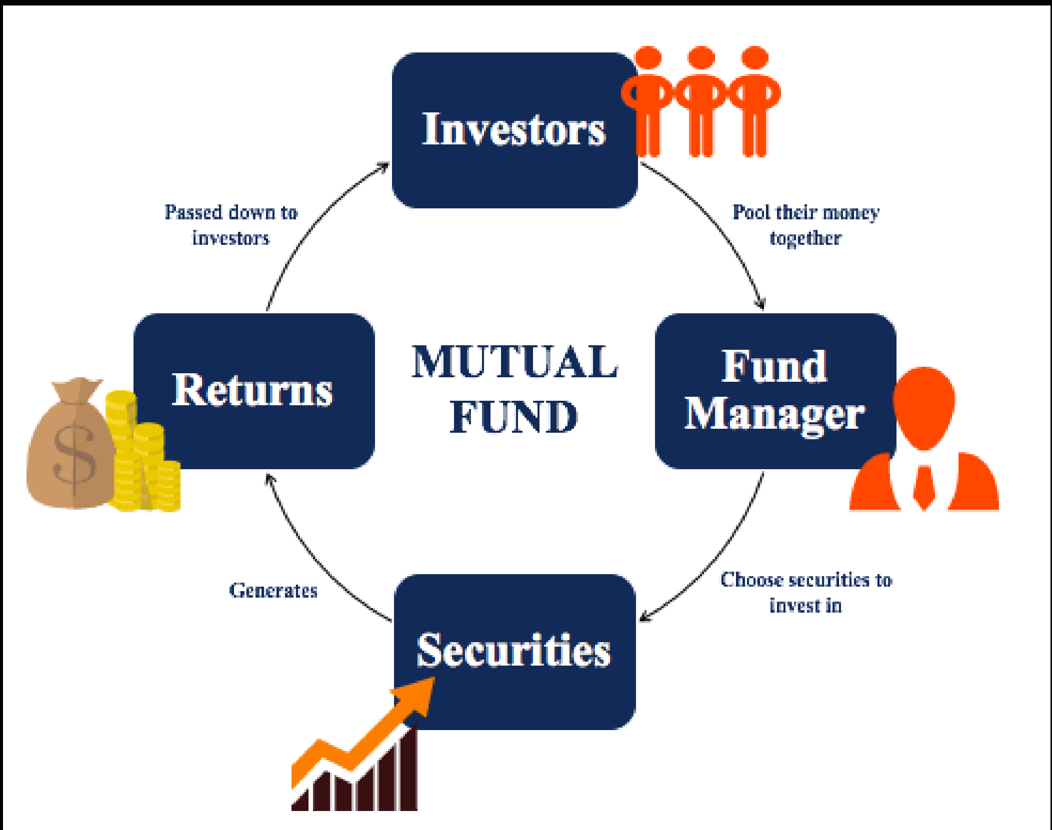
Team Professionals

CHAPTER 4 : INDIAN FINANCIAL MARKET

Mutual Funds



A mutual fund is an investment security that enables investors to pool their money together into one professionally managed investment. Mutual funds can invest in stocks, bonds, cash or a combination of those assets.

Phases	Major Developments
First Phase (1964-1987)	➢ The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). ➢ In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took

	over the regulatory and administrative control in place of RBI. ➢ Unit Scheme 1964 was the first scheme launched by UTI. ➢ At the end of 1988, UTI had Rs. 6,700 crores of Assets Under Management (AUM).
Second Phase (1987-1993)	➢ The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). ➢ SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by 1987- Canbank Mutual Fund (Dec. 1987), 1989 1. Punjab National Bank Mutual Fund (Aug. 1989), 2. Indian Bank Mutual Fund (Nov 1989), 3. LIC (June 1989) 1990 1. Bank of India (Jun 1990) 2. GIC (December 1990) 1992 1. Bank of Baroda Mutual Fund (Oct. 1992). ➢ At the end of 1993, the MF industry had assets under management of Rs. 47,004 crores.
Third Phase (1993-2003)	➢ The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market. ➢ In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. ➢ The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993. ➢ With the entry of private sector funds in 1993, a new era began in the Indian MF industry, giving the Indian investors a wider of MF products.

	- The initial SEBI MF Regulations were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulations, 1996 which is currently applicable. - The number of MFs increased over the years, with many foreign sponsors setting up mutual funds in India. - Also the MF industry witnessed several mergers and acquisitions during this phase. - As at the end of January 2003, there were 33 MFs with total AUM of Rs. 1,21,805 crores, out of which UTI alone had AUM of Rs. 44,541 crores.
Fourth Phase (Since February 2003 – April 2014)	- In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. - With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation. - Following the global melt-down in the year 2009, securities markets all over the world had ranked and so was the case in India. - Most investors of had entered the capital market during the peak, had lost money and their faith in MF products was shaken greatly. - The abolition of Entry Load by SEBI, coupled with the after-effects of the global financial crisis, deepened the adverse impact on the Indian MF Industry, which struggled to recover and remodel itself for over two years, in an attempt to maintain its economic viability which is evident from the sluggish growth in MF Industry AUM between 2010 to 2013.
Fifth (Current Phase) Since May 2014	Taking cognisance of the lack of penetration of MFs, especially in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI introduced several progressive measures in September 2012 to "re-energize" the Indian Mutual Fund industry and increase MFs' penetration In due course, the

	measures did succeed in reversing the negative trend that had set in after the global melt-down and improved significantly after the new Government was formed at the Center. ➢ Since May 2014, the Industry has witnessed steady inflows and increase in the AUM as well as the number of investor folios (accounts). ➢ The Industry's AUM crossed the milestone of Rs. 10 Trillion (Rs. 10 Lakh Crore) for the first time as on 31st May 2014 and in a short span of two years the AUM size has crossed Rs. 15 lakh crore in July 2016. ➢ The overall size of the Indian MF Industry has grown from Rs. 3.26 trillion as on 31st March 2007 to Rs. 15.63 trillion as on 31st August 2016, the highest AUM ever and a five-fold increase in a span of less than 10 years !! ➢ In fact, the MF Industry has more doubled its AUM in the last 4 years from Rs. 5.87 trillion as on 31st March, 2012 to Rs. 12.33 trillion as on 31st March, 2016 and further grown to Rs. 15.63 trillion as on 31st August 2016. ➢ The no. of investor folios has gone up from 3.95 crore folios as on 31-03-2014 to 4.98 crore as on 31-08-2016. ➢ On an average 3.38 lakh new folios are added every month in the last 2 years since Jun 2014. ➢ The growth in the size of the Industry has been possible due to the twin effects of the regulatory measures taken by SEBI in reenergising the MF Industry in September 2012 and the support from mutual fund distributors in expanding the retail base. ➢ MF Distributors have been providing the much needed last mile connect with investors, particularly in smaller towns and this is not limited to just enabling investors to invest in appropriate schemes, but also in helping investors stay on course through bouts of market volatility and thus experience the benefit of investing in mutual funds. ➢ In fact, even though FY 2015-16 was not a very good year for the Indian securities market, the MF Industry witnessed steady positive net inflows

	month after month, even when the FIIs were pulling out in a big way. ➢ This was largely because of the 'hand-holding' of the investors by the MF distributors and convincing them to stay invested and/or invest at lower NAVs when the market had fallen. ➢ MF distributors have also had a major role in popularising Systematic Investment Plans (SIP) over the years. ➢ In April 2016, the no. of SIP accounts has crossed 1 crore mark and currently each month retail investors contribute around Rs. 3,500 crore via SIPs.

NON-BANKING FINANCE COMPANIES (NBFCs)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of

- loans and advances, acquisition of shares/stocks/bonds/debentures/ securities issued by Government or local authority or other marketable securities of a like nature,
- leasing,
- hire-purchase,
- insurance business,
- chit business

but does not include any institution whose principal business is that of

- agriculture activity,
- industrial activity,
- purchase or sale of any goods (other than securities) or
- providing any services and
- sale/purchase/construction of immovable property.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in instalments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

- NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

i. NBFC cannot accept demand deposits;
ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Different types of NBFCs :

- NBFCs are categorized
  a) in terms of the type of liabilities --- Deposit and Non-Deposit accepting NBFCs,
  b) non deposit taking NBFCs by their size ---- into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and
  c) by the kind of activity they conduct. Within this broad categorization the different types of NBFCs are as follows:

1. Asset Finance Company (AFC) :

- An NBFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines.
- Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.
- **Examples**: UTI AMC, ICICI AMC, BIRLA SUN LIFE AMC

2. Investment Company (IC) :

- IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.
  Examples: JPMorgan Chase, Allianz, Black Rock

3. **Loan Company (LC)** :

- LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.
- Example: Shriram Transport Finance Company Limited, Muthoot Finance Ltd, Power Finance Corporation Limited.

4. **Infrastructure Finance Company (IFC)** :

- IFC is a non-banking finance company

  a) which deploys at least 75 per cent of its total assets in infrastructure loans,

  b) has a minimum Net Owned Funds of Rs. 300 crore,

  c) has a minimum credit rating of 'A 'or equivalent

  d) and a Capital to Risk Asset Ratio of 15%.

  Examples : Rural Electrification Corporation, Infrastructure Leasing & Financial Services, Industrial Finance Corporation of India

5. **Systemically Important Core Investment Company (CIC-ND-SI)** :

- CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:-

(a) it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;

(b) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets;

(c) it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

(d) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.

(e) Its asset size is Rs. 100 crore or above

and

(f) It accepts public funds

6. **Infrastructure Debt Fund :** Non- Banking Financial Company (IDF-NBFC) :

- IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects.
- IDF - NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity.
- Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.
- **Examples** : IL & FS Infrastructure Debt Fund

7. **Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI) :**

- NBFC-MFI is a non deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:
  a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000;

  b. loan amount does not exceed Rs. 50,000 in the first cycle and Rs. 1,00,000 in subsequent cycles;

  c. total indebtedness of the borrower does not exceed Rs. 1,00,000;

  d. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

  d. loan to be extended without collateral;

e. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;

g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

8. **Non-Banking Financial Company – Factors (NBFC-Factors) :** NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring.

- The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.
  Examples: Bandhan Financial Services Limited, Ujjivan Financial services Ltd

9. **Mortgage Guarantee Companies (MGC)** –

- MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs. 100 crore.

10. **NBFC- Non-Operative Financial Holding Company (NOFHC)**

- It is financial institution through which promoter / promoter groups will be permitted to set up a new bank.
- It's a wholly owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

BANKING SECTOR

- The banking industry handles finances in a country including cash and credit.
- Banks are the institutional bodies that accept deposits and grant credit to the entities and play a major role in maintaining the economic stature of a country.
- Given their importance in the economy, banks are kept under strict regulation in most of the countries. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the monetary policy in the country.

Commercial Banks :

1. public sector banks,
2. private sector banks,
3. foreign banks
4. Regional Rural Banks (RRB).

Small Finance Banks

Payments Banks

Co-operative Banks

Agricultural

short-term agricultural credit institutions

1. Apex level- State cooperatives
2. District level – Central Cooperatives
3. Village level – Primary credit agricultural societies

long-term agricultural credit institutions - Land developmental bank - NABARD

Non-agricultural

Banks are classified into classified into 4 categories –

1. Commercial Banks
2. Small Finance Banks
3. Payments Banks
4. Co-operative Banks

A brief description of the aforesaid forms of banks is as under:

1. **Commercial Banks**
   - **Commercial Banks can be further classified into 4 categories**
     1. public sector banks,
     2. private sector banks,
     3. foreign banks
     4. Regional Rural Banks (RRB).

- Commercial Banks are regulated under the Banking Regulation Act, 1949 and their business model is designed to make profit.
- Their primary function is to accept deposits and grant loans to the general public, corporate and government.

a. Public sector banks

- Nationalised banks and account for more than 75 % of the total banking business in the country.
- Majority of stakes (more than 50%) in these banks are held by the government.

- The banking sector was developed during the British era. British East India Company set up three banks:

  Bank of Bengal (1809); Bank of Bombay (1840) and Bank of Madras (1843).

- These three banks were later merged and called Imperial Bank, which was taken over by State Bank of India (SBI) in 1955.
- The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.
- July 19, 1969 was an important date in the history of Indian banking.
- As it is on this date that 14 major scheduled commercial banks having a deposit of more than INR 50 crore were nationalized.

The 14 banks were

1. A 1 - Allahabad Bank,
2. B 3 - Bank of Baroda,
3. Bank of India.
4. Bank of Maharashtra,
5. C 2 - Canara Bank,
6. Central Bank of India,
7. D 1- Dena Bank,
8. I 2 - Indian Overseas Bank,
9. Indian Bank,
10. P 1 - Punjab National Bank,
11. S 1 -SyndicateBank,
12. U 3- Union Bank,
13. United Bank of India,
14. UCO Bank

- Subsequently, some private banks were observed to suffer from governance problems.
- Further, there was a need to address the need of credit delivery in greater measure.
- In the second wave of nationalization 6 banks, i.e
  1. A 1 -Andhra Bank,
  2. C 1 - Corporation Bank,
  3. N 1 - New Bank of India,
  4. O 1 - Oriental Bank of Commerce,
  5. P 1 - Punjab and Sind Bank and
  6. V 1 - Vijaya Bank

  with deposit liabilities of 200 crore and above were nationalised in April 1980. With the nationalisation of these six banks, the number of public sector banks (PSBs), including State Bank of India and its associate banks, rose to 28 in April 1980.
- PSBs have played a significant role in the development of the country over the last five decades. They have rapidly expanded their branch network, extended credit to crucial segments such as large industry, MSMEs, agriculture, trade and retail, and participated wholeheartedly in the government's financial inclusion efforts.
- Despite the opening up of the sector to private entities in the early 1990s, PSBs remain formidable players.
- This is underscored by the fact that their market share in overall bank credit and overall bank deposits was at 63.2 per cent and 66.9 per cent respectively at the end of FY18.
- Though their market share has come down over the years, PSBs may regain some or most of it.
- They are now through with the recognition of bad loans, and are taking efforts to recover them.
- Further, they have tightened the loan origination process and put in place a monitoring mechanism to ensure that new loans don't go off-kilter.
- Moreover, the government is continuously pumping in capital to nurse them back to health and pushing for consolidation.
- While some PSBs (such as SBI, PNB and Canara Bank) are lumbering giants, they did not balk when it was time to adapt to changes in the financial system and customer requirements, embracing retail banking and technology with gusto.
- A recent drastic initiative of Government of India is going to change the scenario of public sector banks.

- As a banking reform measure, 10 public sector banks will be merged into four entities. This would take the number of banks in the country from 27 in 2017 to 12.
- These bank mergers, and the ones already carried out, will lead to the creation of big banks with an enhanced capacity to give credit.
- These big banks, would also be able to compete globally and increase their operational efficiency by reducing their cost of lending.
- The banks have been chosen for mergers on the basis of ensuring that there is no disruption in the banking services, and that the banks should benefit from increased CASA current account savings account and greater reach.
- The largest of the mergers announced is that of Punjab National Bank with Oriental Bank of Commerce and United Bank. The amalgamated entity — to be called Punjab National Bank — will become the second-largest public sector bank in India, after the State Bank of India. It will also become the second-largest bank in India in terms of its branch network, with a combined total of 11,437 branches.
- The second merger announced was that of Canara Bank and Syndicate Bank, which would render the merged entity the fourth-largest public sector bank. The merger also has the potential to lead to large cost reductions due to network overlaps. Further, the similar business cultures of the two banks would also facilitate a smooth transition.
- The fourth merger announced is of Indian Bank and Allahabad Bank. This, too, would lead to a doubling of the size of the business and would also lead to a huge potential for scaling up due to the complementary networks of the two banks. nomic &

b. Private sector banks

- In which major stake or equity (more than 50 %) is held by private shareholders.
- All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well.
- Private Sector Banks refer to those banks where most of the capital is in private hands.
- In India, there are two types of private sector banks viz.
  Old Private Sector Banks and New Private Sector Banks.

Old private sector banks

- those which existed in India at the time of nationalization of major banks but were not nationalized due to their small size or some other reason.

- After the banking reforms, these banks got license to continue and have existed in India along with new private banks and government banks.

At present, there are 12 old private sector banks in India as follows:
1. C 2 - Catholic Syrian Bank
2. City Union Bank
3. D 1 - Dhanlaxmi Bank
4. F 1 - Federal Bank
5. J 1 - Jammu and Kashmir Bank
6. K 2 - Karnataka Bank
7. Karur Vysya Bank
8. L 1 - Lakshmi Vilas Bank
9. N 1 - Nainital Bank
10. R 1 - Ratnakar Bank
11. S 1 - South Indian Bank
12. T 1 - Tamilnadu Mercantile Bank

Among the above, Nainital Bank is a subsidiary of the Bank of Baroda, which has 98.57% stake in it – Bank of Baroda holds 98.57% in Nainital Bank

New Private Sector Banks

- The new private sector banks were incorporated as per the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993.
- At present, there are 9 new private sector banks as follows:

1. A 1 - Axis Bank
2. B 1 - Bandhan Bank of Bandhan Financial Services.
3. D 1 - Development Credit Bank (DCB Bank Ltd)
4. H 1 - HDFC
5. I 3 - ICICI Bank
6. IndusInd Bank
7. IDFC
8. K 1 - Kotak Mahindra Bank
9. Y 1 - Yes Bank

c. Foreign bank

- one that has its headquarters in a foreign country but operates in India as a private entity.
- These banks are under the obligation to follow the regulations of its home country as well as the country in which they are operating.

Examples : City Bank N.A., Deutsche Bank AG, Standard Chartered Bank, The Hongkong & Shanghai Banking Corporation Ltd. (HSBC), BNP Paribas

d. Regional Rural Banks (RRBs)

- They are also scheduled commercial banks but they are established with the main objective of providing credit to weaker sections of the society like agricultural labourers, marginal farmers and small enterprises.
- They usually operate at regional levels in different states of India and may have branches in selected urban areas as well. Other important functions carried out by RRBs include-
  - Providing banking and financial services to rural and semi-urban areas.
  - Government operations like disbursement of wages of MGNREGA (Mahatma Gandhi Employment Guarantee Act 2005)workers, distribution of pensions, etc.
  - Para-Banking facilities like debit cards, credit cards and locker facilities

Examples :

Sr. No.	Name of the RRB	Sponsorship Bank
1	Prathama Bank	Syndicate Bank
2	Arunachal Pradesh Rural Bank	State Bank of India
3	Purvanchal Bank	State Bank of India
4	Jharkhand Gramin Bank	Bank of India,

- Regional Rural Banks(RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India.
- They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too.
- The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State.
- RRBs also perform a variety of different functions.
- RRBs perform various functions in following heads:

(a) Providing banking facilities to rural and semi-urban areas.

(b) Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.

(c) Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking, UPI etc.

- Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September,1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors.
- As a result 5 Regional Rural Banks were set up on 2nd October,1975 Gandhi Jayanti.
- These were set up on the recommendations of The Narshimham committee Working Group during the tenure of Indira Gandhi's Government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation.
- The development process of RRBs started on 2nd October,1975 Gandhi Jayanti with the forming of the

  1. 1st RRB, the Prathama Bank, Head Office at Moradabad in Uttar Pradesh with authorised capital of Rs 5 crore at its starting.
  2. 2nd RRB was Set up at Malda in West Bengal under the name of Gour Gramin Bank, which was the first RRB in the Eastern Region of India.

- The current structure of RRBs is that Central Government owns 50%, Sponsorship Bank holds 35% and State Government holds 15%.
- India is eyeing a mega revamp of its regional rural banks (RRBs) and the plan includes consolidation of these lenders for better operational efficiencies in line with the government's big rural focus.
- The plan that the finance ministry is drawing up also envisages RRBs adopting differentiated banking strategies, such as targeting specific sectors, for a strong regional connect.
- Some RRBs will be merged with their sponsoring banks.
  - There are 56 operational RRBs & the roadmap is to bring them down to 38 or below.

2. **Small Finance Banks** :

- This is a niche banking segment in the country and is aimed to provide financial inclusion to sections of the society that are not served by other banks.
- The main customers of small finance banks include micro industries, small and marginal farmers, unorganized sector entities and small business units.
- These are licensed under Section 22 of the Banking Regulation Act, 1949 and are governed by the provisions of RBI Act, 1934 and FEMA.
- Small private banks are financial institutions that have the license to offer fundamental banking services by accepting deposits and lending.
- The aim of these banks is to provide financial inclusion to those sections of the economy which is not served by other banks like small business units, small and marginal farmers, micro and small industries and the unorganized sector.
- The list of small private banks in India are as under:

1. A 1 - AU small finance bank.
2. C 1 - Capital small finance bank.
3. E 2 - ESAF small finance bank.
4. - Equitas small finance bank.
5. F 1 - Fincare small finance bank.
6. J 1 - Jana small finance bank.
7. N 1 - North East small finance bank.
8. S 1 - Suryoday small finance bank
9. U 2 - Ujjivan small finance bank.
10. Utkarsh small finance bank.

- Almost every reform is born out of a crisis. So is the case with Indian economic reforms.
- The Balance of Payments crisis in 1991 forced the government to begin dismantling the licence permit raj.
- As Manmohan Singh began setting up framework for fiscal reforms under Prime Minister Narasimha Rao's direction, Rangarajan as Governor began erecting a new monetary structure.
- Although RBI had the mandate to issue new banking licences, it did not until 1994 when the dust over the financial crisis settled.

- It was also the time when the markets were rocked by frauds in the nonbanking finance companies segment with CRB Financial being the prime example.
- It was a providential escape for the RBI which was about to give a banking licence to CRB as well.
- Institutions such as IDBI, ICICI, HDFC and UTI were given licences. Others who managed were Centurion Bank, Bank of Punjab, Times Bank, Global Trust Bank and IndusInd Bank of the Hindujas.
- Barring IndusInd, all the others are merged into another bank.
- Global Trust Bank, was the first one to blow up among the new-age banks in the midst of a scandal. It raised questions about RBI's judgement.
- But the central bank was quick enough to identify problems and merge it with Oriental Bank of Commerce in 2004.
- Centurion Bank of Punjab and Times Bank merged with HDFC Bank. IDBI Bank NSE 5.70 %, which merged with parent Industrial Development Bank of India, is a standing example of how not to run an institution.

3. **Payments Bank** :
    - This is a relatively new model of bank in the Indian Banking industry.
    - It was conceptualised by the RBI and is allowed to accept a restricted deposit. they also offer services like ATM cards, debit cards, net-banking and mobile-banking.
    - The following are the payments bank in India:
        - India Post Payments Bank
        - Fino Payments Bank
        - Paytm Payments Bank
        - Airtel Payments Banks

4. **Co-operative Banks**
    - Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.
    - The cooperative banks, however, differ from joint stock banks in the following manner:

1. Cooperative banks issue shares of unlimited liability, while the joint stock banks issue shares of limited liability.

2. In a cooperative bank, one shareholder has one vote whatever the number of shares he may hold. In a joint stock bank, the voting right of a shareholder is determined by the number of shares he possesses.

3. Cooperative banks are generally concerned with the rural credit and provide financial assistance for agricultural and rural activities. Joint stock companies are primarily concerned with the credit requirements of trade and industry.

4. Cooperative banking in India is federal in structure. Primary credit societies are at the lowest rung. Then, there are central cooperative banks at the district level and state cooperative banks at the state level. Joint stock banks do not have such a federal structure.

5. Cooperative credit societies are located in the villages spread over entire country. Joint stock banks and their branches mainly concentrate in the urban areas, particularly in the big cities

History of Cooperative Banking in India

- Cooperative movement in India was started primarily for dealing with the problem of rural credit.
- The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904.
- The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means."
- Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit.

  These organisations were-
  (a) A union, consisting of primary societies;
  (b) the central banks; and
  (c) provincial banks.

- Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre-independence period.

- Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

Structure of Cooperative Banking

- There are different types of cooperative credit institutions working in India.
- These institutions can be classified into 2 broad categories-

1. agricultural

and

2. non-agricultural.

Agricultural credit institutions

- dominate the entire cooperative credit structure.
- **Agricultural credit institutions are further divided into**
  1. **short-term agricultural credit institutions**
     and
  2. **long-term agricultural credit institutions.**

1. **short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have three-tier federal structure**

1. at the apex, there is the state cooperative bank in each state;
2. at the district level, there are central cooperative banks;
3. at the village level, there are primary agricultural credit societies.

2. **Long-term agricultural credit land development banks.**

Explanation of Short term Agricultural Banks

1. **Central Co-Operative Banks** :

- **These banks are organized and operated at the district level and can be of two types**:
  (a) Co-operative Banking Union - the members of the bank are the co-operative societies only.

  (b) Mixed control Co-operative Bank - the members can be co-operative societies as well as individuals.

- The central cooperative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. **State Co-Operative Banks :**
   - These banks are organized and operated at the state level and rest at the top of the hierarchy in the co-operative credit structure.
   - With the help of State Cooperative Banks (SCBs), the RBI funds the co-operative institutions.
   - These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.

3. **Primary Co-Operative Banks :**
   - These offer credit services in the urban and semi-urban regions.
   - Thus, they are not considered as agricultural credit societies.
   - Primary Co-Operative Banks receive concessional refinance service from RBI and IDBI from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. **Land Development Banks :**
   - The land development banks are divided into three tiers which are primary, state, and central.
   - These offer credit services to the farmers for developmental purposes.
   - They used to be regulated by the RBI as well as the state governments.
   - However, this responsibility was recently transferred to the National Bank for Agricultural and Rural Development (NABARD).

INDUSTRIAL SECTOR

INDUSTRIAL FINANCE CORPORATION OF INDIA AND SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

(a) Industrial Development Corporation of India

- At the time of independence in 1947, the Indian Capital Markets were relatively less developed.
- The demand for capital was growing rapidly, however there was a dearth of providers of capital.
- The commercial banks that existed were not equipped well enough to provide for long term capital needs in any significant manner.
- Against this backdrop and to bridge the demand supply gap for capital needs of the economy, the Government of India established

- The Industrial Finance Corporation of India (IFCI) on July 1, 1948 by way of an IFC Act 1948.
- IFCI was the first Development Financial Institution of India set up to propel economic growth through development of infrastructure and industry.
- Since then, IFCI has contributed significantly to the economy through its incessant support to projects in all the three spheres of growth & development – manufacturing, infrastructure & services and agriculture allied sectors.
- The Liberalisation of the Indian Economy in 1991 made significant changes in the Indian Capital Markets & Financial System.
- To aid raising of funds directly through capital markets, the constitution of IFCI was changed from a statutory corporation to a company under the Indian Companies Act, 1956.
- Subsequently, the name of the company was changed to 'IFCI Limited' with effect from October 1999.

- Since its inception 70 years back, IFCI has witnessed and sustained all business economic cycles.
- IFCI has been able to maintain the financial sustainability with the consistent support and cooperation of all its stakeholders and particularly the Government of India.
- In addition to its core competence in long term lending to industrial and infrastructure sectors, IFCI is also enhancing its organizational value through optimising value of core and non-core assets & investments.
- Over the years, IFCI played a pivotal role in establishment of various Econoinstitutes (including some of its subsidiaries & associates) - that are respected in their fields today, namely :
  1. Stock Holding Corporation of India Ltd (SHCIL),
  2. National Stock Exchange Ltd (NSE),
  3. LIC Housing Finance Ltd, Tourism Finance Corporation of India Ltd (TFCI),
  4. Management Development Institute (MDI), ICRA Ltd, among many others.

- With the changes in the markets over a period of time a few of the subsidiaries were divested and currently IFCI Group has the following subsidiaries –
  1. Stock Holding Corporation of India Ltd,
  2. IFCI Venture Capital Fund Ltd,
  3. IFCI Factors Ltd,
  4. IFCI Infrastructure Development Ltd, IFCI Financial Services Ltd,
  5. MPCON, Management Development Institute and Institute of Leadership Development.

IFCI Products

The products of IFCI may be categorised under the following:

A. Loan Products:

- IFCI Ltd., established as the Industrial Finance Corporation of India (IFCI) on July 1, 1948, was the first Development Financial Institution in the country, setup to cater to the long-term finance needs of the industrial sector.
- Since its inception, IFCI has been a catalyst in creating a robust industrial base for the country through modernization of Indian industry, export promotion, import substitution, nurturing sunrise industries etc. through commercially viable and market-friendly initiatives.

- **In order to continue serving the needs of the Industry and society, IFCI offers the following products broadly categorized into 3 segments –**
  1. Project Finance,
  2. Corporate Finance &
  3. Structured Finance spreading across industries, services and Agro based sectors.

1. **Project Finance** :
   - IFCI's team of professionals with in-depth understanding of the sectoral dynamics, has the ability to provide customized financial solutions to meet the growing & diversified

requirement for different levels of the projects – greenfield projects, brownfield, diversification and modernisation of existing projects in infrastructure and manufacturing sectors.

- The various sectors covered under Project Finance are Power including Renewable energy, Telecommunications, Roads, Oil & gas, Ports, Airports, Basic Metals, Chemicals, Pharmaceuticals, Electronics, Textiles, Real Estate, Smart Cities & Urban Infrastructure etc.

2. **Corporate Finance :**

- IFCI caters to the varied needs of diverse set of customers ranging across small, mid and large corporates. IFCI offers financial solutions in areas of corporate finance through Balance Sheet Funding, Loan Against Shares, Lease Rental Discounting, Promoter Funding, Long Term Working Capital requirements, Capital Expenditure and regular Maintenance Capex.
- IFCI also offers a Short Term Loan product (tenure upto 1 year) to meet various business requirements including bridge financing and short term working capital requirements.

3. **Syndication & Advisory :**

- IFCI has taken an initiative to provide customized corporate advisory services and facilitating the financial re-engineering of various corporate houses and companies.
- We assimilate the inputs gathered from our vast and rich experience of project appraisal, documentation, syndication, product design in providing a customized comprehensive end to end financial solution for Corporates.
- We further carry out debt and equity syndication and advisory services for our client companies.

- In the area of providing customized corporate advisory services, IFCI has been able to secure new assignments relating to financial/investment appraisal, business reengineering and advisory activities.

B. Structured Products :

- IFCI also provides financing solutions to its clients through Structured Debt/Mezzanine products and assists in providing optimal financing solutions for various requirements such as sponsor financing, acquisition financing, pre-IPO financing and Off-Balance Sheet Structured Solutions amongst others.

Small Industries Development Bank of India (SIDBI)

- Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities.
- SIDBI's initiatives have remained aligned to the national goals of poverty alleviation, employment generation, kindling entrepreneurship and fostering competitiveness in MSME sector.
- Some of SIDBI's key initiatives over more than the past 25 years of tirelessly promoting the growth of MSMEs, include-

(i) Providing a cumulative assistance of around INR 5.40 lakh crore channelized into MSME segment.

(ii) Directly impacting over 360 lakh persons/enterprises through its branch network of around 80 offices spread across the country as well as through the network of banks / institutions (having more than 1.25 lakh branches) across the country.

(iii) Extending loans, equity and quasi-equity aggregating to INR 13,689 crore benefiting 356 lakh disadvantaged people, mostly women, through its Micro Finance operations.

(iv) Deepening its outreach by nurturing and evolving more than 100 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.

(v) Supporting more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling initiatives

(vi) Facilitating Institutions Building by adopting a SIDBI Plus approach and creating its Subsidiary and Associate Institutions for providing impetus to the growth of MSME ecosystem.

(vii) Developing a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category, for serving to the needs of the dynamic and consistently evolving MSME Sector.

Years	**Milestones Achieved**
1990	Setting up of SIDBI
1994	Foundation of Microfinance laid
1995	Technology Bureau for Small Enterprise (TBSE) was set up which converted into India SME Technology Services
1999	Setting up of SIDBI Venture Capital Limited
2000	Setting up of Credit Guarantee Fund Trust for Micro & Small Enterprise (CGTMSE)
2005	Setting up of SME Rating Agency (SMERA Ratings Ltd)
2008	Birth of India SME Asset Reconstruction Company Ltd (ISARC)
2015	Set up MUDRA - Micro Units Development and Refinance Agency Bank It is a public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs. It was launched by Prime Minister Narendra Modi on 8 April 2015
2016	Trade Receivables Discounting System (TReDS)
2017	Launched Certified Credit Counsellor (CCC)
2018	Launch MSME Pulse and CriSidEx India's first MSE Sentiment Index for micro, small and medium enterprises (MSMEs). The index will help to indicate the current state and expected outlook on the MSME sector every quarter.

Insurance Sector

- The insurance industry of India consists of 57 insurance companies of which 24 are in life insurance business and 33 are non-life insurers.
- Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company.
- Apart from that, among the non-life insurers there are six public sector insurers.
- In addition to these, there is sole national reinsurer, namely, General Insurance Corporation of India (GIC Re).

- Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Market Size

- Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes.
- Gross premiums written in India reached Rs 5.53 trillion (US$ 94.48 billion) in FY18, with Rs 4.58 trillion (US$ 71.1 billion) from life insurance and Rs 1.51 trillion (US$ 23.38 billion) from non-life insurance.

- Overall insurance penetration (premiums as % of GDP) in India reached 3.69 per cent in 2017 from 2.71 per cent in 2001.
- In FY19 (up to October 2018), premium from new life insurance business increased 3.66 per cent year-on-year to Rs 1.09 trillion (US$ 15.46 billion). In FY19 (up to October 2018), gross direct premiums of non-life insurers reached Rs 962.05 billion (US$ 13.71 billion), showing a year-on-year growth rate of 12.40 per cent.

Government Initiatives

- The Government of India has taken a number of initiatives to boost the insurance industry.
- Some of them are as follows:

• In September 2018, National Health Protection Scheme was launched under Ayushman Bharat to provide coverage of up to Rs 500,000 (US$ 7,723) to more than 100 million vulnerable families.
The scheme is expected to increase penetration of health insurance in India from 34 per cent to 50 per cent.

• Over 47.9 million famers were benefitted under Pradhan Mantri Fasal Bima Yojana (PMFBY) in 2017-18.

• The Insurance Regulatory and Development Authority of India (IRDAI) plans to issue redesigned initial public offering (IPO) guidelines for insurance companies in India, which are to looking to divest equity through the IPO route.

• IRDAI has allowed insurers to invest up to 10 per cent in additional tier 1 (AT1) bonds that are issued by banks to augment their tier 1 capital, in order to expand the pool of eligible investors for the banks.

Years	Major Events
1956-72	➢ All life insurance companies were nationalised to form LIC in 1956 to increase penetration and protect policy holders from mismanagement. ➢ The non-life insurance business was nationalised to form GIC in 1972.
1993-99	➢ Malhotra Committee recommended opening up the insurance sector to private players.

	➢ IRDA, LIC and GIC Acts were passed in 1999, making IRDA the statutory regulatory body for insurance and ending the monopoly of LIC and GIC.
2000-2014	➢ Post liberalisation, the insurance industry recorded significant growth; the number of private players increased to 46 in 2017.
2015	➢ In 2015, Government introduced Pradhan Mantri Suraksha Bima Yojna and Pradhan Mantri Jeevan Jyoti Bima Yojana. ➢ Government introduced Atal Pension Yojana and Health insurance in 2015.
2017 onwards	➢ National Health Protection Scheme was proposed to be launched under Ayushman Bharat, as per Union Budget 2018-19. ➢ Insurance companies raised more than US$ 6 billion from public issues in 2017.

Notable Trends

1. In September 2018, India Post Payments Bank (IPPB) also partnered with Bajaj Allianz to distribute their products.

2. In September 2018, HDFC Ergo launched ‘E@Secure’ a cyber insurance policy for individuals.

3. In October 2018, Indian e-commerce major Flipkart entered the insurance space in partnership with Bajaj Allianz to offer mobile insurance

4. As of November 2018, HDFC Ergo is in advanced talks to acquire Apollo Munich Health Insurance at a valuation of around Rs 2,600 crore (US$ 370.05 million).

5. In January 2019, online insurance distribution platform, Turtlemint raised US$ 25 million in funding.

6. In the non-life insurance segment, share of private sector increased to 55.70 per cent in FY20 (up to April 2019) from 14.5 per cent in FY04.

7. The life insurance sector has witnessed the launch of innovative products such as Unit Linked Insurance Plans (ULIPs).

   A Unit Linked Insurance Plan, or ULIP for short, is a financial instrument which performs the dual functions of insurance and investment within the same plan. A small portion of the premium goes towards the life insurance element, and the rest is systematically invested. This investment is offered by the insurer in a variety of qualified investments in varying proportions of debt and equity stocks, similar to the investment vehicle of mutual funds. The returns on your investments depend upon the performance of the fund opted by you

8. Other traditional products have also been customised to meet specific needs of Indian consumers.

9. Large insurers continue to expand, focusing on cost rationalisation and aligning business models to realise reported Embedded Value (EV), and generate value from future business rather than focus on present profits.

10. Amazon India is also expected to enter the insurance market as an agent.

11. Firms have tied up with local NGOs to target lucrative rural markets.

12. New distribution channels like bancassurance (the selling of life assurance and other insurance products and services by banking institutions) , online distribution and NBFCs have widened the reach and reduced costs.

13. Over the years, share of private sector in life insurance segment has grown from around 2 per cent in FY03 to 31.8 per cent in FY19 (up to September 2018).

DEBENTURES

- A company may raise long-term finance through public borrowings. These loans are raised by the issue of debentures. "A debenture is a document under the company's seal which provides for the payment of principal sum and interest thereon at regular intervals, which is usually secured by a fixed or floating charge on the company's property or undertaking and which acknowledges a loan to the company".
- A debenture holder is a creditor of the company.
- A fixed rate of interest is paid on debentures.
- The interest on debentures is a charge on the profit and loss account of the company.
- The debentures are generally given a floating charge over the assets of the company. When the debentures are secured, they are paid on priority in comparison to all other creditors.

Types of Debentures

1. **Secured Debentures** :
    - These are debentures that are secured against an asset/assets of the company.
    - This means a charge is created on such an asset in case of default in repayment of such debentures.
    - So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan.
    - The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

2. **Unsecured Debentures** :
    - These are not secured by any charge against the assets of the company, neither fixed nor floating.
    - Normally such kinds of debentures are not issued by companies in India.

3. **Redeemable Debentures** :
    - These debentures are payable at the expiry of their term.
    - Which means at the end of a specified period they are payable, either in the lump sum or in installments over a time period.
    - Such debentures can be redeemable at par, premium or at a discount.

4. **Irredeemable Debentures** :

- Such debentures are perpetual in nature.
- There is no fixed date at which they become payable.
- They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long time interval.

5. **Fully Convertible Debentures** :
   - These shares can be converted to equity shares at the option of the debenture holder.
   - So if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

6. **Partly Convertible Debentures** :
   - Here the holders of such debentures are given the option to partially convert their debentures to shares.
   - If he opts for the conversion, he will be both a creditor and a shareholder of the company.

7. **Non-Convertible Debentures** :
   - As the name suggests such debentures do not have an option to be converted to shares or any kind of equity.
   - These debentures will remain so till their maturity, no conversion will take place.
   - These are the most common type of debentures.

8. **Bearer Debentures**
   - are those which are payable to the bearer thereof.
   - These can be transferred merely by delivery.
   - Interest is paid to the person who produces the interest coupon attached to such debentures.

9. **Registered Debentures**
   - are those which are payable to the persons who appear in the Register of Debenture holders.
   - These can be transferred only by executing a transfer deed. Interest is paid to the registered holder

FINANCIAL ASSISTANCE SCENARIO FOR SMALL AND MEDIUM ENTERPRISES AND START-UPS

1. **Financial Assistance Scenario for Small and Medium Enterprises in India**
   - There are various schemes launched by Ministry of Micro, Small & Medium Enterprises, and Government of India for providing financial assistance to SME sector.
   - However, in this section we would restrict our discussion to certain selected schemes.

(a) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

Related Scheme : Scheme of Fund for Regeneration of Traditional Industries (SFURTI).`

Description :

- The objectives of the scheme is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability, sustained employment, to enhance marketability of products of such clusters, to equip traditional artisans of the associated clusters with the improved skills, to make provision for common facilities and improved tools and equipments for artisans ,to strengthen the cluster governance systems with the active participation of the stakeholders, and to build up innovated and traditional skills, improved technologies, advanced processes, market intelligence and new models of public-private partnerships, so as to gradually replicate similar models of cluster-based regenerated traditional industries Nature of The financial assistance provided for any specific project shall be assistance subject to a maximum of Rs 8 (eight) crore to support Soft, Hard and Thematic interventions.

Who can apply?

- Non-Government organizations (NGOs), institutions of the Central and State Governments and semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), Private sector by forming cluster specific SPVs, Corporates and corporate Responsibillity (CSR) foundations with expertise to undertake cluster development

(b) **A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)-**

Objectives of the Scheme:

(i) Create new jobs and reduce unemployment
(ii) Promote entrepreneurship culture in India
(iii) Grassroots economic development at district level
(iv) Facilitate innovative business solution for un-met social needs
(v) Promote innovation to further strengthen the competitiveness of MSME sector.

Nature of Assistance –

80 Livelihood business incubators (2014-2016) to be set up by NSIC, KVIC or Coir Board or any other Institution/agency of GoI/State Govt. on its own or by any of the agency/Scheme for promotion of Innovation, Entrepreneurship and Agro Industry organisation of the M/o MSME, one-time grant of 100% of cost of Plant & Machinery other than the land and infrastructure or an amount up to Rs.100 lakhs whichever is less to be provided.

In case of incubation centres to be set up under PPP mode with NSIC, KVIC or Coir Board or any other Institution/agency of GoI/State Govt., one- time grant of 50% of cost of Plant & Machinery other than the land and infrastructure or Rs.50.00 lakhs, whichever is less to be provided Assistance towards the training cost of incubates will be met out of the ATI scheme of the Ministry as far as possible for both centres.

Assistance towards the training cost of incubates will be met out of the ATI scheme of the Ministry as far as possible for both centres.

(c) Entrepreneurship and Skill Development Programme (ESDP)

Related Scheme Entrepreneurship Skill Development Programme (ESDP)

Description

- Entrepreneurship Development Programmes are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSEs.
- These EDPs are generally conducted in ITIs , Polytechnics and other technical institutions, where skill is available to motivate them towards self-employment.

Nature of assistance

- 20 % of the total targeted of ESDPs are conducted exclusively for weaker sections of the society i.e. (SC/ST/women and PH) with a stipend of Rs.500/- per month per candidate under the Promotional Package for (Micro, Small Enterprises) MSEs.

- No fee is charged from the candidates under these programmes.

Who can apply?

- These programmes are conducted by MSME-DIs of Ministry

(D) Schemes of National Small Industries Corporation (NSIC)

- The schemes of National Small Industries Corporation are as under: Single Point Registration - The Government is the single largest buyer of a variety of goods. With a view to increase the share of purchases from the small-scale sector, the Government Stores Purchase Programme was launched in 1955-56.
- NSIC registers Micro & small Enterprises (MSEs) under Single Point Registration scheme (SPRS) for participation in Government Purchases.