिशत तथा कुछ मामलों में 18 प्रतिशत है। यह कर की दर निर्माण के लिए है, प्लॉट की खरीद के लिए नहीं। इसमें स्टाम्प ड्यूटी और पंजीकरण शुल्क शामिल नहीं है। एक निर्माता (डेवलपर/बिल्डर), खरीदार द्वारा निर्माणाधीन संपत्ति की बिक्री पर भुगतान किए गए जीएसटी करों के सम्मुख, भवन सामग्री आदि के क्रय पर अपने द्वारा भुगतान किए गए करों का इनपुट कर प्रत्यय (क्रेडिट) ले सकता है।

डेवलपर्स (विकासकर्ता) को जीएसटी व्यवस्था से लाभ :

यदि आप एक डेवलपर हैं, तो आपको पहले निर्माण सामग्री लागत पर केंद्रीय उत्पाद शुल्क, वैट और राज्य द्वारा एकत्र किए गए प्रवेश कर आदि देना होता था। इसके अलावा, श्रमिकों की मज़दूरी, वास्तुकार की फीस, अनुमोदन शुल्क, कानूनी शुल्क आदि जैसी सेवाओं पर 15% कर का भुगतान किया जाता था। यह कर अप्रत्यक्ष रूप से खरीदार को ही वहन करना होता था। नई व्यवस्था के कारण, निर्माण की लागत में वृद्धि नहीं हुई है। इसके अलावा, संचालन व क्रियान्वयन (लॉजिस्टिक्स) की लागत कम होने से भी निर्माता के लिए खर्च कम हो गया है। इनपुट कर प्रत्यय (क्रेडिट) भी निर्माता को लाभ बढ़ाने में मदद करेंगे।

*मुख्य प्रबंधक (शोध), स्टेट बैंक इंस्टीट्यूट ऑफ क्रेडिट एंड रिस्क मैनेजमेंट।

इस बात को हम निम्न प्रकार से और अच्छी तरह समझ सकते हैं।

भवन निर्माण में लगने वाली अधिकतर सामग्री पर पहले 12.5% की दर से केंद्रीय उत्पाद शुल्क देय था तथापि सीमेंट पर कर की दर और भी अधिक थी। भवन निर्माण सामग्री पर अधिकतर राज्यों द्वारा 12.5% से लेकर 14.5% की दर से कर लगाया जाता था। इसके अलावा निर्माण सामग्री पर राज्यों द्वारा प्रवेश कर भी लगाया जाता था। भुगतान किए गए इन सभी करों के इनपुट कर प्रत्यय (क्रेडिट) का लाभ नहीं मिलता था। कंपोजीशन स्कीम के अंतर्गत भी इन सभी करों का लाभ प्राप्य नहीं था, अत: जीएसटी लागू होने से पहले फ्लैट के मूल्य में करों पर कर का भार भी शामिल रहता था।

करों पर कर :

करों पर कर के भार को हम इस प्रकार समझ सकते हैं। मान लीजिए कि जीएसटी से पहले उत्पादक को किसी निर्माण सामग्री की लागत सौ रुपए पड़ती थी और उस पर उत्पाद शुल्क 12 रुपए था। यदि वह उसे 115 रुपये में बिल्डर/निर्माता को बेचना चाहता था तो वैट पूरे 115 रुपये पर लगता था, अर्थात सौ रुपए लागत, 12 रुपये उत्पाद शुल्क तथा 3 रुपये मुनाफा, इन सब पर वैट लग जाता था। यदि मान लिया जाए कि वैट 12% है तो वह 115 रुपये पर लगेगा जो लगभग 14 रुपये होगा। इस प्रकार वह निर्माण सामग्री निर्माता/बिल्डर को 129 रुपये में पड़ती थी। बाद में निर्माता द्वारा भवन/फ्लैट खरीदार को बेचने पर जो सेवा कर लगता था वह भी मिश्रित (कंपाउंड) हो जाता था अर्थात न सिर्फ लागत पर, बल्कि उत्पाद शुल्क पर, उत्पादक के मुनाफे के 3 रुपये पर, तथा वैट के 14 रुपये पर तथा निर्माता के मुनाफ़े पर (5 रुपये मान ले), इन सब पर सेवा शुल्क लग जाता था। इस उदाहरण को आसान बनाने के लिए यहां हमने मजदूरी, आदि अन्य खर्चों को छोड़ दिया है।

ग्राहक/उपभोक्ता की स्थिति :

परिणामस्वरुप, निर्माण सामग्री पर केंद्रीय उत्पाद शुल्क, वैट, प्रवेश कर इत्यादि जो बिल्डर द्वारा दिया जाता था, वह स्वत: ही भवन के मूल्य का भाग हो जाता था। यद्यपि यह भवन के मूल्य में शामिल था किंतु ग्राहक को वह दिखाई नहीं पड़ता था। कर के रूप में ग्राहक को मात्र सेवा कर ही दिखाई पड़ता था।

पहले फ़्लैट, कार्यालय या भवन के निर्माण पर सेवा कर की दर 4.5 प्रतिशत थी। इसके अतिरिक्त कंपोजीशन योजना के अंतर्गत 1% वैट भी देय था। अत: दिखने में कर की दर 5.5 प्रतिशत लगती थी। कुछ राज्यों तथा शहरों में कंपोजीशन स्कीम के अंतर्गत वैट की दर 2% या उससे भी ज्यादा थी। वहां क्रेता को केवल 6.5 प्रतिशत कर दिखता था, किंतु उपभोक्ता फ़्लैट की लागत में शामिल इनपुट कर का भार और करों पर लगने वाले कर को जान नहीं पाता था। वास्तविक कर इससे बहुत अधिक था।

जीएसटी का प्रभाव : ग्राहक को लाभ :

जीएसटी के अंतर्गत परिस्थिति भिन्न है। जीएसटी के अंतर्गत लागू 12% कर की दर को ऑफसेट करने के लिए पूरा इनपुट कर प्रत्यय (क्रेडिट) उपलब्ध है। परिणामस्वरुप, सन्निहित (एंबेडेड) इनपुट कर फ्लैट/भवन की लागत का हिस्सा नहीं होना चाहिए। जीएसटी के अंतर्गत लागू 12% दर का भुगतान उपलब्ध इनपुट कर प्रत्यय (क्रेडिट) से ही पूरा हो जाना चाहिए और इसी कारण से भवन निर्माताओं को बचे हुए इनपुट कर प्रत्यय (क्रेडिट) का रिफ़ंड उपलब्ध नहीं है। इस बात को हम एक उदाहरण द्वारा समझने का प्रयास करते है।

मान लीजिए कि जीएसटी से पहले एक फ्लैट में सौ रुपए

की भवन सामग्री आदि का उपयोग हुआ, जिस पर उत्पाद शुल्क, वैट (VAT), प्रवेश कर, आदि कर मिलाकर औसत 30 प्रतिशत टैक्स देय था। उदाहरण को आसान करने के लिए, हम यह मान लेते हैं कि भवन सामग्री आपूर्तिकर्ता का लाभ शून्य था। भवन निर्माता को यह 130 रु में कर सहित मिलता था। यदि भवन निर्माता इससे भवन बनाकर खरीदार को 156 रुपये में बेचता था तो इस पर 4.5 प्रतिशत सेवा कर व 1 से 2 प्रतिशत वैट भी लगता था। मान लिया कि कुल 6.5 प्रतिशत कर लगा तो उपभोक्ता को यह लगभग 166 रुपये में पड़ती थी। चूँकि कोई इनपुट कर प्रत्यय (क्रेडिट) उपलब्ध नहीं था, भवन निर्माता को टैक्स के 10 रुपये सरकार को भुगतान करने पड़ते थे और उसका कुल लाभ 26 रुपये होता था, जो कि उसकी कर सहित लागत (130 रुपये) का 20% है। यहां हमने भवन निर्माता की अन्य लागतों, मज़दूरी, आदि को छोड़ दिया है, ताकि कर परिवर्तन को आसानी से समझा जा सके। जीएसटी के बाद मान लिया कि भवन सामग्री पर औसत जीएसटी कर की दर 18 प्रतिशत है। भवन निर्माता को वही सामग्री अब 118 रुपये में प्राप्त हुई यदि वह निर्मित भवन को 118 रुपये से 20% ऊपर पर बेचना चाहे, तो उपभोक्ता को वह 142 रुपये में बेचेगा, जिस पर उपभोक्ता से 12% की दर से जीएसटी वसूल किया जाएगा। अत: उपभोक्ता को 17 रुपये जीएसटी मिलाकर कुल 159 रुपये अदा करने होंगे। इस प्रकार उपभोक्ता यानी खरीदार को कुल 7 रुपये की बचत हुई। लेकिन वास्तव में उपभोक्ता को बचत उससे कहीं अधिक हो सकती थी। इसे निम्न प्रकार स्पष्ट किया जा सकता है।

वास्तव में निर्माणकर्ता को अपने लाभ की गणना सौ रुपये पर करनी चाहिए न कि 118 रुपये पर, क्योंकि 18 रुपये जो उसने कर अदा किया था, उसका तो उसे इनपुट टैक्स क्रेडिट मिल जाएगा। नीचे दी गई सारणी में हम देख सकते हैं कि निर्माणकर्ता की बचत अथवा मुनाफा 42 रुपये के आसपास तक हो सकता है जो कि विभिन्न परिस्थितियों में विभिन्न प्रकार से बदलता रहेगा। इस प्रकार निर्माणकर्ता के पास पूरा अवसर है कि इनपुट कर प्रत्यय (क्रेडिट) के कारण और करों के कम होने से होने वाले लाभ को अपने ग्राहक अर्थात भवन के क्रेता को हस्तांतरित या पास ऑन (pass on) करे अर्थात भवन का दाम कम करे। जी हां, निर्माणकर्ता ऐसा करने के लिए कानूनन बाध्य है। यही जीएसटी अधिनियम के अंतर्गत प्रावधान है। तथापि यह उसकी ईमानदारी और कानून के प्रति भय व श्रद्धा पर निर्भर करेगा। कुछ भी हो, एक जागरूक ग्राहक का यह कर्तव्य एवं अधिकार है कि वह निर्माणकर्ता को ऐसा करने के लिए बाध्य करे। अब हम देखते हैं कि यदि निर्माणकर्ता कानून का पालन करता है तो ग्राहक को कितनी बचत होती है। उपरोक्त उदाहरण में मान लीजिये कि निर्माणकर्ता कुल 125 रुपये का भाव उद्धत (quote) करता है। ग्राहक 125 रुपये पर 12% जीएसटी कर के साथ कुल 140 रुपये का भुगतान करेगा। इस प्रकार ग्राहक को 166 रुपये के स्थान पर 140 रुपये का भुगतान करना पड़ता है। इससे ग्राहक को बड़ी बचत होती है।

किन्तु निर्माणकर्ता का लाभ हुआ (125 रुपये में से 118 रुपये घटाएं) सात रुपये। इस प्रकार ऐसा लगता है कि निर्माणकर्ता का लाभ तो 20% से कम होकर 6 प्रतिशत के आस-पास रह गया। लेकिन वास्तव में ऐसा नहीं है। होता यह है कि ग्राहक से प्राप्त हुए जीएसटी के 15 रुपये में से 18 रुपये इनपुट टैक्स क्रेडिट मिलेगा जो कि नकारात्मक होने के कारण शून्य माना जाएगा। अत: निर्माणकर्ता को ग्राहक से प्राप्त हुआ जीएसटी 15 रुपये सरकार को भेजना नहीं पड़ेगा। अर्थात्, निर्माणकर्ता का वास्तविक लाभ 25 रुपये होगा। जिसकी गणना नीचे दी गई सारणी में दर्शाई गई है।

जीएसटी से पूर्व की व्यवस्था में तथा जीएसटी के पश्चात् की व्यवस्था में बिल्डर का लाभ और खरीदार की बचत की गणना नीचे दी गई तालिका में प्रदर्शित की गयी है।

विवरण		मामला 1	मामला 2	मामला 3	मामला 4
		जीएसटी से पूर्व की व्यवस्था में बिक्री मूल्य 156 रु.	12% जीएसटी के साथ बिक्री मूल्य 142रु.	12% जीएसटी के साथ बिक्री मूल्य 125 रु.	18% जीएसटी के साथ बिक्री मूल्य 125 रु.
निर्माता के लिए भवन सामग्री की लागत	ए	100	100	100	100
उत्पाद शुल्क	बी	12.5	0	0	0
निर्माता का लाभ (माना शून्य)		0	0	0	0
निर्माता का बिक्री मूल्य (बिना VAT/GST)	सी	112.5	100	100	100
112.5 रुपये पर वैट @ 14.5%	डी	16.5	0	0	0
बिक्री मूल्य पर जीएसटी @ 18% औसत	ई	0	18	18	18
एंट्री टैक्स, आदि	एफ़	1	0	0	0
निर्माता का बिक्री मूल्य (ए + जी)	जी	130	118	118	118
बिल्डर के लिए सामग्री की लागत = जी	एच	130	118	118	118
बिल्डर के लिए कुल इनपुट टैक्स (जी - ए)	आई	30	18	18	18
अन्य लागत यथा मजदूरी आदि (शून्य मान लिया)	जे	0	0	0	0
फ्लैट/घर की लागत (बिल्डर को) (के = एच + जे)	के	130	118	118	118
सेवा कर/जीएसटी के बिना फ्लैट का बिक्री मूल्य (कल्पित)	एल	156	142	125	125
(सेवा कर + वैट) @ 6.5% कल्पित	एम	10	0	0	0
बिक्री मूल्य पर जीएसटी @ 12%	एन	0	17	15	22.5
खरीदार के लिए खरीद मूल्य (एल + एम + एन)	ओ	166	159	140	147.5
खरीदार के लिए जीएसटी व्यवस्था से पूर्व कीमत	पी	166	166	166	166
जीएसटी के कारण खरीदार के लिए बचत (पी - ओ)		**ला. न.**	7	**26**	**18.5**
बिल्डर द्वारा प्राप्त इनपुट टैक्स क्रेडिट = एन	क्यू	0	17	15	22.5
बिल्डर के लाभ की गणना:					
बिल्डर का लाभ (जीएसटी व्यवस्था से पूर्व): (एल - के)	आर	26	ला. न.	ला. न.	ला. न.
बिल्डर का लाभ (जीएसटी व्यवस्था के पश्चात): (एल - सी)	एस	ला. न.	42	25	25
इनपुट टैक्स एक परिसंपत्ति के रूप में आगे बढ़ाया (आई - क्यू)	टी	0*	1	3	ला. न.

ला. न. = लागू नहीं

*पूर्व जीएसटी, बिल्डर को इनपुट टैक्स क्रेडिट नहीं मिलता था।

नोट :

1. सभी करों की दरें और गणनायें अनुमानित हैं।
2. उदाहरण को सरल बनाए रखने के उद्देश्य से अन्य लागत यथा मजदूरी आदि को शून्य मान लिया गया है। क्योंकि निर्माता उसकी वसूली भवन क्रेता से ही करेगा, उसका असर निर्माता के लाभ पर नगण्य ही होगा।

इस प्रकार हम देखते हैं कि ग्राहक को बचत होती है, निर्माणकर्ता का लाभ बढ़ता है और सरकारों को कर कम मिलता है। लेकिन तमाम प्रशासनिक खर्चे कम हो जाने के कारण, कार्यप्रणाली में पारदर्शिता आ जाने के कारण तथा अधिक लोगों के द्वारा कर अदायगी के प्रति सकारात्मकता आ जाने के कारण सरकारों की शुद्ध कर प्राप्ति बढ़ने की संभावना है।

चूंकि हर सामग्री पर कर की दर जीएसटी के लागू होने से पहले एवं बाद की स्थिति में भिन्न-भिन्न हो सकती है, अत: उपरोक्त उदाहरण में जीएसटी के पहले एवं बाद के करों का अंतर यथार्थ से कुछ परे तो हो सकता है, किंतु इतना तय है कि उपभोक्ता पर किस्तों का भार किसी भी हालत में पहले से अधिक नहीं होना चाहिए।

उदाहरण में दर्शाया गया मुनाफ़ा और बचत कई बातों पर निर्भर करेंगे। भवन निर्माता जहां से भवन सामग्री की आपूर्ति प्राप्त करता है और आपूर्तिकर्ता जिस उत्पादक से सामग्री क्रय करता है उस पूरी शृंखला (chain) के लोग यदि मुनाफ़ाखोरी छोड़कर जीएसटी का लाभ आगे बढ़ाएं यानी पास ऑन (pass on) करें तभी यह लाभ पूर्ण रूप से उपभोक्ता तक पहुंच सकता है। यह आसान नहीं होगा। किंतु इतना तो अवश्य है कि इसका कुछ लाभ उपभोक्ता तक अवश्य पहुंचना चाहिए।

2017-18 में जीएसटी संग्रहण के आंकड़े

क्रम स.	वर्ष	माह	धनराशि संग्रहित (रु. हज़ार करोड़ में)
1	2017	जुलाई	94,063
2	2017	अगस्त	90,669
3	2017	सितंबर	93,141
4	2017	अक्तूबर	83,346
5	2017	नवंबर	80,808
6	2017	दिसंबर	86,703
7	2018	जनवरी	86,318
8	2018	फरवरी	85,174
9	2018	मार्च	1,03,458
10	2018	अप्रैल	1,03,458
11	2018	मई	94,016
12	2018	जून	95,610
13	2018	जुलाई	96,500
14	2018	अगस्त	93,960

स्रोत: http://gst.indiatyping.com/gst-collection-monthly

सारांश :

सारांश यह है कि जीएसटी के अंतर्गत फ़्लैट, कॉंप्लेक्स एवं भवनों के निर्माण पर लगने वाले अनेक केंद्रीय एवं राज्य करों की तुलना में जीएसटी का भार कम है। सरकार ने निर्माणकर्ताओं से अपेक्षा की है कि वे जीएसटी के अंतर्गत घटे हुए कर के भार का लाभ कीमत/किस्त कम करके उपभोक्ताओं तक पहुंचाए। सभी निर्माणकर्ताओं को सलाह दी गई है कि वे निर्माणाधीन भवन या फ्लैट्स के लिए ग्राहकों से जीएसटी लागू होने के बाद देय किस्त (सभी करों सहित) की राशि न बढ़ाएँ। इसके बावजूद भी यदि कोई निर्माणकर्ता ऐसा करता है तो इसे जीएसटी कानून की धारा, 171 के अंतर्गत मुनाफाखोरी माना जाएगा।

अन्य संदर्भ :

क. जीएसटी अधिनियम

ख. केंद्रीय उत्पाद एवं सीमा शुल्क बोर्ड की वेबसाइट

ग. केंद्रीय उत्पाद एवं सीमा शुल्क बोर्ड की प्रेस विज्ञप्तियां

घ. केंद्रीय उत्पाद एवं सीमा शुल्क बोर्ड के विज्ञापन

Summary of Diamond Jubilee & CH Bhabha Banking Overseas Research Fellowship Report

Measuring Impact of Insurance, including Jan Suraksha, Schemes on Insurance Consumption in India.

Researcher: Dr. Tapas Kumar Parida, State Bank of India.

Year 2016-17

Major Findings and Recommendations

The report examined the impact of the recent policy initiatives, including Jan Suraksha Schemes (JSS), on insurance consumption and penetration in India. The main objectives were :

a. to review the progress & performance of the Indian Insurance Sector;

b. to discuss the recent policy initiatives, say Jan Dhan to Jan Suraksha Schemes (JSS), and its impact on the insurance consumption in India;

c. to examine the impact on the banking sector due to the sale of insurance policies (including JSS) through bank branches, and

d. to find out the factors that affect the insurance consumption in India besides assessing the reasons for the low insurance penetration.

The sector has moved towards a more competitive market from a pure monopoly, with the participation of private players. In the post-reform period (2000-01 to 2016-17), the insurance sector has seen expansion in every sphere, including customer base, product innovation, delivery channels, etc. due to increased competition among the players. Further, the health insurance segment in general insurance has emerged as a new business, which has changed the structure of non-life business in the country. At present, the health insurance business segment holds around 28% of the market share in the industry. Apart from the success milestones, the insurance companies are still struggling with the issues like capital, pricing of the product, customer service, and profitability. In addition, the introduction of GST has added additional burden to the insurance companies.

Despite the concentrated efforts by Government and IRDAI, the insurance penetration and density in India is still languishing at a very low level compared to the peer economics and also with the world average. To increase insurance penetration, Government has launched JSS to provide insurance facility to the poor people at a nominal price. Before this, Government also launched the Pradhan Mantri Jan Dhan Yojna - PMJDY Scheme to bring all the un-banked households into the banking channel. Within a period of less than 4-years, banks have opened more than 31 crore of Jan Dhan accounts and enrolled more than 25 crores under JSS (including Atal Pension Yojna - APY). Thus, both the banks and insurance companies brought smiles to the faces of the crores of poor families, who have not imagined to have a bank account/insurance policy in their life. Further, to fund these Jan Dhan Accounts, Government used the Jan Dhan-Aadhaar-Mobile (JAM) trinity to transfer all types of subsidies under different schemes, directly to the beneficiaries' accounts. At present, there are 432 schemes enrolled in the Direct Benefit Transfer (DBT) programme of the Government of India and cumulatively around ₹3.5 lakh crore has been transferred into the beneficiaries' accounts. This has helped the Government to stop leakages in the system and also helped the beneficiaries to get the money into their account without any human interferences. Additionally, both the schemes have created the banking awareness and inculcated saving habits among the masses. As of 4th April, 2018, around ₹79,012 crore of deposits were there in these Jan Dhan Accounts, which is around 6.7%[1] of the total demand deposits of the banking system.

The above policy initiatives were aimed to increase the insurance penetration in the country mostly supply driven i.e. supply of insurance policies to the people at their doorstep. So, it is the time to introspect, why the demand for insurance has not been effective as expected, despite the improved economic conditions of the people. To find out the reasons, the researcher has conducted a primary survey to know the awareness among the people towards insurance, both from supply and demand side. The supply-side survey results indicate that almost all the bank branches are now selling insurance policies, including JSS, with an aim to provide all types of financial products under one roof and also to increase bank's non-interest income.

The survey further found that nobody really demands insurance, though they have the knowledge of insurance. It has always remained a push product, however, after the introduction of JSS, the customers are demanding for the Jan Suraksha policies. The demand survey of customers indicates that there has been an increase in the level of awareness about insurance and life insurance Policies however, same is not the case as far as home insurance, crop insurance and cattle/livestock insurance is concerned. The households who consider insurance as a compensation for loss of life has gone up considerably. The survey also found that more than 50% of the bankers prefer to recommend the buyer to buy JSS over the similar type of policies of other companies due to the affordability.

During survey, the managers were of the view that, (i) the sum assured should be higher at the same premium at least for another 2/3 years; (ii) Government should make it mandatory for the customers who get enrolled under different subsidy schemes like MGNREGA, Gas subsidy, etc.; (iii) Schemes should have online buying facility in all the banks and insurance companies websites; (iv) long-term policy facility of say 3 years and 5 years; (iv) the policy certificate need to be mailed to customer e-mail ID; (v) compulsory APY enrolment for all the unorganized workers and also for the no-frills account holders.

Further, both supply and demand side survey results have a common view that a need to publicize the consequences of uneven event happens to the bread earner of the family. In fact, people believe that Honourable Prime Minister should address the issue through the *'Mann Ki Baat'* programme. After all, in every theatre, there should be the first promotion about insurance like smoking is injurious to health, under the social initiatives by IRDAI.

Though more than 80% people have information about insurance but, a very few have any type of insurance policy. The reasons given by the uninsured households for not buying life insurance policies are that the insurance products are too expensive and households do not see them as important. However, this perception of the uninsured households about life insurance has declined over the years.

To find out the factors that affect the insurance consumption in India, in the primary survey indicates that most of respondents believe that income, savings and return are the most important factor to buy insurance. Thus, both from the estimated model and primary survey it may be concluded that income level, savings and return on investment plays a vital role in buying insurance. Further, the study also conducted a survey to find out the factors that are affecting the micro-insurance uptake in Cuttack and Bhubaneswar Districts of Odisha. The results indicate

[1]As on 16 March 2018, the total demand deposits of Scheduled Commercial Banks (including RRBs) is ₹11,84,398 crore; Source: WSS, RBI https://www.rbi.org.in/Scripts/WSSView.aspx?Id=22101

a stable four factors, i.e. structure-usefulness, image, personal perceptions and time constraint- underlying uptake of micro insurance services. Results of logistic regression indicate different significant predictors of loyalty, price sensitivity, and switching behaviour towards micro insurance services.

Issues in the Schemes and Policy Suggestion

Apart from the success, the schemes have various issues. Some of these are:

a. Jan Dhan to Jan Suraksha

- There is an inbuilt accident insurance of ₹2 lakhs with Jan Dhan Accounts. However, there is no clarity about who will foot the bills for the insurance premium and other costs. If all the targeted 31 crore opened PMJDY accounts are covered under insurance, then the total premiums for the life insurance coverage would be around ₹300 crores.
- Under JSS, the low premiums may pose a challenge to effective claim servicing. Claim settlement and post-policy service handling are expected to face issues. The Scheme's premium was kept low due to the assumption that there would be large volumes. In 2016-17, the claims-to-premium ratio for PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojna) hit an unsustainable level of 121% and is at 170% PMSBY (Pradhan Mantri Surksha Bima Yojna), as compared to 40-45% claim ratio for usual personal-accident and term-life covers.
- Under the APY, the subscriber would get the benefit after the completion of 60-years. While there is no clarity about taking loans from the corpus in case of medical emergency of the subscriber.

b. Pradhan Mantri Fasal Bima Yojna (PMFBY) & Crop Insurance

Researcher has come out with some of the suggestion, as outlined below, for better management of crop insurance based on the primary survey:

- ***Coverage of crops:*** PMFBY mainly covers 3 types of crops, namely food crops (cereals, millets, & pulses), oilseeds, annual commercial/horticulture crops. These crops cover only 30% of the total crop loans given by banks. So, we expect Government should cover all types of crops under PMFBY, which will help banks to manage the risks.
- ***Timely Notification:*** As per practice, States notify the T&C in August for Kharif Crops and in December for Rabi Crops. We expect Government should notify the schemes before the onset of the sowing season, i.e. in Mar/Apr for Kharif and Sep/Oct for Rabi crops.
- ***Timely and Centralised Payment of Claims:*** Usually, claim payments are made with a lag of around 1 year. This has made a number of accounts NPA as a result farmers are not able to get any funds for the next sowing session. Government should initiate the payment through DBT and made the payment before the onset of next crop cycle.
- ***Transparent Crop Cutting Experiment (CCE):*** There is a need of use of technology like remote sensing, drone, etc. to estimate the yield of losses, without any discrimination, as a number of real distressed farmers are not getting the benefits of insurance.
- ***Need to Increase Awareness:*** A survey by ASSOCHAM-Sky met Weather joint study (2016) reveals that at the all-India level, only 19% of farmer reported ever having insured their crops. A very large proportion of 81% was found to be unaware of the practice of crop insurance. Of the uninsured, 46% were found to be aware but not interested while 24% said that the facility was not available to them. So, there is a need to increase the awareness about crop insurance to all the farmers.

In addition to the above suggestion, some bankers have a view about the input subsidy and tenant farmers. The suggestions made by the bankers are as follows:

- ***Provision of Input Subsidy to Tenant Farmer:*** Around 70% of the farmland is being cultivated by tenant farmers. They are not getting any benefit, as they are not the owner of the land. The Government has introduced the 'Land Lease Certificate' for the tenant farmer. This will help the tenant farmer to get all the benefits that are available to the land owners. There is also a need to protect rights of the landlord and incentivize him to enable better registration of tenant farmer. One of the main reasons for lack of registration is the fear of landlords that they will lose control. This is one of the reasons why only 30% of Agri loans are covered by banks as tenant farmers. This has remained a big gap in the system so, it needs to be addressed by all stakeholders.
- ***Market Determined Price for the Input Subsidy:*** The amount of input subsidy given for seeds is much lower than the market rates. So, we expect Government should give the subsidy based on the market rates prevailing at that time only or through DBT as in case of LPG Cylinders.
- ***Need for timely availability of seeds at Government outlets:*** Farmers has been facing the problem of availability of seeds during sowing time that needs to be addressed.

An integrated database (using the Jan Dhan, Aadhaar, Mobile platform) can ensure that the area insured for a crop does not exceed its gross cropped area, by preventing multiple loans being taken for the same land. The growth of weather-based insurance and the entry of more players can provide checks and balances, but the insurance regulator should prepare for fresh challenges. To reduce fraudulent claims, a robust no-claims bonus will help.

The future of India's insurance sector looks bright, as the country has a favourable demographics with growing awareness. The Government and IRDAI are constantly looking to increase awareness among the people, liberalising policies to attract foreign investment and tax benefits to customers. It is estimated by Boston Consulting Group (BCG) that India's insurable population may touch 75 crore by 2020, with life expectancy at 74 years. In addition, life insurance is projected to comprise 35% of total savings by the end of this decade from 15% in 2017-18. Improving consumer sentiment and financial market conditions will also support demand for unit-linked and pension products in India.

Further, the Government's initiative towards 'micro-insurance' and 'health-insurance' is another area of business opportunities. In a study of World Bank on *'Government-Sponsored Health Insurance in India: Are You Covered?'* indicate that by 2025, almost half of the country's population would be covered under the health insurance and the spending through health insurance is likely to reach around 10% of total health spending of the country.

Given the PMJDY progress, this may push the beneficiaries to avail other financial products like life insurance, personal accident insurance and Atal Pension Scheme. So, there is a huge opportunity to provide the insurance facilities to the PMJDY account holders. Further, Government may extend the PMFBY scheme to protect their incomes against price fluctuations, which may help the farmer's to invest in advanced crop varieties. This will help to spread the micro-insurance business in the country. Finally, to predict the future of Indian insurers turning global players, this would be too early to address, as Indian industry holds only 1.68% (Sigma 3/2017) of the global market. We expect the industry will consolidate its position in the domestic market before venturing abroad.

BOOK REVIEW

Book: Skin in the Game: Hidden Asymmetries in Daily Life
Author: Nassim Nicholas Taleb
Publisher: Allen Lane
Pages: 279
Price: ₹699

Reviewed by: Mr. Brij Raj, General Manager, Reserve Bank of India.

Why should we never listen to people who explain rather than do? Why do companies go bust? Why does imposing democracy on other countries never work? The answer, according to the well-known essayist, scholar and former derivatives trader, Nassim Nicholas Taleb, is because too many people running the world don't have skin in the game i.e. having something to lose and sharing risks with others. In this book, which focuses on the 'Hidden Asymmetries in Daily Life', Taleb explains that it is not just that skin in the game is necessary for fairness, commercial efficiency and risk management: skin in the game is necessary to understand the world. The entire point of the book is that in the real world, it is hard to disentangle ethics on one hand from knowledge and competence on the other. There are asymmetries of power, but, if you inflict risk on others and they are damaged, you need to pay some price for it.

The book Skin in the Game is the fifth volume in Taleb's Incerto Series which was preceded by Fooled by Randomness (2001, 2004), The Black Swan (2007, 2010), The Bed of Procrustes (2010, 2016) and Antifragile (2012). Taleb, whose books have been published in thirty-six languages is today widely recognised as a prominent thinker on probability and uncertainty. Just as The Black Swan did during the 2007 financial crisis, Skin in the Game comes at precisely the right moment to challenge our long-held beliefs about risk, reward, personal responsibility, politics, religion and business. In his inimitable and engaging writing style, Taleb creates a superb framework for the readers to understand the idea of skin in the game, a phrase which we have often heard but have rarely stopped to truly dissect. Skin in the game is the backbone of risk management and applies to all aspects of our lives.

The central attribute of skin in the game is symmetry: the balancing of incentives and disincentives, people should also get penalised if something for which they are responsible goes wrong and hurts others: he or she who wants a share of the benefits needs to also share some of the risks. The author uses excellent examples from all walks of life to illustrate the importance of having a skin in the game and how the lack of it lies at the bottom of most ills. Hammurabi's law which was posted on a basalt stele around 3,800 years ago in a central place in Babylon (it now resides in the Louvre Museum in Paris), so that every literate person could read it, or, rather read it to others who couldn't read, has one central theme: it establishes symmetries between people in a transaction, so nobody can transfer hidden tail risk (the risk from an extreme event of low frequency). Hammurabi's best known injunction is as follows: "If a builder builds a house and the house collapses and causes the death of the owner of the house - the builder shall be put to death." Other illustrations of skin in the game include:

i) Avoid taking advice from someone who gives advice for a living, unless there is a penalty for their advice.

ii) Skin in the game means that you do not pay attention to what people say, only to what they do, and to how much of their necks they are putting on the line.

iii) You need to eat what you feed others.

iv) You cannot make profits and transfer the risks to others. You cannot get rich without owning your own risk and paying for your own losses. Forcing skin in the game corrects this asymmetry better than thousands of laws and regulations.

The author also reiterates that the idea of skin in the game is woven into history: historically, all warlords were warriors themselves. Prominent people took risks - considerably more risks than ordinary citizens and the very status of a lord has been traditionally derived from protecting others, trading personal risk for prominence.

Reading this book carefully indeed makes one think hard about the 'skin in the game' of all concerned every time there is a major action or decision to be taken. The readers will not be disappointed, except for the tirade at times against those whom the author feels are getting away with no 'skin in the game'. As with Taleb's earlier books like The Black Swan, Fooled by Randomness, etc., this book too is not an easy read, but is an adventure nonetheless and rewards its readers with very well researched and rich insights on the subject, which they can also relate to in their day-to-day life and work. A useful glossary defining two dozen terms provides a summary of the book's main ideas and a technical appendix provides a mathematical explanation of fat tails and other terms. I would recommend this stimulating book to understand the concept of 'Skin in the Game' and the hidden asymmetries in our daily life.

Bank Quest Articles - Guidelines For Contributors

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Articles submitted to the Bank Quest should be original contributions by the author/s. Articles will only be considered for publication if they have not been published, or accepted for publication elsewhere.

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   Use of tables, wherever essential, should be printed or typed on a separate sheet of paper and numbered consecutively using Arabic numerals (e.g. Table-1) and contain a brief title. In the body of the article, the position of the table should be indicated on a separate line with the words 'Insert Table 1'.

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I, Dr. J. N. Misra, hereby declare that the particulars given above are true to the best of my knowledge and belief.

01.01.2019

Dr. J. N. Misra
Signature of Publisher

IIBF - PUBLICATION LIST

Sr. No.	Examination	Medium	Name of the Book	Edition	Published By	Price (₹)
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