Banking System

Bank :

- Any financial institution which accept deposit from public (CASA) for the purpose of mobilising their saving and advancing loan for the purpose of incuring their expenditure called bank.

- ## functions of Bank

primary function

1. Accepting deposits
2. Advancing loons

secondary function

Agency function

1. Interest payment
2. Installment payment
3. Receiving of interest
4.

General utility function

1. ATM facility
2. Locker facility

Non Banking finance Company (NBFC) :

- Any financial company which per-forms all the functions of a bank except accepting deposits (CASA)

Note : An NBFC cannot perform agricultural activities, industrial activities, Real estate activities.

Difference between Banks and NBFC:

Bank	NBFC
work under Banking Regulation Act 1934.	work under companies Act (1956) (2013)
Banks can accept deposits and advance loans.	They do not accept deposits (CA SA) but they can advance loans.
issue cheque	cannot issue cheque
They perform payment and settlement system.	They do not perform payment and settlement system
Regulation : RBI	Regulation : RBI and MCA
credit creation is there.	No credit creation is there.
CRR and SLR are there	No CRR and SLR are there
Deposits are ensured under DICGC	Deposits are not ensured under DICGC.

Deposit Insurance and credit Gurantee Corporation (DICGC)

- work under DICGC Act, 1961
- Established on 15 July 1978
- It is a subsidiary of RBI.
- All scheduled commercial Banks, RRBs, ~~Local Area Banks~~ comes under DICGC.
- DICGC ensured the deposits upto ₹ 5 Lakh, recommended by Damodar committe (customer services in Bank).
- Earlier it was ₹ 1 Lakh.
- The burden of premium is borne by banks itself.
- 12 paise / ₹ 100.

Micro finance Institution (MFI)

- They provide financial help to the Economically Backward people.
- The concept of microfinance was originated by Mohammad Yunus (Bangladesh → 1976 → Bangladesh Grameen Bank)
- Rural area (Income 1.25 Lakh)
  Urban area (Income 2 Lakh)

* As per RBI report and H Malegham commitee (2010) the MFI can provide loan upto 1.25 Lakh.

* MFI provide the following services:

(a) credit services
(b) Remittance / Transfer of funds.
(c) Helps in creation of savings.
(d) provides pension facility
(e) provides insurance facility as well

* In India the microfinance facility was started by NABARD in 1992.

⇓

Self Help Group Bank Linkage programme

RBI

- Commercial Banks
- Cooperative Banks
- Development Banks

Commercial Banks

- Scheduled commercial Bank
- Non-scheduled commercial Bank

under 2nd sch-edule of RBI Act 1934.	Do not come under RBI Act 1934.
minimum paid-up capital must be rupees 5 Lakh.	No clause of paid-up-capital
They can borrow money from RBI	They do not borr-ow money from RBI.
They have to depo-sit CRR to RBI	They have to depo-sit CRR itself.

Cooperative Bank

- Rural cooperative Bank
  - Primary Agricultural Credit Society (PACS) (village level)
  - District / Central Cooperative Bank
  - State Cooperative Bank (Apex)
- Urban-cooperative Bank
  - Single State Co. Bank
  - multi-State Co Bank

Cooperative Bank

- Registration

  a) State cooperative Society Act

  or

  Cooperative Society Act, 1912

ⓑ Multi-State Cooperative Society Act 2002.

- **Regulation**

  ⓐ by RBI and NABARD

  ⓑ Banking Laws (Cooperative Society Act 1955)

- **Control**

  ⓐ RBI

  ⓑ State Register of Society

- In 2020, RBI gave the status of schedule commercial Bank to all urban cooperative Bank and multi-State cooperative Bank.

- In 2021, NS Vishwanathan gave the recommendation of making all cooperative Bank into 4-tier structure.

  (i) Tier 1 : Deposit upto ₹ 100 crore

  (ii) Tier 2 : Deposit ₹ 100 cr - ₹ 1000 cr

  (iii) Tier 3 : Deposit ₹ 1000 cr - ₹ 10000 cr

  (iv) Tier 4 : Deposit ₹ 10000 cr or more

Commercial Banks

- Public Sector Bank
  - SBI + 5 Associate
  - Nationalised Bank → 11
- Private Sector Bank
  - Private Indian Sector Bank
    - ICICI
    - HDFC
    - Kotak mah
    - yes Bank
    - Bandhan Bank
    - IDFC
  - Private foreign Banks
    - SCB
    - HSBC
    - RBS
    - CITI
- Regional Rural Bank (RRBs)

Public Sectors Banks

State Bank of India (SBI)

- In $\boxed{1806}$ → first presidency Bank ⇓ Bank of calcutta
- In $\boxed{1809}$ → Bank of calcutta conver-ted into Bank of Bengal
- In $\boxed{1840}$ → 2nd presidency Bank ⇓ (Bank of Bombay)
- In $\boxed{1843}$ → 3rd presidency Bank ⇓ (Bank of Madras)

- In $\boxed{1921}$ → All the 3 presidency Bank amalgated to form '<u>Imperial Bank of India</u>'

- $\boxed{\text{1 July 1955}}$, Imperial Bank of India converted into SBI. (by the recommendation of Gorewala committe)

- In 1959, <u>State Bank of India Associate Bank Act was passed.</u>

  ⇓

  under this act SBI acquired some Banks called '<u>Associate Banks of SBI</u>'.

- In 1963 → <u>State Bank of Bikaner</u>

  \+

  <u>State Bank of jaipur</u>

  <u>(State Bank of Bikaner and Jaipur)</u>

- In 2008 → <u>State Bank of Saurastra</u> merged with SBI.

- In 2010 → <u>State Bank of Indore</u> merged with <u>SBI</u>.

<u>SBI Headquarter</u> : $\boxed{\text{Mumbai}}$

<u>SBI Head</u> : $\boxed{\text{Dinesh Kumar Khara}}$

- $\boxed{\text{SBI}}$ is <u>one of the top 50 Bank of world</u>.

Nationalised Bank

- first phase of Bank Nationalisation in India : $\boxed{1969}$ → $\boxed{14 \text{ Bank}}$ → Deposit size $\boxed{50 \text{ crore or more}}$

- Second phase of Bank Nationalisation in India : $\boxed{1980}$ → $\boxed{6 \text{ Bank}}$ → Deposit size of $\boxed{200 \text{ crore or more}}$

- In $\boxed{1993}$ New Bank of India (out of 6 Nationalised Bank of India) merged with PNB.

- $\boxed{\text{Dena Bank}}$ + $\boxed{\text{Vijaya Bank}}$ → merged with Bank of Baroda

- Oriental Bank of commerce + United Bank of India → merged with PNB

- Syndicate Bank → Canara Bank
- Andhra Bank + Corporation Bank → Union Bank of India

- Allahabad Bank → Indian Bank.

- Currently, there are 11 Nationalised Bank in India.
  1. Punjab National Bank
  2. Canara Bank
  3. Union Bank of India
  4. Indian Bank

(v) Bank of Baroda
(vi) Bank of India
(vii) Central Bank of India
(viii) Indian overseas Bank
(ix) UCO Bank
(x) Bank of Maharashtra
(xi) Punjab and Sind Bank

Condition for licencing private Banks in India :-

(i) It must be NBFC or MFI or any company but related with Banking and finance
(ii) Minimum experience of $\boxed{\text{10 years}}$
(iii) In the last 5 year must be a profit making company.
* minimum capital required → $\boxed{\text{₹ 500 crore}}$
(v) After getting the licence RBI provide the time period of 18 month to set up and start Banking business
(vi) Atleast 25% branches must be in rural areas.

Regional Rural Banks (RRBs)

* objectives :
  (a) providing credit facility in the rural areas.

(b) providing agricultural credit

(c) for rural development.

- All the RRBs are sponsered by any public sector Banks.

- first RRB in India : Prathama Gramin Bank, muradabad (uttar pradesh) in 1975.

- RRBs were started in India by the recommendation of Narsimhan committe.

- Goa and sikkim ⟶ No RRBs

- capital sharing Ratios of RRBs is —
  - (a) Government of India : 50%
  - (b) sponsered Bank : 35%
  - (c) state government : 15%

Non-Scheduled Commercial Bank

Local Area Bank

- started in 1996.

- They are the kind of private banks working for profit motive.

- They provide banking facility to rural people for increasing their savings.

- Generally, they work in two or three adjoining district

- currently, there are 4 LAB in country

(a) Costal Local Area Bank, Andhra pradesh

(b) Samarudhi Local Area Bank, Andhra pradesh

(c) Subhadra Local Area Bank, Kolhapur (Maharashtra)

(d) Capital Local Area Bank, punjab

Development Banks

- Land Development — NABARD
- Industrial Development — SIDBI → mudra Bank
- Housing Development — NHB
- Import and Export Development — EXIM
- Infrastructural Development — NaBFID

National Bank for Agriculture & Rural Development (NABARD)

- Established 12 July 1982 (6th 5 year plan 1980-1985)
- By the recommendation of Shivraman Samiti
- Headquarter : Mumbai
- Head : Shaji KV

- It is wholly own by the government of India.

- It provide the guideline for providing Agricultural credit and rural development.

Small Industries Development Bank Of India (SIDBI)

- Established on 2 April 1990.
- Headquarter : Lucknow
- Head : Sivasubramanian Ramann.
- It is also working under government of India.
- It provides guidelines and financial help for the uplifment MSMEs
- MUDRA Bank is the subsidary of SIDBI.

Micro Unit Development and Refinance Agency (MUDRA Bank)

- Established - April 2015
- It is working under pradhan Mantri Mudra Yojana (PMMY)
- MUDRA Bank provides financial help to commercial bank, RRBs, NBFCs etc. then they provide refinance to MSMEs

* There are 3 kinds of product of MUDRA Bank :

(i) Sishu — Loan upto ₹ 50,000
(ii) kishor — Loan upto ₹ 50,000 - ₹ 5,00000
(iii) Tarun — Loan ₹ 500000 - ₹ 10,00000

Defination of MSMEs (old classification)

Criteria : Investment in plant and machinery or equipments.

Classification	micro	small	medium
manufacturing Enterprise	Investment <₹25 Lac	₹5 cr	<₹10 cr
Service Enterprise	Investment <₹ 10 Lac	₹ 2 cr	<₹5 cr

(New Defination of MSMEs)

Criteria : Investment and annual turnover

Classification		small	medium
manufacturing and services	Investment <₹ 1 cr ; turnover <₹ 5 cr	Investment <₹ 10 cr turnover <₹ 50 cr	Investment <₹ 50 cr turnover <₹ 250 cr

National Housing Bank (NHB)

- Established : 9 July 1988 (under NHB act 1987)
- Headquarter : New Delhi
- Head : Sarada kumar Hota
- It is working under the government of India (2019 onward), before it work under RBI.

Export & Import Bank (EXIM)

- Established : 1982
- Head : Harsha Bangari
- It is wholly owned by government of India.
- The main purpose of EXIM is to finance faciliated and promote foreign trade.

National Bank for financing Infrastructure and Development (NaBFID)

- Established : $\boxed{2021}$ (under NAFID act 2021)
- Headquarter : mumbai
- Head : KV Kamath
- Established with ₹ 1 Lakh crore.
- Initally its 100% share is owned by government of India but later it may reduce to 26%

Lead Bank Scheme

- Launched in 1969
- 1 Bank for 1 area.
- The main objective of this scheme is to provide Adequate Banking and Loan facility in the rural area.
- It is working on service area approach

Differenciated Bank / Niche Bank

Small finance Bank

- can provide loan as well as accept deposit
- They provide financial help to small enterpriseure, small marginal farmer etc.
- They accept all kinds of deposits i.e, demand deposit and time deposit.
- They have to provide 75% of its loan to priority sector.
- They have to deposit CRR to RBI.
- They have to provide at least 50% loan of ₹ 25 Lakh.
- They can provide maximum loan upto ₹ 25 lakh.
- Currently 12 small finance Bank
- First small finance Bank : capital small finance Bank

* minimum capital : $\boxed{₹\ 200\ crore.}$

Payment's Bank

* They can only accept deposits, advancing loan is not allowed.

* They only provide the facility of saving account as FD and RD not permitted.

* They provide financial help to — migrant labourers, small enterpenures

* They provide following facilities —

  (i) inculcating small savings.

  (ii) Remitting money from one place to another.

  (iii) They have to invest atlest 75% of their deposit in government securities.

  (iv) minimum capital : ₹ 100 cr

  (v) They are not allowed to start NBFC business as subsidary

  (vi) currently, there are 6 payments Bank

- Airtel
- paytm
- fino
-
- Jio

- India post payment Bank (IPPB)

  - maximum deposit allowed 2 lakh (earlier was 1 lakh)

Note:

(i) main objective of small and Financial Bank is financial inclusion.

(ii) They were set up by the recommendation of Nachiket mor committe.

National payment corporation of India Ltd (NPCI)

- set up in 2008.
- It is an umberella organisation for all retail payment in India.
- It also help in financial inclusion.
- It is a kind of not for profit organisation.
- It define under Section XXV of companies Act 1956 and Section 8 of companies act 2018.
- Headquarter : mumbai
- It is under RBI and India Banking Association.
- working under payment and settelment Act 2007.

NPCI provide following service:

- BHIM (Bharat Interface for money)
- UPI (unified payment Interface)
- Rupay (Rupee and payment)
- BBPs (Bharat Bill payment system)
- NACH (National Automated clearing House)
- CTS (cheque Truncation system)
- AEPS (Adhar Enabled payment system)
- NFS (National Financial switch)

Reserve Bank of India

- In 1926, Hilton young commission (Royal commission) recommended for the establishment of RBI.

- In $\boxed{1934}$ → RBI Act was passed.

- On $\boxed{\text{1 April 1935}}$ → RBI established.

- On $\boxed{\text{1 Jan 1949}}$ → RBI was nationalised.

- When RBI was set up in 1935 it was a Private joint stock company. (with share capital of ₹ 500 crore)

- RBI also worked as central Bank of Burma (April 1947) and pakistan (June 1948)

RBI offices

- In 1935 its headquarter was at Calcutta
- But, in 1937, it headquarter permanen-tly shifted to mumbai.
- 4 Zonal / Local offices:

New Delhi

Mumbai — Kolkata

Chennai

- Some regional offices (most of them are in states capitals. and some sub offices.

- There are total 31 officies at different location.

RBI's Training colleges

- Banker's Training college (Mumbai)
- Reserve Bank Staff college (chennai)
- College of Agricultural Banking (pune)

RBI members

Official Directors

- One Governor
- four Deputy Governor

Non-official Directors

- four Zonal Director
- Two member - ministry of finance
- Ten other Director

- first governor of RBI : Osbore smith
- second governor of RBI : James Taylor
- RBI Third and first Indian governor : C D Deshmukh
- Dr manmohan singh : 15th governor (only governor who became PM)

* RBI governor Tenure : $\boxed{\text{3 year}}$ (can be extended for 2 more year or upto 65 year of age)

* ~~Rao~~ Benegal Ram Rao : Longest serving governor (7 year)

Current governor's of RBI

$\boxed{\text{Governor}}$: Shakti Kant Das (25)

$\boxed{\text{4 Deputy governor}}$

- T Rabi Shankar
- M Rajeshwar Rao
- MD patra
- Swaminathan Janki Raman

* first female Deputy governor : KJ udeshi
* Two other female governor are : Shymla Gopinath , Usha Thorat

* RBI prints note in 15 Language.
* RBI Symbol : $\boxed{\text{Tiger}}$ and $\boxed{\text{palm tree}}$

Subsidaries of RBI

- Deposit Insurance and credit Guarantee corporation (DICGC)
- Bhartiya Reserve Bank Note mudran pvt. Ltd (BRBNMPL)
- Reserve Bank Information Technology Pvt. Ltd (ReBIT)
- Indian financial Technology and Allied Services (IFTAS)
- Reserve Bank Innovation Hub (RBIH)

~~Headquarte~~

BRBNMPL

Headquarter : Bangulure (Karnatka)

Establishment : 3 feb 1995

ReBIT

Headquarter : mumbai

Establishment : 2016

IFTAS

Headquarter : mumbai

Establishment : 2015

RBIH

Headquarter : Bangulure

Establishment : 24 march 2022

Reports of RBI

- monetary policy Report
- financial stability Report
- Report on Financial Review

function of RBI :

(i) Issuing notes.

(ii) Supervision of Banks (merger, Branch expansion, Licencing of new bank etc)

(iii) Banker's Bank.

(iv) Banker to the government (Both Centre and state)

(v) custodian of foreign exchange Reserve. (under FEMA) 1999 earlier it was foreign Exchange Regulatory Act)

(vi) Lender to the last Resort.

Credit Rating Agencies

- These are those companies which provide financial report of another County, companies and individual as well.

- Regulated by SEBI.

- By the reports of CRA, Bank take the decision of providing loans to the customer.

- main credit Rating Agencies of India are:

(I) CRISIL

Credit Rating Services of India Limited: 1987, mumbai

(II) ICRA

Investment Information and credit Rating Agencies: 1991, New Delhi

(III) CARE

credit Analysis and Research: 1993, mumbai

(III) Acuite Rating and Resarch

Earlier called SMERA

Headquarter: Mumbai

(iv) **BRICKWORK Ratings India Pvt Ltd**

- Bangaluru.

(v) India Ratings and Research , Mumbai

(vi) Infomerics valuation and Ratings pvt ltd

- New Delhi

Non - Performing Assets

NPA : All the loans given by banks to their customers are an asset for the banks.

- when banks do not recover those loans then they are called bad loans.

Loan given by banks

Standard Assets	Non - standard Assets
Those loans which got timely payment.	Those loans which do not got regular and timely payment.

- **Stressed Assets** = NPA + Restructured assets + written off assets.

Loans/Advance given by Banks

assets for Bank

- Standard assets
  - Regular — NIL delay
  - ~~Delay~~ Stressed — (1 - 90) day delay
    - SMA-0 — (1 - 30) days delay
    - SMA-1 — (31 - 60) days delay
    - SMA-2 — (61 - 90) days delay

    Special mention account
- Non-performing assets (> 90 delay)
  - Sub-Standard Assets
    - NPA for upto 12 month
  - Doubtful Assets
    - NPA for > 12 month
  - LOSS Assets
    - Non-recoverable

- Net NPA = Gross NPA - provisining
- for financial year 2023. Gross NPA of Bank is 3.9% and net NPA is 1%.

Restructured Assets / Loan

- when the outstanding loan have been restructured by the Bank i.e. by tering the time period for repayment, Lowering the interest rate etc.

Written off Assets

- Assets or loan which are not counted as waring due as they are compa-nsated through other ways.

Note : written of assets are not counted as waring of loan.

Strategic Debt Reconstructing

- when the bank convert the debt into equity.

Assets (S4A)

- Defaulting amount RS 500 cr. and more.
- Loan amount - Substinable or non substinable.
- In non-substinable amount con-vert into the equity.

NPA problems of India Bank :

① The NPA was on declining trend from FY 2018 due to various initiative by the Reserve Bank of India and the central government such as the insolvency and Bankrupcy code.

(11) Due to the effects of the corona virus (COVID-19) epidemic and lockdown, the country was expected to seen an increase in bad loans.

Measures to curb NPA in India

Debt Recovery Tribunal (DRT)

- DRT established in 1993
- To reduce the amount of time it takes to settle matters.
- The requirements of the Recovery of Debt Due to Bank and Financial institution Act, 1993 apply to them.
- However, because their number are insufficient, they face a time lag, with cases in many locations pending for more than 2 years.

Credit Information Bureau

- Established : 2000
- To avoid loans getting into the wrong hands, as a result NPAs a good information system is essential.
- Individual Defaulters and wilful defaulters are tracked and shared which aid Banks.

Lok Adalats - 2001

- They are useful in dealing with and recovering small loans, but the RBI guidelines established in 2001 limit them to loans of up to 5 lakh rupees. They are beneficial in that they prevent more cases from entering the legal system.

Wilful Defaulters :

Any entity is considered wilful defaulter when:

(i) The unit has failed to make its payment/repayment commitments to the lender, despite having the financial means to do so.

(ii) Has not used the lender's fund for the specific objective for which they were obtained, instead of diverting the money to other uses.

(iii) The unit has failed to meet its payment/repayment commitments to the lender and has syphoned off the funds, such that the funds have not been used for the precise purpose for which credit was obtained nor the funds arilable in the form of other assets with the unit.

(iv) The Bank have to submit the names of the wilful defaulters to the RBI with outstanding loans of more than 25 lakh.

SARFAESI Act

- SARFAESI Act 2002 is "an act to regulate securitization and reconstruction of financial assets and enforcement of security interests, and to provide for a central database of security interest created on property rights, and for matters associated with or incident thereto."

- SARFAESI is an acronym for Securitization and Reconstruction of financial Assets and Enforcement of Security Interest

- It permit bank and other Financial institution to recover loans by auctioning off the defaulter's residential or commercial assets.

- under this act, India's first Assets Reconstruction corporation (ARC), ARCIL, was established.

- Secured creditors (banks or financial institution) have right to security interest enforcement under Section 13 of the SARFAESI Act 2002.

- The SARFAESI Act 2002 will now apply to all state and multi-state cooperative Bank. accordingly to the supreme court of India.

- Bank can now seize and sell defaulter's properties to recoup their debt, thank to the Supreme court momentous decision.

SARFAESI Act Provision

- If a borrowers of financial assistance defaults on a loan or an installment and his account is categorised as a non-performing asset (NPA) by a secured creditor, the secured creditor may request written notice before the term of limitation expires.

- unsecured loans, loans under Rs 100,000 and debts that are less than 20% of the initial principle are exempt from the statue.

- The law permitted the formation of ARC and the sale of non-performing assets by bank to ARC. (Regulated by RBI)

- without the consent of court, banks are authorised to take ownership of collateral property and sell it.

- The SARFAESI act gives financial institution the authority to "seize and desist". They should send a notification to the delinquent borrowers, requesting payment within 60 days.

- If the debtor does not cooperate, the bank may take one of the following three action:

  (i) Take control of the loan security.

  (ii) sell, lease or assign the security right

  (iii) Take care of the asset or appoint someone to do so.

SARFAESI Act amendment :

- Central government passed a law in 2013 bringing cooperative bank under the SARFAESI Act of 2002.

- The Enforcement of security Interest and Recovery of Debt Laws and miscellaneous provisions (Amendment) Bill 2016, altered the status once again.

- The Supreme court also held that co-operative banks that engage in banking activities are subject to Section 5(c) and 56(a) of the Banking Regulation Act of 1949, which are laws related to List I Entry 45. (union list)

Insolvency and Bankruptcy Code :

- The Insolvency and Bankruptcy code 2016 (IBC) is India's Bankruptcy law, which aim to unify the existing framework by establishing a single insolvency and bankruptcy law.

- Insolvency is a condition in which a debtor is unable to pay his/her debt.

- Bankruptcy is a legal process that involves an insolvent person or company that is unable to pay its debt.

- It establishes clearer and faster insolvency procedures to assist creditors, such as banks, in recovering debt and avoiding bad loans, which are a major drag in the economy.

- It is an all-encompassing insolvency code that applies to all businesses, partnership and individuals (other than financial firms).

Insolvency and Bankruptcy code 2016:

- The code repealed all previous legislation and established a standardised framework for resolving insolvency and bankruptcy cases.

- It enable creditor to analyse a debtor's viability as a business decision. furthermore, creditors might either agree to a plan for it resurrection or propose a quick liquidation.

* The code establishes a new legal structure. This frame work aided in the formalisation and liquidation of an insolvency resolution process that was time bound.

* The frame work consist of the following elements:

Insolvency professionals:

* They will be in a charge of the resolution procedure

* They also handle the debtor's assets and provide information to creditors to help them make decision.

Insolvency professional Agencies

* Insolvency practitioners will be registered with professional agencies for insolvency.

* Exam would be conducted to certify insolvency specialist and a code of behaviour for their performance would be enforced by the agencies.

Information Utilities

- They will maintain track of debts owned to creditor, as well as repayments and debt defaults.

Adjucating Authorities

- They will sanction the start of the resolution procedure, appoint the insolvency professionals and sign off on the creditors ultimate judgement.

- The National company Law Tribunal (NCLT) is the deciding authority for corporation and limited liability firms.

- Individuals and partnership firms have their debt adjucated by the Debt Recovery Tribunal (DRT)

- The Insolvency and Bankruptcy Board will oversee insolvency experts, professional agencies, and information utilities established under the code.

- The goal of the code is to address insolvencies in a timely way, the evaluation and viability determination must be done within 180 days.

- The company is subject to a 180-days moratorium (which can be extended up to 270 days). The resolution time frame for startup and small business is 90 days, which can be extended by 45 days.

Bad Bank

- A bad bank is a financial institution that was formed to purchase the bad loans and other liquids assets of another financial institution.

- The organization with a large number of nonperforming assets will sell them to the bad bank at market value.

- The original institution may be able to clear its balance sheet by transferring such assets to the bad bank. it will still be compelled to take write-down.

- Instead of single bank, a bad bank structure may assume the risky assets of a consortium of financial organization.

Grant Street National Bank is a well known example of a bad bank. This entity was founded in 1988 to house mellon Bank's bad assets.

* outside of the united States, the Republic of Ireland established the National Asset management Agency, a bad bank in 2009 in response to the country's own financial crisis.

* The Insolvency and Bankruptcy code (IBC) and other applicable resolution tools have been shown to be useful.

Bad Bank in India :

* The government of India has established two new firms to acquire stressed assets from banks and sell them in the market in order to resolve large NPA in the Indian banking sector.

NARCL

* National Assets Reconstruction company Limited.
* Established under companies Act and has applied for an asset Reconstruction company license from RBI

- In phase. NARCL will buy stressed assets totaling roughly RS 2 lakh crore from various commercial banks.

- NARCL will be owned by public Sector Banks (PSB) to the ture of 51 percent.

- The NARCL will buy bad loans from banks first.

- It will pay 15% of the agreed price in cash and the rest 85% in security Receipts.

- The commercial bank will be paid back the remainder when the assets are sold with the help of IDRCL.

- The government gurantee will be activated if the bad bank is unable to sell the bad loan or must sell it at a loss.

- The gurantee is extended for 5 year period.

IDRCL

- India Debt Resolution company Ltd.

- The stressed assets will subsequently be sold in the market by another firm IDRCL.

- IDRCL will be owned to a maximum of 49% by PSB and public finance Institute (FIs)

- private sector lender will own the remaining 51% of the company.

- The new bad bank structure is this framework of NARCL - IDRCL.

Recaptilisation Of Banks

- Recapitilisation of Bank is injecting additional capital into state-owned banks to bring them up to capital adequency standards.

- In entails injecting more capital into state-owned bank in order for them to achieve capital adequancy requirements.

- The requirements for Indian public sector banks to maintain a capital Adequency Ratio (CAR) of 12% has been underlined by the RBI in line with BASEL Norms.

- The capital to risk weighted assets and current liabilities ratio is the ratio of banks capital to its risk weighted assets and current liabilities.

- The government injects capital into banks that are short on cash using a variety of instruments.

- Beacuse the government is the largest stake holders in public sector banks, it is the government's responsibility to increase capital reserve

- The government inject capital into banks by issuing bonds or buying new shares.

- In 2017, the government had announced an Rs. 2.11 Lakh crore ~~re~~ recapitalisation package for the public Sector Banks.

Prompt Corrective Action

- The RBI uses the PCA framework to keep track of bank with ~~proo~~ poor financial performance.

- PCA framework introduced by the RBI in 2002 as a structured early interation mechanism for banks that have become undercapitalized or fragile due to a loss of profitability.

- Its goal is to address the issue of NPA in India's banking system.

- Based on recommendation of the financial stability and Development council working group on Resolution Regimes for financial institution in India and the financial sector legislative Reform commission: the framework was reviewed in 2017

- If a bank is in crisis, PCA is supposed to inform the regulator, as well as investor and depositors.

- The goal is to prevent problems from reaching crisis proportions.

- Essentially, PCA assists RBI in monitoring bank key performance indicators and taking corrective action to restore bank's financial health.

Indradhanush Framework - 2015

- Since banking nationalization in 1970 the Indradhanush framework for changing PSBs has been the most comprehensive reform effort undertaken by ABCDEFG to remodel the PSBs and improve their overall performance.

Appointment

- Based on the worldwide best practices and guidelines in the Companies Act, a distinct post of chairman and Managing Director will be created; with the CEO receiving the designation of MD and CEO, and a non-executive chairman of PSBs would be appointed.

Bank Board Bureau

- will replace the appointment Board in the selection of whole time Director and non-executive chairman of PSBs.

Note: BBC replaced by FSIB (financial service Institution Bureau)
- on 1 July 2022

- It appoints the chief of PSB, Insurance companies and AIFI.

members

① Secretary of Department of public Enterprise

⑪ Secretary of Department of financial Service.

⑪ one chairman

Ⓘⓥ 5 Experts (2 from private sector)

Capitalization

- According to the finance ministry, the capital requirement for the next four years up to FY 2019 is estimated to be around RS 1,80,000 crore. of which the government will pay 70000 crores and PSBs will have to raise the remainder from the market.

Destressing

- De-stressing entails resolving concern in the infrastructure sector in order to keep stressed assets out of banks by bolstering asset reconstruction firms. The creation of a thriving debt market for PSBs.

Empowerment

- PSBs should be given more flexibility and autonomy when it comes to employing staff.

A framework of Accountability

- The banks will be evaluated based on a few key performance indicators. It would include everything.

  - Non-performing assets management, growth, diversification, return on capital, financial inclusion and other quantitative indicators.

  - Steps down to improve assets quality, human resource initiatives, and so on are example of qualitative parameters.

Governance Reforms

- Banker's Retreats or Gyan Sangam talks between bankers and government officials to resolve banking sector concerns and determine the future course of action.

Basel Norms

- The Basel accord refers to a set of agreements by the BCBS that primrly address risks to banks and the financial system.

- The agreement's goal is to ensure that financial institution have sufficient capital on hand to meet obligation and absorb unexpected looses.

- The Basal accords for the banking system have been accepted in India. In fact, the RBI has imposed more stringent standards on an a few parameters than the BCBS has.

- The Basel committee on Banking (1974) Supervision (BCBS) issues Basal norms for International Banking Regulations.

- The goal of these norms is to strengthen the international banking system by coordinating banking regulation around the world.

- BCBS is made up of 27 representative from various countries around the world including India. (At present 45)

- The Basal committee has currently issued 3 guidelines to achieve its goal. Basel I, II and III

- In India the deadline for implementing Basel III was march 2019. It was pushed back to march 2020.

- Basel is a city in switzerland.

- It is the headquarters of the Bureau of International Settelments (BIS)/ Bank of Internati-onal Settelm which promotes cooperation among central bank with a common goal of financial stability and banking regulatory standard.

- Every two month, the BIS hosts a meeting of the governors and senior officials of member countries central Bank.

BASEL I

- BCBS introduced the capital measurment system called Basel capital accord in 1988.

- It was almost entirely concerned with credit risk.

- The required minimam capital was set at 8% of Risk weighted Asset

- RWA refers to assets with varying risk profiles. for example, an asset backed by collateral would be less risky than a personal loan with no colla-teral.

- Capital is divided into two categories: Tier 1 capital and Tier 2 capital.

Tier 1 Capital

- It is the bank's core capital beacu-se it is primary measure of the bank financial strength.

- The majority of core capital is made up of disclosed reserve (also known as retained earnings) and paid-up capital.

- It also includes non-cumulative and non-redeemable preferred stock.

Tier 2 capital

- It is used as supplemental funding since it is less reliable than the first tier.

- It consist of undisclosed reserve, preference shares and subordinate debt.

- In 1999, India adopted the Basel 1 guidelines.

BASEL II

- BCBS published Basel II guidelines in June 2004 which were considered to be refined and reformed version of the Basel 1 accord.

* The guidelines were founded on 3 pillars as the committee refer to them :

Capital Adequacy Requirements :

Bank should keep a minimum capital adquancy requirements of 8% of risk assets.

Supervisory Review :

According to this, banks were required to develope and implement better risk management technique for monitoring and managing all 3 types of risks that a bank faces : credit, market and operational risk.

market discipline :

This necessitates stricter disclosure requirements. Bank must report their CAR, risk exposure and other information to the central bank on a regular basis.

BASEL III

* published in 2010.

* These guidelines were put in place in response to the 2008 financial crisis.

- There was a need to further strength-en the system beacuse banks in developed economies were undercapitalized, over-leveraged and relied more on short-term funding.

- The guidelines are intended to promote a more resilient banking system by focusing on four critical banking parameters.
  - Capital
  - Leverage
  - Funding
  - Liquidity

- The capital adquecy ratio should be kept at 12.5 percent.

Capital Adquacy Ration

$$CAR = \frac{\text{Bank's total capital}}{\text{Risk weighted Assets}}$$

$$CAR = \frac{\text{Tier 1 capital} + \text{Tier 2 capital}}{RWA}$$

Sectoral Loan	Loan given	Risk	RWA
Agriculture	500 cr	65%	325
MSME	1000 cr	30%	300
Industry	2000 cr	35%	700
G-sec	5000 cr	0%	0
Total	8500		1325

Capital Conservation Buffer (2015)

- It says that during good times Bank must built-up a capital buffer that can be drawn up when Bank are in stress.

- As per BASEL Norm III the capital conservation Buffer is 2.5%.

Capital Requirment as per Basel Norm III

S.no	Capital Requirement	% to RWA
1.	minimum common equity Tier 1 capital	5.5%
2.	Additional Tier 1 capital	1.5%
3.	Tier 2 capital	2%
4.	Capital conservation Buffer	2.5%
		11.5%

Countercyclical capital Buffer (CCCB)

- It is the capital that to be kept by bank to meet business-cycle related risk.
- It is aimed to protect the Banking sector against looses from changes in economic condition.

* The range of CCCB is 0-2.5%.

Leverage Ratio

* It is the ratio between the total debt upon equity.

$$\boxed{LR = \frac{\text{Total debt}}{\text{Total equity}}}$$

* It is a financial measurment that shows how much capital comes in the form of debt or loans of a company to meets its financial obligations.

Liquidity Coverage Ratio

* It is calculated by dividing a bank's high quality liquid assets by its total net cash flows. over a period o 30 days stressed period.

Net Stable fund Ratio

* It is the fund that have to be maintained by a bank for consistent funding profile in relation to their off-balanced sheet assets and activities.

* NSFR requires Bank to fund their operation with stable sources of finance.

* NSFR must be atlest 100%.
* NSFR is for the time period of 1 year.

Interest Rates

Between Banks and RBI

- Bank Rate
- Repo Rate
- MSF
- RRR
- SDF

Between Banks and customers

Internal Benchmark Lending Rate

- BPLR
- Base Rate
- MCLR

External Benchmark Lending Rate

- EBPLR

Internal Benchmark Lending Rates:

- Lenders i.e Banks usually have an internal rate, which is the benchmark Rate.
- Interest rates on all the Loans are ~~Lead~~ Linked to it.
- Internal Benchmark prime Lending Rate is classified in following:

① Benchmark prime Lending Rate (BPLR)

- It was used as benchmark rate till ~~before 2000~~. 2003 ~~the~~.
- The rate of interest which was charged by banks from their customer decided by RBI.

- BPLR was the interest rate which was charged by banks from their good borrowers.

⑪ Base Rate :

- In 2010 the BPLR converted into Base Rate.
- By the recommendation of Deepak mohatt committe.
- It is the minimum rate below which bank cannot offer loan to their customer.
- Base Rate is based on average cost of fund.

⑫ Marginal cost of fund based Lending Rate (MCLR) :

- Introduced in April 2016.
- It is a benchmark lend rate for floating lend rate.
- It is based on marginal cost of fund.
- It is the minimum interest rate at which banks can lend.

External Benchmark Lending Rate :

- Launched on 1 october 2019, by the recommendation of Janak Raj committee.

- It is based on the following mechanism:

  (a) Repo Rate
  (b) 91- days T- Bill yield.
  (c) 182- days T- Bill yield.

- Nowdays banks are free to decide over the external benchmark. However, the interest rate must be re-set as per the benchmark atlest every 3 month.

- Nowdays the loans like autoloans, Home Loan, personal Loan etc are generally linked with floating interest rate.