Personal Finance Limited©

As Mr. Shiv Narayan, the CEO of Personal Finance Limited (PFL) stepped out of his house at 5.30 a.m., he was not sure how refreshing his early morning routine is going to be that day. The weather was unusually getting hot and so was the competitive scenario at PFL. The review of PFL's operations in Fixed Deposits (FD) business, that he did yesterday, was still fully occupying his mind. The cost of operating the FD business as well as the lead time of the processes were high in comparison with the competition. Clearly, it is an unsustainable proposition for PFL. He was wondering how to chalk out a plan for the future.

Introduction

The company, Personal Finance Limited (**PFL**) was formed in the early nineties when "financial services" was a booming sector of the economy in India. There were several non-banking financial corporations (**NBFCs**) offering alternative personal finance products for the individual customers. Even some of the established players started their own non-banking financial services operations. The notable examples include Wipro and Mahindra. During 1995, Reserve Bank of India (RBI) removed the cap in interest rate and linked the quantum of deposits that NBFCs can raise to the financial parameters of the company. It also mandated that yearly credit rating of these institutions was a compulsory requirement.

The impact of these was significant. The surplus in the hands of individuals that could be invested in several personal finance schemes was to be competed away by the players in the market on the basis of competitive offerings. There are a variety of alternatives available for a potential investor. The alternatives vary in terms of associated risks and returns. Exhibit 1 is an illustration of these alternatives. Fixed Deposit (**FD**) ranks low both in returns and the risks. It was one of the most sought after product in the personal finance offerings from banks, corporate sector and NBFCs. In PFL, FD is an important source of retail business. With a depositor base of about 100,000, FD has a significant impact on both the customer and the business in PFL.

Fixed Deposits Business

The characteristics of this line of business are peculiar and needs to be well understood in order to identify what a customer values and what makes firms profitable. A typical investor in FD has a risk aversive profile and is willing to forego

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The names of the company and the people mentioned in the case are disguised for confidentiality. Any resemblance to real life names is purely accidental and unintended. Mr. Shiv Ramakrishnan and Mr. Sankara Narayanan offered valuable comments and suggestions for improving the write-up.

greater expected profits from other investments such as stocks, and real estate in lieu of greater security, liquidity and ease of maintenance of funds offered by FD. The investor profile include senior citizens investing their retirement benefits, very young people who have just begun a career, salaried class belonging to lower middle income group and people from rural areas having agricultural and other unorganized trades.

Depositors by and large are not concerned with interest rates alone. Since FDs are unsecured, they tend to worry more about service and the stability of the company. One factor that companies operating in this segment should keep in mind is that switching costs are extremely low in this business. If a depositor is unhappy for some reason with PFL, all it costs him/her is a few percentage points loss in interest in foreclosing the deposit and reinvesting it elsewhere. Thus, service quality can be a key differentiator in its own right leading to market leadership as in the case of competitors such as Sundaram Finance Limited.

Any personal finance business such as FD is characterized by a wide fragmentation of individual investors. Further, an individual investor will deposit relatively a smaller amount (such as Rs. 5,000 – 10,000) for a period of about a year. Being risk aversive, in order to make the crucial decision of this investment, the individual relies significantly on the advice of people in the locality of his stay and work. Typically, companies soliciting deposits cater to this requirement by having either a company representative or an investment consultant/broker[1] with a credible image in the locality. Hence, the role of a deeply networked channel in channelising the "investable" surplus of the individuals is a critical success factor in this business. Consequently, the opportunity tapped by the organized sector is a small portion. A vast majority of surplus funds are still invested either in private chit funds maintained by some members of the local community or in the form of gold. This represents huge untapped potential in the market.

Tapping this potential had never been easy for companies such as PFL. Companies have to resort to several methods to induce investors. First, they deepen the reach by opening more branches and enrolling more brokers. The decision of whether to have an extensive network of company's own network or rely on a large number of investment consultants (brokers) is not straightforward. Broker commissions and running costs of branches influence the cost of operating the business, the costs associated with servicing the funds solicited from the investors and the overall profitability of the business.

Second, they offer attractive (higher) interest rates to the depositors. However, Reserve Bank regulations restrict their ability to increase interest rates arbitrarily. Further, the costs of servicing the deposits increase in direct proportion to the interest rate making it unprofitable beyond a point.

Finally, financial incentives are offered to the investor in the form of immediate payback of a percentage. The percentage varies from 0.5% to 2.0%. In some cases, it could be even higher. However, this practice could be counter-productive as some

[1] Henceforth in this write-up we interchangeably use the terms Investment Consultants and Brokers. What we mean by that is independent professionals who will promote the company's product and obtain in return some percentage as service charges, commissions and performance incentives.

customers initially planning to invest their funds for three years will reschedule the plan into three yearly investments and receive multiple financial incentives every time they open a new FD.

A vast number of investors (up to 80%) will retain the FD just for a year. The security of the fund, the need to handle uncertainties, and the personal psychology of the investors are the typical reasons. This has significant impact on the cost of operations for the firms. In order to induce the customers to retain the funds for a longer period of time (say three years), some firms offered higher interest rates for longer period of investment. This would provide additional incentive to retain the fund for a longer time and thereby reduce the average annualized cost of servicing the fund.

Competition in FD Business

The competition in FD business is probably one of the most severe in the sector of the industry. Several factors drive the competitive profile of one player over the other. There are three broad parameters that best describe these: product oriented attributes, company oriented attributes and service oriented attributes.

The range of alternatives offered and the interest rate offered constitute product-oriented attributes. At PFL additional schemes were offered specially for Senior Citizens, and Company employees relatives. However, these required soliciting more information and processing additional documents. Further, increasing the product variety requires costly and lengthy schedules to incorporate these in the IT system. It also results in more errors creeping in requiring costly rectification procedures. Competitive interest rate offered to the customers is one of the significant factors. Although there are restrictions arising out of the prevailing regulatory framework, there is still some leeway for creating a difference among the competitors. The interest rate offered should, however, have a bearing on the cost of the funds serviced failing which the profitability of the operations will be severely impaired.

The key factor among the company-oriented attribute is the credit rating for the products. Neutral third party credit rating agencies such as CRISIL periodically publish the credit rating of the players in the market and these ratings have an impact among the investing public, especially the senior citizens. Credit ratings provide proxy for the safety as well as the liquidity of the investments made with a company. Company and the overall industry performance have a bearing on credit ratings. The other factor is the visibility of the brand and product offerings. All personal finance products require continuous communication of the product and suitability to individuals. A properly designed product management policy will ensure an optimum reach and periodicity of the campaigns.

Service-oriented attributes are perhaps the key differentiators in an era of converging interest rate regime and homogenous product offerings by the competitors. Two major areas drive the perception of the customers with respect to the value that they derive in dealing with a company. First is the *lead time* of the process from the time a investor decides to invest in FD in a company to he/she getting the FD Receipt (**FDR**) and Interest Warrants (**IWs**). Although investors are willing to wait longer to obtain FDRs and IWs, it is a matter of greater satisfaction to get them at once. A few competitors have been able to instantaneously print the FDR and hand it over at the time the investor submits the application form with the company. However, in the case of PFL the situation is very different. For a large number of customers residing in far off places and district head quarters, it usually takes a week to 10 days for reaching the FD receipt and the IWs. Furthermore, every correspondence takes nearly as much time.

The other is the *defect free handing* of the entire transaction. Customers have very low tolerance for defects in the FD process. As they experience more defects and hassles in rectifying them, they lose confidence in the company and shift their loyalty.

The regulatory framework has a tighter control on the interest rate component of FD. The Government of India and the Reserve Bank of India have been progressively reducing the interest rates offered to FDs through regulations. Consequently, firms such as PFL have to compete with other established firms on the basis of service oriented performance measures.

PFL problems

PFL is facing myriad problems in the current FD process. The General Manager, Planning recounted some of the frequently encountered problems:

> *I feel that one of the key issues in improving our competitive position is to address recurring problems in three areas. First, we face problems in our value chain. Brokers often do not check the details of applications for correctness of the data. They do not deposit cheques in time in the bank. Further, they send pay-in-slips of a batch of forms consisting of different dates, leading to complex reconciliation of documents, amount and application forms. Sometime, application forms in a batch are missing at the time of receipt PFL. There are also instances when brokers send applications according to their whims and fancies despite instructions. This results in complex reconciliation of papers and often chaos.*
>
> *The other major area of concern is software issues pertaining to the FD process. Here are some examples. Often application with outstation cheques are accounted for in the FD application package in both the accepting location and the collection center leading to errors of double counting and/or missing trail. The FDR reference number generated by the registrar does not tally with the voucher reference number in FD suspense account. Sometimes FD collections are wrongly accounted in FD liability account instead of FD suspense account*
>
> *Thirdly, our processes related to FD itself require a careful re-look. While interest to the customers is paid from the date of the cheque, it is not clear when the cheque payment is realized as the information goes directly to HO pooling account. We have not been able to fully ensure issue of FDRs for all application forms received. This clearly annoys the depositor. Our people do not screen all applications forms before entering the data in FD application package. Once the package is used and wrong and missing data are found, it takes a lot of time to reconcile the data and rectify it in the successive stages of the process*

> *As you know, these problems point to improperly configured value chain, long lead times, high defect rates, systemic and software problems and excessive value chain costs.*

Normally, in several cases, defects creep in leading to an increase in lead time of the process (see Exhibit 2 for a description of what constitutes a defect at PFL). Exhibit 3 has some data on an analysis of some of the defects in the current FD process. According to General Manager, Systems, a defect rate of 1.77% is considered very high and has a high potential for affecting customer loyalty:

> *"Customers want services that create few hassles and concerns. For instance, FDRs received within a reasonable time - say a week from the date of deposit, IWs received by April 15th, TDS certificates received by the third week of April, deposit renewal letters reaching them at least a week before the maturity of the deposit, refund cheques reaching them within three days from the date of maturity are the only things depositors worry about. If a company can take care of this, it greatly helps in eliminating the nervousness of the depositors and goes a long way in building credibility and positive word of mouth effects. Therefore, well designed processes and flawless execution are so important. On the other hand, any bad processes and rumours scares them and leads to a run on deposits".*

However the other issue that matters to the company is the lead time of the entire process. Long lead time significantly affects the profitability of the company in several ways. Normally, customers expect to receive interest payments from the date of their submitting FD application forms. Due to long lead time, the company realizes the money much later and ends up in revenue loss. Long lead time also results in other costs and customer dissatisfaction, according to Regional Manager, FD:

> *Excessive lead time created problems in unexpected ways leading to an increase in customer dissatisfaction, complaints and excessive costs of rectification of errors. One simple example will illustrate this point. Consider the situation when there was a downward revision of interest rate between the time of receiving the application form and that of printing FDRs and IWs. The brokers, despite instructions from the company, sometimes supply old application forms and promise higher interest rates.*
>
> *The FDR and IWs printing application could not take accommodate these differences. Consequently the customers had to communicate repeatedly with the company to sort out the error. Furthermore, the company required complex and excessive follow-up and co-ordination leading to added costs to the system.*

Excessive lead times for processing FD applications, defects in the process, and high costs of managing the whole process have of late come in the way of competitiveness at PFL. In conclusion, the service-oriented attributes, viz., lead time and defects, have ultimately resulted in high costs of operations at PFL. In the wake of increasing competition from other players and other substitutable products (such as mutual funds and tax free bonds) some analysis of the entire process and repositioning of the value offering became inevitable.

FD Product – The processes involved

Offering FD to the customers and servicing their requirements while they retain the funds with PFL involve a host of activities. One way to understand is to map the process and use it to describe the players involved and the activities to be performed. In a nutshell, there are nine major activities involved in the process. They are as follows:

(a) Receipt of application form, cheque and other documents by branch office/broker
(b) Deposit of local cheques in the designated bank
(c) Preparation and dispatch of applications to PFL
(d) Receipt and pre-processing of applications
(e) Preparation of the documents for submitting to registrar
(f) Verification, control and processing by registrar
(g) Printing of FDRs and IWs
(h) Authorised signatures
(i) Final Dispatch to the customer

Exhibit 4 has the details of the process mapping. There are 38 activities to be performed to complete the process[2]. The breaks in the table signify the change in ownership occurring during the process. For instance, between activity 13 and 14, the process ownership changes from the branch office/broker to PFL. Although PFL is not aware of the exact set of activities performed by other competitors, there were reasons to believe that significant variations exist in the process.

Value Chain Implications

Clearly one could infer from exhibit 4 that offering FD and servicing various requirements of the customers involve several players both within and outside PFL that make up its value chain. After a careful scrutiny of the process a value chain for the product has been identified. The details are available in exhibit 5. In its current form, there are four major external players in the value chain. Brokers play a key role in providing reach and aiding PFL in business development. Moreover, since they come in direct contact with the customers, their performance plays a significant role in overall customer satisfaction.

Banks play the role of handling financial transactions in the system. By providing at par facility for depositing IWs and refund cheques in all their branches they improve customer satisfaction. They also influence the chain costs by providing additional features for the company in transferring funds from one location to another. Registrar's role in this business is crucial. Reserve Bank and other government regulations require that processing FD application forms, printing FDRs and IWs and maintaining relevant information systems are adequately robust and fool proof. At

[2] The number of activities to be performed depends critically on the level of abstraction employed while performing process mapping. For instance, it is possible to map activities 14 – 17 in an elaborate fashion and identify the process implications to the activities performed at this stage. When the overall understanding is desired to analyse the value chain impact on the product offering to the customer, it is preferable to map at an aggregate level. However, during the improvement phase, detailed mapping is essential.

PFL, this function is out sourced to a registrar. Finally, Indian Postal service and private courier companies also form part of the value chain. Due to certain restrictions, FDRs and IWs cannot be sent by courier service to the investors. Hence, at PFL a combination of Courier service and Postal Service is made use of.

PFL executives believe that these have some bearing on the value offered to the customers and the cost of operating the system. Based on the data for a year the costs for PFL was computed (see Exhibit 6 for details). If the fixed costs are added to this estimate, it appears that the costs could be over 25%. Although, exact numbers are not known, PFL executives believe that the costs in the case of some competitors could be as low as 17 – 19%. Part of this is explained by the approach these competitors have taken in configuring their value chain. The number of players involved, the exact nature of activities performed and the responsibilities assigned to these players appear to be different among the competitors.

For instance, Sundaram Finance Ltd. has an extensive branch network in the country and seem to rely less on the brokers. Moreover, unlike their competition, they do not offer any financial incentives to the investors. A few competitors have been able to keep the costs very low by better deploying better “in house” processes and effective use of IT infrastructure. Some firms offer uniform interest rates for various lengths of investment, whereas PFL has interest rates increasing with the length of the investment. In some companies, the registrar functions are done in house.

The Road Ahead?

There was unanimity in the views of the top management that PFL may not be able to operate profitably if status quo continues. Clearly, cutting down costs, reducing lead time of the process and improving customer satisfaction are survival issues for PFL. According to General Manager, Retail Business at PFL:

> *In this business, companies survive only when they have deep networks. While reach provides value to the customers, it will also potentially increase the costs in the entire value chain. Also remember that a firm operating in this sector will have a 10 – 12 % direct payout in the form of interest. Therefore, cutting costs to barebones is an important requirement for survival.*

A brain storming session was held at PFL to identify alternatives for addressing these issues. Three alternatives emerged at the end of the session.

Option 1

Decentralise printing and dispatch of FDRs at the Regional Offices. The registrar will continue to perform all other related works including control, audit trail, processing and printing of IWs. This permits the branch offices to give FDRs across the table as soon as it receives investor’s cheque and the FD application form. This is in line with market practice and will significantly reduce cycle time and the cost of processing. Since data will be available at the regions, tracking of dishonoured cheques and recall of FDRs become easier. Further, regional offices will also be able to respond to investors’ queries faster. Finally ambiguities associated with interest rate revisions will be eliminated.

On the other hand, there is added cost due to additional infrastructure and manpower and modifications in the FD application software. Moreover, there is a possible lack of discipline in timely maintenance of data both at the Main system and at the Regional Offices. This could lead to one more reconciliation between the main system and the system at the Regional Offices.

Option 2

The central office at PFL would do printing and dispatch of FDRs, and IWs and all other related works. Registrars will continue to perform other activities including control, audit trail, processing and MIS reporting. This option has all the benefits as mentioned in option 1. Additional benefits include savings in costs associated with processing of IWs and other related activities for which PFL would have paid to the registrar, insulation from future escalation of registrar's charges for processing and better control on systems and processing. However, the option entails additional costs for setting up the required infrastructure for undertaking these activities in house.

Option 3

Retaining the Registrar and refining the present process. The logic behind this option is that there is already an existing relationship with the Registrar, which can be leveraged to increase the quality of service provided by them. This option helps PFL avoid the start-up costs pertaining to options 1 and 2. Further, there will be saving of organisational resources related to supervision of low-level work and manpower required in options 1 and 2. Moreover, it provides an easy exit if PFL decides to drop the product in the future.

The limitations of continuing with the registrar are related to increased costs and some limitations of the existing software. Registrar has been increasing the processing cost every year with no commensurate improvement in quality. Further, the software used by Registrar is not equipped for handling high volumes and to give reports and MIS details.

The new realities?

The other issue that the brainstorming session did not explore is the impact of Internet and web-enabled services on this business. Actually, it appears that this could potentially open up a few more dimensions of reconfiguring value propositions. In today's era customers would expect to place a deposit in one city and approach another PFL office and ask for details of deposit, interest warrants and other details. They could also expect a 24x7 service functionality. Furthermore, customers may like to place deposits though the Web and may even like to print a FDR on their own.

If customers can transact over the Web, they might then like to get interest payments through the Web. For instance, as soon as the payment is effected through a credit card PFL in turn could credit their bank accounts periodically with interest amounts. This will lead to faster realisation of initial deposit by PFL and interest by the investors. IW reconciliation will be almost eliminated. If such a thing is possible, will this lead to dis-intemediation? What are the regulatory and security implications of the above? The other interesting issue is to explore ways and means of utililising the huge database of 100,000 live depositors to deepen and broaden customer relationships.

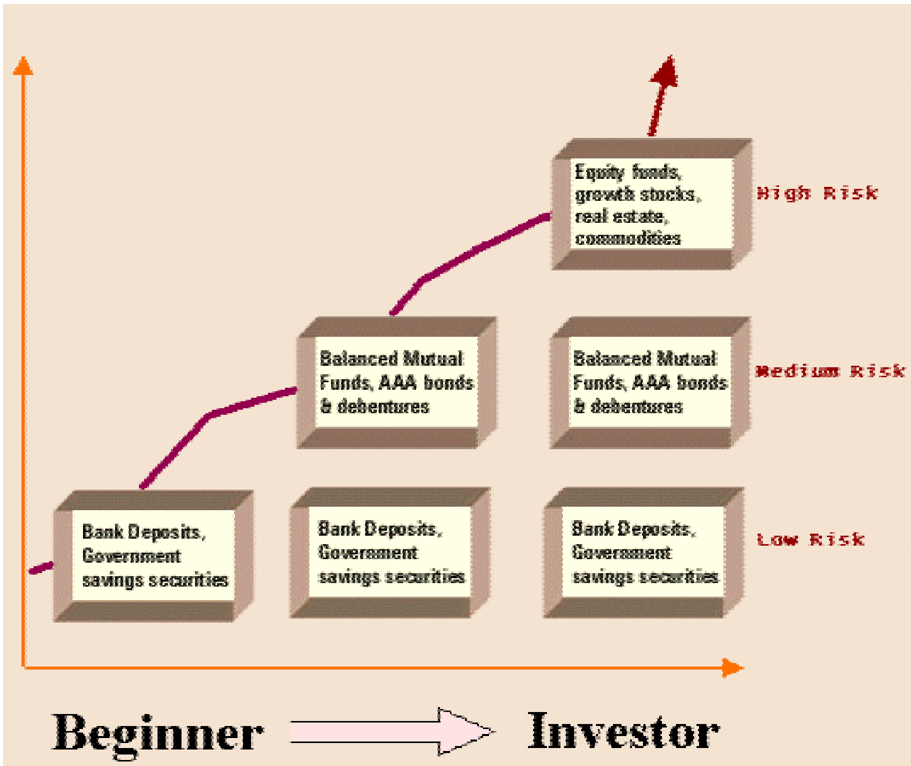
The CEO of PFL, Mr. Shiv Narayan realized that the next six months are crucial in bringing PFL back on track. How is he going to do this? Which of these options should he implement? How will it affect the value chain? What more analysis does he need to devise the strategy? He realized that there are more questions than answers at this stage.

Questions for discussion:

(a) Identify the role of the various players in the value chain for FD business at PFL. What are the implications of their roles to PFL's competitiveness?
(b) What would you like to advise to Mr. Shiv Narayan with respect to his future endeavours at PFL?
(c) Can you identify a list of things to analyse in detail before PFL could devise alternative strategies for improving its competitive position? Where should they start the process and how should they proceed?

Exhibit 1

Alternative options and their risk profile for a typical investor[3]



Source: http://www.mywealthguide.com/wealth.htm

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[3] In the figure above, the profile description of "bank deposits" will closely match with "Fixed deposits" that we describe in this case.

Exhibit 2

What constitutes a defect?

Defects in processes related to external value chain

1. Non-receipt of FDR/IWs after10 days of submission.
2. Errors in FDRs/IWs
3. Delay in receipt of incentive cheques beyond five days of submission of application by the depositor.
4. Annual IWs for the year will be sent to depositors by April 15. Non-receipt of IWs after May 1st.
5. Tax Deduction at Source (TDS) certificates for the year will be dispatched by April 30th. Non-receipt of the certificates after May 15th.
6. Delay in receipt of cheque in the case of refund/foreclosure beyond three days of submission of discharged FDR.
7. Error in cheque in the amount/name or date.
8. Periodically, communication is sent to depositors on Interest rate change, submission of FORM 15-H, interest credit advice in case of Cumulative Deposits etc. Lack of clarity of the messages reported by the customers.
9. Delay in receipt of brokerage cheques beyond 7th of every month.
10. Delay in replying letters written by Brokers/Depositors beyond two days

Defects in processes related to internal value chain

1. Wrong accounting entry
2. Late remittance of tax deducted at source
3. Dispatching FDRs inspite of cheques being dishonoured
4. Late submission/wrong submission of statutory returns
5. Violation of statutory guidelines
6. Violation of internal policies
7. Delay in replying e-mail queries from Regional Offices beyond two days

Exhibit 3

An analysis of some defects in the current FD process

Sl. No.	Nature of Defect	No. of such cases	% of total processed (Total FDRs processed 55,000)
1	Non-receipt of FDRs and IWs	278	0.50%
2	Errors in period of deposit/Employee or Senior Citizen rate not given/Wrong type of deposit	200	0.36%
3	Wrong deduction of Tax at Source	191	0.34%
4	Corrections in Name/Addition of second name/Nominee	184	0.33%
5	Transmission errors	55	0.10%
6	Corrections in Amount/Address Date of FDR	39	0.08%
7	Correction in amount/date/ address	29	0.06%
	Total	**976**	**1.77%**

Exhibit 4

FD application processing – Mapping of activities[4]

Sl. No.	Activity
1.	Customer visits the broker/franchisee's office to submit application form with cheque/DD/Old FDR
2.	Verification of the application form for correctness of the details
3.	Prepare a receipt for the cheque/DD/Old FDR
4.	Acknowledgement given by the receiver to the customer, payment of incentive.
5.	FD application form waits for batch processing until the end of a day
6.	Prepare challans for depositing DDs/Cheques in Banks
7.	Tally the challan with the DDs/Cheques for correctness
8.	If it belongs to another region, prepare cover note and sent to the respective Regional Office
9.	Key in the application details, cheque no, Old FDR receipt etc.
10.	Deposit of DD/Cheque in the bank, obtain challans
11.	Verify data, prepare consolidated covering statement
12.	Franchisee/Branch transmits daily batch of FDR application forms and other papers to FD Executive at Head Office for further processing
13.	Inwarding/Classification of application for processing
14.	Segregate area-wise for keying in data
15.	Prepare collection report
16.	Prepare details to be included in the register
17.	Send these for verification of the details
18.	Screen each application form for missing and erroneous data
19.	Rectify missing and wrong data
20.	Enter the data in to the FDR generation application software
21.	Generate a Voucher number for each application form received
22.	Voucher number-wise enter amount in FD suspense account
23.	Send all these with the necessary paper work to the Registrar
24.	Obtain receipt of the application form for processing by the registrar
25.	Tally all the papers for completeness. If there are missing papers/documents, contact FD support department for rectification
26.	Acknowledge receipt of these in the register
27.	Processing of these papers by the Registrar
28.	Generate reference number for each FD application
29.	Check for audit trail

[4] The break in the table signifies change of ownership in the process from one entity to the other. By this we mean either from one part of the value chain to another or from one department to another within PFL.

30.	Print FD Receipts and IWs
31.	Tally the voucher number in FD suspense account with reference number of the Registrar
32.	If both these numbers tally, submit the FDRs for signature by competent authority
33.	Otherwise, reconcile the discrepancies before submitting for signature

34.	Match FDRs with IWs
35.	Enter the dispatch details in the relevant registers

36.	Generate addressing information for the customers using mailing application
37.	Verify addresses for incomplete and missing information
38.	Send the FDRs and the IWs to respective customers

Exhibit 5
Existing Value Chain for FD at PFL

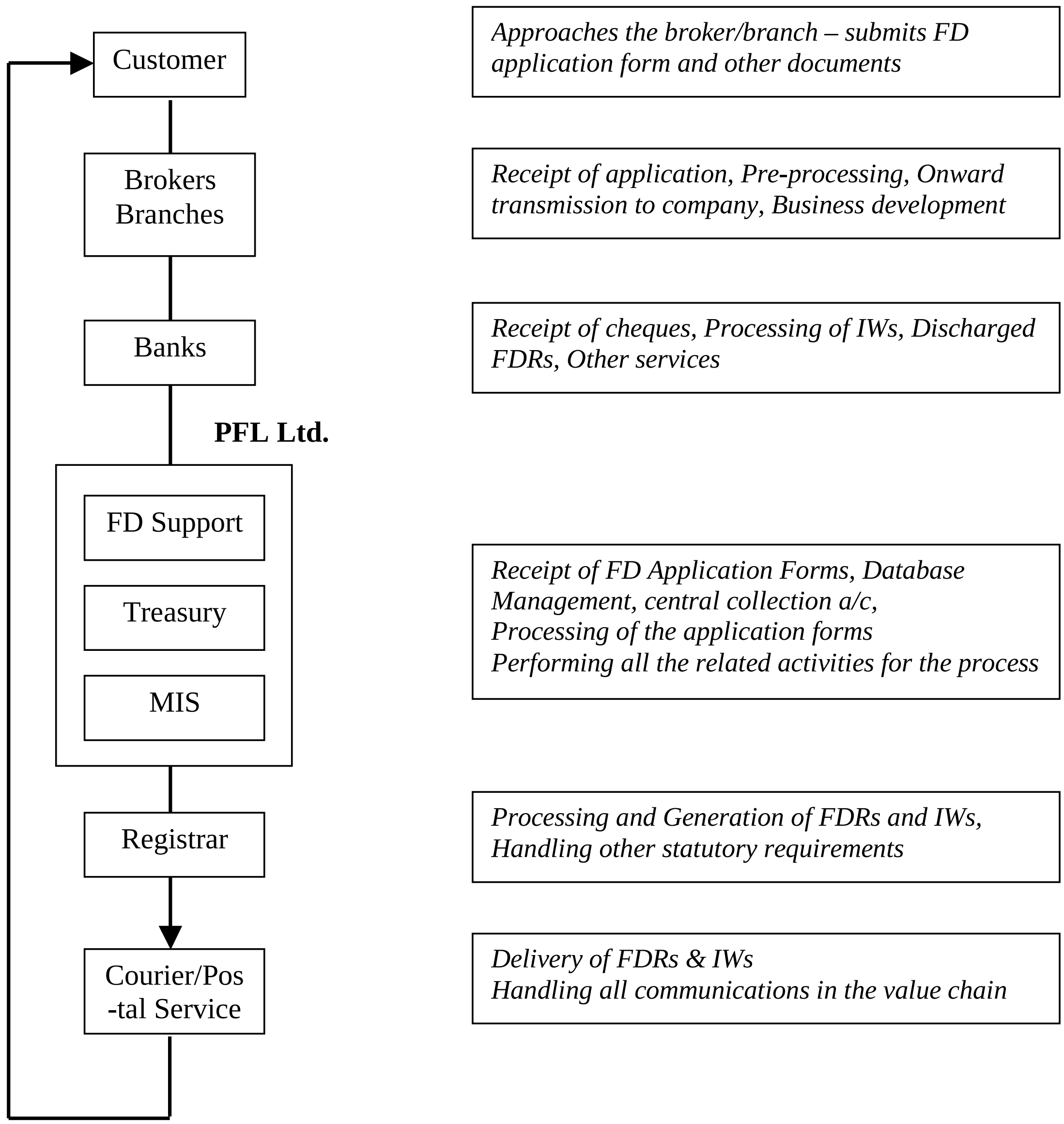

Exhibit 6

Value Chain & other costs pertaining to the FD product[5]

1. Costs related to delays, defects, and some processes

(a) Delays in cheque depositing and amount realization[6]
Interest loss (@18% per annum) : Rs. 1720.00
(b) Interest loss due to different FDR date and cheque realization date[7]
Additional interest loss (@ 12% per annum) : Rs. 1150.00
(c) Interest Loss on transfer of funds[8]
Additional interest loss (@ 18% per annum) : Rs. 8630.00
(d) Communication costs incurred to handle customer complaints[9]
Daily expenses (@ Rs. 10,000 per month, 25 working days) : Rs. 400.00
(e) Cost of postage & Courier charges for sending FDRs, IWs[10] : Rs. 600.00
Total daily costs : Rs. 12,500.00
Costs as a percentage of the deposits collected : 1.79 %

2.	**Financial incentives offered to the investors**[11]	**: 1.25 %**
3.	**Brokers' commissions & performance incentives**	**: 6.00 %**
4.	**Registrar's charges for providing services**[12]	**: 0.50 %**
5.	**Sales and promotion expenses**[13]	**: 1.50 %**
6.	**Other overhead expenses not accounted elsewhere**	**: 0.50 %**
7.	**Interest paid on the deposits**	**: 10.00 %**
	Total costs of servicing the deposits	**: 21.54 %**

(These costs are merely the variable costs. It does not include other fixed costs related to infrastructure including manpower, computer & IT and communication.)

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5 All calculations are made on the assumption that investors retain their funds for a year. Calculations for items 1(a) and 1(b) are made on the basis of average daily collection of deposits, which is estimated to be Rs. 700,000.00.

6 Brokers delay up to 5 days in transmitting FD application form and the cheques. This leads to loss of interest to the company on the locked up capital. The company pays 18% for the locked up capital.

7 Since the company anyway pays interest from the date of filling up of the FD application form by the depositor, it ends up paying the depositor interest (@12%) even though it has not realized the money.

8 The current practice is to deposit the amount in Central Bank and then get it transferred to Central Coordination account. This takes on an average a week now and the average daily deposit in Central bank is Rs, 2,500,000.

9 In the present system, the regional offices and brokers directly call the registrar by phone. Registrar also communicates by phone with the regions and brokers. Based on the bills submitted by the registrar and the internal accounting, the estimates are made.

10 FDRs and IWs cannot be sent by courier directly to the investors. At present, the company sends the FDRs and IWs in bulk by courier to the regional offices. The regional offices in turn send these by registered post to individual depositors. The costs are estimated on this basis to be Rs. 15,000 per month.

11 The actual incentive paid varies from 0.5% to 2%. Based on some representative set of cases, the average commission has been estimated.

12 The calculations are made with an assumption that on an average size a depositor invests Rs. 5000.00 for an year.

13 Items 5 and 6 are rough estimates only.