



Banking Sector Reforms: Ensuring Regulation

- The size resilience and level of capitalization of banks are critical for the smooth functioning of financial markets. India's banking sector has been characterized by a high proportion of publicly controlled banks. Key challenges to the banking system include low financial depth, a high share of non-performing assets (NPAs) and a high concentration of public sector banks (PSBs). These issues constrain industrial credit and bank's ability to meet international capital requirements.
- We need to focus on three areas to stimulate the banking sector: improving governance of banks, enhancing competition in the sector and developing corporate bond markets to relieve pressure from banks as lending sources.

History of Bank Reforms in India

- In 1969, the government nationalized banks with deposits greater than Rs. 50 crore.
- In 1980, the government brought an additional number of banks under its control, nationalizing banks with country-wide deposits more than Rs. 200 crore.
- Between 1969 and 1991, the geographical penetration, density of coverage and number of bank branches grew significantly.
- However, by 1991, banks' efficiency and productivity had declined, customer service quality was poor and profitability was low. In 1991, when the government liberalized the economy, it also undertook a number of banking reforms.
- The committee on Financial Systems, chaired by Mr. M. Narasimham in 1991, recommended reducing the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) to free up bank resources, relying on market forces to determine interest rates, making it easier for private and foreign banks to enter to enhance competition and reducing substantially the number of public sector banks (PSBs).
- In 1998, the Committee on Banking Sector Reforms, also chaired by Mr. Narsimham, recommended a further set of measures to strengthen the banking sector.
- It proposed further measures related to legislation, capital adequacy and bank mergers. Beyond these, the 1998 Committee also recommended steps relating to greater technology use, skills training and professional management of banks.
- In the 2000s, the committee on Financial Sector Reforms included recommendations on macroeconomic and regulatory frameworks for India, financial inclusion and domestic financial development.
- In 2014, the Committee to Review Governance of Boards of Banks in India (P.J. Nayak Committee) was also constituted. Its key recommendations focused on enhancing the governance and management of public sector banks which continued to have a large presence in India's banking sector.

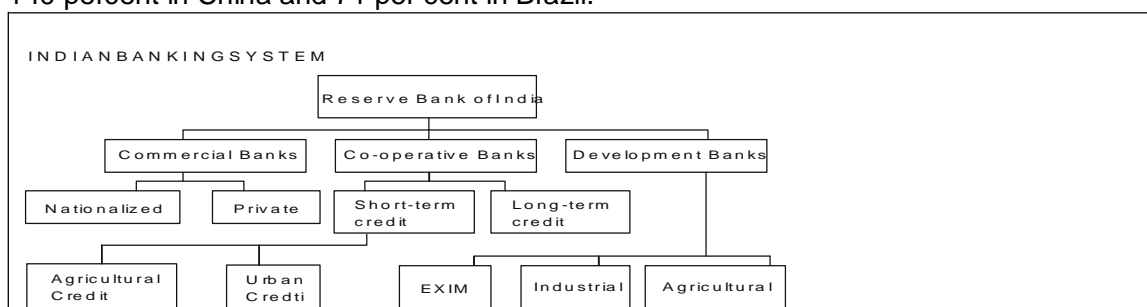


The current Situation

- Even today, India's banking system is characterized by a high share of Public Sector Banks (PSBs). Accounting for over 70 per cent of total assets, PSBs' performance inevitably represents the performance of the overall banking system. PSBs are the biggest contributors to the large and rising stock of non-performing assets (NPAs), with a share of 88 per cent of the stock as of March 2016.
- The share of stressed assets in Public Sector Banks (PSBs) is nearly 16 per cent, more than 3 times that in private banks. Rising NPAs have also put a strain on the health of the PSBs, reflected in their declining Return on Assets (ROA) and Return on Equity (ROE) ratios, which turned negative in 2016 for the first time in a decade.
- Bank's Profit After Tax (PAT) contracted on a year-on-year basis during the first half of 2016-2017. The decline in banks' profits is largely due to higher growth in risk provisions, loan write-offs and decline in net interest income.
- The stresses on the banking sector have translated into a slowdown in industrial credit.
- High NPAs are also likely to impede banks' ability to meet higher capital requirements under Basel III. These requirements will come into force in January 2019.
- The government has infused funds to address the challenge. The measures for recapitalization under the Indradhanush Plan in 2015-16 acknowledge the government's recognition of high NPA ratios and their adverse effects on the economy.
- Beyond recapitalization, the Indradhanush Plan also includes wider banking reforms needed to strengthen institutional governance and align incentives in the banking system. Its seven points include creating a framework of accountability, separating the post of CEO and Chairman in PSBs, creating a Bank Board Bureau (BBB) for appointments and governance reforms. However, implementation remains incomplete. Further, the Insolvency and Bankruptcy Code (IBC) also provides a channel for addressing NPAs. It requires banks and promoters to agree on a resolution plan within 270 days or face asset liquidation.

Global Competition

- India's banks lag behind global counterparts in terms of financial depth or the size of banks, other financial institutions and markets relative to economic output. Not only does financial depth matter for capturing the relative size of the banking system, but it is also positively associated with economic growth and poverty reduction.
- India also has low levels of private credit to GDP and credit to deposit ratio, relative to other emerging economies. In 2015, India's private credit to GDP ratio was 50.2 per cent relative to 140 per cent in China and 71 per cent in Brazil.





- Large banks dominate the banking system with few new entrants. As of March 2016, the top 10 banks (ranked by assets) owned 58 per cent of the total assets in the system. Since 1991, only 14 licenses have been granted for universal banks.
- The number of foreign banks in India remains small. As of March 2016, foreign banks accounted for 6 per cent of total banking assets.

Looking Ahead

- To build a robust banking system, recapitalization will have to be complemented by a host of other measures including corporate governance reforms, lower entry barriers, improved financial supervision, development of a dynamic corporate debt market and efficient debt recovery mechanisms.
- Global examples highlight the importance of undertaking banking sector reforms in tackling NPAs. For example, in China, besides recapitalization, banking sector reforms focused explicitly on strengthening financial regulation and supervision, improving corporate governance and enhancing transparency. Similarly, South Korea created a Financial Supervisory Services (FSS) to ensure supervision in their banks following the East Asian Financial Crisis of the late 1990s.
- The second area for reform is the development of corporate bond markets. Bond markets need to complement banks as important sources of finance.
- The third area for banking sector reform is continuing to make the banking sector more competitive. India should continue to encourage the entry of private and foreign players to foster greater competition and innovation in the sector. The new policy of “on-tap” licensing of banks is a positive step in this direction.
- However, the entry requirements could be relaxed further to reduce barriers to entry. Advocating a subsidiary structure will not only encourage foreign banks to enter the Indian banking sector but it will also help limit exposure to global shocks.

Protagonist to Economic Transformation

- The Indian banking system will have to play the role of a protagonist in this economic transformation. Not only are we going to witness a sustained rise in banking services, but we will also see increasing sophistication of solutions and delivery.
- Despite domination by PSBs, Private Banks turned from being peripheral players to one of the principal drivers in the process of credit dissemination in the economy. This is evident from the fact that as of FY07, Private Sector Banks had 20% share in outstanding credit, which now stands at 29% as of FY17. Private banks have also been able to mobilize a larger share in deposits. Private sector bank's ownership of deposits has risen from 20 per cent in FY07 to 24 per cent in FY17.
- The faster pace of growth of private sector banks can be attributed to the fact that they have been nimble to the evolving needs to the customer. Factors responsible are:



- **Vintage:** With Public Sector banks undertaking most of the industrial/infrastructure financing, their balance sheets naturally bore the brunt of business downswings. In contrast, most of the new age private sector banks were bereft of any asset quality baggage.
- Relatively newer vintage also helped private sector banks to invest in latest technology intensive solutions and enhancing their capabilities which are key in scouting for new revenue fronts in addition to improving customer experience. An example of early adoption of technology by private banks is seen in the expansion of point of sale machines.
- **Productivity:** Keeping overall costs under control is a major competitive advantage as it improves the return on assets which enables the firm to perform on both fronts- it delivers sufficient return to the existing shareholders and provides opportunity to raise more capital for further expansion.
- **Agility:** Most new age private sector banks are remarkably flexible in hiring the right talent, while also ensuring that compensation and retention policies are attractive.

Next Generation Banking

With India expected to become the fourth largest economy in the world by 2025, the following 4Ds will determine and drive the banking landscape:

1. **Development:** This includes government's financial inclusion agenda and other key sectoral and structural reforms.
2. **Deregulation:** Policy improvement in financial intermediation and savings propensity
3. **Demographics:** Market getting dominated by young and digitally equipped population.
4. **Disruption:** This involves digitization and the integration of banking, telecom, and financial space.

Based on these 4Ds, the following seven trends will define the next generation banking in India:

- **Transforming the Way We Bank:** Technology will define banking contours in the future. This would include big data, cloud computing, smart phones and other such innovations. Mobile banking and mobile payments/commerce is truly the future. The **JAM Trinity** (Jan Dhan Aadhar-Mobile) has the potential to change the face of banking.
- **'Creative Destruction' of Banks:** Banks will need to focus on innovation that raised competition and leads to better and cheaper services for customers. Outsourcing utilities like customer, authentication, fraud checking, payments' processing, account infrastructure, KYC processing, to existing technology service providers, could be key steps going forward.
- **Cashless and Branchless Banking:** Post demonetization and with active policy emphasis on cashless economy cashless banking will revolutionize ease of doing transactions with further penetration of internet and mobile phones metamorphosing into a personal bank branch.



- The banking industry could soon transform 9 to 5 brick and mortar business to a 24x7 solutions platform across the globe, Branchless banking could help in achieving economies of scale in revenue generation and cost management.
- Banking business model innovation could be combined with national platforms such as Aadhaar to reduce customer acquisition cost by 40 percent in order to make branchless banking model even more viable.
- **Innovation in ATM usage:** India has poor ATM penetration – there are only 11 ATMs for every 1 million people in India compared to 37 in China and 25 in Malaysia. In this regard, Solar ATMs could reduce set up cost by almost 50 per cent and also cater to power scarce rural areas.
- **Infrastructure Financing:** The futuristic development models will evolve on the lines of 5:25 structure and Private-Public-Partnership (PPP) model for long-term financing. Additionally there will be new arrangements in the form of Infrastructure Debt Funds, Green Banking and Viability Gap Funding.
- **New Models to serve MSMEs:** The MSME sector contribute 8 per cent to the country's GDP. New structures such as Cluster Based Financing Capital Subsidy Policy for Technology Upgradation, MUDRA Bank, Credit Guarantee Scheme. Incubation Centres and start-up facilities will play an important role in the coming years.
- **Competition and Consolidation:** The urge to innovate, compete and remain in business will also pave the way for synergetic consolidation. The following are a few innovative thoughts that could become a differentiating reality over the next 15 – 20 years:
 - Account number portability (on lines of mobile number portability)
 - Efficient leverage of Big Data Analysis
 - Securitization of retail loans

Conclusion:

A complete embracement of these anticipated changes will not only put Indian banks in global league, they will also help in pushing up the Indian economy to the top 4 slot in the world in next five years.

Managing Non-Performing Assets: A Paradigm Shift

- Financial intermediation by banks is an engine of growth because they cause money to be circulated in the economy by seeking deposits from those who have surplus and lend for investment activity. It has a multiplier effect in the economy. Borrowing leads to creation of demand for productive resources and increases the income level of those who supply goods and services. Expenditure of one is income of the other. This leads to higher GDP and faster productive growth.
- Contraction in lending has opposite effect and growth falters. One major reason for muted credit growth is fast accretion of Non Performing Assets (NPAs) on banks' balance sheets.
- The twin balance sheet problem is overleveraged and distress companies coupled with rising NPAs of PSBs is holding up investment in the economy.



- Gross Non-Performing Assets (i.e., Bad Loans) of banks in India as on September 30, 2017 are Rs. 8.40 lakh crore showing a growth of 1.31 per cent from June 30, 2017. Meteoric rise of NPAs from Sept 15 had its genesis in rapid credit growth of banks during the preceding years say from 2008 onwards.
- Though the share of large borrowers defined as those having limit of Rs. 5 crores and above, in the advances of scheduled commercial banks is 56 percent but their share of NPAs is 86.5 percent.

Reasons:

- (a) Exuberance in increasing balance sheet size by lending to borrowers unworthy of such loans on account of their past credit history.
- (b) Funds were borrowed for creating excess capacities in anticipation of demand without factoring in the global capacities/demand supply position.
- (c) Project completion was delayed for various reasons.
- (d) Recovery of receivables was poor.
- (e) The connected corporate was not able to raise capital through the issue of equity or other debt instruments from capital markets and used borrowed money as equity leading to double leveraging. Banks did not look at the color of equity.
- (f) Business failure because of over optimistic projection.
- (g) Diversion of funds meant for expansion/modernization. Borrowed funds were not used for the purpose for which they were lent.
- (h) Willful defaults, siphoning of funds, fraud, mis-appropriation etc.
- (i) Lack of skill on the part of the banks to monitor end use of funds and diversion by the borrower through web of shell companies etc.
- (j) Deficiency in credit appraisal and improper due diligence.
- Gross NPA ratio does not show alarming rise as denomination (Advances) increase much faster than the numerator (NPA).
- Banks should have been alert about the emerging situation by effectively monitoring the cause of delinquency coupled with prompt corrective action to deny fresh loans to willful defaulters and for sum optimal projects. They should have taken the intent of RBI circular to monitor/pickup early warning signals (EWS) with all seriousness and declare the errant borrower as non cooperative or willful defaulter.
- The provisions of company law provide ammunition to bankers to initiate action and refer such cases to the Serious Fraud Investigation Office (SFIO). A new offence of fraud in relation to the corporate affairs of a company has been defined and made punishable.
- There are enabling laws which are specifically for banks to recover default amount from borrowers viz RDDBFI Act. SARFAESI Act-02 and recent legislation of Insolvency and Bankruptcy Code 2016.
- SARFAESI Act allows bankers to take possession of the assets charged to the bank and auction these without intervention of the court.



- The defaulters use all means to brow beat the bankers in not allowing them to action assets. False allegation/case of criminal trespass are filed against authorized officers while management of the banks in few cases proactively come to the rescue of such harassed executives.
- Despite various judicial pronouncements related to this act being officer the process lost its sheen and banks are not so bullish in making recovery under this act.
- A laudable effort was made in implementing Insolvency and Bankruptcy Code on December 1, 16 is a game changer. However, its efficacy will depend on the will power and honest intent of the user to find a just and equitable solution.
- Resolution under IBC has to be based on intelligence through discrimination.
- The recent ordinance which debars willful defaulters from buying back their companies after diverting loan amount and/or making their accounts NPA has taken wind out of the sails of such promoters.

Way Forward:

- The time is right to make willful default, as per definition of RBI, a serious crime as is the case in some countries, thus putting the final nail in the coffin of such willful defaulters. These measures are going to have salutary impact on the behavior of those who borrow money from banks and consider it as their birth right not to pay.
- Banks need to do forensic audit for ascertaining the end use of funds. They should use Bid Data Analytics and other IT based solutions for doing proper due diligence about the borrower and his businesses like fintech companies are doing. Artificial Intelligence (AI) can be leveraged to predict default at least one year in advance with confidence of 80 per cent.
- Banks have to fine tune their HR policies to train the young work force, which at present lacks experience, and upgrade their skills.
- The government on its part has to appoint professionals on the Board of Banks having domain knowledge and sufficient experience of Bank's functioning.
- To expedite recovery government will do well to have a few more NCLTs and large number of DRTs as present benches are woefully short to achieve this objective. Strength of judges can be increased to cope up with the workload. With the coming in of insolvency of individuals, proprietors and partnership firms the need will be acutely felt.



Bank Recapitalisation: Enhancing Capital Base

- The NPA load on the balance sheets of PSBs has been adversely affecting their lending capability, which in turn is hindering private investments and private sector gross capital formation.
- NPAs of domestic banks have reached about 10 per cent of loans and advances recently.
- The Union Cabinet, finalized an elaborate Rs. 2,11,000 crore plan to revitalize the domestic banking system with a mix of instruments such as market borrowing, budgetary support and most importantly – launched of bank recapitalisation bonds.

Working of Recapitalisation bond:

- Government will issue the bonds and banks will subscribe the instrument directly. In doing so, the sovereign money will not move out and it will simply be an accounting entry. Money not changing hands will ensure that the government remains insulated from an additional burden on the fiscal.
- Now it remains to be seen whether the government will allow the lenders to sell the bonds in the secondary market to do so.
- If government allows the banks to trade the bonds in the secondary market, it will help them raise money and bolster their loan book. On the flip side, if the banks are not allowed to sell the bonds in the secondary market, it can serve as investments earning interest income. On both counts, it can be safely concluded that issue of recapitalisation bonds is beneficial for the banking system.
- So, far haircuts on account of insolvency resolution and meeting capital norms under BASEL III, PSBs do require infusion, which is the primary responsibility of the government itself, as it's the majority stakeholder. Recap Bonds essentially fit the Bill over here.
- The bond issue has also to be accompanied with wide ranging banking sector reforms, which the government has already hinted at and is very committed to.

Facilitating Financial Inclusion

- Financial inclusion is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular, at an affordable cost, in a fair and transparent manner, by regulated, mainstream institutional players. The objective of financial inclusion is to transform the lives of vulnerable people, mainly poor, by providing them access to banking finance and enabling them to generate stable income.

Financial inclusion in India: Historical perspective

- Historically, India is a pioneer in financial inclusion. The Cooperative Credit Societies Act, 1904 gave an impetus to the cooperative movement in India.
- In India, the financial inclusion exercise explicitly started with nationalization of State Bank of India in 1955.



- 14 private sector banks were nationalised in 1969 to serve the unbanked. The concept of priority sector lending became important by 1974, which implied directed lending to unbanked areas, and in 1980, eight more private banks were nationalised to extend banking in rural areas and for vulnerable sections of society.
- The Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) have also been making concerted efforts in extending banking across the country under which schemes of microfinance initiatives, and business correspondents (BCs) were launched. Other initiatives included establishing Regional Rural Banks (1975), adopting service area approach (1989), and Self-Help Group-Bank linkage programme (1989, 1990).
- Since November 2005, special efforts were made to ensure financial inclusion, by the RBI by simplifying norms on know-you-customer requirements, and introducing 'no frills' account. RBI's cautious policy on financial inclusion has been to ensure a balance between equity and efficiency as well as ensuring financial health of banks, considering their lending capacities. RBI adopted a bank-led approach and encouraged technological innovations, like hand-held devices, to be used by banks in remote locations.

Reach of Banking

- Despite all this, there were still important factors such as poverty, low income levels, and distance from bank branches that were restricting vulnerable groups from getting access to the formal banking system. According to Census 2011, only 58.7 percent of total households in India and only 54.4 percent households in rural areas had access to formal banking services.
- The efforts made by the government and the RBI resulted in branch expansion but the money lender continued to play an important role.

Government Initiatives

- Pradhan Mantri Jan Dhan Yojana (PMJDY), which envisages universal access to banking facilities with at least one basic banking account for every household, consolidates government's effort to increase number of households availing banking services. As of December 06, 2017 a total of 30.7 crore accounts had been opened under the scheme.
- The commercial banks have played a significant role in extending credit in northern region, especially in rural and semi-urban areas.
- In extending credit to agriculture sector, commercial banks have been more successful than RRBs or Cooperative Banks.
- To extend banking services to unbanked population, commercial banks began exploring alternatives to brick and mortar branch like mobile vans, banking kiosks and BCs.
- Banking with BCs provided not just convenience of banking in a place that is in close proximity to their business or residence but offered substantial savings on transacting



banking business. The customers save cost of transportation and time/wages lost to visit a branch to complete a transaction.

- The amount deposited in basic savings account through BCs increased nearly 26 times while that through branches recorded an increase of 15 times over the period.

Select Issues and Suggestions

- First, there is need to extend financial inclusion to the disabled, including those elderly where locomotor activity, vision and hearing is impaired. RBI directives to banks to be accessible to all kinds of disabled have not recorded notable progress with very few ATMs and banks branches being disabled-friendly.
- Technological issues like frequent machine breakdown and lack of connectivity negatively impacts confidence of customers towards informal banking. The problems with hand-held devices continue to deter financial inclusion. There is a need for facilities like biometric-enabled and multi-lingual hand-held devices which can provide confidence in rural masses. Technological innovations like integrated machines that have functionality of each withdrawals and deposits; facility of scanning documents to facilitate new account opening and loan disbursements; and voice commands and narration for available facilities could help increase banking penetrations.
- Illustratively, standard instruments that are offered by commercial banks are designed for salaried segments of society like recurring deposit schemes which would need to differ in rural areas depending on pattern of income based on cycle of agriculture production.
- To monitor developments regarding financial inclusion there is a need to assign responsibility to a dedicated financial institution. National Bank for Agriculture and Rural Development, probably, is the most appropriate institution to be made accountable for furthering progress of financial inclusion in rural areas given their domain knowledge.
- Financial literacy is a constant challenge. It is important to build a relationship with customers especially villagers, before they part with their money.
- To enhance financial literacy some banks have taken several initiatives such as conducting quiz at a college level, preparing comic books, organizing magic shows, etc. There is need to standardize literature/material to extend financial literacy amongst the unbanked.

Resolving Insolvency

- India improved its position on the 'Ease of Doing Business' ranking, 2018 released by the World Bank by 30 places to 100th position. One of the reasons cited for that was its performance on resolving insolvency. Though it still stood at 103rd position on this parameter, it was much better off than 136th rank in the 2017 report.
- The improvement was basically noticed after the government put into effect the Insolvency and Bankruptcy Code (IBC) with a regulator Insolvency and Bankruptcy Board of India (IBBI) in 2016.
- Insolvency arises when an individual or organisation could not pay its financial dues to its lenders. Insolvency can be tackled through restructuring the debt or if it is not settled this



way legal action may be taken against the insolvent, the company concerned is restructured or else its assets are sold to pay the debts.

- Well-defined and time-bound norms for entry and exist are considered key to ease of doing business. The Code filled the gap in the exist or restructuring of business that the country had.

Problems associated with the earlier system:

- Before the enactment of the Act, the time taken for resolving insolvency was quite long. There were pending litigations for recovery of money primarily because of overlapping jurisdictions of various laws governing insolvency resolution.
- These have not yielded the results that were required. Also the Sick Industrial Companies (Special Provisions) Act and the winding up provisions of the Companies Act, 1956 did not prove to be too effective.
- The pieces of legislation relating to individual insolvency such as the Presidency Towns Insolvency Act, and the Provincial Insolvency Act are almost a century old, having been enacted in 1909 and 1920 respectively.

Insolvency and Bankruptcy Code (IBC):

- The National Company Law Tribunal (NCLT) adjudicates insolvency resolution for companies. The Debt Recovery Tribunal (DRT) will adjudicate insolvency resolution for individuals.
- The Code creates time-bound processes for insolvency resolution of companies. If the default is over Rs. One lakh, the creditor may initiate insolvency resolution process and go to NCLT.
- The Code is quite different from the earlier resolution systems as it shifts the responsibility to the creditor to initiate the insolvency resolution process against the corporate debtor. Earlier it was debtor who primarily initiated a resolution process.
- After a case is admitted by NCLT, resolution processes will have to be completed within 180 days, extendable by another 90 days. During the resolution process financial creditors assess whether the debtor's business could be restructured and also consider options for the revival.
- If the insolvency resolution process fails, the liquidation of assets begins. The resolution processes are conducted by licensed Insolvency Professionals (IPs).
- The Code provides a hierarchy of priority to distribute assets during liquidation. Secured creditors will receive their entire outstanding amount, rather than up to their collateral value, unsecured creditors have priority over trade creditors and the government dues will be repaid after considering claims of unsecured creditors.



Various issues in the implementation of the Code:

- The country's first corporate resolution plan under the Code caused ripples when NCLT allowed haircut of over 90 percent.
- The insolvency process got much impetus when the government in May this year promulgated an ordinance (which later was replaced by the Banking Regulation (Amendment) Act, 2017) giving wide-ranging powers to the Reserve Bank of India (RBI) to issue directions to lenders to initiate insolvency proceedings for the recovery of bad loans.
- Following the ordinance, RBI asked banks to refer the 12 largest bad loans for resolution under the Code. Resolution of these accounts is expected to be a major trigger for corporate lenders.
- The issue of haircuts also came up in 12 cases referred to NCLT on the recommendation of RBI as well.
- The other issue was promoters binding for their own companies. To address the issue, the regulator amended the rules under the code making it difficult for dubious promoters to take over the companies.
- As such, no willful defaulter can take back the company now as they would be screened by the committee of creditors.
- Besides, corporate guarantors will also not be eligible to bid for these companies. It also includes the holding company, or related party of the promoters of the distressed assets.
- Here comes the issue of definition of related party of the promoters. IBC defines a related party as someone who controls more than 20 percent of the voting rights in the distressed company and also directors in a public company with more than a 2 percent stake.
- However, the Securities and Exchange Board of India Act defines a promoter and a promoter group as anyone with more than 10 percent equity and control over the running of the company.
- As such, a clarity is needed on the definition on related parties to make it clear who all will not be allowed to bid.
- Besides these 12 accounts, RBI has given another list of 29 companies to banks to settle the issue of NPA bilaterally or these accounts will be referred to NCLT.
- Here comes the issue of parity. If banks are given some time to deal with defaulting companies bilaterally in the second list before the accounts could be referred to NCLT, why was such time not given to the 12 cases referred to NCLT in the first list?

Conclusion:

Contesting issues will keep coming in insolvency cases, but the experiment to make it easier for companies to exit or restructure themselves will make it easy to do business in India.

Strengthening of Cyber Security

- Digitalization is the rise of the digital transaction where bank, customers, merchants, industries and other stakeholders form an interdependent financial system network.

The following factors influence the digitization in banking

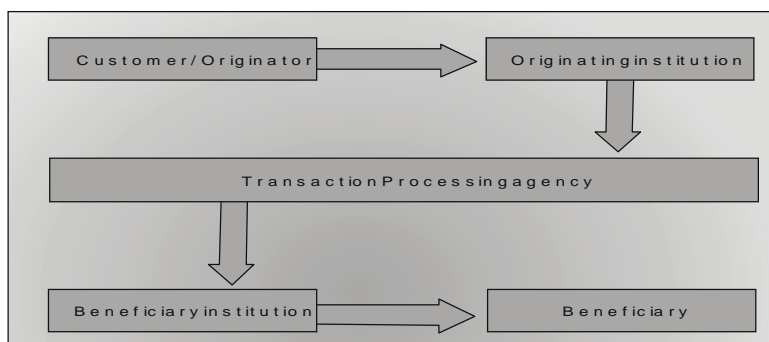
- Changing consumer behavior in favour of digitalization.



- Financial Inclusion and government initiatives.
- Leveraging increased smart phone usage and mobile penetration.
- BHIM UPI is a revolutionary payment system introduced in India which is a first of its kind across the globe. With sixty banks being a part of BHIM UPI, 21 million users have downloaded BHIM apps. Around 82 lakhs transactions per month are taking place in the BHIM platform.

Cyber Security

- The whole eco system of digitalization included the following stakeholders



- Security is to be ensured at all the touch points of the digital transactions.

Security is needed to ensure Confidentiality, Integrity and Availability

- Various measures as discussed below are being taken by the Government of India to strengthen the Cyber Security in the complete digital eco-system on a continuous basis.

National Cyber Security Policy, 2013 (NCSP)

- Its mission is to protect cyberspace information and infrastructure, build capabilities to prevent and respond to cyber-attacks, and minimize damages through coordinated efforts of institutional structures, people, processes and technology.

Few Strategies adopted by the Policy include:

- Creation of a secure cyber ecosystem through measures such as a national nodal agency, encouraging organisation to designate a member of senior management as the Chief Information Security Officer and develop information security policies.
- Creating an assurance framework for IT and security.
- Encouraging open standards
- Strengthening the regulatory framework coupled with periodic reviews, harmonization with international standards, and spreading awareness about the legal framework.
- Creating mechanisms for security threats and responses to the same through national systems and processes.



- National Computer Emergency Response Team (CERT-in) functions as the nodal agency for coordination of all cyber security efforts, emergency responses, and crisis management.
- Securing e-governance by implementing global best practices and wider use of Public Key Infrastructure.
- Protection and resilience of critical information infrastructure with the National Critical Information the National Critical Information Infrastructure Protection Centre (NCIIPC) operating as the nodal agency.
- To promote cutting edge research and development of cyber security technology.
- Human Resource Development through education and training programs to build capacity.

Cyber Swachhta Kendra (Botnet Cleaning and Malware Analysis Centre)

- To combat cyber security violations and prevent their increase, Government of India's Computer Emergency Response Team (CERT-in) in February 2017 launched 'Cyber Swachhta Kendra' (Botnet Cleaning and Malware Analysis Centre).
- The Cyber Swachhta Kendra is a step in the direction of creating a secure cyber ecosystem in the country as envisaged under the National Cyber Security Policy in India.

The Centre offers the following security and protective tools:

- USB Pratirodh, aimed at controlling the unauthorized usage of removable USB storage media devices like pen drives, external hard drives and USB supported mass storage devices.
- An app called **Samvid** was also introduced. It is a desktop based Application Whitelisting Solution for Windows Operating System.
- **M-Kavach**, a device for security of Android mobile devices has also been developed.
- **Browser JSGuard**, is a tool which serves as a browser extension which detects and defends malicious HTML and JavaScript attacks made through the web browser based on Heuristics.

Information Technology Act

- It Act, 2000 is the primary law in India dealing with cybercrime and electronic commerce which had subsequent amendment in the year 2008.
- Online Frauds and IT Act: It act has detailed the various cybercrimes and also specified the penalty for the cyber wrong doings by fraudsters online.
- Phishing : Phishing is a type of social engineering attack often used to steal user data, including login credentials and credit card number.
- The following Sections of the Information Technology Act, 2000 are applicable to the Phishing fraud:



- Section 66-Hacking with Computer system
- Section 66 B-Receiving stolen computer or communication device
- Section 66 C-Using password of another person.
- Section 66 D-Cheating using computer resource
- Credit Card Fraud : Credit Card Fraud is another online banking fraud where a customer's card is spoofed and the same is used online. In this fraud also IT Act and IPC rescues the victim and assures penalty from the fraudster.
- RBI Directions: RBI has trust thrust upon 'Zero Liability' and 'Limited Liability' for bank customers against any fraud provided if the same is reported to the bank immediately.
- A customer will have zero liability in respect of a fraudulent transaction if there is contributory fraud of negligence on the part of the bank.
- RBI has made it mandatory for banks to register all customers for text message alerts and permit reporting of unauthorized transactions through a reply to the alert message.
- Banks shall enable reporting of unauthorized transactions on their website itself for easier customer grievance redressal.
- However, in cases where the loss is due to negligence of the customer, he/she shall have to bear the entire loss until he/she reports the unauthorized transaction to the bank.
- In case of loss caused by a third party, the customer will be liable for the transaction value if he fails to report the fraudulent transaction within 4-7 days of receiving the alert from the bank.

Wrap Up:

With all the measures towards strengthening of Cyber Security, our country shall provide a completely Cyber Secure architecture that is secure and reliable for the digital transaction.

Rural Banking: Translating Vision to Reality

- Even today, the country is home to 24 per cent of the world's unbanked adults and about two-thirds of South Asia's. About 21 crore 'potentially bankable rural Indians' do not have access to formal banking services.
- Intermediaries like NGOs, Self-help Groups, are being used by banks to improve access to credit and savings. However, these channels in their current form, offer limited services and suffer from many a lacunae.
- Apart from this, many banks view the rural market as a regulatory requirement rather than an economic opportunity. Some of the reasons are:
 - Since rural households have irregular income and expenditure patterns, the banks have high Non-performing loans in rural areas. The issue is compounded by the dependence of the rural economy on vagaries of monsoons. The loan waivers driven by political agenda further aggravate the bankers' woes.
 - The average ticket size of both a deposit transaction and a credit transaction in villages is small, which means the banks need more customers per branch or channel to break-



even. Since many rural folks are not literate and so not comfortable using technology-driven channels like ATMs, phone banking or internet banking, hence mostly dependent on bank branches, leading to bank's high cost to serve.

- The highly irregular and volatile income streams and unscheduled expenditure like medical or social emergency attribute to higher risk of credit for the banks.

Strategies helpful in this regard:

- **Product strategy** : For catering to the varied needs to small ticket size transactions
- **Processes**: To help banks to reach deprived and vulnerable segments and provide hassle-free near doorstep service to the customer.
- **Partnership**: Are the bank-non-bank partnership, working efficiently in easing the accessibility and availability of financial services?
- **Protection** needed to protect both the providers and receivers from abuse and misuse
- **Profitability**
- **Productivity**: How do we increase the productivity of financial services provided in the rural areas.
- **People**: Are the rural branch staff well-equipped to meet the needs of driving the process of financial inclusion in terms of knowledge, skill and attitude ?
- In India, the first structured attempt towards financial inclusion, featured in 2005, when it was launched by KC Chakraborty, the chairman of Indian Bank. Mangalam village because the first village in India where all households were provided with banking facilities.

Steps taken by RBI

- Facilitating no-frill accounts and General Credit Cards (GCCs) for small deposits and credit, norms were relaxed for people intending to open accounts with annual deposits of less than 50,000.
- With view to provide hassle-free and timely credit to farmers, as on September 2016, above 50 million Kisan Credit Cards (KCC) have been issued by the banking system. In January 2006, RBI permitted commercial banks to make use of the services of Non-Governmental Organization.
- Other civil society organizations as intermediaries for providing financial and banking services.

Way to forward:

- Business Correspondents (BC) need to be adequately compensated by banks so that they are sufficiently incentivized to provide.
- For effective supervision of BC operations and for addressing cash management issues as also to take care of customer grievances, banks should open small brick and mortar branches at a reasonable.



- Banks need to initiate suitable training and skill development programmes.
- Banks need to enhance their ATM network in rural and unbanked areas to serve the rural villagers. Alongwith this, adequate security measures as well as Financial Literacy campaigns need to be undertaken.
- Providing easy and cheap remittance facilities to migrants is an absolute imperative.
- To achieve meaningful financial inclusion, banks should give priority for small farmers as compared to large farmers while sanctioning credit.
- Govt/banks should initiate steps to increase the credit absorption capacity in rural areas by promoting employment and other opportunities.
- Government needs to make efforts for adequate infrastructure such as physical and digital connectivity, uninterrupted power supply etc.
- The need for vernacularisation of all banking forms is an absolute must, at least in major languages.
- All round efforts are to be made to ensure that Post offices play a greater and more active role due to their known advantages.

The government as well as the Reserve Bank of India have taken various measures recently to solve the above issues like

- Jan Dhan Yojana
- Setting up Micro Unit Development Refinance Agency (Mudra) for providing micro credits.
- Various social sector schemes which would provide social security.
- Providing banking services through banking correspondents and business facilitators.
- Proposed concessions on credit and debt transactions.
- Aadhaar enabled micro ATMs and RuPay cards to replace cash transaction.
- Promoting differential banking through new licenses given to 11 payment banks and 10 small finance banks.

Challenges:

- PMJDY has the problem of multiplicity of accounts. A larger number of accounts created under PMJDY do not have any money and lie dormant which only increases costs for banks to run these accounts.
- Technology enabled services such as linking of Jan Dhan, Aadhaar and Mobile (JAM) is slow to pick up Payment banks will have the benefit of wider reach but they will need to counter issues of complex user interfaces, lack of internet penetrations, lack of grievance redressal mechanisms etc. which might deter users.
- Direct Benefit Transfer may see collaboration of erstwhile intermediaries with bank officials to delay/deny benefits.
- The spread of payments banks might also deprive regular banks of the fee income they earn from customers, like those for making demand drafts, cash transfers, remittances, cash withdrawal through cheques and ATM transaction fees.
- In quite a number of cases, the Business Correspondents have been accused of siphoning off money.
- Banking technology related frauds are increasing at an alarming rate.



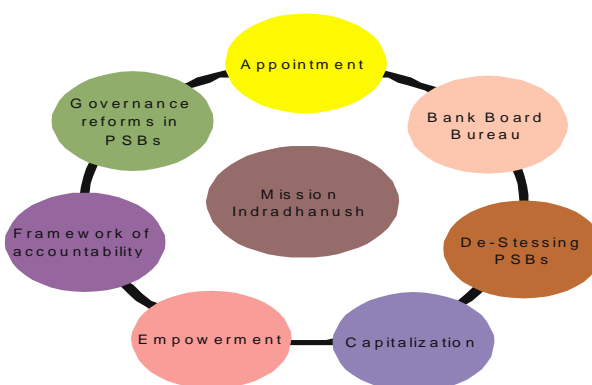
- In rural and hinterland areas mobile connectivity is still in poor condition.
- Priority Sector Lending targets may not reach the deserved, as many banks shy away from lending money to the poor. So, to achieve targets they give loans to the underserved, who make fraud-documents to receive the same.

Conclusion

Banks may be give the freedom to determine their own financial inclusion strategies as part of their overall business philosophy and pursue it is a commercial activity, taking on board their risk appetite and product sophistication. Let us look forward to translating the underlying vision of Rural Banking into reality.

Mission Indradhanush: Revamping of Public Sector Banking in India

- For recapitalisation and revamping of PSBs, the government announced a scheme known as 'Indradhanush Plan'.



Components under the Indradhanush plans:

- **Appointment:** The Government decided to separate the post of Chairman and Managing Director.
- **Banks Board Bureau (BBB):** The BBB will be a body of eminent professionals and officials, which will replace the Appointments Boards for appointment of Whole-time Directors as well as non-Executive Chairman of PSBs.
- **Capitalization:** Government of India wants to adequately capitalize all the all the banks to keep a safe bugger over and above the minimum norms of Basel III.
- **De-stressing PSBs**
- **Empowerment:** The Government of has issued a circular that there will be no interference from Government and Banks are encouraged to take their decision independently keeping the commercial interest of the organisation in mind.
- **Accountability:** A new framework of Key Performance Indicators (KPIs) to be measured for the performance of PSBs.
- **Government Reforms:** The process of Governance Reforms started with “GyanSangam” – a conclave of PSBs and FIs organized at the beginning of 2015.



- The “GyanSangam” recommendations included among others strengthening of Risk Management practices. The focus is on improving HR management practices and removing barriers so that the banks can share and work together on common resources. Various steps have been taken to empower the Bank’s Boards.
- In the last one year, the major game changing initiatives in line with the Banking Reforms have been executed :
 - **Insolvency and Bankruptcy Code** –
 - **Recapitalisation of PSBs** –
 - **Consolidation of Banks** – The Indian Banking System could be better-off if some Public Sector Banks (PSBs) are consolidated to have fewer but healthier entities, as it would help in dealing with the problem of stressed.
- Besides above, the Central Government also plans to come-out in near future with ‘Indradhanush 2.0’, a comprehensive plan for recapitalisation of Public Sector Lender, with a view to make sure that they remain solvent and fully comply with the global capital adequacy norms, Basel-III.

Specialized Banks In India

- There are four prominent specialized banks or financial institutions in India. There are – Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI).
- **Export-Import Bank of India (EXIM Bank)**

It was established under the Export-Import Bank of India Act, 1981 as a purveyor of export credit, mirroring global Export Credit Agencies (ECAs).

It serves as a growth engine for industries and SMEs through a wide range of products and services. These include import of technology and export product development, export production, export marketing, pre-shipment and post-shipment and overseas investment.

- **National Bank for Agriculture and Rural Development (NABARD)**

The importance of institutional credit in boosting rural economy has been clear to the Government of India right from its early stages of planning.

NABARD came into existence in July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).

- **National Housing Bank (NHB)**

The National Housing Bank (NHB) was established in the year 1988 as per the guidelines of the National Housing Bank Act, 1987 with a view to accelerate the growth of the Housing Financing Institutions by providing them with financial and other required assistance. It extends financial assistance for entire infrastructural development offers refinance to the existing housing finance companies etc.

NHB is wholly owned by Reserve Bank of India.



- **Small industries Development Bank of India (SIDBI),**

SIDBI, set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector and for co-ordination of the function of the institutions engaged in similar activities.

- MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 5.1 crore units, creating employment of about 11.7 crore, manufacturing more than 6,000 products, contributing about 45 per cent to manufacturing output and about 40 percent of export in terms of value, about 37 per cent of GDP.
- In order to promote and development the MSME sector SIDBI adopts a 'Credit Plus' approach, under which, besides credit, SIDBI supports enterprise development , skill up-gradation, marketing support, cluster development , technology modernisation, etc., in th MSME sector through its Promotional and Developmental supports to MSMEs.

A New Dimension in Highway Development

- Bharatmala is a comprehensive highway development programme for the country. The highways sector continues to remain a critical infrastructure sector in India due to existing gaps and enhanced transportation requirements. Bharatmala marks the beginning of a new era for highways infrastructure.
- The objective of Bharatmala is to optimize logistics efficiency for both freight and passenger movement on HNs across the country through suitable interventions.

Bharatmala – Six Components

- **Economic Corridors** – Identified Highway Corridors of Economic importance are expected to carry 25 per cent of freight in the coming year.
- **Inter-Corridors and Feeder Roads** –
- **National Corridors Efficiency Improvement** – The National Corridors have developed choke points every time, impacting logistics efficiency. There is a requirement to construct Ring Roads and bypasses/elevated corridors in addition to lane expansion to decongest these National Corridors.
- **Border and International Connectivity Roads** –
- **Coastal and Port connectivity Roads** – These roads are expected to boost tourism and industrial development of the coastal regions.
- **Greenfield Expressways** – Certain section of National and economic corridors have traffic exceeding 50,000 PCUs and have also developed several choke points. About 1,900 km of these stretches have been identified for development of Greenfield expressways.



Impact of Bharatmala

- i) Optimized efficiency of traffic movement on roads across the country through adoption of a coherent corridor approach.
- ii) It will result in improved road infrastructure, removal of congestion points on the network through bypasses, ring roads etc. Initiatives such as access controlled expressways along with corridor-wise entry/exist based tolling will enable further improvements in average speeds on Highways.
- iii) Connecting 550 Districts in country through NH linkage. Currently, around 300 Districts have NH linkage.
- iv) Creation of major opportunities for investment and construction activities in the highway and associated infrastructure development, operation and maintenance.
- v) Phase-I of Bharatmala is expected to generate about 34 crore man-days of employment during the construction phase and approximately 22 million permanent jobs driven by increased level of economic activities.

India's Credit Ratings: Boots to Investors' Sentiment

- Economic Survey 201-2017 pointed out the bias in perception about Indian economy by international economy by international Credit Rating Agencies (CRAs). On the backdrop of the debate whether India's credit ratings deserve an upgrade or not, the Moody's has finally upgraded India's ratings from BAA3 to BAA2 and outlook from positive to stable.
- This upgrade has come after a gap of more than thirteen years. The Moody's have cited various reasons for this upgrade, viz. Change in taxation regime with the introduction of Goods and Services (GST), Insolvency and Bankruptcy Code to resolve bankrupt cases, institutional reforms in the form of India's aggressive stance for a less cash economy, raising the Foreign Direct Investment (FDI) equity limits on various sectors, emphasis on infrastructure development with various new projects being announced to enhance India's road and port network and following the fiscal consolidation path.

Importance of Credit Rating

- CRA, in order to rate investments, consider broad financial, macroeconomic, and stability indicators in a borrower country and its economic outlook to estimate its ability and willingness to pay its debt.
- A credit rating should not be intended as a guarantee of credit quality, as the future cannot be forecast accurately and ratings should be considered just a market signal. Also, different CRAs do not measure similar things before taking decisions on credit ratings.
- Credit ratings do not use a rule-based method, and are subjective, but these affect the cost of borrowing and access to international capital markets and so remain important, and countries remain dependent on ratings.
- The upgrade in ratings by Moody's will benefit India in many ways.



- India is a capital-scarce economy and given the improvement in ratings, it will be easier to attract capital from abroad which in turn will help fuel the economic growth further.
- Second, the investments now could be attained at a lower borrowing cost as the risk premium on credit will be reduced.
- Third, the external deficits now could be financed easily and at a lower cost, and the surface in investment will help improve the stock market performance of the economy as well.

Conclusion

- India's macroeconomic health, particularly its investment position and debt indicators have improved since 2013.
- But international rating agencies have been unfair to India so far and the current upgrade by Moody reflects stability of Indian economy and positive investors' sentiments with a stable political environment.
- Given its upward trajectory in economic growth with stable external sector and active inflation targeting, India deserves an upgrade both on its individual merit as well as in comparison to other countries that have shown fragility in the global economy.

Big Data Analysis in Banking Industry

- Now a days, we are capable of collecting more data and store more data and analyse. This in technical terms is coined as big data. The two things that are fueling this big data movement the fact that we have more data on anything and our improved ability to store and analyze any data.
- Big data analytics is the process of examining large and varied data sets i.e., big data to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information that can help organization make more-informed business decisions.

How is Big Data used in Practice?

1. Understanding and Targeting Customers.
2. Understanding and Optimising Business Processes.
3. Improving Healthcare and Public Health
4. Improving Science and Research
5. Improving and Optimising Cities and Countries
6. Improving Security and Law Enforcement Etc.

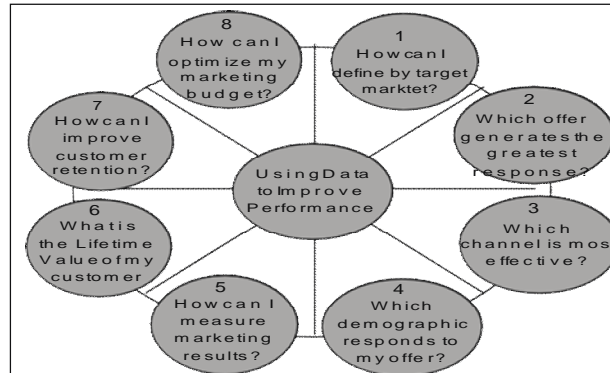
Indian Scenario at Banking Parlance

- Organically banks do have more data in comparison to any other industry do have, but still we have not started using it. With the vital information of customers we can sell our products better than any organisation can do.



- Presently we are going through a data crisis due to our legacy of accounts and staff attitude where proper data is not captured by our system, which makes our journey difficult. So if we want to take big data approach we need to go through the following process:

Data collection ➤ Data storage ➤ Data analysis ➤ Data utilisation.



Conclusion

Regardless of the fact that we are moving towards a phase where a few people will visit banks braches denouncing our style of marketing and the pace is too fast to catch hold. And the time has come to focus ourselves on alternatives and big data analysis which gives a greater opportunity to do the same. Banks can use identification (where individual needs are to be known in advance) to reach the identify of our customers and the connect with them for a greatest good.



BANKER TO BANKS

- The Reserve Bank of India (RBI) was established on April 1, 1953 in accordance with the provisions of the Reserve Bank of India Act, 1934.
- Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

RBI Money Policy

- RBI is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.
- The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth.

Recent Initiatives

- In May 2016, the RBI ACT, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting frameworks.
- The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultant with the Reserve Bank, once in every five year.
- Along with government of India, RBI is responsible for the design, production and overall management of the nation's currency, with the goal of ensuring an adequate supply of clean and genuine notes.
- The Reserve bank puts the coins into circulation on behalf of the Central Government, which is the issuing authority.

RBI's as Regulator

- Regulation aimed at protecting depositors interests, orderly development and conduct of banking operations and fostering of the overall health of the banking system and financial stability.

Universal Bank Licensing Policy

- In-principle approvals were given to two new applicants, namely, IDFC Limited and Bandhan Financial Services Private Limited in April 2014 to set up banks under the Guidelines on Licensing of New Banks in the Private Sector.
- **Management of Stressed Assets**
- **Reviewing Governance of Boards of Banks in India**
- **Regulating Cooperative Banks**

The short-term co-operative credit structure operates with a three-tier system-Primary Agricultural Credit Societies (PACS) at the village level, Central Cooperative Banks (CCBs) at



the district level and State Cooperative Banks (StCBs) at the State level. PACS are outside the purview of the Banking Regulation Act, 1949 and hence not regulated by the Reserve Bank of India.

The Reserve Bank acts in close co-ordination with the regulators, such as, Register of Co-operative Societies and Central Register of Co-operative Societies.

Regulating Non Banking Financial Institutions

- The Reserve Bank is, at present, reviewing the regulatory framework for NBFCs.

Consumer Protection and Education

- The Reserve Bank's initiatives in the field of consumer protection include the setting up of a Customer Redressal Cell, creation of a Customer Services Department in 2006 which was recently rechristened as Consumer Education and Protection Department.
- The Reserve Bank in the year 1995 introduced the Banking Ombudsman (BO) scheme. The BO is an Alternate Dispute Redressal mechanism for resolution of disputes between a bank and its customers. There are 20 Banking Ombudsman offices in the country at present. The scheme covers grievances of the customers against Commercial Banks, Scheduled Primary Cooperative Banks and Regional Rural Banks.
- The RBI has formulated a "Charter of Customer Rights" for banks based on global best practices in the area of consumer protection. These are :
 1. Right to Fair Treatment
 2. Right to Transparency, Fair and Honest Dealing
 3. Right to Suitability
 4. Right to Privacy
 5. Right to Grievances Redress and Compensation

RBI's Role as Banker and Debt Manager to the Government

- The RBI Act, 1934 requires the Central Government to entrust the Reserve Bank with all its money, remittance, exchange and banking transactions in India and the management of its public debt. The Government also deposits its cash balances with the Reserve Bank. The Reserve Bank may also, by agreement, act as the banker and debt manager to State Governments. Currently, the Reserve Bank acts as banker to all the State Governments in India (including Union Territory of Puducherry), except Sikkim. For Sikkim, it has limited agreement for management of its public debt.
- As a banker to the Government, the Reserve Bank receives and pays money on behalf of the various Government departments. The Reserve Bank also undertakes to float loans and manage them on behalf of the Governments. It provides Ways and Means Advances- a short-term interest bearing advance- to the Governments, to meet temporary mismatches in their receipts and payments.
- The Reserve Bank acts as adviser to Government, whenever called upon to do so, on monetary and banking related matters.
- The Central Government and State Governments may make rules for the receipt, custody and disbursement of money from the consolidated fund, contingency fund, and public



account. These rules are legally binding on the Reserve Bank as accounts for these fund are with the Reserve Bank.

Management of Public Debt

- The Reserve Bank's debt management strategy aims at minimising the cost of borrowing, reducing the roll-over and other risks, smoothening the maturity structure of debt, and improving depth and liquidity of Government securities markets by developing and active secondary market.

Reserve Bank as Banker to Banks

- The Reserve Bank continuously monitors operations of these accounts to ensure that defaults do not take place. Among other provisions, the Reserve Bank stipulates minimum balance to be maintained by banks in these accounts.
- The Reserve bank also facilitates remittance of funds a bank's surplus account at one location to its deficit account at another. Such transfers are electronically routed through a computerized system called e-Kuber.

Oversight of Payment and Settlement Systems

- Oversight of the payment and settlement systems is a central bank function where by the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and where necessary, including change.

Foreign Exchange Management

The early stages of foreign exchange management in the country focused on control of foreign exchange by regulating the demand due to its limited supply. Exchange control was introduced in India under the Defence of India Rules on September 3, 1939 on a temporary basis. The statutory power for exchange control was provided by the Foreign Exchange Regulation Act (FERA) of 1947, which was subsequently replaced by a more comprehensive Foreign Exchange Regulation Act, 1973. This act empowered the Reserve Bank, and in certain cases the Central Government, to control and regulate dealings in foreign exchange payments outside India, export and import of currency notes and bullion, transfer of securities between residents and non-residents, acquisition of foreign securities, and acquisition of immovable property in and outside India, among other transaction.

Keeping in view the changed environment after significant development in the external sector, such as, substantial increase in foreign exchange reserves, growth in foreign trade, rationalization of tariffs, current account convertibility and liberalization of Indian investment abroad, the Foreign Exchange Management Act (FEMA) was enacted in 1999 to replace FERA. FEMA aims at facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets in India.