



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

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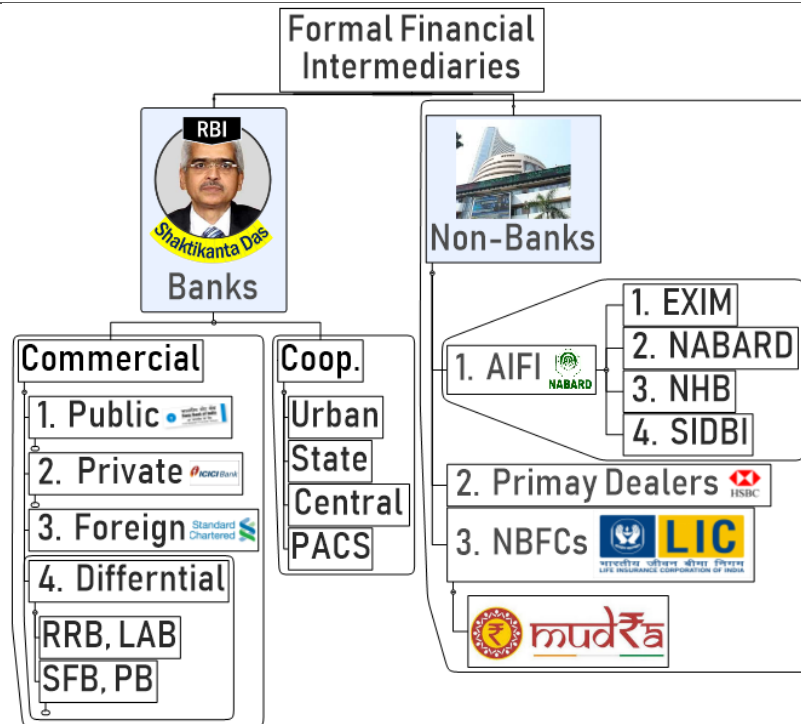
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13 FINANCIAL INTERMEDIARIES → BANKS

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



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

1913	Commercial banks were required to register under the Companies Act, but monitoring was lax. No CRR, SLR, BASEL Norms.
1926	Royal Commission on Indian Currency (Hilton Young Commission) recommends setting up a central bank named 'Reserve Bank of India'.
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.
1935, April	RBI becomes operational from 1 st April, with 1 st Governor Sir RBI Gov: Osborne Smith. India's Viceroy: Willingdon. Government ownership was ~4.4% only.
1935, July	Commercial Banks fulfilling certain conditions were listed in the 2 nd Schedule of RBI Act, & such "Scheduled Banks" were required to keep CRR with RBI.
1943-49	C.D. Deshmukh 2 nd FM of India becomes the first INDIAN Governor of RBI. He had also participated in the Bretton Woods Conference, USA (1944).
1948-49	All private investors' shares transferred to Govt of India under the RBI transfer of ownership act 1948. Therefore, RBI governor answerable to Parliament, has to pay dividend to Govt from its profits. (मुनाफे मे से लाभांश वितरण)
1949	Banking Regulation Act (बैंकिंग विनियमन अधिनियम) empowered the RBI to <ul style="list-style-type: none"> ⇒ Give license to companies to open banks, give permission banks to open new branches. ⇒ Prescribe auditing and liquidity norms for Banks such as SLR. ⇒ Protect interest of depositors. Force elimination / merger of weak banks. ⇒ Related Topic: banking regulation ordinance 2020 → Pillar#1B2: Bad loans & other burning issues in the banking sector.

In context of independent India's economy, 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

- ⇒ 25th Governor: Shaktikanta Das (Retd. IAS, Former finance secretary, Member of 15th Finance Commission). He replaced Urjit Patel (2018-Dec).
- ⇒ RBI Act (Section 8) provides for "NOT MORE than 4" Dy. Governors
- ⇒ Governor and Dy.Governors' tenure *usually* (not always) 3 years. कार्यकाल
- ⇒ Re-appointment is possible. पुनः नियुक्ति संभव
- ⇒ 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.

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)

Sidenote: Article 371-F of Constitution gives special status to Sikkim, as a result their State Bank of Sikkim is outside RBI's regulatory powers, but that KBC-GK/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

13.12 **SCHEDULED BANKS (अनुसूचित बैंक)**

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

⇒ That a public sector or private sector bank has (Paid Up Capital + Reserves) = Min 5 Lakhs AND

⇒ It is not conducting business in a manner harmful to its depositors,

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

Scheduled Bank (अनुसूचित)	Non-Scheduled Bank (गैर- अनुसूचित)
Required to deposit CRR money to RBI's office/vault	Can maintain the CRR money with themselves in their own office/vault. (खुद की तिजोरी में रख सकते हैं)
Eligible to borrow / deposit funds in RBI's window operations.	Depends on RBI's discretion. (विवेकाधीन)
are required to protect the interests of depositors and abide to RBI norms. (जमाकर्ताओं के हितों की रक्षा करनी होगी, और रिजर्व बैंक के नियमों का पालन करना होगा)	Ofcourse, they also have to do it, else RBI can shut them down under Banking Regulation Act.
Can be subdivided into two parts 1) Scheduled Commercial Banks (SCB) e.g. SBI, Axis, ICICI 2) Schedule Cooperative Banks like Haryana Rajya Sahakari Bank, Tamil Nadu State Apex Cooperative Bank	Hundreds of cooperative banks are non-Schedule. But we need not see their list at Rbi.org.in/CommonPerson/English/scripts/banksinindia.aspx



🗣️ moral outrage not required “Why it is only 5 lakh!!!!?”. Send your suggestion to PM Modi to amend the RBI Act, until it's implemented remember the figure. #📉 थोड़ा-पढ़ो-आगे-बढ़ो

13.13 🏠 👤 FI ⇒ COMMERCIAL BANKS ⇒ PRE-INDEPENDENCE



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

1770	Bank of Hindustan, Calcutta (Europeans owned)
1806-42	<ul style="list-style-type: none"> - Three Presidency Banks at Bengal then Bombay then Madras. - 1861: all three were given the right to issue currency. - 1921: They were combined into Imperial Bank of India ⇒ SBI (1955)
1865	Allahabad Bank (Europeans owned)
1894	PNB: Indian owned, Lala Lajpat Rai helped in foundation.
1908	Bank of Baroda by Maharaja Sayajirao Gaekwad III
1913-30s	State Bank of Mysore, State Bank of Patiala, the rise and collapse of Banking industry, then Birth of RBI (1935)
1940s	State bank of Bikaner, Jaipur, Hyderabad, Travancore by the respective princely states / Nawabs. Post-Independence, these banks became 'Associated Banks of SBI', and ultimately, merged in SBI (2017).

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

- ⇒ **NEXUS between Banks and Industrialists:** From 1950s to 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 लक्ष्यांक, क्षेत्रीय असमनाताएँ)

Table 3: Nationalization & Merger of Banks after Independence

1948	RBI Transfer of Ownership Act.
	1948: Op. Polo, Hyd. → 1951: 1 st FYP, → 1953: Air India nationalized from Tata
1955	Imperial Bank nationalized and became SBI.
1955-56	LIC Act took over private life insurance cos. 57: 1 st Communist Govt in Kerala 61: Operation Vijay for liberation of Goa, Daman and Diu.
1963	State Bank of Jaipur and Bikaner merged together.
1969	⇒ 'Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969: 14 Private banks with ₹ 50 cr/> deposits were nationalized e.g. Bank of Baroda, PNB, Dena, Canara etc. (बड़ी जमा-राशि वाले निजी बैंकों का राष्ट्रीयकरण)



	⇒ Catholic Syrian Bank (1920, Kerala), Ratnakar Bank, Dhanlaxmi Bank, etc., did not have such large deposits, so they were left out & called “Old Private Banks”.
1972-73	GIC Act- took over private Non-Life (=General) insurance cos. Later GIC was re-organized with 4 subsidiaries: National Insurance, New India Assurance, Oriental Insurance and United India Insurance. <i>More in Pillar#1D</i>
1980	6 banks with ₹ 200 cr/> deposits were nationalized e.g. Corporation Bank, Vijaya Bank, Oriental bank of Commerce etc.
2019	Previously, State Government of J&K owned 60% shares in J&K bank → Article 370 removal → Union Government took-over this shareholding. Further 500 type historical-GK things on how it functioned before and how it'll function afterwards...poor cost benefit.
Reform Committees	following Committees were made for reforms in banking sector M Narasimham-I (1991), M Narasimham-II (1997), Dr. Raghuram Rajan Committee (2007) and P J Nayak Committee (2014)
Death देहांत	2021: Death of M Narasimham. He was ex-Governor of RBI and chairman various Committees on Banking Sector Reforms, therefore known as “father of Indian banking system reforms” (एम नरसिंहम भारतीय बैंकिंग प्रणाली सुधार के पितामह माने जाते हैं।)

(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:

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

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

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

13.14 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 (सकारात्मक)	Negative (नकारात्मक)
<ul style="list-style-type: none"> ✓ After nationalisation, the number of Bank branches in India, the amount of loan given to farmers and villagers= has increased. ✓ This greatly contributed to the agriculture production and poverty removal in the rural areas. कृषि उत्पादन और गरीबी निवारण में मदद की है 	<ul style="list-style-type: none"> ❖ From 1960s to 80s: The Government had launched 1) "green revolution" 2) focused on poverty removal through five year plans. ❖ RBI had initiated selective credit control tools & moral suasion to channelize more loans to farmers.



✓ PSBs account for 70% of the banking business in India.	❖ So, those actions were responsible for boosting agriculture & reducing poverty. Thus, Bank nationalization itself has not helped in it much. 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.
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13.14.1 🐼 > 🐼: Private sector banks are better than PSBs

📊📊 ES20 gave lots of depressing data about PSBs such as

⇒ After 2013, PSBs' credit growth has 📉 → GDP growth is 📉.

⇒ 2019: PSBs' total loss > ₹ 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 = winners
Total NPA in Indian Banks	majority of bad loans / Non-Performing assets (NPA: अनर्जक परिसंपत्तियां) (More in 📊 Pillar#1B2)	less
Total Bank frauds in India	>90% of cases occur in PSBs (वित्तीय धांधली/गबन)	Hardly 7%
Profitability	Usually, less than private sector Banks	More than

⇒ 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? सार्वजनिक क्षेत्र के बैंक प्रभावहीन हैं क्योंकि →	Solutions by 📊📊 ES20 (More details in 📊 Pillar#1B2) हम क्या सुधार कर सकते हैं?
PSB staff's salary does not depend on the profitability of the bank. Employee unions frequently engage in strikes/hartals. → प्रदर्शन आधारित तनखाह नहीं. बार बार हड़ताल पर चले जाते हैं	<ul style="list-style-type: none"> - Allow campus recruitment, lateral entry in higher management positions - Make employees 'part owners' through Employee Stock Ownership Plan (ESOP)
They've apathetic attitude towards the use of artificial intelligence, computer technology, marketing, and customer satisfaction. → नई तकनीकी अपनाने में, तथा ग्राहकों का संतोष बढ़ाने में इन बैंकों का उदासीन रवैया है	<ul style="list-style-type: none"> - Use Artificial Intelligence (AI), Machine Learning (ML), Big Data Analytics, geotagging of mortgaged assets etc. - setup an organization PSBN Network to implement above ICT-solutions.

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

- 1) 🐼 Usually the persons favored by the present-day ruling party become the Board of directors, irrespective of merit or qualification. Thus, political considerations have significant control/influence over bank's business operations. (बोर्ड में राजनीतिक तत्व- जिनमें बैंकों का सही प्रबंधन करने का अनुभव या कौशल नहीं है)
- 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 हैं की ईमानदार निर्णय की भी शक की निगाहों से जांच होगी, और उनकी पदोन्नति रोक दी जाएगी)
- 3) Consequently, PSB officials fear harassment under the veil of vigilance investigations & media-trials. They prefer safety and conservatism over risk-taking and innovation. (रूढ़िवाद पसंद, नवाचार नापसंद)



13.15 CONSOLIDATION OF PSBs [एकत्रीकरण]



Consists of two types of reforms: A) Merger B) Privatization

13.15.1 Consolidation of PSBs → A) Merger (विलीनीकरण)

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

2008-10	State Bank of Saurashtra and State Bank of Indore merged into SBI.
2013	<ul style="list-style-type: none"> - Bharatiya Mahila Bank setup as PSB, HQ Delhi, 100% ownership by Union Government. - 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, 1st April	BMB & 5 Associated Banks of SBI viz. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), merged with SBI from 1 st April by swapping of shares.
2017, Nov	<ul style="list-style-type: none"> - Alternative Mechanism Panel setup under the Finance Minister's chairmanship. - This panel examine the proposals for merger/consolidation of the Public Sector Banks (PSBs) and forward to Cabinet for approval. - Department of Financial Services coordinates the filework.
2019, 1st April	<p>Vijaya & Dena to be merged into Bank of Baroda, by swapping of shares (शेयरों की अदला-बदली).</p> <ul style="list-style-type: none"> - 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-Aug, FM Nirmala.S announced merger of 10 banks into 4 anchor banks

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

- ⇒ 🤖 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)

13.15.2 🔄 Consolidation of PSBs → B) Privatization (निजीकरण)

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

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

- ⇒ Setup in 60s as a *Sarkari* 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).

13.15.2.2 IDBI Bank → 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.
- ⇒ **2018:** IDBI has the highest NPA (28%) among PSB, so no mentally-fit investor willing to buy Govt's shares. Govt. (forces) LIC to buy its 40% for ~9k crores. Thus, LIC will own 51% in IDBI. Deal was approved by the respective financial regulators (RBI and IRDAI) by 2018-July. Though LIC itself is public sector entity but **RBI has declared IDBI as 'private sector' 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 निवेशकों का वित्तीय दमन, क्योंकि उनका पैसा नुकसान वाली बैंक में जा रहा है).
- ⇒ 📁 **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)
- ⇒ **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 बैंकों का निजीकरण होगा ऐसे अखबारों में समाचार, किन्तु वित्त मंत्रालय ने अभी इन समाचारों की पुष्टि नहीं की है))



13.15.3 PSB Privatization: Banking Investment Company (BIC-बैंकिंग 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 recapitalize 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.

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).
- 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 सेवाएं 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 थांधलीयों 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 दबंग तत्वों से ऋण वसूली मुश्किल)
- Employees Unions hampering any innovation or customer responsiveness. (नवाचार, ग्राहक सुविधा कम)
- **1991:** Balance of Payment crisis (BoP: भुगतान संतुलन, More in Pill#3) finally forced Govt. to set up a committee for Banking Sector Reforms under The former RBI Governor M.Narasimham. He suggested:
 - Government should ↓ its shareholding in Public Sector Banks. (सरकार अपनी शेयर हिस्सेदारी कम करे)
 - RBI should ↓ CRR and SLR (सीआरआर, एसएलआर में कटौती करे)
 - Govt should not dictate interest rates to Banks. Liberalize the branch expansion policy (बैंकों को लोनदर, शाखा विस्तार नीति तय करने में 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 2) HDFC 3) IndusInd 4) DCB 5) UTI-> later Axis bank 6) IDBI->now owned by LIC 7) Global Trust Bank-> Merged with Oriental Bank #8-9-10: Bank of Punjab, Centurian Bank, Times Bank were merged into HDFC	1) Kotak Mahindra 2) Yes Bank (Founder Rana Kapoor). Related Topic: Yes bank scam/Crisis Pillar#1B2: Bad loans & other Burning issues in Bank/NBFC sector	Rajan invited applications, Bimal Jalan Committee made selections: 1. Bandhan (A Microfinance company based in W.Bengal) 2. IDFC (An infra finance NBFC based in Maharashtra). Later on, another NBFC “Capital First” merged so renamed into IDFC-First

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

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: UAE Exchange and Financial Services, Chaitanya India, Pankaj Vaish etc. (इन सबने अर्जी डाली है)

⇒ RBI's **Shyamala Gopinath** committee examines/reviews/pass-rejects the applications. (समीक्षा समिति)

⇒ As of 2021-Jun: No applicant has been given license in this route. (अभी तक किसी का नंबर नहीं लगा)

Q: MORAL OUTRAGE: 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
- ⇒ Finally, you apply for bank license from RBI using above “ON-TAP” facility → If RBI is satisfied with, it will give you license as an “**non-scheduled** (commercial) bank.”
- ⇒ After that you run the bank, THEN once you satisfy **BOTH** conditions to become ‘scheduled bank’





- Condition-A) minimum 5 lakh (capital + reserve)... you may already have THAT BUT STILL SECOND Condition-B also need to be fulfilled that...
 - Condition-B) Your bank is not conducting business in a manner harmful to its depositors. So, RBI may observe your bank's business/behavior for some months/years, to satisfy itself in this.
- ⇒ After RBI is satisfied with A+B= will give you the status of "scheduled (Commercial) bank."

13.17 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 constituted 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 कॉर्पोरेट 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 चपलो/समस्याओं 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 =  Chances 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

13.17.2 Arguments Against: विपक्ष में तर्क

- ⇒ 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 मात्रा बढ़ेगी
- ⇒ 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 कॉर्पोरेट शासन ठीक नहीं है. संस्थापक आपस में ही लड़ते झगड़ते रहते हैं
- ⇒ Large 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.
- ⇒ Could be misused for money laundering by big industrialists. (काले धन को वैध बनाने में दुरुपयोग हो सकता है)



⇒ May 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 रसूखदार/कुलीनवर्ग के हाथों में केंद्रित, जिसे पूरी 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 अनुमति नहीं देते क्योंकि उन्हें भी बैंकिंग शासन और वित्तीय स्थिरता में जोखिम दिखता है)

13.17.3 🏠 🚗 📄: Conclusion? (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 more entities 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's 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 → बहुत कम विदेशी बैंकों को अनुमति दी थी)

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





13.18.1 🏠 LVB merged with DBS (विलीनीकरण)

1926: Lakshmi Vilas Bank 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 deteriorated so RBI approved its merger/amalgamation with Development Bank of Singapore DBS, a Foreign bank in India- they acquired it to 📄 branch offices & staff in India. (वित्तीय हालत कमजोर होने पर अन्य एक बैंक में विलीनीकरण)



13.19 COMMERCIAL BANKS \Rightarrow DIFFERENTIAL BANKS



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

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

13.19.1 Commercial Banks \Rightarrow Differential Banks \Rightarrow RRB and LAB

Regional Rural Banks (क्षेत्रीय ग्रामीण बैंक)	Local Area Bank (स्थानीय क्षेत्र बैंक)
<ul style="list-style-type: none"> - Based on M.Narasimham's Committee on Financial Inclusion in 1970s - Setup under the provisions of RRB act 1976 & its amendment in 2015. Voting power: (Union + State + Sponsor bank) = 51% - e.g. Uttar Bihar Gramin Bank (Sponsor bank- Central Bank of India) - Subjected to CRR, SLR norms but RBI could prescribe separate norms. - PSL: 75%. - Their loan interest rates can't be more than prevailing lending rates of Cooperative Banks in the area. - Restricted to few districts. E.g. Baroda Gramin Bank branches confined to Gujarat's southern districts. - Ultimate regulator: RBI but immediate regulator NABARD. 	<ul style="list-style-type: none"> - Based on Budget-1996 by Finance Minister Manmohan Singh - Unlike RRBs, they're not setup by Union or State govts or by any special act or parliament. But by pvt entities simply applying to RBI under Banking Regulation Act. - Present in Max. 3 geographically contiguous districts. only 1 urban centre per district. - 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.



Jio Payments Bank
INDIA KA NAYA BANK



13.19.2 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), Ujjivan (Karnataka), Utkarsh (UP): Total 10 list at rbi.org.in/scripts/banklinks.aspx	6 at present: Airtel, India Post, FINO, Paytm, Jio, NSDL. (Total 11 were selected; but AdityaBirla-Idea & other withdrew later)
Eligibility during 1st round of licensing	Min. 100cr. capital-walla Resident Indian, Local Area Bank, NBFC, Micro-finance, with 10 years exp. in banking / finance	Min. 100cr. capital-walla resident Indians, NBFCs, PPI-wallets (pre-paid payment instrument), mobile telephone companies, super-market chains, cooperatives & companies controlled by resident Indians
Area	RBI Committee gave selection preference North East & Central India clusters where Universal Banks' penetration is poor	Anywhere
CRR, SLR, Repo, FDI?	Same as Indian private banks	Same as Indian Private Banks, but special terms & condition in SLR.
Rural Penetration	Must have 25% branches in unbanked rural areas	No need but 25% access points must be in rural areas like Business correspondence (BC), Kiraana Stores
Target Consumers	Unserved Underserved Farmers, Micro, Small industries: किसान, सूक्ष्म, लघु उद्योग	Promoting Small savings Remittance of migrant labors, low income households, unorganized sector, small business.
Accept Deposits	Yes, without any restrictions डिपॉजिट स्वीकार करने में कोई पाबंदी नहीं है	- No NRI deposits, Fixed deposit, Recurring Deposit. ** - Can accept only Demand Deposits and Max. balance Rs.1 lakh per customer. (In 2021 - limit increased to ₹2 lakhs)
Debit cards	YES (but EMV-Chip-walla)	YES (EMV-Chip-walla)
Credit cards	YES (but EMV-Chip-walla)	No (because can't "loan")
Loans	- Yes, but 75% in PSL, - 50% of loan portfolio of Rs. 25 lakhs/< loans.	- Can't loan, So no PSL. - They're required to invest all deposits in G-sec, T-Bill and in other SCBs. How much% notimp.
Evolve?	Yes, after 5 years can become Universal Commercial Bank.	Not mentioned.

- ** While Paytm Payment Bank accepts fixed deposit but it's acting simply as an 'Agent' to open your fixed deposit IndusInd Bank, a private sector Commercial Bank.
- BASEL-III norms applicable on both of SFB & PB, and they are tighter than a (universal) commercial scheduled bank. (How, What % = NotIMP)
- Both can sell Mutual Fund (MF), Pension, Insurance policies with approvals of respective regulators.

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 अनुमति देने से स्पर्धा में बढ़ोतरी वित्तीय समावेशन में मदद)



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

Eligibility conditions to start SFB license 'On Tap':

- Minimum ₹200 crore capital.
- Indian persons/Indian companies with minimum "X" years experience in banking/finance.
- Existing NBFCs, MFIs, local area banks and payments banks may apply.
- Urban cooperative banks (UCB) allowed to convert into SFB but capital norms slightly different.
- 2019-Dec: Even **Payment banks can convert** into SFB, after 5 years of operation.
- 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 examines/reviews/pass-rejects the applications.

13.19.4 Centrum Small Finance Bank (SFB) to get on-tap license

- ⇒ RBI approved Centrum group to set up Small Finance Bank, under 'On-Tap' licensing system.
- ⇒ Shareholding/Ownership: It's a joint venture / 50:50 partnership between two Companies 1) Centrum Finance ltd 2) BharatPe ltd
- ⇒ Centrum-SFB aims to acquire/takeover PMC cooperative bank's dying business. (= PMC's depositors, staff, buildings, assets etc). (सेन्ट्रम ग्रुप पीएमसी बैंक का अधिग्रहण करना चाहता 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 → 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 pilot branches at Raipur (Chhattisgarh) and Ranchi (Jharkhand). Then IPPB launched full-fledged operations in 2018.
- **Motto:** Aapka Bank, Aapke Dwaar. Largest customer reach with 1.55 lakh Post offices across India. Doorstep banking through Postmen (but fees applicable).
- IntraBank transfer: no fees. IMPS: fees applicable.
- Bank Account Types: **Safal, Sugam, Saral** (internal differences about ATM withdrawal limits etc. not important for UPSC).



- Account can be opened with zero balance, no minimum balance requirement. Max. Balance 1 lakh per person. Minimum Customer Age: 10 years / >
- 2019-July: 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।)

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

13.19.6 (Proposed) Wholesale & Long Term Finance Banks (WLTF)

- 2017: RBI proposed 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.
- But since it's not yet formed, so we need not loose sleep about how exactly it'll work.

13.20 FI ⇒ BANKS ⇒ COOPERATIVE BANKS (सहकारी बैंक)

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

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)
<p>Further subcategories depending on</p> <ul style="list-style-type: none"> - Scheduled / Non-Scheduled; - Single State / Multi State. <p>From 2018, RBI allowed them to voluntarily upgrade to Small Finance Banks, with certain conditions.(#)</p>	<p>1) Long term: Land Banks, Cooperative Agriculture & Rural Development Banks</p> <p>2) Short term: State Cooperative Bank → District Central Cooperative Bank (DCCB) → Primary Agricultural Credit Societies (PACS: प्राथमिक कृषि ऋण समितियाँ)* *</p> <p>* * PACS are not 'banks'. They can't issue chequebooks. RBI doesn't regulate them. Only State registrar regulates them.</p>

- (#) due to various financial-scams, RBI's Y.H. Malegam Committee (2011) suggested many reforms on UCBs, but that required Govt to amend the laws (which was not done until 2020). Therefore, (2018 onwards) RBI offered Urban Cooperative Banks to convert their license into Small Finance Bank (SFB) then RBI alone will have supervision powers without interference from Government/its registrar of cooperative society.
- 2021: RBI has 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 Primary Agricultural Credit Societies.
- Answer Codes: [a] 1 only [b] 2 only [c] Both 1 and 2 [d] Neither 1 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.
- ⇒ 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/कानून

Recently the RBI has imposed limitations, initially for a period of six months, on the withdrawal of amount by account holders of this banks: (UPSC-CDS-i-2020)

- (a) IndusInd Bank (b) Dhanlaxmi Bank (c) Punjab and Maharashtra Cooperative Bank (d) South Indian Bank

13.20.2 Banking Regulation (Amendment) Ordinance/Act, 2020

- **2020-June:** Ordinance issued to amend the Banking Regulation Act, 1949. **2020-Sept:** Act passed
- **Objective?** protect depositors, prevent cooperative banks from falling into fraudulent activities.



Table 8: भूतकाल में दोहरे नियंत्रण के चलते घोटाले/कांड के बाद कार्यवाही धीमी होती थी, इसलिए अब ज्यादातर सहकारी बैंको को सिर्फ रिजर्व बैंक के दायरे में लाया गया

Type of Bank	BEFORE: Regulator(s)	After: Regulator(s)
Commercial (SBI Axis)	RBI	RBI
Coop (Single State: rural)	RBI + State Govt (=dual regulation)	RBI + State Govt
Coop (Single State: urban)	RBI + State Govt(=dual regulation)	RBI ONLY
Coop (Multi State Cooperative)	RBI + Union Govt(=dual regulation)	RBI ONLY
Coop: Primary Agricultural Credit Societies ("PACS")	State Govt	State Govt

⇒ State Government = State Govt's Registrar for Coop Societies

⇒ Union = Agro Ministry's Registrar Multi-State Coop Societies

Before	After this Ordinance/Act/Amendment
<p>If a commercial / cooperative bank was on verge of collapse, then RBI would first issue "moratorium (रोक)" e.g.</p> <p>⇒ "single depositor can't withdraw more than XX amount,</p> <p>⇒ Bank can't give loans until YY Date.</p> <p>⇒ Then RBI will begin the process of fixing the bank. → This disrupted the normal business of the bank and created panic among investors. (निवेशकों में दहशत फैलती थी)</p>	<p>⇒ It makes technical reforms for easier/faster amalgamation / merger / restructuring of weak banks. (कमजोर बैंकों का आसानी-तेजी से समामेलन / विलय / पुनर्गठन)</p>
<p>It was difficult for a coop bank to raise capital/money by issuing IPO/Shares/Debentures. (Ref #1C)</p>	<p>Technical norms relaxed, to make it Easier.</p>
<p>Provisions were vague / weak. (कानून में स्पष्टता नहीं थी / कानूनी प्रावधान कमजोर थे)</p>	<p>Bank chairman must not be insolvent or a convicted person etc., else RBI can remove him/her. (दिवालिया या अपराधी नहीं होना चाहिए)</p>
<p>Provisions were vague / weak.</p>	<p>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)</p>
<p>Provisions were vague / weak.</p>	<p>However, if scam in a cooperative bank → RBI can takeover/supersede its board of directors for upto 5 years, subject to some technical conditions. (घोटाला हुआ तो सहकारी बैंक के बोर्ड का अधिग्रहण कर, रिजर्व बैंक वहाँ अपने लोगों/अफसरों को 5 सालों तक वहाँ बैठा सकता है- हालांकि कुछ तकनीकी शर्तों के अधीन)</p>

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



13.20.3 Cooperative Banks: Kerala Bank (2019)

RBI permitted Kerala's all 13 district co-operative banks (DCBs) to be merged with Kerala State Co-operative Bank. The combined entity will be called "Kerala Bank". It will be a 'State Cooperative Bank.'

13.21 FORMAL FI ⇒ NON-BANKING FINANCIAL INSTITUTIONS



गैर-बैंक वित्तीय संस्थान

13.21.1 Development Finance Institutions (DFI)

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

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

13.21.2 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.
- ⇒ It'll get funding from RBI, Govt, World Bank and other multilateral Bank, issuing bonds in market etc
- ⇒ As per news reports 1) The govt may make it mandatory for Insurance & Pension companies to invest some ₹ in NaBFID. 2) This org may replace the India Infrastructure Finance Company Limited (IIFCL)
- ⇒ Primary Objective? finance National Infrastructure Pipeline (NIP) project. ( Ref: HDT-Pillar#5:Infrastructure)

13.21.3 What is Bad Bank?

 Ref: HDT-Pillar#1B2: Bad Loans



13.21.4 Non Bank ⇒ 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)
Export-Import Bank of India	National Bank for Agriculture and Rural Development	National Housing Bank	Small Industries Development Bank of India
Boss: Government of India (100%)	Previously RBI had minority-stakes in NABARD but 2018: 100% Govt owned.	Original boss: RBI (100%). But, 2019-Apr: RBI sold 100% to Govt.	Originally 100% owned by IDBI. Later on shareholding transferred → SBI, LIC etc
Promotes cross border trade and investment, helps importers-exports with loans and foreign currency.	<ul style="list-style-type: none"> - Regulatory supervision: Coop + RRB - + Indirect refinance to farmers, artisans - Operates Rural Infra. Development fund (RIDF) 	<ul style="list-style-type: none"> - Finance to banks and NBFCs for housing projects. - RESIDEX index to monitor residential real estate prices. - Earlier it was Regulator of Housing Finance Cos (NBFC)** 	<ul style="list-style-type: none"> - Operates Credit Guarantee fund, Small Enterprises Development Fund (SEDF). - Operates udyamimitra.in for loans to small entrepreneurs via schemes like Mudra, Stand-up-India. (Ref: HDT-Pillar#1D: to know more abt these schemes)

- ⇒ ** (Full) 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 at large.
- ⇒ RBI is the regulator over AIFI, BASEL norms applicable but RBI can prescribe different / slabs norms / deadlines. What/why/how? Not IMP.
- ⇒ Atmanirbhar Bharat 2020 → RBI Governor announcements (Mar-May) → Special refinance facility for AIFI → they can borrow more ₹ from RBI → circulate loan towards agriculture, housing, MSME, foreign trade. (विशेष पुनर्वित्त सुविधा)
- ⇒ 5th AIFI = Industrial Investment Bank of India (IIBI) closed in 2012.

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

- 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 (c) 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. Small industries development bank of India 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 21 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 FI ⇒ NBFCs (गेर-बैंकिंग वित्तीय कंपनियां)



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 Bank), 56 RRBs, 39 private sectors (including SFB, PB), 44 Foreign Banks.	Total 10,190. Out of them 108 deposit Taking, remaining are non-deposit-taking (ND). [figures not imp]
Can accept Deposits?	<ul style="list-style-type: none"> - Can accept Time & Demand deposits [also known as chequable deposit]. Sidenote: payment banks- can't accept time deposits. - Their deposits are insured under DICGCI Act. 	<ul style="list-style-type: none"> - Only NBFC-Deposit-Taking (NBFC-D) & even they can accept only Time Deposits. E.g. Bajaj Finance. - Can't issue their chequebook, debit/credit card. - Deposits are not insured under DICGCI Act. More in Pillar#1B1
Prudential Norms सावधानी के मानदंड	CRR, SLR, applicable	<ul style="list-style-type: none"> - SLR applicable ONLY on NBFC-D. but RBI can prescribe different slabs / norms than banks. - CRR not applicable on any type of NBFC.



Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
BASEL Capital Adequacy Norms, LCR-HQLA norms	Yes, Applicable. 📄 More in Pillar#1B2	- Applicable on 108 NBFC-D and - Applicable on 276 NBFCs – ND – SI (non-deposit taking Systematically Important with assets over ₹ 500 crores) e.g. L&T Finance, Cholamandalam etc. But RBI can prescribe different slabs / norms / deadlines.
Investment ग्राहक का पैसा किधर निवेश करते	They can keep depositor's money in RBI approved securities. But can't invest in share market per se, directly.	Can invest clients' money in share market. E.g. Mutual Funds, Insurance Companies.
Loan Interest Rate ब्याज दर	Decided as per RBI's methodology from time to time (BPLR, MCLR, External Benchmark etc.) Ref: 1A1	Varies & depends on nature of biz.
Recovery बकाया राशि की वसूली	Loan recovery powers under SARFAESI Act. 📄 More in Pillar#1B2	- Housing Finance Companies have SARFAESI powers. But, all types of NBFCs don't have it. (More in 📄 Pillar#1B2)
Consumer Complaints	RBI's Ombudsman, Bank's Internal Ombudsman ** शिकायत निवारण	RBI's separate Ombudsman for NBFCs starting the NBFC-D since 2018**.

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

🔍 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 9: 📄📄 no need to remember examples, just observe pattern

Investment and Credit Company (2019)	This New category created by merging previous NBFC categories viz. Asset Finance Companies, Loan Companies, Investment Companies. E.g. SREI Equipment Finance
Core Investment Company (CIC)	- They do long term investment in Companies. E.g. Tata / Birla / Reliance Capital & Infrastructure Leasing & Financial Services Limited (IL&FS) - IL&FS is owned by SBI, LIC and Corporates from Japan and Abu Dhabi. 2018: In controversy because couldn't repay interest to lenders. 📄 More in next NPA handout.
Infrastructure Finance Company (IFC) Infrastructure Debt Fund (IDF)	Internal difference notimp for UPSC. Basically, they give loan for infra. projects. - E.g. Rural Electrification Company Ltd. (REC) - L&T IDF, Kotak IDF, IDFC IDF ("IDFC First" has separate license for Bank).
Asset Reconstruction Companies (ARC)	They buy bad loans / NPA from Banks & other NBFCs, and try to salvage value from the underlying assets. E.g Anil Ambani's Reliance ARC.



Factoring Companies	They lend short term money to client against his invoices / accounts receivable. E.g. IFCI Factors, Siemens Factoring.
Gold Loan Companies	e.g. Muthoot gold loan, Mannapuram Gold. RBI decides their Loan to Value ratio (LTV) (More in 📄 Pillar#1A2).
Micro Finance Institutions (MFI: सूक्ष्म वित्त संस्थान)	<ul style="list-style-type: none"> - 2010: RBI's Y. H. Malegam Committee → RBI created a new NBFC category called Micro Finance Institution (MFI) - They give small loans to poor without collateral, flexible EMI. - eg: Bandhan (W. Bengal, separately got PvB license), Disha (A'Bad: separately got SFB license), SKS (Andhra), Cashpor (UP), Ujjivan (Karnataka). - 📄 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. <p style="text-align: center;">**Before 2019-Oct above limits were lowers.</p>
MUDRA (2015)	<ul style="list-style-type: none"> - A non-deposit taking NBFC owned by SIDBI. It gives indirect loans to Micro enterprises through PM Mudra Yojana. - 📄 More in Pillar1D- Financial Inclusion.
Fintech cos: P2P Lenders	Similar to Olx-Quickr connecting sellers of second hand goods with buyers, the P2P lending websites connect borrowers and lenders. E.g. Faircent.com, Cashkumar.com
Fintech cos: Account Aggregators (AA)	<ul style="list-style-type: none"> - They manage information of a customer's financial assets & display it to him or to third party (like loan giver, credit rating company & Apps) - 2018: RBI gave license to 5 cos- NeSL, Cookiejar etc.
Fintech cos: Loan Aggregators (ऋण समूहन)	<ul style="list-style-type: none"> - E.g. Loanadda.com, Moneytap.com, Loanbazaar, Paisabazaar etc. - 😞 Challenges? Often these digital platforms that act as outsourced agents of banks/NBFCs to sell loans. - But, customers face difficulty in complaint/grievance redressal. - Now even Google Pay app developing features for loans. So RBI has expressed its displeasure and is presently working on rules to fix this.
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)






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

13.21.9 NBFCs Regulated by Others



Regulator	Example NBFC Companies
IRDAI ( More in Pill1D)	Insurance Regulatory and Development Authority (IRDAI) regulates: <ul style="list-style-type: none"> - 1) Life Insurance companies e.g. LIC, HDFC Standard Life Insurance - 2) Non-Life (=General) insurance companies e.g. IFFCO-Tokyo General Insurance. - 3) Policy aggregator platforms such Policybazaar.com
PFRDA ( More in Pill1D)	Pension Fund Regulatory and Development Authority (PFRDA) regulates all Pension Funds, except EPFO & other statutory funds.
National Housing Bank (NHB)	<ul style="list-style-type: none"> - Housing Finance Companies such as DHFL, Muthoot Housing finance etc. - They were regulated by NHB but after (Full) Budget-2019, this category's regulation handed over to RBI.
Ministry of Corporate Affairs	<ol style="list-style-type: none"> 1. NIDHI Companies: Mutual benefit club, only members can borrow. e.g. South Madras Benefit Fund Ltd, Maben Nidhi Ltd (of Mannapuram group) 2. Microfinance Companies: learned in previous section.
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 संस्थाएँ पारंपरिक बैंकिंग नियमों के दायरे से बाहर काम करती हैं.
- ⇒ 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 10: Three important segments of the shadow banking system in India

HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
LDMFs	<ul style="list-style-type: none"> - Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies). - e.g. certain schemes by UTI, Kotak, L&T, Tata mutual funds
Retail-NBFCs	Retail Non-Banking Financial Companies such As Gold Loan Companies, Asset Finance Companies etc.

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

More on Shadow banks in Pillar1B2: → ILFS crisis.

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?

- 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 authorities claim it's used for terror finance & money laundering. (आतंकी वित्तपोषण, काले धन को वैध बनाना)

13.21.12 Informal Financial Intermediaries (अनौपचारिक वित्तीय मध्यस्थ)



- They provide loans without KYC, PAN or Aadhar card, formal documentation 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, remaining 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 बनाए- पंजीकरण, ब्याज की महत्तम सीमा निर्धारित करना, बलप्रयोग/जबरन वसूली पर रोक)



Table 11: These Examples not imp for IAS Exam but Banking Exams

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

13.21.13 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)
- “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. (सार्वजनिक 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.