



Pillar#1B-1: Classification of Financial Intermediaries: Bank & NBFC

► **FAQ:** This handout is very lengthy, contains lot of Banking GK 😊 !!.

Ans. I've such Banking-GK for helping UPSC aspirants trying for Bank-exam as backup/Plan-B. Which GK is imp/notimp for UPSC = Watch lecture, you'll get idea.

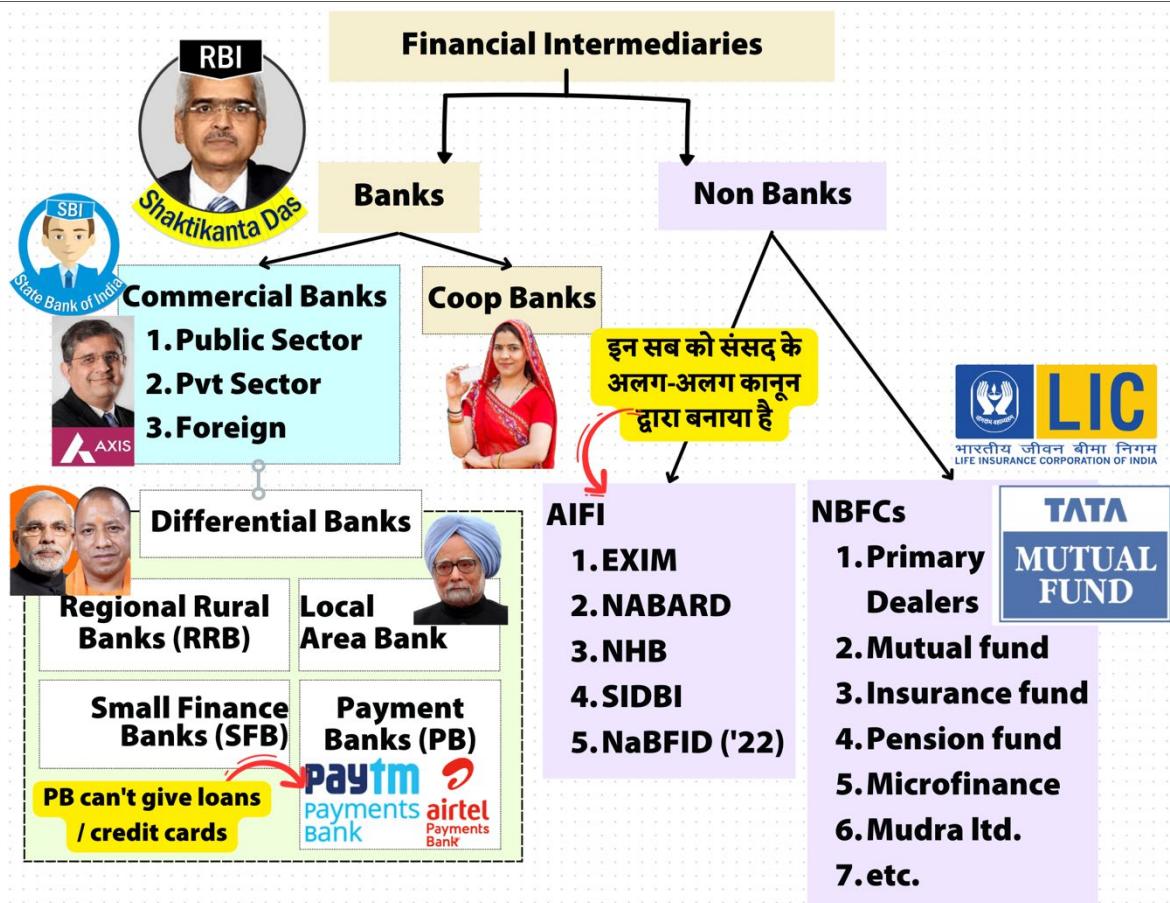
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13 **III** FINANCIAL INTERMEDIARIES → BANKS





- A Financial Intermediary (FI: वित्तीय मध्यस्थ) is an entity that acts as the middleman between two parties in a financial transaction- between lenders vs. borrowers, investors vs. entrepreneurs, households vs business firms.
- Such FI can be subdivided into (1) Formal (औपचारिक) (2) Informal (अनौपचारिक).

13.11 ₹ BANKS → RESERVE BANK OF INDIA (RBI): भारतीय रिजर्व बैंक



1913	Commercial banks were required to register under the Companies Act, but monitoring was lax. No CRR, SLR, BASEL Norms. (उन पर पहले नियम सख्त नहीं थे)
1926	Royal Commission on Indian Currency (Hilton Young Commission) recommends setting up a central bank named 'Reserve Bank of India'. (एक ब्रिटिश आयोग ने सिफारिश की निगरानी के लिए रिजर्व बैंक बनें)
1929	Great Depression in USA leads to collapse of 450+ banks in India. So British Indian Govt becomes serious about setting up RBI. अमेरिकी महामंदी के बाद केंद्रीय बैंक की स्थापना की आवश्यकता महसूस हुई
1934	Reserve Bank of India Act was enacted. (इसकी स्थापना के लिए कानून बनाया गया)
1935, April	RBI becomes operational from 1 st April, with 1 st Governor Sir Osborne Smith. India's Viceroy: Willingdon. Government ownership was ~4.4% only.
1935, July	Commercial Banks fulfilling certain conditions were listed in the 2 nd Schedule of RBI Act, & such "Scheduled Banks" were required to keep CRR with RBI.
1943-49	C.D. Deshmukh 2 nd FM of India becomes the first INDIAN Governor of RBI. He had also participated in the Bretton Woods Conference, USA (1944).
1948-49	All private investors' shares transferred to Govt of India under the RBI transfer of ownership act 1948. Therefore, RBI governor answerable to Parliament, has to pay dividend to Govt from its profits. (रिजर्व बैंक अपने मुनाफे में से सरकार को लाभांश वितरण करता है)
1949	<p>BEFORE</p> <p>AFTER</p> <p>Banking Regulation Act (बैंकिंग विनियमन अधिनियम) empowered the RBI to</p> <ul style="list-style-type: none"> ⇒ Give license to companies to open banks, ⇒ Give permission banks to open new branches.



	<ul style="list-style-type: none"> ⇒ Prescribe auditing norms, liquidity norms for Banks such as SLR. ⇒ Protect interest of depositors. Force elimination / merger of weak banks. ⇒ Related Topic: banking regulation ordinance 2020 → Pillar#1B2: Bad loans & other burning issues in the banking sector.
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Q ? Which was the earliest event to take place? (UPSC Prelims-2009)

- A) Nationalization of insurance companies B) Nationalization of State Bank of India
C) Enactment of Banking Regulation Act D) Introduction of first Five year plan

Table 1: RBI Central Board Composition

(Non-Official Directors)	(Official Directors)
<ul style="list-style-type: none"> - 2 Government officials - 10 directors nominated by Government. - 4 directors from RBI's local boards @West, East, North, South 	<ul style="list-style-type: none"> - RBI Governor - 4 Dy. Governors

13.11.1 RBI Governor & Dy Governor

- ⇒ RBI Act (Section 8) provides for “NOT MORE than 4” Dy. Governors.
- ⇒ They’re selected by Financial sector regulatory appointment search committee (FSRASC) headed by the Cabinet Secretary (IAS) → successful candidates’ names sent to Appointments Committee of the Cabinet headed by the Prime Minister for final approval.
- ⇒ Governor and Dy.Govs’ tenure *usually* (not always) 3 years. Re-appointment is possible. कार्यकाल
- ⇒ 2018-Dec: Shaktikanta Das appointed as Governor for 3 years, he replaced Urjit Patel. 2021: Modi Govt renewed his tenure for three years till Dec- 2024, thus giving him a total tenure of six years (रिज़र्व बैंक के गवर्नर के रूप में पुनः नियुक्ति)
- ⇒ Shaktikanta Das is Retd. IAS, Former finance secretary, Member of 15th Finance Commission.

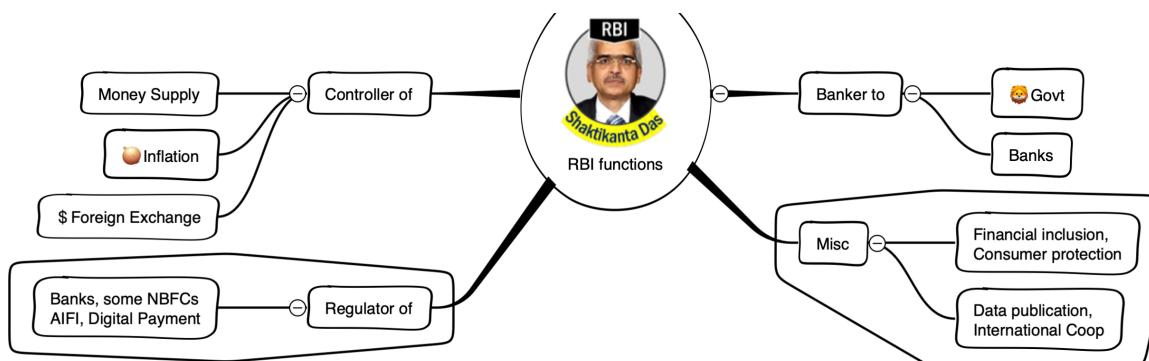
Related Topics: RBI Autonomy, Dividend Controversy, Section 7, PCA/BASEL:

[Handout 1B2 → Burning Issues in Banking Sector]

13.11.2 RBI Offices & Departments

- RBI 4 regions: Northern: Delhi, Eastern: Kolkata, Southern: Chennai, Western: Mumbai
- RBI has various dept after Banks, NBFCs, Payment Systems, Foreign Exchange Management etc.

13.11.3 RBI: Functions of





- 1) **Controller of Money Supply:** Issues M0 under RBI Act, Makes Monetary Policy. (more in Pillar#1A2) (मुद्रा आपूर्ति नियंत्रक)
- 2) **Controller of Foreign Exchange:** through FEMA Act. (विदेशी मुद्रा का नियंत्रक, more in Pillar#3)
- 3) **Banker to Governments & Public Debt Manager** (सार्वजनिक ऋण प्रबंधक).
- 4) **Banker's Bank:** Lender of Last resort, Advises in monetary matters.
- 5) **Regulator of all "BANKS":** through BR Act'49, Payment Systems'07 (नियामक)
- 6) **Regulator of AIFI, NBFC-D & others.**
- 7) **Promotional Roles (संवर्धक भूमिका):**
 - a. Customer protection through Ombudsman (शिकायत निवारण अधिकारी),
 - b. Financial Inclusion through PSL norms. Requires bank to open 25% of branches in rural areas
- 8) Data Publication & awareness e.g. Annual Financial Stability Report (वार्षिक वित्तीय स्थिरता रिपोर्ट)
- 9) International Cooperation e.g. BASEL, IMF, G20's Financial Stability Board etc.
 - a. E.g. 2021: RBI became member of "Network For Greening The Financial System (NGFS)". NGFS is a group of central banks to contribute to the development of environment. HQ: Paris, Foundation Year: 2017 (वित्तीय प्रणाली की हरियाली के लिए नेटवर्क- ताकि अक्षय ऊर्जा, पर्यावरण आदि को मदद मिले)

► **FAQ:** Article 371-F of Constitution gives special status to Sikkim, as a result their State Bank of Sikkim is outside RBI's regulation !! Ans. Such JamesBond/obscure GK = poor cost benefit.

Q ? **RBI acts as a bankers' bank. What does it mean? (UPSC-Pre-2012)**

- 1) Other banks retain their deposits with the RBI.
- 2) The RBI lends funds to the commercial banks in times of need.
- 3) The RBI advises the commercial banks on monetary matters.

Answer codes: (a) 2 & 3 only (b) 1 and 2 only (c) 1 and 3 only (d) 1, 2 and 3

Q ? **RBI regulates the commercial banks in matters of (Asked in UPSC-Pre-2013)**

- 1) Liquidity of assets
- 2) Branch expansion
- 3) Merger of banks
- 4) Winding-up of banks

Answer Codes: (a) 1 & 4 only (b) 2, 3 & 4 only (c) 1, 2 & 3 only (d) 1, 2, 3 & 4

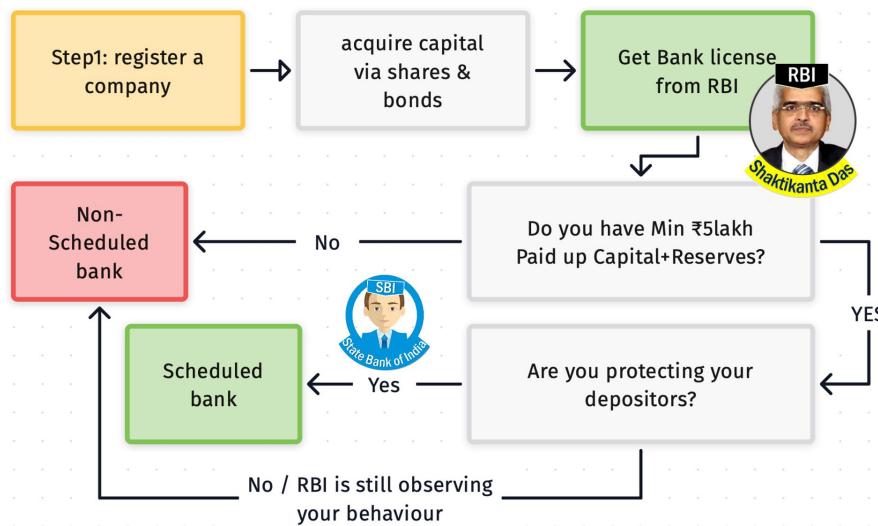
Q ? **In India, the central bank's function as the 'lender of last resort' means what? (केंद्रीय बैंक को अंतिम उपाय का ऋणदाता कहा जाता है इस शब्द का मतलब क्या है) (Prelims-2021)**

1. Lending to trade and industry bodies when they fail to borrow from other sources. [व्यापार औद्योगिक संस्थाओं को जब कहीं और से कर्ज नहीं मिले तो केंद्रीय बैंक कर्ज देता है]
2. Providing liquidity to the banks having a temporary crisis. [अस्थाई संकट के दौरान बैंकों को तरलता देता है]
3. Lending to governments to finance budgetary deficits [बजट घाटा पूरा करने के लिए सरकार को कर्जा देता है]

Codes: a) 1 and 2 b) 2 Only c) 2 and 3 d) 3 Only



13.12 🏠 SCHEDULED BANKS (अनुसूचित बैंक)



When RBI is satisfied with TWO conditions simultaneously (दो शर्तों का एक साथ पालन होना चाहिए)

⇒ #1: That a public sector or pvt sector bank has (Paid Up Capital + Reserves^{#1}) = Min ₹5 Lakhs

⇒ #2: Bank is not conducting business in a manner harmful to its depositors. (जमाकर्ताओं के हितों का नुकसान न हो इस हिसाब से बैंक अपना कार्य कर रहा है)

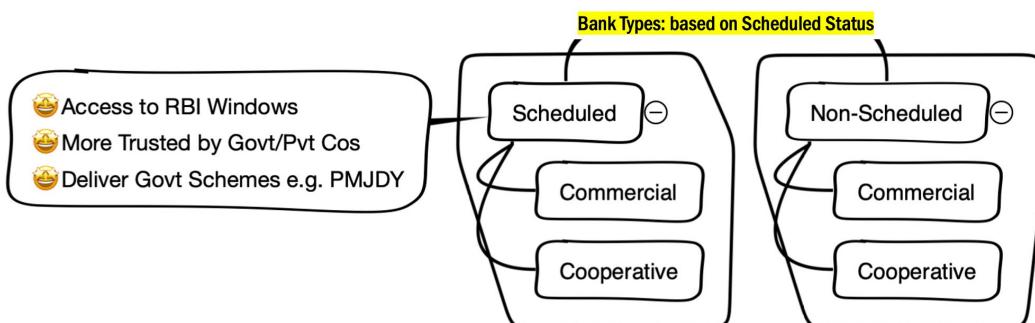
then such bank is listed in the 2nd Schedule of RBI Act → then it is known as a Scheduled Bank.

⇒ ► 🎉 FAQ: What is paid up capital? Ans. Explained in the video.

⇒ ► 🎉 FAQ^{#1}: Which reserves are included in this ₹5 lakh formula? Ans. Routine books did not bother to elaborate so I did not bother to do Google search. Such technical things not imp4exam.

⇒ ► 🎉 FAQ: “₹5 lakh is very small!!! It should be ↑ to ensure safety in bank”. Ans 1) neither economic survey, NITI Aayog, Court-PIL, nor any big columnists have demanded reform here. So we need not apply our brain here. 2) Send your suggestion to PM Modi to amend the British Era provisions of ₹5 lakh from RBI Act. Until that happens, prepare the present facts.

⇒ ► 🎉 FAQ: “nowadays every bank will easily have five lakh rupees of deposits so automatically all bank will become schedule bank from DAY1!” Ans. No. Because, RBI will also check condition#2. Usually RBI ticks condition#2 after observing bank for one year from its birth. So the Scheduled status will not be given on DAY1. (धंधा चालू करने की एक साल तक तो रिज़र्व बैंक उसका मुआयना करेगी की दूसरी शर्त का अनुपालन हो रहा है कि नहीं. पहले ही दिन से रिज़र्व बैंक उसको अनुसूचित नहीं बना देगी।)





Scheduled Bank (अनुसूचित बैंक)	Non-Scheduled Bank (गैर- अनुसूचित)
Can be subdivided into two parts 1) Scheduled Commercial Banks (SCB) e.g. SBI, Axis, ICICI Schedule Cooperative Banks like Haryana Rajya Sahakari Bank, Tamil Nadu State Apex Cooperative Bank	Many cooperative banks are non-Schedule. But we need not see their list at Rbi.org.in/CommonPerson/English/scripts/banksinindia.aspx
Need to deposit CRR money to RBI's office (CRR का पैसा ट्रक में भरके रिजर्व बैंक में पहुँचाना होगा)	Can maintain the CRR money with themselves in their own office/vault. (खुद की तिजोरी में रख सकते हैं)
Eligible to borrow / deposit funds in RBI's window operations. E.g. LAF-Repo, MSF, etc.	Depends on RBI's discretion. (विवेकाधीन/रिजर्व बैंक की मर्जी - आने भी दे सकता है, लात मार के भगा भी सकता है)
are required to protect the interests of depositors and abide to RBI norms. (जमाकर्ताओं के हितों की रक्षा करनी होगी, और रिजर्व बैंक के नियमों का पालन करना होगा)	Ofcourse, they also have to do it, else RBI can shut them down under Banking Regulation Act.
Govt depts and big private sector companies are more likely to open their bank accounts/ employees' salary deposit accounts in it.	Less likely to happen. (गैर अनुसूचित बैंकों में सरकारी विभाग या बड़ी कंपनियों वाले अपने बैंक-खाते खोले इसकी संभावना कम होती है)
Bank becomes eligible to partner in the govt's financial inclusion scheme e.g. PM Jan Dhan Scheme for opening bank accounts of poor people. (Ref Pillar1D3: financial inclusion)	Usually not eligible. (वित्तीय समावेशन की सरकारी योजनाओं में गैर अनुसूचित बैंकों को सामान्यतः शामिल नहीं किया जाता है. जैसे कि प्रधानमंत्री जनधन योजना में गरीबों का बैंक खाता इन बैंकों में नहीं खोला जा सकता.)

- Airtel Payments Bank and Paytm Payment Bank categorised as a scheduled bank in 2021-22.

► FAQ: "After getting scheduled status, Can Payment Banks give loans/credit cards or accept Fixed Deposits?" Ans. No, they're prohibited from such activities. Paytm doing such activities as "an Agent" of a federal bank, IndusIndia bank etc but Paytm cannot do it as 'its own Banking business'.

13.13 FI⇒ COMMERCIAL BANKS⇒ PRE-INDEPENDENCE



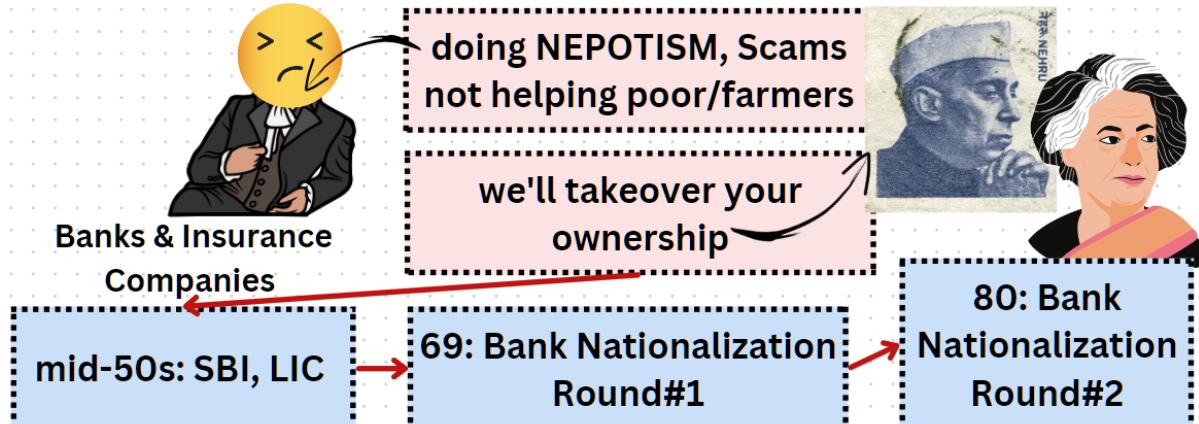
Table 2: Before Independence (Exact Years Not-IMP.)

1770	Bank of Hindustan, Calcutta (Europeans owned it. So it was not truly 'Swadeshi')
1806-42	<ul style="list-style-type: none"> - Three Presidency Banks at Bengal then Bombay then Madras. - 1861: all three were given the right to issue currency. - 1921: They were combined into Imperial Bank of India⇒ SBI (1955)
1865	Allahabad Bank (Europeans owned)



1894	PNB: Indian owned, Lala Lajpat Rai helped in foundation.
1908	Bank of Baroda by Maharaja Sayajirao Gaekwad III
1913-30s	State Bank of Mysore, State Bank of Patiala, the rise and collapse of Banking industry, then Birth of RBI (1935)
1940s	State bank of Bikaner, Jaipur, Hyderabad, Travancore by the respective princely states / Nawabs. Post-Independence, these banks became 'Associated Banks of SBI', and ultimately, merged in SBI (2017).

13.13.1 🐲 → 🐾 Nationalization of Banks After Independence (आजादी के बाद निजी बैंकों का राष्ट्रीयकरण)



- ⇒ **NEXUS between Banks and Industrialists:** From 1950s to 60- only 188 elite people controlled the economy by being in board of top 20 banks, 1452 companies.
- ⇒ This led to reckless lending to directors and their firms. So, Banks failed frequently, RBI had to close them. (रसूखदार लोग के कब्जे में थी बैंकिंग व्यवस्था. भाई भतीजावाद में अंधाधुन कर्ज देते थे)
- ⇒ Private Banks unwilling to open in rural areas- this did not help in **financial inclusion** of poor, farmers, MSME or achievement of Five Year Plan (FYP) targets or reducing regional imbalance. (वित्तीय समोवेशन, पंचवर्षीय योजनाओं के लक्ष्याक हासिल करने में निजी क्षेत्र के बैंक मदद नहीं करते थे. क्षेत्रीय असमनाताए बढ़ी)

Table 3: Nationalization & Merger of Banks after Independence

1948	RBI Transfer of Ownership Act.
1948	1948: Op. Polo, Hyd. → 1951: 1 st FYP, → 1953: Air India nationalized from Tata
1955	Imperial Bank nationalized and became SBI.
1955-56	LIC Act took over private life insurance cos. 57: 1 st Communist Govt in Kerala 61: Operation Vijay for liberation of Goa, Daman and Diu.
1963	State Bank of Jaipur and Bikaner merged together.
1969	⇒ 'Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969: 14 Private banks with ₹ 50 cr/ deposits were nationalized e.g. Bank of Baroda, PNB, Dena, Canara etc. (बड़ी जमा-राशि वाले निजी बैंकों का राष्ट्रीयकरण) ⇒ Catholic Syrian Bank (1920, Kerala), Ratnakar Bank, Dhanlaxmi Bank, etc., did not have such large deposits, so they were not nationalized. So, they are called "Old Private Banks".



1972-73	GIC Act- took over private Non-Life (=General) insurance cos. Later GIC was re-organized with 4 subsidiaries: National Insurance, New India Assurance, Oriental Insurance and United India Insurance. <i>More in Pillar#1D</i>
1980	6 banks with ₹ 200 cr/> deposits were nationalized e.g. Corporation Bank, Vijaya Bank, Oriental bank of Commerce etc.
2019	Previously, State Government of J&K owned 60% shares in J&K bank → Article 370 removal → Union Government took-over this shareholding. Further 500 type historical-GK things NOTIMP.
Reform Committees	following Committees were made for reforms in banking sector M Narasimham-I (1991), M Narasimham-II (1997), Dr. Raghuram Rajan Committee (2007) and P J Nayak Committee (2014)
Death देहांत	2021: Death of M Narasimham. He was ex-Governor of RBI and chairman various Committees on Banking Sector Reforms, therefore known as “father of Indian banking system reforms” (एम नरसिंहम् भारतीय बैंकिंग प्रणाली सुधार के पितामह माने जाते हैं।)

? (Prelims 2009) Q. In independent India's economy, which was earlier event to take place?

- A) Nationalization of insurance companies B) Nationalization of State Bank Of India
 C) Enactment Of Banking Regulation Act D) Introduction of first Five year plan

? (Prelim-2018) Q. Consider the following events:

1. The first democratically elected communist party government formed in a State in India.
2. India's then largest bank, 'Imperial Bank of India', was renamed 'State Bank of India'.
3. Air India was nationalised and became the national carrier.
4. Goa became a part of independent India.

Which of the following is the correct chronological sequence of the above events?

- A) 4 – 1 – 2 – 3 B) 3 – 2 – 1 – 4 C) 4 – 2 – 1 – 3 D) 3 -1-2 -4

13.14 CONSOLIDATION OF PSBs [एकलीकरण]

PSB consolidation = made up of two types of reforms: A) Merger B) Privatization



After Merger: Close down duplicate branches/ATM/Servers etc. = Cost Savings/profitability

What abt our seniority, promotion, transfer?



we'll give u VRS!

STAFF OF PREVIOUS BANK



13.14.1 Consolidation of PSBs → A) Merger (विलीनीकरण)

Table 4: Notable PSB Mergers before 2019, April. You need not memorize exact years/ HQ for IAS Exam

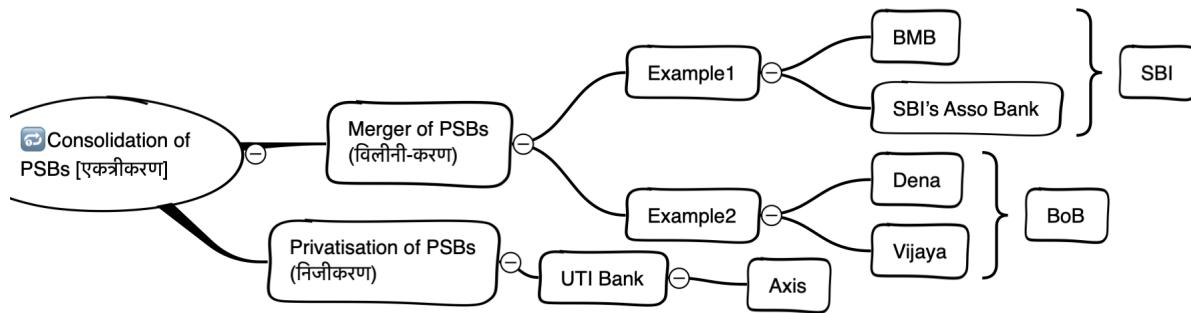
2008-10	State Bank of Saurashtra and State Bank of Indore merged into SBI.
2013	<ul style="list-style-type: none"> - Bharatiya Mahila Bank setup as PSB, HQ Delhi, 100% ownership by Union Government. (भारत सरकार ने स्वयं बनाया था) - BMB's Board of Directors: All women. Staff & Deposit Holders: both men and women, Loans given predominantly to women- and that too without collaterals
2017	BMB & 5 Associated Banks of SBI viz. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), merged with SBI.
2017	<ul style="list-style-type: none"> - Alternative Mechanism Panel setup under the Finance Minister's chairmanship. - This panel examine the proposals for merger/consolidation of the Public Sector Banks (PSBs) and forward to Cabinet for approval. - Department of Financial Services coordinates the filework.
2019, 1st April	<p>Vijaya & Dena to be merged into Bank of Baroda.</p> <ul style="list-style-type: none"> - Among these three oldest: BoB (1908) > Vijaya (1931)> Dena (1938)

Table 5: 2019, merger of 10 banks into 4 anchor banks (NOTIMP UNLESS preparing for IBPS)

Amalgamating Banks → → → (एकीकृत / विलीन होनेवाली)	Anchor Bank (सहारा देनेवाली)
<ul style="list-style-type: none"> - Oriental Bank of Commerce (1943, HQ: Gurugram, Haryana), - United Bank of India (1950, Kolkata) 	1) PNB. (1984, HQ: Delhi, It'll become the 2nd largest bank after SBI, in terms of business size and branch network)
Syndicate Bank (1925, HQ: Manipal, Karnataka) →	2) Canara Bank (1906, HQ: Bengaluru, Karnataka)
<ul style="list-style-type: none"> - Andhra Bank (1923, Hyderabad) - Corporation Bank (1906, Mangaluru) 	3) Union Bank of India (1919, Mumbai)
- Allahabad Bank (1865, Kolkata) →	4) Indian Bank (1907, Chennai)

After this process is over, we'll be left with only 12 PSBs (+1 India Post Payment Bank).

- Benefit? Geographical & technological synergies in ATM, Branches, Security Staff, Servers cost etc. (भौगोलिक और तकनीकी तालमेल)
- More Argument in favour / against = Mains QEP handout. This is Prelims #RAFTAAR.



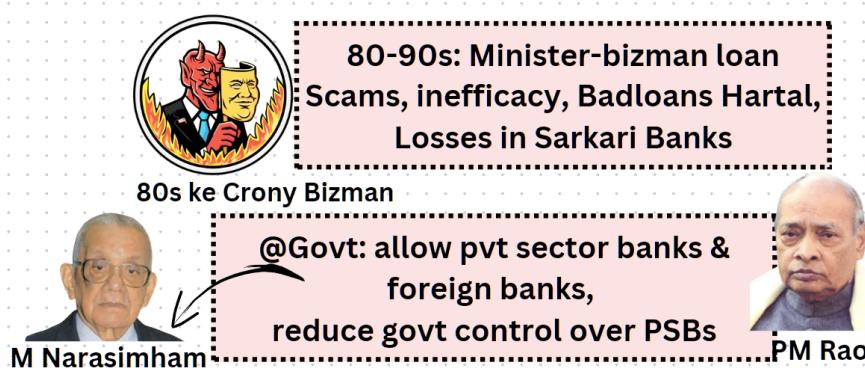
13.14.2 Consolidation of PSBs → B) Privatization (निजीकरण)

It involves Government selling 51% or larger shareholding to private parties. Then such Public Sector Bank will convert into a private sector bank. For example, (i) Axis Bank (Earlier called UTI Bank) and (ii) IDBI Bank.

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

Removed from handout because outdated/faded topic until Finance Ministry implements it.

13.15 COMMERCIAL BANKS ⇒ PVT. SECTOR BANKS (PvB) निजी-क्षेत्र के बैंक



While the nationalization of banks was done with the lofty objectives, but politicization in Public Sector Banks (PSBs) created new set of problems:

- Govt administered loan interest rates for populism= Low profitability for PSBs. (मुनाफा कम)
- Political Interference= Low recovery difficult (राजनीतिक हस्तक्षेप के चलते दबंग तत्वो से ऋण वसूली मुश्किल)
- Employees Unions hampering innovation or customer delight. (नवाचार, ग्राहक सुविधा कम)
- **1991:** Balance of Payment crisis (BoP: भुगतान संतुलन, More in Pill#3) finally forced Govt. to set up a committee for Banking Sector Reforms under The former RBI Governor M.Narasimham. He suggested:
 - Govt should ↓ its shareholding in Public Sector Banks. (सरकार अपनी शेयर हिस्सेदारी कम करे)



- RBI should ↓ CRR and SLR (सीआरआर, एसएलआर मे कटोती करे)
- Govt should not dictate interest rates to Banks. Liberalize the branch expansion policy (बैंकों को लोनदर, शाखा विस्तार नीति तय करने मे सरकार दखल न करे।)
- Allow entry of New Private Banks and New Foreign Banks. (विदेशी बैंक और निजी क्षेत्र के बैंकों को अनुमति)

Table 6: Three rounds of bank licensing in India. Names not that IMP unless giving Banking-exams

Round-1 (1993-95)	Round-2 (2001-04)	Round 3 (2013-16)
1) ICICI 2) HDFC 3) IndusInd 4) DCB 5) #UTI → later Axis bank 6) #IDBI → now owned by LIC 7) Global Trust Bank → Merged with Oriental Bank No. 8-9-10: Bank of Punjab, Centurian Bank, Times Bank were merged into HDFC	1) Kotak Mahindra 2) Yes Bank (Founder Rana Kapoor). Related Topic: Yes bank scam/Crisis Pillar#1B2: Bad loans & other Burning issues in Bank/NBFC sector	Rajan invited applications, Bimal Jalan Committee made selections: 1. Bandhan (A Microfinance company based in W.Bengal) 2. IDFC (An infra finance NBFC based in Maharashtra). Later on, another NBFC “Capital First” merged so renamed into IDFC-First

Above banks are also known as ***new-generation private banks*** in India. (नयी पीढ़ी के निजी क्षेत्र के बैंक)

► 🧐 **FAQ:** In early 90s- UTI Bank & IDBI Bank were not private sector banks, then why have you kept them here in table? Ans. Because presently, they're private sector banks. I don't have to submit this handout as evidence in the Supreme Court so I don't care being so pedantic about everything. You need to change your approach towards studies, to finish syllabus faster. #RAFTAAR

13.15.1 🏠 🚕 🚗 📈 ‘On-Tap’ License to open Private Sector Banks (जब मन चाहे तब अर्जी डाल दो)

A private entity can open Bank only after getting license from RBI under Banking Regulation Act, 1949. Previously, one had to wait till RBI invited applications. But in the On-Tap system (from 2016), one can apply to RBI whenever he wishes (like a driving license), provided that he meets the eligibility requirements e.g. min. 10 years' XP in banking finance, minimum 500 crore capital etc.

► 🧐 **FAQ:** isn't above Rs.500 cr capital conflicting with Scheduled Commercial Bank Definition ?
Ans, given below

13.15.2 🏠 🚕 Steps or procedure to open a bank (एक बैंक स्थापित करने के की प्रक्रिया क्या है?)

Ans. If you open a commercial bank at present, the steps are as following

⇒ First you have to register the company with Ministry of Corporate Affairs, under Companies Act



- ⇒ Then you've to arrange minimum 500 cr capital. For this, If you want to issue shares in the share market to acquire this ₹ ₹ → then you have to get permission from SEBI
- ⇒ Finally, you apply for bank license from RBI using above “ON-TAP” facility → If RBI is satisfied with, it will give you license as an “**non-scheduled** (commercial) bank.”
- ⇒ After that you run the bank → once you satisfy BOTH conditions to become ‘scheduled bank’
 - Condition-A) minimum 5 lakh (capital + reserve)... you may already have THAT BUT STILL SECOND Condition-B also need to be fulfilled that...
 - Condition-B) Your bank is not conducting business in a manner harmful to its depositors. So, RBI may observe your bank’s business/behavior for some months/years, to satisfy itself in this.
- ⇒ After RBI is satisfied with A+B= will give you the status of "scheduled (Commercial) bank."

13.16 ALLOWING NBFC/LARGE CORPORATE TO SETUP BANKS

This controversy shifted to Mains-QEP Handout. Because this Handout deals ONLY with PRELIMS. #RAFTAAR

13.17 COMMERCIAL BANKS ⇒ FOREIGN BANKS (विदेशी बैंक)

In Nehruvian Socialist Economy there was disdain & apprehensions about Foreign Banks. So, only a handful of them were allowed to open branches. But, Post-1991-Reforms: system liberalized. (नेहरू-समाजवादी विचारधारा के नीति निर्माताओं में विदेशी ताकतों के प्रति धृणा और डर → बहुत कम विदेशी बैंकों को अनुमति दी थी)

Foreign Bank in India	<ul style="list-style-type: none"> - They're Incorporated abroad (i.e. registered under the Companies Act of a foreign nation) & opening branch / subsidiary in India e.g. Citibank, Bank of America, HSBC. (उन्होंने किसी अन्य देश के कंपनी कानून में पंजीकरण करवाया है और फिर भारत आकर शाखाएं खुली हैं) - While CRR, SLR & other norms applicable, but PSL norms vary depending on number of branches. [Ref: Prev. Handout: PSL] - RBI gives them ‘on-tap’ license on reciprocal basis. (REF: Lecture for its meaning) - 2023: Axis bought/tookover Citibank’s Indian branches.
Indian Public Sector Bank	<ul style="list-style-type: none"> - Foreigners can invest max. 20% in its shareholding. E.g. BoB (15%), SBI (14%), PNB (13%) भारत की सार्वजनिक क्षेत्रों में विदेशी निवेश की सीमा
India Private Sector Bank	<ul style="list-style-type: none"> - Foreigners can invest upto 49% (automatic-स्वचालित तरीके) and upto 74% by approval of Government (सरकार की अनुमति लेकर). (More in Pillar#3A: FDI) - e.g. HDFC (73%), ICICI (59%) Axis Bank (52%) is owned by Foreigners. - Although Govt thinking of to 100% to help capital mobilization for BASEL-III norms . [More in Next Pillar#1B2: NPA handout]



13.18 🏠 🚪 🌎 🔒 COMMERCIAL BANKS ⇒ DIFFERENTIAL BANKS



Difference	🌐 Universal Bank (सार्वत्रिक बैंक)	🌐 🔒 Differential Bank (भेदकर बैंक)
Open Branches शाखाएं	Anywhere: example SBI, ICICI [* After opening 25% of branches in unbanked rural areas]	Geographical Restrictions on branch opening for Local Area Bank (LAB), Regional Rural Banks (RRB)
Accept	Both Time & Demand Deposits of any amount.	Payment Bank – Accept Max. 1 lakh deposit only. In 2021- This limit increased to ₹2 lakh.
Give Loans to	Anyone [After 40% PSL]	<ul style="list-style-type: none"> - SFB, RRB: 75% to PSL - 🔞 Payment Bank can't give loans;

Chronology of differential banks: RRB(1976) → Local Area Bank (1996) → Small Finance Bank & Payments bank(2015) → Wholesale banks (proposed)

13.18.1 🏠 🚪 🌎 🔒 Commercial Banks ⇒ Differential Banks⇒ RRB and LAB

Regional Rural Banks (क्षेत्रीय ग्रामीण बैंक)	Local Area Bank (स्थानीय क्षेत्र बैंक)
<ul style="list-style-type: none"> - Based on M.Narasimham's Committee on Financial Inclusion in 1970s[#] - Setup under the provisions of RRB act - e.g. Uttar Bihar Gramin Bank (Sponsor bank- Central Bank of India) - Subjected to CRR, SLR norms but RBI could prescribe separate norms. - PSL: 75%. (More in 🔍 Pillar#1A1) - Their loan interest rates can't be more than prevailing lending rates of Cooperative Banks in the area. - Restricted to few districts. E.g. Baroda Gramin Bank branches confined to Gujarat's southern districts. - Ultimate regulator: RBI but immediate regulator NABARD. 	<ul style="list-style-type: none"> - Based on Budget-1996 by Finance Minister Manmohan Singh - Unlike RRBs, they're not setup by Union or State govts or by any special act or parliament. But by pvt entities simply applying to RBI under Banking Regulation Act. - Can open branches in Max. 3 districts sharing borders with each other, only 1 urban centre per district allowed. Remaining branches need to be opened in rural areas of that district. - They're Non-Sch. Banks so while CRR, SLR, PSL etc very apply but every norm may be different, decided by RBI. - E.g. Subhadra Local Area Bank, Kolhapur

13.18.2 🏠 🚪 🌎 🔒 RRB's Shareholding pattern / IPO

RRB Act 1976	Amendment in 2015
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Shareholding: Union 50% + State 15% + Sponsor Bank 35% = 100%	<p>⇒ Shareholding: (Union+State+Sponser bank) 51% + others (pvt investors) 49%.</p> <p>⇒ Benefit? RRB can issues new / fresh shares in market to acquire more capital from private investors. #</p>
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Govt has Issued guidelines related to RRB's IPO (Initial public offer) in sharemarket. But technical-stuff notIMP for IAS Exam. More about IPOs in Pillar#1C.

► **FAQ#:** M.Narasimham committee was made in 1990s so how can he be in 1970s? Ans. Same gentleman was chairman of many committees (1) Financial inclusion (1970s) (2) banking reforms-I (1990s) (3) banking reforms-II (1990s).

► **FAQ:** I've 500 jaat-ke Doubts about Local Area Banks. Ans. Not Important for UPSC. I've only given short-note of LAB for helping UPSC aspirants trying for Bank-exam as backup/Plan-B.



Jio Payments Bank
INDIA KA NAYA BANK

Paytm Payments Bank

13.18.3 Commercial Banks ⇒ Differential Banks ⇒ SFB & PB

On Nachiket Mor Committee's recommendations (2013-14), Governor Raghuram Rajan approved these new types of banks for (1) financial inclusion (2) competition & innovation among players.

Table 7: Need not memorize all the FACTs, UNLESS Preparing for Banking Exams as PLAN-B

Parameters	Small Finance Banks लघु वित्त बैंक	Payment banks भुगतान बैंक
Examples	Capital Small Finance Bank (Punjab), Ujjivan (Karnataka), Utkarsh (UP): Total 10 list at rbi.org.in/scripts/banklinks.aspx	6 at present: Airtel, India Post, FINO, Paytm, Jio, NSDL. (<i>Total 11 were selected; but AdityaBirla-Idea & other withdrew later</i>)
Eligibility during 1st round of licensing	<i>Min. 100cr. capital-walla</i> Resident Indians, Local Area Bank, NBFC, Micro-finance, with 10 years exp. in banking / finance	<i>Min. 100cr. capital-walla</i> resident Indians, NBFCs, PPI-wallets (pre-paid payment instrument), mobile telephone companies, super-market chains, cooperatives & companies controlled by resident Indians
Area	RBI Committee gave selection preference North East & Central India clusters where Universal Banks' penetration is poor	Anywhere



Parameters	Small Finance Banks लघु वित्त बैंक	Payment banks भुगतान बैंक
CRR, SLR, Repo, FDI?	Same as Indian private banks	Same as Indian Private Banks, but special terms & condition in SLR.
Rural Penetration	Must have 25% branches in unbanked rural areas	No need but 25% access points must be in rural areas like Kiraana Stores
₹ Target Consumers	Unserved Underserved Farmers, Micro, Small industries: किसान, सूक्ष्म, लघु उद्योग	Promoting Small savings Remittance of migrant labors, low income households, unorganized sector, small business.
₹ Accept Deposits	Yes, without any restrictions डिपॉजिट स्वीकार करने में कोई पाबंदी नहीं है	🚫 No NRI deposits, 🚫 No Fixed deposit* * - Can accept only Demand Deposits and Max. balance Rs.1 lakh per customer. (In 2021- limit increased to ₹2 lakhs)
Debit cards	💳 YES can give.	💳 YES can give.
Credit cards	💳 YES can give.	🚫 No (because can't give "loan")
Loans	- Yes, but 75% in PSL, - 50% of loan portfolio of Rs. 25 lakhs/< loans.	- Can't loan, So no PSL. - They're required to invest all deposits in G-sec, T-Bill and in other SCBs. 🚫 How much% notimp.
Evolve/ future growth?	After 5 years can become Universal Commercial Bank, If RBI is satisfied.	After 5 years can become Small Finance Bank, If RBI is satisfied with their record.

- BASEL-III norms applicable on both of SFB & PB. (More in [Pillar#1B2:BASEL Norms](#))
- Both SFB & PB can sell Mutual Fund (MF), Pension, Insurance policies with approvals of respective regulators i.e. SEBI, IRDAI, PFRDA.

► 🤔 FAQ: You wrote that Payment Banks can't accept FD or give loans or credit card but Paytm is doing that!!?? Ans: Paytm doing FD/Credit Card/Loan activities as "an Agent" of a federal bank, IndusIndia bank etc. Similarly, Although India Post Payments Bank (IPPB) cannot give loans because it is a payment bank but signed a deal with HDFC Bank to give home loans as an 'Agent'.

► 🤔 FAQ: if payment banks cannot give loans, then what do they do with deposit money? Ans. It is answered within the above table itself. Read properly. If you're going to glance over this handout casually & carelessly like a WhatsApp message then handout cannot help you in the UPSC exam.



13.18.4 🏠 💳 💳 🔒 🚗 📈 On-Tap Licenses for starting SFB (मन चाहे तब अर्जी डालो)

- RBI reviewed & found SFBs have achieved their priority sector targets and helped in financial inclusion. More competition and new players will help. (अधिक बैंकों को अनुमति देने से स्पर्धा में बढ़ोतरी वित्तीय समावेशन में मदद)
- so 2019-June, RBI announced it'll allow 'On-Tap' license for SFB soon. (i.e. no need to wait for notification unlike IAS exam, apply whenever you wish like a driving license)
- Eligibility conditions to start SFB license 'On Tap': (👉 Exact norms NOT IMP for IAS Exam)

एवं ? Find correct Statement(s) about Payment Banks? (Prelims-2016)

- 1) Mobile telephone companies and supermarket chains that are owned and controlled by residents are eligible to be promoters of Payment Banks.
- 2) Payment Banks can issue both credit cards and debit cards.
- 3) Payment Banks cannot undertake lending activities.

Codes: (a) 1 and 2 only (b) 1 and 3 only (c) 2 only (d) 1, 2 and 3

एवं ? What is the purpose of setting up of Small Finance Banks (SFBs) in India? (Prelims-2017)

1. To supply credit to small business units
2. To supply credit to small and marginal farmers
3. To encourage young entrepreneurs to set up business particularly in rural areas.

Codes: (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

13.18.5 Commercial Banks → 🏠 India Post Payment Bank (IPPB)

- Registered as a Public Limited Company under Companies Act, 100% owned by Department of Posts (Ministry of Communication and Information Technology.) → Obtained RBI's License under Banking Regulation Act to start working as a Payment Bank.
- Airtel Payments Bank was first to launch operations in 2017. Later, IPPB launched in 2018.
- Largest customer reach with 1.55 lakh Post offices across India.
- Doorstep banking through Postmen.
- Bank Account Types: **Safal, Sugam, Saral** (internal differences not imp4UPSC).
- Account can be opened with zero balance, no minimum balance requirement.
- Minor Customer Aged 10 years or more can also open account. (नाबालिंग का भी खाता खुलवा सकते हैं)
- 2019: IPPB announced it desires to convert itself from Payment Bank into a Small Finance Bank (SFB), so it can offer loans to customers. (But as per RBI guidelines, Payment bank need 5 years' experience before upgrading their license to SFB. यानि की अभी मंजिल दूर है।)

13.18.6 📈 (Yearbook) Dept of Post: POSB vs IPPB

Don't loose sleep unless preparing for Postal- Assistant etc. exams

Ministry of Communications two dept: 1) Depart of Telecommunications 2) Department of Posts →



- ✓ Setup by Clive (1766), expanded by **Warren Hastings** (1774)
- ✓ 1854: **Dalhousie**- Post Office Act; 1st postal stamp, rates by weight & not by distance.
- ✓ 2008: Project Arrow for modernization.
- ✓ 2013: **Telegram** stopped by India Post, due to onset of SMS & email.
- ✓ Dept of Post sells
 - **Gangajal** sourced from Rishikesh and Gangotri.
 - UTI-Mutual funds and Sovereign Gold bonds.
- ✓ **Post Shoppe** = special outlet in big post offices for philately (stamp collection hobby)
- ✓ RTI fees can be submitted by buying Indian Postal Orders (IPO). E-IPO = overseas Indians can pay RTI fees online using this mechanism.
- ✓ **Deen Dayal SPARSH Yojana:** Students in class 6-9 given scholarship for philately.
- ✓ **Dhai Akhar Letter Writing Competition**-students asked to write letters to Mother Teresa, Tagore etc.
- ✓ Officers' training conducted at **Rafi Ahmed Kidwai** National Postal Academy at Ghaziabad, UP. Kidwai was India's first Minister for Communications.

Table 8: No need to loose sleep, UNLESS preparing for Post-Office staff exams.

Dept of Post →	Post Office Savings Bank (PoSB)	India Post Payments Bank (IPPB)
foundation	Govt Savings Bank Act 1873	Companies act 2013 → Public ltd company registered in 2016
Accept demand deposits ?	Savings account only	1. Current account 2. Savings account
Accept time deposits ?	YES	No, bcoz it is a payment bank
Can keep more than ₹2 lakh balance ?	YES	No, bcoz it is a payment bank. But u can link IPPB account with PoSB account to auto-transfer (=SWEEP) excess balance to PoSB.
E-Banking and online bill payment	Not directly but you can do it by linking PoSB account with IPPB account	yes , UPI, BHIM, NEFT, IMPS and BBPS (Bharat Bill pay) available.
Sukanya Smriddhi (daughter's fixed deposit account)	Can be opened	Not possible. Because time deposits are not allowed in Payment Banks.
loans to individual?	No. ₹ goes to NSSF. More in Pillar2A.	Not until it becomes Small Finance Bank
Objective?	Promote savings habits among poor	Remittance & digital payments



- **💼** Budget-2022: Post Office Savings Bank (POSB) will be connected with Core Banking System (CBS). So, their depositors too can use E-banking/net-banking, mobile banking, ATMs etc.
- Benefits? **😊** 1) Convenience for POSB depositors esp. villagers, farmers and senior citizens.
😊 2) interoperability= (ability to use POSB deposit money in above NEFT/ATM etc facilities)
- Interoperability is the ability of customers to transact across commercially and technically independent payment platforms. व्यावसायिक और तकनीकी रूप से स्वतंत्र प्लेटफार्मों के बीच लेन-देन करने की सुविधा

[Q] ? MCQ. Find correct about India Post Payments Bank (IPPB)? [Asked in UPSC-CDS-2018-1]

- 1) It has been incorporated as a Public Limited Company.
- 2) It started its operation by establishing two pilot branches at Hyderabad and Varanasi.

Answer codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

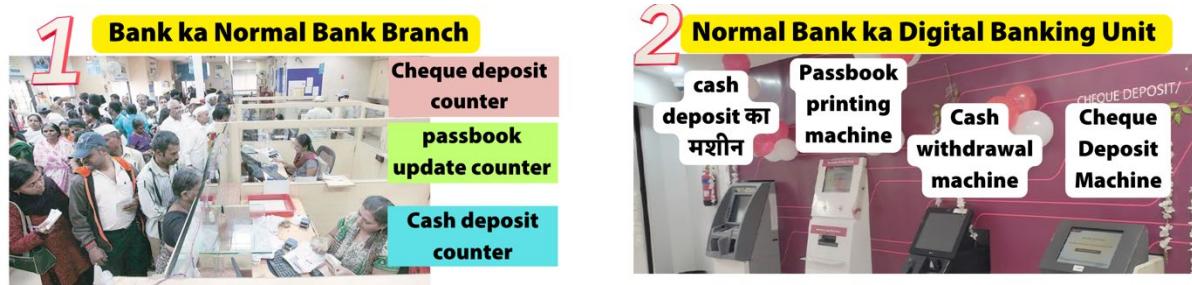
13.18.7 🚚 💼 (Proposed) Wholesale & Long Term Finance Banks (WLTF)

- 2017: RBI proposed WLTF Bank. दैर्घ्यकालिक थोक वित्त बैंक.
- NOT Yet made. Topic Outdated for 2023, so removed from handout.

13.18.8 💳 💻 : 💼 Digital Payments- (Proposed) Digital Banks by NITI Aayog (2021)

- ⇒ 2021: NITI Aayog proposed setting up 'full-stack digital banks'.
- ⇒ This will be new type of banks under the Banking Regulation Act, 1949 (BR Act).
- ⇒ Digital Banks will not have physical branches. They will rely on internet for delivering banking services. **😊** Benefit? financial inclusion of rural area. (नीति आयोग ने ऐसा प्रस्तावित किया है कि नए क्रिस्म के डिजिटल बैंक बनाए जाएं जो की भौतिक भौगोलिक रूप से ब्रांच न हो किन्तु इंटरनेट के ज़रिए बैंकिंग सुविधा दें इसे गँव गँव तक वित्तीय समावेशन में मदद मिलेगी)
- ⇒ **👉** But since it's not yet formed, so we need not loose sleep about how exactly it'll work.

13.18.9 💳 💻 : 💼 Digital Banking Units in Budget 2022



- ⇒ Budget-2022 announced to setup 75 DBUs. Then RBI announced rules.
- ⇒ Basically commercial banks open fancy type of offices wherein every service provided digitally / paper-less application forms with help of digital kiosks e.g. opening bank account, getting credit cards etc.
- ⇒ How is this similar or different than NITI Aayog's Digital Banks? NOT IMP.



13.18.10 Digital Payments- NeoBanks (चिकने चुपड़े शब्द)

- This is a fancy term for Financial technology (FinTech) related startups & Non-Banking Financial Companies (NBFC) that are helping banking connectivity using digital channels.

FAQ: How NeoBanks are similar or different than “DIGITAL BANKS”? Ans. Not important. When Startup-wallas want to attract inventors, they plant a lot of paid/PR/embellished news items & columns with fancy terms like “NEOBANK” → it doesn’t automatically become “exam worthy current affairs” ...First of all let RBI/NITI/Finance Ministry/HC-SC etc make repeated big headlines around this, then we’ll see. Observe previous years question papers. (निवेशकों को आकर्षित करने के लिए स्टार्टअप कम्पनीओं द्वारा चिकने चुपड़े शब्दों वाले समाचार प्लाट किए जाते हैं। तो वो अपने आप परीक्षा के लिए काम का नहीं बन जाता। पहले बड़े सरकारी संस्थानों द्वारा कुछ बड़ी बड़ी सुर्खियां बटोरने दो फिर देखेंगे.)

13.19 FI ⇒ BANKS ⇒ COOPERATIVE BANKS (सहकारी बैंक)

Type	Commercial Banks	Cooperative Banks
Banking Reg. Act	Applicable since 1949	Applicable since 1966.
Regulator	RBI	<p><u>Under RBI's supervision:</u></p> <ul style="list-style-type: none"> - Multistate Cooperative Banks - Urban Cooperative Banks <p><u>Under Dual supervision</u></p> <ul style="list-style-type: none"> - Other types of cooperative banks are under dual supervision of RBI + respective State govt's registrar for cooperative society.
CRR, SLR, BASEL-III	Yes	Yes, but, RBI could keep different slabs/ norms.
Repo, MSF	Eligible to borrow	Yes, but only selected category of Cooperative Banks
PSL Lending	Yes 40-75%	Only urban cooperative banks
Who can borrow	Anyone	First preference to members
Vote power	Based on Shareholding, like a Commercial Company	According to Cooperative Society norms, members have vote power. So, 1 member = 1 vote irrespective of how much capital contributed.
Profit Motive (मुनाफा करने की चाह?)	Yes, purely profit motive, so lending rates may be higher than Coop.	Desire to help community. So, lending rates little lower than commercial bank
Presence (कहा पाई जाती है?)	All India & overseas branches.	Mainly in Gujarat, Maharashtra, Andhra, Tamilnadu.



Challenges: Politicization, casteism, poor recovery of loans, scams, money laundering.

(राजनीतिकरण, जातिवाद, कर्जा वसूली में अनियमितता, घोटाले, धन-शोधन/ काले धन को वैध बनाना)

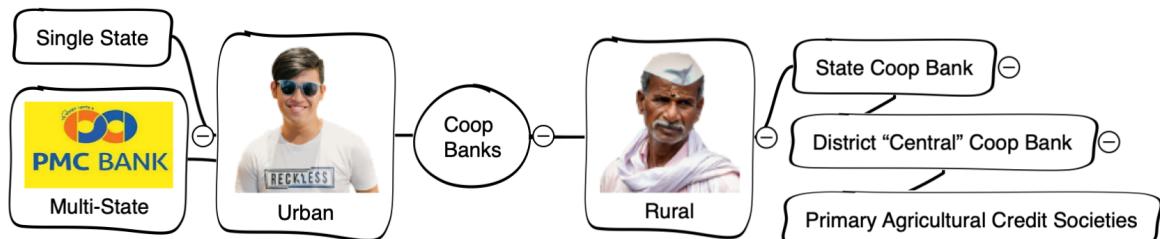
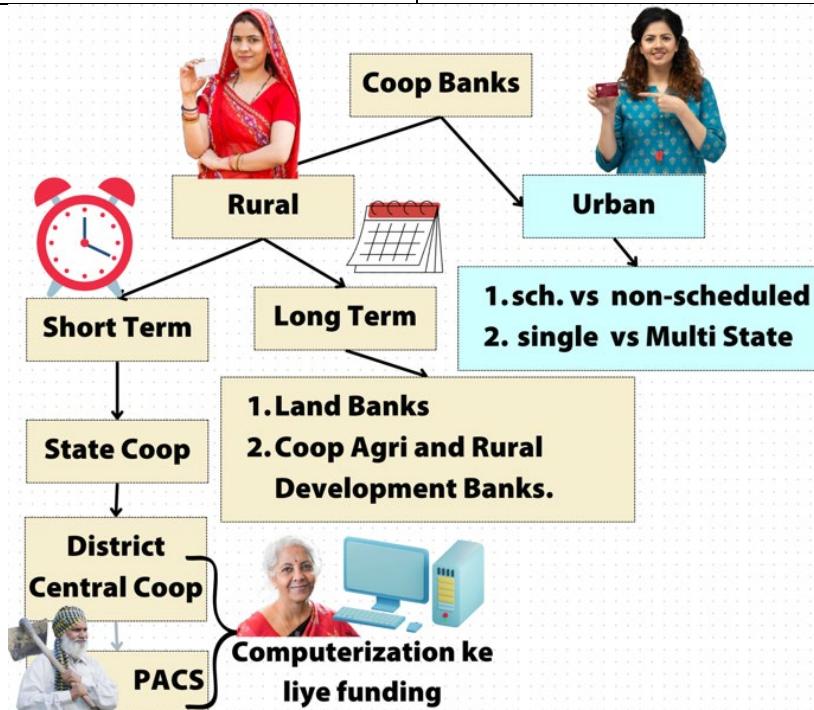


Table 9: Classification of Cooperative Banks

Urban Cooperative Banks (UCB: शहरी)	Rural Cooperative Banks (ग्रामीण)
<p>Further subcategories depending on</p> <ul style="list-style-type: none"> - Scheduled / Non-Scheduled; OR - Single State / Multi State. <p>From 2018, RBI allowed them to voluntarily upgrade to Small Finance Banks, with certain conditions.</p>	<p>1) Notable State Cooperative Bank → District Central Cooperative Bank (DCCB) → Primary Agricultural Credit Societies (PACS: प्राथमिक कृषि क्रण समितियाँ) **</p> <p>2) Misc Types: Land Banks, Cooperative Agriculture & Rural Development Banks. (they give longer duration loans compared to above banks. How long-duration? NOTIMP)</p> <p>** PACS are not 'banks'. They can't issue chequebooks. RBI doesn't regulate them. Only State registrar regulates them.</p>



Q ? Find correct statement(s) (asked in UPSC-Prelims-2020)



- In terms of short-term credit delivery to the agriculture sector, District Central Cooperative Banks (DCCBs) deliver more credit in comparison to Scheduled Commercial Banks and Regional Rural Banks
- One of the most important functions of DCCBs is to provide funds to the PACS.

Answer Codes: [a] 1 only [b] 2 only [c] Both 1 and 2 [d] Neither It nor 2

13.19.1 🏠 💳 💡 Cooperative Banks: Negative News (2019): PMC Bank (कांड हो गया)

Outdated for 2023. So removed. Brief idea given in the video lecture.

MCQ ? Recently the RBI has imposed limitations, initially for a period of six months, on the withdrawal of amount by account holders of this banks: (UPSC-CDS-i-2020) (a) IndusInd Bank
(b) Dhanlaxmi Bank (c) Punjab and Maharashtra Cooperative Bank (d) South Indian Bank

13.19.2 🏛️ 💳 💵 💲 💸 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 10: 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

MCQ ? MCQ. Find correct Statements about 'Urban Cooperative Banks' in India (Pre-21)

- They are supervised and regulated by local boards set up by the State Governments. [राज्य सरकार उनकी निगरानी और नियंत्रण करता है]
- They can issue equity shares and preference shares. [वे इक्विटी शेयर और वरीयता शेयर जारी कर सकते हैं।]
- They were brought under the purview of Banking Regulation Act, 1949 through an Amendment in 1966. [उन्हें 1966 में एक संशोधन के माध्यम से बैंकिंग विनियमन अधिनियम, 1949 के दायरे में लाया गया था।]

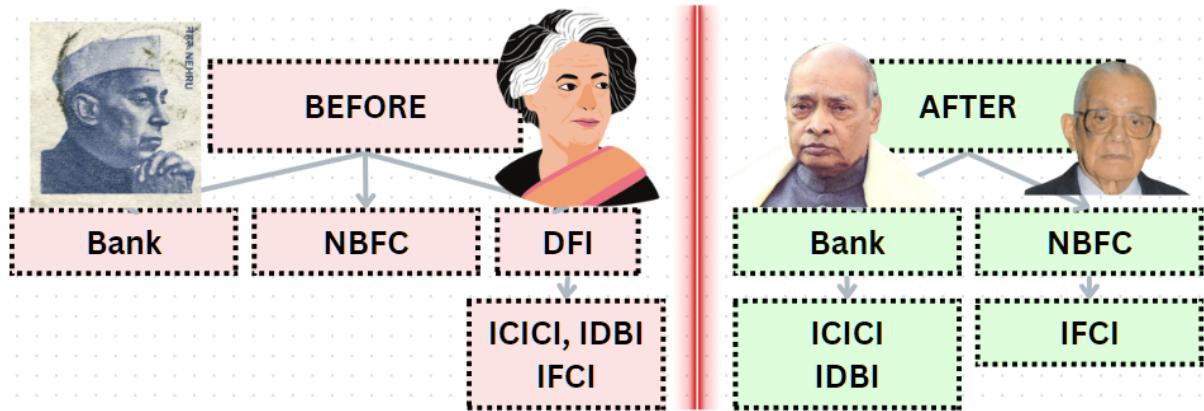
Codes: a) 1 only b) 2 and 3 only c) 1 and 3 only d) 1, 2 and 3'



<i>Related topics:</i>	<i>Refer to</i>
DICGC, UCB's Supervisory Action Framework (SAF), UCB 4 tier regulation → refer to	Pillar##1B2: Bad loans & other burning issues in Banking Sector
Jan Dhan Yojana, Lead Bank Scheme etc →	Pillar##1D: Financial Inclusion

13.20 FORMAL FI ⇒ NON-BANKING FINANCIAL INSTITUTIONS

13.20.1 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.

Table 11: Exact Years, Full Forms not very important but Chronology is important.

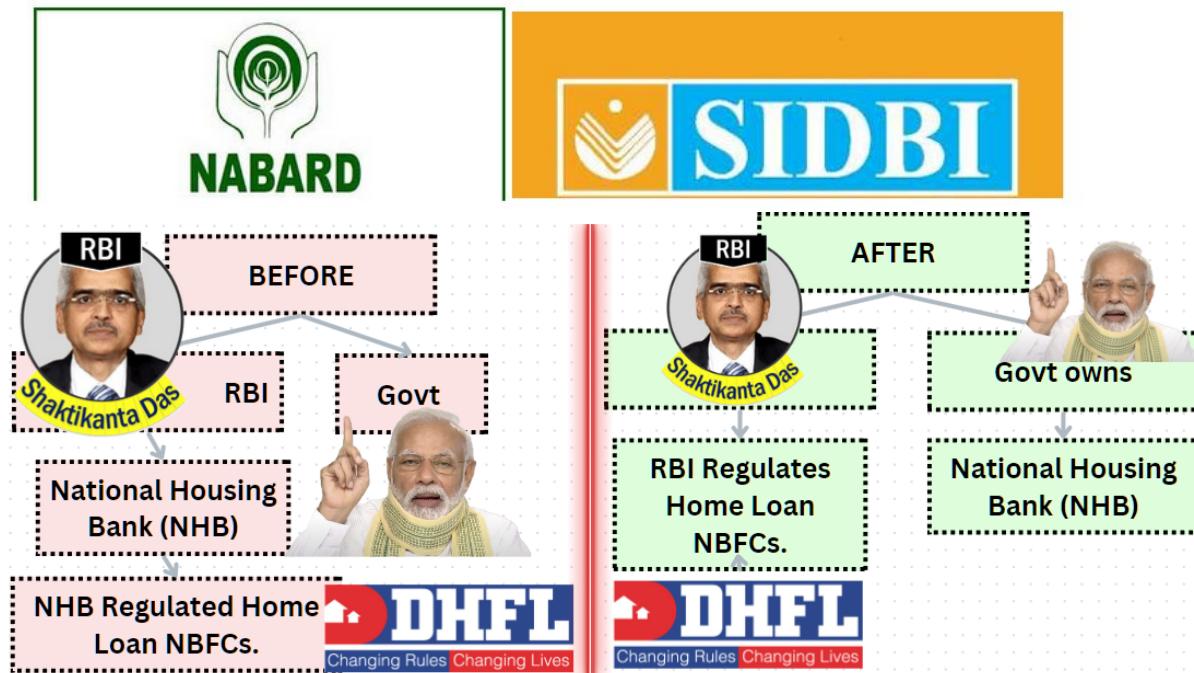
1948	Industrial Finance Corporation of India (IFCI) owned by the Finance Ministry's Department of Financial Services.
1955	National Small Industries Corporation (NSIC) under the Ministry of Micro, Small and Medium Enterprises (MSME).
1955	ICICI: Industrial credit and Investment Corporation of India Ltd 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)



13.20.2 ❌ 🏠 🏢 What is Bad Bank- NARCL-IDRCL?

☞ Ref: HDT-Pillar#1B2: Bad Loans

13.20.3 ❌ 🏠 🏢 Non Bank ⇒ All India Financial Institutions (AIFI):



EXIM (Jan 1982) आयात नियर्त के लिए	NABARD (Jul 1982) कृषि और गाँव विकास के लिए	NHB (1988) गृह/आवास निर्माण	SIDBI (1990) छोटे उद्योगों के विकास के लिए
Export-Import Bank of India	National Bank for Agriculture and Rural Development	National Housing Bank	Small Industries Development Bank of India
Boss: Government of India (100%)	Previously RBI had minority-stakes in NABARD but 2018: 100% Govt owned.	Original boss: RBI (100%). But, 2019-Apr: RBI sold 100% to Govt.	Originally 100% owned by IDBI. Later on shareholding transferred → SBI, LIC etc
Promotes cross border trade and investment, helps importers-exports with loans and foreign currency.	<ul style="list-style-type: none"> - Regulatory supervision: Coop + RRB - + Indirect refinance to farmers, artisans - Operates Rural Infra. 	<ul style="list-style-type: none"> - Finance to banks and NBFCs for housing projects. - RESIDEX index to monitor residential 	<ul style="list-style-type: none"> - Operates Credit Guarantee fund, Small Enterprises Development Fund (SEDF). - Operates udyamimitra.in for loans to small entrepreneurs via schemes like Mudra, Stand-up-India. (☞ Ref: HDT-



	Development fund (RIDF)	real estate prices.	Pillar#1D: to know more abt these schemes)
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- ⇒ AIFIs are not ‘banks’ because can’t accept direct deposits from the public.
- ⇒ RBI is the regulator over AIFI, BASEL norms applicable but RBI can prescribe different / slabs norms / deadlines. What/why/how? NotIMP.

►  **FAQ: Whether NABARD is 100% owned by govt or 100% owned by RBI- what difference does it make?** Ans. Shareholders vote for selecting board of directors. Shareholders receive dividend from the profit of the organization. So Govt or RBI gets power/benefits depending on who owns majority shareholding.

ABCD ? MCQ. Who grants direct credit assistance to rural households? (UPSC-Pre-2013)

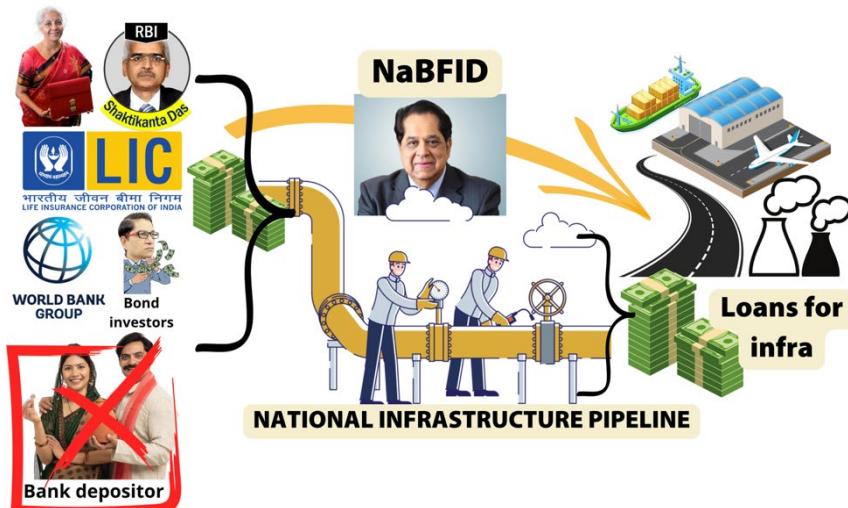
- 1) RRB 2) NABARD 3) Land Development Banks

Answer Codes: (a) 1 and 2 only (b) 2 only (b) 1 and 3 only (d) 1, 2 and 3

**AB
CD** ? Find Correct Statement(s) (Asked in UPSC-Prelims-2004)

- A) NHB, apex institution of housing finance in India, was setup as a wholly owned subsidiary of RBI
 - B) SIDBI was established as a wholly owned subsidiary of the Industrial development bank of India
 - C) Both A and B
 - D) Neither A nor B

13.20.4 NABFID, the 5th AIFI (2022-Mar)



2021: NaBFID: National Bank for Financing Infrastructure and Development was setup by an law/act of Parliament, with an initial capital of ₹20,000cr capital.

⇒ NaBFID will get funding from RBI, Govt, Financial institutions, World Bank etc. It'll also issuing bonds in market etc.

⇒ NaBFID will give loans worth ₹5 lakh crore in 3 years. It'll help in National Infrastructure Pipeline (NIP) project ( Ref: HDT-Pillar#5-Infrastructure)

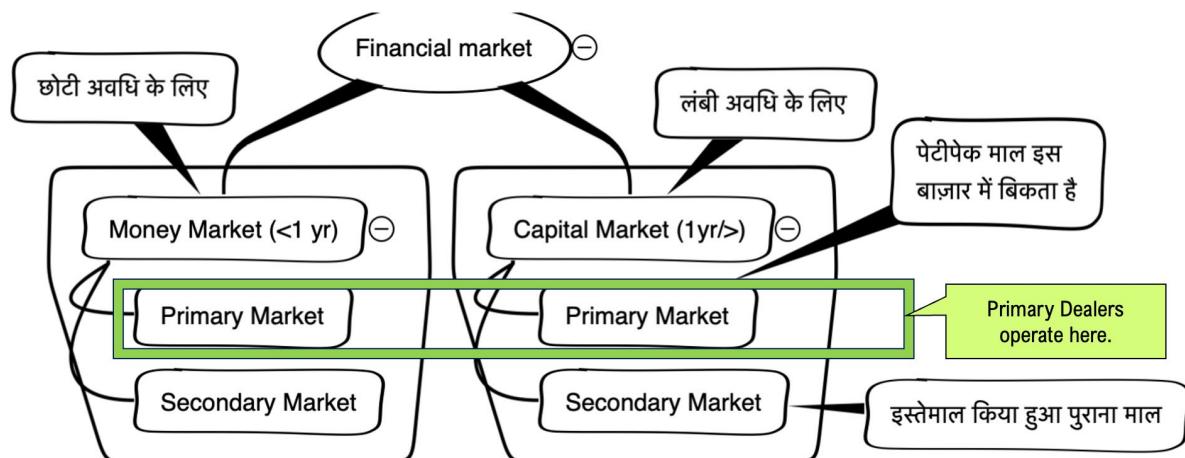
⇒ Chairman: K V Kamath

⇒ HQ: Mumbai (Presently it is working from the office of SIDBI in Mumbai)



- ⇒ Regulator? RBI.
- ⇒ 2022: RBI ordered that NaBFID will be treated as All India Financial Institution (AIFI).
- ⇒ Thus, NABFID is the fifth AIFI after EXIM Bank, NABARD, NHB and SIDBI.
- सरकार ने कानून द्वारा बुनियादी ढांचे और विकास के वित्तपोषण के लिए राष्ट्रीय बैंक बनाया था। और उसे रिज़र्व बैंक द्वारा अखिल भारतीय वित्तीय संस्थान (एआईएफआई) का दर्जा दिया गया है।

13.20.5 FI ⇒ Non-Bank ⇒ Primary Dealers (PD)- (प्राथमिक विक्रेता)



- ⇒ They deal in "primary" market i.e. directly buy fresh G-sec from RBI's E-Kuber platform and sell it in the secondary market. Total 20+ PD licensed by RBI: 14 of them are Banks. E.g. Standard Chartered Bank, HSBC (HongKong), SBI, Kotak etc. (Numbers not important)

Related Topic: Retail/Ordinary Investors also buy G-Sec directly from RBI by opening a 'Retail Direct Gilt Account' (RDG Account). (More in Pillar#1C: Deepening of Capital Market)

13.20.6 FI ⇒ NBFCs (गेर-बैंकिंग वित्तीय कंपनिया)



Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
Registration	Banking Regulation Act	Companies Act
Supervision	RBI	Depends. Mutual funds-SEBI, Insurance Co: IRDAI etc.
Entry Capital	500 Cr.	Different-different norm depends on organization



Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
Numbers	13 Public Sector (incl. Post Payment Bank), 56 RRBs, 39 private sectors (including SFB, PB), 44 Foreign Banks. [figures not imp]	Total 10,190. Out of them 108 deposit Taking, remaining are non-deposit-taking (ND). [figures not imp]
Can accept Deposits?	<ul style="list-style-type: none"> - Can accept Time & Demand deposits [also known as chequable deposit]. - Payment banks- can't accept time deposits e.g. Fixed Deposits. - Their deposits are insured under DICGC Act. 	<ul style="list-style-type: none"> - Only NBFC-Deposit-Taking (NBFC-D) & even they can accept only Time Deposits. E.g. Bajaj Finance. - Deposits are not insured under DICGC Act. ☞ More in Pillar#1B1
Can issue Chequebook, Credit Card, Debit Card?	<ul style="list-style-type: none"> - Yes, Banker can issue these instruments. 	<ul style="list-style-type: none"> - Can't issue their chequebook, debit/credit card. - ► ☞ FAQ: Bajaj Finserv is issuing Credit Cards!!?? Ans. Bajaj Finserv is giving you the credit card of RBL-Bank. So Bajaj Finserv is acting as an 'Agent' of the RBL Bank.
Prudential Norms सावधानी के मानदंड	CRR, SLR, applicable	<ul style="list-style-type: none"> - SLR applicable ONLY on NBFC-D. but RBI can prescribe different slabs / formulas than banks. - CRR not applicable on any type of NBFC.
BASEL norms	Yes, Applicable. ☞ More in Pillar#1B2	<ul style="list-style-type: none"> - Applicable on 108 NBFC-D and - Applicable on 276 NBFCs – ND – SI (non-deposit taking Systematically Important with assets over ₹ 500 crores) - e.g. L&T Finance, Cholamandalam etc. But RBI can prescribe different slabs / norms /deadlines.
Investment ग्राहक का पैसा किधर निवेश करते	They can keep depositor's money in RBI approved securities. But can't invest in share market, directly.	Can invest clients' money in share market. E.g. Mutual Funds, Insurance Companies.



Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
Loan Interest Rate ब्याज दर	Decided as per RBI's methodology from time to time (BPLR, MCLR, External Benchmark etc.) Ref: Pillar#1A1	Varies & depends on nature of biz.
Recovery बकाया राशि की वसूली	Loan recovery powers under SARFAESI Act. More in Pillar#1B2	- Housing Finance Companies have SARFAESI powers. But, all types of NBFCs don't have it. (More in Pillar#1B2)
Consumer Complaints	RBI's Ombudsman, Bank's Internal Ombudsman ** शिकायत निवारण	RBI's separate Ombudsman for NBFCs starting the NBFC-D since 2018**.

**More about these Ombudsman in Pillar#1D: Insurance handout

Q ? Find correct Statement(s) about NBFCs in India [Asked in UPSC-Prelims-2010]

- A) They cannot engage in the acquisition of securities issued by government.
- B) They cannot accept demand deposits like savings account.
- C) Both A and B
- D) Neither A nor B

Q ? The main functioning of the banking system is to [Asked in UPSC-CDS-2013-II]

- (a) accept deposits and provide credit
- (b) accept deposits and subsidies
- (c) provide credit and subsidies
- (d) accept deposits, give credit and subsidies

13.20.7 NBFCs Regulated by RBI (नियंत्रण/देखरेख)

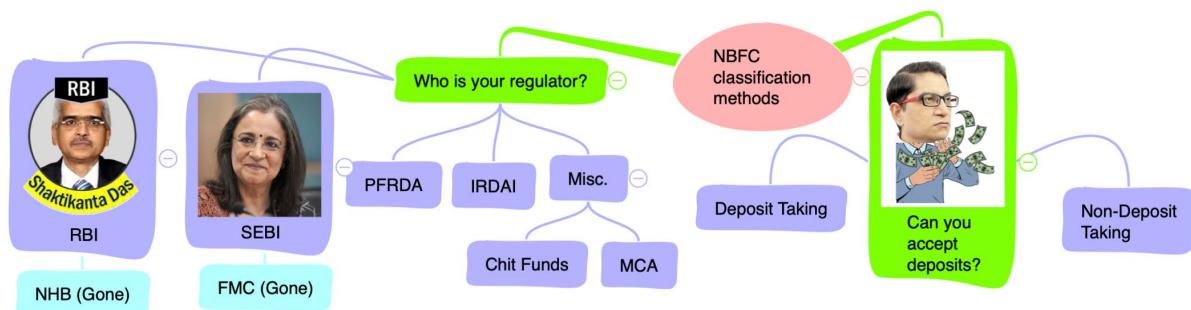


Table 12: no need to remember examples, just observe pattern

Investment and Credit Company	They mainly help buying 'assets/machinery' like tractor, bulldozer, etc E.g. SREI Equipment Finance, Limited
Consumer Durable Loan Finance /BNPL	<ul style="list-style-type: none"> - Help buying TV, Fridge, Mobile, AC etc. with Buy now Pay later (BNPL) / Equated Monthly Instalment (EMI) model. (How they're similar or different = PHD not required. हर चीज़ का विकिपीडिया बनना जरुरी नहीं है पुराने पेपर देख लो) - Eg. Bajaj Finserv, Flexpay, Zestpay etc.



Core Investment Company (CIC)	<ul style="list-style-type: none"> - They do long term investment in Companies. E.g. Tata Capital, Reliance Capital, Infrastructure Leasing & Financial Services Limited (IL&FS) - IL&FS in controversy because couldn't repay interest to lenders. <p><i>More in next NPA handout.</i></p>
Infrastructure Finance Company (IFC)	Internal difference notimp for UPSC. Basically, they give loan for infra. Projects like highway, airport, powerplants. (बुनियादी अवसंरचना के लिए दीर्घ अवधि के लोन)
Infrastructure Debt Fund (IDF)	<ul style="list-style-type: none"> - E.g. Rural Electrification Company ltd. (REC) - L&T IDF, Kotak IDF, IDFC IDF ("IDFC First" has separate license for Private Sector Bank).
Asset Reconstruction Companies (ARC)	They buy bad loans / NPA from Banks & other NBFCs, and try to salvage value from the underlying assets. E.g Anil Ambani's Reliance ARC.
Factoring Companies	They lend short term money to client against his invoices / accounts receivable. E.g. IFCI Factors, Siemens Factoring. (What is Factoring? Ans. Pillar#1C)
Gold Loan Companies	<p>e.g. Muthoot gold loan, Mannapuram Gold.</p> <p>RBI decides their Loan to Value ratio (LTV) (More in Pillar#1A2).</p>
Micro Finance Institutions (MFI: सूक्ष्म वित्त संस्थान)	<ul style="list-style-type: none"> - 2010: RBI's Y. H. Malegam Committee → RBI created a new NBFC category called Micro Finance Institution (MFI) - They give small loans to poor without collateral, flexible EMI. - eg: Bandhan (W.Bengal, separately got PvB license), Disha (A'Bad: separately got SFB license), SKS (Andhra), Cashpor (UP), Ujjivan (Karnataka). - Eco.Survey2020 appreciated the role of MFI in Helping the weaker section because Majority of its borrowers are women (97%), SC/ST(30%) and minorities (29%) - Who regulates them? RBI + Ministry of Corporate Affairs - Who can borrow from MFI? Ans. Household whose annual income is not more than ₹ 1.25 lakh (rural) or ₹ 2 lakhs (urban). - How much can one person borrow from an MFI? Ans. Not More than ₹ 1.25 lakh. [<i>**Before 2019-Oct above limits were lowers.</i>]
MUDRA (2015)	<ul style="list-style-type: none"> - A non-deposit taking NBFC owned by SIDBI. It gives indirect loans to Micro enterprises through PM Mudra Yojana. - More in Pillar1D- Financial Inclusion.



Fintech companies: P2P Lenders	<ul style="list-style-type: none"> - It is like Olx-Quickr connecting sellers of second hand goods with buyers. the P2P lending websites connect borrowers and lenders. E.g. Faircent.com, Cashkumar.com, CRED Mint etc. - 2021- CRED Mint launched. Newspapers gone crazy so Babushonas are demanding that I should teach them PHD thesis on its business model. 🙏 Bhai, I'll not teach it. Look @PYQ in this Handout
Fintech companies: Account Aggregators (AA)	<ul style="list-style-type: none"> - They manage information of a customer's financial assets & display it to him or to third party (like loan giver, credit rating company & Apps). 2018: RBI gave license to 5 cos- NeSL, Cookiejar etc.
Fintech companies: Loan Aggregators (ऋण समूहन)	<p>E.g. Loanadda.com, Moneytap.com, Loanbazaar, Paisabazaar etc. portals</p> <ul style="list-style-type: none"> - 😟 Challenges? Often these digital platforms that act as outsourced agents of banks/NBFCs to sell loans. - But, customers face difficulty in complaint/grievance redressal. - Now even Google Pay app developing features for loans. So RBI has expressed its displeasure and is presently working on rules to fix this.
Fintech companies: Payment Aggregators	<ul style="list-style-type: none"> - They help sellers to accept payment from buyer by providing technological solutions - E.g. Razerpay. Seller opens account on Razerpay website-> embeds the code/link in his own website-> can accept payment through credit card, debit card, netbanking, UPI JioMoney, Mobikwik, Airtel Money - Further subtypes: Online Payment Aggregators Vs Offline Payment Aggregators but internal difference not imp. for IAS exam.
Residuary (अवशिष्ट)	Any NBFC not regulated by any other regulator- falls under RBI's purview.

13.20.8 💸 💵 💩 Digital Lenders

RBI classified them into 3 groups

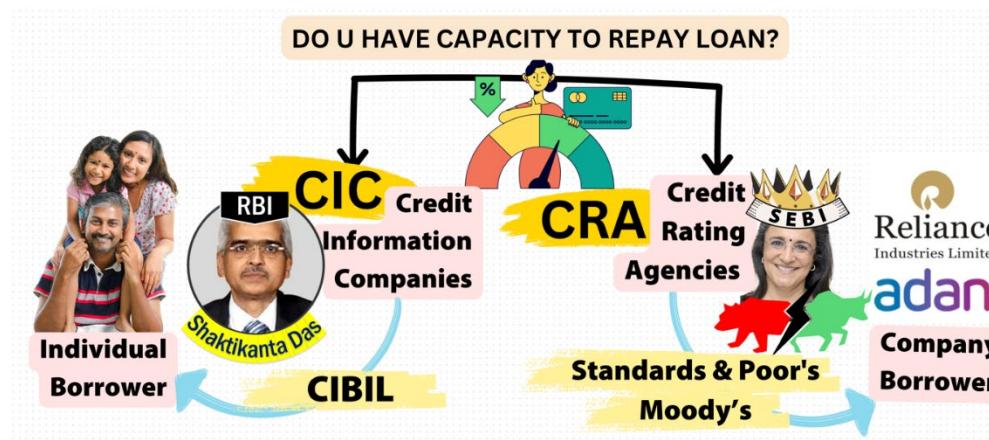
Sr	Organization	Examples
1	giving loans online and regulated by RBI	Banks, P2P lenders
2	Giving loans online but regulated by Non-RBI bodies	Venture Capital Funds (VCF) regulated by SEBI
3	Giving loans online but not regulated by anyone / unauthorized digital lenders = their App will be shut down. Legal action will be taken.	Some goonda/mafia opening online mobile app for giving online loans.

Note: RBI keeps releasing guidelines for digital lending. But daily-commentary not important.

Sufficient to know that such guidelines mostly deal with customer protection.



13.20.9 ⚡️ 🏠 💳 Credit Information Companies (CIC) versus Credit Rating Agencies (CRA)



	Credit Information Companies (CIC)	Credit Rating Agencies (CRA)
Regulator	RBI	SEBI
E.g.	CIBIL TransUnion, CRIF High Mark, Equifax and Experian.	<ul style="list-style-type: none"> ⇒ Standards and Poor's, Moody's, CRISIL, CARE, ICRA, FITCH Ratings India Pvt. Ltd, SMERA. ⇒ Brickwork Ratings India = SEBI ordered it to shut office due to malpractices.
check the credit worthiness/ loan repayment capacity of	"Individual Persons" (एकल व्यक्ति के कर्ज वापस चुकाने की ओकात है कि नहीं उसका मूल्यांकन करते हैं)	companies, NBFCs, governments, local bodies, non-profit organizations. They do not check it for individual persons. (संस्थानों की कर्ज वापस चुकाने की ओकात का मूल्यांकन करते हैं. एक एक इंसान के लिए नहीं करते)
Rating	numerical scores. e.g. CIBIL Score between 300-900.	alphabetical symbols e.g. AAA, AA-, D- etc.
Utility?	Better the score → <ul style="list-style-type: none"> ⌚ 1) loan application will be passed more easily ⌚ 2) You'll have to pay lower interest rate. 	similar to the left cell.

💡 ? MCQ. Find Correct about credit rating agencies (CRA) in India? (Prelims-2022)

- They are regulated by the Reserve Bank of India.
- The rating agency popularly known as ICRA is a public limited company.
- Brickwork Ratings is an Indian credit rating agency.

Which of the statements given above are correct ?

- (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3



13.20.10

NBFCs Regulated by SEBI



Stock Broker	<ul style="list-style-type: none"> - They help clients buy-sell shares and bonds (=debentures) depending on his instructions E.g. Motilal Oswal, Indiabulls, Sher Khan, Karvy etc. - 2019: Karvy Stock Broking transferred clients' money & shares into its own group company Karvy Realty without clients' consent, so SEBI banned Karvy.
Mutual Funds (MF)	<ul style="list-style-type: none"> - They pool clients' money and MF-manager invests it in shares/bonds using his own discretion & expertise. - E.g. SBI's Shariah Equity Mutual Fund: clients' money invested in Sharia compliant Cos. That don't deal with alcohol, pork, debt, tobacco or weapons.
REITs / InvITs	<ul style="list-style-type: none"> - Pool & invest money in real estate / infra projects e.g. IRB. < More in Pillar#1C: SEBI Handout>
Investment Banks: (USA term) & Merchant Banking Companies: (UK term)	<ul style="list-style-type: none"> ⇒ Underwriting, Merger & Acquisition, Wealth Management of rich people: ⇒ E.g. Kotak Mahindra, Citigroup, Bank of America, DSP Merrill Lynch, Morgan Stanley, SBI Capital ⇒ 2021: SEBI allowed payments banks to act as investment bankers (after fulfilling the rules/regulations of SEBI). सेबी से अनुमति लेकर भुगतान बैंक ये कर सकते हैं
Venture Capital Fund	VCF Help startup companies to arrange capital e.g. IFCI-VCF, IDG-VCF

13.20.11

NBFCs Regulated by Others



Regulator	Example NBFC Companies
IRDAI (More in Pillar#1D)	<p>Insurance Regulatory and Development Authority (IRDAI) regulates:</p> <ul style="list-style-type: none"> - 1) Life Insurance companies e.g. LIC, HDFC Standard Life Insurance - 2) Non-Life (=General) insurance e.g. IFFCO-Tokyo General Insurance. - 3) Policy aggregator web-platforms such Policybazaar.com
PFRDA (More in Pillar#1D)	Pension Fund Regulatory and Development Authority (PFRDA) regulates all Pension Funds, except EPFO & other statutory funds.



National Housing Bank (NHB)	- Housing Finance Companies such as DHFL, Muthoot Housing finance etc. These companies were earlier regulated by NHB but after Budget-2019, this category's is regulated by RBI.
Ministry of Corporate Affairs	1. NIDHI Companies: Mutual benefit club, only members can borrow. e.g. South Madras Benefit Fund ltd, Maben Nidhi Ltd (of Mannapuram group) 2. Microfinance Companies: learned in previous section. Microfinance Companies' some of the regulation work done by RBI and some of the regulation work done by Corporate Affairs Ministry.
State Registrar of Chit Funds	It regulates 'Chit funds'. e.g. Shriram Chit fund is a type of collective investment scheme with monthly contributions & borrowing by contributing members Chits. (Ref Pillar#1D)

(🚫) NBFC: Shadow Banking (आभासी / प्रतिछाया बैंकिंग प्रणाली)

- ⇒ ES20 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.
- ⇒ They mobilize funds by borrowing from banks, issuing Commercial Papers (CP) and Bonds (=Non-convertible debentures)

Table 13: Three important segments of the shadow banking system in India

HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
LDMFs	- Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies). - e.g. certain schemes by UTI, Kotak, L&T, Tata mutual funds
Retail-NBFCs	Retail Non-Banking Financial Companies such As Gold Loan Companies, Asset Finance Companies etc.

Shadow banking system's assets are risky. Sometimes they can't honour their obligations/bond repayments. It results into severe crisis, as seen in the ILFS crisis (2019). (उनकी संपत्तिया जोखिमपूर्ण होती है)

(More in Pillar#1B2)

NBFC-not allowed in India: Islamic Banking

- Interest (*Riba*) is prohibited (Haram) in Islam. So, Islamic Banking operates through *Ijara*, *Murabaha*, *Musharaka* mechanisms- in which depositors' money is invested in borrower's property / business and returns are shared in form of rent / profit but not in the form of Interest.
- Some committees said give permission to Islamic Banks in India, but RBI is opposed (2017).
- 2017: Kerala Govt allowed opening of a Islamic Bank by registering it as "co-operative society", so as to avoid the RBI's ban. But further, legal controversy notimp.
- **Pro-Arguments?** Financial inclusion of Minorities/Muslims. अल्पसंख्यकों का वित्तीय समावेशन

Anti-Arguments against allowing Islamic Banking in India?



- Specialized Manpower required. Secular India's PM-Jan-Dhan Yojana & Post Office Payment bank efforts are sufficient. (बैंक-बचत की धर्मनिरपेक्ष सेवाएं उपलब्ध. अलग से एक धर्म विशेष के लिए वित्तीय सेवा अनावश्यक)
- USA Govt alleges their involvement in terror finance & money laundering. (आतंकी वित्तपोषण, काले धन को वैध बनाना)

13.20.14

Informal Financial Intermediaries (अनौपचारिक वित्तीय मध्यस्थ)



- Unlike banks/NBFCs, they provide loans without formal application procedure, etc but require Property/Vehicle/Home/Goods/Crop/Gold etc. as collaterals/pawn. (संपत्ति गिरवी रखवा के कर्ज)
- They charge very high compound interest rates & use muscle power for recovery (ऊंचे ब्याजदर, वसूली के लिए धमकाना-बलप्रयोग करना.)
- For every Rs.100 borrowed by a rural household, 33% from informal money lenders, remitting from banks, friends-family etc. (2012 data)
- They don't fall under RBI purview, but State Govts have individual laws to regulate them e.g. Bombay Moneylenders Act 1947, Kerala (1958), Gujarat (2011). These laws require such informal lenders to register, impose ceiling on the interest rate & prohibit strong-arm tactics. (रिजर्व बैंक की निगरानी में नहीं किंतु राज्य सरकारों ने नियंत्रण के लिए कानून बनाएं- पंजीकरण, ब्याज की महत्तम सीमा निर्धारित करना, बलप्रयोग/जबरन वसूली पर रोक)

Table 14: Following Examples/Differentiation not imp for IAS Exam but Banking Exams

Types →	Indigenous Banker (देशी बैंकर)	Moneylender / Brokers
Medieval time known as →	Shroff, Shikarpuri, Chettiar, Marwari, Aiyar, Rastogi	Kabuli Pathan, Quistwala, Arhatia, Village Bania, Soni, Mahajan & Seth, Pawnbrokers, Financial Brokers
Money mobilization → पैसा कहाँ से लाते हैं	They used to mobilize money from Public via: 1) Hundi: bill of exchange; 2) Commercial bills	They use their own savings-money (or sometimes some villain's black money- स्वयं का पैसा कर्जे पर देते या किसी भ्रष्ट नेता अफसर का काला धन कर्जे पर घुमाते)

13.20.15

Mains Answer Writing

From this particular topic, the Mains angles are centred around – problems of PSBs/nationalization, is privatization of banks a panacea? importance of bank-NBFC in economic growth and human development ? etc.

- ⇒ This Raftaar-courses deals purely with Prelims and NOT with Mains. So, You've two options:
- ⇒ A) Watch earlier [recorded course PCB7 completed between 2022-June to October](#): OR
- ⇒ B) Wait for next course for Mains-specific Economy from 2023-June onwards

Next HDT: 1B2: Burning Issues in Banking: Bad Loans, NPA, IBC, SARFAESI, BASEL etc.