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JULY 2006

Theme No. 176 : CHEQUE TRUNCATION

To avoid delays in clearing and to facilitate quicker settlement of clearing cheques, Reserve Bank of India has introduced a new process called cheque truncation. It is based on the report of a working group headed by Dr. R. D. Burman, Executive Director of RBI. The group has submitted recommendations on the mode of truncation, preservation period of the physical cheques, storage location of cheque images and security requirements for the flow of cheque data images over the different banks and clearing houses network.

What is cheque Truncation?

It is a way to reduce the clearing cycle to provide faster clearance of local and intercity cheques enabling quicker payment and settlement system. This will enable banks to enjoy greater efficiency in the management of funds of its customers and to provide better customer service.

In the process of "cheque Truncation" as envisaged by RBI, instead of sending physical cheques deposited by bank customers to the clearing houses, electronic records of their contents are generated through digital image process (called Truncated cheques) and the collecting banks or clearing houses will capture the electronic information. These truncated cheques along with the MICR data available at the bottom of these cheques will be transmitted and presented to the drawee banks by electronic transmission for verification via secure, broadband data communication network as a digitally signed data packet. The cheque truncation project, which would use electronic image of the cheque for processing is a new concept in our country and the RBI has decided to implement it soon.

What is the legal basis for introducing the new system of cheque Truncation?

The legal basis for introducing the new system of "cheque truncation" has been established with the passage of the negotiable instruments (Amendment) Act 2002. This Act has brought about a significant change of the Information Technology Act 2000 thereby bringing the cheques within the purview of the Act. The amendment of Section 6 of the Negotiable Instruments Act has facilitated the inclusion of truncated cheques within the definition of a 'cheque'. The amended Section 6 of the Negotiable Instruments Act now reads as "A Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form". Section 81 A of the Negotiable Instruments Act 1881 will also give legal validity to electronic cheques.

New section 6 (a) of Negotiable Instruments Act explains "cheque in the electronic form "contains the exact mirror image of a paper cheque and is generated, written and signed in a secure system ensuring the minimum safety standards with the use of digital signatures (with or without the use of Biometrics) and asymmetric cryptography. The electronic cheque (e-cheque) thus contains the exact mirror contents of the paper cheque in image form and like paper cheques are legally binding. Promises to pay, Digital signature brings with it the required trust (authenticity, integrity, confidentiality and non-repudiation-the four vital mantras of e-security) for the transaction.

How the process of cheque Truncation would work?

The cheque in the physical form as and when tendered by the customer, the presenting banks will keep the physical cheque in their custody, giving a unique identifier to the instrument, capture the image of the instrument by using the software provided for the purpose duly certified by the

authority concerned and route the image to the clearing house. The clearing house will do the image routing and processing to send image files of cheques to the drawee bank. The drawee bank and branch will follow image based inward and outward return including verification of signature images of drawer already held in electronic form with the drawee branch. In the outward return, the returned instrument is allocated a fresh unique identifier and a return reason (image return document). This can be used by the customer to represent the cheque. The image files messaging and transmission across the banks and clearing house could be ensured through Structured Financial Messaging system (SFMS) and INTENIT of the reserve Bank of India which is public key Infrastructure (PKI) enabled.

What the commercial banks are expected to do?

The banks are expected to put in place suitable systems and procedures, and carry out stringent and rigorous tests to ensure that the system comply to the banks' and RBI requirements. The selected system should be tested and proven to seamlessly interface to clearing House interface (CHI).

The current paper based clearing will be replaced by image and data clearing for outward and inward items. Cheque data and images will be stored in image archives for outward and inward items for eight years. The paper instruments should also be retained for eight years.

What are the Hardware and Software needs?

RBI will provide only the CHI application software, to the member banks. Banks have to purchase (i) appropriate hardware, (ii) systems software, and (iii) networking infrastructure. The CHI will act as a Gateway for outward and inward MICR data and the images of the instruments to be sent to/ Received from the clearing house over the network/media. The CHI is a windows based software with server. The Gateway shall be deployed using the Public Key Infrastructure for all its communication with the clearing house. The CHI shall aggregate the images and MICR data

received from the branches for outward presentation and will deliver the inward images and MICR data drawee bank branchwise, to the respective CHL. Banks are to ensure that the images and data sent to RBI's CHL comply with all the guidelines issued by RBI. The images may have to pass the required Image Quality Assurance (IQA) and Image Quality Usability (IQU) specifications. Failure to do so may result in rejection of such images.

How to deal with Fraudulent Transactions?


There is apprehension amongst bankers that they may not be able to distinguish between fraudulent cheques and genuine ones under the reserve Bank of India's plan to clear cheques using scanned images. They are in a fix as to what to do if there is any suspected fraud in the physical cheque itself, like alteration of figures, fraudulent signatures, etc. Aware of such an eventuality, it has been decided that the collecting banks or the clearing houses will retain the truncated cheques and the drawee banks will be able to examine the physical version of truncated cheques to assist them in making payment decisions in case of need – like suspicion of any fraud, forgery, tampering or destruction of the instrument under question.

Conclusion : Clearing through cheque truncation is expected to commence in metros like Delhi, by 31st March, 2007. This will help to reduce the time for the clearing process to one day. Besides, the time efficiency, the process would do away with the need for transporting millions of cheques every day. Many countries including third world countries like Botswana, Venezuela, Columbia, Malaysia, Taiwan and Thailand have already adopted truncated cheque clearing. The cheque truncation project is certain to revolutionize the payment mechanism in our country. It will also give a big jump towards the efforts of providing better and technology based customer service.



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AUGUST 2006

Theme No. 177 : CORE BANKING SYSTEM - PART I

Definition of Core Banking System

Core Banking system is the sum total of all the information technology components that enable a bank to manage its core business activities in a centralised model. The core banking activities include round the clock processing of all the products, services and information of a bank.

The major CBS Components

The major IT components of CBS include a mature and robust banking application software, various hardware components and a network infrastructure that facilitate a distributed front end banking operations and a centralised data processing at the back end.

Let us elucidate

Note that it is a banking solution (not a branch banking solution) and hence it is implemented at a central location to which various offices and service outlets of the bank are connected. The customer is no more the customer of a bank's branch but that of the bank itself. The software components used in CBS must take care of almost all the core banking activities of the bank. Under CBS, a bank must also be in a position to offer the basic banking services to its customers on a 24/7/365 model. Thus CBS is a step towards enhancing customer convenience through anywhere and anytime banking.

Some terms associated with CBS

Data Centre (DC) – The place where the central server / servers are housed.

Disaster Recovery Site (DRS) – An alternate data centre which will act as a backup resource and ensure business continuity in case of a DC failure.

Data Mirroring – Storage devices attached to Servers located in DC and DRS are updated on a real time basis, so that data integrity as well as availability are ensured even in case of a hardware failure. Bank's real time data is stored in multiple devices and locations.

Backup – Data stored in the fixed storage devices are copied on to removable storage devices/tapes and preserved for any future contingency. These backups are stored in some off-site location to avoid the damages on account of a disaster like earth quake, fire, flood etc.

Leased Lines – These are the primary data links used for CBS networking. These are analog links on fixed yearly rentals and there are no additional usage charges.

ISDN Lines – These are the secondary data links put to use in case of a leased line failure. These are integrated services digital network lines which can carry various forms of information packets (data, voice and images and video) as digital signals.

Modem – This is networking equipment used to modulate and demodulate the data signals. Computers work on digital data signals where as the leased lines can carry only the analog signals. Modems modulate (convert the digital signals to analog signals) at the transmitting end and then demodulate (Convert the analog signals to digital signals) at the receiving end.

Switch – In a branch there can be more than one computer and these computers are networked to form a local area network (LAN) using a device called switch.

Router – Router is another network device that connects different LANs and facilitates intelligent data transfer. Router also functions as an intelligent switching device between various connectivity channels, viz., leased line, ISDN, PSTN etc. When the primary link (LL) is down, it automatically dials the ISDN and re-establishes the network connectivity.

Regional Cluster Centre (RCC) - Instead of taking separate links between individual branches and the data centre, branches in a geographical region are first connected to a location in that region and this location is then connected to the data centre using links of higher band width. This location is termed as a regional cluster centre. Some banks also house their regional data servers in RCC, so that in case of a total network failure between RCC and DC, branches in that region can continue to operate and also provide Any Branch Banking (ABB) facilities within the cluster.

Evolution of CBS in India?

The major objectives of bank automation are better customer service, flawless book keeping and prompt decision-making that leads to improved productivity and profitability. The concept of bank automation started in the year 1981, but it was during the period 1984-1987 banks in India started the branch level automation, making use of the then available MSDOS based stand alone computers. This initiative was taken by the banks on the basis of "First Rangarajan Committee report" on bank computerisation submitted in the year 1984. ALPMs (Advanced Ledger Posting Machines) were the fashion in those days. However, the pace of bank automation was very slow in the banks primarily owing to the lack of trade union consensus on bank automation. Another committee was constituted in 1988 under the chairmanship of Dr. C Rangarajan, the then Deputy Governor of RBI to slate down a perspective plan on automation of banks for a five year period. This paved way to the implementation of multi-user Total Branch Automation packages running on a LAN (Local Area Network), either on a Netware or a UNIX operating system. With the implementation of TBA, banks started to offer the facilities of exclusive Customer Terminal, Single window transaction, on-line and off-site ATMs, Tele-Banking etc.

But with the advent of new generation private sector banks in India during 1994-1996, the real era of bank marketing started and these banks started to offer any where and any time banking facilities to its customers. This was possible for them mainly owing to the fact that they opted for the

implementation of a WAN (Wide Area Network) based centralised banking solution rather than a LAN based branch banking solution to network their limited number of branch outlets. The old generation banks in India hesitated to follow this banking fashion on account of its large network of branches on one hand and the then prevailing exorbitant IT cost on the other hand. But with the globalisation and liberalisation of Indian market and with the enactment of TRAI (with a mission to create and nurture conditions for growth of telecommunications in the country in a manner and at a pace which will enable India to play a leading role in emerging global information society) during the late nineties, there happened a drastic reduction in IT cost. Improved telecommunication facilities and reduction in hardware as well as networking cost changed the mind set of the banks in India to try the CBS option. This also equipped them with the required technology leverage to compete in the Indian market by offering the similar technology products and services, as those offered by their new generation competitors.

What are the main functionalities available with CBS?

The main functionalities of CBS include:

- ♦ Customer information files with all the non-dynamic information about the customer, business entity or group and relationships.
- ♦ All bank liability accounts: savings, fixed deposits, current accounts etc.
- ♦ All bank asset accounts: loans, mortgages and credit facilities.
- ♦ Bank General Ledger, Bank Financials and Audit trails.
- ♦ Payment systems & Real Time Gross Settlement.
- ♦ Card systems, Electronic Funds Transfer at the Point of Sale, Automated Teller Machines, and other electronic payments and transaction handling systems.
- ♦ Reporting and compliance with regulatory requirements.
- ♦ MIS for Asset Liability Management (ALM), Anti Money Laundering(AML), Cash Management System (CMS), Asset Monitoring (Non Performing Assets and Other Credit Information), Basel II (for quantifying the operational risk associated with business products, services and volumes) etc.

(To be continued....)



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2005-2006 ECONOMIC FORUM

SEPTEMBER 2006

Theme No. 178 : CORE BANKING SYSTEM - PART II

Major Providers of CBS Application Software

Fiserv (ICBS), Mysis (MidasPlus), Temenos (T24) etc. are the major International Core Banking Solution (application software) providers. Infosys (Finacle), I-flex (Flexcube) and TCS (FNS-BANCS) are the major players in the Indian market and Infrasoftware (Omni Enterprise), LaserSoft (Panacea) are surely going to be the other alternatives available to the Indian banks.

Infosys Technologies Ltd. Finacle is the universal banking solution from Infosys. The solution addresses the core banking, e-banking, treasury, wealth management, CRM, and cash management requirements of retail, corporate and universal banks worldwide. South Indian Bank, Punjab National Bank, ICICI Bank etc. are the major clients.

I-flex solutions Ltd. since late 2005 it is owned by Oracle (previously was controlled by Citigroup) and specializes in providing state-of-the-art information technology solutions to the Banking and Financial Services industry. FLEXCUBE is their CBS solution which is an end-to-end product suite for retail, consumer, corporate, investment and internet banking, asset management, and investor servicing. HDFC Bank, Syndicate Bank etc. are the major clients.

TCS FNS (Financial Network Services Limited) is an Australian developer and supplier of banking application software, operating in world markets. The company is owned by TCS since Q4 2005 and consistently has ranked in the top 20 full banking system suppliers. BANCS is their CBS application software which runs on multiple operating systems, is platform and database-independent, operates in a multi-lingual and multi-currency capacity and provides the features and functions necessary to automate a bank's entire operations. State Bank of India is the major client.

Benefits to Banks?

Following are the major benefits derived by the banks:

- Replace old technology seamlessly with a state-of-the-art n-tier application.
- Replace multiple disparate and older generation systems with a single integrated multi-product processing application across various countries.
- Streamline operations by integrating the enterprise, to existing in-house applications and to offer a single customer view.
- Create a virtual banking operation from ground-up and offer a host of banking products.
- Enable multiple new delivery channels (Internet Banking, 7 X 24 ATM, Mobile Banking, Tele-banking and Point of Sale Terminals) allowing the bank to reach out to new customers and segments.
- Move to centralized processing and handle much higher volumes without a proportionate increase in resources or infrastructure costs.
- Use business intelligence tools to analyze customer needs and create new products and offerings.
- Build and retain customer relationships based on the strength of customer service capability.
- Enable and modify product offerings quickly and efficiently based on customer's market needs.
- Reduce costs, improve bottom-line and stakeholder rewards.
- Quick and easy introduction of new products and services

Advantages to Customer?

As mentioned in the beginning, the customer is no longer the customer of a bank branch but that of the bank itself. With this status change, he can bank with the bank as a whole rather than with his specific branch. Any where and any time banking facilities are the ultimate customer benefits on account of CBS implementation. Customer can enjoy the online and real time banking facilities through ATMs, Point of sale terminals (POS) Internet, Mobile phones and Kiosks. Quick realisation of instruments lodged for collection, on-line and easy fund transfer (intra-bank as well as inter-bank) etc. are other benefits to the customers, as CBS eliminates the physical transit of transfer/realisation advices using the postal system.

Customers can issue multi city cheques to their clients rather than depend on demand drafts for the out station and third party payments to a large extent. With CBS put in place, bank personnel get more time for customer care and this is surely going to be a step towards customer delight.

To offer Any where and Any time banking products, is CBS a must?

Surely not. Many banks that offer these facilities have just started the process of implementing a CBS for their business. AWB and ATB facilities can be offered by networking the distributed database. Many banks, including the PSBs are offering these facilities by means of networking their TBA branch servers. This will reduce the cost and overheads, but by compromising the data integrity and effective IT management. The real time data of these banks resides in the individual branch servers and hence the management of a large number of branch servers, data synchronisation and consolidation for MIS etc. are the areas of risk and business concern. Thus banks can offer the above facilities with out implementing a CBS, where the basic characteristic is centralised data processing.

How are the individual accounts identified by CBS?

The customer information of the bank is stored in the central server and the individual customer records will have to be selected for effecting a financial or non-financial transaction or inquiry. In order to identify the specific customer accounts, branch code and product code are generally prefixed to the account number. Thus under CBS, in a 16 digit account numbering pattern, a savings bank account bearing its ID number as 4377 in a manual or TBA environment is identified as 0001-012-000004377. Here the first 4 digits represent the branch code, next 3 digits represent the product/service code (SB A/c) and the remaining 9 digits represent the account number. This is the reason for an increase in the number of digits of the customer account number, when the branch migrates into CBS. This numbering pattern identifies the SB Account 4377 of branch A from that of branch B.

What are the risks of having a CBS?

Although there are a lot of arguments which are pro CBS, there are also some risks in having a CBS. The main risks are on account of network

and server failures, which have to be clearly addressed while formulating a business continuity plan (BCP). Since the entire data is available at the data centre, a branch will get typically alienated and its operations get affected. The whole banking operations get paralysed on account of a server failure or due to a network failure at the data centre. The disasters and attrition of key IT personnel are next in the list. The CBS application software, although supposed to be highly parameterised, modular, scalable and flexible, often demands for a work-around or a business process reengineering (BPR). Integration issues with third party solutions pop up while rolling out new products and services. The customisation part is another headache and banks later on realise that they have been customised to a corner! Ensuring the prompt and expert IT support from the 3 dimensions, viz., software, hardware and network and delivering the new products and services as per the business plan of the bank – these are the inevitable challenges in having a CBS model. To shoulder these risks and responsibilities, the bank should invariably have a well paid, dedicated and loyal IT team in its rolls rather than an outsourced model and here comes the importance of an effective chief information officer.

Roadmap of CBS?

With the mergers and acquisitions going to be the fashion of the years to come, CBS application software is getting ready to take care of real time banking transactions which are of multi-bank, multi-currency, multi-country and multi-lingual characteristics. Instead of the present user /card based password authentication, biometric authentication is going to be in vogue. Thus the day is not far away, when one of you just stand in front of an ATM here in India, the biometric camera attached to the ATM recognises your retina, the ATM screen salutes you with the menu options, you select the option "funds transfer", then enter the 22 digit (let us add 3 digits each for the country code and bank code!) bank account number of your younger sister studying in US and then followed by the transaction amount. The ATM now asks for your confirmation, commits the transaction and generates a receipt for you, where the transaction will show the time stamp as "Sunday, 09.30 Hrs, 10th July 2010", where as, the credit to your sister's account will bear a time stamp as "Saturday, 22.30 Hrs, 9th July 2010". And this is what we call Core, Online, Realtime, Electronic banking system.

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OCTOBER 2006

Theme No. 179 : CORPORATE GOVERNANCE . PART I

Ever since the collapse of corporate giants like Enron and Worldcom and emergence of globalised economic environment and convergence of various corporate culture across five continents, the concept of corporate Governance is gaining ground day by day. Achievement of business goals in this highly complex and competitive environment is a challenge met by intricate weaving of legal, socio-economic and human resources. The decision making process requires transparency and accountability. Business ethics and moral values have to be upheld at all levels of management.

The basics of Corporate Governance including the recommendations of Kumaramangalam Birla Committee was covered in our April and May, 2000 issues. But subsequently lot of studies, discussions and enactments have taken place worldwide. Different countries have different legal systems and different traditions for interpreting and enforcing legislation of relevance for corporate governance. USA saw the need to bring in the Sarbanes-Oxley Act (Popularly referred to as SOX). The act was not just about regulations and compliance, but that good governance is good business with clear codes and ethics. Companies with strong governance practices have demonstrated strong financial returns.

What is corporate governance?

Different people and professional organizations describe Corporate Governance in different ways. To put it simply, corporate governance aims at doing every thing in the most efficient manner, so that all the stakeholders get benefited. The first objective could be to improve the shareholder's return on equity but in the long run, it would be to increase the return for all the stakeholders – shareholders, employees, customers, suppliers, government and general public.

The Institute of Company Secretaries of India (ICSI) define "C.G. is the application of best management practices; compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders".

What is the aim and focus areas of NCCG?

With the goal of promoting better corporate governance practices in India, the Ministry of company Affairs, Government of India, in partnership with confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI), has set up the National Foundation for Corporate Governance.

The NCCG will focus on the following areas:

- Creating awareness on the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole.
- Encouraging research capability in the area of corporate governance in the country and providing key inputs for developing regulations, which meet the twin objectives of maximizing wealth creation and fair distribution of this wealth.
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.
- In close co-ordination with the private sector, work to instill a commitment to corporate governance reforms and facilitate the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure.
- Setting up of 'National Centres for Corporate Governance' across the country, which would provide quality training to Directors as well as produce quality research and aim to receive global recognition.

What are the important committees on Corporate Governance?

All countries that have adopted Corporate Governance practices have taken cue from the "Cadbury Committee Recommendations". Cadbury Committee was set up in Britain to go into the details of corporate governance prevailing in U.K. in May, 1991. The Cadbury Committee was born out of the scandals that hit the UK during the last 1980s. Actually in the US, the term 'CG' was in use even during 1970s. Some of the recommendations of the Cadbury Committee is based on US practices.

In India, the three important committees related to C.G. are :

1. Kumararamangalam Birla Committee 2000
2. Naresh Chandra Committee 2002 and
3. Narayana Murthy Committee 2003

What are the highlights of Cadbury Committee Report?

- Boards should have separate audit and remuneration committees made up entirely of independent directors.
- Audit committees should meet with the external auditors at least once a year and without executive directors.
- The full remuneration package of all directors – including performance – related elements – should be disclosed in annual reports.
- Director's term of office should run for no more than three years without shareholders approval.
- The board must meet regularly.
- It ought to have a formal schedule of matters for decision.
- Independent directors should be appointed for specified terms.
- Independent directors should be appointed through a formal process.
- Independent directors should have a standing outside the company that ensures that their views carry weight.
- Independent directors should be fully independent and free from links with the company other than the fees and shareholdings.
- Fees for independent directors should reflect the time they spend on company business.

- There should be an accepted division at the head of the company, which will ensure balance of power and authority such that no one individual has unfettered powers of decision making. Where the Chairman is also the chief executive, there should be a strong independent element on the board with an independent leader.

What are the main recommendations of Naresh Chandra Committee Report?

Naresh Chandra Committee's Report has recommendations on the Auditor - making audit effective etc. on the one hand and on Corporate Governance practices on the other.

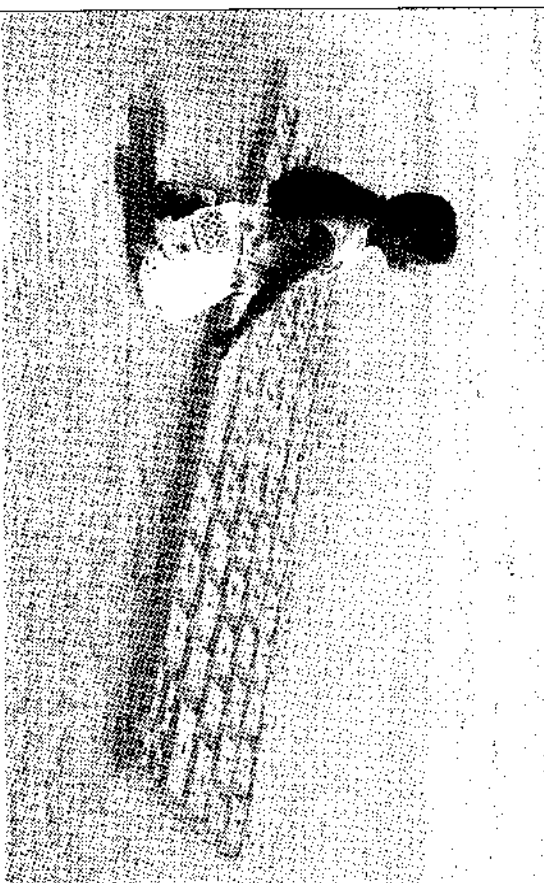
Following are the highlights in the Corporate Governance area:

- CEO and CFO certification of annual audited accounts for all listed companies as well as public limited companies whose paid-up capital and free reserves exceeds Rs.10 crores or turnover exceeds Rs.50 crores.
- No less than 50 per cent of the board of directors of any listed company, as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs.10 crore and above, or turnover of Rs. 50 crore and above, should consist of independent director. (The Committee has defined the term 'Independent Director').
- Minimum Size of Board of Directors of the Companies referred above, should be 7 of which at least 4 should be Independent Directors.
- The above said companies should disclose the timing and duration of Board/Committee Meetings.
- Encourage participation of Directors who are unable to personally make it to the meeting, through Tele Conferencing or Video Conferencing.
- Exempt non-executive and independent directors from such criminal and civil liabilities.
- Training of Independent Directors

(To be contd.....)

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SIB STUDENTS' ECONOMIC FORUM

NOVEMBER 2006

Theme No. 180 : CORPORATE GOVERNANCE - PART II

What are the key recommendations of the SEBI Committee under the chairmanship of Sri.N.R. Narayana Murthy?

It was the belief of the Securities and Exchange Board of India ("SEBI") that efforts to improve corporate governance standards in India must continue. This is because these standards themselves were evolving in keeping with market dynamics. Accordingly, the Committee on Corporate Governance was constituted by SEBI, to evaluate the adequacy of existing corporate governance practices and further improve these practices. The Committee comprised members from various walks of public and professional life. This includes captains of industry, academicians, public accountants and people from financial press and from industry forums.

The issues discussed by the Committee primarily related to audit committees, audit reports, independent directors, related parties, risk management, directorships and director compensation, codes of conduct and financial disclosures. The Committee's recommendations in the final report were selected based on parameters including their relative importance, fairness, accountability, transparency, ease of implementation, verifiability and enforceability.

The key mandatory recommendations focus on strengthening the responsibilities of audit committees; improving the quality of financial disclosures, including those related to related party transactions and proceeds from initial public offerings; requiring corporate executive boards to assess and disclose business risks in the annual reports of companies; introducing responsibilities on boards to adopt formal codes of conduct; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors.

Non-mandatory recommendations include moving to a regime where corporate financial statements are not qualified; instituting a system of training of board members; and the evaluation of performance of board members.

The Committee felt that it is worth implementing the governance reforms even if the cost is little high. In this context, it should be noted that the failure to implement good governance procedures has a cost beyond mere regulatory problems. Companies that do not employ meaningful governance procedures will have to pay a significant risk premium when competing for scarce capital in today's public markets.

What are the steps taken by SEBI recently to improve corporate governance?

Corporate Governance was an issue that SEBI took very seriously during 2006 with SEBI Chairman Sri. M. Damodaran leading the efforts of CIL, NCFG and other industry bodies to make small and medium companies too adhere to the clause 49 of the listing agreement along with the large ones. BSE as a measure to implement corporate governance issued suspension notices to 56 companies for non-compliance of various clauses of the listing agreement. Clause 49 is now applicable to all listed companies having a paid up capital of Rs.3 crore and above at any time in the history of the company. The Corporate Governance report of a company to which clause 49 is applicable can be certified by a practicing company secretary.

Do we have an effective system to identify weakness in internal control?

We have an effective system of maintaining internal control and identifying weaknesses. For example, as per Clause 49, a CEO/CFO has to certify to the board that he accepts the responsibility of maintaining the internal control and of its effectiveness. He also has to certify the significant changes in the internal control systems.

Further, the clause requires the audit committee to review the information on internal control weakness identified by statutory auditors and entail a company to include management discussion and analysis report as a part of the annual report, wherein the internal control system and its adequacy are to be specified. A practicing company secretary certifying a corporate governance report also ensures that there has been effective evaluation and reconstruction of internal controls, thereby, helping in better management of internal risks. All these ensure better governance.

Are independent directors truly independent in India? What is the incentive to attract independent directors?

Eligibility of an independent director is clearly defined in the statute. The law is uniformly applicable to all companies irrespective of their nature. In family owned business also independent directors have got a role to play. Independent directors are independent to a large extent.

Apart from good compensation, independent directors have greater opportunity to provide objectivity and expertise in the decision-making process of the company. They can surely add value to good governance practices.

What are the major conclusions of the 7th meeting of the World council for Corporate Governance?

The seventh WCCG Conference held from 11-12 May, 2006 at Nuffield, London discussed the issues in detail and a summary of the conclusions are given below:

- Boards must operate as a cohesive team where challenge and raising of sensitive issues can occur without breaking the harmony of the group.
- The primary boardroom task is strategic direction, to be effective boards must receive the right information and focus on the key issues facing the business.

- Boards should work on continuous improvement of their own performance, including areas like CEO succession, executive compensation, board skills and board diversity.
- The board is responsible for the values and ethical behaviour of the organization, it must take a wide view and ensure that the interests of all stakeholders are taken into account.
- The primary purpose of business is economic; Corporate Social Responsibility is necessary and must support the business. The board needs to define the role and scope of CSR, and the structures and systems to achieve it.
- External auditing is an essential check to ensure board accountability and must be supported by internal auditing.

What are the advantages of good corporate governance?

- Inhibits accountability of the Board to the Stakeholders.
- Enables effective functioning of Board and its Committees.
- Enhances the Brand Image of the Company.
- Ensures optimum utilization of resources.
- Makes Corporate Policies Transparent.
- Enables the Board to give right strategic direction.
- Ensures Good internal control system.
- Superior economic performance.

Conclusion: Corporate Governance means doing everything better, to improve relations between Company and its customers; to improve the wealth of shareholders but at the same time taking care of the interest of its employees and the society at large.

Corporate Governance should not end with just the number of board meetings held, or the number of hours the meeting lasted, which all directors attended, etc. It should result in the adoption of best strategies/practices, transparency, better accountability and maximization of wealth to all the stakeholders.



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Theme No. 181: FOREIGN EXCHANGE - FACILITIES TO RESIDENTS & NON-RESIDENTS.

What is FEMA?

It is an Act called " FOREIGN EXCHANGE MANAGEMENT ACT-1999." The Act came into force from 1st day of June, 2000. It extends to the whole of India. The objective of the Act is to facilitate foreign trade and promote orderly development and maintenance of FOREX MARKET. This enactment replaced the then prevailed (FERA) "Foreign Exchange Regulation Act - 1973".

Who is an NRI?

- A Non Resident Indian is an Indian who has gone out of India or stays outside India,
- For or on taking up employment outside India, or
 - For carrying on outside India a business or vacation outside India, or
 - For any other purpose, in such circumstances as would indicate his intension to stay outside India for an uncertain period.

Which are the different types of Non Resident bank accounts?

A. NRE Accounts: These accounts are maintained in Indian rupees. Accounts can be in the form of Current, Savings, Term Deposit and Recurring Deposit. Joint accounts are permitted with NRIs. Account can be opened by direct remittance from abroad, transfer from existing NRE, FCNR(B) accounts or with foreign currency note, travellers cheque tendered personally by NRI's during their visit to India. Repatriation of credit balance permitted. Residents in India can be authorised to operate the account for local payments. Balance is exempt from wealth tax and interest earned is exempt from Income Tax. Loans can be availed against security of NRE Term Deposit and as per the recent RBI guidelines, the maximum loan amount is stipulated as Rs. 20 lacs. Since these accounts are kept in Indian rupees, customer is exposed to a probable loss in case rupee gets weaker. The rates of interest offered on NRE accounts are relatively higher when compared with that offered on FCNR accounts.

B. FCNR Accounts: In India, FCNR (Foreign currency non resident) deposit is accepted in US dollar, Canadian Dollar, Australian Dollar, Japanese Yen, British Pound and EURO for various maturities insulated against exchange rate fluctuations. In India, RBI has permitted banks to maintain foreign currency accounts in the above 6 currencies and hence, these currencies are often referred as designated currencies. Balance and interest is repatriable. Joint accounts are permitted with NRIs. Rupee or Foreign Currency loan can be availed against deposits. When compared to NRE accounts, there is a probable loss in case rupee gets stronger. These accounts are only of fixed deposit type and the minimum deposit period is 1 Year. Banks also provide forward contract facility to the customer, so that he will also

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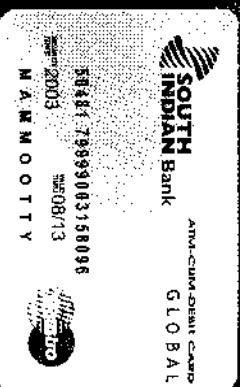
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get the benefit of prevailing forward premium. As in the case of NRE accounts, the balance is exempt from wealth tax and interest earned is exempt from Income Tax.

C. NRO Accounts: Accounts maintained in Indian Rupees for routing bona fide local remittance like rent, income from land etc. Joint accounts are permitted with NRIs or Residents. Interest earned in the account is subject to Indian Income Tax. Account can be maintained in the form of Current, Savings and Term Deposits and repatriation is restricted.

D. RFC Accounts: A person of Indian Origin who returns to India for permanent settlement after a stay of minimum period of one year abroad is eligible to open RFC account. Assets acquired or held at the time of return are eligible for credit to RFC account. For Example: Funds in bank account outside India, Income such as dividend, interest, and profit earned on assets abroad, sale proceeds of eligible assets, pension and other monetary benefit received from outside India arising out of employment taken up abroad, foreign currency notes, travellers cheques brought to India at the time of return and balances in NRE & FCNR accounts. The balance can be repatriated or credited to NRE or FCNR(B) accounts, if the account holder becomes an NRI subsequently. Balance in the accounts can be used for bona-fide expenses like travelling expenses for going abroad, children's education abroad etc.

Can a resident in India have an account in foreign currency?

Surely. A person resident in India can open, hold and maintain with an authorised dealer in India, a Resident Foreign Currency Domestic Account. He can make remittance to this account from the foreign exchange acquired in the form of currency notes, bank notes and travellers cheques from any of the sources like, payment for services rendered abroad, as honorarium, gift, or any payment received in settlement of any lawful obligation from any person not resident in India.

What do you mean by Nostro and Vostro accounts?

Nostro A/c is an Indian bank's foreign currency a/c with another Bank outside India. **Vostro A/c** means a foreign bank's or exchange company's Rupee a/c with a Bank in India.

Who is an Authorised Person?

Foreign Exchange Management Act (FEMA) stipulates that all foreign exchange transactions are required to be routed only through the entities that are licensed by the Reserve Bank to undertake such transactions. Such entities are defined as Authorised persons in Section 10 of the Act. Under current dispensation, such authorised person may be :

- A Commercial bank (A.D. Authorised Dealer), or
- A Money changer (FFMC - Full Fledged Money Changers), or
- Any financial institution authorised for limited kind of transactions, depending on their activity, or Any other entity authorised by the Reserve Bank (RAD-Restricted Authorised Dealers).

What are the various foreign exchange drawing facilities available to an Indian resident?

Persons resident in India are allowed to draw foreign exchange from Authorised Dealers

for various current account transactions as per the provisions of Foreign Exchange Management Act, 1999 amended from time to time. Following table gives a gist of such facilities available to Residents to draw foreign exchange through Authorised Dealer Category - I (Banks). If a resident requires more than the permitted entitlements, he can approach RBI for permission and in most cases RBI allows the request if found genuine.

Purpose	Limit	Remarks
Private Visit	USD 10000 per FY	Not applicable for Nepal & Bhutan visits
Medical Treatment per instance	USD 100000	For higher amount, an estimate is required.
Emigration	USD 100000	Or lower amount if so fixed by the individual country
Employment	USD 100000	Nil
Maintenance of close relatives	USD 100000 Per Year	Nil
Studies abroad	USD 100000 or Estimate	Which ever is higher per academic year.
Business trip / Conference/training	USD 25000	Irrespective of the period of stay
Gift / Donations	USD 5000 Per Year	Per remitter / Donor Per annum
Liberalized Remittance Scheme	USD 50000 Per FY	For Current/Capital account Transactions or both

Is there anything special about the liberalized remittance scheme?

Under the liberalized remittance scheme, resident individuals are free to acquire and hold immovable property or shares or any other asset outside India without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with a bank outside India for making remittances under the scheme.

In all the above cases, there is certain limits for drawing the eligible foreign exchange in the form of foreign currency notes and coins. The general limit is USD 2000, but it is USD 5000 in case of countries like Libya and Iraq and, the full entitlement can be drawn in foreign currency itself in case of travellers proceeding to Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States. The remaining entitlement will have to be carried either in form of a demand draft, travellers cheque or by outward remittance.

Is there any means for the authorized dealer to ensure that the applicant has not already availed his eligible foreign exchange entitlement?

It is not mandatory for authorised dealers to endorse the amount of foreign exchange sold for travel abroad on the passport of the traveller. However, if requested by the traveller, they will endorse the passport for the foreign exchange sold for travel. As per the law, authorised dealers are supposed to act based on the FEMA declarations and affidavits furnished by the customer along with his request. With FEMA, there is a clear shift of the responsibility on to the shoulders of the citizen and he will be liable to make

up for any loss to the economy and also bound to pay the penalty in case of fund diversion / drawal of foreign exchange above his entitlements.

Any stipulations regarding the Mode of payment?

Residents can draw foreign exchange by paying cash upto Rs.50,000.00. Wherever the drawal of foreign exchange exceeds the amount equivalent to Rs.50,000, the payment to be made only by a crossed cheque drawn on the applicant's bank account or that of the agent sponsoring the visit of the applicant or by way of a banker's cheque or a demand draft.

What to do with the unspent foreign exchange if any?

Unspent foreign exchange brought back to India by a traveller should be surrendered within 90 days from the date of return of the traveller, if the unspent foreign exchange is in the form of CURRENCY NOTES. If such foreign exchange is in the form of travellers cheques, the same should be surrendered within 180 days from the date of return. Exchange so brought back can be utilised by the traveller for his subsequent visit abroad during the period specified above.

What you mean by Repatriation?

Repatriation into India means bringing foreign currency into India and converting into local currency (Rupee). Repatriation outside India means converting rupee into foreign currency and remitting out of India. This currency conversion is done at the market determined TT buying rate or TT selling rate. Or in other words, TT buying rate is the rate at which remittances received in foreign currency to India is converted into Rupee and TT selling rate is the rate at which Rupee is converted into foreign currency for remittances sent outside India.

What is the difference between Capital and Current account transactions?

Capital account transactions refer to transactions which alters assets and liabilities. Thus transactions meant for investment in immovable properties, investment in securities, external commercial borrowings etc. are of capital in nature. Current account transactions mean the transactions other than capital account transactions. Payments on account of personal expenses, business expenses, gifts, donations, interest, commission, foreign travel, educational and medical expenses, etc. come under current account transactions.

What is the speciality with traveller's cheque?

A traveller's cheque is a preprinted, fixed-amount cheque designed to allow the person signing it to make an unconditional payment to someone else as a result of having paid the issuer (usually a bank) for that privilege. As traveller's cheques can usually be replaced if lost or stolen, they are often used by people on vacation in place of cash. The use of credit cards has, however, rendered them less important than they previously were. However, there are few places that do not accept credit cards but do traveller's cheques. At the time of issuing these instruments, the signature of the purchaser is affixed on the top of each instrument in the presence of the authorised person/dealer who is the issuer. While making a purchase, the purchaser should, in the presence of the payee, put the date and countersign the cheque in the indicated space, usually on the cheque's lower portion. There is also an option for issuing stop payment instruction on the lost instruments.

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JULY 2006

Theme No. 176 : CHEQUE TRUNCATION

To avoid delays in clearing and to facilitate quicker settlement of clearing cheques, Reserve Bank of India has introduced a new process called cheque truncation. It is based on the report of a working group headed by Dr. R. D. Burman, Executive Director of RBI. The group has submitted recommendations on the mode of truncation, preservation period of the physical cheques, storage location of cheque images and security requirements for the flow of cheque data images over the different banks and clearing houses network.

What is cheque Truncation?

It is a way to reduce the clearing cycle to provide faster clearance of local and intercity cheques enabling quicker payment and settlement system. This will enable banks to enjoy greater efficiency in the management of funds of its customers and to provide better customer service.

In the process of "cheque Truncation" as envisaged by RBI, instead of sending physical cheques deposited by bank customers to the clearing houses, electronic records of their contents are generated through digital image process (called Truncated cheques) and the collecting banks or clearing houses will capture the electronic information. These truncated cheques along with the MICR data available at the bottom of these cheques will be transmitted and presented to the drawee banks by electronic transmission for verification via secure, broadband data communication network as a digitally signed data packet. The cheque truncation project, which would use electronic image of the cheque for processing is a new concept in our country and the RBI has decided to implement it soon.

What is the legal basis for introducing the new system of cheque Truncation?

The legal basis for introducing the new system of "cheque truncation" has been established with the passage of the negotiable instruments (Amendment) Act 2002. This Act has brought about a significant change of the Information Technology Act 2000 thereby bringing the cheques within the purview of the Act. The amendment of Section 6 of the Negotiable Instruments Act has facilitated the inclusion of truncated cheques within the definition of a 'cheque'. The amended Section 6 of the Negotiable Instruments Act now reads as "A Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form". Section 81 A of the Negotiable Instruments Act 1881 will also give legal validity to electronic cheques.

New section 6 (a) of Negotiable Instruments Act explains "cheque in the electronic form "contains the exact mirror image of a paper cheque and is generated, written and signed in a secure system ensuring the minimum safety standards with the use of digital signatures (with or without the use of Biometrics) and asymmetric cryptography. The electronic cheque (e-cheque) thus contains the exact mirror contents of the paper cheque in image form and like paper cheques are legally binding. Promises to pay, Digital signature brings with it the required trust (authenticity, integrity, confidentiality and non-repudiation-the four vital mantras of e-security) for the transaction.

How the process of cheque Truncation would work?

The cheque in the physical form as and when tendered by the customer, the presenting banks will keep the physical cheque in their custody, giving a unique identifier to the instrument, capture the image of the instrument by using the software provided for the purpose duly certified by the

authority concerned and route the image to the clearing house. The clearing house will do the image routing and processing to send image files of cheques to the drawee bank. The drawee bank and branch will follow image based inward and outward return including verification of signature images of drawer already held in electronic form with the drawee branch. In the outward return, the returned instrument is allocated a fresh unique identifier and a return reason (image return document). This can be used by the customer to represent the cheque. The image files messaging and transmission across the banks and clearing house could be ensured through Structured Financial Messaging system (SFMS) and INTENIT of the reserve Bank of India which is public key Infrastructure (PKI) enabled.

What the commercial banks are expected to do?

The banks are expected to put in place suitable systems and procedures, and carry out stringent and rigorous tests to ensure that the system comply to the banks' and RBI requirements. The selected system should be tested and proven to seamlessly interface to clearing House interface (CHI).

The current paper based clearing will be replaced by image and data clearing for outward and inward items. Cheque data and images will be stored in image archives for outward and inward items for eight years. The paper instruments should also be retained for eight years.

What are the Hardware and Software needs?

RBI will provide only the CHI application software, to the member banks. Banks have to purchase (i) appropriate hardware, (ii) systems software, and (iii) networking infrastructure. The CHI will act as a Gateway for outward and inward MICR data and the images of the instruments to be sent to/ Received from the clearing house over the network/media. The CHI is a windows based software with server. The Gateway shall be deployed using the Public Key Infrastructure for all its communication with the clearing house. The CHI shall aggregate the images and MICR data

received from the branches for outward presentation and will deliver the inward images and MICR data drawee bank branchwise, to the respective CHL. Banks are to ensure that the images and data sent to RBI's CHL comply with all the guidelines issued by RBI. The images may have to pass the required Image Quality Assurance (IQA) and Image Quality Usability (IQU) specifications. Failure to do so may result in rejection of such images.

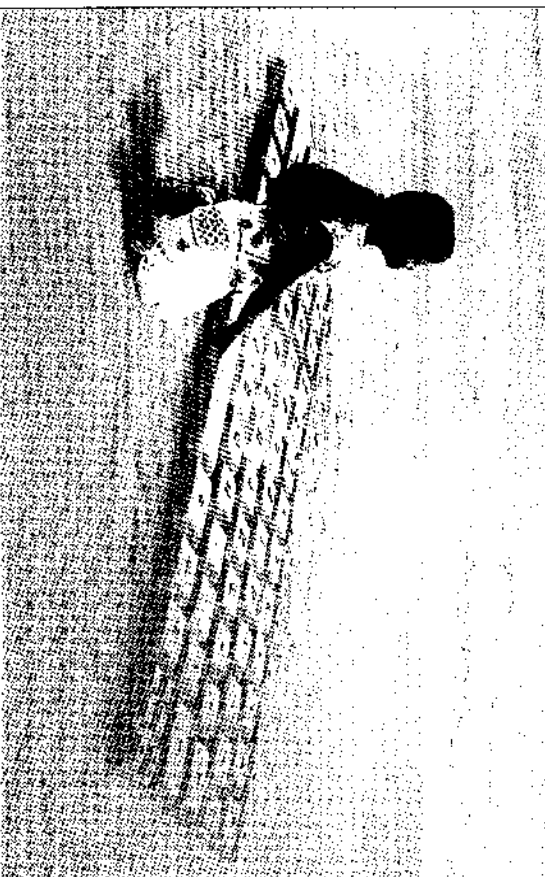
How to deal with Fraudulent Transactions?

There is apprehension amongst bankers that they may not be able to distinguish between fraudulent cheques and genuine ones under the reserve Bank of India's plan to clear cheques using scanned images. They are in a fix as to what to do if there is any suspected fraud in the physical cheque itself, like alteration of figures, fraudulent signatures, etc. Aware of such an eventuality, it has been decided that the collecting banks or the clearing houses will retain the truncated cheques and the drawee banks will be able to examine the physical version of truncated cheques to assist them in making payment decisions in case of need – like suspicion of any fraud, forgery, tampering or destruction of the instrument under question.

Conclusion : Clearing through cheque truncation is expected to commence in metros like Delhi, by 31st March, 2007. This will help to reduce the time for the clearing process to one day. Besides, the time efficiency, the process would do away with the need for transporting millions of cheques every day. Many countries including third world countries like Botswana, Venezuela, Columbia, Malaysia, Taiwan and Thailand have already adopted truncated cheque clearing. The cheque truncation project is certain to revolutionize the payment mechanism in our country. It will also give a big jump towards the efforts of providing better and technology based customer service.

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AUGUST 2006

Theme No. 177 : CORE BANKING SYSTEM - PART I

Definition of Core Banking System

Core Banking system is the sum total of all the information technology components that enable a bank to manage its core business activities in a centralised model. The core banking activities include round the clock processing of all the products, services and information of a bank.

The major CBS Components

The major IT components of CBS include a mature and robust banking application software, various hardware components and a network infrastructure that facilitate a distributed front end banking operations and a centralised data processing at the back end.

Let us elucidate

Note that it is a banking solution (not a branch banking solution) and hence it is implemented at a central location to which various offices and service outlets of the bank are connected. The customer is no more the customer of a bank's branch but that of the bank itself. The software components used in CBS must take care of almost all the core banking activities of the bank. Under CBS, a bank must also be in a position to offer the basic banking services to its customers on a 24/7/365 model. Thus CBS is a step towards enhancing customer convenience through anywhere and anytime banking.

Some terms associated with CBS

Data Centre (DC) – The place where the central server / servers are housed.

Disaster Recovery Site (DRS) – An alternate data centre which will act as a backup resource and ensure business continuity in case of a DC failure.

Data Mirroring – Storage devices attached to Servers located in DC and DRS are updated on a real time basis, so that data integrity as well as availability are ensured even in case of a hardware failure. Bank's real time data is stored in multiple devices and locations.

Backup – Data stored in the fixed storage devices are copied on to removable storage devices/tapes and preserved for any future contingency. These backups are stored in some off-site location to avoid the damages on account of a disaster like earth quake, fire, flood etc.

Leased Lines – These are the primary data links used for CBS networking. These are analog links on fixed yearly rentals and there are no additional usage charges.

ISDN Lines – These are the secondary data links put to use in case of a leased line failure. These are integrated services digital network lines which can carry various forms of information packets (data, voice and images and video) as digital signals.

Modem – This is networking equipment used to modulate and demodulate the data signals. Computers work on digital data signals where as the leased lines can carry only the analog signals. Modems modulate (convert the digital signals to analog signals) at the transmitting end and then demodulate (Convert the analog signals to digital signals) at the receiving end.

Switch – In a branch there can be more than one computer and these computers are networked to form a local area network (LAN) using a device called switch.

Router – Router is another network device that connects different LANs and facilitates intelligent data transfer. Router also functions as an intelligent switching device between various connectivity channels, viz., leased line, ISDN, PSTN etc. When the primary link (LL) is down, it automatically dials the ISDN and re-establishes the network connectivity.

Regional Cluster Centre (RCC) - Instead of taking separate links between individual branches and the data centre, branches in a geographical region are first connected to a location in that region and this location is then connected to the data centre using links of higher band width. This location is termed as a regional cluster centre. Some banks also house their regional data servers in RCC, so that in case of a total network failure between RCC and DC, branches in that region can continue to operate and also provide Any Branch Banking (ABB) facilities within the cluster.

Evolution of CBS in India?

The major objectives of bank automation are better customer service, flawless book keeping and prompt decision-making that leads to improved productivity and profitability. The concept of bank automation started in the year 1981, but it was during the period 1984-1987 banks in India started the branch level automation, making use of the then available MSDOS based stand alone computers. This initiative was taken by the banks on the basis of "First Rangarajan Committee report" on bank computerisation submitted in the year 1984. ALPMs (Advanced Ledger Posting Machines) were the fashion in those days. However, the pace of bank automation was very slow in the banks primarily owing to the lack of trade union consensus on bank automation. Another committee was constituted in 1988 under the chairmanship of Dr. C Rangarajan, the then Deputy Governor of RBI to slate down a perspective plan on automation of banks for a five year period. This paved way to the implementation of multi-user Total Branch Automation packages running on a LAN (Local Area Network), either on a Netware or a UNIX operating system. With the implementation of TBA, banks started to offer the facilities of exclusive Customer Terminal, Single window transaction, on-line and off-site ATMs, Tele-Banking etc.

But with the advent of new generation private sector banks in India during 1994-1996, the real era of bank marketing started and these banks started to offer any where and any time banking facilities to its customers. This was possible for them mainly owing to the fact that they opted for the

implementation of a WAN (Wide Area Network) based centralised banking solution rather than a LAN based branch banking solution to network their limited number of branch outlets. The old generation banks in India hesitated to follow this banking fashion on account of its large network of branches on one hand and the then prevailing exorbitant IT cost on the other hand. But with the globalisation and liberalisation of Indian market and with the enactment of TRAI (with a mission to create and nurture conditions for growth of telecommunications in the country in a manner and at a pace which will enable India to play a leading role in emerging global information society) during the late nineties, there happened a drastic reduction in IT cost. Improved telecommunication facilities and reduction in hardware as well as networking cost changed the mind set of the banks in India to try the CBS option. This also equipped them with the required technology leverage to compete in the Indian market by offering the similar technology products and services, as those offered by their new generation competitors.

What are the main functionalities available with CBS?

The main functionalities of CBS include:

- ♦ Customer information files with all the non-dynamic information about the customer, business entity or group and relationships.
- ♦ All bank liability accounts: savings, fixed deposits, current accounts etc.
- ♦ All bank asset accounts: loans, mortgages and credit facilities.
- ♦ Bank General Ledger, Bank Financials and Audit trails.
- ♦ Payment systems & Real Time Gross Settlement.
- ♦ Card systems, Electronic Funds Transfer at the Point of Sale, Automated Teller Machines, and other electronic payments and transaction handling systems.
- ♦ Reporting and compliance with regulatory requirements.
- ♦ MIS for Asset Liability Management (ALM), Anti Money Laundering(AML), Cash Management System (CMS), Asset Monitoring (Non Performing Assets and Other Credit Information), Basel II (for quantifying the operational risk associated with business products, services and volumes) etc.

(To be continued...)

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2005-2006 ECONOMIC FORUM

SEPTEMBER 2006

Theme No. 178 : CORE BANKING SYSTEM - PART II

Major Providers of CBS Application Software

Fiserv (ICBS), Mysis (MidasPlus), Temenos (T24) etc. are the major International Core Banking Solution (application software) providers. Infosys (Finacle), I-flex (Flexcube) and TCS (FNS-BANCS) are the major players in the Indian market and Infrasoftware (Omni Enterprise), LaserSoft (Panacea) are surely going to be the other alternatives available to the Indian banks.

Infosys Technologies Ltd. Finacle is the universal banking solution from Infosys. The solution addresses the core banking, e-banking, treasury, wealth management, CRM, and cash management requirements of retail, corporate and universal banks worldwide. South Indian Bank, Punjab National Bank, ICICI Bank etc. are the major clients.

I-flex solutions Ltd. since late 2005 it is owned by Oracle (previously was controlled by Citigroup) and specializes in providing state-of-the-art information technology solutions to the Banking and Financial Services industry. FLEXCUBE is their CBS solution which is an end-to-end product suite for retail, consumer, corporate, investment and internet banking, asset management, and investor servicing. HDFC Bank, Syndicate Bank etc. are the major clients.

TCS FNS (Financial Network Services Limited) is an Australian developer and supplier of banking application software, operating in world markets. The company is owned by TCS since Q4 2005 and consistently has ranked in the top 20 full banking system suppliers. BANCS is their CBS application software which runs on multiple operating systems, is platform and database-independent, operates in a multi-lingual and multi-currency capacity and provides the features and functions necessary to automate a bank's entire operations. State Bank of India is the major client.

Benefits to Banks?

Following are the major benefits derived by the banks:

- Replace old technology seamlessly with a state-of-the-art n-tier application.
- Replace multiple disparate and older generation systems with a single integrated multi-product processing application across various countries.
- Streamline operations by integrating the enterprise, to existing in-house applications and to offer a single customer view.
- Create a virtual banking operation from ground-up and offer a host of banking products.
- Enable multiple new delivery channels (Internet Banking, 7 X 24 ATM, Mobile Banking, Tele-banking and Point of Sale Terminals) allowing the bank to reach out to new customers and segments.
- Move to centralized processing and handle much higher volumes without a proportionate increase in resources or infrastructure costs.
- Use business intelligence tools to analyze customer needs and create new products and offerings.
- Build and retain customer relationships based on the strength of customer service capability.
- Enable and modify product offerings quickly and efficiently based on customer's market needs.
- Reduce costs, improve bottom-line and stakeholder rewards.
- Quick and easy introduction of new products and services

Advantages to Customer?

As mentioned in the beginning, the customer is no longer the customer of a bank branch but that of the bank itself. With this status change, he can bank with the bank as a whole rather than with his specific branch. Any where and any time banking facilities are the ultimate customer benefits on account of CBS implementation. Customer can enjoy the online and real time banking facilities through ATMs, Point of sale terminals (POS) Internet, Mobile phones and Kiosks. Quick realisation of instruments lodged for collection, on-line and easy fund transfer (intra-bank as well as inter-bank) etc. are other benefits to the customers, as CBS eliminates the physical transit of transfer/realisation advices using the postal system.

Customers can issue multi city cheques to their clients rather than depend on demand drafts for the out station and third party payments to a large extent. With CBS put in place, bank personnel get more time for customer care and this is surely going to be a step towards customer delight.

To offer Any where and Any time banking products, is CBS a must?

Surely not. Many banks that offer these facilities have just started the process of implementing a CBS for their business. AWB and ATB facilities can be offered by networking the distributed database. Many banks, including the PSBs are offering these facilities by means of networking their TBA branch servers. This will reduce the cost and overheads, but by compromising the data integrity and effective IT management. The real time data of these banks resides in the individual branch servers and hence the management of a large number of branch servers, data synchronisation and consolidation for MIS etc. are the areas of risk and business concern. Thus banks can offer the above facilities with out implementing a CBS, where the basic characteristic is centralised data processing.

How are the individual accounts identified by CBS?

The customer information of the bank is stored in the central server and the individual customer records will have to be selected for effecting a financial or non-financial transaction or inquiry. In order to identify the specific customer accounts, branch code and product code are generally prefixed to the account number. Thus under CBS, in a 16 digit account numbering pattern, a savings bank account bearing its ID number as 4377 in a manual or TBA environment is identified as 0001-012-000004377. Here the first 4 digits represent the branch code, next 3 digits represent the product/service code (SB A/c) and the remaining 9 digits represent the account number. This is the reason for an increase in the number of digits of the customer account number, when the branch migrates into CBS. This numbering pattern identifies the SB Account 4377 of branch A from that of branch B.

What are the risks of having a CBS?

Although there are a lot of arguments which are pro CBS, there are also some risks in having a CBS. The main risks are on account of network

and server failures, which have to be clearly addressed while formulating a business continuity plan (BCP). Since the entire data is available at the data centre, a branch will get typically alienated and its operations get affected. The whole banking operations get paralysed on account of a server failure or due to a network failure at the data centre. The disasters and attrition of key IT personnel are next in the list. The CBS application software, although supposed to be highly parameterised, modular, scalable and flexible, often demands for a work-around or a business process reengineering (BPR). Integration issues with third party solutions pop up while rolling out new products and services. The customisation part is another headache and banks later on realise that they have been customised to a corner! Ensuring the prompt and expert IT support from the 3 dimensions, viz., software, hardware and network and delivering the new products and services as per the business plan of the bank – these are the inevitable challenges in having a CBS model. To shoulder these risks and responsibilities, the bank should invariably have a well paid, dedicated and loyal IT team in its rolls rather than an outsourced model and here comes the importance of an effective chief information officer.

Roadmap of CBS?

With the mergers and acquisitions going to be the fashion of the years to come, CBS application software is getting ready to take care of real time banking transactions which are of multi-bank, multi-currency, multi-country and multi-lingual characteristics. Instead of the present user /card based password authentication, biometric authentication is going to be in vogue. Thus the day is not far away, when one of you just stand in front of an ATM here in India, the biometric camera attached to the ATM recognises your retina, the ATM screen salutes you with the menu options, you select the option "funds transfer", then enter the 22 digit (let us add 3 digits each for the country code and bank code!) bank account number of your younger sister studying in US and then followed by the transaction amount. The ATM now asks for your confirmation, commits the transaction and generates a receipt for you, where the transaction will show the time stamp as "Sunday, 09.30 Hrs, 10th July 2010", where as, the credit to your sister's account will bear a time stamp as "Saturday, 22.30 Hrs, 9th July 2010". And this is what we call Core, Online, Realtime, Electronic banking system.

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OCTOBER 2006

Theme No. 179 : CORPORATE GOVERNANCE . PART I

Ever since the collapse of corporate giants like Enron and Worldcom and emergence of globalised economic environment and convergence of various corporate culture across five continents, the concept of corporate Governance is gaining ground day by day. Achievement of business goals in this highly complex and competitive environment is a challenge met by intricate weaving of legal, socio-economic and human resources. The decision making process requires transparency and accountability. Business ethics and moral values have to be upheld at all levels of management.

The basics of Corporate Governance including the recommendations of Kumaramangalam Birla Committee was covered in our April and May, 2000 issues. But subsequently lot of studies, discussions and enactments have taken place worldwide. Different countries have different legal systems and different traditions for interpreting and enforcing legislation of relevance for corporate governance. USA saw the need to bring in the Sarbanes-Oxley Act (Popularly referred to as SOX). The act was not just about regulations and compliance, but that good governance is good business with clear codes and ethics. Companies with strong governance practices have demonstrated strong financial returns.

What is corporate governance?

Different people and professional organizations describe Corporate Governance in different ways. To put it simply, corporate governance aims at doing every thing in the most efficient manner, so that all the stakeholders get benefited. The first objective could be to improve the shareholder's return on equity but in the long run, it would be to increase the return for all the stakeholders – shareholders, employees, customers, suppliers, government and general public.

The Institute of Company Secretaries of India (ICSI) define "C.G. is the application of best management practices; compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders".

What is the aim and focus areas of NCCG?

With the goal of promoting better corporate governance practices in India, the Ministry of company Affairs, Government of India, in partnership with confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI), has set up the National Foundation for Corporate Governance.

The NCCG will focus on the following areas:

- Creating awareness on the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole.
- Encouraging research capability in the area of corporate governance in the country and providing key inputs for developing regulations, which meet the twin objectives of maximizing wealth creation and fair distribution of this wealth.
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.
- In close co-ordination with the private sector, work to instill a commitment to corporate governance reforms and facilitate the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure.
- Setting up of 'National Centres for Corporate Governance' across the country, which would provide quality training to Directors as well as produce quality research and aim to receive global recognition.

What are the important committees on Corporate Governance?

All countries that have adopted Corporate Governance practices have taken cue from the "Cadbury Committee Recommendations". Cadbury Committee was set up in Britain to go into the details of corporate governance prevailing in U.K. in May, 1991. The Cadbury Committee was born out of the scandals that hit the UK during the last 1980s. Actually in the US, the term 'CG' was in use even during 1970s. Some of the recommendations of the Cadbury Committee is based on US practices.

In India, the three important committees related to C.G. are :

1. Kumararamangalam Birla Committee 2000
2. Naresh Chandra Committee 2002 and
3. Narayana Murthy Committee 2003

What are the highlights of Cadbury Committee Report?

- Boards should have separate audit and remuneration committees made up entirely of independent directors.
- Audit committees should meet with the external auditors at least once a year and without executive directors.
- The full remuneration package of all directors – including performance – related elements – should be disclosed in annual reports.
- Director's term of office should run for no more than three years without shareholders approval.
- The board must meet regularly.
- It ought to have a formal schedule of matters for decision.
- Independent directors should be appointed for specified terms.
- Independent directors should be appointed through a formal process.
- Independent directors should have a standing outside the company that ensures that their views carry weight.
- Independent directors should be fully independent and free from links with the company other than the fees and shareholdings.
- Fees for independent directors should reflect the time they spend on company business.

- There should be an accepted division at the head of the company, which will ensure balance of power and authority such that no one individual has unfettered powers of decision making. Where the Chairman is also the chief executive, there should be a strong independent element on the board with an independent leader.

What are the main recommendations of Naresh Chandra Committee Report?

Naresh Chandra Committee's Report has recommendations on the Auditor - making audit effective etc. on the one hand and on Corporate Governance practices on the other.

Following are the highlights in the Corporate Governance area:

- CEO and CFO certification of annual audited accounts for all listed companies as well as public limited companies whose paid-up capital and free reserves exceeds Rs.10 crores or turnover exceeds Rs.50 crores.
- No less than 50 per cent of the board of directors of any listed company, as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs.10 crore and above, or turnover of Rs. 50 crore and above, should consist of independent director. (The Committee has defined the term 'Independent Director').
- Minimum Size of Board of Directors of the Companies referred above, should be 7 of which at least 4 should be Independent Directors.
- The above said companies should disclose the timing and duration of Board/Committee Meetings.
- Encourage participation of Directors who are unable to personally make it to the meeting, through Tele Conferencing or Video Conferencing.
- Exempt non-executive and independent directors from such criminal and civil liabilities.
- Training of Independent Directors

(To be contd.....)

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SIB STUDENTS' ECONOMIC FORUM

NOVEMBER 2006

Theme No. 180 : CORPORATE GOVERNANCE - PART II

What are the key recommendations of the SEBI Committee under the chairmanship of Sri.N.R. Narayana Murthy?

It was the belief of the Securities and Exchange Board of India ("SEBI") that efforts to improve corporate governance standards in India must continue. This is because these standards themselves were evolving in keeping with market dynamics. Accordingly, the Committee on Corporate Governance was constituted by SEBI, to evaluate the adequacy of existing corporate governance practices and further improve these practices. The Committee comprised members from various walks of public and professional life. This includes captains of industry, academicians, public accountants and people from financial press and from industry forums.

The issues discussed by the Committee primarily related to audit committees, audit reports, independent directors, related parties, risk management, directorships and director compensation, codes of conduct and financial disclosures. The Committee's recommendations in the final report were selected based on parameters including their relative importance, fairness, accountability, transparency, ease of implementation, verifiability and enforceability.

The key mandatory recommendations focus on strengthening the responsibilities of audit committees; improving the quality of financial disclosures, including those related to related party transactions and proceeds from initial public offerings; requiring corporate executive boards to assess and disclose business risks in the annual reports of companies; introducing responsibilities on boards to adopt formal codes of conduct; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors.

Non-mandatory recommendations include moving to a regime where corporate financial statements are not qualified; instituting a system of training of board members; and the evaluation of performance of board members.

The Committee felt that it is worth implementing the governance reforms even if the cost is little high. In this context, it should be noted that the failure to implement good governance procedures has a cost beyond mere regulatory problems. Companies that do not employ meaningful governance procedures will have to pay a significant risk premium when competing for scarce capital in today's public markets.

What are the steps taken by SEBI recently to improve corporate governance?

Corporate Governance was an issue that SEBI took very seriously during 2006 with SEBI Chairman Sri. M. Damodaran leading the efforts of CIL, NCFG and other industry bodies to make small and medium companies too adhere to the clause 49 of the listing agreement along with the large ones. BSE as a measure to implement corporate governance issued suspension notices to 56 companies for non-compliance of various clauses of the listing agreement. Clause 49 is now applicable to all listed companies having a paid up capital of Rs.3 crore and above at any time in the history of the company. The Corporate Governance report of a company to which clause 49 is applicable can be certified by a practicing company secretary.

Do we have an effective system to identify weakness in internal control?

We have an effective system of maintaining internal control and identifying weaknesses. For example, as per Clause 49, a CEO/CFO has to certify to the board that he accepts the responsibility of maintaining the internal control and of its effectiveness. He also has to certify the significant changes in the internal control systems.

Further, the clause requires the audit committee to review the information on internal control weakness identified by statutory auditors and entail a company to include management discussion and analysis report as a part of the annual report, wherein the internal control system and its adequacy are to be specified. A practicing company secretary certifying a corporate governance report also ensures that there has been effective evaluation and reconstruction of internal controls, thereby, helping in better management of internal risks. All these ensure better governance.

Are independent directors truly independent in India? What is the incentive to attract independent directors?

Eligibility of an independent director is clearly defined in the statute. The law is uniformly applicable to all companies irrespective of their nature. In family owned business also independent directors have got a role to play. Independent directors are independent to a large extent.

Apart from good compensation, independent directors have greater opportunity to provide objectivity and expertise in the decision-making process of the company. They can surely add value to good governance practices.

What are the major conclusions of the 7th meeting of the World council for Corporate Governance?

The seventh WCCG Conference held from 11-12 May, 2006 at Nuffield, London discussed the issues in detail and a summary of the conclusions are given below:

- Boards must operate as a cohesive team where challenge and raising of sensitive issues can occur without breaking the harmony of the group.
- The primary boardroom task is strategic direction, to be effective boards must receive the right information and focus on the key issues facing the business.

- Boards should work on continuous improvement of their own performance, including areas like CEO succession, executive compensation, board skills and board diversity.
- The board is responsible for the values and ethical behaviour of the organization, it must take a wide view and ensure that the interests of all stakeholders are taken into account.
- The primary purpose of business is economic; Corporate Social Responsibility is necessary and must support the business. The board needs to define the role and scope of CSR, and the structures and systems to achieve it.
- External auditing is an essential check to ensure board accountability and must be supported by internal auditing.

What are the advantages of good corporate governance?

- Inhibits accountability of the Board to the Stakeholders.
- Enables effective functioning of Board and its Committees.
- Enhances the Brand Image of the Company.
- Ensures optimum utilization of resources.
- Makes Corporate Policies Transparent.
- Enables the Board to give right strategic direction.
- Ensures Good internal control system.
- Superior economic performance.

Conclusion: Corporate Governance means doing everything better, to improve relations between Company and its customers; to improve the wealth of shareholders but at the same time taking care of the interest of its employees and the society at large.

Corporate Governance should not end with just the number of board meetings held, or the number of hours the meeting lasted, which all directors attended, etc. It should result in the adoption of best strategies/practices, transparency, better accountability and maximization of wealth to all the stakeholders.

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DECEMBER 2006

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Theme No. 181: FOREIGN EXCHANGE - FACILITIES TO RESIDENTS & NON-RESIDENTS.

What is FEMA?

It is an Act called "FOREIGN EXCHANGE MANAGEMENT ACT-1999." The Act came into force from 1st day of June, 2000. It extends to the whole of India. The objective of the Act is to facilitate foreign trade and promote orderly development and maintenance of FOREX MARKET. This enactment replaced the then prevailed (FERA) "Foreign Exchange Regulation Act - 1973".

Who is an NRI?

- A Non Resident Indian is an Indian who has gone out of India or stays outside India,
- For or on taking up employment outside India, or
 - For carrying on outside India a business or vacation outside India, or
 - For any other purpose, in such circumstances as would indicate his intension to stay outside India for an uncertain period.

Which are the different types of Non Resident bank accounts?

A. NRE Accounts: These accounts are maintained in Indian rupees. Accounts can be in the form of Current, Savings, Term Deposit and Recurring Deposit. Joint accounts are permitted with NRIs. Account can be opened by direct remittance from abroad, transfer from existing NRE, FCNR(B) accounts or with foreign currency note, travellers cheque tendered personally by NRI's during their visit to India. Repatriation of credit balance permitted. Residents in India can be authorised to operate the account for local payments. Balance is exempt from wealth tax and interest earned is exempt from Income Tax. Loans can be availed against security of NRE Term Deposit and as per the recent RBI guidelines, the maximum loan amount is stipulated as Rs. 20 lacs. Since these accounts are kept in Indian rupees, customer is exposed to a probable loss in case rupee gets weaker. The rates of interest offered on NRE accounts are relatively higher when compared with that offered on FCNR accounts.

B. FCNR Accounts: In India, FCNR (Foreign currency non resident) deposit is accepted in US dollar, Canadian Dollar, Australian Dollar, Japanese Yen, British Pound and EURO for various maturities insulated against exchange rate fluctuations. In India, RBI has permitted banks to maintain foreign currency accounts in the above 6 currencies and hence, these currencies are often referred as designated currencies. Balance and interest is repatriable. Joint accounts are permitted with NRIs. Rupee or Foreign Currency loan can be availed against deposits. When compared to NRE accounts, there is a probable loss in case rupee gets stronger. These accounts are only of fixed deposit type and the minimum deposit period is 1 Year. Banks also provide forward contract facility to the customer, so that he will also

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Theme No. 181: FOREIGN EXCHANGE - FACILITIES TO RESIDENTS & NON-RESIDENTS.

What is FEMA?

It is an Act called "FOREIGN EXCHANGE MANAGEMENT ACT-1999." The Act came into force from 1st day of June, 2000. It extends to the whole of India. The objective of the Act is to facilitate foreign trade and promote orderly development and maintenance of FOREX MARKET. This enactment replaced the then prevailed (FERA) "Foreign Exchange Regulation Act - 1973".

Who is an NRI?

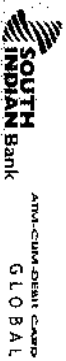
A Non Resident Indian is an Indian who has gone out of India or stays outside India,

- For or on taking up employment outside India, or
- For carrying on outside India a business or vacation outside India, or
- For any other purpose, in such circumstances as would indicate his intension to stay outside India for an uncertain period.

Which are the different types of Non Resident bank accounts?

A. NRE Accounts: These accounts are maintained in Indian rupees. Accounts can be in the form of Current, Savings, Term Deposit and Recurring Deposit. Joint accounts are permitted with NRIs. Account can be opened by direct remittance from abroad, transfer from existing NRE, FCNR(B) accounts or with foreign currency note, travellers cheque tendered personally by NRIs during their visit to India. Repatriation of credit balance permitted. Residents in India can be authorised to operate the account for local payments. Balance is exempt from wealth tax and interest earned is exempt from Income Tax. Loans can be availed against security of NRE Term Deposit and as per the recent RBI guidelines, the maximum loan amount is stipulated as Rs. 20 lacs. Since these accounts are kept in Indian rupees, customer is exposed to a probable loss in case rupee gets weaker. The rates of interest offered on NRE accounts are relatively higher when compared with that offered on FCNR accounts.

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get the benefit of prevailing forward premium. As in the case of NRE accounts, the balance is exempt from wealth tax and interest earned is exempt from Income Tax.

C. NRO Accounts: Accounts maintained in Indian Rupees for routing bona fide local remittance like rent, income from land etc. Joint accounts are permitted with NRIs or Residents. Interest earned in the account is subject to Indian Income Tax. Account can be maintained in the form of Current, Savings and Term Deposits and repatriation is restricted.

D. RFC Accounts: A person of Indian Origin who returns to India for permanent settlement after a stay of minimum period of one year abroad is eligible to open RFC account. Assets acquired or held at the time of return are eligible for credit to RFC account. For Example: Funds in bank account outside India, Income such as dividend, interest, and profit earned on assets abroad, sale proceeds of eligible assets, pension and other monetary benefit received from outside India arising out of employment taken up abroad, foreign currency notes, travellers cheques brought to India at the time of return and balances in NRE & FCNR accounts. The balance can be repatriated or credited to NRE or FCNR(B) accounts, if the account holder becomes an NRI subsequently. Balance in the accounts can be used for bona-fide expenses like travelling expenses for going abroad, children's education abroad etc.

Can a resident in India have an account in foreign currency?

Surely. A person resident in India can open, hold and maintain with an authorised dealer in India, a Resident Foreign Currency Domestic Account. He can make remittance to this account from the foreign exchange acquired in the form of currency notes, bank notes and travellers cheques from any of the sources like, payment for services rendered abroad, as honorarium, gift, or any payment received in settlement of any lawful obligation from any person not resident in India.

What do you mean by Nostro and Vostro accounts?

Nostro A/c is an Indian bank's foreign currency a/c with another Bank outside India. **Vostro A/c** means a foreign bank's or exchange company's Rupee a/c with a Bank in India.

Who is an Authorised Person?

Foreign Exchange Management Act (FEMA) stipulates that all foreign exchange transactions are required to be routed only through the entities that are licensed by the Reserve Bank to undertake such transactions. Such entities are defined as Authorised persons in Section 10 of the Act. Under current dispensation, such authorised person may be :

- A Commercial bank (A.D. Authorised Dealer), or
- A Money changer (FFMC - Full Fledged Money Changers), or
- Any financial institution authorised for limited kind of transactions, depending on their activity, or Any other entity authorised by the Reserve Bank (RAD- Restricted Authorised Dealers).

What are the various foreign exchange drawing facilities available to an Indian resident?

Persons resident in India are allowed to draw foreign exchange from Authorised Dealers

for various current account transactions as per the provisions of Foreign Exchange Management Act, 1999 amended from time to time. Following table gives a gist of such facilities available to Residents to draw foreign exchange through Authorised Dealer Category - I (Banks). If a resident requires more than the permitted entitlements, he can approach RBI for permission and in most cases RBI allows the request if found genuine.

Purpose	Limit	Remarks
Private Visit	USD 10000 per FY	Not applicable for Nepal & Bhutan visits
Medical Treatment per instance	USD 100000	For higher amount, an estimate is required.
Emigration	USD 100000	Or lower amount if so fixed by the individual country
Employment	USD 100000	Nil
Maintenance of close relatives	USD 100000 Per Year	Nil
Studies abroad	USD 100000 or Estimate	Which ever is higher per academic year.
Business trip / Conference/training	USD 25000	Irrespective of the period of stay
Gift / Donations	USD 5000 Per Year	Per remitter / Donor Per annum
Liberalized Remittance Scheme	USD 50000 Per FY	For Current/Capital account Transactions or both

Is there anything special about the liberalized remittance scheme?

Under the liberalized remittance scheme, resident individuals are free to acquire and hold immovable property or shares or any other asset outside India without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with a bank outside India for making remittances under the scheme.

In all the above cases, there is certain limits for drawing the eligible foreign exchange in the form of foreign currency notes and coins. The general limit is USD 2000, but it is USD 5000 in case of countries like Libya and Iraq and, the full entitlement can be drawn in foreign currency itself in case of travellers proceeding to Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States. The remaining entitlement will have to be carried either in form of a demand draft, travellers cheque or by outward remittance.

Is there any means for the authorized dealer to ensure that the applicant has not already availed his eligible foreign exchange entitlement?

It is not mandatory for authorised dealers to endorse the amount of foreign exchange sold for travel abroad on the passport of the traveller. However, if requested by the traveller, they will endorse the passport for the foreign exchange sold for travel. As per the law, authorised dealers are supposed to act based on the FEMA declarations and affidavits furnished by the customer along with his request. With FEMA, there is a clear shift of the responsibility on to the shoulders of the citizen and he will be liable to make

up for any loss to the economy and also bound to pay the penalty in case of fund diversion / drawal of foreign exchange above his entitlements.

Any stipulations regarding the Mode of payment?

Residents can draw foreign exchange by paying cash upto Rs.50,000.00. Wherever the drawal of foreign exchange exceeds the amount equivalent to Rs.50,000, the payment to be made only by a crossed cheque drawn on the applicant's bank account or that of the agent sponsoring the visit of the applicant or by way of a banker's cheque or a demand draft.

What to do with the unspent foreign exchange if any?

Unspent foreign exchange brought back to India by a traveller should be surrendered within 90 days from the date of return of the traveller. If the unspent foreign exchange is in the form of CURRENCY NOTES, If such foreign exchange is in the form of travellers cheques, the same should be surrendered within 180 days from the date of return. Exchange so brought back can be utilised by the traveller for his subsequent visit abroad during the period specified above.

What you mean by Repatriation?

Repatriation into India means bringing foreign currency into India and converting into local currency (Rupee). Repatriation outside India means converting rupee into foreign currency and remitting out of India. This currency conversion is done at the market determined TT buying rate or TT selling rate. Or in other words, TT buying rate is the rate at which remittances received in foreign currency to India is converted into Rupee and TT selling rate is the rate at which Rupee is converted into foreign currency for remittances sent outside India.

What is the difference between Capital and Current account transactions?

Capital account transactions refer to transactions which alters assets and liabilities. Thus transactions meant for investment in immovable properties, investment in securities, external commercial borrowings, etc. are of capital in nature. Current account transactions mean the transactions other than capital account transactions. Payments on account of personal expenses, business expenses, gifts, donations, interest, commission, foreign travel, educational and medical expenses, etc. come under current account transactions.

What is the speciality with traveller's cheque?

A traveller's cheque is a preprinted, fixed-amount cheque designed to allow the person signing it to make an unconditional payment to someone else as a result of having paid the issuer (usually a bank) for that privilege. As traveller's cheques can usually be replaced if lost or stolen, they are often used by people on vacation in place of cash. The use of credit cards has, however, rendered them less important than they previously were. However, there are few places that do not accept credit cards but do traveller's cheques. At the time of issuing these instruments, the signature of the purchaser is affixed on the top of each instrument in the presence of the authorised person/dealer who is the issuer. While making a purchase, the purchaser should, in the presence of the payee, put the date and countersign the cheque in the indicated space, usually on the cheque's lower portion. There is also an option for issuing stop payment instruction on the lost instruments.

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JULY 2006

Theme No. 176 : CHEQUE TRUNCATION

To avoid delays in clearing and to facilitate quicker settlement of clearing cheques, Reserve Bank of India has introduced a new process called cheque truncation. It is based on the report of a working group headed by Dr. R. D. Burman, Executive Director of RBI. The group has submitted recommendations on the mode of truncation, preservation period of the physical cheques, storage location of cheque images and security requirements for the flow of cheque data images over the different banks and clearing houses network.

What is cheque Truncation?

It is a way to reduce the clearing cycle to provide faster clearance of local and intercity cheques enabling quicker payment and settlement system. This will enable banks to enjoy greater efficiency in the management of funds of its customers and to provide better customer service.

In the process of "cheque Truncation" as envisaged by RBI, instead of sending physical cheques deposited by bank customers to the clearing houses, electronic records of their contents are generated through digital image process (called Truncated cheques) and the collecting banks or clearing houses will capture the electronic information. These truncated cheques along with the MICR data available at the bottom of these cheques will be transmitted and presented to the drawee banks by electronic transmission for verification via secure, broadband data communication network as a digitally signed data packet. The cheque truncation project, which would use electronic image of the cheque for processing is a new concept in our country and the RBI has decided to implement it soon.

What is the legal basis for introducing the new system of cheque Truncation?

The legal basis for introducing the new system of "cheque truncation" has been established with the passage of the negotiable instruments (Amendment) Act 2002. This Act has brought about a significant change of the Information Technology Act 2000 thereby bringing the cheques within the purview of the Act. The amendment of Section 6 of the Negotiable Instruments Act has facilitated the inclusion of truncated cheques within the definition of a 'cheque'. The amended Section 6 of the Negotiable Instruments Act now reads as "A Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form". Section 81 A of the Negotiable Instruments Act 1881 will also give legal validity to electronic cheques.

New section 6 (a) of Negotiable Instruments Act explains "cheque in the electronic form "contains the exact mirror image of a paper cheque and is generated, written and signed in a secure system ensuring the minimum safety standards with the use of digital signatures (with or without the use of Biometrics) and asymmetric cryptography. The electronic cheque (e-cheque) thus contains the exact mirror contents of the paper cheque in image form and like paper cheques are legally binding. Promises to pay, Digital signature brings with it the required trust (authenticity, integrity, confidentiality and non-repudiation-the four vital mantras of e-security) for the transaction.

How the process of cheque Truncation would work?

The cheque in the physical form as and when tendered by the customer, the presenting banks will keep the physical cheque in their custody, giving a unique identifier to the instrument, capture the image of the instrument by using the software provided for the purpose duly certified by the

authority concerned and route the image to the clearing house. The clearing house will do the image routing and processing to send image files of cheques to the drawee bank. The drawee bank and branch will follow image based inward and outward return including verification of signature images of drawer already held in electronic form with the drawee branch. In the outward return, the returned instrument is allocated a fresh unique identifier and a return reason (image return document). This can be used by the customer to represent the cheque. The image files messaging and transmission across the banks and clearing house could be ensured through Structured Financial Messaging system (SFMS) and INTENIT of the reserve Bank of India which is public key Infrastructure (PKI) enabled.

What the commercial banks are expected to do?

The banks are expected to put in place suitable systems and procedures, and carry out stringent and rigorous tests to ensure that the system comply to the banks' and RBI requirements. The selected system should be tested and proven to seamlessly interface to clearing House interface (CHI).

The current paper based clearing will be replaced by image and data clearing for outward and inward items. Cheque data and images will be stored in image archives for outward and inward items for eight years. The paper instruments should also be retained for eight years.

What are the Hardware and Software needs?

RBI will provide only the CHI application software, to the member banks. Banks have to purchase (i) appropriate hardware, (ii) systems software, and (iii) networking infrastructure. The CHI will act as a Gateway for outward and inward MICR data and the images of the instruments to be sent to/ Received from the clearing house over the network/media. The CHI is a windows based software with server. The Gateway shall be deployed using the Public Key Infrastructure for all its communication with the clearing house. The CHI shall aggregate the images and MICR data

received from the branches for outward presentation and will deliver the inward images and MICR data drawee bank branchwise, to the respective CHL. Banks are to ensure that the images and data sent to RBI's CHL comply with all the guidelines issued by RBI. The images may have to pass the required Image Quality Assurance (IQA) and Image Quality Usability (IQU) specifications. Failure to do so may result in rejection of such images.

How to deal with Fraudulent Transactions?

There is apprehension amongst bankers that they may not be able to distinguish between fraudulent cheques and genuine ones under the reserve Bank of India's plan to clear cheques using scanned images. They are in a fix as to what to do if there is any suspected fraud in the physical cheque itself, like alteration of figures, fraudulent signatures, etc. Aware of such an eventuality, it has been decided that the collecting banks or the clearing houses will retain the truncated cheques and the drawee banks will be able to examine the physical version of truncated cheques to assist them in making payment decisions in case of need – like suspicion of any fraud, forgery, tampering or destruction of the instrument under question.

Conclusion : Clearing through cheque truncation is expected to commence in metros like Delhi, by 31st March, 2007. This will help to reduce the time for the clearing process to one day. Besides, the time efficiency, the process would do away with the need for transporting millions of cheques every day. Many countries including third world countries like Botswana, Venezuela, Columbia, Malaysia, Taiwan and Thailand have already adopted truncated cheque clearing. The cheque truncation project is certain to revolutionize the payment mechanism in our country. It will also give a big jump towards the efforts of providing better and technology based customer service.

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AUGUST 2006

Theme No. 177 : CORE BANKING SYSTEM - PART I

Definition of Core Banking System

Core Banking system is the sum total of all the information technology components that enable a bank to manage its core business activities in a centralised model. The core banking activities include round the clock processing of all the products, services and information of a bank.

The major CBS Components

The major IT components of CBS include a mature and robust banking application software, various hardware components and a network infrastructure that facilitate a distributed front end banking operations and a centralised data processing at the back end.

Let us elucidate

Note that it is a banking solution (not a branch banking solution) and hence it is implemented at a central location to which various offices and service outlets of the bank are connected. The customer is no more the customer of a bank's branch but that of the bank itself. The software components used in CBS must take care of almost all the core banking activities of the bank. Under CBS, a bank must also be in a position to offer the basic banking services to its customers on a 24/7/365 model. Thus CBS is a step towards enhancing customer convenience through anywhere and anytime banking.

Some terms associated with CBS

Data Centre (DC) – The place where the central server / servers are housed.

Disaster Recovery Site (DRS) – An alternate data centre which will act as a backup resource and ensure business continuity in case of a DC failure.

Data Mirroring – Storage devices attached to Servers located in DC and DRS are updated on a real time basis, so that data integrity as well as availability are ensured even in case of a hardware failure. Bank's real time data is stored in multiple devices and locations.

Backup – Data stored in the fixed storage devices are copied on to removable storage devices/tapes and preserved for any future contingency. These backups are stored in some off-site location to avoid the damages on account of a disaster like earth quake, fire, flood etc.

Leased Lines – These are the primary data links used for CBS networking. These are analog links on fixed yearly rentals and there are no additional usage charges.

ISDN Lines – These are the secondary data links put to use in case of a leased line failure. These are integrated services digital network lines which can carry various forms of information packets (data, voice and images and video) as digital signals.

Modem – This is networking equipment used to modulate and demodulate the data signals. Computers work on digital data signals where as the leased lines can carry only the analog signals. Modems modulate (convert the digital signals to analog signals) at the transmitting end and then demodulate (Convert the analog signals to digital signals) at the receiving end.

Switch – In a branch there can be more than one computer and these computers are networked to form a local area network (LAN) using a device called switch.

Router – Router is another network device that connects different LANs and facilitates intelligent data transfer. Router also functions as an intelligent switching device between various connectivity channels, viz., leased line, ISDN, PSTN etc. When the primary link (LL) is down, it automatically dials the ISDN and re-establishes the network connectivity.

Regional Cluster Centre (RCC) - Instead of taking separate links between individual branches and the data centre, branches in a geographical region are first connected to a location in that region and this location is then connected to the data centre using links of higher band width. This location is termed as a regional cluster centre. Some banks also house their regional data servers in RCC, so that in case of a total network failure between RCC and DC, branches in that region can continue to operate and also provide Any Branch Banking (ABB) facilities within the cluster.

Evolution of CBS in India?

The major objectives of bank automation are better customer service, flawless book keeping and prompt decision-making that leads to improved productivity and profitability. The concept of bank automation started in the year 1981, but it was during the period 1984-1987 banks in India started the branch level automation, making use of the then available MSDOS based stand alone computers. This initiative was taken by the banks on the basis of "First Rangarajan Committee report" on bank computerisation submitted in the year 1984. ALPMs (Advanced Ledger Posting Machines) were the fashion in those days. However, the pace of bank automation was very slow in the banks primarily owing to the lack of trade union consensus on bank automation. Another committee was constituted in 1988 under the chairmanship of Dr. C Rangarajan, the then Deputy Governor of RBI to slate down a perspective plan on automation of banks for a five year period. This paved way to the implementation of multi-user Total Branch Automation packages running on a LAN (Local Area Network), either on a Netware or a UNIX operating system. With the implementation of TBA, banks started to offer the facilities of exclusive Customer Terminal, Single window transaction, on-line and off-site ATMs, Tele-Banking etc.

But with the advent of new generation private sector banks in India during 1994-1996, the real era of bank marketing started and these banks started to offer any where and any time banking facilities to its customers. This was possible for them mainly owing to the fact that they opted for the

implementation of a WAN (Wide Area Network) based centralised banking solution rather than a LAN based branch banking solution to network their limited number of branch outlets. The old generation banks in India hesitated to follow this banking fashion on account of its large network of branches on one hand and the then prevailing exorbitant IT cost on the other hand. But with the globalisation and liberalisation of Indian market and with the enactment of TRAI (with a mission to create and nurture conditions for growth of telecommunications in the country in a manner and at a pace which will enable India to play a leading role in emerging global information society) during the late nineties, there happened a drastic reduction in IT cost. Improved telecommunication facilities and reduction in hardware as well as networking cost changed the mind set of the banks in India to try the CBS option. This also equipped them with the required technology leverage to compete in the Indian market by offering the similar technology products and services, as those offered by their new generation competitors.

What are the main functionalities available with CBS?

The main functionalities of CBS include:

- ♦ Customer information files with all the non-dynamic information about the customer, business entity or group and relationships.
- ♦ All bank liability accounts: savings, fixed deposits, current accounts etc.
- ♦ All bank asset accounts: loans, mortgages and credit facilities.
- ♦ Bank General Ledger, Bank Financials and Audit trails.
- ♦ Payment systems & Real Time Gross Settlement.
- ♦ Card systems, Electronic Funds Transfer at the Point of Sale, Automated Teller Machines, and other electronic payments and transaction handling systems.
- ♦ Reporting and compliance with regulatory requirements.
- ♦ MIS for Asset Liability Management (ALM), Anti Money Laundering(AML), Cash Management System (CMS), Asset Monitoring (Non Performing Assets and Other Credit Information), Basel II (for quantifying the operational risk associated with business products, services and volumes) etc.

(To be continued....)



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2005-2006 ECONOMIC FORUM

SEPTEMBER 2006

Theme No. 178 : CORE BANKING SYSTEM - PART II

Major Providers of CBS Application Software

Fiserv (ICBS), Mysis (MidasPlus), Temenos (T24) etc. are the major International Core Banking Solution (application software) providers. Infosys (Finacle), I-flex (Flexcube) and TCS (FNS-BANCS) are the major players in the Indian market and Infrasoftware (Omni Enterprise), LaserSoft (Panacea) are surely going to be the other alternatives available to the Indian banks.

Infosys Technologies Ltd. Finacle is the universal banking solution from Infosys. The solution addresses the core banking, e-banking, treasury, wealth management, CRM, and cash management requirements of retail, corporate and universal banks worldwide. South Indian Bank, Punjab National Bank, ICICI Bank etc. are the major clients.

I-flex solutions Ltd. since late 2005 it is owned by Oracle (previously was controlled by Citigroup) and specializes in providing state-of-the-art information technology solutions to the Banking and Financial Services industry. FLEXCUBE is their CBS solution which is an end-to-end product suite for retail, consumer, corporate, investment and internet banking, asset management, and investor servicing. HDFC Bank, Syndicate Bank etc. are the major clients.

TCS FNS (Financial Network Services Limited) is an Australian developer and supplier of banking application software, operating in world markets. The company is owned by TCS since Q4 2005 and consistently has ranked in the top 20 full banking system suppliers. BANCS is their CBS application software which runs on multiple operating systems, is platform and database-independent, operates in a multi-lingual and multi-currency capacity and provides the features and functions necessary to automate a bank's entire operations. State Bank of India is the major client.

Benefits to Banks?

Following are the major benefits derived by the banks:

- Replace old technology seamlessly with a state-of-the-art n-tier application.
- Replace multiple disparate and older generation systems with a single integrated multi-product processing application across various countries.
- Streamline operations by integrating the enterprise, to existing in-house applications and to offer a single customer view.
- Create a virtual banking operation from ground-up and offer a host of banking products.
- Enable multiple new delivery channels (Internet Banking, 7 X 24 ATM, Mobile Banking, Tele-banking and Point of Sale Terminals) allowing the bank to reach out to new customers and segments.
- Move to centralized processing and handle much higher volumes without a proportionate increase in resources or infrastructure costs.
- Use business intelligence tools to analyze customer needs and create new products and offerings.
- Build and retain customer relationships based on the strength of customer service capability.
- Enable and modify product offerings quickly and efficiently based on customer's market needs.
- Reduce costs, improve bottom-line and stakeholder rewards.
- Quick and easy introduction of new products and services

Advantages to Customer?

As mentioned in the beginning, the customer is no longer the customer of a bank branch but that of the bank itself. With this status change, he can bank with the bank as a whole rather than with his specific branch. Any where and any time banking facilities are the ultimate customer benefits on account of CBS implementation. Customer can enjoy the online and real time banking facilities through ATMs, Point of sale terminals (POS) Internet, Mobile phones and Kiosks. Quick realisation of instruments lodged for collection, on-line and easy fund transfer (intra-bank as well as inter-bank) etc. are other benefits to the customers, as CBS eliminates the physical transit of transfer/realisation advices using the postal system.

Customers can issue multi city cheques to their clients rather than depend on demand drafts for the out station and third party payments to a large extent. With CBS put in place, bank personnel get more time for customer care and this is surely going to be a step towards customer delight.

To offer Any where and Any time banking products, is CBS a must?

Surely not. Many banks that offer these facilities have just started the process of implementing a CBS for their business. AWB and ATB facilities can be offered by networking the distributed database. Many banks, including the PSBs are offering these facilities by means of networking their TBA branch servers. This will reduce the cost and overheads, but by compromising the data integrity and effective IT management. The real time data of these banks resides in the individual branch servers and hence the management of a large number of branch servers, data synchronisation and consolidation for MIS etc. are the areas of risk and business concern. Thus banks can offer the above facilities with out implementing a CBS, where the basic characteristic is centralised data processing.

How are the individual accounts identified by CBS?

The customer information of the bank is stored in the central server and the individual customer records will have to be selected for effecting a financial or non-financial transaction or inquiry. In order to identify the specific customer accounts, branch code and product code are generally prefixed to the account number. Thus under CBS, in a 16 digit account numbering pattern, a savings bank account bearing its ID number as 4377 in a manual or TBA environment is identified as 0001-012-000004377. Here the first 4 digits represent the branch code, next 3 digits represent the product/service code (SB A/c) and the remaining 9 digits represent the account number. This is the reason for an increase in the number of digits of the customer account number, when the branch migrates into CBS. This numbering pattern identifies the SB Account 4377 of branch A from that of branch B.

What are the risks of having a CBS?

Although there are a lot of arguments which are pro CBS, there are also some risks in having a CBS. The main risks are on account of network

and server failures, which have to be clearly addressed while formulating a business continuity plan (BCP). Since the entire data is available at the data centre, a branch will get typically alienated and its operations get affected. The whole banking operations get paralysed on account of a server failure or due to a network failure at the data centre. The disasters and attrition of key IT personnel are next in the list. The CBS application software, although supposed to be highly parameterised, modular, scalable and flexible, often demands for a work-around or a business process reengineering (BPR). Integration issues with third party solutions pop up while rolling out new products and services. The customisation part is another headache and banks later on realise that they have been customised to a corner! Ensuring the prompt and expert IT support from the 3 dimensions, viz., software, hardware and network and delivering the new products and services as per the business plan of the bank – these are the inevitable challenges in having a CBS model. To shoulder these risks and responsibilities, the bank should invariably have a well paid, dedicated and loyal IT team in its rolls rather than an outsourced model and here comes the importance of an effective chief information officer.

Roadmap of CBS?

With the mergers and acquisitions going to be the fashion of the years to come, CBS application software is getting ready to take care of real time banking transactions which are of multi-bank, multi-currency, multi-country and multi-lingual characteristics. Instead of the present user /card based password authentication, biometric authentication is going to be in vogue. Thus the day is not far away, when one of you just stand in front of an ATM here in India, the biometric camera attached to the ATM recognises your retina, the ATM screen salutes you with the menu options, you select the option "funds transfer", then enter the 22 digit (let us add 3 digits each for the country code and bank code!) bank account number of your younger sister studying in US and then followed by the transaction amount. The ATM now asks for your confirmation, commits the transaction and generates a receipt for you, where the transaction will show the time stamp as "Sunday, 09.30 Hrs, 10th July 2010", where as, the credit to your sister's account will bear a time stamp as "Saturday, 22.30 Hrs, 9th July 2010". And this is what we call Core, Online, Realtime, Electronic banking system.

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OCTOBER 2006

Theme No. 179 : CORPORATE GOVERNANCE . PART I

Ever since the collapse of corporate giants like Enron and Worldcom and emergence of globalised economic environment and convergence of various corporate culture across five continents, the concept of corporate Governance is gaining ground day by day. Achievement of business goals in this highly complex and competitive environment is a challenge met by intricate weaving of legal, socio-economic and human resources. The decision making process requires transparency and accountability. Business ethics and moral values have to be upheld at all levels of management.

The basics of Corporate Governance including the recommendations of Kumaramangalam Birla Committee was covered in our April and May, 2000 issues. But subsequently lot of studies, discussions and enactments have taken place worldwide. Different countries have different legal systems and different traditions for interpreting and enforcing legislation of relevance for corporate governance. USA saw the need to bring in the Sarbanes-Oxley Act (Popularly referred to as SOX). The act was not just about regulations and compliance, but that good governance is good business with clear codes and ethics. Companies with strong governance practices have demonstrated strong financial returns.

What is corporate governance?

Different people and professional organizations describe Corporate Governance in different ways. To put it simply, corporate governance aims at doing every thing in the most efficient manner, so that all the stakeholders get benefited. The first objective could be to improve the shareholder's return on equity but in the long run, it would be to increase the return for all the stakeholders -- shareholders, employees, customers, suppliers, government and general public.

The Institute of Company Secretaries of India (ICSI) define "C.G. is the application of best management practices; compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders".

What is the aim and focus areas of NCCG?

With the goal of promoting better corporate governance practices in India, the Ministry of company Affairs, Government of India, in partnership with confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI), has set up the National Foundation for Corporate Governance.

The NCCG will focus on the following areas:

- Creating awareness on the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole.
- Encouraging research capability in the area of corporate governance in the country and providing key inputs for developing regulations, which meet the twin objectives of maximizing wealth creation and fair distribution of this wealth.
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.
- In close co-ordination with the private sector, work to instill a commitment to corporate governance reforms and facilitate the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure.
- Setting up of 'National Centres for Corporate Governance' across the country, which would provide quality training to Directors as well as produce quality research and aim to receive global recognition.

What are the important committees on Corporate Governance?

All countries that have adopted Corporate Governance practices have taken cue from the "Cadbury Committee Recommendations". Cadbury Committee was set up in Britain to go into the details of corporate governance prevailing in U.K. in May, 1991. The Cadbury Committee was born out of the scandals that hit the UK during the last 1980s. Actually in the US, the term 'CG' was in use even during 1970s. Some of the recommendations of the Cadbury Committee is based on US practices.

In India, the three important committees related to C.G. are :

1. Kumararamangalam Birla Committee 2000
2. Naresh Chandra Committee 2002 and
3. Narayana Murthy Committee 2003

What are the highlights of Cadbury Committee Report?

- Boards should have separate audit and remuneration committees made up entirely of independent directors.
- Audit committees should meet with the external auditors at least once a year and without executive directors.
- The full remuneration package of all directors – including performance – related elements – should be disclosed in annual reports.
- Director's term of office should run for no more than three years without shareholders approval.
- The board must meet regularly.
- It ought to have a formal schedule of matters for decision.
- Independent directors should be appointed for specified terms.
- Independent directors should be appointed through a formal process.
- Independent directors should have a standing outside the company that ensures that their views carry weight.
- Independent directors should be fully independent and free from links with the company other than the fees and shareholdings.
- Fees for independent directors should reflect the time they spend on company business.

- There should be an accepted division at the head of the company, which will ensure balance of power and authority such that no one individual has unfettered powers of decision making. Where the Chairman is also the chief executive, there should be a strong independent element on the board with an independent leader.

What are the main recommendations of Naresh Chandra Committee Report?

Naresh Chandra Committee's Report has recommendations on the Auditor - making audit effective etc. on the one hand and on Corporate Governance practices on the other.

Following are the highlights in the Corporate Governance area:

- CEO and CFO certification of annual audited accounts for all listed companies as well as public limited companies whose paid-up capital and free reserves exceeds Rs.10 crores or turnover exceeds Rs.50 crores.
- No less than 50 per cent of the board of directors of any listed company, as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs.10 crore and above, or turnover of Rs. 50 crore and above, should consist of independent director. (The Committee has defined the term 'Independent Director').
- Minimum Size of Board of Directors of the Companies referred above, should be 7 of which at least 4 should be Independent Directors.
- The above said companies should disclose the timing and duration of Board/Committee Meetings.
- Encourage participation of Directors who are unable to personally make it to the meeting, through Tele Conferencing or Video Conferencing.
- Exempt non-executive and independent directors from such criminal and civil liabilities.
- Training of Independent Directors

(To be contd.....)

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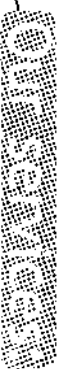
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SIB STUDENTS' ECONOMIC FORUM

NOVEMBER 2006

Theme No. 180 : CORPORATE GOVERNANCE - PART II

What are the key recommendations of the SEBI Committee under the chairmanship of Sri.N.R. Narayana Murthy?

It was the belief of the Securities and Exchange Board of India ("SEBI") that efforts to improve corporate governance standards in India must continue. This is because these standards themselves were evolving in keeping with market dynamics. Accordingly, the Committee on Corporate Governance was constituted by SEBI, to evaluate the adequacy of existing corporate governance practices and further improve these practices. The Committee comprised members from various walks of public and professional life. This includes captains of industry, academicians, public accountants and people from financial press and from industry forums.

The issues discussed by the Committee primarily related to audit committees, audit reports, independent directors, related parties, risk management, directorships and director compensation, codes of conduct and financial disclosures. The Committee's recommendations in the final report were selected based on parameters including their relative importance, fairness, accountability, transparency, ease of implementation, verifiability and enforceability.

The key mandatory recommendations focus on strengthening the responsibilities of audit committees; improving the quality of financial disclosures, including those related to related party transactions and proceeds from initial public offerings; requiring corporate executive boards to assess and disclose business risks in the annual reports of companies; introducing responsibilities on boards to adopt formal codes of conduct; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors.

Non-mandatory recommendations include moving to a regime where corporate financial statements are not qualified; instituting a system of training of board members; and the evaluation of performance of board members.

The Committee felt that it is worth implementing the governance reforms even if the cost is little high. In this context, it should be noted that the failure to implement good governance procedures has a cost beyond mere regulatory problems. Companies that do not employ meaningful governance procedures will have to pay a significant risk premium when competing for scarce capital in today's public markets.

What are the steps taken by SEBI recently to improve corporate governance?

Corporate Governance was an issue that SEBI took very seriously during 2006 with SEBI Chairman Sri. M. Damodaran leading the efforts of CIL, NCFG and other industry bodies to make small and medium companies too adhere to the clause 49 of the listing agreement along with the large ones. BSE as a measure to implement corporate governance issued suspension notices to 56 companies for non-compliance of various clauses of the listing agreement. Clause 49 is now applicable to all listed companies having a paid up capital of Rs.3 crore and above at any time in the history of the company. The Corporate Governance report of a company to which clause 49 is applicable can be certified by a practicing company secretary.

Do we have an effective system to identify weakness in internal control?

We have an effective system of maintaining internal control and identifying weaknesses. For example, as per Clause 49, a CEO/CFO has to certify to the board that he accepts the responsibility of maintaining the internal control and of its effectiveness. He also has to certify the significant changes in the internal control systems.

Further, the clause requires the audit committee to review the information on internal control weakness identified by statutory auditors and entail a company to include management discussion and analysis report as a part of the annual report, wherein the internal control system and its adequacy are to be specified. A practicing company secretary certifying a corporate governance report also ensures that there has been effective evaluation and reconstruction of internal controls, thereby, helping in better management of internal risks. All these ensure better governance.

Are independent directors truly independent in India? What is the incentive to attract independent directors?

Eligibility of an independent director is clearly defined in the statute. The law is uniformly applicable to all companies irrespective of their nature. In family owned business also independent directors have got a role to play. Independent directors are independent to a large extent.

Apart from good compensation, independent directors have greater opportunity to provide objectivity and expertise in the decision-making process of the company. They can surely add value to good governance practices.

What are the major conclusions of the 7th meeting of the World council for Corporate Governance?

The seventh WCCG Conference held from 11-12 May, 2006 at Nuffield, London discussed the issues in detail and a summary of the conclusions are given below:

- Boards must operate as a cohesive team where challenge and raising of sensitive issues can occur without breaking the harmony of the group.
- The primary boardroom task is strategic direction, to be effective boards must receive the right information and focus on the key issues facing the business.

- Boards should work on continuous improvement of their own performance, including areas like CEO succession, executive compensation, board skills and board diversity.
- The board is responsible for the values and ethical behaviour of the organization, it must take a wide view and ensure that the interests of all stakeholders are taken into account.
- The primary purpose of business is economic; Corporate Social Responsibility is necessary and must support the business. The board needs to define the role and scope of CSR, and the structures and systems to achieve it.
- External auditing is an essential check to ensure board accountability and must be supported by internal auditing.

What are the advantages of good corporate governance?

- Inhibits accountability of the Board to the Stakeholders.
- Enables effective functioning of Board and its Committees.
- Enhances the Brand Image of the Company.
- Ensures optimum utilization of resources.
- Makes Corporate Policies Transparent.
- Enables the Board to give right strategic direction.
- Ensures Good internal control system.
- Superior economic performance.

Conclusion : Corporate Governance means doing everything better, to improve relations between Company and its customers; to improve the wealth of shareholders but at the same time taking care of the interest of its employees and the society at large.

Corporate Governance should not end with just the number of board meetings held, or the number of hours the meeting lasted, which all directors attended, etc. It should result in the adoption of best strategies/ practices, transparency, better accountability and maximization of wealth to all the stakeholders.

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Theme No. 181: FOREIGN EXCHANGE - FACILITIES TO RESIDENTS & NON-RESIDENTS.

What is FEMA?

It is an Act called "FOREIGN EXCHANGE MANAGEMENT ACT-1999." The Act came into force from 1st day of June, 2000. It extends to the whole of India. The objective of the Act is to facilitate foreign trade and promote orderly development and maintenance of FOREX MARKET. This enactment replaced the then prevailed (FERA) "Foreign Exchange Regulation Act - 1973".

Who is an NRI?

- A Non Resident Indian is an Indian who has gone out of India or stays outside India,
- For or on taking up employment outside India, or
 - For carrying on outside India a business or vacation outside India, or
 - For any other purpose, in such circumstances as would indicate his intension to stay outside India for an uncertain period.

Which are the different types of Non Resident bank accounts?

A. NRE Accounts: These accounts are maintained in Indian rupees. Accounts can be in the form of Current, Savings, Term Deposit and Recurring Deposit. Joint accounts are permitted with NRIs. Account can be opened by direct remittance from abroad, transfer from existing NRE, FCNR(B) accounts or with foreign currency note, travellers cheque tendered personally by NRI's during their visit to India. Repatriation of credit balance permitted. Residents in India can be authorised to operate the account for local payments. Balance is exempt from wealth tax and interest earned is exempt from Income Tax. Loans can be availed against security of NRE Term Deposit and as per the recent RBI guidelines, the maximum loan amount is stipulated as Rs. 20 lacs. Since these accounts are kept in Indian rupees, customer is exposed to a probable loss in case rupee gets weaker. The rates of interest offered on NRE accounts are relatively higher when compared with that offered on FCNR accounts.

B. FCNR Accounts: In India, FCNR (Foreign currency non resident) deposit is accepted in US dollar, Canadian Dollar, Australian Dollar, Japanese Yen, British Pound and EURO for various maturities insulated against exchange rate fluctuations. In India, RBI has permitted banks to maintain foreign currency accounts in the above 6 currencies and hence, these currencies are often referred as designated currencies. Balance and interest is repatriable. Joint accounts are permitted with NRIs. Rupee or Foreign Currency loan can be availed against deposits. When compared to NRE accounts, there is a probable loss in case rupee gets stronger. These accounts are only of fixed deposit type and the minimum deposit period is 1 Year. Banks also provide forward contract facility to the customer, so that he will also

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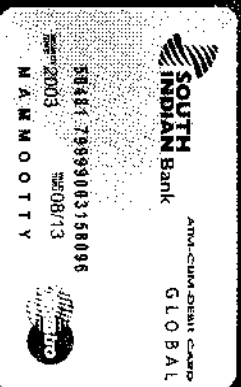
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get the benefit of prevailing forward premium. As in the case of NRE accounts, the balance is exempt from wealth tax and interest earned is exempt from Income Tax.

C. NRO Accounts: Accounts maintained in Indian Rupees for routing bona fide local remittance like rent, income from land etc. Joint accounts are permitted with NRIs or Residents. Interest earned in the account is subject to Indian Income Tax. Account can be maintained in the form of Current, Savings and Term Deposits and repatriation is restricted.

D. RFC Accounts: A person of Indian Origin who returns to India for permanent settlement after a stay of minimum period of one year abroad is eligible to open RFC account. Assets acquired or held at the time of return are eligible for credit to RFC account. For Example: Funds in bank account outside India, Income such as dividend, interest, and profit earned on assets abroad, sale proceeds of eligible assets, pension and other monetary benefit received from outside India arising out of employment taken up abroad, foreign currency notes, travellers cheques brought to India at the time of return and balances in NRE & FCNR accounts. The balance can be repatriated or credited to NRE or FCNR(B) accounts, if the account holder becomes an NRI subsequently. Balance in the accounts can be used for bona-fide expenses like travelling expenses for going abroad, children's education abroad etc.

Can a resident in India have an account in foreign currency?

Surely. A person resident in India can open, hold and maintain with an authorised dealer in India, a Resident Foreign Currency Domestic Account. He can make remittance to this account from the foreign exchange acquired in the form of currency notes, bank notes and travellers cheques from any of the sources like, payment for services rendered abroad, as honorarium, gift, or any payment received in settlement of any lawful obligation from any person not resident in India.

What do you mean by Nostro and Vostro accounts?

Nostro A/c is an Indian bank's foreign currency a/c with another Bank outside India. **Vostro A/c** means a foreign bank's or exchange company's Rupee a/c with a Bank in India.

Who is an Authorised Person?

Foreign Exchange Management Act (FEMA) stipulates that all foreign exchange transactions are required to be routed only through the entities that are licensed by the Reserve Bank to undertake such transactions. Such entities are defined as Authorised persons in Section 10 of the Act. Under current dispensation, such authorised person may be :

- A Commercial bank (A.D. Authorised Dealer), or
- A Money changer (FFMC - Full Fledged Money Changers), or
- Any financial institution authorised for limited kind of transactions, depending on their activity, or Any other entity authorised by the Reserve Bank (RAD-Restricted Authorised Dealers).

What are the various foreign exchange drawing facilities available to an Indian resident?

Persons resident in India are allowed to draw foreign exchange from Authorised Dealers

for various current account transactions as per the provisions of Foreign Exchange Management Act, 1999 amended from time to time. Following table gives a gist of such facilities available to Residents to draw foreign exchange through Authorised Dealer Category - I (Banks). If a resident requires more than the permitted entitlements, he can approach RBI for permission and in most cases RBI allows the request if found genuine.

Purpose	Limit	Remarks
Private Visit	USD 10000 per FY	Not applicable for Nepal & Bhutan visits
Medical Treatment per instance	USD 100000	For higher amount, an estimate is required.
Emigration	USD 100000	Or lower amount if so fixed by the individual country
Employment	USD 100000	Nil
Maintenance of close relatives	USD 100000 Per Year	Nil
Studies abroad	USD 100000 or Estimate	Which ever is higher per academic year.
Business trip / Conference/training	USD 25000	Irrespective of the period of stay
Gift / Donations	USD 5000 Per Year	Per remitter / Donor Per annum
Liberalized Remittance Scheme	USD 50000 Per FY	For Current/Capital account Transactions or both

Is there anything special about the liberalized remittance scheme?

Under the liberalized remittance scheme, resident individuals are free to acquire and hold immovable property or shares or any other asset outside India without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with a bank outside India for making remittances under the scheme.

In all the above cases, there is certain limits for drawing the eligible foreign exchange in the form of foreign currency notes and coins. The general limit is USD 2000, but it is USD 5000 in case of countries like Libya and Iraq and, the full entitlement can be drawn in foreign currency itself in case of travellers proceeding to Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States. The remaining entitlement will have to be carried either in form of a demand draft, travellers cheque or by outward remittance.

Is there any means for the authorized dealer to ensure that the applicant has not already availed his eligible foreign exchange entitlement?

It is not mandatory for authorised dealers to endorse the amount of foreign exchange sold for travel abroad on the passport of the traveller. However, if requested by the traveller, they will endorse the passport for the foreign exchange sold for travel. As per the law, authorised dealers are supposed to act based on the FEMA declarations and affidavits furnished by the customer along with his request. With FEMA, there is a clear shift of the responsibility on to the shoulders of the citizen and he will be liable to make

up for any loss to the economy and also bound to pay the penalty in case of fund diversion / drawal of foreign exchange above his entitlements.

Any stipulations regarding the Mode of payment?

Residents can draw foreign exchange by paying cash upto Rs.50,000.00. Wherever the drawal of foreign exchange exceeds the amount equivalent to Rs.50,000, the payment to be made only by a crossed cheque drawn on the applicant's bank account or that of the agent sponsoring the visit of the applicant or by way of a banker's cheque or a demand draft.

What to do with the unspent foreign exchange if any?

Unspent foreign exchange brought back to India by a traveller should be surrendered within 90 days from the date of return of the traveller, if the unspent foreign exchange is in the form of CURRENCY NOTES. If such foreign exchange is in the form of travellers cheques, the same should be surrendered within 180 days from the date of return. Exchange so brought back can be utilised by the traveller for his subsequent visit abroad during the period specified above.

What you mean by Repatriation?

Repatriation into India means bringing foreign currency into India and converting into local currency (Rupee). Repatriation outside India means converting rupee into foreign currency and remitting out of India. This currency conversion is done at the market determined TT buying rate or TT selling rate. Or in other words, TT buying rate is the rate at which remittances received in foreign currency to India is converted into Rupee and TT selling rate is the rate at which Rupee is converted into foreign currency for remittances sent outside India.

What is the difference between Capital and Current account transactions?

Capital account transactions refer to transactions which alters assets and liabilities. Thus transactions meant for investment in immovable properties, investment in securities, external commercial borrowings etc. are of capital in nature. Current account transactions mean the transactions other than capital account transactions. Payments on account of personal expenses, business expenses, gifts, donations, interest, commission, foreign travel, educational and medical expenses, etc. come under current account transactions.

What is the speciality with traveller's cheque?

A traveller's cheque is a preprinted, fixed-amount cheque designed to allow the person signing it to make an unconditional payment to someone else as a result of having paid the issuer (usually a bank) for that privilege. As traveller's cheques can usually be replaced if lost or stolen, they are often used by people on vacation in place of cash. The use of credit cards has, however, rendered them less important than they previously were. However, there are few places that do not accept credit cards but do traveller's cheques. At the time of issuing these instruments, the signature of the purchaser is affixed on the top of each instrument in the presence of the authorised person/dealer who is the issuer. While making a purchase, the purchaser should, in the presence of the payee, put the date and countersign the cheque in the indicated space, usually on the cheque's lower portion. There is also an option for issuing stop payment instruction on the lost instruments.

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