January, 2013
AIRRBOF News Letter
Sky is not the limit, we cover it...
The Voice of All India RRB Officers' Federation
Vol - XX SILIGURI No. 01

EDITORIAL

AIRRBOF WISHES ALL READERS VERY HAPPY & PROSPEROUS NEW YEAR 2013

FINANCIAL INCLUSION

Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

On 29 December 2003, then-UN Secretary-General Kofi Annan said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

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2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
3. Financial and institutional sustainability as a means of providing access to financial services over time
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

The United Kingdom was one of the first countries to realize the importance of financial inclusion. It published its strategy of financial inclusion in its report *Promoting Financial Inclusion* which was published alongside the Pre-Budget Report of 2004. The UK government also set up the Financial Inclusion Fund of £120 m to help bring about financial inclusion. The Financial Inclusion Taskforce was formally launched on 21 February 2005 to monitor progress on financial inclusion and to make suitable

Formed in 2009 with funding from the Gates Foundation, the Alliance for Financial Inclusion is made up of regulatory institutions from the developing world. In 2011 at AFI's annual Global Policy Forum meeting the network adopted the Maya Declaration,[1] a set of common principles and goals for financial inclusion policy development. AFI uses a "polylateral development" model to contrast and compare successful financial inclusion policies, focusing on a peer-to-peer system rather than a top-down or North-to-South learning model. The network has over 80 member institutions from over 70 institutions across the globe.

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term

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review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

Financial inclusion in India is often closely connected to the aggressive microcredit policies that were introduced without the appropriate regulations oversight or consumer education policies. The result was consumers becoming quickly over-indebted to the point of committing suicide, lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans, threatening the existence of the entire 4 billion a year Indian microcredit industry. This crisis has often been compared to the mortgage lending crisis in the US.

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The challenge for those working in the financial inclusion field has been to separate micro-credit as only one aspect of the larger financial inclusion efforts and use the Indian crisis as an example of the importance of having the appropriate regulatory and educational policy framework in place.

ENRICH YOUR KNOWLEDGE:

NDS – OM

Till 2002, the Government securities market was mainly a telephone market, Buyers and sellers traded over telephone and submitted physical Subsidiary General Ledger (SGL) transfer forms for transfer of the Government securities and cheques for settlement of the funds to the Reserve Bank of India. These manual operations were inefficient and often resulted in delays. In order to improve efficiency in the market, the Reserve Bank of India took steps to automate the process of trading and settlement of Government securities transactions and the negotiated Dealing System (NDS) was introduced in February 2002. The Negotiated Dealing System (NDS) has two modules – one for the primary market and the other for the secondary market.

1. Primary Market Module: The Reserve Bank uses the primary auction platform (NDS Auction) for auction of both, dates securities of the Government of India and the State Governments as also, treasury bills. This platform allows participants to electronically submit their bids in the primary auctions and receive allotment reports.
2. Secondary Market Module: Secondary market trading in Government securities can happen over the counter (OTC). These trades generally happen over phone. Players are required to report secondary market trades on the NDS. Once they complete the reporting process and the system accepts trades, the date automatically flows to the Clearing Corporation of India Ltd. (CCIL) for clearing and settlement. This avoids paper based settlement process. Paper based system required participants to

exchange subsidiary general ledger (SGL) forms for transfer of securities and cheques for transfer of funds.

NDS-OM: The Reserve Bank introduced the Negotiated Dealing System-Order Matching system or NDS-OM, in August 2005. The NDS-OM is an electronic, screen based, anonymous, order driven trading system for dealing in Government securities. The Reserve Bank owns NDS-OM and CCIL maintains it. The platform is in addition to the existing facility of over-the-counter (OTC) or phone market in Government securities.

Benefits of trading over NDS-OM:

1. The NDS-OM brings transparency in secondary market transactions in Government securities. Members can place bids (buy orders) and offers (sell orders) directly on the NDS-OM screen.
2. Being order driven, the system matches all bids and offers on price/time priority, that is, within the orders of the same price, it matches the oldest order first.
3. The system ensures complete anonymity among the participants as CCIL acts as the central counter party (CCP) for settlement of all the trades. It ensures objective pricing in the market. Since players know each other in market, in OTC trade, players can face adverse pricing.
4. The NDS-OM also facilitates straight-through-processing (STP), that is, all the trades on the system are automatically sent to the CCIL for settlement.
5. The system provides information, both pre-trade (e.g., bids/offers) and post-trade (e.g., last traded price and volume) on real time basis. This assures transparency and better price discovery as against the OTC market where there could be a delay of up to 30 minutes in information dissemination.
6. Trading happens in standardized lot size of Rs. 5 crore and in multiples of Rs. 5 crore providing enough liquidity in the system. To facilitate trading in small lot sizes of less

than Rs. 5 crore, a separate 'odd lot' segment (with the minimum trading lot size being only Rs. 10,000) is also available.

7. Participants get to know the depth of the market as the system shows the order depth in terms of number and total amount of sell/ buy orders for each security.
8. Once the trade is concluded on the system, it is treated as confirmed for settlement. In the OTC market, deals have to be confirmed on NDS and only then they are accepted for settlement.
9. Reporting happens simultaneously with trades on NDS-OM; whereas in the OTC market participants need to report the transactions separately.

Participants: There are two kinds of participants in NDS-OM. Indirect members (Gift Account Holders) are those players who do not have current and SGL accounts with the Reserve Bank but have gilt account with the Primary Members and are permitted to have indirect access to the NDS-OM system.

All resident entities, including corporate but excluding individuals, can access NDS_OM, either directly or indirectly. Currently banks, including state co-operative banks, primary dealers (PDs), insurance companies, mutual funds and larger provident funds can directly trade on NDS-OM (Entities such as mutual funds and insurance companies, which are not eligible to open current account with the Reserve Bank, need to open a funds account with one of the Designated Settlement Banks (DSBs) appointed by CCIL for settlements). Qualified entities, such as, non-banking finance companies (NBFCs), smaller provident funds, pension funds, co-operative banks, regional rural banks and trusts, corporate and FIIs do not have current and SGL accounts with the Reserve Bank and therefore can trade only indirectly. They can place orders through their custodian using client accounts. Such trades would finally settle through the Constituent SGL (CSGL) account and current account of the custodian who is a direct member.

SGL (Subsidiary General Ledger) Account: It is the securities account that is maintained by banks and primary dealers with the RBI for holding their Government securities. Only their proprietary holdings are allowed to be held in the SGL account.

CSGL (Constituent SGL) Account: Banks and primary dealers are allowed to maintain securities accounts of their customers. The holdings of the customers are held in a pooled account in the RBI which is called CSGL account.

NDS-OM Web Module: To further enhance the access of Gilt Account Holders (GAHs) to NDS-OM, an internet based web application is provided to such clients who can now have application is provided to such clients who can now have direct access to NDS-OM. The internet based utility permits GAH to directly trade (buying and selling) in Government Securities (G-Sec) in the secondary market. The access is subject to controls by respective Primary Member (PM) with whom GAHs have gilt account and current account.

Settlement of deals on NDS-OM: Participants place orders on NDS-OM; NDS-OM matches the orders and trade is done; Flow of trade details to the CCIL settlement systems; CCIL sends the net fund and security obligations to members; CCIL submits net settlement files at the end of day to RBI' Funds and securities settlement carried out in DvP (Delivery versus Payment) – both funds and securities legs are settled on a net basis.

Source: Latest Banking & Financial Awareness, November, 2012

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NEWS FROM AIRRBOF

Circular # 64:2012 16th December, 2012

EMERGENT MEETING OF OUR FEDERATION HELD IN LUCKNOW ON 16TH DECEMBER, 2012 DECIDED TO LEGALY CLINCH PENSION BY TRANSFER PETITION BEFORE SUPREME COURT – AFFILIATES TO COLLECT Rs. 1000.00 PER MEMBER AS LEVY & SEND TO AIRRBOF A/c BY 15TH JANUARY, 2012

We explained in great detail by our circular no. 63 the present position in regard to the Govt. of India's sinister design to deny Pension Parity to Officers & employees of RRBs. In this back drop an emergent Meeting of office bearers of Federation & General Secretaries of affiliates was held at Ritz Hotel, Lucknow on 16th December, 2012. The meeting was presided over by Com. B.P.Singh, President. The meeting remained well attended.

The meeting reviewed the entire situation. The participants in the meeting expressed their deep indignation to the sinister design of Govt. of India. At the time the RRB Officers & Employees are getting themselves fully involved in carrying out different Govt. of India sponsored schemes, the approach of the

Govt. is most unfortunate. **The meeting unanimously resolved to advise all affiliates to withdraw extra co-operation to implement all Govt. of India sponsored schemes and strictly follow rules. The move is to express our displeasure to Govt. of India, NABARD and management of RRBs.**

Affiliates should convey the same to the respective management. AIRRBOF shall write to Govt. of India, NABARD & sponsor Bank to convey the sentiments of our Federation and membership.

It was unanimously resolved that AIRRBOF should file transfer petition before Hon'ble Supreme Court to transfer our writ petition pending before Division Bench of Hon'ble High Court at Delhi. It was also decided to engage best battery of lawyers to fight out the case. A team of following office bearers shall monitor the progress of the case.

1. Com. B. P. Singha – President
2. Com. T. K. Hazra – Vice President
3. Com. C. K. Taran – Vice President

4. Com. D. Lenka – Vice President
5. Com M. V. Karer – Vice President
6. Com. S. K. Bhattacharjee – General Secretary
7. Com. K. M. Sukla – Jt. General Secretary
8. Com. C. Jayakumar – Jt. General Secretary
9. Com. S. Pal – Dy. General Secretary
10. Com. B. L. Khandewal – Dy. General Secretary

The committee shall monitor and implement the decision of the Meeting to clinch the Pension Scheme.

It was also unanimously resolved to fix LEGAL LEVY OF Rs. 1000/- per member to be collected by the affiliates and remit the same by NEFT/RTGS to All India RRB Officers' Federation account with Bank of India, Lucknow Branch, A/c. No. 680010110003540 IFSC Code – BKID0006800.

All levies must be collected and remitted to be Federation latest by 15th January, 2013.

PRESS CORNER

LOK SABHA PASSES BANKING BILL AFTER FORWARD TRADING CLAUSE IS REMOVED

The Government's on-off reforms thrust received a major boost as the Lok Sabha on Tuesday passed the much-debated Banking Bill, paving the way for issue of new banking licences to the corporate sector.

The Bill was passed after Finance Minister P. Chidambaram withdrew a controversial proposal that sought to allow banks to undertake forward trading in goods (including commodities).

Chidambaram withdrew this proposal on Tuesday in the wake of stiff resistance from the Opposition, which demanded that the new clause be referred again to Standing Committee on Finance.

The Finance Minister, however, moved several other amendments to the Banking Laws (amendment) Bill 2011, including increase in the voting rights of shareholders in private sector banks from the current 10 per cent to 26 per cent. The RBI may increase, in a phased manner, such ceiling on voting rights from 10 per cent to 26 per cent, according to the amendment moved today.

The Government had in the original Bill proposed that voting rights in public sector banks be commensurate to the shareholding.

This was, however, not accepted by the Standing Committee on Finance which suggested that the voting rights be capped at 26 per cent for private sector banks.

For public sector banks, the voting rights are proposed to be capped at 10 per cent as against the current 1 per cent.

This Banking Laws (amendment) Bill is crucial as it seeks to confer additional supervisory powers on the RBI, including one that supersedes the boards of banking companies.

This is expected to pave the way for the RBI to issue new banking licences to certain corporate houses in the country.

Source: The Hindu Business Line Wednesday, December 19, 2012

NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT) INDIAN FINANCIAL SYSTEM CODE (IFSC)

One of the elements in the NEFT transaction relates to the IFS Code number of the beneficiary branch, which is a mandatory field for ensuring that transactions are routed to the correct beneficiary branch. With a view to further facilitating electronic modes of remittance and enhancing customer service at branches for NEFT transactions, RBI has advised banks as under:

1. Bank staff should provide customers with necessary assistance in filling out the details as required in the NEFT application form, including ensuring that beneficiary account details etc. are duly filled in.
2. Where the customer has provided both the IFS Code as well as branch details of the beneficiary branch, the bank should ensure that these details match. In case of any

mismatch, the same may be brought to the notice of the mismatch; the same may be brought to the notice of the customer for rectification before originating the transaction.

3. Where the customer is able to provide only one of the inputs related to beneficiary branch, i.e. either the IFS Code or the branch name, then the bank staff has to assist the customer in ascertaining the other information which should be duly filled in by the customer on the NEFT application form before originating the transaction.
4. The maker-checker / double scrutiny procedure being followed by the banks should cover details provided by the customer in the NEFT application form, including matching of IFSC number as above.

Source: Latest Banking & Financial Awareness, November, 2012

CLEARING CORPORATION OF INDIA LIMITED

Clearing Corporation of India Limited (CCIL) is a joint stock company with share capital contribution by major banks and financial institutions. CCIL is the clearing and settlement agency exclusively for the Government securities market. In Government securities market, CCIL guarantees settlement of all trades accepted by the system. This is done by way of novation. CCIL acts as the Central Counter Party (CCP) in all secondary market trades by way of novation. In novation, a trade between two parties, namely, 'A' and 'B' is broken into two trades – one trade between 'A' and the central counter party and another between 'B' and the central counter party. In both the cases, the central counter party is the CCIL. In other words, CCIL becomes seller to the buyer and buyer to the seller. The Reserve Bank regulates the CCIL under the Payment and Settlement System Act, 2007.

Source: Latest Banking & Financial Awareness, November, 2012

New CMD of Allahabad Bank: Shubhalakshmi Panes has taken charge as the Chairperson and Managing Director of Allahabad Bank effective October 1. She earlier served as the Executive Director of Vijaya Bank.

Ranjan Dhawan appointed as Bank of Baroda ED: The Centre has appointed Ranjan Dhawan as an Executive Director of bank of Boroda. Mr Dhawan, is now Chief General Manager at Punjab National Bank.

Bhupinder Nayyar takes charge as Oriental Bank ED: Nayyar, was General Manager at Bank of India.

Andhra Bank gets new ED: Satish Kumar Kalra has taken over as the new Executive Director of Andhra Bank. Prior to joining Andhra Bank, he was General Manager, of Allahabad Bank.

Banks should credit interest every month: According to All-India Bank Depositors Association, banks have been charging interest on loans and advances at monthly intervals. However, banks pay interest on savings bank (SB) and term deposits at 'quarterly or longer intervals', resulting in depositors getting relatively less yield on their deposits.

K. C. Chakrabarty to head the financial inclusion panel: RBI has constituted a Financial inclusion Advisory Committee (FIAC) headed by Deputy Governor K. C. Chakraborty to spearhead the efforts towards greater financial inclusion in the country.

Source: Latest Banking & Financial Awareness, November, 2012

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