

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

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

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

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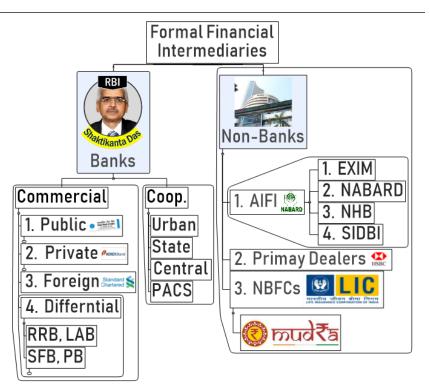
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# 13 **FINANCIAL INTERMEDIARIES** → BANKS

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





# 13.11 🕡 🔛 ₹ 🖨 BANKS → RESERVE BANK OF INDIA (RBI): भारतीय रिजर्व बैंक

1913	Commercial banks were required to register under the Companies Act, but monitoring			
	was lax. No CRR, SLR, BASEL Norms. (उन पर पहले नियम सख्त नहीं थे)			
1926	Royal Commission on Indian Currency Hilton Young Commission) recommends			
	setting up a central bank named 'Reserve Bank of India'. (एक ब्रिटिश आयोग ने सिफारिश की निगरानी			
	के लिए रिज़र्व बैंक बने)			
1929	Great Depression in USA leads to collapse of 450+ banks in India. So British Indian			
	Govt becomes serious about setting up RBI. अमेरिकी महामंदी के बाद केंद्रीय बैंक की स्थापना की आवश्यकता			
	महसूस हुई			
1934	Reserve Bank of India Act was enacted. (इसकी स्थापना के लिए कानून बनाया गया)			
1935,	RBI becomes operational from 1st April, with 1st Governor Sir RBI Gov: Osborne Smith.			
April	India's Viceroy: Willingdon. Government ownership was ~4.4% only.			
1935,	Commercial Banks fulfilling certain conditions were listed in the 2 <sup>nd</sup> Schedule of RBI			
July	Act, & such "Scheduled Banks" were required to keep CRR with RBI.			
1943-	C.D. Deshmukh 2 <sup>nd</sup> FM of India becomes the first INDIAN Governor of RBI. He had			
49	also participated in the Bretton Woods Conference, USA (1944).			
1948-	All private investors' shares transferred to Govt of India under the RBI transfer of			
49	ownership act 1948. Therefore, RBI governor answerable to Parliament, has to pay			
	dividend to Govt from its profits. (रिज़र्व बैंक अपने मुनाफे मे से सरकार को लाभांश वितरण करता है)			
1949	Banking Regulation Act (बैंकिंग विनियमन अधिनियम) empowered the RBI to			
	⇒ Give license to companies to open banks,			
	⇒ Give permission banks to open new branches.			
	⇒ Prescribe auditing norms, liquidity norms for Banks such as SLR.			
	⇒ Protect interest of depositors. Force elimination / merger of weak banks.			
	$\Rightarrow$ Related Topic: banking regulation ordinance 2020 $\rightarrow$ Pillar#1B2: Bad loans & other			
	burning issues in the banking sector.			

#### Which was the earliest event to take place? (UPSC Prelims-2009)

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

Table 1: RBI Central Board Composition

	(Non-Official Directors)		(Official Directors)	
-	2 Government officials		RBI Governor	
-	10 directors nominated by Government.	-	4 Dy. Governors	
-	4 directors from RBI's local boards @West, East, North, South			

# 13.11.1 ☐ ₹ ☐ RBI Governor & Dy Governor

⇒ RBI Act (Section 8) provides for "NOT MORE than 4" Dy. Governors.



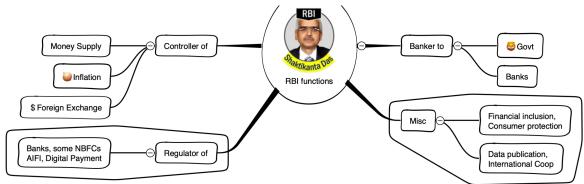
- ⇒ They're selected by Financial sector regulatory appointment search committee (FSRASC) headed by the Cabinet Secretary (IAS) → successful candidates' names sent to Appointments Committee of the Cabinet headed by the Prime Minister for final approval.
- ⇒ Governor and Dy.Govs' tenure usually (not always) 3 years. Re-appointment is possible. कार्यकाल
- ⇒ 2018-Dec: Shaktikanta Das appointed as Governor for 3 years, he replaced Urjit Patel. 2021: Modi Govt renewed his tenure for three years till Dec- 2024, thus giving him a total tenure of six years (रिज़र्व बैंक के गवर्नर के रूप में पुन: नियुक्ति)
- ⇒ Shaktikanta Das is Retd. IAS, Former finance secretary, Member of 15<sup>th</sup> Finance Commission.
  - Related Topics: RBI Autonomy, Dividend Controversy, Section 7, PCA/BASEL:

    [Handout 1B2 → Burning Issues in Banking Sector]

#### 13.11.2 🔛 ₹ 🖨 RBI Offices & Departments

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

# 13.11.3 **RBI**: Functions of



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



environment. HQ: Paris, Foundation Year: 2017 (वित्तीय प्रणाली की हरियाली के लिए नेटवर्क- तािक अक्षय ऊर्जा, पर्यावरण आदि को मदद मिले)

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

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

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

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

#### RBI regulates the commercial banks in matters of (Asked in UPSC-Pre-2013)

1) Liquidity of assets 2) Branch expansion 3) Merger of banks

4) Winding-up of banks

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

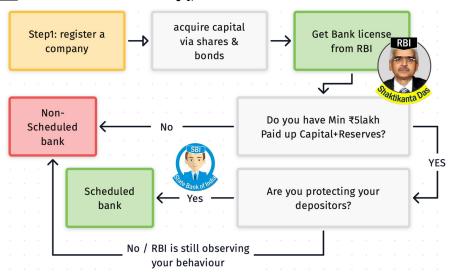
2 In India, the central bank's function as the 'lender of last resort' means what? (केंद्रीय बैंक को अंतिम उपाय का ऋणदाता कहा जाता है इस शब्द का मतलब क्या है) (Prelims-21)

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

Codes: a) 1 and 2

- b) 2 Only
- c) 2 and 3
- d) 3 Only

# 13.12 🔛 🙎 SCHEDULED BANKS (अनुसूचित बैंक)



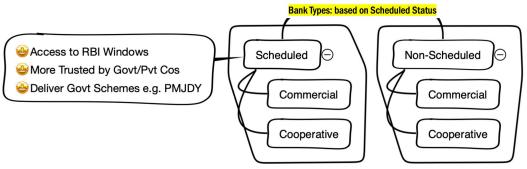
When RBI is satisfied with TWO conditions simultaneously (दो शर्तों का एक साथ पालन होना चाहिए)

- ⇒ #1: That a public sector or pvt sector bank has (Paid Up Capital + Reserves\*1) = Min ₹5 Lakhs
- ⇒ #2: Bank is not conducting business in a manner harmful to its depositors. (जमाकर्ताओं के हितों का नुक़सान न हो इस हिसाब से बैंक अपना कार्य कर रहा है)



then such bank is listed in the  $2^{nd}$  Schedule of RBI Act  $\rightarrow$  then it is known as a Scheduled Bank.

- ⇒ FAQ: What is paid up capital? Ans. Explained in the video.
- ⇒ FAQ<sup>#1</sup>: Which reserves are included in this ₹5 lakh formula? Ans. Routine books did not bother to elaborate so I did not bother to do Google search. Such technical things not imp4exam.
- ⇒ FAQ: "₹5 lakh is very small!!! It should be 1 to ensure safety in bank". Ans 1) neither economic survey, NITI Aayog, Court-PIL, nor any big columnists have demanded reform here. So we need not apply our brain here. 2) Send your suggestion to PM Modi to amend the British Era provisions of ₹5 lakh from RBI Act. Until that happens, prepare the present facts.
- ⇒ FAQ: "nowadays every bank will easily have five lakh rupees of deposits so automatically all bank will become schedule bank from DAY1!" Ans. No. Because, RBI will also check condition#2. Usually RBI ticks condition#2 after observing bank for one year from its birth. So the Scheduled status will not be given on DAY1. (धंधा चालू करने की एक साल तक तो रिज़र्व बैंक उसका मुआयना करेगी की दुसरी शर्त का अनुपालन हो रहा है कि नहीं. पहले ही दिन से रिज़र्व बैंक उसको अनुस्चित नहीं बना देगी।)



Scheduled Bank (अनुसूचित बैंक)	💟 Non-Scheduled Bank (गैर- अनुसूचित)	
Can be subdivided into two parts	Many cooperative banks are non-Schedule. But	
1) Scheduled Commercial Banks (SCB) e.g.	we need not see their list at	
SBI, Axis, ICICI	Rbi.org.in/CommonPerson/English	
Schedule Cooperative Banks like Haryana Rajya	/scripts/banksinindia.aspx	
Sahakari Bank, Tamil Nadu State Apex		
Cooperative Bank		
Required to deposit CRR money to RBI's	Can maintain the CRR money with themselves	
office/vault (CRR का पैसा ट्रक में भरके रिज़र्व बैंक में पहुँचाना	in their own office/vault. (खुद की तिजोरी में रख सकते हैं)	
होगा)		
Eligible to borrow / deposit funds in RBI's	Depends on RBI's discretion. (विवेकाधीन/रिज़र्व बैंक	
window operations. E.g. LAF-Repo, MSF, etc.	की मर्ज़ी – आने भी दे सकता है, लात मार के भगा भी सकता है)	
are required to protect the interests of	Ofcourse, they also have to do it, else RBI can	
depositors and abide to RBI norms. (जमाकर्ताओं के	shut them down under Banking Regulation Act.	
हितो की रक्षा करनी होगी, और रिजर्व बेंक के नियमो का पालन करना		
होगा)		



Scheduled Bank (अनुसूचित बैंक)	💟 Non-Scheduled Bank (गैर- अनुसूचित)
Govt departments and big private sector	Less likely to happen. (ग़ैर अनुसूचित बैंकों में सरकारी विभाग
companies are more likely to open their bank	या बड़ी कंपनियों वाले अपने बेंक-खाते खोले इसकी संभावना कम होती
accounts/ employees' salary deposit accounts in	ਫੈ)
it.	
Bank becomes eligible to partner in the govt's	Usually not eligible. (वित्तीय समावेशन की सरकारी
financial inclusion scheme e.g. PM Jan Dhan	योजनाओं में ग़ैर अनुसूचित बैंकों को सामान्यत: शामिल नहीं किया जाता
Scheme for opening bank accounts of poor	है. जैसे कि प्रधानमंत्री जनधन योजना में गरीबों का बैंक खाता इन बेंको
people. (Ref Pillar1D3: financial inclusion)	में नहीं खोला जा सकता.)

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

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

# 13.13 ☐ PI⇒ COMMERCIAL BANKS⇒ PRE-INDEPENDENCE



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

Tuote 2. Before Independence (Exact Tears Not-INIF.)				
1770	Bank of Hindustan, Calcutta (Europeans owned it. So it was not truly 'Swadeshi')			
1806-42	- Three Presidency Banks at Bengal then Bombay then Madras.			
	- 1861: all three were given the right to issue currency.			
	- 1921: They were combined into Imperial Bank of India⇒ SBI (1955)			
1865	Allahabad Bank (Europeans owned)			
1894	PNB: Indian owned, Lala Lajpat Rai helped in foundation.			
1908	Bank of Baroda by Maharaja Sayajirao Gaekwad III			
1913-30s	State Bank of Mysore, State Bank of Patiala, the rise and collapse of Banking			
	industry, then Birth of RBI (1935)			
1940s	State bank of Bikaner, Jaipur, Hyderabad, Travancore by the respective princely			
	states / Nawabs. Post-Independence, these banks became 'Associated Banks of SBI',			
	and ultimately, merged in SBI (2017).			

# 13.13.1 👸 o Nationalization of Banks After Independence (आजादी के बाद निजी बैंकों का राष्ट्रीयकरण)

⇒ NEXUS between Banks and Industrialists: From 1950s to 1960, only 188 elite people controlled the economy by being in board of top 20 banks, 1452 companies, and numerous insurances, finance companies. This led to reckless lending to directors and their firms. So, Banks failed frequently, RBI had to close them. (रसूखदार लोग के कब्जे में थी बैंकिंग व्यवस्था. भाई भतीजावाद में अंधाधुन कर्ज देते थे)



⇒ Private Banks unwilling to open in rural areas- this did not help in **financial inclusion** of poor, farmers, MSME or achievement of Five Year Plan (FYP) targets or reducing regional imbalance. (वित्तीय समोवेशन, पंचवर्षीय योजनाओं के लक्ष्याक, क्षेत्रीय असमनाताए)

Table 3: Nationalization & Merger of Banks after Independence

	3 7 7 1				
1948	RBI Transfer of Ownership Act.				
	1948: Op. Polo, Hyd. $\rightarrow$ 1951:1 <sup>st</sup> FYP, $\rightarrow$ 1953: Air India nationalized from Tata				
1955	Imperial Bank nationalized and became SBI.				
1955-56	LIC Act took over private life insurance cos.				
	57: 1 <sup>st</sup> Communist Govt in Kerala				
	61: Operation Vijay for liberation of Goa, Daman and Diu.				
1963	State Bank of Jaipur and Bikaner merged together.				
1969	⇒ 'Banking Companies (Acquisition and Transfer of Undertakings) Ordinance,				
	1969: 14 Private banks with ₹ 50 cr/> deposits were nationalized e.g. Bank of				
	Baroda, PNB, Dena, Canara etc. (बड़ी जमा-राशि वाले निजी बेंको का राष्ट्रीयकरण)				
	⇒ Catholic Syrian Bank (1920, Kerala), Ratnakar Bank, Dhanlaxmi Bank, etc., did				
	not have such large deposits, so they were not nationalized. So, they are called				
	"Old Private Banks".				
1972-73	GIC Act- took over private Non-Life (=General) insurance cos. Later GIC was re-				
	organized with 4 subsidiaries: National Insurance, New India Assurance, Oriental				
	Insurance and United India Insurance. More in Pillar#1D				
1980	6 banks with ₹ 200 cr/> deposits were nationalized e.g. Corporation Bank, Vijaya				
	Bank, Oriental bank of Commerce etc.				
2019	Previously, State Government of J&K owned 60% shares in J&K bank → Article				
	370 removal $\rightarrow$ Union Government took-over this shareholding. $\bigotimes$ $\bigcirc$ Further				
	500 type historical-GK things on how it functioned before and how it'll function				
	afterwardspoor cost benefit.				
Reform	following Committees were made for reforms in banking sector				
Committee	M Narasimham-I (1991), M Narasimham-I (1997), Dr. Raghuram Rajan				
s	Committee (2007) and P J Nayak Committee (2014)				
Death	2021: Death of M Narasimham. He was ex-Governor of RBI and chairman various				
देहांत	Committees on Banking Sector Reforms, therefore known as "father of Indian				
	banking system reforms" (एम नरसिंहम भारतीय बैंकिंग प्रणाली सुधार के पितामह माने जाते है।)				

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

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

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

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



4. Goa became a part of independent India.

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

A) 
$$4 - 1 - 2 - 3$$

B) 
$$3-2-1-4$$

# 13.14 GOLDEN ANNIVERSARY OF NATIONALIZATION- ES20









Economic Survey 2019-20 (released on 31/01/2020) Vol1Ch.07 observed:

First round of bank nationalisation was done in 1969 so, 2019-1969=50 years Golden anniversary of the bank nationalisation. (निजी बैंकों के राष्ट्रीय करण की स्वर्ण जयंती)

	Positive (सकरात्मक)		W Negative (नकारात्मक)
✓	After nationalisation, the number of Bank	*	From 1960s to 80s: The Government had
	branches in India, the amount of loan		launched 1) "green revolution" 2) focused on
	given to farmers and villagers= has		poverty removal through five year plans.
	increased.	*	RBI had initiated selective credit control
✓	This greatly contributed to agriculture		tools & moral suasion to channelize more
	production and poverty removal in rural		loans to farmers.
	areas. कृषि उत्पादन और गरीबी निवारण में मदद की है	*	So, those actions were responsible for
✓	PSBs account for 70% of the banking		boosting agriculture & reducing poverty.
	business in India.	Th	us, Bank nationalization itself not helped in it
		mι	ıch. सरकार और रिजर्व बैंक के कदमों के चलते थोड़ा बहुत अच्छा
		काम	हुआ था. सार्वजनिक बैंकों ने खुद से कोई चांद सितारे नहीं तोड़ लिए.

## 13.14.1 > Private sector banks are better than PSBs

⇒ \$\infty\$2019: PSBs' total loss more than ₹ 66,000 crore which is even double than India's budget allocation for education. And so on.. सार्वजनिक क्षेत्र के बैंकों के नुकसान की रकम सरकार के शिक्षा बजट से भी ज्यादा है

Indicators	😯: 😵 PSBs =losers	🏠 : 🕒 Private
		Banks
Total NPA in	majority of bad loans / Non-Performing assets	less
Indian Banks	(NPA: अनर्जक परीसंपतिया) (More in 📑 Pillar#1B2)	
Total Bank frauds	>90% of cases occur in PSBs (वित्तीय धांधली/गबन)	Hardly 7% (घपले कम)
Profitability	Usually, less than private sector Banks	More (मुनाफा ज्यादा)

⇒ Thus, PSBs are clearly not efficient today. If they become more efficient = ₹11 lakh+ crore profit for the Government. अगर सार्वजनिक क्षेत्र के बैंक ढंग से काम करें तो सरकार को 11 लाख करोड़ से ज्यादा का मुनाफा हो सकता है



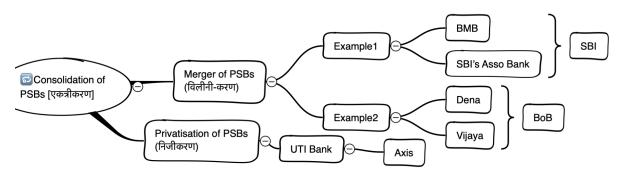
### 13.14.2 PSBs: reasons for inefficiency & remedies?

Reasons why PSBs are inefficient?	Solutions by EEES20 (More details in
सार्वजनिक क्षेत्र के बैंक प्रभावहीन है क्योंकि>	📑 Pillar#1B2) हम क्या सुधार कर सकते है?
PSB staff's salary does not depend on the	- Allow campus recruitment, lateral entry in
profitability of the bank. Employee unions	higher management positions
frequently engage in strikes/hartals. →	- Make employees 'part owners' through
प्रदर्शन आधारित तनख्वाह नहीं. बार बार हड़ताल पर चले जाते है	Employee Stock Ownership Plan (ESOP)
They've apathetic attitude towards the use	- Use Artificial Intelligence (AI), Machine
of artificial intelligence, computer technology,	Learning (ML), Big Data Analytics,
marketing, and customer satisfaction. →	geotagging of mortgaged assets etc.
नई तकनीकी अपनाने में, तथा ग्राहकों का संतोष बढ़ाने में इन बैंकों का	- setup an organization PSBN Network to
उदासीन रवैया है	implement above ICT-solutions.

Further, Since the government is the majority shareholder in PSBs, (सरकार बहमती शेयर धारक है इसलिए)

- 2) 🖺 ि PSBs are subjected to Right to Information (RTI) act, Central Vigilance Commission (CVC), Comptroller Auditor General (CAG), Central Bureau of Investigation (CBI), Courts and media in a more stringent manner. (बैंकर खौफ में रहते है की ईमानदार निर्णय की भी शक की निगाहो से जांच होगी, और उनकी पदोन्नति रोक दी जाएगी)
- 3) Consequently, PSB officials fear harassment under the veil of vigilance investigations & mediatrials. They prefer safety and conservatism over risk-taking and innovation. (रूढ़िवाद पसंद, नवाचार नापसंद)

# 13.15 🏥 🙎 🔂 CONSOLIDATION OF PSBs [एकलीकरण]



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

## 

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

2008-10 State Bank of Saurashtra and State Bank of Indore merged into SBI.



2013	- Bharatiya Mahila Bank setup as PSB, HQ Delhi, 100% ownership by Union			
	Government. (भारत सरकार ने स्वयं बनाया था)			
	- BMB's Board of Directors: All women. Staff & Deposit Holders: both men and			
	women, Loans given predominantly to women- and that too without collaterals			
	upto Rs.1 crore.			
2017, 1 <sup>st</sup>	BMB & 5 Associated Banks of SBI viz. State Bank of Bikaner and Jaipur (SBBJ), State			
April	Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP)			
	and State Bank of Travancore (SBT), merged with SBI from 1st April by swapping of			
	shares.			
2017, Nov	- Alternative Mechanism Panel setup under the Finance Minister's chairmanship.			
	- This panel examine the proposals for merger/consolidation of the Public Sector			
	Banks (PSBs) and forward to Cabinet for approval.			
	- Department of Financial Services coordinates the filework.			
2019, 1 <sup>st</sup>	Vijaya & Dena to be merged into Bank of Baroda.			
April	- Among these three oldest: BoB (1908) > Vijaya (1931) > Dena (1938)			
	- BoB & Dena nationalized in 1969, HQ: Mumbai			
	- Vijaya: nationalized in 1980, HQ. Bengaluru			

Table 5: 2019, FM Nirmala.S announced merger of 10 banks into 4 anchor banks

	Amalgamating Banks $\rightarrow \rightarrow \rightarrow$	Anchor Bank	
	(एकीकृत / विलीन होनेवाली)	(सहारा देनेवाली)	
_	Oriental Bank of Commerce (1943,	1) PNB. (1984, HQ: Delhi, It'll become the 2nd	
	HQ: Gurugram, Haryana),	largest bank after SBI, in terms of business size	
-	United Bank of India (1950, Kolkata)	and branch network)	
Syı	ndicate Bank (1925, HQ: Manipal,	2) Canara Bank (1906, HQ: Bengaluru,	
	Karnataka)	Karnataka)	
_	Andhra Bank (1923, Hyd)	3) Union Bank of India (1919, Mumbai)	
-	Corporation Bank (1906, Mangaluru)		
	Allahabad Bank (1865, Kolkata)	4) Indian Bank (1907, Chennai)	

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

- Benefit? Geographical & technological synergies in ATM, Branches, Security Staff, Servers cost etc. (भौगोलिक और तकनीकी तालमेल)
- resulting into reduced cost of business → better lending & deposit rates. Such bigger banks can even expand business at global level.

# ES20 Vol1Ch7 on 50 years of bank nationalization also noted:

- ⇒ ॡ 2019: Global top-100 banks: China (18 banks), USA (12 Banks), Japan > France > .....India (only 1 bank: SBI at Rank#55). विश्व की 100 सबसे बड़ी बैंकों में भारत का सिर्फ एक ही बैंक है
- ⇒ & Even Sweden and Singapore have more global banks than India, even though these countries' size of economy (GDP: सकल घरेलू उत्पाद) is much smaller than India.



- ⇒ So, given India's size of economy (in terms of GDP), India should have 6-8 banks in the global top 100. → These large banks provide large loans → India can reach \$5 trillion GDP by 31/3/2025. ( More in Pillar4C) Therefore, merger of public sector banks is necessary.
- ⇒ It'll increase the manpower, financial strength of the merged entities, then they can compete at global level. (सार्वजनिक क्षेत्रों के बैंकों का विलीनीकरण करने से उनकी क्षमता में बढ़ोतरी होगी और वह वैश्विक स्तर पे स्पर्धा कर पाएंगी)

#### 

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

#### 13.15.2.1 UTI Bank → 'Privatization' into Axis Bank (2007)

- ⇒ Setup in 60s as a Sarkaari Mutual Fund Company through Unit Trust of India Act 1963
- ⇒ 1993: Obtained License to open UTI Bank.
- ⇒ 2001: Ketan Parekh Sharemarket Scam, Govt has to bailout UTI → further restructuring 2007 → Became Axis Bank: 77% private shareholding + 23% by Public sector bodies like LIC, New India Assurance, SUUTI etc. (as of 2019, Jan). So, presently it's a private sector bank.

#### 13.15.2.2 IDBI Bank $\rightarrow$ Purchased by LIC (2018)

- ⇒ 2014: RBI's P.J. Nayak Committee that suggest Govt should exit shareholding in smaller PSBs, to enhance their efficiency. सरकार ने छोटी सार्वजनिक क्षेत्र के बैंकों से निकल जाना चाहिए ताकि उनकी कार्य क्षमता में बढ़ोतरी हो
- ⇒ **Budget 2016:** Govt agreed to reduce its shareholding to <50% in IDBI Bank.
- ⇒ **Positive:** Govt. need not waste tax-payers' money in running such loss making banks. Govt. no longer worry about BASEL-recapitalization of IDBI.
- ⇒ LIC can market its insurance policies to IDBI consumers (bancassurance).
- ⇒ Negative: LIC policy holders' money is going into a loss-making Bank. They'll be deprived of better insurance-investment products (compared to a situation if LIC invested in a profitable company) (जीवन बीमा निगम के निवेशको का वित्तीय दमन, क्योंकि उनका पैसा नुकसानी वाली बैंक में जा रहा है).
- ⇒ 2018: IDBI had huge losses among PSB, so no mentally-fit investor willing to buy Govt's shares. So, Govt. (forces) LIC to buy its 40% for ~9k crores.
- ⇒ As of 2022: IDBI Bank ownership: 49.24% by LIC and 45.48% by Govt of India. Government aims to sell of this shareholding to private investors.
- ⇒ Though LIC itself is public sector entity, but RBI has declared IDBI as 'private sector' bank (because govt is no longer 'direct majority shareholder')
- 🏲 🕝 FAQ: Why RBI classified IDBI as 'private sector bank'. Ans. send your suggestion to RBI. शक्तिकांता को ठीक लगा तो किया. # 🙆 थोड़ा-पढ़ो-आगे-बढ़ो या आप झंडा लेकर विरोध-प्रदर्शन करो
- ⇒ **Budget-2021:** proposed to take up the privatization of two Public Sector Banks. Names yet to be disclosed. (दो सरकारी बैंकों का निजीकरण किया जाएगा ऐसा बजट में कहा हालांकि नाम घोषित नहीं कीये)



⇒ 2021: Newspapers hint 4 PSBs are shortlisted for privatisation- Bank of Maharashtra, Bank of India, Indian Overseas Bank, Central Bank of India. (But this news not yet confirmed by Finance Ministry (चार सरकारी बैंको का निजीकरण होगा ऐसे अखबारों में समाचार, किन्तु वित्त मंत्रालय ने अभी इन समाचारों की पृष्टि नहीं की है)

#### 13.15.3 PSB Privatization: Banking Investment Company (BIC-वैंकिंग निवेश कंपनी)

- ⇒ 2014: RBI's P J Nayak Committee for Governance of Banks in India.
- ⇒ He suggested setting up a BIC → Govt should transfer PSBs shares to it. Then BIC will act as 'parent/holding company', and all PSBs will become its subsidiary/daughter companies.
- ⇒ BIC will then appoint the board of directors in these PSBs, make policy decisions, privatize / merge them, issue bonds in the market to recapitalise the PSBS for BASEL norms etc [ Ref: HDT-Pillar#1b2]. In a much more professional & sophisticated manner. (यह संस्था पेशेवर और परिष्कृत तरीके से सरकारी बैंकों का प्रबंधन करेगी)
- ⇒ Govt/political interference in the functioning of public sector bank 🔻, Govt responsibility to recapitalize them through taxpayers money will also (🔻 सरकारी बैंकों की कार्यप्रणाली में राजनीतिक दखल में कमी आएगी. सरकार का आर्थिक बोझ भी कम होगा)
- This BIC is NOT YET implemented but once in a while newspaper columnist write about it.

FAQ1: Since Govt will own BIC company, then it can still interfere with those banks. So, the solution is not very powerful. Ans. This much argumentative-nature is not useful in exam. Simply in one line you have to accept and remember this as 'proposed reform' for mains answer writing Point. You should change your approach towards studies if you want to complete the syllabus in a fast and efficient manner.

FAQ2: after government sells its shareholding to BIC, Will those PSBs be classified as private sector banks as it happened in LIC? Ans. Let RBI notify. UPSC is not going to ask you to anticipate and guess in advance what is going to happen at that stage. This is not some constitutional amendment.

## 13.15.4 🗗 🖫 Anti-Arguments against Merger and Privatization of PSBs (विरोध में तर्क)

- Employees worried seniority, promotion, increments (वरिष्ठता, पदोन्नति, वेतन वृद्धि);
- Financial burden of Voluntary Retirement Scheme (VRS: स्वैच्छिक सेवानिवृत्ति योजना का वित्तीय बोझ). What is VRS? Ans. Explained in Video lecture.
- Transfer and VRS of employees → Banks may lose regional identities & customer intelligence. (क्षेत्रीय पहचान चली जाएगी)
- Big customers may shift to other banks for faster service and personalized privileges. (तेजी से सेवा और व्यक्तिगत सेवाए नहीं मिलने पर व्यापारी दूसरे बैंकों में खाता खोलेंगे)
- Private sector banks are no saints. There have been instances of private sector banks engaging in money laundering activities, taking bribes to pass loans to unworthy borrowers- which ultimately harm depositors (निजी क्षेत्र के बैंक काले धन को वैध बनाना, रिश्वत लेकर गलत लोगों के लोन पास करना, और दूसरी वित्तीय धांधलीयों में शामिल है। इसलिए निजीकरण को हमारी समस्याओं का रामबाण इलाज मानना गलत होगा।)



13.16 🏥 🙇 COMMERCIAL BANKS ⇒ PVT. SECTOR BANKS (PVB) निजी-क्षेत्र के बैंक



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

- Government administered loan interest rates for populism= Low profitability for PSBs. (मुनाफा कम)
- Political Interference= Low recovery difficult (राजनीतिक हस्तक्षेप के चलते दुवंग तत्वो से ऋण वसूली मुश्किल)
- Employees Unions hampering any innovation or customer responsiveness. (नवाचार, ग्राहक सुविधा कम)
- 1991: Balance of Payment crisis (BoP: भृगतान संतुलन,More in Pill#3) finally forced Govt. to set up a committee for Banking Sector Reforms under The former RBI Governor M.Narasimham. He suggested:
  - Govt should \( \psi \) its shareholding in Public Sector Banks. (सरकार अपनी शेयर हिस्सेदारी कम करे)
  - RBI should ↓ CRR and SLR (सीआरआर, एसएलआर में कटोती करे)
  - O Govt should not dictate interest rates to Banks. Liberalize the branch expansion policy (बेंकों को लोनदर, शाखा विस्तार नीति तय करने मे सरकार दखल न करे।)
  - Allow entry of New Private Banks and New Foreign Banks. (विदेशी बैंक और निजी क्षेत्र के बैंकों को अनुमति)

Table 6: Three rounds of bank licensing in India

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

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

FAQ: In early 90s- UTI Bank & IDBI Bank were not private sector banks, then why have you kept them here in table? Ans. Because presently, they're private sector banks. I don't have to submit



this handout as evidence in the Supreme Court so I don't care being so pedantic and accurate about everything. You need to change your approach towards studies, to finish syllabus faster.

### 13.16.1 🏥 🙇 🔁 'On-Tap' License to open Private Sector Banks (जब मन चाहे तब अर्जी डाल दो)

A private entity can open Bank only after getting license from RBI under Banking Regulation Act, 1949. Previously, one had to wait till RBI invited applications. But in the On-Tap system (WEF 2016), one can apply to RBI whenever he wishes (like a driving license), provided that:

- 1. It is a Resident Indian individual, NBFC, or private company
- 2. min. 10 years of experience in Banking-Finance Sector, (अनुभव)
- 3. Proposed Bank's shareholding will be initially controlled by Indians. (शेयरमालीकी भारतीयों के हाथ में)
- 4. Must be willing to open 25% branches in unbanked rural areas. (ग्रामीण इलाकों में कुछ शाखाएं खोली होगी)
- 5. Min. 500 crore capital required. (न्यूनतम इतनी पूंजी होनी जरूरी पूंजी)
- 6. Large industrial groups and NBFC with more than ₹5000 crore asset not allowed.
- ⇒ Examples of On-Tap Universal Bank Applicants in 2020-21: Chaitanya India, Pankaj Vaish etc.
- ⇒ RBI's **Shyamala Gopinath** committee reviews/pass-rejects the applications. ( समीक्षा समिति)

FAQ: isn't above definition conflicting with Scheduled Commercial Bank? Ans, given below

#### 13.16.2 Steps or procedure to open a bank (एक बैंक स्थापित करने के की प्रक्रिया क्या है?)

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

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

# 13.17 🛇 🔡 🙇 🖹 ALLOWING NBFC/LARGE CORPORATE TO SETUP BANKS

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



- ⇒ On-Tap guideline: Company with minimum ₹500 cr capital can apply. However, its technical rules about assets/ownership were such that Large NBFCs and industrial houses could not apply for it.
- ⇒ 2020-June: RBI's PK Mohanty committee for Corporate Structure for Indian Private Sector Banks.
- ⇒ Mohanty committee recommended allowing large NBFCs/Corporate/Industrial Houses to apply for Bank licenses. (बड़ी गैर बैंक वित्तीय संस्थान और कॉरपोरेट समूह को बैंक बनाने की छूट मिले)

## 13.17.1 🛇 🔛 🙇 🔁: 🕲 Arguments in Favour पक्ष में तर्क

- ⇒ 🛕 competition, better interest rates, customer services. ज्यादा स्पर्धा, अच्छे ब्याज दर, ग्राहकों को ज्यादा अच्छी सेवाएं
- ⇒ Existing banks' balance sheets have deteriorated by scams & bad loans. So, they've become overcautious and slow in lending to large business projects. Entry of fresh new banks to invigorate the banking sector. पुरानी बैंकों में वित्तीय घपलो/समस्याओ के चलते बड़े प्रोजेक्ट में लोन देने में सुस्ती। नई बैंकों के प्रवेश से इस क्षेत्र में स्फूर्ति आएगी।
- ⇒ IL&FS and other "shadow banks" will be put under more effective control of RBI = Thances of scams associated with NBFCs in futures. प्रति छाया बैंकों को पारंपरिक बैंक का लाइसेंस दिया जाए तो आरबीआई उन पर सटीक रूप से निगरानी कर पाएगी (More on ILFS in pillar1B2-NPA)

#### 13.17.2 🛇 🔡 🙇 🔁: 🐼 Arguments Against: विपक्ष में तक

- ⇒ ② Increased competition may lead to a natural tendency of mis-selling the products and lending money to more risky businesses as evident from 2008's American Subprime crisis. अत्याधिक स्पर्धा के चलते येन केन प्रकार से मुनाफा बटोरने के लिए अनावश्यक रूप से जोखिम लेकर कमजोर कंपनियों को लोन दिए जाएंगे
- ⇒ PNB-Nirav Modi loan scam, Yes Bank-Rana Kapoor scam, ICICI-Vodafone loan scam = RBI has failed to effectively supervise even the existing banks. रिजर्व बैंक वर्तमान बैंकों की निगरानी करने में भी कमजोर साबित हुआ है
- ⇒ �� Already large NBFCs are involved in scams: ILFS scam, DHFL scam, Karvy Capital Scam- the critics are afraid that allowing large NBFCs in the Banking sector = more such scams. वित्तीय घोटालों की माला बढेगी
- ⇒ Corporate governance in large industrial houses is not inspiring confidence at present e.g.

  Ratan Tata vs Cyrus Mistry, Infosys founder Narayan Murthy versus ex-CEO Vishal Sikka etc.

  Allowing them in the banking sector is not advisable. बड़ी कंपनियों का कॉरपोरेट शासन ठीक नहीं है. संस्थापक आपस
  में ही लड़ते झगड़ते रहते हैं
- ⇒ Carge industrial houses like Tata, Ambani, Adani- may use the depositors money mainly to finance their own projects/ nepotism, even if such projects are not viable- There will be evergreening of loans for them. भाई भतीजावाद में लोन दिए जाएंगे, पुरानी लोन चुकाने के लिए नया लोन दिया जाएगा, भले कर्जदार का प्रोजेक्ट बेकार हो.
- ⇒ 🤡 Could be misused for money laundering by big industrialists. (काले धन को वैध बनाने मैं दुरुपयोग)



- ⇒ ऒMay concentrate India's economic power, depositors' savings in the hands of few oligarchs.

  Then it could destabilize the entire banking system. (बचत कर्ताओं की जमा पूंजी और भारत की आर्थिक शक्ति कुछ गिने-चुने रसुखदार/कुलीनवर्ग के हाथों में केंद्रित, जिसे पुरी बैंकिंग व्यवस्था अस्थिर होने का खतरा।)
- ⇒ Even in developed countries regulators do not encourage the entry of large corporates in the banking sector mainly for the apprehensions about governance and financial stability. (विकसित देशों में भी उनके वित्तीय नियंत्रक इस प्रकार की अनुमित नहीं देते क्योंकि उन्हें भी बैंकिंग शासन और वित्तीय स्थिरता में जोखिम दिखता है)
  As of 2021-Sept: Newspapers reports indicate that RBI is unlikely to implement PK Mohanty suggestion.

## 13.17.3 🛇 🔡 🙇 🔁: Conclusion about banking license to Adani/Ambani? (निष्कर्ष)

- ⇒ Anti: Considering aforementioned challenges, risks far outweigh the benefits. RBI and government should focus on improving the administration & supervision of existing bank instead of allowing large industrial houses here. (आकर्षण/फायदे कम और चुनौतियां ज्यादा। इसलिए यह करने की जगह, वर्तमान बैंकों का प्रशासन और निगरानी ठीक करने में जोर देना चाहिए.)
- ⇒ Pro: Considering above benefits, Large NBFC and industrial houses may be given bank licences after due diligence & effective supervision. (उक्त फायदों को देखते हुए, प्रभावी निगरानी के साथ इन्हें बैंक का लाइसेंस देना चाहिए)

# 13.18 🏥 🖄 🇃 COMMERCIAL BANKS ⇒ FOREIGN BANKS (विदेशी बैंक)

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

	3 4 7	
Foreign	- They're Incorporated abroad (i.e. registered under the Companies Act of a	
Bank in India	foreign nation) & opening branch / subsidiary in India e.g. Citibank, Bank o	
	America, HSBC. उन्होंने किसी अन्य देश के कंपनी कानून में पंजीकरण करवाया है और फिर भारत आकर	
	शाखाएं खुली है	
	- While CRR, SLR & other norms applicable, but PSL norms vary depending	
	on number of branches. [ Ref: Prev. Handout: PSL]	
	- RBI gives them 'on-tap' license on reciprocal basis. (REF: Lecture for its	
	meaning)	
Indian	- Foreigners can invest max. 20% in its shareholding. E.g. BoB (15%), SBI	
<b>Public Sector</b>	(14%), PNB (13%) भारत की सार्वजनिक क्षेत्रों में विदेशी निवेश की सीमा	
Bank	- Although Government thinking of raising it to 49% to help capital	
	mobilization for BASEL-III norms. [ More in Next NPA handout]	
India	- Foreigners can invest upto 49% (automatic-स्वचालित तरीके) and upto 74% by	
<b>Private Sector</b>	approval of Government (सरकार की अनुमति लेकर). (More in 📑 Pillar#3A: FDI)	
Bank	- e.g. HDFC (73%), ICICI (59%) Axis Bank (52%) is owned by Foreigners.	



Although Govt thinking of 🛕 to 100% to help capital mobilization for BASEL-III norms . [ More in Next Pillar#1B2: NPA handout]

#### 13.18.1 🖁 Foreign Banks in India: LVB merged with DBS (विलीनीकरण)

- ⇒ 1926: Lakshmi Vilas Bank (LVB) was set up in Tamilnadu. So it is an Old Private Sector Bank. (निजी क्षेत्र की पुराने जमाने की बैंक) 2020-Nov: Its financial situation became weak.
- ⇒ So, RBI approved its merger/amalgamation with Development Bank of Singapore DBS- which is, a Foreign bank operating in India. (वित्तीय हालत कमजोर होने पर अन्य एक बैंक में विलीनीकरण)

## 







Difference	💲 Universal Bank (सार्वत्रिक बेंक)	🐧 🛇 Differential Bank (भेदकर बेंक)	
Open Anywhere: example SBI, ICICI		Geographical Restrictions on branch opening	
Branches	[*After opening 25% of branches in	for Local Area Bank (LAB), Regional Rural	
शाखाएं	unbanked rural areas]	Banks (RRB)	
Accont	Both Time & Demand Deposits of	Payment Bank – Accept Max. 1 lakh deposit	
Accept	any amount.	only. In 2021- This limit increased to ₹2 lakh.	
Give Loans Anyone [After 40% PSL] - SFB, RRB: 75% to PSI		- SFB, RRB: 75% to PSL	
to		- Payment Bank can't give loans;	

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

	Regional Rural Banks (क्षेत्रीय ग्रामीण बैंक)		Local Area Bank (स्थानीय क्षेत्र बैंक)
-	Based on M.Narasimham's Committee on Financial Inclusion in 1970s*  Setup under the provisions of RRB act 1976 & its amendment in 2015. Voting power:  (Union + State + Sponsor bank) = 51%  e.g. Uttar Bihar Gramin Bank (Sponsor	-	Based on Budget-1996 by Finance Minister Manmohan Singh Unlike RRBs, they're not setup by Union or State govts or by any special act or parliament. But by pvt entities simply applying to RBI under Banking Regulation
-	bank- Central Bank of India) Subjected to CRR, SLR norms but RBI could prescribe separate norms.  PSL: 75%.(More in Pillar#1A1) Their loan interest rates can't be more than prevailing lending rates of Cooperative Banks in the area.	-	Act.  Present in Max. 3 geographically contiguous districts. only 1 urban centre per district. (what does it mean? Explained in Video)



- Restricted to few districts. E.g. Baroda
   Gramin Bank branches confined to
   Gujarat's southern districts.
- Ultimate regulator: RBI but immediate regulator NABARD.
- They're Non-Sch. Banks so while CRR, SLR, PSL etc very apply but every norm with caveats.
- Initially 4: (1) Coastal Bank Andhra Pradesh (first to setup in 99), (2) Subhadhra Local Area Bank, Kolhapur; (3) Krishna Bhima Samruddhi (Andhra & Karnataka) and (4) Capital Local Area Bank: Punjab (Largest). But later Capital LAB converted into Small Finance Bank (2016), so now only 3 left.
- Only RBI regulates them.

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

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





## 13.19.2 $\blacksquare$ $\triangle$ $\bigcirc$ Commercial Banks $\Rightarrow$ Differential Banks $\Rightarrow$ SFB & PB

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

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

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

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

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

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

## 13.19.3 🏥 🔷 🛇 🚓 🗐 On-Tap Licenses for starting SFB (मन चाहे तब अर्जी डालो)

- RBI reviewed & found SFBs have achieved their priority sector targets and helped in financial inclusion. More competition and new players will help. (अधिक बैंकों को अनुमित देने से स्पर्धा में बढ़ोतरी वित्तीय समावेशन में मदद)



- so 2019-June, RBI announced it'll allow 'On-Tap' license for SFB soon. (i.e. no need to wait for notification unlike IAS exam, apply whenever you wish like a driving license)

#### Eligibility conditions to start SFB license 'On Tap': (Exact norms NOT IMP for Exam)

- Indian persons/Indian companies with minimum "X" years experience in banking/finance.
- Existing NBFCs, MicroFinance, local area banks, Urban cooperative banks (UCB) and Payments Banks (with 5 years' experience) may also apply for license.
- Examples of On-Tap SFB Applicants in 2020-21: VSoft Technologies, Akhil Kumar Gupta, and Dvara Kshetriya Gramin Financial Services, Centrum etc.
- RBI's **Shyamala Gopinath** committee reviews/pass-rejects the applications.

### 13.19.4 III Mark Small Finance Bank (SFB) gets license (2021)

- ⇒ 2021: RBI approved Unity Small Finance Bank, under 'On-Tap' licensing system.
- ⇒ Unity Small Finance Bank's Ownership: 50:50 between 1) Centrum Finance 2) BharatPe
- ⇒ Unity-SFB has acquired scam-walli PMC cooperative bank. (= PMC's depositors, staff, buildings, assets etc). (सेन्ट्रम ग्रुप पीएमसी बैंक का अधिग्रहण किया है)

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

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

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

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

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

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

## 13.19.5 Commercial Banks → TIII India Post Payment Bank (IPPB)

- Registered as a Public Limited Company under Companies Act, 100% owned by Department of Posts (Ministry of Communication and Information Technology.) → Obtained RBI's License under Banking Regulation Act to start working as a Payment Bank.
- Airtel Payments Bank was first to launch operations in 2017. Later, IPPB launched in 2018.
- Largest customer reach with 1.55 lakh Post offices across India.
- Doorstep banking through Postmen.
- Bank Account Types: Safal, Sugam, Saral (internal differences not imp4UPSC).



- Account can be opened with zero balance, no minimum balance requirement. Max. Balance 1 lakh per person. Minor Customer Aged 10 years or more can also open account. (नाबालिग का भी खाता खुलवा सकते हैं)
- 2019: IPPB announced it desires to convert itself from Payment Bank into a Small Finance Bank (SFB), so it can offer loans to customers. (But as per RBI guidelines, Payment bank need 5 years' experience before upgrading their license to SFB. यानि की अभी मंजिल दूर है।)

#### 13.19.6 Post Office Savings Bank (PoSB)?

Refer to Pillar: 1D3: Financial Inclusion  $\rightarrow$  Small Savings Schemes.

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

- 1) It has been incorporated as a Public Limited Company.
- 2) It started its operation by establishing two pilot branches at Hyderabad and Varanasi. Answer codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

#### 13.19.7 (Proposed) Wholesale & Long Term Finance Banks (WLTF)

- 2017: RBI proposed WLTF Bank. दीर्घकालिक थोक वित्त बैंक.
- Entry capital 1000 crores, can't accept deposits less than 10 crores, can give loans only to large corporates & infrastructure projects. Other banks may use it for PSLC-certificate trading.
- Description But since it's not yet formed, so we need not loose sleep about how exactly it'll work.

## 13.19.8 💸 🕃 : 🔛 Digital Payments- (Proposed) Digital Banks by NITI Aayog (2021)

- ⇒ 2021: NITI Aayog proposed setting up 'full-stack digital banks'.
- ⇒ This will be new type of banks under the Banking Regulation Act, 1949 (BR Act).
- ⇒ Digital Banks will not have physical branches. They will rely on internet for delivering banking services. 
  ② Benefit? financial inclusion of rural area. (नीति आयोग ने ऐसा प्रस्तावित किया है कि नए क़िस्म के डिजिटल बैंक बनाए जाएं जो की भौतिक भौगोलिक रूप से ब्रांच न हो किन्तु इंटरनेट के ज़िरए बैंकिंग सुविधा दे इसे गाँव गाँव तक वित्तीय समावेशन में मदद मिलेगी)
- $\Rightarrow \bigotimes \mathbb{D}$  But since it's not yet formed, so we need not loose sleep about how exactly it'll work.

## 13.19.9 💸 🔀 : 🔛 Digital Payments- NeoBanks (चिकने चुपड़े शब्द)

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

► FAQ: How NeoBanks are similar or different than "DIGITAL BANKS"? Ans. DNot important. When Startup-wallas want to attract inventors, they plant a lot of paid/PR/embellished news items & columns with fancy terms like "NEOBANK" → it doesn't automatically become "exam worthy current affairs"...First of all let RBI/NITI/Finance Ministry/HC-SC etc make repeated



big headlines around this, then we'll see. Observe previous years question papers. (निवेशकों को आकर्षित करने के लिए स्टार्टअप कम्पनीओ द्वारा चिकने चुपड़े शब्दों वाले समाचार प्लांट किए जाते हैं. तो वो अपने आप परीक्षा के लिए काम का नहीं बन जाता. पहले बड़े सरकारी संस्थानों द्वारा कुछ बड़ी बड़ी सुर्खियां बटोरने दो फिर देखेंगे.)

# 13.20 ∰ 爲FI ⇒ BANKS ⇒ COOPERATIVE BANKS (सहकारी बैंक)

Type	🔡 🖄 Commercial	Cooperative Banks
	Banks	
Banking Reg.	Applicable since 1949	Applicable since 1966.
Act		
Regulator	RBI	Under RBI's supervision:
		- Multistate Cooperative Banks
		- Urban Cooperative Banks
		<b>Under Dual supervision</b>
		- Other types of cooperative banks are under
		dual supervision of RBI + respective State
		govt's registrar for cooperative society.
CRR, SLR,	Yes	Yes, but, RBI could keep different slabs/ norms.
BASEL-III		
Repo, MSF	Eligible to borrow	Yes, but only selected category of Cooperative
		Banks
PSL Lending	Yes 40-75%	Only urban cooperative banks
Who can	Anyone	First preference to members
borrow		
Vote power	Based on Shareholding,	According to Cooperative Society norms,
	like a Commercial	members have vote power. So, 1 member = 1 vote
	Company	irrespective of how much capital contributed.
<b>Profit Motive</b>	Yes, purely profit motive,	Desire to help community. So, lending rates little
(मुनाफा करने की	so lending rates may be	lower than commercial bank
चाह?)	higher than Coop.	
Presence (कहा पाई	All India & overseas	Mainly in Gujarat, Maharashtra, Andhra,
जाती है?)	branches.	Tamilnadu.

© Challenges: Politicization, casteism, poor recovery of loans, scams, money laundering. (राजनीतिकरण, जातिवाद, कर्जा वसूली में अनियमितता, घोटाले, धन-शोधन/ काले धन को वैध बनाना)

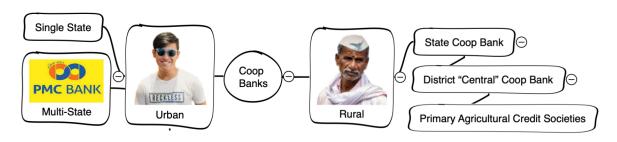




Table 7: Classification of Cooperative Banks

Urban Cooperative Banks (UCB: शहरी)	Rural Cooperative Banks (ग्रामीण)	
Further subcategories depending on	1) <b>Notable</b> State Cooperative Bank → District	
- Scheduled / Non-Scheduled; OR	Central Cooperative Bank (DCCB) $\rightarrow$	
- Single State / Multi State.	Primary Agricultural Credit Societies	
From 2018, RBI allowed them to voluntarily	(PACS: प्राथमिक कृषि ऋण समितियां)**	
upgrade to Small Finance Banks, with certain	2) Misc Types: Land Banks, Cooperative	
conditions.	Agriculture & Rural Development Banks.	
	(they give longer duration loans compared	
	to above banks. How long-duration?	
	NOTIMP)	
	**PACS are not 'banks'. They can't issue	
	chequebooks. RBI doesn't regulate them. Only	
	State registrar regulates them.	

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

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

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

Answer Codes: [a) 1 only

- [b) 2 only
- [c) Both 1 and 2
- [d] Neither It nor 2

## 13.20.1 🏥 🙆 Cooperative Banks: Negative News (2019): PMC Bank (कांड हो गया)

- ⇒ The Punjab and Maharashtra Cooperative (PMC, HQ-Mumbai, setup 1984) is a Multi-State Scheduled Urban Co-operative Bank. It functions in Maharashtra, Delhi, Karnataka, Goa, Gujarat, Andhra and MP.
- ⇒ PMC bank loaned large amount to a weak company named 'HDIL', because of its cozy relations with bank directors. Company who couldn't repay it. NPA became so large, bank might collapse.
- ⇒ RBI imposed withdrawal limits on the depositors using the powers of Banking Regulation Act.

  Because, if there was no withdrawal limit → 'bank run' would have been so high even CRR-SLR can't fulfill it.
- $\Rightarrow$   $\bigcirc$   $\bigcirc$   $\bigcirc$   $\bigcirc$  Then ball-by-ball commentary of RBI/Govt/SC/HC action = poor cost benefit.
- ⇒ **Budget-2020:** Promised to amend the Banking Regulation Act to increase RBI's powers over cooperative banks. → done through Ordinance, which was later passed as Act बैंकिंग विनियमन (संशोधन) अध्यादेश/कान्न
- ⇒ 2021-22: Scam-hit Punjab and Maharashtra Cooperative Bank Ltd (PMC Bank) aquired by / merged with Unity Small Finance Bank Ltd. (USFBL). Now, PMC bank's victim depositors will get ₹5 lakh from DICGC (What is this org? Ans. 1B2). → if any remaining due amount beyond ₹5 lakhs → Victim depositors to get it from USFBL bank in instalments in next 10 years



(c) Punjab and Maharashtra Cooperative Bank (d) South Indian Bank

# 

- 2020-June: Ordinance issued to amend the Banking Regulation Act, 1949. 2020-Sept: Act passed
- **Objective?** protect depositors, prevent cooperative banks from falling into fraudulent activities. Table 8:भूतकाल में दोहरे नियंत्रण के चलते घोटाले/कांड के बाद कार्यवाही धीमी होती थी, इसलिए अब ज्यादातर सहकारी बेंको को सिर्फ रिजर्व बेंक के दायरे मे लाया गया

Type of Bank	<b>ॎ</b> BEFORE: Regulator(s)	After:
		Regulator(s)
Commercial (SBI Axis)	<b>₩</b> RBI	<b>W</b> RBI
Coop (Single State: rural)	RBI + State Govt (=dual	RBI + State
	regulation)	Govt
Coop (Single State: urban)	₩ RBI + ② State Govt(=dual	<b>T</b> RBI ONLY
	regulation)	
Coop (Multi State	RBI + 🕲 Union Govt(=dual	<b>W</b> RBI ONLY
Cooperative)	regulation)	
Coop: Primary Agricultural	© State Govt	
Credit Societies ("PACS")		

- ⇒ State Government = State Govt's Registrar for Coop Societies
- ⇒ Wunion= Agro Ministry's Registrar Multi-State Coop Societies

Before 🐯 🐯	After this Ordinance/Act/Amendment 🐯 🐯	
If a commercial / cooperative bank was on	⇒ It makes technical reforms for easier/faster	
verge of collapse, then RBI would first issue	amalgamation / merger / restructuring of weak	
"moratorium (रोक)" e.g.	banks. (कमजोर बैंकों का आसानी-तेजी से समामेलन / विलय /	
⇒ "single depositor can't withdraw more	पुनर्गठन)	
than XX amount,		
⇒ Bank can't give loans until YY Date.		
$\Rightarrow$ Then RBI will begin the process of fixing		
the bank. $\rightarrow$ This disrupted the normal		
business of the bank and created panic		
among investors. (निवेशकों में दहशत फेलती थी)		
It was difficult for a coop bank to raise	Technical norms relaxed, to make it Easier.	
capital/money by issuing IPO-		
Shares/Bonds-Debentures. (Ref #1C)		

Before 🐯 🐯	After this Ordinance/Act/Amendment 🐯 🐯
Provisions were vague / weak.	Bank chairman must not be insolvent or a convicted
(कानून में स्पष्टता नहीं थी / कानूनी प्रावधान कमजोर थे)	person etc., else RBI can remove him/her. (दिवालिया या
	अपराधी नहीं होना चाहिए)
Provisions were vague / weak.	Coop Bank's Board of directors must have at least
	51% of members with knowledge or experience in
	accountancy, banking, economics or law. ELSE RBI
	can replace board members (हर स्थानिक छूटभैये नेता को अब
	बोर्ड-सदस्य नहीं बना सकते)
Provisions were vague / weak.	However, if scam in a cooperative bank $\rightarrow$ RBI can
	takeover/supersede its board of directors for upto 5
	years, subject to some technical conditions. (घोटाला हुआ
	तो सहकारी बेंक के बोर्ड का अधिग्रहण कर, रिजर्व बेंक वहाँ अपने लोगों/अफसरों
	को 5 सालों तक वहाँ बैठा सकता है- हालाकी कुछ तकनीकी शर्तों के अधीन)

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

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

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

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

# 13.21 $\bigcirc$ $\blacksquare$ Formal FI $\Rightarrow$ Non-Banking Financial Institutions

#### 13.21.1 Development Finance Institutions (DFI: विकास वित्त संस्थान)

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



Table 9: Exact Years, Full Forms not very important but Chronology is important

1049	Industrial Finance Corporation of India (IFCI) owned by the Finance Ministry's
1948	Department of Financial Services.
1055	National Small Industries Corporation (NSIC) under the Ministry of Micro, Small and
1955	Medium Enterprises (MSME).
1055	ICICI: Industrial credit and Investment Corporation of India Ltd was setup by GoI, World
1955	Bank etc. Later became a Private Sector Bank.
1964	Industrial Development Bank Of India (IDBI) Act. 2004: Transformed into a Public Sector
1904	Bank. 2018: Government sold its majority shareholding to LIC.
2006	India Infrastructure Finance Company Ltd (IIFCL) owned by the Finance Ministry's
2000	Department of Financial Services.
2021	National Bank for Financing Infrastructure and Development (NaBFID) Bill, 2021 (बुनियादी
2021	अवसंरचना और विकास के वित्त पोषण के लिए राष्ट्रीय बैंक)

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

- ⇒ ☐ Budget-2021: We'll set up this org with ₹20,000cr capital.
- ⇒ NaBFID will give loans worth ₹5 lakh crore in 3 years. **Chairman**: K.V. Kamath.
- ⇒ It'll get funding from RBI, Govt, World Bank etc & by issuing bonds in market etc
- ⇒ As per news reports 1) The govt may order Insurance & Pension companies to invest some ₹₹ in NaBFID. 2) This org may replace the India Infrastructure Finance Company Limited (llFCL)
- ⇒ Benefit? It'll help in National Infrastructure Pipeline (NIP) project.( Ref: HDT-Pillar#5:Infrastructure)

# 13.21.3 \(\infty\) \(\begin{array}{c} \begin{array}{c} \b

Ref: HDT-Pillar#1B2: Bad Loans

## 13.21.4 $\bigcirc$ $\square$ Non Bank $\Rightarrow$ All India Financial Institutions (AIFI):







#### अखिल भारतीय वित्तीय संस्थान were setup by respective acts of Parliament

EXIM (Jan 1982)	NABARD (Jul 1982)	NHB (1988)	SIDBI (1990)
आयात निर्यात के लिए	कृषि और गाँव विकास के लिए	गृह/आवास निर्माण	छोटे उद्योगों के विकास के लिए
Export-Import	National Bank for	National Housing	Small Industries
Bank of India	Agriculture and	Bank	Development
	Rural Development		Bank of India
Boss: Government	Previously RBI had	Original boss: RBI	Originally 100% owned by
of India (100%)	minority-stakes in	(100%). But,	IDBI. Later on shareholding
	NABARD but 2018:	2019-Apr: RBI	transferred $\rightarrow$ SBI, LIC etc
	100% Govt owned.	sold 100% to	
		Govt.	
Promotes cross	- Regulatory	- Finance to	- Operates Credit
border trade and	supervision:	banks and	Guarantee fund, Small
investment, helps	Coop + RRB	NBFCs for	Enterprises Development
importers-exports	- + Indirect	housing	Fund (SEDF).
with loans and	refinance to	projects.	- Operates udyamimitra.in
foreign currency.	farmers, artisans	- RESIDEX	for loans to small
	- Operates Rural	index to	entrepreneurs via schemes
	Infra.	monitor	like Mudra, Stand-up-
	Development	residential	India. (🖺 Ref: HDT-
	fund (RIDF)	real estate	Pillar#1D: to know more
		prices.	abt these schemes)
		- Earlier it was	
		Regulator of	
		Housing	
		Finance Cos	
		(NBFC)**	

- ⇒ \*\* **Budget-2019:** shifted NHB's regulatory powers to RBI.
- ⇒ NABARD Amendment Act 2017: facilitated transfer of RBI shares to Govt.
- ⇒ AIFIs are not 'banks' because can't accept direct deposits from the public.
- ⇒ RBI is the regulator over AIFI, BASEL norms applicable but RBI can prescribe different / slabs norms / deadlines. What/why/how?NotIMP.
- ⇒ Atmanirbhar Bharat 2020→ RBI announced Special refinance facility for AIFI → they can borrow more ₹₹ from RBI → circulate loan towards to agriculture, housing, MSME, foreign trade. (विशेष पुनर्वित्त सुविधा)
- $\Rightarrow$   $\bigcirc 5^{th}$  AIFI = Industrial Investment Bank of India (IIBI) closed in 2012.



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

(UPSC-Pre-2013) MCQ. Which of the following grants/grant direct credit assistance to rural households?

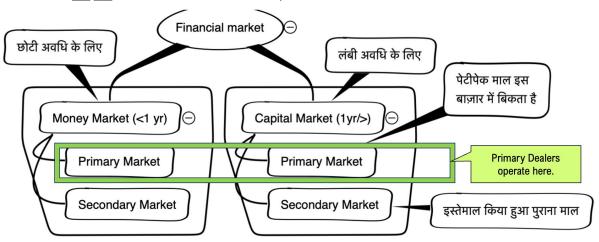
- 1) Regional Rural Banks
- 2) National Bank for Agriculture and Rural Development
- 3) Land Development Banks

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

Find Correct Statement(s) (Asked in UPSC-Prelims-2004)

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

13.21.5 🛇 🏭 🖎 FI ⇒ Non-Bank ⇒ Primary Dealers (PD)- (प्राथमिक विक्रेता)



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

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

13.21.6  $\bigcirc$   $\blacksquare$   $\blacksquare$  FI  $\Rightarrow$  NBFCs (गेर-वैंकिंग वित्तीय कंपनिया)









Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
Registration	Banking Regulation Act	Companies Act
Supervision	RBI	Depends.Mutual funds-SEBI, Insurance Co:
		IRDAI etc.
Entry Capital	500 Cr.	5cr for MicroFin, 2 cr for others; 200 cr. For
		reinsurer etc. [figures not imp]
Numbers	13 Public Sector (incl. Post Payment	Total 10,190. Out of them 108 deposit Taking,
	Bank), 56 RRBs, 39 private sectors	remaining are non-deposit-taking (ND).
	(including SFB, PB), 44 Foreign Banks.	[figures not imp]
Can accept	- Can accept Time & Demand	- Only NBFC-Deposit-Taking (NBFC-D) &
Deposits?	deposits [also known as	even they can accept only Time Deposits. E.g.
	chequable deposit].	Bajaj Finance.
	- Payment banks- can't accept	- Deposits are not insured under DICGC Act.
	time deposits e.g. Fixed	More in Pillar#1B1
	Deposits.	
	- Their deposits are insured	
	under DICGC Act.	
Can issue	- Yes, Banker can issue these	- Can't issue their chequebook, debit/credit
Chequebook,	instruments.	card.
Credit Card,		- FAQ: Bajaj Finserv is issuing Credit
Debit Card?		Cards!!?? Ans. Bajaj Finserv is giving you the
		credit card of RBL-Bank. So Bajaj Finserv is
		acting as an 'Agent' of the RBL Bank.
Prudential	CRR, SLR, applicable	- SLR applicable ONLY on NBFC-D. but RBI
Norms सावधानी		can prescribe different slabs / formulas than
के मानदंड		banks.
		- CRR not applicable on any type of NBFC.
BASEL	Yes, Applicable.	- Applicable on 108 NBFC-D and
Capital	More in Pillar#1B2	- Applicable on 276 NBFCs – ND – SI (non-
Adequacy		deposit taking Systematically Important with
Norms, LCR-		assets over ₹ 500 crores)
HQLA norms		- e.g. L&T Finance, Cholamandalam etc.
		But RBI can prescribe different slabs / norms /deadlines.
Investment	They can keep depositor's money	Can invest clients' money in share market. E.g.
ग्राहक का पैसा	in RBI approved securities. But	Mutual Funds, Insurance Companies.
किधर निवेश करते	can't invest in share market per se,	
	directly.	

|--|

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

<sup>\*\*</sup>More about these Ombudsman in Pillar#1D: Insurance handout

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

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

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

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

# 13.21.7 🚫 🔛 🙇 NBFCs Regulated by RBI 🕡 (नियंत्रण/देखरेख)

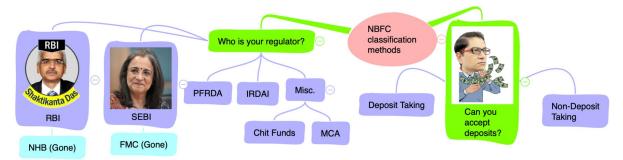


Table 10: @ @no need to remember examples, just observe pattern

Investment and	They mainly help buying 'assets/machinery' like tractor, bulldozer, etc
Credit Company	E.g. SREI Equipment Finance, Limited
Consumer Durable	- Help buying TV, Fridge, Mobile, AC etc. with Buy now Pay later
Loan Finance /BNPL	(BNPL) / Equated Monthly Instalment (EMI) model. (How they're
	similar or different = PHD not required. हर चीज़ का विकिपीडिया बनना जरूरी नहीं
	है पुराने पेपर देख लो)
	- Eg. Bajaj Finserv, Flexpay, Zestpay etc.



Core Investment	TI 11	
	- They do long term investment in Companies. E.g. Tata Capital,	
Company (CIC)	Reliance Capital, Infrastructure Leasing & Financial Services Limited	
	(IL&FS)	
	- IL&FS in controversy because couldn't repay interest to lenders. 🖹	
	More in next NPA handout.	
Infrastructure	Internal difference notimp for UPSC. Basically, they give loan for infra.	
Finance Company	Projects like highway, airport, powerplants. ( बुनियादी अवसंरचना के लिए दीर्घ अविध के	
(IFC)	लोन)	
Infrastructure Debt	- E.g. Rural Electrification Company ltd. (REC)	
Fund (IDF)	- L&T IDF, Kotak IDF, IDFC IDF ("IDFC First" has separate license	
	for Private Sector Bank).	
Asset Reconstruction	They buy bad loans / NPA from Banks & other NBFCs, and try to salvage	
Companies (ARC)	value from the underlying assets. E.g Anil Ambani's Reliance ARC.	
Factoring	They lend short term money to client against his invoices / accounts	
Companies	receivable. E.g. IFCI Factors, Siemens Factoring. (What is Factoring?	
	Ans. Fillar#1C)	
Gold Loan	e.g. Muthoot gold loan, Mannapuram Gold.	
Companies		
Micro Finance	RBI decides their Loan to Value ratio (LTV) (More in Pillar#1A2).	
	- 2010: RBI's Y. H. Malegam Committee → RBI created a new NBFC	
Institutions	category called Micro Finance Institution (MFI)	
(MFI: सूक्ष्म वित्त संस्थान)	- They give small loans to poor without collateral, flexible EMI.	
	- eg:Bandhan (W.Bengal, separately got PvB license), Disha (A'Bad:	
	separately got SFB license), SKS (Andhra), Cashpor (UP), Ujjivan	
	(Karnataka).	
	- ES20 appreciated the role of MFI in Helping the weaker section	
	because Majority of its borrowers are women (97%), SC/ST(30%) and	
	minorities (29%)	
	- Who regulates them? RBI + Ministry of Corporate Affairs	
	- Who can borrow from MFI? Ans. Household whose annual income is	
	not more than ₹ 1.25 lakh (rural) or ₹ 2 lakhs (urban).	
	- How much can one person borrow from an MFI? Ans. Not More than	
	₹ 1.25 lakh. [**Before 2019-Oct above limits were lowers.]	
MUDRA (2015)	- A non-deposit taking NBFC owned by SIDBI. It gives indirect loans to	
(_013)	Micro enterprises through PM Mudra Yojana.	
	- More in Pillar1D- Financial Inclusion.	



Fintech cos: P2P	- It is like Olx-Quickr connecting sellers of second hand goods with
Lenders	buyers. the P2P lending websites connect borrowers and lenders. E.g.
	Faircent.com, Cashkumar.com, CRED Mint etc.
	- 2021- CRED Mint launched. Newspapers gone crazy so Babushonas
	are demanding that I should teach them PHD thesis on its business
	model. 🖰 Bhai, I'll not teach it. Look @previous exam MCQs in this
	Handout
Fintech cos: Account	- They manage information of a customer's financial assets & display it
Aggregators (AA)	to him or to third party (like loan giver, credit rating company &
	Apps)
	- 2018: RBI gave license to 5 cos- NeSL,Cookiejar etc.
Fintech cos:	- E.g. Loanadda.com, Moneytap.com, Loanbazaar, Paisabazaar etc.
Loan Aggregators	portals
(ऋण समूहन)	-
	agents of banks/NBFCs to sell loans.
	- But, customers face difficulty in complaint/grievance redressal.
	- Now even Google Pay app developing features for loans. So RBI has
	expressed its displeasure and is presently working on rules to fix this.
Residuary (अवशिष्ट)	Any NBFC not regulated by any other regulator- falls under RBI's
	purview.

13.21.8 NBFCs Regulated by SEBI ( More in Pillar#1C)







	They help clients buy-sell shares and bonds (=debentures) depending
	on his instructions E.g. Motilal Oswal, Indiabulls, Sherkhan, Karvy etc
Stock Broker	2019: Karvy Stock Broking transferred clients money & shares into its
	own group company Karvy Realty without clients' consent, so SEBI
	banned Karvy.
	They pool clients' money and MF-manager invests it in shares/bonds
	using his own discretion & expertise.
Mutual Funds (MF)	E.g. SBI's Shariah Equity Mutual Fund: clients' money invested in
	Sharia compliant Cos. That don't deal with alcohol, pork, debt, tobacco
	or weapons.
REITs / InvITs	Pool & invest money in real estate / infra projects e.g. IRB. < 🖹 More
KL115/IIIVI15	in Pillar#1C: SEBI Handout>



	⇒ Underwriting, Merger & Acquisition, Wealth Management of rich	
Investment Banks:	people:	
(USA term) &	⇒ E.g. Kotak Mahindra, Citigroup, Bank of America, DSP Merrill Lynch,	
Merchant Banking	Morgan Stanley, SBI capital	
Companies:	⇒ 2021: SEBI allowed payments banks to act as investment bankers (after	
(UK term)	fulfilling the rules/regulations of SEBI). सेबी से अनुमति लेकर भुगतान बैंक ये कर	
	सकते हैं	
Venture Capital	VCF Help startup companies via equity finance e.g. IFCI-VCF, IDG-VCF	
Fund		

# 13.21.9 NBFCs Regulated by Others 🐉







Regulator	Example NBFC Companies		
IRDAI ( More in Pill1D)	Insurance Regulatory and Development Authority (IRDAI) regulates:		
	- 1) Life Insurance companies e.g. LIC, HDFC Standard Life Insurance		
	- 2) Non-Life (=General) insurance e.g. IFFCO-Tokyo General Insurance.		
	- 3) Policy aggregator web-platforms such Policybazaar.com		
PFRDA	Pension Fund Regulatory and Development Authority (PFRDA) regulates all		
( More in Pill1D)	Pension Funds, except EPFO & other statutory funds.		
	- Housing Finance Companies such as DHFL, Muthoot Housing finance		
National Housing	etc.		
Bank (NHB)	- They were regulated by NHB but after Budget-2019, this category's		
	regulation handed over to RBI.		
	1. NIDHI Companies: Mutual benefit club, only members can borrow. e.g.		
Ministry of	South Madras Benefit Fund ltd, Maben Nidhi Ltd (of Mannapuram		
Corporate Affairs	group)		
	2. Microfinance Companies: learned in previous section.		
State Registrar of Chit Funds	Chit fund is a type of collective investment scheme with monthly		
	contributions & borrowing by contributing members e.g. Shriram Chits. (Ref		
	Pillar#1D)		

# 13.21.10 😂 ( 🛇 🔛 ): NBFC: Shadow Banking (आभासी / प्रतिछाया बैंकिंग प्रणाली)

⇒ ES20 observed: Shadow banking is a set of activities and institutions. They operate partially (or fully) outside the traditional commercial banking sector. They are not fully regulated by the RBI. ये संस्थाए पारंपरिक बैंकिंग नियमों के दायरे से बाहर काम करती है.



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

Table 11: Three important segments of the shadow banking system in India

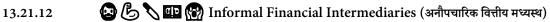
HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)		
LDMFs	- Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies).		
	- e.g. certain schemes by UTI, Kotak, L&T, Tata mutual funds		
Retail-	Retail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

Shadow banking system's assets are risky. Sometimes they can't honour their obligations/bond repayments. It results into severe crisis, as seen in the ILFS crisis (2019). (उनकी संपतिया जोखिमपूर्ण होती है) (More in Pillar#1B2)

#### 13.21.11 NBFC-not allowed in India: Islamic Banking

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

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





- Unlike banks/NBFCs, they provide loans without formal application procedure, etc but require Property/Vehicle/Home/Goods/Crop/Gold etc. as collaterals/pawn. (संपत्ति गिरवी रखवा के कर्ज)
- They charge very high compound interest rates & use muscle power for recovery (ऊंचे ब्याजदर, वसूली के लिए धमकाना-बलप्रयोग करना.)



- For every Rs.100 borrowed by a rural household, 33% from informal money lenders, remining from banks, friends-family etc. (2012 data)
- They don't fall under RBI purview, but State Govts have individual laws to regulate them e.g. Bombay Moneylenders Act 1947, Kerala (1958), Gujarat (2011). These laws require such informal lenders to register, impose ceiling on the interest rate & prohibit strong-arm tactics. (रिजर्व बैंक की निगरानी में नहीं किंतु राज्य सरकारों ने नियंत्रण के लिए कानून बनाएं- पंजीकरण, ब्याज की महत्तम सीमा निर्धारित करना, बलप्रयोग/जबरन वसूली पर रोक)

Table 12: Following Examples/Differentiation not imp for IAS Exam but Banking Exams

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

## 13.21.13 Mock Questions for Mains

- "Discuss the evolution / structure / function / objective of Payment bank/RRB etc"= This is a too simplistic Mains Question for UPSC. These institutions have to be seen in the context of GDP/Economic Growth, Investment/NPA-Bad loans, Inclusive growth/Financial Inclusion. So, indirectly you may use'em as fodder points in such questions. (इस प्रकार के सामान्य प्रश्न नहीं पूछे जाते यूपीएससी मुख्य परीक्षा में)
- 2. "Suggest reforms for public sector bank, discussion their success after nationalization" etc. = Those topics are still half-finished until we study Pillar#1B2: Bad loans, BASEL and other burning issues in the banking sector. (सार्वजिनक क्षेत्र के बैंको में सुधार कि चर्चा कीजिए ये मुद्दा अभी हमने पूरा नहीं पढ़ा क्योंकि दिवालियापन की समस्या के बारे में अगले Pillar#1b2 में और पढ़ाई होगी)

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