



## Mrunal's Economy Win21 Updates For UPSC & Other Competitive Exams

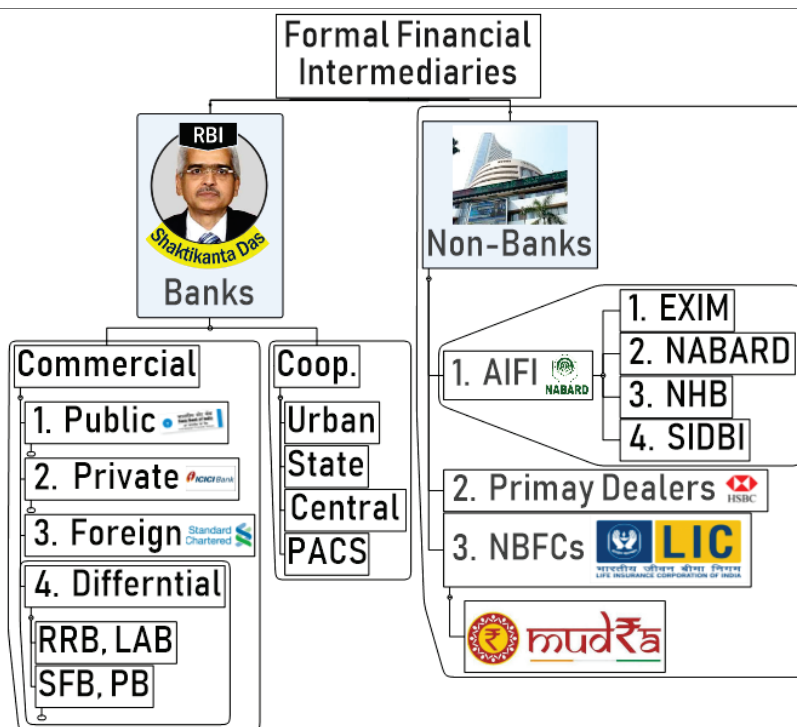
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## 12 PILLAR#1B1: CLASSIFICATION OF FINANCIAL INTERMEDIARIES



12.1 🏢👤 FI → PUBLIC SECTOR BANKS (PSB)

12.1.1 🏢👤📁 Consolidation of PSBs [एकत्रीकरण]

⇒ 📁 Budget-2021: proposed to take up the privatization of two Public Sector Banks. Names yet to be disclosed. (दो सरकारी बैंकों का निजीकरण किया जाएगा) Although Newspapers hint 4 PSBs are



shortlisted for privatisation- Bank of Maharashtra, Bank of India, Indian Overseas Bank, Central Bank of India. (Although news not yet confirmed by Finance Ministry)

### 12.1.2 PSB Privatization: Banking Investment Company (BIC-बैंकिंग निवेश कंपनी)

- ⇒ 2014: RBI's P J Nayak Committee for Governance of Banks in India.
- ⇒ He suggested setting up a BIC → Govt should transfer PSBs shares to it. Then BIC will act as 'parent/holding company', and all PSBs will become its subsidiary/daughter companies.
- ⇒ BIC will then appoint the board of directors in these PSBs, make policy decisions, privatize / merge them, issue bonds in the market to recapitalize the PSBs for BASEL norms etc [📖 Ref: HDT-Pillar#1b2]. In a much more professional & sophisticated manner. (यह संस्था पेशेवर और परिष्कृत तरीके से सरकारी बैंकों का प्रबंधन करेगी)
- ⇒ Govt/political interference in the functioning of public sector bank [⬇️], Govt responsibility to recapitalize them through taxpayers money will also (⬇️ सरकारी बैंकों की कार्यप्रणाली में राजनीतिक दखल में कमी आएगी. सरकार का आर्थिक बोझ भी कम होगा)

👉 This BIC is NOT YET implemented but once in a while newspaper columnist write about it.

## 12.2 🏠👤 FI → PRIVATE SECTOR BANKS(PVB)

### 12.2.1 👤 LVB merged with DBS (विलीनीकरण)

1926: Lakshmi Vilas Bank was set up in Tamilnadu. So it is an Old Private Sector Bank. (निजी क्षेत्र की पुराने जमाने की बैंक) 2020-Nov: Its financial situation deteriorated so RBI approved its merger/amalgamation with Development Bank of Singapore DBS, a Foreign bank in India- they acquired it to 📍 branch offices & staff in India. (वित्तीय हालत कमजोर होने पर अन्य एक बैंक में विलीनीकरण)

### 12.2.2 🚫🏠👤🚗📖 Allowing NBFC/Large Corporate to setup Banks

2016: RBI issued guidelines for 'on-tap' Bank licence. ['On-Tap'= You may apply for it whenever you are ready - just like a driving licence. You don't have to wait for the notification date or "last date to apply" like UPSC.]

- ⇒ On-Tap guideline: Company with minimum ₹500 cr capital can apply. However, its technical rules about assets/ownership were such that Large NBFCs and industrial houses could not apply for it.
- ⇒ 2020-June: RBI constituted PK Mohanty committee for Corporate Structure for Indian Private Sector Banks. It gave technical recommendations with regards to Ownership and licensing of Small Finance, Payments Banks etc. 👉 But poor cost-benefit chasing them until it is actually implemented. #⌚📉 थोड़ा-पढ़ो-आगे-बढ़ो
- ⇒ It recommended allowing large NBFCs/Corporate/Industrial Houses to apply for Bank licenses. (बड़ी गैर बैंक वित्तीय संस्थान और कॉर्पोरेट समूह को बैंक बनाने की छूट मिले)

#### 12.2.2.1 🚫🏠👤🚗📖: 😊 Arguments in Favour पक्ष में तर्क

- ⇒ 📍 competition, better interest rates, customer services. ज्यादा स्पर्धा, अच्छे ब्याज दर, ग्राहकों को अच्छी सेवाएं



- ⇒ Existing banks' balance sheets have deteriorated by scams & bad loans. So, they've become overcautious and slow in lending to large business projects. Entry of fresh new banks to invigorate the banking sector. पुरानी बैंकों में वित्तीय घपलो/समस्याओं के चलते बड़े प्रोजेक्ट में लोन देने में सुस्ती। नई बैंकों के प्रवेश से इस क्षेत्र में स्फूर्ति आएगी।
- ⇒ IL&FS and other "shadow banks" will be put under more effective control of RBI = ▾ Chances of scams associated with NBFCs in futures. प्रति छाया बैंकों को पारंपरिक बैंक का लाइसेंस दिया जाए तो आरबीआई उन पर सटीक रूप से निगरानी कर पाएगी

#### 12.2.2.2 🚫🏠👤🚗📄: Arguments Against: विपक्ष में तर्क

- ⇒ Increased competition may lead to a natural tendency of mis-selling the products and lending money to more risky businesses as evident from 2008's American Subprime crisis. अत्याधिक स्पर्धा के चलते येन केन प्रकार से मुनाफा बटोरने के लिए अनावश्यक रूप से जोखिम लेकर कमजोर कंपनियों को लोन दिए जाएंगे
- ⇒ PNB-Nirav Modi loan scam, Yes Bank-Rana Kapoor scam, ICICI-Vodafone loan scam = RBI has failed to effectively supervise even the existing banks. रिजर्व बैंक वर्तमान बैंकों की निगरानी करने में भी कमजोर साबित हुआ है
- ⇒ Already large NBFCs are involved in scams: ILFS scam, DHFL scam, Karvy Capital Scam- the critics are afraid that allowing large NBFCs in the Banking sector = more such scams. वित्तीय घोटालों की मात्रा बढ़ेगी
- ⇒ Corporate governance in large industrial houses is not inspiring confidence at present e.g. Ratan Tata vs Cyrus Mistry, Infosys founder Narayan Murthy versus ex-CEO Vishal Sikka etc. Allowing them in the banking sector is not advisable. बड़ी कंपनियों का कॉर्पोरेट शासन ठीक नहीं है. संस्थापक आपस में ही लड़ते झगड़ते रहते हैं
- ⇒ Large industrial houses like Tata, Ambani, Adani- may use the depositors money mainly to finance their own projects/ nepotism, even if such projects are not viable- There will be evergreening of loans for them. भाई भतीजावाद में लोन दिए जाएंगे, पुरानी लोन चुकाने के लिए नया लोन दिया जाएगा.
- ⇒ Could be misused for money laundering by big industrialists. (काले धन को वैध बनाने में दुरुपयोग)
- ⇒ May concentrate India's economic power, depositors' savings in the hands of few oligarchs. Then it could destabilize the entire banking system. (बचत कर्ताओं की जमा पूंजी और भारत की आर्थिक शक्ति कुछ गिने-चुने रसूखदार/कुलीनवर्ग के हाथों में केंद्रित, जिसे पूरी बैंकिंग व्यवस्था अस्थिर होने का खतरा)
- ⇒ Even in developed countries regulators do not encourage the entry of large corporates in the banking sector mainly for the apprehensions about governance and financial stability. (विकसित देशों में भी उनके वित्तीय नियंत्रक इस प्रकार की अनुमति नहीं देते क्योंकि उन्हें भी बैंकिंग शासन, वित्तीय स्थिरता में जोखिम दिखता है)

#### 12.2.2.3 🚫🏠👤🚗📄: Conclusion? (निष्कर्ष)

- ⇒ 🖐️ **Anti:** Considering aforementioned challenges, risks far outweigh the benefits. RBI and government should focus on improving the administration & supervision of existing bank instead of allowing more entities here. (आकर्षण/फायदे कम और चुनौतियां ज्यादा। इसलिए यह करने की जगह, वर्तमान बैंकों का प्रशासन और निगरानी ठीक करने में जोर देना चाहिए.)



⇒ **Pro:** Considering above benefits, Large nbfc and industrial houses may be given bank licences after due diligence & effective supervision. (उक्त फायदों को देखते हुए, प्रभावी निगरानी के साथ इन्हें बैंक का लाइसेंस देना चाहिए)

### 12.3 FI ⇒ BANKS ⇒ COOPERATIVE BANKS (सहकारी बैंक)

2021: RBI has setup NS Vishwanathan Panel for strengthening Urban Cooperative Banks (UCBs).

#### 12.3.1 Banking Regulation (Amendment) Ordinance/Act, 2020

- **2020-June:** Ordinance issued to amend the Banking Regulation Act, 1949. **2020-Sept:** Act passed
- **Objective?** protect depositors, prevent cooperative banks from falling into fraudulent activities.

Table 1: भूतकाल में दोहरे नियंत्रण के चलते घोटाले/कांड के बाद कार्यवाही धीमी होती थी, इसलिए अब ज्यादातर सहकारी बैंकों को सिर्फ रिजर्व बैंक के दायरे में लाया गया

Type of Bank	BEFORE: Regulator(s)	After: Regulator(s)
Commercial (SBI Axis)	RBI	RBI
Coop (Single State: rural)	RBI +  State Govt (=dual regulation)	RBI +  State Govt
Coop (Single State: urban)	RBI +  State Govt(=dual regulation)	RBI ONLY
Coop (Multi State Cooperative)	RBI +  Union Govt(=dual regulation)	RBI ONLY
Coop: Primary Agricultural Credit Societies ("PACS")	State Govt	State Govt

⇒ State Government = State Govt's Registrar for Coop Societies

⇒ Union = Agro Ministry's Registrar Multi-State Coop Societies

Before	After this Ordinance/Act/Amendment
<p>If a commercial / cooperative bank was on verge of collapse, then RBI would first issue "moratorium (रोक)" e.g.</p> <p>⇒ "single depositor can't withdraw more than XX amount,</p> <p>⇒ Bank can't give loans until YY Date.</p> <p>⇒ Then RBI will begin the process of fixing the bank. → This disrupted the normal business of the bank and created panic among investors. (निवेशकों में दहशत फैलती थी)</p>	<p>⇒ It makes technical reforms for easier/faster amalgamation / merger / restructuring of weak banks. (कमजोर बैंकों का आसानी-तेजी से समामेलन / विलय / पुनर्गठन)</p>
<p>It was difficult for a coop bank to raise capital/money by issuing IPO/Shares/Debentures. (Ref  #1C)</p>	<p>Technical norms relaxed, to make it Easier.</p>
<p>Provisions were vague / weak. (कानून में स्पष्टता नहीं थी / कानूनी प्रावधान कमजोर थे)</p>	<p>Bank chairman must not be insolvent or a convicted person etc., else RBI can remove him/her. (दिवालिया या अपराधी नहीं होना चाहिए)</p>



Before 🐱 🐱	After this Ordinance/Act/Amendment 🐱 🐱
Provisions were vague / weak.	Coop Bank's Board of directors must have at least 51% of members with knowledge or experience in accountancy, banking, economics or law. ELSE RBI can replace board members (हर स्थानिक छूटभैये नेता को अब बोर्ड-सदस्य नहीं बना सकते)
Provisions were vague / weak.	However, if scam in a cooperative bank → RBI can takeover/supersede its board of directors for upto 5 years, subject to some technical conditions. (घोटाला हुआ तो सहकारी बैंक के बोर्ड का अधिग्रहण कर, रिजर्व बैंक वहाँ अपने लोगों/अफसरों को 5 सालों तक वहाँ बैठा सकता है- हालांकि कुछ तकनीकी शर्तों के अधीन)

## 12.4 🚫 🏢 👤 FORMAL FI ⇒ NON-BANKING FINANCIAL INSTITUTIONS

गैर-बैंक वित्तीय संस्थान

### 12.4.1 Development Finance Institutions (DFI)

- ⇒ विकास वित्त संस्थान are meant for Medium to long term loans to industries, including support services like arranging foreign currency, underwriting, technical / management consultancy, Bank guarantee etc.
- ⇒ They don't accept DEPOSITS from ordinary people.
- ⇒ Previously the financial intermediaries (वित्तीय मध्यस्थ) were classified into three categories 1) Bank, 2) Non-Bank 3) DFI
- ⇒ But M.Narasimham-II Committee on Banking sector reforms (1998): recommended only two categories: Bank or non-bank. DFI were required to join either one category.

1948	Industrial Finance Corporation of India (IFCI) owned by the Finance Ministry's Department of Financial Services.
1955	National Small Industries Corporation (NSIC) under the Ministry of Micro, Small and Medium Enterprises (MSME).
1955	ICICI: Industrial credit and Investment Corporation of India Ltd was setup by GoI, World Bank etc. Later became a Private Sector Bank.
1964	Industrial Development Bank Of India (IDBI) Act. 2004: Transformed into a Public Sector Bank. 2018: Government sold its majority shareholding to LIC.
2006	India Infrastructure Finance Company Ltd (IIFCL) owned by the Finance Ministry's Department of Financial Services.
2021	National Bank for Financing Infrastructure and Development (NaBFID) Bill, 2021 (बुनियादी अवसंरचना और विकास के वित्त पोषण के लिए राष्ट्रीय बैंक)

### 12.4.2 DFI → NaBFID: National Bank for Financing Infrastructure and Development

- ⇒ 📁 Budget-2021: We'll set up this org with ₹20,000cr capital.
- ⇒ NaBFID will give loans worth ₹5 lakh crore in 3 years.
- ⇒ It'll get funding from RBI, Govt, World Bank and other multilateral Bank, issuing bonds in market etc





⇒ As per news reports 1) The govt may make it mandatory for Insurance & Pension companies to invest some ₹ in NaBFID. 2) This org may replace the India Infrastructure Finance Company Limited (IIIFCL)

⇒ Primary Objective? finance National Infrastructure Pipeline (NIP) project. (Ref: HDT-Pillar#5:Infrastructure)

## 12.5 FORMAL FI ⇒ NBFC → SHADOW BANKS



### 12.5.1 NBFC: Shadow Banking (आभासी / प्रतिछाया बैंकिंग प्रणाली)

 ES20 Vo1 Chapter 08 on 'NBFC's Financial Fragility' (वित्तीय भंगुरता) observed

⇒ Shadow banking is a set of activities and institutions. They operate partially (or fully) outside the traditional commercial banking sector. They are not fully regulated by the RBI. ये संस्थाएं पारंपरिक बैंकिंग नियमों के दायरे से बाहर काम करती हैं।


⇒ A shadow banking system can be composed of a single institution or multiple entities forming a chain. They mobilize funds by borrowing from banks, issuing Commercial Papers (CP) and Bonds (Non-convertible debentures)

Table 2: Three important segments of the shadow banking system in India

<b>HFCs</b>	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
<b>LDMFs</b>	<ul style="list-style-type: none"> <li>- Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies).</li> <li>- e.g. certain schemes by UTI, Kotak, L&amp;T, Tata mutual funds</li> <li>- 2019: Some of these LDMFs had invested clients money in IL&amp;FS and DHFL, but failed to get the money back. Nearly ₹4000 crore of investors' money is stuck, triggering the NBFC crisis in India.</li> </ul>
<b>Retail-NBFCs</b>	Retail Non-Banking Financial Companies such as Gold loan companies, asset finance companies etc.

Shadow banking system's assets are risky and illiquid. If there is a 'bank run' like situation (depositors / investors demanding the money bank) these shadow banks can't honour the obligations. As seen in the ILFS crisis (2019).

### 12.5.2 ATMANIRBHAR → RBI Helping NBFCs

⇒ RBI has launched 1) TLTRO and 2) special liquidity window. (Ref  1A2 Monetary Policy)

⇒ Govt has announced following 1) Partial credit guarantee 2) Sp. Liquidity scheme 3) Credit Guarantee Enhancement Corporation



### 12.5.3 🏠 ATMNI → 🏠🔧🏢🏠 Partial Credit Guarantee Scheme (PCGS) 2.0

- ⇒ Budget 2019: If NBFCs/ MFCs/Micro Finance Institutions (MFIs) borrowed money by issuing debt securities (Bonds or Commercial Papers) → Public sector banks (PSB) invested in it → but borrower default then the government paid 10% of loss to PSB.
- ⇒ Corona= total 20% loss cover guaranteed to PSB. (सार्वजनिक बैंकों को आंशिक क्रेडिट गारंटी)

### 12.5.4 🏠 ATMNI → 🏠🔧🏢🏠 Special Liquidity Scheme for NBFC/HFC (खास तरलता योजना)

- ⇒ Special purpose Vehicle company (SPV: विशेष उद्देश्य से बनाई गयी कंपनी) by SBI Capital Markets Limited (SBICAP). RBI will be regulator.
- ⇒ This company will buy ₹30,000 crore worth short-term debt securities of NBFCs from primary and secondary market. (लघु अवधि के ऋण प्रतिभूतिया खरीदेंगे)
- ⇒ → liquidity for those (shadow banks) → they can revive their operations, pay off their other investors etc.
- ⇒ If shadow bank fails to repay principal/interest to above SPV, then SPV's losses will be covered by FinMin → Dept of FinServices (वित्तीय सेवा विभाग).
- ⇒ In other words, those securities will be fully guaranteed by the central government.

👉 Above things' exact methodology need not memorized # 🏠 थोड़ा-पढ़ो-आगे-बढ़ो

### 12.5.5 🏠 ATMNI → 🏠🔧🏢🏠 Credit Guarantee Enhancement Corporation

- ⇒ Budget-2019: we will setup a Credit Guarantee Enhancement Corporation (CGEC: क्रेडिट गारंटी वर्धन निगम).
- ⇒ It'll be an NBFC company, regulated by RBI.
- ⇒ 🏠 ATMANIRBHAR Bharat 2020= Yes, we'll do it, (which was already promised in Budget 2019).
- ⇒ This company will provide Credit Guarantee to debt securities issued by Non-Banking Financial Companies (NBFCs: गैर बैंकिंग वित्तीय कंपनियां द्वारा जारी ऋण पत्रों पर, ऋण अदायगी की गारंटी देगा ये निगम).
- ⇒ Thus, debt securities' credit rating will 📈 = investors will find it safe to park money without demanding high interest. (जिससे निवेशकों का विश्वास बढ़ेगा, जोखिम काम होगा, और वह बिना ऊंचे ब्याज मांगे भी उन ऋणपत्रों में निवेश करेंगे)

#### 😊 Benefits?

- ⇒ Investors and Mutual Fund companies will feel safe parking clients' money in NBFC = Post-corona economic revival. (कोरोना महामारी के बाद अर्थतंत्र को पुनर्जीवित करने में मदद)
- ⇒ NBFC may lend such borrowed funds to Microfinance institutions (MFI)= help poor borrowers.

**NOTE:** above things meant for banks/NBFCs. Apart from that, to help MSMEs, Government launched Emergency Credit Line Guarantee Scheme (ECLGS), but it's separate-we'll study in (More in 📖 Pillar#1D)





निम्न लिखित Following measures have been done long before Corona / Atma Nirbhar. How exactly do above norms work? Ans. Not-IMP. Because Prelims-word association sufficient due to technical nature of topic and for mains the max. utility = 250 words, we've sufficient content for it

### 12.5.6 🐱: 🐱(🚫🏠) FI → NBFC: RBI's 4 tier regulation structure (Proposed)

- 1) 2021: RBI proposes 4-tier structure for tighter regulation of NBFCs: NBFCs to be classified into four categories BASE, MIDDLE, UPPER & TOP LAYER (most risky companies).
- 2) Accordingly tighter regulation on them. 🖱️ Exact details not IMP, Until they actually implemented. चार श्रेणियों में जोखिम के हिसाब से बांटा जाएगा सबसे उच्च श्रेणी में सबसे ज्यादा जोखिम पूर्ण कंपनियों को रखा जाएगा और उन पर रिजर्व बैंक की निगरानी सबसे ज्यादा सख्त होगी.

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### 21.5 🐱: 🐱(🚫🏠) MINIMUM ALTERNATE TAX (MAT: न्यूनतम वैकल्पिक कर)

Figure 4: मेरा मुलाका शुरू है। मुझे बचत दो मालिका IT Dept: तुमको तो किस्तुन है नहीं बचसेगा!! 🐱🐱

- Some industrialists use tax-deduction-exemptions-depreciations and accounting tricks to become "Zero Profit Companies" & escape paying Corporation Tax. So,
- Budget-1996 (Chidambaram) introduced 18.5% MAT on book profit using a different type of formula. (What was the formula, not important).

Zero profit Company's location	%MAT on its book-profit
Outside GIFT city International Financial Services Centre (IFSC) (More in Pill#3)	15%
Inside GIFT city	9%

- AMT (Alternative Minimum Tax): Concept similar to MAT but for Non-Corporate assesses e.g. Individual or Hindu Undivided Family (HUF) or Cooperative Society who are earning more than ₹"xx" lakh but not paying direct tax. Howmuch/why/NOTIMP
- Both MAT and AMT subjected to + surcharge + cess.

### 21.6 🐱: 🐱(🚫🏠) DIVIDEND DISTRIBUTION TAX (DDT: लाभांश वितरण कर)

DDT → Dividend → Income Tax

Reliance Industries Limited

- 1997: FM Chidambaram started to levy DDT on a shareholder's dividend income. In reality, company (=source) will cut that much ₹ ₹ portion from shareholders' dividend, & directly deposit that ₹ ₹ to the govt, as DDT.
- Shareholder did not have to pay Income tax on it.
- DDT Rate: 15% + cess + surcharge = 20.56% on dividend paid.



## 13 PILLAR#1B2: BURNING ISSUES IN BANKING SECTOR

### 13.1 NPA RELATED DEFINITIONS

 NPA अनर्जक परिसंपत्तियां या गैर-निष्पादित परिसंपत्तियां	<ul style="list-style-type: none"> <li>- If loan principal or interest is not paid for more than 90 days from its due date, then such loan account is classified as Non-Performing Asset (NPA). किश्त जमा करने की नियत तिथि/तारीख के ऊपर भी 90 दिनों से अधिक हो चुके हो किन्तु किश्त जमा नहीं की गयी तो....</li> <li>- For the farm loans, NPA is not counted on number of days but on number of cropping seasons. कृषि ऋण में महीनों के हिसाब से नहीं फसल की मौसम/ऋतु के हिसाब से होता है</li> <li>- Indian Commercial Banks' (Gross) NPA approx. ₹8 lakh crores: within that PSB (₹6 lakh cr) &gt; private Sector banks (₹2lakh cr) [As of 2020-Sept</li> </ul>
Provisioning प्रावधानीकरण	As per RBI norms, banks must set aside funds to cover losses against their NPA. Such 'provisioning of funds'  decrease profitability of the Bank.
Gross NPA	Gross non-performing assets (GNPA: सकल एनपीए) = grand total of all NPA loans(कुल योग) 2020-Sept: sectors with highest % GNPA= 1) Industries (within that, infrastructure, metal, electricity) > 2) Agriculture > 3) Service Sector > 4) Retail Loans
NET NPA	NET NPA (शुद्ध एनपीए) = GNPA Minus Provisioning WHATITMEANSNOTIMP

### 13.2 ATMANIRABHAR → LOAN/EMI/NPA RELIEF / MORATORIUM

- ⇒ (ऋण अदायगी पर रोक) IF a loan is outstanding as of THEN **2020-March**: RBI allowed moratorium/suspension of loan repayment for 6 months for March, April, May, June, July, Aug.
- ⇒ This applies to: All commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and loan giving NBFCs (such as housing finance companies and micro-finance institutions)

2020	How loan moratorium/suspension works
March	Suppose there is due date for monthly loan instalment but borrower opts for moratorium so he need not pay principal/interest.
April to Aug	Same as above
Sept	Due date for monthly loan instalment AND borrower needs to Pay.
Oct	Due date for monthly loan instalment AND borrower needs to Pay.
Nov	Due date for monthly loan instalment AND borrower needs to Pay.
Dec	<p>⇒ IF borrower stopped paying loan instalments since Sept's due date, then by this time it'll have crossed 90 days from due date.</p> <p>⇒ And we know that Non-Performing Asset (NPA: अनर्जक परिसंपत्ति) = if principal or interest unpaid for more than 90 days from due date.</p> <p>⇒ So, this account will be classified as Non-Performing Asset (NPA).</p>



2020	How loan moratorium/suspension works
	⇒ However, if we look from March to Nov= total 9 months or 270 days no loan is classified as NPA.

### 13.2.1 🏠🏦🔪👉 Loan Moratorium: how it benefits borrower (उधारकर्ता को फायदा)

⇒ If his income ⬇️ due to Corona, he gets relief from Equated Monthly Instalments (EMIs) for “X” months. (It’s not compulsory to skip EMI. Borrower can repay loan regularly, if his financial situation is sound.) इन महीनों में किस्ते भरना अनिवार्य नहीं होगा

⇒ 😊 **Benefits to Bank?** Unpaid loan doesn’t accumulate under the ‘NPA’ category for a bank. So, it helps banks in following ways:

- ⬇️ Provisioning → profitability ⬆️ (📊📊 ES21 said this happened in both PSB & Pvt Banks)
- ⬇️ obligations in BASEL-III Capital norms. (Because if ⬆️ NPA → bank will have to arrange more capital to comply with BASEL-III Norms)

### ⇒ 😬 **Challenge / controversy?** (चुनौतियां/ नुकसान)

- ✓ If he doesn’t pay for “X” months, then Banks will continue to charge interest (on those “X” months) and add it to the total outstanding loan → compound interest rate system → his total burden may ⬆️ (अगर आप किश्ते नहीं भर रहे, तो बकाया ब्याज के ऊपर ब्याज चढ़ता जाएगा/ चक्रवृद्धि ब्याज)
- ✓ **SC PIL:** interest should be waived. But RBI opposed, because if borrowers don’t pay interest, then how can banks give interest to depositors for their deposits. Banking system will become unsustainable! (उच्चतम न्यायालय में जनहित याचिका की यह ब्याज की रकम माफ हो जाए)
- ✓ **2020-Oct:** Govt informed SC, “we’ll pay interest on the interest for those 6 months for loans upto ₹2 cr <REF: next section>” (उन छः महीनों में बकाया ब्याज के ऊपर जितना ब्याज चढ़ेगा वह हम अदा कर देंगे)

### 13.2.2 🏠🏦🔪👉 Loan Moratorium: Interest Relief Scheme (बकाया ब्याज के ऊपर चढ़ने वाले ब्याज पर रियायत)

⇒ **Technical name:** COVID 19 Ex-Gratia to borrowers for difference in interest.

⇒ **Boss?** FinMin → Dept of Financial Services

⇒ **Eligibility?** ✅ **ALL** Borrowers who had taken following types of loans up to ₹2 crores (including credit card dues) as on 29 February, 2020.

✅ Eligible	👉 NOT eligible (पात्र नहीं है)
loan must be taken from a formal financial intermediary such as Bank, NBFC, MicroFinance Institution (औपचारिक वित्तीय मध्यस्थ)	👉 loans from informal money lenders e.g. Shroff, Baniya, Sahukar



✓ Eligible	✗ NOT eligible (पात्र नहीं है)
MSME Loans, Education loans, Housing Loans, Consumer Durable Loans, Credit Card Dues, personal /Consumption loans (e.g. marriage etc social ceremonies ke liye loans).	✗ if loan account classified as "Non Performing Asset (NPA) as on 29.02.2020.
Automobile Loans: two wheeler, rickshaw, taxi, car, truck etc.	✗ if tractor and crop loans. (govt has different technical schemes to help such farmers)
It doesn't matter If you (A) opted for the Moratorium or (B) did not opt for moratorium. Both types of borrowers are eligible. आपने ब्याज भर दिया हो तो भी सरकार आपको लाभ देगी	--

- ⇒ In these eligible accounts → Government will deposit the interest on interest during the moratorium period. In other words, "difference between the compound interest and simple interest to all borrowers with loans up to Rs 2 crore for the six-month period will be reimbursed."
- ⇒ कोरोना महामारी में, कर्जदार को राहत के लिए रिजर्व बैंक ने लोन-किश्तों की अदायगी पर रोक की अनुमति दी थी। किन्तु, यदि किसी ग्राहक ने 6 महीनों तक किश्त न चुकाई हो तो उसके बकाया ब्याज के ऊपर ब्याज चढ़ते रहता था। सरकार उस 'ब्याज के ऊपर चढ़े ब्याज' की रकम ग्राहक के बैंक-खाते में जमा करेगी।

✗ How exactly does it work? What are the formulas and calculation methodologies? REF FAQ <https://financialservices.gov.in/whats-new> not important for exam. # ⌚ 📅 थोड़ा-पढ़ो-आगे-बढ़ो

### 13.2.3 📌 RBI's KV Kamath Report Resolution Framework for Covid19-related Stress

2020: RBI had setup this Committee to look into **loan restructuring for large companies**, who are hit by Corona pandemic. KV Kamath identified 26 vulnerable sectors (e.g. power, construction, steel, road, cement etc..) He and gave various technical guidelines for loan restructuring. But as such not enough MCQ worthy stuff. # 📅 थोड़ा-पढ़ो-आगे-बढ़ो

### 13.2.4 📌 (📌 📌 📌) ATMANI → IBC Ordinance/Act 2020 to suspend new cases

- ⇒ 2020-June: Govt issues ordinance to amend IBC Code. (अध्यादेश)
- ⇒ Corona = business is down, difficult to work out any resolution plan. So, No fresh case will be registered in IBC code for next "X" months Because Corona (नए केसों के दाखिले/पंजीकरण को स्थगित किया गया.)
- ⇒ "X" = 24 March 2021 📅 Exact dates not IMP

IBC Ordinance / Act 2020	Case can start if loan default of minimum _ _
BEFORE	Minimum ₹1 lakh/>>.
AFTER	Minimum ₹1 crore/>> **

\*\*So even after suspension is lifted, most of the small businessmen will be spared from IBC proceedings. (रोक हटाने के बाद भी नए केस दर्ज किए जाएंगे तो सिर्फ बड़े लोन के लिए किए जाएंगे)



### 13.2.5 📌🔍🤝🕒: IBC Pre-Packs (Proposed, yet to implement)

- ⇒ IBC's Formal process: lenders file complaint to NCLT → Insolvency professional appointed → Loan restructuring proposal → If NOT approved by lenders → Auctioning. (औपचारिक प्रक्रिया कुछ इस तरह से होती है)
- ⇒ Pre-packaging = Borrower company informally (discreetly) negotiates a resolution plan with its lenders / buyer-parties who may be interested in its action, before approaching IBC/NCLT process. (प्री पैकिंग = विधिवत रूप से कोर्ट/कानूनी प्रक्रिया शुरू होने से पहले ही अनौपचारिक रूप से कर्जदार कंपनी अपने कर्जदाता तथा भविष्य की नीलामी में रुचि रखने वाले खरीदारों से पर्दे के पीछे/बंद दरवाजे में चुपचाप समझौता कर ले.)
- ⇒ 😊 Benefit? a quick (speedy) and discreet (confidential) way of completing the insolvency resolution process. त्वरित और गुप्त रूप से मसले को समेट लिया जाए
- ⇒ 😊 Prevents the stigma/bad publicity/damage to brand image associated with formal IBC proceedings. else in future difficult to get investors/customers/clients. मामला औपचारिक रूप से कोर्ट तक नहीं पहुंचेगा= अखबारों में/जनमानस में कंपनी बदनाम/कलंकित ना हो वरना भविष्य में निवेशकों/ग्राहकों को आकर्षित करना मुश्किल हो जाता है.
- ⇒ PRE-pack System is found in United Kingdom and the United States

**Why in News?** Indian govt thinking of amending the IBC code to allow pre-packing in India.

### 13.2.6 📌🔍🤝🕒: IBBI directive on Avoidance Transaction and 500 other technical things

👉 Such technical topics not important for the scope of the exam. If any teacher teaching it / private quizmaster is asking MCQ on it then please ask them to first go through previous years official papers and ask him to prove where's the pattern of such questions being asked in real

exam?# 🕒 थोड़ा-पढ़ो-आगे-बढ़ो

### 13.3 🌐👤🔍📄📅 ES21: REGULATORY FORBEARANCE (विनियामकी क्षमा/सहनशीलता)

During a great financial crisis the Reserve Bank may allow for some relaxation in above guidelines. (वित्तीय संकट काल में रिजर्व बैंक उक्त नियमों में रियायत दे सकता है)

- ⇒ For example, Restructuring of loans: A stressed / NPA walla borrower's loan tenure ⬆ and/or loan interest rate ⬇ as per RBI norms. (रुण का पुनर्गठन. लोन की अवधि-मियादी/ब्याज दरों में बदलाव)
- ⇒ Then such restructured loan account will be reclassified from NPA to Standard account → then banker's Provisioning, BASEL-capital norms related headaches will ⬇
- ⇒ such temporary relief from the strict rules is called "Regulatory forbearance".
- ⇒ RBI permitted it after 2007-08's Subprime & Global Financial Crisis.
- ⇒ Ideally, such forbearance should be discontinued after economic recovery i.e. in 2011 when GDP, IIP etc had improved considerably. (हालांकि वित्तीय संकट खत्म होने के बाद इस प्रकार की क्षमा/रियायतों को बंद कर देना चाहिए)
- ⇒ But RBI continued forbearance /Lax monitoring till 2015 → medicine started showing following side effects / detrimental consequences on the health of banking sector and the economy. (किंतु रिजर्व बैंक ने उसे कई वर्षों तक जारी रखा. अनावश्यक रूप से ये दवाई खाने से बैंकों के स्वास्थ्य पर दुष्प्रभाव)



### 13.3.1 🧑🏫📞📱 Regulatory forbearance: side-effects by prolonged use (लंबे समय तक उपयोग से हानियां)

- ⇒ Banks exploited the forbearance window to restructure loans even for unviable entities, thereby window dressing their accounts, inflating profits → 📈 dividends to shareholders, including the govt in the case of public sector banks. (रिजर्व बैंक की क्षमा/रियायतों का गलत इस्तेमाल करके बैंकों ने अपने हिसाबों का बाह्य अलंकरण किया, जोखिम पूर्ण परिसंपत्तियों को कम और मुनाफे को ज्यादा बढ़ा चढ़ाकर दिखाया)
- ⇒ It also encouraged the banks to engage in risky lending practices e.g.
- ⇒ Zombie Lending (= weak bank keeps giving new loans to weak / subprime / Over Leveraged borrower)
- ⇒ **Evergreening of loans** (Companies taking new loans to repay the previous loans- कर्जे का निरंतर हरितकरण)

As a result, when RBI ended forbearance in 2015, following bad things discovered:

- ⇒ 😱 NPAs almost 2x doubled when compared to the pre-forbearance levels. (अनर्जक परिसंपत्तियों दुगनी हो गई)
- ⇒ 😱 Many corporate / loan scams unearthed: ICICI-Vodafone loan, Yes Bank-Rana Kapoor, PNB-Nirav Modi, Punjab and Maharashtra Co-operative Bank (PMC) etc. (वित्तीय गबन सामने आए)
- ⇒ 😱 Similar problems are also observed elsewhere in other countries. (अन्य देशों में भी यही वार्ता का पुनरावर्तन)

### 13.3.2 🧑🏫📞📱 Regulatory forbearance: Policy Lesson for Post-Corona Recovery (नीति पाठ?)

- ⇒ During Corona, again RBI has announced regulatory forbearance measures. [e.g. Loan Moratorium loan restructuring etc.] But, policymakers should not continue such emergency measures/ forbearance after the crisis is over. (आपातकाल खत्म होने के बाद इस प्रकार की क्षमा/रियायतों को तुरंत बंद करना चाहिए)
- ⇒ As the economy recovers, banks should be ordered to conduct Asset Quality Review (AQR) and take corrective measures accordingly. (परिसंपत्ति गुणवत्ता मूल्यांकन कर सुधार के लिए कदम लिया जाए)
- ⇒ When an emergency medicine becomes a staple diet, it can be counterproductive.
- ⇒ “Those who do not learn from history are condemned to repeat it.” (- Spanish philosopher George Santayana) (जो इतिहास की गलतियों से सीखेगा नहीं वह उन गलतियों को दोहराएगा)
- ⇒ Banks' auditors should be penalised if not reporting the malpractices like evergreening and zombie lending. This would thereby create fear/incentives for the auditor to conduct the balancesheet inspection more diligently. (लेखा परीक्षकों को कोताही के लिए दंडित किया जाए)
- ⇒ National Company Law Tribunal (NCLT) should be empowered further, to enforce corporate governance standards under Companies Act. (राष्ट्रीय कंपनी कानून अधिकरण का अधिक सशक्तिकरण हो)

### 13.4 🧑🏫📞📱 (🏢🔪💀) A BAD BANK CALLED “PARA” - SUGGESTED BY 📱📱 ES17

- Former Chief Economic Advisor (CEA) Arvind Surbamanian's Economic Survey 2016-17 had proposed a bad bank named “**Public Sector Asset Rehabilitation Agency**” (PARA: सार्वजनिक क्षेत्रीय परिसंपदा पुनःप्रतिष्ठापन एजेंसी). PARA will buy bad loans from PSBs, try to salvage the maximum value from loan-restructuring / liquidation-auction and absorb the losses. सरकारी बैंकों के खराब लोन पेपर/ अनर्जक परिसंपत्तियों को खरीदेगा.





- CEA Arvind S. also suggested RBI to give additional dividend to Govt. to start this bad bank & finance its losses. रिजर्व बैंक के मुनाफे से सरकार को जो लाभांश मिलता है उन पैसों से इसे बनाया जाए

#### 13.4.1 🏦 (🏠 📉 🦴) Bad Bank called ARC/AMC- Announced by 📅 Budget-2021

- ⇒ 📅 Budget-2021: we'll set up an Asset Reconstruction Company (ARC) and Asset Management Company (AMC) to take over the bad loans from banks. (परिसंपत्ति पुनर्गठन/प्रबंधन कंपनी जो कि बैंकों से उनकी अनअर्जक परिसंपत्तियों को खरीदेगा)
- ⇒ Govt will not have any shareholding in ARC/AMC. Banks will set these organization(s) up with their own funds. (सरकार इसमें शेयर धारक नहीं बनेंगी बैंक वाले खुद से शेयर पूंजी देकर इसको बनाएंगे)

Actual details about structure / headquarters etc not yet announced.

#### 13.5 🦺 🦴 🦴: BASEL NORMS DEFERRED IN CORONA

##### 13.5.1 🦺 🦴 📅 BASEL Norms: RBI deferred some norms

- ⇒ 🦺 ATMANI → RBI deferred deadlines for BASEL-norms related to Liquidity Coverage Ratio, Capital Conservation Buffer (CCB), Net Stable Funding Ratio (NSFR) etc. What they mean/how they work = NOTIMP (कुछ मानदंडों की अंतिम तिथि को टाल दिया गया।)
- ⇒ 🦴 We need not lose sleep over new deadlines, as they may again get extended. So, **dynamic information** = dangers of answerkey becoming invalid, so, smart examiners usually avoid it. # 🦴 थोड़ा-पढ़ो-आगे-बढ़ो

##### 13.5.2 🌐 🦴 📅 BASEL Norms: Switzerland's body deferred some norms

- ⇒ Some of the BASEL norms were to be effective from 1/1/2022 such as IRB approach for credit risk, operational risk framework, CVA framework, market risk framework, Pillar 3 disclosure requirements. (what these words mean= NOTIMP)
- ⇒ Basel Committee's oversight body (group of Central Bank Governors in BIS) have deferred them to 1/1/2023 due to ongoing Corona crisis.

#### 13.6 🌐 🦴 🦴 RECAPITALIZATION OF PSBs: [सार्वजनिक क्षेत्र के बैंकों का पुनः पूंजीकरण]

If a bank doesn't have enough capital to comply with BASEL-III norms it can issue debt (bonds) and equities (shares) to gather new capital.

- ⇒ 📅 Budget-2020 speech: ₹3.50 lakh cr in the last years years.
- ⇒ 📅 Budget-2021: ₹20,000 crores for PSB recapitalization in Financial Year 2021-22.

##### 13.6.1 🦴 📅 🦴 Zero Coupon Bonds for PSB recapitalization

- ⇒ Zero Coupon Bonds: They mention 0% interest rate BUT borrower issues them at discount (e.g ₹100 ka bond sold@90) → borrower re-purchases it at face value (e.g. ₹100) on maturity date. Thus the lender/investor earns profit/interest. [सामान्य रूप से निवेशक को मुनाफा तो मिलता है]
- ⇒ 2021: Govt issued ₹5,500cr worth of Zero Coupon Bonds to Punjab & Sind Bank at face value. (i.e. ₹100 ka bond sold@100, 0% interest). So effectively no interest or profit to be made. (इधर तो कोई मुनाफा नहीं)
- ⇒ Basically, Govt is doing an Accounting Gimmick/Financial illusion wherein Punjab & Sind Bank gives ₹5500cr to Govt by buying these Zero Coupon Bonds → Govt re-invests ₹5500cr in same



bank's shares/equities, to 'show on paper' that govt has recapitalised this bank for Basel norms.

(बांसेल मानदंडों का अनुपालन हुआ है ऐसा सिर्फ कागज पर दिखावा करने के लिए एक प्रकार की वित्तीय नौटंकी)

⇒ RBI has expressed concerns/displeasure about this gimmick. (रिजर्व बैंक ने चिंता/नाराजगी जताई)

⇒ Anyways 🙌 Neither the amount nor the modus operandi is important for exam. # 🕒 📖 थोड़ा-पढ़ो-आगे-बढ़ो

### 13.7 🏛️ PSB REFORMS: ENHANCED ACCESS AND SERVICE EXCELLENCE (EASE) 3.0

- **2018, January:** FinMin's Dept of Financial Services released EASE framework (बढ़ी पहुंच और सेवा उत्कृष्टता) with 6 pillars to make PSBs more Responsive and Responsible viz.
- 2018= Ease 1.0 → 2019: Ease 2.0 (some more fancy feature but NOTIMP) → 2020: ease 3.0
- Finance minister proposed Smart, Tech-enabled Banking for Aspiring India
- **Associated keywords:** Doorstep Banking, Dial-a-loan, Credit@click, Palm banking (using phone/tablets).

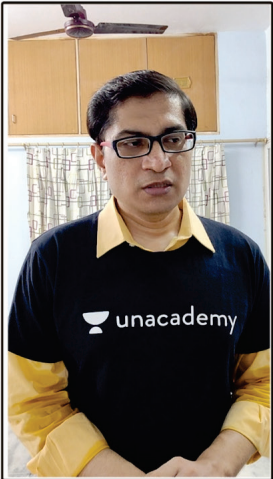
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