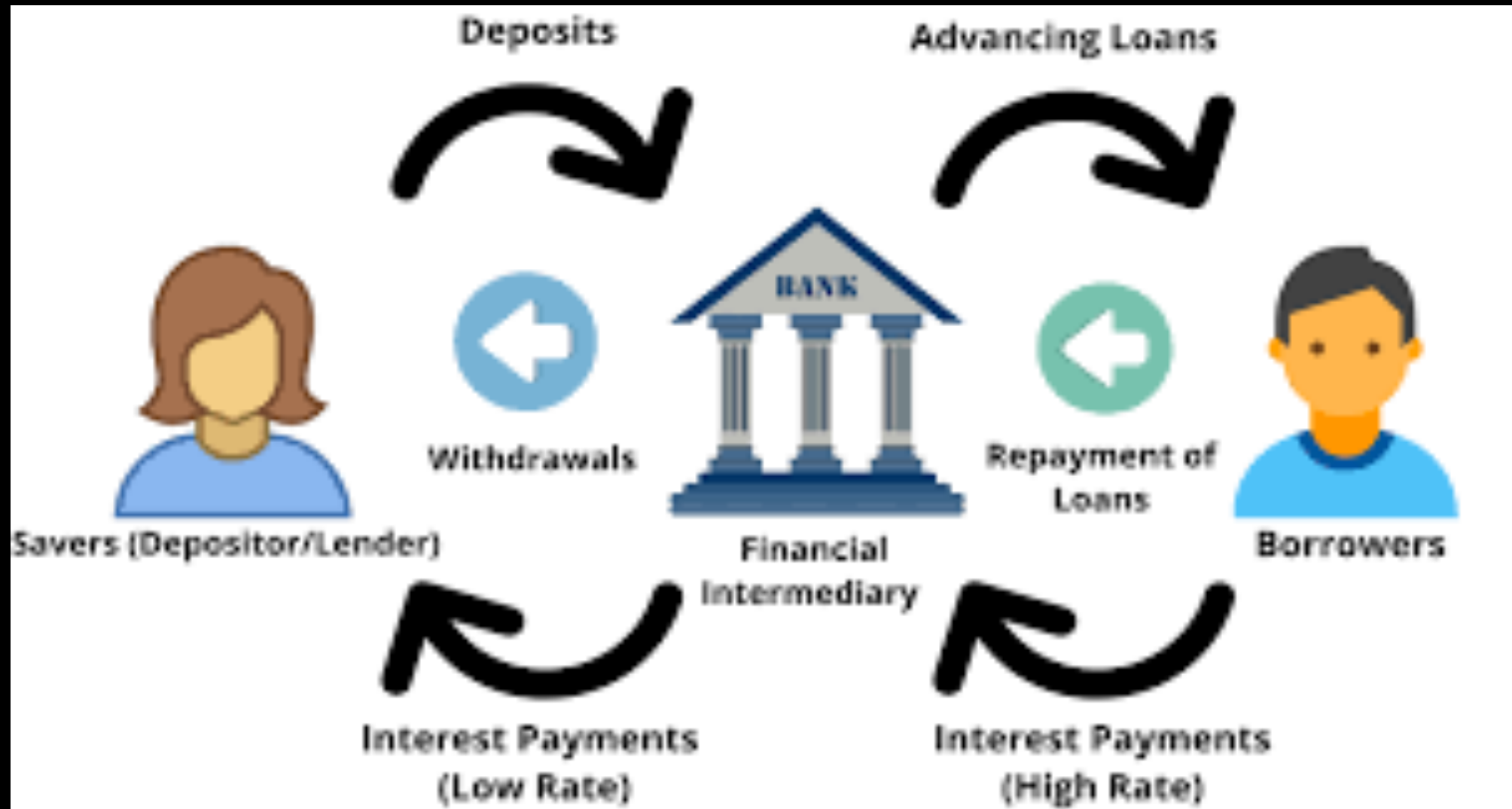




Banking

by
Sivakumar G

Financial Intermediaries



BANKS



NBFC



Commercial Banks

- Organised under the Banking Companies Act, 1956
- They tend to all sectors ranging from rural to urban
- Public deposits are the main source of funds for these banks

The commercial banks can be further divided into three categories:

1. **Public sector Banks**
2. **Private sector Banks**
3. **Foreign Banks**

Cooperative Banks:

These banks are organised under the state government's act.

They give short term loans to the agriculture sector and other allied activities.

The main goal of Cooperative Banks is to promote social welfare by providing concessional loans

They are organised in the 3 tier structure

- Tier 1 (State Level) – State Cooperative Banks (regulated by RBI, State Govt, NABARD)
 - Funded by RBI, government, NABARD.
 - Concessional CRR, SLR applies to these banks.
 - Owned by the state government and top management is elected by members
- Tier 2 (District Level) – Central/District Cooperative Banks
- Tier 3 (Village Level) – Primary Agriculture Cooperative Banks

Regional Rural Banks (RRB):

- These are special types of commercial Banks that provide concessional credit to agriculture and rural sector.
- RRBs were established in 1975 and are registered under a Regional Rural Bank Act, 1976.
- RRBs are joint ventures between the Central government (50%), State government (15%), and a Commercial Bank (35%).
- One RRB cannot open its branches in more than 3 geographically connected districts.

Small Finance Banks:

As the name suggests, this type of bank looks after the micro industries, small farmers, and the unorganized sector of the society by providing them loans and financial assistance. These banks are governed by the central bank of the country.

Payments Banks:

A newly introduced form of banking, the payments bank have been conceptualized by the Reserve Bank of India. People with an account in the payments bank can only deposit an amount of up to Rs.1,00,000/- and cannot apply for loans or credit cards under this account.

Options for online banking, mobile banking, the issue of ATM, and debit card can be done through payments banks.

Local Area Banks

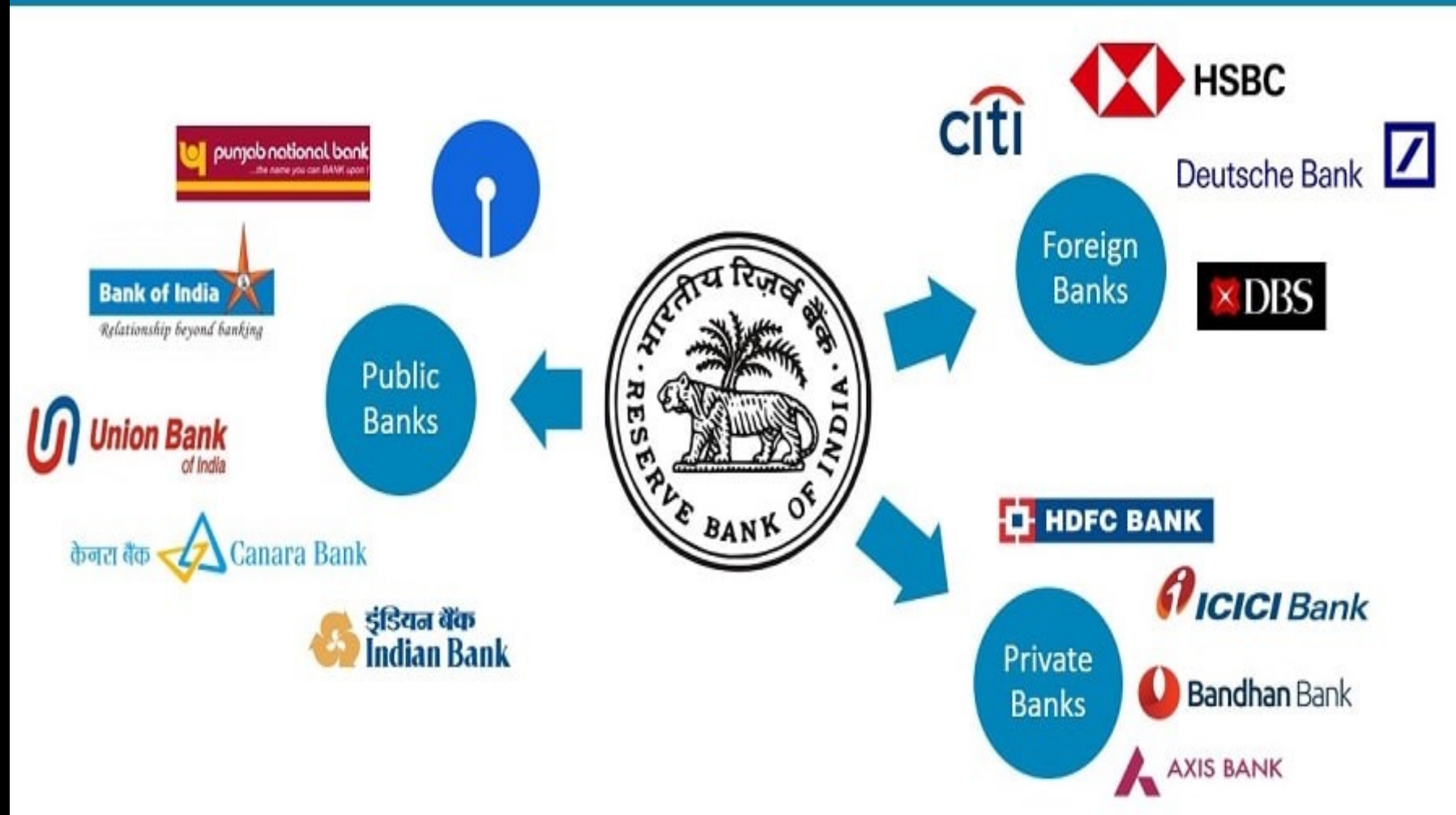
Set up by the Government of India solely to enable the local institutions to pool and mobilize rural savings and ensure that these savings are made available for investment concerning needs.

SMALL BANKS CAN GO PAN-INDIA

	PAYMENTS BANKS	SMALL BANKS
WHO CAN PROMOTE	<ul style="list-style-type: none">➤ Prepaid card issuers, telecom companies, NBFCs, business correspondents, supermarket chains, corporates, realty sector co-ops & PSUs	<ul style="list-style-type: none">➤ Individuals/professionals with 10 years experience in finance, NBFCs, microfinance cos, local area banks
WHAT THEY MUST DO	<ul style="list-style-type: none">➤ Have a minimum capital of Rs 100cr➤ Maintain 75% of deposits in govt bonds➤ Maintain 25% of deposits in other banks➤ Have at least 26% investment by Indians➤ Get listed if net worth crosses Rs 500cr➤ Have 25% of branches in unbanked areas➤ Be fully networked and technology driven➤ Have Rs 1 lakh cap for deposits in one a/c	<ul style="list-style-type: none">➤ Have a minimum capital of Rs 100cr➤ Extend 75% of loans to priority sector➤ Have 25% of branches in unbanked areas➤ Maintain reserve requirements➤ Cap loans to individuals and groups at 10% and 15% of net worth➤ Have a business correspondent network
WHAT THEY CAN DO	<ul style="list-style-type: none">➤ Offer internet banking➤ Sell mutual funds, insurance, pensions➤ Offer bill payment service for customers➤ Have ATMs and business correspondents (BC)➤ Can function as BC of another bank	<ul style="list-style-type: none">➤ Sell forex to customers➤ Sell mutual funds, insurance, pensions➤ Can convert into a full-fledged bank➤ Expand across the country
WHAT THEY CANT DO	<ul style="list-style-type: none">➤ Offer credit cards➤ Extend loans➤ Handle cross-border remittances➤ Accept NRI Deposits	<ul style="list-style-type: none">➤ Extend large loans➤ Float subsidiaries➤ Cannot deal in sophisticated financial products



Universal Commercial Banks in India



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

Select the correct answer using the codes given below:

(a) 1 and 2 only

(b) 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

Which of the following is not included in the assets of a commercial bank in India?

(a) Advances

(b) Deposits

(c) Investments

(d) Money at call and short notice

Consider the following liquid assets:

- (1) Demand deposits with the banks
- (2) Time deposits with the banks
- (3) Savings deposits with the banks
- (4) Currency

The correct sequence of these decreasing order of Liquidity is

- (a) 1-4-3-2
- (b) 4-3-2-1
- (c) 2-3-1-4
- (d) 4-1-3-2

The terms 'Marginal Standing Facility Rate' and 'Net Demand and Time Liabilities', sometimes appearing in news, are used in relation to

- (a) Banking operations
- (b) Communication networking
- (e) Military strategies
- (d) Supply and demand of agricultural products

The establishment of 'Payment Banks' is being allowed in India to promote financial inclusion.

Which of the following statements is/are correct in this context?

(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.

Select the correct answer using the code given below.

(a) 1 and 2 only

(b) 1 and 3 only

(c) 2 only

(d) 1, 2 and 3

Consider the following statements:

(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 Primary Agricultural Credit Societies.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

What is/are the facility/facilities the beneficiaries can get from the services of Business Correspondent (Bank Saathi) in branchless areas?

(1) It enables the beneficiaries to draw their subsidies and social security benefits in their villages.

(2) It enables the beneficiaries in the rural areas to make deposits and withdrawals.

Select the correct answer using the code given below.

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

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

(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.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

Which one of the following links all the ATMs in India ?

- (a) Indian banks' Association
- (b) National Securities Depository Limited
- (c) National Payments Corporation of India
- (d) Reserve Bank of India

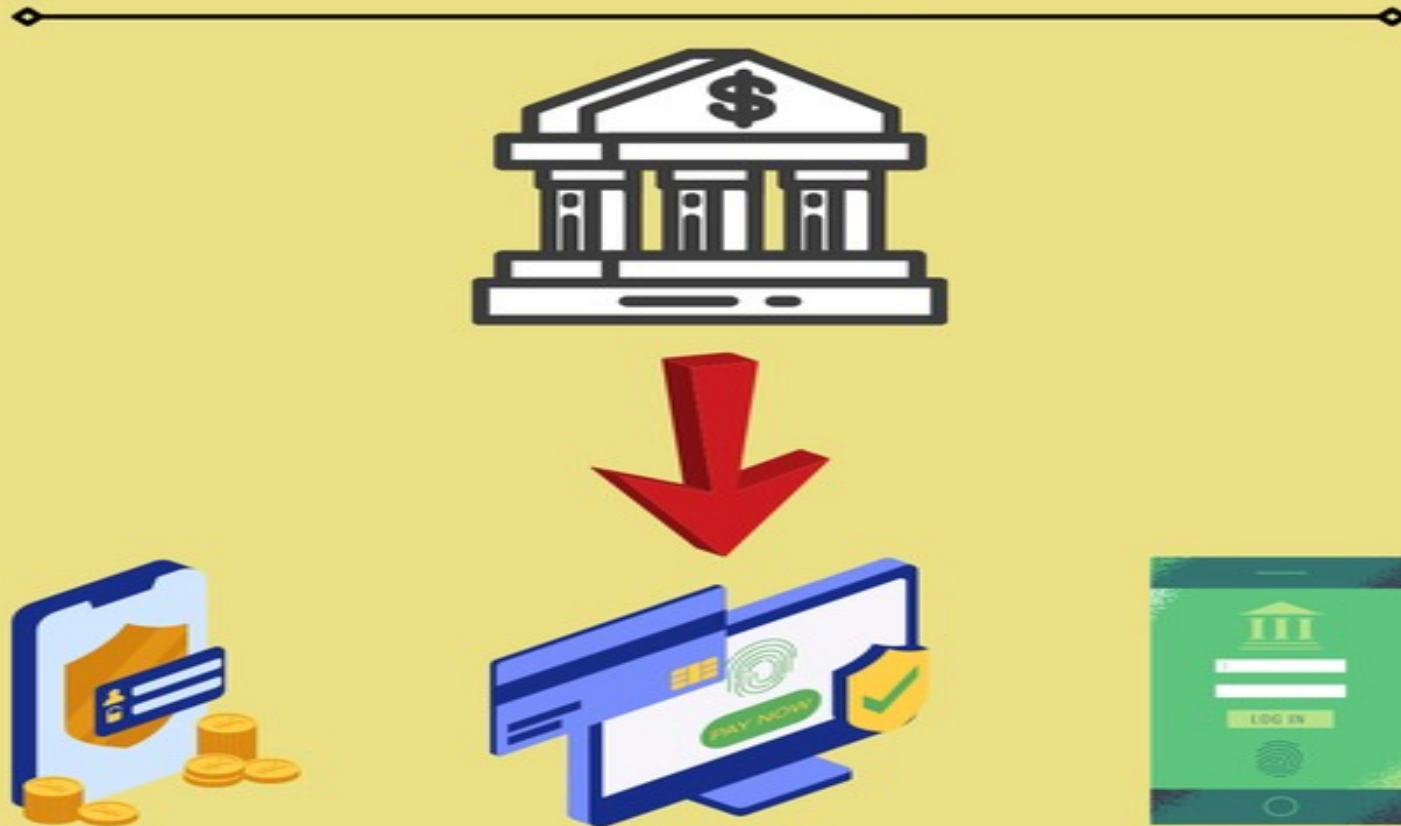
The term 'Core Banking Solutions' is sometimes seen in the news. Which of the following statements best describes/describe this term?

- (1) It is a networking of a bank's branches that enables customers to operate their accounts from any branch of the bank on its network regardless of where they open their accounts.
- (2) It is an effort to increase RBI's control over commercial banks through computerization.
- (3) It is a detailed procedure by which a bank with huge non-performing assets is taken over by another bank.

Select the correct answer using the code given below.

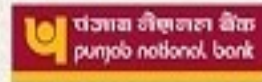
- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Banking Industry Challenges



• PSB MERGERS •

2ND LARGEST PSB



PNB



OBC



UNITED BANK

4TH LARGEST PSB

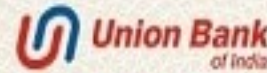


CANARA BANK



SYNDICATE BANK

5TH LARGEST PSB



UBI



ANDHRA BANK



CORPORATION BANK

7TH LARGEST PSB



INDIA BANK



ALLAHABAD BANK
(A Govt. of India Undertaking)

ALLAHABAD BANK

<https://t.me/econforum>





- Qualitative methods control the use and direction of credit and discriminate between various sectors of the economy.
- They direct the credit flow for particular end use and particular sectors of the economy.
- Unlike quantitative tools which have a direct effect on the entire economy's money supply, qualitative tools are selective tools that have an effect on the money supply of a specific sector of the economy.

Credit Rationing:

- Under credit rationing, RBI fixes a ceiling (maximum limit) on loans and advances of various categories, which the commercial banks cannot exceed.
- This controls the amount of credit for certain sectors and ensures that all sectors get adequate credit. This is required for inclusive growth of all sectors of the economy.

Changing Margin Requirements:

- Margin is the amount that has to be contributed by the borrower for availing any loan. The full amount of the loan is not given; rather the borrower has to contribute some sum as margin. If the margin is high, then off-take of the loan is low and vice-versa.
- RBI controls credit by fixing high margins. This is aimed to restrict the use of credit for purchasing securities by speculators.

Regulating Consumer Credit:

- Consumer credit refers to loans taken by the public for purchase of goods and services.
- RBI regulates this by either fixing a minimum time frame for repayment or increasing down payment required for availing loan.

Moral Suasion:

- RBI uses persuasion and request, giving suggestions and advice to commercial banks to undertake certain actions in the economic interests of the country.
- The advice is morally binding, but not mandatory for the banks.

PRIORITY SECTOR LENDING BY BANKS

(in%)

Segment	Target	Public sector	Private	Foreign
Agriculture	18.0	18.0	16.2	16.7
Micro enterprises	7.5	6.4	7.9	4.2
Weaker sections	10.0	11.5	9.5	7.1
Total	40.0	39.9	40.8	38.3

Source: RBI

Priority Sector Lending by banks in India constitutes the lending to

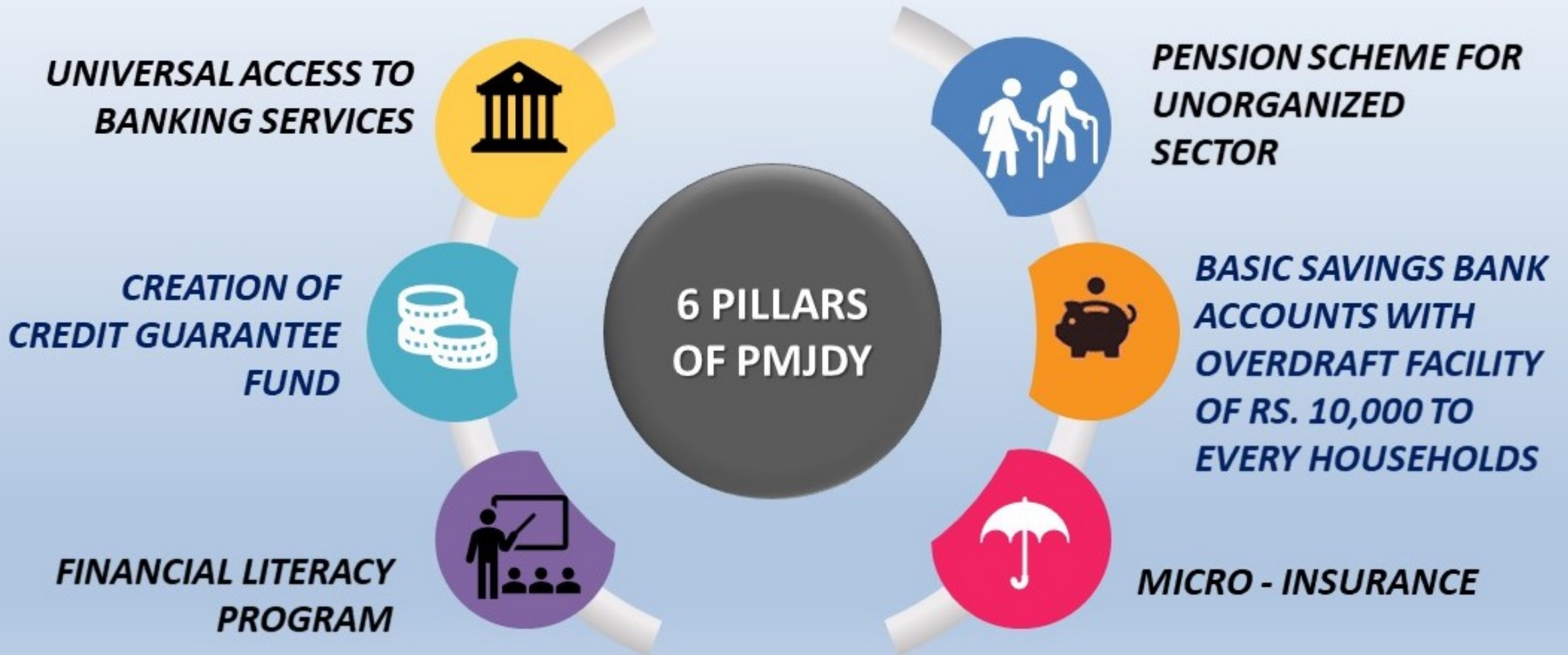
(a) Agriculture

(b) Micro and small enterprises

(c) Weaker sections

(d) All of the above

PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)



From Jan Dhan to Jan Suraksha

Pradhan Mantri Mudra Yojana:

Under the scheme a loan of upto Rs. 50,000 is given under sub-scheme 'Shishu'; between Rs. 50,000 to 5.0 Lakhs under sub-scheme 'Kishore'; and between 5.0 Lakhs to 10.0 Lakhs under sub-scheme 'Tarun'. Loans taken do not require collaterals.

Stand Up India Scheme:

The Scheme facilitates bank loans between Rs.10 lakh and Rs.1 crore to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one Woman borrower per bank branch for setting up greenfield enterprises.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):

To people in the age group of 18 to 50 years , cover of Rs. 2 lakh

Pradhan Mantri Suraksha Bima Yojana (PMSBY):

In the age group 18 to 70 years, The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability.

Atal Pension Yojana (APY):

In the age group of 18 to 40 years and the contributions differ, based on pension amount chosen. Subscribers would receive the guaranteed minimum monthly pension of Rs. 1,000 or Rs. 2,000 or Rs. 3,000 or Rs. 4,000 or Rs. 5,000 at the age of 60 years.

Pradhan Mantri Vaya Vandana Yojana::

Elderly persons aged 60 years and above against a future fall in their interest income due to uncertain market conditions, as also to provide social security during old age.

The Lead Bank Scheme is a scheme which aims at providing adequate banking and credit in rural areas through an 'service area approach', with one bank assigned for one area. It was introduced in 1969.

1. Identify those regions which are unbanked and underbanked in districts and also evaluate their physiographic, agro climatic and Socio-economic conditions through economic survey.
2. Help in removing regional imbalances through appropriate credit deployment.
3. Extend banking facilities to unbanked areas
4. Identify economically viable and technically feasible schemes.
5. Bring structural and procedural changes in banking sector.
6. Develop co-operation amongst financial and non-financial institutions.

Transmission of Monetary Policy

THE DIFFERENCE BETWEEN BASE RATE AND MCLR

Base Rate	MCLR
Base Rate includes	MCLR includes
Average cost of funds	Marginal cost of funds
Minimum rate of return	Tenor Premium
Operating Expenses	Operating Expenses
Cost of CRR	Cost of CRR

NEW RATE REGIME

- **Public sector banks** have cut MCLR by 10–25 bps over the past few days
- **At least four banks** say will link loan products to repo rate
- **As RBI's repo rate falls**, lending rates will get lowered automatically
- **This is external benchmarking**, even as RBI itself is not insisting
- **Such benchmarking** makes transmission almost instantaneous
- **Move will possibly hit banks' margins**
- **RBI governor is prodding** banks to reduce lending rates

What RBI Wants

- 1** Loans must be linked to external rate benchmarks

These could be
RBI's repo rate

3-mth or 6-mth treasury yield, or any other benchmark published by FBIL*



- 2** Banks can decide risk premium based on borrower's credit profile

- 3** Interest rate must be reset at least once in 3 months

*FBIL is owned by Fixed Income Money Market & Derivatives Association of India, Foreign Exchange Dealers' Association of India and IBA

What is/are the purpose/purposes of the 'Marginal Cost of Funds based Lending Rate (MCLR)' announced by RBI?

(1) These guidelines help improve the transparency in the methodology followed by banks for determining the interest rates on advances.

(2) These guidelines help ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks.

Select the correct answer using the code given below.

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2



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4 Rs TO ADDRESS THE TWIN BALANCE SHEET PROBLEM



**Corporate
Debt
Restructuring
(CDR)**

01

**Strategic
Debt
Restructuring
(SDR)
Scheme**

02

**Sustainable
Structuring Of
Stressed Assets
(S4A) Scheme**

03

**5:25 -
Flexible
Structuring
Scheme**

04

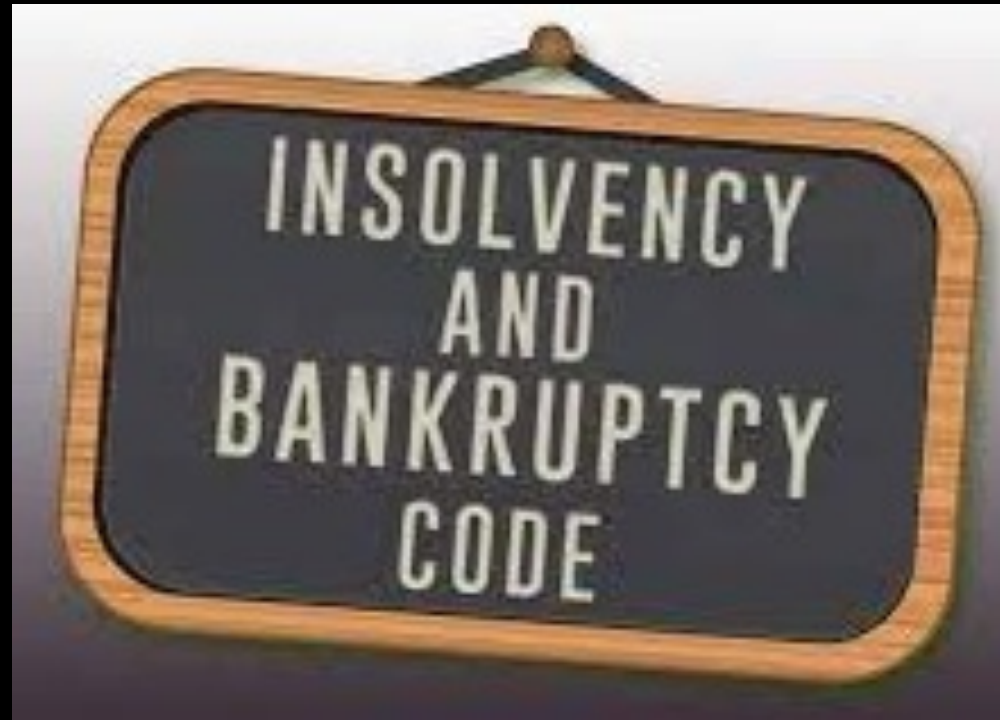
**Asset
Reconstruction
Scheme**

05

Bad Bank – A Remedy for the NPA Illness?



Twin Balance Sheet Problem



Insolvency & Bankruptcy Code, 2016



To speed up resolution of stressed assets in the country

WHY



WHO

Applicable to :
Individuals,
partnerships, LLPs and
Corporates



Authority to decide insolvency application within 180 days (90 days extension allowed)

WHEN



WHEN

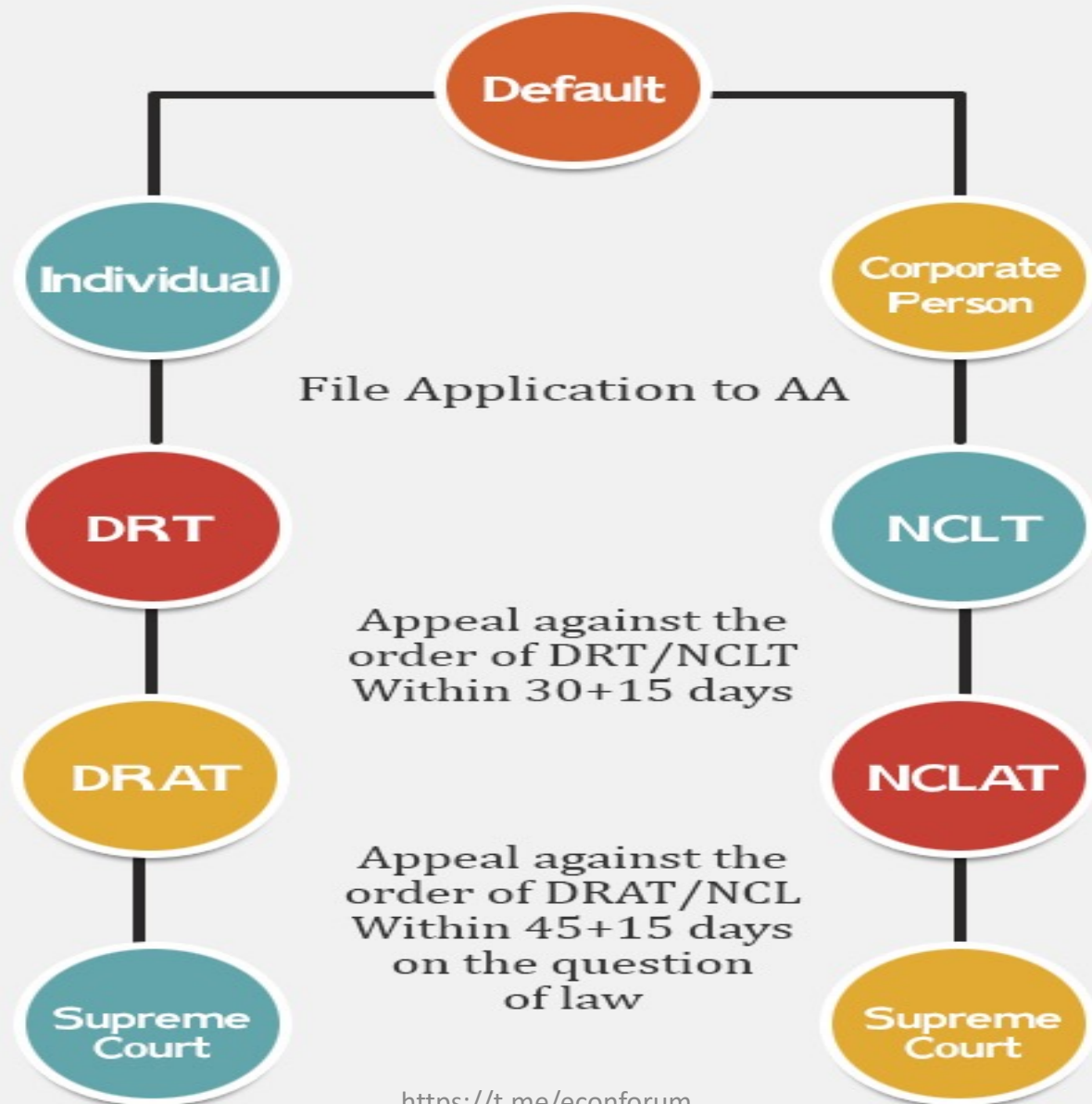
Fast track process of 90 days available for specified entities

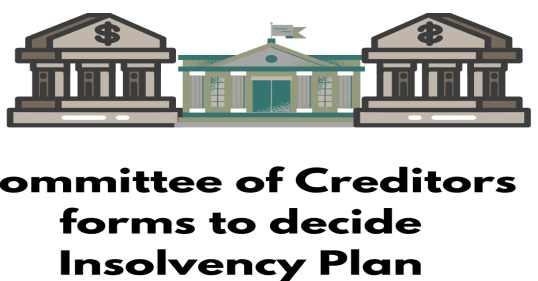
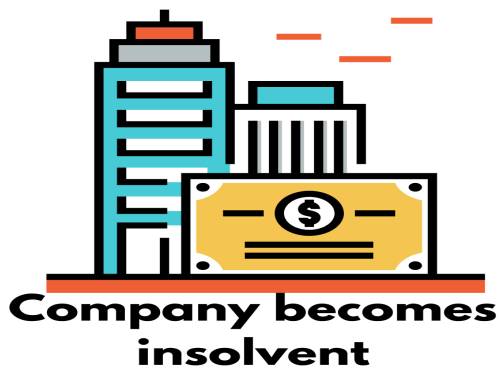


Adjudicating authority:
NCLT for corporates,
DRT for individuals &
partnership firms

HOW

Adjudicating Authority





75% of Creditors by Value have to reach at plan in 180/270 days.

Reach at common plan

Fail to reach at common plan



Plan is implemented



Liquidation of company

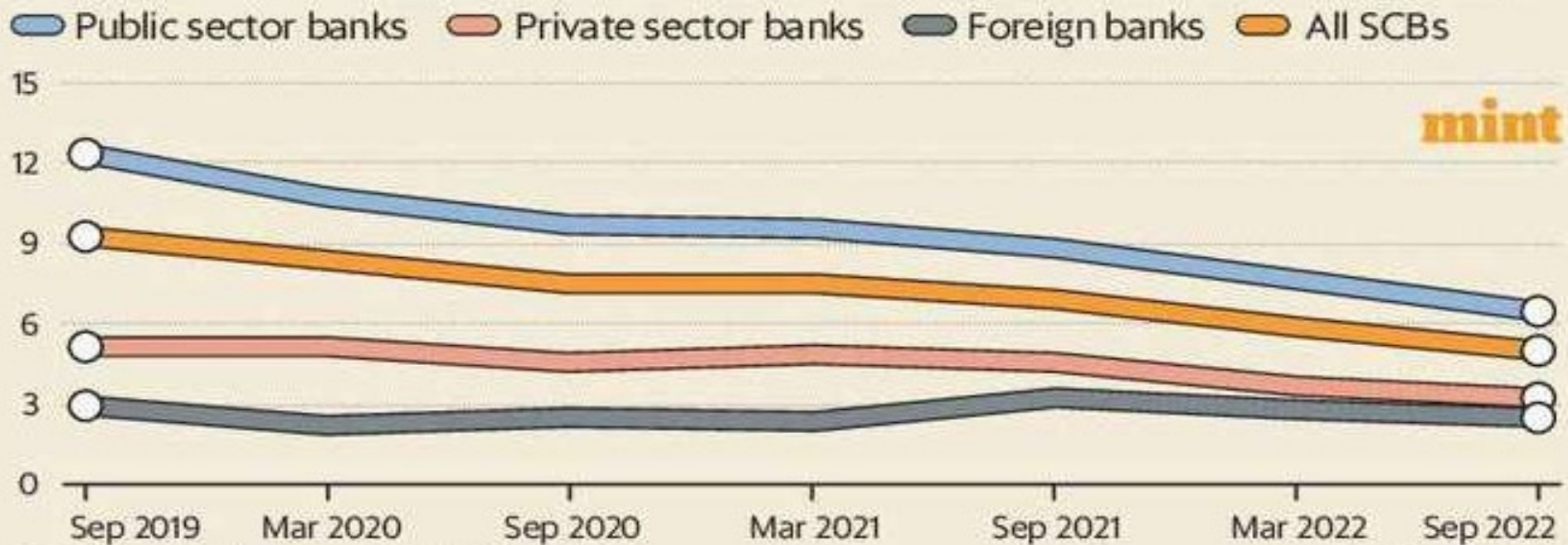
FINANCIAL RESOLUTION & DEPOSIT INSURANCE BILL



On the mend

The gross non-performing assets ratio has been gradually trending downwards from 9.3% in September 2019 to a seven-year low at 5.0% in September 2022.

Gross non-performing assets ratio (in %)



SCB: scheduled commercial bank

Source: RBI

P J Nayak committee on Banking sector reforms – 2015

- **Mission Indradhanush for PSBs** that was launched by the Government in 2015. The government, to resolve the issues faced by the Public Sector Banks, launched a 7 pronged plan called “Mission Indradhanush.”
- The Indradhanush for PSBs mission aims at revamping the functioning of the Public Sector Banks to enable them to compete with the Private Sector Banks. It seeks to revive economic growth through the reduction of political interference in the functioning of PSBs and improving credit.



The Chairman of public sector banks are selected by the

(a) Banks Board Bureau

(b) Reserve Bank of India

(c) Union Ministry of Finance

(d) Management of concerned bank

With reference to the 'Banks Board Bureau (BBB)', which of the following statements are correct?

1.The Governor of RBI is the Chairman of BBB.

2.BBB recommends for the selection of heads for Public Sector Banks.

3.BBB helps the Public Sector Banks in developing strategies and capital raising plans.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3



BANK FOR
INTERNATIONAL
SETTLEMENTS



'Basel III Accord' or simply 'Basel III', often seen in the news, seeks to

(a) Develop national strategies for the conservation and sustainable use of biological diversity

(b) Improve banking sector's ability to deal with financial and economic stress and improve risk management

(c) Reduce the greenhouse gas emissions but places a heavier burden on developed countries

(d) Transfer technology from developed countries to poor countries to enable them to replace the use of chlorofluorocarbons in refrigeration with harmless chemicals

Consider the following statements:

(1) Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues.

(2) CAR is decided by each individual bank.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

LET'S TALK ABOUT DIGITAL PAYMENTS



Which one of the following best describes the term “Merchant Discount Rate” sometimes seen in the news?

- (a) The incentive given by a bank to a merchant for accepting payments through debit cards pertaining to that bank.
- (b) The amount paid back by banks to their customers when they use debit cards for financial transactions for purchasing goods or services.
- (c) The charge to a merchant by a bank for accepting payments from his customers through the bank’s debit cards.
- (d) The incentive given by the Government, to merchants for promoting digital payments by their customers through Point of Sale (PoS) machines and debit cards.

Which of the following is the most likely consequence of implementing the 'Unified Payments Interface (UPI)'?

- (a) Mobile wallets will not be necessary for online payments.
- (b) Digital currency will totally replace the physical currency in about two decades.
- (c) FDI inflows will drastically increase.
- (d) Direct transfer of subsidies to poor people will become very effective.

With reference to digital payments, consider the following statements:

(1) BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.

(2) While a chip-pin debit card has four factors of authentication, BHIM app has only two factors of authentication.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

With reference to the governance of public sector banking in India, consider the following statements

(1) Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.

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

Which of the statements given above is/are correct ?

(a) 1 only

b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Thank you