



NEWSLETTER

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# Bombay Mercantile Co-operative Bank Ltd.

(Scheduled Bank)

Volume: IX

Issue : 9

10<sup>th</sup> October 2024

**Download Your E-Copy of NEWSLETTER Vol. IX Issue 9 dated 10 th October, 2024 from branch /department webmail or write to us at [newsletter@bmcbank.co.in](mailto:newsletter@bmcbank.co.in)**

Welcome to October 2024 edition of Newsletter. The Newsletter, as you all know, is a trusted and reliable source to enhance your knowledge and keep you abreast with the latest developments.

The biggest challenge faced by the banks at this time is decline in deposit growth and CASA base, which is the stable source of funding for the bank. The customers are having various options to invest their surplus funds and they are diversifying their deposit from the banks to Mutual funds and stock market. The same has also been felt by the regulator. The shift in preference of customers from deposit to investment in Mutual funds is due to higher rate of return offered by the said investment. The young people are more tech savvy and have awareness on various available investments which they can explore on their finger tips and nearly 65% of the population is below 35 years of age. In order to garner deposit and win the confidence of the customers, the branches have to offer prompt and courteous services and provide all the facilities including insurance to the customers.

The bank has conducted its 87th Annual General Meeting at Hajj House, Mumbai on 30th September 2024 and large number of shareholders were present to grace the occasion. The event was concluded with shareholders reposing their trust and confidence in the growth of the bank. The shareholders congratulated the Board of Directors on being elected for the next 5 years. The Board of Directors thanked the shareholders and assured to take the banks to new heights and informed that soon our bank would be classified as Sound and Well Managed Bank.

Our bank is proposed to hold a business summit in Mumbai in the month of October/November 2024 wherein the growth and performance for March 2025 would be discussed and targets would be set for increasing the business including fee based products.



**ZEESHAN MEHDI**

## Knowledge Base

### Extension of Interest Equilisation scheme (IES)

1.Extension of Interest Equilisation scheme (IES) for Pre-Post shipment Rupee Export Credit for three months beyond 30 th September 2024 i.e. 31.12.2024 subject to condition.

### Interest rates on small scheme

2. The interest rates for small saving schemes will remain unchanged for Q3 of FY 2024-25:

Sunkanya Samriddhi – 8.20%

PPF – 7.10%

Post office Savings bank - 4.00%

The data highlights an interesting aspect of the Indian investment landscape. With equity allocation at just 5.8% of total household assets, there's a clear preference for property and gold, which together account for over 65% of asset holdings.

This distribution underscores the traditional investment habits in India, where tangible assets like real estate and gold are favoured for their perceived safety and stability.

However, there is a significant opportunity for equity investment to grow, provided certain conditions are met.

Adequate supply of equity, including promoter stake sales and new company listings, is essential to support this growth. Moreover, long-term participation in equities should be driven by investors who are committed to benefiting from the overall economic expansion of India, rather than seeking short-term gains.

It's crucial for new investors to recognize that equity markets do not move in a straight line upward. Markets are inherently volatile, and periods of decline are inevitable.

The key to building substantial wealth through equity investments lies not just in profiting during bull markets but also in maintaining a disciplined approach during bear markets.

Consistent investment, even when the market is down, can yield significant rewards over the long term.

Overall, fostering a deeper understanding of equity investments and promoting a long-term perspective can help more investors participate in and benefit from the growth potential of the Indian equity market.

## **Government reconstitutes RBI's monetary policy committee, notifies new members**

The government has reconstituted the Reserve Bank of India's Monetary Policy Committee (MPC), notifying the new members on 1 October.

The MPC consists of six members, three of whom are from the central bank. The other three are external members, appointed by the Union government for four years.

The RBI members of the committee include governor Shaktikanta Das, who is also the ex-officio chairperson of the MPC. The other members are deputy governor in charge of monetary policy Michael Debabrata Patra, and another RBI officer to be nominated by the Central Board of the regulator--a position currently held by Rajiv Ranjan, executive director, RBI.

The MPC was set up in June 2016 to periodically review monetary policy and broad-base monetary policy decisions by including external voices. One of the key objectives of the MPC is inflation-targeting which involves guiding the India's headline Consumer Price Index (CPI)-based inflation to a target of 4% with a lower tolerance level of 2% and upper level of 6%. In August 2024, the inflation was 3.65%, the second lowest in the last five years.

## **RBI flags deficiencies in gold loan practices, asks lenders to take remedial measures in 3 months**

The Reserve Bank of India (RBI) flagged deficiencies in gold-lending practices with respect to use of third party agencies, inadequate due diligence and monitoring of end use of funds. The regulator asked gold lenders to review their policies and practices and take corrective measures within three months.

Gold loans refer to loans granted against a pledge of gold ornaments and jewellery.

The deficiencies were observed during a recent review of lenders' adherence to prudential guidelines as well as practices with regard to gold loans.

Major deficiencies include shortcomings in the use of third parties for sourcing and appraisal of loans, valuation of gold without the presence of the customer, inadequate due diligence and lack of end use monitoring of gold loans, lack of transparency during auction of gold ornaments and jewellery on default by the customer, weaknesses in monitoring of loan-to-value, and incorrect application of risk-weights, among others.

The warning on gold loan comes after the RBI, in August 2024, highlighted issues with home equity or top-up housing loans such as non-adherence to LTV ratios and lack of end-use monitoring, similar to those flagged for gold loans, and had asked lenders to take corrective action. Home equity loans or top-up loans are additional loans taken on existing home loans or personal borrowings.

## **Why should the RBI reduce interest rates?**

On September 18, the US Federal Reserve eased interest rate by 50 basis points (bps). Globally, central banks are easing interest rates. Now the big question is: when will India's Reserve Bank of India (RBI) cut interest rate? Let's understand what the RBI's monetary policy committee (MPC) will look at during its next policy review meeting to be held between October 7 and 9. Based on multiple variables, the MPC takes the decision to change the repo rate. The key variable is inflation. In July, consumer price index (CPI) inflation eased to 3.6 per cent and it was 3.65 per cent the following month, aided by a favourable base effect. The figure is well below the central target of the RBI, which is 4 per cent +/- 2 per cent. GDP growth is buoyant. It was 8.2 per cent in financial year (FY) 2023-24 and 6.7 per cent in first quarter (April-June), FY24-25. However, as a growing economy, growth is vital for us. As long as inflation is under control, it does not do any harm to ease interest rates and also gives an impetus to growth. The current stance is 'withdrawal of accommodation'. However, after the review meeting in February, 2023, the RBI has not withdrawn any accommodation. There has been a pause in every review meeting. With inflation under control, there is no need for any withdrawal either. Hence the stance of 'withdrawal of accommodation' is outdated and calls for a change to neutral.

## Is the Emotional Chord between Customers & Banks breaking ?

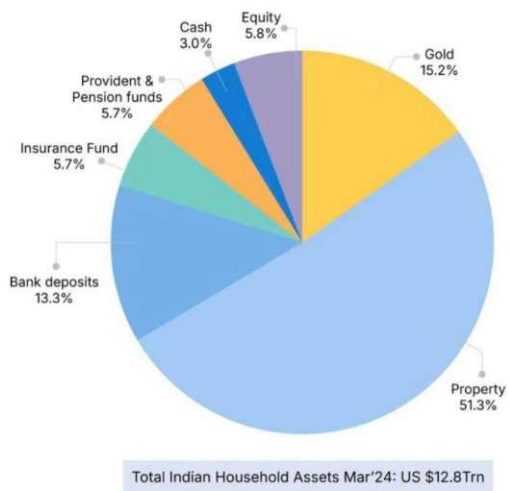
“One happy customer could be more valuable than INR 1,00,000 worth of advertising for a bank.”

The RBI Governor’s recent concern about the rising retail money finding its way into alternative investment routes indicates the severity of the deposit drought. The evolving relationship between customers and banks is not just a matter of sentiment but a critical factor shaping the future of the financial sector. With low deposit growth, the banks face a reduced capacity to lend, increased reliance on expensive funding, and profitability issues. Deposit growth is needed to manage credit risk and ensure financial stability.

In recent years, the traditional notion of loyalty between banks and customers has undergone a significant transformation. Several factors contribute to this shift.

- 1) Rise of Digital Banking;
- 2) Lack of Personalization
- 3) Reduced Human Interaction
- 4) Increased fees
- 5) Data Breaches and Security Concerns
- 6) Decreased Community Involvement
- 7) Fraud & Scandal

### Indian household Asset ownership



### ASSET OWNERSHIP

Property	:	51.30%
Gold	:	15.20%
Bank deposits	:	13.30%
Equity	:	5.80%
Cash	:	3.00%
Other	:	11.40%
Total	:	100.00%

## KNOWLEDGE HUB

### How Do Banks Set Interest Rates On Loans?

How does a bank decide what rate of interest to charge? Why does it charge different interest rates to different customers? And why does the bank charge higher rates for some types of loans, like credit card loans, than for car loans or home mortgage loans?

Following is a discussion of the strategies that lenders use in pricing of different loans. It is important to note that many banks charge fees as well as interest to raise revenue, but here, I focus solely on interest and assume that the principles of pricing remain the same if the bank also charges fees.

#### 1. Cost-Plus Pricing

Cost-plus pricing is a methodology that sets the price of a bank product by adding a fixed margin or percentage to the cost of producing or providing the product. The cost can include various expenses, such as operational, funding, capital, risk, and taxes. The margin or percentage can be based on the desired return on equity, return on assets, or market share. We always recommend starting with cost-plus pricing to form the lower bounds of your pricing options

2. Competitive Pricing Competitive pricing is the most common methodology banks use when pricing loans, deposits, or fee services. In this, the price of a product or service is based on the prices of similar or substitute products or services offered by competitors in the market. This method is commonly used by banks to attract and retain customers, especially for products or services that have low differentiation or high competition, such as loans, deposits, or credit cards.



## 3. Value Based Pricing

Value-based pricing in banking refers to setting prices for products and services based on the perceived value they provide to customers rather than solely on cost or market-based pricing. This approach focuses on understanding what customers are willing to pay for the benefits and unique features of banking products and services, such as convenience, security, rewards, and personalised services.

## 4. Risk Based pricing

Risk-based pricing is a lending model where the interest rate offered to borrowers is based on their individual credit risk profiles, allowing lenders to adjust rates to reflect varying levels of risk and optimize returns. Risk based pricing model enables lenders to tailor interest rates to individual borrower risk profiles, optimizing risk- adjusted returns and expanding the borrower pool. Risk adjustment methods include credit scoring, collateral, and loan term.

## CONGRATULATION TO YOUNG ACHIEVERS



**Congratulation to Mr. Akshat Raj,  
Code No. 4251 of our KYC department,  
Head Office for successfully  
completing CAIIB Examination  
conducted by Indian Institute of  
Banking and Finance.**

Win a prize of Rs.1000/- and a certificate of appreciation from the Managing Director for the correct answer with a beautiful slogan concerning banking activity. The slogan should not be more than 30 words. **Send your reply with slogan in sealed envelope mentioning your Name, Code No. and branch to Treasury Department, 2<sup>nd</sup> Floor, 78 Mohammedali Road, Mumbai – 400 003.**

## QUESTIONNAIRES

Q.1 The MPC was setup in June 2019

(a) True (b) False

Q.2 RBI flags deficiencies in Housing Loan policy

(a) True (b) False

Q.3 The key variable for RBI to reduce the Rate of Interest

(a) Growth (b) Inflation

Q.4 Loyalty between customers and bank has undergone change due to decline in personal banking

(a) True (b) False

Q.5. PLR stands for .....

**Your reply should reach  
us on or before  
25.10.2024**

## Quiz result of Issue 7 VOL IX

### Quiz Answer :

1. (b) 2. (b) 3. (CHEQUE TRUNCATION SYSTEM) 4. (ICONIC LEADERS AWARD)
5. (A beneficial owner is a person who enjoys the benefits of ownership even though the title to some form of property is in another name.)



**WINNER's NAME: Mr. Suhail Arif Zaidi, Code No. 4299,  
Musafirkhana Branch, Mumbai.**

**SLOGAN : Your first choice for monetary needs.**

Cash prize and Quiz Competition Certificate is ready and will be delivered to winner during staff function program or seminar by the hands of Managing Director.



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**Chief Patron : Mr. Syed Ajaz Haider Rizvi , Director**  
**Chief Editor : Dr. M. Shah Alam Khan – Managing Director**  
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