

Investment Policy of The Kottarakara Co-Operative Urban Bank in Kollam District of Kerala State

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Abstract - The present paper presents the investment policy of The Kottarakara Co-operative Urban Bank (KCUB) in Kollam district of Kerala state. Firstly, to briefly list out the types of permissible investment such as issues of securities, treasury bills, SLR & non-SLR bonds, term deposits, etc. Secondly, to describe the bank investments by way of investments in securities, purchase of government securities, parameters for investment and funds of the bank. Thirdly, to point out the procedure for investments adopted in the KCUB such as investment in primary market, purchase of government securities in secondary market and sale of government securities. Fourthly, to suggest briefly the delegations of powers for investment/purchase/sale of securities. Fifthly, to list out the reporting of transactions by way of daily report, monthly report, quarterly report and half yearly report. Finally, to discuss about the categorisation of investments like held to maturity, held for trading and available for sale. The present study is helpful to the account holders and guidance's to all employees & employers in The Kottarakara Co-operative Urban Bank.

Keywords: Investment Policy, Permissible Investments, Sale of Securities, Delegation of Powers, Reporting of Transactions.

I. INTRODUCTION

The Reserve Bank of India directed to the Urban Co-operative Banks to formulate investment policy for undertaking transactions in securities. Accordingly, an investment policy for The Kottarakara Co-operative Urban bank (KCUB) is being framed and placed for the approval of the Board of management. This investment policy has taken into account the instruction of the RBI from time-to-time and relevant provisions of the Banking Regulation Act, 1949 and Kerala State Co-operative Societies Act & Rules, 1969. The new investment policy will take effect from the date of its approval by the Board of management. This policy shall provide adequate instructions to management, the investment committee and others involved in the management of the investment portfolio regarding its. Thus it can be pointed out that this paper provides insight regarding the investment policy of The KCUB and is helpful to the account holders, employers as well as to the employees.

The field of operation of The Kottarakara Co-operative Urban Bank Ltd No. 1909 for following branch wise manner: as on 31st March 2018

1. The Kottarakara Co-operative Urban Bank - Main Branch (Kottarakara Town)
2. The Kottarakara Co-operative Urban Bank - Chadayamangalam Branch.
3. The Kottarakara Co-operative Urban Bank - Puthoor Branch.
4. The Kottarakara Co-operative Urban Bank - Odanavattom Branch.
5. The Kottarakara Co-operative Urban Bank - Pulamon Branch.
6. The Kottarakara Co-operative Urban Bank - Oyoor Branch.

PURPOSE AND OBJECTIVE OF THE STUDY

➤ To invest Government and approved securities towards adequacy or otherwise of the investment required for the purpose of Statutory Liquidity Ratio (SLR) of The Kottarakara Co-operative Urban Bank (KCUB) in a safe and sound manner and are in accordance with written policies and procedures of Reserve Bank of India (RBI).

➤ To invest in Non-SLR investment up to 10% of the total deposit as on March 31st of the previous year or up to the limit as may be prescribed by the RBI from time to time

in order to get better return on responsible funds of the KCUB.

➤ To invest in Government and other approved securities for the purpose of trading and to undertake repo transactions.

➤ To invest in Government and other approved securities for being used business by way of pledge with District Co-operative Bank/State Co-operative Bank (DCB/SCB) for availing refinance, overdraft, etc.

➤ To invest the day to day surplus funds in call/Term deposits.

➤ To invest the funds in the concerned DCB/SCB/IDBI/Nationalized Bank/Scheduled Bank as fixed deposit/cumulative deposit for the purpose of SLR requirement/Non-SLR requirements and also for better return on investible funds subjected to inter-bank exposure ceiling as envisaged in RBI.

➤ To have approximate controls in places and do not undermine the solvency and liquidity of the KCUB.

➤ Any other purpose as may be deemed fit by the Board of management of the KCUB subject to the provision contained in the Banking Regulation Act, 1949 and Kerala Co-operative Societies Act and Rule 1969 and directives issued by RBI from time to time.

TYPES OF PERMISSIBLE INVESTMENTS

The Kottarakara Co-operative Urban Bank (KCUB) shall invest in the following types of investments:

➤ Securities issued by central and State Government (primary market/secondary market).

➤ SLR and Non-SLR Bonds/Debentures of the nature of trustee securities float by financial institutions and public sector undertakings.

➤ Treasury Bills.

➤ Call/Term Deposits in District Co-operative Bank/Kerala State Co-operative Bank (DCB/KSCB) and other approved institutions.

➤ Any other type of investment as permitted by RBI and the Kerala Co-operative Societies Act, 1969 and Rules 1969, from time to time.

INVESTIBLE FUNDS

Investible funds of The Kottarakara Co-operative Urban Bank (KCUB) shall be arrived at by taking the following factors into account.

➤ Deposit position of the Bank.

➤ Credit requirements of the members of the Bank.

➤ Borrowings from District Co-operative Bank/Kerala State Co-operative Bank (DCB/KSCB).

➤ Statutory commitments of the Bank.

➤ Any other commitment as envisaged by the Bank and as per the directives of the RBI/Registrars of Co-operative societies.

➤ The surplus funds of the Bank shall be arrived and invest it in greatest return portfolio as permitted this policy.

INVESTMENTS IN CALL OR TERM DEPOSITS

The Kottarakara Co-operative Urban Bank (KCUB) shall consider investing in Call/Term deposits, whenever it has surplus money for short period (up to 181 days) and the Bank shall consider the following factors while investing in Call/Term deposits.

➤ No brokers are involved for Call/Term money operations.

➤ Call/Term money deposits to be made with dealing bank/primary dealers only.

➤ Asset Liability Management (ALM) of the (KCUB) to match short-term requirement of the bank.

➤ The Bank in consultation with the executives of the dealing bank officers at the treasury section will give instructions for investment in call/term deposit. The Bank shall clearly inform the officers in Treasury section about the number of day for which the term deposits to be made followed by confirmation by way of fax/letter signed by the authorised officer.

➤ The Bank shall monitor the repayment of principal periodical interest on such money invested in Call/Term deposits on due date.

INVESTMENT OR SALE OF SECURITIES

1. Investment in Securities

The Kottarakara Co-operative Urban Bank (KCUB) shall invest in:

➤ Central Government Securities.

➤ State Government Securities and State Development Loan.

➤ Other approved securities/PSU Bonds wherein repayment of principal and payment of interest are guaranteed by the State/Central Governments. The bonds should also be rated by leading rating agencies like CRISIL, ICRA, etc., with reasonable for good safely ratings.

➤ Any other securities as permitted by RBI/RCS for the purpose of:

• Statutory requirements

• Trading in securities

• Earmarking towards reserve fund

- Pledging to avail financial accommodation from the concerned District Co-operative Bank and the Dealing Bank.
- Investment of surplus funds for getting better yield and any other purposes may be decided by the Board of Management.

2. Mode of Investment or Purchase of Government Securities

The Kottarakara Co-operative Urban Bank (KCUB) shall invest/purchase Government Securities issued by the Government of India/State Government by way of:

- Auction (yield based, price based of floating rates)
- Sale of securities with pre-announced rates.
- On-tap sale.
- Any other mode as may be notified by the RBI/GOI

3. Parameters for Investment or Purchase of Government Securities

The Kottarakara Co-operative Urban Bank (KCUB) shall consider the following factors while investing/purchasing government securities.

The Yield To Maturity (YTM) for the security proposed to be purchased shall be at a minimum of 8% (The YTM shall be fixed by the Board of Management considering the cost of funds of the Bank, rate of return on alternative investment avenues, etc.)

The maximum premium that can be paid per security for face value of Rs. 100/- shall be 10% (The management may fix a maximum ceiling for payment of premium over and above face value Rs. 100 per security). So that the Bank shall exercise more caution on their investment.

The maximum value of security that can be invested/purchased in a deal shall be 5 Crores. (Eg. Rs. 1 Crore, Rs. 2 Crores, Rs. 3 Crores, Rs. 4 Crores, Rs. 5 Crores, etc.)

4. Procedure for Investment or Purchase of Government Securities

The Kottarakara Co-operative Urban Bank (KCUB) shall adopt the following procedures for investment/purchase of Government Securities.

4.1. Investment in Primary Market

The KCUB after obtaining necessary approval from the Special Office/General Manager shall request the PDs/Dealing Bank by fax or e-mail for subscription to the Government Loan issued on tap basis. The purchase/investment request should be signed by the Authorised Officers of the Bank.

The KCUB shall ensure adequate funds in its current account with Dealing Bank as at the close of business on

the previous day to meet the investment proposal of the KCUB.

Purchase of Government securities shall be only in Demat Form and DVP basis. The Government securities so purchased shall be kept in the SGL account with RBI or CSDL account with Dealing Bank/PDs

The KCUB shall not purchase G-Section in physical for except for a specific purpose as approved by the Board.

4.2. Purchase of Government Securities in Secondary market

The KCUB shall identify G-Section to be purchased based on the reports published in the Financial Dailies, information collected from Primary/Secondary market or information given by the Dealing Bank/PDs, etc.

The KCUB shall then call up the Dealing Bank/PDs to ascertain the latest price for the G-Section identified by the Bank. It shall also ascertain the latest price trend in the Debt Market and decide the G-Section to be purchased.

Based on the quotes obtained and other relevant factors, the Authorised Official of the KCUB, after getting necessary approval of the Investment Committee/General Manager shall place orders with the Dealing Bank/PDs for purchase of the G-Section over phone or e-mail followed by confirmation by fax.

The KCUB shall ensure adequate funds with Dealing Bank as at the close of business on the previous day to meet the cost, interest accrued on the G-Section, etc.

The KCUB shall receive the deal confirmation from the Dealing Bank/PDs. On receipt of which the KCUB shall pass necessary entries in the books, it shall check the deal confirmation for correctness of transaction and if found in order, the KCUB shall return the deal confirmation duly signed by the Authorised Official.

The KCUB shall receive a statement of account from the Dealing Bank/PDs with whom the transaction was done showing the transactions during the fortnight.

5. Sale of Government Securities

The Kottarakara Co-operative Urban Bank (KCUB) may consider to sell the securities in the "Held for Trading" at a 5% or higher than the cost price or the average price of the security (less). However The Kottarakara Co-operative Urban Bank may with the permission of the General Manager sell the securities at less than the cost price in order to maintain liquidity of the Bank or to meet unforeseen circumstances of the Bank or to minimize the loss in anticipation of steep fall in the price of securities in the Debt Market.

PROCEDURE FOR SALE OF GOVERNMENT SECURITIES

- The Kottarakara Co-operative Urban Bank (KCUB) shall identify the G-Section for sale among its G-Section portfolio.

- It shall obtain the quotes from the identified scripts from Dealing Bank/PDs/Online service. Based on the quotes obtained and other relevant factors, the authorised officials of the KCUB shall get the necessary approval of the General Manager and place orders with Dealing Bank/PDs for the sale of the identified G-Section over phone or e-mail followed by confirmation over fax.

- The KCUB shall ensure that the intended Government security is in the credit of CSG L Account with Federal Bank/PDs be available as the clause of business on the previous day.

- The KCUB shall receive a statement from the Dealing Bank/PDs on receipt of which the KCUB shall pass necessary entries in the books, it shall also check the deal confirmation for the correctness of the transaction and if found in order the KCUB shall retransmit a copy of the deal confirmation to the Dealing Bank/PDs duly signed by the authorized officials.

- The KCUB shall receive a statement from the Dealing Bank/PDs with whom the transactions was done showing the transactions done in the CSG L Account during the fortnight.

INVESTMENT IN NON-SLR BONDS

The Kottarakara Co-operative Urban Bank (KCUB) may invest their surplus funds in Non-Statutory Liquidity Ratio. Investment up to 10% to total deposit as on March 31st of the previous year, subject to the conditions as contained in RBI Circular No. UBD.BPD(PCB).MC.No.12/16.20.000/2013-14 dated July 1, 2013.

The KCUB shall invest in the following investments:

- ‘A’ or equivalent and higher rated Commercial Papers (CPs) debenture and bonds.
- Units of Debt Mutual Funds and Money market Mutual Funds.

DELEGATION OF POWERS

The Board of management of the KCUB shall authorize officials of the Bank to deal in Government and other securities will be executed by minimum of two authorised official, jointly.

➤ Delegation of Powers for Investment/Purchase/Sale of Securities

The delegation of powers with financial ceiling shall be fixed by the Board of Management of the KCUB for taking appropriate decision regarding investment/purchase/sale of securities.

The ceiling per deal may be fixed as per:

Sl.No	Quantum of Transaction	Sl.No	Deciding Authorities
1	Face value upto Rs. 50 Lakhs	1	General Manager/ Branch Manager/ Section Officer
2	Over Rs. 50 Lakhs to Rs. 1 Crore	2	Investment Committee
3	Over Rs. 1 Crore	3	Board of Directors

INVESTMENT COMMITTEE

The Kottarakara Co-operative Urban Bank (KCUB) shall constitute a committee to plan and monitor the prudent utilization of funds of the Bank. The committee shall consist of the following officers.

1. Chairman
2. Director
3. General Manager
4. Officer, Looking after funds, Management of the Bank.
5. Any other special official deemed fit by the management:-

The investment committee shall meet frequency as required and take decision on the utilization of the funds of the KCUB. It shall also review the management of funds during the previous fortnight. The minutes will be recorded and placed before the next Board meeting for ratification.

REPORTING OF TRANSACTIONS

1) Daily Report

The Kottarakara Co-operative Urban Bank shall prepare a daily report on the transaction showing the details of purchase/sales securities and put up to the General Manager or Section Officer for ratification.

2) Monthly Report

In The Kottarakara Co-operative Urban Bank, a report on the transaction done during the previous month viz., investments in primary issues and purchase in secondary market sale/redemption of securities shall be placed in the following month in the Board Meeting for ratification.

3) Quarterly Report

In The Kottarakara Co-operative Urban Bank, a report on the transaction done during the quarters ended June, September, December and March viz., investments in primary issues and purchase in secondary market, sale/redemption of securities shall be placed in the Board Meeting on or before the 15th of following month of the quarters for information.

4) Half-Yearly Report

A report of the transaction done during the half-year ended September and March viz., investment in primary issues and purchase in secondary market sales redemption of securities shall be placed in the Board Meeting on or before

15th of the following month of the half-year for information. Similar reports as required by RBI by 15th November and 15th of May respectively.

AUDITING

The internal, concurrent and external auditors shall ensure that proper controls exist and are functioning properly. Securities transaction of The Kottarakara Co-operative Urban Bank shall be separately subjected to concurrent audit by Internal Auditors and results of the audit shall be placed before the Chairman/Special Officer once in a month.

VALUATION AND CLASSIFICATION OF SECURITIES

The Kottarakara Co-operative Urban Bank shall follow the guidelines issued by RBI from time to time for classification and valuation of Urban Co-operative Banks. Presently it is done by as per circular No. UBD.BPD(PCB) Cir. No. 36/16.20.000/2013-14 dt. 1st November, 2013.

CATEGORISATION OF INVESTMENTS

The entire investment portfolio (including SLR and Non-SLR) of The Kottarakara Co-operative Urban Banks are classified into three categories viz. The decision regarding the category of investments shall be decided at the time of acquisition and the decision shall be recorded on the investment committee minutes of the Bank.

i. Held to Maturity

Securities acquired by the KCUB with the intention to hold them up to maturity will be classified under “Held to Maturity” category.

ii. Held for Trading

Securities acquired by the KCUB with the intention to trade by taking advantage of the short-term price/interest rate movements will be classified under “Held for Trading” category.

iii. Available for Sale

Securities which do not fall within the above two categories will be classified under “Available for Sale” category in the KCUB.

The Kottarakara Co-operative Urban Bank shall decide from time to time extend of holding under “Available for Sale” category. This is decided by considering various aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, man power skills, capital position, etc.

SHIFTING OF INVESTMENTS

• The Kottarakara Co-operative Urban Bank shall shift investments to/from “Heads to Maturity” category with the approval of the Board of Directors once in a year.

• The Kottarakara Co-operative Urban Bank shall shift investments from “Available for Sale” category to “Head for Trading” category with the approval of the Board of Directors.

CONCLUSION

In The Kottarakara Cooperative Urban Bank (KCUB), didn't change the basics of investment policies. Further some changes in future such as additions, deletions shall be made by the Board of Directors in a meeting through a special resolution for the purpose consequent to any alterations made in the Bye-Laws, Investment Rules or in the Directives of RBI from time to time. The present paper concludes the detailed discussion for the investment policy such as types, valuation, delegation of powers, reporting of transactions, categorisation, etc., of the Bank. As a researcher point of view, to improve the basics of investment policies will be lead to the permissible investments in the bank. This study is helpful to the account holders, banking employers and employees for investments of The Kottarakara Cooperative Urban Bank in Kollam district of Kerala state.

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