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Vimarsh

An Endeavour to share Knowledge
A peer reviewed refereed Journal

श्रेयान्द्रव्यमयाद्यज्ञा ज्ञानयज्ञः परन्तप।
सर्वं कर्माखिलं पार्थ ज्ञाने परिसमाप्यते।।
Shrimad Bhagwat Gita, Chapter 4 (33)

"Attaining knowledge is superior to
accumulation of all sumptous substances.
As all acts finally conclude into wisdom."

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From the Editorial Board

Dear Reader

Welcome to another issue of Vimarsh!

F. Scott Fitzgerald once wrote, "You do not write because you want to say something; you write because you have got something to say." Released twice in a year, Vimarsh marks the culmination of all the research activities in the field of Management. It is the official journal of School of Business Management, IFTM University, Moradabad.

To give continuity, to this publication with diverse coverage, its fourth volume is now at your hands. For the current issue, we are pleased to introduce a collection of nine papers covering a range of topics.

It was possible to bring this in this form with the full support of advisory board, editorial board members, and of course of all article contributors for this issue.

We also take this opportunity to thank each and every person for their contributions and most especially for their confidence in Vimarsh.

We would also like to convey our sincere thanks to Mr. Amit of IM advertisers, New Delhi, for his consistent and diligent effort which complements ours to make Vimarsh a success. Let us just say that his cooperation and fruits of his labor can be seen on every page of Vimarsh.

Last but not the least, special thanks and gratitude needs to go to our Honorable Vice Chancellor who supports our passion for art and innovation.

We dedicate this issue to all authors who kindly provided their valuable articles for publication.

Please share with us your thoughts, queries and ideas, your interests in joining the Vimarsh Family. Please contact us at vimarsh@iftmuniversity.ac.in

We would love to hear from you!

Happy New Year and we wish you a prosperous and blessed 2014!

The Vimarsh Team

Financial Management in National Insurance Corporation of Eritrea (NICE) - A Critical Analysis

Dr. Uvesh Husain*

ABSTRACT

This study is very important because it makes an attempt to give the readers clear and comprehensive understanding of the past, current, and emerging trends of financial management and its impact in NICE. It is expected that this paper will be of use for students of this field and for the educators, researchers, and hopefully for public policy decision makers involved in the formulation and implementation of financial management policies.

In addition, it is an attempt to deal with financial management policy-led development debate, rationally, to give an unbiased clear picture of the implication of financial management. This study derives its usefulness from that its ability to analyze and document a sensitive topic that touches directly the fate of millions of investors who are thirsty for investment.

Keywords: *Investment, Finance, Dividend and Insurance.*

INTRODUCTION

The NATIONAL INSURANCE CORPORATION OF ERITREA (NICE) was established as an autonomous public enterprise having a separate judicial personality, through GOVERNMENT PROCLAMATION NO: 20/1992 in 1992.

The corporation has full-hedged insurance facilities and can provide all insurance service required by individual and companies. Currently, all insurance policies, by law, covering persons or assets within the states of Eritrea, must be underwritten through NICE.

The initial capital of the NICE was NFA 5,000,000 and increased subsequently.

NATIONAL INSURANCE CORPORATION OF ERITREA Capital for the last 10years

2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
52,338,000	52,338,000	52,338,000	52,338,000	52,338,000	52,338,000	52,338,000	52,338,000	22,475,000	22,475,000

**Assistant Professor, Department of Business and Economics, Mazoon University College, Muscat, Sultanate of Oman.*
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NICE currently underwrites Life and nonlife classes of insurance including motor, life, accident, livestock, engineering, marine, aviation. The corporation has no subsidiaries. Although, the corporation owns 60% of Shishay feed plant P.L.C; it found for as in INVESTMENT.

METHODOLOGY

Taking into account the nature of the topic, data was gathered from both primary and secondary sources. Primary data was collected for the research through questionnaire, interview with concerned people and direct observation. The secondary data has been extracted from relevant books, websites, magazines and other sources. Both arguments were compared to unbiased research outcome. For the data analysis, the qualitative data analysis method was adopted.

FINANCIAL MANAGEMENT AND ITS MAJOR TYPES OF DECISION FUNCTIONS

Financial Management is the efficient and effective planning and controlling of financial resources so as to maximize profitability and ensuring liquidity for an individual(called personal finance), government (called public finance) and for profit and non-profit organization/firm (called corporate or managerial finance). Generally, it involves balancing risks and profitability.

We can classify financial management decisions into three groups: INVESTMENT decisions, financing decisions, and decisions that involve both investing and financing. We provide an overview of financial management. INVESTMENT decisions are concerned with the use of funds the buying, holding, or selling of all types of assets: Should a business purchase a new machine? Should a business introduce a new product line? Should the business sell the old production facility? Should the business acquire another business? Should the business build a manufacturing plan? Should the business maintain a higher level of inventory?

FINANCING DECISION

1) After deciding on the amount and type of assets to buy, the financial manager needs to decide on HOW TO FINANCE these assets v/s the sources of fund
2) Examples of Financing decisions:
   - Whether to use external borrowings/debts or share capital or retained earnings
   - Whether to borrow short, medium or long term
   - What sort of mix of sources – all borrowings or part debts part share capital or 100% share capital
   - This needs to determine how much dividend to pay out as this will directly affect the financial decision.

Financing decisions are concerned with the procuring of funds that can be used for long-term investing and financing day-to-day operations.

DIVIDEND DECISION

The financing decision also involves the dividend decision, which involves how much of a company's profit should be retained and how much should be distributed to owners. A company's financial strategic plan is a framework of achieving its goal of maximizing shareholder's wealth. Implementing the strategic plan requires both long-term and short-term financial planning that brings together forecasts of the company's sales with financing and INVESTMENT decision-making.

Financial management is not restricted to large corporations: It is necessary in all forms and sizes of businesses. The three major forms of business organization are the sole proprietorship, the partnership, and the corporation. These three forms differ in a number of factors, of which those most important to financial decision-making are:

- The way the firm is taxed.
- The degree of control owners may exert on decisions.
- The liability of the owners.
- The ease of transferring ownership interests.
- The ability to raise additional funds.
- The longevity of the business.

INVESTMENT DECISION

1. Determine the total amount of assets needed by a firm hence closely tied to the allocation of funds.
2. Two types of INVESTMENT decisions namely:
   - Capital INVESTMENT decisions: large

sums, non routine, longer term, critical to the business like purchase of plant and machinery or factory

- Working Capital INVESTMENT decisions are: more routine in nature, short term but are also very critical decisions like how much and how long to invest in inventories or receivables

FUNCTIONS OF THE COMPANY

The National Insurance Corporation of Eritrea (NICE) currently underwrites life and non-life classes of insurance including: Motor, Fire, Accident, Livestock, Engineering, Marine, and Aviation. A brief description of each insurance product is as follows.

Motor Insurance

The minimum requirement to provide insurance is in respect of legal liability to pay damages for bodily injury and property damage.

Policies with various levels of cover are available at NICE:

- **Third party only:** provides cover in respect of liability incurred as a result of death or injury to third party, or damage to third party property as per Eritrean proclamation No. 119/2002 - Compulsory Motor Vehicle Third Party and Fare Paying Public Transport Passengers Insurance proclamation.
- **Third party, fire and theft:** provides cover as above and in addition includes cover for damage to the vehicle from fire or theft.
- **Own damage** policies provide coverage for damage to the insured vehicle and its accessories caused by collision, overturning, fire, and theft.

Both third party and own damage policies are available as "Private" and "Commercial" policies.

Fire Insurance

The basic intention of fire policy is to provide compensation to the insured in the event of damage to the property insured. The standard fire and lightning policy covers damage to property caused by fire, lightning or explosion, (explosion caused by gas or electric boiler used for domestic use).

However, property can be damaged by other means and to meet this need, a number of special perils are provided by NICE policy. These include:

- Storm, tempest and flood;
- Earthquake;
- Bush fire;
- Impact damage;
- Spontaneous combustion;
- Subsidence and/or collapse;
- Strike, riot and malicious damage and/or
- Other types of explosions.

For commercial enterprises, NICE provides fire insurance for building, machinery and plant, stock and household good, etc.

- The Corporation does NOT cover damage/liability in connection to terrorism and war.

Accident Insurance

a) Burglary and housebreaking

This policy has a similar aim as the fire standard policy. It intends to provide compensation to the insured in the event of loss of the insured property. Within the meaning of the policy, burglary shall mean to include forcible entry to or exit from the premises.

b) Fidelity Guarantee

The object is to provide insurance against loss caused by the dishonesty of persons holding positions of trust.

c) Personal Accident/Group Personal Accident

This provides compensation in the event of an accident causing death or injury, permanent total disablement (PTD), temporary total disablement (TTD) and medical expenses.

d) Workmen's Compensation

NICE underwrites workmen's compensation policies for businesses. The policy covers the liability of the employer against bodily injury to employees whilst performing the work of employer.

e) Money

The policy compensates the insured in the event of money been stolen from the insured's home or business premises, or while being carried to or from the bank, in safe, and/or other transits.

f) Plate glass

This covers the accidental breakage of plate glass windows and doors.

g) All Risks

This provides cover for expensive property, loss or damage by accident, which is not specifically excluded.

h) Goods in Transit

This provides compensation to the owner of goods if they are damaged or lost in transit.

i) Liability insurance

- **Professional Indemnity:** covers the liability of professional people against claim for damage or financial loss allegedly due to their negligence, errors or omissions that may result in damages being awarded against them.
- **Public Liability:** Liability may arise out of the ownership of a house or business premises or out of social activities because every individual owes a duty to their neighbor or visitor not to cause them injury or damage to their property.
- **Product liability:** provides cover against liability due to goods manufactured, supplied or sold.

Livestock Insurance

In recognizing the importance of the agricultural sector to Eritrea; NICE offers a Livestock insurance policy, covering injury and/or death of livestock due to the following:

- Accident illness, disease or epidemic;
- Permanent total disability of the animal; and
- Emergency slaughter of the animal on ground of necessity on the advice of a qualified veterinary surgeon or as a result of an accident, illness or epidemic

NICE plans to extend its business in agricultural sector in the future to include:

- Indemnifying farmers against any unforeseen losses;
- Provision of product already available in urban areas to those in rural areas; and
- Provide cover for agricultural loans granted by banks and other financial institutions.

Engineering *(all risks basis)*

The cover intends to provide compensation to the insured in the event of loss or damage to the property insured and the liability of the insured depending on the type of the policy, which are as follow:

- **Contractor's All Risks (CAR) Insurance:** This policy provides cover for every hazard that is not specifically excluded. It offers protection against loss or damage in respect of contract works and third party claims in respect of property damage or bodily injury in connection with the constructions project.
- **Erection All Risks (EAR) policy:** Provides cover against all site risks involved in the erection of plant and machinery and steel structures of any kind as well as third party claims in respect of property damage and bodily injury in connection with an erection project.
- **Contractors Plant and Machinery:** Provides cover for plant and machinery whether in use, idle or being dismantled, in the course of operations following successful commission of the construction project.
- **Machine Breakdown policy:** Provides cover against unforeseen and sudden physical loss or damage from various perils not specifically excluded.
- **Boiler explosion cover:** Provides cover against explosion, collapse or damage to boiler and surrounding property of the insured by pressure vessels. It also provides cover for liability for death or injury and property damage to third parties.

BONDS

NICE also offers bonds to cover financial obligation that may arise in connection with construction works and other activities:

- **Bid bond:** makes a payment to the holder, should the principal fail to enter into a contract to provide work and material within the period specified and at the prices offered by the bid accepted;
- **Performance bond:** makes a payment to the holder should a contractor fail to perform their obligations as agreed under a contract entered into;
- **Advance payment bond:** makes a payment to the holder should a contactor default from their

obligations following payment of an advance payment; and
- **Other bonds:** retention bond, customs bond, supply bond, maintenance bond and so on.

Medical Care Insurance
Wina Medical Insurance provides cover for policyholder and their dependents against hospitalization expenses arising from medical or surgical treatment for any disease or bodily injury.

NICE will either pay the hospitalization expenses directly to the doctor or will reimburse the policyholder for the hospitalization expenses, provided proper receipts are provided.

Benefits are only paid if:
- Patient is treated as an in-patient;
- Patient is treated upon the advice of a qualified physician
- Hospitalization takes place inside Eritrea; and
- Illness or injury occurs after the policy is issued

The policy also covers pre-hospitalization medical expenses if they result in policyholder's admission as an inpatient and post-hospitalization expenses for medication.

All the applications above the age of 50 years must undergo a medical examination prior to the approval of their application.

If no claim is made for four consecutive years the sum insured will be increased by a certain percentage and the policyholder will be entitled to free health checkup to the value of 10% of the increased sum insured.

Marine
Marine policies cover risk associated with 'perils of the sea'. Policies available for Marine hull (shipping boat, pleasure boat, tankers, etc.) and Marine cargo (includes freight).

Aviation
NICE insures full damage including risks associated with war. The cover also includes liability of aircraft, passengers and third party legal liabilities.

Life
Life insurance policies provide for compensation upon death of policyholder and can also be taken out as a medium for saving. Life insurance is available in various kinds:
- **Term Assurance:** provides for payment of the assured on death, provided death occurs within specified period;
- **Whole Life Assurance:** The sum assured is payable on the death of the assured whenever it occurs;
- **Endowment Assurance:** The sum assured is payable in the event of death within specified period of years. However, if the life assured survives the sum assured will also be paid;
- **Yearly renewable term (YRT)**; and
- **Modified group term (MGT)**.

Property and equipment
These are stated at cost/valuation less accumulated depreciation. Depreciation is charged on the straight- line basis at the following rates per annum:

	%
Buildings	5-12.5
Furniture and equipment	10
Computers	20
Motor vehicles and cycles	20
Text books	20

Trade and Other Receivables

Currency: Eritrean Nakfa						
31 December 2010						
	Non- Life	**Life**	**Total**	**Non Life**	**Life**	**Total**
Total receivable	33,573,114	686,483	34259,597	34259,597	626,273	34,922,206
Other receivable	7,312,570	28,308	7,340,878	2,050,247	28.308	2,078,555
Total	**40,885,684**	**714,791**	**41,600,475**	**36,346,180**	**654,581**	**37,000,761**
Less: Provision for doubtful receivable	1,303,067	-	1,303,067	642,482	-	642,482
	39,582,617	**714,791**	**40,297,408**	**35,703,698**	**654,581**	**36,358,279**

RELATED PARTY RECEIVABLES

The Corporation has various related parties, most of whom are by virtue of being shareholders and partly having common ownership. Transactions with related parties are at arm's length and in the ordinary course of business at terms and conditions those offered to other clients.

						31December 2010
	Non- Life	Life	Total	Non Life	Life	Total
Roof Garden Restaurant	240,083	-	240,083	224,189	-	224,189
Shishay feed plant	8,844,830	-	8,844,830	100,116	-	100,116
New Sudan Insurance	1,406,811	-	1,406,811	1,310,485	-	1,310,485
Ministry of Labour and Human welfare	7,897,104	-	7,897,104	5,910,725	-	5,910,725
Interest receivable	2,137	-	2,137	2,137	-	2,137
Total	18,390,965	-	18,390,965	7,547,652		7,547,652

INVESTMENT: (a) These are made off

				Currency: Nakfa 31 December 2010		
	Non life	Life	Total	Non Life	Life	Total
Available for sale						
Cost of 9,900/8,400 sharese African reinsurance Corporation	15,664,635	-	15,664,635	12,600,000	-	12,600,000
COMESA Reinsurance Contribution	351,000	-	351,000	351,000	-	351,000
Shishay Feed Plant P.L.C.	6,000,000	-	6,000,000	6,000,000	-	6,000,000
P.T.A. Reinsurance Co.	29,208,836	-	29,208,836	27,547,211	-	27,547,211
New Sudan Insurance	22,444,995	-	22,444,995	22,444,954	-	22,444,954
	73,669,466	=	**73,669,466**	**68,943,206**	-	**68,943,206**
Held to Maturity						
Loan to new Sudan Insurance co.	2,700,000		2,700,000	2,700,000		2,700,000
Loan to Eritrean airliens	750,000		750,000	750,000		750,000
Loan to life policy holders	-	1,978,213	1,978,213	-	1,738,809	1,978,213
Loan to financial institution	18,750,000		18,750,000	26,250,000	2,500,000	28,750,000
	22,200,000	1,978,213	**24,178,213**	**29,700,000**	4,238,809	**33,938,809**
TOTAL INVESTMENT	**95,869,466**	1,978,213	**97,847,679**	**98,643,206**	4,238,809	**102,882,015**

(b) The share certificate in respect of 3,400 shares in the African Reinsurance Corporation is in the name of the State of Eritrea.

(c) The loan to a financial institution is a loan granted to Eritrean Development and INVESTMENT Bank. The loan is fully repayable before 30 April 2014 and bears average interest of 5% per annum.

(d) The loan to Eritrean Airlines is a term loan, which is fully repayable before 31 December 2012 and bears average interest of 5.63% per annum.

PROPERTY AND EQUIPMENT

(a) The details of the property and equipment are:

				Currency: Nakfa 31 December 2010		
	Non life	Life	Total	Non Life	Life	Total
Cost/Valuation						
Building	376,787,216		376,787,216	170,161,349		170,161,349
Furniture and equipment	9,391,000	55,663	9,446,663	9,186,931	55,663	9,242,594
Computer	8,665,991	31,906	8,697,897	8,787,544	31,906	8,819,450
Motor vehicles and cycle	6,288,237		6,288,237	6,288,237		6,288,237
Text Books	83,360		83,360	83,360		83,360
	401,215,804		**401,215,804**	**194,507,421**	**87,569**	**194,594,990**
Depreciation						
Building	103,019,762		103,019,762	90,224,162		90,224,162
Furniture and equipment	6742,451	44,408	6,786,859	6,523,848	40,262	6,564,110
Computer	7,627,321	31,905	7,659,226	6,699,524	31,905	6,731,429
Motor vehicles and cycle	6,196,054		6,196,054	6,152,283		6,152,283
Text Books	82,551		82,551	78,691		78,691
	123,668,139		**123,668,139**	**109,678,508**	**72,167**	**109,750,675**
Net Book Value						
Building	273,767,454		273,767,454	79,937,187		79,937,187
Furniture and equipment	2,648,549	11,255	2,659,804	2,663,083	15,401	2,678,484
Computer	1,038,670	1	1,038,671	2,088,020	1	2,088,021
Motor vehicles and cycle	92,183		92,183	135,954		135,954
Text Books	804		804	4,669		4,669
	277,547,665		**277,547,665**	**84,828,913**	**15,402**	**84,844315**

(b) The movements on property and equipment during the year are:

	Cost/Revaluation			Depreciation		
	Additions	Transfers	Disposal	Additions	Transfers	Disposal
Non Life	451,905	-	369,389	14,349,022	-	359,391
	206,625,867	-	-	-	-	-
Life	-	-	-	4,146	-	-
Total	**207,077,772**	**-**	**369,389**	**14,353,168**	**-**	**359,391**

(c) The company's buildings were revalued as on 31 December 2011 by General, Development Engineering and Consulting Company (GEDECC), independent evaluators, on open market basis and issued a certificate in February 2012.

7. TRADE AND OTHER PAYABLES

				31December 2010		
	Non- Life	Life	Total	Non Life	Life	Total
Total payables	15,861,536	3,618,975	19,480,511	18,949,452	2,291,709	21,241,161
Payables to contractor	42,763	-	42,763	42,763	-	42,763
Other payables	1,135,702	1,416,908	2,552,610	1,544,654	732,319	2,276,973
Accruals	500,689	27,730	528,419	493,021	14,534	507,545
Total	**17,540,690**	**5,063,613**	**22,604,303**	**3,038,890**	**3,038,552**	**24,068,442**

8. DEFERRED INCOME

						31December 2010
	Non- Life	Life	Total	Non Life	Life	Total
Premiums received in advance	4,221	-	4,221	4,305	-	4,305
Interest received in advance	150,000	-	150,000	150,000	-	150,000
Total	**154,221**	**-**	**154,221**	**154,305**	**-**	**154,305**

9. PROVISION FOR TAXATION

a) This is made up of:

	Profit Tax	Municipal Tax	Rent Income Tax	Total
Balance at 01 Jan, 2011	23,398,658	2,803,802	962,091	27,164,546
Less: Payment made during the year	23,954,919	3,194,196	220,030	27,369,145
	(556,266)	(390,394)	742,061	(204,599)
Add: Current Year provision	20,652,281	2,753,638	255,712	23,661,631
Balance on 31 Dec, 2011	20,096,015	2,363,244	997,773	23,457,032

b) The current year's provision for taxation has yet to be assessed by and agreed with the Inland Revenue Department.

10) DIVIDEND PAYABLE

(a) The balance comprises:

		31 Dec, 2010
Balance at 01 Jan, 2011	3,911,824	3,134,560
Dividend declared	46,059,835	48,278,768
	49,971,659	51,413,328
Less: Payment made during the year	45,254,917	47,501,504
Balance on 31 Dec, 2011	4,716,742	3,911,824

11. INSURANCE FUNDS

						31December 2010
	Non- Life	Life	Total	Non Life	Life	Total
Outstanding claims(Net)	55,946,840	137,194	56,084,034	50,848,109	152,193	51,000,302
Provision for unexpired risk	33,312,299	-	33,312,299	33,312,299	-	33,312,299
Technical provisions	11,867,178	-	11,867,178	11,139,904	-	11,139,904
Total	**101,126,317**	**137,194**	**101,263,511**	**92,263,511**	**152,193**	**92,731,947**

12. EMPLOYEE BENEFITS AND OBLIGATIONS

						31December 2010
	Non- Life	Life	Total	Non Life	Life	Total
Provident fund	4,007,832	118,500	4,126,332	3,843,744	170,894	3,654,638
Provision of compensation for service	1,804,355	194,453	1,998,808	1,696,348	110,145	1,806,493
Total	**5,812,187**	**312,953**	**6,125,140**	**5,180,092**	**281,039**	**5,461,131**

The average number of employees engaged during the year was 91(2010: 95).

13. SHARE CAPITAL

The share capital of the Company is Nfa 52,338,270 sub-divided into 5,233,827 ordinary registered shares, the par value of each share being 10 Eritrean Nakfa.

14. LEGAL RESERVE
In accordance with article 8, sub article 1(a) of the Memorandum of Association and the Transitional Commercial Code of the State of Eritrea, Article 454 (1), 5% of the net profit after tax is transferred to legal reserve until it amount to 20% of the share capital.

15. TECHNICAL RESERVE
Transfer of 10% of net profit after tax is made to technical reserve each year in accordance with Article 8 sub article 1 (b) of the Memorandum of Association.

16. SPECIAL RESERVE
Transfer of 5% of net profit after tax is made to special reserve in accordance with Article 8, sub article 1 (c) of the Memorandum of Association and General Assembly resolution No.5/2010.

17. LIFE INSURANCE FUND
(a) The balance comprises:

		31 Dec, 2010
Balance at 01 Jan, 2011	22,829773	23,814,694
Less: Bonus to transfer payable Transfer to account payable	(684,660) (1,200,000)	(680,621) (1,700,000)
	20,945,113	21,434,073
Add: Current year transfer to income statement	1,567,305	1,395,700
Balance on 31 Dec, 2011	22,512,418	22,829,773

(a) Actuarial valuation:
The latest actuarial valuation of the long-term life assurance business was carried out by Alexander Forbes Financial Services (EA) Limited consulting actuaries at 31 December 2011, and according to the valuation the fund disclosed a surplus of Nfa 4,090,959. Accordingly the actuary recommended a simple reversionary bonus of Nfa 684,660 to ordinary life policy holders and a distribution of dividend to shareholders of Nfa 1,200,000 and the remaining balance of Nfa 2,206,299 to be carried forward inappropriate.

18. OTHER INCOME

			31 Dec, 2010	
	Non- Life	Life	Non Life	Life
Survey fees	299,473	-	172,727	-
Crane rental	321,667	-	467,667	-
Claims recovery	888,660	-	1,407,457	-
Others	15,441	-	19,950	8
Total	**1,525,241**	**-**	**2,067,801**	**8**

MANAGEMENT EXPENSES

			31 Dec, 2010	
	Non- Life	Life	Non Life	Life
Salaries and related benefits	4,372,802	182,044	4,209,791	153,815
Car running and maintenance	755,052	-	710,188	-
Advertisement and promotions	665,365	9,000	609,505	-
Printing and stationary	1,677,111	-	1,342,349	-
Light and water	474,606	-	509,677	-
Insurance	1,013,083	15,513	1,231,166	14,416
Travel and pre-diem	677,272	-	400,496	-
Maintenance and supplies	365,995	300	400,889	-

Postage, Telephone and Fax	327,928	2,361	343,705	2,444
Representation	84,987	-	55,593	-
Entertainment	199,169	19,743	230,467	-
Legal membership and consultation fees	144,990	31,500	269,392	-
Uniforms	41,310	-	54,042	-
Cleaning and sanitation	574,725	-	589,654	-
Medical	45,508	-	39,303	1,510
Tuition and learning	2,111,370	-	134,329	-
Land and building taxes	76,427	-	89,221	-
Others	4,125	-	5,693	-
Total	**11,711,825**	260,461	11,225,460	172,185

20. COMMITMENTS

The Corporation has no capital expenditure commitments as on 31 December 2011.

21. COMPARATIVE FIGURES

In order to facilitate comparison, certain figures for the year ended 31 December 2010 have been re-arranged in these financial statements.

22. FINANCIAL RISK MANAGEMENT

(a) Reinsurance Risk

The above risk is mitigated by reinsurance agreements to cover the high risk nature of insurance class of business such as mining and aviation industry. The management constantly strives to minimize its dependence on the reinsurance market without disproportionately exposing its assets. The motor class of business, whose risk is significantly retained within the Corporation, plays a major role in local loss minimization activities by sponsoring annual safety events to increase road safety awareness.

(b) Interest rate risk

The Corporation's exposure to market risk due to changes in interest rates would primarily relate to long term borrowings where potential increases in interest rates would translate into higher interest expense exposure.

The Corporation has no long-term interest bearing obligations that would expose it to interest rate risk. However, on the loan extended to local financial institutions, the Company is exposed to interest rate risk in case of a change in interest rate by the government. Nevertheless, there is no risk exposure to the loan due from its subsidiary as the loan attracts interest at fixed rates.

(c) Foreign currency risk

Foreign currency risk arises from translation of balances and transactions into local currency (Eritrean Nakfa), where such translation may affect the company's profitability. The company is exposed to the risk of foreign exchange losses arising from transactions or translation as it has revenues, expenses and balances denominated in foreign currencies.

(d) Credit risk

Credit risk is the probability that one party to a financial instrument will fail to fully discharge its obligations under the terms of its agreement. To mitigate this risk, the Corporation's credit risk policy requires testing rigorously the financial worthiness of its credit customers and proper follow up of receivables is made to ensure their recoverability.

23. SEGMENT INFORMATION

The Corporation is organized into two main business segments of short term and long term business operations. The performance of these two segments is reported separately under Non-Life and Life underwriting revenue account respectively, which are part of the financial statements.

The Corporation's Non Life Insurance business is organized into four broad business segments aligned to the revenue generation process. The results are summarized below:-

Non Life underwriting revenue account					
	Fire & Accident	Motor	Marine	Aviation	Total
Gross written premium	65,533,161	87,176,120	13,184,92	17,394,815	183,289,020
Claim ceded	39,580,074	534,838	7,107,494	17,394,815	64,617,221
Net written premium	**25,953,087**	**86,641,282**	**6,077,430**	**-**	**118,671,799**
Change in unearned premium	(1,073,053)	3,449,870	34,741	-	2,720,558
Net earned premium	**27,026,140**	**83,191,412**	**5,733,689**	**-**	**115,951,241**
Ceding commission	6,785,043	-	2,355,813	2,161,635	11,302,491
Profit commission	225,092	-	1,257,823	-	1,482,915
Technical income	**34,036,275**	**83,191,412**	**9,347,325**	**2,161,635**	**128,736,647**
Gross claim paid	5,404,167	36,119,211	27,036,300	810,260	69,369,938
Claim ceded	407,149	920,754	21,549,020	810,260	23,687,183
Net claim paid	**4,997,018**	**35,198,457**	**5,487,280**	**-**	**45,682,755**
Change in o/s claim	2,352,665	7,382,316	69,080	-	5,098,731
Net claim incurred	**2,644,353**	**42,580,773**	**5,556,361**	**-**	**50,781,486**
Change in technical provision	52,102	647,077	29,095	-	727,274
Sales commission	417,698	609,523	4,984	-	1,032,205
Total technical outgo	**3,113,153**	**43,837,373**	**5,590,439**	**-**	**52,540,965**
Result before management expenses	**30,923,122**	**39,354,039**	**3,756,886**	**2,161,635**	**76,195,682**

NOTE: The majority of the Corporation's revenue is generated locally.

24. SHAREHOLDING

The following is a list of shareholders at the year-end.

	2011
	Holding(%)
Ministry of finance	61.25
Ministry of labor and human welfare(Martyr's trust fund)	30.02
Mahber weneti mekayin white	3.26
other	5.45
	100.00

Brief Management Report

Financial & Technical Highlights (Non-Life) 2002 – 2011 (in '000 Nakfa)

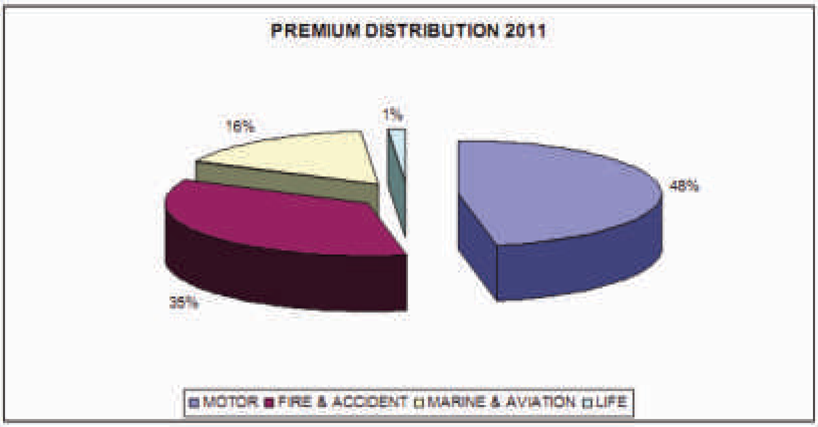
GROSS WRITTEN PREMIUM

Gross premium income for the year amounted to Nakfa 183.3 million representing an increase of 18% over Nakfa 155.2 million produced in the previous year. As can be seen from the table below except marine class of business which has shown a slight decrease over the corresponding period, all the remaining classes of business have performed reasonably well.

Description	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Gross Premium	183,289	155,245	157,145	140,980	145,263	150,797	153,244	149355	122,210	109,303
Net written premium	118,672	111,317	106,685	97,236	106,494	105,754	100,102	93,213	84,844	80,405
Net premium earned	115,951	111,301	105,110	102,736	109,553	107,772	94,162	88,150	82,654	75,942
Net claim insured	50,781	34,491	29,709	24,135	31,713	35,682	39,244	38,037	34,368	35,412
Operating expenses	26,514	26,209	27,983	26,469	26,193	25,987	26,547	11,721	12,039	10,122
Profit before tax	66,342	68,838	69,070	72,925	76,379	68,156	58,178	59,357	52,651	43,926
Net profit	42,680	41,487	41,820	44,378	46711	41,282	34,685	3,983	34,766	28,934
Property and equipment	277,548	84,829	97,927	110,567	1233334	136,833	148,070	31,034	33,529	35,607
INVESTMENTs	95,869	98,643	74,389	83,238	71768	55,778	53,778	58,778	51,421	40,226
Current assets	224,793	208,467	214297	208,120	171718	167,858	153,470	127,088	105,064	97,560
Current liabilities	111,942	112,997	101,858	112,792	95058	87,110	82,125	80,956	97,900	87,756
Dividend payables	47,074	46060	48,279	48,517	50500	45,886	40,278	33,306	31,138	24,541
Shareholders fund	435,277	232,030	238,822	245,518	223376	222,551	221,546	91,521	52,338	48,862
Capital	52,338	52338	52,338	52,338	52338	52,338	52,338	52,338	22,475	22,475
Reserve	47,898	41496	35,274	30,936	24279	17,273	11,080	5,877	29,862	26,386
Insurance fund	45,179	41732	41,244	38,724	45150	48,134	40,587	42,958	37,059	34,424

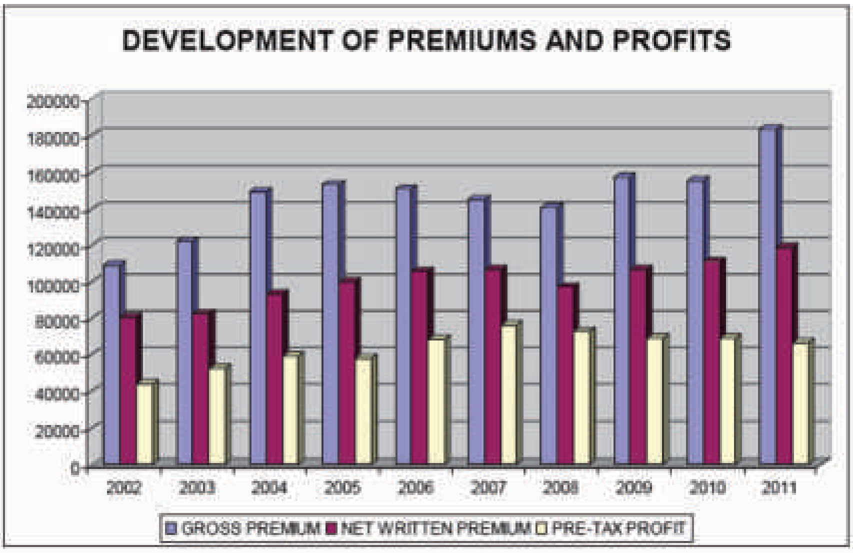
Gross premium Income (in 000' Nakfa)

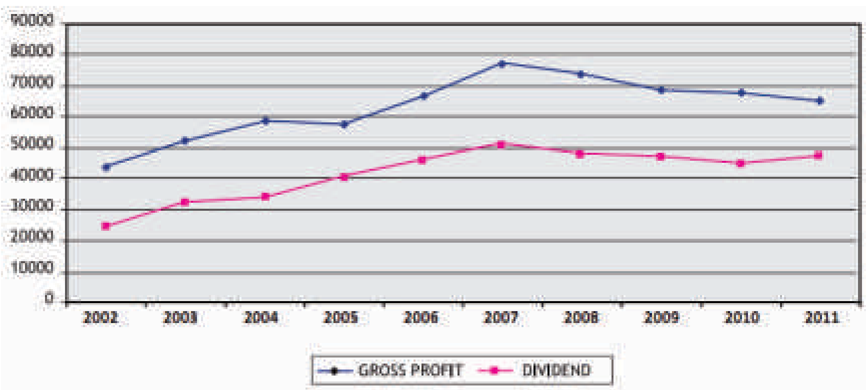
Business	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Motor	64,272	66,589	72,138	74,778	80,216	80,138	72,236	78,742	81,058	87,176
Fire & Accident	26,331	27,921	30,158	33,066	38,307	32,881	33,135	46,075	43,645	65,533
Marine	15,669	14,059	28,690	27,244	20,401	19,573	22,282	17,604	14,340	13,185
Aviation	3,031	13,641	18,369	18,156	11,873	12,671	13,327	14,724	16,202	17,395
Life	1,840	2,021	2,433	2,079	2,835	2,455	2,208	2,128	2,217	2,610
Total	**111,143**	124,231	**151,788**	**155,323**	**153,632**	**153,632**	**143,188**	**159,273**	**157,462**	**185,899**



PROFIT

The pretax profit in the year under review was Nakfa 66.3 million (in 2010 was Nakfa 68.8 million) showing a net profit of Nakfa 42.6 million (in 2010 was Nakfa 41.4 Million). This year's profit was the result of the gain secured from operational activities, dividends, life fund and management fees. Accordingly the Board of Directors has recommended a dividend of Nakfa 48.2 Million (in 2010 was Nakfa 47.8 million) for distribution to share holders.





ESTIMATION OF SHAREHOLDERS FUND

Year	Profit after tax	dividend	Dividend per share	Dividend growth	Shareholder's fund	Earnings per share
2005	39,282,976	33,305,529	6.3635	-	91,521,246	7.49
2006	34,685,076	40,277,981	7.6957	20.90%	221,546,278	6.63
2007	41,282,435	45,885,737	8.7671	37.80%	222,550,732	7.89
2008	46,711,131	50,500,128	9.6488	51.63%	223,376,126	8.92
2009	44,377,871	48,516,857	9.2699	45.67%	245,517,938	8.48
2010	41,820,865	48,278,768	9.2244	44.95%	238,821,946	8.00
2011	41,487,255	47,759,835	9.1252	43.39%	232,030,433	7.92
2012	42,680,558	48,274,141	9.2235	44.94%	435,277,023	8.15

CONCLUSION

The financial management decisions namely investment, financial and dividend play a crucial role in NICE. So, the only way which leads the Corporation to success is its financial management. A business without financial management is just like the ship going without a compass. Because NICE is a monopoly it has sufficient cash to distribute to its shareholders and it attracts to other investors by the maximum net profit after tax that comes yearly in a growing manner and the dividend which grows when the profit increase.

The financing decision of the NICE is not using the optimal capital structure system. It has only used equity capital, the reason that it generates sufficient cash or premium. As a consequence, there would be no debt. This means its capital structure is 100% equity.

The second decision is the INVESTMENT decision. NICE has large capital INVESTMENT decision or have a large INVESTMENT in both equity and debt. This means equity INVESTMENT in Shishay Feed Plant P.L.C, New Sudan Insurance Co., African Reinsurance Corporation, COMESA Reinsurance Contribution, and P.T.A Reinsurance Co. and debt INVESTMENT such as loan to New Sudan Insurance Co., loan to Eritrean Airlines, loan to life policyholders and loans to financial institution.

Note: NICE has 60% ownership in Shishay Feed Plant, 49% in New Sudan Insurance (Juba), Shims Commercial Farming 60%, 10% in EDIB (Eritrean INVESTMENT and Development Bank).

The third decision of the corporation is the dividend decision. Under this decision NICE always declares dividend at the end of the year. The dividend of the Corporation is going constantly from the year 2006 without any change $9 dividend per share but it has some small difference in the amount (the change is terms of cents).

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A Survey on ASEAN's Corporate Governance with Special Reference to India for Life and Non-life Insurance

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Dr. Prashant Kumar**

ABSTRACT

Corporate Governance includes the aspect of rights of shareholders, responsibilities of managers, rights of stake holders, disclosure and transparency and the role as well as structure of the board. In October 2003, the International Association of Insurance Supervisors (ISAI) adopted revised Insurance core principles (ICPS) and an assessment methodology offering new guidance for the effective operation of supervisory system around the World. The life and non-life insurance practices in The Association of Southeast Asian Nations (ASEAN) was studied on the basis of life and non-life premium volume in us dollars as well as local currencies since 2007-2012 and a conclusion was drawn that an increasing trend of Insurance business is prevailing in the member country of ASEAN as well as in the volume of Indian Insurance Business. The countries Except India, Singapore and Malaysia should either develop their own codes of governance or with certain amendments the OECD corporate governance and Insurance Governance codes could be implemented for the efficient growth of Insurance as parallel the economy of the Nation. The descriptive analysis indicates that overall insurance business in the ASEAN as well as India is smoothly going ahead during the period under the study. The volume of insurance was divided into Life and Non-Life premium and it was measured in millions as in local currency of the nation concered. The inflation risk premium is not adjusted in the local currency volume.

Keywords: *Corporate Governance, Life, and non-life, ASEAN*

INTRODUCTION

ASEAN

The Association of Southeast Asian Nations was established on 8th August 1976 in Bangkok, Thailand, with the signing of the ASEAN DECLARATION (Bangkok declaration) by the Founding fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. Right now there are ten members in ASEAN e.g. Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam (ASEAN).

Corporate Governance

In a narrow sense, corporate governance involves a set of relationships between a company's management, its board of directors, shareholders, and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Key aspects of good corporate governance is the transparency of corporate structures and operations; the accountability of managers and boards to shareholders (including foreign shareholders); and corporate responsibilities

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towards employees, creditors, suppliers and the local communities where the corporation operates (ECD, 2001). Broader aspect of corporate governance is the degree of responsibility of artificial persons in overall aspect of environment. 1997 can be taken as a turning point towards the development and adaptation of corporate governance codes and practices for the Asian nations because of their financial crisis during that period. OECD originated in 1906 with 18 members and it counts its membership 34 today. The OECD has developed six code of corporate governance and is followed by all the member countries.

Insurance

The roots of insurance might be traced to Babylonia, where traders were encouraged to assume the risks of the caravan trade through loans that were repaid (with interest) only after the goods had arrived safely-a practice resembling Bottomry bond and given legal force in the Code of Hammurabi (c.2100 B.C.). The Phoenicians and the Greeks applied a similar system to their seaborne commerce. The Romans used burial clubs as a form of life insurance, providing funeral expenses for members and later payments to the survivors. (infoplease.com)

The insurance of lives began in the fourteenth-century Mediterranean as a by-product of marine insurance when policies on ships and cargoes were extended to cover passengers or slaves on board. On terra firm(solid earth), however, life insurance first appeared in the form of wagers on the lives of rulers and popes, a business that many states soon found morally and politically offensive. (The Development of International Insurance, 2010)

The protection of goods and people in transit provided an early motive for various types of mutual association offering non-actuarial forms of insurance. From the middle ages there were, for instance, mutual societies of ship owners in Chinese ports and armed escort services for trade caravans passing along bandit-infested roads between Chinese provinces. Similarly, merchants in the Habsburg territories paid fees for the military protection of trade convoys travelling along designated routes, the so-called Geleitregal, formalized by the imperial law of Henry VII in 1231.7 the insurance of ships and their cargoes, however, was the earliest form of premium insurance and, from the outset, the most international. (Pearson, Introduction: towards the history of International Insurance, 2010)

Table I: Showing the Corporate Governance and insurance status

Nations	Corporate Governance status	Insurance Status
Brunei Darussalam	**(a)**Brunei Darussalam was a protectorate of the United Kingdom until 1984 when it obtained full independence and inherited a legal system and judiciary based on the English common law and the structure of the English court system. However, in a significant departure from the English system, many of the basic and substantive laws of Brunei, such as contract law, company law, criminal law, defamation law, the law of evidence, intellectual property laws and the procedural rules of court are codified in statutes that attempt to embody English common law or have been borrowed from other Commonwealth countries such as Australia, Malaysia and India.	**(a)** Every member of the community in his day-to-day life is invariably exposed to the possibility of encountering incidents that give rise to misfortunes and tragedies such as death, motor accidents, injury and fire. A Muslim believes any catastrophe that befalls him as "Qadha" and "Qadar" from Allah, and he must face these events of ill luck with strength of faith and patience. Nevertheless, it is also the duty of every Muslim to find ways and means to legitimately avoid such incidents of is fortunate whenever possible, and to lighten his or her family's burden should such events occur. A Takaful policy is therefore an Islamic form of cover that a Muslim can

	(b) The primary sources of corporate governance in Brunei Darussalam are to be found in the Companies Act and the Securities Order 2001, which was enacted to manage and regulate financial exchanges, dealers and other persons who provide advice in respect of dealings in securities. Brunei does not yet have its own tradable stock exchange, and as such there is no specialized corporate governance code nor any takeover, merger or acquisition code as yet, although this may well change in the near future. (Brunei Darussalam)	avail himself of as a means of protection against consequences of catastrophe.
Cambodia	**(a)**Before 1953 French-based civil code and judiciary. **(b)**1953-1970 French- civil code and judiciary. **(c)**1970-1975 French-based (The Khmer Republic) civil code and judiciary. **(d)**1975-1979 (Democratic Kampuchea) Legal system destroyed. **(e)**1979-1989 (The People's Republic of Kampuchea) Vietnamese communist Model. **(f)**1989-1993 (The State of Cambodia) Greater economic rights. **(g)**1993-present(The Kingdom of Cambodia) French-based civil code. **(h)** The National Assembly promulgated Cambodia's sixth constitution in 1993. It amended it in March 1999 to establish the Senate, a new legislative body, to affect a political compromise between Cambodia's two main political parties. **(i)**The first constitution, promulgated in 1947 under the French, Cambodia was governed by a monarchy with two parliaments elected	**(a)**In line with the economic and financial reform policy of the Government, a Sub-decree 24 RNK dated 20 September 1990 was issued that related to the rganization and functioning of Ministry of finance. It also mentioned about the establishment of Cambodian National Insurance Company with the rank of department. **(b)**On 30 January 1992, the National Assembly adopted Law on Insurance Business Establishment consisting of 4 Articles and the insurance sector was placed under supervision and regulation by state. **(c)**The purpose of this law was to contribute in social and economic development and to compensate the victims against losses caused by natural catastrophes, accidents and other mishaps. **(d)** Law on Insurance consisting of 56 Articles was adopted by National Assembly on 20 June 2000. Thereafter, Sub-decree on Insurance was adopted on 22 October 2001. After the Law and Sub-decree on Insurance were promulgated, Ministry of Economy and Finance issued several Prakas and Circulars.

	by general elections: the National Assembly and the Popular Assembly (Jennar 1995). All powers emanated from the king. (ADB) **(j)** The RGC is currently creating the Council on Judicial Reform to coordinate reform efforts and the Ministry of Justice is drafting a new penal code, laws on criminal and civil procedures, the Law on Court Clerks, and a law to establish specialized courts. The Supreme Council of Magistracy recently reviewed a draft Statute on Magistrates. Finally, an investigation into corruption in the courts resulted in the rearrests of people previously convicted in criminal cases and released and the replacement of the chief judge and chief prosecutor of Phnom Penh's municipal court.	
Indonesia	**(a)** Indonesian Company Law**:** The Indonesian Company Law of 1995 is the most important framework for the current legislation on corporate governance in Indonesia. Under the Company Law, a company is a separate legal entity in which Directors (Direksi) and Commissioners (Komisaris) represent the company **(b)**Indonesian Capital market Law: The Indonesian Capital Market Law is the second major regulatory framework. Indonesian Capital Market Supervisory Agency, or "BAPEPAM". **(c)** The company shall disclose material information through its Annual Reports and financial statements to shareholders as well as its reporting to BAPEPAM, the relevant stock exchanges and the public in a timely, accurate, understandable and objective manner. (FCGI)	**(a)** There are several joint venture general insurance companies in Indonesia, in affiliation and partnership with reputable European, North American and Japanese insurance firms. **(b)** Things to look for in an insurance company: Company with a long presence in Indonesia and a profitable balance sheet. A name you can trust and select among the top 20 insurance companies.
Lao PDR	**(a)**1986 Economic reforms are launched under the New Economic Mechanism and 1988 Government approves a liberal foreign Investment law. **(b)**1989 With the support of multilateral financial institutions, the Government	(a)Lao PDR has its Insurance Law to cover its all the Insurance activities and governance aspect so concerned. (b) Pursuant to the Resolution of the fifth session of the second People's Supreme Assembly it was adopted on 18 December 1990 with law No 11/90/SPA dated. (b) The Insurance Law has the function of

	launches a macroeconomic stabilization program. **(c)**1991 The Government announces plans to privatize a number of large state enterprises. **(d)**1993 The International Monetary Fund approves a three-year enhanced structural adjustment facility. **(e)**1994 A revised law on foreign investment is passed, permitting 100 percent foreign owned Ventures. **(f)**1996 A new body, the Committee for Management of Investments and International Economic Relations, is established to oversee the approval of foreign investment. (**g**)1996 The Sixth Party Congress is held. The party confirms that reforms will continue, although state control over the economy is to be maintained. The military dominates the new Politburo line-up. **(h)**1997 The Lao PDR joins ASEAN. **(i)**1997 National Assembly elections are held. **(j)**1998 The Government emphasizes the need to reduce its economic dependence on Thailand following the Asian financial crisis. (ADB)	promoting and preserving the socio-economic basis of the Lao People's Democratic Republic, regulating insurance relationships, ensuring the exercise of rights and the performance of duties between enterprises conducting insurance business and insured individuals or legal entities, enhancing the responsibilities of enterprises conducting insurance business in implementing the laws of the State and to ensure State inspections of insurance business undertakings. (PDR)
Malaysia	**(a)**The main sources of the Corporate Governance reforms agenda in Malaysia are from the Malaysian Code on Corporate Governance by Finance Committee on Corporate Governance, Capital Market Master Plan (CMP) by Securities Commission and Financial Sector Master Plan (FSMP) by Bank Negara Malaysia on the financial sector. It provides guidelines on the principles and best practices in corporate governance and the direction for the implementation as well as charts the future prospects of corporate governance in Malaysia. **(b)**Malaysian Code on Corporate Governance:	Seven Principles of Insurance code: **(a)** To avoid misuse of position ; **(b)** To prevent misuse of information ; **(c)** To ensure completeness and accuracy of relevant records; **(d)** To ensure confidentiality of communication and transactions between the life insurance company and its policy owners and clients; **(e)** To ensure fair and equitable treatment of all policy owners and others who rely on or who are associated with the life insurance company. **(f)** To conduct business with the utmost good faith and integrity. **(g)**To avoid conflict of Insurance. (11fe)

	The initiative started with the establishment of Finance Committee on Corporate Governance in 1998 that consists of both government and industry. Recognition of corporate governance in Malaysia was significantly evidenced by the released of the Malaysian Code on Corporate Governance by the Committee in March 2000. The principles underlying the report focus on four areas including: board of directors, director's remuneration, shareholders and accountability and audit. The code is hybrid in nature, which is similar to the Combined Code on Corporate Governance (United Kingdom). Under the approach, the companies in Malaysia should apply the broad principles of good corporate governance sets out by the code flexibly and with common sense to the varying circumstances of individual companies. (11fe1)	
Myanmar	**(a)**Myanmar is a transitional state seeking to transform its political and socioeconomic fabric after twenty-six years of socialist policies. Historically it has experienced various forms of political cultures: the monarchical state (*c*.850–1886), the colonial state (1886–1948), the democratic welfare state (1948–1958, 1960–1962), the socialist state (1962–1988), and it is now a state in transition to a market economy (1988–). **(b)** By 2002, this reliance on unfettered market forces, as set out in Strange's writings, had been called to account. The focus moved to people- entered development or development with a human face. Even before the 1997 Asian financial crisis, there was awareness in some areas of the international community that the harsh structural adjustment policies of the previous decade were ineffective. Removing institutional constraints to poor people participating in economic growth would provide more sustainable poverty alleviation measures. (James, 2005)	**(a)**Law Firms in Myanmar - Insurance Defense: Find Law Firms in Myanmar by Location and Area of Practice. Myanmar Insurance incorporated in 1952, Myanmar Insurance with its network 0f 38 branches established all over Myanmar, including one divisional/state office in each capital city of 14 States and Divisions is the Sole State-Owned Insurance Organization in Myanmar. The classes of insurance are as follows:--- • Life insurance • Marine insurance • Aviation insurance • Travel insurance • Engineering insurance • Fire insurance • Miscellaneous insurance • Third Party Liability insurance • Comprehensive Motor insurance • Oil and gas insurance • Reinsurance

Philippines	**(a)** Long before the collapse of Enron and WorldCom, the Philippines had its own share of corporate scandals like BW Resources Corporation, whose share prices hit record highs and then collapsed in 1999. **(b)** These scandals brought down the stock market's image and weakened private investor confidence. The scandals have their roots in management's desire to project a false picture of performance, with the aim of driving up the value of the corporation in a competitive global market. **(c)** Corporate governance is needed to make corporate managements more accountable, and their auditors more rigorous. But good governance requires fair legal frameworks that should be enforced impartially. In this country, the Philippine Securities and Exchange Commission (SEC), a principal player in matters of corporate governance, recently issued Memorandum Circular 2, Series of 2002, otherwise known as the Code of Corporate Governance, under resolution no. 135 dated April 4, 2002. The code is now effective and must be followed under pain of penalty. (Baltazar)	**(a)** Republic act no. 9829 **(b)**SECTION 1. *Title.* – This Act shall be known as the "Pre-Need Code of the Philippines" **(c)**SEC. 5. *Supervision.* – All pre-need companies, as defined under this Act, shall be under the primary and exclusive supervision and regulation of the Insurance Commission. The Commission is hereby authorized to provide for its reorganization, to streamline its structure and operations, upgrade its human resource component to enable it to effectively and efficiently perform its functions and exercise its powers under this Code. **(d)** SEC. 39.*Required Actuarial Reports.* – The following documents which are from time to time submitted to the Commission by a pre-need company shall be duly certified by an Insurance Commission accredited actuary: Actuarial valuation of all liabilities pertaining to pre-need contracts; Asset share studies when applying for approval of new products or enhancement or repricing of existing products; Accounts in the financial statement of the pre-need company pertaining to actuarial reserve liabilities and other actuarial reserve items; Financial projections showing the probable income and reserve requirements, enumerating the actuarial assumptions and bases of projections; and Such other reports as may be required by the Commission**.** (Philippnes)
Singapore	**(a)** Regulation in the public sector is effected primarily by the Registry of Companies and Businesses (RCB), which administers the Companies Act of 1990. The Companies Act requires financial statements to comply with the detailed disclosure requirements in the Ninth Schedule and to present a true and fair. view. **(b)** The regulation of accounting in Singapore involves a combination of private sector and public sector regulation. The	**(a)** The growth of the financial market in Singapore has congruently developed the insurance industry in the country. According to the Insurance Development Data in the year 2003, the total assets of the Singapore insurance industry has reached $77,406.4Million. The Monetary Authority of Singapore, Insurance Supervision Division has been

	Statements of Accounting Standards (SAS) together with the rules contained in the Stock Exchange Listing Manual and the Companies Act determine how accounting is practised in Singapore. **(c)** The two major institutions involved in private sector regulation are the professional accounting body, The Institute of Certified Public Accountants of Singapore (ICPAS), and the Singapore Exchange (SGX). The ICPAS has the sole responsibility for developing and maintaining SAS and issuing Statements of Recommended Accounting Practice (RAP) which specify how to account for certain business transactions.	acting as the regulatory authority in the insurance business in the country. **(b)** Prudential Insurance Singapore is considered to be one of the leading insurance companies on the basis of factors like gross written premiums. Prudential Insurance Singapore also issues PruTerm Plans like the PruTerm Basic and the PruTerm Renewable. These plans offer a lot of benefits with regards to use and coverage against various crises.
Thailand	**(a)**King Chulalongkorn(1868-1910) is credited with establishing the basis of the modern Thai State. **(b)**New Constitution adopted by National Assembly in 1997. **(c)**National counter corruption Commission in 1975. **(d)**The Office of Auditor General bacame independent in 1999. **(e)**According to the new constitution, a maximum of three ombudsmen will be appointed for a single six year term.They will enquire into complaints when a government ministry, an SOE, or a local government entitystands accused of failure to law.(ADB)	**(a)** insurance business regulation and promotion committee act, 2007. **(b)** Section 6. There shall be the Insurance Business Regulation and Promotion Committee. **(c)** There shall establish the Office of Insurance Business Regulation and Promotion Committee as a State agency which is not government agency and State enterprise. The Office shall be a juristic person. (Thailand)
Viet Nam	**(a)**Governace institutions in Viet Nam have been influenced by many external factors, including 1,000 years of Chinese rule ending in the 10th century and a tributary relationship with Peoples Republic of china for the next 900 years. **(b)**As mandated by the 1992 constitution, Viet Nam has been engaed in building a state ruled by law. **(c)**Transparency lies at the heart of the Viatnamese constitution; howeve , achieving this vision needs how the decissions are taken in the field.	(a) In a global context, Vietnam's insurance sector stands out for several reasons. It has been growing very quickly. Quite unlike, say, the generally much richer countries of Central and Eastern Europe, it has a large population with a high/rising savings rate. Relative to other formerly centrally planned economies, the insurance sector is being opened very rapidly to foreign insurers. For the major cross-border groups, Vietnam is undoubtedly an attractive opportunity (The Viet Nam Insurance Report)

	(d) Currently, Viet Nam has no comprehensive startegy for developing its justice system, and reforms have tended to be ad hoc and piecemeal (ADB, Key Governance Issues in Kambodia, Lao PDR, Thailand and Viet Nam).	(b) In Vietnam there are certain types of insurances, which are compulsory for all the citizens. The third party automobile insurance and employers liability insurance is made compulsory for all the peoples. (c)The Vietnam Insurance and Reinsurance Supervisory Authority, Ministry of Finance Insurance Supervisory Division has been working as the regulatory body in the Vietnam insurance industry.

INDIA

India as a non member of ASEAN has done tremendus efforts on the development of Corporate governance codes and practices.The Security Exchange Board of India is the market regulator provides guidelines for the good governance in corporate bodies. The Indian Corporate governance disclosure is normally focused on the folowing areas:

(a) Board Of Directors.
(b) Audit Committee.
(c) Remuneration of Directors
(d) Board Procedure.
(e) Management.
(f) Shareholders.
(g) Report on Coporate Governance.
(h) Compliance crtificate from auditors.

For the development of corporate governance, The Kumar Mangalam Birla Committee Report (2000), Shri Naresh Chandra Committees Reoprt (2002), Shri Narayana Murty Committee Report (2003), Desirable Corporate Governance - A Code by Confederation Of Indian Industries (1998) and Corporate governance Voluntary guidelines (India Corporate Week December 14th-21st 2009) Ministry of Corporate affairs, Govt of India are taken as the founding pillers of Corporate Governance Codes and practices in India. (Prusty, 2008)

Insurance Governance meant that how the company's board of directors driving the company with the true and fair view for the wellbeing of the party concerned. The focus area of Governance can be listed as follows:

- How the company set its corporate objectives, including the expected rate of return on shareholders' funds. IRDA requires insurance license applications to describe from the first stage (R-1), the objectives of the company and its vision and mission, as well as details of the financial returns anticipated by promoters from insurance operations. The financial accounting rules in the Indian insurance industry require companies to segregate policyholders' funds and shareholders' funds at any given time, and conduct the transactions pertaining to shareholders' funds in a manner that is fair to the policyholders.
- How the day to day affairs of the insurance company are proposed to be run in every functional area in the company, and what kind of internal controls are sought to be established and enforced.
- How the company proposes to align the activities and the behaviour with the expectation that the company would operate in a safe and sound manner and in accordance with the applicable rules and regulations.
- How the company would protect the interests of policyholders. (Murthy.)

The history of Insurance in india is deep rooted and the evidence is available in Manusmrithi and Kautilya's Arthasastra. General insurance is actived by pooling of resources that could be re-distributed in times of calamaties such as fire, floods, epidemics, famine, riots, terrorism etc. 1818 saw the advent of

Life Insurance in india with the establishment of the oriental Life Insurance company in calcutta.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd., was set up. This was the first company to transact all classes of general insurance business. 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices (IRDA, 12-2-2007).

Table II: Showing the Life and Non-life Insurance Business in ASEAN's Member Countries with Special Reference to India (Premium Volume in Millions of USD)

Country	2008	2009	2010	20111	2012	Mean	SD	CV(%)
Indonesia	7654	7195	10662	14593	15509	11122.6	3839	34.51586
Malaysia	9044	9806	11779	13828	14828	11857	2492	21.01589
Philippines	1938	1810	2134	2948	3496	2465.2	726.7	29.47969
Singapore	15699	14461	17338	20840	22080	18083.6	3276	18.11707
Thailand	9999	10743	13598	15395	18355	13618	3426	25.16061
Viet Nam	1300	1432	1657	1783	1973	1629	269.2	16.5258
India	55527	65087	78373	72338	66441	67553.2	8543	12.64589

**India is not the member of ASEAN.*
***Brunei Darussalam, Myanmar, Brunei Darussalam, Lao PDR and Cambodia are not included due to lack of information.*
Source: World insurance in 2009, 2010, 2011, and 2012: http://www.swissre.com/

The above table has been depicting that during the period of study i.e. 2008-2012 the standard deviation of total premium volume is highest for India regarding life and non-life premium volume but in contrary to that the CV is the lowest amongst the seven nations under the study. It implies that the variability of premium volume in USD is the lowest one for India under the study from ASEAN nations. Indonesia has shown the highest standard deviation as well as highest CV (34.51%) regarding the life and non-life insurance business in ASEAN's member Countries with special reference to India (Premium Volume in Millions of USD).

Table III: Showing the Life and Non-life Insurance Business Share of world Market in ASEAN's member Countries with Special Reference to India (Premium Volume in Millions of USD)

Country	2009 (%)	2010 (%)	2012 (%)	Mean	SD	CV (%)
Indonesia	0.18	0.25	0.34	0.26	0.08	31.25
Malaysia	0.24	0.27	0.32	0.28	0.04	14.61
Philippines	0.04	0.05	0.08	0.06	0.02	36.74
Singapore	0.35	0.4	0.48	0.41	0.07	15.99
Thailand	0.26	0.31	0.4	0.32	0.07	21.94
Viet Nam	0.03	0.04	0.04	0.04	0.01	15.75
India	1.59	1.81	1.44	1.61	0.19	11.54

Source: World insurance in 2009, 2010, 2011, and 2012: http://www.swissre.com/

India covers 1.59 % of worlds life and non-life premium volume as compared with the ASEAN nations in 2009 followed by 1.81%, and 1.44% for 2010 and 2012 respectively. None of the ASEAN nations are able to cover more than 0.48% coverage of world market share since 2009 to 2012. Life and Non-life insurance business share of world market in ASEAN's member Countries with special reference to India (Premium Volume in Millions of USD) also shows that the CV has been lowest for India i.e.11.54%.

Table IV: Showing the Life Insurance Premium volume in Millions of Local Currency

Year	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam	India*
2007	43198820	19747	74364	15128	169374	9437000	2013514
2008	47194596	20142	54711	14319	187142	10307617	2217913
2009	47827564	22683	53344	12238	219829	11849238	2736045
2010	7135180	25759	67377	12740	253508	13772070	2916387
2011	90544080	27112	82181	14587	280896	15997550	2870721
2012	1.02E+08	29386	95643	15317	334991	18390850	2900315
Mean	56389640	24138.1667	71270	14054.83	240956.7	13292388	2609149
SD	31740610	3567.90655	14907.287	1163.859	56364.32	3146370	358594.9
CV(%)	56.28802	14.7811828	20.916637	8.280845	23.39189	23.67047	13.74375

Source: World insurance in 2009, 2010, 2011, and 2012, Statistical Appendix; http://www.swissre.com/

The above table has been depicting the volume of life insurance premium of ASEAN nations along with India in their local currency for the period of six years i.e. from 2007 to 2012. It has been noticed from the above analysis that the most inconsistent country as regard the volume of life insurance premium has been Indonesia as the CV has remain highest i.e. 56.28% in comparison to the other ASEAN nation along with India and it is the most inconsistent nation as regard the volume of life insurance premium. Similarly, it has been also exhibited from the above table that India is the most consistent nation as regard the collection of volume of life insurance premium because the CV has been 13.74% for the period of six years considered under the study.

Table V: Showing the Non-life Insurance Premium Volume in Millions of Local Currency

Year	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam	India*
2007	21408586	10004	28722	7015	133384	8258000	304803
2008	26567892	10896	31496	7892	142533	10879248	335645
2009	26808732	11520	32883	8781	148757	13643961	381822
2010	32453680	13931	39035	10140	167672	17069720	482130
2011	37715960	15196	45514	11629	188220	20576130	598200
2012	43399450	16416	52010	12276	234942	22757990	715100
Mean	31392383	12993.83	38276.6667	9622.1667	169251.3	15530842	469616.7
SD	8114745	2567.148	9032.3778	2089.8191	37677.37	5623995	161103.8
CV (%)	25.84941	19.75666	23.5976081	21.718799	22.2612	36.21179	34.30538

Source: World insurance in 2009, 2010, 2011, and 2012, Statistical Appendix, December; http://www.swissre.com/

The above table has been showing the volume of non-life insurance collection for the period of six years beginning from 2007 to 2012 in local currency of the respective nations. It has been further noticed that standard deviation of collection of premium is the highest in case of Indonesia and the lowest for the Malaysia. It has been also revealed that the most consistent nation as regard the collection of non-life insurance premium is Malaysia because the CV has remain the lowest i.e. 19.75%. The volatility of volume of collected non-life insurance premium for the period under the study is little bit of higher as the CV has been 34.30% for India because in consistency as regard the non-life insurance premium India has been placed in 5th position among the seven nations under the study.

CONCLUSION

Though an attempt has been made to reflect the Corporate Governance scenario relating to Insurance business but the study has not been able to include the complete aspect. Looking at the governance status countries like India, Singapore, Malaysia can be regarded as little bit ahead with the other nations which are under study. The countries Except India, Singapore and Malaysia should either develop their own codes of governance or with certain amendments the OECD corporate governance and Insurance Governance codes could be implemented for the efficient growth of Insurance as parallel the economy of the Nation. The secondary data descriptive analysis indicates that overall insurance business in the ASEAN as well as India is smoothly going ahead during the period under the study. The volume of insurance is divided into Life and Non-Life premium and it has been measured in millions as in local currency of the nation concered. The inflation risk premium is not adjusted in the local currency volume. The two Nations observed for growing insurance volume impression are Indonesia and Viet Nam.

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Rural Women and Micro Finance

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ABSTRACT

Micro finance through Self Help groups has paved the way for economic independence of rural women. Women in rural areas have inherent skills and expertise in handling various micro enterprises. Promotion of such enterprises is an important aspect of women empowerment. This article highlights that self help groups, under the banner of micro finance, can bring empowerment among the rural women.

Keywords: *Micro finance, self help groups (SHGS), micro-enterprises.*

INTRODUCTION

Since its inception in 1992, micro finance has emerged as one of the best strategy in addressing the problem of poverty in our country. Micro finance, which means providing small loans to very poor families to help them engage in production activities, is a banking service. It is based on the principles that (I) Poorest can be empowered, (ii) delivery can be made through SHGs (iii) It promotes self employment, (IV) It is a tool for social change especially for women.

Microfinance can be used as a panacea for empowering rural women. A rural women because of poverty, ignorance, illiteracy, low access to income generating aspects, low employment opportunities, multiple burden etc. are suppressed and cannot become a part of decision making process. Micro finance targets rural poor women because they have proven to be reliable besides being good pay master. Rural women invest the money back in to their families resulting in better health, education and a stronger local economy, ultimately leading towards self empowerment. This thus can enable these rural poor women to become economic agents of social change through women self help groups (SHGs).

Present paper is an attempt to highlight that self help groups have emerged as a support system to bring all types of empowerment among rural women. This study is based on the field interactions with the SHGs members in the districts of Jammu & Rajouri

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as well the secondary data published by National Bank.

SELF HELP GROUP

A self help group is an informal voluntary association of around 10-20 women formed to attain a collective goal and it has a homogeneous structure (Members should ideally be derived from the same community and economic level). The promotion of SHGs' is a process by which the members come together for their mutual benefits.

BENEFITS OF SHGs

Members of SHGs can discuss and help each other to solve common problems. To begin with, members of the group collect and use own savings to make own interest bearing small loans to each other and also prioritise their own needs. By handling resources of a size much behind their individual capacity, they realize that resources are scarce and that they have a cost. SHG members also learn that repayment is not difficult with regular savings. They win the confidence of formal banking system through mature financial behaviour which leads to further having access to need based credit. They also use peer pressure as an effective substitute for collaterals. Finally SHG members learn to interact with external environment in a meaningful way leading to increased self esteem and confidence.

GROWTH OF SHGs

Table 1: Progress under SHGs Bank linkage for last three years

Particulars		*2009-10*		*2010-11*		*2011-12*	
		No. of SHGs	*Amount*	*No. Of SHGs*	*Amount*	*No. Of SHGs*	*Amount*
SHGS Savings with Banks as on 31st March	**Total SHGs**	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)
	Of which SGSY Groups	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)	21.23 (5.0%)	1395.25 (-23.2%)
	% of SGSY Groups to Total	24.4	20.9	27.1	25.9	26.7	21.3
	All women SHGs	53.10 (9.18%)	4498.66 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)
	% of women Groups	76.4	72.6	81.7	75.5	79.1	77.9
Loans Distributed to SHGs during the year	**Total SHGs**	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01%)	11.48 (-4%)	16534.77 (13.7%)
	Of which SGSY Groups	2.67 (1.0%)	12429.37 (18.1%)	2.41 (-9.9%)	2480.37 (12.8%)	2.10 (-12.9%)	2643.56 (6.6%)
	% of SGSY Groups to Total	16.9	86	20.1	17.0	18.3	16.0
	All women SHGs	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.0%)
	% of women Groups	81.6	86	85	86.8	80.4	85.5
Loan outstanding against SHGs as on 31st March	**Total SHGs**	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)
	Of which SGSY Groups	12.45 (27.5)	6251.08 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)	12.16 (-5.4%)	8054.83 (2.9%)

	% of SGSY Groups to Total	25.7	22.3	26.9	25.1	27.9	22.2
	All women SHGs	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%)
	% of women SHGs	80.3	82.1	83.2	83.7	83.8	83.8

Source: www.nabard.org/

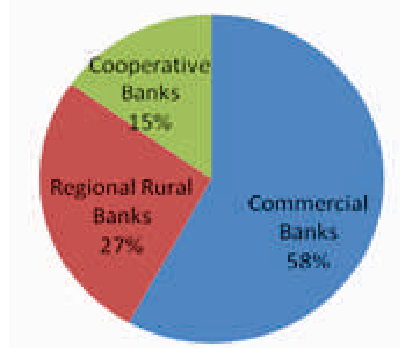
Table -1 gives the growth of SHGs - saving as well as credit linked - for the last three years, separately for all groups, groups formed under SGSY and exclusive Women Groups.

It is evident from the table that under the SHG-Bank linkage programme, over 103 million rural households have now access to regular savings through 7.96 million SHGs linked to banks. About 27% of these SHGs are savings linked through the SGSY programme - the rural poverty alleviation programme of the Government of India where predominantly households below the poverty line are admitted as members (Figure 1). There has been a decline in the amount of savings balance with banks to the extent of 6.7% during 2011-12 as compared to the previous year although the number of SHGs saving linked has shown a growth of 6.7% during the year. This decline is almost entirely attributable to the groups formed under SGSY where the decline was to the extent of 23.2%. Increasing awareness at the SHG level about the advantage of using the savings for internal loaning is also partly responsible for the decline in saving balance with banks.

The number of saving linked SHGs now stands at 7.96 million with a membership of over 103 million poor households. While bulk of these savings is used for internal lending within the Group (over 70%), the balance is maintained in the savings accounts with the financing banks. Over 79% of SHGs linked to banks are exclusive women groups, which is one of the most distinguishing features of micro Finance sector in the country. The balance in the savings accounts of the banks as at the end of March 2012 stood at Rupees 6551.41 crores. Its worth to mention that commercial banks account for 58%, RRBs 27% and Co-operative banks 15% of the savings accounts maintained by SHGs (Figure 1).

Further, over 4.36 million SHGs have now access to direct credit facilities from the banks and the total bank loans outstanding against these groups is over Rupees 36,340 crores as on 31 March 2012 i.e. an average of Rupees 83500 per group. About 1.15 million SHGs were extended fresh loans to the extent of Rupees 16535 crores during 2011-12 by all banks averaging Rupees 1.44 lakh per group. Although fresh lending to SHGs during the year showed an increase of 13.7% over last year, the steady decline in the number of SHGs being extended fresh loans by banks for the last 3 years is a matter of concern. While the quantum of fresh loans issued to SHGs by banks rose by 13.7% during the year 2011-12 to Rupees 16535 crores (to 11.48 lakh SHGs) as against Rupees 14548 crore disbursed last year 2010-11 (to 11.96 lakh SHGs), the number of SHGs obtaining fresh loans from banks during the year declined by 4%. What causes more concern is the fact that the number has been declining during the last 3 years, though the rate of decline has come down from nearly 24% during 2010-11 to 4% during 2011-12. The number of SHGs having loans outstanding against them from banks declined by 9% during the year 2011-12 to 43.54 lakh as against 47.87 lakh during 2010-11, although the quantum of loans outstanding increased to Rupees 36340 crores (16.4% increase over last year). This decline partly can be attributed to the continued decline in the number of SHGs being extended fresh loans by banks over the last 3 years.

Figure 1: Savings Linked SHGs-Agencywise



Source: www.nabard.org/

Table 2: Agency wise NPAs of Banks Loans to SHGs

Agency	Loans Outstanding Against SHGs- Position as on			Amount of NPAs as on			Percentage of NPAs To loan Outstanding as on		
	31.3.2010	31.3.2011	31.3.2012	31.3.2010	31.3.2011	31.3.2012	31.3.2010	31.3.2011	31.3.2012
CBs (Public sector)	19724.42	21412.75	24406.57	513.53	1019.9.	1581.05	2.60	4.76	6.48
CBs (Pvt. sector)	440.29	470.51	1403.72	23.93	47.09	74.37	5.44	10.10	5.30
RRBs	6144.58	7430.05	8613.58	218.53	272.82	426.34	3.56	3.67	4.95
Coop. Banks	1728.99	1907.86	1916.14	67.04	134.30	13o.97	3.88	7.04	6.84
Total	28038.28	31221.17	36340.00	823.04	1474.11	2212.73	2.92	4.72	6.09

Source: www.nabard.org/

The increase in NPAs against loans to SHGs continued to escalate during the current year as well. In absolute terms, the gross NPAs against loans to SHGs increased from Rupees 1474 crore at the end of March 2011 to Rupees 2213 crore by March 2012. In percentage terms it increased from 4.72% during March 2011 to 6.09% during the current year. It was only 2.9% during 2009-10. This is a matter of concern for the micro Finance sector. The total gross NPAs against loans to SHGs stood at Rupees 2212.74 crore as on 31.3.2012 against the total outstanding loan of Rupees 36340 crore.

It is clear from the above tables that self help groups are coming up in a big way to mitigate the problems of institutional finance especially for rural women. It is in place to mention here that the recovery rate of these loans is more than 95%. This is definitely an encouraging factor for the banks to sanction credit to these groups without any worry on account of NPAs. The bank should extend credit to SHGs through micro finance on war footing.

In a bid to find out changes in socio-economic status of rural women after joining SHGs the interaction with respondents was carried out in the field and the observations have been documented in Table 3. It is apparently clear from the feedback as given in Table 3 that the respondents witnessed drastic changes in their lifestyle both at family and community level after adoption of SHGs.

Table 3: Changes Observed in Group members at Family and Community Level after Joining SHGs

At family level	
Before forming SHGs	After forming SHGs
Husband did not permit them to go out alone, quarrel about meetings. Used to do all household work, feeding husband and children They used to ask their husband for money every time.	Now they are able to go where they want & get permission early. Now husband takes care of feeding the children and also helps in day to day household work. Now they do not depend on them for money.
At community level	
Before forming SHGs	After forming SHGs

As women no respect in society.	Now she gets due respect in the society.
Could not talk as equal to men.	Now she even attends gram Sabah meetings and gets respect.
Had a fear of society.	Now she even fights with social evils with full strength.
Lot of opposition in forming SHGs	Now even men are interested to form SHGs

Source: Field Interactions

To bring more business ethics among the SHG members, promotion of micro enterprises appears to be an important aspect for the success of SHGs. Micro entrepreneurship can strengthen women empowerment on one hand and help to remove gender inequality on the other.

Present authors are of the view that besides agriculture & allied activities and Livestock & household activities, there are number of other areas which can be incorporated in micro credit entrepreneurship programmes where rural women can profitably engage themselves. Following is a list of different sectors where rural women can venture for micro credit entrepreneurship:-

I. agro processing (Dal, Papad, Badi making)
II. Food processing (Jam, Sauce, Pickle, Squash)
III. coir works (preparation of yarn, door mats, and ropes)
IV. vermi compost.
V. soft toys
VI. local handicrafts.
VII. herbal and medicinal plants by-products (Aloevera, Tulsi, Amala etc.)

From the above observation and discussions, it can be inferred that micro enterprises in rural areas can help rural women to not only enhance national productivity, generate employment but can also pave their way to achieve economic independence and self confidence. SHGs can give rural women an identity, access to information, as well as make them capable of taking decision effectively. To sum up, it can be said that economic independence through SHGs by undertaking entrepreneurship programmes can definitely empower them. So micro-finance can go a long way in strengthening their level of confidence to fight with the evils of the society for a better tomorrow.

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Measure of Volatility using High, Low, Open and Closing Prices: A Study of Indian Stock Market with Special Reference to Banking Sector

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ABSTRACT

The importance of the model and its prediction ability for the asset volatility had been an important research area in the modern finance. With this the relationship between the information subject of the implied volatility and the historical volatility are the two important and related research topics in the academic literature. This study emphasizes on the comparative and explanatory power of various models for calculation of volatility based on open, high, low and closing prices and to have evidential support for the influential role of these prices with relation to the Index. On evaluating the four of the Models VRS, VGK eq. (3), VAT eq. (1), VPT eq. (2) it was found that the VRS model yields results which follow the price movement of the benchmark index i.e, Nifty.

Keywords: *Volatility, Open, High, Low and Closing Price, Range volatility, NSE, Nifty.*

INTRODUCTION

Fama (1970) had shown through Efficient Market Hypothesis (EMH) that the assets prices reflect the information contained in a specific information set, but later on Fama (1991) suggested that evident anomalies requires new behavioral based theories of the stock market and the new models are required to assess the asset pricing with better accuracy. Due to this researchers and practitioners both had been trying to pay due weightage to the volatility measuring models, with the increasing uncertainty its importance and accuracy is being challenged and tested.

Importance of sector specific study is needed in the Indian context to understand its relevance and contribution in the economy. And banking in particular is an integral part of the economy and in India its contribution becomes more critical due to the broad network and structure. India being a country of diversity due to geographic, social, population size and economical characteristics had a great impact on the country's banking and financial sector. Deolalkar (1999) had stated that Banking sector serves as the instrument of state policy it was subject to various nationalization schemes in different phases (1995, 1969 and 1980) that the industry remained internationally isolated because of preoccupations with domestic priorities like massive branch expansion and attracting more people to the system. Broadly the Indian financial system comprises of the following institutions:

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1. **Commercial banks:**
   a. Public sector
   b. Private sector
   c. Foreign banks
   d. Cooperative institutions

(i) Urban cooperative banks
(ii) State cooperative banks
(iii) Central cooperative banks

2. **Financial institutions**
   a. All-India financial institutions (AIFIs)
   b. State financial corporation's (SFCs)
   c. State industrial development corporations (SIDCs)

3. **Nonbanking financial companies (NBFCs)**

4. **Capital market intermediaries**

In the banking sector the State controls about 92 percent while the balance comprises of the private sector and foreign banks.

LITERATURE REVIEW

Mandelbrot and Taylor (1963) had discussed about the Gaussian random walk as applied to transactions to be compatible with symmetric stable Paretian random walk when applied to fixed time intervals. Mandelbrot and Ness (1968) had proposed 'fractional Brownian motion' as a family of Gaussian random function with a 'span of interdependence' between their increments. Early application of the price range is visible in the work of Mandelbrot (1971) and in the early 1980s when the range based volatility estimators were modeled as in the case of Black and Scholes (1973) who had provided the framework that emphasized on the volatility as the only input that cannot be directly observed by the market participants and the unknown input while computing the option price is the expected volatility over the life of the option. In the present context the development of new financial instruments had made it more interesting and important to study the financial volatility.

Parkinson (1980) and many of the other authors had developed various range based volatility measures more efficiently that the based on the earlier work of Mandelbrot. Later on the various studies based on the Parkinson's work had shown that price range information can improve volatility estimation.

Alizadeh, Brandt and Diebold (2002), Brandt and Diebold (2006) and Chou (2005) had found the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models developed by Engel (1982) and Bollerslev (1986) and Stochastic Volatility (SV) models to be inaccurate and inefficient due to closing prices as the only base for the referred period. While Floros C (2008) had made a contradictory remarks to the previous study where he had found strong evidence that daily returns can be characterized by the GARCH models, his study is based on the Egyptian CMA index and the Israeli TASE-100 index.

Andersen et al. (2003) emphasized on the financial volatility as a latent factor which is not directly observable however can only be estimated using its signature on certain known market price process and when the underlying process is more sophisticated or when the observed market microstructure noise effects, the results are even less clear.

Poon and Granger (2003) had put forward the review of the number of empirical studies in this context and suggested the forecasting performance of implied volatility usually show that it compete favorably with the volatility measures that take historical returns as inputs.

Floros and Vougas (2006), Canarella and Pollard (2007) and Floros (2007) had suggested for the models regarding the stock market volatility using the time series analysis but they had considered the closing prices only so it failed to examine the full range of prices (open, high, low and closing) in each trading day.

Tirpathy N (2011) emphasized on the usefulness of stock prices as a 'signal' about the true intrinsic value of a firm in the presence of 'noise' or excessive volatility. While the investors, analysts, brokers, dealers and regulators are more concerned about the stock return volatility, so the historical information about trading volume can be useful for improving the prediction of stock price volatility.

The importance of this kind of study is because of two contradictory interests and beliefs; on one side the belief that financial markets are efficient but incapable of providing information that in which direction are the prices moving going up or down and on the other hand the market participants (specifically the non-academic) who had a firm belief that the over-reaction and selling arbitrarily is a result of herd mentality to raise cash or limit losses, so a good signal for the large traders to enter in the market.

DATA AND METHODOLOGY

The use of price of shares for empirical research is due to the intuition that the price of share reflects the sum of current and expected discounted by an appropriate discount factor in other words it leads to the higher stock prices and likely to reflect upward revisions of the future economic activity as an investors perspective (Anderson et al 2011). And the prominent role of stock prices that it plays in the economy by various transmission channels: wealth, confidence, cost of capital, Tobin's Q, risk taking and compensation. Within their research they had find out that the predictive power of certain sectoral stock market indicators is very strong specifically the financial related sector in US and the bank dividend yield in the Euro area (they are even better than the financial spread i.e., term and corporate bond spread) the explanation is the fact that the consumption in the US area and the investment driven in the Euro area.

For this study we had modeled the non-constant volatility parameter using the other four models based on the opening, high, low and closing prices. We had considered the Banking sector market indicator the Bank Index (Bank Nifty) of National Stock Exchange (NSE) and the index of the same stock exchange i.e., NSE, the Nifty. Components of Bank Nifty i.e., the eleven stocks (we had not included one of the stock i.e. Yes Bank due to the non availability of the data for the chosen period of research) price range had been considered for the study. The other stocks of the Bank Nifty are as UTI Bank which is now known as Axis Bank (UTI/AXIS), Bank of Baroda (BOB), Bank of India (BOI), Canara Bank (CANBANK), HDFC Bank (HDFC), ICICI Bank (ICICI), Indus Industrial Bank (INDUSIND), Kotak Mahindra Bank (KOTAK), Punjab National Bank (PNB), State Bank of India (SBI) and Union Bank (UNIONBNK). The chosen data period is 1st January, 2003 to 31st December, 2010 because during this period not even the International stock markets but also the Indian stock market has undergone substantial turmoil due to the credit market crisis in the United States and fall in the Asian market.

As in August 2007 the 'sub-prime crisis' had ascend in the US the financial meltdown had started but with the collapse of Lehman Brothers on 23 September, 2008 the global economic downturn had started with this started its negative impact on the Indian economy. Kumar (2009) found that the primary reason behind this was the withdrawal of about US$ 12 billion by the FIIs (Foreign Institutional Investors) during September and December 2008. In other words this study covers the recent pre (1st January, 2003 to 31 July, 2007), post financial crisis period (1st August, 2007 to 31st December, 2010) and total period (1st January, 2003 to 31st December, 2010).

Model 1:
Alizadeh, Brandt and Diebold (2002) and Gallant, Hsu and Tauchen (1999) had proposed a simple measure of volatility for a security S, at day t, while using the first logarithmic difference between the high (H *t*) and low prices (L t) it can be measure as:

$$V_{A,t} = \ln(H_t) - \ln(L_t) \qquad eq.\ (1)$$

Model 2:
Based on the Parkinson (1980) work while considering a geometric Brownian motion with no drift for the prices and considering the high (H *t*) and low prices (L *t*) this measure came as following, for the same Chan and Lien (2003) found that this measure could be 8.5 times more sufficient that the log squared returns:

$$V_{P,t} = , 0.361 R_t{}^{\wedge}2 = 0.361[\ln(H_t/L_t)] \qquad eq.\ (2)$$

Model 3:
This measure is based on the work of Garman and Klass (1980) while using the opening and closing prices, this measure was found to be more efficient than the Model 2 by Chan and Lien (2003), also they are unbiased if continuously observed:

$$V_{GK,t} = ½ [\ln(H_t) - \ln(L_t)]^{\wedge}2 - [2\ln 2 - 1][\ln(C_t) - \ln(O_t) \qquad eq.\ (3)$$

Model 4:

Chan and Lien (2003) found that an alternative measure of volatility is needed for measuring the independent drift for this the model which can be used is the one proposed by Rogers and Satchel (1991) and Rogers, Satchel and Yoon (1994):

V *RS*, *t* = [In(H *t*)-In(O *t*)][In(H *t*)- In(C*t*)]+[In(L*t*)-In(O*t*)][In(L*t*)-In(C*t*)] ***eq. (4)***

EMPIRICAL FINDINGS

In this research we had found out the prices of the bank securities carries the financial characteristics: Nonstationarity and platykurtosis. Output of all the models are presented in **Table 1 Ranking of Models** and the as per their ranking we got VRS *eq. (4)* is being followed by VGK *eq. (3)*, VAT *eq. (1)*, VPT *eq. (2)* respectively. Multiple R value as per the Table 1, shows that the VRS perfectly follows the Nifty Open, High, Low and Close values. R Square values interpretation how the regression lines approximates the real data and for this how much of the output variable's variance is being explained by the input variables variance. Ideally it's about 0.6 or 60% to 0.7 or 70%, but in our case the values are representing about 0.99, 0.99, 0.69 and 0.68 for the VRS *eq. (4)*, VGK *eq. (3)*, VAT *eq. (1)* and VPT *eq. (2)*.

Significance of F is that the probability of the regression output could have been obtained by chance or by fact, thus small Significance of F confirms that the Regression output is valid and the merely a chance of occurrence. In this case we found that the Significance of F is zero for all the Models but the value is Highest for the VRS followed by VGK, VAT and VPT.

From the **Table 2 Result Total Period, Pre and Post Financial Crisis Period** it is clearly visible that the model that yields the most volatile results is the VRS (eq. 4) as the value of the standard deviation is highest amongst all the results. It is being followed by VGK *eq. (3)*, VAT *eq. (1)*, VPT *eq. (2)* respectively. The result in Table 2 also shows that the stock returns are not normally distributed as the value of Skewness and Kurtosis are non zero and its supported by the JB results. The null hypothesis of normality is rejected by the Jerque Bera (JB) Test as the JB Statistic is greater than 5.99 (Chi square distribution value at 2 degree of freedom).

Standard deviation had reduced in the post financial crisis period in case of VRS from 2.54 to 1.42 in case of Nifty, but the four bank securities i.e., Bank of Baroda, Canara Bank, Indus Ind Bank and Kotak Bank, were found where the SD have increased in the post financial crisis period.

For all these three periods, the distributions are non normal as the values of skewness and kurtosis are non-zero. As pet the Model 4 VRS had yielded results that show that in pre crisis period 82% of the securities were positively skewed but later on during the post financial crisis positively skewed securities had reduced to 45%, while during the whole period the percentage of positively skewed securities was 64%. Even the platykurtic nature of securities had slightly increased in both the pre and post financial crisis period, in comparison to the whole period.

Standard deviation during the post financial crisis period had reduced

Platykurtic distribution is found in all the security prices and the Nifty during the three periods in all the securities except, the Union Bank share prices which was found to be Leptokurtic.

CONCLUSION

Result of our study supports the study of Anderson et al (2011), where they had emphasized on the predictive power of financial sector stocks in US and bank dividend yield in the Euro Area. This is supported on applying the bank share prices (as input data) for evaluating the four of the Models VRS eq. (4), VGK eq. (3), VAT eq. (1), VPT eq. (2) it was found that the VRS model yields results which follow the price movement of the benchmark index i.e, Nifty of National Stock Exchange. The prices of these banks carry the characteristics of Nonstationarity and platykurtosis and are a good representative of the whole market which follows the market index by this model (VRS).

Banking sector stocks are found to be efficient in providing information about the movement of the whole market, i.e, the direction of these stocks follow the prices movement of the Index. The results of the study are useful for the practicing managers, policy makers, institutional and individual investors for the portfolio construction. This research provides a platform to work on and based on this future studies in the same Banking sector, other sectors or related issues may cover the other facets which effects on the construction of portfolio for efficient and effective results. More advanced techniques for data analysis and more representative data will contribute to the financial literature and specifically the securities market and portfolio management.

Post financial crisis data which had increased by now can be analyzed in detail as there was difference between the observations, i.e., pre and post financial crisis. Studies in future can increase the number of observation as it may have some other effects, it is to be analyzed.

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Table 1: Ranking of Models

Regression Statistics	*VRS (eq. 4)*	VGT *(eq. 3)*	VAT (eq. 1)	VPT (eq. 2)	
Multiple R	0.995317	0.99495675	0.8298457	0.827567581	
R Square	0.990655	0.98993893	0.68864388	0.684868102	
Adjusted R Square	0.990603	0.98988323	0.68692022	0.683123537	
Standard Error	0.298648	0.19850161	0.00378769	6.91401E-05	
Observations	1999	1999	1999	1999	
RANK SUMMARY	1*	2	3	4	
1* VRS Perfectly follows the Nifty OHLC					
ANOVA VRS					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	11	18787.459	1707.95082	19149.46964	0
Residual	1987	177.221528	0.0891905		
Total	1998	18964.6805			
ANOVA VGK					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	11	7703.53336	700.321215	17773.34688	0
Residual	1987	78.2935405	0.03940289		
Total	1998	7781.8269			
ANOVA VAT					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	11	0.06304994	0.00573181	399.5236339	0
Residual	1987	0.02850673	1.4347E-05		
Total	1998	0.09155667			
ANOVA VPT					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	11	2.0643E-05	1.8766E-06	392.5723932	0
Residual	1987	9.4986E-06	4.7804E-09		
Total	1998	3.0142E-05			

Table 2: Result Total Period, Pre and Post Financial Crisis Period

Model/Bank	Total Period					Pre Fin Crisis					Post Fin Crisis				
VRS	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist
NIFTY	3.08	0.43	-0.96	1367.76	9.8898E-298	2.54	0.04	-1.03	781.90	1.6296E-170	1.42	1.02	0.21	420.46	5.00149E-92
UTI/AXIS	4.14	0.25	-0.93	1308.72	6.5164E-285	2.90	0.23	-0.88	733.22	6.0845E-160	1.85	0.44	-0.37	428.87	7.4523E-94
BOB	2.34	-0.63	0.38	702.73	2.5379E-153	1.26	1.24	0.88	510.92	1.1366E-111	2.06	-0.40	-0.95	573.39	3.0838E-125
BOI	2.87	0.11	-1.28	1530.58	0	1.79	-0.19	-1.05	794.70	2.7042E-173	1.01	-0.16	-0.49	433.40	7.73751E-95
CANBANK	1.98	-0.26	0.58	510.90	1.1484E-111	1.51	0.70	-0.16	574.73	1.5801E-125	1.80	-0.55	-0.42	455.90	1.0046E-99
HDFC	3.28	0.19	-1.03	1362.49	1.3777E-296	2.33	0.02	-1.24	865.45	1.1726E-188	1.53	0.09	-0.77	503.13	5.5838E-110
ICICI	2.81	0.46	-0.81	1280.37	9.3553E-279	2.62	0.05	-0.97	759.27	1.3418E-165	1.77	0.88	0.06	413.65	1.50652E-90
INDUSIND	2.12	-0.85	0.34	831.27	3.1046E-181	1.08	0.72	-0.15	576.55	6.3618E-126	2.19	-0.17	-0.98	561.76	1.0347E-122
KOTAK	2.42	-0.13	-0.84	1233.53	1.3905E-268	1.62	-0.07	-0.61	625.99	1.1714E-136	1.77	0.53	0.09	337.33	5.63149E-74
PNB	2.66	0.26	0.27	645.26	7.6393E-141	2.09	0.98	0.10	588.80	1.3909E-128	1.87	-0.29	-1.09	602.84	1.2428E-131
SBI	3.32	0.02	-0.98	1316.49	1.3454E-286	2.12	0.05	-0.75	677.44	7.8776E-148	1.72	0.12	-0.72	488.97	6.6255E-107
UNIONBNK	2.32	0.12	-0.35	939.45	1.003E-204	1.64	0.71	-0.78	784.51	4.4238E-171	1.44	-0.24	-1.16	617.04	1.0265E-134

Model/Bank	Total Period					Pre Fin Crisis					Post Fin Crisis				
VGK	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist
NIFTY	1.97	0.41	-0.98	1376.21	1.444E-299	1.62	0.02	-1.04	784.63	4.1733E-171	0.93	1.01	0.19	421.71	2.67184E-92
UTI/AXIS	2.47	0.18	-0.99	1336.14	7.2768E-291	1.68	0.16	-0.92	741.81	8.2925E-162	1.16	0.41	-0.43	437.78	8.66073E-96
BOB	1.40	-0.71	0.44	715.02	5.4273E-156	0.73	1.19	0.76	513.57	3.0189E-112	1.26	-0.42	-0.93	568.97	2.8213E-124
BOI	1.65	0.06	-1.29	1533.83	0	1.00	-0.25	-1.01	783.30	8.1169E-171	0.61	-0.18	-0.49	434.03	5.63923E-95
CANBANK	1.17	-0.35	0.60	519.95	1.24E-113	0.87	0.64	-0.28	596.62	2.7854E-130	1.09	-0.58	-0.39	453.04	4.2076E-99
HDFC	2.03	0.16	-1.03	1360.23	4.2582E-296	1.43	0.00	-1.24	864.49	1.8978E-188	0.98	0.07	-0.79	506.12	1.2523E-110
ICICI	1.71	0.42	-0.87	1304.03	6.8275E-284	1.58	0.01	-0.98	761.71	3.9466E-166	1.10	0.87	0.02	419.11	9.78608E-92
INDUSIND	1.16	-1.00	0.54	836.95	1.8163E-182	0.55	0.61	-0.24	575.78	9.334E-126	1.23	-0.24	-0.97	563.79	3.7616E-123
KOTAK	0.49	-0.17	-0.85	1246.90	1.7322E-271	0.32	-0.12	-0.60	623.79	3.5099E-136	0.37	0.54	0.01	357.05	2.93291E-78
PNB	1.61	0.18	0.20	664.70	4.599E-145	1.24	0.94	-0.02	606.06	2.4867E-132	1.17	-0.31	-1.08	600.64	3.7405E-131
SBI	2.07	-0.01	-0.98	1318.06	6.1081E-287	1.31	0.02	-0.76	679.58	2.6958E-148	1.10	0.10	-0.73	491.40	1.9632E-107
UNIONBNK	1.31	0.00	-0.38	953.46	9.1085E-208	0.89	0.65	-0.90	813.23	2.5697E-177	0.86	-0.25	-1.15	615.98	1.7461E-134

Model/Bank	Total Period					Pre Fin Crisis					Post Fin Crisis				
VAT	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist
NIFTY	0.01	3.62	24.70	43589.40	0	0.01	4.84	49.03	106299.05	0	0.01	2.84	14.50	5795.76	0
UTI/AXIS	0.01	2.29	8.56	4314.82	0	0.01	2.24	7.20	1812.70	0	0.01	2.33	9.94	2462.53	0
BOB	0.01	2.85	15.08	14848.92	0	0.01	3.29	21.94	19307.48	0	0.01	2.41	9.58	2340.83	0
BOI	0.01	2.23	7.96	3711.94	0	0.01	2.27	8.25	2317.01	0	0.01	2.16	7.41	1341.43	5.153E-292
CANBANK	0.01	3.16	20.39	28508.69	0	0.01	3.82	29.07	35461.92	0	0.01	2.24	8.38	1724.50	0
HDFC	0.01	3.65	22.47	36026.49	0	0.01	4.35	31.29	42096.86	0	0.01	2.97	14.88	6215.07	0
ICICI	0.01	2.97	16.39	17877.42	0	0.01	4.87	44.76	88334.44	0	0.01	1.84	5.19	646.62	3.8775E-141
INDUSIND	0.01	2.12	7.00	2835.44	0	0.01	2.43	9.39	3093.26	0	0.02	1.86	5.33	682.13	7.558E-149
KOTAK	0.01	2.41	9.59	5553.46	0	0.01	2.66	10.73	4223.85	0	0.02	2.18	8.66	1800.99	0
PNB	0.01	2.31	11.15	7318.03	0	0.01	2.13	7.17	1709.98	0	0.01	2.57	17.04	7884.73	0
SBI	0.01	2.89	12.55	10369.58	0	0.01	3.67	18.70	14433.54	0	0.01	2.13	7.69	1413.07	1.4328E-307
UNIONBNK	0.01	2.68	13.65	11843.75	0	0.01	3.44	22.59	20719.56	0	0.01	1.96	6.60	998.30	1.6711E-217

Model/Bank	**Total Period**					**Pre Fin Crisis**					**Post Fin Crisis**				
VPT	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist	Std Dev	Skewness	Kurtosis	JB Test	Chi Dist
NIFTY	0.00	12.32	211.33	3665456.81	0	0.00	19.42	490.66	11497295.13	0	0.00	8.36	92.52	292339.12	0
UTI/AXIS	0.00	6.43	64.32	327018.33	0	0.00	5.41	47.27	99770.72	0	0.00	7.20	74.08	185416.22	0
BOB	0.00	9.51	149.03	1805335.42	0	0.00	12.61	247.77	2908804.33	0	0.00	6.29	55.17	101536.05	0
BOI	0.00	5.50	42.40	139368.41	0	0.00	5.53	43.09	83084.81	0	0.00	5.33	39.43	50803.47	0
CANBANK	0.00	12.04	222.21	4050523.79	0	0.00	13.29	236.75	2658956.01	0	0.00	5.93	51.68	88501.46	0
HDFC	0.00	10.21	144.59	1704491.46	0	0.00	11.69	180.81	1545221.99	0	0.00	8.18	93.72	299551.54	0
ICICI	0.00	10.63	185.34	2806881.15	0	0.00	15.93	329.89	5182468.96	0	0.00	4.91	39.34	49961.91	0
INDUSIND	0.00	5.28	41.13	130403.41	0	0.00	6.35	62.22	176235.93	0	0.00	4.43	26.97	23017.68	0
KOTAK	0.00	6.73	67.86	365443.96	0	0.00	6.27	52.13	123505.81	0	0.00	6.75	68.34	156906.31	0
PNB	0.00	9.41	164.10	2191094.18	0	0.00	5.36	41.75	77668.41	0	0.00	13.06	259.85	2349477.66	0
SBI	0.00	6.57	56.28	250841.32	0	0.00	7.17	62.61	180607.36	0	0.00	5.80	48.36	77279.05	0
UNIONBNK	0.00	8.89	120.58	1177793.08	0	0.00	11.05	167.08	1316945.89	0	0.00	5.72	50.59	84451.11	0

Observations	**Total Period**	**Pre Fin Crisis**	**Post Fin Crisis**
	1999	1153	846

Retail sector in India - Intensification and Enhancement

Dr Sugandha Agarwal*
Ms. Sonal Jauhari**

ABSTRACT

This paper provides detailed information about the growth of retailing industry in India. Retailing is considered as the largest sector both in contribution to GDP and employment among many countries in the world. It plays a predominant position in the economies of all developed countries. It has been one of the fastest growing sectors and contributes more than one-fourth of the GDP of many countries in the world. The sector contributes more than 20 percent employment in the world. Organized retailing is dominant in most of the European countries, USA, Canada, Australia, etc. In India this form of retailing is just started its growth and presently less than ten percent of total retail turn over. This paper explores the role of the Government of India in the industry's growth and the need for further reforms. It examines the growing awareness and brand consciousness among people across different socio-economic classes in India and how the urban and semi-urban retail markets are witnessing significant growth. The paper includes growth of retail sector in India, driving forces, strength and opportunities of retail stores, retail format in India, recent trends, and opportunities and challenges. This paper concludes with the likely impact of the entry of global players into the Indian retailing industry. It also highlights the driving forces stimulating the growth of retail industry in near future.

Keywords: *organized retailing, brand consciousness, retail format, driving forces, opportunities and challenges in retail industry in India, global players*

INTRODUCTION

Retailing in India is gradually inching its way towards becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering a revolution in shopping in India. Modern retail has entered India, as seen in sprawling shopping centers, multi-storied malls and huge complexes which offer shopping, entertainment and food all under one roof.

The share of organised retail in developed countries is much higher than developing countries like India. The concept of organised retail had occurred much later in developing economies than the developed economies. The size of India's retail market was around US$ 435 billion in 2010. Of this, US$ 414 billion (95% of the market) was traditional retail and US$ 21 billion (5% of the market) was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US$ 200 billion by 2020.

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**HR consultant, Value First, Gurgaon

We know that India is the second fastest growing economy in the world. It is third largest economy in the world in terms of GDP and fourth largest economy in terms of Purchasing Power Parity. India has the highest number of retail outlets in the world at over 13 million retail outlets, and the average size of one store is 50-100 square feet. It also has the highest number of outlets (11,903) per million inhabitants. The per capita retail space in India is among the lowest in the world, though the per capita retail store is the highest. The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets.

The main objective of this paper is to gauge the level of developments and progress of retail industry in the country. This paper attempts to explore and evaluate the threats and opportunities available to the industry and its relation to the economic growth and development. This also offers analyses of recent decisions of Government of India to open retail sector for FDI in single brand and multi brand category and its likely impact on various components of Indian economy.

OVERVIEW OF INDIAN RETAIL SECTOR

Concept of Retailing

Retailing is a distribution channel function, where one organization buys products from supplying firms or manufactures products themselves, and then sells these directly to consumers. Retailing consists of sales of goods or merchandise from a fixed location such as department store or kiosk or by post in small or individual lots for direct consumption by the purchaser. A retailer buys goods or products in large quantities from manufacturers or importers either directly or through a wholesaler and then sells in small quantities to the end user.

In majority of retail situations, the organization, from whom a consumer buys, is a reseller of products obtained from others, and not the product manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement.

The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

Retailer is a Person, Agent, Agency, Company or Organization who is instrumental in making the Goods or Merchandise or Services reach the End User or Ultimate consumers. The retailer performs a specific work of acquiring large amount of products, dividing them into small consumable sections for selling them to the individual consumers.

Categories of Indian retail sector

Retail sector can broadly be categorized into two parts-

a) Organized sector &

b) Unorganized sector

India's retail is dominated by a large number of small retailers consisting of the local kirana shops, owner manned general stores, chemists, footwear shops, apparel shops, paan & beedi shops, hand-cart hawkers, pavement vendors etc. which together make up the so-called Unorganized retail.

Organized retail is reflected in sprawling shopping centers, multiplex-malls & huge complexes which offer shopping, entertainment and food all under one roof. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Organized retailing has begun to tap the enormous market but its share is small. A number of large business houses have entered the retail business with very ambitious expansion plan.

Evolution of Indian Retail Industry

Indian retail Industry is fifth largest in the world. The current penetration pegged at 5-7 per cent accounts for 24% of country's GDP and 8% of the total employment. if we go back we will find a gradual evolution of the sector in the following steps-

- Barter system was known as the first form of Retail
- Followed by Kirana Stores and Mom & Pop Stores
- Finally Manufacturing era necessitated the small stores and specialty stores
- It was a seller's market till this point of time with limited number of brands available
- 1980s experienced slow change as India began to open up economy.
- The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers.
- Post 1995 onwards saw an emergence of shopping centers
- Emergence of hyper and super markets trying to provide customer with 3 Vs - Value, Variety and Volume
- Expanding target consumer segment

The Indian retail market is evolving rapidly; previously shopping was viewed as a functional activity. It meant buying only essentials. In fact, unnecessary shopping or self indulgence was frowned upon. However, liberalization in the 90s, increasing incomes and foreign trips, exposure to the internet and, growing confidence in one's personal success, etc. are making it acceptable to not only buy non essential products but to splurge on luxury goods.

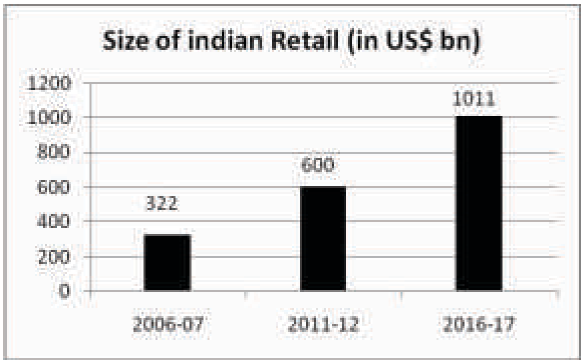
Changing Phase of Retailing in India

During the last few years, the Indian retail market has seen considerable growth in the organized segment. Many of the major domestic players have entered the retail arena and have ambitious plans to expand in the future years across verticals, formats, and cities. For example, companies like Reliance, Tata, Bharti, Adani Enterprise, have been investing considerably in the booming Indian retail sector. Besides, a number of transnational corporations have also set up retail chains in collaboration with big Indian companies.

Indian retail sector accounted for 22% of the country's GDP and contributed to 8% of total employment in 2011. India presents a huge opportunity to the world at age, to use as a hub. Standing on the threshold of a retail revolution and witnessing a fast changing retail landscape, India is all set to experience the phenomenon of global village. India is the "promised land" for global brands and Indian retailers.

The 700 million Indians residing in rural India are an opportunity that retail and consumer (R&C) companies cannot ignore. Penetration levels for several products, such as personal care, hair care, skin care, consumer durables and electronics are low in rural India.

According to study conducted by ICRIER, total retail business in India will grow at 13% annually, US $590 billion in 2011-12 to further US $1 trillion by 2016-17.



(Source: Technopak Analysis, CSO and other sources)

India has a large and aspirational middle-class of 75 million households or 300 million individuals. Middle-class consumers want products which are value-driven. India also has 500 million Indians under the age of 25. Young Indians are driving purchases in mobile phones, fashion, accessories, food and beverages, quick service restaurants, etc. Young Indians have access to more money than before and with this have come independence, aspirations and a demand for products.

Studies have also ranked Indian consumers as some of the most confident in the world. The more confident consumers are about the strength of the economy, their personal finances, their career growth, etc., the more they will increase their consumption, purchase non-essential products, experiment with products, brands, categories, etc.

Factors Driving the Growth of Retail Sector

Indian economy is growing at the rate of 8%, indicating a prosperous future. The consistent economic growth resulted in a decent rise in income level of the middle class. The thickening of the pocket of the consumer resulted in a revolution of the retail industry.

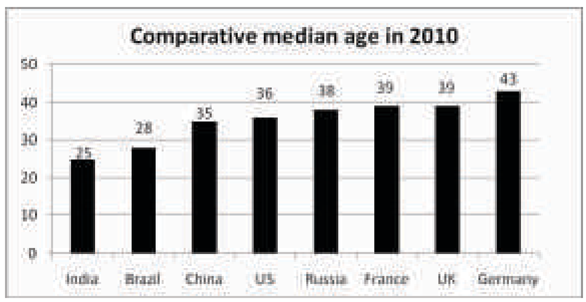
a) **Increasing disposable income:** Rising disposable incomes in middle class and lower middle class with increase in employment opportunities for young adults in IT & IT enabled sectors are the major cause of retail growth in India. The Indian middle-class can be categorized into seekers and strivers, which are the consuming class and the prime target segment for retailers in India. By 2015, the middle class is expected to constitute around 25% of total households and account for 44% of the total disposable income, and by 2025, the respective figures are likely to go up to 46% and 58%.

b) **Changing consumer preferences and lifestyle-** Due to increasing working population, comfortable life, travel and leisure are given importance. These key factors have become growth drivers of retail sector in India which now boast of retailing almost all the preferences of life - apparel and accessories, Appliances, Electronics, cosmetics & Toilets cries etc.

c) **Decreasing expenditure on essential commodities-** The spending on essential commodities has been steadily falling over the years, whereas the consumption of discretionary products has been growing at a healthy pace. If the composition of PFCE is studied, one can notice that the share of food, beverages and tobacco in the total PFCE has declined from 53.0% in FY09 to 42.2% in FY08. On the other hand, the share of communication, entertainment, personal care consumption has been rising over the years.

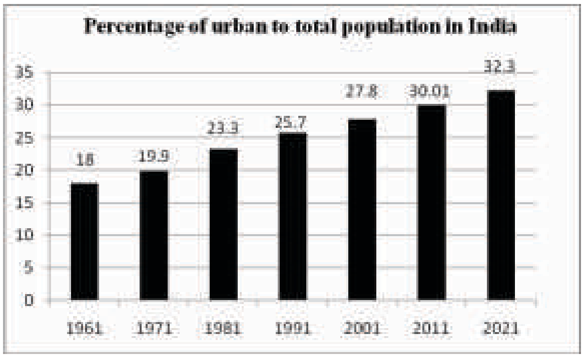
d) **Increasing no. of dual income nuclear families-** India is the second-largest country in the world in terms of population. In 2008 India's working population (in the 15-49 years age group) constituted around 53% of the population as compared with 48.6% in the UK, 49% in the US, and 53% in Russia. There has been a 20% increase in the number of working women in the last decade fuelling the growth in sales of discretionary items.

e) **Changing demographics-** India is one of the youngest and largest consumer markets in the world with a median age of around 25 years, which is the lowest as compared with other countries. According to estimates, India's median age would be 28 by 2020. It is expected that over 53% of the population will be under the age of 30 by 2020, which means that the potential for the Indian retail segment will be enormous.



(Source: US Census Bureau, D&B Research)

f) **Increased Urbanisation-** Historically cities and towns have been the driving force of overall economic and social development. Currently over 335 million people of India reside in cities and towns, which translates to around 30% of the total population. The urban population's contribution in India's GDP shot up from 29% in 1951 to 60% in 2001 and is expected to increase to 70% by 2018, as migration to cities and towns grows rapidly in anticipation of higher income opportunities provided by these epicenters. Furtherance, the annual urban growth in India would touch 2.6% during 2020-25, while globally it would fall consistently to reach 1.6%.



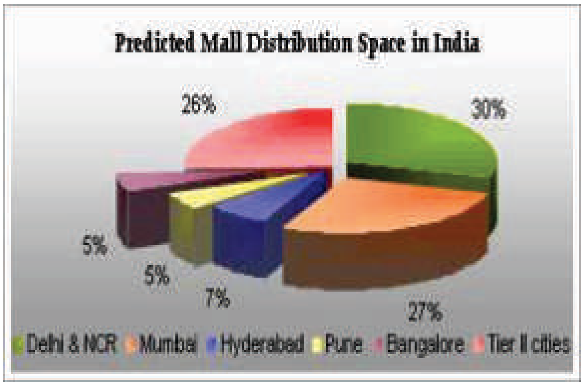
(Source: Census of India)

g) **Internet drives awareness and online purchases-** Indians have started using the Internet not only for increasing awareness but also to shop online, which has opened a whole new channel of retailing in the Indian retail scenario.

h) **Easy credit availability-** The higher penetration of credit cards in India has also boosted the growth of the retail sector; in fact, the young population's increasing fancy for plastic money has further fuelled their purchasing power. Moreover, the spurt in issuance of credit cards and loans by both Indian as well as foreign banks has further boosted the segment's growth.

i) **Retail investment-** Investments in the retail sector have improved since FDI has been allowed in single-brand and cash-and-carry formats. According to the Technopak estimates, investments in the organized retail will touch US$ 35 billion in the next five years or so.

j) **Availability of quality space-** As India's retail industry is aggressively expanding itself; great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by the end of 2013. Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.



(Source: Technopak Analysis, CSO and other sources)

FOREIGN DIRECT INVESTMENT IN RETAIL

There have been slow but steady changes taking place on FDI front in India. The single brand retailing in 2006 was initially restricted to 51% but later it was allowed up to 100% subject to 30% sourcing from within India. Since last few years we had been emanating discussion towards multi-brand retailing and presently, 51% investment in multi-brand retail is permitted but it is left to the discretion of the State Governments to finally implement it in the respective states of India. FDI would play a major role in the takeoff of modern retailing in India.

The country has witnessed the entry of almost all leading retailers such as Wal-Mart, Tesco, Carrefour, IKEA, Staples, Home Depot, and Ham leys in association with leading Indian retailers. With the new FDI rule, they would now be able to hold a majority share. Catering to people in 35 states and union territories is equivalent to catering to people in 35 countries, leading to complexities in merchandise/inventory management.

Expected Benefits of FDI

a) **Consumers-** Modern trade allows for an explosion of choice. Consumers can access products that improve the quality of life. Modern trade will benefit consumers in availing rationalized prices.

b) **Government exchequer-** Modern trade players are tax-compliant and are large tax-payers and facilitate the generation of significant tax revenues through the building of a sophisticated supply chain. This impacts the logistics, transportation, warehousing, freight forwarding and other similar service sectors, all of which contribute to the exchequer through payment of indirect taxes, primarily the service tax.

c) **Farmers/producers-** Establishing an efficient supply chain that links farmers and small manufacturers directly with retailers, will maximise value for stakeholders. Together with back-end infrastructure, this will minimise wastage (especially of fresh foods and vegetables), increase farmers' realisations, encourage best practices in crop management and improve food safety and hygiene.

d) **Unorganized trade-** Kiranas (i.e., mom-and-pop stores) can exist alongside modern trade players and can explore partnership models (e.g., sourcing, franchise partners) in a rapidly changing retail environment.

e) **Increase employment-** FDI in retail will generate employment since new entrants will need to hire staff. Current employees of unorganized retail players do not receive healthcare or other benefits. Once individuals become absorbed in retailer operations, they can access more quitable wages and benefits.

f) **Strengthen India's position as a sourcing hub-** Global retailers have been sourcing from India for years and their retail presence in the Indian market will enhance exports from India, as they develop and leverage relationships with local suppliers. Most global retailers who have entered India have expressed their intentions to source and export a range of products from the country.

g) **Transfer of technology and competition-** Liberalization of retail sector will ensure the transfer of technology to Indian market, which will improve the quality of produce locally available. From the customers' point of view more competitively priced products will be available in the market. This can surely provide a boost to local economy since local suppliers are engaged and integrated into global retailers' food and grocery procurement practices.

But Succeeding in India's retail market is not easy because there is a large heterogeneous group of consumers who have significantly varying buying power. So it is required on the part of global retailers to localize products to delight and excite Indian consumers through creating and launching products specifically for Indian consumers, customising production or food preparation practices for cultural sensitivities and local palettes. India is a large and fragmented country and the absence of strong infrastructure and logistics systems make it challenging to reach consumers located across vast distances. More over the majority of Indian consumers are value-conscious.

CONCLUSION

The Indian retail sector is one of the most exciting and under penetrated markets in the world.

India has witnessed a revolution in the last two decades owing to rapid urbanization and changing consumption. This has led retailers to concentrate their energies and leverage their capacities to harness the potential. The entry of the leading corporate houses into retail created a surge into the growth of the industry. India tops in the list of emerging market for global retailer and India's retail sector is expanding and modernizing rapidly in line with India's economic growth. The future is promising; the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations.

'The rise of Indian Consumer Market', by the year 2025, the Indian consumer market is expected to grow four fold. India with its current retail growth rate turns out to be one of the most prominent countries for global retailers. With the increase in disposable incomes, abundant media choices, internet penetration and modern amenities, the shopping activity which used to be mundane necessity has become a pleasant activity for many consumers. On one hand impulse buying and brand switching behavior has become more evident, on the other hand unnecessary shopping has increased leading to consumers buying goods which are non-essential.

Retailers in different formats, including online, has affected an irreversible change in consumer buying habits. However, unlike many other countries, India has its own unique character of size, geographical spread, cultural diversity, and multiplicity of formats being introduced at quick succession. Retailers also face the challenge of developing infrastructure, on their own or in cooperation with the government.

There is need of balanced approach to retail & govt. has to play a very vital role in shaping the future course. Though tradition retail has been performing a vital function in the economy, but it has to shed off its shortcomings and inefficiencies and this is actually happening. Thus, the organized sector is not only impacting the other sectors positively but also it has benefited its own competition i.e. unorganized sector. So, organized sector becomes the growth mantra of Retail sector.

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Futuristic HR practices to enhance organisational effectiveness - Talent Management, Learning and Development and Social Media

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ABSTRACT

The paper provides a detailed insight on the importance of Human Resource Management in today's competitive and globalised work environment. It lists the various ideas generated after a focus group discussion along with in-depth and detailed study on the Talent Management, Learning and Development and Social Media verticals of Human Resource Management.

The paper discusses the various ideas, their meanings, and how the organisation shall benefit by way of imbibing such futuristic HR practices to sustain in the industry. The paper shall conclude with the industry's take on these ideas, how it will add value to the organisation and how can these ideas be turned into standardized practices.

Keywords: *Human Resource Management, Innovation, Mckinsey 7S Framework, Future HR practices*

INTRODUCTION

At the start of Industrial revolution, "Mass Production" was the key word with little importance to labour subject as a whole. As the world evolved we moved from mass production to quality production and at present companies are driven by innovation and adapting Blue Ocean Strategy. With this evolution in operation and strategies evolved the need for "Human Resource Management (HRM)."

The importance of human resource has received much attention in recent years. At macro level, endogenous growth theories suggest that accumulation of human capital constitutes the main engine of macro economic growth (Lucas 1988, Mankiw et al 1992). At the micro level, resource based theory points to the human capital of employees as a major source for sustained competitive advantage for individual firms (Ferligoj et al 1997, McGrath 1996).

With increased global competition, trans-national operations and customers requiring the highest level of customised products and services, has forced the companies to think about futuristic practices in Human Resource to bring about a paradigm shift in

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the organisation in order to sustain oneself in the competing market. Thus, one of the key issues in today's scenario is to foster the spirit of "Innovation" as well as managing innovation efficiently. This brings out the big question of how HRM can facilitate the smooth transition of organisational strategies from time to time, develop the innovation culture and to sustain the same.

LITERATURE REVIEW

R. JOHNSTON (2001) surfaces some of the challenges associated with program design for the development of HRD practitioners. These challenges arise from the contested perspectives of HRD, the complexity of the sites of HRD practice, and the divergence in findings in recent profiling studies of the field. The result states various substantive areas that should be addressed within HRD preparation programs which are designed to equip learners for practice in the current organisational context.

Rao et al. (2007) examined the way HRD function is structured in the Indian corporate sector and also highlighted the current HRD practices in India in relation to various HRD systems. Data from HRD audits of 12 Indian organizations was collected for the study. The results indicated that HRD function is not well structured, is inadequately differentiated, poorly staffed, and fails to meet the requirements of this framework.

Broughton et al. (2011) examined the implications of social networking and mobile information and communications technologies (ICT) for employment relations. The result states that use of social networking sites by employees has grown significantly in recent years. However, among higher skilled workers, only slightly fewer than 15 per cent have access to social networking sites at work. This may indicate that employers are prohibiting use of such internet sites to avoid having to manage any negative consequences.

Chikati Srinu et al. (2012) analysed the need of training and development programmes in respective organization and examined the methods and evaluation of training programmes at NTPC Ltd. at Ramagundam. Primary data was collected from responds through a well-structured questionnaire schedule by interviewing them. The results states that majority of the respondents supports that training and development programs were effective and adding value to their job.

Andrea Broughton et al. (2013) emphasised in his report the use of social media in recruitment and selection, the benefits of using social media to recruit and the risks and costs of using social media to recruit. The results states that there are a range of benefits available to employers using social media for recruitment purposes, centring on cost and time savings.

THE NEED

HRM comprises of many verticals in an organisation to tackle effectively the growing needs of the industry and most importantly to cater to the needs of the employees within an organisation. The key is to balance the talent acquisition, retain the talent, nurture and grow the talent to meet the organisational objectives and so on and so forth. An integrated approach enables the HR team to be responsive to the changing needs and demands of the industry. The Mckinsey 7S Framework is a useful tool to monitor and evaluate the pointers mentioned above.

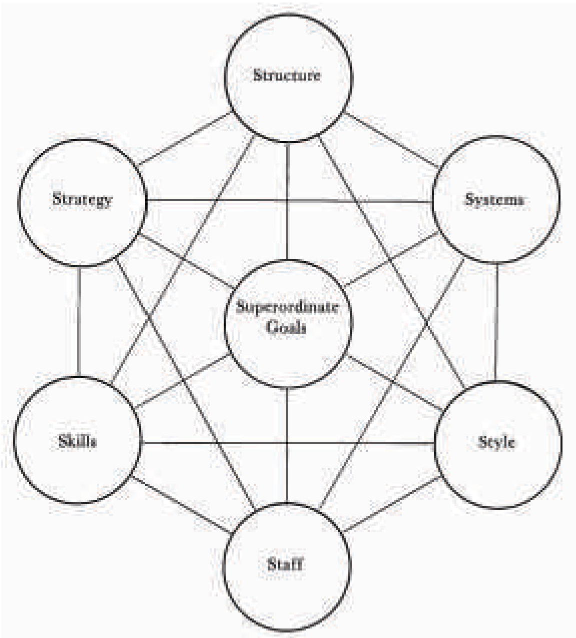
The seven elements are classified as follows:

Hard Elements
- Strategy
- Structure
- Systems

Soft Elements
- Shared Values/Super ordinate Goals
- Skills
- Style
- Staff

Of the above-mentioned values; the hard 'S' are more tangible, easy to define and easy to influence within an organisation than the soft 'S'. The Shared Values are the core values of the company that connect all the other 6 factors. The last 'S', i.e. "Staff" is the most vital value for an organization to manage its human capital in alignment with the other 6S to create competitive advantage in the industry.

Thus, Human Resource Management is a strategic and coherent approach for managing the most valued asset of an organisation, i.e. the employees who collectively and individually contribute to the achievement of the organisation's objectives.



Mckinsey's 7S Framework

RESEARCH METHODOLOGY

The methodology used for generation of ideas, Focus Group Discussion was conducted for 60 minutes comprising of ten students pursuing PGDM in HRM and ten students from other varied specialisation in order to balance the thought process and support out of the box thinking. Industry related case studies of companies from varied sectors such as hospitality; consultancy, telecom and manufacturing were studied and understood on their "Best Practices" and strategies pertaining to employee engagement, talent grooming and development of the employee.

EXTRACTED IDEAS AND INNOVATION FOR FUTURISTIC HR PRACTICES

Talent Management and Learning and Development are two broad subjects in themselves but run parallel to each other. The way to manage talent is by way of empowering an employee through trainings, exposure and a platform to develop oneself. Below are ideas generated during the focus group discussion and the explanation thereof.

1. Human Centric Approach

Organisations should align their goals and objectives towards a more human centric approach where values, human welfare take the front row. There arises a question of, "profit maximization" taking a back seat. However, the answer lies in employees being more engaged towards their roles and responsibilities thus resulting in better productivity. There shall prevail a sense of assurance among employees.

2. Empowering Middle Management

Most often decisions taken at the management level do not trickle down to the base level. The middle management should be empowered in terms having a say in decision making process and assigning them with key responsibility coupled with training and development at every stage. This process will help in brining transformational change at the Unit Level, Individual Level and at organisational level.

The thought process of the organisation should be to nurture thought leaders through integrative approach.

3. Ignite Individualistic Approach

The company should focus on the aspirations of the employee. The organisation should focus on fulfilling not only the individuals physiological and safety need which is at the bottom of the pyramid but focus on self esteem and self actualization need as well of as per the Maslow's hierarchy needs. In today's scenario, employees perceive their work to be only a source of income and this results low work satisfaction. Having an individualistic approach gives space to an individual to unleash the creative side. Creativity is the first step towards bringing new ideas on the table, which foster innovation. This approach is followed in IDEO, Google, and Apple to name a few.

4. "Gemba" Approach for Human Resource Team

In today's dynamic world, it is essential for the HR personnel to empathise with the employees and understand their problems related to work, goals and conflicts. Thus, HR personnel should adopt the "Gemba" approach, i.e. the approach to work on the field or the shop floor to be able to address issues in a holistic manner and thus redefine internal policies accordingly. This would in turn make the employees feel more engaged to their job.

5. Cross Functional Learning; Shukko system

Today's work scenario involves constant change and dynamism with new customer expectations, strategies, and new models for cost reduction and so on. Thus, understanding the role of each department has become equally vital from the point of view of making decisions. Inter departmental co-ordination is the need of the hour. Thus, this idea suggests that employees should be given a chance to work in a new environment, which shall help them face new challenges, learn and respond to new situations and problems faced and most importantly become aware and absorb the working and importance of that department and its role towards achieving organisation goals. This also shall help to focus on multi dimensional capability of an individual.

6. Social Media and Inclusion with Human Resource

With the increase in use of social media, there is a lot of potential in this field for the HR team. Indian organizations are opening up to the idea of usage of social media for reaching out to the employees. Indian CXO's still hold reservations about usage of social media for hiring and seem more comfortable with the more traditional methods like job portals, employee referrals, walk-ins etc. However, with increased pressure on CHRO's to keep a check on recruitment budgets, they are exploring more social media options and we will see a greater momentum in this area in India.

Social Media platforms could be used in the below mentioned three areas as discussed during focus group discussion:

a) Recruitment Process

Social Media can be an effective tool to understand the psychosocial behaviour of a potential candidate. This shall help the HR to understand the candidate's values and to check for whether the 7S with respect to the company can be aligned appropriately.

b) Collaboration and Co creation

Intranet as well as extranet can be effective mediums to identify potential amongst individuals. Taking it a step further, intranet shall help in inter-departmental collaboration for various projects, which requires different expertise with different projects. The portals shall help in co creation of new values, better understanding of the working, products, processes etc from different perspectives of different departments.

c) Early Talent Recognition

Social media platforms can act as a medium for early talent recognition from B Schools either engaging by way of case study competitions, real life problem cases etc. In this way, it helps an organisation to recognize early talent and appropriate grooming. Thus, an organisation can engage the candidate and impart the values of the organisation.

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A comparative study of Consumer Preference for Coca-Cola and Pepsi Soft Drinks-With special reference to Mango Flavored drinks

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ABSTRACT

Customer behaviour study is based on consumer buying behaviour, with the customer playing three distinct roles of user, payer and buyer. Research has shown that consumer behavior is difficult to predict, even for experts in the field. Relationship marketing is an influential asset for customer behaviour analysis as it has a keen interest in the re-discovery of the true meaning of marketing through the re-affirmation of the importance of the customer or buyer. A greater importance is also placed on consumer retention, customer relationship management, personalisation, customisation and one-to-one marketing. Social functions can be categorized into social choice and welfare functions.

The study on preferred mango flavored soft drink among Slice (Pepsi) and Maaza (Coca Cola) outlines the factors which are responsible for the preference of the brand. It signifies the media through people generally find the ads and are being aware of the brand. It also signifies what are the other flavors preferred other than mango.

Keywords: *Consumer Preferences, Attributes, Loyalty*

INTRODUCTION

The soft drink market all over the world has been witnessing a throat cut battle between two major players: Coca Cola & Pepsi. The thirst quenchers are trying hard to have the major piece of the apple of overall carbonated soft drink market. Both the players are spending energies in building capacity, infrastructure, promotional activities etc.

Both have different promotional activities and strategies. Coca Cola, being 11 years older than Pepsi, has been dominating the scene in most of the soft drink market of world and enjoying the leadership in terms of the share. But the Coca Cola people are finding it hard to keep away Pepsi which has been narrowing the gaps regularly.. Both the companies are posing threats for each other in every nook and corner of the world. While Coca Cola has been earning most of the part of its bread and butter through beverages sales, but Pepsi has a multi-product portfolio with a hand some portion from the same business.

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Product Lines of Coca Cola & Pepsi are As Follows

TYPE	COCA COLA Family	PEPSI Family
Cola	Coca Cola, Thums-up, Diet Coke	Pepsi, Diet Pepsi
Orange	Fanta	Mirinda
Cloudy Lemon	Limca	Mirinda Lime
Clear lime	Sprite	7up
Mango	**Maaza**	**Slice**
Mineral Water	Kinley	Aquafina

RESEARCH METHODOLOGY

All research problems require their own special emphasis and approaches. For any research project it is necessary to follow a systematic and planned approach. It explains the course of action taken from the different alternative courses of action which itself result from the research problem type. The primary research is made in order to arrive at findings by analyzing and interpreting the result. The study was based on data collected mainly from primary as well as secondary sources.

Research Objective

The objective of this study is:

1. To examine the consumer preference for soft drinks.
2. To know the opinion of people about the brand name.
3. To judge the impact of advertising on brand preference among people.
4. To assess the brand loyalty among consumers.

Research Design

The study comprises of cross-sectional Descriptive Research Design.

Universe

Element - Males and Females
Domain- Bareilly City
Duration- Dec 11, 2012 to May 15, 2013

Unit

Consumers of soft drinks

Sampling Technique- Non-probability Convenience & judgmental sampling technique was used but full care had been taken to get sample representative.

Sample Size- Sampling size was kept 120 in order to represent the population.

DATA COLLECTION METHOD

Data is the foundation of statistical analysis and interpretation, and to get the useful information. Hence the first step in statistical work. Data was obtained from two important sources:

i) **Primary Data -** Questionnaire, Observation, Interview
ii) **Secondary Data -** Journals, Magazines, Newspaper, Company brochure and report, Internet, Various international & national publications.

Research Instrument

The primary source for collecting the data was structured undisguised questionnaire which was filled by each respondent. There were 18 questions out of which four were open ended. The secondary source was the literature available in magazines/ journals and internet.

LIMITATIONS

This report had to work under several constraints and limitations. Prominent of this were:-

- The survey was done in Bareilly, therefore the result showed the market position of Bareilly only but results cannot be generalized.
- The sample size of Bareilly city taken was small, therefore it cannot be said that the chosen sample is representative of the whole population and this hindered quantitative research.
- Respondents may not have been true in answering various questions and may be biased to certain other questions.
- Respondents were reluctant to answer few questions, as they took them as personal, therefore increasing the possibility of error.

DATA ANALYSIS & INTERPRETATION:

Table 1: Most preferred flavor of soft drink

Weight	4	3	2	1	Weighted Average Score
Rank	1	2	3	4	
Flavours	No. of Res.* WS*	No. of Res. WS	No. of Res. WS	No. of Res. WS	
Cola	50 200	12 36	24 48	34 34	**318**
Lemon	12 48	40 120	42 48	26 26	278
Orange	20 80	40 120	32 64	28 28	392
Mango	38 152	28 84	22 44	32 32	312

Cola has got the largest weighted average score (318) followed by **Mango** (312) and **Orange** (292) and **lemon** has the least weighted average score (278).

Though Cola is the most preferred flavor in soft drinks, but among the Non Cola soft drinks, the most preferred flavor is Mango.

*No. of Res.-Number of Respondents *Ws-Weighted Score

Table 2: Most preferred mango flavoured soft drink

Brand	No. of Respondents	Percentage
Maaza	72	60%
Slice	48	40%
TOTAL	**120**	**100%**

Among the Mango flavored soft drink Maaza is favored by maximum number of respondents (60%) than Slice (40%).

Hence it can be interpreted that Maaza is more popular brand in mango flavored soft drinks.

Table 3: Attributes of preferred mango flavoured soft drinks

Weight	8	7	6	5	4	3	2	1	Weighted Average Score
Rank	1	2	3	4	5	6	7	8	
Features	NR * WS*	NR WS	NR WS	NR WS	NR WS	NR WS	NR WS	NR WS	
Taste and flavor	70 560	20 140	08 48	08 40	04 16	02 06	06 12	02 02	**824**
Price	04 32	12 84	30 180	24 120	20 80	18 54	06 12	06 06	568
Availability	12 96	18 126	20 120	16 80	14 56	24 72	10 20	06 06	576
Brand/Company Image	12 96	18 126	20 120	38 190	12 48	12 36	04 08	04 04	628
Packaging	02 16	10 70	10 60	08 40	34 136	32 96	10 20	14 14	452
Star Endorsement in ad	04 32	06 42	06 36	10 50	18 72	10 30	26 52	40 40	354
Nutritional Values	08 64	22 154	10 60	16 80	10 40	10 30	28 56	16 16	500
Thirst Need	08 64	14 98	16 96	0 0	08 32	12 36	30 60	32 32	418

The weighted average score for **Tastes and flavors** (824) is the highest followed by **Brand/Company image** (628), **Availability** (576), **Price** (568), **Nutritional value** (500), **Packaging** (452) and **Thirst need** (418). The least weighted average score is of **Star Endorsement in ad** (354).

Thus it can be interpreted that Taste & Flavor, Brand/Company image and product availability are the top three features considered important for success of mango flavored soft drinks.

***NR-Number of Respondents *Ws-Weighted score**

Table 4: Consumption of mango flavoured soft drink (per month)

Frequency of consumption of soft drink in a month	No. of Respondents	Percentage
Very Often	8	07%
Often	52	43%
Less Often	46	38%
Very less Often	14	12%
TOTAL	**120**	**100%**

Among the respondents 43% consumes the mango flavored soft drinks **Often** in a month and 38% of the respondents consume it **Less Often**. Only 7% of the respondents consume it **Very Often** and 12% consume **Very Less Often**.

It can be revealed from the table that demand of mango flavored drink is high and its consumption rate is frequent so they must be made available at maximum outlets.

Table 5: Consumption Occasion of soft drinks

Soft drinks generally consumed	No. of Respondents	Percentage
With food	04	03%
After meals	04	03%
While travelling	60	50%
In parties	28	23%
To quench thirst only	10	08%
Anytime	36	30%

Mostly the respondents consume the soft drink **While Travelling** (50%) followed by **Anytime** (30%), **in parties** (23%) and only few number of respondents consume soft drink **To quench thirst only** (8%) **With food** (3%) and **After Meals** (3%).

It shows that generally the respondents consume the soft drink while travelling so the soft drink/mango flavored drinks must be frequently made available at the railway stations/ road side/ bus stations/ pantry cars/ airports etc.

Table 6: Brand Loyalty

During the unavailability of preferred brand of mango flavored Soft Drink	No. of Respondents	Percentage
Wait for the arrival in market	04	03%
Purchase other brand of mango flavored Soft Drink	48	40%
Purchase Mango juice	16	14%
Purchase Other than mango flavored soft drinks	52	43%
TOTAL	**120**	**100%**

During unavailability of the preferred brand of mango flavored soft drink 43% of the respondents **Purchase other than mango flavored soft drink**, 40% **Purchase other brand of mango flavored soft drinks** and only few respondents **Purchase mango juices** (14%) and **Wait for its arrival in the market** (3%).

It is interpreted that during the unavailability of mango flavored soft drink the respondents go for another brand of mango flavored soft drinks, which reveals that the respondents are not loyal towards the preferred mango flavored brand.

Table 7: Rating of the promotional campaign of preferred brand of Mango flavored soft drink

Rating of promotional campaign of preferred brand of Mango Flavored Soft Drink	No. of Respondents	Percentage
Excellent	06	05%
Good	60	50%
Average	48	40%
Poor	06	05%
TOTAL	**120**	**100%**

About 50% of the respondents find the promotional campaign of the preferred brand **Good** and 40% find it **Average** and only few respondents find it **Excellent** (5%) and **Poor** (5%).

Thus it signifies that overall, the respondents are satisfied with the promotional campaign of the preferred brand.

FINDINGS AND SUGGESTIONS

Findings

1. Cola is the most preferred flavor among the respondents. Among the Non Cola flavors Mango flavor is preferred the most.
2. 60% respondents said that Maaza is their most preferred brand.
3. Taste and flavor is the most important attribute considered for the consumption of the mango flavored soft drink followed by brand/ company image.
4. The preferred brand is basically purchased in the size of 500ml bottles by 40% of the respondents so it should be available at most of the shops.
5. 43% respondents frequently purchase the mango flavored soft drinks per month.
6. 50% of the respondents consume the soft drink while travelling.
7. 45% of the respondents are found to enjoy having soft drinks with friends.
8. Regarding price of the preferred mango flavored soft drink, 46% respondents are satisfied with its price and 27% are not satisfied.
9. About half the number of respondents (50%) find the preferred flavor of mango flavored soft drink generally available at their locality.
10. During the unavailability of the preferred mango flavored brand in the market 43% respondents purchase other than mango flavor soft drinks and 40% who are more concerned about the mango flavor of the soft drink purchase another brand of mango flavored soft drink. It shows that the respondents are not much loyal in case of soft drink brands.
11. The maximum number of respondents (86%) came to know about the preferred brand from the visual media i.e. television.
12. 42% the respondents subscribe The Times of India and Amar Ujala respectively.
13. Entertainment channels in TV are the most favorite category of the programmes as reported by 48% respondents.
14. 50% of the respondents find the promotional campaign of the preferred mango flavor soft drink good.
15. Most of the respondents prefer mango flavored soft drinks rather mango fruit juice as it is always available and less costly.
16. The maximum number of respondents recall the ad of Maaza –" HAR MAUSAM AAM" for mango flavored soft drinks.
17. Maximum number of respondents subscribe India Today.
18. Maximum number of respondents are satisfied with the marketing strategy of mango flavored soft drinks.

Suggestions

On the basis analysis done and conclusions drawn, the following suggestions are recommended for Mango flavored soft drinks:

Promote Mango flavor

For promoting Mango flavor, insure that both, customer expectations of having a Soft drink and flavor of Mango are met. Emphasize on freshness of drink and round the year availability of the drink even when Mangoes are not commonly available. Since taste and flavor are the major criterion among consumers favoring Mango Flavored Soft Drink, concentrate on it. Develop flavors in keeping up with different varieties of mangoes, so customers have more variety and alternatives to choose and more occasions to have it.

Position it as drink of youth and friendship

Since more respondents prefer to have Mango Flavored Soft Drink with friends, the ads of such product should carry social appeals and try to position it as a drink to be taken with friends and companions.

Regular Availability

Generally the consumers are satisfied with the availability of Mango Flavored Soft Drinks, but then too Soft Drink marketers should insure its continuous availability so that the consumers do not drift to other flavors. Most of the respondents consume the soft drink while travelling so the drinks must be made available at the railway stations, bus stations, airports, pantry cars, road side restaurants etc to generate impulse purchase.

Brand extension for Fruit flavored Drinks

Despite the fact that respondents prefer Mango flavored soft drinks, it is also suggested that companies should go for Brand Extension by introducing variety of fruit drinks to tap the emerging market for health conscious customers.

Mango flavored drink v/s Fruit juice

Respondents prefer Mango flavored drink rather than mango fruit juice because of its availability in every season and low price, so mango flavored drink should be made readily available and price should be kept low from that of the competitors.

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Economic vis-a-vis Social Issues of Cash Transfer Subsidy: Indian Perspective and Problems

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INTRODUCTION

Our country has recently introduced cash transfer subsidy programme, which provides money to poor families contingent on certain behaviour, usually investments in human capital, such as sending children to school or bringing them to health centres. The Government of India has announced that subsidies on fertilisers, kerosene and liquefied petroleum gas will be replaced by cash transfers to end users. It is a poverty reduction measure in which government subsidies and other benefits are given directly to the poor in cash rather than in the form of subsidies. It can help the government reach out to identified beneficiaries and can plug leakages. Cash transfer can be a good way of helping the poor in many circumstances. Indeed, many schemes that are not directly cash transfer schemes also work mainly through cash transfer, such as the National Rural Employment Guarantee programme, which certainly has helped the poor through creating jobs and generating cash income for many poor people in rural India. The Union Government has launched the Direct Benefits Transfer (DBT) programme to give benefits like scholarships, pensions, NREGA wages, etc. directly to the bank or post office accounts of beneficiaries. There are also talks of direct transfer of subsidies for food, fertilizer and kerosene at a later stage. Cash transfer can be a good way of helping the poor in many circumstances. Indeed, many schemes that are not directly cash transfer schemes also work mainly through cash transfer, such as the National Rural Employment Guarantee programme, which certainly has helped the poor through creating jobs and generating cash income for a great many poor people in rural India. Cash is easy to handle and can be, in many cases, easily monitored. It cannot be sensible to be generically against cash transfer schemes, in a country with a lot of poverty and a commitment to use public money to make the very poor a bit less poor. The government of India had implemented the scheme for cash transfer to the beneficiary's account in 51 districts from January 1, 2013. Electronic Benefit Transfer (EBT) has already begun on a pilot basis in Andhra Pradesh, Chhattisgarh, Punjab, Rajasthan, Tamil Nadu, West Bengal, Karnataka, Pondicherry and Sikkim. The government claims the results are encouraging.

ABOUT THE CASH TRANSFER SUBSIDY

It is a poverty reduction measure in which government subsidies and other benefits are given directly to the poor in cash rather than in the form of subsidies. It can help the government reach out to identified beneficiaries and can plug leakages. Currently, ration shop owners divert subsidised Public Distribution System grains or kerosene to open market and make fast buck. Such Leakages could stop. The scheme will also enhance efficiency of welfare schemes. The money is directly transferred into bank accounts of beneficiaries. LPG and kerosene subsidies, pension payments, scholarships and employment guarantee scheme payments as well as benefits under other government welfare programmes will be made directly to beneficiaries. The Prime Minister's National Committee on Direct Cash Transfers has been tasked with an ambitious mandate to provide

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vision and direction to enable direct cash transfers of subsidies under various government schemes and programmes to individuals to enhance efficiency. Cash transfers have increasingly become synonymous with ideological contestation on the role of the state, making the debate on feasibility shriller.

Cash Transfers are programs that transfer cash directly, generally to poor households, with or without conditions. The purpose of a cash transfer could be:

- To provide a monetary benefit for a specific purpose or use- such as for education through a scholarship, for healthcare through a medical assistance program, etc.
- Direct income support– such as old age income support through a pension, unemployment assistance through an unemployment benefit, etc.
- This is predicated on the assumption that there is a need to redistribute income as a public policy objective. Often, the purpose is to enhance private consumption levels and achieve a minimum consumption floor.
- To provide a direct subsidy for specific products – such as for food, fuel, agricultural inputs, electricity, books, etc.

PRESENT SYSTEM OF SUBSIDY IN INDIA

Like most medicine, cash transfers are a cure, but not a cure all. It helps to clarify which maladies can be solved by cash transfers, which cannot and identify those cases where the side effects of introducing cash could be worse than the disease. Over the years, studies of the Public Distribution System show that some states manage supply of in-kind transfers fairly well, while in a large number of cases, the pipeline connecting citizens to ration supplies is prone to leakage and corruption. Money at the top, spent by state treasuries for the distribution system, produces little food or fuel for PDS beneficiaries at the bottom. Such findings, in combination with fiscal stress, have bolstered the characterisation of the current delivery of in-kind transfers as inefficient. However, we need to consider three key issues when thinking of using cash transfers as an antidote to inefficiencies within the public distribution channel. If the only inefficiency within any public distribution system was that the costs of moving materials and getting the public sector to produce or procure goods and Services were much higher relative to the overall gain, transparent and direct cash transfers would be a complete and comprehensive solution. The development of technologies such as biometrics and centralised fund-flow management systems have created new pipelines through which cash can flow cheaply and accurately to recipients. Political Parties linking the scheme directly with the next election, because many studies have assessed positive impacts of such schemes, few have looked at their political benefits. A World Bank study recently reported there is a direct link between cash transfers and voting behaviour. It was found beneficiaries express a stronger preference for the ruling party that implements and expands cash transfers.

The central government provides subsidies to commodities such as food, fertilisers, petroleum, and a few other services.

Kerosene: The central government procures and supplies kerosene to the state governments and Union Territories. Kerosene is one of the six commodities that are sold through Public Distribution System (PDS) to ration card holders. The subsidy is provided to participating companies who supply kerosene for the PDS. The quantity of kerosene on which subsidy is allowed for each state are limited to the allocations made by the Ministry of Petroleum and Natural Gas. Currently, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and IBP Company Limited are allowed to supply the kerosene.

LPG: Domestic LPG is subsidised by the central government under the PDS Kerosene and Domestic LPG Subsidy Scheme 2002. The subsidy is given to four companies which supply LPG: Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and IBP Company Limited. The central government also gives a freight subsidy for supplying kerosene and LPG to areas such as north-eastern regions, Jammu & Kashmir, Andaman & Nicobar Islands, and Lakshadweep Island.

Fertiliser: The government provides subsidy for urea, 21 grades of phosphatic and potash (P&K) fertilisers, and 15 grades of NPK (nitrogen, phosphorous and potash) complex. Farmers pay 25 to 40 per cent of the actual cost and the rest is borne by the government in the form of a subsidy, which is reimbursed to the manufacturers and importers. In 2010-11, Rs52, 840 crore was allocated for fertiliser subsidy. Presently, urea is mostly produced domestically while phosphatic and potash (P&K) fertiliser is imported. In 1992, the government decontrolled phosphatic and potassic fertilisers. In effect this meant that there was no control over production and distribution. However, prices were regulated through concession rates and fixing of the Maximum Retail Price (MRP). In April 2010, the government introduced nutrient based subsidy under which subsidy on nutrients (nitrogen, phosphorous, potash and sulphur) would be fixed on an annual basis.

Table 1: Annual Subsidy Spending on Petroleum Products and Fertilisers (2000-01-2010-11) (Rs. in crore)

Year	PDS Kerosene	Domestic LPG	Petrol	Diesel	Fertiliser	Food
2000-01	7522	6724	0	7522	13811	12010
2001-02	5310	5830	0	5310	12596	17494
2002-03	3018	5760	5225	3018	11015	24176
2003-04	3751	9158	6292	0	11847	25181
2004-05	10627	10146	150	2154	15879	25798
2005-06	15441	11851	2723	12674	18460	23077
2006-07	18853	12255	2027	18776	26222	24014
2007-08	20080	17186	7332	35166	32490	31328
2008-09	29199	19314	5181	52286	75849	43627
2009-10	18321	16071	5151	9279	61264	52490
2010-11	20496	23999	2227	34384	62301	63844

Source: Ministry of Finance; Indian Public Finance Statistics: 2010-11

DIRECT BENEFITS TRANSFER (DBT)

The Direct Benefits Transfer (DBT) programme is a particular scheme of cash transfer, and we have to ask what it may be displacing and whether the losers will not be plunged into more poverty. It is not the modality of cash transfer that is the only issue, but also how much, and for whom, and also, instead of what. If, for example, it is instead of subsidised food, we have to make sure that the people who depend on cheaper food will have enough cash to buy the unsubsidised food.

CONDITIONS FOR CASH TRANSFERS SUBSIDY

For any successful cash transfer programme there must be two basic elements (1) unique personal identification to robustly confirm a person's ID (2) a mechanism for delivering payments. The system of identification used for a programme must be strong enough to support it successfully, and might be nation-wide or a specific instrument of the transfer programme. The biometrics system cannot eliminate all types of leakages such as those related to income directed targeting. They can reduce "ghost" payments for example, the introduction of biometric registration in Andhra Pradesh showed some 12% of social transfer recipients to be non-existent in a state programme considered as one of the best-run in India. They also create an auditable trail. Payments can either be distributed periodically to recipients, as a "pull" system, or as a "push" system, which involves deposit of payment into a bank account and is more flexible. Biometric identification is crucial to ensure distribution of funds to the correct person. The design of CT programmes will have to confront a range of questions like how much cash is to be transferred, at what frequency, how should the beneficiaries be identified, should it be to an individual or a household and if so to whom within the household, should the transfers be unconditional or conditional.

The design and implementation of any Cash Transfer system has many elements, all of which need to be addressed for the cash transfer system to operate smoothly. Once a decision is taken for introducing a cash transfer system, either for distributive reasons or for other reasons, it needs to be designed and rolled out with a lot of planning and advance action. Before a cash transfer system is launched, the following elements need to be in place:

1. **A Unique I. D. Card for all-** It is necessary that all likely recipients of any cash transfer are covered under a unique identification system. This is being done under the UIDAI's Aadhaar scheme and its linking up with the NPR.

2. **Universal Access to Banking-** There is a need for every individual to have access to the banking system in some form or the other within a reasonable distance. The bank branch need not meet the classical definition of a branch and need not even be a brick & mortar branch. However, the facility must be easily accessible.

3. **Financial Inclusion-** In addition to having access to the banking system, every individual must have a bank account of some form or the other. The KYC norms are too aggressive and loaded against the poor. A mechanism which was supposed to prevent misuse of the banking system by anti-social elements has ended up raising barriers. Making Aadhaar as an adequate KYC would enable financial inclusion. Financial Inclusion is being pursued in the form of the financial inclusion agenda of the Ministry of Finance.

4. **Data Bases for transfers and link with Unique I. D. -** Apart from an identification system and financial inclusion, a Cash Transfer System needs a database of beneficiaries. These databases will be different for different programs - each benefit type can have a different target group and each benefit program will have separate clientele. These databases need to have a correspondence with the unique i.d. database so that there is common platform for financial transactions. The linkage seeding of the beneficiary databases with the Unique ID numbers and also with the Bank account numbers is a critical component of the strategy.

   The Implementing Agency of a particular benefit program would need to ensure that the beneficiary database has the details of the Unique ID number while the Banking system will have to ensure the mapping of Aadhaar numbers to the bank accounts.

5. **Transfer Mechanism -** There is a large back-end infrastructure that is needed consisting of payment systems, bridges between different IT systems (of banks, clearing houses, Aadhaar, etc.), clearing systems, and soon, each of which has to be linked up with the other to be inter-operable. Further, detailed rules and procedures have to be evolved and put in place for transfers to take place across all these systems. All these have to have inbuilt checks and balances for traceability, preventing fraud and facilitating audit of transactions.

ADVANTAGES AND DISADVANTAGES OF DIRECT CASH TRANSFER PROGRAMMES

Advantages:

- Poor families get cash in hand which they can use according to their needs. In case of cash flow problem, they may not have to borrow from money lenders or micro-credit institutions which charge high interest rates.
- Cash transfer programmes reduce dependence on government functionaries who are mostly not responsive to the needs of the poor.
- If conditions are attached to the cash transfer, other social goals such as school attendance, immunisation and registration of births can be achieved.
- Cash transfer programmes eliminate the cost of managing the public distribution system, and preventing leakages. According to a Planning Commission study, the government spends about Rs 3.65 to transfer Re 1 of food to eligible recipients under the Public Distribution System.
- Cash transfers programmes can be more sharply targeted so that it benefits only the recipients who are eligible.
- Scholarships - Merit, SC, ST and OBC scholarships, sports scholarships, cultural scholarships, etc. Many states also operate fee reimbursement schemes.

- Pensions - These include old age pensions, pensions for destitute, etc. With additional amounts added by state governments.

Disadvantages:

- The main disadvantage of this scheme is that, only Aadhar card holders will get cash transfer. As of today, only 22 crore out of the 121 crore people have Aadhar cards. Two other drawbacks are that most BPL families don't have bank accounts and several villages don't have any bank branches. These factors can limit the reach of cash transfer. It is feared that the money may not be used for the intended purpose and men may squander it. Cash transfers seem to be the latest fad.
- Critics fear that poor families may waste the cash on non-essential items. Also, adult members of a family may tend to rely on cash handouts rather than search for gainful employment.
- The government may withdraw resources from schemes which complement the social goals that the government wants to achieve through conditional cash transfers. For instance, the introduction of a conditional cash transfer scheme aimed at increasing school enrolment may lead to resources being withdrawn from a programme which focuses on improving the quality of teaching in schools.
- The success of cash transfer programmes depends on correctly identifying and targeting beneficiaries, which is the responsibility of the central and state governments. According to the N.C. Saxena committee on BPL Census, about 61% of the eligible population is excluded from the BPL list.
- Cash transfers work only with a well functioning private sector system, which may not be available for a number of services.
- The distributional effects of different kinds of benefits within the family is the evidence to suggest that direct access to food tends to favour children rather than only the adults, and also girls rather than only the boys. Working against biased social priorities, common in the subcontinent, favouring adults over children, and boys over girls, which is a long-standing problem in Indian society. If the cash transfer is not additional to food subsidies, and is given "instead of" food subsidies, it would be important to make sure that the money given would be used for nutritional purposes and, equally importantly, that it would be divided within the family in a way that addresses the manifest problems of undernourishment and deprivation of young girls.
- If there is a time lag in opening an account in a bank or post office, to receive the cash transfer and the subsidised food disappears, will lose doubly through not having the cash, and through the fact that others will have the cash to buy food which would keep the food prices high.

PROPOSED SYSTEM OF CASH TRANSFER

Cash transfer of subsidy provides cash directly to a specific part of the population. Cash can be transferred to the targeted population without stipulating any conditions. Alternately, cash can be given if the targeted population meet certain conditions in order to avail of the cash. The Dhanalakshmi Scheme of the Ministry of Women and Child Development is an example of conditional cash transfer where each time certain conditions are fulfilled for a girl child, the family gets cash. The conditions include: registration of the birth, immunisation, and enrolment in a school. Other programmes which use conditional cash transfer are Janani Suraksha Yojana and the Balika Samriddhi Yojana. A third variant is that credit vouchers are provided which can be used to avail of services from private sector providers. These service providers will be reimbursed by the government. For example, the Rashtriya Swasthya Bima Yojana enables persons below the poverty line to access health benefits from private hospitals.

RECOMMENDATIONS FOR THE DIRECT CASH TRANSFER

A Task Force on Direct Transfer of Subsidies on Kerosene, LPG and Fertiliser was constituted under the Chairmanship of Shri Nandan Nilekani, Chairman, UIDAI to recommend to the Government and implement a solution for direct transfer of subsidies on Kerosene, LPG and Fertilizer to the intended beneficiaries. The recommendations of the Task Force in its Interim Reports are:

Fertilizer Subsidy: The Task Force has recommended the direct transfer of fertilizer subsidy in a phased manner:

- **Phase I -** Focus on Information visibility till the Retailers.
- **Phase II -** Subsidy Payment to the retailers
- **Phase III -** Subsidy Payment to the farmers (Intended Beneficiaries)

LPG Subsidy: The Task Force has recommended the direct transfer of subsidy for LPG in a phased manner as follows:

- **Phase I -** Cap on consumption of subsidized cylinders for all customers
- **Phase II -** Direct transfer of subsidy to customers' bank account using Aadhaar-enabled platform.
- **Phase III -** Identify and target segmented customers for subsidy.

Kerosene Subsidy: The Task Force has recommended the direct transfer of subsidy for Kerosene in a phased manner as follows:

- **Phase I -** Direct Transfer of Subsidy through State/ UT Governments in the bank account of beneficiaries.
- **Phase II -** Phase II will aim at transferring the cash equivalent of subsidy directly to beneficiaries through their bank accounts by linking transactions to Aadhaar.

CONCLUSION

This article has examined the proposals to substitute fertiliser and kerosene subsidies with cash transfers to the end users. In both cases, a close examination of the objectives of the subsidies in the first instance and the implications of the shift raises some demanding questions. While there is no doubt that India will have to move to a greater use of CTs instead of subsidies that may not necessarily be the best option in all cases. In particular, unless discussions on transfer's subsidies for cash transfers are part of a broader strategy they will simply amount to tactical differences and not address long-term challenges. The three items- fertiliser, kerosene and LPG that are the focus of the budget proposals are not only important for the high costs on the budget but they constitute two of the most singular challenges that India has faced in the past and will undoubtedly face even more in the future: food and energy security, both at the national level and for the hundreds of millions of India's poor at the household level as well. It is for this reason that this paper argues that the cash transfer proposals in the budget are ultimately limited to thinking about tactics and not about larger strategies. Starting from the vantage point of strategy, it is not clear that a cash transfer is the appropriate policy option in the case of kerosene subsidies, and in the case of fertilisers there are a host of implementation challenges and long-term environmental ones. It would be much more valuable if we use the process initiated by the shift to cash transfers as a proverbial Archimedean lever: one that opens more imaginative possibilities in addressing India's mounting agricultural and energy challenges.

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Micro Finance - An Innovative Tool for Empowerment of Poor

Prof. S.K. Srivastava*

1(a) Micro Finance-An Innovative Tool
"Provision of thrift, credit and other financial services and products of very samall amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards."

Micro finance has, emerged as a powerful tool in the struggle to end poverty. Micro finance programmes cover small loans to poor people for their varied needs such as self employment, consumption, shelter, etc.
In most cases, micro finance programmes offer a combination of several services to their beneficiaries in addition to credit for self employment. These often include savings facilities, insurance, training, marketing network and peer support.

1(b) Micro Finance as an Empowerment Tool

Micro-finance empowers:
- Social Empowerment
- Social Leadership in Community action
- Action for Entitlement Rights
- Social Inclusion (Social identity)
- Literacy Skills
- Economic Empowerment
- Attaining income security
- Ownership of productive Assets
- Entrepreneurship Skills
- Organizational Empowerment
- Collective Identity
- Establishing organization of their own
- Organizational leadership
- Political Empowerment
- Participation in Panchayat Raj Institutions
- Negotiating Political Power
- Accessing Political Power

MICRO FINANCE IN INDIA- A HISTORICAL PERSPECTIVE

Since independence, the Government of India has made concerted efforts to provide financial services to the poor through the formal financial institutions. It has created an extensive banking network, much of which is State owned or controlled. This includes the public Sector Banks, Regional Rural Banks and the cooperative Banks with a vast network of more than 150,000 retail outlets. Yet, these institutions have not been able to effectively provide financial services to the poor both in terms of outreach and sustainability. This was mainly due to the postulates on which these lending programmes were pursued such as: (i) The poor do not have capacity to save and are not bankable, and (ii) their condition could only be improved through subsidy-linked poverty alleviation credit programmes. The cooperative credit system too, with a few exceptions, had only a limited impact despite repeated infusions of capital by the State governments concerned. Thus, the mainstream banks and financial institutions, in spite of having a substantial physical presence, could not address the needs of a large number of rural and urban poor households for financial services.

Likewise, several wage and self-employment programmes were introduced by the Government of India to provide financial assistance, at affordable cost, to the poor and disadvantaged. Despite the

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efforts made through the financial system and the government programmes, the access of institutional credit to the poor remained limited; being reached by less than 20 per cent of the rural poor (less than 10 per cent for women). The poor continued to remain overwhelmingly dependent on the informal sector for their credit and related needs.

As a result of the inadequate flow of funds from the formal financial institutions to meet the credit needs of the poor, past two decades have seen the emergence of a wide range of semi-formal sector micro finance initiatives. These initiatives have largely been taken up by NGOs who realized that unless the poor have access to financial services to meet their needs for consumption and productive activities and also for meeting emergencies, any development assistance would not be sustainable and would have a limited impact. An increasing number of NGOs are now provding financial and non-financial support to the poor in an effort to lift them out of poverty. Yet the outreach of these alternative micro finance institutions, so far, is very limited. The movement initiated by these institutions has, in the past few years, been encouraged by the various development financing institutions including NABARD, HUDCO, HDFC and Rashtriya Mahila Kosh (RMK) which have evolved specialized schemes for micro credit over the last few years to fund NGOs. But, the demand-supply gap continues to be adversely high.

MICRO FINANCE IN INDIA-PRESENT STATUS

The Indian micro finance sector is characterized by a variety of micro finance service providers. These include various apex financial institutions like NABARD, Government owned Societies like Rashtriya Mahila Kosh, formal sector financial institutions, Commercial Banks, Regional Rural banks, in addition to member-based institutions like Cooperatives, Mutually Aided Cooperative Societies, SHG Federations, private sector companies like specialized NBFCs, Societies, Trusts, etc. Besides the existence of such a large number of players in the organized/semi-organized sector, the rural credit market in India is still largely dominated by the all-pervading network of indigenous money lenders.

The Micro finance institutions (MFIs) in India today offer a variety of products, follow different pricing strategies, adopt varied credit delivery models and have different legal forms and organizational structures. The present section attempts to analyze the micro finance industry in India using Porter's competitive strategy framework model and gives an overview of the products offered by the MFIs, the credit-delivery methodology being used by them in addition to the different pricing strategies employed.

3 (a) Competitive Strategy Framework Analysis

In his work titled, Competitive Strategy (1980), Mike Porter, had proposed a generic framework which is being widely used as a tool for understanding the evolution, competitive dynamics and future growth of industries. The essence of Porter's work is that an industry including its sustainability is best analyzed by simultaneously looking at its five basic elements, viz.

- Bargaining power of the buyers,
- Bargaining power of the suppliers
- Threat of new entrants,
- Threat of substitute products and rivalry among existing service providers.

The analysis particularized below reveals that the India Micro Finance movement has entered the phase that marks its status as a full fledged industry.

Competitive Strategy Framework Analysis of Indian Micro Finance Sector

- **Bargaining Power of the poor (buyers)**

An analysis of the evolution of micro finance in the country indicates that for a long time, the poor in the rural, tribal and urban areas were dependent only on the money lenders for their needs- be it for agricultural purposes or enterprise development, consumption needs or emergency requirements. They used to borrow at very high ratesof interest and were heavily exploited at all levels. In most cases, they kept repaying interest alone and the principal remained unpaid. The net result was perpetual indebtedness over generations. It was in this scenario in the mid-sixties that the Government intervened to set up cooperative societies to meet the credit needs of the people. But for a variety of reasons, the credit cooperatives or their later variants-the multipurpose cooperative societies, had a limited impact. Following this, in 1969, the banks were nationalized and were mandated to, inter alia, lend to the poor under various programmes launched by the Government. Procedural formalities coupled with poor targeting resulted in the programmes not having the envisaged impact. These programmes have now been revamped into a new one christened Swarnjayanti Gram Swarozgar Yojana (SGSY).

- **Bargaining power of suppliers (micro Finance Service Providers)**

Till mid-seventies, there were three generic suppliers for the micro-finance needs of the rural, tribal and urban poor: (i) money lenders; (ii) the State supported cooperative societies and government schemes; and (iii) the commercial banks with their subsidiaries. All these three classes of suppliers were operating in what is popularly called as a sellers market- their buyers had to take the narrow range of financial services offered only on supplier's terms. While the States established Credit/Multi-Purpose Cooperatives and also nationalized the banks with a view to creating alternative mechanisms for providing credit and related services to the poor, the outcome was less than expected. These institutions could not meet the growing needs of the poor as a result of which the money lenders continued to be the primary and most reliable suppliers of micro finance services-a situation that made the buyers more and more helpless and exploited.

- **New entrants and alternative technologies**

It was at this time (mid seventies-early eighties) that micro finance experiments began and reported a fair degree of success in providing access to affordable credit for the poor, primarily women. Many of these experiments represented backward vertical integration whereby the poor established their own institutions for gaining access to credit and related services. And all the them had one common lesson to offer i.e., 'The poor are indeed bankable. This was the beginning of an era of alternative micro finance service providers. In Porter's terminology, the threat of new entrants into the sector also became a reality from then onwards-although it was realized much later (late nineties). These new entrants who focused primarily on poor women, changed the face of the micro finance industry by utilizing peer based delivery mechanisms, posting exceptionally high repayment rates and delivering services at a very low cost. If the initial results were encouraging, the consolidations which occurred mainly during this period of mid-eighties to mid-nineties, proved equally noteworthy. Replication of the different models began to occur, especially in a variety of strategic contexts. This not only resulted in ironing out of inconsistencies but also helped to fine-tune the alternative micro –finance technologies.

- **Diverse (Substitute) products, innovative pricing and eclectic channels**

The alternative technologies, when implemented, led to increased diversity in terms of products and services offered, with a view to satisfying the needs of the poor borrowers. Today, a wide range of credit, savings, insurance and other financial services, apart from social intermediation (borrower preparation and training, functional education), business development (access to raw materials, technology, marketing and mentoring) and other support services (watershed, health, child care) can be accessed by the poor clients. And most importantly, through a variety of channels including different types of groups (SHGs, Solidarity Groups, Joint Liability Groups, etc.), apex bodies (federations and cluster associations), trade intermediaries and other eclectic institutional forms. All this is, however, accompanied by additional cost- a cost that micro finance clients have had to pay for Micro finance service providers are now employing innovative pricing techniques to cover their costs in response to the sustainability demands of the sector.

With all these changes, it can be said that the micro finance sector has entered a new phase, characterized by an increased emphasis on sustainability, commercialization and profitability- a phase that marks its arrival as a full-fledged industry.

3 (b) Forms of Institutions

The micro finance programmes by the informal sector in India have evolved over several years. There is no single appropriate form of legislation for institutions undertaking micro finance activity. However, micro finance institutions have been registering under different legislation's which are categorized under three heads.

- **Not-for- profit MFIs**
    - Societies registered under the Societies Registration Act, 1860 or similar State Acts
    - Public Trusts registered under the Indian Trust Act, 1982.
    - Non-profit companies registered under Section 25 of the Companies Act, 1956.
- **Mutual benefit companies**
    - State Credit Cooperatives
    - National Credit Cooperatives
    - Mutually Aided Cooperative Societies

- **For profit MFIs**
    - NBFCs registered under the Companies Act, 1956.

3(c) Distribution Approaches-Retailer Level

Just as MFIs offer a varied combination of products and adopt different pricing techniques, they also differ in their credit delivery mechanism, the credit delivery mechanism of MFIs in India is dependent on factors such as nature and demographic profile of the clientele, product mix, pricing technique, legal and procedural requirements and above all, the long-term micro finance objectives (social vs commercial). The following generic approaches to micro finance are commonly prevalent in India:

1. The Basic Self Help Group model and its minor variations
2. GRAMEEN Replicator Approach
3. Cooperative-Grameen Hybrid Model
4. NBFC Approach
5. Federated SHG approach
6. Rural Industries Promotion (SHG) Framework
7. Urban Cooperative Banking Model
8. Multi-State Cooperative Solidarity Group Model
9. Enabling Cooperative Networking Framework

3(d) Distribution Channel- Institutional and Wholesaler Level

The attempts made by the retailing MFIs in India have been strengthened by various financial institutions that are engaged in providing credit to the rural and urban poor. The major ones include the following:

- National Bank for Agriculture and Rural Development
- Rashtriya Mahila Kosh
- Small Industries Development Bank of India
- Housing & Urban Development Corporation
- Housing Development Finance Corporation

The Government, too, in an effort to streamline the rural credit delivery system and converge the resources in various self employment programmes, have restructured the existing schemes into a new programme 'Swarnjayanti Gram Swarozgar Yojana' Wherein micro credit is an important component.

Helping the institutions in channeling credit to the poor, are large number of commercial banks and Regional Rural Banks some of which have, of late, started evincing keen interest in micro finance and have demonstrated that micro finance can be viable business proposition for them.

"THE READERS' VIEW"

The latest edition of the Vimarsh is again in my hands. As usual I found the Journal full of information and well researched papers. The getup & style of journal is attractive and eye-catching. It is well admired by our colleagues also. I wish its editorial board all the best.

Prof A K Sarkar
Ex Head & Dean
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The editorial Team deserves congratulations for bringing out a truly class journal named Vimarsh. The journal has been providing an opportunity for discussion and exchange of ideas across the widest spectrum of scholarly opinions to promote theoretical, empirical and comparative research on problems confronting the business world.

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I wish them luck for the future success.

Ms. Ritika Bhatia
Assistant Professor
Gitarattan International Business School
New Delhi

It really feels great as I have got a chance to go through another issue of Vimarsh, the Journal of School of Business Management, IFTM University. This has an excellent compilation of papers on various contemporary issues which are well written and appropriately edited. It has a wide coverage of topics from management that makes it a complete management journal.

I want to give my sincere compliment to the editorial team for their wonderful effort.

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About The University

Institute of Foreign Trade and Management (IFTM) was a pioneering attempt to provide the world class professional education in the brass city of Moradabad in the year 1996 by a family of public spirited entrepreneurs. It was a joint vision by a philanthropist to the core and visionary in the education arena (Late) Sri Onkar Saran Kothiwal and renowned economist Dr. R.M. Dubey. IFTM was the first institute in entire Rohilkhand region to bring BBA, MBA & MIB programmes for Management education.

Having tasted the success and feeling the appetite of ever growing demands of students and parents alike, IFTM ventured into other areas of professional education. It started offering new courses in Engineering, Pharmacy and Computer Applications to cover the entire spectrum of professional courses. Year 2002 saw the addition of another feather in IFTM's cap whereby a new Engineering institute, College of Engineering and Technology (CET) was established. It offers various undergraduate and postgraduate engineering courses in Computer Science, Electronics & Communication, Information Technology, Mechanical and Biotechnology. By the year 2010, IFTM group has established itself as a niche player by becoming a **"Centre of Excellence"** in various disciplines of professional education providing best in class education for Management, Engineering, Computer Applications and Pharmacy courses. All the technical and professional courses are approved by AICTE with Pharmacy course being also approved by PCI. National Board of Accreditation (NBA) has accredited all the eligible courses.

Year 2010 brought a new dawn for IFTM group and the great dedication, commitment, perseverance; untiring efforts of the entire IFTM team were noticed and appreciated by the government of Uttar Pradesh (U.P.). Hence IFTM was granted the University status by U.P. Government vide IFTM University Act No. 24 of 2010. IFTM University started the operations from the session 2010 as it already had the necessary and university compliant facilities and infrastructure. In an endeavour to expand the horizon of its offerings in professional education space, IFTM University has added more programmes at UG, PG and Doctorate levels in different disciplines. To bridge the gap between High School and Degree courses, IFTM University will also offer the Diploma courses. In addition to professional courses the University has a comprehensive plan to introduce other subjects in the field of Natural, Social and Medical Sciences.

Current times are challenging for Education sector with lot of churn happening and as the saying goes **"Challenging times need unprecedented measures"**, IFTM University embarks upon a journey to be the "Trusted Partner of Choice" for Parents, Students, Teachers and Industry Champions. In this attempt, University now boast to house more then 11000 students and 400 faculty members till date. Thus with the humble beginning in 1996, IFTM has traversed a long path to become IFTM University by 2010. It strives to scale new heights and aspires to forge new partnerships with National & International bodies in order to make an indelible mark on the face of Indian Education.

About The School of Business Management

School of Business Management (SBM) is one of the most reputed and sought-after Centres of education in the field of management studies in the region.

This school was established in the year 1996 as Institute of Foreign Trade & Management and had been offering the BBA, MBA & MIB programmes of Management of Rohilkhand University, Bareilly, until 2000 when MBA programme came under the affiliation of the Uttar Pradesh Technical University, Lucknow. The Institute has become one of the most reputed Centres of education in the field of management studies and has been producing gold and silver medalists, as well as top ten merit holders on a regular basis since inception. In 2010, it has been reorganized as School of Business Management and is offering UG, PG and PhD in management and commerce, however, Masters of Business Administration has been a flagship course of the school, since its inception.

The School has been a constant contributor in the field of management through its research and development outputs. Doctoral research facilities are available in the various areas of management studies such as Business Economics, Security Analysis and Portfolio Management, Statistical Techniques, Human Resource Development, Supply Chain Management, Tourism Marketing, Advertising & Publicity Management and other functional area of management.

With a well connected network of alumni and reputed recruiters, the school has proven its role in disseminating relevant knowledge to the students and satisfy long list of recruiters. Parle Biscuits Pvt. Ltd., IDBI Bank, Reliance Money Ltd., DBS Bank, Yes Bank, Kudos Ltd., SMC Ltd., Designco Pvt. Ltd. and Micro Turners are just few to name among satisfied recruiters. The decision of prospective candidates to join the school for their career building thus, will be right and rewarding.

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School of Business Management

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