VOL. - II, NO. 1

THEME: BANKING

MESSAGE FROM THE VICE-CHANCELLOR

It gives me immense pleasure to note that the students of Commerce Department of Tripura University have published the Second Volume of Departmental Wall Magazine "Business Updates". I admire the endeavour of students of this department for their creativity and curiosity.

My blessing to them.

(Prof. M. K. Singh)
Vice-Chancellor

MESSAGE FROM THE DEAN, FACULTY OF ARTS & COMMERCE

It gives me immense pleasure to note that the Second Volume of the Departmental Wall Magazine has been published by the students of the Department of Commerce.

My blessing is always with them.

(Prof. C. B. Majumder)
Dean,
Faculty of Arts & Commerce

MESSAGE FROM THE HEAD

I am happy to note that since its inception, the primary aim of the Department has been to make the student responsive to change in social realities and make the world a sustainable place through the development and application of ethics, integrity and knowledge. The publication of "Business Updates", Vol-II, No.-1 is a modest step towards that vision by focusing on skill based outreach programme.

My love and support is always with them.

(Prof. Chinmoy Roy)
Head,
Department of Commerce

E-banking: Threats and Prevention

:-Priya Das (2nd Semester)

Introduction

Electronic banking is a form of banking in which funds are transferred through an exchange of electronic signals rather than through an exchange of cash, cheque or other types of paper documents. In recent days, many privacy concerns arose with the increasing use of internet banking or online transactional activities which caused financial loss to the customers of online banking. In Tripura many ATM skimming devices were found to be installed by hackers, which record the ATM card code number of individuals and the fraudulent activities with the confidential information of the customers. Not only carding or ATM skimming, many other cyber attacks such as phishing through fraud messages and phone calls are also some awful acts which are done by attackers through cyber activities.

Security Threats in E-Banking:

Security risk arises on account of unauthorized access to a bank's critical information stores like accounting system, risk management system, portfolio management system etc. A breach of security could result in direct financial loss to the bank. For example, hackers operating via Internet could access, retrieve and use confidential customer information and also can implant virus. This may result in loss of data, theft of or tampering with customer information, disabling of a significant portion of bank's internal computer system which in turn becomes the cause of service denial and also increase the cost of repairing the machines. Some types of cyber attacks that already targeting E-banking services, detected throughout 2017 to early 2018 are:

1. Identity Theft – Identity theft is the crime of obtaining another person's personal or financial information such as someone's photos from social sites and to steal his personal information like your name, date of birth etc. to pretend to be you to commit frauds and to obtain financial benefits.

2. Ransomware: Ransomware is a type of malware that restricts access to your computer or your files and displays a message that demands payment in order for the restriction to be removed.

3. Carding/ATM skimming: skimming is a theft of card information, where a small device, known as a skimmer, is used to steal the information during a legitimate ATM transaction. As the card is swiped at the machine, the skimmer device captures the information stored on the card's magnetic strip. Thieves place the skimmer on the ATM card swiping mechanism.

4. Man-in-the-middle attack: Here, a fake website is created to get the attention of users to this website. Normally, the attacker is capable to trick the users by disguising their identity to make it appear that the message was coming from a trusted source. Once successful, instead of going to the designated website, users don't realize that they actually entered into the fraudster's website.

5. Spoofing: Spoofing is a type of scam in which criminals attempt to obtain someone's personal information by pretending to be a legitimate business, a neighbor, or some other innocent party. There are several kinds of spoofing, including email spoofing, text message spoofing, caller ID spoofing and URL and GPS spoofing.

6. Phishing: Phishing attempts will appear to be from a trustworthy person or business. Cyber criminals pretending to be an official representative, send you an email or message with a warning related to your account information. The message will often ask for a response by following a link to a fake website or email address where you will provide confidential information.

7. Vishing: Vishing is both a recent and a very old scam. It is the age old fraud where the attacker phones the victim and uses social engineering to trick the victim into revealing secret information such as credit card information.

8. Pharming: Pharming attack is a sophisticated version of phishing attacks. The attacker inject Trojans and/or worms into users' computers or the DNS server that causes different types of attacks (modifying users' hosts file, DNS cache poisoning, domain hijacking, static domain spoofing, etc.).

Tips to Minimise Risk

1. Choose an account with two factor authentication- Try to get a bank account that offers some form of two factor authentication for online banking. These days many, but not all, banks offer a small device that can be used to generate a unique code each time you log in. This code is only valid for a very

short period of time and is required in addition to your login credentials in order to gain access to your online account.

2. Create a strong password- If your bank requires a user-generated password in order to access online accounts make sure you choose one that is strong. The best way to achieve this is by making it long and a mix of upper and lower case letters, numbers and special characters.

3. Secure your computer and keep it up-to-date- Security software is essential these days, regardless of what you use your computer for. As a minimum, make sure you have a firewall turned on and are running antivirus software. This will ensure you are protected from Trojans, keyloggers and other forms of malware that could be used to gain access to your financial data.

4. Avoid clicking through emails- No financial institution will send an email asking you to provide any of your login details. If you receive an email that appears to be from your bank that asks for such details then treat it with suspicion as it may well be a phishing attempt to trick you into handing your credentials over. Likewise, be aware of links in emails that appear to be from your bank.

5. Avoid unsolicited phone calls- Your financial institution may require you to answer a security question, they should never ask for passwords or PINs (they may ask for certain letters or numbers from them, but never the whole thing). If in doubt, do not be afraid to hang up and then call your bank back via a telephone number that you have independently confirmed as being valid.

6. Access your accounts from a secure location: It's always best practice to connect to your bank using computers and networks you know and trust. But if you need to access your bank online from remote locations you might want to set up a VPN (Virtual Private Network) so that you can establish an encrypted connection to your home or work network and access your bank from there.

7. Always log out when you are done: It is good practice to always log out of your online banking session when you have finished your business. This will lessen the chances of falling prey to session hijacking and cross-site scripting exploits.

8. Set up account notifications (if available): Some banks offer a facility for customers to set up text or email notifications to alert them to certain activities

on their account. For example, if a withdrawal matches or exceeds a specified amount or the account balance dips below a certain point then a message will be sent. Such alerts could give quick notice of suspicious activity on your account.

9. Monitor your accounts regularly: It should go without saying that monitoring your bank statement each month is good practice as any unauthorised transactions will be sure to appear there. Look at every transaction since you last logged in and, if you spot any anomalies, contact your bank immediately.

10. Avoid using public Wi-Fi or use VPN software

Usage of public Wi-Fi hotspots of internet on mobile banking and making payments on ecommerce sites should be avoided. However, setting up VPN software on your computer creates a secure tunnel between the computer and the internet and prevents hackers from interrupting the traffic.

Conclusion

Internet is a public network of computers which facilitates flow of data/information and to which there is unrestricted access. Banks using this medium for financial transactions must, therefore, have proper technology and systems in place to build a secured environment for such transactions. Internet banking has some inherent risks due to its nature. Internet is prone to hackers and hence fraudulent risks are always there. The necessity for a strong authentication solution became inevitable in banking services because of the growing pace of the transition technology adoption along with the unfortunate rise in fraud and security breaches. Banks should take the security considerations as part of their service offerings.

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Financial Inclusion in India: Overview and Status

:- *Paulami Ray (2nd Semester)*

Introduction

> ***"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."***
>
> ***- Franklin D. Roosevelt***

Financial sector is considered to be the backbone of any economy and efficiency in working of the financial sector indicates the socio-economic wellbeing of that country. For the inclusive growth of an economy it is crucial to focus on the growth and stability of financial position of every citizen. Financial inclusion is an attempt to include maximum number of participation from all sections of the society for an inclusive growth of the economy. One of the main objectives of financial inclusion is easy availability of financial services which allows maximum investment in education, business opportunities, savings for future contingencies, insurance etc. by the weaker sections of the society.

Indicators of financial inclusion

Financial inclusion can be measured based on three broad dimensions (G20 Financial Inclusion Indicators) -

1. *Access to financial services*- Measured by taking into account the following indicators- number of branches, ATMs, agents of payment service, mobile agent outlets, POS terminals, debit cards per 100,000 adults. Access to a mobile phone, internet and having a national identity card is also taken into account.
2. *Usage of financial services*- This is measured by taking into account the following indicators- adults with an account, number of accounts, adults with credit at regulated institutions, adults with insurance, adults performing cashless transactions, adults using digital payments, payment using a bank card, saving propensity of an adult.
3. *Quality of products and service delivery*- In order to measure the quality of products, the following quality indicators are taken into account-
    i. <u>Financial literacy and capability</u>-

ii. *Financial knowledge*- Financial knowledge considered the correct responses to questions about basic financial concepts, such as Inflation, Interest rate, Compound interest, Main purpose of insurance etc.

iii. *Financial Behavior*- Use of Savings for emergency funding can be measured by taking into account the % of adults who report that in case of an emergency it is possible for them to come up with 1/20 of gross national income (GNI) per capita in local currency and cite savings as their main source of this money.

a. Market conduct and consumer protection-

i. *Disclosure requirements*- Disclosure index combining existence of a variety of disclosure requirements: (1) Plain language requirement (e.g. understandable, prohibition of hidden clauses). (2) Local language requirement, (3) Prescribed standardized disclosure format etc.

ii. *Dispute resolution*- Index reflecting the existence of formal internal and external dispute resolution mechanisms: (1) Internal dispute resolution mechanism indicator: law or regulation setting standards for complaints resolution and handling by financial institutions (2) External dispute resolution mechanism indicator: System in place that allows a customer to seek affordable and efficient recourse with a third party

b. Barriers to use-

i. *Credit barriers*- it is measured by the percentage of SMEs required to provide collateral on their last bank loan (reflects the tightness of credit conditions).

ii. *Credit barriers*- In the process of getting credit the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending is measured as "Distance to frontier". The "distance to frontier" score aids in assessing the absolute level of regulatory performance and how it improves over time.

Major Initiatives:

Some of the major initiatives taken by the GOI and RBI in the recent years which have resulted into great outreach of financial services to the rural and backward areas of India are-

1. **Pradhan Mantri Jan Dhan Yojna (PMJDY)-** The Government initiated the National Mission for Financial Inclusion (NMFI), namely, Pradhan Mantri Jan Dhan Yojna(PMJDY) in August, 2014 to provide universal banking services for

every unbanked household. The performance of PMJDY has been presented with the help of the following table:

Item	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
No. of PMJDY accounts (in Crore)	14.72	21.43	28.17	31.44	35.27
Deposit in PMJDY accounts (in Rs. Crore)	15,670	35,672	62,972	78,494	96,107
Average Deposit per PMJDY account (in Rs.)	1,065	1665	2,235	2497	2,725
Number of RuPay debit cards issued to PMJDY account-holders (in Crore)	13.14	17.75	21.99	23.65	27.91

Source: RBI-PMJDY annual report.

2. **Social Security Schemes-** In order to move towards creating a universal social security system for all Indians, specially the poor and the under-privileged, three ambitious Jan Suraksha Schemes or Social Security Schemes pertaining to Insurance and Pension Sector were announced by the Government in the Budget for 2015-16. The schemes were launched on 9th May, 2015 for providing life & accident risk insurance and social security at a very affordable cost namely-

PMSBY- Accidental Insurance Scheme

PMSBY – Pradhan Mantri Suraksha Bima Yojana :

- Insurance Scheme for death or disability by accident.
- Coverage:
  - Accidental death or full disability is Rs. 2 lakh
  - Partial disability – Rs. 1 lakh
- Eligiblity:18-70 years
- Annual premium: Rs. 12

Total Enrolments	15.47 crore
No of claims settled	32,176
Claimed Amount	Rs. 643.52 crore

PMJJBY Life Insurance scheme

as on 31.03.2019

PMJJBY – Pradhan Mantri Jeevan Jyoti Bima Yojana

- Life insurance scheme with coverage of Rs. 2 lakh
- launched in 2015 for person between 18 and 50 years
- Annual premium – Rs. 330

Total Enrolments	5.91 crore
No of claims settled	1,35,212
Claimed Amount	Rs. 2,704.24 crore

Atal Pension Yojana - Social Security Scheme

as on 31.03.2019

- Launched on 9th May 2015 – for unorganized sector workers.
- Depending on contribution, fixed pension between Rs. 1000 - Rs. 5000
- Pension starts at the age of 60 years.
- Eligibility: 18 – 40 years

APY Subscribers	1.49 crore

Entry age	Pension amount	Monthly Premium
18 years	Rs. 5000	Rs. 210
25 years	Rs. 5000	Rs. 376
39 years	Rs. 5000	Rs. 1318

Contribution chart

3. **Stand up India Scheme-** Government of India launched the Stand up India scheme on 5th April, 2016. Stand up India scheme caters to promoting entrepreneurship amongst women, SC & ST category i.e. those sections of the population facing significant hurdles due to lack of advice/mentorship as well as inadequate and delayed credit.
4. **Pradhan Mantri Mudra Yojna (PMMY)** – For enabling the flow of credit to small businesses, the Pradhan Mantri Mudra Yojana (PMMY) launched on 8th April, 2015.

Conclusion

In recent years, shift to the extensive use of technology in financial operations and introduction of schemes keeping in mind the needs of the rural households, small entrepreneurs and the weaker sections of the society, has contributed to a great extent in enlarging the reach of financial services. Financial literacy is a key component in the financial inclusion model and financial inclusion can be increased many folds through continuous efforts of making people from underserved areas aware of the advantages of participating in formal financial services.

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An insight into the Basel Norms

:- Mukesh Nepal(Research Scholar)

What are Basel Norms?

Basel Norms are the banking supervisory practices or regulations issued by the Basel Committee on Banking Supervision. Basel is a city located in the Northwestern part of Switzerland. Basel as the name is concerned, is the place where the Basel Committee on Banking Supervision, earlier the Committee on Banking Regulations and Supervisory Practices was formed to recommend the better supervisory and management practices for ensuring smooth functioning of banks all over the world. Here, Norm represents the standard to be kept for analyzing the different dimensions of something specific through comparison.

Why it was formed?

The key objective of framing Basel Norms is bringing the financial stability by improving supervisory know-how and the quality of banking supervision worldwide.

How it came into existence?

The banking system plays a consequential role for lifting up of a country's economy like any other financial system. Taking the positive view point, in the year 1974 a committee viz., the Basel Committee on Banking Supervision (BCBS) was set-up by the recommendation of the central bank's governor of the G-10 countries for the international cooperation of supervisory and regulatory practices for the banks performing in different countries across the world. Similarly, abolition of Bretton Woods International Monetary fixed exchange rate system and bankruptcy of Bankhaus Herstatt (a privately owned bank of German) brought a major setback in the global financial atmosphere. Mitigating financial hurdles at the international level, BCBS is proving itself as the strongest as its regulatory and supervisory practices is concerned.

Note: The Committee on Banking Regulations and Supervisory Practices was renamed in the year 1989 as Basel Committee on Banking Supervision.

What is there in the Basel Norms?

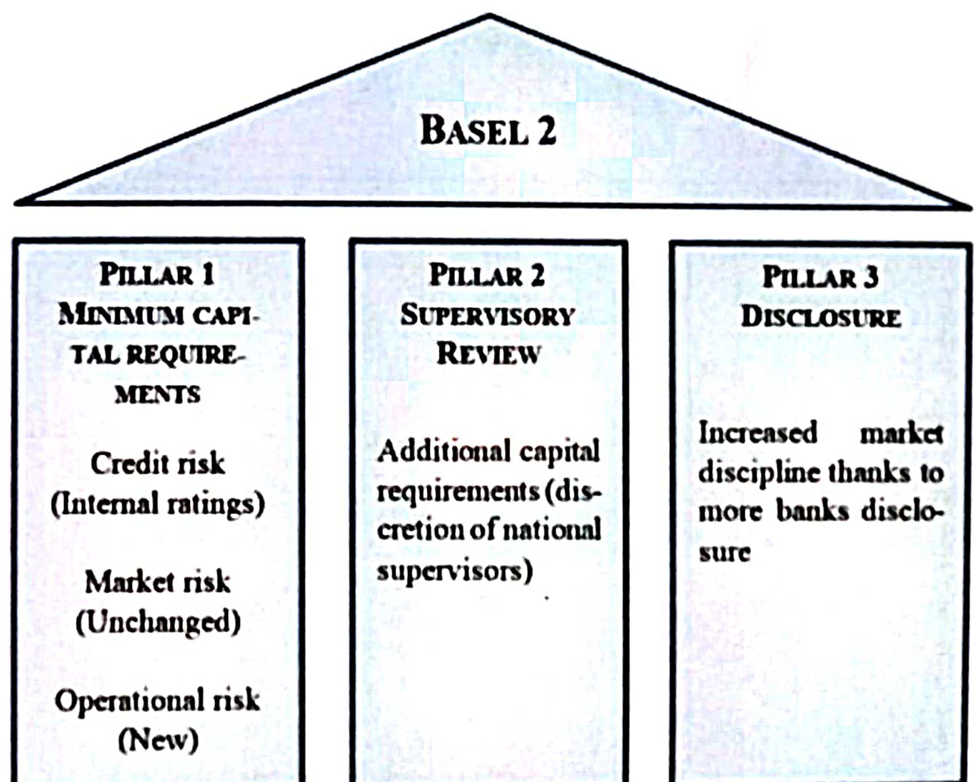
Basel I: In the year 1988, the BCBS introduced the Basel I structure to address market risks apart from credit risks of the banks. Banks were permitted to use their internal model for measuring their market risk capital prerequisite which were subject to quantitative and qualitative guidelines. This initiative led to increase in the notional reduction of the weight factors of assets resulted in the concealing and manipulation of real risk exposure of credit institutions by hiding the real scenario of the activities.

Summary points of Basel I:

1. Familiarizing the concept of Risk Weighted Assets (RWA).
2. Minimum capital banks should keep at 8 percent based on Risk Weighted Assets.
3. Ratio of core capital to RWA should be kept at least at 4 percent.

Basel II: To curb out the deficiencies laid in Basel I, in the year 2004 Basel II norms were introduced. The main deficiency was found in actual and applied credit risk weights. In Basel II three pillars were introduced viz., capital requirements, supervisory review process and market discipline. Among the three all are closely interrelated, mutually reinforcing as well as interlinked in safeguarding the operational risks of credit institutions.

Figure 1: Basel II three pillars



Source: BCBS

The main points mentioned in Basel II were:

1. Ratio of core capital to RWA should be remained at, at least 4 percent.
2. Incentives will be provided for the greater use of the process of securitization.

Despite of providing additional efficiency for the banking system the Basel II norms were still lacking few of the regulations or supervisory practices. To extend the better practices and to increase the role of BCBS, new norms were come into force. Basel III is the extended version of the norms which were not included in the Basel II.

Basel III: In the year 2010, Basel III was accepted by the recommendation of the BCBS and agreed to be implemented in a phased manner starting from 2013 over 6 year's period and which is up to 2019. The rules given under Basel III are divided into three tiers.

Basel III's 3-Pillar Framework		
Pillar 1	**Pillar 2**	**Pillar 3**
Minimum Capital Requirements	Supervisory Review Process	Market Discipline

Additional/Refined Capital Basis
- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- OTC Derivatives Charge
- Quality and Level of Capital
- Leverage Ratio
- Capital Conservation Buffers
- Countercyclical Buffers
- Enhanced Loss Absorption Clause (Write-Off or Debt Conversion)
	Supervision (Dialogue)
	- Firm-wide Corporate Governance
	- Managing Risk Concentrations
	- Alignment of LT Incentives
	- Sound Compensation Practices
	- Supervisory Colleges
	- Capital (ICAAP)
	- Firm-wide Risk Management
	- Valuation Practice, Stress Tests
	- Supervisory Review Evaluation Process (SREP)
	  - Capital
	  - Governance
		Additional/Enhanced Disclosure
		- Risk Management
		  • Market
		  • Credit
		  • Operational
		- Regulatory Capital components
		- Detailed Reconciliation of Capital
		- Regulatory Capital Ratios
		- Securitisation Exposures

The rules given under the Basel III are:

1. Increased in the tier 1 capital ratio from 4 percent to 6 percent.
2. Equity to RWA ratio to be increased from 2 percent to 4.5 percent.
3. Maintenance of capital reserve (buffer) more than the 2.5 percent of capital.
4. In the period of stress when the CAR<7 percent financial institutions are permitted to use the excess capital generated by reducing the distribution of dividends or bonuses.
5. Based on the discretion of the national regulatory authorities countercyclical capital surplus which ranges between 0-2.5 percent applied only to periods of excessive credit growth.
6. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) had also been introduced.

Summary:

1. Basel I increased the overall level of capital in financial market.
2. Basel II aims to redistribute capital with the overall capital maintained at the same level on an average, but with a more efficient allocation of capital.
3. Basel III has a target to increase the government share in the bank's capital and solve their liquidity problem.

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Are Co-operative Banks more Vulnerable? A Case Study on PMC Bank

- *Diganta Roy Barman(4th Semester)*

Introduction

An important segment of the organized sector of the Indian banking system is represented by a group of financial institutions collectively called co-operative banks. They are so called because they have been organized under the provisions of the co-operative society's law of the states. Under the law, the co-operative societies may be organized for credit or for other (non-credit) purposes.

A Co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks in India are registered under the States Cooperative Societies Act. The Co-operative banks are also regulated by the Reserve Bank of India (RBI) and governed by the

- Banking Regulations Act 1949
- Banking Laws (Co-operative Societies) Act, 1955.

Brief History

Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means." Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit. These organisations were- (a) A union, consisting of primary societies; (b) the central banks; and (c) provincial banks.

Features of Cooperative Banks

- Customer Owned Entities: Co-operative bank members are both customer and owner of the bank.
- Democratic Member Control:Co-operative banks are owned and controlled by the members, who democratically elect a board of directors. Members

usually have equal voting rights, according to the cooperative principle of "one person, one vote".

- Profit Allocation: A significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves and a part of this profit can also be distributed to the co-operative members, with legal and statutory limitations.
- Financial Inclusion: They have played a significant role in the financial inclusion of unbanked rural masses.

Case of Punjab and Maharashtra Cooperative (PMC) Bank

Punjab & Maharashtra Co-operative Bank is a Multi-State Scheduled Urban Co-operative Bank with its area of operation in the States of Maharashtra, Delhi, Karnataka, Goa, Gujarat, Andhra Pradesh and Madhya Pradesh. The humble beginning of the Bank was done in a small room at Sion, on February 13, 1984 as a single branch Bank. In a span of 35 years, the Bank has a wide network of 137 branches across six states. The Bank stands among top 10 co-operative banks of the country.

Milestones

- The Bank was conferred with Scheduled Status by the Reserve Bank of India in the year 2000.It is the Youngest Bank to achieve the 'Scheduled Bank' status.
- The Multi-State Status was conferred on the Bank by the Central Registrar in the year 2004.The Bank thus entered into the National platform
- The Bank was given the Authorised Dealer Category I License by the Reserve Bank of India for Forex business in the year 2011.

PMC Crisis

The crisis at PMC Bank first came to light on September 24, 2019, the day the Reserve Bank of India (RBI) placed curbs on the activities of the Mumbai-based bank for six months.

According to an FIR filed in the case, HDIL promoters allegedly colluded with the bank management to draw loans from the bank's Bhandup branch. The bank

officials did not classify these loans as non-performing advances, despite non-payment.

Reports estimate the bank's overall exposure to the HDIL group at around Rs 6,500 crore, or over 73 per cent of all of the bank's advances — and all of this is not being serviced. The bank also allegedly created 21,049 fictitious accounts of companies which borrowed small sums of money, and created fake reports to hide from regulatory supervision.

In 2018-19, the bank had reported a net profit of Rs 99.69 crore in its annual report. The bank showed 3.76 per cent (or Rs 315 crore) of advances (Rs 8,383 crore) as gross non-performing assets (NPAs), which was good performance as compared to public-sector banks. However, it is now clear that the bank presented false financial reports to hide the bad loan mess and the alleged collusion with HDIL and other companies.

This bank fraud case was busted by a group of women employees of the bank and acted as whistle blowers to the RBI.

Response of the RBI and Government of India

The reserve Bank of India immediately imposed restrictions on cash withdrawal and fixed the limit at Rs 10000 which was ultimately raised to Rs.40, 000. The government it has also stepped in to revive trust in the Indian Banking sector. The government has increased the amount for deposit insurance from rupees 100000 to Rs.500,000.

The Road Ahead

The incident has resulted in a big jolt to the credibility of the Indian banking sector. It will take a joint effort by the banks and the regulators to come out of this turbulent phase.

Some actions that could be taken as follows:

1. The top brass of the management should be held accountable for their incompetence and mis management.

Deposit Insurance and Credit Guarantee Corporation Act, 1961. (DICGC, Act 1961): A Safeguard to the Depositor's Fund and Bank's Credit.

:-*Mahesh Dahal (Research Scholar)*

Definition:

The Preamble of the Act states that it is an act to provide for the establishment of a corporation for the purpose of insurance of deposits and guaranteeing of credit facilities and for other matters connected therewith or incidental thereto.
It extends to the whole of India.

History

The concept of the Deposit Insurance received attention for the first time in the year 1948 after the banking crisis of Bengal. However, serious thought was given by the Reserve Bank of India and government of India after the crash of the Palai Central Bank Ltd. and the Laxmi Bank Ltd. in 1990. The Deposit Insurance Corporation (DIC) Bill was introduced in the Parliament on August 21, 1961. And on January 1, 1962 The Deposit Insurance Act, 1961 came into force. Initially it was extended to functioning commercial banks only, i.e. the State Bank of India and its subsidiaries, other commercial banks and the branches of the foreign banks operating in India. With the enactment of the Deposit Insurance Corporation (Amendment) Act, 1968, the Corporation extends deposit insurance to the 'eligible co-operative banks'.
In the year 1960, the Government of India in consultation with Reserve Bank of India introduced a Credit Guarantee Scheme designated as the Credit Guarantee Organization (CGO) for guaranteeing the advances granted by banks and other Credit Institutions to small scale industries. On January 14, 1971, a public limited company named the Credit Guarantee Corporation of India Ltd. (CGCI) was formed to entrust the Credit Guarantee Schemes. The Scheme was aimed at encouraging the commercial banks to cater to the credit needs of the hitherto neglected sectors, particularly the weaker sections of the society engaged in non-industrial activities, by providing guarantee cover to the loans and advances granted by the credit institutions to small and needy borrowers covered under the priority sector.

With a view to integrating the functions of deposit insurance and credit guarantee, the Credit Guarantee Corporation of India Ltd. and the Deposit Insurance Corporation were merged and Deposit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961, came into existence on July 15, 1978. After merger the focus of the DICGC was shifted onto credit guarantee. But, after the reform of 1991, the credit guarantees have been phased out and the focus of the corporation is back to its core function of Deposits Insurance.

Types of Deposits Covered

DICGC insures all bank deposits, such as saving, fixed, current, and recurring, etc. except the following types of deposits-

- Deposits of foreign Governments;
- Deposits of Central/State Governments;
- Inter-bank deposits
- Deposits of the State Land Development Banks with the State co-operative banks;
- Any amount due on account of and deposit received outside India
- Any amount which has been specifically exempted by the corporation with the previous approval of the RBI.

Level of Deposit Insurance coverage:- Initially, under the provisions of Section 16(1) of the DICGC Act, the insurance cover was limited to 1,500/- only per depositor(s) for deposits held by him (them) in the "same right and in the same capacity" in all the branches of the bank taken together. However, the limit was enhanced from time to time as follows:

Coverage	Effective from
Rs. 5000	1st January 1968
Rs. 10,000	1st April 1970
Rs. 20,000	1st January 1976
Rs. 30,000	1st July 1980
Rs. 100,000	1st May 1993
Rs. 500,000	4th February 2020

It is to be noted that this deposit guarantee is invoked only if the bank gets closed. It cannot be released if the bank is a going concern. All deposits maintained by the depositor across all branches of a particular failed bank are clubbed. Or in other

words, if a person keeps deposits in different branches of a bank, they are paid a maximum of up to Rs.5 lakh only on the aggregate amount. Deposits maintained with different banks are not clubbed.

Deposits Insurance Premium

Banks pay a half-yearly premium to the DICGC for insuring the deposits of their account holders based on their total assessable deposits. A delay in payment of interest attracts an 8 per cent penal rate above the bank rate, which is currently at 6.5 per cent. DICGC, which is an arm of the RBI, can also cancel a bank's licence if a bank fails to pay premiums for three consecutive half year periods.

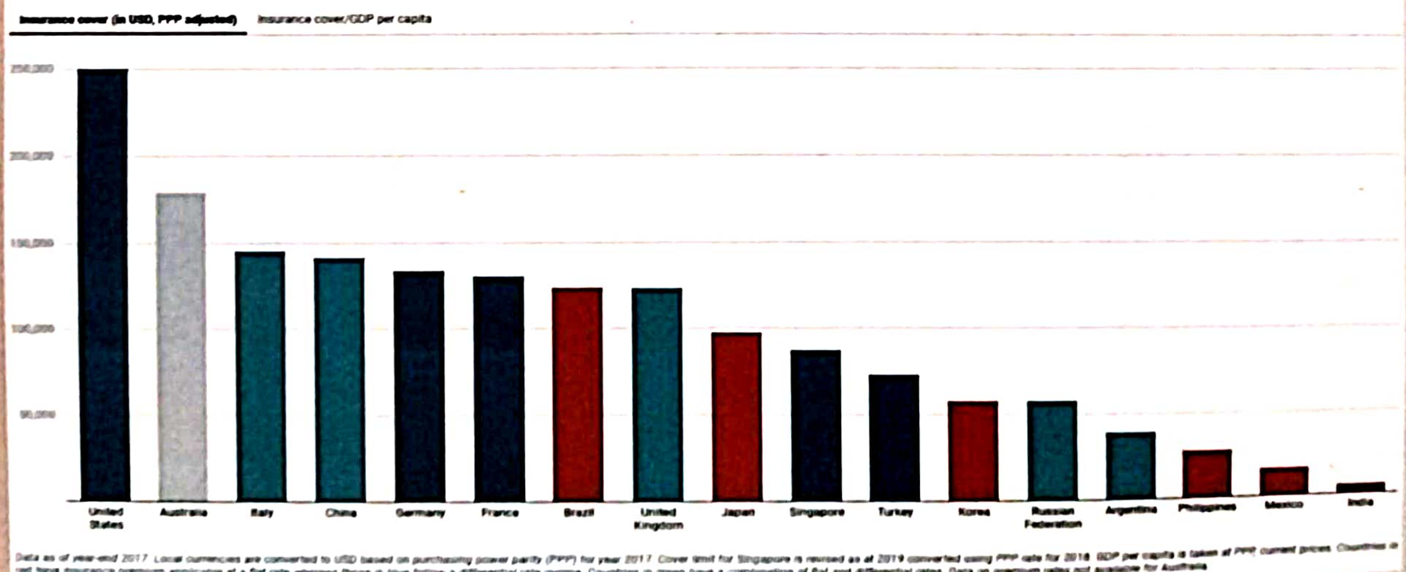
Premium Rates per Deposit of Rs.100

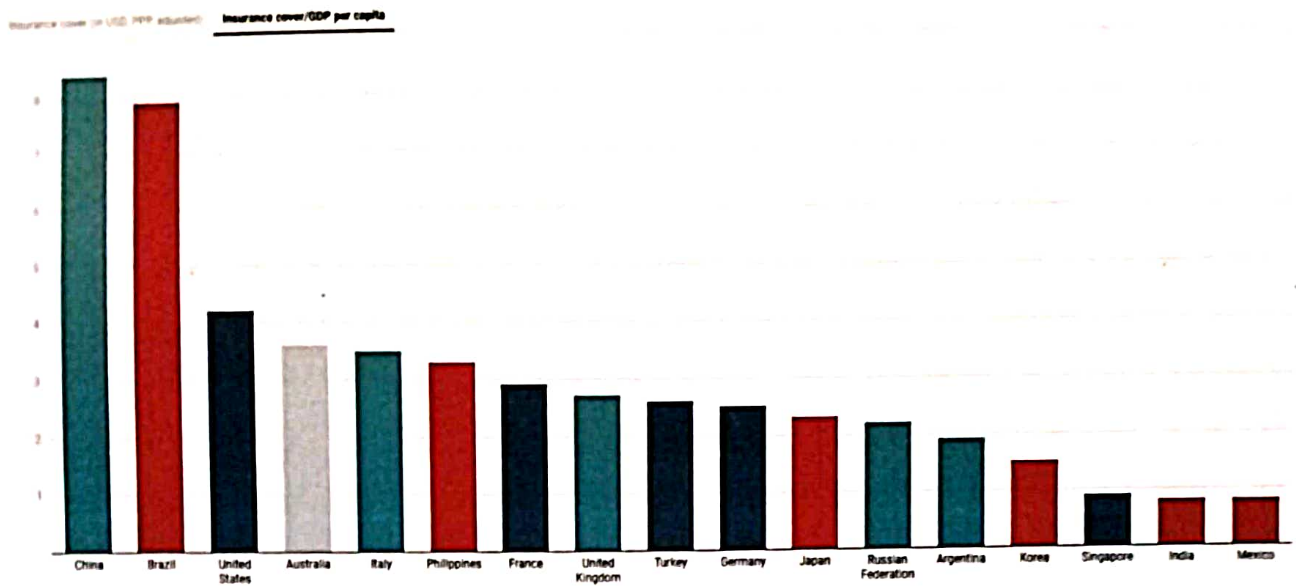
Effective from	Rates
01-01-1962	0.05
01-10-1971	0.04
01-07-1993	0.05
01-04-2004	0.08

Banks pay Rs 10 for every Rs 10,000 of deposits insured. The last change in the premium calculation was made in April 2005 when it was raised from Rs 8 per Rs 10,000 of deposits.

Short Falls of Deposits Insurance

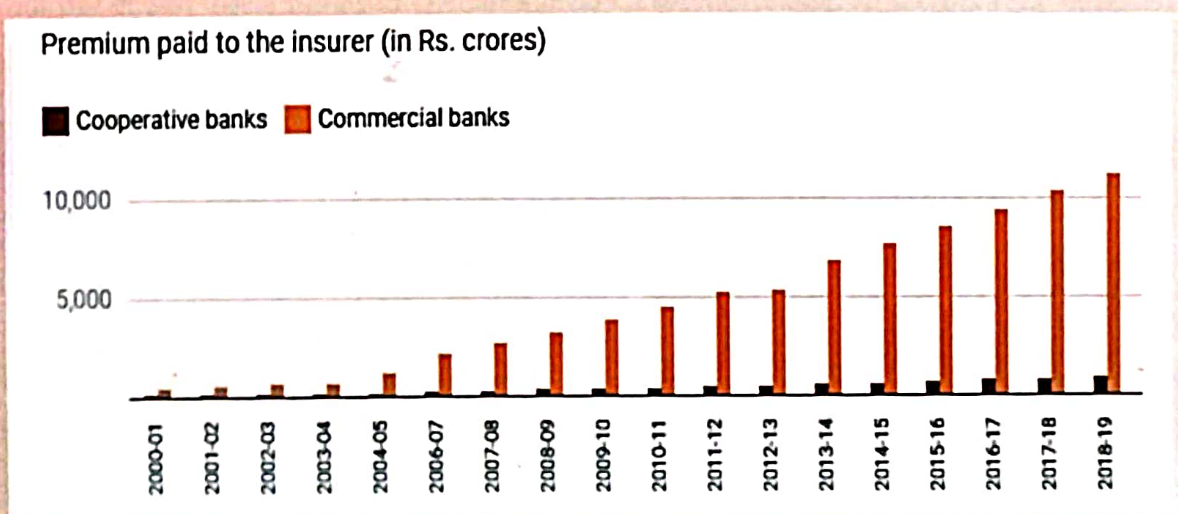
Insurance Limit: - India has the lowest deposits insurance among emerging and advanced economic.





However, it is worth noting that India is also poorer than most other large economies. Benchmarks on insurance cover set by the International Monetary Fund (IMF) prescribe two main features. One, it should have a distribution that covers 80-90% of number of deposits, and 20% of their value. Data from Deposit Insurance and Credit Guarantee Corporation (DICGC) report 2018-19 shows India's limit covers 92% of all bank deposits and 28% of their value, in compliance with IMF's 80-20 rule.

A flat premium rate burdens commercial banks as their deposit base is higher:-



A number of committees that have looked into these issues have recommended risk-based premiums. The 2009 Rajan Committee on financial sector reforms recommended a move to a risk-based premium while terming a 1 lakh cover as 'generous'.

INSOLVENCY AND BANKRUPTCY CODE, 2016

: Dinesh Darnal (Research Scholar)

Introduction

Insolvency and Bankruptcy Code was presented in 2016 to resolve the numerous claims involving insolvent companies. The code was ratified to keep the problems of bad loans at bay which were distressing the formal banking systems.

Two years on the Insolvency and Bankruptcy code has played a significant role in averting corporates from defaulting on their loans. The IBC process has reformed the debtor-creditor relationship. A large number of cases have been resolved in three years' stint, while some others cases are in advanced stages of resolution.

Adjudicating Authorities

- **National Company Law Tribunal (NCLT)** established under Section 408 of the Companies Act, 2013 is the adjudicating authority under the code and shall hear insolvency resolution cases for corporate persons and limited liability partnership. It is also a quasi-judiciary body.
- **Debt Recovery Tribunal (DRT)** constituted under Section 3 (1) will look into the bankruptcy of individual for the recovery of debts. The main purpose of DRT is to recover funds from the borrower which is owed to banks and other formal financial institutions.

Who can file an application to the Adjudication Authority?

1. **Financial Creditors:** Section 5(7) of IBC code states that financial creditors are those who provide fund for long term purposes to a business organization such as banks, lenders etc. The key elements of financial creditors are agreement, due date, installment and accumulated principal.
2. **Operational Creditors:** Section5(20) of the IBC code states that operational creditors are those to whom operation credit is owed such as suppliers of goods and services to the business organization.
3. **Corporates:** The corporate can also file an application (FORM 6) as soon as the default in the payment starts. The minimum amount should be 1,00,000.

Understanding IBC using the Verdict of Essar Steel:

Background:

Essar steel India limited is a carbon steel manufacturer ranging from iron ore to marketable products with present capacity of 10 million tons per annum. Essar steel started suffering poses post 2010.The Company had borrowed crores of rupees from the lender. By2015, the company had debt exceeding to 54 thousand crores.

Financial Creditors' Claims In Essar Steel:

FINANCIAL CREDITORS	AMOUNT (₹ in Cr.)
STATE BANK OF INDIA	13226
CANANRA BANK	3798
STANDARD CHARTERED BANK	3557
PUNJAB NATIONAL BANK	2936
DEUTSCHE BANK	2481

Source: Essar Steel

Since the company was unable to pay the requisite debt to the financial creditors, the banks went to National Company Law Tribunal (NCLT) of the Ahmedabad branch. The NCLT accepts the petition made by the banks and process for the insolvency proceedings under the IBC.

Satish Kumar Gupta was appointed as Resolution Professional (RP). The NCLT apprises that any interest buyers can bid for Essar Steel. The ArcelorMittal offered to buy the Essar Steel and pay back is debt. Lastly, NCLT approved 42000 crores bid to buy Essar Steel from ArcelorMittal.

After the bid was accepted the NCLT decided how the money would be distributed. Public Sector Banks are the Essar Steel primary financial creditors. Vendors and suppliers are the operational creditors such as Dakshin Gujrat, Indian Oil, ONGC, Bharat Petroleum and Gujrat energy. The verdict of NCLT caused dissatisfaction amongst the major financial creditors, so they approached the Honorable Supreme Court.

SUPREME COURT VERDICT:

A group of banks led by the State Bank of India (SBI) approached the Supreme court to challenge the verdict of NCLT in which the NCLT had given equal priorities to both the financial and operational creditors. It clearly showed that Essar steel operational creditors were given equal importance along with the financial creditors.

Therefore, the supreme court quashed the verdict of NCLT and restored the supremacy of financial creditors. NCLT formula of equal distribution amongst the financial and operational creditors which violates the commercially accepted norms of lending (i.e. most the long-term loans are secured loans) so the Supreme Court verdicts supersede the NCLT verdict..

Due to this overruling of NCLT verdict the banks who are the financial creditors of Essar Steel will recover almost 92% of their claims against Essar Steel amounting to about 42,000 crores.

It is a landmark verdict under Insolvency and Bankruptcy Code for banks so far.

Distribution after Supreme Court Verdict of Essar Steel Case

Banks	Admitted Claims (₹ in Cr.)	CoC Approved Distribution (₹ in Cr.)
SBI	13226	12161
IDBI	2481	2282
CANARA BANK	3798	3493
EDELWEISS ARC (HDFC BANK)	602	554
BANK OF BARODA	5	4.6
PNB	2936	2701
DEUTSCHE BANK	2829	2603
ICICI BANK	2294	2110
UNION BANK	2122	1952
BANK OF INDIA	1985	1826
CORPORATION BANK	1566	1441
SYNDICATE BANK	967	890
UCO BANK	582	535
EXIM BANK	556	511
CENTRAL BANK	510	469
ALLAHABAD BANK	320	294
SERI INDIA FIN	171	161

Source: Compiled from Essar Steel, CNBCTV Report and The Hindu

The Supreme Court verdict played a crucial role for the financial creditors which helped them to recover 92% of the debt. We can also clearly say that the IBC was not primarily started as the NPA recovering body rather it was started to make ease of closing the business. In our country it is often said that the amount of time taken to close the business is longer than starting a new business.

Conclusion:

The study of Essar Steel has helped to understand the working of IBC in an elucidated manner. The verdict of Supreme Court has a clear implication that the financial creditors are given the utmost priority. One of the most prominent things about IBC as compared to old laws such as SICA is that the law is time bound, involves priority of payment.

As it is already mentioned that IBC was not started as Non-performing asset tool rather it was introduced to make the process of winding up a business organization much earlier. It was also roll out to make the business organization revive again in IBC the management of the business organization can signify that they are unable to run their business, in such cases the IBC will appoint the insolvency professional to rectify and to check whether the business organization can make a fresh start and those who cannot be resolved will move towards liquidation and the financial creditors will receive liquidation value.

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