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Section 1

Report of Working Group on IT support for Urban Cooperative Banks

1.1 Introduction

1.1.(i)   The Vision document for Urban Cooperative Banks (UCBs), released in March 2005, proposed signing of Memorandum of Understanding (MOU) between RBI and Central and respective State governments for establishing a consultative approach to supervision and regulation of UCBs. The Reserve Bank has so far signed such MOUs with 16 state governments and the Central Government.

1.1.(ii)   In terms of the MOUs, the Reserve Bank is committed to facilitate IT initiatives in UCBs. In furtherance of the commitment made under the MOUs, Governor announced in the Mid-term Review of the Annual Policy 2007-08, that '*a working group comprising representatives of the Reserve Bank, State Governments and the UCBs sector' would be constituted 'to examine the various areas where IT support could be provided by the Reserve Bank.'*

1.1.(iii)   Accordingly, the Reserve Bank constituted a Working Group on December 19, 2007. The composition of the Group is as under:

1)	Shri R.Gandhi Regional Director, Reserve Bank of India, New Delhi	Chairman
2)	Shri A.K.Khound Chief General Manager-in-Charge, Urban Banks Department, Reserve Bank of India, Mumbai	Member
3)	Shri A.M.Pedgaonkar Chief General Manager Department of Information Technology Reserve Bank of India, Mumbai	Member
4)	Shri A.P.Hota Chief General Manager Department of Payments & Settlement Systems Reserve Bank of India, Mumbai	Member
5)	Registrar of Cooperative Societies Government of Maharastra	Member

6)	Registrar of Cooperative Societies Government of Karnataka	Member
7)	Shri D.Krishna, Chief Executive Officer, NAFCUB	Member
8)	Prof. Mukund Ghaisas, Director, Ahmednagar Sahar Sahakari Bank Ltd.	Member
9)	Shri Ashok Narain Deputy General Manager Urban Banks Department, Central Office Reserve Bank of India, Mumbai	Member Secretary

1.2   The **Terms of Reference** for Working Group were set as under:

a) To review the current level and use of IT infrastructure in UCBs

b) To structure a model/ benchmark level of IT infrastructure for UCBs in general or for identified sub groups of UCBs

c) To prepare a suggested roadmap of building such an infrastructure by the UCBs

d) To identify areas and ways in which IT support may be provided by the Reserve Bank

e) To make recommendations on the nature, scope and delivery mechanism for IT support to UCBs by the Reserve Bank

Section 2

Methodology adopted by Working Group and Profile of the Sector

2.1 Methodology

2.1.(i)   The Working Group met on 7th Jan 2008 and agreed to follow a suite of methodologies to analyse the assigned task and to arrive at a set of recommendations. The methodologies include meetings, discussion among members, collection and analysis of data on UCBs in general and IT usage by the UCBs in particular, research on the various IT models available in the market, and presentations and discussions with several IT solution builders.

2.1.(ii)   The Working Group met on 6 occasions between January 7 and April 7, 2008. The Group saw presentations and held detailed discussions with leading IT firms that are offering software solutions in the urban cooperative banking segment. IDRBT was also requested to make a presentation on its existing focus areas of work and to discuss the possible IT services and consultancy support that could be obtained from it for the UCB sector. In order to identify the basis for categorizing the banks for providing support, data was obtained from the Off-Site Surveillance database of Urban Banks Department. A presentation was also made by the department on the areas of IT support that the UCBs required. A representative of Karnataka Urban Banks Federation who had sought interaction with the Group was also invited to provide inputs on the IT plans of UCBs in the state. The Group held in-depth discussions to arrive at its recommendation.

2.2 Profile of Urban Cooperative Banks

2.2.(i)   Urban Cooperative Banking Sector is characterised by heterogeneity in terms of size, spread, profitability and professionalism. While 77 out of 1813 UCBs have over 50% of deposits of the sector, 77% of UCBs i.e. almost 1400 UCBs, accounted for only 19% of total deposits. The regional concentration of UCBs is reflected by the fact that the 4 large MOU states viz. Maharashtra, Gujarat, Andhra Pradesh and Karnataka, account for 72% of total number of UCBs. Analysis of UCBs in terms of number of branches, which has a bearing on the acquisition of IT infrastructure, shows a similar characteristic, as given below:

No. of branches	No. of Banks (% to Total)
Unit Banks	894
2 to 10	656
11-25	135
>25	29
Total	1714

2.2.(ii)   Almost 50% of UCBs are unit banks i.e. having single head office/ branch. It is evident that the smaller banks i.e. unit banks and those having upto 10 branches, comprise an overwhelming majority of UCBs in terms of numbers. This group, considering their size, spread and nature of operations does not need high-end facilities for computerizing their operations. Further, being small and with low profits or even loss making (shown below), their ability to computerize their operations is limited as, in many cases, was their ability to visualize the benefits of IT in enhancing their efficiency and competitiveness. Only a small number of banks had more than 25 branches. These banks mostly have their own computing systems, including core banking solutions (CBS).

Distribution of banks in terms of their size is tabulated below:

Deposits (Rs. Crore)	No. of banks(*)	No. of Unit Banks	% of unit banks to total
0-<5	272	260	95.6
5-<10	309	73	23.6
10-<25	451	255	56.5
25-<50	274	256	93.4
50-<100	184	34	18.5
100-<500	190	16	8.4
500-<1000	19	0	0
1000 and above	15	0	0
TOTAL	1714	894	

 *Figs. in brackets refers to the no. of unit banks   Provisional Data Based on returns submitted by banks

Section 3

Level of Current Usage of IT in UCBs

3.1.(i)   There exists a wide disparity with regard to the usage of Information Technology by the Urban Cooperative Banks. As on March 31, 2007, 16 out of 1853 banks had implemented Core Banking Solutions, while about 50 banks did not even have computers. The remaining banks exist somewhere along the continuum between those that had CBS on the one hand, and those without even PCs on the other.

3.1.(ii)   Most banks have solutions based on Total Branch Automation. Several banks have implemented locally developed and customised application solutions. While some big UCBs have in-house IT wings to take care of development and maintenance of systems, most banks have outsourced these services.

3.1.(iii) Anecdotal evidences are there about the problems faced by these banks because of their small size, lack of adequate IT knowledge, lack of adequate IT savvy manpower and small time vendors. They had suffered because small vendors could not provide satisfactory AMC and adequate post-implementation support for making changes in the software on account of their inability to retain skilled staff or sometimes because of the small scale of their operations, which rendered them unviable. Moreover, such legacy systems, set up by small vendors, were not standardized and therefore made migration to new systems more cumbersome and expensive than even acquiring a new one.

3.1.(iv)   The acquisition of non-standardized software/software developed by local / regional level vendors is fraught with the following risks:

1. <u>Vendor Disappearance</u>: Vendors who developed software for small banks are often small-time operators and are not available for support, modifications and change management subsequently. Their mortality rate is often high. Eventually, the software became obsolete and redundant.

2. <u>Loss of Key Personnel by Vendor</u>: Some times, the vendor is available but the key personnel, who were involved in the development of software, are no more with the vendor. The vendor finds it difficult to extend the required level of the support without its skilled personnel as being small it has little flexibility in the absence of backup staff. As they often also do not follow standard practice of

software development and documentation, the maintenance and updation of source-codes becomes difficult for the new personnel.

3. Lack of Regulatory Compliance Modules: Almost all the small-vendor developed software systems do not contain important regulatory provisions such as compliance to KYC norms, etc.

3.1.(v)   The Group also observed that there were several large banks which had their own data centres and were offering core banking solutions to the smaller banks and that a few successful cases of sharing of data centre facilities among banks were also known. However, as awareness of IT among UCBs was not pervasive, several banks seemed reluctant to keep their data in the data centres owned by other bank/banks.

Section 4

Problem Analysis and Possible Solutions

4.1 <u>Minimum IT Infrastructure in UCBs</u>

4.1.(i)   In today's financial systems, usage of Information Technology is fundamental to the survival and growth of the institutions. IT usage not only help banks hold and reduce their cost of operations, several developments in the information and communication technology(ICT) enable the institutions to proffer highly profitable products and services to their constituents. IT has become not just an enabler, but also the distinguishing and differentiator; it also provides competitive advantage and edge to its user. Further, current regulatory and supervisory compliance demands that the institutions have a very sound usage of IT systems for their operations.

4.1.(ii)   Considering the increasing penetration of commercial banks in what till recently were the niche areas of UCBs (such as middle and low income housing finance / retail loans etc.), the need to computerize the operations of even the smallest UCBs has become imperative to improve customer service and ensure survival. While deliberating upon the level of computerization of UCBs, the Group noted that in a country like China, all the two-lakh odd branches of all the banks had been computerized.

4.1.(iii)   The Group, while noting with satisfaction that the front line UCBs have taken advantage of what the ICT can offer, also observed that a very large proportion of UCBs have not done the same. Among UCBs, considering the high concentration of very small banks, lack of uniformity in the levels of computerization and inadequate awareness about effectiveness of computers in enhancing competitiveness, the Group felt that it is necessary to articulate the minimum IT infrastructure which should exist in each UCB regardless of its size, location or profitability.

4.1.(iv)   This minimum level of IT infrastructure, the Group felt should include the following:
  a) Computerized front-end i.e. customer interface
  b) Automatic backend accounting (through software)
  c) Computerized MIS reporting; and

d) Automated regulatory reporting.

4.1.(v)   The above minimum benchmark for computerization does not include 'networking' among branches, since the sector is largely dominated by unit banks or banks with only a few branches.

4.1.(vi) The Group then discussed about various methods by which a bank can create IT infrastructure for its use. It decided to invite a few IT solution providers to gain insights into the various methods. Accordingly, a few vendors, known to be offering IT solutions in the UCB segment (including a bank that had implemented CBS for another bank), were invited to make presentations on the facilities offered by them and on the likely cost structure.

4.1.(vii)   In view of the variance in size, financial strength and IT capabilities of UCBs, the Group also considered the possibility of sharing of IT infrastructure at the state level as state was operationally a logical unit for UCBs which are under the regulation of state governments and RBI. As a member of the Working Group RCS, Karantaka informed the Group about the proposal of the state government to support the development of a state level IT infrastructure for the UCBs wherein the degree of utilisation of the infrastructure by a bank would determine the cost for that bank. While an arms' length distance between banks owning the data centre and the database of other UCBs using the facility is technologically feasible, it also needs to be recognized that the long- term sustainability of such an arrangement is an issue, as banks are essentially in the business of banking and activities like development and maintenance of Data Centres and providing software support to financial institutions are focussed functions of IT firms.

4.1.(viii)   The Group also considered to invite an IT consultant also so as to understand the implications for building a common IT infrastructure, ensuring implementation of service level agreements etc. IDRBT, Hyderabad, an IT institution promoted by the Reserve Bank is known to have created common IT infrastructure for banks and have offered IT consultancies. Therefore, IDRBT was also requested by the Group to make a presentation before the group on the services being provided by them.

4.2 Role of IDRBT

4.2.(i)   The focus of IDRBT is in the areas of Academic Programs (M.Tech., Ph.D.), Executive Development Programs, Research & Development, INFINIT & related Services (LLN, VSAT, MPLS) and National Financial Switch. IDRBT is also the Certifying Authority for Digital Certificates and was providing Banking and Financial Services related consultancy.

4.2.(ii)   The Group deliberated on the possibility of consultancy support that IDRBT could provide to UCBs for preparation of Systems Requirement Specifications, selection of vendors, preparation of development / testing & implementation plans, and vetting the SLA (Service Level Agreement) between users i.e. UCBs and the service providing entity, to ensure smooth implementation and post-implementation support by the vendor. If required, IDRBT may develop an area of expertise within itself to cater to the IT needs of small banks, including UCBs. However, in view of the human resource constraints, IDRBT could consider providing support for groups of cooperative banks together as one unit and could help in selection of vendors, monitoring implementation, finalizing SLAs etc., for such groups.

4.2.(iii)   To the suggestion of NAFCUB that IDRBT could itself be the Application Service Provider (ASP) to the UCBs that could reduce the cost of operations, the Committee was of the view that IDRBT being a developmental institution, may not like to undertake this work as it is not the core competence of IDRBI. Moreover, commercial software companies are better suited for this purpose & would, in fact, be more competitive.

4.3 Presentation by vendor 1

4.3.(i)   Vendor 1 was a joint venture between an IT major and a very large commercial bank. It informed that the services offered by them were based on the ASP (Application Service Provider) model. The services included Core Banking Solution, shared Data Centre / Disaster Recovery Infrastructure and WAN connectivity for its customer banks, through Radio Frequency or VSAT or through Leased Line. Banks accepting the offer need to standardize their processes so as to reduce customization and thereby keep their costs low. The solution also includes retail banking services including ATM, POS, Kiosk and card issuance (Debit, credit, Charge).

4.3.(ii) Regarding the basic hardware required by UCBs, it was mentioned that only PCs were required at branch and HO levels and that there was no need for UCBs to acquire servers. In order to reduce the need for continuous connectivity between branches and head office, a facility was provided for effecting transactions off-line at the end of the day. In respect of unit UCBs, in order to reduce costs, banks could be grouped together and a single instance created for them. However, these groups of banks would need to have similar processes, products and business requirements, which, the group felt would be difficult to ensure.

4.3(iii) <u>Cost and Time:</u>

The vendor informed that the one-time charge (list price) for their solution was Rs.30 lakhs per bank <u>plus</u> 1.5 lakhs per branch. The recurring charges are Rs.30, 000/- per branch per month. The adoption of the new solution is also facilitated through training, making staff understand the business logic of the software and Post-implementation support provided by the vendor. It takes 3-4 months for a bank to make the system operational as some business logic is also to be created in the software. After that, it takes one week per branch to complete the implementation. The branches would have to take care of only LAN and PCs and all other aspects including uptime, connectivity, changes to be incorporated for all banks etc., are taken care of by the vendor. Connectivity is provided directly to each branch and not through the HO of the bank.

4.4 **Presentation by Vendor 2**

4.4.(i) The presentation by Vendor 2 highlighted their banking software which a few UCBs were said to be using. It offered the following services:

- Shared Hardware platform
- Common Software application
- Professionally managed Data Centre & Disaster Recovery Centre
- Routine Periodic operations
- Report generation & distribution
- Application maintenance/support
- Guaranteed uptime for application & services

It is fully managed & operated the software application which was made available to customers via a secure VPN over the internet which made the solution easy to implement. A few signification additional benefits were that:

- Software integration issues were eliminated

- Costs were spread across customers

- Application was made available, updated and managed by experts and therefore was reliable and the IT systems were scalable and secure

4.4.(ii)   The services offered included connectivity of branch/Head Office with Data Centre and Disaster Recovery site, end-to-end centralized banking solution, interfaces for ATM, Internet Banking, SMS & mobile banking, connectivity to payment gateways etc. The charges include One-Time Setup Costs (Per Branch – Rs 1,75,000/-) and Recurring Cost (Per Branch per month – Rs 28,000/-). In another payment model particularly suited for small banks, the firm offered Rs 5000/- Flat fee / month + per Transaction fee. On the hardware requirement at branch level, server at branch was not required to be of high configuration and is not expected to cost more than Rs.1 lakh. In addition to the ASP model, it also offered outright sale of the software to the banks at the rate of approximately Rs.3,50,000/ per branch for large banks and Rs.300,000/ for unit banks, as the latter would need lesser customisation in view of lesser complexity of their operations.

4.5 Presentation by Vendor 3

4.5.(i)   This vendor is a bank spread over several locations and had ATMs and had rolled out its own Core Banking Application with 'Any Branch Banking' and RTGS & NEFT services on STP mode. Such high-end services included solutions for front office activities, back office accounting, generating MIS and regulatory reports which the smaller banks could use without accessing the higher end functionalities. The model for sharing the software / services was ASP and the cost was approximately Rs.10 lakhs for corporate office plus Rs 3.00 lakhs per branch. Further, it was mentioned that it could share its software with UCBs through one of the following three models:

1. HO and Branches could have software in their own premises. HO and branches would be linked by network but Data Centre is not required.

2. Everything would be centralized in Data Centre, HO and branches would access application through network.

3. In third model, it would host all applications for the banks.

4.6 **Issues in Computerization and Support**

The questions that emerged out of the above discussions and presentations and the responses thereto are summarized below:

i.   What is the desired level of IT in a bank, irrespective of size, location & profits?

The Group opined that the minimum level of IT infrastructure in a bank should be a computerized front office services, back-office accounting, MIS and regulatory reporting.

ii.   What are the available solutions?

Several solution providers from big firms to middle range players and banks etc., existed in the market. Peer group banks working jointly for developing facilities like data centre for use by group members could also come together to provide solutions for the smaller banks. Even local developers were offering inexpensive solutions to banks which were workable in the short/medium term. However, choosing standardized products was essential for ensuring reliability and continued support.

iii.   What is the cost?

Costs of the ASP models have been discussed earlier. However, the costs mentioned above were the 'list costs' of the firms and would be negotiable, particularly if banks got together and bulk orders were to be placed. Different payment terms were also available which included a small charge every month combined with per transaction fee which could possibly be of interest to the smaller banks. In addition to the ASP model, the outright purchase offering also existed

iv.   Which approach could be adopted for computerization of banks?

In respect of the small banks, particularly the unit banks, it was felt that the best method for computerization could be through the ASP model wherein a few software vendors could be short-listed by an agency like IDRBT and the banks could select the vendor from out of the list, based on their geographical location and convenience. There was another view, however, that the independent application model might also be considered, should a bank be capable and desirous.

v. Who should be supported and How?

The Group deliberated upon the need for mandating the minimum level of IT usage by UCBs. It was observed that so far, mandates had been given by the Reserve Bank for regulatory purposes only, but if necessary, Reserve Bank could explore the possibility of laying down prescriptions for business purposes too.

Prima facie banks that were making losses or very meagre profits or those that are very small in size and therefore do not have the financial strength to acquire the IT infrastructure set by RBI, require support. However, in case support is extended only to the weak or small banks, the better performing or growing banks may tend to interpret that they were indirectly suffering because of their good performance or growth as RBI was not extending support to them for their IT efforts. Even though, in fact, the better performing banks may not be needing support, this approach of providing support to only those which are loss making or small may give a wrong and unintended signal to better performing banks.

This dilemma can therefore be addressed by ensuring that the support is not seen as a grant from Reserve Bank which was suggested by NAFCUB, as the banks must feel importance of participating by owing what they get. In any case, interest free payment over a period of time itself provides the built-in subsidy element. Similarly, the Committee felt that 3 years' subsidy on monthly rentals, as proposed by NAFCUB, may not be required.

Instead it could be in the form of, say, an interest free conditional loan. The repayment could be structured for different categories of banks. For loss making banks, for example, there could be a moratorium on repayment till the bank turned around. RBI could also attach conditions and link declaration of dividend to the repayments . In such a case, while the loss making banks would not have any problem in accepting the loan, the profit making banks that avail of it would have an incentive to pay back quickly so that they can declare dividend. Another area of support that Reserve Bank may provide to all banks could be in the area of training which could range from PC application to purchase/sale of securities over the Negotiated Dealing System.

Further, financial support may be needed for purchasing and/or leasing in adequate and benchmarked hardware, required for setting up the system envisaged by the Group. The terms of the loan could be the same as that for acquisition of software, discussed earlier, as the existence of appropriate hardware in every bank is a very important plank in the over-all proposal of ensuring a minimum standard of computerization in all UCBs.

vi. **How to route financial support?** On the issue of strategy for routing financial support to UCBs, the options were as under:

    (a) Providing funds directly to banks for outright purchase of customised software and hardware.

    (b) Paying the vendors who provide the software, on behalf of the UCB

    (c) Funding a national-level institution like IDRBT and routing the support through it.

In this context, it may be mentioned that in case of the first option i.e. providing finance to individual banks, it would be difficult to manage as effecting timely payment and monitoring the proper end use of the funds would be a major issue. RBI would also not be able to enforce the agreement between the vendor and the bank as RBI or its agency like IDRBT would not be a party to the agreement. Option 2 would mean a direct support to a vendor rather than to banks. Therefore, In Option 3, the ASP model, the agreement could be tripartite. In this option i.e. providing support through IDRBT, it needs to be mentioned that the institution was created by RBI for providing services to banking and financial sector in India and it is already providing applications such as SFMS to many banking entities on similar lines. Further, IDRBT's budgetary deficit is fully financed by the Reserve Bank and therefore it is very easy and logistically simple for the Reserve Bank to extend financial support to the UCBs through IDRBT. IDRBT could shortlist vendors for procuring the ASP model for urban cooperative banks, as IDRBT could provide IT consulting and could also monitor the implementation of the SLA. As such, the 3rd Option is considered to be very practical. Further, the ASP approach will make it easier to negotiate the price as consolidating the demand would provide economies of scale for both the vendor and the purchaser. ASP model would be a way of ensuring that even the smallest banks acquired standard software with continued support through reputed vendor.

There was also a view that banks which decided to select vendors independently should also be supported by RBI. Representatives of the sector felt that banks that had already selected or were in advanced stage of vendor selection for acquiring Core Banking Solutions stood to benefit from the support provided by RBI and should not be limited in the choice of vendor for availing the support. The Group debated this and concluded that such an option can be considered only for those banks which are well capitalised and with good track record, on whom we have confidence and comfort that the end use of funds are assured, and that they have IT savvy personnel to implement/oversee and deal with the vendors and for whom investing in an outright purchase option is financially a preferable option. The group felt that only banks which have deposits of over Rs.100 crore and are making profits for the last 3 years and have CRAR of over 9% should be supported for such outright purchase.

Section 5

Recommendations

5.   In today's financial systems, usage of Information Technology is fundamental to the survival and growth of the institutions. IT usage not only helps banks hold and reduce their cost of operations, several developments in the information and communication technology (ICT) enable the institutions to proffer highly profitable products and services to their constituents. IT has become not just an enabler, but also the distinguishing factor and differentiator. It also provides competitive advantage and edge to its users. Further, current regulatory and supervisory compliance demands that the institutions have a very sound usage of IT systems for their operations. There is a wide variance among Urban Cooperative Banks with regard to the usage of Information Technology. As on March 31, 2007, 16 out of 1853 banks had implemented Core Banking Solution, with some of them even offering to set up/share data centres with smaller UCBs, while over 50 banks did not even have computers. The remaining banks existed somewhere in between. Urban Cooperative Banking Sector is also characterised by heterogeneity in terms of size of the banks, their spread and profitability, etc. 77 out of 1813 UCBs for example account for over 50% of deposits of the sector while 77% of UCBs i.e. almost 1400 UCBs, accounted for only 19% of total deposits. In terms of spread, almost 50% of UCBs are unit banks i.e. having single head office/ branch and only 29 banks had 25 branches or more.

5.1 Minimum Information Technology Infrastructure in UCBs

Considering the concentration of small UCBs, the lack of uniformity in the levels of computerization and inadequate awareness about the efficacy of computers in enhancing competitiveness, the Group felt it necessary to articulate the minimum IT infrastructure which should exist in each UCB regardless of its size, location or profitability. This minimum level of IT infrastructure should include the following:

   a) Computerized front-end i.e. customer interface
   b) Automatic backend accounting (through software)
   c) Computerized MIS reporting; and
   d) Automated regulatory reporting.

5.2 <u>UCBs to be supported</u>

While maximum support is required for the small/weak banks, if support is extended only to the weak or small banks, the better performing or growing banks may tend to interpret that they were indirectly suffering because of their good performance or growth as RBI was not extending support to them for their IT efforts. As such, the group felt that support should be structured in such a way that it can be offered to all.

5.3 <u>Nature of Support</u>

In order to implement the minimum level of IT infrastructure by the UCBs as indicated in Recommendation No 1, Core Banking Solution (CBS) would be required to be adopted by the banks. The model of CBS may be according to the size and spread of the banks. The models for acquiring the IT infrastructure could be one of the following:

i) Application Service Provider (ASP) Model:

In respect of the small banks, particularly the unit banks, it was felt that the best method for computerization could be through the ASP model as the problems of software development and maintenance, training and retention of IT professionals, installation and maintenance of complex and costly hardware and other logistics like data centres etc would be addressed by the service provider without need for much initiative or involvement of the UCB. An agency like IDRBT could short-list/select one/ few vendors and be the conduit and service quality assuror to the banks. The payment model for the ASP option includes a one time payment and a small charge every month combined with per transaction fee, which could also be suitable for the smaller banks. Moreover, in ASP model, initial investment would be less and by combining the requirements of a large number of banks the cost could be further reduced.

ii) Outright Purchase Model:

If banks seek to go for outright purchase of the Core Banking, including data centre, the cost would be in the range of 1.5 crores to 2 crores for 5-10 branches per bank. Further, availability and retention of IT savvy professionals are also to be ensured. Besides, the bank should be strong enough to enforce service quality by the vendor. The Group feels that only those banks which are well capitalised and with good track record, on whom we have confidence and comfort that the end use of funds are assured, and that they have

IT savvy personnel to implement/oversee and deal with the vendors and for whom investing in an outright purchase option is financially a preferable option should be given the option to choose this model. As such, banks which have a business of more than 100 crores, CRAR of over 9% and have been profit making for the past 3 years could be provided support for outright purchase.

iii) Delivery Mechanism:

As indicated above, the support will be available for all UCBs. However, it should not be given in the form of a grant; support may be in the form of a loan and not subsidy. Experience shows that subsidy tends to reduce seriousness regarding the end use of funds. Financial support may be extended as follows:

a) Support could be in the form of interest free loan, repayable in 7 years, with one year moratorium. UCBs would be eligible for loan for software as also for purchase of hardware.

b) In the case of big banks preferring to go for outright purchase of software and hardware, interest free with only service charge of ½ percent to 1 percent to be charged by the SCB routing the loan may be considered.

c) In respect of weak / sick banks, the 'moratorium' may be for two years. In case the UCB defaults on its repayment obligations even after that, a view may be taken at that point regarding other options like continuation of management, non-disruptive exit of the bank etc.

d) For the banks which have to adopt ASP Model, routing of the interest-free loan by the Reserve Bank could be through IDRBT, which could prepare Systems Requirement Specifications, select vendors, prepare development / testing & implementation plans, and vetting the SLA (Service Level Agreement) between users i.e. UCBs and the service providing entity, to ensure smooth implementation and post-implementation support by the vendor.

e) For the banks which elect to have outright purchase of the application system, the Group felt that the Reserve Bank may not be able to extend direct loans due to monetary policy implications. However, NABARD has a separate fund for IT usage in co-operative sector, a portion of which can be routed to UCBs, through SCCB / DCCBs.

f) If required, IDRBT may develop an area of expertise within itself to cater to the IT needs of small banks, including UCBs. National and State Federation of cooperatives may also think of creating such IT facilities for UCBs in the long run for the benefit of the sector.

iv) Conditionality:

a) The aforementioned facilities will be made available only for UCBs located in the MOU states

b) Even if the UCB is a loss-making one, it would still have to honour repayment obligations in respect of the interest-free loan/loan from NABARD.

c) In case any UCB needs customization / change in the package for particular functionalities, it may put in a request to IDRBT, which will make arrangements for the same. However, such changes/enhancements will have to be paid for by the concerned UCB.

d) In case of banks which already have software in their existing branches, interest-free loan would be available for meeting cost of upgradation and/or expansion, under the same terms and conditions.

e) A bonus could be considered for the banks which repay the instalments on time and/or earlier. The bonus could be in the form of waiving the last installment.

5.4 <u>Estimate of Required Financial Support</u>

The Group attempted a very broad idea of the cost involved in upgrading the IT infrastructure of the UCBs, if the recommendations of the Group were to be accepted and implemented. The Group is conscious of the fact that such an estimate can be only an indicator, as the ultimate cost will be a function of the negotiations on the price. Based on the list prices indicated by different vendors, the Group estimates the cost of upgrading the IT infrastructure of all the 1762 UCBs will be as follows:

	For unit banks, small UCBs with branches upto 10 and other big UCBs who are eligible for only the ASP model (about 1650 banks)	For big UCBs who are eligible to choose outright purchase model (about 100 banks)
Software	Upto Rs 480 cr	Rs 400 cr
Hardware	Upto Rs 90 cr	
Data Centres	Nil	
Recurring (to be borne by the banks)	From Rs 1.2 lacs to Rs 3.6 lacs per branch per annum	About 8-10% AMC, depreciation costs, staff of IT dept, data centre maintenance

Thus the financial support (loan) needed through IDRBT for the ASP model can be in the range of Rs 500 cr at the listed price and through NABARD about Rs 400 cr.

Acknowledgements:

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1) Mr. Sharad Jambhrunkar: Assistant General Manager
2) Mr. Gautam Prakash   Manager

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The Chairman and the other members of the Group also acknowledge with thanks the services of Shri Ashok Narain, Member-Secretary in coordinating conduct of the meetings, collection and analysis of data, arranging with vendors and consultants for their presentations etc.

The Group also acknowledges the information and presentations made by the IDRBT Hyderabad, C-Edge, V-Soft and Shamrao Vithal Cooperative Bank.