Special Feature:

Risk Management

SOUTH INDIAN Bank

Experience Next Generation Banking

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Inauguration of our Regional office at Ahmedabad by Shri. Sudarshan Sen, Regional Director, Reserve Bank of India Ahmedabad in the presence of Mr. Jayesh Patel, Chairman and MD of Vimal Oil & Foods Ltd., Shri.Nimish U Patel, MD of Shri. Dinesh Mills Ltd, Baroda, Ms. Bhagyesh Soneji, Chairperson ASSOCHAM, Western Region, Shri. Amitabha Guha our Chairman, Shri. Abraham Thariyan our ED, Shri.Sivaraman K, DGM Ahmedabad Region.

Corporate Family Magazine of
South Indian Bank

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Objectives:

To instil in the bank staff a sense of belonging and involvement in the bank's affairs
To appreciate and applaud the individual achievements of our members of staff
To act as a communication medium between management and the staff
To increase the professional competence of our bank staff

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Regular Features

Publisher:
Mr. Abraham Thariyan, Executive Director

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Ms. Beena Davis

Laurels bestowed

Dr. V.A. Joseph, MD &CEO South Indian Bank receiving Kerala Based Best Bank Award of State Forum of Bankers Club Kerala in the Banking Excellence Award presentation function, from Prof. K.V.Thomas, Hon'ble Minister of State Govt. of Kerala. Sri Abraham Thariyan, ED, South Indian bank and Chief Parton of SFBCK, Sri K.U. Balakrishnan, General Secretary, SFBCK, Sri. K. Babu, Hon'ble Minister, Govt. of Kerala, Sri. P.P. Suresh, President SFBCK, Sri. Anjaneya Prasad, ED, Syndicate Bank and Sri. Eapen Joseph, GM of IOB, and Patron of SFBCK are seen in the picture.

Our ED Mr. Abraham Thariyan, Mr. Benoy Varghese, GM and Regional Head, Mumbai, Mr. Murali N.A., GM(Treasury) receiving prestigious IBA Banking Technology Award 2012-13 from Padma Bhushan Dr. Raghunath A. Mashelkar, Chairman, National Innovation Foundation in the presence of Mr. K.R Kamath, Chairman, Punjab National Bank & Chaiman, IBA.

Press Meet at Dubai: Our MD Dr. V.A. Joseph, ED Mr. Abraham Thariyan with Mr. Mohd S Al Hadi, Chairman, Hadi Express Exchange and Mr. Paul A.F. GM

SIB Pavilion at Dubai Shopping Festival

NRI Meet at Kuwait : Our Executives seen with eminent NRI's in Kuwait

Participation of the audience at Kuwait

Our Executives seen with eminent NRI's in Oman

MD & CEO Speaks ....

Dear SIBians,

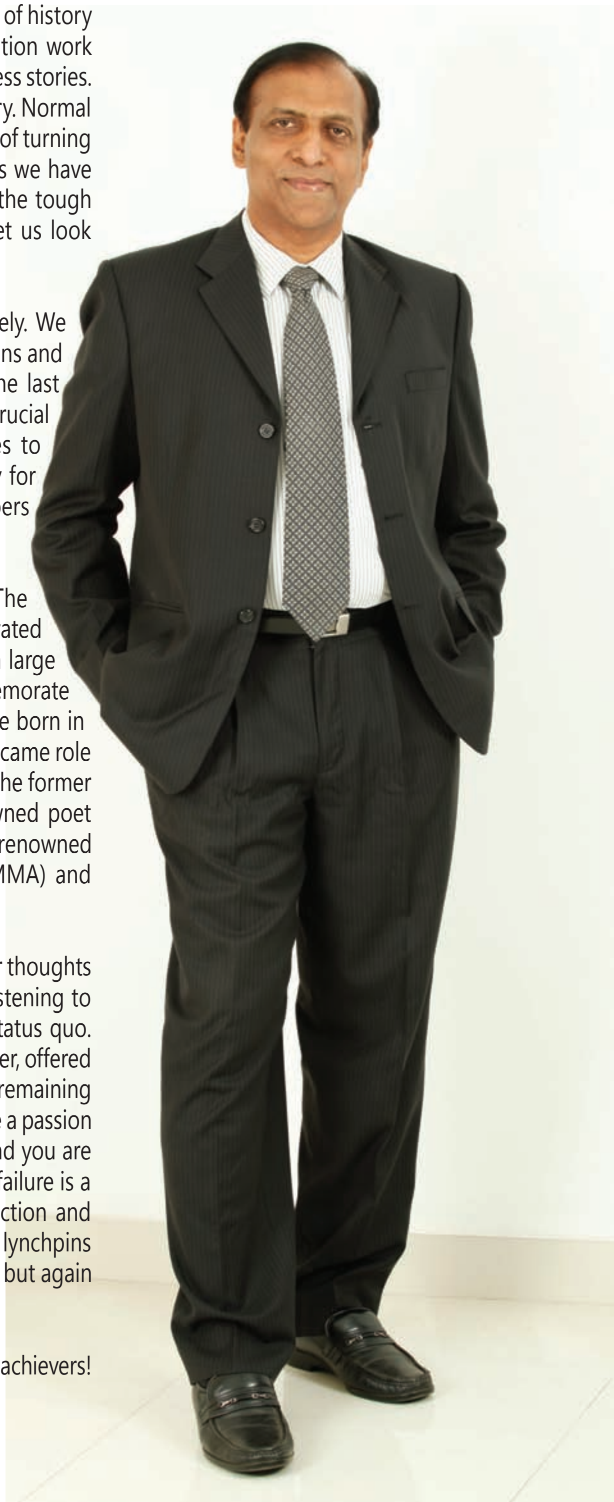
There are great things in life achieved by sheer grit and passion of an individual. Then there are achievements which are bestowed on him or her by slice of luck. However, singular victories and individual conquests are often forgotten in the annals of history as they are never repeated. But when a country, a group or an organization work together and succeeds repeatedly, it sits heavy in the glowing pages of success stories. You have scripted such a success story, which has few parallels in the industry. Normal men and women, who worked together as one big team, did the impossible of turning around our bank, into one of the most respected banks in the country. As we have done in the past, this quarter too we posted very good result inspite of the tough economy position. Today, when awards pour in from various quarters, let us look ahead to what we should do to constantly succeed.

We need to strongly ensure that our retail portfolio is built up aggressively. We have taken lot of steps at the corporate level in this direction, and the regions and branches have started responding positively. We need to capitalize in the last couple of months to ensure that our targets are met. CASA growth is the crucial component of our liabilities. Higher CASA portfolio not only translates to increased business and better profits, but also gives us great opportunity for earning Other Income on a sustained basis. I am sure that this team of doers will achieve all our goals by the end of March.

As you are aware, our organization completed 85 years last month. The Honourable Governor of Kerala, His Excellency Sri. Nikhil Kumar inaugurated the grand celebrations which was held in Thrissur, and was attended by a large audience comprising mainly of our beloved customers. In order to commemorate the memorable occasion, we honoured six eminent personalities who were born in our home state of Kerala, and who by their sheer grit and determination, became role models for the entire society. The SIB Excellence awards were presented to the former Managing Director of DMRC Padma Vibhushan Dr. E. Sreedharan, renowned poet Padma Vibhushan Dr. O.N.V. Kurup, playback singer Sri. P. Jayachandran, renowned oncologist Dr. V.P. Gangadharan, cine actor Sri. Innocent (President, AMMA) and chairman of V-Guard Industries Sri.Kochouseph Chittilappilly.

Of the many people I meet every day, there are a few who are cynical in their thoughts and processes. Ask them the reasons, and you can spend an entire day listening to their woes. Then there are those, who are content with the stiffness of status quo. They are the ones who believe that good things will happen somehow or other, offered to them on a platter by someone else. But what makes my day special, is the remaining bunch of go-getters who have a spark of enthusiasm in their eyes. They have a passion for excellence running through their nerves. Tell them about a difficulty and you are bound to get back a solution. It is not that they are always right, but each failure is a lesson well learned. They are deep in their thoughts, solid in their conviction and steely in their action. Look around the world and we see that these are the lynchpins of any successful organization, the chosen ones who achieve not just once, but again and again.

You have a few more weeks to prove that you are the chosen one in a team of achievers! Let us end this year on a magnificent note. Wish you all the best!



Dr. V.A. Joseph
MD &CEO

Our Executives at the Executive Conference 2013 held at Lonawala

Our MD & CEO, Dr. V.A Joseph receiving the Union of German Malayalee Associations (UGMA) Excellence Award 2013 for " A Forward Looking Financial Expert" category at Kottayam

Message from the Executive Director

Over the years Operational Risk Management has been gaining prominence each time a crisis blows up in the financial world and these crises are seen to occur in very large scales even among the so called global financial giants. The main concerns that emerge after the crises generally are lax in controls and systems. By definition, Operational Risk Management deals with the above two and in addition, people and external factors.

Until 5 years ago, for many banks, Operational Risk Management was limited to controls, audits and also quarterly computation of capital. These are hands-off management of Operational Risks. Operational Risk Management must be embedded in the processes and systems which should be designed to have an effective control over the operations.

Every Risk Management process starts with setting the objective, followed by building an organizational structure with policies and processes. Technology advancement has created more problems as well as solutions to the Risk Management.

Sound Operational Risk Management is about keeping constant vigil over operations and maintaining a strong reporting mechanism from each corner of the organization. Untiring eyes of Operational Risk Management keep a watch on process errors and omissions round the clock.

We have been giving a lot of thrust on Risk Management during the last few years on account of increased emphasis by regulators and due to our own organizational concerns. A special issue on 'Risk Management' in SIBlink is a clear indication on the bank's concern on 'Risk Management'.

Friends, there are hardly two months remaining for us to reach the year end targets – And we have miles to go. Our thrust this year is mainly on CASA growth, increasing our Retail finance, achieving our other income targets and finally accomplishing our profit targets.

Can you sit together with your colleagues at your branch and take stock of the situation? Can you assess the scores of your colleagues on incentive targets specially on Silver accounts and KYC complied SB/CD accounts? Devise new strategies to earn your full incentives. Then the bank is going to achieve all the above targets.

All the best to you

Abraham Thariyan

Kerala Finance Conclave 2013 conducted by Confederation of Indian Industry at Kochi: Mr Rajeev Suneja (Partner, Ernst & Young LLP), Mr Venugopal C Govind (Senior Chartered Accountant & Managing Partner, Varma & Varma), Mr Shyam Srinivasan (Chairman, CII - Kerala Finance Conclave and MD & CEO, Federal Bank), Mr Abraham Thariyan (ED, South Indian Bank) and Mr P Rajendran (MD, KSFE)

SIB Kiosk at Kerala Finance Conclave 2013 held at Hotel Taj Gateway, Kochi

Our Legal Officers attending an Exclusive In House Training Programme at NIBM, Pune seen with faculty and our MD, Dr. V.A. Joseph

Message from the Executive Director

Human beings have the uncanny ability to gloss over problems continuously until a destructive debacle occurs. When the collapse happens, they scamper for quick-fix solutions with the same disposition displayed in skipping the issues earlier.

This was what precisely happened when the financial universe sank to unprecedented bottoms in the year 2008. Everyone was comfortable with the way banks had been doing business till then, but once the collapse occurred, the world found it difficult to grapple with the pitfalls in the way banking was conducted. Opinion of common man turned against banks, and trust, the only product that any commercial bank sells, disappeared from the packages that the banks call products.

In short, banks were viewed with utmost apprehension.

Such an uneasy climate is a fertile ground that can generate positive results, if one does not get overly agitated about what had happened. Central banks and the Bank of International Settlement (BIS) put their heads together to devise ways to instil the confidence back in banking. Their laundry list of solutions had one item in top priority - proper risk management.
The Basel-III guidelines thus sprouted from the debris of the financial crisis. It is the result of the realisation that 'staying alive is more important than staying ahead'.

Those guidelines do not supplant the existing ones, but supplement them. The current system of capital computation remains unchanged under the guidelines of Basel-II. In India, the capital computation continues to be under the standardised on-size-fits-all approach. However, Reserve Bank has already unrolled the roadmap for moving over to advanced approach that requires banks to develop the internal process and systems for the computation. This would enable the banks to measure their own risk-profile rather than using the pre-fixed formula by Reserve Bank.

Our bank initiated the steps for moving over to the advanced approaches. We need to keep in mind that risk management cannot be done from a corner. As risk pervades the entire organisation and the activities, risk management also should emanate from every staff and every transaction.

There cannot be a better time than now to familiarise everyone with the concept of risk, the way it is currently managed and the various guidelines of risk management issued by Reserve Bank. 'Risk Management' is a timely theme selected by the editorial board of SIBLINK. All are required to familiarise themselves with the content of this issue.

We are passing to the fourth, crucial quarter of this financial year. Impacts of changes in global financial climate and of the uncertainty prevailing in the country are likely to delay the recovery of the economy. In addition, entry of new banks would set the competition hot. The remaining three months of the fiscal should therefore keep us on toes. Let us strive hard for achieving the targets.

Wishing you a successful year,

Cheryan Varkey

Hats off to these SIBians ...

Sale of 16 kg of bullion in a single day! Manu Jose, Manager, Br. Malviya Nagar and Team along with Mr. T.J. Rapheal, GM, Delhi RO

Toppers in the last 4 e-Learning Tests (June, July, Aug. & Sept.): Thiruvalla Regional Office headed by Mr. Ajit Jacob, DGM

First Bima Bank branch with regular premium along with double Bima Bank status -John C Lazar AGM, Br. Mangalore Main and Team

Risk Management is not Risk Avoidance

C.P. Gireesh
CFO & DGM
CFM Dept.

The business of banking is the life blood of economy and is regulated in various degrees across the globe. In our country, Reserve Bank of India regulates banking business. As per Banking Regulation Act, 1949, "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.

The Basel Committee on Banking Supervision (BCBS) is the standing body of regulators from major countries that formulate the regulatory frame work for risk management by way of prescribing minimum capital requirements with the objective to improve the Banking Sector's ability to absorb shocks arising from financial and economic stress. The Banks are required to maintain a minimum Capital to Risk weighted Assets Ratio (CRAR) of 9% on an on-going basis.

The minimum capital prescription is with the objective to avoid possibility of failure of banking business which is exposed to various kinds of Risks. Risk exists in every walk of life and Banking is not an exception. However, Risk increases in proportion to volume and complexities of products offered. Risk starts from entering into relation with a customer, the suitability of the product sold to him, the transaction, settlement, so on and so forth.

Capital is the most essential and costly element of Liability in a business because this is the least priority liability to be paid out in case of liquidation thereby leading to uncertainty of the investor in getting back either the principal or return on investment. As such the Risk of investor will be very high in the case of investment in Equity Capital of any institution.

Risk Management is not Risk Avoidance. The guiding principle of risk management is assuming appropriate amount of risk for a given benefit. It becomes possible only through identification, measurement, available mitigations and appropriate pricing methodologies.

The Reserve Bank of India has prescribed Guidelines for Risk Management Systems in Banks way back in 1999 and our bank has been meticulously following these guidelines since then. IRMD is the monitoring Department in our bank that formulates policies, measures and monitors risk and formulates strategies for managing various risks in a comprehensive manner.

The risk management becomes effective only when every person in our organization practices the guiding principles in true spirit and develops the same as a culture. Each and every activity done by us on behalf of the bank shall be understood in the right perspective and the risk perception shall be clear at operational level for reaping the desired results.

Recently, we took a decision to move over to Advanced Approaches which is expected to reduce our capital cost and will empower us with tools to precisely measure various risks, enabling to manage the same more effectively. Accordingly, we have to develop internal process and systems to move into the advanced approach of capital calculation, which would enable us to measure our own risk profile rather than the pre-fixed formula by Reserve Bank. RBI has announced the roadmap for moving over to advanced approach.

In order to achieve this ambitious goal, the whole hearted support of each and every SIBian is required to meet the deadlines. It may also be noted that this is the background for moving towards Basel-III norms .

RBI-Out Reach Programme: Inauguration by Hon'ble MP Sri P.C. Chacko with Sri. R Gandhi Executive Director RBI, Smt. M.S. Jaya IAS, Dist. Collector, Thrissur, Shri N.G. Jayaraj President, Chazhoor Panchayat, Dr. V.A. Joseph our MD & CEO , Sri. C.V. George OIC RBI Kochi, Sri. A.G. Varghese, CGM SIB, Sri. Santhakumar K. DGM RBI .

THE RISK-HIKERS GUIDE

Sibi P.M.
Asst. Gen. Manager
IRMD HO

There are good goals, there are great goals. There are bad misses, there are worst misses. There are great saves and there are instances of sloppy goal-keeping.

But, once the final whistle is blown, when the players retire to their raucous passions, when the spectators disperse to a plethora of mental calculations that would still give their favourite team a remote chance of winning the cup, when the stadium broods into a dark silence remembering the cacophony that reigned a few hours back under the arrogant flood lights, what remains is only the score-line.

We consign those great saves, creative attacks and heart-breaking misses to our memories. Ultimately, what are counted are the goals and the final data stay intact irrespective of the qualitative aspects of the game, inured forever. Human memory is strong in retaining the final numbers of the game, as the qualitative aspects get subdued in the longer run.

Believe me; if you got the whiff of it, you have already got an intro about risk.

Intro – Risk Management

Risk, as a theme, is more fabled than is understood and practised. Risk! The fairy flying around us, impinging on all our decisions and progress! The demon in our financial imaginations!! Even its most admirers view risk with a pinch of salt, squinting in suspicion. For most others, risk is a thing to be feared, blamed and cursed.
Ardent practitioners of risk management often miss the wood for the trees, numbers for information and thus, invariably miss the larger picture.

Before a scuba dive into the seabed of risk, we need to bust some myths about risk.

Myth 1 - *risk is an impediment*

The albatross around our business growth and profitability, risk is mostly viewed as an impediment in making progress in business, economy, and markets and so on. When we try to disburse a new loan, risk rating stands on the way, when we add a new customer, KYC pulls our efforts back, phishing fear lurks in mind while we transact on net – risks throw cold water on our business enthusiasm in countless ways!

Viewing risk as an impediment to business is akin to **considering application of breaks** as an impediment to your driving. An expert understands that these are life saving equipments. So, let's call risk as an enabler. It's the scuba gear in scuba diving. It ensures the sustainability of business operations and profits for the long-term and enhances shareholders' value.

Risk Management is a protector, the parachute that will open up the time you need it. It stands by you when your chips are down and perks you up in bad moments like a best friend. Let it also be the lucky charm you keep close to yourself - the amulet that saves you from bad luck.

Myth 2 – risk is the probability of loss

Any academic speech on risk introduces risk this way, which is not entirely untrue. If risk is a coin, this statement conveniently exposes only one side of the coin. Uncover the other side which reads '**risk is the management of profit**'.

Okay, let us see how true it is!

The difference between the pricing of assets and liabilities, the net interest margin, offset by the operating costs, gives you the net profit. If the nature of assets, liabilities, people profile and systems remain the same, your profit must remain as a constant percentage of the asset size forever, keeping everyone in a happy state.

Unfortunately, world is not an ideal place. It throws out unexpected miseries, volatile outcomes, unthinkably large losses. A sudden shock can knock you off your guard. Unexpectedly, your NPAs may show a spike or sudden pre-closure of deposits force you to source deposits at higher rate. Or, even majority of your people are found lacking in required skills. Or, you find a chink in your system. These unexpected costs can eat away a part of your hard-earned income. On the contrary, NPA may also suddenly drop, or a major recovery could be made, boosting the profits.

In either case, there is a deviation from the normal profit or expected outcome, be it positive or negative. This volatility must be the concern of the discerned, for when the profit is higher, the celebrations start, but when it is lower, our financial standing remains vitiated. When an unexpected success is achieved, risk joins everyone in the celebration, but still has its ears to the ground and realises that much of the path is yet to be covered. When the fanfare is over and everyone is ebullient, it gets down to its drawing board and designs the future and prepares for the bad times.

Managing the Profit

The profit that the bank generates is the sum-total of the contributions of profits from each activity, asset and person. Managing the profit depends on many factors. We expect a normal return, which will be, under the conditions that we consider possible, within a certain range. In the case of a bank, we analyse the past record of the different classes of loans, say housing loans that give us an average return of 1% for 5 years, with returns ranging from 0.80% to 1.10%. Managing of profit does not look into the ways of increasing the profit. It rather directs its attention to the ways of keeping consistency in profit. If the return varies from 0.80% to 1.10%, how can we ensure consistency?

The simple way is to keep varying provisions in the profit and loss account. Saving in good times for the rainy day... When the profit is higher than the normal, the super profit is kept as provision so that the final profit remains at 1%, for the above-cited housing loans. When the profit is less than 1%, we draw down from the provisions to keep the profit at 1%. Thus, Risk manages the profit through dynamic provisioning.

Managing the Capital

If you invest only your money in a stock valued Rs 100 and if its price falls, you will bear the loss. But, if you borrowed Rs 90 from your friend for investing in the stock and the stock's

price is down by 25%, you wouldn't be able to return the borrowed funds. You are broke and stand to lose your reputation.
In this example, your capital is found to be insufficient to absorb such amount of loss. Here, the key question is how much money you should have to put in to stay in business, to avoid being broke and a defaulter on debts. In the ideal situation, you would have put in the entire stock value, i.e. Rs 100 here, as your investment. But that will be a nonsensical sort of management which would leave you with little profit. To add, a bank's place in the economy continues to be that of an intermediary that channelizes the savings of public into productive assets. Hence, capital cannot form a major part of the total assets.

You may analyse how much loss you would have incurred barring a few extreme cases in the past. Barring some 1% of extreme cases, or 0.10% or 5% or such extremes that you feel seldom happen, you calculate the maximum loss to be kept as your capital so that, within this range, or confidence level you assumed, the maximum loss could be absorbed by the capital you put in.

A bank must keep capital to take care of such losses unexpectedly happening due to credit risk, adverse movement in market factors like interest rate, currency, equity price or commodity price (market risk) and anything other than these two (operational risk).

Reserve Bank stipulates to keep Capital based on Risk-weighted Assets (9% CRAR) to address this aspect, the unexpected losses.
Is calculation of CRAR the final step in risk management?

Managing Beyond the Balance Sheet
We have not yet touched the most lethal of the risks yet. Please be clear that by just addressing the three common risks that are involved in the CRAR calculation won't take us to proper risk management. There are more risks to be addressed as well, like credit concentration risk, strategic risk, reputation risk, legal risk etc.

Historically, credit concentration risk (CCR) has earned its fame as the single largest cause for the failure of banks. CCR is mainly the concentration of credit in a particular region or in a particular sector or to a particular borrower or a corporate group or to a particular credit product. If something happens specific to that region, sector, borrower or group, the resultant impact will be more than normal. Say, for example, if one borrower group that has an exposure of 10% of our loan portfolio is in trouble, the impact will be severe. The solution for the impact of CCR is diversification.

Interest rate risk in banking book (IRRBB) is another major risk that can surprise a balance sheet with its sudden impact. Interest-linked instruments occupy a major space of a bank's assets and liabilities. The discomforting factor is that assets and liabilities have different sensitivities towards interest rates. Interest on majority of liabilities is fixed and interest on majority of assets is floating. While a fall in interest rate depresses the interest rate on assets, it has little effect on liabilities. But, when the interest rate rises, deposits get prematurely closed for higher rates. In such a situation, the change in interest rate can create a deep dent in the profits. This is one reason why banks keep the average maturity of the deposits low, at around 1 year, so that effect of movement in interest rate is limited to short-term.

Standing shoulder-to-shoulder with credit concentration risk in the severity of impact on banks' lives is the liquidity risk. It is another major reason for bank-collapses. Mostly, it shows up as the last in the chain of events leading to a failure. Liquidity risk is simply the inability of a bank to raise funds to meet its fund outflows by way of deposit payments, premature payment of deposits, loan disbursements etc. Most lethal manifestations of liquidity risks include bank runs.

These risks are not addressed in the capital calculation for regulatory requirements. Hence, each bank is obligated to assess these risks internally and to provide capital for this. This process is called Internal Capital Adequacy Assessment Process (ICAAP). This is a major exercise that involves identifying and assessing all these slithery risks and allocating capital for this.

Capital requirement computed based on the losses within the range of confidence (excluding the extremes) for the three common risks (through CRAR process) and the risks that are outside those three (through internal process) ensures survival in bad times. The caveat is the comfort zone (the range that excluded the extremes) that we drew for the losses. If the extreme events happen, even on a rare occasion, what could happen in worst times?

Managing the Extreme
This is too remote a possibility, but still a plausible one: adverse interest rate movement with severe liquidity strain, coupled with collapse of equity and currency market and low GDP growth resulting in high NPAs!!

Don't read it as a pessimist's prediction. You would not see it as a possibility, but the prudent one is who foresees and prepares for such extreme events.

Banks should conduct a scenario analysis of such events that happen outside the comfort zone that they have hemmed themselves in. This exercise is called 'Stress Testing'.

The CRAR calculation, the ICAAP and Stress Testing ultimately help the bank in capital planning. These three steps address the capital requirement for absorbing losses due to the three common risks, bank specific risks other than those three and the extreme events happening outside the comfort zone.

Managing the invisible
Now let us go back to the starting point. The analogy of the football game.

If one doesn't understand that each right pass and each save can lead to success and each wrong pass and miss can lead to failures, and counts the goals and successes as merely one-off events, one would be losing control of the game. In the same vein, if we don't understand that each step, each process and each control leads to healthy profits, we would be losing control of the business. If the system is sloppy, we might be able to show good results for some years, but a certain year's bad weather can devastate us.

Theories, analyses, models and software won't help us to manage risk fully, unless we realise that risk management is an attitude, and is a key factor in any business decision. Its existence without business is zilch. If we don't understand the implied chances of a default when we contract a loan, if we don't really distinguish the risk between a large loan and a small loan of similar risk profile, if we don't care about the systems and controls cursing them as anathema to business and if we don't mind selling a stock if it falls below the cut-loss level, we are willingly entrapping ourselves in the prison of being ignorant.

Managing these invisibles, the factors one apparently ignores in a game, is the most important step towards building a champion team.

Risk management is the art of managing the abstract, the invisible. It is the act of doing so many small things in so many steps without fail for so long a period of time, without even seeing the results for much of the time. It will never be understood whether these steps will result in a desired objective. But it is well understood and experienced by now that if we don't take these little difficult steps, the results will not be what we desired!

The Ultimate Risk Manager

A recent survey by a newspaper conducted in the hospitals in Trivandrum found that the daily casualty cases halved to about 200 against 400 a year back. Deaths due to accident almost halved in the district to 25 a month compared to 40 in the previous year. The hospitals are nearly empty in the nights if one compares the rush and crowds that ruled before.

The statistics tell a tale. No one created a magic of any sort, nor did anyone do anything significantly different.

But there was one person who just took the mantle of ensuring that the law is followed and actually implemented the controls on roads that once lay only on paper. The roads that were the slaughterhouses once have been turned into an organized system where you can drive without too much of fear. It was also made sure that the little steps like wearing seatbelts, wearing helmets, keeping the speed-limit etc. that lead to achieving the objectives were not skipped.

The ones who are used to driving beyond the speed-limit, shifting lines carelessly and jumping traffic signals might be trying to display their driving skills without contemplating what could happen because of this behaviour. Their confidence actually emanates from their experience of few accidents or minor accidents in the past. But, statistics prove otherwise. Strict discipline on road ensures that number of accidents come down. The invisibles that contribute to the ultimate result are not forgotten now.

The **Ultimate Risk Manager** is one who relentlessly pursues the objectives in many small steps, with an eye kept on the invisibles.

OUR JOURNEY TOWARDS BASEL II ADVANCED APPROACH

Chithra H
Asst. Gen. Manager
IRMD, HO, Trichur

Present Position

As per the decision taken by our Bank, we are in the process of moving to Advanced Approach of Basel II for computation of Capital Adequacy Ratio. At present we follow Standardised approach of Basel II for computation of Capital Adequacy Ratio.

Why we should move to advanced approach of Basel II for CRAR computation?

Efficient capital management:
It is a well known fact that our NPA ratios are one of the lowest among banks, which shows our ability to maintain the quality of our advance portfolio. This is possible because of our good credit appraisal skills, supported by efficient post sanction formalities and close monitoring of advance portfolio. However we are unable to take advantage of the same in Capital Adequacy Ratio computation since sufficient past data has to be compiled in structured granular form to prove the efficiency of our rating models as well as the excellent repayment track record of advances. Hence the capital kept aside for credit risk of our bank under standardized approach can probably be high; considering our low NPA ratio and diligent credit appraisal and monitoring process.

At present as per RBI guidelines 15% of average annual income for the past 3 years is set aside as capital for operational risk. Hence when we improve our profit figures, capital allocation for operational risk also increases. However if we can prove through sufficient data and numbers that operational risk across branches / offices requires a lesser amount of capital, we will be able to utilize the saved capital for increasing our business. Meeting expectations of RBI: - In addition to the savings in capital resulting from adoption of advanced approach, Reserve Bank of India, our regulator desires that all banks should migrate to advanced approach of Basel II so as to ensure that banks have a mechanism in place for measurement and mitigation of all risks.

Preparedness required

Knowledge and Skill: The movement from standardized to advanced approach demands that we gather the required knowledge and enhance our skill sets not only in administrative offices but also in branches.
Data: Past and Present

Under advanced approach, risk weights and capital to be kept aside for different categories of advance portfolio has to be computed based on our experience. This computation demands collection of enormous granular reliable data including rating history of all accounts of Rs.10 lacs and above, pooling of retail portfolio based on certain common characteristics, collection of information of NPA accounts, recovery pattern etc. These data pertaining to previous five years is required for calculation of Probability of Default of each customer and for projecting the losses which the bank is likely to suffer on default etc. Data capturing has to be continuously done since risk weights have to be dynamically modified based on our figures. Transparency in reporting incidents related to operational risk in branches / offices: - For computing the capital required for meeting operational risk under advanced approach, the data on operational losses is absolutely required. This data needs to be gathered from branches and regional offices. We need to develop an appropriate mental set up which enables branch managers/unit heads to report losses and near miss events (events which could have resulted in loss had the branch/ business unit did not succeed in recovering the amount) without fear and apprehensions.

Risk management solution for data entry, analysis and computation of Capital Adequacy ratio: - Since the computation of capital adequacy ratio under advanced approach involves sophisticated computations using statistical techniques, we would need an appropriate software solution for data capture, analysis and computation of capital adequacy ratio.

Advantages of Advanced Approach

Better pricing for our loan products which improves our ability to compete in the market with finer interest rates. Under Advanced Approach we will be arriving at Probability of Default (PD) poolwise (depending on certain common characteristics). The borrowers in a pool having lower PD will get the benefit of lower interest rate.

Better control on various risks since our methodologies for identification and measurement of risks will be more structured, scientific and system driven.

Better capital management as we constantly monitor and mitigate the risks which reduces the capital requirement.

Better comfort for Investors and other stakeholders as their interests are protected.

Better comfort for regulators since we improve our risk management skills.

Conclusion

Many public and private sector banks have applied to RBI for moving over to advanced approach under Basel II. RBI will accord approval to those banks only if they are satisfied with the data quality and computation methodology. As per the roadmap given by Board of Directors, we have to inform RBI about our readiness to move to advanced approach by 1st half of the Financial Year 2014-15. Considering the relatively short time frame and enormous information that needs to be gathered ,a separate project management team has been formed consisting of officers from IRMD and risk officers from all Regional Offices. Dedicated resources are allocated for meaningful completion of the task within the prescribed timelines. However, involvement of business units (branches/ Regional offices) is very essential, as any business decision making will have an impact on our Capital adequacy. RBI has directed us to allocate capital to various business verticals which we are already complying with. In future, fixation of various business targets will have a direct bearing on capital for each business segment.

Any change in the system always faces resistance since we are comfortable with what we know and whatever we are already used to. Whatever we know is easy for us and whatever we don't know is tough. Tough becomes easy when we practise it. Any journey towards change is little painful but gratifying when we achieve the goal.

We have proved ourselves on various occasions that all challenges are opportunities to improve our bank's position in all respects. Here also let us prove ourselves that we are all good

Risk Takers,
Managers,
Mitigators to take our bank to greater heights.

Let us all make ourselves competent to undertake that journey.

Information Technology / Information System Risk Management

Jose Sebastian E
Chief Manager and
Chief Information
Security Officer , DICT

Risk is defined as the uncertainty of an event occurring that could have an impact on the achievement of objectives. The definition of risk assessment then follows as the identification, evaluation and estimation of the levels of risks involved in a situation, their comparison against benchmarks or standards, and determination of an acceptable level of risk. Risk assessment falls into the overall discipline of risk management. Risk assessment is increasingly conducted by many groups within an organization to fulfill a variety of business and regulatory requirements. Risk assessment should answer the following aspects, 1) What can go wrong? 2) How can it go wrong? 3) What is the potential harm? What can be done about it? 5) How can we stop it from happening again?

For most of the organizations, risk management is the process of identifying vulnerabilities and threats to the information resources used by an organization in achieving business objectives and deciding what effective steps to be taken to reduce the risk to an acceptable level, if not eliminated fully.

Effective risk management begins with a clear understanding of the organization's appetite for risk. This drives all risk management efforts and, in an IT context, impacts future investments in technology, the extent to which IT assets are protected and level of assurance required. Risk management encompasses identifying, analyzing, evaluating, treating, monitoring and communicating the impact of risk in IT processes. Having defined risk appetite and identified risk exposure, strategies for managing risk can be set and responsibilities clarified.

Based on the risk assessment, the Management may choose any of the following approach to manage the risks.

Avoid – Wherever feasible, choose not to implement certain activities or processes that would incur risk (i.e., eliminate the risk by eliminating the cause). Eg. Allowing modification of interest rate with effect from a prior date knowingly or unknowingly may lead to income loss to the bank and so bank takes a decision to disable that activity.

Reduce – Lessen the probability or impact of the risk by defining, implementing, and monitoring appropriate controls. E.g. Debit from income account. Since this activity can not be fully avoided, restrict the activity to a limited number of users and monitor such activity at higher level.

Transfer (deflect or allocate)- Share the risk with partners by transfer, via insurance coverage, contractual agreement, or other means.

Accept – Formally acknowledge the existence of the risk and monitor it.

In other words, risk can be avoided, reduced, transferred, or accepted. An organization may also choose to reject risk by ignoring it, which can be dangerous.

Developing a Risk Management program

The first step is to determine the organization's purpose for creating a Risk Management program. The program's purpose may be to reduce the cost involved to transfer **the impact of risk** or reduce the number of program-related harm. By determining its intention before initiating risk management planning, the organization can define key performance indicators (KPIs) and evaluate the results to determine its effectiveness. Typically, the Top Management with the Board of Directors set the character for the risk management program.

Assign responsibility for the risk management plan: The second step is to designate an individual or team responsible for developing and implementing the organization's risk management program. While the team is primarily responsible for the risk management plan, a successful program requires the integration of risk management within all levels of the organization. Operations staff management should assist the risk management committee in identifying risks and developing suitable loss control and intervention strategies.

Process of Risk Management.

It is a fact that each IT asset is attached with different level of risk.So in the process of risk management, it is a must to have an inventory record for each information resource or asset that needs protection because they are vulnerable to threats. The value of an IT asset depends widely on the way it is implemented and related to the business. (The value attached to the MD's laptop will be much higher compared to a laptop of an AGM). The inventory record should have enough information to identify the asset like distinct identification, relative value to the organization, location, risk classification, owner, designated custodian etc.

The purpose of the classification may be either to prioritize further investigation and identify appropriate protection (simple classification based on asset value), or to enable as standard model of protection provided,based on its criticality and sensitivity. Examples of typical assets associated with information and IT include- People, buildings, Information and Data, Hardware, Software, Services and Supplies etc.

The next step in the process is assessing threats and vulnerabilities associated with information resources and likelihood of their occurrence. In this context, threats are any circumstances or events with potential to cause harm to an information resource such as destruction, disclosure, modification of data and/ or denial of service. Common classes of threats are - Errors and Omissions, Acts of nature, Malicious hackers/Malicious codes, Frauds and Theft, Employee sabotage, Equipment/Software failure.

Threats occur because of vulnerabilities associated with use of information resources. Vulnerabilities are characteristics of information resources that can be exploited by a threat to cause harm. Examples of vulnerabilities are: Lack of user knowledge, Lack of security functionality, Poor choice of passwords, Untested technology, Transmission of unprotected communication.

The result of any of these threats occurring is called an impact and can result in a loss of one sort or another. In commercial organizations, threats usually result in a direct financial loss in the short term or an ultimate (indirect) financial loss in the long term. The same could be calculated through qualitative or quantitative analysis. Quantitative methods involve assigning numerical measurements that can be used in the analysis to determine total and residual risks. And qualitative analysis involves the use of scenarios and attempts to determine the seriousness of threats and effectiveness of controls.

Once the elements of risk have been established, they are combined to form an overall view of risk. The risk is proportional to the value of the loss/damage and estimated frequency of the threat.

Once risks have been identified, existing controls can be evaluated or new controls designed to reduce the vulnerabilities to an acceptable level of risk. These controls are referred to as countermeasures or safeguards. They could be actions, devices, procedures or techniques (i.e., people, processes or products). Elements of control that should be considered when evaluating control strength include whether the controls are preventive, detective or corrective, manual or programmed, and formal (documented in procedure manuals and evidence operation is maintained) or ad-hoc.

The remaining level of risk, once controls have been applied, is called residual risk and the management can further reduce risk by identifying those areas in which more control is required. An acceptable level or risk target can be established by management.Risk in excess of this level should be reduced by the implementation of more stringent controls.

The identification, evaluation and management of IT risk at various levels will be the responsibility of different individuals and groups within the organization. However, these individuals and groups should not operate separately since risks at one level or in one area may also impact another.

In summary, the risk management process should achieve a cost effective balance between the application of security controls as countermeasures and significant threats. Some of the threats are related to security issues that can be extremely sensitive for some industries.

It is often said that, the best defense against IS/IT related risks is to create a security awareness against frauds within staff and customers. Few of the IS/IT areas, where incidents have been reported in recent times in different banks and the possible mitigation steps are narrated below.

1) Pass word compromising

Any organization will have its own approved password policy; our bank has also an approved password policy. As per the policy, the password should have a minimum of eight character length, it should contain alphabets, numeric and special characters. When we select a password it should be ensured that it shall not be easily guessed .Name of family members, vehicle numbers, employee number etc should generally be avoided. Most of the applications force the users to created strong passwords. In cases where such practices are not forced, we should be taking the initiative.

If a transaction/activity is carried out by X using Y's password, the ultimate responsibility of that transaction/activity will fall on the staff(Y) whose password is compromised, if not proved otherwise. So, under no circumstances your password should be revealed to anybody. Finally, before getting involved in any activity, efforts should be taken to understand the implication of the activity, and not do things simply trusting others.

2) Transactions through Internet Banking

The evolution in telecommunications technology and the Internet has boosted a revolution in the development of electronic network, through which customers have access to banking products and services (electronic banking). In these channels, the degree of automation is usually high, the human intervention low. This new situation raises fresh legal and ethical dilemmas and challenges to both the customer and the bank.

To avoid/reduce the risks related to Internet Banking operations,the following methods are suggested.

a) Use second factor authentication (2FA), if customer has opted for this facility. The customer will get a onetime password (OTP) on his/her registered mobile for each login, and so if the mobile is in safe hands , a fraudster will never be able to access it.
b) Register the customer's mobile no: for Internet Banking alerts.This will not fully prevent fraudulent transactions, but if the customer acts immediately on receiving an alert , further damage could be reduced.
c) If any pop up screens appears demanding login credential of ATM card or any such electronic payment device, simply ignore them and inform the bank immediately. Banks will not collect such details from customers, unless warranted specifically in cases like password reset etc. In such cases banks cross verify the genuineness of the password resetting request.
d) Create awareness among customers to ensure that, they log in to the secured site of bank.

3) Phishing Attacks

This is a criminal attempt to steal your personal information through fraudulent emails or smart-phone texts. The emails are often very believable in nature,

a) It may lure the victim to the site of a bank or any organization that requests them to provide personal financial details such as account number, card number, card pin number etc. It is important to note that no organization will send an email asking for personal information.
b) It may be in the form of email from customers requesting to transfer amounts to different other accounts. The peculiarity of such fraudulent emails is that the message may resemble the same style of language used by the customer and details mentioned in the email may refer to the accounts maintained by the customer with the branch. This is done with the specific intention of making the person at the other end to believe the genuineness of the e mail. The fraudster continuously studies the email communication between the customer and bank for a long period.
c) Email attachments of scanned letters are also not safe for that matter. It is not difficult to get the signature pasted on a scanned document by a fraudster, so as to give a genuine look and feel to the attached letter.

Conclusion

Considering the importance of the IT/IS risks, RBI came out with comprehensive guidelines prepared by a committee headed by Gopalakrishna in April 2011 covering nine areas related to IT/IS with special focus on banking environment. Most of the banks including us are in the path of implementing the requirements indicated in the guideline. The guideline is expected to enhance security, efficiency in banking processes leading to benefit of banks and their customers.

The business value and IT risks are two sides of the same coin and risk is inherent to all enterprises. Since business environments are constantly changing and new vulnerabilities and threats emerging every day ,the process of Risk management is an ongoing iterative process.

In practice, there is no single unified solution to complex IT related risks. Cyber attacks can occur any time and so a solely compliance driven approach to security is no longer effective. Instead, a risk based approach to security is recommended as the best approach. When applying a risk based approach to security, organizations must automate many otherwise manual, labour intensive tasks. This, in turn, results in tremendous time and cost savings, reduced risk, improved response readiness, and increased risk posture visibility.

IT/IS related risks cannot be fully avoided .Increased awareness, proper reporting, responsive incident management system etc. will surely reduce the impact of threats/ vulnerabilities and to a great extent permanently plug such holes in the system.

RISK MANAGEMENT – CREDIT RISK

The etymology of the word "Risk" can be traced to the Latin word "Rescum" meaning Risk at Sea or that which cuts. Risk is associated with uncertainty and reflected by way of charge on the fundamental/ basic i.e. in the case of business it is the Capital, which is the cushion that protects the liability holders of an institution. Banks are compelled to encounter various kinds of financial and non financial risks.These risks are inter-dependent and events affecting one area of risk can have ramifications and penetrations for a range of other categories of risks.

Foremost thing is to understand the risks run by the bank and to ensure that the risks are properly confronted, effectively controlled and rightly managed. Each transaction that the bank undertakes changes its risk profile. The extent of calculations that need to be performed to understand the impact of each such risk on the transactions of the bank makes it nearly impossible to continuously update the risk calculations. Hence, providing real time risk information is one of the key challenges of risk management exercise.

Banks in the process of financial intermediation are confronted with various kinds of risks viz., credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational, etc. These risks are highly interdependent. Thus, top management of banks should attach considerable importance to improve the ability to identify, measure, monitor and control the overall level of risks undertaken.

Credit Risk

Credit risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions.

Credit risk consists of primarily two components, viz quantity of risk, which is nothing but the outstanding loan balance as on the date of default and the quality of risk, viz, the severity of loss defined by Probability of Default as reduced by the recoveries that could be made in the event of default. Thus Credit Risk is a combined outcome of Default

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Manager (CA)
Credit Sanctions
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Risk and Exposure Risk. The elements of Credit Risk are Portfolio Risk comprising of Concentration Risk as well as Intrinsic Risk and Transaction Risk comprising of migration/ down gradation risk as well as Default Risk. At the transaction level, credit ratings are useful measures of evaluating credit risk. Portfolio analysis help in identifying concentration of credit risk, default/migration statistics, recovery data, etc.

Another variant of credit risk is counterparty risk. The counterparty risk arises from non-performance of the trading partners. The non-performance may arise from counterparty's refusal/inability to perform due to adverse price movements or from external constraints that were not anticipated by the principal. The counterparty risk is generally viewed as a transient financial risk associated with trading rather than standard credit risk.

Tools of Credit Risk Management.

The instruments and tools, through which credit risk management is carried out, are detailed below:

a) Exposure Ceilings:

In order to limit the magnitude of credit risk, prudential limits should be laid down on various aspects of credit.

- Stipulate benchmark current/debt equity and profitability ratios, debt service or other ratios, with flexibility for deviations. The conditions subject to which deviations are permissible and the authority for the deviations should also be clearly spelt in the Policy;

- Single/group borrower limits, may be lower than the limits prescribed by the Bank to provide a filtering mechanism;

- Substantial exposure limit i.e. sum total of exposures assumed in respect of borrowers enjoying credit facilities in excess of a threshold limit, say capital funds. The substantial exposure limit may be fixed at 800% of capital funds, depending upon the degree of concentration risk the bank is exposed;

- ✓ Maximum exposure limits to industry, sector, etc. should be set up. There must also be systems in place to evaluate the exposures at reasonable intervals and the limits should be adjusted especially when a particular sector or industry faces slowdown or other sector/industry specific problems. The exposure limits to sensitive sectors, such as, advances against equity shares, real estate, etc., which are subject to a high degree of asset price volatility and to specific industries, which are subject to frequent business cycles, may necessarily be restricted. Similarly, high-risk industries, as perceived by the bank, should also be placed under lower portfolio limit. Any excess exposure should be fully backed by adequate collaterals or strategic considerations; and

- ✓ Banks may consider maturity profile of the loan book, keeping in view the market risks inherent in the balance sheet, risk evaluation capability, liquidity, etc.

b) Review/Renewal:

Each bank should have a carefully formulated scheme of delegation of powers. The banks should also evolve multi-tier credit approving system where the loan proposals are approved by an 'Approval Grid' or a 'Committee'. Multi-tier Credit Approving Authority, constitution wise delegation of powers, higher delegated powers for better-rated customers; discriminatory time schedule for review/renewal, Hurdle rates and Bench marks for fresh exposures and periodicity for renewal based on risk rating, etc may be formulated.

Loan Review Mechanism (LRM) is an effective tool for constantly evaluating the quality of loan book and to bring about qualitative improvements in credit administration. Banks should, therefore, put in place proper Loan Review Mechanism for large value accounts with responsibilities assigned in various areas such as, evaluating the effectiveness of loan administration, maintaining the integrity of credit grading process, assessing the loan loss provision, portfolio quality, etc.

The main objectives of LRM could be:

- to identify loans promptly which develop credit weaknesses and initiate timely corrective action;
- to evaluate portfolio quality and isolate potential problem areas;
- to provide information for determining adequacy of loan loss provision;
- to assess the adequacy of and adherence to, loan policies and procedures, and to monitor compliance with relevant laws and regulations; and
- to provide top management with information on credit administration, including credit sanction process, risk evaluation and post-sanction follow-up.

c) Risk Rating Model:

Set up a comprehensive risk scoring / rating system that serves as a single point indicator of diverse risk factors of a counterparty and for taking credit decisions in a consistent manner. The risk rating system should be drawn up in a structured manner, incorporating financial analysis, projections and sensitivity, industrial and management risks. It should clearly define rating thresholds and review the ratings periodically preferably at half yearly intervals. Rating migration is to be mapped to estimate the expected loss.

d) Risk based scientific pricing: Risk-return pricing is a fundamental tenet of risk management. Link loan pricing to expected loss. In a risk-return setting, borrowers with weak financial position and hence placed in high credit risk category should be priced high. Banks should build historical database on the portfolio quality and provisioning / charge off to equip themselves to price the risk. Allocate capital to absorb the unexpected loss. Adopt the Risk Adjusted Return on Capital (RAROC) framework.

There is, however, a need for comparing the prices quoted by competitors for borrowers perched on the same rating /quality. Thus, any attempt at price-cutting for market share would result in mispricing of risk and 'Adverse Selection'.

d) Portfolio Management

Banks should evolve proper systems for identification of credit weaknesses well in advance. Most of the international banks have adopted various portfolio management techniques for gauging asset quality. The banks could also consider the following measures to maintain the portfolio quality:

- Stipulate quantitative ceiling on aggregate exposure in specified rating categories
- Evaluate the rating-wise distribution of borrowers in various industries, business segments, etc.
- Exposure to one industry/sector should be evaluated on the basis of overall rating distribution of borrowers in the sector/ group. In cases where portfolio exposure to a single industry is badly performing, the banks may increase the quality standards for that specific industry.
- Target rating-wise volume of loans, probable defaults and provisioning requirements as a prudent planning exercise.
- Undertake rapid portfolio reviews, stress tests and scenario analysis when external environment undergoes rapid changes
- Introduce discriminatory time schedules for renewal of borrower limits.

Many of the international banks have adopted credit risk models for evaluation of credit portfolio.

For example:

J. P. Morgan (one of the leading global financial services firm) has developed a portfolio model 'Credit Metrics' for evaluating credit risk. The model basically focuses on estimating the volatility in the value of assets caused by variations in the quality of assets. The volatility is computed by tracking the probability that the borrower might migrate from one rating category to another (downgrade or upgrade). Thus, the value of loans can change over time, reflecting migration of the borrowers to a different risk-rating grade. The model can be used for promoting transparency in credit risk, establishing benchmark for credit risk measurement and estimating economic capital for credit risk under RAROC framework.

Credit Suisse (one of the leading global financial services company) developed a statistical method for measuring and accounting for credit risk which is known as "Credit Risk+". The model is based on actuarial calculation of expected default rates and unexpected losses from default.

Credit Risk and Investment Banking

Significant magnitude of credit risk, in addition to market risk, is inherent in investment banking. The proposals for investments should also be subjected to the same degree of credit risk analysis, as any loan proposals. The maximum exposure to a customer should be bank-wide and include all exposures assumed by the Credit and Treasury Departments. The banks should exercise due caution, particularly in investment proposals, which are not rated and should ensure comprehensive risk evaluation. As a matter of prudence, banks should stipulate entry level minimum ratings/quality standards, industry, maturity, duration, issuer-wise, etc. limits in investment proposals.

Credit Risk in Off-balance Sheet Exposure

Banks should evolve adequate framework for managing their exposure in off-balance sheet products like forex forward contracts, swaps, options, etc. as a part of overall credit to individual customer relationship and subject to the same credit appraisal, limits and monitoring procedures.

Banks should classify their off-balance sheet exposures into three broad categories - **full risk** (credit substitutes) - standby letters of credit, money guarantees, etc, **medium risk** (not direct credit substitutes, which do not support existing financial obligations) - bid bonds, letters of credit, indemnities and warranties and **low risk** - reverse repos, currency swaps, options, futures, etc

Banks are risk averse to lending owing to lack of proper credit information mechanism, high transaction cost, weak enforcement of collateral, bankruptcy framework, high NPA, directed credit issues, staff accountability concept etc. Laid back banking approach and related structural problems in the banks need to be addressed. The large growth in the market for securitised assets and for credit derivatives has offered banks new ways and means in managing as well as transferring credit risk. Bank should lend according to its appetite within the need based assessment of the credit requirement of the borrowers. The ideal credit risk management system should throw a single number as to how much a bank stands to lose on credit portfolio and therefore how much capital they ought to hold.

BASEL II NORMS – An Overview.

Bijo Abraham
Manager
IRMD.

Basel II norms – A brief history

In late 1980s, due to expansion of foothold of banks across globe, a strong need was felt for a uniform regime to set minimum levels of capital which banks must hold across the developed countries. An international regime was deemed necessary to protect the interest of depositors in particular and global financial system at large. It was anticipated that this regime would ensure a level playing field among banks and they had adequate capital to meet unexpected losses.

The Bank for International Settlements (BIS), based in Basel in Switzerland, was entrusted with establishing a framework for setting a minimum level of capital each bank should have to hold. BIS, formed on 17th May, 1930, is an international organisation of central banks to foster monetary and financial co-operation. It acts as a forum to promote discussion and policy analysis among its 58 member central bankers.

Basel norms are a set of guidelines formulated by Basel committee on Banking Supervision (BCBS), a committee formed at Bank of International Settlements (BIS) in 1975 for effective risk management, meaningful compliance and protection of interest of different stake holders engaged in banking transactions. RBI, being an active member of BCBS, is keen on implementation of Basel norms in India.

Structure of Basel II

Banks are required to hold minimum tier 1 capital of 6% of risk weighted assets (RWA) and total capital of at least 9%. Tier 1 capital, the purest form of capital, mainly comprises of equity share capital and free reserves. The aim of Basel II is to better align the minimum capital required by regulators (so-called regulatory capital) with risk. Minimum level of capital is determined based on the riskiness of the assets (advances and investments) held by banks. Risk weight assigned to each asset ranges between 0% and 1111%, where 0% represented the safest exposure and 1111% the riskiest exposures. In our advance portfolio maximum risk weight (i.e. 150%) is assigned to below 'BB' externally rated corporate claims.

Computation of CRAR:-

$$\text{CRAR} = \frac{\text{Tier 1 capital} + \text{Tier II Capital}}{\text{RWA of credit risk} + \text{Operational Risk} + \text{Market Risk}}$$

Elements of Capital

(i) Tier 1 capital

- Paid up capital
- Stock surplus (share premium of Common Equity instruments)
- Statutory reserves
- Capital reserves representing surplus arising out of sale proceeds of assets
- Other disclosed free reserves, if any
- Balance in Profit & Loss Account at the end of previous year
- Perpetual Non-cumulative Preference shares (PNCPS)
- Stock surplus (share premium of Additional Tier 1 capital instruments)
- Innovative Perpetual Debt capital instruments
- Any other type of instruments as notified by RBI from time to time.

(ii) Tier 2 Capital

- General Provisions and Loss Reserves
- Debt capital instruments issued by banks
- Revaluation reserves at a discount of 55%
- Innovative Perpetual Debt Instruments (IPDI) and Perpetual Non-Cumulative Preference Shares (PNCPS)
- Any other type of instruments generally notified by RBI for inclusion under Tier 2 capital

Risks identified under Basel II norms

Basel II norms have identified wide range of risks faced by banks, while conducting their business. A proper understanding of these risks is necessary to appreciate the relevance of Basel II norms. Meaning of different risks identified under Basel II norms is given below.

1. Credit risk:

It refers to the risk that the borrower or counterparty fails to meet his obligations as per agreed terms, e.g. risk that the borrower fails to repay the loan amount and interest due. Credit risk depends on credit worthiness of borrower, repayment capacity and purpose of loan.

2. Market risk:

Market risk is the risk that a firm will lose money due to changes in market variables such as interest rates, foreign exchange rates, equity prices, and commodity prices.

- Interest rate risk: It refers to the risk that the bank's net income and value of assets get adversely affected due to change in interest rates. For example, recent rise in rates has resulted in Mark to Market (MTM) losses for many banks.
- Equity risk: Equity risk is the risk that one's investments will depreciate because of stock market dynamics causing one to lose money.
- Foreign Exchange risk: It refers to potential losses due to exposure towards forex market. For example, real and notional losses suffered by banks on forward contracts due to movement of exchange rates in the direction unexpected by bankers.
- Commodity prices: - It refers to the possibility that the bank may suffer losses due to movement in commodity prices.

3. Operational risk:

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Pillars of Basel II

Basel II covers the following three pillars:-
Pillar I – Minimum capital requirements
Pillar II – Supervisory review process
Pillar III – Market discipline

Pillar I – Minimum capital requirements

As per Basel II norms, the banks should have sufficient capital to meet the above mentioned risks. Pillar I deals with regulatory capital requirements, giving banks the choice of various approaches in calculation of required amount of capital to be held against credit, operational and market risk.

- Capital charge for Credit Risk can be calculated by using one of two approaches:

1. Standardized Approach
2. Internal Ratings Based Approach (IRB)

- Capital charge for Operational Risk can be calculated by using one of two approaches:

1. Basic Indicator Approach (BIA),
2. Advanced Measurement Approach (AMA).

- Capital charge for Market Risk can be calculated by using one of two approaches:

1. Standardized Duration Method
2. Internal Model Approach (IMA)

Credit Risk:

1. Standardized Approach

In standardised approach, exposures are classified into a set of specified categories and separate risk weights are applied to each category, based on the relative degree of credit risk associated with in it. The main asset classes of exposure in the standardised approaches are Sovereign exposures, Bank exposures, Corporate exposures, Retail exposures, Housing loan exposures, Commercial Real Estate exposures etc.

Under standardized approach, the risk weight against each category of advance is prescribed by RBI every year in their master circular named 'Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)'. Accordingly exposure under each category would be multiplied with corresponding risk weight to arrive at the RWA for credit risk.

2. Internal Ratings Based Approach

The internal ratings-based (IRB) approach to credit risk is one of the most innovative elements of the Basel Framework because it allows banks themselves to determine certain key elements in the calculation of their capital requirements. Hence, the risk weights – and thus the capital charges – are determined through a combination of quantitative inputs provided either by banks or supervisory authorities, and risk weight functions specified by the BCBS. Under the IRB approach, the required minimum capital is based on the probability distribution of losses due to the default risk in a portfolio of loans or other financial instruments. The calculation of capital requirements for a loan's default risk under Basel II requires four input parameters to be entered in supervisory risk weight functions.

"Jamboreee" **Coimbatore family meet** graced by Mr. Shanmugham, Chairman, UIT College and Mr. Mohan DGM, Coimbatore RO.

1. *Probability of default (PD)*: Estimate of the likelihood of the borrower defaulting on his Obligations within one year.
2. *Loss given default (LGD)*: i.e. an estimate of the amount that the bank would expect to lose in the event of a borrower default;
3. *Exposure at default (EAD)*: an estimate of the amount the borrower will owe the bank at the time of default, i.e Nominal value of the borrower's outstanding debt.
4. *Effective maturity of the loan (M)*:-Effective maturity refers to the longest possible remaining time before the borrower is scheduled to fulfil his obligations

IRB approach is again classified into two; the difference in the two approaches is given below

Foundation internal ratings based (FIRB) approach: - Banks are able to use their own models to determine their regulatory capital requirement using the IRB approach. Under the foundation IRB approach, banks estimate a probability of default (PD) while the supervisor provides set values for loss given default (LGD), exposure at default (EAD) and maturity of exposure (M). These values are plugged into the Bank's appropriate risk weight function to provide a risk weighting for each exposure or type of exposure.

Advanced IRB Approach: Banks with the most advanced risk management systems and risk modelling skills are able to move to the advanced IRB approach, under which the bank estimates on his own PD, LGD, EAD and M.

OPERATIONAL RISK:

1. Basic Indicator Approach (BIA)

Under Basic Indicator Approach the capital charge is calculated based on 15% of the annualised three year average gross income which excludes years in which the gross income was zero or negative.

2. Advanced Measurement Approach (AMA).

Under the AMA, the operational risk capital charge will be determined by using the bank's internally derived Value at Risk (VaR) of operational losses. The VaR is based on:

- Internal loss data (Based on events of our bank)
- External loss data (Based on events of various banks)
- Scenario analysis
- Business environment and internal control factors

Hence the Bank must track internal operational risk loss data and assess the relevance of that data to current operations. In order to move towards AMA, Bank must ensure maximum automation in Loan Origination, document management and customer relationship management. Automated systems will provide an enhanced health index score for the assessment unit which will ease the movement towards AMA. The data must include all material activities and exposures in all systems and bank locations.

External loss data must be used for events that are infrequent, yet potentially severe, such as an earthquake. Scenario analyses including expert opinion input must be utilized for high-severity events. The risk assessment should cover all key business environments and internal controls factors. A strong Risk Control and Self Assessment (RCSA) framework is a pre- requisite for AMA.RCSA will help in reduction of losses and fixing Key Risk Indicators for the bank as a whole.

MARKET RISK

1. Standardized Duration Method

The capital charge under the standardised methodology will be the sum of the following three categories of risk measurement:

• Interest rate risk (specific risk and general risk, derivatives excluding options);

• Equity position risk (specific and general market risk, derivatives excluding options);

• Foreign exchange risk including gold and derivatives;

2. Internal Model Approach (IMA)

Under standardized measurement method, general market risk capital charge is based on RBI framework. Under Internal Model Approach, capital charge for general market risk would be measured based on internal model using VaR (Value at Risk) technique. In simple terms, VaR is probable maximum loss which a bank's investment portfolio is likely to suffer with certain level of probability, say 99%. As per current guidelines on IMA, specific risk capital charge would continue to be measured based on percentages prescribed by RBI.

Our bank's position:-

In terms of RBI guidelines vide circular DBOD.No.BP.BC.90/20.06.001/2006-07 dated April 27, 2007 and subsequent guidelines on the New Capital Adequacy Framework our bank has adopted Standardized Approach for Credit Risk, Standardized Duration Method for Market Risk and Basic Indicator Approach for Operation Risk used for calculating Capital Adequacy Ratio under BASEL II norms.

Keeping in view the Reserve Bank's goal to have consistency and harmony with International standards and also have to improve the risk management practices of Indian banks, RBI has come out with guidelines & time schedule for migrating to advanced approaches for all the three risks. Hence we intend to upgrade our existing risk management framework and have appointed M/S Ernst & Young LLP as consultant for handholding us to migrate to advanced risk management approaches.

Pillar II – Supervisory review process

Under Pillar II, banks assess their capital adequacy on the basis of own internal risk management methodology and supervisors analyse whether a specific bank's capital adequacy assessment is in line with its overall risk profile and business strategies. The supervisory review process relies on four principles:

1. Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining capital levels.
2. Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure compliance with regulatory capital ratios. If they are not satisfied with the result of this process, supervisors should take appropriate action.
3. Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.
4. Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a bank and should require rapid remedial action if capital is not maintained or restored.

Pillar III – Market discipline

Under Pillar III, banks are required to publish information on the key parameters of their business profile, risk exposure and risk management. RBI guidelines state that the banks should have a policy on disclosure, which covers disclosure of exposure to risky sectors and risk management techniques. The Disclosure Policy reinforces the commitment by the Bank to be compliant at all times with the various Regulatory, Statutory and other disclosure obligations imposed by the law of the land; and to ensure that its shareholders and the market are provided with timely and accurate information in respect of all material matters concerning the Bank.

The bank shall provide all applicable disclosures required under Pillar 3 of the Basel Accord, both qualitative and quantitative, as at the last working day of March each year along with the annual financial statements, both in its annual reports as well as in its web site. Qualitative disclosures that provide a general summary of its risk management objectives and policies, reporting system and definitions shall be published only on an annual basis. Bank shall also make interim disclosures on the "quantitative aspects", on a stand-alone basis, on their websites as at the end of September each year.

Further to the above, Bank shall disclose the Tier I capital, Total capital, Total required capital and Tier II ratio and total capital adequacy ratio, on a quarterly basis on the website. These additional disclosures must be consistent with the audited statements.

Conclusion

Basel- II norms have laid down prudent risk management principles across the globe. The principles specified under three Pillars as explained above, have created an unparalleled foundation for building strong banks with

Emergence of Basel- III norms

Arjun Sunder S.
Manager
IRMD

1. Introduction

It is widely believed and quite often observed that thieves always manage to outdo cops. Similarly the regulations in general and financial regulations in particular have always been behind the fraudsters and have more often than not failed to proactively prevent the financial crises and frauds across the world. In a typical Bollywood movie set police is always shown to arrive after the climax (commitment of crime/murder) and they are portrayed as mute spectators before the climax. Strangely this reel life incident has found its real life counterpart in financial sector when global financial crisis started unfolding in 2008. While the financial sector police (read central bankers and capital market regulators like SEBI) were having heated discussions on capital adequacy and complex mathematical models to estimate the correct capital base the financial sector giants who supposedly possess robust capital base and sophisticated technology were crumpling down before their eyes. Later on it would turn out that the insufficient liquidity, unchecked growth of off-balance sheet items (such as forwards, swaps, derivative) and excessive leverage was the villains hidden in the closet. But the bewildered group of central bankers (read Basel Committee on Banking Supervision (BCBS), after being hit with financial tsunami of 2008, the most acute financial crisis which world has witnessed after Great Depression of 1930s soon regained their composure and started formulating a new set of regulations, which would later emerge as most talked about highly debated regulations of our times. They christened these norms as Basel- III in December 2010 and Basel- III norms '*A global regulatory framework for more resilient banks and banking systems'* was born in that month.

2. Basel-III norms: Meaning and principal elements

Basel- III norms refers to a set of guidelines devised by BCBS on capital adequacy, liquidity risk management, leverage and overall governance with an intent to create stronger banks and stable financial sector. It must be noted that these norms do not fully replace Basel- II norms. They supplement the minimum capital requirements specified under Basel- II and introduces two fresh concepts namely liquidity ratios and leverage ratios. It is worth noting that standardized and advanced approaches for measurement of risk weighted assets specified under Basel- II remain the same in Basel- III norms also. The main elements of Basel-III norms are given below.

A. Revised minimum capital requirements: The capital to risk weighted assets ratio (CRAR), an indicator of financial strength is a function of capital funds and risk weighted assets. It is arrived by dividing the capital funds with risk weighted assets. The main changes made by Basel- III norms on minimum capital requirements are given in following points.

- Emphasis on Common Equity: -The purest form of capital funds is equity share capital and free reserves of the bank. Even though these funds are the most permanent source to absorb unexpected losses such as large NPAs, the Basel-II norms have not prescribed a minimum level of such funds to be maintained by the bank. Under Basel-III norms these funds are termed as common equity and banks in India are required to maintain minimum common equity of 8% of their risk weighted assets.
- Introduction of Capital conservation buffer (CCB):-Basel- III norms specifies that the banks should hold capital not less than 2.5% of risk weighted assets as CCB to meet the losses arising out of stressed situations. However this 2.5% is included in the 8% mentioned above.
- Introduction of Counter cyclical buffer: - The economy always goes through business cycles of booms and depressions. So idea behind this buffer is that the banks should build their capital base during good times (i.e boom period) to meet the unexpected losses which generally arises during bad times (i.e recession). The RBI has not specified the quantum of this buffer and time line within which this buffer should be created till date. RBI has indicated that the quantum of the buffer should be in range of 0-2.5%.

B. Leverage Ratio: The movement of CRAR stipulated under Basel-II norms does not give any strong indication of the growth in off balance sheet items or increase in borrowings. So during financial crisis the banks with high CRARs were failing because of excessive borrowings and huge financial commitments arising out of complex financial derivatives which do not appear on the balance sheet. Since the rise in off balance sheet items and extent of borrowing was not adequately reflected in CRAR their growth went unnoticed. To prevent such incidents in future the BCBS has introduced a new indicator of financial strength termed as Leverage ratio. The term leverage implies extent of borrowed funds used in banking business and leverage ratio is arrived by dividing the total Tier-1 capital funds (i.e sum of common equity and certain debt instrument) with the sum of total assets on balance sheet and off balance sheet items(such as value of LCs, BGs, forward contracts. As per RBI guidelines the minimum leverage ratio to be maintained is 4.5%.

Since the numerator in the equation is shareholders' funds, higher the leverage ratio, the better is the financial stature of a bank, from risk perspective.

C. Liquidity ratios: As indicated earlier, the tight liquidity conditions were one of main reasons for the spread of global financial crisis. The asset sale at drastically low prices and presence of illiquid assets with banks increased the severity of crisis. Hence BCBS has prescribed two ratios namely Liquidity Coverage ratio (LCR) and Net stable funding ratio (NSFR) to prevent recurrence of such situations.

- LCR: - The idea behind LCR is that the

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robust capital base and sound risk management practices. However the effectiveness of these norms in ensuring financial stability and protection of depositors' interest lies in their transparent implementation. The banks shall strive to achieve compliance with these norms in both letter and spirit. The key challenge involved in successful implementation is improving our understanding of these norms and its role in creating financially stable banks among all hierarchies of management. Let us meet this challenge and ensure the implementation of Basel- II norms in our bank in true letter and spirit envisaged by our regulator.

banks should maintain sufficient amount of liquid assets to meet a shortage in liquidity which may last for one month. In India RBI has come out with draft guidelines on LCR and NSFR and the debate is still going on the items of assets which should be included as 'Liquid assets'. Since the Indian banks have to maintain CRR of 4% and SLR of 23%, we are better positioned compared to our western counterpart on liquidity front.

- NSFR: - The one of the major reasons behind the failure of many banks was absence of sizeable low cost stable deposits in the bank's books. To increase the portion of stable funds in the total sources of funds the BCBS has stipulated this ratio. The banks with good CASA deposit base and loyal customers are expected to meet this requirement without much difficulty.

3. Impact of Basel- III norms

Since these norms are expected to be fully implemented by F.Y 2017-18 it is quite premature to discuss on the impact it would have on banking sector. However the impact perceived by banking sector experts and central bankers and based on our experience has been summarized below.

- Impact on global/national banking sector: - The Basel- III norms have increased the total capital requirements to 10.5% of total risk weighted assets (11.5% in India). Reserve Bank's estimates project an additional capital requirement of Rs.5 trillion, of which non-equity capital will be of the order of Rs. 3.25 trillion while equity capital will be of the order of Rs.1.75 trillion. Due to high capital requirements, the banks' earnings per share (EPS) are likely to fall across the world and the impact is likely to be felt on market capitalization of these banks. Further, these norms are expected to slow down the economic growth since the capital required for each loan/ investment is more under these norms. However these norms are expected to bring more financial stability and prevent financial crises in a better way.
- Impact on our Bank:-Our bank has commenced reporting under CRAR under Basel- III from the half year ended 30.09.2013 on wards. The CRAR under Basel- III was 12.97 %, which were only 19 basis points lower than CRAR under Basel-II (13.16%). As far as capital adequacy is concerned Basel –III as such will not pose much challenge to our bank because our common equity accounts for substantial chunk of our total capital(11.22% of risk weighted assets) and hence we do not perceive any difficulty in complying with the capital adequacy norms prescribed under Basel- III norms in near future.

The leverage ratio of our bank as on 30.09.13 is 4.94%, which is higher than 4.5% mandated by RBI. Since the gap between our leverage ratio and ratio mandated by RBI is only 44 basis points we may need to augment our Tier-1 capital base in near future to maintain a leverage ratio above the level stipulated by RBI.

4. Implementation of Basel- III norms in India

The RBI, being responsible member of BCBS has already rolled out the timelines within which these norms are implemented in India. These norms are proposed to be implemented in a phased manner. The table showing the transition to Basel- III is given below.

The BCBS has prescribed the achievement of compliance with Basel- III norms by January 2019, whereas RBI has shortened the time frame by 9 months to March 2018. Similarly the RBI has stipulated the minimum CRAR of 11.5 % as against 10.5% stipulated by BCBS.

Minimum capital ratios	April 1 2013	March 31 2014	March 31 2015	March 31 2016	March 31 2017	March 31 2018
Minimum Common Equity Tier 1 (CET1)	4.5	5	5.5	5.5	5.5	5.5
Capital conservation buffer (CCB)	-	-	0.625	1.25	1.875	2.5
Minimum CET1+ CCB	4.5	5	6.125	6.75	7.375	8
Minimum Tier 1 capital	6	6.5	7	7	7	7
Minimum Total Capital*	9	9	9	9	9	9
Minimum Total Capital +CCB	9	9	9.625	10.25	10.875	11.5

So it is evident that the RBI has stipulated more stringent requirements compared to BCBS.

Conclusion

Traditionally banking was considered as boring business. However after the evolution of many innovative products, rise in cross selling of third party products, changes in technology, emergence of tech-savvy ways of delivery of services banking has become more interesting and complex. The changing business environment and customer profile has also forced bankers to design new arrangements to finance ventures in a meaningful manner. But the rising complexity has made the banks more vulnerable to frauds and other risks which were blissfully absent in traditional banking. Further, the risk management practices in individual banks and banking sector could not catch up with the changes in the business models of many banks. Now, many economists (including prominent ones such as Paul Crugman) has argued for return to traditional banking, which was not as interesting as modern day banking ; but was more safer.

Despite, the views expressed by well-intentioned economists as given above, we know that wheels of time cannot be turned backwards and we need to live with the changed circumstances by suitably adapting our risk management practices. All stake holders of the financial community such as commercial bankers, central bankers, rating agencies, investors, financial intermediaries and other financial sector regulators need to play their part in pro-actively introducing and implementing prudent far-sighted risk management practices in financial sector.

Basel-III norms represent the latest attempt made by the group of learned central bankers to preserve the safety and stability of financial sector. It also aims to preserve the public confidence in banks in a dynamic business environment. Whether these norms will be able to accomplish its objective? Whether it will contribute in prevention of damaging financial crisis like global financial crisis of 2008? These are tough questions and only time will be able provide answers to these questions. As prudent bankers and optimistic individuals, let us hope that in forthcoming races between regulators and fraudsters, the former (armed with norms such as Basel- III) would thrive and thereby prevent the occurrence of financial disasters.

CREDIT RISK MANAGMENT- Key to good Financial Health

Sandeep Singh
Asst Manager
on deputation
Hadi Express
Exchange, Dubai

INTRODUCTION

In a bank dominated economy such as India, the asset quality of the banking system has important implications for the stability of the overall financial system. The general perception about a bank's health is greatly determined by the level of non- performing advances (NPAs) held in its books.

The business of banking essentially involves intermediation – acceptance of deposits and channelling those deposits into lending activities - and credit risk is direct fallout of this intermediation process. Certain amount of default and impairment of assets are likely to show up in the normal course of banking business and hence, credit risk management assumes a critical role in ensuring that such impairment is contained to a minimum.

Credit administration and the asset quality of banks is the most significant factor that affects the future of the banks. We intend to highlight the concerns surrounding the areas of credit risk management with respect to the Indian banking industry. We begin with looking back at historic trends in asset quality and credit management of banks and then use the 'learnings' to suggest a comprehensive solution to tackle the issues.

CREDIT RISK MANAGEMENT

When banking was simple, credit risk management was also straightforward. Lending decisions were made on impressionistic basis as the banks knew their borrowers and their businesses quite closely and hence they did not appreciate a need to collect and process elaborate information/ data for supporting their credit decision making framework. Over time, as banking activities diversified and became more complex and the products became more sophisticated, risks also increased and became more complex. Although, the risks from intermediation became more transitive and contagious, the evolution in the credit risk management failed to keep pace. The advanced credit risk management necessitated a granular analysis of the risks that the banks were being exposed to; however, they failed to appreciate these requirements and relied on a primitive management information system. To my mind, the failure of the banks to collect and analyse granular data/information on various elements of credit risk is one of the major reasons why the banks failed to foresee the impending problems.

HISTORY OF NPA CLASSIFICATION and CREDIT MANAGEMENT

Let me first trace briefly the evolution of NPA regulation in India. Until mid-eighties, the management of NPAs in India was left to the banks and the auditors. As the need for fine tuning regulatory structures to deal with the changing risk-profile of banking was felt, in 1985, the first-ever system of classification of assets for the Indian banking system was introduced. This system, called the 'Health Code' system, involved classification of advances into eight categories ranging from 1 (Satisfactory) to 8 (Bad and Doubtful Debts). A significant change in this evolution process in regulatory instructions, however, came in April 1992 with the introduction of prudential norms on income recognition, asset classification and mathematical methods for the computation of provisioning requirements. A graded norm for NPA recognition was brought-in, beginning with a four quarter norm for classification of advances as non-performing. With the introduction of 90-day norm for classification of NPAs in 2001, the NPA guidelines were brought at par with international standards.

Even as the NPA classification norms were being gradually tightened to bring them at par with international standards, RBI also introduced guidelines on "restructuring of advances" during the early 1990s. The guidelines required that standard assets, where the terms of the loan agreement regarding interest and principal had been renegotiated or rescheduled after commencement of production, be classified as sub-standard. In 2001, the instructions were further strengthened to clarify the asset classification treatment of restructured accounts prior to commencement of production as well.

The classification of advances as per the newly introduced "prudential norms" enabled a proper assessment of the extent level of non-performing assets in the Indian banking system for the first time. The initial figures for the NPAs in the system were quite high and hence, created sufficient incentive for the regulators and the banks alike to bring them down to manageable levels. Over time, as the banks introduced improvements in credit risk management systems and processes, the headline NPA ratios declined appreciably.

ISSUES in CREDIT MANAGEMENT FACED BY BANKS IN INDIA

(a) **Primitive Information Systems -** At the outset I had highlighted how the evolution of information systems had not kept pace with the changing banking landscape. Improvement in information systems were not in keeping with the increase in asset size of banks and the increasing complexities in credit management. The lack of granular data on slippages, early indications of deterioration in asset quality, segment wise trends, etc., hampered timely detection of problem accounts and weakened banks' credit risk management capabilities. As a result, banks failed to identify the reversal in trends in asset quality in the pre-crisis period (before 2008).

(b) **Lax credit management -** RBI reports have revealed that impairment in assets were an off shoot of the deficiencies in credit management that had crept in during the pre-crisis "good years". Banks with higher credit growth in 2004-08 ended up with higher growth in NPAs during 2008-13 period. A bank wise analysis of credit and NPA growth indicates that the compounded annual growth rate (CAGR) of NPAs during the period 2008-13 was highest in case of banks whose CAGR of credit was also higher during 2004-09. Thus, it was during the pre-crisis years that deficiencies in credit appraisal crept in, credit monitoring was neglected and recovery efforts slowed.

Let me elaborate on some of these points with some specific illustrations about the deficiencies in credit appraisal.

Evidence suggests that the banks were not taking adequate cognisance of the build-up of leverage while sanctioning or renewing limits. In fact, banks' credit appraisal processes failed to differentiate between promoter's debt and equity and over time, promoters' equity contribution significantly declined and leverage increased. In particular, there has been a significant increase in the indebtedness of large business groups in recent years. A study of ten large corporate groups by Credit Suisse has revealed that the share of these ten groups in total banking sector credit more than doubled between 2007 and 2013 even while, the overall debt of these groups rose 6 times (from under Rs. one trillion to over Rs. six trillion).

Ironically, the banks were found to be lending more to sectors that had high impairments, pointing to possible lacunae in credit appraisal standards. For example, while the CAGR of credit for the period 2009-2012 for the banking sector was 19 per cent; the segments like iron and steel, infrastructure, power and telecom witnessed much higher credit growth despite the impaired assets ratio for these segments being significantly higher.

Indian corporates, operating in India and abroad, have been increasingly accessing international debt markets to raise capital. While this is presumably being done to take advantage of the low interest rate in the international markets, in an environment of fluid exchange rate markets, corporates run the risk of incurring losses from adverse movement in exchange rates for their un-hedged exposures. The un-hedged exposures and an eventual increase in interest rates could put pressure on the corporates and eventually spill-over to their lenders.

THE FUTURE...

While we have so far dwelt on the problems that characterise the credit management in Indian banking system, let me count some positives. The first and foremost comforting factor is that we have thrived through much more challenging times in the past so far as the NPA ratios are concerned. In fact, in March 1994, the NPA levels were much higher than the present level. The aggregate banking system GNPA ratio was 19 per cent in March 1994 and for PSBs was 21 per cent. Against that benchmark, the current position of NPAs in the banking sector is not alarming. In March 2013, the GNPA ratio was 3.4 per cent for banking system and 3.6 per cent for PSBs. Even if we were to consider the impaired assets ratio, for the system as a whole it is much lower at 10.6 per cent while for the PSBs it stands at 12.1 per cent.

Another silver lining on the cloudy horizon is provided by the strong capital position of Indian banks. Our stress testing of the banks' asset portfolio (by applying different static credit shocks, including shocks to banks' restructured accounts) as of June 2013, has revealed that the system level CRAR would remain above the required minimum of 9 per cent. However, only under severe shock of 150 per cent on NPA, the Core CRAR would go down to 6 per cent.

The relatively lower level of provision coverage ratio (PCR) of banks in India as compared to their global peers is a weak spot in an otherwise fairly resilient Indian banking system. The sad part is that this ratio has seen a declining trend in recent years. A study conducted in the Reserve Bank (covered in the Financial Stability Report of June 2013) assessed that, under stressed macroeconomic conditions, the current provision coverage of banks in India may not be sufficient to cover expected losses. The PCR presents a more dismal picture when restructured standard advances are also considered, as it stood at just 30 per cent in March 2013 down from 35 per cent in March 2009. Hence, it is essential the banks increase their provision cover from current levels and strengthen their balance sheets.

Thus, on the whole while the banks will be able to withstand the present deterioration in asset quality, the rise in slippages and the quantum of restructuring coupled with low PCR levels is a source of worry and over a period of time the situation could pose greater concerns especially if timely corrective actions are not taken.

CONCLUSION

Some concrete steps like careful examination of existing NPAs for determining further course of action - rehabilitation or recovery, would need to be taken in the short term. Accounts identified as viable will need to be quickly rehabilitated with support from the bank and the borrower through infusion of new equity from new promoters. Above all, a robust accountability mechanism for all levels of hierarchy in the stakeholders – banks, borrowers, regulators, policy makers and the government at large – will have to be put in place to ensure that banks' asset quality improves on a sustained basis.

Muvattupuzha NRI meet : From Left: Ms. Malavika Nair, Cine Artiste, Smt. Leela Joseph Vazhakkan, Prog. Executive, AIR, Nagercoil, Sri. Joseph Vazhakkan, MLA, Muvattupuzha, our ED Sri. Abraham Thariyan, Sri. Sathyanarayana Murthy, CA, Senior Partner, Varma and Varma Associates, Sri. A. Narendran, DGM (Mktg) and Sri. Joly Sebastian, AGM & Reg. Head. Dance performance by Master Mohd Ramzan.

Thanksgiving

Paul V.L.
Depty. Gen. Manager
Personnel Dept. HO

Our bank had recently nominated me to attend a Programme on Leadership Development for Corporate Excellence at NIBM, Pune in Collaboration with Kellogg School of Management USA. This programme had two modules the former of which was at NIBM Pune and the latter at Kellogg School of Management Evanston Chicago USA. This was a programme attended by Senior Executives of Public Sector Banks in India and South Indian Bank was the sole representation from the Private Sector Banks. Incidentally, our MD & CEO, Dr.V.A.Jospeh was one of the eminent speakers who addressed the participants at NIBM. It was indeed a stupendous programme covering the major facets of modern day leadership with specific focus on banking. The programme was hosted at Evanston a place close to the famous Lake Michigan. The natural beauty of the lake was a treat to the eyes even though the temperature was sub zero.

The days of our assignment at Kellogg so happened to coincide with the 'Thanksgiving week' in the U.S. Thanksgiving which is one of the most meaningful verbs in the English dictionary is actually considered as an occasion for celebration in the United States. Having been a part of this great celebration, I thought I will pen my thoughts on the importance of this wonderful day . Many people trace the origin of the modern 'Thanksgiving Day' to the harvest celebration that the Pilgrims and the early settlers held in Plymouth, Massachusetts in 1621.

The last Thursday in November is the customary day for celebrating the 'Thanksgiving'.

For the Americans, the word evokes images of football, family reunions, roasted turkey with stuffing and pumpkin pie. Turkey and pumpkin are the two words associated with 'Thanksgiving'. Pumpkin is 'the' vegetable which is used on every 'Thanksgiving' table in the form of the customary 'Pumpkin Pie'. Pumpkin leaves are also used as salads. Pumpkin is considered to be one of the important symbols of the harvest festival.

'Thank You' are two little beautiful words that open a million doors of happiness in human hearts.Giving thanks to the Creator for a successful harvest, the birth of a child and other good fortunes had always been a part of their daily life.

If there is one day each year when food and family take center stage, it is this 'Thanksgiving day'. The Sunday following 'Thanksgiving' is always the busiest travel day of the year in the United States. Each day of the long 'Thanksgiving' weekend, more than 10 million people take to the skies, another 40 million Americans drive hundreds of miles to join their dear ones for the 'thanksgiving' dinner and the railways teem with travellers going home for the holiday.

Despite modern-age turmoil—and perhaps, even more so, because of it—gathering together in grateful appreciation for a 'thanksgiving' celebration with friends and family is a deeply meaningful and comforting annual ritual to most Americans. The need to connect with loved ones and to express gratitude is at the heart of all this feasting, prayerful thanks, and recreation. It was George Washington, the first president of the United States, who proclaimed 'Thanksgiving Day' as a national holiday in the year 1789.

Thanksgiving Day parades are held in some cities and towns and it also actually kick starts the opening of the Christmas shopping season. Most government offices, businesses, schools and other organizations remain closed on 'Thanksgiving Day'.

It is said that we Indians are very 'kunjoos' when it comes to expressing 'thanks' compared to the westerners. By thanking the Almighty or our fellow brethren we not only acknowledge the good that has been done or the favours that we have received, but also gives us more hope for our further wants and requirements in life. I am reminded of a story that I had read some time ago. It was about a blind boy who sat on the steps of a building with a hat by his feet. He held up a sign which said, "I am blind please help".

There were only a few coins that had been dropped in the hat. A man was walking by.

Sri. V.L. Paul DGM, Personnel Dept. seen with Senior Executives of Public Sector Banks at Kellogg School of Management USA

He took a few coins from his pocket and dropped them into the hat. He then took the sign, turned it around and wrote something new. He put the sign back so that everyone who walked would see the new words.

Soon the hat began to fill up. A lot more people were giving money to the blind boy. That afternoon the man who had changed the sign came back to see how things were turning out.

The boy recognized his footsteps and asked, "Were you the one who wrote something on my sign board this morning? What exactly did you write?'

The man said, "I only wrote the truth, it was what you said, but in a different way". I wrote:- "Today is a beautiful day but I cannot see it". Both signs conveyed to the people that the boy was blind. But the first sign simply said that the boy was blind. The second sign reminded the people that they were lucky they are not blind. It was the second sign that was more effective.

The moral of the story is – Let us be thankful for what we have. *Be Creative, Be Innovative, Think Differently and Positively. When Life gives you 100 reasons to cry, show Life that you have a 1000 reasons to smile. Face your past without regrets, handle the present with confidence and prepare for the future without fear.*

Let us be more lavish with the two words ***'Thank You'.***

Rededication of Staff Training College,Hyderabad: Our Chairman Mr. Amitabha Guha, Mr. George Paul, DGM with SIBians at Hyderabad

Rededication of Staff Training College at T Nagar Branch Chennai: Seen in the picture are Ms. Shyamala Jayaprakash, General Secretary Asan Memorial Association, Mr. Rajan Sapra and Dr. Rita Vijayan our valuable customers,our MD Dr. V.A. Joseph, Mr. Anto Paul DGM Chennai Region, Mr. Viji Yuvaraj Chief Manager, T Nagar branch and cine artist Ms. Kadhal Sandya

THE ROAD LESS TRAVELLED

Antony Roshan
Manager
Varkala Branch

In today's Banking scenario fee based income from third party products like LIC etc. is crucial for the profitability of the Banks. Here I would like to create awareness about a niche Product of LIC which could bring in a good profit to the Bank.

The opportunity here is to transfer large volume of funds in UK Registered Pension Schemes (UK RPS) to a Qualifying Recognised Overseas Pension Scheme (QROPS). The QROPS regime was introduced in April 2006. It allows an individual to transfer his/her pension savings in a UK RPS to a pension scheme that meets the conditions to qualify for a QROPS, free of UK tax (subject to the lifetime allowance, which is currently £1.5 million).

Our "LIC's Jeevan Akshay VI" is the only Annuity plan approved by the Government Of India which is listed as QROPS. The funds available in UK RPS when transferred to India will be in bulk volume. There is an opportunity to canvass LIC policies of Rs. 50 Lakh and above which will bring in precious "Fee Based Income" for our Bank. It will also enable us to achieve individual milestones like attainment of the "Bhima Branch" status.

Unique Selling Points for Marketing this product

- The returns available in UK RPS is very low when compared to similar products in emerging markets like India. LIC Jeevan Akshay VI offers returns of approximately 7%.
- The Indian rupee - GBP rate being high, transferring the funds to India will allow the customer to reap the benefits of weakening rupee.
- Jeevan Akshay-VI is the only Govt. Guaranteed Immediate Pension plan currently available in India.
- The pension amount is repatriable through NRE A/C. LIC will be able to credit the pension amount to the NRE account of the customer if required.
- In case of death, the entire invested money will be transferred to the nominees tax free.

Which type of UK Registered Pension Schemes can be transferred?

In UK the individuals mainly have two types of Pension

1) **Government Pension** – It will not be ideal to transfer this pension fund to India as the individual may lose the benefits offered by the UK Government.Moreover the customers too may not be willing to transfer this type of Pension Scheme.
2) **Company Pension –** This type of pension funds can be targeted by us. These pension funds are created through the contribution of the individuals and also contribution by the employers.

Who are the Target Customers?

1. Non-Resident Indians planning to migrate out of UK permanently will be able to transfer their Pension Funds to India. The QROPS Scheme was designed by the UK Government for the purpose of allowing individuals who intend to leave UK permanently to carry their pension savings with them, free of tax, to their new country of residence in order to continue saving and provide an income during their retired life.

2. Non-Resident Indians (even customers having UK Citizenship) who are residing in UK and are not planning to leave UK permanently and who also make occasional visits to India . The QROPS rules does not stop a UK resident to transfer the funds from UK RPS to a QROPS scheme like LIC Jeevan Akshay VI. It says *"The QROPS regime applies UK tax rules to payments made out of those transferred funds. Tax charges will apply to the payments where it is considered that the individual has not left the UK permanently". If the individual is a UK resident or has been a UK resident at any time during the five full tax years before a payment is made out of the funds transferred to the QROPS, the individual will be subject to the UK tax rules that would apply to similar payments made by UK registered pension schemes.*

What do you mean by payments made out of transferred funds?

This refers to the payout of the funds transferred from the UK RPS to QROPS Scheme. Penalty charges have been devised to avoid misuse of the scheme where individuals transfer the fund from a UK Registered Pension Scheme to a QROPS Scheme or any other pension fund in a country not governed by strict rules. These fraudulent individuals use the lenient rules in those countries to avail payout from the funds transferred.

Investors in our LIC Jeevan Akshay VI need not worry about this issue as funds once invested in our Pension Scheme is not withdrawable by the individual and also it is not possible to avail loan on the funds. LIC is an annuity plan approved by the Government Of India and pays immediate pension which is not a violation of the rule.

How can we market this product?

1) ***Send a letter to our UK Customers informing them about this unique opportunity.***
2) ***We can merge the monthly annuity payments from LIC with our RD Deposit Scheme for high returns.***

- If Pension Amount is Rs. 40,000/- then RD maturity at the present interest rate of 8.75 % after 10 Years is Rs. 76.60 Lakh
- If Pension Amount is Rs. 50,000/- then RD maturity at the present interest rate of 8.75 % after 10 Years is Rs. 95.75 Lakh
- If Pension Amount is Rs. 60,000/- then RD maturity at the present interest rate of 8.75 % after 10 Years is Rs. 114.90 Lakh

How do we transfer the funds from UK Registered Pension Scheme to our LIC Jeevan Akshay VI?

STEP 1 Ask for the latest details of our Customer's UK Registered Pension Scheme. This data will provide us with the following information.

- Name of the UK Registered Pension Scheme (RPS)
- The type of scheme in which the funds are invested
- Amount of funds available in the Pension Scheme

STEP 2 The support and active involvement of the local LIC Office Manager should be sought. Analyze the website of the UK RPS to find out whether the funds can be transferred to a QROPS.

STEP 3 Convince our customer to transfer his funds in UK RPS to LIC Jeevan Akshay

VI. What is required us is a thorough understanding of UK QROPS Rules and other related Tax Rules in UK. This is because UK Tax rules are very rigid and people are generally cautious while dealing with the same.

STEP 4 **If the customer is in India at the time of processing obtain the following:**

1) Authorization Letter in the name of the LIC Manager authorizing him to request the UK RPS Manager to transfer the pension funds on behalf of the customer.

2) QROPS Form APSS263 (Member Information) which furnishes all the information needed for the UK RPS to transfer the funds to a QROPS signed by the Pension Holder (our customer).

3) Overseas Pension Scheme details signed by LIC.

4) Letter from LIC Manager to the UK RPS requesting to transfer the Pension Fund to the bank account of LIC

The procedure to be followed if the customer is in UK at the time of processing:

1) We may forward the following documents to our customer intending to transfer the fund so that he may directly submit the same.

2) QROPS Form APSS263 (Member Information) which provides all the information needed for the UK RPS to transfer fund to a QROPS to be signed by the Pension Holder (customer).

3) Overseas Pension Scheme form signed by LIC Manager.

4) Letter from LIC Manager to the UK RPS asking to transfer the Pension Fund to the bank account of LIC .

STEP 5 The UK RPS may raise queries to LIC which need to be answered immediately.

STEP 6 Once the fund is received directly to the account of LIC, further formalities in connection to the Policy Opening need to be completed.

Some Technical Aspects: A transfer is the moving of an individual's accrued pension rights from one scheme to another. The pension tax legislation specifies which are the transfers that may be made without adverse tax consequences. These transfers are known as "recognised transfers" and are a type of authorised member payment. To be an authorised member payment transfers must be made to either a registered pension scheme or a QROPS.

Tax charges arise on the individual (up to 55 per cent of the amount transferred) under sections 208 and 209 of Finance Act 2004 (UK) and on the scheme administrator of the UK registered pension scheme (15 per cent of the amount transferred) under the transfer section 239 of Finance Act 2004 (UK), if the beneficiary pension scheme receiving the transferred pension savings is not a QROPS.

Tax relief: The transfer is not a contribution and so no UK tax relief is due in respect of it. The transfer is merely re-locating the pension rights represented by UK tax-relieved contributions to a different pension scheme.

Lifetime Allowance: The transfer to QROPS is treated in the same way as a transfer from a registered pension scheme to another registered pension scheme.

The transfer is a benefit crystallisation event for the purpose of the member's lifetime allowance. The amount crystallised is the amount of the transfer. If the transfer results in exceeding the member's lifetime allowance (currently £1.5 million), the rate of tax chargeable is 25%

The taking of benefits relating to the transferred amount from a QROPS is not a benefit crystallisation event for the purposes of the individual's lifetime allowance.

Inauguration of Aizawl Br. (Mizoram): Our ED Mr. Abraham Thariyan along with Mr. Nandakumar G. DGM, Kolkota Region and Aizawl Br. Team

Member payment charge: Any future payment from the overseas scheme which is a type of payment which would not have been authorised from a UK registered scheme will potentially give rise to a member payment charge under Schedule 34 Finance Act 2004 on a resident or recently resident individual.

Illustration: We sent e-mails to a few of our UK Customers and informed them about this product. Mr. Sanjeev (name changed) is an Overseas Indian having UK Citizenship and is permanently residing in UK. He had initially invested his Company Pension fund in a UK Pension Fund linked with Equity Market and suffered losses. He then shifted the Pension Fund to a UK RPS called "Scottish Life Pension". The pension fund available now is £ 1,30,000/- (Worth above Rs. 1.20 Crore at present Exchange Rates). The return available for him in the UK RPS is below 2%.

We informed him that he will be able to get a monthly pension of approx. Rs. 69,000/- which if reinvested in a Recurring Deposit with SIB for 10 Years will yield an amount of Rs. 1.34 Crore. The necessary forms and the required letter from LIC have been sent to Mr. Sanjeev for submission to "Scottish Life Pension".

The present position is that Mr. Sanjeev has forwarded the papers to Scottish Life Pension and requested them to transfer Pension Fund to LIC Jeevan Akshay VI. The result of the request made to Scottish Life is eagerly awaited.

Reference available for further information

- www.hmrc.gov.uk

Loan Life Coverage Ratio

Unnikrishnan E.S.
Chief Manager
Credit Sanctions Dept. HO

Loan Life Coverage Ratio (LLCR) or **Loan Life Ratio** is a relatively new concept. However now-a-days it is one of the most commonly used financial ratios in Project Finance and Corporate Loans. The ratio is defined as the ratio of the Net Present Value (NPV) of Cash Flow Available for Debt Service (CFADS) over the entire life of the loan to the outstanding/proposed debt. It is a measure of the borrowing company's ability to pay and discharge the debt, over the life of the loan. The ratio gives an estimate of the credit quality of the project from a lender's perspective.

Generally the LLCR is calculated as:
LLCR = NPV [CFADS over Loan Life] / Peak Amount of Debt

Net Present Value

Net Present Value (NPV) is the value **now** of a stream of future cash flows, negative or positive. The future cash inflows (positive cashflows) from projects under implementation suffer from varying degrees of uncertainties. And, uncertainty means risk. The higher the risk, the higher should be the return from the value at risk.

A cashflow expected on a future date, however assured and risk-free be it, is not equal to cash in your pocket. That is why banks pay you interest on your deposits and charge interest on your loans. This is the *time value* of money.

So, the value of each cash flow needs to be adjusted for *risk* and *time value* of money and such adjusted value of cashflow is the Net Present Value.

NPV is calculated as follows:
$NPV = CF_0 + CF_1/(1+r) + CF_2/(1+r)^2 + CF_3/(1+r)^3$ ...
where CF_1 is the cash flow the investor receives in the first year, CF_2 the cash flow the investor receives in the second year etc. and r is the discount rate.

For calculation of LLCR, Net Present Value of Cash Flow Available for Debt Service [NPV (CFADS)] is measured only up to the maturity of the debt tranche. The discount rate used to calculate NPV is the *weighted average interest rate* of all debt tranches until maturity and can be calculated simply as:
= Total Interest (for all debt tranches) / Total Debt Balance (for all debt tranches)

In the case of project finance, all the figures reckoned are those relating to the project, but in other cases, they would be calculated for the borrower.

Interpretation of the Loan Life Coverage Ratio

An LLCR of 2.00x means that the Cashflow Available for Debt Service (CFADS), on a discounted basis, is double the amount of the outstanding debt balance.

An LLCR of 1.00x means that the CFADS, on a discounted basis, is exactly equal to the amount of the outstanding debt balance. The movement of a key variable to achieve an LLCR of 1.00x is an important measure of the strength of the project economics, often referred to as the 'LLCR break-even'.

Variations in LLCR Definition

There may be occasions when Borrowers request and Lenders allow other 'assets' to be either included in the numerator or excluded from the denominator to reflect instances where there will be other cash deposits available to the lender in the event of default rather than just the NPV of the cashflow. For example it is not uncommon to find the balance of the project's cash account, or the Debt Service Reserve Account ('DSRA') added to the numerator or netted from the denominator. Extreme caution needs to be applied when assessing the economics of a project where the LLCR is supported with cash account balances.

When DSRA is included, the Loan Life Coverage Ratio shall be calculated as:
LLCR = (NPV [CFADS over Loan Life] + DSRA/c Balance b/f) / Debt Balance b/f

LLCR Versus DSCR

Unlike the Debt Service Coverage Ratio (DSCR) which measures the cashflow strength on a period-on-period basis, LLCR is a measure of the number of times the cashflow over the scheduled life of the loan can repay the outstanding debt balance.

The LLCR does not pick up weak periods as it essentially represents a discounted average. For this reason, if the Project has steady cashflows and Credit Foncier Repayment (Repayment in EMIs comprising of components of both principal and interest), the LLCR should be roughly equal to the average DSCR.

Another drawback of the LLCR is that the ratio does not account for cyclicality as it is based on an average discounted cost. The difference is that the LLCR accounts for the entire scheduled life span of the loan while the DSCR is a measure of the borrower's ability to repay on a year-to-year basis.

Use of LLCR as a Debt Covenant

Financial modeling of LLCR is now a standard metric calculated in project finance. The ratio is also used in debt covenants. A specific value for LLCR may be stipulated in a loan agreement. This stipulation may be put in by the lender for ease in knowing that the borrower will be capable of making the required interest and principal payments, and if they don't may be subject to a penalty, usually in monetary form. Reserve Bank of India has stipulated a benchmark for Loan Life Coverage Ratio of 1.40 for allowing restructuring of advances under the Corporate Debt Restructuring Mechanism.

LLCR as a Credit Control Tool

Loan Life Coverage Ratio can be used as a credit control tool. Banks can use the concept to decide the quantum of advance against future cashflows by way of annuities *(from a toll road etc.)*, lease rentals *(from land/building, machinery & movables, aircrafts etc leased out)* etc. The risk perception of the bank would decide the value of LLCR mandated as the debt covenant. In our SIB-RENTAL scheme, LLCR of 1.00x is considered adequate. If higher risk is perceived by the lender, cushion by way of higher LLCR can be added.

Conclusion

Loan Life Cover Ratio is definitely a very valuable tool to gauge the credit quality of the project from a lender's perspective. The ratio gives an insight to the standalone debt service capacity of a project and thus influences the credit decision. It does not replace the conventional concept of DSCR and so, should be used as an additional tool, along with ratios like *Project Life Coverage Ratio (PLCR-ratio of discounted cashflows for the entire life of the PROJECT to aggregate debt)* and *Reserve Life Coverage Ratio (RLCR – used for financing Mining Industry, Oilfields etc.)* wherever relevant.

Yeh Shaam Mastani...........

Lakshmi
Chief Manager
Chennai Anna Nagar

Yes, the words just sum up the gala evening at the magical city of Madrid that witnessed the honouring of top performers of the bank in a truly royal manner that only South Indian Bank does. The function was a glittering affair that made all the performers feel on top of the world.

The group of 65 had travelled half-way across the world from various parts of India to the beautiful city of Madrid. A quick glance through the tour itinerary gave us a picture of what the bank had to offer to the top performers in return for the dedicated efforts on their part.

Except for day one and four, when most of the time was spent on journey flight, we were kept on our toes round the clock. Day two took us to the ancient city of Toledo, a picture perfect city situated beside Tagus river, a city declared as a world heritage centre by UNESCO . A Spanish lunch awaited us at the local *cigarral*. At the end of the day we were treated to yet another Spanish dinner complete with *flamenco* dance. Day three was spent attending a Spanish mass, visiting the Royal palace, the monument of Cervantes and the local flea market. We also chanced to see the Real Madrid stadium and the Las Ventas Bull ring, which were the essence of what Madrid meant to the outside world. At the end of day three, the curtains were set to be raised at the long-awaited award ceremony.

Forgotten was the fatigue and exhaustion of three days of travel and sight-seeing. Forgotten were the tensions of the daily grind. The only thing that mattered to everyone present was to keep up the image of the bank and to rise up to the expectations of the bank. The evening was the culmination of the life time dreams of one and all.

The tension was palpable and every one waited with bated breath as the function unfurled the latest entrants to the SIB Hall of Fame. The warm ambience of the auditorium in the Hotel Holiday Inn where the programme was hosted added to the comfort level and instantly put everyone at ease.

The grand gala event started right on schedule and was graced by Mr.Birija Prasad, Deputy Chief of Mission, Indian Embassy, Madrid and his glamorous wife, Mrs.Pooja. The young couple lent charm to the warmth of the evening and soon the ball was set rolling with the inspiring speeches by our Chairman Mr. Amitabha Guha, our MD Dr.V.A.Joseph, our ED Mr.Abraham Thariyan and our CGM Mr. Joseph George Kavalam. The keynote address was delivered by the Chief Guest. The Chief Guest seemed overwhelmed by the whole concept and also suggested that we start a branch in Spain. The performers also spoke about their travails and paid rich tributes while the spouses were thankful and took our MD's words to their heart, vowing to ensure their support to partners who would work hard enough to come back for the next meet as well.

The formal part of the function came to an end with a colorful replica of the Spanish bull resting in everyone's hands. The Bull which represents the spirit of Madrid city, famous for its bull fights, aptly met and matched the aspirations of the fastest growing bank.

The next few hours held us mesmerized by the lilting melodies accompanied by karaoke or otherwise. A Thrissur-poora-paramba style skit had everyone in splits with many staff members and also some spouses putting in sporting appearances. The dinner was a lavish affair with both Indian and Spanish styles thrown in a good measure.

The night ended on a high note with everyone vowing to try hard to be back with a bang at the next meet likely to be held at ' a much more beautiful city' , which was all that our MD was willing to reveal. We left Spain the next day morning with the best ever memories of the proudest moments of our career and life. The whirlwind tour had come to an end , but not the journey towards success and perfection.

Our Lady Top Performers in Spain

IN THE LAND OF ESPANA

Cured ham on display

As a true Sagittarian, I always had a wanderlust deep within me and dreamt of seeing places like the character in "Eat, Pray , Love". I consider it a great blessing to have got an opportunity to enjoy the panoramic splendor of Spain by Providence combined with bank's benevolence in honouring the performers along with their spouses.

The long awaited trip started on the twentieth of September. We boarded the Emirates Airways and arrived at Dubai airport in the evening. The group consisting of sixty two of our staff members from different Regions of the Bank then proceeded to embark the flight to Madrid. After an exhausting journey, we reached Madrid Barajas Airport by night time. We checked into **Holiday Inn** located in the heart of Madrid's commercial hub.

TOLEDO

It was a beautiful lazy morning that we woke up to the next day. After breakfast, we left for the picturesque walled city of Toledo, one hour journey from Madrid. The stunning landscape appeared like a scene straight from a fairy tale. The location was picture perfect with castles; forts surrounded by the Tagus River and was indeed a feast to the eyes.

Menu of the day

Marzipan shop

Earlier, Toledo was the capital of Spain. It was declared a World Heritage Site by UNESCO and now the medieval city is preserved by the Government. Toledo is aptly called the "City of Three cultures" because of its rich Christian, Jewish and Moorish heritage. The first stop of the day was at a museum. We spent a considerable time gazing at the medieval swords, armours, fans, toys in Spanish apparel on display.

Our guide took us on a tour through the winding streets of Toledo. The narrow cobbled streets were lined with souvenir shops and most of them were teeming with tourists. The walk gave us a glimpse of the art, culture and history of the city.

On the way, we stopped at the '**Cathedral of Saint Mary of Toledo'**. The architecture of the church was influenced by French gothic style. The original stained glass windows added an aura to the interiors. Many monarchs of Spain lie buried inside the cathedral. The burial places of cardinals are marked by their hats that are suspended from the ceiling, and left hanging until they fall apart.

One striking thing we observed was that the mailboxes were yellow in colour.It was cool after being used to the red boxes back home. Lunch is usually a three course meal and food tends to be Mediterranean based. Menus are displayed on blackboards outside restaurants highlighting the dish of the day. We saw many such boards on the way. It was a bit weird to note that many shop windows displayed cured pig leg (*jamon* in Spanish) hanging on hooks. Spanish cuisine includes ham as a delicacy and is a national obsession too. Toledo is known for its tradition in making swords, knives and armours.Wandering through the winding streets, we saw countless shops selling decorative swords, shields etc and came across a shop window displaying doll nuns baking bread and sweets. Later we came to know that it was a "*marzipan shop*" (*marzipan is a sweet paste made with almonds and honey)*, attached to the convent, where delicacies prepared by nuns are sold to the public.

After the elaborate lunch, we proceeded to the hotel for some siesta leaving the magical land of Toledo behind.

In the evening our group was taken to the local mall for shopping. Later we went to observe *Flamenco dance* (a form of Spanish dance consisting of singing, guitar playing and dance) followed by dinner at a local restaurant.We were enthralled by the moves of the dancers and sat with our eyes glued to

Plaza De Toros

the stage. Flamenco dance which is similar to tap dance simply blew us away with the incredible footwork of the dancers.

MADRID CITY TOUR

Madrid is a green city studded with lot of trees. On Sunday morning, after a hearty Spanish breakfast consisting of Spanish tortilla and muffins, we set off for the city tour. We stopped for a couple of minutes before the famous "***Santiago Bernabeu Football Stadium*** forclicking photographs. It is one of the world's most prestigious football venues and is owned by Real Madrid Club. On the way, we saw the heraldic symbol of Madrid: a 20-ton statue of '*the bear and madrona tree*'.

Our next stop was '***Plaza de Toros'***. It is considered as the cathedral of bullfighting, huge enough to seat 24,000 spectators. We didn't venture inside and so were spared from witnessing the bloody and cruel sport in which the bull is killed and mutilated at the end. After that, we visited the monument in honour of ***Miguel de Cervantes,*** the author of the world famous classic 'DON QUIXOTE'. The monument consists of the stone sculpture of Cervantes, overlooking the sculptures of his characters Don Quixote and Sancho Panza. Following the visit, half the group set off for the flea market for shopping and the other half to attend the Sunday mass at '***Cathedral De La Almudena'***,named after the female patron saint of the city 'Our Lady of Almudena'.We bought picture postcards from the souvenir shop adjacent to the church.

After lunch from an Indian restaurant ,we went to visit the ***Royal Palace*** .It was the official residence of the Spanish royal family and is now used only for state ceremonies.It is considered as one of the finest palaces in Europe .The palace consists of approximately 2500 rooms and is now owned and operated by the Spanish Government.The huge crystal chandeliers and lavish interior spoke of a bygone era .

Kudos to the Regional Heads for surging their Regions towards excellence...

CASA League II

Nadakumar G., DGM, Kolkotta

Mobi Loan

Jose Paul, AGM Irinjalakuda

Housing Loan

Rajeevu M.A. , AGM Madurai

Jose Manuel, AGM Kannur

Abraham K.George, GM Ernakulam

Madrid is an amazing city and a sharp contrast to the colourful, noisy, crowded streets of india.Life moves at a slow pace and the city comes to a bustle during the night.

Award Ceremony

The most coveted and glittering award ceremony was set for the second day evening with photo session of all performers and their spouses. The chief guest of the day Mr. Biraja Prasad, Deputy Chief of Mission, Embassy of India, Madrid in his address emphasized on Indian Banks going global, and suggested that SIB should open a representative office in Spain. The Awards were given away by him in the presence of our Chairman Mr. Amitabh

Guha, MD Dr V A Joseph,EDs Mr.Cheriyan Varkey & Mr.Abraham Tharyan and CGM Mr. Joseph George Kavalam.The award function was followed by a grand dinner accompanied by a few mesmerizing performances by the Managers and their spouses, with Mr. Anto George , DGM in the lead.

We checked out of the hotel in the morning. We bid adieu to Madrid and left for Dubai and from there took the early morning flight home. We landed at Delhi in the morning of 24th September.

Spain is indeed a traveler's delight and the wanderlust in me was quenched to a certain extent .As a team we would like to express our warm heartfelt gratitude to our organization for making this trip memorable for us.

A travelogue prepared by **Ms Anu Mathew**, spouse of Nobby Joseph Br. Manager, Noida

The Legend, Never Retires

Raakesh P.V.
Asst. Manager
Staff Training College
Thrissur

"It's time to go"- The breaking news hit the world on 11th October 2013 dampening the spirit of every diehard fan of Sachin Tendulkar, a toddler to a golden-ager. Yes that was Sachin Ramesh Tendulkar, the most beloved son of Mother India, who was looked upon by us as the "God of Cricket" for almost two and half decades and had decided to hang his boots. Politics, Bollywood, everything else had taken a back seat on that day. Suddenly the test match series against West Indies was all about a grand adieu to the Master Blaster. The Master's retirement was the talk of the town. Such was the impact of this great man in our lives. Many might wonder why so much hype was created about a cricketer who was going to retire just like any other sports person at the twilight of his or her career. The answer is very simple. Tendulkar was so embedded in our collective consciousness, that we simply couldn't imagine the void that would be created post his retirement. He was the common language that everyone who cared about the sport understood. A cricketing landscape bereft of Sachin will be akin to new and unfamiliar territory. This man was meant to be around for ages; the human equivalent of the Taj Mahal.

"Is Tendulkar still batting?" was what every Indian fan wanted to know during the Indian innings in the late 1990's. If the answer was yes, there was still hope of a win. If it was no, then TV sets would be turned off and dreams put to bed. "As we did not lose to a team called India...we lost to a man called Sachin."- was famously quoted by Mark Taylor, Australian captain in 1998 when his team lost the Chennai test match. Tendulkar had scored 155 unbeaten runs in second innings, bewildering the star spinner Shane Warne by smashing hits all around Chepauk stadium. Barack Obama once said - "I don't know cricket but still I watch cricket to see Sachin play...Not because I love his game, it's b'coz I want to know the reason why my country's production goes down by 5 percent when he's batting"... which elucidates his impact on the hearts of billions of people around the world.

To me personally, Sachin Tendulkar is special not only because his name speaks volumes about statistics. Over 24 years that he represented India, he shaped out an identity for India, an India which discovered itself as a young and ambitious nation. If we rewind the clock, Tendulkar made his debut at a time when India was not at its prime in fields like film or sports. The cricketing legend called Sunil Gavaskar had already quit the field while another icon Amitabh Bachchan was past his prime. The country was desperate to find its next hero and that's when this lad with curly hair made his entry.

There have been national heroes before Sachin Tendulkar and there will be pan- India superstars after him. But no one has either given us nor will give us such precious moments.

What changed in India when Sachin was a constant?

Two decades-and-a-half is a pretty long time for anyone to survive at the helm but Tendulkar showed how dedication, determination and focus fuel longevity. From 1989, the year in which Sachin first made his debut in International cricket till today in 2013, the face of India, as a nation has changed a lot. The below stats will give us an exact idea about how the master has been a constant factor amidst all these changes.

Interesting trivia about Tendulkar

- Sachin wanted to become a fast bowler in his early days but was rejected by Dennis Lillee at MRF pace academy.
- In 1988, Sachin fielded for Pakistan as a substitute during a one-day practice match against India at the Brabourne stadium in Mumbai, a year before his international debut against the same team.
- In 1989, Sachin scored a century each on debut in Ranji, Duleep and Irani Trophy, a record.
- In 1989, Sachin made his debut in Tests, batting in pads gifted by his hero Sunil Gavaskar.
- In 1992, Sachin was the first batsman to

Changed Factors	1989(Debut Year)	2013 (Retired)
Rupee Dollar Exchange Rate	Rs. 16.9	Rs. 62.64
Stock market	389	20,896
Size of India's Economy	300 billion $	1.8 trillion $
Size of Scam	Bofors Scam Rs.64 Crores	Coal gate Rs.1.86 lakh crore
Cricketers earnings	Rs.40000 for test and 25,000 for ODI	Rs.7.00 lakh per test and 4 lacs for an ODI
Petrol Price	Rs.8.50	Rs.71
Prime Ministers	Sri. Rajiv Gandhi	Dr. Manmohan Singh
(His career saw 8 PM's of which 5 are no more)		

be given out through TV replay, in the Durban Test.

- In 1995, Sachin married Anjali, a doctor. She does not eat or drink when he is at the crease.
- In 1996, Allan Mullally was so psyched by Sachin that he claimed he was using a broader bat.
- 195- The identical number of innings it took Sachin and Lara to reach 10,000 Test runs.
- Sachin missed his first Test after playing 84 consecutive matches over 12 years.
- The number of times Sachin has hit the winning runs in Test matches is the most by an Indian.

Courtesy: India Today

Sachin's last innings as cricketer

It would have been inappropriate, almost discourteous, had Tendulkar gone without allowing his fans a suitable opportunity to bid him goodbye. But he did exactly what the fans expected him to do in his last innings. In his 200th and last Test match, Tendulkar showed how a genius can keep overwhelming emotions under control as he scored a majestic 74 in what will probably be his last international innings. The numbers mattered for the uninitiated but for those who loved the man for the last 24 years, each and every stroke that came out from that blade was a celebration. His 74 came from 118 balls with 12 boundaries. That innings was a vintage Tendulkar, who made everyone sit on a 'Time Machine' as he rolled back those years. As he took the long walk back to the pavilion for one last time, millions of tears just flowed and it was a befitting tribute that the crowd and the Indian Team gave to the legend called Sachin.

Tendulkar wore the India flag on his helmet with pride; he cared passionately about winning, and was determined to be the best. I would even go as far as to say that this sort of sustained excellence by one individual is unprecedent in the history of Indian sport. Who better a role model for a country to have who is so humble and grounded and always knew what he was doing? During difficult times in his career he perfectly answered all his critics with his bat.

His farewell speech after the match was simply unexpected and heartwarming and came as a surprise. He beautifully summed up how family & friends had played a major role in his life and were pivotal to his success. Even though he couldn't manage a ton with his bat during his last innings on the field he signed off in his grand style with the perfectly portrayed farewell speech.

Sachin – Post Retirement

Sachin has started his 2nd Innings of his life in a grand style. Post retirement, he was honored by the Govt. of India with the highest civilian award "Bharat Ratna" which is the icing on the cake for his already glittering career. The announcement was made on the very same day of his retirement. Many wanted him to take up the coaching mantle as his profession to train young Indian players after retirement. Some want him to get actively involved in politics for which he has already expressed his reservations. Recently UNICEF has named him the first brand ambassador for South Asia and is all set to work in promoting hygiene and sanitation in the region. This shows that his popularity is here to stay with us. The entire nation will be keen to know how the 2nd Innings of Cricket less Sachin unfolds.

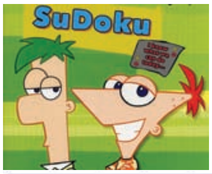
And there is a lesson that every one of us could learn from the master's career.

A) To practice the skill we have. Hours and hours of practice made him the batsman he was.
B) Dedication towards work we do. He batted with great dedication and displayed the same throughout his career.
C) Staying grounded at all times even when in limelight.

D) And above all passion towards the work which we are involved in. He had this child like attitude towards the game which is the rarest of rare quality that he was able to sustain even after 24 long years which shows his pure love towards the game.

When I saw this cricketing colossus departing the arena one final time to the chants of "Sacchiiin, Sachinnnn", the only parallel scene that came to my mind was the closing scene from the movie Gladiator, the one in which the Emperor's daughter stands beside a fallen Maximus and makes one short, simple exhortation to the masses: "He was a soldier of Rome. Honour him." Yes. He was a true soldier of the Indian cricket team and a genuine hero who will live forever in our hearts. Thank you, Thank you & Thank you for all the wonderful memories you gave us.

Cricke'T' will never be the same without Tendulkar again.



Sudoku Corner Puzzle No.10

9		5				3		
		3						
7	1			3		5		2
4		1			3	7		8
	7		4					
2					9	1		
		2			8			1
8		4		9			5	3
				5			4	

1	3	5	4	9	2	7	8	6
2	4	7	3	6	8	9	5	1
6	8	9	7	5	1	2	4	3
5	2	8	9	1	7	3	6	4
9	6	3	5	2	4	8	1	7
7	1	4	6	8	3	5	9	2
3	5	2	8	4	6	1	7	9
4	9	1	2	7	5	6	3	8
8	7	6	1	3	9	4	2	5

Solution for the previous puzzle. The lucky one to be picked out from the 302entries with the solutions is **Ms. Meenakumari** Br. Saravanampatty

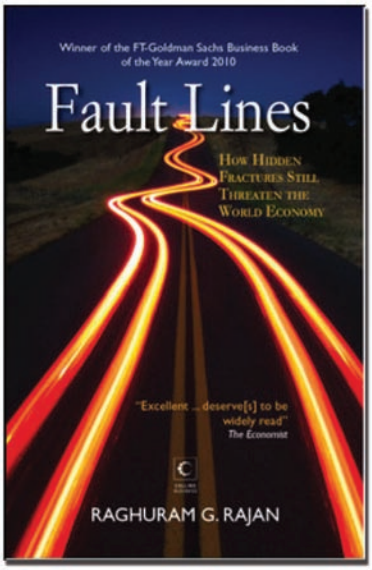
Email us the right answer on or before **15th March, 2014** and you could be the lucky one to be featured in the next issue!

BOOK REVIEW:

FAULT LINES

by Raghuram G. Rajan

Winner of the 2010 Business Book of the Year Award, Financial Times and Goldman Sachs



In brief about the author:
Currently: Governor of the Reserve Bank of India
Previously: Chief Economic Advisor to the Government of India

Raghuram Rajan was one of the few economists who warned of the global financial crisis before it hit. Now, as the world struggles to recover,Rajan shows how the action of Bankers, Governments etc. brought about the economic meltdown. He traces the deepening fault lines in a world overly dependent on external funding to power global economic growth and stave off downturns.

In Fault Lines, Rajan outlines the hard and unpopular choices needed to ensure a more stable world economy.

First published in 2010, the review was undertaken with the intention of validating the ideas assimilated in the book, three years on, and how we, as bankers could draw on the issues and proposed remedies, to better face the troubled economic times we are a part of.

To begin with, the author talks about income inequality in the USA that precipitated an easy credit regime, primarily for housing, that worked as a quick fix that kept all parties concerned happy. He illustrates how this distorted the real estate market and how even the most well-meaning government programs ended up achieving the opposite.
He moves on to discuss how Japan and Germany, exported to grow while the erstwhile Asian Tigers depended on flighty foreign financing, borrowing recklessly and running large deficits to grow and absorb the surpluses being exported, further deepening the fault lines in the global economy and causing large imbalances. The author discusses the weak safety net for the unemployed in the USA, how that affected the recovery from downturns and the political push towards a more expansionary policy post the 2000 bust.

It follows on to the response to the 2000 bust: very low interest rates for a sustained period of time and an asymmetric policy from the Federal Reserve that instead of stabilising growth, encouraged financial profligacy, with the implied assurance that any future bubbles that burst would be bankrolled by the taxpayer. An important observation is made: that while the Fed may be the de-facto central banker to the world, its objective, and more importantly, its mandate, is to manage the American economy.

The sections on the FIs and the rising asset prices and the decoupling of asset prices from their fundamentals, gives an interesting insight into how the financial markets and participants quite literally, 'bet the bank'.

The final sections address the fault lines and possible solutions to ensure that the financial sector is reformed and restructured to prevent a repeat of the crisis that is just starting to withdraw now, albeit slowly. The proposed reforms touch upon competition, the logic of government intervention and the need to end subsidies. There are further highlights, such as the need to prevent institutions from becoming systemically important or irreplaceable. Another important theme is the need for buffers and resilience.

The final chapters address the new world order and the need to upgrade human capital and provide people with a stronger safety net, as well as better adjusted incentives and rewards. The need for a multilateral effort and co-ordinated action is also stressed on.

The book is definitely a must read if one wishes to put in context the various responses, the world over, to the economic crisis. The clarity of thought and structure makes it very easy to read, and technical terms are kept to a minimum. The roles of the various stakeholders in the new global structure are much easier to identify and relate to.

Also, it provides an interesting insight into what could be the basic principles our new Central Bank Governor relies on, when formulating India's response and hopefully much needed financial reform. The various ideas do definitely put in perspective Rajan's policy actions so far.

The modern banker is viewed as one with a degree of being a one stop for financial advice, at least in India, in addition to the traditional role of being a custodian of assets. He/She is also expected to bring something different to the table, in the modern organisation.

In this light, I would definitely recommend the book,which is still as relevant today as it was when it was written.That, in my opinion would be reason enough to pick up this book- the need to be ready and equipped to understand and respond to the needs of our customers and more importantly, to explore and develop new opportunities for ourselves and the bank.

Philip Mathen
Manager
Mumbai Treasury

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Fun & Frolic

Women's Day Out : Mumbai Bandra Team at Lavasa

Thrissur North Br. Team enjoy at Nelliyampathi

Trivandrum Main Br. celebrate at Poovar Island Resort

Coimbatore Main Br. Team chilling out at the Ootty hills

IRMD Team relax risk free at Kumarakom

Kolenchery Team at Vagamon

Personnel Dept under the leadership of our CGM Sri Joseph George Kavalam at Alapuzha

You will always remain a part of the SIBian family....

Mr. K.C. Francis, DGM

Mr. Francis Antony P., DGM

Siblink appreciates the dedicated service during their tenure. Their contributions will always be remembered with gratitude

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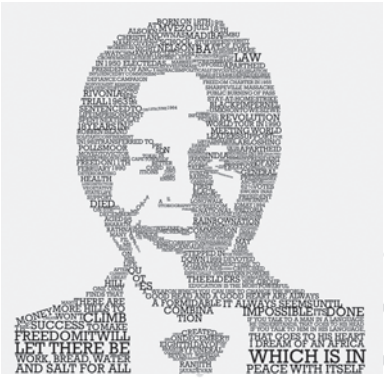
Mr. Prasoon P. J., Manager, Murikkassery Br. has secured Second highest marks in Subject Customer Service & Banking Codes & Standards conducted by IIBF for the year 2012-13.

Kavitha M.V, Prob. Clerk Br Puthenpeedika secured II nd rank in M.Sc Statistics from MG University

Durga Pramod, D/o C.P. Pramod, Chief Manager Regional Office, Delhi who has won the Girls Singles event of All Kerala Association of ISC Schools Badminton (Shuttle) Championship held in Udyogamandal, Kerala.

Graduation as Fighter Pilot of P. R. Shankara Subramanian S/o Mr. P.S. Ravi , Sr. Manager, Mumbai conferred on behalf of President of India by Chief Air Marshal Sri Brown at Air Force Academy, Dundigal, Hyderabad.

Painting



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Anish Varghese& Deepa Varghese D/o Thressia CT, HO Plng & Dev. Dept.

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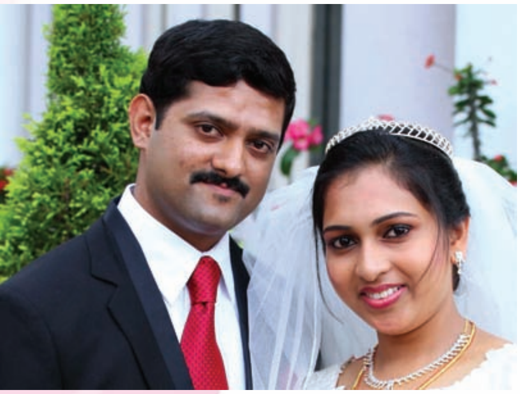

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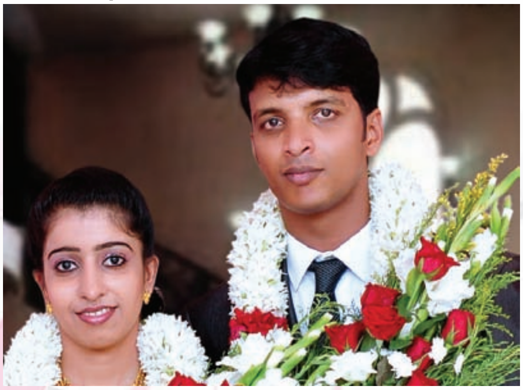

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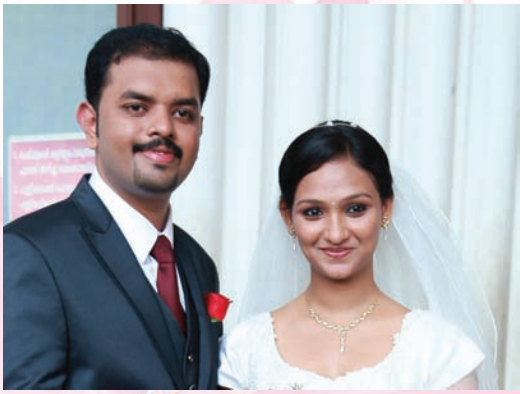

Arun Ignatious Kangapadan, Asst. Manager, Ernakulam Banerji Rd. & **Alina Joseph** - Asst. Manager, DICT

As you are Mine ... I am Yours ...

Jebin Paul
Br. Chembanoda

" **Dusky view**" of Peruvannamuzhi dam, Kozhikode

Jovins Joy
Br. Ramapuram

"**Paddy field**" at Pullu, Thrissur

Vaibhav Murumkar
Asst. Manager, Br. Khanapur

"**Two is company**"

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