



Pillar#1B-2: Bad loans & other Burning issues in Banking sector

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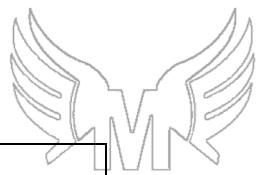
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14 BAD LOANS & OTHER BURNING ISSUES IN BANKING

14.11 TYPES OF LOANS: BASED ON INTEREST RATE

Table 1: Type of Loans based on Lending Rates

Fixed Interest Loan (निश्चित व्याजदर का ऋण)	Floating Interest Loan (चलायमान)
e.g. Short-term crop loans upto ₹3 lakh for farmers at fixed Interest 7%. This interest rate will not be changed throughout the loan tenure.	e.g. (External Benchmark) + spread + risk premium = 12% originally. (Ref#1A2-MonPolicy) But benchmark is regularly updated. So resultant interest rate may increase or decrease throughout the tenure of loan.



Fixed Interest Loan (निश्चित व्याजदर का ऋण)	Floating Interest Loan (चलायमान)
टीजर लोन यानी कि ऐसे लुभावने लोन जहाँ शुरूआती वर्षों में व्याज दर बहुत कम रहे लेकिन बाद के वर्षों में ग्राहक पर बड़ा व्याज दर थोप दिया जाए. अमेरिका में सबप्राइम संकट के पीछे इसे कारण माना जाता था	Teaser Loan: A sub-type of Floating interest rate loan, wherein initial years have low interest, but afterwards- higher interest rate. While RBI has not banned Teaser loans but has put stricter regulations on them from 2011.

14.12 TYPES OF LOANS: BASED ON BORROWERS

Table 2: Type of Borrowers

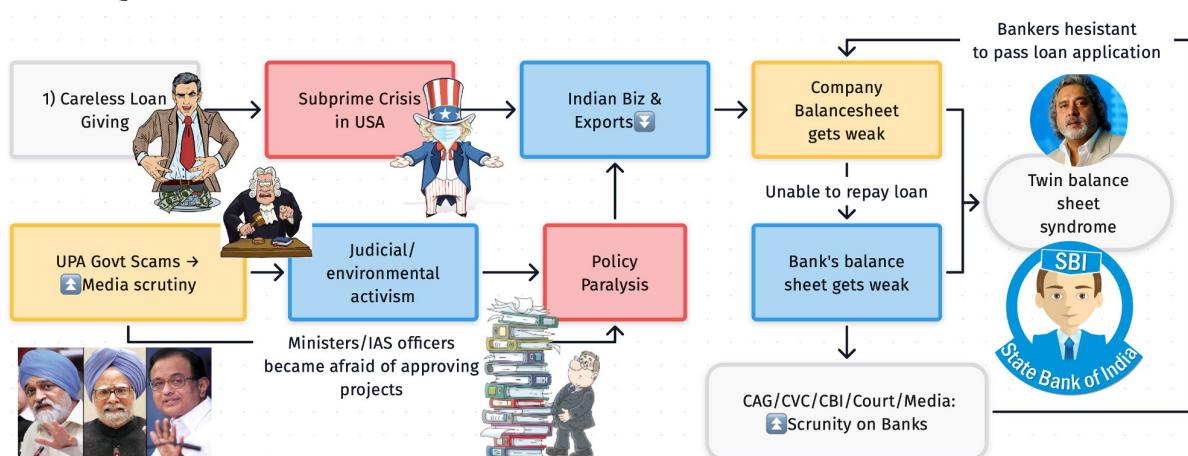
Prime Borrower	He has the capacity to repay loans. (वो कर्जा वापस चुकाने की क्षमता रखता है)
Subprime Borrower (Individual)	Such person doesn't have the capacity to repay loan. Giving teaser rate home loans to them caused Sub-prime Crisis in USA (2007-08), ultimately led to Global Financial Crisis (GFC). (More in Pillar#3).
Overleveraged Borrower (Company)	Such company has borrowed too much money than its ability to pay it back. An Overleveraged company has high ratio of Debt (Bonds/loans) to Equity (Shares). वापस करने की क्षमता से भी अधिक कर्ज ले लिया है
Zombie Lending	When a weak bank keeps giving new loans to a subprime / overleveraged borrower. कमज़ोर बैंक, कमज़ोर कर्जदार को लोन देता रहे हैं

Q Why is the offering of "teaser loans" by commercial banks a cause of economic concern? (Pre-2011)

1. The teaser loans are considered to be an aspect of sub-prime lending and banks may be exposed to the risk of defaulters in future.
2. In India, the teaser loans are mostly given to inexperienced entrepreneurs to set up manufacturing or export units. (बिन अनुभवी नौसीखिए उद्यमियों को विनिर्माण और निर्यात इकाइयों बनाने के लिए टीजर लोन दिए जाते हैं)

Answer Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 or 2

14.13 NON-PERFORMING ASSETS (अनर्जक परिसंपत्तियां)



14.13.1 - - - NPA / TBS Problem: Three Stages of

1. Till mid-2000s: Boom period in global economy. Indian Corporates were taking large amount of loans & became overleveraged. (भुगतान की क्षमता से बड़ा लोन लेना)



2. 😟 From 2007-08: Subprime & Global Financial Crisis (GFC: वैश्विक आर्थिक संकट): Indian exports ↓. UPA govt's policy paralysis & judicial activism, environment activism (नीतिगत पक्षाधात और न्यायिक सक्रियता, पर्यावरण सक्रियता) ⇒ projects delayed. Companies began facing difficulties finishing projects & repaying loans.
3. 😟 By 2013: ~1/3rd of the bank loans were owned by “IC1 companies” i.e. companies with interest coverage ratio less than 1, meaning they were not generating enough revenue even to repay the loan interest. (IC>1 is good and IC <1 is bad.)

Thus, balance-sheets of (1) some Large Corporates Companies & (2) Public Sector Banks (PSB) became weak. It is called “Twin balance sheet syndrome (TBS)” [दोहरे तुलनपत की समस्या] by Economic Survey 2015-16.

Ques: What is the importance of “Interest Coverage Ratio” of a firm in India? (Prelims-2020)

1. It helps in understanding the present risk of a firm that a bank is going to give a loan to.
2. It helps in evaluating the emerging risk of a firm that a bank is going to give a loan to.
3. The higher a borrowing firm’s level of ICR, the worse is its ability to service its debt.

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

14.13.2 NPA related definitions in Banking Sector

Std. Assets	Loan account where borrower is repaying the principal and interest in timely fashion. (आदर्श परीसंपत्तिया= नियमित ब्याज मुद्दल/ मूलधन मिला)
SMA-0	If loan principal or interest unpaid for 1-30 days from its due date, then such loan account is classified as Special Mention Account-0 .
SMA-1	31-60 days
SMA-2	61-90 days
NPA अनर्जक परिसंपत्तियां या गैर-निष्पादित परिसंपत्तियां	<ul style="list-style-type: none"> - 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.... - For 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 - 📈 ES22: NPA as a % of total loans : declined from 11% (2017) to 7% (2021-Sept) Public Sector Banks (PSBs): 2016-2020= losses . 2020-June onwards= profits.
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 (GNPA: सकल एनपीए)	<ul style="list-style-type: none"> ⇒ Gross non-performing assets = grand total of all NPA loans(कुल योग) ⇒ Indian Commercial Banks’ (Gross) NPA approx. ₹8 lakh crores: within that PSB (₹6 lakh cr) > private Sector banks (₹2 lakh cr)

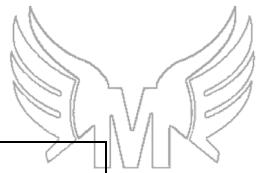


	<p>⇒ Exact Amount: ₹8.2 lakh crore (2021-Mar). ₹8.8 lakh Cr (2020-Mar). Thus NPA ↓ than last year because 1) better loan recoveries 2) higher write-offs.</p> <p>⇒ Sectors with highest % NPA = 1) Industries > 2) Agriculture > 3) Service Sector > 4) Personal Loans [As of 2020]</p>
NET NPA	NET NPA (शुद्ध एनपीए) = GNPA Minus Provisioning WHATITMEANSNOTIMP
Substandard asset	When loan account remains in the NPA classification for 12 months/> (रद्दी/घटिया परीसंपत्तिया- जब कोई लोन खाता 12 महीना या उससे ज्यादा एनपीए श्रेणी में रहे)
Doubtful Asset	When loan account in substandard classification for 12 months/>
Loss Asset	When a bank, its auditor or RBI declares that given doubtful asset has little / no salvageable value. (नीलामी करके भी नुकसान भरपाई असंभव)
Loan write-off	<p>⇒ Loan write off= banker removes a loan amount from the ‘asset-side’ of the bank balance sheet, to save corporation tax (How? = we-are-not-here-for-CA-exam).</p> <p>⇒ Loan write-off doesn’t waive bank’s right to recover that bad loan, it’s merely an accounting exercise for tax-benefits. (कराधान में कुछ रियायतों के लिए हिसाबी प्रक्रिया की जाती है। हालांकि ऐसा करने के बावजूद भी बैंकर कर्जदार से पैसा वापस तो मांग ही सकता है)</p> <p>⇒ Loan write-off ↓ reduces the NPA% of the Bank (Because amount is written-off/cancelled from balance sheet)</p> <p>⇒ 2020-21: Indian Commercial Banks written off ₹1.85 lakh crore worth loans</p>
Restructured loan	When principal / interest rate / tenure of the loan is modified. Banks may do it when borrower facing difficulty in repaying loans. (पुनर्गठित कर्ज / क्रण)
Stressed Asset	NPA + Loans Written-Off + Restructured Loans = Stressed Assets (तनावपूर्ण संपत्ति)
OTS with Haircut	For example, If bank allows the borrower to pay 60% of dues & forgoes 40% as loss, then bank has offered “One time Settlement (OTS) with 40% haircut” कर्ज का कुछ हिस्सा बैंक खुद ही नुकसानी समझकर माफ कर दे।
Evergreening of loans	When a borrower taking a new loan to pay off his old loan. पुराना कर्ज चुकाने के लिए नया कर्ज दिया जाए।

14.14 ATMANIRABHAR → LOAN/EMI/NPA RELIEF / MORATORIUM

- ⇒ (क्रण 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



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

14.14.1 🐾₹✍️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:
 - o ↓ Provisioning → profitability ↑ (ES21 said this happened in both PSB & Pvt Banks)
 - o ↓ obligations in BASEL-III Capital norms. (Because if ↑ NPA → bank will have to arrange more capital to comply with BASEL-III Norms)
- ⇒ 😰 Challenge / controversy? (चुनौतियाँ/ 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 किशते 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 depositor!? 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" - how? It's computation methodology NOT IMP at present. Faded Topic.

14.15 🐾₹✍️ RBI "3R" FRAMEWORK FOR REVITALIZING STRESSED ASSETS (2015-19)

14.15.1 ✓Rectification (सुधार)

- ⇒ 2015: RBI ordered the Banks to conduct Asset Quality Review (AQR: परिसंपत्ति गुणवत्ता समीक्षा) and begin rectification of bad loans i.e. Bank doesn't change in loan interest, tenure or terms, but asks client to rectify his irregularity in loan-repayment.
- ⇒ In genuine case, additional loan may be given. Bank may also try to find a new partner / investor for reviving the project. बैंक अतिरिक्त कर्ज दे सकता था, नया निवेशक ढूँढ़ने मदद कर सकता था।



14.15.2 ↘ Restructuring (पुनर्गठन: ब्याज दर या कर्ज चुकाने की अवधि या मालिकी में बदलाव)

- **Restructuring** = Changing the loan interest (%) or tenure or ownership. it consisted of following schemes:
- **5/25 for Infrastructure loans:** RBI allowed banks to extend infra-loan tenure upto 25 yrs, & even [down arrow] loan interest rate. But such interest rate will be reviewed each 5yrs.
- **CDR: Corporate Debt Restructuring:** For non-infra corporate loan- features similar to above.
- **SDR: Strategic Debt Restructuring Scheme:** Bank's Debt (Loan) is converted to Equity (Shares) & bank sells it to highest bidder ⇒ company's ownership may change. Scheme unsuccessful as it required the approval of existing shareholders. (रणनीतिक ऋण पुनर्गठन)
- **S4A - Scheme for Sustainable Structuring of Stressed Assets:** Similar to aforementioned SDR. Technical differences between SDR & S4A not important. # 📈 थोड़ा-पढ़ो-आगे-बढ़ो (तंगहाली आस्तियों की संधारणीय संरचना)
- **JLF- Joint lenders forum (ऋणदाताओं का संयुक्त मंच):** Consortium of the lenders, who will work out aforementioned restructuring methods.

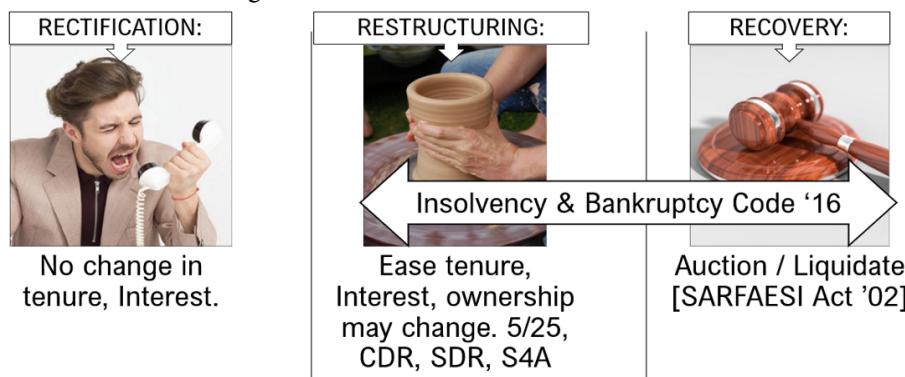


Figure 1: तनावग्रस्त परिस्पत्तियों को पुनर्जीवित करने हेतु आरबीआई का ढांचा: 2019 से पहले का

14.15.3 ✎ Recovery (वसूली)

Bank liquidates loan-defaulter's assets under either of the following acts: (संपत्तियों की जब्ती और नीलामी)

- 1) SARFAESI Act 2002 (सरफाएसी अधिनियम/कानून) OR
- 2) Insolvency and Bankruptcy Code 2016 (शोधन-अक्षमता एवं दिवालियापन संहिता 2016)

💡 ? 'Scheme for Sustainable Structuring of Stressed Assets (S4A)' is related to: (Prelim-2017)

- a) procedure for ecological costs of developmental schemes.
- b) scheme of RBI for reworking the financial structure of big corporates with genuine difficulties.
- c) disinvestment plan for Central Public Sector Undertakings.
- d) Provision in 'The Insolvency and Bankruptcy Code'.

14.15.4 📈 ✎ RBI's Prudential Framework (2019)

This is outdated topic for UPSC-2022, so only basic idea required.

2019-June: RBI released **Prudential Framework for Resolution of Stressed Assets Directions 2019** (तनावग्रस्त परिस्पत्तियों के दिशा-निर्देशों के लिए विवेकपूर्ण रूपरेखा)

⇒ RBI applied it on Banks, AIFI and selected categories of NBFCs- using the powers under Banking Regulation Act (1949) and RBI Act (1934).



- ⇒ It discontinued CDR, S4A, SDR, JLF etc. Now IBC to be main tool for resolving business loans.
- ⇒ Lenders must upload data of ₹5 crore /> loans to RBI's CRILC portal on weekly basis.
- ⇒ Forbids loan restructuring for borrowers who have committed frauds/willful default in past.
- ⇒ Forbids evergreening of stressed loans.

most of above directives suspended / postponed in Corona so don't lose sleep

14.15.5 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. Then RBI issued Resolution Framework 1.0. But as such not enough MCQ worthy stuff. अर्थात् के 26 अलग अलग तनावप्रस्त क्षेत्रों में कर्ज-पूनःगठन में कुछ रियायत दी जाए ऐसा ढांचा # थोड़ा-पढ़ो-आगे-बढ़ो

14.16 SARFAESI ACT 2002: ORIGIN, OBJECTIVE & LIMITATIONS

कर्ज नहीं चुकाया तो संपत्ति की जब्ती और नीलामी करने के लिए कानून

- ⇒ **1991:** Narsimham-I Committee on banking sector reforms observed that borrowers obtain stay orders from ordinary courts = banks have difficulty recovering NPA. So, Debt Recovery Tribunals (DRT: ऋण वसूली न्यायाधिकरण) were set up (1993)= ordinary courts can't interfere in the loan recovery process.
- ⇒ **1998:** Narsimhan-II Committee observed that DRTs need to be strengthened with a law, so, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act enacted in 2002. [प्रतिभूतीकरण और वित्तीय आस्तियों का पुनर्गठन और प्रतिभूति हित को प्रभावी करने का अधिनियम 2002]
- ⇒ Under SARFAESI act, lenders can attach the mortgaged assets when loan is not repaid. They can change board of directors in such companies, can auction such assets, can also sell such assets to **Asset Reconstruction Companies (ARC, NBFC: परिसंपत्ति पुनर्निर्माण कंपनी)**. [2021: RBI setup Sudarshan Sen Committee to suggest reforms for ARCs]
- ⇒ SARFAESI not applicable on farm loans. (कृषि ऋण पर ये कानून लागू नहीं होता)
- ⇒ If loan-defaulter wants to obtain a stay order, he cannot go to ordinary courts. He will have to approach for DRT. If DRT doesn't help then ⇒ higher appeal to Debt Recovery Appellate Tribunal (DRAT: ऋण वसूली अपीलीय न्यायाधिकरण), but DRAT will require him to deposit minimum 50% of the loan dues (to discourage frivolous appeals). ⇒ higher appeal to high court.

14.16.1 Which lenders have SARFAESI powers?

- ✓ All types of Banks (सभी प्रकार के बैंकों को इस कानून के अंतर्गत मिलकर जब्ती करने की सत्ता एँ है)
- ✓ Housing Finance Companies (HFCs)
- ✓ if an NBFC fulfills two conditions SIMULTANEOUSLY: (गैर बैंक वित्तीय कंपनियों को भी यह सत्ता है यदि)
 - 1) The NBFC having asset size of ₹100 cr or more, AND
 - 2) loan given is at least ₹50 lakhs. [Budget-2021 reduced minimum limit to ₹20 lakh]



- ✓ For example Bajaj Finserv, Reliance Capital, Muthoot Finance, IL&FS.

14.16.2 SC Judgement: Yes, Cooperative banks also have SARFAESI powers (2020)

- ⇒ Constitution: 7th Schedule → Union List: (संविधान की 7वीं अनुसूची → संघ सूची)
- Entry 43: Incorporation, regulation and winding up of trading corporations, including banking, insurance and financial corporations, but not including co-operative societies.
 - Entry 45: Banking.
- ⇒ 2007: A court judgments said “Union’s SARFAESI Act doesn’t apply to Cooperative banks. Because cooperative banks are outside the law-making power of the Union as per the Entry 43.”
- ⇒ 2020: Supreme court finally clarified the matter: “Entry 45: banking involves all types of banks- both commercial and cooperative banks. Therefore, when the Union made the SARFAESI Act to empower the banking sector, → same powers are also available to Cooperative banks.” सहकारी बैंक भी इस कानून का इस्तेमाल करके कर्जदार की संपत्ति जप्त कर सकते हैं= एस सुप्रीम कोर्ट ने फेसला किया।

14.16.3 Limitations of SARFAESI Act (मर्यादाएं)

- The DRTs & DRATs are **understaffed**. 1 lakh+ **cases pending** (2016), so, case will go on for years, borrower remained in possession of asset. जजों की कमी के चलते केस निपटान की प्रक्रिया बहुत धीमी है
- This leads to erosion of asset-value (machinery, vehicles) even when DRT allows auction at a later time. गाड़ी/ मशीन की जल्दी नीलामी नहीं होगी तो उसके मूल्य में और गिरावट आती है
- In some businesses, auction or liquidation may not yield the best returns for the banks e.g. hotel resort in remote area, where no other hoteliers are keen to invest. हर प्रकार की संपत्ति की नीलामी में अच्छी बोली लगाने वाली मिल जाए यह जरूरी नहीं। कुछ बार मध्यम मार्गी समाधान बेहतर होता है
- In such cases, if the loans were restructured (i.e. reducing % interest rate, extending tenure, finding new partners), then banks could salvage more value. इसलिए नीलामी की वजह है अगर कुछ समझौता किया जाए तो बेहतर
- But, SARFAESI act **doesn’t facilitate such arbitration** (मध्यस्थता) So, Govt. came up with a new law: IBC

14.17 INSOLVENCY AND BANKRUPTCY (I&B) CODE 2016

शोधन- अक्षमता एवं दिवालियापन संहिता 2016: कर्जदार का लेनदार के साथ समझौता/मांडवली करवाने के लिए

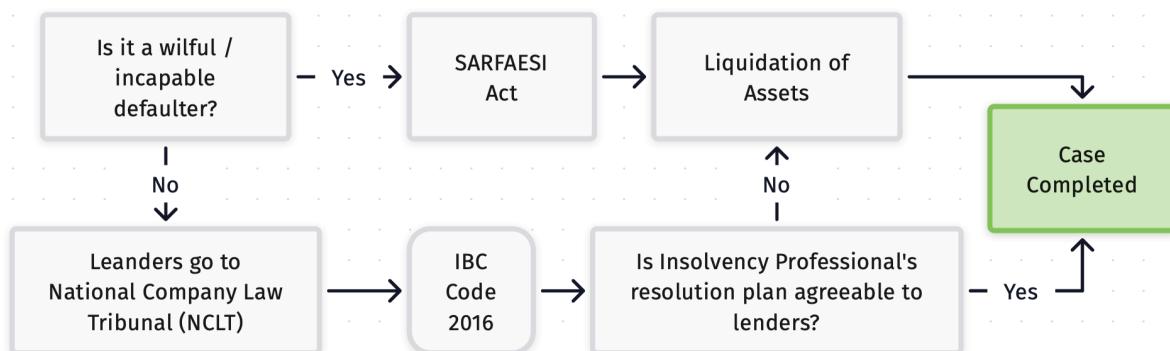
- ⇒ IBC code classifies creditors into two categories
- **A) Operational Creditors (OC)** = Suppliers, contractors, salaried employees etc.
(कार्यसंबंधी लेनदार : जिन्होंने कंपनी को कुछ वस्तु/सेवा मुहैया कराई थी लेकिन उस पर पैसा बकाया है)
 - **B) Financial Creditors (FC)** = banks, NBFC, bond & other debt security holders, + Home buyers. (वित्तीय लेनदार).
- ⇒ IF an Individual or Partnership firm or Company defaults on a **business loan** of ₹ “X” lakh or more, then, above types of creditor(s) approach National Company Law Tribunal (NCLT: राष्ट्रीय कंपनी कानून अधिकारण), to initiate proceedings under the I&B Code.
- NCLT has over 10 benches across India. Also has facility for e-filing of applications.
 - NCLT must accept/reject application within 14 days.



- ⇒ Within that period, an Insolvency Professional (IP: शोधन-अक्षमता संबंधी पेशेवर) will make a resolution plan e.g. ↓ loan interest, extend loan tenure, or IP could even find another investor to finance the pending project etc. (वो पेशेवर लोन-पुनर्गठन की कोशीश करेगा कि जैसे ब्याज दर कमी, समयावधि में बढ़ोतरी, नया भागीदार ढूँढ़ना)
- ⇒ IP will present the plan to Committee of Creditors (CoC: लेनदारों की समिति) made up of the Financial Creditors (FC). In this Committee, FCs' voting power is based on amt of loans given by lender.
- ⇒ If x% of the FCs agree with such resolution plan, then it will be set in motion, otherwise, IP will liquidate the assets to recover the loan. (यदि वित्तीय कर्जदाताओं की समिति बहुमत से पुनर्गठन प्रस्ताव पारित न करे तो नीलामी/ परिसमापन)
- ⇒ Appeal Structure? (इस प्रक्रिया के खिलाफ कर्जदार अपील में किधर जा सकता है?)

 - If Borrower is individual / partnership firm: @DRT → DRAT of SAFAESI Act. OR
 - If Borrower is a Company: @ National Company Law Appellate Tribunal (NCLAT: राष्ट्रीय कंपनी कानून अपीलीय न्यायाधिकरण) of the Companies Act.

14.17.1 📊✍️🤝: ✋ IBC Not applicable on following borrowers





- ⇒ **Wilful Defaulter** (जान-बूझकर बकाएँदार) : A borrower who has the capacity to repay, but he's not repaying the loan. E.g. Vijay Mallya was declared wilful defaulter by SBI (2017). Total number of wilful defaulters 2,017 (Year 2019), 2,208 (Year 2020), 2,494 (2021).
- ⇒ **Incapable Defaulter** (असमर्थ बकाएँदार): A borrower whose loan account is in NPA for more than a year, and he has no capacity to repay even partial loan amount. (जिसकी औकात ही नहीं लोन चुकाने की, उसके साथ क्या समझौता करेगे?)

Above two categories of borrowers are not eligible for I&B resolution process. Their assets will be directly liquidated under SARFAESI Act. (उनकी तो बस संपत्ति जप्त करके नीलामी होगी, इनके साथ कोई समझौता किया नहीं जाएगा)

14.17.2 **Insolvency and Bankruptcy Code Amendment (2018: संहिता संशोधन)**

- ⇒ RERA registered building (home & office) buyers are classified as 'financial creditors'. So, if builder unable to finish project, unable to repay the loans to banks → homebuyers will have voting power in the I&B resolution process. (*More RERA in Pill#6*)
- ⇒ It the voting requirements for faster resolution:

Table 3: these % are for observation. Exact numbers NOT important for exam.

Lenders' Voting requirements (ऋणदाताओं का प्रस्ताव के समर्थन में मतदान)	Before	After
Routine decisions (सामान्य निर्णयों के लिए)	75%	51%
Key decisions like appointing IP, extending deadlines for resolution process, approving the resolution plan (महत्वपूर्ण निर्णय के लिए)	75%	66%
Withdrawing resolution plan from NCLT	NotIMP	90%

14.17.3 **IBC Code (first) Amendment Act (2019: संहिता संशोधन)**

2019-Aug: it was passed by Parliament, with following features

- ⇒ Must finish entire process within 330 days, instead of earlier 180-270 days walli limit.
- ⇒ If too many FCs (e.g. homebuyers): they may appoint a representative (प्रतिनिधि) for to attend the Committee of Creditors on their behalf, for smoother & systematic conduct of meeting.

14.17.4 **IBC Code (second) Amendment Act 2019**

2019-Dec: introduced in parliament, with following features:

- ⇒ IBC complaints can be made only if the loan amount is minimum "x" or minimum lenders are "y". This is to **discourage frivolous complaints** by lenders. (यदि बकाया ऋण की रकम मामूली हो तो शिकायतों को रोकना)
- ⇒ If the government had given any license, permit, registration etc. then it'll not be cancelled while IBC proceedings are going on. (e.g. if a liquor company's license was cancelled while ongoing case → no fresh investor would come → business can NOT be revived!). (जब तक मामला चल रहा है सरकार उस दिवालिया कंपनी के लाइसेंस रद्द नहीं करेगी. वरना कोई नया निवेशक नीलामी में दिलचस्पी नहीं दिखाएगा)
- ⇒ **Ring-fencing from any risk of criminal proceedings:** = After IBC restructuring, if a new partner joins/takes over in the business, he'll be given immunity from criminal proceedings against



offences committed by previous promoters. (पुरानी आपराधिक कार्यवाही के सामने नये निवेशक की किलेबंदी/ दंड से मुक्ति)

Plus, many other technical changes but poor cost-benefit chasing them. It shows that IBC is a 'work in progress'...many operational difficulties= govt has to keep changing the norms/amendments. This is a 'criticism/ shortcoming' of IBC act. हमें समझना यह है कि बार बार इस कानून में सुधार करने की जरूरत..एक तरह से इसकी खामी है।

14.17.5 📊 🎯 : 💼 IBC Pre-Packs (पर्दे के पीछे जल्दी से केस सुलटा लेते हैं!)

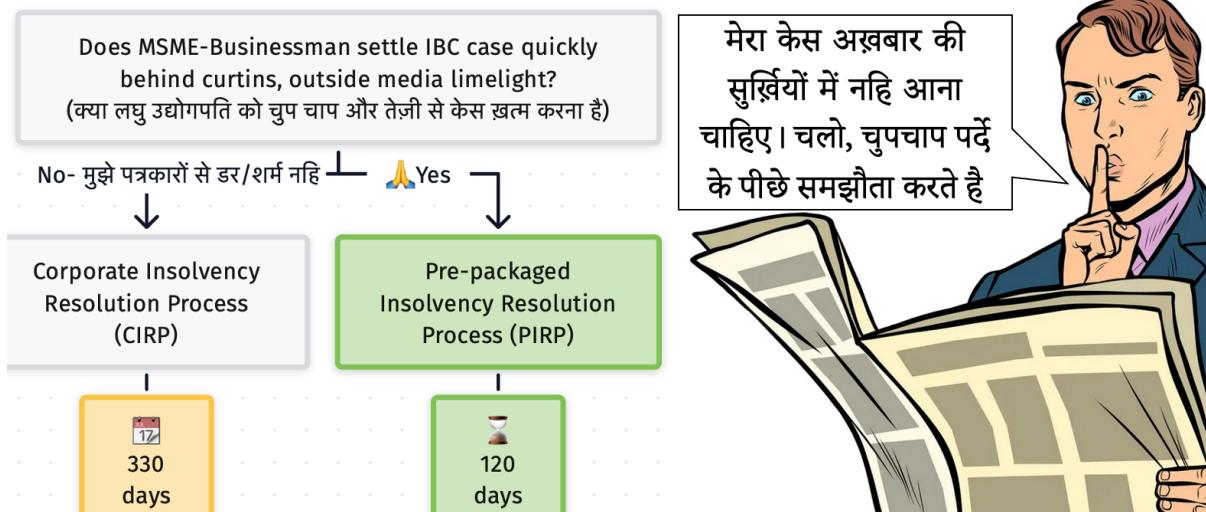


Figure 2: इज्जत की इतनी परवाह थी, तो आप टाइम पे ही लोन चुका देते, भार्झ!

⇒ Pre-Pack System is found in United Kingdom and the United States

⇒ IBC 2021 Ordinance (and later Amendment Bill) aim to enable this in India for MSMEs.

Corporate Insolvency Resolution Process (CIRP)	Pre-packaged Insolvency Resolution Process (PIRP)
<p>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)</p>	<p>⇒ 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 कर ले.)</p> <p>⇒ e.g. Anil proposes, "I'm unable to repay loan but I'm getting new partner/investor Mahindra. Together we'll revive the biz & repay 80% loan."</p> <p>⇒ If this is agreeable to lenders, they'll send letter to NCLT, "We've internally agreed for this plan. Plz give judicial approval to it."</p>



Corporate Insolvency Resolution Process (CIRP)	Pre-packaged Insolvency Resolution Process (PIRP)
If Resolution Plan not aggregable to Lenders then Public Auction / Open Auction Conducted. (सार्वजनिक रूप से नीलामी होती)	Public auction not conducted but Swiss Challenge allowed. What is the meaning of this word? Ans. Explained in Video Lecture.
Time limit: upto 330 days	Time limit = 120 days = faster than CIRP (जल्द निपटान)
More number of days = more negative headlines in newspaper = <input checked="" type="checkbox"/> confidence of customers & investors (e.g. Customer may not buy Videocon refrigerator, if he continuously sees negative news & starts to fear that company will shut down, he'll not get warranty/repair service after 3-5 years)	<p>⇒ 😊 Benefit? a quick (speedy) and discreet (confidential) way of completing the insolvency resolution process. त्वरित और गुप्त रूप से मसले को समेट लिया जाए</p> <p>⇒ 😊 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.</p> <p>⇒ least disruptive to the businesses. Cost-effective. Helps in workers' job preservation (compared to a scenario where company is shut down)</p>
CIRP applicable to all small and big enterprises.	Only available to micro, small and medium enterprises (MSMEs) as per 2021's IBC Ordinance / Amendment Bill. (केवल चुनिंदा श्रेणी के लिए है)

14.17.6 📋✍️🤝: 💳 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

14.17.7 💳 (₹) ATMANIRBHAR → IBC Ordinance/Act 2020 to suspend new cases

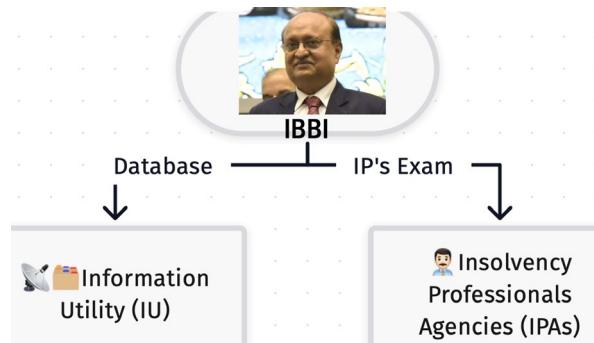
- ⇒ 2020: Govt issues ordinance to amend IBC Code. (अध्यादेश)
- ⇒ Corona = business is down, difficult to work out any resolution plan. So, No fresh case will be registered in IBC code for next “X” months Because Corona (नए केसों के दाखिले को स्थगित किया गया.)
- ⇒ “X” = 24 March 2021 🖐 Exact dates notIMP

IBC Ordinance / Act 2020	Case can start if loan default of minimum __ amount
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 केस दर्ज किए जाएंगे)



14.17.8 📈(✍️💡🤝) Insolvency and Bankruptcy Board of India (IBBI)



- ⇒ भारतीय शोधन-अक्षमता एवं दिवालियापन बोर्ड - वैधानिक संस्था
- ⇒ IBBI is the statutory body that monitors and implements I&B Code 2016.
- ⇒ IBBI's administrative control rests with Ministry of Corporate Affairs (कॉर्पोरेट मामलों का मंत्रालय).
- ⇒ It has 1 Chairman, 1 nominated member from RBI, 8 from Govt's side = total 10 people.
- ⇒ **1st chairman of IBBI:** M.S.Sahoo. Present Chairman: Ravi Mittal (2022). (अध्यक्ष)
- ⇒ Chairman has 5 years / 65 age tenure. Also eligible for reappointment (पुनःनियुक्ति संभव).
- ⇒ IBBI selects **Insolvency Professionals Agencies (IPAs)**. These IPAs enroll and supervise the members practicing as Insolvency Professionals (IPs). Presently, 3 organizations given "IPA" status viz. 1) ICAI (Chartered Accounts) 2) ICSI (Company Secretaries) and 3) Institute of Cost Accountants.

14.17.9 📈✍️ IBBI → Information Utility

IBBI also selects **Information Utility (IU: सूचना उपयोगिता संस्था)** organization to maintain **database of borrowers**. In 2017, NeSL: National E-Governance Services Ltd (owned by consortium of SBI, LIC etc.) was the first to get the IU status from IBBI. It is compulsory for lenders to share data with IU.

😊 IU helps lenders in two ways:

- 1) 😊 by looking @borrowers' credit history, lenders can make informed decisions about whether to give loan or not, and how much interest to charge? कर्जदाता को जानकारी उपलब्ध कराता है कि लोन-अर्जीकर्ता विजय माल्या का इतिहास/वित्तीय चरित्र केसा है, क्या वो लोन देने लायक भरोसेमंद व्यक्ति है की नहि?
- 2) 😊 This database helps establishing documentary proofs during NCLT / DRT / judicial / liquidation proceedings. कानूनी प्रक्रिया में दस्तावेजी सबूत मुहैया/उपलब्ध कराता है

14.17.10 📈✍️💡🤝) Insolvency → Misc. Org: Indian Institute of Corporate Affairs

- IICA an autonomous body under Ministry of Corporate Affairs. (स्वायत्त संस्था)
- It has launched a two-year Graduate Insolvency Programme (GIP). सातक कार्यक्रम शुरू किया
- The student passing this program can register as IP, without the mandatory 10 years' experience.



14.17.11

Project Sashakt by Finance Ministry (2018)



Figure 3: चलो, हम सब सरकारी बैंक IBC मे जाने से पहले, खुद से ही NPA सुलजा ने की कोशिश करते हैं!

2018-Jul: Finmin's Project Sashakt for PSB-NPA on report by Sunil Mehta (PNB CEO).

5 Pronged approach to resolve the NPA problem in a timebound manner:

1. **Small sized bad loans upto ₹50 cr:** SME-resolution template, 90 days. Bank itself should work it out, without approaching NCLT/IP. लघु मात्रा के
2. **Mid-sized bad loans ₹ 50-500cr:** Inter-Creditor Agreement (ICA: अंतर-लेनदार करार), 180 days. Banks themselves should work it out, without approaching NCLT/IP. मध्य मात्रा के
3. **Large size above 500 cr:** (Proposed) independent Asset Management Company (AMC: परिसंपत्ति-प्रबंध कंपनी) to buy off bad loans from banks. → refer bad bank topic in this handout.
4. Online asset trading platform. (जब्त की गयी परिसंपत्तियों की ऑनलाइन नीलामी के लिए वेबसाइट बनें)
5. NCLT/IBC legal-technical reforms.

14.17.12

ATMA-NIRBHAR → Insolvency → Micro,Small,Medium Enterprises

⇒ Ref Pillar#1D: Financial Inclusion → Mudra and other loans schemes

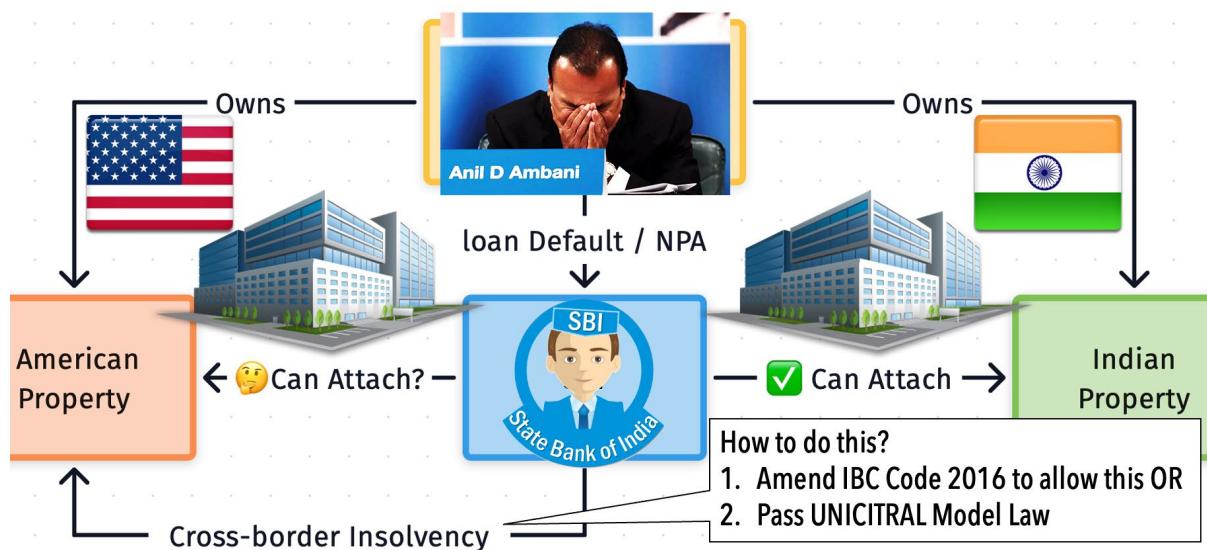
Q What was the purpose of the Inter-Creditor Agreement signed by Indian banks and financial institutions recently? (UPSC-Prelims-2019)

- a) To lessen the Government of India's perennial burden of fiscal deficit and current account deficit
- b) To support the infrastructure projects of Central and State Governments
- c) To act as independent regulator in case of applications for loans of ₹ 50 crore or more
- d) To aim at faster resolution of stressed assets of ₹ 50 cr or more which are under consortium lending.



14.17.13

(拼搏) Cross-border Insolvency (सीमा-पार का दिवालियापन)

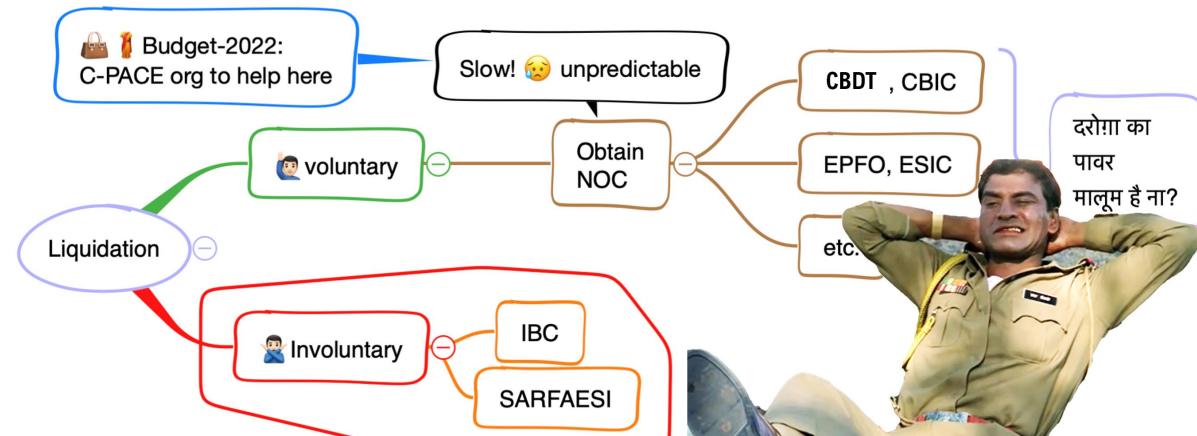


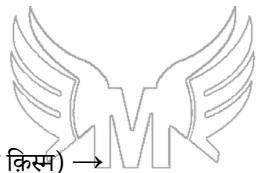
- ⇒ Cross-border insolvency has two facets: [1] foreign creditors should be able to recover money lent to Indian corporates & VICE VERSA. [2] During Indian company's insolvency in India, the Indian lenders should be able to recover money from Indian company's foreign assets easily, AND VICE VERSA.
- ⇒ IBC sections 234 & 235 have provisions for it, BUT they are not notified yet, so they are not enforced.
- ⇒ This leads to uncertainty of outcomes for creditors and debtors.

2018: Corporate Affairs Ministry's Insolvency Law (reforms) Committee **under Injeti Srinivas** recommended

- ⇒ We should create a separate law for Cross-border Insolvency. अलग से कानून बने
- ⇒ More than 40 nations use United Nations Commission on International Trade Law (UNCITRAL)'s Model Law of Cross Border Insolvency (1997) So, we can use it as a template while making our own law → ES22 also recommended the same.
- ⇒ Budget-2022: - We will amend IBC Code to facilitate cross border insolvency resolution.

14.18 (拼搏) VOLUNTARY LIQUIDATION OF COMPANIES





Liquidation is the process of shutting down a company. Two type of liquidations (परिसमापन दो क्रिस्म) →

- ✓ 1) Involuntary Liquidation: Due to loan default → it can be conducted either through I) IBC code or II) SARFAESI Act depending on the case. (अनैच्छिक परिसमापन- जब कंपनी कर्ज में दिवालियापन दिखा दे)
- ✓ 2) Voluntary Liquidation: when the owner has not committed any loan default but wants to shut down the business. Voluntary liquidation can be done through A) sending application to the registrar of companies under Companies Act, 2013 B) sending application under the insolvency bankruptcy code. However Method-A is more popular than B at present. (स्वैच्छिक परिसमापन. कंपनी ने अभी तक कर्ज में दिवालियापन नहीं दिखाया लेकिन उसके धंधे/व्यापार में अच्छा भविष्य नहि दिख रहा इसलिए कंपनी का मालिक खुद की कंपनी स्वयं बंद करना चाहता है.)

14.18.1 (): Challenges in voluntary liquidation (चुनौतियाँ):

Owner of the company needs to get no objection certificate (NoC) from various org such as CBDT & CBIC (More about them in Pillar#2), EPFO & ESIC (More about them in Pillar#1D2)

- But, no well-defined Standard Operating Procedures (SoPs) / timelimits in the Govt organisations for granting NOC. This results in delays / demand for bribes / harassment of the owner. किन्तु एनओसी की समयावधि की स्पष्टता की कमी के चलते उद्योगपति उत्पीड़न/रिश्वतखोरी का शिकार बनाता है।
- ES22 suggested simplify the procedure, give clarity in rules, setup an online portal that combines all the steps at one place.
- Budget-2022: we'll setup a Centre for Processing Accelerated Corporate Exit (C-PACE)- to faster voluntary liquidation / winding-up of the companies. Presently, this process takes nearly 2 years → we will reduce it to just six months.

(वैचिक परिसमापन से पहले कंपनी के मालिक ने आयकर, ईपीएफओ जैसी विभिन्न सरकारी संस्थाओं से अनापत्ति प्रमाण पत्र-एनओसी हासिल करना होता है, इसलिए आर्थिक सर्वेक्षण ने इन नियम-कानूनों में स्पष्टता, एक ऑनलाइन पोर्टल की ज़रूरत जतायी थी। नए बजट में इस वास्ते 'सी-पेस' नामक एक नई संस्था बनाने की घोषणा की गई।)

14.19 (ECONOMIC SURVEY ON IBC/NPA (आर्थिक सर्वेक्षण)

14.19.1 Economic Survey 2018-19 on IBC/NPA (released in 2019-July)

- ⇒ With I&B Code and other measures by RBI=NPA % has अनर्जक परिसंपत्तियों के निपटान में मदद मिली
- ⇒ I&B code's time-bound mechanisms have prompted 'behavioural changes' in corporate borrowers. Now they fear losing control of the company. This has improved corporate governance, cash and financial discipline. (कॉर्पोरेट देनदार के व्यवहार में परिवर्तन, कंपनी की मालिक की मेरे हाथ से चली जाएगी इस डर में नियमित कर्जा वापस कर रहे हैं)
- ⇒ By 31/3/2018: ₹ 50,000 crores worth NPAs have been upgraded to std assets (meaning the (arrogant) borrowers have been forced to resume paying principal & interest regularly.)
- ⇒ Due to IBC Code, India's rank has improved in World Bank's Ease of Doing Biz report. (More in Pillar#4). However, we also need to begin more reforms:
 - ✓ We need to increase the number of NCLT benches, number of IP Professionals, use ICT technology for faster case proceedings. (न्यायपीठ, मानव बल और टेक्नोलॉजी के उपयोग में बढ़ोतरी की ज़रूरत)



- ✓ We should enact separate law on **cross-border insolvency**. (सीमा-पार दिवालियापन के लिए अलग से कानून बनें)
- ✓ **Group Insolvency:** Big Industrialists usually operate through groups of companies, each having a separate identity e.g. Tata Sons ltd → 1) TCS 2) Tata Motors 3) Tata Steel etc. If one of these company become insolvent, it creates negative ripples on entire group's financial health. Certain legal-technical reforms are necessary to address such group-insolvency. (समूह दिवालियापन के मामलों का निपटान करने के लिए कानून में कुछ तकनीकी सुधार किए जाएं)
- ✓ Certain legal-technical reforms to address insolvency cases involving individual proprietors and partnership firms. (व्यक्तिगत मालिक और साझेदारी फर्म के लिए कानून में कुछ सुधार किए जाएं; *They're legally different entities than 'Companies under companies Act. More in 1C: SEBI handout'*)

14.19.2 (₹ ₹ ₹) □ □ Economic Survey 2020 on IBC/NPA (released in 2020-Jan-31st)

- ⇒ NPA had reached its peak in 2018 but now it appears to be declining because of various measures taken by the Government and RBI. (धीरे-धीरे अनर्जक परिसंपत्तियों की समस्या कम हो रही है)
- ⇒ 😊 Appreciated that IBC proceedings take on average 340 days to complete, unlike SARFAESI legal proceedings which take 4.3 years. केस का निपटारा ज्यादा जल्दी से हो पाता है
- ⇒ 😊 Appreciated that IBC helps recovering more amount of loan than SARFAESI in 2018-19

Approx. Amount recovered in crores	2017-18	2018-19
SARFAESI and DRT	33,000	52,000
IBC	5000	71,000

(सरफाएसी कानून के तुलना/मुकाबले आईबीसी कानून में ज्यादा मोठी मात्रा में बकाया कर्ज/ऋण की वसूली हो पाती है ऐसी प्रशंसा)

14.20 (₹ ₹ ₹) □ □ : □ □ 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 decrease ↓
- ⇒ such temporary relief from the strict rules is called "**Regulatory Forbearance**". (विनियामकी क्षमा)
- ⇒ 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)



14.20.1 🚧👤⌚💻 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:

- ⇒ 😢 NPAAs almost 2x doubled when compared to the pre-forbearance levels. (अनर्जक परिसंपत्ति दुगानी)
- ⇒ 😢 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)

14.20.2 🚧👤⌚💻 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. (e.g. more funding to hire more judges & clerks, more computers, more legal powers etc). (राष्ट्रीय कंपनी कानून अधिकरण का अधिक सशक्तिकरण हो)

14.21 🔍⌚📝💻 BORROWERS' DATABASE & SURVEILLANCE (उधारकर्ताओं का डेटाबेज व् निगरानी)

⌚💻 ES20: AI-ML, PSBN Network

RBI: PCR Registry

(Global) LEI Number



14.21.1 ES20: Use AI-ML Technology

In PSBs, most of the loan-information processing (=Credit analytics) happens manually (ऋण विश्लेषण हस्तचालित रूप से करते हैं). This causes inefficiency, frauds and loan default. Tools such as Artificial Intelligence (AI), Machine Learning (ML) (कृतिम बुद्धिमत्ता/आसूचना और मशीन प्रशिक्षण) can help them in following ways:

- ⇒ Willful defaulters usually create fictitious companies to transfer their assets / shares / money just before they stop paying loan installments. (जान-बूझकर लोन न चुकाने वाले, फर्जी कम्पनी बनाकर लोन के पैसों का गबन करते हैं, उसपर निगरानी संभव)
- ⇒ Artificial Intelligence (AI) can alert the authorities through real time surveillance & data analytics of the borrower's NEFT/RTGS/DEMAT account transaction. (अलग-अलग खातों पर निगरानी रख सकता)
- ⇒ **Geo-tagging of assets** (संपत्ति की जियो-टैगिंग) i.e. adding longitude and latitude data with the photos & videos of the Factory building, machinery, vehicles, aeroplanes, helicopter etc. Then,
 - Scamster can't pledge fictitious assets as collaterals for loans (फर्जी संपत्ति जिसका अस्तित्व ही नहीं)
 - Scamster can't pledge the same asset as collateral to multiple banks/NBFCs. (एक ही संपत्ति को एकाधिक लोगों के पास गिरती रखकर लोन में धांधली करना)
- ⇒ GPS chips may be embedded in factory-machines and vehicle to track their real time location →
 - If scamsters move the machinery out of the factory, the banker will be alerted.
 - Bankers can remotely disable machines/vehicles, if loans are unpaid.
- ⇒ Blockchain Technology can be used for storing and verifying the authenticity of the data.
- ⇒ AI can monitor Social media activities e.g. Borrower is not paying the loan and yet sharing the Switzerland vacation photos on Instagram = He is a wilful defaulter → Attach his assets under the SARFAESI Act. (कर्जदार के सोशल मीडिया गतिविधियों पर निगरानी रखी जाए)

Caution? borrower's privacy and dignity should also be respected while doing such computerized surveillance. (उक्त कदम उठाते वक्त कर्जदार की निजता का भी सम्मान रखना चाहिए)



Figure 4: Instagram फोटो में भले हम मोरेशीयशा में ऐस्याशी करे, बैंक को बोलेंगे लोन चुकाने का पैसा नहीं है।

14.21.2 ES20: setup PSBN Network

- ⇒ Government should create a new organization named PSBN (Public Sector Bank Network), which will act as a Financial Technology/Fintech Hub (FinTech: वित्तीय प्रौद्योगिकी के लिए एक नई संस्था बनाई जाए).
- ⇒ Whenever a borrower applies for a loan to a public sector bank → Details will be sent to PSBN. → PSBN will verify the creditworthiness (वित्तीय साख) and risk profile (दिवालियेपन का जोखिम) of the applicant through:
 - Artificial Intelligence (AI), machine learning (ML) and Big Data Analytics- as explained in the previous section



- E-KYC (Know Your Customer): Aadhar verification → cross checking his Aadhar number against Financial data from Corporate Affairs Ministry, SEBI/share market, Income Tax Department, GST, etc. (आधार कार्ड के जरिए उस व्यक्ति के शेयर बाजार, आयकर, जीएसटी इत्यादि का वित्तीय इतिहास जांचा जाएगा)

⌚ Benefit? fraud prevention, chances NPAs, quicker decision making, process loan applications faster, cost saving for individual banks as all of them can use a single hub instead of spending on separate servers/tech. (वित्तीय घोटाले का जोखिम कम होगा, लोन अर्जीओं का जल्दी से निपटान संभव होगा)

14.21.3 - RBI → Public Credit Registry (ऋण की सार्वजनिक रजिस्ट्री)

Presently, multiple organizations keep borrowers' database / credit history viz.

- 1) Under the I&B code, Insolvency and bankruptcy board of India (IBBI) has authorized the National e-governance services Ltd (NeSL) to act as an Information Utility (IU).
- 2) Under the Credit Information Companies Regulation Act (CICRA 2005), RBI has given license to CRISIL (oldest CIC-1987), CARE, FITCH India, ICRA, Brickwork Ratings, SMERA etc. as Credit Information Company [ऋण सूचना कंपनी].
- 3) RBI has its own "Central Repository of Information on Large Credits (CRILC)" for Loans above Rs 5 cr. Banks & NBFCs have to submit weekly updates in this portal.

⌚ But, not all of these databases are under the direct control of RBI. Each has their own methodology for data collection & tabulation. Not all of these databases are covering all individual & corporate borrowers.



Figure 5: बिग बॉस की तरह सब पे नजर रखूँगा। चुन चुन के डेटा निकालूँगा।

So, RBI's Yeshwant M. Deosthalee Committee (2017-18) recommended setting up a Digital Public Credit Registry (PCR) with following features:

- 1) PCR will be setup under RBI, using data from SEBI, Corporate Affairs Ministry, GST authorities, IBBI, Banks, NBFCs etc. अलग-अलग संस्थाओं से को डाटा हासिल करेगा
- 2) PCR will help lenders to get complete 360-degree profile of borrower on real time basis.
- 3) PCR will help RBI in early detection of systematic stress, checking the efficacy of monetary policy & other big data analytics. मौद्रिक नीति की अधिकारिता को जानने में भी मदद करेगा

[Asked in UPSC-CDS-2016-II]	[Asked in UPSC-CDS-2018-1]
Which one of the following is/are credit rating agency/agencies in India? (a) CRISIL (b) CARE (c) ICRA (d) All of the above	The Reserve Bank of India has recently constituted a high-level task force on Public Credit Registry (PCR), headed by (a) Sekar Karnam (b) Vishakha Mulye (c) Sriram Kalyanaraman (d) Y. M. Deosthalee

FAQ: "WHY not merge PSBN Network with RBI's PCR registry? Ans=Send suggestion to RBI + CEA that they shd not do duplication of work."



14.21.4 📈💡💻 - 🌎 Legal Entity Identifier (LEI) Number: (कानूनी इकाई पहचान संख्यांक)



Figure 6: विदेश मे नवी कंपनी बनाकर विदेशी की बैंकों को चुना लगाएंगे तो क्या उखाड़ लोगे?

- **Objective?** Even if a company is blacklisted by Indian banks, it could apply for loans overseas, and those overseas bankers may not be aware of company's history. So, there should be a global "Aadhar card" number for companies, and they must be forced to quote that number during every financial transaction.
- After USA's Sub-Prime Crisis and Global Financial Crisis (GFC), **the G20 and its Financial Stability Board (FSB: वित्तीय स्थिरता बोर्ड)** came up this LEI concept- a 20-digit alphanumeric code.
- LEI's Global Boss: Global Legal Entity Identifier Foundation (GLEIF), Frankfurt, Germany. LEI's Indian agent: Clearing Corporation of India.
- From 1/10/2022 RBI has ordered all companies undertaking crossborder transactions of Rs 50 crore or more to quote this number in financial transaction.
- RBI has power to issue such directives under: Payment and Settlement Systems Act, 2007 & Banking Regulation Act 1949. (वित्तीय लेन देन के दौरान कंपनी ने अनिवार्य रूप से ये नंबर लिखना होगा)

14.22 🛑 [有] [錢] [globus] - 🚫 FUGITIVE ECONOMIC OFFENDERS ACT, 2018



Figure 7: देश छोड़ के भाग जाऊंगा, 9 लाख का लेधर जेकेट पहेनके लंडन की गलियों मे घूमेंगा, तो क्या उखाड़ लोगे मेरा?

भगोड़ा आर्थिक अपराधी अधिनियम: This act targets economic offenders accused of cheque dishonor, loan / investment / chit-fund scam, money laundering etc. worth ₹ 100 crores /> & left India to avoid facing prosecution / arrest.

- Special courts under the PMLA (Prevention of Money-laundering Act, 2002) will order the villain to appear within 6 weeks, if not then he is declared "Fugitive Economic Offender"⇒ His Indian & Overseas & Benami properties will be attached (भगोड़े आर्थिक अपराधी की भारतीय तथा विदेशी संपत्तियों को जप्त किया जाएगा).
- Once property attached- the Union Govt will oversee its administration / liquidation (नीलामी/परिसमापन).
- No ordinary civil court / tribunal can give stay order. Villain can make appeal only in High Court and Supreme Court. (भगोड़ा आर्थिक अपराधी केवल उच्च न्यायालय और सर्वोच्च न्यायालय में जाकर मदद मांग सकता है).

If Borrowers don't repay, SARFAESI auctions give little recovery, CRR-SLR insufficient to repay deposits then bank collapse imminent. Then, how to protect the depositors?

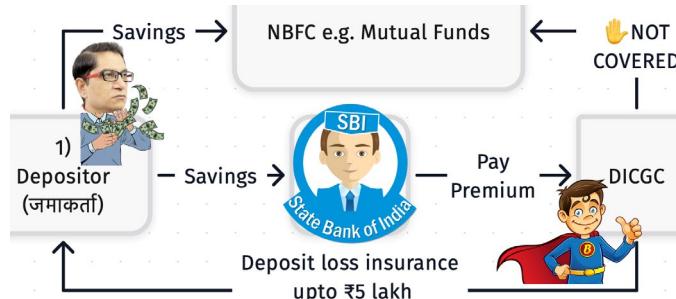
Ans. ⇒



14.23 🏦 DICGC ACT: OBJECTIVE & LIMITATIONS



Figure 8: बैंक तो घोटाले में बंध हो गया। कोन करेगा हमारा सैसा चापस?



- ⇒ 1961: Deposit Insurance and Credit Guarantee Corporation Act - mandates that all types of banks must buy insurance on their deposit accounts from DICGC. Banks have to pay premium for this insurance. (निक्षेप बीमा और प्रत्यय गारंटी निगम: प्रत्येक बैंक ने अनिवार्य रूप से अपनी जमाकर्ताओं की डिपोजिट को बीमे द्वारा सुरक्षित करना होगा)
- ⇒ DICGC is 100% owned by RBI. RBI Dy. Governor acts as chairman of DICGC. HQ: Mumbai.
- ⇒ When a bank shuts down, DICGC will pay upto ₹ 1 lakh insurance to every deposit holder for his principal and interest. (यदि बैंक बंद हो गया तो जमाकर्ता के नुकसान की भरपाई यहां से होगी)
- ⇒ 📁 Budget-2020: announced ↑ the insurance coverage to ₹ 5 lakhs (नुकसान भरपाई की राशि में बढ़ोतरी)
- ⇒ 2021: Government introduces Deposit Insurance & Credit Guarantee Corporation (Amendment) Bill →

BEFORE (सुधार/संशोधन विधेयक से पहले)	AFTER REFORM (सुधार पश्चात)
Upto ₹1 lakh deposit insured	Protection increased upto Rs 5 lakh
When will depositors get back above amount? No clear timelines. Often they had to wait for many years (पैसा/मुआवजा कब आएगा उसकी समय सीमा तय नहीं थी)	When RBI imposes (withdrawal) moratorium on a weak bank → within 90 days of that event, DICGC will pay depositors. (रिझर्व बैंक जब कमज़ोर बैंक में से ग्राहकों के पैसे उठाने पर रोक लगाए उसके 90 दिनों के भीतर ही मुआवजा मिल जाएगा)
Banks had to pay premium/fees to DICGC at the rate of ₹10 paise to insure every ₹100 worth of deposits. (बैंकों ने हर ₹100 के डिपॉजिट का बीमे के लिए 10 पैसे की बीमा किस्त/फीस देनी होती थी)	DICGC can ↑ increase the premium fees to ₹12-₹15 paise (i.e. 20%-50% more than the original fees) ⚡ Exact figures NOTIMP. (बीमा किस्त में बढ़ोतरी की गई)
All types of Banks covered But NBFCs not covered.	Same as left cell. (सभी प्रकार के बैंक के ग्राहकों को सुरक्षित करता है, किंतु गैर बैंक वित्तीय संस्थान के ग्राहकों को सुरक्षित नहीं करता.)

- ⇒ Previously, DICGC provided guarantee cover to bank on the loans granted to Priority Sector Borrowers.



- ⇒ E.g. if Micro enterprise owner did not repay PSL-loans → DICGC would cover losses of the banks, hence its name contains the word ‘*Credit Guarantee Corporation*’.
- ⇒ But, with formation of SIDBI (1990), National Credit Guarantee Trustee Company Ltd. [NCGTC, 2016] etc, this credit guarantee work divided among many organizations (REF: Pillar#1D), but we need not PHD over it. # थोड़ा-पढ़ो-आगे-बढ़ो

14.23.1 - Limitation of DICGC (मर्यादाएँ)

- ⇒ If a customer deposited more than ₹5 lakh in a single commercial / cooperative bank, then he gets only ₹5 lakh from DICGC. And for the remaining amount he must wait till RBI / Cooperative Registrar liquidates the bank. (Ref 1B1: Banking Regulation Ordinance 2020)
- ⇒ DICGC doesn't cover PACS and NBFCs. Those victims may have to approach courts.
- ⇒ 2002: UTI (a Govt owned mutual fund company) made big losses. DICGC not liable to protect UTI-clients because it is NOT A BANK. So, Govt had to pay ₹14,500 crores to customers of UTI-Mutual Fund.
- ⇒ So, Financial Sector Legislative Reform Commission (FSLRC: वित्तीय क्षेत्र विधायी सुधार आयोग) under Justice B.N. Srikrishna (2011-13) recommended a new org called **Resolution Corporation** (RC) via -Financial Resolution and Deposit Insurance (FRDI) Bill/law. (DIGCG को बंध कर एक नयी संस्था बनाने का सूजाव)
- ⇒ Govt had proposed the FRDI bill in 2017, but too much opposition in media & public, so withdrew it in 2018. It's a defunct topic. We'll not WASTE TIME learning its salient features.

थोड़ा-पढ़ो-आगे-बढ़ो

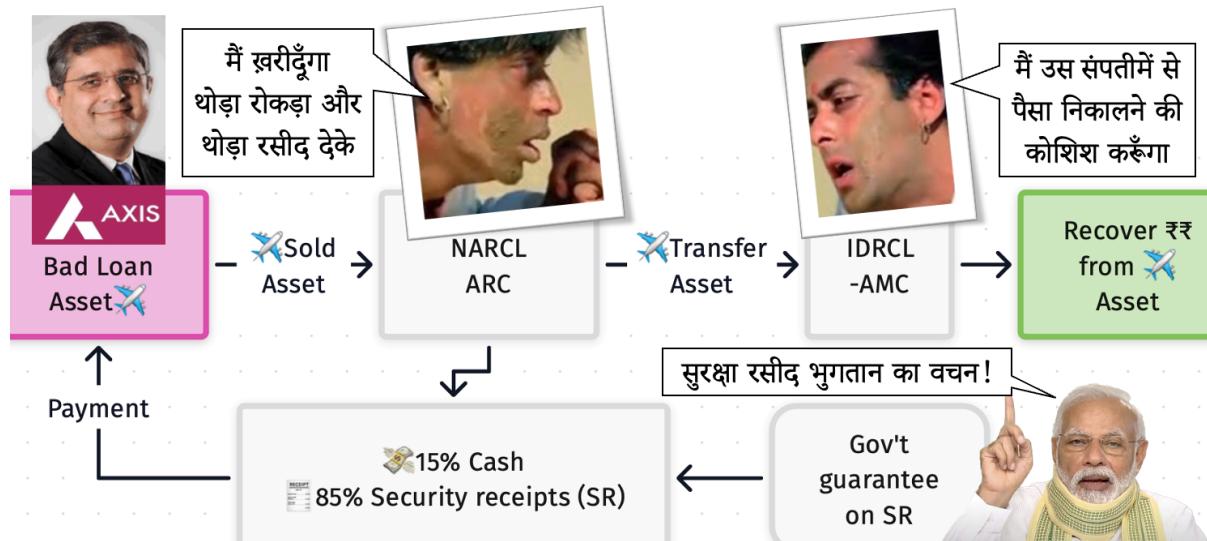
14.24 BAD BANK (NARCL, IDRCL-2021): INTRO

- ⇒ (DATA) ES2016-17 had found that total ₹ 2 lakh crore of bank money is stuck in large sized NPA-accounts. Each of this loan account having ₹500cr or more. (बैंकों का करीब 2,00,000 करोड़ रुपया ऐसे लोन खातों में अटका है जिनमें एक-एक की मात्रा 500 करोड़ या उससे अधिक है)
- ⇒ (Origin) Sometimes, the resolution of large sized NPA accounts is difficult under IBC Code (e.g. Vijay Mallya being a wilful defaulter so he is not eligible for IBC).
- ⇒ Under SARFAESI act such assets could be auctioned off but sometimes bidders and ARCs (e.g Anil Ambani's ARC) do not have enough financial capacity to purchase such big assets (worth ₹500-500 crores!). (इस प्रकार के बड़े लोन खातों का समाधान आईबीसी/सरफ़ाएसी क्रानून में करते वक्त समस्याएं आ रही हैं)
- ⇒ Therefore, Economic Survey 2016-17 had suggested to setup a **BAD BANK** named “Public Sector Asset Rehabilitation Agency” (PARA). To buy bad loans from, try to get the maximum value from loan-restructuring / liquidation-auction and absorb the losses. (इसलिए आर्थिक सर्वेक्षण ने सुझाव दिया एक बेड-बैंक बनाया जाए जो कि बैंकों के खराब लोन पेपर/ अनर्जक परिसंपत्तियों को खरीदेगा.)
- ⇒ Then, Budget-2021 announced set up an Asset Reconstruction Company (ARC) and Asset Management Company (AMC) to take over the bad loans from banks. (बजट 2021 ने अमल किया).



- ⇒ 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। बैंकवाले खुद से शेयर पूँजी देकर इसको बनाएंगे)
- ⇒ Examples of such bad banks in other countries- Danaharta in Malaysia, UKAR in UK.

14.24.1 Bad Bank Structure



	NARCL-ARC (founded in 2021)	IDRCL-AMC (founded in 2021)
Type	Asset Reconstruction Company (ARC) परिसंपत्ति पुनर्गठन कंपनी	Asset Management Company (AMC) परिसंपत्ति प्रबंधन कंपनी
Full Form	National Asset Reconstruction Company Limited (NARCL)	India Debt Resolution Company Ltd. (IDRCL) =
Type	Registered company under companies act. (So not a statutory/constitutional body) Given license by RBI for ARC.	Registered company under companies Act. (कंपनी कानून में पंजीकृत कंपनियां हैं, ये कोई वैधानिक या संवैधानिक संस्थाएं नहीं हैं) ^^
Function	To purchase bad loan assets from banks. (यह बैंकों से अनर्जक परिस्पत्तियां खरीदेगा)	To manage/value addition/ auction those bad loan assets which were purchased by NARCL. (e.g. factory, airplanes, bulldozer). (खरीदी हुई संपत्तियों का प्रबंधन, मूल्य वर्धन, नीलामी करेगा)
Ownership/ Shareholding	⇒ 51% PSBs like SBI, BoB, PNB** ⇒ 49% by Pvt banks and NBFCs#	⇒ 49% (Public Sector Banks, NBFCs) ⇒ 51% (private sector bank, NBFCs).#
Tenure	This organization will exist for five years.	Same as left cell

** NARCL Ownership 51% shareholding/ownership among 8 public sector banks (PSB) viz. SBI (13.17%), Punjab National Bank (12%), Bank of Baroda, Canara Bank, Bank of Maharashtra, Union



Bank of India, Indian Bank, Bank of India. (Note: Future Some of these PSBs may get merged so the % may change.)

🚩 🌐 FAQs:

- ⇒ "what are their names? Ans. Not explicitly mentioned in Pressnote. # ⏳ थोड़ा-पढ़ो-आगे-बढ़ो
- ⇒ ^AMC got license from RBI or SEBI? Ans. Same as above
- ⇒ Bad Bank means "ONLY NARCL" or (NARCL+IDRCL) Ans. Same as above. But from how
█ █ ES17 had given the vision of Bad bank, it should be the combined work of
(NARCL+IDRCL)= Bad Bank.

14.24.2 🚧 (█) Bad Bank: 🛡 functioning

बैंड बैंक नीलामी में बैंकों की अनर्जक परिसंपत्तियां खारीदेगा, और वह भुगतान की रकम: 15%मुद्रा और 85% सुरक्षा रसीदों के रूप में बेंकर को चुकाएगा। ऐसी Rs.30,600 cr करोड़ की सुरक्षा रसीदों के पीछे भारत सरकार ने अपनी संप्रभु गारंटी अगले पाँच वर्षों के लिए दी है।

- ⇒ Suppose Axis Bank has a bad loan account worth ₹200. Axis may conduct an (Swiss Challenge) Auction. Bad Bank offers ₹100, Anil Ambani's ARC offers ₹95, Mahindra offers ₹92.
- ⇒ Then Axis will sell to Bad Bank for ₹100 (because its the highest bidder)
- ⇒ BadBank will pay Axis ₹100= Partially in currency (₹15) + partially in Security receipts (SR worth ₹85).
- ⇒ Security receipts (SR) is a piece of paper issued by BadBank promising to pay the remaining dues/amount (₹85) to banker in 5 years.
- ⇒ Security receipts (SR) is a legally valid instrument under the Sarfaesi Act.
- ⇒ If the Axis banker very urgently requiring money then he may resell the SR at discount (e.g. at ₹80) to another Bank, Insurance/Pension Company, AIFI (e.g. SIDBI, NABARD) etc.
- ⇒ Then those new SR-holders will receive the money (₹85) from Bad Bank in future.
- ⇒ IF Bad Bank faces problems in honoring the SR payment deadlines→ then, Union Govt has given sovereign guarantee of Rs.30,600 cr to Security Receipts (SR). This sovereign guarantee valid for 5 years.

14.24.3 🚧 (█) Bad Bank: 😊 😟 Benefits & Challenges ?

- ⇒ 😊 Faster resolution of large sized NPA. (तेज निपटान)
- ⇒ 😊 Individual Bank's Bad loan size ↓ = BASEL-III Capital requirement ↓ (बैंकों की अनर्जक परिसंपत्तियां कम होगी तो उन्होंने बासेल मानदंड के लिए कम पूँजी प्रावधान करना होगा)
- ⇒ Further benefits = RE-Paste the points given in Intro & Conclusion. (परिचय और निष्कर्ष में जो मुददे लिखे हैं उसकी वापस पीपूँडी बजाओ)
- ⇒ 😟 Ultimately the losses caused by Vijay Mallyas are paid by depositors/investors (of the Banks/NBFCs who own NARCL & IDRCL) and Taxpayers (using whose money Govt's is giving sovereign guarantee to Security receipts). (अंत में तो परोक्ष रूप से इस नुकसान की भरपाई जमाकर्ता निवेशक और करदाताओं द्वारा ही हो रही है)



14.24.4 🚨 (₹) Bad Bank: ↘ Conclusion (निष्कर्ष)

NARCL aims to resolve stressed loan accounts above ₹500 crore each. Total about ₹ 2 lakh crore stuck in such loan accounts. Thus, individual banks will be relieved from not having to waste time haggling with NPA-borrower. Bankers will be able to focus energy on business expansion, financial inclusion. Thus, Govt taken an appreciable step, it will help in a long way in re-invigorating Indian banking sector. (दो लाख करोड़ की अनर्जक-परिसंपत्तियों का निपटान होगा। बैंकर अपनी समय और ऊर्जा पुराने बकायदारों से लोन पुनर्गठन की माथापच्ची करने की जगह, अपने बैंक के व्यापार विस्तारण तथा वित्तीय समावेशन में लगा पाएगा। सरकार ने प्रशंसनीय कदम उठाया है, जिससे भारतीय बैंकिंग क्षेत्र में नवऊर्जा का संचार होगा.)

14.25 🐾 💡 🐾 ⚙️ 🐾 PROMPT CORRECTIVE ACTION (PCA) FRAMEWORK

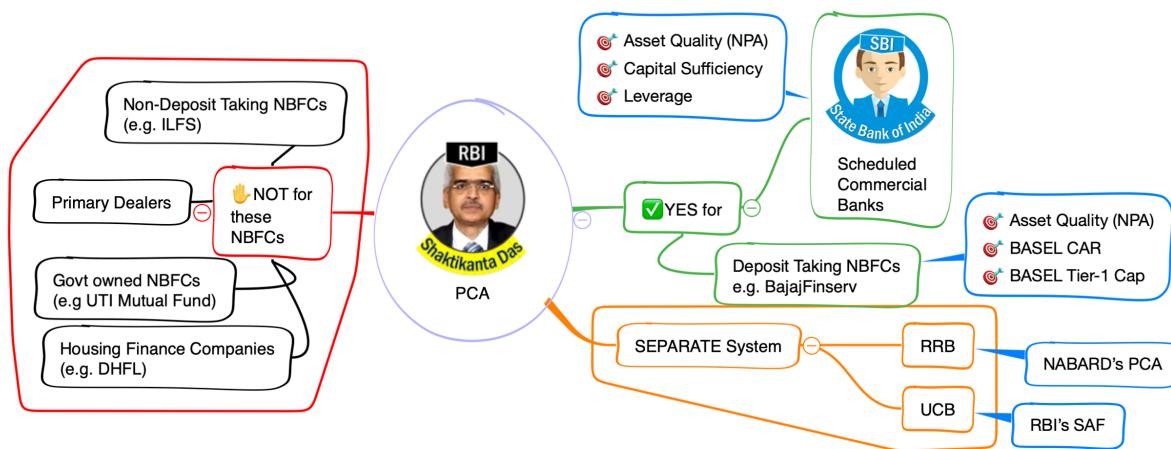


Figure 9: need not loose too much sleep, unless preparing for RBI officers' exam

🚩 🧐 FAQ: What about “XYZ” type of Bank/NBFC which is not mentioned in above Chart? Ans. Then “XYZ” type of Bank/NBFC is not subjected to above PCA norms at present. जिनका नाम यहाँ नहीं लिखा पर ये लागू नहीं.

🚩 🧐 FAQ: Does it mean non-scheduled banks are not supervised by RBI!!? Ans. They are supervised by RBI under Banking Regulation Act.

- ⇒ 2002: RBI Governor Bimal Jalan designed it for all Scheduled Commercial Banks, except RRBs. (त्वरित सुधारात्मक कार्रवाई रूपरेखा)
- ⇒ 2018: NABARD announced separate ‘Prompt Corrective Action (PCA) Framework’ framework for Regional Rural Banks (RRBs क्षेत्रीय ग्रामीण बैंकों के लिए नाबाड़ की अलग से नियमावली है).

BEFORE-2022: RBI monitored bankers on following indicators	From 2022: RBI will monitor this under PCB framework
⌚ Capital Sufficiency (BASEL-III), पर्याप्त पूँजी है की नहीं?	SAME as left cell
⌚ Asset Quality (NPA or bad loans), परीसम्पत्तियों की गुणवत्ता अच्छी है की बुरी?	same as left cell



⌚ Profitability (Return on Assets: RoA), पर्याप्त मुनाफा हो रहा है की नहीं?	Replaced with "Leverage". What it means, how it works. how is it different than past? = NOTIMP. But sufficient to know that “Bigger/Higher” leverage is NOT a good sign.
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Then RBI classifies the banks into **Risk threshold #1, #2, #3**. Higher the number, higher the risk.

Then, accordingly, RBI will take corrective actions such as: (जोखिम के हिसाब से बैंकों को वर्गीकृत करता है)

- ⇒ RBI giving strict warning, conducting deeper audit & supervision. (ज्यादा कड़ी निगरानी)
- ⇒ Restricting bank's directors' salaries and dividend distribution to its investors. (वेतन, लाभांश वितरण पर रोक)
- ⇒ Restricting bank's branch expansion & lending operations. (शाखा विस्तार और ऋण देने पर रोक लगाना)
- ⇒ Forcing merger / shutdown (under Banking regulation Act 1949). (कमजोर बैंक को बंध करना)
- ⇒ If a PCA-listed bank wants to get ‘whitelisted’, it'll have to ⬇️ its NPA, obtain additional capital, ⬆️ its profitability. (इस सूची से बाहर निकलना है तो अनर्जक संपत्तियों को कम करना होगा, ज्यादा पूँजी बटोरनी होगी, ज्यादा मुनाफा लाना होगा)
- ⇒ PCA is “Monetary Policy → Qualitative / Selective Tool → Direct Action”. (मौद्रिक नीति → गुणात्मक → सीधी कार्यवाही का यह एक साधन है)
- ⇒ As of 2020-Feb: 4 PSBs in this list viz. Indian Overseas Bank (IOB), Central Bank of India, UCO Bank and United Bank of India. 👉 Dynamically changing info so we need not remember / loose sleep for MCQs.

14.25.1 ⌚ 📝 🏦 👉 💬 ✋ RBI's Prompt Corrective Action (PCA) for NBFCs

(गैर बैंक वित्तीय कंपनीयों के लीए त्वरित सुधारात्मक कार्रवाई)

- ⇒ From 1/10/2022- RBI to monitor NBFCs using 3 indicators/parameters: - 1) Non-Performing Assets, - 2) BASEL-capital adequacy ratio - 3) BASEL- Tier 1 capital. (What do they mean? NOTIMP | इन पैमानों पर निगरानी)
- ⇒ Accordingly, RBI to classify the NBFCs in risk category#1-2-3. (जोखिम के हिसाब से वर्गीकरण)
- ⇒ Higher risk → higher restrictions e.g. 👉 1) restriction on branch expansion 👉 2) halt on dividend distribution, 👉 3) promoters will be asked to infuse capital in NBFC etc. etc (गैर बैंक वित्तीय कंपनी में जितना ज्यादा जोखिम → तो उतनी ज्यादा पाबंदिया रिझर्व बैंक उसपे डालेगी)
- ⇒ Above PCA-norms applicable on ✓ deposit-taking-NBFCs (e.g BajajFinServ).
- ⇒ But 👉 Not Applicable on govt owned NBFCs (e.g UTI Mutual Fund), primary dealers, housing finance companies (HFC), non-deposit taking NBFCs (e.g. ILFS).

14.25.2 ⌚ 📝 🏦 👉 💬 ✋ Supervisory Action Framework for Urban Co-operative Banks

- ⇒ 2012: RBI launched Supervisory Action Framework (SAF) for Urban Co-operative Banks (UCBs). (शहरी सहकारी बैंकों पर निरीक्षणात्मक कार्रवाई रूपरेखा) It is similar to PCA framework on commercial banks.



⇒ **▲** Tightened it further in 2014, → tightened further in 2020 (इन नियमों को और सख्त किया गया)

► **FAQ:** How is SAF similar or different than PCA framework meant for commercial bank? Ans.

Not important. Sufficient to know word association ke PCA=commercial banks,

SAF=UCB.# **⌚** थोड़ा-पढ़ो-आगे-बढ़ो

14.25.3 **⌚ ATMANIRBHAR** → **₹ 📈** RBI orders bank to halt Dividend Distribution

- ⇒ Scheduled commercial banks and cooperative banks shall not make any further dividend payouts from profits made during FY 2020-21 until further instructions. (मुनाफे में से लाभांश वितरण पर रोक) → 2021: RBI relaxes these norms to allow dividend release. (हालांकि अब रिजर्व बैंक ने इस पाबंदी पर छूट दी है)
- ⇒ This will help the banks to conserve funds and absorb losses in an environment of heightened uncertainty in CORONA. (धन का संरक्षण और नुकसान को अवशोषित/सोखना)
- ⇒ Separately, FinMin has ordered PSBs to reduce 20% non-core spending E.g. PSBs have habit of buying Audi cars for their Managing Directors, but now they'll not be able to waste money like that. (सरकारी बैंकों को फिजूल खर्चों में 20% की कटौती करने का आदेश)

14.25.4 **制度改革**: **🦋 Regulations Review Authority (RRA 2.0)- for Ease of implementing RBI rules**

- RBI has setup RRA 1.0 (in 1999, for one year) and RRA 2.0 (in 2021, for one year)
- Chairman: RBI's Dy. Governor M Rajeshwar Rao. Who are other members? NOTIMP.
- Objective: To give suggestions to RBI to simplify its rules/regulations so Bank/NBFCs have ease of doing business. (नियंत्रण समीक्षा प्राधिकरण जो कि रिजर्व बैंक को सुझाव देगा कि कैसे रिजर्व बैंक के नियमों में सरलीकरण किया जाए ताकि उनके अनुपालन में बैंक और एनबीफरी को आसानी रहे।)

14.26 **🌐 💼 BASEL-III NORMS (बेसेल-3 मानदंड)**

Bank for International Settlements (BIS) is an international institution made up of 60 countries' Central Banks. HQ @ BASEL, Switzerland. Its committee on banking supervision set norms in 1988 (I), 2004 (II), 2011(III) to ensure global financial stability. (वैश्विक वित्तीय स्थिरता के लिए मानदंड बनाए हैं इस समिति ने)

- From 1/4/2013, RBI began phased implementation of BASEL-III norms in India:
- First, a bank needs to calculate its Risk-Weighted Assets (RWA: जोखिमपूर्ण संपत्ति).
- Against these RWA, (Universal) Scheduled Commercial Banks (SCB) must keep:
 - o “Minimum Capital to Risk Weighted Assets Ratio” (CRAR) at 9% or higher from 31/3/2019.
 - o “a%” Capital Conversation Buffer (CCB) from XX date..
 - o “b%” Counter Cyclic Capital Buffer (CCCB): whenever RBI notifies.
- “c%” Leverage ratio (LR)
- “d%” Net Stable Funding Ratio (NSFR)
- “e%” High quality liquid assets (HQLA)
- “f%” Liquidity Coverage Ratio (LCR)
- and so on...many things.

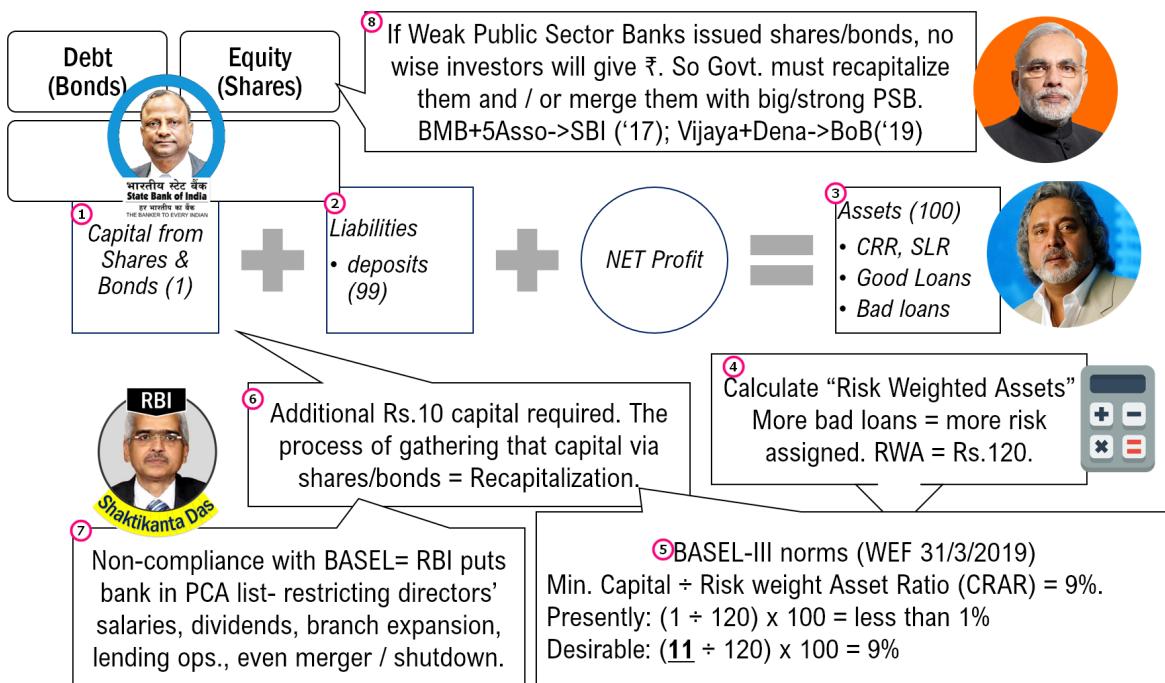


Figure 10: We need not bother with Tier-1 Tier-2 Capital etc, #थोड़ा-पढ़ो-आगे-बढ़ो

⌚ FAQ. How exactly do CCB, CCCB, LR, NSFR, HQLA, LCR etc work? Ans. Not important for exam, beyond the basic ‘word-association’ that they’re related to BASEL

Norms. #⌚ थोड़ा-पढ़ो-आगे-बढ़ो

- ⇒ Each member country’s Central Bank can prescribe different %, ratios depending on their country’s situation. (हर देश की केंद्रीय बैंक अलग-अलग दिशा निर्देश जारी कर सकती है)
- ⇒ As Bad loans (NPA) Δ = bank’s asset quality degrades ∇ = its Risk-weighted assets (RWA) Δ → bank must arrange more capital to comply with these ratios, norms and buffers.
- ⇒ If a bank can’t comply with BASEL norms → RBI puts it in PCA list. In worst case, bank will have to merge/ sell off its business to another bank or shut down. (इन मानदंडों को नहीं माना तो अंत में बैंक बंद हो सकता है)
- ⇒ BASEL Norms also apply on Differential Commercial Banks (LAB, RRB, SFB, PyB), Cooperative Banks, AIFI (EXIM, NABARD, NHB, SIDBI) and certain category of NBFCs, but RBI can prescribe separate norms / limits / deadlines for them. (विभिन्न प्रकार की वित्तीय मध्यस्थ ऊपर संस्थाओं पर इन मानदंडों की सीमा अलग-अलग हैं)

⌚ What is the objective of BASEL-III norms? (UPSC-Prelim-2016)

- Develop national strategies for biological diversity.
- reduce the GHG emissions but places a heavier burden on developed countries.
- transfer technology from developed Countries to poor countries to replace chlorofluorocarbons in refrigeration.
- improve banking sector’s ability to deal with financial and economic stress and improve risk management.



Q) Basel Convention provides: (UPSC-IES-2020)

- (a) Indian standards for pollution measurement and prevention
- (b) International guidelines to control the transboundary movements of hazardous wastes between different countries
- (c) Indian standards for the disposal of municipal and industrial wastes
- (d) International standards to categorize pollution in air and wastewater

14.26.1 D-SIB: Domestic Systematic Important Banks

- ⇒ In 2010, G-20's brainchild Financial Stability board (HQ: BASEL) asked countries to identify Systematically Important Financial institutions and put framework to reduce risk in them. [Side note: Same parents responsible for birth of Legal Entity Identifier (LEI)]
- ⇒ Each year, RBI identifies banks that 'too big to fail' (=if they fail, it'll severely hurt the economy)' and labels them as **Domestic Systematic Important Banks (D-SIB)**, & orders them keep additional equity capital against their Risk Weight Assets (RWA) & other technical norms.
- ⇒ Presently, 3 D-SIBs in India: SBI, ICICI, HDFC (**Latest Entry**).

14.27 BASEL NORMS DEFERRED IN CORONA

14.27.1 BASEL Norms: RBI deferred some norms

- ⇒ ATMAMI → 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 अतिम तिथि को टाल दिया गया।)
- ⇒ We need not loose 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

14.27.2 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. # ⏰ थोड़ा-पढ़ो-आगे-बढ़ो

14.28 BANKS' BALANCE SHEET / AUDIT NORMS (तुलन पत्र लेखा परीक्षण)

14.28.1 IndAS Accounting Norms deferred (लेखा मानदंड स्थगित/टाल दिये)

- ⇒ Ministry of Corporate Affairs (MCA) ordered all the companies to keep their balancesheet as per the format prescribed in the Indian Accounting Standards (IndAS).



- ⇒ Institute of Chartered Accountants of India (ICAI) → Accounting Standards Board (ASB) has designed IndAS Norms. IndAS norms are similar to International Financial Reporting Standards (IFRS) designed by a global body whose name is not important for our exam.
- ⇒ **Benefit?** IndAS accounting format makes it easier for the local and global investors and regulators to compare, analyze and understand a company's financial position from its balancesheet.
- ⇒ IndAS is not part of BASEL norm. But, since commercial banks are basically 'companies doing banking activity', so they also have to comply to IndAS norms. But, only RBI has the power to notify its implementation deadline on banks.
- ⇒ 2020- Critics demanded RBI should implement it, but RBI not yet done.

14.29 RECAPITALIZATION OF PSBs: [सार्वजनिक क्षेत्र के बैंकों का पुनःपूँजीकरण]

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. (बासिल मानदंडों का अनुपालन करने के लिए बैंक ने पूँजी जमा करनी होती है)

- ⇒ **2015:** Estimation that Public Sector Banks (PSBs) will require ₹ 1.8 lakh crore additional capital by 31/3/19 to comply with BASEL-III norms.
- ⇒ So, Finance Ministry's Dept. of Financial Services up with **Indradhanush PLAN** for phased-recapitalization of PSBs with ₹ 70,000 crores from 2015 to 2018. Individual PSB will get funding based on outcomes / performance. (इंद्रधनुष प्लान के अंतर्गत वित्त मंत्रालय सरकारी बैंकों में पूँजी दे रहा था-बासिल मानदंड के अनुपालन के लिए)
- ⇒ **2017:** It became clear ₹70,000 crores was insufficient for BASEL-III compliance. So, Modi Govt. announced more amount. (हालांकि बाद में पता चला की वो रकम पर्याप्त नहीं थी और ज्यादा रकम चाहिए होगा)
- ⇒ To arrange ₹₹ for this, Govt began to issue Bank Recapitalization Bonds (RcB) in the market with following features: These bonds will have interest rate of ~7%, mature@ 2028-2033. Non-transferable to third party, Non-convertible into shares. (तो ज्यादा रकम बटोरने के लिए सरकार ने बाजार में बॉन्ड जारी किये)
- ⇒ Govt instructed PSBs to mobilize equity (share) capital from private investors. However, investors shy away from smaller banks with weak balancesheets, so BMB & 5 Associated Banks merged with SBI (2017). Vijaya & Dena to be merged with BoB (2019, 1st April) etc. (More in Pillar#1B1)
- ⇒ **Budget-2020:** FM said we've given ₹3.50 lakh cr in the last years years.
- ⇒ **Budget-2021:** ₹20,000 crores for PSB recapitalization in Financial Year 2021-22.
- ⇒ **Budget-2022:** No money given for this. Govt's rationale is that PSBs profitability improving so PSBs can take care of their capitalization problems by themselves by issuing shares/bonds in market. (सरकार ने नए बजट में पुनःपूँजीकरण के लिए कोई पैसा नहीं दिया. सरकारी बैंकों अब तुम खुद अपना देख लो!)

Q MCQ. With reference to the governance of public sector banks (PSB) in India, Find Correct Statement(s):(UPSC-Pre-2018)

1. Capital infusion into PSBs by the Govt of India has steadily increased in the last decade.



2. To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

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

14.30.1 BANKING SECTOR: GOVERNANCE / ADMINISTRATIVE REFORMS

14.30.1.1 Gyan-Sangam-I, 2015, Pune

FinMin's Dept of Financial Services (वित्तीय सेवा विभाग) organized a workshop of financial regulators, Public Sector Bank, Insurance Companies etc. It resulted in 3 outcomes:

- 1) PSBs' CMD post bifurcated into 1) separate chairman and 2) separate MD&CEO so that banks can function in more professional and accountable manner.
- 2) **Indradhanush** plan for bank recapitalization (₹ 70,000 crores) tied with governance reforms in PSBs.
- 3) Finance Ministry setting up an autonomous body- Bank Board Bureau (BBB). →

14.30.2 PSB Banking Personnel → Bank Board Bureau (BBB), 2016



Figure 11: यूपीएससी की तरह हम लोगों ने करी का इंटरव्यू

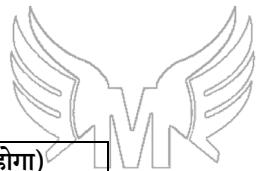
- It is non-constitutional, non-statutory body (यह संस्थान न तो संवैधानिक है न तो वैधानिक)
- It interviews & selects top officials (MD, CEO, Chairman and full-time Directors) for PSBs, LIC and other public sector financial institutions. Actual appointment done by FinMin's Department of Financial Services. (*Just like UPSC selects candidates suitable for IAS but DoPT notifies appointment.*)
- BBB also helps the banks in governance reforms, raising capital for BASEL-III etc.
- BBB has 1 Part-Time Chairman, 3 Part-Time Members and 3 Ex-officio Members (from Govt & RBI side)
- 2018, April: **Bhanu Pratap Sharma** (retd.IAS) replaced Vinod Rai (retd.IAS, former CAG) as the new chairman of BBB. But such Person in news GK is not imp4UPSC # थोड़ा-पढ़ो-आगे-बढ़ो

MCQ. Chairman of public sector banks are selected by the ___? (Pre19-SetA-Q73)

- (a) Banks Board Bureau (b) RBI (c) Ministry of Finance (d) Management of concerned bank

14.30.3 PSB Banking Personnel Reforms→ ESOP suggestions

- PSBs should be allowed to do 1) campus recruitment of atleast some specialists (कुछ विशेषज्ञों की कैम्पस परिसर से सीधी भर्ती) 2) lateral entry in higher management (उच्च प्रबंधन में पार्श्वक भर्ती).
- PSBs should give Employee Stock Option Plan (ESOP) to their employees. ESOP is a type of benefit plan wherein employees given some shares of the company (Apart from their regular monthly salary). [कर्मचारी स्टॉक विकल्प योजना: वेतन/तनाव्याह के अलावा बैंकिंग कंपनी के शेयर भी कर्मचारी को दिए जाये]



When/if company makes profit →	How does employee benefit from ESOP? (क्या फायदा होगा)
1) Market price of shares	He can sell his shares to a third party for a large gain.
2) the dividend to the shareholders will increase.	He can keep the shares with himself, and will get large dividend from the company (in addition of his regular salary) तनख्वाह के अलावा कंपनी के मुनाफे में से लाभांश भी मिलेगा

- As shareholders, some of these employees may even join as board members → help designing more realistic business policies at the apex level. Thus, ESOP changes mind-set from an “employee” to that of an “owner”. (कर्मचारी में कंपनी का मालिक होने की भावना जगाता है)
- It encourages the employee to work harder with more dedication, loyalty and passion for the company’s profitability and brand image. (वह समर्पण निष्ठा और जुनून से बैंक के लिए काम करना शुरू करता है)

14.30.4 Enhanced Access and Service Excellence (EASE) Agenda 2018

- **2017, October:** Government announced ₹2 lakh+ crore package for recapitalization of PSB. But critiques argued such relief measures will just make the PSBs officials lazy & undisciplined (moral hazard). So,
- **2017, November:** First Public Sector Bank (PSB)-Manthan organized by Dept of Financial Services (DFS) at Gurugram. Based on the participants’ inputs...
- **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.
 1. Customer Responsiveness. (ग्राहकों के प्रति जवाबदेही)
 2. Responsible Banking: Reduce NPA, prevent frauds. (धोखाधड़ी पर अंकुश)
 3. Credit Off Take: Try to reach out to potential borrowers for home, auto, education, loans. (स्वयम बैंक ही उधारकर्ताओं को खोज निकालो)
 4. Help MSME entrepreneurs via SIDBI’s Udyamimitra.com portal. Approve/reject loans in not more than 15 days. (लघुउधोगों की मदद)
 5. Deepening Financial Inclusion & Digitalization. (वित्तीय समोवेशन)
 6. Employees’ Human Resource Management (HRM: मानव संसाधन प्रबंधन): improve with training, performance linked promotion-salaries-posting-transfers etc.

Implementation? Each whole-time director of a PSB will be entrusted with one pillar of the EASE-framework. Their performance will be checked by the PSB’s board of directors. An independent agency will be tasked to check public perception. Finally PSB banks will be ranked: E.g. 2018: PNB#1.

14.30.5 Ease 3.0: Tech-Enabled Banking (2020-21)

- ⇒ 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).



Table 4: Points for assembling Mains Answers Rapidly

Eco.Survey-2015: "4R" framework	Eco.Survey-2014: "4D" framework
Recognition (पहचान): of bad loans via asset quality review (AQR)	Disinter (खोदकर निकालना): "Dig up graves, recover money": using SARFAESI Act, I&B code, Sashakt
Resolution (समाधान): via schemes/mechanisms I&B, Project Sashakt	Differentiate among PSB (भिन्न व्यवहार करना): Government should recapitalize Profit Making PSB: while merge or privatize Loss Making PSB.
Recapitalization (पुनर्पूजीकरण): for BASEL-III norms ⇒ Indradhanush, Bank Recap Bonds & other measures: Total ₹ >3.5 lakh cr lakh crore mobilized.	Diversify (वैविध्य लाना): Allow more number and variety of Banks.⇒ SFB & PyB allowed. Wholesale Bank proposed.
Reforms (सुधार): Governance & Administration of PSB⇒ BBB, EASE	Deregulate (नियंत्रण मुक्त): Lower SLR, Promote Corporate Bond market so they borrow less from Banks e.g. Tri-Party Repo mechanism.

Further, you can also mention: PCA Norms, PCR registry, PSBN Network, ESOP etc.

14.30.6 Staff Accountability Framework for PSB-NPA

- ⇒ Finance Ministry's issued this for NPA accounts up to Rs 50 crore in PSBs from 1/4/2022.
- ⇒ If PSB Banker took bona fide business decisions to approve loan application but it turned NPA then banker will be protected from undue inquiries/harassment by 3Cs — CBI (Central Bureau of Investigation), CVC (Central Vigilance Commission) and CAG (Comptroller and Auditor General).
- ⇒ Previously the fear of 3C was discouraging the public sector bank managers from sanctioning big loans (in the aftermath of TBS, Mallya, Nirav Modi).

(सरकारी बैंक और लोन पास करने से डरते हैं क्योंकि उन्हें तो CBI, CVC, CAG की कार्रवाई का डर लगता है तो अब वित् मंत्रालय ने कुछ नए “सार्वजनिक बैंक कर्मी जवाबदेही ढांचा” दिशानिर्देश जारी किए हैं ताकि ईमानदारी से लिए गए फैसलों में अगर लोन का पैसा वापस न आए तो सरकारी बैंक के ईमानदार बैंकर पर अनावश्यक रूप से कोई कार्रवाई न हो)

14.30.7 Conclusion for Public Sector Banks? (सार्वजनिक क्षेत्र के बैंकों के बारे में निष्कर्ष)

- ✓ A vibrant banking system can support India's growth story/ PSBs are growth levers for India.
- ✓ Inefficient PSBs can severely handicap the country's economic development.
- ✓ 35% of Indians are in the 15-29 years age group. Majority of them live in rural areas and many of them require education loans and business loans to progress in life.
- ✓ Therefore, aforementioned initiatives are imp in that regard/ need to be addressed on priority basis to
 - 1) Reap India's demographic dividend and
 - 2) To achieve \$5 trillion economy status by 2025.
 - 3) to achieve V-Shaped recovery Post-Corona

भारत की विकासगाथा को आगे बढ़ाने, तथा जनसांस्थिकीय लाभांश को प्राप्त करने के लिए जीवंत बैंकिंग प्रणाली आवश्यक। अतः उक्त रिजर्व बैंक|सरकार के उक्त कदम सरहनीय है/ उक्त सुधारों की आवश्यकता है।



14.31 📈 💰 🏢 💼 NEGATIVE NEWS → YES BANK AND AT1 BONDS (2020)



- ⇒ 2004: Yes Bank, a Private Sector Scheduled Commercial Bank starts (HQ-Mumbai)
- ⇒ Its founder Rana Kapoor took bribes to approve loans to companies without capacity to repay loans, such HDIL (This HDIL company also borrowed from PMC bank, causing another crisis).
- ⇒ By 2020: Yes bank's business became unstable. (धंधा अस्थिर हो गया)

Share Capital + Bonds + Deposits + NET Profit = Assets

2020-March: RBI is attempting following for Yes Bank's revival (पुनर्जीवित करना)

- ⇒ **Deposits Liability:** (temporary) withdrawal limits of ₹50,000 on depositors
- ⇒ ↓ Reduce Bond Liability:
 - A) Write down ~₹9000 crore worth AT1 Bonds liability from equation. (in other words, those investors will not get a single paisa. बॉन्ड की देयता को खारिज कर देना). These bonds holders are unhappy & will go to court to stop this. **OR alternatively**
 - B) Convert the AT1 bonds into (lower priced) shares e.g. ₹100 Face Value ka Bond converted into ₹20 Face Value ka Share (so there is 80% loss /haircut for the bond holder)
- ⇒ ↑ **Equity Capital:** Other banks to provide equity (share) capital worth >₹10,000cr into Yes Bank
→ future shareholding maybe SBI (45%), ICICI(6%), HDFC(6%), Axis(3-4%)

~~⌚ 💰 💼 📈~~ But daily changes in this plan so we need not lose sleep.

14.31.1 🌎 🏢 💼 BASEL-III norms: Capital Tiers

BASEL-III norms require banks to keep capital against their risk weighted asset ratio. This capital is subdivided into:

Capital of a Bank	Instruments / subtypes: List not exhaustive
Tier1 / core capital →	<ul style="list-style-type: none"> ⇒ Common Equity Tier-1 (CET1) e.g. ordinary shares. ⇒ Additional Tier1 (AT1) e.g. 📈 💰 💼 AT1 Bonds, Preferential shares etc.
Tier2 →	⇒ Bonds/Debenture, Hybrid instruments

BASEL-III prescribed that banks must keep minimum x%, y% etc in each of these tiers, depending on their Risk Weighted Asset (RWA).

14.31.2 📈 💰 💼 Additional Tier 1 (AT1) Bonds

They have no maturity date (i.e. bank has to pay interest for infinite time / perpetuity and principal will not be returned). However, bank may 'buyback' them after certain years. If / when a bank makes huge losses → AT1 Bonds' liability may be

- A. written off (खारिज कर देना) OR



B. converted into shares (process called ‘Bail-In’).

💡 Beyond this any what/why/how/PHD, ball by ball commentary on SC judgements and PILs =poor cost benefit for MCQs.# **💡** थोड़ा-पढ़ो-आगे-बढ़ो

14.31.3 **✍️ 📜 🧑** Zero Coupon Bonds for PSB recapitalization

⇒ Ref: Pillar1C- Sharemarket.

14.32 **🔑 🐾 (🚫 🏛)** NEGATIVE NEWS: ILFS & SHADOW BANKING



14.32.1 **🐾 (🚫 🏛)** NBFC: Shadow Banking (आभासी / प्रतिष्ठाया 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 संस्थाए पारंपरिक बैंकिंग नियमो के दायरे से बाहर काम करती हैं.
- ⇒ They mobilize funds by borrowing from banks, issuing Commercial Papers (CP) and Bonds (Non-convertible debentures)

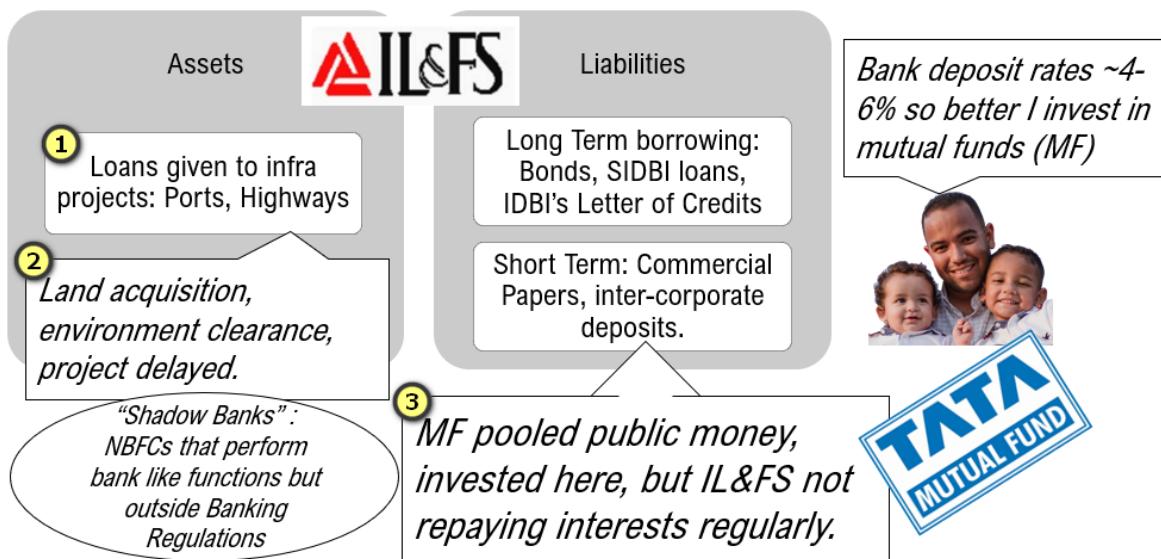
Table 5: Three important segments of the shadow banking system in India

HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
LDMFs	<ul style="list-style-type: none"> - 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 - 2019: Some of these LDMFs had invested clients money in IL&FS and DHFL, but failed to get the money back. Nearly ₹4000 crore of investors’ money is stuck, triggering the NBFC crisis in India.
Retail-NBFCs	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) →



14.32.2 🐾 (⊗ 🏦) Shadow Banks → IL&FS & NBFC Liquidity Crisis



- ⇒ Infrastructure Leasing & Financial Services (IL&FS) is a Systemically Important Non Deposit Taking Non - Banking Finance Company (NBFC - ND – SI: प्रणालीगत रूप से महत्वपूर्ण- डिपॉज़िट न लेनेवाली- गैर-बैंकिंग वित्त कंपनी) Setup in 1987 HQ@Mumbai.
- ⇒ **Shareholders:** LIC > Japan's Orix group > Abu Dhabi's group > Central Bank of India > SBI.
- ⇒ **Challenge?** 1-2-3 of above diagram. + loans given to unworthy borrowers with forged documents, bribes were paid to IL&FS board directors & auditors.

14.32.3 🐾 ATMANIRBHAR → 🐾 (⊗ 🏦) RBI Helping NBFCs/ Shadow Banks

- ⇒ 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

14.32.4 🐾 ATMANI → 🐾 📈 🏦 🐾 Partial Credit Guarantee Scheme (PCGS) 2.0

- ⇒ Budget 2019: If NBFCs/ MFIs/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)

14.32.5 🐾 ATMANI → 🐾 📈 🏦 🐾 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 क्रण 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

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

14.32.6 Shadow Banking → other Remedies by Govt post-ILFS crisis

- 1) Under Companies Act: Ministry of Corporate Affairs (MCA:) replaced the IL&FS's Board members. Uday Kotak made new Chairman. कारपोरेट मामलों के मंत्रालय ने बोर्ड ऑफ डायरेक्टर में अपने विशेषज्ञों को आसीन किया
- 2) MCA constituted the statutory body National Financial Reporting Authority (NFRA) under Companies Act 2013 for stricter vigilance over Chartered accountants and auditors. (More in 1C: SEBI Handout) कंपनी कानून के अंतर्गत राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण नामक एक वैधानिक संस्था की स्थापना
- 3) Corporate Affairs Ministry's Serious Fraud Investigation Office (SFIO) investigating the IL&FS officials & auditors. (गंभीर धोखाधड़ी जांच कार्यालय- इसके अफसरों और लेखा परीक्षकों की जांच कर रहा है)
- 4) Companies Act requires all companies (incl. NBFCs) to setup a Debenture Redemption Reserve (DRR), fill it with % from profit to protect bond investors incase of default. Government exempted NBFCs, housing finance companies and, listed firms from this requirement so they can easily mobilize new funds to revive old biz. डिवेंचर रिडेंप्शन आरक्षित निधि के नियमों में कुछ रियायत ए दी गई
- 5) LIC says we'll not allow IL&FS to collapse (=we may use Policy holders' money to rescue it just like IDBI)
- 6) National Housing Bank introduced **Liquidity Infusion Facility (LIFt)** of ₹30,000 crore for additional liquidity to HFCs for individual affordable housing loans. नेशनल हाउसिंग बैंक द्वारा अतिरिक्त पैसा मुहैया कराया
- 7) 2019: Govt increased RBI powers (under RBI Act) to regulate NBFCs in following ways: RBI can remove NBFC's board of directors, can inspect any NBFC or its associated group of companies, RBI can force merger/splitting of non-viable NBFCs, higher fines/penalties for violation. रिजर्व बैंक की निगरानी शक्तियों में बढ़ोतरी की गई
- 8) Budget-2019: we will setup a Credit Guarantee Enhancement Corporation to help NBFCs. (CGEC: क्रेडिट गारंटी वर्धन निगम). (How it'll work? Ans. We'll study when it is actually started).

14.32.7 Shadow Banking → Remedies by RBI

- ⇒ RBI tightened norms of Asset-Liability Management (ALM) norms for NBFCs.



- ⇒ 2019 July: Dy. Gov Viral Acharya Committee → RBI board approved 3 year medium term framework to improve RBI regulation & supervision, based on global best practices = “Utkarsh-2022” roadmap. वैश्विक मानदंडों का अनुसरण करते हुए रिजर्व बैंक की नियंत्रण और निगरानी करने की प्रणालियों में अगले 3 सालों में सुधार करने के लिए उत्कर्ष कार्यक्रम
- ⇒ RBI ordered certain NBFCs to implement BASEL-III norm's Liquidity Coverage Ratio (LCR) High Quality Liquid Assets (HQLA) framework in a phased manner. बासेल मानदंडों का पालन
- ⇒ 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). Accordingly tighter regulation on them. Exact details notIMP, 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.

14.32.8 Shadow Banking → Remedies by SEBI

SEBI tightened norms for Credit Rating Agencies (CRAs). They've to disclose 'default probability' of bonds & other debt instruments. SEBI tightened norms on Mutual Funds, regarding where/how they invest clients' money. (सेबी ने भी पारदर्शिता के लिए नियमों को सख्त किया है)

14.32.9 Shadow Banking → Remedies suggested by ES20

- ⇒ CEA Subramanian K. has created a “Health Score for NBFCs” to monitors given NBFC company's Asset Liability Management (ALM) problems, balance sheet strength, etc. and gives them a score between -100 to +100. (स्वास्थ्य सूचकांक बनाया जाए).
- ⇒ Higher scores indicating higher financial stability of the firm. This health score can provide early warning signals to the Financial regulators → they can initiate appropriate measures before it's too late. (सूचकांक के आंकड़ों में गिरावट एक प्रकार से पूर्व चेतावनी देगी → उसे देखकर वित्तीय नियंत्रक तुरंत आवश्यक/जरूरी/योग्य कदम उठा सके)

In September 2019, which one of the following travel giants declared itself bankrupt? (CDS-i-2020) (a) Expedia (b) Cox & Kings (c) SOTC (d) ANS: Thomas Cook

14.33 NEGATIVE NEWS: PNB, LoU, SWIFT, & NIRAV MODI



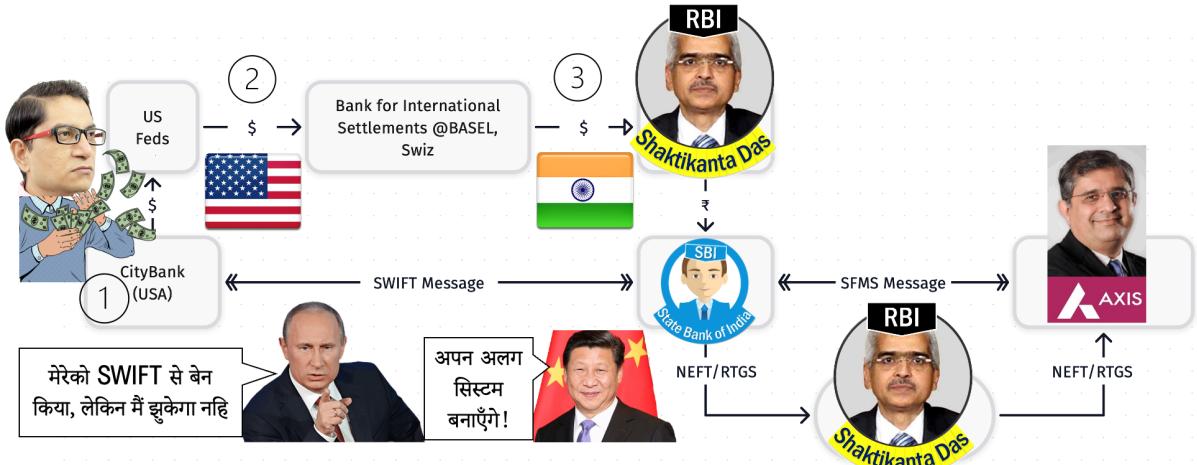
PNB (Mumbai Branch): Give foreign currency loan to our client Nirav Modi for purchase of goods (diamonds, airplanes, whatever), if he doesn't pay, we'll pay.

- If such bank guarantee given to another bank in a foreign country, it's called **Letter of Undertaking/ Letter of Credit/ Letter of Comfort**: ~~internal difference not important~~.
- ⇒ Bank earns commission / fees from client for issuing such letters / guarantees.
- ⇒ The foreign currency thus loaned, goes into PNB's Nostro (Latin:Ours) account, & Nirav uses the dollars to buy diamonds in HongKong.



- ⇒ **PNB Scam:** PNB-Mumbai's corrupt manager kept issuing LoUs to diamond merchants Nirav Modi & Mehul Chowkasi without due-diligence or collaterals for 7 years, worth ~₹12,000 crores. And 2018-January: Nirav & Mehul left India.
- ⇒ PNB officials couldn't detect scam because LoUs were generated through SWIFT platform, which was not integrated with their Core Banking Solution (CBS) server.

14.33.1 📈 Financial Messaging Systems: SWIFT- Russia gets banned



Globally (वैश्विक स्तर पे पैसा भेजना हो)	Within India (भारत के भीतर ही पैसा भेजना हो!)
Society for Worldwide Interbank financial telecommunication (SWIFT)	Structured Financial Messaging System (SFMS)
By a Cooperative organization in Belgium's La Hulpe city (1973).	designed by Tata Consultancy Services (TCS) for IDRBT (=Research arm of RBI)
To serve the messaging function for Banks, NBFCs & brokers who may / may not have direct bank relations / settlement systems with each other due to international borders.	to serve the messaging function in NEFT, RTGS, and other inter-bank, intra-bank e-transactions platforms <u>within India</u> .

😢 Nations banned from SWIFT: 1) Iran (Capital Tehran) 2) 2022: Russia got ban, after invading Ukraine. This will make it very difficult for the Russian banks/ NBFCs /businessmen to send and receive money internationally (यूक्रेन-आक्रमण के खिलाफ रूस को स्विफ्ट-वित्तीय संदेश प्रणाली से प्रतिबंधित किया गया है जिसके चलते रूसी बैंक वित्तीय संस्थान और उद्योगपतियों को अंतरराष्ट्रीय स्तर पर पैसों के लेन में दिक्रिते आएंगी।)

Afterwards, 🎾 📚 🎓 🙌 ball by ball commentary on Nirav Modi case =NOTIMP

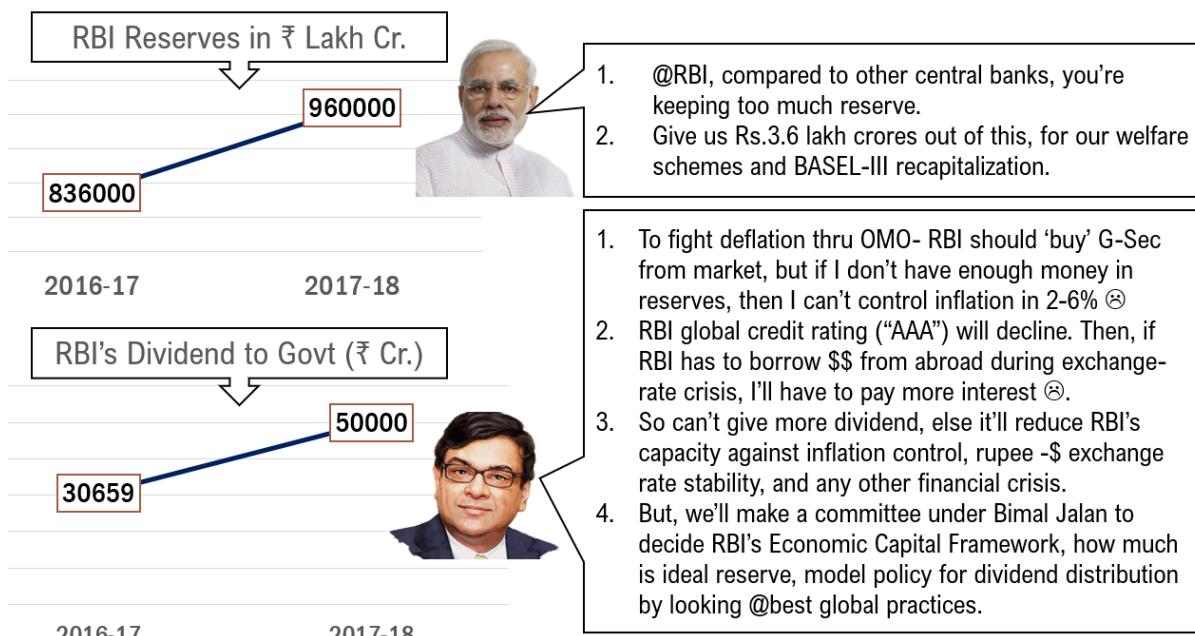
14.34 🎓 📈 🎓 RBI DIVIDEND, RESERVES, ECONOMIC CAPITAL FRAMEWORK

RBI's income sources include ↗	From its income, RBI allocates funds to ↗
<ol style="list-style-type: none"> Interest on G-Sec that are not sold in Open Market Ops. Interest on Foreign G-Sec / Sovereign Bonds. 	<ol style="list-style-type: none"> Staff retirement fund, provisions for bad loans, depreciation in assets... Reserves for contingency (emergency): ~₹ 2.5 Lcr. आपातकाल के लिए आरक्षित भंडार



RBI's income sources include ₹	From its income, RBI allocates funds to ₹
<p>3. Interest on Loans given to other Banks / NBFCs. कर्ज पर मिलने वाला ब्याज</p> <p>4. Revaluation of foreign currency and gold in RBI reserves. विदेशी मुद्रा और स्वर्ण भंडारों के मूल्य में बढ़ोतरी</p> <p>5. Seigniorage: profits from printing money- because face value > intrinsic value. HOW? NOTIMP</p> <p>6. Penalties imposed on errant banks.</p>	<p>3. Reserves for Exchange Rate Stability (Technically called “Currency & Gold Revaluation Reserve: ~₹7 lakh cr विनिमय दर में स्थिरता के लिए आरक्षित भंडार)</p> <p>After making these allocations, profit is shared with Union Govt. in form of ‘Dividend’ (RBI Act Section 47). रिजर्व बैंक के मुनाफे में से ये भंडार/ निधि में पैसा रखने के बाद यदि कोई राशि बची तो वह सरकार को लाभांश के रूप में देनी होगी</p>

14.34.1 📊 ₹ ₹ ₹ RBI's Bimal Jalan panel (2018-Nov)



- RBI setup Bimal Jalan panel to review RBI's economic capital framework & decide the guiding principles for dividend transfer to Govt. (आर्थिक पूँजी संरचना तथा लाभांश वितरण के सिद्धांत)
- 2019- August: RBI board approved its report. It updated / reduced buffer related technical norms in such manner that RBI will be able to transfer more dividend / surplus to the Government. (तकनीकी मानदंडों में सुधार ताकि रिजर्व बैंक अपने मुनाफे में से भारत सरकार को अधिक लाभांश दे सकें।)
- Accordingly for 2018-19: (1.23Lcr dividend+52k extra)= ₹ 1.76 Lcrore to be transferred to government. This will help the government to meet its fiscal deficit target. (🎓👉 Fig.NOTIMP)
- 2021: RBI gave Rs 99,122 crore Dividend to Government.

14.34.2 🐾 [31] RBI's Financial / Accounting Year (वित्तीय वर्ष में बदलाव)

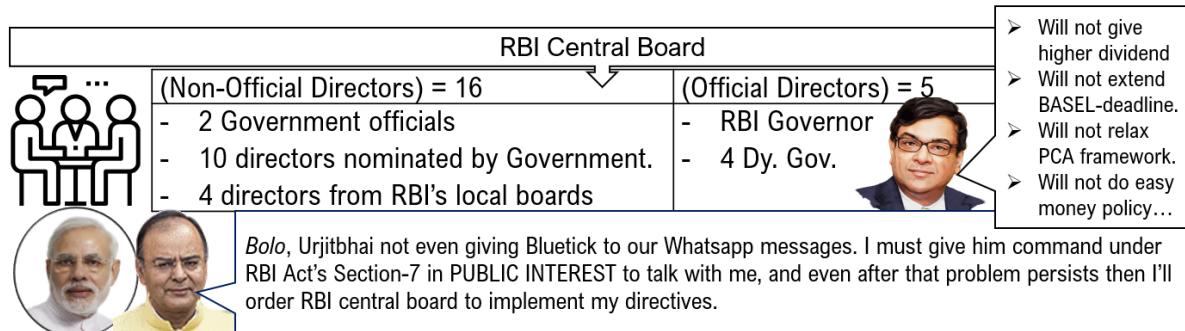
2019: Bimal Jalan panel recommended ₹ reform → RBI's central board accepted it

Before	After
<p>RBI's financial year</p> <ul style="list-style-type: none"> - 1934 onwards: January to December - 1940 onwards: July to June 	<ul style="list-style-type: none"> - For 2020: a smaller balancesheet will be prepared from 1/July/20 to 31/March/21. Then



Before	After
But Govt's financial year is April-March so, RBI had to give interim dividend to govt until RBI's final balancesheet was prepared, then another (full) dividend was given.	<ul style="list-style-type: none"> - From 1st April, 2021, RBI will switch to annual April-March format. <p>After this reform, no need for interim dividend (अंतरिम लाभांश वितरण नहीं देना होगा।)</p>

14.34.3 Section-7 Directive & Urjit Patel's Resignation (इस्तीफा)



This topic is not very important because UPSC usually avoids “Controversy in News”. Urjit Patel was unhappy with Government interfering / criticizing his work. Such as:

- ⇒ **Higher Dividend:** Govt. demanded higher dividend from RBI to finance the recapitalization of PSBs for BASEL-III, and to finance its own fiscal deficit & populist welfare programs. Urjit Patel felt RBI's higher reserves are necessary to check any financial crisis. Excessive dividend could increase inflation. He did not oblige. (सरकारी योजनाएं चलाने के लिए ज्यादा डिविडेंड /लाभांश की मांग)
- ⇒ **BASEL-III-relaxation:** These norms will become fully effective on 31/3/2019 but PSBs don't have enough capital to comply so they requested Finance Minister to tell Urjit Patel to extend the deadline, Urjit Patel did not oblige. (बासेल मानदंडों की अंतिम तिथि में रियायत की मांग)
- ⇒ **PCA-relaxation:** Urjit Patel vigorously implemented Prompt Corrective Action framework, so Public Sector Banks' branch expansion, lending operations were restricted, they came running to FM. FM asked Urjit to relax PCA. He did not oblige. (पीसीए नियमों में रियायत की मांग)
- ⇒ **Tight Money Policy:** CEA Arvind Subramanian & BJP-Ministers were criticizing RBI's “Tight” Monetary Policy depriving MSMEs of cheap loans and thus harming India's growth rate. Whereas Urjit Patel deemed tight policy necessary to keep inflation @2-6% CPI (All India) on durable basis so he did not oblige. (महंगाई से लड़ने के लिए लोन और महंगे कीए → व्यापारी वर्ग नाराज)
- ⇒ **PNB Scam:** Jaitley expressed displeasure that RBI couldn't detect PNB-Nirav Modi fraud, whereas Urjit Patel defended that he lacks effective powers under Banking Regulation Act to take punitive actions against Public Sector Banks. (पंजाब नेशनल बैंक - नीरव मोदी कांड को पकड़ने रोकने में असमर्थ रहे ऊर्जित पटेल)

All these forced Govt. to issue Section -7 Directive to RBI.

14.34.4 Section-7 of RBI Act

- ⇒ Section 7(1) of the RBI Act empowers the Government to consult with RBI Governor in Public Interest. (जनहित के लिए, रिजर्व बैंक कानून की धारा नंबर 7 के अंतर्गत सरकार गवर्नर के साथ विमर्श कर सकती है)



- ⇒ In, 2018-October, for the first time in the history of Independent India, Govt began a Section-7(1) consultation with RBI Governor Urjit Patel, on the issues of PCA norms, BASEL-III deadline, higher dividend to Govt., Cheap Monetary Policy etc.
- ⇒ If RBI Governor doesn't positively respond in such Section-7(1) consultation, then Section 7(2): Government can issue binding direction / orders to RBI Central Board to implement its wishes. (यदि गवर्नर, एसे विमर्श में, सरकार की बात नहीं सुनते तो, केंद्रीय बोर्ड द्वारा सरकार अपनी बात को लागू करवा सकती है)
- ⇒ Although, fearing backlash from media & opposition parties, Govt did not issue any specific directions to the RBI Board. But, 2018-Dec: Urjit Patel resigned before completing 3-year term. He is not the first RBI governor to resign & we need not prepare list all the RBI governors who resigned before their term.

MCQ. Find Correct statements about RBI: (UPSC Prelims-2021)

1. The Governor appointed by the Central Govt. (रिजर्व बैंक के गवर्नर की नियुक्ति केंद्र सरकार करती है)
 2. Certain provisions in the Constitution of India give the Central Government the right to issue directions to the RBI in public interest. (कुछ संवैधानिक प्रावधानों के अंतर्गत केंद्र सरकार जनहित में रिजर्व बैंक को दिशा निर्देश दे सकती है)
 3. The Governor draws his power from the RBI Act. (गवर्नर को आरबीआई कानून से शक्तियां मिलती है)
- Code: a) 1 and 2 only b) 2 and 3 only c) 1 and 3 only d) 1, 2 and 3

14.35 MOCK QUESTION FOR MAINS GSM3 (250 WORDS EACH)

1. After 50 years of nationalization, the Public Sector Banks are lagging behind private sector banks in majority of the performance indicators. Suggest remedies in this regard. राष्ट्रीयकरण के 50 वर्षों के बाद, सार्वजनिक क्षेत्र के बैंक प्रदर्शन संकेतकों के निजी क्षेत्र के बैंकों से पीछे हैं। इस संबंध में उपाय सुझाएं।
2. Explain the significance of governance reforms in Public Sector Banks (PSBs) for India's economic growth. भारत के आर्थिक विकास के संबंध में सार्वजनिक क्षेत्र के बैंकों में शासन सुधारों के महत्व को समझाइए।
3. Suggest the ways in which information-technology can be utilized for combating the NPA in Indian economy. अनर्जक परिस्पर्तियों से निपटने के लिए सुचना प्रौद्योगिकी कैसे मदद कर सकती है?
4. What is "Twin Balancesheet Syndrome"? Enumerate steps taken by RBI to resolve it. "दोहरे तुलनपत्र की समस्या" क्या है? इसके हल के लिए भारतीय रिजर्व बैंक द्वारा उठाए कदमों की सूचि दीजिए।
5. "While Insolvency & Bankruptcy Code doesn't fully cure the Twin Balance sheet Syndrome, it certainly helps alleviating the pain." Elaborate. "हालांकि शोधन-अक्षमता एवं दिवालियापन संहिता भारत के दोहरे तुलनपत्र की समस्या को पूरी तरह से ठीक नहीं करता है, लेकिन यह निश्चित रूप से दर्द को कम करने में मदद करता है।" विस्तृत कीजिए।
6. With respect to India's financial stability, explain significance of (i) PCA framework (ii) BASEL-III Norms (iii) Public Credit Registry. भारत की वित्तीय स्थिरता के संबंध में इन्हें समझाइए: (i) पीसीए ढांचा (ii) बेसल-III मानदंड (iii) क्रण की सार्वजनिक रजिस्ट्री
7. Why are shadow banks considered to be a threat to the Indian economy? Discuss the reforms undertaken by the authorities to address this challenge. प्रतिष्ठाया बैंकों को भारतीय अर्थव्यवस्था के लिए खतरा क्यों माना जाता है? इस अनुसंधान में लिए गए सुधारों पर चर्चा करें।
8. Justify the rationale behind Govt's decision to setup a Bad Bank, despite the existence of IBC Code and SARFAESI Act. How will this proposed bad bank alleviate the pain of NPA? (आईबीसी कोड और सरफेसी अधिनियम के अस्तित्व के बावजूद, एक बैंड बैंक स्थापित करने के सरकार के निर्णय के पीछे के तर्क का औचित्य साबित करें। यह प्रस्तावित बैंड बैंक कैसे एनपीए का दर्द कम करेगा?)

Next Handout Pillar#1C: SEBI SHAREMARKET