Draft Study Material

MICROFINANCE EXECUTIVE

(QUALIFICATION PACK: Ref. Id. BSC/Q2401)

Sector: Banking Financial Services and Insurance

(Grade IX)

PSS CENTRAL INSTITUTE OF VOCATIONAL EDUCATION
(a constituent unit of NCERT, under Ministry of Education, Government of India)
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Preface

Vocational Education is a dynamic and evolving field, and ensuring that every student has access to quality learning materials is of paramount importance. The journey of the PSS Central Institute of Vocational Education (PSSCIVE) toward producing comprehensive and inclusive study material is rigorous and time-consuming, requiring thorough research, expert consultation, and publication by the National Council of Educational Research and Training (NCERT). However, the absence of finalized study material should not impede the educational progress of our students. In response to this necessity, we present the draft study material, a provisional yet comprehensive guide, designed to bridge the gap between teaching and learning, until the official version of the study material is made available by the NCERT. The draft study material provides a structured and accessible set of materials for teachers and students to utilize in the interim period. The content is aligned with the prescribed curriculum to ensure that students remain on track with their learning objectives.

The contents of the Modules are curated to provide continuity in education and maintain the momentum of teaching-learning in vocational education. It encompasses essential concepts and skills aligned with the curriculum and educational standards. We extend our gratitude to the academicians, vocational educators, subject matter experts, industry experts, academic consultants, and all other people who contributed their expertise and insights to the creation of the draft study material.

Teachers are encouraged to use the draft Modules of the study material as a guide and supplement their teaching with additional resources and activities that cater to their students' unique learning styles and needs. Collaboration and feedback are vital; therefore, we welcome suggestions for improvement, especially by the teachers, in improving upon the content of the study material.

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Date: 20 June 2024

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Table of Contents

Module 1	INTRODUCTION TO BANKING AND MICROFINANCE SYSTEM

Module Overview

Banking is one of the vital factors responsible for the economic development of a country. It is a big support to all the pillars of Indian economy, especially, trade, industry and agriculture. Banking helps in an equitable distribution of the important resource-'Credit' which also strengthens the country's economy. Regional economic imbalances are removed to a great extent. It has played a key role in socio-economic development of India. Banking has helped many families in coming out of the typical zone of poverty. Development of banking sector is closely related with country's progress. In India, banks are functional with full dedication and accountability. Banking institutions have embraced modern technology to provide banking services at 24x7 from anywhere and to be at par with the international banking mechanism and practices.

Microfinance is not restricted to providing credit facilities to micro units. It its wider perspective which includes giving access to basic financial services viz. savings, money transfer services, pension and micro insurance. The "Task Force on Supportive Policy and Regulatory Framework for Micro Finance in India" has suggested a working definition of microfinance as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living of standards. Microfinance institutions are instrumental all over the world to improve the living status of the poor people. It is still a long way to see the day, when all the people in the world will have an access to basic financial services at an affordable cost.

This unit will focus on introduction to banking and microfinance system. The first session covers the history and evolution of banking in India, the second session deals with evolution of microfincance, the third session explains recent developments in the field of microfinance, and the fourth session discusses the unctions of microfinance executive.

Learning Outcomes

After completing this Module, you will be able to:

- Describe the history and evolution of banking in India
- Explain the evolution of microfinance
- Recent developments in the field of microfinance
- Describe the functions of microfinance executive

Module Structure
Session 1: History and Evolution of Banking in India
Session 2: Evolution of Microfinance
Session 3: Recent Developments in the Field of Microfinance
Session 4: Functions of Microfinance Executive

Session 1: History and Evolution of Banking in India

The financial relevance, which flashes in our mind with the word 'bank' is 'money'. Different business houses deal in different commodities or goods to earn profit. Bank is also a business institution which deals in the goods called 'money' and financial services. It is a properly accredited financial organization engaged in receiving money, in the form of deposits, from the public and giving to the public and business entities, in the form of loans and advances. On deposit amount, bank gives interest to the depositors, as its cost and charges a price for the amount lent from the borrowers, also known as interest. Deposits are accepted at lesser interest rate and borrowers are charged comparatively a higher rate of interest, in order to earn a surplus. Bank is also a provider of financial services for which service charges are recovered from the customers. Needless to mention that interest rates are fixed in tune with the market conditions. Bank uses the surplus generated to meet its expenses and to strengthen the capital base. Banks play a vital role in the financial stability of a country. Therefore, these are controlled by strict regulations in almost all countries.

TYPES OF BANKS

The regulator of banking industry in India is Reserve Bank of India. There are Scheduled Banks and Non-Scheduled Banks in India. The banks which meet the criteria to find place in the Second Schedule to the Reserve Bank of India Act 1934 are termed as Scheduled Banks. The remaining others are known as Non-Scheduled Banks. Commercial Banks, Small Finance Banks, Payment Banks and Co-Operative Banks are the broad types of banks which operate in India. Public Sector Banks, Private Sector Banks, Foreign Banks and Regional Rural Banks come under the umbrella of Commercial Banks. Other types of banks are Small Finance Banks, Payment Banks and Co-operative Banks. Co-operative Banks include Urban Co-operative Banks and State Co-operative Banks.

Indigenous banks: The indigenous banks like Sahukars, Mahajans, Chettis etc. also operate but are not governed by Reserve Bank of India. Their self-made rules prevail for their business.

Development Banks: Another type of bank is Development Banks which are typically designed to provide assistance to industry and agriculture sectors. Following banks are instrumental for the progress of industry sector, at the country level.

- Industrial Development Bank of India
- Industrial Finance Corporation of India
- Industrial Credit and Investment Corporation of India
- Industrial Reconstruction Corporation of India
- National Small Industries Development Bank of India

Export- Import Bank: Export- Import Bank of India extends financial assistance to the exporters and importers and promotes international trade of the country.

Following banks are actively involved at state level for the economic development of industry sector.

a) State Financial Corporations

b) State Industrial Development Corporations

c) State Industrial Investment Corporations

For the overall advancement of the agriculture sector, National Bank for Agriculture and Rural Development are the top body in the country. Land Development Banks operate at the district level for promoting agriculture progress.

FUNCTIONS OF BANK Collecting deposits from the public and utilizing it for the purpose of lending to others and also for making investment in securities, to earn profit, are the basic functions carried out by a bank. Bank while accepting deposits, assumes the responsibility of safe keeping the funds and also gives interest to the depositors. Accepting deposits and lending may be termed as key functions of the bank. People having surplus funds and interested to save are mobilized by the bank. Deposit products offered by a bank are as under:

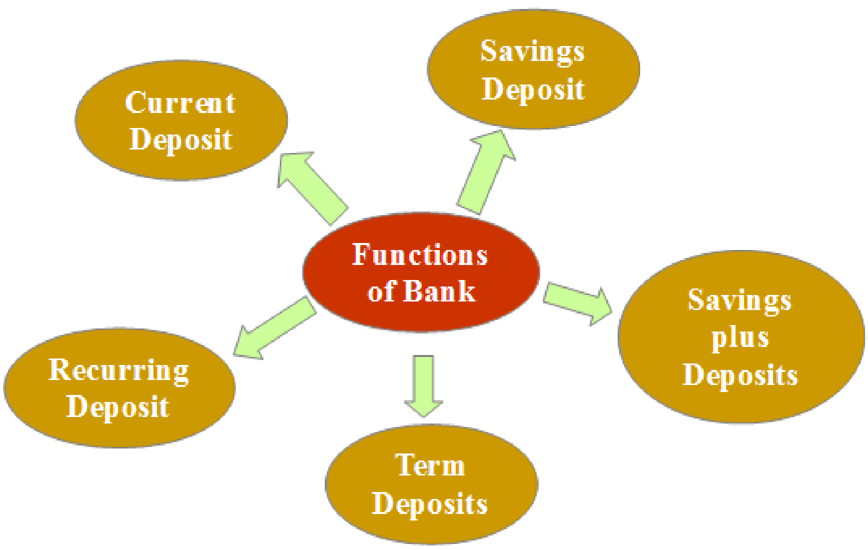

Fig. 1.1: Function of Bank

- **Savings Deposit:** Customer use this account for keeping their savings and is generally opted by persons having regular income. Transactions in the account are permitted for a limited number of times. Account holders get interest at the rate of 3% per annum or decided by banks, calculated on daily products.
- **Current Deposit:** Business customers open current account in the bank. There is no restriction on number of transactions. No interest is allowed. Bank recovers some charges for the number of folios utilized by the depositor.
- **Term Deposits:** In this account, persons having surplus funds deposit amount for a fixed period ranging from 7 days to 10 years, to earn interest. The interest allowed is higher than savings deposits. The deposit, however, can be withdrawn before maturity. The bank levies some penalty for such premature payments. Loans can be provided against the security of deposit amount.
- **Recurring Deposit:** Instalment of a prefixed amount for a fixed period is deposited every month. In this account the depositor gets his amount and interest on maturity. Premature withdrawals may be permitted by the bank subject to certain conditions. Rate of interest is same as allowed on term deposits for the same maturity. Loan may be granted against the security of amount deposited by the depositor, on the date of request.
- **Savings/Current plus Deposits:** In such accounts depositor enjoys benefits of savings as well as term deposits. The deposits in excess of a certain amount are transferred to term deposit in units of Rs. 1000 or so on. The depositor is paid higher interest on the amount transferred to term deposit. In case of need, to honour any cheque, drawn by the depositor, the amount is transferred to savings deposit without the intervention of the depositor.

LENDING FUNCTIONS

Deposits collected from the public, after keeping a percentage of total deposits (cash reserve ratio and statutory liquidity ratio) are utilized for lending. Credit products of a bank are mentioned below.

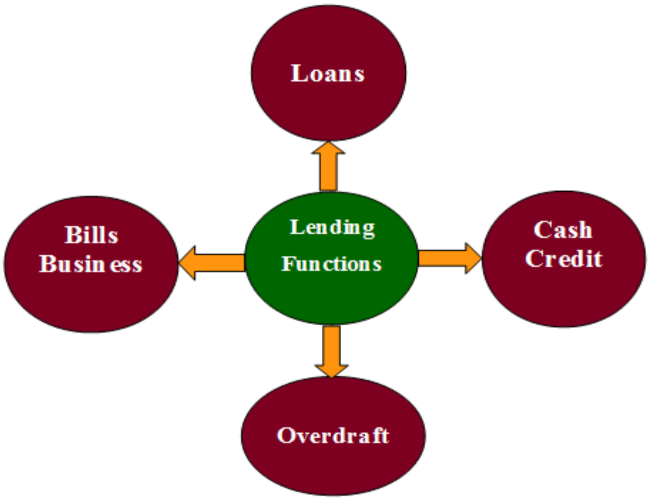

Fig. 1.2: Lending Function

- **Loans:** A loan is sanctioned for a given amount, repayable in an agreed period, by instalments or in lump sum for a definite purpose. Loan may be secured by a tangible security or not. The interest, at the agreed rate, is paid on reducible balances.
- **Cash Credit:** This credit product is basically meant for business entities. It is an arrangement whereby the borrower can withdraw up to a sanctioned limit through his account and surplus amount can be deposited in the account. It is a running account in which amount can be deposited and withdrawn for any number of times with the condition that the account will be allowed to be debited up to sanctioned limit only. The limit may be sanctioned against a tangible security. The interest is charged for the outstanding debt balances in the account.
- **Overdraft:** It is an arrangement whereby the borrower is allowed to withdraw amount in excess to the credit balance in his account up to a sanctioned limit. Overdraft facility may not be fully secured. The repayment of the overdrawn amount can be made by the deposits made by the borrower in his account. Interest is charged for the period, the amount actually utilized.
- **Bills business:** The bank may purchase or discount the bills of exchange drawn by the borrower. Bills may be demand or usance. On maturity of bills, the bank recovers financed amount and interest thereon, from the proceeds of the bills.

The bank carries out a number of other functions, which are mentioned below.

As an Agent

Fig. 1.3: Functions As An Agent

1. **Transfer of money:** A bank makes available facility of remitting funds to others, on the instructions of its customers from their account. The beneficiary may have account with the same bank or other banks.
2. **Sale and purchase of foreign exchange:** The bank provides facility of sale-purchase of foreign exchange to its customers, as per the guidelines of RBI.
3. **Cheques-Collection:** The cheques are collected by the bank, according to the apparent tenor of the cheques. Clearing of cheques is a vital function of the banks.
4. **Periodic Collections:** Pension, salary and such other periodic collections are entertained by the banks, at the request of their customers. Some other utility services, which are offered by the bank, are indicated below.

ADVISORY FUNCTIONS

A bank advises the customers about safe and profitable investments, guides as to how to raise funds for new businesses etc., on their request.

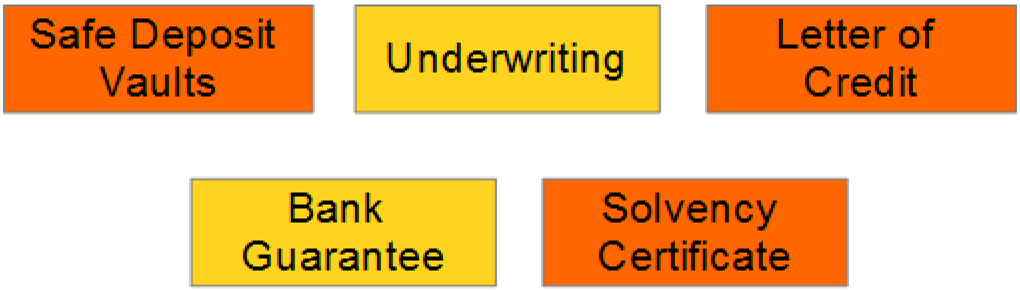

Fig. 1.4: Advisory Functions

- **Safe Deposit Vaults:** The bank rents out the lockers to its customers for keeping their valuables.
- **Underwriting:** The facility is meant for Government and joint stock companies. The bank guarantees to purchase certain proportion of unsold shares.
- **Letter of Credit:** It is an undertaking issued by the bank that if mentioned documents are submitted, payment of the stated amount will be made to the beneficiary. The letters of credit are very much in use in foreign trade transactions.
- **Bank Guarantee:** The bank issues guarantee to the beneficiary, at the request of its customer that in the event of non-compliance of the agreed terms of the contract, payment of the stated amount will be made to the beneficiary.
- **Solvency Certificate:** The bank issues Solvency Certificate, for the customers, on request from them.

CONCEPT OF BANKING

In most simple terms 'Banking' can be explained as an activity which involves taking money on interest from the public having surplus and lending to the needy persons on interest. In order to earn profit, Interest rate on lending is kept higher than the rate of interest allowed on deposits. A formal definition with a legal support has been given in Sec. 5(b) of the Banking Regulation act 1949. Accordingly, acceptance of deposits for the purpose of lending and investment is banking. Further, the deposits may be repayable on demand or after a certain period. The customers can withdraw their deposit amount by cheques or otherwise. Now the banking provides remittance facilities, safe keeping of the valuables, finance for productive as well as consumption purposes, cash management, portfolio management, foreign exchange for approved purposes etc. Various businesses which can be undertaken by banks in India are mentioned in section 6-2 of Banking Regulation Act.

HISTORY OF BANKING

It is said that 'banking' business was there even in 500 BC. However, the lending activity is prevalent in India since the time immemorial. Lending was considered a right activity to earn livelihood even in Manusmiriti. But charging of excessive interest was not considered justifiable.

Indigenous money lenders propagated lending activity with exorbitant rates of interest. They made rules in their own interest to acquire wealth. History confirms continuation of loan deeds or rinpatra or dastawez or other such documents in ancient and medieval periods, which evidenced existence of the lending activity. Records confirm that the medieval period witnessed payment orders issued by the state treasuries, bills of exchange issued by the bankers and the drawing of the instruments like Hundis. Commencement of banking system, as such, can be well related to the establishment of bank of Hindustan in 1770, in Calcutta. It remained functional for over a period of half a century and was closed down in 1832. Bank of Bengal, Bank of Bombay and Bank of Madras which were set up in the eighteenth century were merged together to give rise to Imperial Bank of India in 1921. Later, in 1955, this bank was renamed as State Bank of India and is still existent as the largest bank in India. Allahabad Bank which was set up in 1865 is a very old bank, which is still running. Some foreign banks appeared in India, in the period of British rule. Calcutta became their choice centre, being a busy port with trade activities. It was Swadeshi Movement which encouraged affluent business-persons and mighty political men to set up banks for the Indian people. As such a number of banks were established during the period 1906 to 1911. The banks faced a tough time during the period 1913 to 1918, which witnessed World War-I and nearly, 94 banks were closed down. Banking activities were adversely affected in 1947 due to partition of the country and with the independence to the country, government intervention made its way in the banking industry.

BANKING SCENARIO DURING THE PERIOD AFTER INDEPENDENCE

Period 1947 to 1968

At the time of independence, banks were owned and controlled by the private sector. The banks were reluctant to provide credit facilities to the rural people. ‘Agriculture’ was not considered economically viable proposition by the banks. As the entry to banks for rural people for their credit needs was not easy, the rural population depended on the informal money lending system of the ‘SAHUKARS’. The terms of lending used to be such that many poor people has to lose the ownership of their valuables/land, in repayment of the debt/interest. In the beginning, banks afforded credit to industries and big business houses. The center of attention remained security oriented class banking. It was felt that the existing banking system required a change. Later, ‘Social Control’ was introduced and banking segment started financing agriculture and small borrowers. It was in 1949, when Reserve Bank of India was nationalized and suitably empowered, to have supervision on banks with passing of Banking Regulation Act. RBI, the country’s central bank, was set up in 1935, but it was in1951 that the Imperial Bank of India was asked to expand its activities in rural/neglected areas. Not being satisfied with the progress made, the Government took over the Imperial Bank of India, in 1955 and renamed it as State Bank of India.

Period 1969-1990

The banking sector was recognized as an effective tool for the economic development of the country and it was having a large potential of employment generation. The Government of India, nationalized 14 major commercial banks in 1969 and 6 banks in 1980. This was done to ensure managing economic regional imbalances, extension of outreach of the banking facilities to the common people of the country and bringing out economic activities/programs from the platform of formal banking system.

The organized banking sector made their presence felt in rural areas/ neglected areas but the weaker segment of the Indian populace was yet to receive their due share of credit. Regional Rural Banks were set up under the RRB Act 1975, on the recommendations of Narsimham Committee. These banks were set up to provide banking and financial services mainly to the rural populace of their operation area. There was no restriction, however, to the inclusion of urban area in their area of operation. The original philosophy of formation of RRBs was that these institutions would be cost effective, having knowledge of the rural culture with helping attitude towards the poor people.

Period 1990 onwards

It was a period when the Indian economy was passing through a tough time. Country's fiscal deficit was rising and Balance of Payment position had become alarming. There was an emergent need for reforms to put the domestic economy back on rails. A need was felt to connect the country's financial system with the global economy. To improve the financial position and profitability of the public sector banks following reforms were made.

- No more nationalization of banks.
- Foreign banks were permitted to open their branches/ offices.
- No discrimination between private or public sector banks.
- Banks were advised to open up for newer activities like merchant banking, underwriting, mutual funds etc.
- Banks to set up joint ventures with foreign banks to extend their financial activities.

During this period, few new banks got license from RBI to do the commercial banking activities, in the private sector. The RBI intended to increase healthy competition within the banking sector. This in turn improved the work culture with the added efficiency. Banks were motivated to bring in innovations to increase their market share. RBI permitted the setting up of Payment Banks and Small Finance Banks and operative guidelines were issued in 2016.

Banking industry has undergone a sea change by adopting information and technology driven solutions in delivery of various banking products and services. Technology enabled applications have made the delivery of financial services cost effective with saving of quality time. In order to cut costs banks and financial institutions are sharing the relevant data. 'Core Banking solution' has been implemented by almost all the banks across their own branch network. In near future, banking industry may implement Robotic banking for some of the activities, based on artificial intelligence.

Debt Recovery Tribunals were set up for the disposal of bank's/FIs court cases facilitating speedy recovery of their dues. Asset reconstruction companies were formed to help banks to manage their NPA's. The Securitization and Reconstruction of Financial Asset and Enforcement of Securities Act 2002, Credit Information Bureau Act 2005 and The Bankruptcy Act 2016, were passed to facilitate speedy recovery of bank dues. Industry is presently banking passing through a critical period due to accumulation of lot non-performing assets. The position remained so grave that gross non- performing assets of public sector banks were of Rs.7.27 lac crores, as on 30.09.2019. Many frauds also surfaced. Scheduled commercial banks and select financial institutions have reported frauds amounting Rs.113374 crores, as on 30.09.2019. The banks are actively engaged in reduction/recovery of their NPAs. Government of India has extended help by infusion of fresh capital to meet out the provision requirement by the banks.

The Moody's outlook for the Indian banking system was 'Stable' in July, 2019 for the next 12-18 months. The robust banking system of India is having

- 18 Public Sector Banks
- 22 Banks in Private Sector
- 46 Foreign Banks
- 45 Regional Rural Banks
- 54 Urban Co-Operative Banks
- 33 State Co-Operative Banks
- 10 Small Finance Banks
- 6 Payment Banks
- 3 Local Area Banks

The banking system is further strengthened with the presence of specialized banks for the development of industry, agriculture and foreign trade sectors viz. National Small Industries Development Bank of India, National Bank for Agriculture and Rural Development, Export-Import Bank of India, State Finance Corporations, Land Mortgage Banks etc. More than 70% banking system assets is being controlled by the Public Sector Banks. The State Bank of India took a lead in enhancing its size to compete with the large banks globally by permitting merger of its associate banks and Bhartiya Mahila Bank. More mergers may take place in future. Vijaya

Bank and Dena Bank have amalgamated in Bank of Baroda since April1, 2019. State Bank of India has already made its intentions clear to take 49% shares of Yes Bank in its fold. More mergers may take place in future.

TYPES OF BANKING

Different types of banking are prevalent in the banking industry. Some are mentioned below:

Fig. 1.5: Types of Banking

- **Unit Banking:** Banking services are provided from a single point of service. Services offer fewer and the area operation is definite. Advantage is that customers are well known. Knowledge about the Infra-structure available in the area of operation is also in the possession of the banking Unit.
- **Branch Banking:** In this type, a single bank does business at various centres in the country by making use of its branch-network. Every branch conducts business as per the policy guidelines set by the head office situated at one place. Considering the potential available of new business and profitability, new branches are opened with permission from the banking regulator. Depending upon the business and financial viability, administrative offices other than the head office are also opened, from time to time. The bank is a single business entity owned by shareholders and managed by a board of directors.
- **Correspondent Banking:** Banks cannot have branches everywhere for their business. Small banks open their account with big banks having larger branch-network. Big banks are called correspondent banks and the small banks are known as respondent banks. These big banks provide banking facilities of cheque clearance, fund remittances and funds for the short period in times of liquidity

problems to their respondent banks. Similarly, bank operating in a particular country cannot open branch in each other country. To conduct foreign exchange business accounts are opened with banks of other countries, known as correspondent banks. The correspondent banks provide necessary information and help in banking operations, at the time of need.

- **Chain Banking:** In this type of banking, control is exercised by some individuals or an entity over many independent banking institutions, having different charter, minimum three, by owning majority of their shares. In this governance, risk is spread over several institutions. Business outreach can be extended by acquiring shares of other institutions operating in the desired area or community. Benefits of economies of scale can be reaped. Competition is much lesser among the member institutions of the chain because of common ownership.
- **Group Banking:** In this system, two or more banking institutions are directly governed by a separate entity, which is a holding company. The holding company exercises its administrative control in spite of the fact that member institutions keep their entity and board of directors. The group members enjoy economy in certain expenses and easy movement of resources. Benefits of economies of scale are available. Improved common accounting procedures can be implemented. The control of member banks is flexible and many a times is affected by the way of holding company.
- **Retail Banking:** In this banking, main attention is kept on retail customers. Deposits (including low cost deposits) are mobilized in this banking which makes funds available for other than retail banking business too. Attractive products are designed, keeping in view the specific needs of the customers. Car loan, educational loan, housing loan and the consumer loans are the examples of retail credit business.
- **Wholesale Banking:** The target-customers are large corporate and other financial institutions. Main thrust is to earn while making available large size financial products to big customers. Finance for large trade transactions, working capital finance, equipment finance etc. are the examples of products.
- **Universal Banking:** A wide variety of financial services and products are available at a single point of service. Multiplicity of products and services include commercial, investment and even insurance. The Universal banking is undertaken by large sized banks having a huge branch-network across the country and in the world. These large banks possess a say in the management of the companies which

enjoy big ticket credit from them. Other investors, having trust on the Universal banks are also attracted to invest in the companies which enjoy credit facilities from such banks. High degree of professionalism and large number/size of transactions, keep the costs in well control and add to profitability. In Universal banking, market research is also undertaken by the players so that they are effectively able to manage the portfolios of their customers. Such banks can cross sell their products with reduced marketing expenses. Monopoly powers are grabbed by such banks in the market which is not in the interest of the customers. The failure of a large bank adversely affects the banking system and confidence of the people.

- **Deposit Banking:** It involves acceptance of deposits from the customers as well as lending, for a short period. In this type of banking, banks do not afford to utilize their funds in long term investments because repayment of deposit is 'on demand'. Banks are the safe keepers of the funds of their customers.
- **Investment Banking:** It includes lending for short as well as for long terms. Services are also given for investment in shares, debentures and drawing/acceptance of bills of exchange etc. Banks also helps in setting up new companies by equity participation.
- **Mixed Banking:** It is a combination of deposit banking and investment banking. The deposits mobilized by banks are utilized in lending to industries for short term as well as long term. In India, long term finance is, generally, undertaken by term lending institutions. Credit to startups, as long-term loans by commercial banks, is an example of mixed banking.
- **Merchant Banking:** In this type of banking, skilled services with expertise, are given to the needy clients and a fee is charged. The services offered include marketing of new issues, underwriting, advisory services for funds raising and investments, portfolio management, arranging loan syndicate etc. Business entities can obtain business-useful information from the Merchant Banks.

Activities

Activity 1: Prepare a chart on various types of banking.

Materials Required: Notebook, pen, pencil, erasure and the Internet facility

Procedure

1. Divide the class into small groups.

2. Every group of students should be given the one types of banking.
3. Now ask the students to prepare charts on the given topics.
4. Explain the charts in the class.
5. Display the charts at an appropriate place in the class or laboratory.

Activity 2: Prepare a presentation on the 'history of banking'.

Materials Required: Notebook, pen, pencil, erasure and the Internet facility

Procedure

1. The teacher to deliver a lecture on 'history of banking' after going through the text of the session and other related study material.
2. The students will make their own notes while attending the lecture.
3. The students will be prompted to clear their doubts on the topic, if any.
4. The teacher will guide the students to prepare presentation, on the basis of the notes taken by them.
5. One or more students will be asked to make their presentation on the system or on the board in the class.
6. The students in the class will ask relevant questions on the topic for better understanding.
7. The teacher will respond to the questions and also suggest any changes in the presentation, if needed.

Check Your Progress

A. Fill in the Blanks

1. Banks play a vital role in the ______________ of a country.
2. The regulator of banking industry, in India, is______________.
3. It is said that ______________ business was there even in 500 BC.
4. The Moody's outlook for the Indian banking system was 'Stable' in July, 2019 for the next ______________
5. The target-customers of 'Wholesale Banking' are ______________ and other financial institutions.

B. Multiple Choice Questions

1. In which act a formal definition of banking, with a legal support has been given?
   a) Banking Regulation Act 1949
   b) Reserve Bank of India Act 1934
   c) Indian Contract Act

d) Bankers Books Evidence Act

2. In which type of banking, control is exercised by some individuals or an entity over many independent banking institutions?

   a) Group Banking

   b) Chain Banking

   c) Merchant Banking

   d) Mixed Banking

3. How much is the share of banking system assets which is controlled by the public sector banks?

   a) 35%

   b) 50%

   c) More than 70%

   d) 100%

4. How many commercial banks were nationalized by the Government of India, in 1969 and in 1980?

   a) 14 and 10

   b) 20 and 8

   c) 14 and 6

   d) 15 and 5

5. Which of the banks were set up to provide banking and financial services mainly to the rural populace of their operation area?

   a) Development Banks

   b) NABARD

   c) State Bank of India

   d) RRBs

C. State whether the following statements are True or False

1. Bank is also a business institution which deals in the goods called 'money' and financial services.

2. Development Banks are typically designed to provide assistance to industry and agriculture sectors.

3. Gross non- performing assets of public sector banks were of Rs.7.27 lac crores, as on 31st of March 2019.

4. Deposit Banking involves acceptance of deposits from the customers and not lending for a short period.

5. The Bankruptcy Act 2016 is not concerned with the recovery of bank

dues.

D. Match the columns

	COLUMN A		COLUMN B
1	Banking	**A**	Main attention on retail customers
2	Loan Sharks	**B**	Rinpatra, dastawez
3	Loan deeds	**C**	Acceptance of deposits for the purpose of lending and investment
4	Retail Banking	**D**	Hundi
5	Bill of Exchange	**E**	Sahukars, Mahajans etc.

E. Short Answer Questions

1. Define banking, as provided in the Banking Regulations Act 1949.
2. What is term deposit in banks?
3. What is cash-credit product in bank finance?
4. What is 'Mixed Banking'.
5. What is 'Underwriting' in banks?

F. Long Answer Questions

1. Describe the various types of banks.
2. Write a passage on the banking scenario in India, during the period of 1990 onwards.
3. Write a short note on the concept of banking in India.

G. Check Your Performance

1. Prepare a chart on the types of banking.

Session 2: Evolution of Microfinance

Over the years, the word "microfinance" has assumed a much wider meaning than being merely a credit for micro-enterprises. A number of definitions have been given by economic experts to explicate the microfinance concept. The Consultative Group to Assist the Poor has stated that "Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance ". It is pertinent to mention that Marguerite S. Robinson, author of 'The Microfinance Revolution', in one of her essays has stated that “Microfinance refers to small scale financial services for both credits and deposits that are provided to people who farm or fish or herd, operate small or micro enterprises where goods are produced, recycled, repaired or traded, provide services, work for wages or commissions, gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and local groups in developing countries, in both rural and urban areas”.

In nutshell, microfinance is provision of basic financial services at market rates to low income individuals or groups of individuals, including small amount loans with short repayment period without detailed assessment / documentation process, for productive business/ professional purposes or consumption purposes and with no compulsion of collateral.

CONCEPT OF MICROFINANCE

The term “microfinance” is not limited only to credit activities. It also includes other financial services consisting of savings or investment products, insurance schemes and pension plans. Microfinance is an effective tool for alleviating poverty, which is spread over many areas in the world.

In India, a lot of work has been done for the poor, during the last 4 decades or so, to help them come above the poverty line. Different strategies were adopted in the past to make available financial services to the poor. Initiatives have been taken by Non-Governmental Organizations (NGOs), banks, NBFCs and other microfinance institutions. Central as well as States Governments have also experimented with and designed area-specific schemes under various names to improve the living standard of the poor and downtrodden sections of the society.

Poverty remains an issue of concern despite India being one of the fastest growing economies in the world. A committee headed by the ex-Governor of RBI, Dr. C. Rangarajan, considered people living on less than Rs.32 and Rs.47 a day , in rural and urban region, respectively, as poor and accordingly opined that in 2011-12, there were 363 million poor people, or 29.5% of 1.2 billion of the Indian populace. Even in 2019, it is estimated that more than 36 crore people are underfed. Three square meals a day are still away from them. Figures definitely indicate the mammoth size of the problem of poverty in India and also reveal huge potential for microfinance.

In the words of Kofi Annan, Secretary General of United Nations, “Microfinance recognizes that poor people are reservoirs of energy and knowledge and while the lack of financial services is not just a sign of poverty, today it is looked as an untapped opportunity to create markets, bring people in from the margins and give them the tools to help themselves”. Traditionally, poor people used to borrow money from lenders for their income generating activities and also for consumption purposes. Majority of them were engaged in struggle throughout their lives to keep their body and soul together. Often, they were squeezed by the loan sharks.

Financial services were not available to poor because of their illiteracy and inability to offer any collateral security. Micro-credit is micro loans to poor borrowers who do not have regular employment and provable credit history. They do not possess any collateral to offer as security. The motive is to encourage entrepreneurship, alleviate poverty, empower women and uplift the poor. It is just like not only offering a glass of water to a thirsty person, but showing him the tap from where his thirst can be quenched on a long-term basis.

EVOLUTION OF MICROFINANCE IN INDIA

The beginning of microfinance in India can be well attributed to developmental and poverty alleviation projects initiated by Non-Governmental Organizations. These NGOs work on the assumption that the poor can leave poverty with their own courage and efforts. Group lending was started on the concept of SHG by many NGOs. The scope of lending got widened with the credit linkage of groups with commercial and cooperative banks.

In 1974, Shri Swashrayi Mahila SEWA Sahkari Bank, an urban cooperative bank founded by Self Employed Women's Association, became functional with the main objective of providing banking services to poor women employed in unorganized sector. This bank was established with a share capital of Rs. 4000. The figures in 2015, given below, are self-explanatory of the progress made by the bank. These are:

Shareholders	101560
Share capital	98261920 (Rupees)
Bank Accounts	401322
Deposits	144 crore(Rupees)
Loan	905586322 (Rupees)
Loan (women)	201172
Working capital	2187109700(Rupees)
Profit (after Tax)	18078115(Rupees)

Evolution of microfinance in India can be understood by seeing it in three epochs;

I. The first epoch (1960-1990) was the period in which social banking flourished. During this period some private commercial banks were nationalized and branch network was expanded to serve rural population. This era also witnessed the formation of Regional Rural Banks and establishment of apex institutions like NABARD (National Bank for Agriculture and Rural Development) and SIDBI (Small Industries Development Bank of India). Integrated Rural Development Program (IRDP) was sponsored by the Government of India. All these beginnings facilitated the process of reaching out to a large population.

II. During the second period (1990 - 2000), lessons learnt from the failure of subsidy oriented social banking prompted NABARD to review the delivery system of rural credit. NABARD started a Pilot project titled Vikas Volunteer Vahini to promote organizing farmers' clubs in association with voluntary agencies in rural areas, particularly in tribal areas, which have proved very helpful for credit institutions in extending credit to poor farmers. Subsequently NABARD brought in the Self Help Group Bank Linkage Program (SBLP) with an intent to link SHGs, specifically those of women, to banks for savings and credit facilities. This changed the perception of banks towards low income people. They were now perceived as regular "customers" and not mere "beneficiaries" of subsidies from Government agencies and credit was made available to them at the normal rates of interest prevailing in the money market. The pooling of small savings, mutual control of SHG members on one another and the need to meet priority sector lending norms specified by RBI resulted in making microfinance attractive.

This was also being promoted by Governments and NGOs as a mechanism of women empowerment. This era was also known for the establishment of microfinance institutions, mainly of non-profit origin, which adopted the SBLP of NABARD. The financial sector received more independence after the 1991, economic reforms. Banks in private sector known as new generation banks also made their entry in the banking industry, and some of them started viewing microfinance as a potential business worth tapping for reasons indicated above.

III. The third epoch (2000 onwards) witnessed the appearance of rural sector as a good proposition for the business growth for banks and microfinance institutions. Leading NGO-MFIs also started promoting microfinance either through mutually aided cooperatives or non-profit companies (Section 25 of Companies Act, 1956). The increase in popularity of MFIs and the social role resulted in RBI providing exemption for non-profit companies in microfinance business from registration and other regulatory requirements.

Some of the MFIs began to opt for a more regulated structure (non-banking finance companies) to enhance their financial credibility and acceptability. This enabled them to attract investments for on-lending to the poor. MFIs discovered business potential in the domain of financial services and by serving the unexplored market, made profits to keep the interest of their stake holders intact. The practices adopted by some of the companies engaged in microfinance resulted in crisis in the sector especially in Andhra Pradesh resulting in the State Government bringing an enactment to regulate these companies in microfinance business.

To address the issues, a Committee was set up with Shri YH Malegam, as chairman, to examine these issues and come out with recommendations to deal with the problems. The Committee made several recommendations which included coming out with a new category of NBFCS called Non-banking Financial company – Micro Financing Institution (NBFC-MFI). This era is known for the following significant developments: NGO-MFIs showed more interest in SHG MODULE for financing. MFIs became interested to collaborate with all agencies working for the poor. Retail finance emerged as a potential area for high growth. Regulatory framework for NBFC-MFIs was notified by the RBI. Microfinance activities became more commercialized. Microfinance has now acquired the status of a global movement with active participation on the part of Governments, corporation, companies, banks, development agencies, business communities and civil societies.

GLOBAL OVERVIEW OF MICROFINANCE

The history of micro credit is very old. In early 1700s, Jonathan Swift, established a loan fund which provided small amount loans for short duration to needy people, who were not having access to the services offered by commercial banks. Friedrich Wilhelm Raiffeisen observed that poor farmers were being exploited by the lenders in Germany. He noticed that the prevalent credit system would keep the poor engaged in borrowing and repayment with no tangible improvement in their financial status. He established the first rural credit union in 1864 with the purpose of bringing community economic development through small loans at reasonable lending rates. It was owned by its members, and served the members. This became well known over a large part of the world. The members owned such credit unions in Europe, but in some other places Government or private banks took initiative to own these. Government subsidies and donors funded loans for the agriculture sector during 1950 but the loans hardly reached the needy, small and marginal farmers. These loans were used by better off farmers or other sections of people in agricultural sector. The loans were at low interest rates and, as such, were not financially viable for the lenders. The funds were soon exhausted without bringing desired uplift in the financial position of the poor borrowers. It was in 1974, that an economics professor, namely, Muhammad Yunus, was very much moved by the desperate poverty position in a Bangladeshi village. As a trial, for finding a possible solution to help people to come out from poverty, he lent $ 27 to a group of 42 people, who were desperate to make out a living. The results were amazing.

The group persons invested the amount in their traditional woodwork business profitably. They could sell their products and were able to buy food and other necessities for themselves. They could return the money back to the professor. The results of his trial prompted him to study more on the issues involved and formulated 'microcredit'. It was an innovative idea to encourage entrepreneurship among the poor and underprivileged populace. Later on, in 2006, Professor Yunus was awarded Nobel Prize for his work. In the recent period, it is accepted all over the world that microfinance is an effective tool to combat poverty.

Grameen bank of Bangladesh had adopted 'Social Rights' approach, accordingly credit was based on trust and social capital and not on financial or other collaterals. The loans were extended to the group of people instead of individuals. In the other approach, microfinance was considered poverty as a business, as such should be a profitable proposition. Now too, this is considered 'mainstream' microcredit. Since 2012, number of microfinance borrowers increased at the rate of 7% per annum, globally. During the year 2018, 139.9 million borrowers were assisted by the MFIs. This figure was of 98 million in 2009. In 139.9 million borrowers, 80% were women and 65% were rural borrowers. The ratio remained more or less stable over the period of last 10 years. MFIS recorded a credit growth of 8.5% over figures of 2017 with credit portfolio of 124.1 billion dollars in 2018. MFIS have improved their efficiency during the last 10 years, recording a decrease in operating expenses ratio by 2.7%.During the period 2009 to 2018 return on assets and return on equity also increased by 1.3 % and 2.9%, respectively. However, credit quality (portfolio at risk) worsened from 6.4% in 2009 to 7% in 2018. South Asia consisting of three major markets of microfinance borrowers viz. India, Bangladesh and Vietnam, was having largest number of borrowers i.e. 85.6

million borrowers in 2018 with credit portfolio of 36.8 billion dollars. 89% were female borrowers. Latin America and Caribbean had credit portfolio of 48.3 billion dollars with 22.2 million customers in 2018. The outreach to rural areas, in this region, is not expanded. In the region of Eastern Europe and Central Asia, there were 2.5 million borrowers with 49% female beneficiaries, in 2018. Women beneficiaries in Middle East and North America region were 60%, in 2018. This region recorded weak growth in this period. The financial inclusion position in this region was very low, in the world.

Credit outstanding amount of African MFIs recorded an increase of 56% since 2012 with 6.3 million borrowers, in 2018. Credit quality was low but with good yield. Credit portfolio of MFIs in East Asia and the Pacific area was of 21.5 billion dollars. There were 73% female beneficiaries and 79% rural borrowers. The economy of the nation develops with the inclusion of more and more people of the society in the financial system of the country. Potential of microfinance is not exhausted. Much is yet to be done to see a day, when people all over the world will have access to the financial services of their country.

DIFFERENCE BETWEEN MICROFINANCE AND FORMAL BANKING

Microfinance is undertaken by banks, microfinance institutions, NBFCs, non-banking finance companies (not for profit) etc. Formal banking is provided by commercial banks. Different segments of the society, form the target group for formal banking and microfinance. Some factors which elucidate the difference between micro-finance and formal banking, are mentioned below-

a) The customers served by microfinance are unemployed, poor and financially excluded persons of rural area whereas formal banking is available to all rich and poor, who maintain account with the bank.

b) Microfinance offers small amount credit, deposits, pension and micro-insurance whereas multiple customized credit and deposit products are offered in formal banking. In formal banking numerous utility services like issue of lockers, traveller cheques, debit/credit cards, maintaining demat accounts etc. are available

c) Loans considered by microfinance do not involve long in-depth appraisals, whereas formal banking cannot dispense with the detailed appraisals.

d) Microfinance lending is generally, unsecured. Personal guarantee or the pressure of others in groups, serve the purpose of security. Generally, collaterals are required in formal banking unless primary security is sufficient enough to cover the loan amount or obtaining collateral security is prohibited by the regulator or the government.

e) Microfinance is made available to individuals, self-help groups and joint liability groups for traditional financial activities of the poor families. Whereas financial assistance is available for any legal productive activity to any individual, group or legal entity, under the umbrella of formal banking.

f) Microfinance is provided at the door steps of the customer but it is not so with the formal banking.

g) Credit risk is low in formal banking as compared to that of microfinance. Therefore, a higher rate of interest is charged by microfinance institutions.

h) Large number of customers defaults in repayment of loans in microfinance. This happens due to poor appraisal of the credit requests. Recovery of loans is, however, improved by the peer pressure and regular follow up. In formal banking, recovery of loans is affected by follow up, application of securities and legal action.

Activities

ACTIVITY 1: Prepare a paper on microfinance.

Materials Require: Plain papers, sketch pens, pen, pencil and Access to the Internet facility etc.

Procedure

1. The teacher to explain microfinance, its concept, evolution and global overview etc. to the students after going through the text of the session and other related study material.
2. The students to prepare their notes, and will consult the relevant sites on the Internet.
3. Every student will prepare a detailed note on the topic covering the main points discussed by the teacher, in the class-room.
4. The students will submit the completed notes, to the teacher for evaluation.
5. The teacher will discuss the deficiencies in the class to enhance the understanding of the topic.

Activity 2: Interaction with a senior official of NABARD

Materials Required: Plain papers, sketch pens, pen, pencil and access to the Internet facility etc.

Procedure

1. The teacher will arrange an interaction session of students with a

senior official of NABARD, in the class room.

2. The students will be asked to go through the text of the session and other related study material and to be ready with their questions on the topic. The students will be motivated to ask questions from the expert (official from NABARD).
3. All the students will prepare their notes after the interaction.
4. The teacher will ask questions to the students to check their understanding, after leaving of the guest.
5. The teacher will clear the doubts of the students related to the topic.

Check Your Progress

A. Fill in the Blanks

1. The term "microfinance" is not limited only to ______________activities.
2. __________________remains an issue of concern despite India being one of the fastest growing _________________ in the world.
3. Traditionally, poor people used to borrow from ____________________for their income generating activities and also for consumption purposes.
4. Even in 2019, it is estimated that more than ______________ people are underfed.
5. Poor borrowers do not have any ___________________to offer as security.

B. Multiple Choice Questions

1. At what rate, number of microfinance borrowers increased, since 2012 , globally
   a) 10%
   b) 3%
   c) 7%
   d) 6%
2. Third epoch (2000 onwards) witnessed the appearance of which sector, a good proposition for the business growth for banks and microfinance institutions.
   a) Urban
   b) Semi-urban

c) Rural

d) None of the above

3. Which of the following utility service are offered in formal banking?

a) Issue of lockers

b) Traveller cheques

c) Debit/credit cards,

d) All the above

4. How many borrowers were assisted in 2018, by the MFIs, globally?

a) 100 million

b) 150 million

c) 139.9 million

d) None of these

5. In 2018, in which region of the world, the financial inclusion position was very low?

a) East Asia

b) Eastern Europe

c) Latin America

d) Middle East and North America

C. State whether the following statements are True or False

1. In the recent period, it is accepted all over the world that microfinance is an effective tool to combat poverty.
2. Majority of the poor people are engaged in struggle throughout their lives to keep their body and soul together.
3. During the first epoch (1960-1990) social banking was flourished.
4. Loans considered by microfinance involve long in-depth appraisals.
5. Credit risk is not low in formal banking as compared to that of microfinance.

D. Match the Columns

COLUMN A		**COLUMN B**	
1	MENA	**A**	Period of time in history
2	Epoch	**B**	Middle East & North America

3	Demat	**C**	Non-governmental organization
4	NGO	**D**	Non-banking finance company
5	NBFC	**E**	Dematerialized

E. Short Answer Questions

1. How microfinance has been described by Kofi Annan Secretary General of UNO?
2. Describe concept of microfinance, in short.
3. Write a short note on difference between microfinance and formal banking.

F. Long Answer Questions

1. Explain evolution of microfinance in India.
2. Write a detailed note on global overview of microfinance.

G. Check Your Performance

1. Demonstrate the evoluation of microfinance in India and Global.

Session 3: Recent Developments in the Field of Microfinance

OVERVIEW OF MICROFINANCE IN INDIA

Microfinance is a vital tool to help the low income families with the small amount credit facilities. Absence of clarity in rules and excess borrowings remained important issues to be resolved. In the recent past years, this industry has undergone many changes with the introduction of self-regulatory organizations, set guidelines and computerized solutions. The lending institutions learned lesson from the 2010 microfinance crisis which affected the operations of microfinance institutions. The crisis surfaced from the state of Andhra Pradesh. An ordinance to protect the women SHGs from MFIs exploitation was passed in October 2010 which undersized the business operations of the MFIs. Loan recovery was dropped considerably. The changed business conditions made it possible to acquire more business, in terms of amount as well as number of borrowers. The Microfinance industry of India registered a growth of 40% in the financial year 2019. 64.1 million borrowers were having the loan outstanding of Rs. 1.785 trillion. Lenders which provided microfinance included banks, Small Finance Banks, Microfinance Institutions, Non-banking Finance Companies and MFIs(not- for profit). 38% share in loans outstanding amounting to Rs.681 billiion was the achievement of microfinance institutions. Banks has shown a stable growth due to no shortage of loanable funds. MFIs could acquire a larger customer base but paucity of funds limited their growth. Interest rates offered by them were on higher side which resulted in loans becoming non-performing assets. Small Finance Banks gave large amount loans in comparison to MFIs and NBFCs. As such SFBs could make their place in the microfinance domain.

NABARD has made arrangement with State Bank of India to impart training to banks for financing upcoming Joint Liability Groups.

The microfinance scenario, as on 31st of March 2019 was as under-

1. The gross figures of outstanding loans were more than Rs.1.87 lac crores, recording a growth of 38% over the last year.
2. Number of microfinance accounts registered a growth of 21.9% over last year, touching the number of 9.33 crores.
3. 36.8% of total micro-credit amounting to more than Rs.0.68 lac crores was financed by NBFC-MFIs.
4. Growth in gross loan portfolio of NBFC-MFIs was 47% over the figures of last year.
5. Number of employees was104973 in NBFC-MFIs.
6. Growth in eastern India continued in the sector of microfinance
7. Microfinance Institutions Network was having 53 NBFC-MFIs as its members. In all 3.25 crores loans amounting to Rs.82928 crores were

disbursed recording an increase of 28% and 44% in number of accounts and disbursal, respectively, over the figures of last year.

8. The equity base of NBFC-MFIs was also strengthened and reached at the level of Rs. 14206 crores.

In India, microfinance sector achieved fast and regionally- balanced growth, during the said period.

CHALLENGES OF THE MICROFINANCE SECTOR

i. Prospective borrowers of rural as well as semi-urban areas do not possess knowledge about the products due to financial illiteracy.

ii. Debts from more than one source create over-indebtedness. This is a cause of concern for the microfinance institutions. Indebtedness beyond a limit affects the working efficiency of the borrower and also poses a threat of being a non performing asset for the lending institution.

iii. Rate of interest charged by the microfinance institutions is very much on higher side than the interest rate applied by the commercial banks. RBI has removed the cap of 26% interest on loans afforded by MFIs. This has added fuel to the problem of over-indebtedness which prompted many farmers to embrace suicide.

iv. Commercial banks charge high rate of interest to MFIs which use their funds for onward lending to their clients. But the credit allowed is for short term. Very often, banks prefer to finance MFIs to complete their own priority sector obligations. The microfinance industry, continually look towards banks for funds. This dependence has made them complacent and less active in dealing with the non-performing assets.

RECENT INITIATIVES IN THE FIELD OF MICROFINANCE IN INDIA

The microfinance sector has brought a change in the lives of the poor people belonging to the poverty struck strata of the society. It has made them able to take on their traditional business activities and generated employment. Actions have been initiated at different levels to ensure delivery of products which are cost effective for both lender and the beneficiary. Some initiatives are-

i. More customized products are being created after in-depth study of habits, behavior and personality of the customers. It has become possible by customers profiling using technology driven solutions.

ii. An effective risk management is required for the microfinance industry. Following actions have already been commenced, by the regulator-RBI/Government.

a. **Data Localization:** Data about the beneficiaries to be collected, processed and preserved in the country. If need arises to transfer, the prevailing privacy laws to be observed.

b. **Regulatory Sand Box:** A mechanism to develop regulations with the coming innovations.

c. **Limit on Multiple Lending:** Limit of micro-credit has been enhanced to Rs.1.25 lac per borrower.

d. **Public Credit Registry:** A registry that captures and preserves financial information of the borrowers.

e. **Priority Sector Lending:** Government guidelines set for achieving priority sector lending by the lending institutions in the country have helped directing the credit towards poor and underserved people of the society.

f. **Co-origination of Loans:** A number of institutions are now participating in the field of microfinance. It is a collaborative approach to achieve higher growth. This require a joint arrangement between banks and other institutions, engaged in microfinance activities for credit and risk sharing.

g. **Financial Literacy Programs:** These programs are meant to create awareness among the poor families living in rural and sub-urban areas. Pradhan Mantri Mahila Shakti Kendra and like schemes, encourage women to know their own potential. 'Prayaas' scheme of SIDBI gives attention to small entrepreneur. A fund of Rs.10 billion.

h. **Skill Development:** During the financial year 2018-19, NABARD has made arrangement with State Bank of India to impart training to banks in financing through Joint Liability Groups.

SETTING UP OF MUDRA

Micro Units Development and Refinance Agency (MUDRA) was come in to being on the 8th day of April 2015. It is a fully owned company of SIDBI. It enjoys a status of Non Deposit taking, Non-Banking Finance Institution. MUDRA afforded refinance facilities to the lending institutions in its supportive role. The credit to lending institutions is providing at lower rates of interest. Through 18.25 crores loan accounts, total financial assistance sanctioned was of Rs. 8.93 lac crores. During the financial year ended March 2019, total sanctions were of Rs. 3.21 lac crores.

Under the scheme, average loan size was of Rs.53800. MUDRA card is issued to the borrowers enjoying working capital limits. It is a debit card. At present more than 10 lac cards are in use. Paid up capital and total loans outstanding, as on 31-03-2019 were of Rs.11847 crores and Rs. 1676 crores, respectively. Nearly 3% loans under the scheme have been reported bad loans.

Microfinance is having a lot of potential to expand in India, in spite of the already large coverage by Central and State Government sponsored poverty alleviation programs. Typically, MFIs are performing gainfully, by charging rate of interest around 26%. Keeping in view, the transaction and administration costs, the rate of interest charged by the micro finance institutions appear justifiable and much lower than the rate of interest being charged by the indigenous money lenders in the unorganized sector. For instance, a vegetable vendor, who earns around 20% daily on his investment and works for around 25 days a month, can easily afford to repay Rs. 260 per month towards interest for a loan of Rs. 10000. If the beneficiary exercises financial discipline, even some savings can be accumulated after servicing the loan and meeting house hold expenses.

SETTING UP OF NBFC-MFIS AND ITS ROLE

MFI is an institution engaged in affording financial products to the low income sections of the society. These financial products include loan products as well as deposit, insurance and other services. Non-Banking Finance Companies offer some services like banks but as the name itself suggests, these are not banks. Few of the dissimilarities are mentioned below-

formed to study issues and concerns in the microfinance sector, in 2010. Y.H. Malegam of RBI chaired the committee. On its recommendations, a separate category of NBFCs was created for delivery of microfinance products, all over the country. Detailed regulatory structure was circulated by RBI in December, 2011.

A non-deposit collecting NBFC ,which is not a non-profit company, under the preview of section 25 of Companies Act 1956 that conforms to the conditions mentioned below, is defined as NBFC-MFI.

i. Net owned funds should be minimum Rs. 5 crore. This amount is Rs. 2 crore in respect of NBFC-MFI, registered in the North Eastern Region of the country.

ii. Minimum 85% of its 'net assets' are 'qualifying Assets'. Total assets, not being cash, bank balance and investments in money market instruments are called 'net assets'. Qualifying Assets are loans afforded by NBFC-MFI which satisfy certain conditions, stipulated by RBI.

iii. Income earned from residual 15% of 'net assets' should be as per stipulated rules.

iv. An NBFC, not qualified to be NBFC-MFI should not finance to microfinance sector in excess of 10% of its total assets.

Family income limits were enhanced in respect of NBFC-MFI borrowers from Rs. 100000 to Rs. 125000 and from Rs. 160000 to Rs. 200000, living in rural areas and semi-urban/urban areas, respectively. Total indebtedness limit was raised to Rs. 125000 from Rs. 100000, per borrower.

COVERAGE OF NBFC-MFIS ACTIVITIES

The formation of NBFC-MFIs has given a big boost to the microfinance activities in the country. 53 NBFC-MFIs registered with Microfinance Institutions Network, had lent Rs 68207 crores as on 31.03.2019. The increasing coverage by NBFC-MFIs can be gauged from the following figures, as on 31-03-2019.

1. Microcredit was outstanding of Rs.68868 crores
2. The gross loan portfolio stood at Rs 83200 crores.
3. Disbursement was made in 3.25 crores loan accounts of Rs. 82928 crores.
4. Average loan amount disbursed per account stood at Rs. 25850.

5. Portfolio at risk (over 30 days) was 0.91%
6. Staff was 104973 people.

Small amount loans, illiterate or semi-literate borrowers, short period, small amount and more frequent installment of repayment, simple processing of loans, easy documentation with no collateral, market linked interest rate, regular collection of installments from the business point/ residence etc. are the special features of the microfinance lending. Coupled with various savings, insurance, pension and other schemes, microfinance lending is contributing towards financial inclusion of the masses in a big way.

Activity

Activity 1: Prepare a chart on recent initiatives in the field of microfinance

Materials Required: Plain papers, sketch pens, pen, pencil, Access to the Internet facility etc.

Procedure

1. The teacher to explain recent initiatives in the field of microfinance after going through the text of the session and other related material.
2. The students to prepare their notes and will consult the relevant sites on the Internet.
3. Every student will prepare a chart in the format, shown by the teacher on the black board, in the class-room.
4. The students will submit the charts to the teacher for evaluation.
5. The teacher will discuss the deficiencies in the class to enhance the understanding of the topic, of the chart.

Check Your Progress

A. Fill in the Blanks

1. Absence of ______________ in rules and ____________ borrowings remained important issues to be resolved.
2. Limit of micro-credit has been enhanced to _______________per borrower, by the RBI.
3. Small Finance Banks gave ________________ loans in comparison to MFIs and NBFCs.
4. _________________ of NBFC-MFIs was also strengthened and reached at the level of Rs. 14206 crores.
5. Coupled with various savings, insurance, pension and other schemes, ________________ is contributing towards

____________________of the masses in a big way.

B. Multiple Choice Questions

1. What was the growth rate of the microfinance industry of India, in the financial year 2019.
   a) 35%
   b) 40%
   c) 45%
   d) 20%
2. Which are the lenders, providing microfinance in India?
   a) Banks and Small Finance Banks.
   b) Banks, Small Finance Banks and Microfinance Institutions.
   c) Banks, Small Finance Banks and Microfinance Institutions.
   d) Banks, Small Finance Banks and Microfinance Institutions, Non-banking Finance Companies and MFIs (not- for profit).
3. When detailed regulatory structure of NBFC-MFI was circulated by RBI?
   a) December, 2011.
   b) December, 2015.
   c) March, 2011.
   d) December, 2012.
4. How many employees were there in NBFC-MFIs, as on March 2019?
   a) 10973
   b) 100973
   c) 104973
   d) 100000
5. Which of the following is correct in respect of NBFCs?
   a) It is not permitted to accept deposits from others which are repayable on demand.
   b) Cheques drawn on itself cannot be issued.
   c) No deposit-insurance is available to its deposit-customers.
   d) All the above

C. State whether the following statements are True or False

1. The lending institutions learned lesson from the 2010 microfinance

crisis but no effect on microfinance operations was noticed.

2. A committee was formed to study issues and concerns in the microfinance sector, in 2010. Y.H. Malegam of RBI chaired the committee.
3. Total assets, of MFI including cash, bank balance and investments in money market instruments are called 'net assets'.
4. An NBFC not qualified to be NBFC-MFI should not finance to microfinance sector in excess of 10% of its total assets.
5. The formation of NBFC-MFIs has given a big boost to the microfinance activities in the country.

D. Match the Columns

COLUMN A		COLUMN B	
1	Portfolio at risk	**A**	A number of institutions participating in lending
2	Co-origination of loans	**B**	Basic knowledge of financial products
3	Financial Literacy	**C**	NPA
4	MUDRA	**D**	Native
5	Indigenous	**E**	Fully owned company of SIDBI

E. Short Answer Questions

1. What is MUDRA and when it was established.
2. Write a short on the coverage of NBFC-MFIs activities.
3. Explain overview of microfinance in India, in short.

F. Long Answer Questions

1. Write a note on 'Recent initiatives in the field of microfinance in India'.
2. Describe the challenges faced by microfinance industry in India.

G. Check Your Performance

1. Describe the recent initiatives in the field of microfinance in India

Session 4: Functions of Microfinance Executive

Microfinance Executive (MI) is a person, employed by the microfinance institution to do works related to micro level credit, savings, pension and insurance. He has to be well versed with vision, rules and policies of his employer. He is expected to perform his activities in the area assigned to him. Knowledge of livelihood earning activities, temperament and life style of the inhabitants of the allotted area, is essential. Ability to assess business potential and prospective customers, as per the rules of the Microfinance Institutions (MFI), is very much desirable. Educational qualification may be 10th pass but he should be able to communicate well with others. The employer company will require few reports, which he should be able to deliver, in writing. An effective talking skill is required to interact with the customers to know their requirement. It is also equally important to be fluent in the language of the target clients to make them understand the MFIs view points. Competence to address the grievances of the customers and marketing skills to sell additional products are pre-requisites to retain and add customers. The role of a microfinance executive is multi-dimensional. He has to be instrumental in-

- Selecting new customers
- Advising suitable products
- Informing interest rates
- Justifying MFIs rules,
- Helping the potential borrowers in delivery of the financial products
- Resolving the issues of the customers
- Recovering instalments
- Depositing with the MFI
- Following up for over dues and doing administrative works including reporting etc.

Being a good listener, makes one capable of providing better decisions and to win confidence of others. In fact, he is a representative face of his MFI before the customers and many a times acts as a bridge between the clients and his institution.

FUNCTIONS OF MICROFINANCE EXECUTIVE

The functions mentioned below are normally performed by the MEs.

- Arranging meetings of the harmonious group of people from the area of operation, to short list the prospective clients.
- Explaining product details in people gatherings at Chaupals and Gram Panchayat places.
- Responding to the queries raised by villagers, keeping in mind the vision,

rules and policy of the employer company.

- Distribution of leaflets of products details which are easy to understand.
- Explaining the process of finance and repayment, in entirety.
- Enlightening the target clients with advantages of the microfinance products and interest, charges etc.
- Providing financial literacy to the individuals and groups of poor people to motivate them to become job givers and not to remain the job seekers.
- Resolving the issues raised by the customers adopting the approach of a 'Problem Solver'
- Avoiding mis-selling of financial products.
- Extracting the useful information and personal details without offending the potential customer.
- Assisting the illiterate clients, to fill in the required information, in the forms and helping them in documentation, after sanction of the finance.
- Obtaining 'KYC' documents , as per the extant rules.
- Extending help to the financially excluded persons to open account with banks, so that they can take advantage of Government Schemes.
- Arranging quick and hassle free disbursal of loans.
- Keeping a watch on the sufficiency and utilization of finance.
- Collecting installments on due dates.
- Following up the borrowers for recovery of over dues.
- Submitting data and periodic reports in time to the employer.
- Keeping good relations with the administrative authorities of the assigned working area and the employer company.

Functions of a microfinance executive appear similar to a friend, philosopher and guide, for the poor people of rural India.

ATTRIBUTES OF A MICROFINANCE EXECUTIVE

The person interested in the job of microfinance should possess following qualities.

- Minimum educational qualification has been kept at class 10th pass.
- The person should have a natural flair to deal with the poor people of the society. Cool temperament will enable him to extract desired information from the potential clients.
- The person should have a natural liking to work in rural or semi-urban India.
- A sensitive and emotional behaviour may be appreciated but ME should

not be over emotional.

- He should be a good listener. This will help him to deal with difficult customers and tough authorities of the local area and his own MFI.
- He should possess proper knowledge of the products, rules and policies of his own company. This will help him to take appropriate decisions with confidence.
- Good communication skills including fluency in language/dialect of the area of operation are very much needed. This will make interaction impressive with customers as well as authorities.

Activities

Activity 1: Role play of interaction/ interview of a potential borrower by Microfinance Executive

Materials Required: Plain papers, pen, pencil etc.

Procedure

1. The teacher to ask one of the students to act as microfinance executive and another one to act as a prospective borrower.
2. Prior to the role play, teacher will tell the students the attributes of an effective microfinance executive and will ask the students to make a list of possible questions to be asked to the potential borrower.
3. Teacher help the students to develop a small set of questions which are as follows;
   a) Name and address of the proponent
   b) Qualification and experience
   c) Present occupation and sources of income
   d) Purpose for which loan is required
   e) How much loan is needed
   f) Information about the dependents
   g) Proposed repayment schedule etc
4. The teacher should get the role play repeated by different actor-students.
5. Teacher ask the other students to note down the observations.
6. End of the role play teacher will give the suggestions on her observation.

Activity 2: Interaction with a working microfinance executive of any MFI and Students to prepare a list of persons/ entities eligible to function as microfinance executive.

Materials Required: Note book, pen, pencil etc.

Procedure

1. Teacher will arrange an interaction with a microfinance executive in the class room.
2. Teacher motivate the students to ask questions from the ME to understand the functions of microfinance executive.
3. Teacher ask the other students to note down the points.
4. After the interaction, students will write a short note on the role of microfinance executive.
5. Teacher fill the gaps of understanding the functions of microfinance executive, if any.

Check Your Progress

A. Fill in the Blanks

1. ME is a person, employed by the ______________________ to do works related to micro level credit, savings, pension and insurance
2. Educational qualification of ME may be __________________ but he should be able to communicate well with others.
3. ME is a ______________________ of his MFI before the customers and many a times acts as a bridge between the clients and his institution.
4. Explaining _________________________ in people gatherings at Chaupals and Gram Panchayat places, is a function of Mes
5. Distribution of ________________ of products details ,which are easy to understand, is also a function of ME.

B. Multiple Choice Questions

1. Who will recover the installments of the micro-loan from the borrowers?
   a) An officer from the MFI
   b) Microfinance Executive
   c) Borrower will deposit in bank account of MFI
   d) Gram Pradhan in rural areas
2. Who will do works related to reporting of customer profile etc. in MFI set up?
   a) Administrative Officer of MFI
   b) Borrower will advise MFI
   c) Block Development Officer

d) Microfinance Executive

3. Who will address the issues raised by the customers adopting the approach of a 'Problem Solver'?

    a) ME

    b) MFI

    c) Village Level workers

    d) Gram Pradhan

4. In which area, ME should have a natural liking to work.

    a) Urban areas

    b) Head office of the MFI

    c) Rural and semi-urban areas

    d) Bank

5. What will help ME to take appropriate decisions with confidence.

    a) Proper knowledge of the products, rules and policies of his own MFI.

    b) Own service conditions

    c) Good relations with potential borrowers

    d) Regular visits to the MFI head office

C. State whether the following statements are True or False

1. Being a good listener, makes one capable of providing better decisions and to win confidence of others.
2. ME should have a natural flair to deal with the poor people of the society.
3. ME may not have a liking to work in rural or semi-urban India.
4. ME should possess proper knowledge of the products, rules and policies of his own company.
5. Extracting personal details without offending the potential customer, is not the function of ME.

D. Match the Columns

COLUMN A		**COLUMN B**	
1	Misselling	**A**	Without botheration
2	Hassle free	**B**	Meeting place in villages

3	Chaupal	**C**	discussion
4	Interaction	**D**	Misleading the customers about suitability of the product
5	KYC	**E**	Know your customer

E. Short Answer Questions

1. Explain meaning of microfinance executive.
2. Write 3 functions of a ME.

F. Long Answer Questions

1. Describe the attributes of a microfinance executive.

G. Check Your Performance

1. Describe the recent initiatives in the field of microfinance in India.

MODULE 2	SOURCES OF NEW CUSTOMERS

Module Overview

Customers of microfinance are the individuals who are deprived, underprivileged and in many cases unemployed who lack essentials of life and access to financial institutions. Some examples of these are poor farmers, vendors, household based business owners, street shopkeepers, artisans, service, providers etc.

These people are often deprived of any access to a secure way of regular income, generating funds, saving. Security against risks or any kind of investment. The financial deprivation is highest amongst those communities which have low education/ literacy.

It is a big responsibility of micro finance institutions to source new customers who are really needy, want to raise their standard of living, are not aware of the concepts and benefits of microfinance.

Micro finance executive can help these potential customers to increase their regular income, build sustainable businesses, reduce their helplessness to risks of life. It is an effective instrument for empowerment of poor especially women from extreme remote area of the country.

After reaching such target population the next responsibility is understand their financial needs to make them aware about micro finance basics, its need, benefits, process in a way accepted by them. There can be many barriers to change like language, beliefs, values, mindset, society, norms but when their queries get resolved they can avail maximum benefits of the subsidies and schemes provided to them.

Sourcing new customers is a process to identify the territory and develop it. Henceforth ascertaining the eligibility of target customers.

With this background in view the present unit on source of new customers is divided into four sessions. The first session is devoted to identify the sources of clients, second session covers acquiring potential clients, the third session deals with resolving queries and the last session explains the general administrative work.

Learning Outcomes

After completing this Module, you will be able to:

- Identifying an area for sourcing clients

- Acquiring potential clients
- Resolve queries and cross selling
- Perform general administrative work

Module Structure
Session 1: Identify Sources of Customer
Session 2: Acquiring Potential Customers
Session 3: Resolving Queries and Cross Selling
Session 4: General Administration Work

Session 1: Identify Sources of Customer

Customers are the reason for any business. To identify the sources of customer, customers territory are formed to find customers then customer groups based on economic activities of territory are recognized. It is important to understand the factors affecting identification of customers and the company norms for survey, assessing business potential and eligibility of target customers.

IDENTIFICATION OF TERRITORY TO FIND CUSTOMERS

A territory consists of a group of customers or a geographic area assigned to an microfinance executive. The area or territory is allocated to:

- Completely cover a geographical location
- Monitoring performance of an microfinance executive
- Comparison of performance of two microfinance executives
- Improve relation with existing customers and finding new customers
- Coordinate the procedure of acquiring a new client in alignment with the system
- Development of micro enterprise

The territory of customers for micro finance have:

1. Low income and poor population
2. Mostly self-employed/ un employed people
3. Micro businesspersons
4. Proximity to poverty line; bit above or below
5. Women who are ambitious (Form Self Help Groups)

GROUPING THE CUSTOMERS BY ECONOMIC ACTIVITIES OF TERRITORY

In microfinance, grouping is done to suit the customer needs of different products at different stages of life cycle. For example the older clients are given pension plans while the child bearing women are given the products with maternity benefits.

Fig. 2.1: Grouping of Ccustomers in Micro finance

The target grouping of customer is done in two ways:

a. **Direct Customer Grouping**: Providing microfinance to particular sector of territory. For example microfinance opportunities to a particular group like people below poverty line or a sector like fisheries; agriculture etc. which cannot access credits eligible for them.

b. **Indirect Customer Grouping:** In indirect customer groups special microfinance products and services are designed to meet their needs.

The grouping of customers is done on the basis of economic activities;

- Related with the customer age
- Gender roles: for example male and females in the house have different spending , saving and investment pattern and skills set.
- Source of income: For example if the repayment capacity of an individual is less the group loan or financing schemes are provided.
- Size of market for micro enterprises.

FACTORS AFFECTING THE IDENTIFYING CUSTOMERS

Micro finance companies keep the following factors in thier mind, which affect the identifying customers:

- Characteristics of target group

- Level of poverty
- Categories of micro enterprises which need finance
- Level of literacy
- Gender ratio in the territory
- Geographical characteristics of territory
- Level of infrastructure development
- Risk of default
- Lack of information about territory
- Other factors like ethnicity, caste, religion, practices etc.

Company norms and statutory regulations differ from company to company. Though following norms are followed:

1. For Survey of Territory

The norms followed for survey of territory are based on:

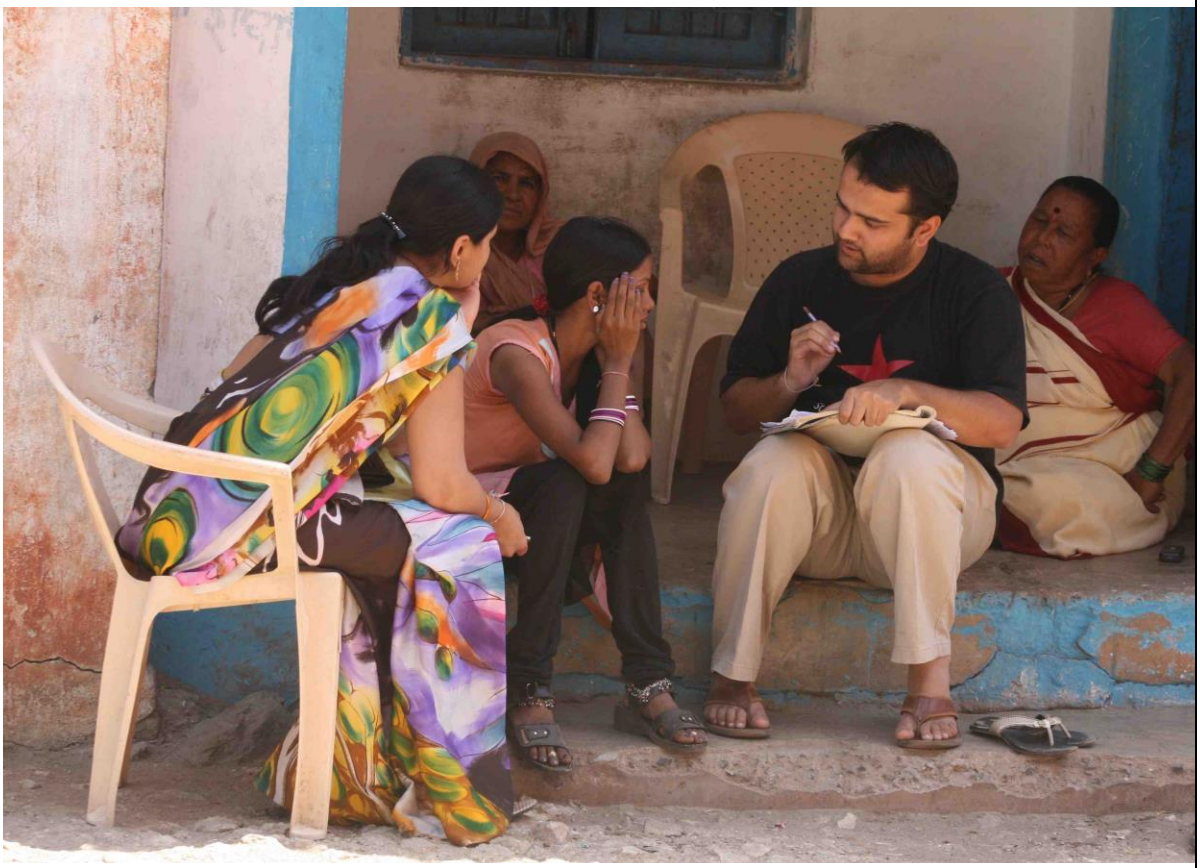

Fig. 2.2: Survey of Territory

- Whether the goal or objective of survey is clearly defined?
- How the data collected in the survey will affect the micro finance opportunities in territory
- Which survey format is best for the target population?

- How many customers exist in total population?
- What is the Margin of error (1to 10% is permissible)
- Whether personal questions are
- Whether considerations like Language, time to meet, gender acceptance etc. are met?
- Whether every respondent is acknowledged?

2. To assess the Business Potential

It involves;

- Risk analysis of the business
- The chances of profitability of the business
- Understand the nature of business
- Operational challenges of business
- Demand of the product /services they offer
- External interferences in the business
- Government support for the business

3. Eligibility of the Target Customers

Fig. 2.3: Eligibility Check of Target Customers

It involves:

- Credit check (CIBIL) of the target customer
- Minimum/Maximum age criteria of the customer (age bracket 18-55 years of age in most of the cases)
- Background /criminal information check of the customer.
- Security, asset and liability risk of the customer.
- Education and technical competence /skill of the customer (depends on the nature of business)
- Citizenship (In an affidavit)
- Address Proof(Ration card / Job card of NREGA/ Electricity /water bill)
- A resident in community for at least two years

Activity

Activity 1: A Role Play to Learn the Identification of sources of customers

Material Required: Check-list, note pads and pen/pencils

Procedure

1. Divide the class into groups, 3 students in each group and ask them to perform the following activities.
2. Role Play - Situation: A Microfinance Institution/company wants to disburse micro finance loan in a new rural area. Student have to finalise after identifying the territory who will get the loan after assessing the eligibility criteria, business potential , economic activity .
   a. 1st Group: Representatives of MFI
   b. 2nd Group : Economic activity 1 (Artisan)
   c. 3rd Group : Economic activity 2 (Blacksmith)
   d. 4th Group : Economic activity 3 (Dairy)
3. Finish the play within stipulated time allotted to you
4. Discuss learning from the activity and points to be covered.
5. Share your views before and after the Role Play activity.

Check Your Progress

A. Fill in the Blanks

1. A ________________ consists of a group of customers or a geographic area.
2. ____________________is providing microfinance to particular sector of territory.

3. In indirect customer groups special microfinance __________ are designed to meet their needs.
4. To assess a business potential ________________ analysis of the business is done.
5. A customer has to be a resident of community for atleast _____________________ years .

B. Multiple Choice Questions

1. Which one is not the address proof;
   a) Electricity Bill
   b) Job card of NREGA
   c) Medical certificate
   d) Ration card
2. Number of years an eligible customer has to be a resident in community for at least;
   a) Three years
   b) Two years
   c) Five
   d) Seven
3. In most of the cases the age bracket for eligibility for microfinance is;
   a) 18-55 years
   b) 15-35 years
   c) 20-65 years
   d) No age limit
4. The territory of customers for micro finance has;
   a) Low income and poor population
   b) Mostly self-employed people
   c) Micro businesspersons
   d) All of the above
5. Factors affecting target customer are ;
   a) Characteristics of target group
   b) Level of poverty
   c) Risk of default
   d) All of the above

C. State whether the following are True or False

1. Geographical characteristics does not affect identification off customers.
2. The territory is allocated to cover a geographical location .
3. Males and females have same investment pattern and skill set.
4. Direct customer grouping is providing microfinance to particular sector of territory.
5. The territory of customers for micro finance have proximity to poverty line .

D. Short Answer Questions

1. What is territory? What is the purpose of forming a territory?
2. How business potential of a group is judged?
3. What the factors which affect identifying the customers?
4. What are the types of grouping?
5. What kind of questions should be included in survey?

E. Long Answer Questions

1. Explain in detail how the sources of customers are identified.

F. Check Your Performance

1. Prepare a chart on territory assigned and identify the customers groups by economic activities.

Session 2: Acquiring Potential Customers

Acquiring potential customer is very important for any business. The microfinance executive form a groups in a territory and then effectively communicates them the products best suited for them.

GROUPING OF POPULATION IN A TERRITORY

The grouping of population is done on following basis:

Types	Variables (Basis of grouping)
Geography	Population, Climate, Region
Demographics	Age, family size, gender, income
Psychographics	Interests, habits, values, lifestyle
Benefits	Health, emotions
Profession	Agriculture, fisheries

PROCESS OF ACQUIRING NEW CUSTOMERS

The process of acquiring new clients is carried out in these steps:

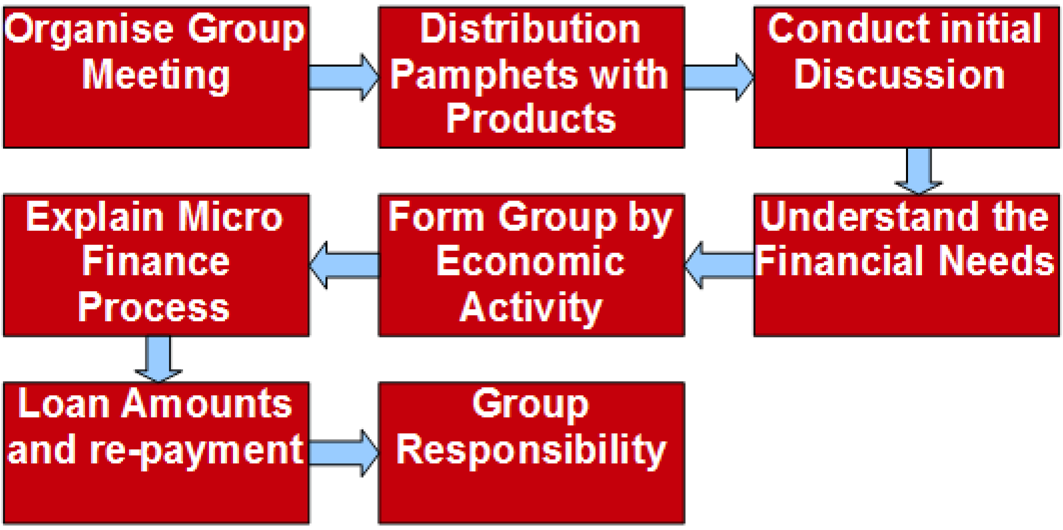

Fig. 2.4: Process of Acquiring New Customer

1. Organize Group Meeting: The best way of acquiring potential client is to organize group meeting. It can be started with meeting opinion leaders, elders or community leaders of the area with help of village panchayat/Anganwaadi. A successful group meeting requires:

Fig. 2.5 : Organize Group Meeting

- **Clear Purpose:** when group meetings are planned clarity of purpose of the meeting is required so that all the points are covered.
- **Proper Timing:** Meetings should start and end at a time convenient for participants.
- **Venue of the Meeting:** It is very important as the participants should not face hassles in reaching the venue of group meeting. There are different aspects of venue selection;
- **Location:** Near to the potential clients.
- **Comfort:** Background noise, enough light, fresh air, space.
- **Accessibility:** easy to reach, easy transport facilities (if required).
- **Cost:** within the budget.
- **Acceptability:** Acceptable to the clients like school, temple or a public gathering place
- **Invitation for the Meeting:** it should be well advance information about venue, timing, date, day etc.
- **Study of the Territory:** to organize a group meeting entire knowledge about the geography, literacy, beliefs, ideas, value system, profession of potential clients is taken in advance.

2. Distribute Pamphlets with Products: To acquire potential clients distributing pamphlets which contain all information about the products/schemes and the sample, if any.

Fig. 2.6: Distribution of Pamphlets

3. Conduct Initial Discussion: It is about communicating the purpose of the meeting, self-introduction and breaking ice about the discussions to remove or reduce hesitation. A Short anecdote relevant to the topic can support an effective initial discussion. Asking questions like their present occupation, no of dependents are a big help.

4. Understand the Financial Needs: In order to understand the financial need, the facilitator;

- Impart knowledge about financial planning
- Extract knowledge about the sources of income like salary, wages, earning from family /business etc.
- Discusses the expenditure pattern of the individual/group like food, shelter, clothes, education, repayment loan, bad habits, festivals, marriages etc.
- The financial needs are also assessed by the saving and/or investment of the target customers.
- Liabilities on the them like number of dependents, diseased, marriageable etc.

5. Form Group by Economic Activity: To acquire potential clients the groups are formed based liking, interests, skills which:

- Helps to understand and enhance income generating activities.
- Address issues of imbalances because of income classes
- Empower the group to acquire knowledge and skills
- Provide support structure to build and enhance income groups.
- Equal opportunities to all members whether male or female
- Easy to communicate of they belong to same level and economic status.

6. Explain Microfinance Process: Microfinance is providing a small loan or other form of credit, checking, savings or insurance services /products to the individuals who do not have easy access to this type of money. It allows individuals who have been living in poverty to work and become financially independent and improve their living conditions.

- Application duly filled (with KYC documents like Aadhar card/Voter card/ration card/Electricity bill/Job card of NREGA)
- Pre-sanction /verification done by financial institution which is providing loan
- Appraisal of loan
- Sanction
- Disbursement of loan

- This step is most important as many people have no clue and lot of myths about microfinance.

Rather than the theoretical aspects of micro finance the participant should be told about the advantages and ease/simplicity of microfinance and what difference it can make in their life. As microfinance is a tool to;

- Reduce extreme poverty
- Promote gender equality
- Promote better life
- Better access to health care facilities
- Easy credit facility
- Help people who are often overlooked in society
- Repay loans in easier way than normal banking
- Create better investment for future
- Create better jobs
- Encourage people to save

With these benefits discussed it is easier to attract potential client for micro finance.

7. Loan Amounts and Re-Payments: Micro finance is a facility of loans and other financial services to the poor. Micro credits defined as the credit delivered in small measures as per the requirements of the recipient with a comfortable mode of repayment and at a suitable rate of interest.

Following table helps in understanding loan and repayment schedule in micro finance ;

S No	Loan and repayment	Characteristics
1	Size of loan	small
2	Repayment period	Upto seven years
3	Mobilisation	Internal and external
4	Repayment Facility	Weekly/Fortnightly/Monthly/Quarterly/Yearly
5	Collateral/security	Not needed
6	Purpose of use	Flexible , income generation

8. Group Responsibility: if microfinance is provided to a group. It has many advantages as;

- Workload is shared
- Resources can be pooled
- They have strong position in negotiation
- Cost saving
- Take larger orders
- Better negotiation
- Can take large orders

Along with these advantages group has responsibility to repay the loan it has taken.

- Active participation of all members
- Maintain well communication within themselves and the lending agency
- Justified loan proposal
- Verify and supervise the deployment of loan
- Collect and deposit installments on time .
- Record all transactions
- If one member defaults the other member makes up

In this way the responsibilities are divided within members of the group.

Activity

Activity 1: Demonstrate the process of acquiring potential clients for microfinance

Material Required: Check-list, note pads and pen/pencils, dummy products, dummy pamphlets

Procedure

1. Divide the class into 8 groups of equal size.
2. Demonstration**:** A Microfinance Institution/company wants to acquire potential clients in an area.
3. Students are asked to demonstrate the process of acquiring potential clients one by one

   1st Group: Organizing group meetings

   2nd Group: Distributing pamphlets with products

3rd Group: Conduct initial discussion

4th Group: Understand financial needs

5th Group: Form group by economic activity

6th Group: Explain microfinance process in simple words

7th Group: Explain Loan amount and repayment details

8th Group: Responsibility of the group

4. Finish the demonstration process
5. Discuss learning from the activity and points to be covered.
6. Share your views before and after the activity.

Check Your Progress

A. Fill in the Blanks

1. ____________________is providing a small loan or other form of credit, checking, savings or insurance services /products.
2. The best way of acquiring potential client is to organize ____________________.
3. Meetings should start and end at a time _____________________ for participants.
4. A ______________________ contains all information about the products/schemes.
5. A Short _________________ relevant to the topic can support an effective initial discussion.

B. Multiple Choice Questions

1. Verification done by Microfinance institution is called
   a) Pre-distribution
   b) Presanction
   c) Pre fund
   d) Prefinance
2. Which one is not a part of process of Microfinance
   a) Application
   b) Pre-sanction
   c) Resolution
   d) Sanction
3. Groups formed in Micro finance

a) Help to understand and enhance income generating activities.

b) Equal opportunities to all members whether male or female

c) Easy to communicate of they belong to same level and economic status

d) All of the above

4. Which one is not an expenditure of family

a) Food

b) Shelter

c) Subsidy

d) Education

5. Which one is a feature of venue selection

a) Location

b) Comfort

c) Accessibility

d) All of the above

C. State whether the following are True or False

1. Invitation for the meeting should be well advance information.
2. It is not necessary to keep cost of venue in account.
3. In acquiring potential clients purpose of meeting should be clear.
4. Demographics is study of climate.
5. Role of Opinion /community leaders are not important in microfinance.

D. Short Answer Questions

1. Explain micro finance process?
2. What is the basis of organizing group meeting?
3. What are the requisites of successful group meeting?
4. What are the important aspects of venue selection?
5. How initial discussion is generated?
6. How financial need of target customers is ascertained?
7. What are the advantages of forming groups by economic activity?
8. Explain features of Loan amounts and repayments?
9. What are the responsibilities of group members in micro finance?

E. Long Answer Questions

1. Explain in detail the process of acquiring potential clients.
2. Demonstrate process of acquiring potential customer.

F. Check Your Performance

1. Demonstrate the process of acquiring potential clients for microfinance.

Session 3: Resolving Queries and Cross Selling

A query is search for a piece of information or simply a question. Potential customers have lot of queries related to microfinance process and responsibilities. After initial discussions customers start asking questions. They need to get educated with benefits of microfinance; interest fees and charges so that they gain confidence in raising their standard of living with micro finance.

Ensure potential customers understand: The potential customers of micro finance are from low income background, unemployed, mostly uneducated in some cases illiterate also.

The potential customers have queries related to the;

- Concept and process of microfinance
- Interest rate /fee
- Forceful recovery of debts
- Other charges
- Fake companies /products
- Group/individual member responsibilities

It is important to resolve their queries one by one.

EDUCATE THE CUSTOMERS

To educate the customers with benefits, interest fees and charges ;

Fig. 2.7: Educate the Customer

- Ask them to read brochures or read for them
- Ask them to have a look at the products
- Help them minimize fears
- Demonstrate the process
- Adopt unconventional and unique way of communication like skits, plays, audio visuals
- Educate through real life example

Interest fee, charges and repayment

- Interest fee is subsidized if it is government sponsored
- Interest fee is not the top concern of customers as it varies on product to product basis.
- Loan repayment cycle is very short
- Loan repayment period is very large
- Repayment schedule of installment is flexible weekly ,fortnightly or monthly /yearly as per choice of borrower
- No collateral (security)
- No prepayment penalties
- Penalties on interest in case of NPA, non-performing assets
- No additional charges
- Government regulations are there to protect the rights of

microfinance customer.

BENEFITS OF MICROFINANCE

A potential customer needs affirmation and benefits to take a final decision. Low income people have no collateral or security so they are cut off from conventional/traditional financial market. As a result they find it difficult to take a loan, invest or save money. In case of women, for their empowerment microfinance is the best option. Micro finance can open numerous opportunities like starting of business, purchasing asset, improving housing conditions etc.

CROSS SELLING AND ITS ADVANTAGES

Cross selling is selling supplementary or related products /services based on customers interest like recurring deposits, micro insurance, pension schemes with the main product.

Advantages

Cross selling has following advantages;

- It improves revenue.
- It improves customer satisfaction.
- Deeper integration of customer in business.
- Improves customer life time value.
- Provides customers more value in purchase of products.

Steps for cross selling to customers

a) To identify suitable products and services which can go together.
b) To find out most suitable customers ready for cross selling.
c) Developing a campaign for cross selling.

Products sell under cross selling

By cross selling per customer cost is reduced while per customer earning is increased.

Cross selling Insurance products

Target customers for microfinance are exposed to high risks which can affect their life. It can be;

1. **Individual:** illness, theft, unemployment
2. **Economy wide risks:** drought, recession

3. **Profession:** machines, equipment

The potential customers of microfinance are not aware of the benefits of insurance and the risks associated with their life. Cross selling of insurance products allows greater benefits to offer greater benefits to insurance policy holders at a lower cost. Generally life, health, property and weather related insurance products are covered.

PENSION SCHEMES FOR THE POOR

Micro finance industry has proved to provide a high sense of security specially for older women in low income areas. Micro finance institutions have recorded growth of pension schemes at the rate of 108 %. For example Pradhaan Mantri Shram Yogi Maan dhan scheme provides an assured monthly pension of Rs 3000 if they contribute 100 rupees per month. It is for workers in unorganized sector who are above 60 years of age.

Other example include Atal Pension Yojna in which any one can participate with monthly installment of Rs 42 to 1454 which varies with the life span of customer. Pension schemes offer the double advantage of investment and insurance. By investing a fixed amount, regularly towards the scheme, accumulates a substantial sum in phase-by-phase manner. It ensures a steady flow of funds once the policy holder retires.

Potential customers of microfinance have fear of their old age as they have very limited funds and expenses which are not in their control. Their source of earning is dependent on their present occupation and the hard work they put in their youth .Once they start aging their source of income may decrease or stop because of any illness. Hence cross selling of Pension scheme takes care of that need.

Activity

Activity 1: Demonstrate the process of cross selling of products in micro finance

Material Required: Check-list ,note pads and pen/pencils, dummy products

Procedure

1. Divide the class into groups.
2. **Demonstration:** A Microfinance Institution/company wants to cross sell.
   a) Insurance Products
   b) Pension Plans
   c) Along with the microfinance products

3. Students are asked to demonstrate the advantages and process of cross selling.
4. Finish the demonstration process.
5. Discuss learning from the activity and points to be covered.
6. Share your views before and after the activity.

Check Your Progress

A. Fill in the Blanks

1. A____________________ is search for a piece of information.
2. The ____________________ of micro finance are from low income background.
3. In microfinance interest fee is _______________ if it is government sponsored.
4. Loan repayment period is very _____________________ in microfinance.
5. ________________ is selling supplementary or related products /services based on customers interest.
6. __________________ offer the double advantage of investment and insurance.

B. Multiple Choice Questions

1. Which one is not a type of Insurance?
   a) Life
   b) Health
   c) Weather
   d) Book
2. In group meeting to ensure potential customers understand
   a) Ask questions
   b) Simplify communication
   c) Encourage them to raise query in intervals
   d) All of the above
3. Selling supplementary or related product based on customer interest is called;
   a) Upselling
   b) Down selling
   c) Cross selling
   d) Reverse selling

4. Loan repayment cycle in micro finance is;
    a) Very large
    b) Very small
    c) Unpredictable
    d) None of the above
5. The potential customers have queries related to the;
    a) Concept and process of microfinance
    b) Interest rate /fee
    c) Forceful recovery of debts
    d) All of the above

C. State whether the following statements are True or False

1. Potential customers do not need any encouragement to ask questions.
2. The potential customers have queries related to interest rate.
3. Customers in microfinance can be educated through real life examples.
4. Interest fee is not subsidized if it is government sponsored.
5. Collateral is required in micro finance.
6. Cross selling provide customers more value in purchase of products
7. Potential customers of microfinance have no fear of their old age.
8. Health is covered in Insurance.

D. Short Answer Questions

1. What are the ways to ensure potential customers of microfinance understood the concept?
2. What is cross selling and its advantages?
3. What are the types of products sold under cross selling?
4. What kind of queries potential customers of micro finance have?
5. How customers are educated with benefits of microfinance?

E. Long Answer Questions

1. Explain the process of resolving queries of microfinance.
2. Explain benefits of cross selling with examples of Pension and Insurance plans.

F. Check Your Performance

1. Prepare a chart on resolving customer queries.

2. Demonstrate cross selling event.

Session 4: General Administration Work

General administrative work involves providing support functions to the microfinance providers. It involves maintaining record of customers through Customer information system, CIS, Updating customer information records, periodic report on the status of acquired customer, setting revenue/ account targets with manager, report on targets achieved and renew future targets and maintaining status report on defaults and insurance etc.

CUSTOMER INFORMATION SYSTEM

Customer Information system, CIS is used to obtain customer information easily. It is used to perform customer relationship management functions. It contains data related to customers like their address, billing, usage history, defaults etc. in the form of Records, Files, Forms, Orders, data base and correspondence with them. The function of customer information system is to categorize customer spending, enable fast identification of customers and make communications between staff and customers smooth.

UPDATE CUSTOMER INFORMATION RECORDS

Customers are most important part of any business. For smooth operations regular updation of customer records is required. The basic information which should be maintained and updated includes; name, address, contact number, Aadhar Number, Fax Number, Email address, Account information (if any). The customer information records can be updated via a form, phone, email or there is an option at the website on which customer can also update his/her information. The information collected is cross verified from customer before updating records.

PERIODIC REPORT ON STATUS OF ACQUIRED CUSTOMER

Periodic reports show the status acquired customer by time period. It is generated monthly/quarterly/yearly and can be used as a management report for their understating of customer (activity/repayment status, cash flow) and can be sent to customers in regularly scheduled time.

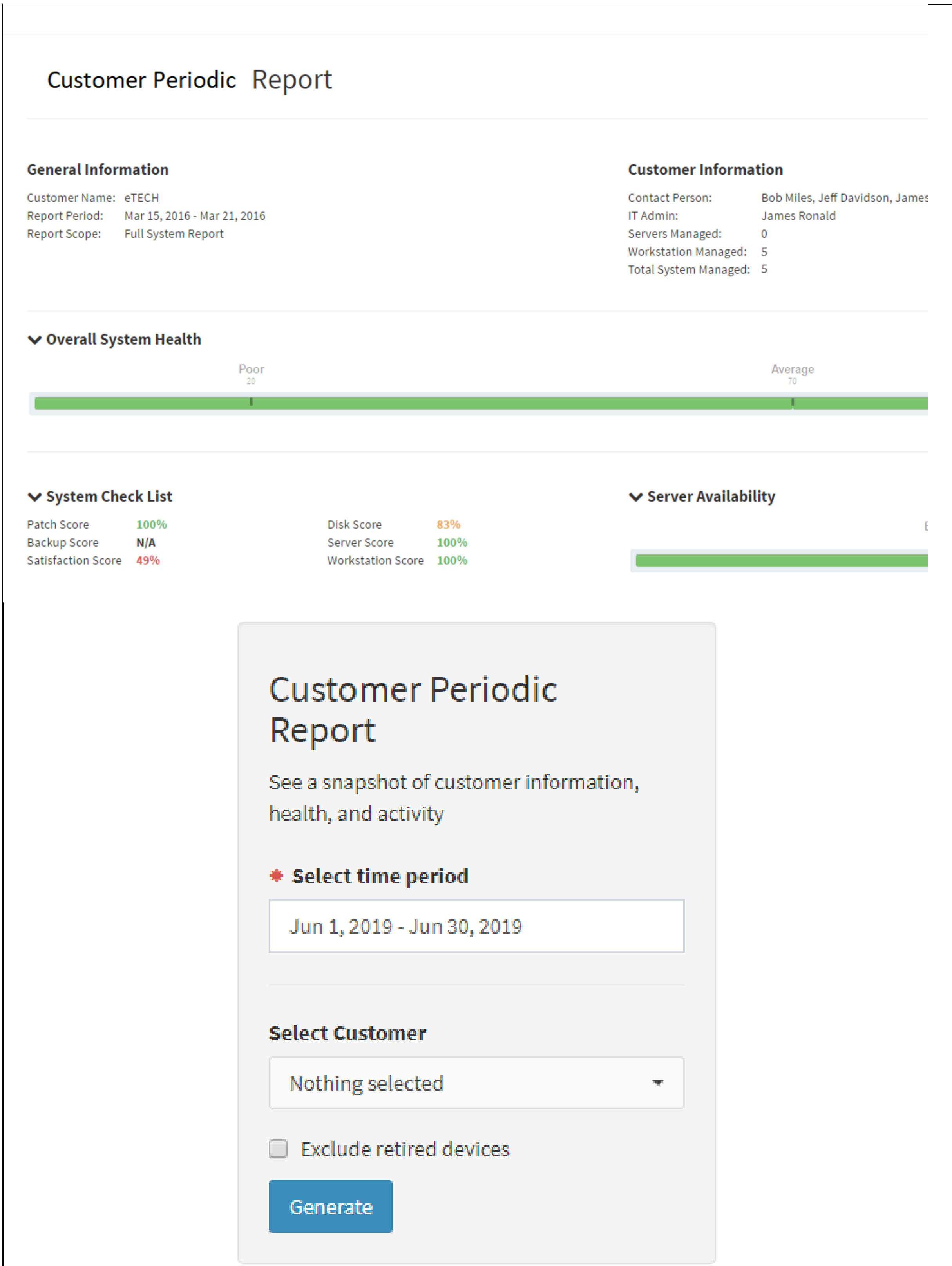

Fig. 2.8: Format of Customer Periodic Report

SET REVENUE /ACCOUNT TARGETS WITH MANAGER

Setting revenue target is very essential. Mostly it is done with reference to last year performance and addition of a reasonable rate of growth. The targets are set with the help of manager keeping following points into consideration;

A) Business situation: It is nature of business if it is seasonal, contractual, high margin etc. targets is set on quarter to quarter basis.

B) Economic factors: It is state of economy whether it is volatile /stable /competitive. These factors help in setting target of performance of executives.

C) Revenue per executive/representative: Based on their performance for previous year and future potential targets are set.

D) Feedback: from different sources which are part of business like agents/ dealers/ distributors /employees an idea of total target is planned.

E) Potential of region: Account or revenue target differ from region to region basis.

REPORTS ON TARGETS ACHIEVED AND RENEW FUTURE TARGETS

This report provides information on the targets vs achievement or we can say the percentage of target achieved. It can be made department wise, employee wise or on Annual/six monthly monthly/ fortnightly/ weekly /daily basis.

Target Vs Achievement Table Showing Actual Performance

Months	Target	Achievement	Comments
Jan	16	13	Your Text Here
Feb	16	17	Your Text Here
Mar	19	19	Your Text Here
Apr	19	21	Your Text Here
May	21	23	Your Text Here
Jun	21	25	Your Text Here

Fig. 2.9: Format of Target vs achievement

Targets are divided unequally on monthly basis. Against that achievement is recorded. In the comment box the reasons for short fall or any particular observation of that month is recorded. Based on this table future targets are fixed for a department the divided in the number of employees based on their performance last year.

STATUS REPORT ON DEFAULTS AND INSURANCE

A separate report of defaults and insurance is prepared. It enlists the defaulters who could not pay premiums or instalments. Based on this report a scheme or alternate plan is offered to the customer.

Segments	Fields						
Credit Facility	Account Number	Previous Account Number	Facility / Loan Activation / Sanction Date	Sanctioned Amount/ Notional Amount of Contract	Currency Code	Credit Type	Tenure / Weighted Average ma period of Contracts
	Repayment Frequency	Drawing Power	Current Balance / Limit Utilized /Mark to Market	Notional Amount of Out-standing Restructured Contracts	Loan Expiry / Maturity Date	Loan Renewal Date	Asset Classificati
	Asset Classification Date	Amount Overdue / Limit Overdue	Overdue Bucket 01 (1 – 30 days)	Overdue Bucket 02 (31 – 60 days)	Overdue Bucket 03 (61 – 90 days)	Overdue Bucket 04 (91 – 180 days)	Overdue Bu 05 (Above 1 days)
	High Credit	Installment Amount	Last Repaid Amount	Account Status	Account Status Date	Written Off Amount	Settled Am
	Major reasons for Restructuring	Amount of Contracts Classified as NPA	Asset based Security coverage	Guarantee Coverage	Bank Remark Code	Wilful Default Status	Date Classi as Wilful De
	Suit Filed Status	Suit Reference Number	Suit Amount in Rupees	Date of Suit	Dispute ID No.	Transaction Type Code	Filler
Guarantor	Guarantor DUNS	Guarantor Type	Business Category	Business / Industry Type	Guarantor Entity Name	Individual Name Prefix	Full Name
	Gender	Company Registration Number	Date of Incorporation	Date of Birth	PAN	Voter ID	Passport N
	Driving Licence ID	UID	Ration Card No	CIN	DIN	TIN	Service Tax
	Other ID	Address Line 1	Address Line 2	Address Line 3	City/Town	District	State/Union Territory
	Pin Code	Country	Mobile Number(s)	Telephone Area Code	Telephone Number(s)	Fax Area Code	Fax Numbe
	Filler						
Security	Value of Security	Currency Type	Type of Security	Security Classification	Date of Valuation	Filler	
Dishonour of Cheques	Segment Identifier	Date of Dishonour	Amount	Instrument / Cheque Number	Number of times dishonoured	Cheque Issue Date	Reason for Dishonour
	Filler						
File Closure	Number of Borrower Segments	Number of Credit Facility Segments	Filler				

Fig. 2.10 : Format of report on defaults

Reports on Insurance are used to send reminders to policy holders and check their status of payments. In situation if a policy holder is unable to keep up the terms and conditions of the loan, she/he can request the creditor / money lender to relax some conditions. It may help by reduced charges, lowered interest rate, extension of loan tenure, a suspension on interest, etc.

Activity

Activity 1: A Field Visit to learn General Administrative Work at a micro finance Institute

Material Required: Check-list to Visit notes, notebook and pen/pencils

Procedure

1. Visit a nearby Microfinance Institute
2. Interact with the manager and administrative officer
3. Write response of the following questions in about 50 words.
4. **Questions to be asked:**

- Which format you use to maintain customer information system.

____

____

- In how much interval customer information records are updated ?

____

____

- How periodic reports on status of customers are generated ?

____

____

- How revenue/accounts targets are set ?

____

____

- In what format report on target achieved is made and analyzed?

____

____

- How defaulter's record is maintained? What kind of actions is taken on them?

____

____

Check Your Progress

A. Fill in the Blanks

1. General administrative work involves providing ________________ functions.
2. ________________ is used to obtain customer information easily.
3. For smooth operations regular ________________of customer records is required.
4. ________________ show the status acquired customer by time period.
5. ________________are set with reference to last year performance.

B. Multiple Choice Questions

1. The targets are set keeping following points into consideration;
   a) Business situation.
   b) Economic factors

c) Revenue per executive/representative

d) All of the above

2. Which one is not the basis of making target report?

a) Department

b) Employee

c) Assets

d) Time

3. A policy holder unable to pay premium installments can request for

a) Reduced charges,

b) Lowered interest rate

c) Extension of loan tenure

d) All of the above

4. Customer information report includes

a) Name

b) Aadhar number

c) Contact number

d) All of the above

5. Which of the following is not included in Customer Information System, CIS?

a) Files

b) Data base

c) Stationary

d) Records

C. State whether the following statements are True or False

1. Customer information system is not used to perform customer relationship management functions.
2. For smooth operations regular updation of customer records is required.
3. Periodic reports show the status acquired customer by time period.
4. Feedback from different sources is not required for setting targets .
5. A separate report of defaults is prepared.

D. Short Answer Questions

1. What is customer information system
2. How customer information records are updated?

3. What is the importance of periodic report on statistics of acquired customer?
4. How revenue/accounts targets are set?
5. What is the significance of status report on defaults and insurance?

E. Long Answer Questions

1. What do you understand by general administrative work performed in microfinance institutions.

F. Check Your Performance

1. Draw the format of Customer Information System.
2. Prepare a format for the periodic report on the status of acquired customer.

MODULE 03	MICROFINANCE APPLICATION PROCESS

MODULE Overview

The process of opening an account under microfinance, the microfinance executive has to obtain the kyc related document. He/she should approach the potential customers and complete the KYC related documents. Microfinance executive also obtain biometric inputs of customer through designated it system device and also assist the customer in filling the application form. suppose if any information is missed microfinance executive have to to meet customer to get the missing information or documents. microfinance executive also verify the documents to get the credit rating as per company policy. Microfinance executive also perform documentation process to re-check the documents at the NBFS or micro finance company. He/she should read and understand the credit checks conducted by team at the branch. He/she should also purse referrals inquiring about the past records of the customer to ensure the safer dealing with customers. He/she also maintain customer records micro finance executive must input all the data in the system which is required for the verification and approval of application through credit check team and also perform general administrative work.

Microfinance executive must update detail of accounts open and their status into information system or records. He should also prepare and submit periodic revenue for account targets with superior as per company policy. He/she should prepare the report on targets achieved and review future targets. He/she should also follow the proper procedure as laid down by the bank in handling sensitive and confidential customer information.

This unit will focus on microfinance application process. The first session covers the requisites documents, the second session deals with verify customer documents, the third session explains customers records and the fourth session discusses the administrative work after account opened.

Learning outcome

After completing this Module, you will be able to:

- Obtain requisites documents
- Verify customer documents
- Maintain customers records
- Perform administrative work after account opened

MODULE Structure
Session 1: Requisite Documents
Session 2: Verify Customer Documents
Session 3: Customers Record
Session 4: Administrative Work after Account Opened

Session 1: Requisite Documents

MEANING OF KYC

The expanded form of KYC is 'Know Your Customer". It is a process involving collection of the identity and address details of the customers while opening their accounts in banks. In simple words, KYC means "who the customer is, where he lives and what he does". Such details facilitate prevention of misuse of the banking services provided to customers. The KYC details obtained are to be updated regularly, at fixed intervals. In compliance with the directions of the Reserve Bank of India, banks have to ensure that:

- No account is opened in anonymous or fictitious name.
- No loan or deposit account is opened where verification and identification of applicant is not possible. This may be due to non co-operative attitude of the customer or in cases where the documents submitted in support of his identity and address are not verifiable.
- No business transaction to be allowed without completing the proper KYC process.
- The information needed for KYC and for subsequent updating there of, is clearly stated.
- Additional information for bank's use for subsequent marketing of other products is obtained with the customer's consent.
- In case of a joint account, KYC process is completed in respect of all joint account holders.
- Whenever a customer is allowed to act on behalf of any other person, it is clearly mentioned.
- No person mentioned in RBI's caution list is able to open the account.

KYC RELATED DOCUMENTS FROM CLIENTS

To open an account, A passport size photograph, proof of identity and proof of address are required for opening an account in the bank. For **'proof of identity'** any of the following documents can be submitted. These documents are known as 'officially valid documents (OVD)' for 'proof of identity'.

- Passport
- Driving license
- Voter's Identity Card
- PAN card
- Aadhar Card issued by Unique Identification Authority of India
- National Rural Employment Guarantee Act Job Card.

If document submitted by the customer for 'proof of identity' also has address therein, there is no need of any other document for 'proof of address'. Otherwise another officially valid document containing address is required to be submitted.

In case of clients who are supposed to be served by the 'microfinance executive', documents mentioned at serial No. i, ii and iv are sometimes not available. If such customer are desirous of opening an account, a 'Small Account' can be opened for which a recent photograph and signature/thumb impression in the presence of bank official can be taken instead of 'proof of identity'. There are certain restrictions for 'Small Accounts' which are given below.

- Balance at any time, not to exceed Rs. 50000.
- The total of all the credits in the account not to exceed Rs. 100000.
- The amount of all the withdrawals, inclusive of transfers, during a month not to exceed Rs. 10000.
- In small accounts credit of foreign remittances is not permitted.

These accounts are allowed to be operated up on for a period of 12 months in the beginning. Operations are permitted for further 12 months if the account holder produces a proof of having applied for an officially valid document, which is acceptable as a 'proof of identity', within 12 months of opening of the account.

A simplified procedure may be applied by bankers for opening a normal account in cases where no officially valid document for proof of identity, as mentioned herein earlier, is available with the customer. For this a copy of any one of the documents mentioned below will serve the purpose of **'proof of identity'.**

1. Identity Card having photograph of the holder, issued by Central/ State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institutions.
2. A letter issued by a gazetted officer with the attested photograph of the person desirous of opening the account.

Anyone of the documents stated below may be submitted for the proof of address.

- Electricity bill, telephone bill, post paid mobile phone bill, piped gas bill, water bill pertaining to the period not older than 2 months.(any one is sufficient)

- Property or Municipal Tax Receipt.
- Statement of Account, containing address of the account holder, of savings account maintained in any bank or post office.
- Pension payment orders or family pension payment orders issued by Government Departments or Public Sector Undertakings to their retired employees, provided these documents contain the address of the retired employee.
- Letter of allotment of accommodation issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies, to their employees. Leave and license agreements with such employers allotting official accommodation are also acceptable.
- Letters issued by a foreign embassy or mission in India, or documents issued by Government departments of foreign jurisdiction.

Electronic KYC (e-KYC) is also possible for those persons who possess Aadhar Card. Such persons are required to submit their consent to Unique Identification Authority of India to release their necessary data to the bank/ business correspondent for opening the account. Receipt of data from UIDAI electronically is treated as a valid process for KYC verification.

If any person has changed his/her name on account of marriage, or any other reason and OVD is in the prior name, account can be opened by submitting the available OVD and a copy of marriage certificate issued by the State Government or the gazette notification indicating name-change.

As per the RBI directives issued in 2016, all scheduled commercial banks are required to upload the KYC data of all new individual accounts opened on or after 1st January 2017 with the Central KYC Registry. Other regulated entities are to upload KYC data of all new individual accounts opened on or after 1st April 2017 with the Central KYC Registry.

The bank may partially freeze or close the account if KYC documents are not submitted by the customer at the time of periodic updating. The Reserve Bank of India penalizes the banks for non compliance with the KYC instructions. Penalty amount is decided by the RBI, which may even run to a few crores of rupees.

HELP IN FILLING APPLICATION FORM

The target group of micro finance activities comprises the economically challenged and weaker sections. Clients of this area either illiterate or less educated, in few cases literate also, quite often, require help for filling application form.

MF executive should help clients for filling of the form, in all respect, and obtaining necessary documents required for the purpose of KYC, duly self-attested by putting his / her signature or thumb impression.

RE-COLLECT THE MISSING INFORMATION FROM CUSTOMERS

If any essential document and/or information is found missing while submitting the application for a loan/deposit account, the microfinance executive should contact the applicant without any delay and procure the same. The microfinance executive has to bear in mind that completing the application process well in time is the key to early processing of a loan proposal and prompt disbursement.

CREDIT RATING AS PER COMPANY POLICY

The microfinance executive has to assess credit rating of loan applicant to determine for his / her loan eligibility. This can be done keeping in mind the repaying capacity from the income generated from business. Financial discipline maintained by the applicant is also a parameter which determines his credit rating.

Past record of the customer is also taken into consideration for reaching his/ her credit rating using a tool known as CIBIL data. CIBIL stands for Credit Information Bureau (India) ltd.

Activities

Activity 1: Prepare a presentation on the KYC process and explain it to the class. The presentation may be made either using an overhead projector or chart paper.

Materials Required: Access to the Internet facility, presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil, a etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic. Internet may be accessed by them to find out the latest developments.
3. Each group will prepare a presentation on the topic using PowerPoint/chart paper.
4. Two members of each group will make a presentation before the class, and the remaining will respond to the questions put by their classmates.
5. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Activity 2: Demonstrate how to help customer in filling application forms.

Materials Required: Access to the Internet facility, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic- how to help customer in filling application forms.
3. Internet may be accessed by them to find out the latest developments.
4. Assigned the role to each group member.
5. The role will be discussed with the teacher.
6. Ask every group member to perform thier role
7. The remaining group member will respond to the questions put by their classmates.
8. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. No account is opened in anonymous or ____________________ name.
2. No person mentioned in RBI's _________________ can open a bank account.
3. All scheduled commercial banks are required to upload the KYC data of all new individual accounts opened on or after _____________________.
4. The Reserve Bank of India _________________ the banks for non-compliance with the KYC instructions.
5. CIBIL stands for _______________________________.

B. Multiple Choice Questions

1. KYC is applicable to ____________________
   a) deposit accounts
   b) loan accounts
   c) Only b)
   d) Both a) and b)
2. A passport serves as a ___________________

a) proof of identity

b) proof of address

c) Only b)

d) Both a) and b)

3. An electricity bill serves as ________________

a) proof of identity

b) proof of address

c) Only b)

d) Both a) and b)

4. In a 'small account, balance on any date should not exceed ________________

a) Rs 50,000

b) Rs 1,00,000

c) Rs 20,000

d) None of the above

5. Electronic KYC (e-KYC) is possible for those persons who possess

a) Aadhar card

b) Passport

c) Voter ID card

d) PAN card

C. State whether the following statements are True or False

1. A PAN card can serve both as a proof of identity and proof of address.
2. If photo proof of identity is available, then there is no need of a recent photograph for opening an account.
3. In case of a joint account, KYC process is completed in respect of all joint account holders.
4. If the 'proof of identity' also has address therein, there is no need of any other document for 'proof of address'.
5. The identity card issued by the Government of India is an Officially Valid Document (OVD) as a proof of identity.

D. Match the Columns

COLUMN A		COLUMN B	
1	Passport	**A**	Additional requirement
2	PAN card	**B**	Proof of address
3	Telephone bill	**C**	Not required
4	Photograph	**D**	Proof of identity
5	Birth certificate	**E**	Both proof of identity and proof of address

E. Short Answer Questions

1. Explain the meaning of KYC.
2. What purpose does KYC serve?
3. What are the documents required for completion of KYC?
4. What is the role of microfinance executive in completion of a loan or deposit account application?

F. Long Answer Questions

1. Explain the KYC process in detail.
2. What is the role of a microfinance executive in completion of a loan application?

G. Check Your Performance

1. Throw light on the KYC process and the documents required for the same.
2. Demonstrate role of microfinance executive in completion of a loan or deposit account application.

Session 2: Verify Customer Documents

The microfinance executive (MFE) is required to verify all the documents received as proof of identification and proof of address, to ascertain their validity & genuineness. PAN number of the customer can be verified on NSDL site, and Aadhar number/details can be checked on UIDAI site. Other KYC documents can also by checked with the issuing authorities, wherever required.

RE-CHECK DOCUMENTATION IN BANK

The details provided in the account opening form are verified on the basis of the KYC documents submitted by the customer and/or personal visit to the customer's residence/ working place. Copies of self attested valid documents are kept on record after due verification from the originals. In case of need documents may be got verified from the issuing authority. Transactions are permitted by bank only after being satisfied about the identity and address of the customer. The information collected from the customer is updated periodically.

Account will be opened in the bank only after getting all necessary KYC documents and completely filled application having all client information. Re-checking of documentation is very important exercise, as it helps the financing institution to ensure proper conduct of loan account and also to avoid legal complications in future.

CROSS CHECK THE CREDIT CHECKS BY TEAM AT BRANCH

A credit score is a numerical expression based on various parameters which reflect the credit worthiness of the loan applicant. As already mentioned

Credit check exercise is based on the loan history of the customer, his credit worthiness and credit score. This exercise enables the financing institution to take a decision about sanctioning a loan and to determine the quantum of loan amount. Hence it necessary to cross-check the credit checks done. This is usually done by the loan sanctioning authority, with the assistance of microfinance executive/other branch functionaries. The sanctioning authority also makes independent enquiries from various sources, if considered necessary.

REFERRAL ENQUIRIES

During cross-check of credit checks the sanctioning authority may also make independent enquiries to ascertain the veracity of the data and information given in the loan proposal. In order to do so, he/she may refer to certain persons and other sources. Assistance of microfinance executive can be taken, if considered necessary. The discrepancies brought about through the referral enquires have to be explained and/or rectified by the credit check team.

DEALING WITH CUSTOMERS

As per the opinion of most of the leading management experts, mere "customer satisfaction" is not sufficient in today's competitive environment – achieving "customer delight" should be the ultimate aim of a business organisation.

It is an established fact that a delighted customer is the best brand ambassador for a business organisation. This is all the more true of service oriented organisations like banks and other financing institutions dealing with the people from a large cross-section of society.

It is the prime duty of a microfinance executive to ensure that a customer is not only satisfied, but delighted with the services being rendered by the financing institution. For this he has to ensure that while dealing with customers the following aspects are taken care of:

- Complete information about the MFI product being sold is provided to the customers. For this, the MFE has to keep himself updated about all the features of the products being offered by his institution. He should also have adequate knowledge of rules, regulations and procedures related to product delivery.
- Due transparency is maintained. For example, the customer should be apprised beforehand about the interest rates, other charges, loan eligibility criteria, documents to be submitted and formalities to be completed.
- The MFE should be courteous towards customers and prompt in providing services to them.
- The MFE should always be available to customers for guiding them and resolving their problems.

In short, the dealings of a microfinance executive should be such that they make the customer's experience with the financing institution really delightful.

Activities

Activity 1: Prepare a chart on verify all KYC documents.

Materials Required: Access to the Internet facility, presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic.
3. Internet may be accessed by them to find out the latest developments.
4. Each group will prepare a chart on the topic using pen-paper, sheet, colors.
5. Two members of each group will make a presentation with chart before the class.
6. The remaining will respond to the questions put by their classmates.
7. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Activity 2: Demonstrate how to deal with customers**.**

Materials Required: Plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic to be demonstrate.
3. Each group will prepare to perform on the topic using PowerPoint/ chart paper.
4. In each group, every members of the group perform their role, as microfinance executive and customer.
5. Other students note down points.
6. The feedback will be discussed with the teacher.
7. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. PAN card of the customer can be verified on the ___________________ site
2. The __________________________ site can be used for verifying Aadhar card.
3. Copies of the valid documents are kept on record after due verification from the _________________________.
4. An application is complete only if it contains all __________________ information.
5. A credit score is a ________________ expression based on some parameters.

B. Multiple Choice Questions

1. Which of the following is not considered in a credit-check exercise?
   a) credit score of the applicant
   b) credit-worthiness of the applicant
   c) loan history of the applicant
   d) character of the applicant
2. Credit-check exercise enables the financing institution to
   a) Take a decision regarding sanction of a loan
   b) Decide the amount of loan to be given

c) Only a)

d) Both a) and b)

3. Re-checking of documentation helps the financing institution to

a) Ensure proper conduct of the loan account in future

b) Avoid legal complications

c) Only b)

d) Both a) and b)

4. The discrepancies brought out through referral enquiries have to be rectified by

a) The credit-check team

b) The official who made referral enquiries

c) The microfinance executive

d) All of the above

5. 'Maintaining transparency' while dealing with a customer means

a) Giving correct information regarding interest rate, other charges, eligibility criteria etc.

b) Appraising the loan application in presence of customer

c) Only a)

d) Both a) and b)

C. State whether the following statements are True or False

1. Ascertaining loan history of the applicant is not a part of the credit-check exercise.
2. Referral enquiries have to be made by the microfinance executive.
3. A microfinance executive may be considered to have dealt with customers in a perfect manner if no complaints are received against him/her.
4. The first and foremost task of the credit-check team is to examine the security offered by the loan applicant.
5. Copies of Officially Valid Documents should bear an attestation by a Gazetted Government Official.

D. Match the Columns

COLUMN A	COLUMN B

1	KYC documents can be checked, if necessary	**A**	is the best source of publicity
2	Transparency in customer dealings involves	**B**	with the issuing authority
3	If necessary. Aadhar card, PAN, Voter ID card etc. can be checked	**C**	original documents
4	Referral enquiries are made	**D**	disclosure of charges and other relevant information
5	A happy customer	**E**	Before sanction of loan

E. Short Answer Questions

1. How are KYC documents verified?
2. How are the loan documents re-checked?
3. What is the need to cross check the credit-checks by team at branch?
4. Explain the process of making referral enquiries.
5. Elucidate the need for dealing properly with customers.

F. Long Answer Questions

1. Explain in detail the of verifying KYC, conducting credit checks and the crosschecking thereof. modalities
2. How is an organisation gains from excellent customer service?

G. Check Your Performance

1. Describe modalities of verifying KYC, conducting credit checks and the crosschecking thereof.
2. Demonstrate the process of making referral inquiries.

Session 3: Customers Record

INPUT ALL CUSTOMER DATA

Microfinance executive collect the required informattion from customers. It is the duty of microfinance executive to input all required customer data into the system. All required customer data should be send to credit check team for verification and approval. Microfinance executive must handover application and required customer documents to credit-check team. Normally, details mentioned below are captured in respect of an individual for opening a deposit or loan account in a branch of the financing institution.

- Name
- Father/Husband/Guardian's Name
- Gender
- Marital Status
- Date of birth
- Religion
- Residential Address
- Valid KYC Documents
- Occupation
- Educational Qualification
- Annual Household Income
- No. of Dependents and their details
- Disability Status
- Existing Bank Account of family members/ household
- Mode of operation
- Disability Status
- Nomination details

A signed declaration from the customer is obtained by Microfinance executive to the effect that the information provided by him or her is true. He/she accepts the terms and conditions of the bank. Form 60 (for customers who do not have PAN) and/or Form 61 (for customers who do not have any income except agricultural income), as applicable, are also submitted by the customer.

Specimen signatures/ thumb impression and recent photograph are also obtained and kept securely on records, for identification/ verification of the person, at any time.

VERIFICATION AND APPROVAL OF CUSTOMER DATA

Customer detail provided in the loan application account are verified on the basis of the KYC documents submitted by the customer and/or personal visit to the customer's residence/ working place. Financial data should also be verified through discrete enquiries from the persons residing in proximity of the applicant's residence/place of work and Government/other agencies operating thereat.

Copies of the officially valid documents should be kept on record only after due verification from the originals. In case of need documents may be got verified from the issuing authority. A loan application is processed by a financing institution only after being satisfied about the identity of the applicant, his address and all the information/ data furnished by him. The information collected from the customer is updated periodically.

HANDOVER APPLICATION TO CREDIT-CHECK TEAM

After entering customer information/ data in the application and verifying it thoroughly, it is handed over to the credit-check team for further processing.

Activity

Activity 1: Demonstrate the maintenance of customer records like input of all data required into system

Materials Required: Access to the Internet facility, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic- maintenance of customer records like input of all data required into system.
3. Internet may be accessed by them to find out the latest developments.
4. Each group will prepare a presentation on the topic maintenance of customer records like input of all data required into system.
5. Ask two members of each group will make a demonstrate how maintenance customer records like input of all data required into system before the class.
6. The remaining will respond to the questions put by their classmates.
7. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. In loan application annual _____________ income of the applicant is to be given.
2. A ____________ passport size photograph is also taken with the application.
3. ____________ signatures/ thumb impression are taken for

identification of the customer at any time.

4. The information collected from the customer is ___________ periodically.
5. While verifying the details given in the application, ____________ enquiries may also be made from persons knowing the applicant.

B. Multiple Choice Questions

1. Which of the following is a part of the application verification process?
   a) KYC documents submitted by the customer
   b) Personal visit to the customer's residence/ working place.
   c) Only a)
   d) Both a) and b)
2. Form 60 is taken from customers
   a) Who have applied for PAN, but have not received the same
   b) Who neither have PAN nor have applied for it
   c) Only a)
   d) Both a) and b)
3. Which of the following information is not required to be given in a loan application?
   a) Disability Status
   b) Details of dependents
   c) Vocation of spouse
   d) Bank accounts of family members
4. The declaration to the effect that the information provided is true, and the customer accepts the terms and conditions of the bank, is signed by the
   a) Loan applicant
   b) Microfinance executive
   c) Only a)
   d) Both a) and b)
5. Verification of information furnished in the loan application form has to take place

a) Before processing of loan application

b) After processing of loan application, but before disbursal of the loan amount

c) Either a) and b)

d) Only a)

C. State whether the following statements are True or False

1. The genuineness of each KYC document furnished by an applicant has to be referred to the issuing authority for verification.
2. Form 60 is taken from customers who do not have any income except agricultural income
3. Verification of loan documents can be done after processing the application, but in any case before disbursal of the loan amount.
4. If the loan applicant has changed his residence or place of work during the previous six months, he has to mention the same in his application along with the current address.
5. The loan application should preferably contain a certificate from the microfinance executive that the information furnished therein is true to the best of his knowledge and belief.

D. Match the Columns

COLUMN A		**COLUMN B**	
1	Officially valid documents should be kept on record	**A**	after verifying identity of the applicant and information furnished by him
2	Loan application is processed	**B**	who do not have any income except agricultural income
3	Specimen signatures or thumb impression is taken	**C**	after verification with original documents
4	Form 60 is taken from customers	**D**	to identify the loan beneficiary any time in future
5	Form 61 is taken from customers	**E**	who do not have PAN

E. Short Answer Questions

1. Enumerate five or six of the important items in respect of which information has to be furnished in a loan application.
2. What is the declaration given in a loan application? Who gives it?
3. What are the forms which are to be signed and submitted by the loan applicant along with the loan application? Under what circumstances are these forms required to be submitted?
4. Write a short note on verification of the information furnished by the loan applicant.
5. What is the next step to be taken after verification of the information furnished in a loan application?

F. Long Answer Questions

1. Explain in detail the filling in of a loan application.
2. Describe the process of verification of loan applications.

G. Check Your Performance

1. Describe the process of verification of loan applications.
2. Demonstrate the loan application verification process.

Session 4: Administrative Work After Account Opened

UPDATE DETAIL OF ACCOUNTS OPENED

There could be various conditions under which customer changes his documents, such as:

- Account opened in the name of minor and later on he/ she becomes a major.
- Conversion of account from single to joint account holder and joint to single account holder.
- Change in customer's address mentioned in the proof of address document.
- Any changes effected in document taken during the loan processing/account opening as photo identity proof.
- Pre-closing of account before maturity (Recurring Deposit, Term Deposit loan account etc.)

Customer should be contacted by the microfinance executive periodically to update his/ her identity and address related information. Time to time accounts opened are required to be updated in the system.

PERIODIC REPORT ON STATUS OF ACQUIRED CUSTOMER

Microfinance executives are generally required to prepare periodic reports of acquired customers containing following information.

- Pre-closing of account before maturity (Recurring Deposit, Term Deposit loan account etc.)
- No of accounts opened during the month.
- Amount financed during the month.
- Accounts closed during the month.
- Details of loan accounts opened segment wise – Retail loans, agriculture loans, loans to small businessmen / traders etc.
- Total outstanding in all loan accounts (segment wise).
- Deposit mobilized during the month in savings, current and other deposit accounts and outstanding in these accounts (segment wise).

The above reports are generally submitted by the MFE at monthly, quarterly, half yearly & yearly intervals to the branch head.

SET REVENUE / ACCOUNT TARGETS WITH MANAGER

MF executive has to set his/ her revenue earning/ account opening targets with due consultation with manager on the basis of previous year's achievements. These targets are set monthly, quarterly, half yearly & yearly.

Before setting the targets following factors should be taken in to consideration.

- Time at which agricultural production like wheat, ice, pulses etc come to market for sale.
- Availability of market for selling of products.
- Condition of soil for cropping.
- Weather condition of particular area.
- Availability of skilled labours for particular items.
- Availability of raw material at nearby places.
- Transport facility to transport the products in short span of time.
- Time factor

After finalization of targets, the Microfinance Executive should obtain the approval of the branch head and start working towards achievement of the same.

REPORTS ON TARGETS ACHIEVED AND RENEWAL OF FUTURE TARGETS

The Microfinance Executive is required to send reports periodically on targets achieved and keep on reviewing the achievements.

The Microfinance Executive also has to renew future targets in a particular segment, taking into consideration the weather conditions, Government policies and unforeseen situations. For example, if there is draught in a particular area, crop production will be affected and the targets set earlier will have to be scaled down. Similarly, if the conditions are favourable, small farmers and business persons will go in for higher production and the targets can be revised upwards.

PROCEDURE AS LAID DOWN BY THE BANK IN HANDLING SENSITIVE AND CONFIDENTIAL CUSTOMER INFORMATION

Maintaining strict confidentiality of customer data and information is a universally accepted norm followed by banks and other financing institutions all over the world. All banks and MFIs in India also follow this norm meticulously.

The RBI has been reiterating, from time to time, the obligation on the part of banks to ensure maintenance of confidentiality of customer data and information under all circumstances. The Information Technology (IT) Act, 2000, passed by the Indian Parliament, also makes it mandatory for banks and other institutions to maintain of confidentiality of digital documents & information, e-signatures, and authentication thereof.

Guidelines regarding confidentiality of customer information have also been issued by the Banking Codes and Standards Board of India (BCSBI), an institution set up jointly in 2006 by RBI and Indian Bank Association (IBA). Based on RBI instructions, provisions of the IT Act and guidelines issued by BCSBI, each bank/ financing institution has formulated its own customer privacy policy, which is followed meticulously.

Following information relating to the customers is very sensitive and confidential, and should not be divulged to anyone.

- Balance in the accounts
- Particulars of accounts i.e. deposit/ loan accounts
- Mode of signature
- Aadhar particulars
- Pan details
- E-mail address
- Locker details, if any.

Failure to follow laid down instructions and provisions can give rise to legal complications and imposition of severe penalties.

There is an exception to the above stated rule of maintaining confidentiality. Some statutory bodies and other authorities, like courts of law, Income Tax Department, can ask banks and other institutions to furnish information regarding some particular customer(s). Such a requisition has to be made through a letter on official letterhead of of the authority concerned, bearing seal and signatures of an authorized official.

Activities

Activity 1: Draw the format of customer information system

Materials Required: Access to the Internet facility, chart, papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic format of customer information system.
3. Internet may be accessed by them to find out the latest developments related to format of customer information system .
4. Each group will prepare a demonstrate the format of customer information system.
5. Two members of each group will demonstrate of the format of customer information system before the class.
6. The remaining will respond to the questions put by their classmates.

The teacher should update himself/herself before the activity, so as to make value addition to the presentation

Activity 2: Prepare a format on procedure as laid down by the bank in handling sensitive and confidential customer information

Materials Required: Plain papers, sketch pens, pen, pencil, etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic- procedure as laid down by the bank in handling sensitive and confidential customer information.
3. Allot the assigned role to each and every students.
4. Each group member will prepare role on procedure as laid down by the bank in handling sensitive and confidential customer information.
5. The remaining will respond to the questions put by their classmates.
6. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. Customer should be contacted by the microfinance executive periodically to ____________________ his/ her identity and address related information.
2. From time to time accounts opened are required to be updated in the ___________________________.
3. The full form of BCSBI is ____.
4. There is an ____________________ to the rule of not divulging customer information.
5. The courts of law and some other _______________ agencies can summon information related to a customer from banks.

B. Multiple Choice Questions

1. On conversion of an account from single to joint account
   - a) A fresh account opening form has to be obtained
   - b) There is a change in all the documents related to the account.
   - c) Only a)
   - d) Both a) and b)
2. Any account has to be updated when
   - a) There is a change in address of all the account holders
   - b) There is a change in address of only one account holder
   - c) Only in case of a)
   - d) In both the cases
3. The IT Act, 2000, was passed by
   - a) The Government of India
   - b) The Indian Parliament
   - c) The RBI
   - d) Jointly by a) and b)
4. The BCSBI
   - a) Issues instructions about customer privacy
   - b) Issues guidelines about customer privacy

c) Both a) and b)

d) Only b)

5. Microfinance executives are required to prepare periodic reports on

a) New customers acquired

b) New deposits mobilized and loans disbursed

c) Only b)

d) Both a) and b)

C. State whether the following statements are True or False

1. Balance in the account of a customer can be disclosed to a close relative, like the spouse of the customer.
2. While setting agriculture business targets, the MFE also takes into account availability of inputs for growing a crop.
3. The authorized agencies can instruct banks verbally or on telephone to furnish information related to a customer.
4. The bank concerned has to seek consent of a customer to furnish any information related to him to an authorized agency.
5. A MFE has to stick to his/her yearly targets, whatever the conditions may be.

D. Match the Columns

COLUMN A		COLUMN B	
1	Setting of business targets	**A**	depends on changes in business environment
2	A court of law	**B**	set up jointly by RBI and IBA
3	BCSBI	**C**	cannot be divulged to any one
4	Revision of business targets	**D**	based on previous year achievements
5	E-mail address of customer	**E**	can summon customer related information from a bank

E. Short Answer Questions

1. List out five or six conditions under which a customer account has

to be updated.

2. What are the periodic reports to be prepared by a MFE?
3. How are the revenue and business targets set by a MFE?
4. Are the targets set sometimes revised during the year? If so, why?
5. Write a short note on confidentiality to be maintained by banks/other financial institutions in respect of customer information.

F. Long Answer Questions

1. Describe the administrative functions to be discharged by a MFE after an account is opened.

G. Check Your Performance

1. List out the conditions under which a customer account has to be updated.
2. Prepare periodic reports to be prepared by a MFE.
3. Demonstrate how the revenue and business targets are worked by a MFE.
4. Elaborate upon the responsibility of banks/other financial institutions in maintaining of confidentiality in respect of customer information.

MODULE 4 DISBURSEMENT OF MICROFINANCE LOAN

MODULE OVERVIEW

In India, microfinance includes micro credit or small loans extended to individuals, Self Help Groups and Joint Liability Groups. These loans may be granted for income generating activities such as agriculture for growing crops, allied agriculture i.e. dairy, poultry, fishery, goat rearing, bee keeping etc. small business and enterprises involving trading, manufacturing and service activities.

It is the duty of micro finance executive, once he received the loan application form from the customer he should forward the loan application form to credit check team in branch. The loan application processed by credit check team and microfinance executive came to know about the the status of loan application form.

The status of loan application form either approval or not approval. If loan has been approved he has to inform the customer. Suppose loan has not been approved due to some incomplete documents he has to to inform customer and ask for reqired docments. Once the loan has been approved micro finance executive take the signature from customer on documents and disbursing loan. It is also the duty of micro finance executive to assist customers to come into branch for completing formalities of loan. He should also ensure the disbursement of loan within stipulated time period.

This unit will focus on disbursement of microfinance loan. The first session cover the basics of loan, the second session deal with the status of loan application, third session explain signing documents by customers and the force station discusses the disburse of loans.

Learning Outcome

After completing this Module, you will be able to:

- Describe basics of loan
- Check status of loan application
- Signing documents by customers
- Disburse of loans

MODULE Structure

Session 1: Basics of Loan

Session 2: Status of Loan Application
Session 3: Signing Documents by Customers
Session 4: Disbursement of Loans

Session 1: Basics of Loan

MEANING OF LOAN

In this world, every minute millions of people, banks, finance companies and other entities having surplus funds are giving money or extending financial facilities to various individuals or entities in need of funds. These funds could be needed for running some business activity, personal consumption or for meeting some other requirement. In some cases, such as donations and grants, there is no obligation on the part of the recipient to return the funds. However, in the case of loans the recipient has to return the money received with interest. The entity giving a loan is called the lender or creditor, and that receiving the loan is called borrower or debtor.

FEATURES OF LOAN

The features of loans, being extended by various banks and microfinance institutions in India, are as follows:

1. Banks in India mainly extend short term and medium term loans. The classification of loans as short term and medium term loans varies from bank to bank. Generally the former are of tenure up to one year; and the latter of tenure up to ten years. The banks also extend long term loans. For example, many banks give housing loans of duration up to thirty years. Microfinance institutions in India generally extend short term loans, with tenures ranging from one to two years, to their clientele.

2. The interest payable on the loan amount could be either "fixed" or "floating".

While the fixed rate remains the same throughout the loan tenure, the floating rate of interest keeps on changing during the loan tenure. The mechanism of this changing rate is explained below.

As stipulated by the Reserve Bank of India, commercial banks have to fix a benchmark rate to which all loan interest rates are linked. The current benchmark rate being used by the banks in India is Marginal Cost of Fund based Lending Rate (MCLR). Each bank fixes its MCLR on the basis of current cost of funds deployed for lending and some other factors.

In all the documents related to a loan with floating interest rate, the interest rate is mentioned in relation to MCLR. Whenever there is a change in MCLR, the interest rate applicable to the loan changes automatically. An example is given below to explain this process:

Suppose the MCLR of a bank is 8% when a loan is extended, and it has been mentioned in the loan documents that "the interest payable on the outstanding loan amount will be 4% above MCLR." Thus the effective is 12% per annum. If the MCLR subsequently goes up to 8.5%, the interest on the loan will also go up to 12.5%, and so on.

3. In addition to the interest in the loan account, the borrower also has to bear the following charges:

i) Loan Processing Charges: The banks levy these charges, at the time of disbursement of loan, as per their loan policy. However, the RBI has stipulated that on loans falling within the ambit of microfinance, the financing institution cannot charge more than 1% of the gross loan amount.

ii) Insurance Charges: All finance institutions, including banks and MFIs, instead on comprehensive insurance of the assets created using bank loan. This is done to protect the interest of the borrower, as also that of the bank. In the case of unforeseen loss of the financed assets due to some natural calamity, theft etc, the amount received from the insurance company is credited to the loan account. Generally the insurance is obtained on behalf of the borrower by the financing institution itself, and the premium is debited to the loan account.

iii) Other Charges: The amount of stamp duty on the loan documents executed, such as loan agreements, have to be borne by the borrower. The borrower also has to incur the cost of completing other formalities related to the loan sanctioned. For example, if mortgage is created on some fixed assets, the expenses such as title searching charges and stamp duty payable for mortgage creation, have to be borne by the borrower.

4. A loan may be "secured" or "unsecured: In the case of secured a *charge* of the bank is created on the financed assets. Creation of charge means that through means that through completion of certain legal formalities, a lien created on the assets financed. These assets cannot be sold before repayment of the loan amount and all other dues of the financing company. The financed assets on which charge of the financing institution is created are called *primary security.* In some cases the financing company stipulates bringing in of some security in addition to the financed assets and creation of charge thereon. These additional assets on which charge is created are called *collateral security*.

5. The first step in disbursal of a loan is opening of a loan account. The loan amount is debited to the loan account and is credited to savings or current account of the borrower. A loan account can be opened in the form of

a) **Overdraft in Current Account:** The account holder is permitted to overdraw (take out money in excess to the credit balance) his current account up to a specified limit, which is sanctioned by the bank. The account holder is permitted to deposit money and make withdrawals on an ongoing basis, subject to the condition that the debit balance never exceeds the sanctioned limit.

b) **Demand Loan Account:** The entire amount of the loan sanctioned is debited to the demand loan account and is credited to the savings or current account of the borrower, or payment is made to the supplier of the goods that the borrower intends to purchase. Repayment is made by the borrower in instalments, generally in the form of Equated Monthly Installments. The tenure of demand loan is generally one year or less.

c) **Term Loan Account:** As in the case of a demand loan, the entire amount of the loan sanctioned is debited to the term loan account and the repayment is made by the borrower in Equated Monthly Instalments (EMIs). The tenure of term loan is more than one year.

d) **Cash Credit Account:** This account is opened for meeting working capital requirement of a business enterprise. Working capital is the money that is required to meet day to day business operations of an enterprise. A limit is sanctioned by the bank for this account, within which the borrower can make withdrawals and deposits.

TYPES OF LOAN

The banks and other financial institutions in India provide the following types of loans:

1. **Retail Segment Loans:** These loans are given to individuals or groups of individuals to fulfilling their personal requirements. Some examples of these loans are:
   - Home Loans, for construction of house or purchase of ready-made house. These are given as term loans, with tenures up to 30 years.
   - Vehicle Loans are given to individuals or groups of individuals for purchase of vehicles for personal use. These are given as term loans, with tenures ranging from five to seven years.
   - Personal Loans, which are given as demand loans or overdraft in current account, can be used by the borrower for any purpose.

There are several other retail segment loans such as Pension Loans, Education Loans, Gold Loans, Property Loans, Loans against Deposits/shares/ debentures/ securities etc.

2. **Micro, Small & Medium Enterprises (MSME) Segment loans:** These loans include
   - Retail Trade Loans
   - Loans to Professionals & Self-Employed like doctors, chartered accountants etc.
   - Loans for Service activity
   - Loans for wholesale trade and industrial activities.

These facilities involve outlay of funds. These loans are given for:

a) ***Meeting Working Capital Requirements,*** that is, the day to day requirements of a manufacturing/ trading enterprise for purchase of stocks/raw materials stores and spares, payment of wages/salaries to employees, payment of expenses towards electrical energy, fuel and water consumption, statutory dues, rent taxes, freight, etc. and other expenses required to be incurred for production, selling and administration, etc. These loans are generally given by way of cash credit, after assessing the funds required for completing the business cycle.

b) Term Loans to business enterprises for purchase of equipment, machine or construction of building/factory premises etc. These are the assets which the business enterprise utilizes for a long time. These loans are given by way of term loan accounts, in which the loan amount is disbursed as and when the assets are acquired, and the repayment is usually by way of Equated Monthly Instalments.

3. Agriculture Segment Loans

a) Crop Loans/Kisan Credit Card: Banks and MFIs provide loan to farmers for meeting expenses related to growing of crops, such as cost of seeds, fertilizers, pesticides. These loans also cover expenses to be incurred on irrigation and harvesting. This loan is given by opening an Agricultural Cash Credit (ACC) account and fixing a limit for the cropping season. A "Kisan Credit Card" is also issued to enable the farmer to make withdrawals from his ACC account as and when needed. The ACC account is liquidated by the farmer after selling the harvested crop, and the limit is renewed so that the farmer may use it for the next crop.

(b) Farm Equipment Loans and other Term Loans: Loans for purchasing farm machinery and equipment such as tractors, trolleys, tillers, harvesters and threshers are granted to farmers in the form of Agricultural Term Loans (ATLs) which are repayable in 5 to 10 years. These loans are also given fordigging of wells/tube wells, purchase of pumps, setting up sprinklers, laying pipe-lines etc. The repayment is in the form of instalments, which are scheduled as per the harvesting seasons.

(c) Produce Marketing Loans: At the time of arrival of new crops, the rates in the market are generally low. Therefore, many farmers do not want to sell the harvested crop immediately. If the produce is stored in an approved warehouse, the bank also gives loans against warehouse receipts (WHRs) issued by such an approved warehouse for a period of 6 to 12 months, so as to enable the farmer to sell the same at favourable rates.

(d) Gold Loans: Banks also finance farmers against pledge of gold and silver ornaments to meet expenses incurred for growing crops other short term requirements.

ADVANTAGES AND DISADVANTAGES OF LOAN

For a loan to be advantageous to the borrower, the following conditions have to be fulfilled:

- The borrower has the financial capacity to repay the loan amount with the interest thereon and arrange for the margin money (borrower's own contribution).
- There is adequate market for the products being manufactured or traded.
- The entire loan amount is utilized for the business activities for which the loan has been sanctioned, and there should be no diversion of funds towards non-productive activities.

When the above conditions are met, the borrower enjoys several advantages inherent in loans taken from banks and MFIs such as:

- Easy and quick delivery of credit
- Reasonable interest rates.
- Convenient instalments with repayment schedule fixed as per periodicity of income generation.
- Rise in standard of living.

However, if the conditions stated above are not satisfied, the borrower faces the following disadvantages:

- Disruption of business cycle
- Incurring of loss
- Inability to repay the loan amount and the interest thereon, which may invite penal action on the part of the financing agency
- Gradual deterioration of financial position of the borrower, which could ultimately lead to bankruptcy.

PROCESS OF LOAN APPLICATION

When a loan application is received at a branch of the financing institution, it is scrutinized to ascertain whether all the required information is contained therein. Then it is handed over to the credit team for appraisal of the loan proposal. After appraisal of the loan proposal and assessing the quantum of loan to be given, the application is put up to the competent authority for sanction. The various activities involved in loan dispensation will be discussed in the subsequent sessions of this unit.

Activities

Activity 1: Prepare a presentation on features of a loan and its types.

Materials Required: Access to the Internet facility, presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic. Internet may be accessed by them to find out the latest developments.
3. Each group will prepare a presentation on the topic using PowerPoint/chart paper.
4. Two members of each group will make a presentation before the class, and the remaining will respond to the questions put by their classmates.
5. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Activity 2: Prepare a presentation on the conditions fulfillment of which could make a loan advantageous, and the disadvantages of a loan if these conditions are not fulfilled.

Materials Required: Access to the Internet facility, presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic. Internet may be accessed by them to find out the latest developments.
3. Each group will prepare a presentation on the topic using PowerPoint/chart paper.
4. The presentation prepared will be discussed with the teacher.
5. Two or three members of each group will make a presentation before the class, and the remaining will respond to the questions put by their classmates.
6. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. In the case of loans the recipient has to return the money received with ________________________________.
2. The entity giving a loan is called the lender or creditor, and that

receiving the loan is called borrower or ____________________.

3. For a loan to be advantageous to the borrower should have the ________________ to repay the loan amount with the interest thereon.
4. The entire loan amount should be utilized for the _____________________ for which the loan has been sanctioned.
5. Inability to repay the loan amount and the interest thereon may invite _______________________ action on the part of the financing agency.

B. Multiple Choice Questions

1. Loans in the microfinance sector are given for
   a) Agricultural and allied activities
   b) Trade, manufacturing and service oriented activities
   c) Only b)
   d) Both a) and b)
2. Produce marketing loans are given for
   a) growing crops
   b) storing harvested crops till prices are favourable
   c) to meet marketing expenses
   d) All the above
3. Kisan Credit Card is issued to the holder of
   a) Agricultural Cash Credit (ACC) Account
   b) Agricultural Term Loan (ATL) Account
   c) Both the above
   d) None of the above
4. Working capital loans are given for meeting
   a) Day to day business expenses
   b) urgent purchase of machinery, equipments etc.
   c) Both the above
   d) None of the above
5. The floating interest rate charged on loan accounts is linked to
   a) rates prevailing in the money market
   b) A benchmark rate fixed by the bank concerned from time to time

c) Both the above

d) None of the above

C. State whether the following statements are True or False:

1. The current benchmark rate being used by the banks in India is Marginal Cost of Fund based Lending Rate (MCLR).
2. Banks do not finance farmers against pledge of gold and silver ornaments.
3. Agricultural Term Loan can also be granted to farmers for setting up sprinklers, laying pipe-lines etc.
4. Loans against gold ornaments are given by banks only for financing agricultural activities
5. Personal loans can be used by the borrower for any purpose.

D. Match the Columns

COLUMN A		COLUMN B	
1	Utilization of money for non-productive purposes	**1**	Agricultural Cash Credit
2	Bank loan for meeting expenses of growing crops	**2**	A running account
3	Dairy, poultry etc.	**3**	Diversion of funds
4	Overdraft in current account	**4**	Repayable in instalments
5	Term Loan	**5**	Allied agricultural activities

E. Short Answer Questions

1. What is a 'loan'?
2. Enumerate the features of a loan.
3. List out various types of loans.
4. What are the advantages of loans being given by banks and MFIs in India?
5. State briefly the possible disadvantages of a loan.

F. Long Answer Questions

1. Explain in detail various features of loans being given by the banks in India.

2. Outline the advantages of availing loans from banks and MFIs. Also describe the conditions and circumstances under which a loan can become a liability for the borrower.

G. Check Your Performance

1. Explain different types of loan.
2. Elaborate upon advantages and disadvantages of availing a loan.

Session 2: Status of Loan Application

STEPS IN LOAN APPROVAL

The process of loan approval starts with appraisal of the loan application. The credit team of the bank/financing institution ascertains, first of all, the sincerity of the applicant towards carrying out the activity for which the loan is sought. Previous credit history of the borrower is also looked into to judge the level of his commitment towards repayment of loans, if any, availed by him in the past from banks/financing institutions. Appraisal is also done in respect of the following aspects:

- The amount of actually required for carrying out the proposed business activity
- The amount proposed to be brought in by the loan applicant as his own contribution
- The applicant's capacity to repay the proposed loan.
- Collateral security (additional security) being offered by the borrower/ guarantor. It may be mentioned that the banks and MFIs do not ask for collateral security for loans falling within the category of microfinance.

After taking care of the above points, the amount of loan actually needed by the loan applicant is worked out. The loan could be in the form of cash credit for meeting working capital requirement, or a term loan for acquiring fixed assets.

Working Capital Assessment

The amount needed by an applicant for his day-to-day industry/business requirements is known as the *Working Capital requirement*. These requirements generally include:

- Cost of maintaining optimum level of raw materials for carrying out the business activity.
- Amount of money locked up in unfinished goods, goods under process, unsold finished goods and goods sold on credit.

- Other expenses such as salaries/wages, electricity charges etc.

The working capital requirement of a loan applicant is assessed by banks and other financing institution using *the operating cycle method.* The operating cycle of a business enterprise consists of various phases through which the business activities pass.

Any manufacturing or production activity is characterized by a cycle of operations consisting of purchase of raw materials for cash, converting these into finished goods and realizing cash by sale of these finished goods. A typical operating cycle of a manufacturing unit is operating cycle is depicted below:

OPERATING CYCLE OF A MANUFACTURING UNIT

The time that elapses between cash outlay and cash realization by sale of finished goods and realization of sundry debtors is known as the length of the operating cycle. Thus, the operating cycle consists of:

- Time taken to acquire raw materials and average period for which they are in store.
- Conversion process time.
- Average period for which finished goods are in store, and
- Average collection period of Sundry Debtors.

The working capital requirement of the loan is applicant is assessed by calculating the funds required during each of the above phases. In each phase of the cycle the borrower's proposed contribution (margin money) is deducted from the working capital requirement so as to give the amount of bank loan needed to complete that part of the cycle. The sum total of these amounts gives the total bank loan amount needed for completing the entire cycle.

The operating cycle of trading enterprises is similar to those of a manufacturing unit. It starts with investing in purchase of goods to be traded, followed by packaging and other value additions, and sale of these goods leading to cash inflow.

Term Loan

Banks and other financing institutions grant *Term Loans* for purchase of fixed assets. For example, land, building, factory/plant, machinery, etc. These are tools of business which are used for long periods of time. These are not part of working capital of the borrower. Their repayment is made in monthly/quarterly instalments out of the profits of the business/industry.

The following points related to term loan may be noted:

- The location of the manufacturing unit is very important.
- Term loans are generally disbursed in one or more installments, depending upon the requirements of the applicants (or progress of

construction, etc.)

- Term loans are repaid out of profits of the applicants (and not out of the amount of sales). These are repayable in installments, spreading over a period of time. Suitable start-up period is given in deserving cases.
- The detailed item-the rate estimates for the civil construction, prepared by the qualified architect/ civil engineer, should be based on the current market rates.

Loans Given by Microfinance Institutions are generally of small amounts, the upper limit being Rs 1,25,000. These loans are for short tenures, ranging from one to two years. Repayment of these loans is by way of installments, which could be monthly, bi-weekly or weekly.

Most of the microfinance loans are composite in nature – they take care of immediate and short term credit requirements of micro level business enterprises.

ASCERTAINING STATUS OF LOAN APPLICATION

It is duty of a microfinance executive to keep in touch with the team/persons entrusted with the tasks of checking the loan application and appraising the loan proposal. He has to ensure that any shortcoming in the application, such as non-submission of KYC document/other document, incomplete data and non-completion of some loan related formality, is taken care of at the earliest.

INFORMING CUSTOMER ABOUT LOAN APPROVAL

As soon as loan is approved, the microfinance executive should inform the customer. Before visiting or calling up the customer, he should ascertain from the concerned functionaries the date and time on which documentation and other formalities are to be completed. He should also find out whether any additional document is to be carried by the applicant to the venue of documentation.

Activities

Activity 1: Prepare a chart on steps of loan approval and status of loan applications

Materials Required: Access to the Internet facility, presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic- steps of loan approval and status of loan applications.
3. Internet may be accessed by them to find out the latest developments.
4. Each group will prepare a chart on the topic - steps of loan approval and status of loan applications.
5. Two members of each group will make a chart before the class, and the remaining will respond to the questions put by their classmates.
6. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Activity 2: Demonstrate how to inform customer about if loan approved.

Materials Required: Access to the Internet facility, chart papers and ordinary pointer can be used, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic- how to inform customer about if loan approved.
3. Internet may be accessed by them to find out the how to demonstrate inform customer about if loan approved.
4. Allot the assigned role to each and every students.
5. Each group member will prepare role on how to demonstrate inform customer about if loan approved.
6. The remaining member will respond to the questions put by their classmates.
7. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. The process of loan approval starts with ___________ of the loan application.
2. The applicant's _________ to repay the proposed loan is taken into account while appraising a loan proposal.
3. The __________ requirement of a loan applicant is assessed by banks and other financing institution using *the operating cycle method.*
4. Banks and other financing institutions grant ____________ for

purchase of fixed assets which are used for long periods of time.

5. As soon as loan is approved, the ______________ should inform the customer.
6.

B. Multiple Choice Questions

1. The quantum of a loan sanctioned by a bank is generally
   a) Close to the actual amount needed for carrying out the proposed business, minus the borrower's own contribution.
   b) Slightly less than the amount mentioned in 'a' above.
   c) Slightly more than the amount mentioned in 'a' above.
   d) None of the above
2. A term loan is given to enable the borrower to meet
   a) Long term requirements of business
   b) Short term requirements of business
   c) both long and short term requirements of business
   d) None of the above
3. "Collateral security" taken a bank to safeguard its interest consists of
   a) The assets financed by the bank
   b) Additional assets other than the assets financed by the bank
   c) Both a) and b)
   d) None of the above
4. Term loan instalments are paid using
   a) Gross sales of the business enterprise
   b) Profit made from sales
   c) Either a) or b)
   d) None of the above
5. A microfinance executive should
   a) Involve himself/herself actively in the loan process so as to expedite the same.
   b) Maintain a discrete distance from the loan process
   c) Should assist in the process only when asked to do so by the loan

applicant

d) Should assist in the process only when asked to do so by his/her superiors

C. State whether the following statements are True or False

1. "Collateral security" taken by the bank consists of the main assets financed.
2. The main function of a microfinance executive is marketing of microfinance products, rather than actual delivery of products, which is taken care of by a separate team.
3. Most of microfinance loans are composite in nature.
4. Operating cycle of a business comprises all activities starting from investing cash in purchase of raw materials to realization of cash proceeds of all finished goods.
5. Bills raised on buyers of finished goods on credit are not a part of operating cycle.

D. Match the Columns

COLUMN A		COLUMN B	
1	Assessment of working capital	**1**	Microfinance loans
2	Repayment of a term loan	**2**	Assets other the financed assets
3	Microfinance Executive	**3**	Operating cycle method
4	Collateral security	**4**	Instalments
5	No requirement of collateral security	**5**	Facilitates the loan process

E. Short Answer Questions

1. List out the steps involved in loan approval.
2. What is operating cycle?
3. How is working capital assessment of a business enterprise done?
4. Write a short note on 'Term Loans'.
5. Write briefly about some salient features of microfinance loans.

F. Long Answer Questions

1. Outline the steps involved in loan approval.
2. Explain the role of microfinance executive in the nloan approval process.

G. Check Your Performance

1. Outline comprehensively the loan approval process.
2. Elucidate the role of microfinance executive in the loan approval process.

Session 3: Signing Documents by Customers

SIGNING OF DOCUMENTS

In order to avail loan facility from a financing institution, signing of documents by the loan applicant is an essential requirement.

The loan documents consist of Demand Promissory Note, various agreements and other forms, wherein all the terms and conditions subject to which the loan is sanctioned, disbursed, conducted and repaid are contained. These loan agreements are carefully drafted by the legal experts of the financing company so that these documents, when properly executed and stamped, can legally bind the parties signing them. The execution of these documents before disbursement of loan is called "documentation".

TYPES OF DOCUMENTS

There are mainly three types of documents:

(a) Demand Promissory Note (b) Agreements (c) Forms

a) Demand Promissory Note**:** Where there is no fixed period of repayment and no security is being charged, a Demand Promissory Note (DP Note) is obtained. In this DP Note, the borrower makes a promise to repay the loan with agreed rate of interest. The form of DP Note should be in conformity with section 4 of Indian Contract Act, 1881. The format could vary depending upon whether there is single borrower or more borrowers and the rate of interest is fixed or floating. DP Note attracts stamp duty as per the Indian Stamp Act. As per section 35 of the Act, if a DP Note is unstamped or under stamped at the time of execution, the defect cannot be rectified even by paying penalty. Such DP Note is ab-i DP Note nd cannot be admissible in the Court of Law. Therefore, it must be ensured that DP Note is properly filled in and stamped before the borrower signs it.

b) ***Agreements:*** The agreement is a contract between two parties. The form of agreement should be broadly in conformity with the provisions of Indian Contact Act. The agreement should contain amount of loan, rate of interest, repayment period, instalment amount, rate of penal interest and processing charges, if any, details of securities charged, rights of financier in case of default by the borrower. The agreements attract stamp duty as per Indian Stamp Act. The rate of duty varies from state to state. The Bankers use different forms of agreement for Hypothecation, Pledge, Term Loan, Clean Loan, Inter-se Agreement, Guarantee Agreement etc. The agreements should be carefully filled in and checked before obtaining signatures of borrower/guarantor.(Annexure II , IV & V)

c) Forms: The forms may include a letter by the borrower to the Bank to make payment to the supplier of goods from his loan amount, or to make recovery of loan instalments from his Savings Bank a/c, or in case of a joint fixed deposit, a letter of authority to other a/c holder to avail loan singly, or a declaration by the borrower that he has been explained contents of documents in a language known to him etc. and also KYC related documents etc.

The type of documents to be obtained depends upon nature of facility i.e. working capital or Term Loan, type of borrower i.e. individual, SHG/ JLG or a Company or partnership firm etc. and sometimes on purpose of loan i.e. income generating activity or consumption purpose.

The commercial and private banks, even while extending micro credit under Government sponsored schemes or otherwise, obtain detailed documents. Their emphasis is always on creating proper charge over the assets purchased out of bank finance. They create hypothecation charge over stocks purchased from working capital loan and equipment or machines purchased from term loan by obtaining different set of documents. For agriculture allied activities such as dairy, poultry, fishery, pig/goat rearing etc. suitable agreements for hypothecation of live stocks are obtained. While financing under Government sponsored schemes they obtain Composite Loan Agreements for both facilities, designed by their legal department.

However, Microfinance Institutions usually adopt very simplified documentation with a group guarantee. They obtain for small loans, a Demand Promissory Note (with revenue stamp), DP Note Delivery letter and an Unstamped Application cum Agreement letter incorporating all the important terms and conditions and undertakings, governing the loan. Since the Agreement is not stamped, it is not enforceable in the Court of Law for legal action. The purpose of mentioning these terms and conditions is usually to bring a moral pressure on the borrower and other signatories from the group or family for proper conduct of loan account.

While financing to a Self Help Group or Joint Liability Group, the Banks obtain

- Application for loan assistance mentioning purpose for which the SHG gives loan to its members.(stamped as Indemnity)
- Inter-se Agreement to be executed/signed by all the members authorizing a minimum of three members to operate the group's account with the bank (stamped as General Power of Attorney). (Annexure III)
- Articles of Agreement for use by the bank while financing SHGs (stamped as an Agreement.

- Resolution passed in the group meeting, signed by all members, indicating their intention to avail loan from Bank and authorizing 2-3 persons.

KYC documents for proof of identity and residence with photographs are necessarily obtained while opening a deposit account and at the time of processing the loan application. In all the above cases, the banks obtain an Arrangement letter also additionally, in which important terms and conditions are incorporated.

IMPORTANCE OF SIGNING DOCUMENTS

Loan documents establish a legal relationship between the borrower (debtor) and the financing institution (creditor). These documents are of crucial importance to both the parties, the borrower and the financing institution.

Need for Documentation

The documents are necessary to create complete record of the loan facility granted to a borrower. The documents help in identifying the borrowers and the securities, creating valid charge on these securities and counting the period of limitation as per the Limitation Act. A loan is required to be repaid over a period of time with interest and other costs, charges etc. It is necessary to record all the terms and conditions, stipulated at the time of sanction, in the loan documents. In case of non-compliance with these terms and conditions and default in timely repayments, there could arise a need for enforcing recovery of dues through legal action. In the Court of Law, the loan documents and other books of accounts serve as an evidence of availing the loan and proving breach of any terms and conditions made by the borrower in proper conduct and repayment of the loan with interest and charges.

Importance of Timely Documentation

Once the loan application has been processed / sanctioned by the designated Credit Officer/ sanctioning authority for the Sourcing branch, the Microfinance Executive is required to check status of the loan application from them. If the loan has been approved he should inform the customer to come to the branch for completion of formalities, signing the documents and disbursement of loan. He should ensure the disbursement of loan within the stipulated time period.

If the loan application is submitted online through any internal software and there is provision for processing and communicating loan approval also online then the Executive should be able to ascertain status of loan application online. As soon as loan is sanctioned/approved, he should communicate it to the borrower concerned and arrange for documentation at the earliest so that the applicant gets the funds timely and Institutions also starts earning income on the loan.

If the loan application is rejected due to lack of some information or minor deficiency in the loan proposal he needs to know and understand escalation matrix or deviation approval process, all relevant legal procedures involved in application. He also needs to know and understand the regulatory system that governs banks MFI and their impact on procedures, requirements for KYC Norms, acceptable options of identity & address proof, supporting documents required and other identification procedures.

As regards place of execution of documents, these should be preferably, got executed in the branch premises, in the presence of an authorized official.

TYPES OF BORROWERS

The loan documents are required to be executed by the borrowers and guarantors, if any. If the borrower is an individual, he will execute the documents. If he is a member of any SHG/JLG, he will sign inter-se agreement along with all documents. Thereafter, such authorized persons will come to the Bank with a resolution passed by the members of Group authorizing them to execute the documents.

PROCESS OF DOCUMENTATION

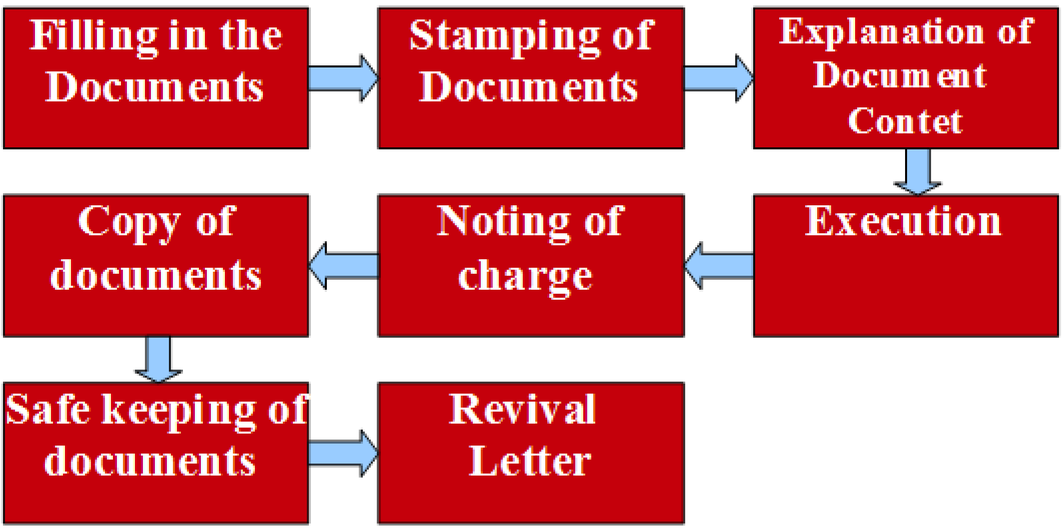

Fig. 4.1: Process of Documentation

Step 1: Filling in the Documents

After deciding which documents are applicable the next task is to fill in them correctly and neatly. All the blank spaces such as place of execution, date of execution, name of borrower or the group, address of the borrower, loan amount in figures and words, purpose of loan, mode of disbursement, period of repayment, installment amount and frequency (daily, weekly, fortnightly monthly or bullet payment with harvest of crop), rate of interest and periodicity of its application, other fees and charges etc. should be correctly and neatly filled in, before execution as per the terms of sanction advised by the sanctioning authority. These should be filled in without overwriting, alteration or cutting in the same handwriting by one employee in single sitting. After execution no subsequent changes can be made without consent and authentication of the borrower.

Step 2: Stamping of Documents

The documents get legal validity only if they are properly and adequately stamped as per the provisions of the Stamp Act of the State concerned, where the documents are executed and held. Certain documents i.e. Promissory Note, Bills of Exchange and Acknowledge of Debt, if not stamped before execution, become invalid and cannot be regularized by payment of penalty later. The stamps affixed should be effectively cancelled by the executant so that these cannot be re-used, otherwise documents may be considered as unstamped.

Step 3: Explanation/Disclosure of the Document Contents

The documents should be explained in vernacular language and if the borrower is an illiterate one, two independent witness should sign a Thumb Impression letter confirming the fact that he has been suitably explained contents of the Agreement in a language known to him.(Annexure VI)

As per RBI Fair Practices code for MFIs, the MFI must disclose all terms and conditions of the loan to the borrowers in the official regional language or a language understood by them. They must disclose in particular

a) Rate of interest on a reducing balance method

b) Processing fee

c) Any other charges or fees.

d) Total charges recovered for insurance coverage and risks covered only if prior consent of the borrower was obtained.

This must be done prior to disbursement in accordance with the Reserve Bank of India's (RBI) fair practices code, in any of the following ways:

a) Individual sanction/arrangement letter duly acknowledged, accepting terms and conditions.

b) Loan card

c) Passbook

d) Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)

Step 4: Execution

Signing of the documents by borrower & guarantor and by the authorized official on behalf of financing institution, in whose present documents are signed, is called execution of documents. The borrower should sign on the bottom of each page including the last page and alongside against all the particulars filled in, in blank spaces. Borrower must also put the date, along with signatures on D.P. Note. D.P.Note Delivery letter should also be taken simultaneously. The details of documents executed, the fact of explaining and the name of official who explained the contents to borrower, should be recorded in a register.

Step 5: Noting of charge

In certain cases charge on the assets is required to be registered with external agency. For example in case of vehicle finance Registration of Hypothecation charge on vehicle with Regional Transport Authority is necessary. In Agriculture finance, charge on land is required to be registered with Sub Registrar (Land records) and Tehsildar. These formalities should be completed before safe keeping of the documents. Hypothecation Agreement creates a charge on the movable assets of the borrower. However, D.P.Note does not create charge on any assets of the borrower but makes him only personally liable for the debt.

Step 6: Copy of documents

A copy of the documents should be handed over to the borrower, at least on demand.

Step 7: Safe keeping of documents

The documents should be systematically kept in fireproof safe after recording in a register.

Step 8: Revival Letter

The documents unless revived become time barred after 3 years from the date of documentation. Therefore, a revival letter should be obtained from the borrower before expiry of three years. A proper diary note should be kept as a part of follow up exercise.

ASSIST CUSTOMERS IN COMPLETING FORMALITIES

The beneficiaries of microfinance belong to the economically weaker section, and many of them are not literate. Even the persons who are partially literate possess very little knowledge about banks, MFIs and the products being made available by these institutions. It is therefore of utmost importance that the microfinance executive

- makes them aware of various loan and other microfinance products available to them,
- helps them in filling up application for applying for these products and
- assists them in completing all the related formalities related to execution of documents, disbursement of loan etc.

On taking up the above activities sincerely, the microfinance executive will definitely gain confidence of his clients, earn appreciation of his superiors and have an immense feeling of job satisfaction.

Activities

Activity 1: Prepare a presentation on the need for documentation and the importance of timely documentation.

Materials Required: Access to the Internet facility, Presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used and Plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic- need for documentation and the importance of timely documentation.
3. Internet may be accessed by them to find out the latest developments.
4. Each group will prepare a presentation on the topic - need for documentation and the importance of timely documentation using PowerPoint/chart paper.
5. Two members of each group will make a presentation before the class, and the remaining will respond to the questions put by their classmates.
6. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Activity 2: Prepare a presentation on the process of documentation, and the assistance to be extended by the microfinance executive at each stage thereof

Materials Required: Access to the Internet facility, Presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used and Plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic.
3. Internet may be accessed by them to find out the latest developments.
4. Each group will prepare a presentation on the topic using PowerPoint/chart paper.
5. Two members of each group will make a presentation before the class, and the remaining will respond to the questions put by their classmates.
6. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. The loan documents consist of various ___________ and other forms.

2. The loan agreements, when properly executed and stamped, _______ bind the parties signing them.
3. Loan documents specify all the ________________ subject to which the loan is sanctioned, disbursed, conducted and repaid.
4. Loan documents attract stamp duty as per the _________________.
5. In the DP Note, the borrower makes a promise to ____________ with agreed rate of interest.

B. Multiple Choice Questions

1. A loan agreement contains, if any,.
   a) Amount of loan, rate of interest, installment amount, rate of penal interest, repayment period and processing charges
   b) Details of securities charged and rights of financier in case of default by the borrower
   c) Only a) above
   d) Both a) and b)
2. Where there is no fixed period of repayment and no security is being charge, the document obtained is ________________
   a) Hypothecation agreement
   b) Demand Promissory Note (DP Note)
   c) Both the above
   d) None of the above
3. The form of an agreement should be broadly in conformity with the provisions of.
   a) Indian Contact Act
   b) Indian Agreement Act
   c) Both the above
   d) None of the above
4. In the Court of Law, the following documents and serve as an evidence of availing the loan
   a) Loan documents
   b) Various books of accounts
   c) Both of the above

d) Only a)

5. Loan documents help in ______________________________

a) Identifying the borrowers / the securities and creating valid charge on these securities

b) Counting the period of limitation as per the Limitation Act

c) Only a)

d) Both a) and b)

6. The time period for which loan documents remain valid is __________________

a) 3 years from the date of execution

b) 5 years from the date of execution

c) 7 years from the date of execution

d) 10 years from the date of execution

C. State whether the following statements are True or False

1. The rates of stamp duty are the same in all States of India.
2. If a Demand Promissory Note (D. P. Note) is unstamped or under stamped at the time of execution, the defect can be rectified by paying the prescribed penalty.
3. Loan documents create only partial record of the loan facility granted to a borrower.
4. Loan documents should be preferably be executed in the branch premises, in the presence of an authorized official of the bank/financing institution
5. The documents should be filled in without overwriting, alteration or cutting in the same handwriting by one employee in single sitting.

D. Match the Columns

	COLUMN A		**COLUMN B**
1	Loan agreement	**A**	Incorporation of all important terms and conditions subject to which a loan is granted.
2	Establishment of a legal relationship between the borrower and the financing	**B**	Renewal of loan documents

	institution		
3	Arrangement letter	**C**	Section 4 of Indian Contract Act. 1881.
4	Revival Letter	**D**	Contract between two parties
5	D. P. Note	**E**	Loan documents

E. Short Answer Questions

1. What are the types of documents that are obtained after sanctioning of a loan proposal?
2. What is the need for documentation?
3. Explain the importance of timely documentation.
4. List out the documents that are obtained from different types of borrowers.
5. Describe the process of documentation, and the assistance to be extended by the microfinance executive at each stage thereof.

F. Long Answer Questions

1. Explain the process of documentation and the assistance to be extended by the microfinance executive at each stage? Please elaborate.

G. Check Your Performance

1. List out documents that are obtained after sanctioning of a loan proposal.
2. Elaborate upon the importance of timely documentation.

Demonstrate the process of documentation, and the assistance to be extended by the microfinance executive at each stage thereof.

Session 4: Disbursement of Loans

ACCOUNTING PROCEDURE

The transactions of banks and other financing companies are recorded on the principles of Double Entry System of Book Keeping. Every business transaction has two aspects, one of receiving the benefit and the other of giving it. In simple words, 'double entry' system means 'every debit has a corresponding credit'.

LOAN DISBURSEMENT-STEPS

Having understood the basic accounting entries and the cost and profitability concept of MFI, it will be easy to understand disbursement process:

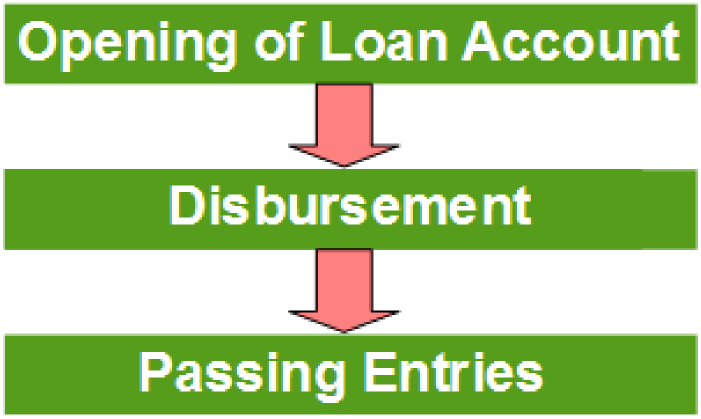

Fig. 4.2: Loan Disbusement Steps

Step 1 : Opening of Loan Account

Once the documentation process is complete, first work is to open the loan account with all the required details. If the customer is already having a KYC complied Savings Bank account then personal details of the customer such as full name, full address, gender, date of birth, education contact and identification details such as mobile & landline numbers, email address, Aadhar, Voter ID, PAN Nos., etc. may be captured on the basis of customer number in the System. Otherwise customer creation in the computerized system with all the personal details available from supporting documents is the first step in account opening.

After customer creation in the system loan specific details such as segment, purpose, activity, product, scheme, loan amount, loan cycle, disbursement, drawing power, rate of interest, application periodicity, installment or EMI amount, repayment frequency, number of installments, insurance, moratorium, status of account etc. are required to be entered in these fields by the computer operator first and subsequently authorized by the supervisor. In the manual era, all these information had to be written in the Ledger Sheet in information part.

The Microfinance Institution may be having different codes allotted for different types and amounts of loans. The loan could be for any income generating activity.

A loan may be classified under *agriculture segment* if it is for growing crops. It could be for purchase of seeds, manure/fertilizer, pesticides ,motor pump and pipe lines, plough, seed driller, cultivator, thresher or allied activity such as dairy, piggery, goat rearing, poultry, fishery, bee keeping etc.

A loan may be classified under *Micro, Small & Medium Enterprises(MSME)* segment if it is for activities like retail grocery shop, footwear hawker, readymade cloth shop, electric goods shop, stationery shop vegetable vendor, fruit vendor, tea & snacks stall, meat shop, shoe repairing, mobile & watch repairing shop, tailoring shop, two wheeler repairing shop etc.

The loans granted for consumption purpose also such as education of children, medical treatment, repairing or construction of dwelling units etc. may be classified under the *personal segment*.

The Micro Finance Institutions may be having different specific names of schemes/products for loans for the above purpose depending upon size and cycle of loans. Care must be taken while choosing codes from the drop down or some other list. The rate of interest could also be fixed or floating, flat or reducing. A fixed rate does not change during currency of loan whereas floating rate keeps changing as per the policies of the Company and market trends. A flat rate is charged on the entire loan amount for the full tenure of loan, say if a loan of Rs.20000/- is granted for 2 years @15% p.a., the interest amount will be Rs.6000/-, despite the fact that borrower would be repaying stipulated installments. Whereas under reducing rate, the interest will be calculated every month on reduced balance after repayment of successive installments. Thus the effective rate will be much less than 15%. Interest application periodicity is usually monthly and as such interest is applied on the last date of every month. Installment repayment frequency may be daily, weekly, fortnight or monthly depending upon cash flow in the activity. However, in case of crop loan the interest application periodicity is usually 6 monthly and repayment due date is also synchronized with harvest season for the entire loan. Installment amount is arrived at by dividing the loan amount with the number of installments to be repaid during the currency of loan whereas equated monthly instalment(EMI) is the amount that is arrived at by dividing the principal plus interest that would accrue during the entire period of loan assuming that balance will keep on decreasing due to regular repayment by borrower at stipulated period with the number of installments.

Having discussed the above , it could be reiterated that feeding correct code number in the system while opening an account is of paramount importance , because the information system of the management(MIS) works on the basis of these codes only which enables them to extract any information from the system necessary for taking any policy decision.

Step 2- Disbursement

After opening the account, necessary instructions are obtained from the borrower for mode of disbursement and appropriate debit and credit vouchers are prepared to pass the entries in the Computer System.

Whenever, a loan is sanctioned for any income generation activity or even for purchase of equipment, machinery, vehicle or construction of house, it is very necessary that end use of funds is ensured. Because, in case of misutilization, his income generation activity will suffer, eventually affecting his repayment capacity which will lead to default in repayment. Therefore, banks usually try to disburse loan directly to the dealer/supplier/vendor of goods or material by way of A/c Payee Draft to the extent possible. Even if looking to the purpose of loan, it is essential that loan amount is credited to the Savings Bank account of the borrower, it is better that necessary enquiries are made during subsequent visits to the borrower, to satisfy about use of funds for the specified purpose. The loan can be disbursed in phases, if possible. However, most of the Microfinance institutions make disbursement of the loan by credit to the account or by cheque because of the small size of loan.

Step 3– Passing Entries

While making disbursement some accounting entries are passed by the Bank/MFI which the Student needs to understand. As discussed above, accounting system of MFI is based on Double Entry Book Keeping System. In every transaction two accounts are affected. When the loan amount is to be credited to borrower's deposit account, two vouchers will be prepared for passing the entry. Loan account of the borrower will be debited and his Savings Bank Deposit account will be credited. In order to ensure end use of funds, the disbursement can be made directly to the supplier of goods or machinery by issuing a Banker's Cheque or through NEFT/ RTGS for credit to the supplier's account.

At the time of disbursement usually processing charges up to 1% is also recovered from the borrower. This amount will be debited to the account of the borrower and credited to the income/commission account of MFI. The MFI can debit insurance premium to the borrower's account and credit the premium to its income account if it is engaged in life/non life insurance or remit the amount to life insurance/general insurance company through RTGS/Banker Cheque, if it is not doing insurance business. Insurance of the assets should be invariably done, particularly in cases of live stock or vehicle.

ENSURING TIMELY DISBURSEMENT OF LOANS

An inordinate delay in disbursement of a loan can lead to several problems. The loan applicant may lose interest in the proposed activity, the cost of inputs may change giving rise to change in loan amount required, and so on. Thus a microfinance executive has to actively involve himself/herself in all the pre-sanction and post-sanction activities so as to ensure prompt completion of all formalities and timely disbursement of loan.

Activity

Activity 1: Prepare a presentation on the loan disbursement process, outlining the steps in which a loan is disbursed.

Materials Required: Access to the Internet facility, Presentation equipment such as overhead projector, digital pointer etc. If these equipments are not available, chart papers and ordinary pointer can be used, plain papers, sketch pens, pen, pencil etc.

Procedure

1. The teacher will form groups of students.
2. The group members will discuss among themselves and note down points relevant to the topic - loan disbursement process, outlining the steps in

which a loan is disbursed.

3. Internet may be accessed by them to find out the latest developments.
4. Each group will prepare a presentation on the topic - loan disbursement process, outlining the steps in which a loan is disbursed using PowerPoint/chart paper.
5. Two members of each group will make a presentation before the class, and the remaining will respond to the questions put by their classmates.
6. The teacher should update himself/herself before the activity, so as to make value addition to the presentations.

Check Your Progress

A. Fill in the Blanks

1. The transactions of banks and other financing companies are recorded on the principles of ____________________ of Book Keeping.
2. Once the loan ___________________ process is complete, a loan account is opened.
3. A loan can be given for any _________________ generating activity.
4. The loan details are entered in the computer system in by the computer operator first and subsequently ____________ by the supervisor.
5. Banks and microfinance institutions have different ______ allotted for different types and amounts of loans.

B. Multiple Choice Questions

1. Double entry system means every debit has a corresponding
   a) Debit or credit
   b) Credit
   c) None of the above
   d) Either a) or b)
2. Loans for agricultural sector include
   a) Purchase of seeds, manure/fertilizer, pesticides
   b) Purchase of farm machinery, laying pipelines for irrigation etc.
   c) Both a) and b)
   d) Only a)
3. Rate of interest on microfinance loans is fixed by

a) The Government of India

b) RBI

c) NABARD

d) None of the above

4. The norms regarding microfinance credit are stipulated by

   a) RBI

   b) NABARD

   c) RBI and NABARD jointly

   d) None of the above

5. Flat rate of interest is charged throughout the loan tenure on

   a) The original loan amount

   b) Changing balances of loan amount

   c) Only in the case of loan default

   d) None of the above

C. State whether the following statements are True or False

1. Microfinance loans are also given for consumption purposes like education of children, medical treatment etc,
2. Installment periodicity of microfinance loans is either weekly or monthly.
3. Banks make payment towards financed assets to suppliers thereof to ensure proper end use of funds.
4. A farmer can avail a microfinance loan for education of his child.
5. MFIs discourage their executives from taking much interest in the loan disbursal process.

D. Match the Columns

COLUMN A		**COLUMN B**	
1	Purpose of loan	**1**	Agricultural segment (allied activities)
2	Disbursement of loan	**2**	MSME sector
3	Loans for poultry, dairy, piggery etc.	**3**	Effective Management Information System (MIS)

4	Loans for tea stall, fruit vendor, tailoring shop etc.	**4**	Putting through of debit and credit entries in the computer system
5	Assigning of codes to loan accounts	**5**	To finance some income generating activity

E. Short Answer Questions

1. Which system of accounting is followed while disbursing loan?
2. Write a short note on opening a loan account.
3. What steps are taken for ensuring proper end use of the loan amount?
4. Explain briefly as to how banks and other financing institutions pass accounting entries related to loan disbursal.
5. Why should the microfinance executive ensure timely disbursal of a loan?

F. Long Answer Questions

1. Explain in detail the process of loan disbursal.
2. Describe the role of microfinance executive in timely disbursal of loan.

G. Check Your Performance

1. Accounting system for disbursement of loan.
2. Describe the process of loan disbursal.

Answer Keys

MODULE 1: INTRODUCTION TO BANKING AND MICROFINANCE SYSTEM

SESSION 1: HISTORY AND EVOLUTION OF BANKING IN INDIA

A. Fill in the Blanks: 1-Financial stability, 2-Reserve Bank of India, 3-banking, 4-12-18 months

B. Multiple Choice Questions: 1-a, 2-b, 3-d, 4-d, 5-d

C. State whether the following are True or False: 1-True, 2-True, 3-False, 4-False, 5-False

D. Match the Colmn:1-C, 2-E, 3-B, 4-A, 5-D

SESSION 2: EVOLUTION OF MICROFINANCE

A. Fill in the Blanks: 1-credit, 2-Poverty, economies, 3-money, lenders, 4-36 crore, 5-collateral

B. Multiple Choice Questions:1-c, 2-c, 3-d, 4-c, 5-d

C. State whether the following are True or False: 1-True, 2-True, 3-True, 4-False, 5-False

D. Match the Colmn:1-B, 2-A, 3-E, 4-C, 5-D

SESSION 3: RECENT DEVELOPMENTS IN THE FIELD OF MICROFINANCE

A. Fill in the Blanks:1-clarity, excess, 2-Rs. 1.25 lac, 3-large amount, 4-equity base, 5-microfinance lending

B. Multiple Choice Questions:1-b, 2-d, 3-a, 4-c, 5-d

C. State whether the following are True or False: 1-False, 2-True, 3-False, 4-True, 5-True

D. Match the Colmn:1-D, 2-A, 3-B, 4-E, 5-D

SESSION 4: FUNCTIONS OF MICROFINANCE EXECUTIVE

A. **Fill in the Blanks:** 1-microfinance institution, 2-10th pass, 3-representative face, 4-Product details, 5-Leaflets

B. **Multiple Choice Questions:** 1-b, 2-d, 3-a, 4-c, 5-a

C. **State whether the following are True or False:** 1-True, 2-True, 3-False, 4-True, 5-False

MODULE 2: SOURCES OF NEW CUSTOMERS

SESSION 1: IDENTIFY SOURCES OF CUSTOMER

A. Fill in the Blanks: 1-Territory, 2-Direct customer grouping, 3-Products and services, 4-Risk, 5-two

B. **Multiple Choice Questions**: 1-False, 2- True, 3-False, 4-True, 5-True

SESSION 2: ACQUIRING POTENTIAL CUSTOMERS

A. Fill in the blanks: 1-Microfinance, 2-Group meeting, 3-Convenient, 4-Pamphlet, 5-Anecdote

B. Multiple Choice Questions: 1-b, 2-c, 3-d, 4-c, 5-d

C. True/false: 1-True, 2- False, 3-True, 4-False, 5-False

SESSION 3: RESOLVING QUERIES AND CROSS SELLING

A. Fill in the blanks: 1-Query, 2-Potential customers, 3-Subsidized, 4-Large, 5-Cross selling, 6- Pension schemes

B. Multiple choice questions: 1-d, 2-d, 3-c, 4-a, 5-d

C. True/false: 1-False, 2-True, 3-True, 4-False, 5-False, 6-True, 7-False, 8-True

SESSION 4: GENERAL ADMINISTRATION WORK

A. Fill in the blanks: 1- Support, 2-Customer Information system, CIS, 3- Up-dation, 4- Periodic reports, 5-Targets

B. Multiple choice questions: 1-d, 2-c, 3-d, 4-d, 5-c

C. True/false: 1-False, 2-True, 3-True, 4-False, 5-True

MODULE 3: MICROFINANCE APPLICATION PROCESS

SESSION 1: REQUISITE DOCUMENTS

A. Fill in the Blanks: 1-fictitious, 2- caution list, 3-1st January 2017, 4 - penalizes, 5- Credit Information Bureau (India) Limited.

B. Multiple Choice Questions: 1-d, 2-d, 3-c, 4-a, 5-a

C. **State whether the following are True or False:** 1-False, 2-False, 3-True, 4-True, 5-False

D. Match the column: 1-5, 2-4, 3-2, 4-1, 5-3

SESSION 2: VERIFY CUSTOMER DOCUMENTS

A. Fill in the Blanks: 1-NSDL , 2- UIDAI , 3- originals, 4 -client, 5- numerical

B. Multiple Choice Questions: 1-d, 2-d, 3-d, 4-a, 5-c

C. State whether the following are True or False: 1- False, 2- False, 3- False, 4- False, 5- False

D. Match the column: 1-C, 2-D, 3-B, 4-E, 5-A

SESSION 3: MAINTAIN CUSTOMERS RECORD

A. Fill in the Blanks: 1-household, 2-recent, 3- Specimen, 4 -updated, 5- discrete

B. Multiple Choice Questions: 1-d, 2-d, 3-c, 4-c, 5-d

C. State whether the following are True or False: 1-False, 2-False, 3-False, 4-False, 5-False

D. Match the column: 1-C, 2-A, 3-D, 4-E, 5-B

SESSION 4: PERFORM ADMINISTRATIVE WORK

A. Fill in the Blanks: 1-update, 2-system, 3-Banking Codes and Standards Board of India, 4-exception, 5-authorized

B. Multiple Choice Questions: 1- d, 2-d, 3-b , 4-b , 5-d

C. State whether the following are True or False: 1-False, 2-True, 3-False, 4-False, 5-False

D. Match the column: 1-D, 2-E, 3-B, 4-A, 5-C

MODULE 4: DISBURSEMENT OF MICROFINANCE LOAN

SESSION 1: BASICS OF LOAN

A. Fill in the Blanks: 1- interest, 2- debtor, 3- financial capacity, 4 - business activities, 5- penal

B. Multiple Choice Questions: 1- d, 2- b, 3- a, 4- a, 5- b

C. State whether the following are True or False: 1- True, 2-, 3- True, 4- False, 5- True

D. Match the column: 1- 3, 2- 1, 3- 5, 4- 2, 5- 4

SESSION 2: STATUS OF LOAN APPLICATION

A. Fill in the Blanks: 1- appraisal, 2- capacity, 3- working capital, 4- Term Loans, 5- microfinance executive

B. Multiple Choice Questions: 1-a, 2- a, 3-b, 4-b, 5-a

C. State whether the following are True or False: 1-False, 2-False, 3-True, 4-True, 5-False

D. Match the column: 1-C, 2-D, 3-E, 4-B, 5-A

SESSION 3: SIGNING DOCUMENTS BY CUSTOMERS

A. Fill in the Blanks: 1- agreements, 2- legally, 3- terms and conditions, 4- Indian Stamp Act , 5- repay the loan

B. Multiple Choice Questions: 1-d, 2-b, 3-a, 4-, 5-d, 6-a

C. State whether the following are True or False: 1-False, 2-False, 3-False, 4-True, 5-True

D. Match the column: 1-D, 2-E, 3-A, 4-B, 5-C

SESSION 4: DISBURSEMENT OF LOANS

A. Fill in the Blanks: 1- Double Entry System, 2- documentation, 3-, income 4- authorized, 5- codes

B. Multiple Choice Questions: 1-b, 2-c, 3-d, 4-a, 5-a

C. State whether the following are True or False: 1-True, 2-False, 3-True, 4-True, 5-False

D. Match the column: 1-E, 2-D, 3-A, 4-B, 5-C

Glossary

Accrue- accumulate

Albeit - Although, though

Alteration-change

Appraisal-evaluation;

Aspect- feature

Bartering - Exchange goods or services for other goods or services, without using money.

Caricature - sketch

Compliance - The act of obeying an order, rule, or request

Composite - combined

Comprise – consist of

Concerted - Intensive, concentrated, determined

Conducive - Favorable, beneficial or advantageous

Confer - To grant a title, benefit, or right.

Conformity – agreement

Consolidate - To merge, combine or unite

Construe- interpret

Contingent Liabilities - A potential liability that may occur, depending on the outcome of an uncertain future event.

Convention- rule

Corporation - A company or a group of companies

Counterparty - The other party or participant in an agreement

Demur - Object, protest

Deterioration- drop

Deviation-variation

Digital - Electronic

Efficace - Effective Ness, efficience, usefulness

Entity - A body, unit, thing or article

Executor - A person or an institution who/which executes, carries out, or performs some duty, job, assignment, etc.

Floating - not fixed

Follow-up – pursue

Govern - Administer, oversee, direct or manage.

Incipient - Just beginning, initial

Induction - Introduction, intiation

Ingredients-items required for something

Inherent - Inbuilt or intrinsic

Initiative - Plan, proposal, scheme

Insolvency - Bankruptcy, liquidation, ruin or collapse

Intact-unbroken

Inter-se -- between themselves

Lender of last resort - An institutional lender, generally the central bank of a country, that has the authority and financial resources to act as the ultimate source of credit in emergencies..

Mandate - Order, command, direction, authorisation etc.

Mitigation - Improvement, alleviation, lessening

Monetary - financial, fiscal, related to money etc.

Paramount-vital

Prohibited-banned

Prudent - cautious

Rationality - Reasonableness, prudence, fairness

Redressal- resolution

Remedial - corrective.

Resolution - An official decision that is made after a group or organization has voted

Robust - Healthy, vigorous, strong

Seamless - Flawless, faultless

Statute - Law, decree or ruling

Statutory - Regulated by law

Subsidiary - A company having the majority of its stock owned by another company (called the parent company)

Substantiate-to prove

Successive- consecutive

Synchronize- coordinate

To take a nosedive - To collapse suddenly or decline rapidly

Transaction- deal

Trustee - A person, often one of a group, who controls property and/or money for another person or an organization

Unscrupulous - Dishonest, unprincipled

Validate-confirm.

Vetted - checked up

vis a vis - in relation to, with regard to.