



JANUARY 2018

National Policy for Women 2016

Women's Safety: Top Priority



**Banking Sector
Reforms**

**Managing Non-Performing
Assets**



Preface

This is our 34th edition of Yojana Gist and 25th edition of Kurukshetra Gist, released for the month of January 2018. It is increasingly finding a place in the questions of both UPSC Prelims and Mains and therefore, we've come up with this initiative to equip you with knowledge that'll help you in your preparation for the CSE.

Every Issue deals with a single topic comprehensively sharing views from a wide spectrum ranging from academicians to policy makers to scholars. The magazine is essential to build an in-depth understanding of various socio-economic issues.

From the exam point of view, however, not all articles are important. Some go into scholarly depths and others discuss agendas that are not relevant for your preparation. Added to this is the difficulty of going through a large volume of information, facts and analysis to finally extract their essence that may be useful for the exam.

We are not discouraging from reading the magazine itself. So, do not take this as a document which you take read, remember and reproduce in the examination. Its only purpose is to equip you with the right understanding. But, if you do not have enough time to go through the magazines, you can rely on the content provided here for it sums up the most essential points from all the articles.

You need not put hours and hours in reading and making its notes in pages. We believe, a smart study, rather than hard study, can improve your preparation levels.

Think, learn, practice and keep improving! You know that's your success mantra 😊

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A Picture of a Rural Indian Women

- Large proportion of population in rural India
- Poverty is acute for women in rural households
- Poor access to economic resources, education and support services resulting in their low participation in decision making process
- Not a homogenous category- have location specific needs
- Experience inequalities in healthcare and nutrition, lower access to employment, lack of ownership of property and victims of domestic violence.
- Yet take disproportionate responsibility for housework and childcare as compared to men.
- Asymmetrical division of labour, rights and assets renders them more vulnerable and more susceptible to stress and deprivation.
- Market economy trends in the era of globalization have further widened the gap between educational and technological opportunities available for rural women.

Divide between rural and urban women

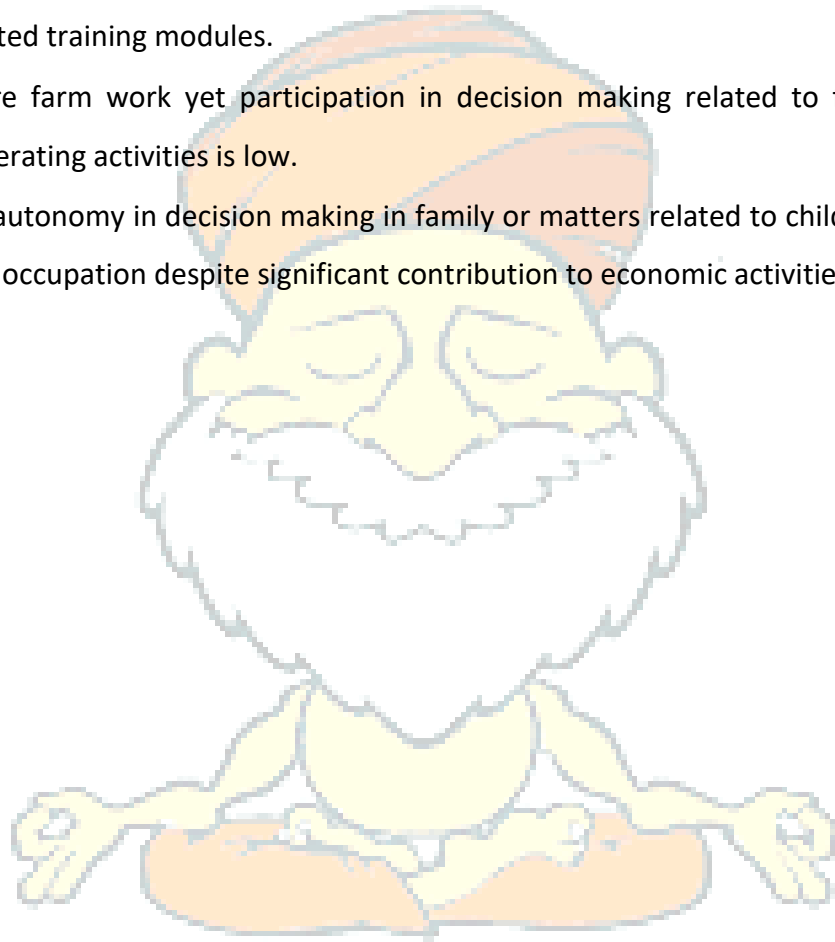
- Though work participation rate of rural women is higher than their urban counterparts, higher work participation rates per se don not indicate a higher level of welfare such as higher education capabilities and/or asset and income.
- In fact the situation is dismal for rural women especially for women belonging to SCs/STs and other vulnerable/marginal categories.

Agricultural participation

- Rural women are concentrated in agriculture to a much larger extent than men.
- 60% population engage in farming, women contribute to almost 70-80% of farming activities. Yet they are neither legally, socially recognized as farmers.
- There is significant gender segmentation of operations in agriculture- men in ploughing and harvesting, women in weeding, transplanting and inter-cropping that involve more drudgery. Technological implements are either not available for women have little access to it.

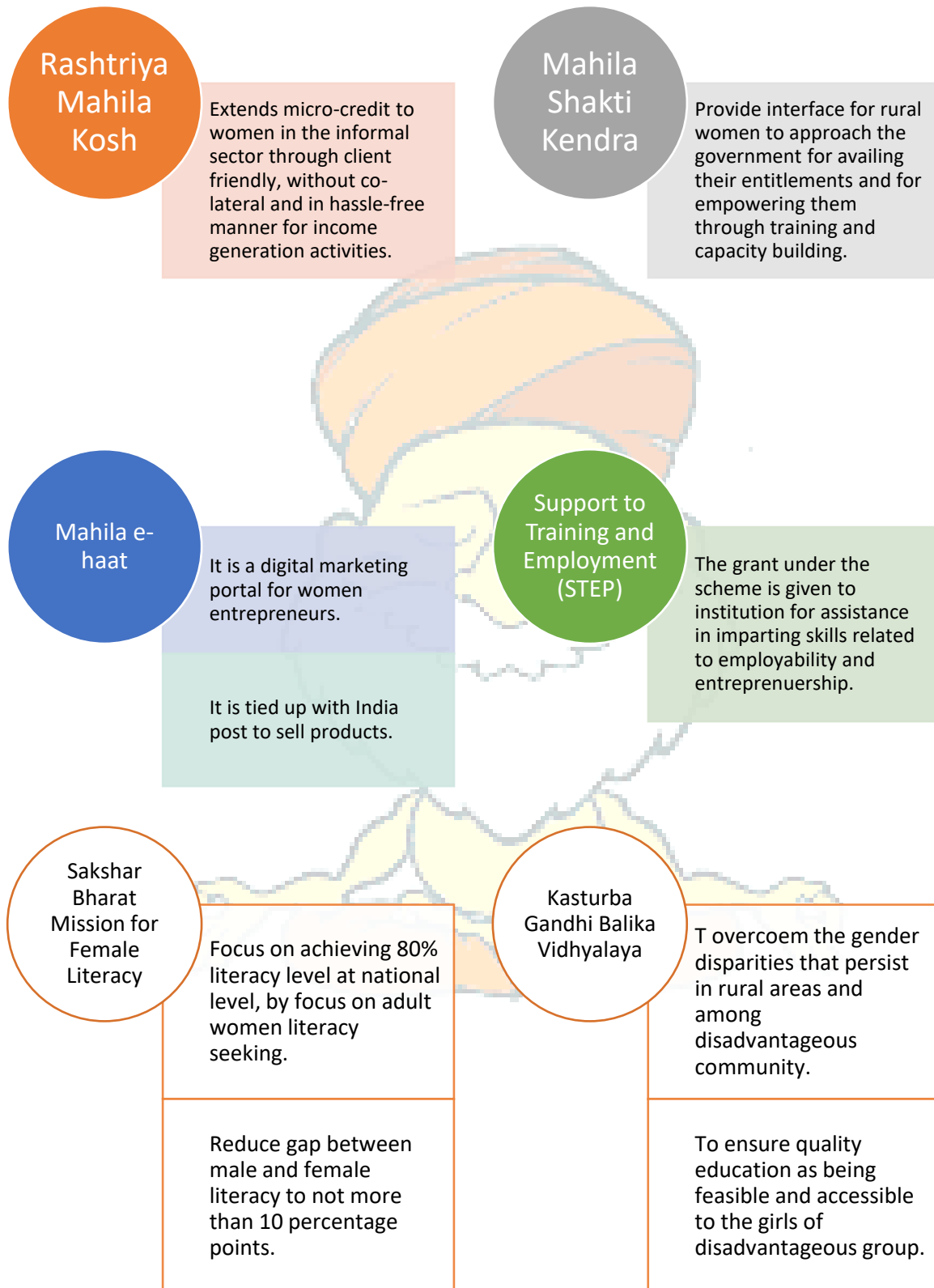
Major challenge for rural women- Poor education

- Rural women often suffer from high illiteracy rates and high school drop out rates.
- Lack of education impedes their participation in other development processes of the country.
- Poor knowledge of legal rights hampers the social and political empowerment.
- Impedes the access to skill upgradation and capacity building, access to credits, access to subsidies on inputs by government programs, access to technologies and related training modules.
- More farm work yet participation in decision making related to farm an income generating activities is low.
- No autonomy in decision making in family or matters related to children's education and occupation despite significant contribution to economic activities.



Government Efforts





Rajiv Gandhi
National Creche
Scheme for the
children of
working mothers

Sustained initiatives on education and employment for women has resulted in increased opportunities for their employment.

With more nuclear families, the children are provided day care services which has quality care and protection for children.

Dhanalakshmi
Scheme

Promote awareness and importance of education of girl child by a conditional money transfer scheme

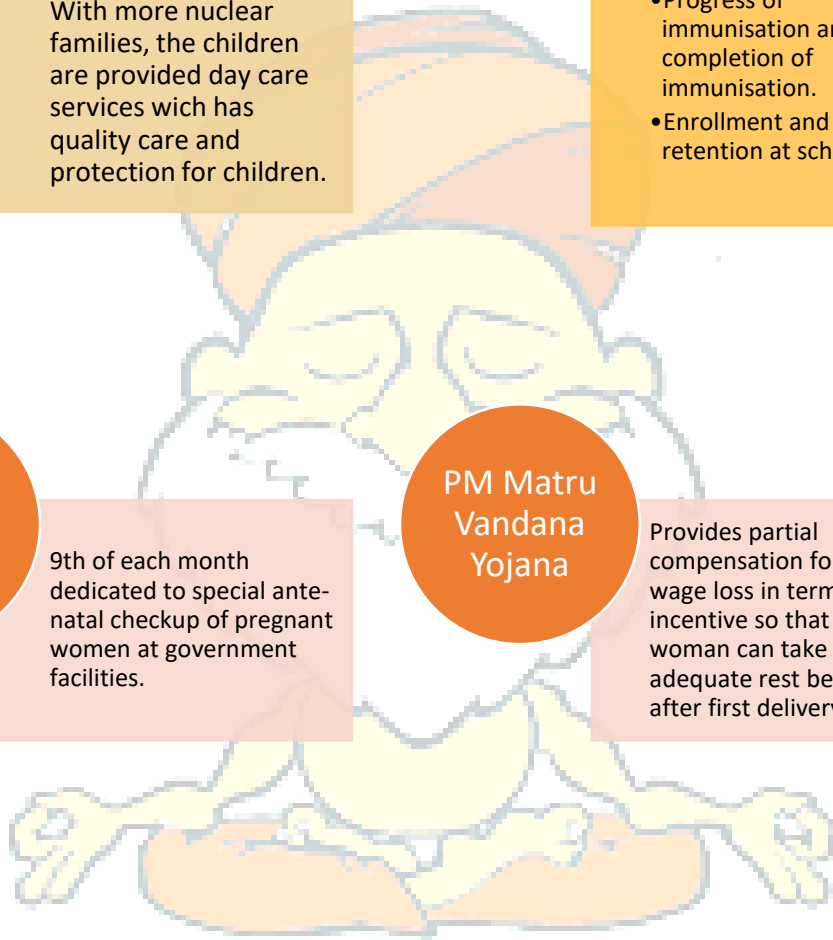
- At birth and registration of birth
- Progress of immunisation and completion of immunisation.
- Enrollment and retention at school.

PM
Surakhsha
Matritva
Abhiyan

9th of each month dedicated to special ante-natal checkup of pregnant women at government facilities.

PM Matru
Vandana
Yojana

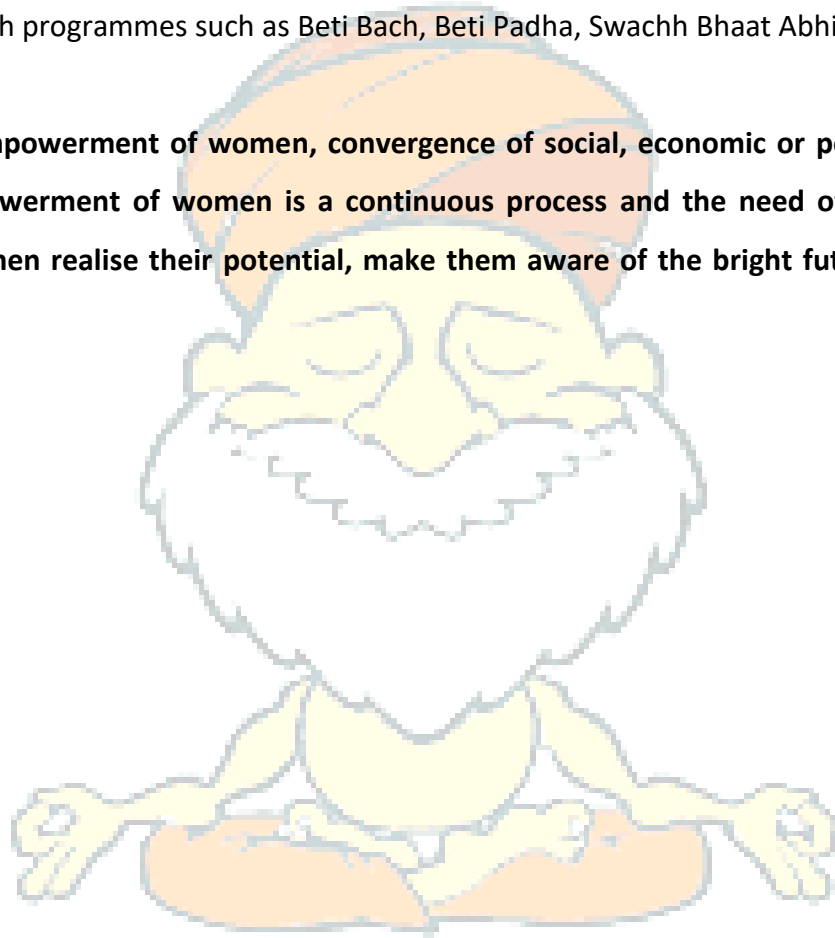
Provides partial compensation for the wage loss in terms of cash incentive so that the woman can take adequate rest before and after first delivery.



Empowered rural women can play an important role in linking other women and girls to their entitlements such as access to nutritious food and supplements, equality in participation of women in government programs such as Mahatma Gandhi National Rural Employment Guarantee Scheme, National Rural Livelihood Mission, PM Awas Yojana and creches for women at working sites etc.

They can also bring change in mindset towards value of girl child by actively associating themselves with programmes such as Beti Bach, Beti Padha, Swachh Bhaat Abhiyan etc.

For holistic empowerment of women, convergence of social, economic or political aspect is needed. Empowerment of women is a continuous process and the need of the hour is to make the women realise their potential, make them aware of the bright future that awaits them.



Economic Empowerment of Women

The internet and the social media have fueled online women activism in a big way. Digital India promises to provide opportunities for e-learning and to open earning avenues for women. The systematic focus on women's awakening, galvanized over the last few decades, has been consolidated into a more holistic sharper mission under the centre via- Mission Poorna Shakti. It provides single window for all women centric programmes run by various ministries.

Equal pay for equal work is one of the cornerstones of the gender equality movement the world over. Wage disparities have always existed in rural India. But in some spheres of activities, the divide has widened.

- Men were paid 70% higher wages than women in 2004-05 for ploughing work, it rose to 80.4% in 2012 and stood at 93.6% at the start of 2013-14. In digging work also, same discrimination was noticed.
- In 2013, the discrimination in wages paid to women was higher in physically intensive activities but lower in case of work such as sowing and harvesting.
- Many of the agricultural labourers are women and they are mainly assigned manual labour. While men perform operations involving machinery.

The concept of women empowerment is a recent one. The first year of new millennium 2001 was declared as 'Women Empowerment Year'.

Importance of education for economic empowerment

Education of a women leads to a better family and ultimately an ideal society to progressive nation.

New UNESCO data provides education transforms development-

- If all children enjoy equal access to education, per capita income would increase by 23% over 40 years.
- If all women had primary education, child marriages and child mortality would fall by a sixth and maternal deaths by two thirds.

- Educated girls and young women are more likely to know their rights and to have the confidence to claim them.
- Education promotes tolerance- it helps people to understand democracy, promotes the tolerance and trust that underpin it and motivates people to participate in the political life of their societies.
- Education improves job quality opportunities.

Constitutional Provisions

- **Article 14**- men and women have equal rights and opportunities in political, economic and social spheres.
- **Art 15-1** prohibits discrimination against any citizens on the go runs of religion, race, sex, caste etc.
- **Art 16**- equality of opportunities in matter of public appointments for all citizens
- **Art 39d**- equal pay for equal work for both men and women
- **Art 42**- state to make provision for ensuring first and humane conditions of work and maternity relief.

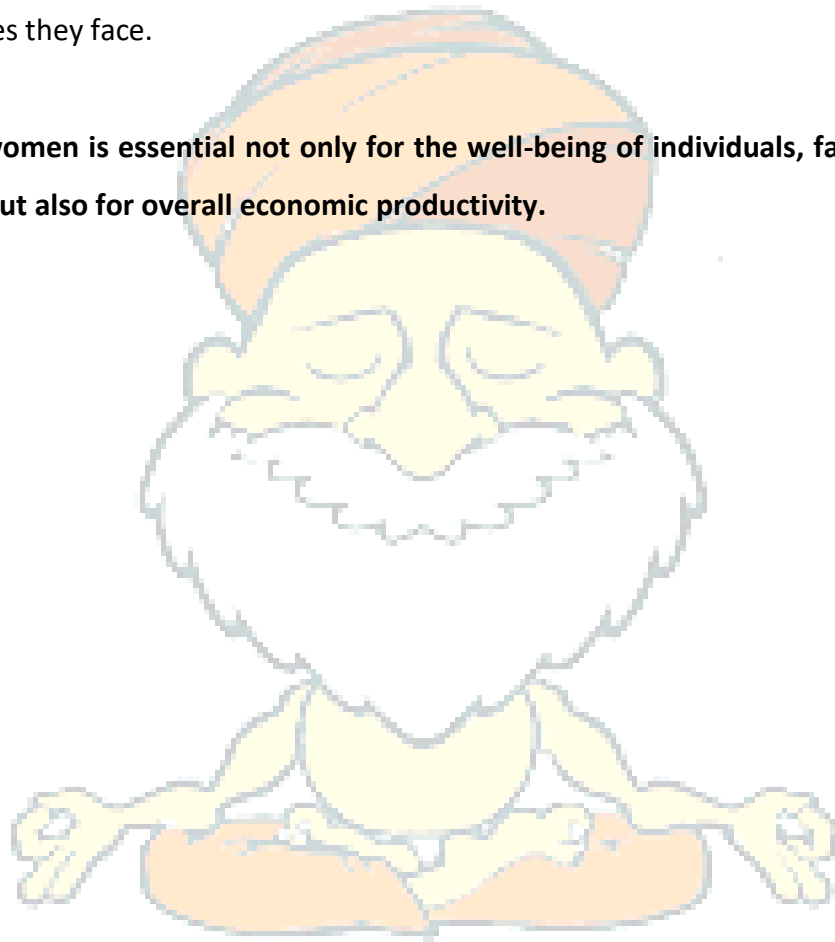
Government also enacted specific laws to safeguard the interests of women and for upgradation of their status.

- **Hindu Succession Act- 1956**, right to parental property for women
- **Dowry Prohibition Act 1961**, declares taking of dowry an unlawful activity and thereby prevents the exploitation of women.
- **Equal remuneration act, 1976** provide for payment of remuneration equal with men for work of equal value.
- **Medical termination of pregnancy act 1971**- legalizes abortion conceding the right of women to go to abortion on ground of physical and mental health.
- **Criminal law amendment act, 1983**- seeks to stop various types of crimes against women.

- **Protection of women from domestic violence act 2005-** provides for more effective protection of the rights of women guaranteed under the constitution who are victims of violence of any kind occurring within the family.

Rural women are the key agents for development. They play a catalytic role towards achievement of transformational economic, environmental and social changes required for sustainable development. But limited access to credit, health care and education are among the many challenges they face.

Empowering women is essential not only for the well-being of individuals, families and rural communities but also for overall economic productivity.



National Policy for Women 2016

The vision is to create 'a society in which women attain their full potential in all spheres of life and influence the process of social change. '

However, it is disturbing as the policy **does not recognize women as active agents and only reiterates many measures that are mostly directed at managing the manifestations of the larger structural issues.**

One is also mystified by the objectives listed in the policy which are reproductions of many earlier documents especially 2001 policy. It has following priority areas

Health including food security and nutrition

- Focus on nutrition and reproductive health
- Issues of elderly, women at menopausal age
- The solutions are directed at health insurance model but it can address some of the structural issues.
- Outside paid economy and poor control over household resources, contributory health schemes are bound to affect women adversely.

Education

- Retention of girls in school and providing gender specific needs including issues of sexual harassment are core concern of education section.
- But the solution doesn't take into account the diversities of different regions and sections and the emerging complexities.

Economy

- The national policy acknowledges the importance of economic participatory of women, and one of the objectives of the policy is to increase and incentivize work force participation of women in the economy.
- The issues of women's economic participation across sectors are discussed under three specific sectors; agriculture; industry and service detailing the specific contexts and measures that requires to be undertaken.
- Agriculture constitutes for the bulk of women workers. Yet, lack of property rights for women, especially agricultural land has affected women's decision making in agriculture.
- Access to credits as well as extension services which are based on ownership rights on land have also been issues for women cultivators.

Governance and decision making

- Gender inequality in governance structures and forums are also outlined.
- The solutions of which are limited to gender sensitive training and reservations for women ignoring the deep rooted nature of such issues.
- It is time to take into account of the effectiveness of this approach, with newer challenges.
- The most important commitment which can have large scale implications in terms of assessing and monitoring women's status is the promise of gender disaggregated data across all important dimensions of women's life.

Violence against women

- Issues of adverse sex ratio, trafficking of women and girls, monitoring and managing violence against women including sexual harassment at workplace.

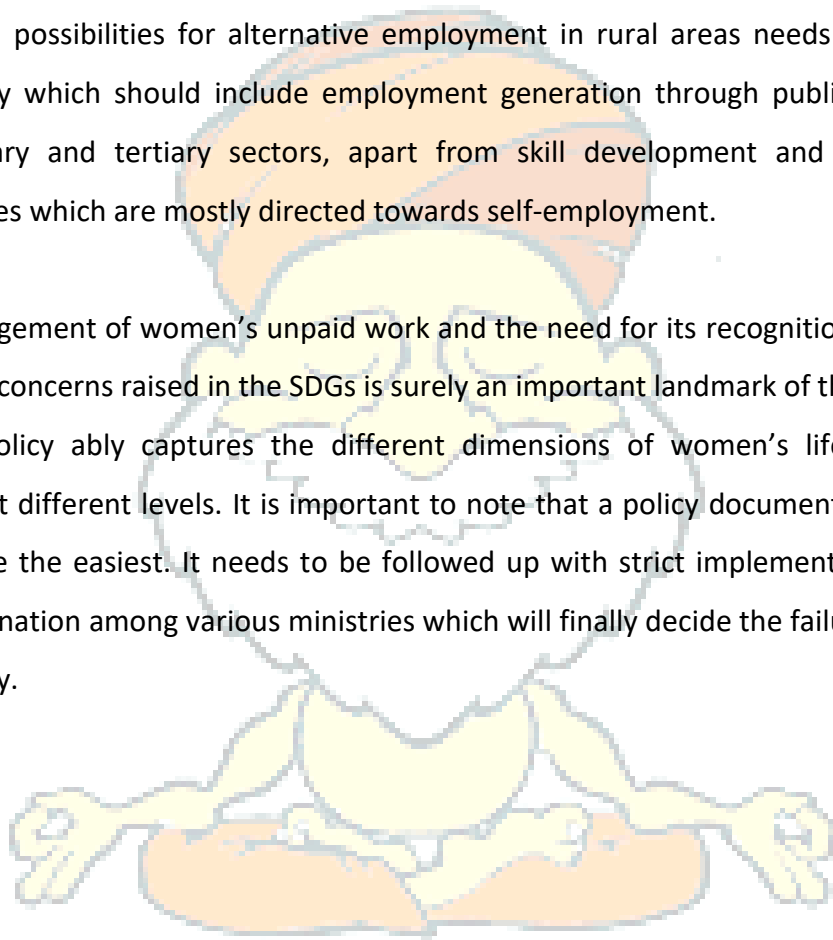
- These concerns have been in mainstream discussion but there are failed attempts to curb the menace of violence on women.

Enabling environment

- The decline in women's employment which is marked by an absolute fall in number of women workers in rural areas at a time when employment opportunities in urban areas are stagnating have limited the possibilities of women's economic independence.
- Further, possibilities for alternative employment in rural areas needs to be taken up seriously which should include employment generation through public investment in secondary and tertiary sectors, apart from skill development and entrepreneurial initiatives which are mostly directed towards self-employment.

The acknowledgement of women's unpaid work and the need for its recognition and valuation, resonating the concerns raised in the SDGs is surely an important landmark of the policy.

Overall, the policy ably captures the different dimensions of women's life and promises interventions at different levels. It is important to note that a policy document is only the first step and may be the easiest. It needs to be followed up with strict implementation plans that demand coordination among various ministries which will finally decide the failure or success of the larger policy.



PM Ujjawala Yojana

Nearly 121 million households are still using the inefficient chulhas as per census 2011. As per WHO report, smoke inhaled by women from unclean fuel is equivalent to burning 400 cigarettes in an hour.

- India has taken lead to provide a clean solution to BPL families through about 80 million LPG connections by 2020 under PM Ujjawala Yojana.
- The connections are released in the name of the adult woman member of BPL family having no LPG connection either in the name of the beneficiary or any other family member and based on Socio-Economic Caste Census Data.
- The government has now taken an initiative to upscale that target up to 80 million connections by 2020.
- An appeal Give-It Up was made to forego the subsidies of middle class households in favour of the needy, resulting in 13 million people releasing their subsidies.

When one looks at how PMUY has progressed one sees the promotional changes- linking bank accounts and giving up subsidies. The cost people incur on medicine on account of health hazard due to inefficient burning of biomass is not comparable with incurred cost of LPG cylinder refill. Similarly, the time spent by rural women in arranging fuel woods and carrying water is also significant which can be utilized for other productive output.

PMUY is a sincere effort to make the Indian rural women feel empowered along with reducing the health effects of household air pollution. Although not complete in itself, it started with a systematic approach. This scheme has provided great opportunities under the 'Make in India' campaign for all the manufactures of cylinders, gas stoves, regulators and gas hose.

A national mission on clean coking needs to be pursued to coordinate efforts on cooking fuels, efficient cook-stoves and related R&D with an aim to achieve full clean cooking fuel coverage by 2022.



Women's Safety: Top Priority

Violence against women (VAW) has been a worldwide phenomenon, inviting concerns and debates nationally and internationally.

Millions of women are subjected to overt and latent violence as they are trafficked for sex tourism, fall prey to 'kitchen accidents', face sexual war crimes like rape, succumb to hostility at work place, face intimate partner violence, lack of the agency to determine sexual and reproductive choices, honour killing among others.

The WHO in its research on VAW categorized it is occurring through five stages of the life cycle

- Pre-birth
- Infancy
- Girlhood
- Adolescence
- Elderly

VAW has been an issue of the women's liberation movement in India since the beginning of the movement during 1974-75. The Patna conference of February 1988 further identified the various social and economic forms of VAW, which take various forms and shape like 'purdah' sati, dowry deaths, female infanticide, selective abortions and rapes.

Reason- the issue gets compounded in areas where exposure and literacy rates among women are low, they are not financially independent to break out of the dependence barrier to speak out against violence or have internalized oppressive and violent structures as art of their existence due to social and cultural conditioning.

Some measures taken create awareness about complaints of VAW are-

Universalization of women's helpline

It came into force in 2015. The helpline 181 provides 24 hour response, both for emergency and non-emergency situation where women may be affected by violence including sexual offences and harassment both in public and private sphere.

The complaints that are registered on the helpline are referred to the appropriate authority such as police, counsellor, hospital, protection officer etc.

In case a woman needs rescue help from a violent situation or is in need of urgent medical help, a PCR van from nearest police station or ambulance from nearest hospital or 108 number is dispatched for instant help.

Panic button on mobile phones

It was launched keeping in view the need for women to reach out for help urgently in a situation of violence or sexual attack.

From 1st January 2018, no smartphone manufacturing company shall sell the new smart mobile phone handset in India without the facility of identifying the location through satellite based GPS.

Mahila police volunteer

This initiative is based on the principle of community volunteerism. It is to facilitate a positive linkage between police and community and to help women in distress.

Every gram panchayat across the country would have one mahila police volunteer who would act as link between rural women and police with the view to balance preventive and curative aspects, proper implementation of various laws and provisions available for safety of women and act as an enabler for victims of harassment and violence who may find it comfortable to directly approach the police or the authorities.

33% reservation in police

With a view to increase the representation of women in police forces of all UTs and Delhi police, the union cabinet in 015 approved 33% reservation for women in direct recruitment for non gazetted posts- constables to Sis- in police forces of all union territories and Delhi.

Sexual harassment of women at workplace (prevention, prohibition and redressal) act 2013

In 1997, SC recognized the sexual harassment of women at workplace as violation of human rights and personal injury to the affected women. As a result, it laid down the vishakha guidelines. Before this, there was no law in India which governed this matter directly and women had to lodge complaint under sec 354 and 509 of IPC. Even after the guidelines, the implementation was not carried out deftly.

Later, sexual harassment prohibition act came in 2013 which was a comprehensive law determining the means of sexual harassment and covers women working in offices, factories or even as domestic help. The act makes it mandatory for employers to constitute an 'Internal Complaints Committee' if there are more than 10 employees. This act doesn't allow for a demand for monetary compensation from the victim thereby working as a deterrent towards false complaints to extort money.

Inclusion of acid attack victims in right of persons with disabilities act

There have been spates of incidences where acid attacks have been used as a tool to derogate the identity of a woman in the society by reforming her, used as mode of vengeance in cases of unwanted sexual advances. Acid attacks have also come out in context of disputes other than sexual offences and are being used increasingly as a tool to inflict physical and mental trauma on women as well as lifelong scars.

In 2013, SC banned the public sale of acid yet the number of incidences in 2016 rose by 23.3%. The PwD Act 1995 which originally included 7 disabilities listed under its ambit and expanded it to recognizing 21 disabilities. The recognition of acid attack under this act would help them with

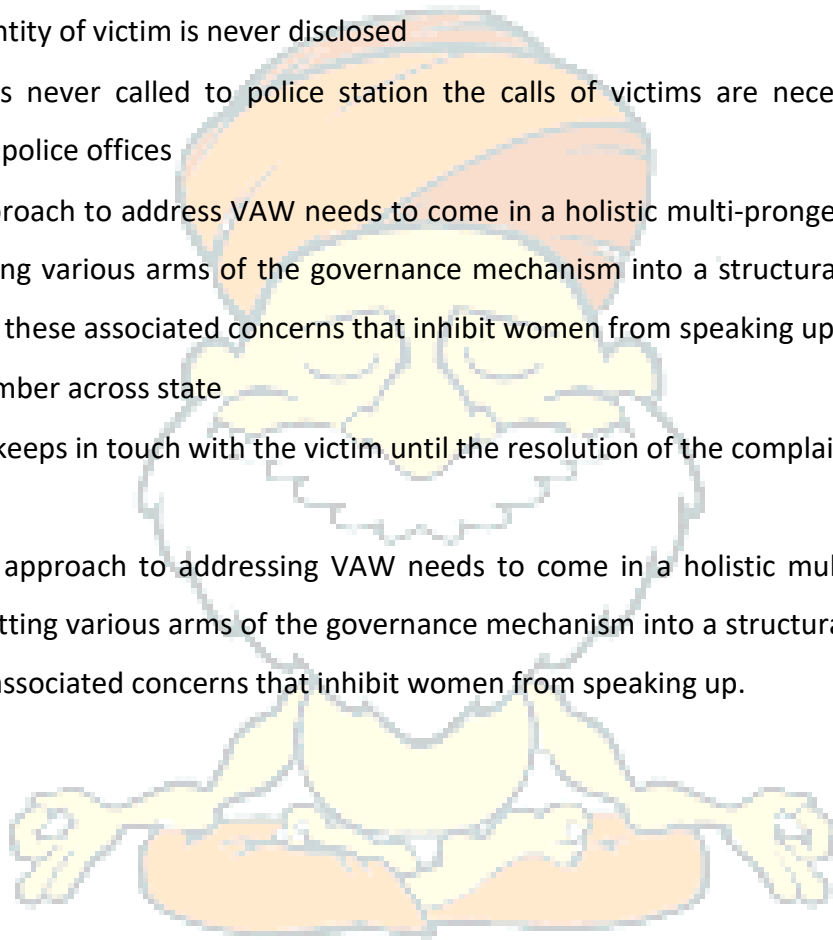
education and occupational provisions and allow them to avail of 3% reservations of jobs earmarked for the disabled.

There are other schemes like **women power line 1090** which sought to empower women and not just help them.

It caters to complaints related to social media, lewd telephone calls and SMSes, stalking and harassment in public places. It works on 5 principle

- The identity of victim is never disclosed
- Victim is never called to police station the calls of victims are necessarily taken by women police offices
- The approach to address VAW needs to come in a holistic multi-pronged way, designed by putting various arms of the governance mechanism into a structural whole so as to address these associated concerns that inhibit women from speaking up.
- One number across state
- Officer keeps in touch with the victim until the resolution of the complaint.

Therefore, the approach to addressing VAW needs to come in a holistic multi-pronged way, designed by putting various arms of the governance mechanism into a structural whole so as to address these associated concerns that inhibit women from speaking up.



Women and Panchayat

Panchayat raj system of India is a unique and innovative example of grassroots democracy in the world. It decentralizes the decision making process and lets village communities decide their own needs and developmental priorities. Women constituting almost half of the village population are an important stakeholder in PRI.

- **Art 40-** the state shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.
- **73rd CAA-** it added a new part IX to the constitution titled the panchayats and XIth schedule covering 29 subjects within the functions of the panchayats.

This amendment implements art 40 of DPSP. However, states have been given enough freedom to take their geographical, politico-administrative and other conditions into account while adopting the Panchayati Raj system.

Salient features

- Reservation of seats for SCs, STs in proportion of their total population in a panchayat area. Mandates atleast one third of the seats in the panchayats to be reserved for women
- Three-tier panchayat system
- Panchayat will enjoy five year term
- Gram Sabha will consist of all persons registered on electoral rolls
- Governor will appoint a state finance commission to revive the financial position of the panchayat and make recommendations.

Capacity building of elected representatives

Despite 33% reservations of women in panchayat bodies, the EWRs remain ineffective since they do not have appropriate knowledge and skill to administer the village and are constantly dominated by their husbands.

So a need was for building capacities of elected women representatives and other leaders

Training programme for EWRs

A comprehensive module for capacity building of elected women representatives of panchayats and a training programme for trainers of women panchayat leaders across the county was launched by ministry of women and child development in collaboration with ministry of Panchayati raj. They are trained to take responsibility of all tasks entrusted upon them on being elected. They are trained in areas like engineering – building of roads, drains, latrines, etc., finance, social development, education, health and environment.

The training will help women sarpanches in taking the schemes launched for the benefit of the common man especially those in distress and under privileges. Safety of women, education of girl child, health of women, creation of assets under MGNREA, immunization and ensuring nutrition through lakhs of anganwadis of the county have become important issues at the grassroots level in which the women sarpanches can play a pivotal role in effective delivery.

There is a need for greater accountability, honesty and transparency in the execution of the developmental projects like building of roads drainage system, toilets, farm ponds and dwelling units. It is hoped that the newly trained women representatives will be able to endure it. The training is participatory with group discussions, brainstorming exercises, demonstrations, field visits, case studies, games, exercise, role play, small workshops and individual assignments.

The module discusses various topics like 'What is an ideal panchayat', development schemes, resources of panchayats and their utilization, laws for protection of the vulnerable sections among others.

Empowering Adolescent Girls: Needs and Concerns

WHO 2016 study says that nearly 20% of the children and adolescents suffer from a disabling mental illness worldwide.

Suicide rates in Indian adolescents appear to be several fold higher than anywhere in world, accounting for 25% of deaths in boys and 50-75% deaths in girls aged 10-19 years.

Most mental health problems, though manageable are not identified or formally diagnosed at an appropriate time of child development.

Therefore, as parents, teachers, educators and professionals dealing with the future of tomorrow, it is imperative to consider child and adolescent mental health as a necessary priority for the healthy development of societies.

Some facts from WHO

- Depression alone accounts for 4.3% of the global burden of disease and is among the largest single cause of disability worldwide.
- Suicide is the second most common cause of death among young people worldwide.
- Between 76% and 85% of people with severe mental disorders receive no treatment or their disorder in low-income and middle income countries.
- 20% of children and adolescents suffer from DISABLING MENTAL ILLNESS WORLDWIDE
- 12.8% CHILDREN SUFFER FROM MENTAL AND BEHAVIOURAL DISORDERS.

Global Mental Health Action Plan 2013-2020

- To strengthen effective leadership and governance for mental health
- To provide comprehensive, integrated and responsive mental health and social care services in community based settings
- To implement strategies for promotion and prevention in mental health
- To strengthen information systems, evidence and research for mental health⁴

Role of schools

Education holds the power to transform fortunes within the human lifespan. Schools must recognize and respond to the diverse mental health and wellbeing needs of the students, accommodating both different styles and rates of learning thereby ensuring quality education to all through appropriate curriculum, organizational arrangements, teaching strategies and resource support.

Counselling skills as a tool for change

While counselling as a skill has been thought to invoke basic communication and talking it is more than that. It is a professional relationship that empowers diverse individuals, families, education groups to accomplish mental health, wellness and education and career goals.

Perspective policy approach

In India yet does to have a comprehensive approach to school mental health promotion. The child mental health policy is nonexistent and behavioral and emotional aspects special needs children are a completely ignored area.

The five year plans until recently have set aside only few crores for mental health of the entire country with the child's mental health promotion receiving a very low priority. Lots of complexities exist in multiplicities of laws related to child mental health or associated disabilities.

Protecting mental well-being of the student

- Mental health and life skills as abilities for adaptive and positive behaviors need to be mandated for helping children and adolescents to effectively deal with demand and challenges of everyday life.
- The policy should encourage ongoing comprehensive curriculum for sensitization of principals, teachers and managers and all students towards gender issues, substance abuse prevention, understanding and management of aggression and violence etc.
- Peer educators play a vital role in becoming the life skills and wellbeing ambassadors of the school and nation at large.
- School counselor and special educators and / or trained teaches counsellors should be appointed for every school to facilitate effective guidance and counselling for students and their families., across the span of schooling
- School mental health programme must be an integral part of health and physical education
- Removing physical barriers and reviewing barriers created by admission procedures- screening, identification, parental interaction, selection and evaluation, this should include private schools.
- All teacher programmes should develop pedagogical skills required for mental health and inclusive classrooms for integrating the EWS and the complete range of children with disabilities
- For special children and slow learners, there should be early detection and intervention for disorders such as childhood depression, autism, slow learners etc. individualized home and education plans for behavioral modification, occupational therapy and sensory integration, speech therapy and remedial education has to be catered to.

Folk Arts as a Tool for Development

Folk arts are special in the sense that they truly represent the long preserved Indian customs and traditions. Many of these arts are practiced by the women in rural India. If these arts are promoted and marketed, it may save these arts from extinction at one hand and provide sustainable livelihood options for the rural women on the other.

The challenges face by folk arts/traditions

- **Awareness**- whereas a folk art may be hugely popular in one region, but there is generally less awareness outside the region. This limits the marketing scope. There is often lack of awareness about the income generation potential of their arts.
- **Market**- marketing of traditional arts/crafts is major impediment in realizing their full economic potential. Generally, folk artists come from rural areas and are not well versed in modern marketing techniques. Marketing linkage is also an issue due to poor infrastructure in remote areas.
- **Production**- most of the artists are also engaged in agriculture and allied activities for their livelihood, so production of traditional crafts is suspended during harvest season.
- **Organization**- traditionally artisans usually work in informal groups which may not be very well organized.
- **Dwindling interests**- new generation is focusing more on careers in engineering, medicine, corporate sector and is showing disinclination towards further continuation of the arts/crafts practices by their families.

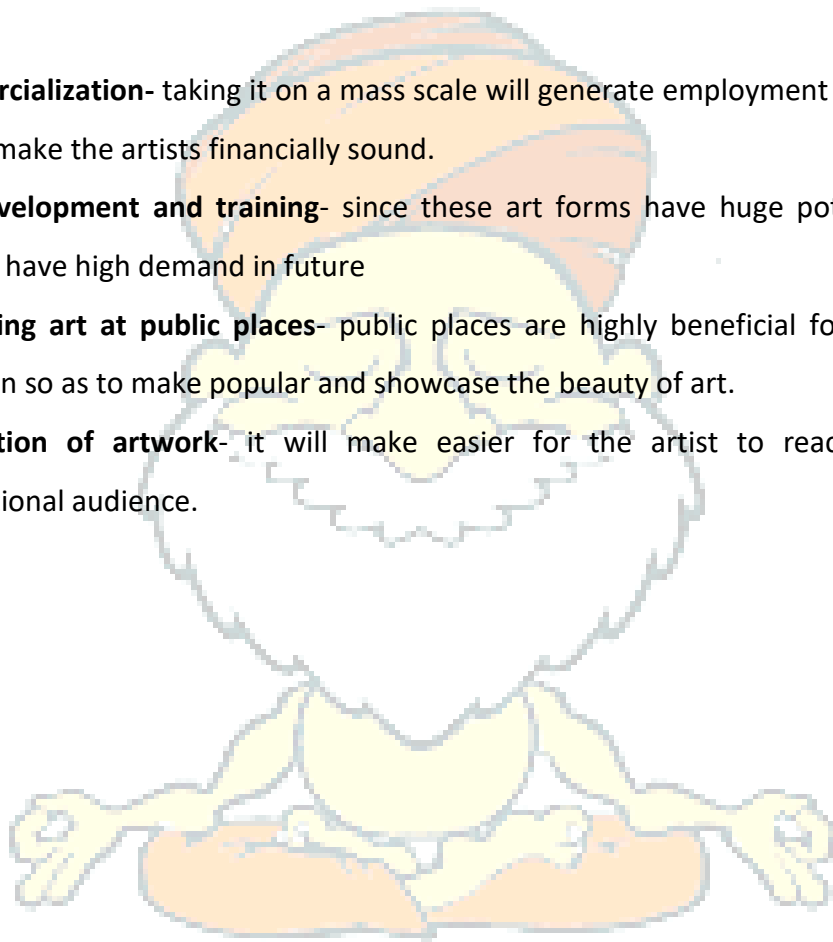
If a platform is provided to the local artists, if the resources are made available and the market is developed, these art forms will gain huge popularity at national and international level.

Madhubani painting at railway station

Indian railways lays much emphasis on its social responsibility in addition to being prime mover of the nation. An effort has been made by the Indian railways by promoting madhubani painting at madhubani railway station. It is an effort to empower women as well as for beautification of station. Which was listed as one of the dirtiest station according to one survey.

Some of the measures that will be helpful promotion and preservation of the traditional arts and crafts are

- **Commercialization**- taking it on a mass scale will generate employment opportunities as well as make the artists financially sound.
- **Skill development and training**- since these art forms have huge potential, they are likely to have high demand in future
- **Prompting art at public places**- public places are highly beneficial for drawing one's attention so as to make popular and showcase the beauty of art.
- **Digitisation of artwork**- it will make easier for the artist to reach national and international audience.



Banking in India

A. Reforms

In over five decades since dependence, banking system in India has passed through five distinct phase, viz.

(1) Evolutionary Phase (prior to 1950)

- Enactment of the RBI Act 1935 gave birth to scheduled banks in India
- Until 1935 when RBI came into existence to play the role of Central Bank of the country and regulatory authority for the banks, Imperial Bank of India played the role of a quasi-central bank
- Banking Regulating Act passed in 1949 to conduct and control operations of the commercial banks in India

(2) Foundation phase (1950-1968)

1948: RBI Act – Nationalization of Reserve Bank of India (RBI)

1949: Banking Regulation Act – To regulate all Banking firms in India

- Transformation of Imperial Bank of India into State Bank of India and a redefinition of its role in the Indian economy
- Strengthening of the co-operative credit structure
- Setting up of institutional framework for providing long term finance to agriculture and industry

(3) Expansion phase (1968-1984)

1969: Govt. nationalised banks with deposits greater than INR 50 crore

Witnessed the birth of Regional Rural Bank (RRBS) in 1975 and NABARD in 1982 which had priority sector as their focus of activity

- The motto of bank nationalization was to make banking services reach the masses that can be attributed as "first- banking revolution".
- Commercial banks acted as vital instruments for this purpose by way of rapid branch expansion, deposits mobilization and credit creation.
- Penetrating into rural areas and agenda for geographical expansion in the form of branch expansion continued.
- Assumed a broad mass base and emerged as an important instrument of socio-economic changes
- Here arrived the problems: with growth came inefficiency and loss of control over widely spread offices –
 - Retail lending to more risk-prone areas at concessional interest rates raised costs, affected the quality of assets of banks and put their profitability under strain → very low competitive efficiency
 - Customer service became least available commodity.
 - Performance of a bank/banker began to be measured merely in terms of growth of deposits, advances and other such targets and quality became a casualty

(4) Consolidation phase (1984-1990)

- For the first time, serious attention was paid to improving housekeeping, customer services, credit management, staff productivity and profitability of the banks and concrete steps were taken during this period to rationalize the rates of bank deposits and lending.
- Measures were initiated to reduce the structural constraints which were then inhibiting the development of money market.
- ***Decline in productivity and efficiency and erosion of the profitability of the banking sector***
– The squeeze on profitability has emanated both from the factors operating on the side of income and on the side of expenditure. The Narasimham Committee-I identified the following factors as responsible for decline in income earnings:
 - a) Directed investment in terms of minimum Statutory Liquidity Ratios which together with variable Cash Reserve Ratio, pre-empting well over half of the total resources mobilized by banks.

- b) Directed credit programme of deploying 40 per cent of bank credit to the priority sectors at low interest rates.
- c) Low capital base.
- d) Low technology.
- e) Phenomenal branch expansion.
- f) Political interference in loan disbursement and poverty eradication programmes.

(5) Reformatory phase (since 1990)

The main objective of the financial sector reforms in India initiated in the early 1990s was to create an efficient, competitive and stable financial sector that could then contribute in greater measure to stimulate growth.

The reforms introduced by a committee called 'The Committee on Financial System' under the chairmanship of Sri M. Narasimham in 1991, sought to improve the solvency, health and efficiency of institutions. The measures were aimed at

- Ensuring a degree of operational flexibility,
- Internal 'autonomy for public sector banks in their decision-making process, and
- Greater degree of professionalism in banking operations

[Recommendations by Narsimham Committee \(1991\) & \(1998\)](#)



B. Making Indian Banking Sector Dynamic

A robust and well-capitalized banking sector supports capital formation and economic activity by facilitating intermediation of resources between savers and borrowers. India saves close to 30% of its annual output. Given the importance of the banking sector in the financial system, it has a crucial role to play in channelling these savings to productive investments.

The current banking sector landscape:

- The Indian banking sector is dominated by **public sector banks (PSBs)** with a market share of roughly 70% of total banking assets.
- There has been little dynamism in the banking sector in recent decades. Since 1991, only 15 licences have been issued to universal banks, a relatively modest number for a fast-growing economy in which the banking system remains an important source of corporate financing.
- PSBs remain the biggest contributors to the large and rising stock of non-performing assets (NPAs), with a share of approximately 90% of the total stock.

Poor health of PSBs:

- Rising NPAs have put a strain on the health of PSBs, reflected in their declining profitability ratios which turned negative in 2016 for the first time in a decade.
- The deteriorating health of PSBs has adversely affected their ability to lend. Within the industrial sector, credit to medium enterprises continues to decline while growth in credit to large enterprises is barely positive.

It will be difficult for the banking system to support high growth, especially in the industrial sector, if the growth in NPAs is not checked.

What needs to be done?

The government has recognized the urgency for broad-ranging banking reforms, but effective implementation and a multi-pronged approach are essential. There has been some progress on improving the institutional and regulatory frameworks needed to support a strong banking system. For instance, the Insolvency and Bankruptcy Code has improved the legal landscape and should help in speedier recovery of bad loans. The challenge is to make sure it is implemented effectively.

Moving towards a dynamic banking sector:

- India should move towards a more dynamic banking sector that fosters innovation and checks the inefficiencies created by a lack of entry.
- Productive reallocation of capital- inefficient banks can be driven out of the system (or merged with other banks) and new banks can enter.
- The policy of “on-tap” licensing of banks is a promising step in the direction of increasing competition in the banking sector. However, some of the conditions, such as initial capital requirements and priority sector lending targets, seem onerous and may fail to attract individual promoters.
- There should be a gradual push towards greater private ownership of ailing PSBs. The argument in favour of PSBs is that they can penetrate unbanked areas where private sector banks do not find it profitable to operate. However, private sector banks should be able to leverage the model of banking correspondents to provide doorstep banking services in rural areas at a reduced cost. Hence, it is time to re-evaluate the benefits of having a banking system dominated by public sector banks and the benefits that greater private ownership can bring.

Increasing the resilience of the banking sector to losses:

- It is impossible to eliminate risk completely from any banking system. A sound system should, however, be able to minimize risk.

- Lending standards should be strengthened for lending to sensitive sectors and bigger projects. In addition, there should be enough provisions for expected losses.
- Banks need to have better mechanisms to evaluate the viability of projects when making lending decisions.
- To deal with ex-post losses, there should be a vibrant market for stressed assets so that banks are able to sell their NPAs at a fair price. This can be achieved by increasing participation in the market for stressed assets.
- Greater competition will lead to a competitive bidding process and help in better price discovery, potentially reducing the losses suffered by banks owing to haircuts on sales of stressed assets.

Other reforms:

Recapitalization of PSBs is important, but should be done in tandem with other reforms, including-

- Corporate governance reforms to make the incentive structure of the banks consistent with productive allocation of credit.
- Improved financial supervision so that the signs of stress on banks' books can be identified early.
- Development of a vibrant corporate debt market to avoid concentration of credit risk in the banking system.
- Improved debt recovery mechanisms to ensure efficient and speedy recovery of assets.

Key pointers:

Without a strong banking system, the government's vision of making India a \$5 trillion economy by 2025 could remain a pipe dream. Many reforms are being taken to reform banking sector, what is required is effective implementation.

- The government has announced a reforms roadmap for public sector banks and details of how Rs 80,000 crore of funds raised through recapitalisation bonds will be allocated to 20 PSBs.

- Alongside the fund infusion, the government announced a set of measures to keep a close watch on the asset quality of the banks, including “specialised monitoring” by agencies for corporate loans of more than Rs 250 crore.
- A total of around Rs 1 lakh crore will be infused in the PSBs by March-end, which comprise Rs 80,000 crore via recapitalisation bonds, Rs 8,139 crore through gross budgetary support and Rs 10,312 crore of funds raised from the market.
- Banks have been asked to ring-fence cash flows of corporate borrowers, to ensure that their earnings are not diverted for other purposes.
- The government has also mandated each of the PSBs to have a stressed assets management vertical and monetise their non-core assets such as real estate to boost their capital adequacy.
- To ensure that banks comply with the reforms parameters, the government said that an independent agency will conduct an Annual EASE (Enhanced Access & Service Excellence) Index Survey of banks, the results of which will be made public.
- As per the EASE plan, the government wants to ensure that there is a banking facility within 5 km of every village in the country.

Indradhanush Plan for Public Sector Banks (PSBs)

Indradhanush Plan: Indradhanush plan aims at reviving the deteriorating state of PSBs. It is a revival plan which will infuse nearly 25000 crore in public sector banks. Indradhanush plan has proposed 7 elements.

What Indradhanush offers?

- **Heavy dose of capitalization for PSB** for improvement in their health crippled by bad loans
- Infusion of 25000 crore, out of which 20000 crore within first month
- **Setting up of Bank Board Bureau**, board will start functioning from April 2016.

- This board will **replace the existing recruitment board**.
- Plan also **aims to address the legal and risk management control for bank**.
- **Framework for evaluation of allocation and performance of management team**
- It has appointed 5 heads of PSB, out of which 2 are from private sector

7 elements of Indradhanush:

A: Appointments: Separation of the post of Chairman and Managing Director by prescribing that in the subsequent vacancies to be filled up, the CEO will get the designation of MD & CEO and there would be another person who would be appointed as non-Executive Chairman of the bank.

B: Bank Board Bureau: A Banking Boards Bureau (BBB) comprising of a chairman and six more members of which three will be officials and three experts (of which two would necessarily be from the banking sector). The search committee for members of the BBB would be made up of the RBI Governor, Secretary (Financial Services) and Secretary (Department of Personnel and Training) in the Government of India.

C: Capitalization: PSB's market valuations will improve significantly due to

- Far-reaching governance reforms;
- Tight NPA management and risk controls;
- Significant operating improvements;
- Capital allocation from the government

D: De-stressing PSBs Government to push clearances for stalled projects in roads, power and steel and seek RBI support for more generous categorization of existing loans plus more leeway. Major reasons causing stress in the power, steel and road sectors were—

- Delay in obtaining permits/approvals from various governmental and regulatory agencies,

- Land acquisition,
- Delaying Commercial Operation Date (COD);
- Lack of availability of fuel, both coal and gas;
- Cancellation of coal blocks;
- Closure of Iron Ore mines affecting project viability;
- Lack of transmission capacity;
- Limited off-take of power by Discoms given their reducing purchasing capacity;
- Funding gap faced by limited capacity of promoters to raise additional equity and reluctance on part of banks to increase their exposure given the high leverage ratio;
- Inability of banks to restructure projects even when found viable due to regulatory constraints
- Steel sector: prevailing market conditions, viz. global over-capacity coupled with reduction in demand led to substantial reduction in global prices, and softening in domestic prices added to the woes.

Some of the actions proposed / undertaken:

- Facilitate issue of pending approval/permits expeditiously
- Evolve policies to address long-term availability of fuel for these projects
- Respective Discoms will be provided hand-holding towards enabling early reforms
- Bring in additional equity in an attempt to address the worsening leverage ratio of these projects
- Changing the extant duty regime without adversely impacting the downstream user industry (increased import duty on steel)

- Further flexibility in restructuring of existing loans wherever the Banks find viability.

E: Empowerment: There will be no interference from government to these banks so they can take their decision independently keeping the commercial interest of the organisation in mind

F: Framework of Accountability: A new framework of Key Performance Indicators (KPIs) to be measured for performance of PSBs— Indicators:

- Efficiency of capital use and diversification of business/processes
- NPA management and financial inclusion
- Strategic initiatives taken to improve asset quality,
- Efforts made to conserve capital,
- HR initiatives and
- Improvement in external credit rating

G: Governance Reform: Banks to have robust grievance redressal mechanism for borrowers, depositors as well as staff— Gyan Sangam

- Strengthening of risk management practices
- No interference policy
- Improving HR management practices and removing barriers so that the Banks can share and work together on common resources

What are Indradhanush's ambiguities?

- Out of 25000 crore, 5000 crore will be disbursed **based on the performance of the bank**, this will make allocation ambiguous.
- Appointing heads from private sector bank has **disappointed and demotivated the employees and officers in PSB**
- **Infusion of capital in stressed banks is a necessary move**, but it is still not adequately expressed the way funds be channelized

- Government says that there will not be any interference in the working and management of banks, but again conflict arises when **government semantically distinguishes between interference and intervention.**
- **Governance reforms are not specifically been taken in consideration** and there lies a gap in understanding the real nature of pertaining problems in different banks.

Way Forward:

- It is desired that public sector banks should enjoy decision making and autonomy
- If infusion of capital is made, then it should also take care of adequacy and transparency
- Bank Board Bureau, should function effectively and should help banks in overcoming the ambiguity in respect of appointments, which can ultimately motivate employees in PSB
- Empowering banks can help them in effectively framing policies which will in particular suit the need
- Banks need strategy to materialize for risk management, recovery of bad loans and asset restructuring.

Background: J. Nayak committee was set up reviewing the governance in public sector banks.

Committee's recommendation

- To introduce reforms by changing the shareholding of Government in public sector banks
- Because if majority of shares are held by government then decision making lies to a large extent in hand of government
- To ensure transparency in appointments
- To train staff in banks so that they can perform well and this will lead to enhanced productivity of the staff and bank

- Reforms in recruitment, training and transfers.

GEAR Approach

There is a need to **boost savings** in the economy in order to enhance the inherent economic strength of the financial sector via the **Gear Approach** to augment the savings rate:

- Growth
- Efficiency
- Attractiveness
- Reach

Enhance growth to increase per capita incomes—

- Need to increase disposable incomes by raising the personal income tax exemption slab to Rs 5 lakh.
- This could be a one-time correction and the slab could thereafter be linked to inflation and reviewed every three years.

Focus on improving the efficiency in financial transactions—

- Usage of plastic currency and e-transactions (via the internet and mobile phone) will not only improve the **ease of transactions** but also enhance the **saving propensity** among citizens
- Every 1 per cent reduction in the currency in circulation is likely to add 0.4 per cent to the savings rate
- Will also help curb the flow of black money

Make financial savings attractive by providing tax incentives—

- For instance, the tax exemption limits under Section 80C could be **doubled** to Rs 3 lakh which will deepen the mutual fund and equity markets
- Increase inflation-adjusted post-tax returns for bank deposits by reducing the lock-in period eligible for tax rebate to one year from five years

- Enhance the threshold for mandatory tax deduction at source (TDS) on interest income and it will prove to be useful to roll back TDS on recurring deposits to encourage wider adoption, as this is a product that promotes the habit of regular saving
- The National Pension Scheme should enjoy “EEE” (exempt, exempt, exempt) tax status

Expand the financial reach— Government could consider converting India Post into the postal bank of India, a full-fledged payments and savings bank, to **leverage its rural penetration** for greater financial inclusion.

Let us take a stock of our NPAs

How NPAs are created?

Giving a loan to a borrower is a commercial decision of the bank. The corporate borrower is maybe unable to repay the loan for any number of reasons. Lending decisions taken by an honest banker can also give rise to NPAs. The problem turns into a crisis when the NPAs are allowed to linger on for years and their volume become so large that banks' balance sheets become severely impaired. This eventually leads to a credit crunch in the economy and starts to affect investment and growth, as has been the case over the last few years in the Indian economy. (Source: Wire)

- NPA in terms of RBI regulations result out of non-payment of interest for a period of 90 days or non-payment of principle amount for 90 days or more. So beyond that point, it is called Non-Performing Asset. The loan is taken by the company on its assets from the bank. When the asset is not performing, they become doubtful and NPAs from doubtful assets become bad loans.
- At ratio of 9.85%, India has the highest level of NPAs among the BRICS countries and is ranked 5th in the countries with highest NPA level. According to the official figures, the gross NPA of PSBs and private sector banks is 7.34 lakh crore and 1.38 lakh crore rupees each.

- RBI's financial stability report names the basic metal and cement industries as most indebted with construction, infrastructure and automobile industry also accounting for sizeable chunks of banks' NPAs.
- Recovery of these NPAs is also declining steadily over past 10 years due to rising bad loans, shrinking profitability and weak recovery of return of loans necessitated the need for higher capital infusion in PSBs. To mitigate this, the government has already announced 2.11 lakh crore of re-capitalisation funds.

Reasons behind ever increasing NPAs

- **Fast & furious:** Faster than required Growth (around 10 percentage points faster than nominal gross domestic product)
- **Pursuits of InfraGrowth:** Push for higher private investment in infrastructure, citing the needs for development led banks to take excess debt and lend these companies at a very low interest rate; as well as concessions were given in terms of higher exposure limits
- **Tangled Policy Maze:** Policy confusions, no enabling environment, delays in government decision-making, increase in cost, and environmental clearances added up to the poison injected by the debt.
- **'Government' & 'the' deal:** Close nexus existing between industrialists and politicians working two ways; one for money and the other for power
- **Bank & the loose ends:** Lack of skill to monitor end use of funds & improper due diligence

Restructuring Schemes

5/25

- Allows banks to extend long-term loans of 20-25 years to match the cash flow of projects, while refinancing them every five or seven years.
- Until now, banks were typically not lending beyond 10-12 years. As a result, cash flows of infrastructure firms were stretched as they tried to meet shorter repayment schedules.

JLF

- JLFs were intended to recognize stressed assets early and come up with a corrective action plan (CAP) within 45 days.
- The system, however, did not work seamlessly as there were disagreements between lenders on how to move forward on individual accounts.

S4A

- Large ticket loans are restructured by separating a sustainable loan from an unsustainable loan. The lenders make the classification.
- Sustainable level of debt is one which the banks think the stressed borrower can service with its current cash flows.
- Banks can convert the unsustainable debt into equity or equity related instruments, which are expected to provide upside to the lenders in case the borrower cannot regain the glory and rework the financial structure.

Why the need for Urgent Actions:

Financial fragility:

- A major part of the costs of financial restructuring must be borne by the promoters. It can be done by bringing in personal funds to deleverage the companies controlled by them.
- Also, there should be put in place, a proper comprehensive inquiry to establish the extent of funds being siphoned off.

Picking up the pieces:

- The story of Indian economic recovery can be written well only when the private-sector investment in the country picks up majorly and the corporate financials improve, on a larger scale.
- Companies should also, work it out with their banks and should reduce their leverages (debt-to-asset ratio) via asset sales and equity issues and not touch the taxpayer's money to bail out the business groups.

- Incurring leverage can be beneficial as it facilitates investment leading to faster growth but it also entails risks, that which, an average taxpayer might have to bear.

Repetition of Mistakes:

- This repetition can most possibly take place due to the urgency in reviving the projects and thus, the relaxed and less stringent scrutiny can take place, in lieu of the projects in the pipeline.
- Many banks have gone ahead in lending out money without the clearance proof, which in itself is a wrong move and therefore, greater caution and restraint needs to be exercised and factoring of losses should be initiated at the earliest.
- The trouble in riding on the success of some economic reforms would also remain left out with the capacity under-utilisation, thereby sacrificing on new economic activity.

IMF's suggestion:

Macro-prudential policies that are especially designed to keep the financial system safe by limiting excessive bank lending mechanism and associated increases in the corporate sector leverage should be the way ahead for emerging economies.

Tools:

Macro level:

- Higher capital requirements for foreign exchange exposures,
- Caps on the share of such exposures on banks' balance sheets

Micro level:

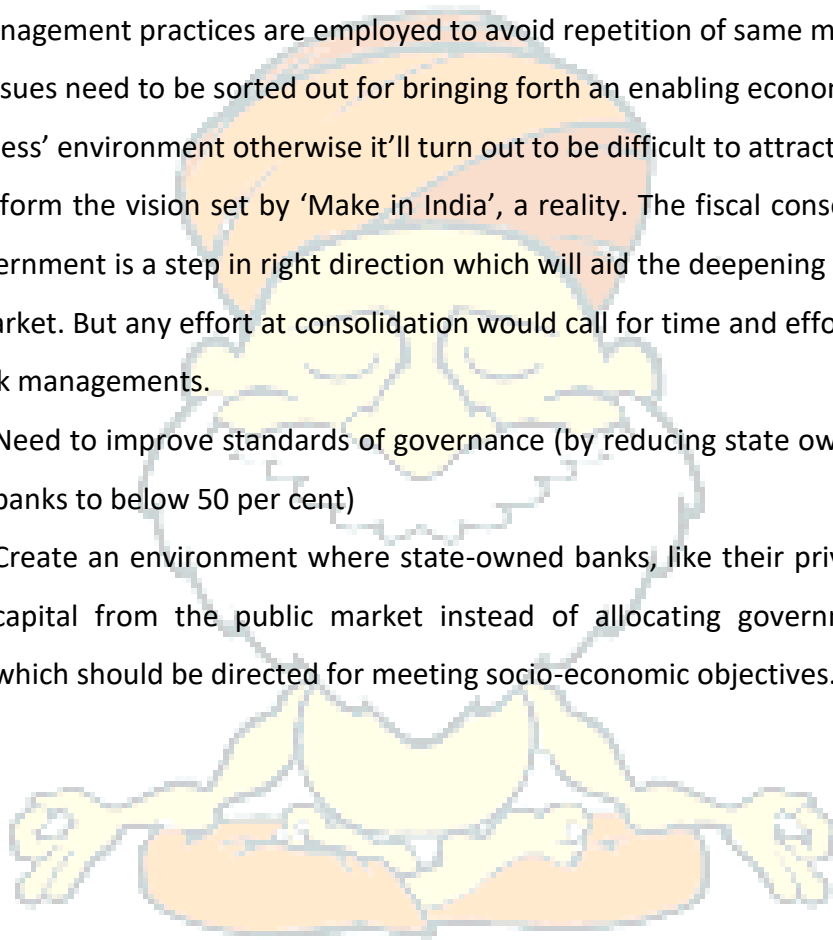
- Conduct bank stress tests related to foreign currency risks
- Ever-ready alternate mechanism in place to counter corporate stress and sporadic failures

Other Solutions:

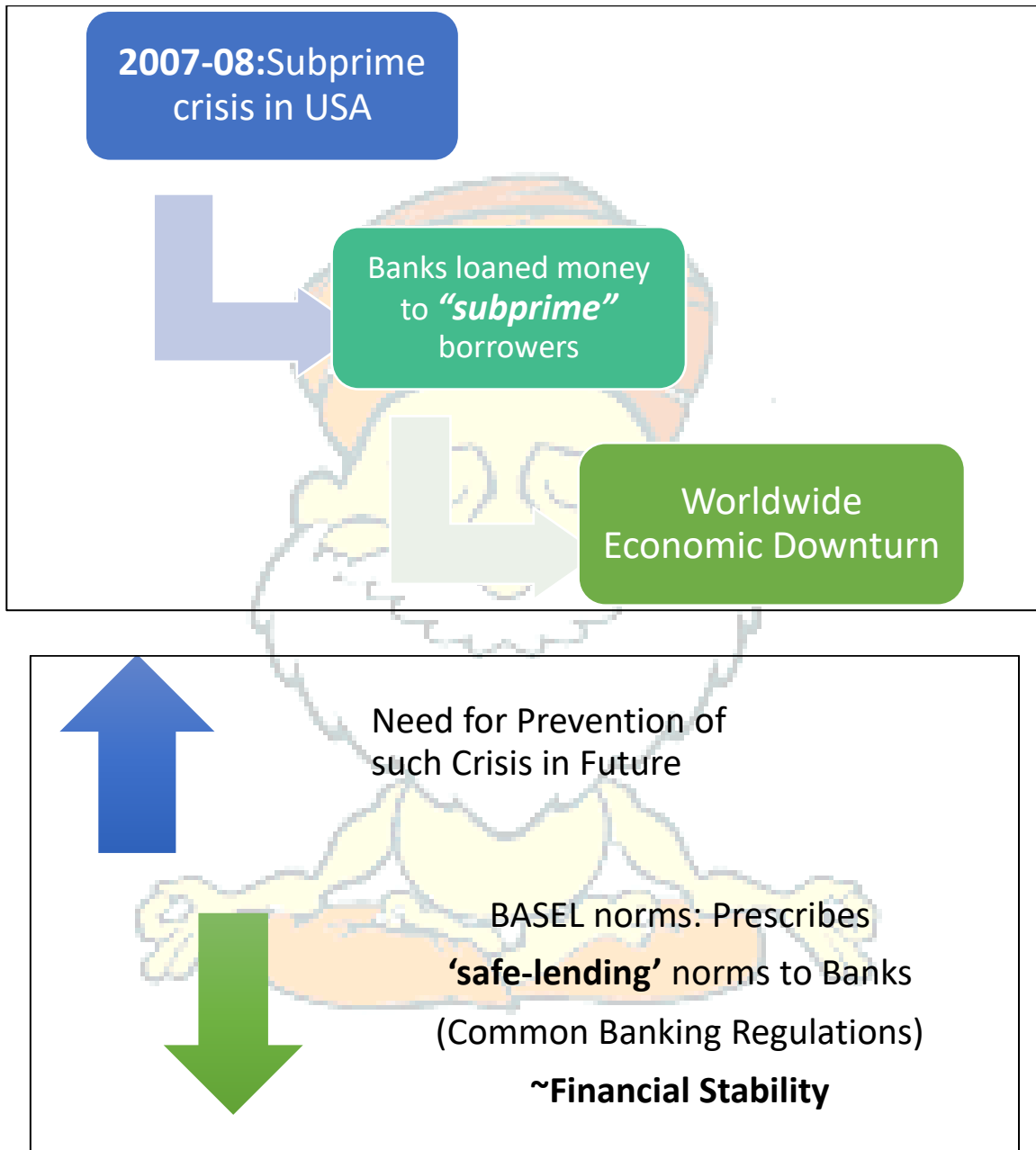
- This debt, which was not employed ever in the production of productive assets have gone ahead and created a major pressure on the banking system. Banks need to invest

more time in doing a prognosis and in dealing with existing regulatory eclipses in system.

- The increase in credit flow should be increased but preferably via special purpose long-term contractual savings. Since India doesn't have a well-developed bond market, a proactive regulatory oversight might work well to take care of the difficulties.
- Government needs to play a central role in mitigating the economic and social damage caused by financial crises by putting in place a crisis resolution approach, ensuring that new management practices are employed to avoid repetition of same mistakes.
- Policy issues need to be sorted out for bringing forth an enabling economy with an 'Ease of Business' environment otherwise it'll turn out to be difficult to attract global investors to transform the vision set by 'Make in India', a reality. The fiscal consolidation plan of the government is a step in right direction which will aid the deepening of the corporate debt market. But any effort at consolidation would call for time and effort on the part of the bank managements.
 - Need to improve standards of governance (by reducing state ownership in these banks to below 50 per cent)
 - Create an environment where state-owned banks, like their private peers, raise capital from the public market instead of allocating government resources, which should be directed for meeting socio-economic objectives.



BASEL III Norms and INDIA



Terms	Explanation																
Bank's capital:	Bank's own money (apart from Liability + Asset)																
Tier 1 capital:	Most Liquid Capital with bank Can be sold easily to ward off Crisis Eg: Common Shares + Preferential Shares																
Tier 2 capital:	Not as liquid as Tier-I Eg: Debts (bonds) + Hybrid instruments (Having both characteristics of Debt and Equity)																
Tier 3 capital:	Least Liquidity																
Capital adequacy requirements (CAR)	<p>Ratio of a Bank's Capital to its Risk (absorb a reasonable amount of loss)</p> $CAR = \frac{\text{Tier I Capital} + \text{Tier II Capital}}{\text{Risk Weighted Assets}}$ <p>Higher CAR → More stability</p> <p>Therefore,</p> <p>Basel (CAR) = 9% of RWA (Risk weighted assets)</p> <p>OR</p> <p>[7% of RWA in T1] + [2% of RWA in T2]</p>																
Risk Weighted Assets (RWA)	<table><tr><td>Home Loan</td><td>20% Risk→</td><td>Loaned: Crores</td><td>30</td></tr><tr><td>Vehicle Loan</td><td>30% Risk→</td><td>Loaned: Crores</td><td>20</td></tr><tr><td>Commercial Loan</td><td>50% Risk→</td><td>Loaned: Crores</td><td>50</td></tr><tr><td>Risk Weighted Assets</td><td>100%</td><td>100 Crores</td><td></td></tr></table> <p>Have 9 Crore as TOTAL CAPITAL ADEQUACY if</p>	Home Loan	20% Risk→	Loaned: Crores	30	Vehicle Loan	30% Risk→	Loaned: Crores	20	Commercial Loan	50% Risk→	Loaned: Crores	50	Risk Weighted Assets	100%	100 Crores	
Home Loan	20% Risk→	Loaned: Crores	30														
Vehicle Loan	30% Risk→	Loaned: Crores	20														
Commercial Loan	50% Risk→	Loaned: Crores	50														
Risk Weighted Assets	100%	100 Crores															

you want to loan out 100 crore

Basel I

Criticisms:

- Rigidity of “one-size fits” approach
- Absence of risk sensitivity in estimating capital requirements

Basel II:

Banks had to maintain the minimum capital requirement of 8% against the risk weighted assets

Computation of RWA based on ‘three’ Risks:

- Credit,
- Market, and
- Operational Risks

Three Pillars:

- Minimum capital requirements,
- Supervisory review process, and
- Market discipline

Criticisms:

Failure to address a number of issues during the Financial Crisis (2007–08)

- **Pro-Cyclical:** In better times, it didn’t impose additional capital requirement on banks but during the crisis, looked out for banks bringing in more of Capital. It was this failure to add in additional capital that led to hurting the financial system, plunging in deep into Recession.
- **Absence of Regulation Governing Leverage:** The assumption that the risk based capital requirement would in itself mitigate the risks of excessive leverage became a cause of the crisis.
- Did not consider liquidity risk as part of capital regulation and this led on to a Solvency Risk
- More focus on the individual financial institutions, ignoring the risks arising from the interconnectedness across institutions and markets leading the crisis to spread across various financial markets.

Basel III: A Global Regulatory Framework for more Resilient Banks and Banking systems

Objectives:

- To strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector
- To improve the banking sector's ability to absorb shocks arising from financial and economic stress.

Enhancements:

- Augmentation in the level and quality of capital
- Introduction of liquidity standards
- Modifications in provisioning norms
- Introduction of leverage ratio

Pillars:

- Minimum Regulatory Capital Requirement based on Risk weighted assets
- Maintaining capital (Credit, market and Operational Risk)
- Supervisory Review Process
- Regulatory Tools and Frameworks to deal with risks
- Market Discipline
- Transparency of Banks

India:

- Minimum capital requirement in India is higher at 9% of the risk-weighted assets
- All commercial banks - Regional rural banks
- Commercial banks → approximately 87% of total banking system assets
- Public sector banks: Market share of 73% banking assets and 82% of bank branches
- Foreign banks → 6% of the Indian banking sector

Issues with Indian Banks:

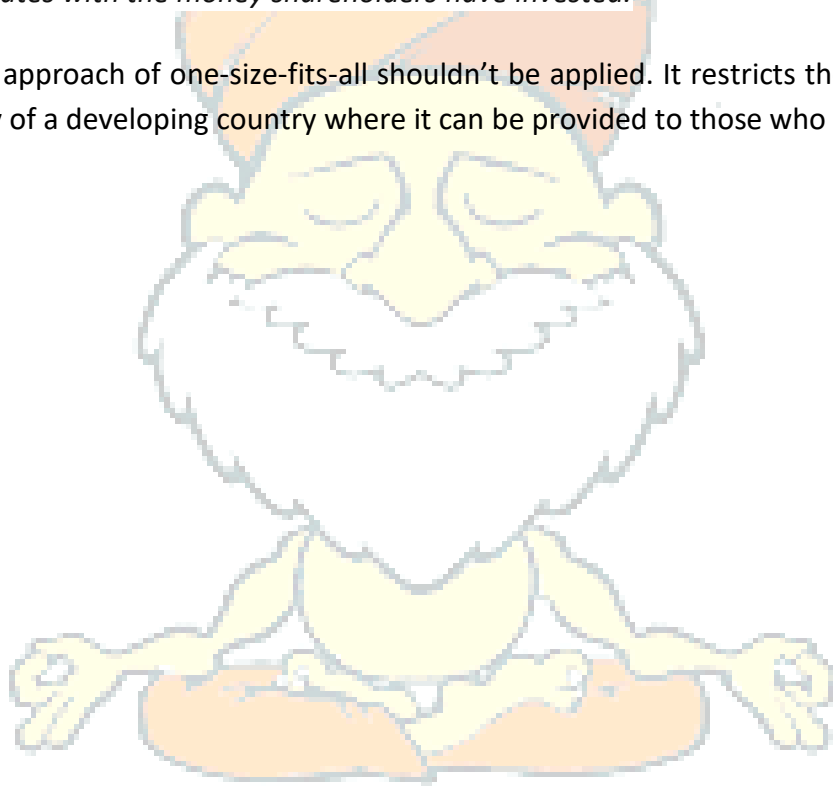
- *Profitability*
- *Capital acquisition*
- *Liquidity Needs*
- *Limits on lending:*

‘Urgent need to take control of bad loans (NPAs) + selection of borrowers based on proper due diligence and not on relationships’

- *Bank consolidation:*
'Consolidate weaker banks with stronger ones and this would attract more funding from both international and local capital markets'
- *Pressure on Yield on Assets*
- *Pressure on Return on Equity:*
'Will face decline in the short run'
- *Stability in the Banking system:*
'The need for banks to ensure that the derecognised portion of existing additional Tier I and II capital is replaced with Basel III compliant capital leads to the balance sheet not being static and therefore there is a need to step up the capital to address this.'

RoE: *Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.*

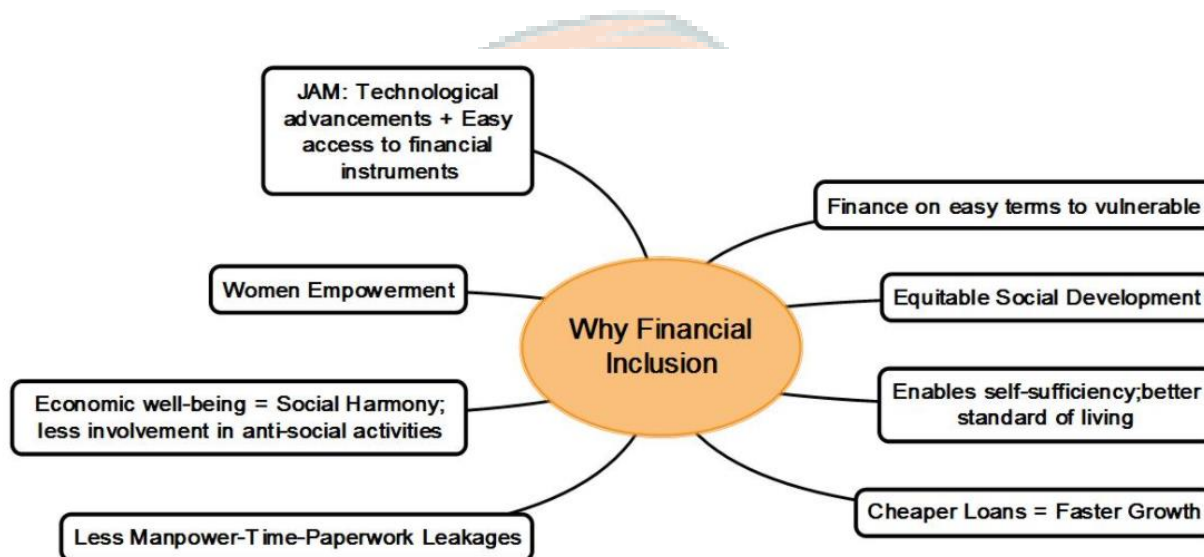
Criticisms: The approach of one-size-fits-all shouldn't be applied. It restricts the flow of money in the economy of a developing country where it can be provided to those who really need it.



Next Generation Banking

4 D's:

Development: Financial Inclusion agenda + Key sectoral Reforms



Statistics

- According to NSSO reports, the share of institutional credit to farmers declined from a peak of 69.4 per cent in 1991 to 56 per cent in 2012.
- Farmers' dependence on non-institutional credit has gone up from 30.6 per cent in 1991 to 44 per cent in 2012.
- According to the 70th Round of National Sample Survey, among the institutional agencies, the share of commercial banks' lending to agriculture was the highest at 25.1 per cent, followed by co-operatives at 24.8 per cent in 2012 due to their low cost.
- Self-help groups contributed only 2.2 per cent of total institutional credit.
- Micro finance institutions (MFIs) continue to charge poor borrowers 24-34 per cent, close to the usurious interest rates charged by village money lenders.

Issues:

- All the above initiatives are supply driven — supply of banking services to the poor people at their doorstep.
- Availability of finance is a means to an end, but not an end in itself. The ultimate objective is to provide a constant source of income to the poor so that they will demand financial services. If banks do not wish to penetrate into remote rural areas, other service providers could surely do so, provided there is a genuine demand for it.
- Supply-driven financial inclusion does not work.
- The RBI has nudged banks to open a brick and mortar branch in every village with a population of 2,000 or more. However, according to the 2011 Census, 96 per cent of Indian villages have a population of less than 1,000.
- **The BC model:**
In order to provide banking services at reasonable costs to the poor people, the business correspondents model was introduced in 2006. Being technology driven, the BC model played a critical role in opening large number of Jan-Dhan accounts during the recent period, but was unable to provide basic banking services to them for several reasons.

Why BC model failed?

- The BC model is similar to the agency model followed by insurance companies and pension funds. Outsourcing of financial services through agents for a commission has been somewhat successful in case of other financial services, as the agents get a constant flow of income.
- Banks' lending activities through BCs are negligible. The activities of BCs are typically limited to opening new deposit accounts for a commission. The opportunity of opening new deposit accounts is quickly exhausted, particularly after the success of Jan-Dhan Account scheme.

- BCs are expected to provide small withdrawal and deposit facilities besides remittance service to all deposit holders. He is all in one — a clerk, cashier, branch manager, financial adviser and agent for rural digitization. BCs either neglect these activities, or are not in a position to do justice to them due to the sheer workload.
- Handling cash is also risky, particularly where the base branch is far away. BCs have limited overdraft facility that may not be sufficient for daily requirement of the account holders.

Way forward: *The Government should pool all resources under several rural development schemes and provide a scheme-based permanent source of income through gainful employment to the rural people. Although, schemes may vary from state-to-state, it would provide a constant source of income and make the financial inclusion truly demand-driven.*

- Centre can invest in last-mile financial inclusion via further improving BC networks. Regulations governing the remuneration of BCs may need to be reviewed to ensure that commission rates are sufficient to encourage BCs to remain active.
- For every 1,000 Jan-Dhan accounts in a locality, there should be a physical branch. Accounts from multiple banks may be shifted to the bank ready to open a brick and mortar branch to serve 1,000 such account holders.

Must Read: [Link 1](#)

Deregulation: Policy improvement in financial intermediation and savings propensity

(Highlighted above)

Demographics: Market getting dominated by young and digitally equipped population + Movement of Big Data Analysis



Big Data Analysis in Banking

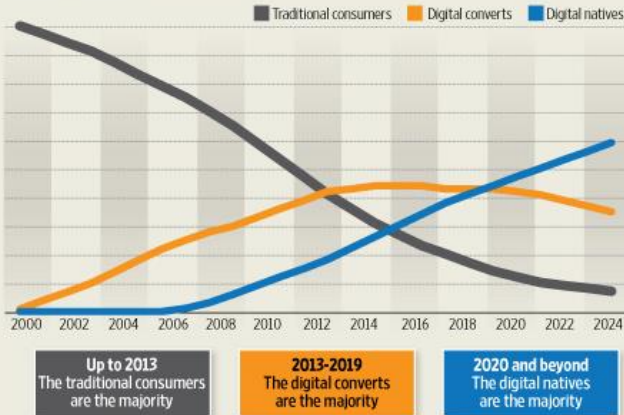
Disruption: Digitization + Integration of banking, Telecom & financial space

Factors influencing the digitization –

- Changing consumer behavior in favour of digitization
- Financial inclusion and govt. initiatives
- Leveraging increased smartphone usage and mobile penetration
- Evolution if a cyber secure architecture: Safe + Reliable

DIGITAL IN THE REALM OF BANKING

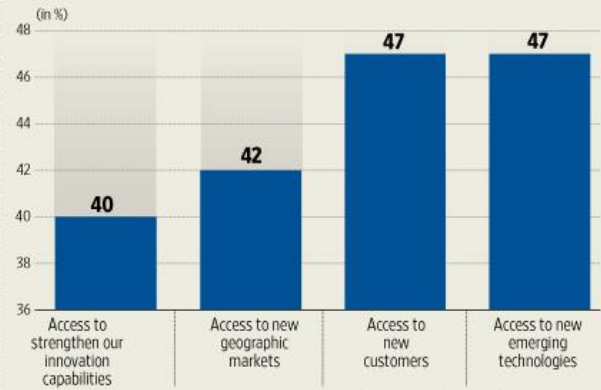
By 2020, digital natives are going to form the majority segment of customers changing the industry ecosystem and forcing organizations to adapt to changing customer needs.



Source: PwC's New Digital Tipping Point

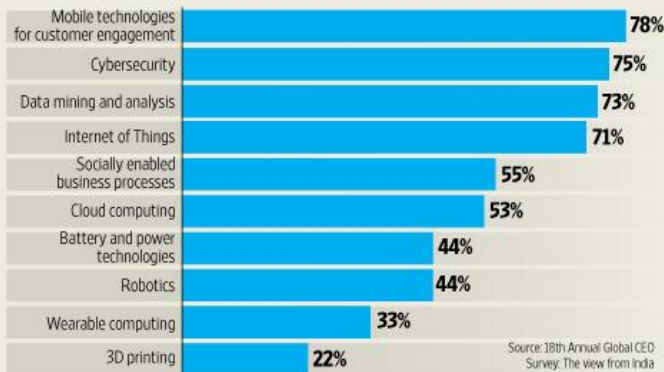
Nearly 51% of the Indian CEOs believe that they will enter into strategic partnerships to gain access to new technologies and customer base while strengthening their innovation capabilities.

What are your reasons for collaborating in joint ventures, strategic alliances or informal collaborations?



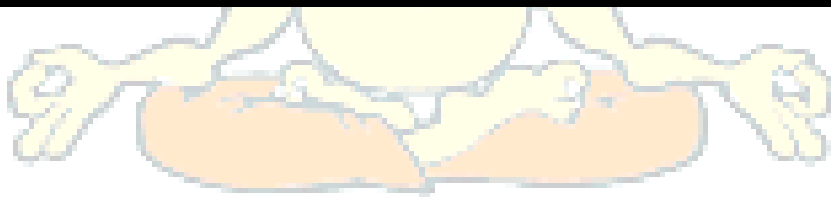
Source: 18th Annual Global CEO Survey: The view from India

With the number of mobile users growing at a CAGR of 91% from 2012 to 2016, India CEOs believe mobile technologies are the strategic focus for better customer engagement.

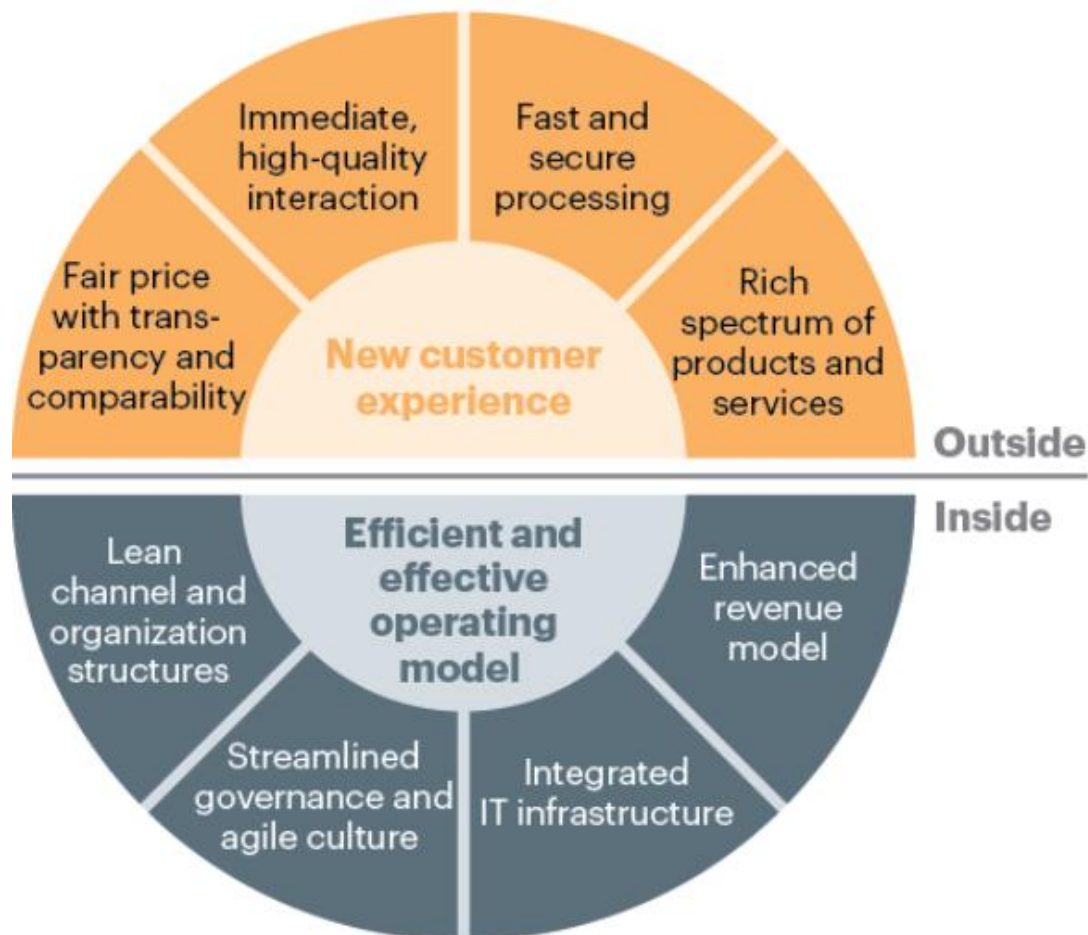


Source: 18th Annual Global CEO Survey: The view from India

Key cybersecurity risks: Banking and capital market



Digital banking offers the best of two worlds



Source: A.T. Kearney analysis

Must Read:



PMJDY: [Link 1](#) + [Link 2](#) + [Link 3](#)

It's time to connect the Dots:

1. The debt burden is today not only putting enormous pressure on the banking system, it is also threatening the nascent economic recovery. Discuss
2. Emerging markets should be prepared for corporate distress and sporadic failures in the wake of rising interest rates in advanced economies. Comment.
3. Given the importance of the banking sector in the financial system, it is required that necessary reforms are undertaken making the sector competitive and dynamic. Discuss.
4. 'NPAs are caused only due to economic slowdown'. Do you agree? Give reasons.
5. Indian banks need to resolve their NPA issues at the earliest to boost the economy for further development. What are the measures taken by concerned stakeholders to address the issue?
6. Examine the factors that prompted recapitalisation of public sector banks. Will it be able to revive India's banking sector? Critically analyse?
7. Indian economy is facing slowdown. In such a scenario to keep the economy going it's necessary that the private sector has enough funds to invest in the economy. In this light reviving public-sector banks has become a necessity. Discuss what should be done to revive the PSBs.
8. Discuss various ways initiated by government to solve the NPA problem.
9. Critically comment on the shareholding of government in public sector banks.
10. 'Indradhanush has offered a way forward for public sector banks by infusing capital, setting up Bank Board Bureau and empowering banks'. Critically comment on the statement in light of Indradhanush plan and its effectiveness.
11. Will capital infusion revive the banks or there is much more needed? Comment.
12. Critically analyse the role played by RRB's in rural development.

13. Over the years, the RRB's have slowly distanced themselves from the rural poor. Analyse the above statement with special reference to RRB's amendment bill 2015.
14. What do you mean by Shadow Banks? What are the reforms suggested by Justice BN Srikrishna's report for Financial Sector Legislative Reforms (FSLRC)?
15. Examine the reasons plaguing the revival of some of our PSB's. Suggest a way ahead.
16. What do you understand by the term BC model for financial inclusion? The model has failed to promote financial inclusion. Critically analyze.
17. In the quest for financial inclusion, SHGs have played a prominent role in India. Examine the guiding principles of the working of SHGs in the area of financial inclusion.
18. Critically examine the efficacy of financial inclusion as a tool to ensure inclusive growth.
19. The provisions of the Pradhan Mantri MUDRA Loan Scheme will go a long way in unleashing the true potential of small businesses in India which will have many positive spill overs. Do you agree? Examine.

All the very best!

IASbaba 😊

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