



HOUSINGNEWS

(July – September 2005)



A quarterly publication from National Housing Bank





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प्रिय पाठकों,

चालू अंक में हमारे वित्त वर्ष, अर्थात् जुलाई-सितम्बर, 2005 की तिमाही के मुख्य घटनाक्रम शामिल हैं। पुनर्वित्त और परियोजना वित्त दोनों ही माध्यमों के संवितरण से एक प्रभावी शुरुआत हुई है। मुझे आशा है कि हमारी योजनाओं में हुए संशोधनों से इस वर्ष के दौरान संवितरण और बढ़ेगा, जैसा कि इस अंक में उल्लेख किया गया है। स्वर्ण जयंती ग्रामीण आवास वित्त योजना के अधीन संस्थानों के लिए निर्धारित लक्ष्यों से आगे बढ़ जाना अत्यंत उत्साहवर्धक है। यह विशेष रूप से आवास क्षेत्र के समग्र विकास और सामान्य रूप से अर्थव्यवस्था में अंशदान करने में ग्रामीण आवास के लिए संस्थागत निधि के बढ़ते प्रवाह का एक संकेत है।

आज सेवा में गुणवत्ता का युग है। इस पैरामीटर पर स्वयं को निरन्तर सुधारने के हमारे प्रयासों में, हमारे बैंक ने गुणवत्ता प्रबंध प्रणाली लागू करने का प्रयास किया है। मुझे विश्वास है कि निकट भविष्य में, यह हमें इस क्षेत्र की सेवा अधिक अर्थपूर्ण ढंग से करने के लिए प्रेरित करेगा।

आवास समाचार (हाउसिंग न्यूज) का यह अंक श्री आर. के. कालड़ा, जिन्होंने हाल ही में इस प्रकाशन का संपादन हाथ में लिया था, को भी श्रद्धांजलि अर्पित करता है। उनके अकस्मात् एवं असाध्यिक निधन से बैंक में हम सभी को भारी आघात पहुंचा है। उनकी याद हमारे दिलों में सदा बनी रहेगी और आवास समाचार (हाउसिंग न्यूज) के अंकों को समय से प्रकाशित कर हम उन्हें सर्वोत्तम श्रद्धांजलि दे सकते हैं।

इस अंक से शुरू करते हुए, अपने आवास पर सुसंगत और अर्थपूर्ण लेख के योगदान हेतु अपने सभी पाठकों के लिए यह मंच खोला है। हम अपने पाठकों से एक अन्योन्य क्रियाशील भागीदारी की आशा करते हैं जिससे हमें आवास समाचार (हाउसिंग न्यूज) को उन्नत और पढ़ने में अधिक रूचिपूर्ण बनाने में सहायता मिलेगी।

वी.के. बड़ामी

Dear Readers,

The current issue covers the development in the first quarter of our financial year i.e. July – September 2005. The disbursements both under refinance and project finance windows have shown an impressive start. I am optimistic that with the modifications made in our Schemes, as outlined in this issue, the momentum will increase during the course of the year. The reported achievement of institutions in surpassing the targets set to them under the Golden Jubilee Rural Housing Scheme is also encouraging. This is an indication of increased flow of institutional fund for rural housing contributing to the overall development of the rural sector in particular and the economy in general.

These are days of quality in service. In our efforts to continuously improve ourselves on this parameter, our Bank has endeavoured to implement the Quality Management System. I am sure that in the near future, this will motivate us to serve the industry in a more meaningful manner.

This issue of Housing News also pays homage to Shri R. K. Kalra, who had recently taken over as editor of this publication. His sudden and untimely passing away came as a shock to all of us in the Bank. We will cherish his memory and the best tribute we can pay him is to bring out the issues of 'Housing News' in time.

Starting with this issue, we have opened this forum to all our readers in the industry for contribution of relevant and meaningful articles on housing. We look forward to an interactive participation from our readers which will help us to improve Housing News and make it more interesting to read.

V. K. Badami



Activities during the quarter

In a nutshell

Nos of HFCs registered with NHB	45
<i>With permission to accept deposits</i>	23
<i>Without permission to accept deposits</i>	22
Refinance Disbursements till 23.09.2005	Rs. 940.99 crore
Refinance Outstanding as on 31.08.2005	Rs. 12770.31 crore
Disbursements for Housing Projects as on 26.09.05	Rs. 107.58 crore
Outstanding under Project Finance as on 26.09.05	Rs. 289.17 crore
Capital Gain Bonds subscribed till 24.09.2005	Rs. 626.00 crore

Regulation & Supervision of Housing Finance Companies

HFCs registered under NHB Act:

As on 15.09.2005 there were 45 registered Housing Finance Companies of which 23 HFCs have been given Registration Certificate with permission to accept public deposits. Certificate of Registration was granted to Vastu Finance Ltd without permission for acceptance of public deposits in March 2005. The registration given to SBI Home Finance Ltd. was cancelled on August 16, 2005 as the company was no longer carrying out housing finance business.

Draft guidelines on Securitisation of Standard Assets:

The Bank issued draft guidelines to Registered HFCs on July 4, 2005 for their comments on securitisation of standard assets to ensure healthy development of the secondary market

for residential mortgages. The comments received from HFCs are being examined. The Guidelines cover capital adequacy, valuation, profit/loss on sale of assets, income recognition and provisioning for originators and service providers like credit enhancers, liquidity support providers as well as investors; and as also the accounting treatment for securitisation transactions and disclosure norms. A copy of the draft guidelines is available on the Bank's web-site.

Financing Activities

a. Refinancing the Housing Finance Institutions

The refinancing activities of the Bank made an impressive start at the beginning of the year. Till 23.09.05 the Bank disbursed Rs. 940.99 crores under this window. The performance under the Golden Jubilee Rural Housing Finance Scheme was Rs. 232.33 crores. The refinances disbursed to



various category of primary lending institutions is as under:

Rs. in crores

	TOTAL	Under GJRHFS
HFCs	240.99	232.33
Banks	700.00	-
Total	940.99	232.33

b. Change in Interest Rates for Refinance

The interest rate structure of our refinance products are reviewed from time to time to ensure optimum pricing. During the year, the interest rates for funds of tenure ranging from 3 to 5 years have been rationalized to cater to the industry requirement. Interest rates for co-operative sector institutions namely Apex Co-operative Housing Finance Societies (ACHFS) and Agriculture and Rural Development Banks (ARDBs) continue to be at existing levels. Further, interest rates under short term, Gujarat earthquake and Tsunami Scheme also remain unchanged.

c. Modifications in Refinance Scheme

The scope of the Liberalised Refinance Scheme in respect of refinance assistance to Scheduled Commercial Banks has been widened by making their indirect housing loans to Housing Finance Companies, Apex Co-operative Housing Finance Societies, Agriculture and Rural Development Banks, Housing Boards, Public Housing Agencies and Private Builders/Developers.

d. Modification in Scheme for providing Short Term Assistance to Scheduled Commercial Banks

The Short Term Assistance Schemes applicable to Scheduled Commercial Banks and Housing Finance Companies have been modified. Eligible institutions can now avail funds, for periods above 45 days, 90 days, 135 days, 180 days and 270 days as per applicability in respective schemes.

e. Financing of Housing Projects

During the quarter, a project of Army Welfare Housing Organisation was sanctioned under the direct finance window. The project has a loan component of Rs. 86 crores. The entire amount has been financed by our Bank.

The Bank also disbursed the first installment of Rs. 1 crore to Share Microfin during the quarter. We had mentioned in our last report of sanctioning Rs. 10.80 crore to this micro financing institution of Hyderabad for construction and repairs of 4500 dwelling units in Andhra Pradesh, Karnataka and Chhattisgarh.

f. Upcoming Projects

Our concerted efforts in marketing our products seem to have evinced interest in several public sector as well as private sector agencies. Few institutions of these categories have approached us for financing of their Slum Redevelopment Projects, Employee Housing Schemes, Township Development Projects etc. The



proposals are currently being examined by the Bank for possible financial assistance.

Resource Mobilisation

Capital Gain Bonds continue to be the major source of borrowing for the Bank. The Bank has been sourcing funds from the market at competitive rates. An amount of Rs. 2997.32 crore was mobilized during the year under this Scheme. The response to these Bonds has been encouraging with the public mainly because of the tax exemption to capital gains

under Section 54 EC of the Income Tax Act, 1961. During the first quarter of the current year, till 15th September, Rs. 569.87 crore was mobilised by the Bank.

Redemption : In order to reduce the cost of borrowings of the Bank and also considering the present interest rate scenario, it has been decided to exercise the call option in case of Capital Gain Bonds having coupon rate of 7.15% and 6.50%. Accordingly, the funds raised under these two coupon rates are being redeemed on the maturity of 3 years. Redemption has started from August 2005.

Interest Rate revision on Capital Gain Bonds

In the calendar year 2005, the Bank revised the rates of interest on the Capital Gain Bonds. The changes which have been effective in different periods are as follows:

	<i>For 5 years with put/call option at the end of 3 years</i>	<i>For 7 years with put/call option at the end of 5 years</i>
1.12.04 to 15.02.05	5.35 % p.a. for amounts up to Rs.1 crore	5.50 % p.a.
	5.45 % p.a. for amounts of Rs.1 core and above	
16.02.05 to 15.04.05	5.45 % p.a.	5.50 % p.a.
16.04.05 to 15.08.05	5.25 % p.a.	5.35 % p.a.
16.08.05 to present	5.50 % p.a.	5.60 % p.a.

Golden Jubilee Rural Housing Finance Scheme (GJRHFS)

The Golden Jubilee Rural Housing Finance Scheme was launched in the year 1997-98 with a view to provide improved access to housing finance to the people living in the rural areas. The Scheme provides for construction of a new dwelling unit or upgradation of the existing

unit. The Scheme is implemented through various Primary Lending Institutions (PLIs) namely Housing Finance Companies (HFCs), Public Sector Banks (PSBs) and co-operative sector institutions. The GOI sets national targets and NHB being the monitoring agency, sub-allocates the target among the Primary Lending Institutions.

During the year 2004-05, a total of 2,58,975 units were financed by PLIs as against the national target of 2.5 lakh dwelling units, thereby recording an achievement of 103% as against 97.50 % during 2003-04. For the current financial year 2005-06, a target of financing of 2,75,000 units has been set under the Scheme. Based on the performance of PSBs and HFCs during the previous years as well as their size, network of branches etc. the target has been allocated to various Public Sector Banks and HFCs

As on 15.9.2005, as per reports received by the Bank, the achievement of targets under the Scheme during the first quarter of 2005-06 (April to June) is as follows:

improved quality of NHB services to its customers and other stakeholders. The FICCI Quality Forum has been engaged as our consultants for the same. The QMS project was launched by our CMD Shri P K Gupta in July 2005.

QMS requires an organization to demonstrate its ability to consistently provide products/ services that meet customer requirements under regulatory framework. It also helps in enhancing customer satisfaction through effective application of the system, besides ensuring continuing efforts through improvement of systems and processes.

[No. of Units]

Institution	Yearly Target (2005-06)	First Quarter Target (April-June 2005)	Achievement	%age achievement
Housing Finance Companies	82,500	15,675	18,113	115%
Banks	1,92,500	36,575	45,862	125%
Cooperative Sector	—	—	—	—
TOTAL	2,75,000	52,250	63,975	122%

The performance during the first quarter of the current year has been encouraging and approximately 122% of the first quarter target has already been achieved.

Quality Management System Implementation

The Bank initiated the process of developing a Quality Management System (QMS) for NHB with a view to improving effectiveness and efficiency of various processes resulting in



CMD and other senior officers along with Shri S. C. Arora, FICCI Quality Forum, at the launch of Quality Management System in NHB



At the launch of the project, CMD informed that the objective will be to develop a QMS for NHB with a view to improving effectiveness and efficiency of various processes. This will help us deliver better services to our customers and stakeholders. He mentioned that QMS will benefit us by improving the operational efficiency enabling better decision making processes and economy in expenditure.



Shri P. K. Gupta, CMD, NHB addressing the officers at 'Chintan Kaksh' on the occasion.

Visit of the Officials from National Housing Finance Corporation, South Africa

Housing Finance is a priority activity for the policy makers in South Africa. In order to set up an efficient market to cater to the housing needs of its citizens, a three member team led by Mr Samson Moraba, Chief Executive of National Housing Finance Corporation (NHFC), South Africa visited NHB during September 5-9, 2005. The objective of their



Officers of NHFC & NHB during a presentation being given by NHB

visit was to understand our business model, both institutional and operating framework and structure. The NHFC is a development finance institution with the principal mandate of broadening access to affordable housing finance for the low and moderate income households in South Africa. Their visit included discussions, presentations and exchange of ideas, besides visiting the offices of HDFC and HUDCO.



Shri R.V. Verma, ED, NHB alongwith officers of the Bank in a meeting with the delegates from NHFC

Programme on Introduction to BASEL II

A one day session on 'Introduction to BASEL II' was organized for the benefit of the officers of the Bank in July and September, 2005 at the Head Office of the Bank. The programme was conducted by Shri B.K. Deb, DGM (Retd.), Punjab National Bank who is currently consultant to NHB on Risk Management. The session inter alia dealt with transition from Basel I to Basel II, understanding the meaning of various risks covered under Basel II and its measurement process. Mechanics of designing a credit risk rating model for NHB's clientele were also discussed. The session was an interactive one and evoked good response from the officers of the Bank.

Annual Day Celebrations of the Bank

The Bank celebrated its completion of sixteen years of dedicated service as the Apex Housing Finance Institution in the country. It was on 9th July, 1989 that the Bank came into existence with the objective of promoting the housing finance system in the country. On completion of sixteen years, the officers rededicated themselves in providing better services to the housing finance industry and the nation.



CMD, leading the officers in the celebration of NHB Day



CMD, NHB and other officers of the Bank on the occasion of NHB Day on 9th of July

राजभाषा संबंधी गतिविधियां

राष्ट्रीय आवास बैंक अपने स्थापना काल से ही भारत सरकार की राजभाषा नीति के अनुपालन के लिए कटिबद्ध रहा है। बैंक का हमेशा यह प्रयास रहा है कि प्रेरणा और प्रोत्साहन की नीति अपनाकर बैंक में हिंदी के प्रयोग को उत्तरोत्तर बढ़ाया जाए। अपने इन प्रयासों में बैंक को आशातीत सफलता मिली है।

भारत सरकार की राजभाषा नीति संबंधी अपेक्षाओं एवं सांविधिक उपबंधों का अनुपालन लगातार किया जा रहा है यथा: धारा 3(3) के अन्तर्गत जारी किए जाने वाले कागजातों का द्विभाषी रूप में प्रकाशन, हिंदी पत्रों का जवाब हिंदी में ही देना, कंप्यूटर पर हिंदी साफ्टवेयर का प्रयोग, स्टेशनरी की मदों का द्विभाषीकरण, प्रेस विज्ञप्तियों का द्विभाषी रूप में प्रकाशन, अधीनस्थ कार्यालयों की राजभाषा प्रगति का निरीक्षण आदि कार्य तत्परता से किए जा रहे हैं। इसके अतिरिक्त बाहरी सरकारी कार्यालयों, एजेंसियों एवं व्यक्तियों आदि से भी व्यवहार में यथा हिंदी का प्रयोग किया जा रहा है। बैंक का प्रक्रियात्मक साहित्य यथा योजनाएं, मार्गनिर्देश, सूचना पत्रक आदि द्विभाषी रूप में तैयार किए गए हैं।

समय-समय हिंदी कार्यशालाओं एवं संगोष्ठियों का आयोजन भी किया जा रहा है। संगोष्ठियों में अधिकारियों के हिंदी



प्रयोग करते समय आने वाली समस्याओं आदि विषयों पर गहन विमर्श किया जाता है एवं उनके हल सुझाए जाते हैं एवं अधिकारियों से हिंदी प्रयोग के विषय में मिले उपयोगी सुझावों को नोट कर उन पर कार्यवाही की जाती है। हिंदी कार्यशालाओं में अधिकारियों को सरकार की राजभाषा नीति, वर्तमान राजभाषा लक्ष्यों एवं नीति संबंधी वार्षिक कार्यक्रम एवं हिंदी में पत्र व टिप्पणी लेखन आदि के बारे में बताया जाता है।

बैंक के अधिकारियों को अपने दैनिक कार्य में हिंदी का प्रयोग करने के लिए प्रोत्साहित करने के उद्देश्य से प्रोत्साहन योजनाएं लागू की गई हैं एवं प्रतिवर्ष सफल अधिकारियों को इन प्रोत्साहन योजनाओं में पुरस्कृत किया जाता है साथ ही अधिकारियों को हिंदी सीखने के लिए प्रोत्साहित करने के उद्देश्य से भी एक अन्य योजना बैंक में विद्यमान है। इसके अतिरिक्त, बैंक में प्रतिवर्ष हिन्दी पखवाड़ा हिंदी चेतना मास भी बनाया जाता है। इस वर्ष भी बैंक में 16 अगस्त, 2005 से 14 सितम्बर, 2005 तक “हिंदी चेतना मास” का आयोजन किया गया है। इस दौरान 6 प्रतियोगिताएं आयोजित की जा चुकी हैं एवं हिंदी वृत्तचित्र / फिल्मों का प्रदर्शन भी किया गया है। इसके अतिरिक्त, “हिंदी पुस्तकें एवं पत्रिकाएं एवं हिंदी का प्रयोग” विषय पर एक संगोष्ठी का आयोजन भी किया गया है। इस वर्ष हिंदी चेतना मास के मुख्य समारोह में करीब 18-20 अधिकारियों को विभिन्न हिंदी प्रतियोगिताओं एवं हिंदी प्रोत्साहन योजनाओं में पुरस्कृत किया जाएगा एवं इसके अतिरिक्त बैंक में अन्तर्विभागीय राजभाषा चल वैजयंती योजना भी प्रारंभ की गई है एवं बैंक के जिस विभाग द्वारा समीक्षाधीन अवधि में हिंदी में सर्वश्रेष्ठ कार्य किया जाता है उस विभाग को यह राजभाषा चल वैजयंती प्रदान की जाएगी।

बैंक वित्त मंत्रालय, बैंकिंग प्रभाग की राजभाषा कार्यान्वयन समिति, भारतीय रिज़र्व बैंक की राजभाषा कार्यान्वयन समिति एवं दिल्ली बैंक नगर राजभाषा कार्यान्वयन समिति का भी सदस्य है एवं नियमित रूप से इनकी राजभाषा संबंधी बैठकों एवं अन्य समारोह में नियमित रूप से भाग लेता रहा आ रहा है तथा अपनी गतिविधियों की जानकारी उन्हें भेजता रहा है।

Other Updates

- Our Chairman and Managing Director Shri P. K. Gupta who has been holding additional charge of Chairman and Managing Director, United Bank of India (UBI) has now been appointed as Chairman and Managing Director of UBI. The Housing News wishes Shri Gupta all success in his new assignment.
- The last issue of the housing news published three articles viz. “Deferred Tax Assets due to loss under Capital Gains” by Shri N.G.Jhingran, Assistant Manager, “An integrated approach to enhance Institutional credit flow to tackle the Rural Housing Problems in market driven environment – a new perspective” by Lalit Kumar, Assistant General Manager and “Fringe Benefit Tax-Salient Features” by Ms. Ritu Sharma, Assistant Manager. The article written by Shri Lalit Kumar was selected for the prize under the Housing News Incentive Scheme.
- Shri V. Raghu, General Manager with our Bank sought voluntary retirement from the services of the Bank in August 2005. At a farewell function organized for him, he was wished all success in his future endeavours by the officers of the Bank. Shri Raghu has been associated with this publication for a long time earlier as Editor and later as a member of the Editorial Board.
- The Bank has completed the recruitment exercise for inducting new officers in the services of the Bank. The selected officers who have completed the formalities are expected to join us early next month.



Farewell to Shri Rakesh Kumar Kalra: Editor - Housing News (April-June edition)

In a cruel fate of destiny, the NHB family lost one of its esteemed officers Shri Rakesh Kumar Kalra suddenly on August 19, 2005. Shri Kalra, who was serving as the Assistant General Manager joined the Bank in 1989 after having served the Government of India in the Indian Statistical Service for a few years.

Shri Kalra was looking after the Market Research and Training activities of the Bank. Though he assumed the charge of the Editor of Housing News only in the last issue, he has long been associated with its publication. He took every care to make available the Housing News in the hands of its readers on the first day of every quarter. He worked diligently to improve the quality of this publication both in terms of contents and outlay. The officers of the Bank express heart felt condolences to the bereaved family of Shri Kalra and pray that his soul rests in peace.





▶ ARTICLES ▶

Creativity and Innovation in Organisations

Vishal Goyal
Regional Manager, NHB

There is a beautiful story that is told about Chatrapathi Shivaji. At one time, Shivaji was very frustrated and found running his kingdom a big burden. So he went up to his Guru, Samarth Ramdasji, and told him that he was fed up and wanted to renounce everything. Ramsadji heard him out and gave him permission to do so. Shivaji was happy at the very thought and immediately relaxed.

That's when Ramdasji said to him, "I have accepted everything. Now I am the king and you are my servant. Will you do whatever I ask you to do?"

Shivaji said he would do anything for him. So Samarth Ramdasji said, "Very good. Will you run this country for me?" And Shivaji replied, "Yes, I will run the country for you."

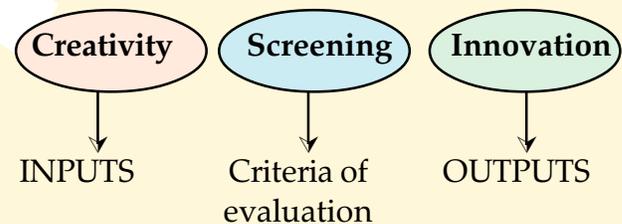
Total renunciation had rekindled his zeal and enthusiasm and henceforth Shivaji ruled happily.

When you are continuously on the job, it leads to wear and tear. You can act when you are tense, but to be creative you need to be relaxed. Creativity is not an exercise; it only happens when the body, mind and spirit are in tune with each other.

Creativity & Innovation

Creativity is the ability to produce new and original ideas and things. Innovation makes the idea practical and usable. The innovative activity in any business enterprise depends upon the creative contributions of its members. It also depends upon how the organization taps the creativity of its talented members.

Thus one can say creativity is about generating new ideas; innovation is about their implementation. In this context, innovation not only relates to products and services offered in the marketplace, but also covers business processes and organizational structures which underpin them at the workplace.



INPUTS

- Ideas
- Daydreaming
- Observing
- Brainstorming

OUTPUTS

- Results
- Better
- Faster
- Cheaper
- Aesthetic

Elements of the Creative Process

The overall creative process has four elements: Preparation, Incubation, Illumination and Verification

Preparation is the stage when the body, mind and spirit are in tune with each other and one is relaxed.

Incubation requires partially turning off the process of conventional thinking. This involves holding of or keeping in check the normal tendency to criticize and judge the value of what is taking place in the flow of thought. A lot of free thinking without any



constraints should be encouraged in the stage.

If incubation is successful, there follows the moment of illumination, which often is like a flash of lightening. The sudden insight of people is linked to a mystical experience. People who have experienced illumination have generally expressed as “Ah-ha” effect.

The final stage of creative process is verification. Here the mind returns to the pursuit of more conventional patterns and works out the creative solution in detail, polishes it in a more final form, and chooses some tests or method of proof so that the idea becomes creditable and accepted.

You do not have to be an expert to be creative as the following examples will indicate:

- *The bell was invented by an astronomer – Edmund Halley*
- *The pneumatic tyre was invented by veterinarian – John Dunlop*
- *The safety razor was invented by a sales man – KC Gillette*
- *The vacuum cleaner was invented by a bridge builder – Hubert Booth*

Creativity in Individuals

Although all human beings are born with creative abilities, the socializing process, the norms and sanctions of society, training in the family, rewards and punishments attached to social behaviour, in fact, all types of indoctrination kill this creativity.

You have to nurture your creativity – intellectually as well as with skill. So whether you are writing a piece of fiction, molding a statue, designing an air-craft or thinking out your moves in chess, you have to

continuously keep working at it, reinventing yourself, improving your skills – it’s a process that becomes a part of you.

Age can also bring its pressures, but they can be overcome. At 70, you may not have the energy to do what you did at 30, so you reinvent yourself. You may need to change the form, even the method of work.

Characteristics of Creative People

Do creative people have common characteristics that we can identify, so that we can hire the right people? Many theorists and practitioners think that there are common characteristics, such as tolerance to ambiguity and risk taking. However, many others argue that there are none. Some of the common characteristics of creative people could be:

- Optimistic about the future
- Open to alternatives
- Day dreamers
- Highly curious and observant
- Independent Thinkers
- Good at turning innovative ideas into practical solutions
- Take action and make things happen
- Adventurous with multiple interest

Creative Organisation

Generally organizations have a fixed routine way of working. They do not like to unnecessarily experiment due to risks involved. But in order to stand out, one has to take risks to be more creative.

In today’s global marketplace, factors promoting creativity are both external and internal to organizations. The main external drivers are a turbulent operating environment,



customer expectations, competitor and quality pressure, branding pressure, shareholder expectation and globalization of markets. Another external driver is the need to retain the existing customer base or find new markets.

Internal drivers, on the other hand, arise from shorter product cycles, accelerated innovation and purposeful activities which lead to continuous improvement, management that seeks a unique status for the organization

Designs of an Innovative Organisation

The following designs can be considered for being an innovative organization.

- a) ability to take risks
- b) belief in flexibility
- c) emphasis on environmental scanning
- d) commitment to market new or novel products
- e) strong experimental orientation
- f) change in recruitment policy
- g) adoption of unique, pioneering, inspiring mission
- h) periodic self assessment

Barriers to Creativity

Managers can very often be heard telling or listening to remarks like the following:

- Be as practical as you can
- Follow all the rules
- That is not logical
- I am not paid to think
- Some one else may already be doing it
- To make a mistake is wrong
- If I share my ideas someone else may steal.

All these can be considered to be barriers to the creative process. Some of these inhibitors are cultural – they are embedded in the psyche of the organization, while others are structural – they are embedded in the physical processes and the work environment in which they are carried out. Cultural inhibitors are caused by the lack of a can do mind-set: “we’ve tried it years ago and it didn’t work”, tribalism syndrome: “that’s the way we do things around here”, and risk aversion: “we’ll think about that at a later date”.

The main structural inhibitors are time pressure on managers to deliver quick results, employees not having enough time or space and the lack of a coherent vision on creativity.

Implications for Managerial Life

Managers have two important roles to encourage creativity and creative problem solving. First, every manager should try to be creative himself in whatever role he plays. He might introspect and plan strategies of overcoming the blocks. When faced with problems or opportunities to try out new things he should try generate as many alternative ideas as possible before choosing a solution. He can use problem solving techniques (brainstorming, force field analysis, etc.). Secondly, every manager should create such an atmosphere in his own department that the creative abilities of his subordinates are not hampered. He should encourage subordinates to try out their own mechanisms of solving problems and give them adequate support. He should provide an atmosphere that encourages experimentation.

References: Udai Pareek, T V Rao, D M Pestonjee, Behavioural Processes in Organisations. Newspaper Clippings Internet



Lean Management

*Ranu Ganguly
Deputy Manager, NHB*

Lean means “manufacturing without waste.” Waste (“muda” in Japanese) has many forms. Material, time, idle equipment, and inventory are examples. According to Strategos Consultants and Strategiest, most companies waste 70%-90% of their available resources.

Resources in any form are limited for organizations, be it capital, manpower or time. The challenge of these days is how to allocate these resources optimally so that quality output is maximized.

Taiichi Ohno and Shigeo Shingo developed and implemented Lean Manufacturing at Toyota over a period of 20-30 years. Their approach provides a mental model for other implementations. Ohno first visualized an ideal production system, in terms of workflow. Ohno’s ideal system was inspired by his observations at Ford Motor Company. It had a series of adjacent workstations that were balanced and synchronized with no inventory between stations. It delivered finished product to the customer exactly when needed (Just In Time) and drew materials, Just In Time. According to legend, Ohno asked Shingo and others what prevented the realization of this ultimate, no-inventory system. As the reasons surfaced, Ohno requested his deputies to “eliminate the reasons.”

The resulting elements of Lean Manufacturing aim at eliminating (or at least reducing) the reasons for inventory. While the real goal is to eliminate waste, Ohno understood that inventory mirrors waste. This is an example of what Edward DeBono calls “Lateral Thinking.” By imagining an ideal, but impossible situation, we can often see more clearly, the path to its realization. Ohno and Shingo did not intend to develop some sort of “Unified Field Theory” for all manufacturing. They simply wanted to solve Toyota’s specific problems. The solutions they chose, while broad based, do not necessarily apply in all situations. Your solutions may be different.

Most waste is invisible. Nor is elimination easy. A set of techniques that identify and eliminate waste has evolved the concept of “Lean Manufacturing.” In the context of financial institutions, this could be read as ‘Lean Management’. The core disciplines under this technique are :

- Cellular Management
- Pull Scheduling (Kanban)
- Six Sigma/Total Quality Management
- Rapid Setup
- Team Development

These are core disciplines. Not every organization requires them all. Others require supplementary disciplines. Determining which disciplines are most important and/or urgent is the subject of study of applicability of the concept in specific organisation. The core disciplines are interdependent. Each acts upon and improves the others in a continuous “Virtuous Circle”- reinforcing the momentum over time. Results for the system are greater than the separate effects.

Value Stream Mapping and Process Mapping are two popular tools that can help identify



leakages, eliminate waste and streamline work. To function well, people and technology must integrate in a system exploiting the strengths and minimizing the limitations of each component. This psychological component in every core discipline needs to be reckoned.

There is a dearth of information and some of what is available is misleading or impractical. For example, according to Strategos Consultants, one published approach emphasizes phases of:

1. Stability
2. Continuous Flow
3. Standardized Work
4. Pull Systems
5. Level Production
6. Continuous Improvement

These phases of lean are supposed to roll through the entire plant one after another giving little time to breath. However, for most firms this is unrealistic as it ignores the interactions and systemic nature of Lean Management. Barry Richmond calls this "List Thinking." List thinking is perceived to be pervasive, helping organizations to have a more practical approach in implementing Lean Management in their processes.

List thinking however has its own set of limitations. It is realized while implementing. To elaborate, we may imagine the laundry list. All the elements in the Laundry List have value in some situations. However, the list gives no guidance for priorities, precedence or impact. So the applicability of this concept has to be examined strategically and systemically. A set of questions that may help us in this process are:

- Do we need the entire list of "Tools and Techniques?"
If not, which do we employ?
Which elements come first?
- Do we implement Lean management company-wide or in focused areas?
- How does Kaizen fit into the picture?
- How detailed should the plans be?
- How long will it take?
- How do we know when we are really Lean?

Another key to effective planning is to identify appropriate phases as outlined below:

- I. Core Disciplines
- II. Consolidation
- III. Continuous Improvement

In this case, the initial challenge is to plan for Phase I. This starts with an assessment. Then the appropriate "core disciplines" are selected and prioritized. Strategies are developed and project plans worked out.

The Key Point

'Systems Thinking' visualizes causes and effects, interactions and dynamic behaviors. Both Systems Thinking and Lateral Thinking are important when developing a Lean Management Strategy for a particular organisation. This is where leadership plays a key role.

Conclusion:

In order to achieve the successful implementation of any new improvement initiative, it is important to consider the final outcome that is required and the "marketplace" in which the business operates,



before deciding on the most effective ways of achieving the desired result. The balancing act consists of combining improvement opportunities and recommendations derived from systematic performance analysis, with the motivational needs of the people who are the organisation in order to achieve customer-required standards.

Hear a systematic analysis approach including tools, job aids and practical examples

- ✓ Identify improvement opportunities and performance improvement actions within your organisation
- ✓ Define the risks of a systematic approach without addressing critical people issues
- ✓ Realise the benefits of a clear organisational structure, process, resources, measurement, policies and procedures
- ✓ Examine the impact of staff motivation on business success
- ✓ Enabling Sustainable Business Change....not Building Process Models

The focus is on defining an end-to-end view of the business, streamlining processes, getting better buy-in from end-users and driving alignment across the organization. Not as easy as it sounds, as it requires changing hearts and minds, and working practices. But it is achievable and the benefits are significantly greater than simply automating the current processes to reduce cost which is often described as “your mess for less”. The Lean journey for all successful companies, across different industries, starts very simply by empowering their people to find waste in their work areas. Appreciating the importance of empowering employees, especially in a people dependant industry like Financial Services is the key to successful implementation of the concept in such industries. We all need to realize that finally, it’s a culture based on continuously ensuring that the processes meet and exceed customer expectations.

References: Lean Resources-Strategos Consultants, Engineers, Strategists; Study material-Ixperion 6-sigma conferences

Fringe Benefit Tax – an insight

*Nimit Gopal Jhingran, C.A.
Assistant Manager*

Apart from the salary the ‘Employers’ also forward various benefits to their employees. Certain benefits like concessional/free home facility were taxed in the hands of the employees as perquisites under section 17 (2) of the Income tax Act. While certain others like free tickets for travel provided to the employees by the employer were neither being taxed in the hands of the employees nor any tax was being paid by the employer on

such expenditure. The pay packages of the employees, especially at the higher level have been so designed as to pass on to them their income partly in cash and partly in kind. This helps the employee to pay lower taxes than what he would have been Actually liable to pay. A tax payer receiving entire income in cash bears a higher tax burden than a tax payer who receives his income partly in cash and partly in kind. It disturbs the horizontal equity,



where by two persons who receive equal payments in different forms have an unequal tax liability. Thus, Fringe Benefit Tax (FBT) has been introduced.

The FBT is in addition to the Income tax chargeable under the Income tax Act. It has come into force with effect from 01st April, 2005 on any privilege, service, facility or amenity provided by the employer to the employees. The provisions relating to the levy of the FBT are contained in Chapter XII-H (sections 115W to 115WL) of the income tax Act, 1961. The Central Board of Direct Taxes (CBDT) has also issued a circular (Circular No 8/2005) which tries to explain at length the provisions of the Act and its implications.

The Finance Minister has a clear message for the employers- Either pass on all the dues to the employees in a transparent manner and allow him to pay tax there on or be ready to pay FBT at the rates specified in the Act. The amount paid as FBT shall not be an allowable expense under the income tax Act. The FBT is a presumptive tax. If any employer fulfils the conditions as specified, he has to pay FBT even though the intension of incurring an expense may not be to extend a hidden benefit to the employee.

What are Fringe Benefits (FBs)

Fringe benefit has been defined under section 115WB of the Act. As per the sub-section (1) of the section 115 WB, fringe benefits have been defined as under:-

- a) Any privilege, service, facility or amenity, directly or indirectly, provided by an employer, whether by way of reimbursement or otherwise, to his employees (including former employee or

employees);

- b) Any free or concessional ticket provided by the employer for private journeys of his employees or their family members; and
- c) Any contribution by the employer to an approved superannuation fund for employees.

Characteristics of FBT

1. It is a tax on expenditure and not on income.
2. It is a tax on employer in respect of the value of various FBs extended to the employees. It cannot be recovered from the employees.
3. The intension laid in the Finance Bill was to tax the benefits that are usually enjoyed collectively by the employees and cannot be attributed to individual employees. But the Finance Act, 2005 as actually passed, does tax certain FBs which can be attributed to individual employees.
4. It is a presumptive tax i.e. it adopts a presumptive approach to tax the benefits being forwarded to various employees. However, certain benefits like free/concessional tickets and contribution to approved superannuation fund shall be taxed only if actually provided.

Applicability of the FBT

The FBT is payable by an employer who is:-

- a) A Company
- b) A Firm
- c) Association of Persons or Body of Individuals, excluding any fund, trust or an institution eligible for exemption under



clause (23C) of section 10 or registered under section 12AA

- d) A Local Authority or
- e) An Artificial Juridical person

The tax on fringe benefit is payable by the employer even if he is not liable to pay income tax on his total income computed in accordance with the provisions of the income tax Act other than the provisions of Chapter XII-H.

Rate of FBT

FBT shall be payable at the rate of 30% of the value of the FBs computed in the manner provided in section 115 WC. Even surcharge and education cess is payable on FBT at the applicable rates.

Reaction of the Industry

All the Organizations which shall be covered under the definition of 'Employer' as given

under section 115 W(a) shall be liable to pay FBT on or before the due dates as specified under the Act. They will be required to maintain the data, file a return of FBT in the prescribed format to the Assessing Officer on or before the due date and comply with other formalities as laid down under the Act. In the case of a company or an employer other than a company whose accounts are required to be audited the due date is the 31st of October of the Assessment year. In the case of any other employer the due date shall be 31st of July. All other provisions relating to income tax authorities, appeal, collection and recovery of taxes, penalties, prosecution etc. shall also apply to fringe benefits, unless otherwise provided under Chapter XII-H. Thus, as a result of it not only the cost component of the organization goes up but its administrative compliance also increases. The business community has started to rethink and redesign their pay packages to minimize any increase in costs and reduce the additional paper work which they will have to maintain while complying with the provisions of the Act.

The 'employer' will be liable to pay FBT on expenses incurred under the following heads:

Nature of expenditure	Taxable Base
A <u>Actual Benefits</u> Free/Concessional tickets for private journeys of employee and/or his family members Employers' contribution to an approved superannuation fund	100%
B-1 <u>Deemed Benefits</u> Entertainment, Hospitality, Conference, Sales promotion, Employees' welfare, Conveyance, tour & travel (including foreign travel), Hotel, boarding and lodging facility, Repair, running, maintenance (including fuel) and depreciation of Motor cars/Aircrafts, Telephones (excluding leased lines), Maintenance of guest houses	20%
B-2 Festival celebrations, Health club & other club facilities, Gifts & Scholarships	50%



As it can be seen that, not all expenses are truly in the form of any benefit being forwarded to the employees, the response of the industry has been mixed. They may plan to discontinue or curtail the expenses which are purely for the benefit of the employees or may even pass on the burden of FBT to the employees to a certain extent. However, expenses like sales promotion, conferences etc are incidental to the growth and expansion of the business and the organization. Thus budgeted expenditure under such heads shall not be curtailed. Similarly expenses of tour and travel etc. cannot be regarded in totality as any benefit being forwarded to the employees, as majority of tour and travel is undertaken only in connection with the business activity. The relevant expenditure heads are being replanned keeping in view the organizational structure and the employee strength. For example, an organization which has a higher number of youngsters working for it may even decide to abolish its contribution to approved superannuation fund, while not making any cuts on conveyance etc.

Ending Note

FBT has been introduced with effect from 01st April, 2005 to tax various benefits and facilities

which are being forwarded to the employees by the 'Employer'. The intension as explained in the circular issued by the CBDT is to curb the horizontal and vertical inequity which is the result of different modes of payments adopted by various employers. It is a presumptive form of taxation. As the tax is to be paid by the employer and not the employee it is a 'surrogate' tax on the employers as is been mentioned in the circular. The logic given to justify the levy of the FBT is the fact that prior to the assessment year 1998-99 certain benefits which were being forwarded to the employees were taxed following the disallowance method. The estimated inflows expected by the government are to the tune of Rs. 3000 crores. However, the analyst feel that it shall fetch somewhere between Rs.6000 to Rs.9000 crores. No doubt it is going to be a lucrative source of revenue for the government on the same lines as the Service tax, but it should also be borne in mind that anything which is enforced shall never be welcomed. As it is evident that not only the benefits come under the purview of the FBT but certain expenditures which are necessary for running the business are also being taxed. Thus, such expenses may be removed from the scope of FBT.

"Any man's life will be filled with constant and unexpected encouragement if he makes up his mind to do his level best each day."

-Booker T. Washington,
American educator (1856-1915)

**» PRESS ROOM - NEWS EXCERPTS «****IDBI Home Finance raises retail PLR by 0.25%***Financial Express 01.07.2005*

Housing Finance Company IDBI Home Finance Ltd. (IHFL) would raise its retail prime lending rate (RPLR) by 0.25%. IHFL has revised its interest rates across all maturities to 8% p.a. and 8.25% under its variable and fixed rates respectively, from July 1.

GDP growth declines to 6.9 per cent*Times of India 01.07.2005*

Economic growth slowed down to 6.9% during 2004-05 as against 8.5% per cent during the previous fiscal. The GDP at factor cost stood at Rs. 15,29,408 crore during 2004-05 as against Rs. 14,30,548 crore during 2003-04.

NHB reports 131% jump in refinance disbursements.*Financial Express 2.7.2005*

NHB's refinance disbursements touched Rs. 7500 crore in 2004-05 against Rs. 3,253 crore the previous fiscal, registering a growth of 131%. Rural housing, which was a thrust area for NHB, accounted for 47% of the total disbursements in the sector. Addressing the press, Shri P. K. Gupta, CMD, NHB mentioned that the refinance during the year backed over 10% of the total housing loan of Rs. 70,000 crore by the primary lenders in the system.

RBI to tell banks to cut exposure to real estate*Business Standard 2.7.2005*

A recent review of the RBI revealed that though the advances of banks to the housing sector, particularly to the land developers and builders, are on the rise, a corresponding control mechanism required to be in place for managing the risks involved in this sensitive sector has not been adopted by majority of the banks. The RBI has asked banks to adopt systems to contain risks, including that of prices, involved in the real sector.

HDFC plans global realty fund*Business Standard 09.7.2005*

HDFC plans to launch an international real estate fund to cater to the demand of non-resident Indians and foreign investors in view of the growing interest in the country's real estate sector. The fund, launched in association with SBI would be invested in equity and equity linked instruments of companies engaged primarily in real estate projects in major cities in India.

GRUH Finance PAT up 25%*Business Standard 28.07.2005*

GRUH Finance has reported a profit before tax of Rs. 2.77 crore compared with Rs. 2.16 crore in the corresponding quarter of the previous financial year, showcasing an increase of 28%. The company's profit after tax at Rs. 2.40 crore, an increase of 25.6% compared with Rs. 1.91 crore in the corresponding quarter of the previous year.



LIC housing net up 20% to Rs. 50 crore

Economic Times 31.7.2005

LIC. Housing Finance Ltd. has posted a 20% rise in net profit to Rs. 50.18 crore for the quarter ended June 30, as against Rs. 41.8 crore in the corresponding quarter.

PNB not to hike home loan rates

Economic Times 31.07.2005

Punjab National Bank has ruled out hiking interest rates on loans for housing and other retail sector. This was announced by Shri S. C. Gupta, CMD, PNB. The bank has witnessed increase in interest income year-on-year during the first quarter of this fiscal. Cost of lending during Q1 of 2005-06 declined to 4.38% compared to 4.43% in the corresponding period last year.

Norms eased for raising funds abroad

Business Standard 02.08.2005

RBI today liberalized the guidelines for non government organizations raising external commercial borrowings (ECB) and housing finance companies going for foreign currency convertible bonds (FCCB). HFCs wanting to raise FCCBs, the RBI stated that they must have a minimum net worth of Rs. 500 crore over the past three years, be listed on either of the national stock exchanges and must go for a minimum FCCB size of \$ 100 million.

RBI for rating micro-finance bodies

Business Line 05.08.2005

RBI favours introduction of a system for rating micro-finance institutions (MFIs) by credible rating agencies across the country. According to the banking regulator, the need is felt especially in the backdrop of the Government's decision to enable MFIs have access to various funds.

Corp Bank to merge home fin with itself

Economic Times 09.08.2005

The Board of Corporation Bank has decided to merge Corp Home, a wholly owned subsidiary, with itself, a top bank official said on Monday.

Housing Sector

Business Standard 09.08.2005

The finance ministry has been sent a proposal for giving infrastructure status to the housing sector.

HDFC taps home finance firms to buy portfolios

Financial Express 20.08.2005

HDFC is eyeing portfolio takeouts from housing finance companies to swell its assets, managing director, Mr. Keki Mistry said. "There are companies willing to sell and if we like the property quality and credit worthiness, we will do a due diligence" for such a take-out, he added.

**HDFC raises \$ 500-m via FCCBs***Business Line 26.08.2005*

HDFC has informed the BSE that it has raised \$500 million through a Zero Coupon Foreign Currency Convertible Bond. The bond was over subscribed two times. The yield to maturity on these bonds is 4.62 % p.a. They have a maturity of 5 years and one day and are convertible into equity shares at a price of Rs. 1,399 per share on or after August 24, 2006.

Inflation at three-year low, dips to 3.13%*Business Standard 27.08.2005*

Inflation based on the whole sale price index fell to a three year low of 3.13% for the week ended August 12, down from 3.35 % the previous week. The low levels were on account of high base effect. The low levels are, however, not expected to continue. This is because oil prices are likely to be hiked soon.

SBI Board okays license cancellation*Business Line 03.09.2005*

The Board of ailing SBI Home Finance has passed a resolution regarding cancellation of registration of the company by National Housing Bank. NHB had cancelled the license of the company and barred it from transacting business of housing finance institutions.

Housing Finance overheated*Economic Times 07.09.2005*

RBI believes the housing finance sector is overheated. The apex bank has already increased the risk weightage for banks to 75% from 50% earlier. Now it feels that the National Housing Bank should take a similar view and increase the risk weightage of housing finance companies to 75% as well.

New cess to make houses costlier*Times of India 07.09.2005*

The Delhi Government has decided to ride the FDI boom in construction by enforcing a building cess on new structures. The cess will be 1% of the cost of construction and be applicable for all public and private buildings built after January 2002. Officials estimate Rs. 100 crore from this cess annually. Industry minister Mangat Ram Singhal said, "The cess collected will be used for the benefit of workers. They will get pension, medical assistance and maternity benefits."

LIC Housing Fin to engage loan recovery agents*Business Line 10.09.2005*

LICHFL has decided to appoint recovery agents across the country in a bid to cut down accretion of NPAs. LICHFL's Managing Director and Chief Executive Mr. S.K.Mitter said that the move was taken in view of the high NPAs of the company, The company has an NPA of 4%, double the industry average of 2%.

For more homes, more private players*Hindustan Times 14.09.2005*

The national Housing and Habitat Policy 2005, the draft document of which is in the process of being finalized, wants a leading role for the private sector in the construction of group housing on a large scale for various sections of society. In view of the government agencies' failure to cope with the ever-increasing demand for houses, the draft policy has strongly recommended that the private building industry and co-operative societies be given preference in allotment of land and residential sites to encourage their participation in group housing. The policy has been drawn up on the basis of the report of a task force set up by the Ministry of Urban Employment and Poverty Alleviation to review the earlier housing and habitat policy.



Active readers' participation in the 'Housing News'

In our last issue of the Housing News, we made a mention of making a renewed effort to provide an improved edition of the Housing News which will be more informative to the readers. Accordingly, readers are once again invited to contribute articles on developments of the financial sector with specific focus on housing and related activities– both internationally as well as nationally. Some suggested issues which may be considered for airing meaningful discussions:

- Developments in the housing / housing finance sector
- Rural housing activities (construction and financing)
- Developments in the economy having direct bearing with the housing sector
- National and international developments in housing
- Matters related to any field of management – particularly with reference to housing

We invite our readers (from NHB and also outside the bank) to contribute analytical and informative articles on any of the above topics. Contributions selected for publication will be given an honorarium. The earlier Housing News Incentive Scheme which was introduced in June 2004 has since been revised. Under the revised Scheme, the honorarium will be Rs. 750/- for articles in Hindi and Rs. 500/- for articles in English. We look forward to your active participation in making this publication more useful to the readers.

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