# सीएबी कॉलिंग
# CAB Calling

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# सीएबी कॉलिंग
# CAB Calling

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**कृषि बैंकिंग महाविद्यालय,भारतीय रिजर्व बैंक**
College of Agricultural Banking, Reserve Bank of India
**विद्यापीठ मार्ग** University Road, **पुणे** Pune - 411 016, **भारत** India
**फोन** Phone: 91-20-25537820, 25538029, 25538329
**फैक्स** Fax : 91-20-25537089, 25538959
**वेबसाइट** Website: www.cab.rbi.org.in
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# मुख्य संपादक की कलम से

# From the Desk of Editor-in-Chief

प्रिय पाठकगण

महाविद्यालय द्वारा संचालित किए जानेवाले प्रशिक्षण कार्यक्रमों से संबंधित क्षेत्रों में महाविद्यालय द्वारा विशेष अध्ययन किए जाते है। इन विशेष अध्ययनों में से कुछ अध्ययन पाठकों के लाभार्जन के लिए सीएबी कॉलिंग में आलेख के रूप में प्रकाशित किए जाते हैं। सीएबी कॉलिंग के पिछले अंक में, टमाटर और प्याज की कृषि मूल्य श्रृंखला और किसान उत्पादक संगठनों (एफपीओ) से संबंधित क्षेत्रों में किए गए अध्ययनों पर आधारित आलेख प्रकाशित किए गए थे। सीएबी कॉलिंग के इस अंक में महाविद्यालय द्वारा एमएसएमई वित्तपोषण और सहकारी क्षेत्रों में किए गए विशेष अध्ययनों पर आधारित लेख समाहित किए गए हैं। इस अंक में दिवाला और दिवालियापन कोड (Insolvency and Bankruptcy Code-IBC) पर भी लेख शामिल किया गया है।

सूक्ष्म, लघु और मध्यम उद्यम देश की आर्थिक वृद्धि में महत्वपूर्ण भूमिका निभाते हैं। एमएसएमई क्षेत्र रोजगार सृजन, विनिर्माण और निर्यात में महत्वपूर्ण योगदान देता है। हालांकि, एमएसएमई को कई चुनौतियों का

Dear Readers

The College conducts special studies in the areas related to the training programmes conducted by the College. Some of these studies are published in the CAB Calling in the form of articles for the benefit of its readers. In the previous issue of CAB Calling, articles based on studies in the areas related to agri value chain of tomato and onion and Farmer Producer Organisations (FPOs) were published. The present issue of CAB Calling includes articles based on special studies conducted by the College in the areas of MSME financing and the cooperative sector. The issue also includes an article on Insolvency and Bankruptcy Code.

Micro, Small and Medium Enterprises play an important role in the economic growth of the country. The MSME sector contributes significantly to employment generation, manufacturing and exports. However, MSMEs face multiple challenges such as

सामना करना पड़ता है जैसेकि पर्याप्त और समय पर वित्त तक पहुंच, हैंडहोल्डिंग सपोर्ट, नवीनतम प्रौद्योगिकी और विपणन, कुशल मानव-शक्ति, प्रतिस्पर्धा में उत्तमतर बनने की क्षमता आदि का अभाव । इस अंक में अलीगढ़ के ताला और भवन हार्डवेयर क्लस्टर पर किए गए विशेष अध्ययन के आधार पर लेख शामिल किया गया है। इस लेख में, क्लस्टर की इकाइयों के वित्तपोषण पैटर्न का अन्वेषण किया गया है और एमएसएमई की वित्तपोषण आवश्यकताओं हेतु बचत और अनौपचारिक स्रोतों पर उनकी निर्भरता पर प्रकाश डाला गया है। इस आलेख में, आरबीआई और भारत सरकार की विभिन्न योजनाओं और पहलों के बारे में एमएसएमई के बीच वित्तीय साक्षरता और जागरूकता के स्तर के संबंध में भी चर्चा की गई है।

भारत में शहरी सहकारी-बैंक (यूसीबी) अपनी स्थानीय पहुंच और व्यक्तिगत सेवाओं के माध्यम से अर्थव्यवस्था में महत्वपूर्ण भूमिका निभाते हैं। ग्राहक संबंध प्रबंधन (सीआरएम) और व्यापार रणनीति व्यवसाय वृद्धि की क्षमता तथा दायरा बढ़ाने और व्यवसाय की स्थिरता सुनिश्चित करने में महत्वपूर्ण भूमिका निभाते है। इस अंक में मध्य-आकार वाले शहरी सहकारी बैंकों में ग्राहक संबंध प्रबंधन और व्यवसाय रणनीति पर आधारित लेख शामिल किया गया है। इस आलेख में सीआरएम और व्यापार रणनीति तैयार करने के संदर्भ में 1 से 10 बिलियन डिपॉजिट आकार वाले मध्यम आकार के यूसीबी की स्थिति तथा उनकी सजगता का वर्णन किया किया गया है और कुछ क्षेत्रों पर बैंक प्रबंधन द्वारा ध्यान केंद्रित करने की आवश्यकओं पर भी प्रकाश डाला गया है।

lack of access to adequate and timely finance, handholding support, latest technology and marketing, skilled man-power, ability to improve competitiveness etc. This issue includes an article based on the special study conducted in the lock and building hardware cluster at Aligarh. The article examines the financing pattern of units in the cluster and highlights the significant reliance of MSMEs on their savings and informal sources to meet their financing requirements. It also discusses the level of financial literacy and awareness among MSMEs about various schemes and initiatives of RBI and GoI amongst MSMEs.

The Urban Cooperative-Banks (UCBs) in India play an important role in the economy through their local reach and personalized services. Customer Relationship Management (CRM) and Business Strategy play an important role in augmenting the capacity and scope for growth of the business, and ensuring its sustainability. This issue includes an article based on Customer Relationship Management and Business Strategy in Mid-Sized Urban Co-operative Banks. The article presents the position and preparedness of the mid-sized UCBs, having a deposit size of ₹1 to 10 billion, in the context of CRM and business strategy formulation and highlights certain areas requiring focused attention of bank management.

The enactment of the Insolvency and Bankruptcy Code (IBC) was a major step

दिवाला और दिवालियापन कोड (IBC) का अधिनियमन भारत में व्यापक दिवालियापन शासन के विकास की दिशा में एक बड़ा कदम था। इस कोड का उद्देश्य कंपनियों और सीमित देयता संस्थाओं (सीमित देयता भागीदारी और सीमित देयता के साथ अन्य संस्थाएं), असीमित देयता भागीदारी और व्यक्तियों सहित वर्तमान कानूनों को समेकित करना है जो कि वर्तमान में एक ही कानून में कई विधानों में निहित हैं। इस प्रकार के समेकन, कानून में अधिक स्पष्टता प्रदान करते हैं और व्यवसाय की विफलता या ऋण चुकाने की असमर्थता से प्रभावित विभिन्न हितधारकों के लिए सुसंगत और अनुकूल प्रावधानों के प्रयोग की सुविधा प्रदान करते हैं। आईबीसी पर आलेख विधिक रूपरेखा और हाल ही के घटनाक्रम को निरूपित करता है।

इन आलेखों के अलावा, इस अंक में अन्य नियमित सामग्री भी शामिल हैं जैसे कि महाविद्यालय द्वारा आयोजित प्रशिक्षण कार्यक्रमों के संबंध में आरबीआइ द्वारा जारी किए गए महत्वपूर्ण परिपत्रों का सार और 'कैंपस कैप्सूल'।

- **मधुमिता सरकार देब**

towards development of a comprehensive bankruptcy regime in India. The code aims to consolidate the laws relating to insolvency of companies and limited liability entities (including limited liability partnerships and other entities with limited liability), unlimited liability partnerships and individuals, presently contained in a number of legislations, into a single legislation. Such consolidation provides for greater clarity in law and facilitates the application of consistent and coherent provisions to different stakeholders affected by business failure or inability to repay debt. The article on IBC explains the legal framework and recent developments.

In addition to these articles, the issue also contains other regular items such as the gist of important circulars issued by RBI related to training programmes conducted by the College and the 'campus capsule'.

- **Madhumita Sarkar Deb**

# Feature Articles

# Cluster-based financing of MSMEs: Issues and Challenges

# A study of Lock and Building Hardware Cluster in Aligarh (U.P.)

Narayan and M Sundaramoorthy[1]

*The importance of Micro, Small and Medium Enterprise (MSME) sector in the Indian economy is a well acknowledged fact in terms of their contribution to country's total manufacturing GVO (Gross Value of Output), exports and employment generation. However, MSMEs continue to face challenges in availing finance from formal sources. The study attempts to analyse issues and challenges faced by MSMEs in the Aligarh lock and building hardware cluster and understand the perspectives of both the lenders and entrepreneurs on their problems and prospects. The study revealed that the entrepreneurs faced various challenges in arranging finance for their enterprises. The pattern of financing indicated significant reliance on their personal savings and informal sources such as loans from members of family and friends and credit from suppliers of the raw materials. Bank finance was generally less preferred by the entrepreneurs due to reasons like cumbersome documentation, collateral and margin requirements. Those who availed of credit from suppliers opined that purchasing raw material on credit was a convenient source of finance. The entrepreneurs availed bank finance more for their working capital requirement than for their long-term requirement, indicating that bank finance was less availed during initial phases of the MSME's life cycle. The study also indicated lower level of financial literacy and awareness about various schemes and initiatives of RBI and GoI among MSMEs.*

## INTRODUCTION

### 1.1 Background

The College undertakes special studies in areas related to the training programmes conducted by the College. The College had conducted a special study of two MSME clusters in Pune during 2017-18. One of the points which emerged out of the study is the lack of awareness amongst entrepreneurs regarding services offered by banks and other technology platforms set up to ease the flow of credit to the MSME sector. Therefore, it was decided that the College would conduct cluster-based studies and conduct cluster-based training programmes during 2018-19. Considering that Uttar Pradesh has the highest number of MSMEs and the State has also implemented cluster-oriented

[1] Member of Faculty, CAB, RBI, Pune. This article is for academic and information purposes only. The views expressed in this article are those of the author and do not represent the views of the RBI or CAB. The readers are also requested to be guided by the relevant laws, circulars, instructions etc. in this regard. Usual disclaimer shall apply.

schemes, the Lock and Building Hardware Cluster of Aligarh was selected for the study.

### 1.2 Objectives and Methodology of the Study

The study was undertaken to study the following aspects:

- Challenges faced by MSMEs in the sourcing of finance during different stages of their life cycle;
- Constraints faced by the banks in lending to MSMEs;
- Availability of alternative methods of financing;
- Benefits of cluster approach for MSMEs and bankers;
- Recent initiatives of Government and RBI for MSME sector – Level of awareness and availing of benefits by MSMEs; and
- Benefits of GST registration in channeling credit flow to MSMEs.

The study was exploratory in nature and was based on the inputs received from the entrepreneurs and bank branches as per the identified sample and review of existing data. The inputs were collected through structured questionnaires comprising qualitative inputs and quantitative variables required for understanding the perspectives of both the lenders and the entrepreneurs in the cluster and analysing the issues and challenges faced by MSMEs. The sample included a diverse profile of entrepreneurs in terms of their size.

### 1.3 The sample for the study

Uttar Pradesh occupies an important place in the MSME map of the country, as it ranks first in the country in key parameters, like the total number of units and number of persons employed. There are 39 clusters identified by UNIDO in 18 districts of Uttar Pradesh. The lock and building hardware cluster at Aligarh is one of the clusters identified by UNIDO.

#### 1.3.1. Entrepreneurs & Enterprises: A profile

The study was conducted in the industrial clusters of the district covering 42 entrepreneurs running units of different sizes.

(i) Thirty (71%) respondents interviewed were first-generation entrepreneurs and the remaining 12 (29%) had inherited the business. 10 (24%) enterprises were less than five years old, three (7%) were in the range of six to ten years, 14 (33%) were in the range of 11 to 20 years, 11 (26%) were in the range of 21 to 30 years and 4 (10%) were more than 30 years old.

(ii) As regards the classification of these enterprises, 29 (69%) were micro enterprises, 10 (24%)

small, and 3 (7%) medium enterprises.

(iii) All the 42 enterprises had registered for GST and 34 (81%) had Udyog Aadhaar Memorandum (UAM) registration. The remaining enterprises had not registered for UAM because of lack of awareness.

(iv) The total reported an annual turnover of the sample was around ₹ 175 crore. However, the individual turnover ranged between ₹ 10 lakh and ₹ 60 crore. For the sake of easy understanding, the turnovers are classified into 4 groups. Three enterprises reported an annual turnover of more than ₹ 10 crore, 14 were between ₹1 crore to ₹10 crore, 5 reported the annual turnover between ₹50 lakh and ₹ 1 crore and the remaining 20 reported between ₹10 lakh and ₹50 lakh.

(v) Out of the 42 enterprises, nine were 100% exclusively export-oriented units, 27 were selling in only domestic market and six were having both domestic as well as export sales. The United Kingdom, Europe, and countries in the middle-East are the major export markets.

### 1.3.2 Bank branches

The study covered 17 branches of 15 commercial banks including one Regional Rural Bank. These bank branches were major lenders in the Aligarh lock and building hardware cluster. Since the loans to enterprises in the cluster were not put under any separate code in the banks' core banking solution, the bank branches submitted the data in respect of overall MSME lending by them.

Among these branches, two branches were classified as specialized MSME branches. It was observed that four branches of other banks had more than 60% of their advances to MSMEs. In terms of RBI instructions contained in paragraph 5.1 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, banks are permitted to categorise their general banking branches having 60% or more of their advances to the MSME sector as specialized MSME branches. It was also observed that 12 of these branches had extended MSME advances in the range of 31 to 60 % of their total advances. Only 2 branches had advances less than 30 % of their total advances to MSMEs. Thus, of the sample of 17 branches, 15 had significant lending to the MSME sector.

## 2. Financing of enterprises

### 2.1 Long-term sources of finance: Financing of fixed assets

The setting up of an enterprise involves various expenses towards the creation of fixed assets including, land, building, plant and machinery. The entrepreneurs arrange funds for long-term financing requirements from sources like own savings, loans from family and friends, term loan from bank, subsidy from the government and loan from moneylender.

The units covered under the study met their long-term financing requirement from more than one source. The following patterns were observed:

i. It was observed that their own savings and loan from family/friends was the most preferred way (24%) to finance the long-term financing requirement.
ii. The second preferred way (21%) to finance the long–term financing requirement was own savings and loan from banks
iii. While 19% of the respondents reported having used their own savings only to fund the long-term financing requirement.
iv. Only one of the respondents availed a bank loan for his entire requirement.

The above trend suggests a significant inclination on part of the entrepreneurs to arrange finance from non-institutional sources, either own savings or loan from family/friends. Further discussion with the entrepreneurs revealed that the inclination was attributable to the following factors:

i. As an investment option, redeploying the savings in their own enterprise was preferred over other investment options.
ii. In most cases, friends and relatives were willing to provide finance. These were unsecured loans and primarily emanated from the element of mutual trust among them. Besides, these loans were quickly available without any documentation and delays.
iii. The respondents also indicated that they were generally aware of two requirements for bank finance, collateral and margin.
   a. Most of the bank finance in the cluster was against collateral security. However, the availability of collateral was limited. Some of the respondents did not have collateral and some were not willing to offer the same to the bank.
   b. The banks required margin, generally in the range of 20% to 30%, which had to either come from their own savings or loan from other sources.
iv. The two respondents who had taken a loan from money lenders in their initial stages availed bank finance subsequently. Both were micro enterprises, one functioned as a sole

proprietary firm and the other was a private limited company.

One of the respondents informed that he had to approach a money lender as the banks refused to provide him loan for want of the required documents. He availed finance from moneylender at an interest rate of 3% per month for almost five years. Finally, he got a limit of ₹ 5 lakh under PMMY (MUDRA) scheme which helped him to pay off the loan from moneylender. The unit owned by him functioned well.

The other respondent mentioned that the bank was not agreeable to sanction the quantum of money applied. He continued to approach the banks for loan. In the interim, he had to take loan from a money lender for a period of around six months at a rate of 1.5% per month. Once his loan was sanctioned by the bank, he could repay the loan to moneylender.

### 2.2 Short–term sources of finance: Financing of working capital

As regards the financing of working capital, the entrepreneurs arranged funds to meet working capital requirements from multiple sources, viz., cash generated from the enterprise, own savings, purchase on credit, loan from family/friends and working capital advance from banks. The entrepreneurs' utilization of these options of managing working capital was also analyzed.

The units covered under the study met their working capital requirement from more than one source. The following patterns were observed:

i. Twenty-seven entrepreneurs (64%) preferred financing their working capital requirement through a combination of working capital finance from banks, own savings and purchases on credit.

ii. The respondents indicated the following reasons for their preference for purchase on credit as a means to meet their working capital needs :

   a. The entrepreneurs who were well settled in the business for a reasonable time and had earned a good reputation in the market could avail of credit facility from their suppliers on easy terms without any additional cost.

   b. The entrepreneurs who were new to the business were also able to purchase the raw material on credit. However, they were required to bear a cost (1.5 to 2 % per month) in the form of higher prices. Though this was a costlier option than availing CC/OD from banks, majority of them opined that purchasing raw material on credit was more convenient, besides, obviating the need for cumbersome documentation process as in case of banks.

c. The respondents indicated that availing higher account payable period from suppliers even at a cost was preferred as the arrangement was free of any procedural delays and was hassle-free.

d. Besides, the tenure of credit being flexible, the entrepreneurs found it easier to pay and save on the cost of finance.

iii. Ten respondents (24%) did not avail any bank finance to meet their working capital requirements. Bankers in their feedback had mentioned about the usefulness of the GST in credit appraisal of MSME, particularly as it provides reliable data on the enterprises' turnover. Incidentally, all these entrepreneurs had GST registration and they were also availing banking facility in some or the other form. Therefore, they could be potential customer for working capital finance by banks.

iv. Three respondents (7%) financed their working capital requirements through a combination of own savings and purchase on credit.

v. Two respondents (5%) availed only bank finance to meet their working capital requirement.

vi. A comparison of financing pattern of long-term and short-term requirement of funds revealed that respondents availed bank finance more for their working capital requirement than for their long-term requirement suggesting that the entrepreneurs availed less bank finance during the initial phase of the MSMEs life cycle.

**2.3 Availability of alternative methods of financing**

The respondents reported that they did not avail finance from any alternative sources like P2P lending platforms, e-commerce seller finance or NBFCs. They were not aware of the digital lending by NBFCs, FinTechs etc. They did not also approach any NBFC for their financing needs.

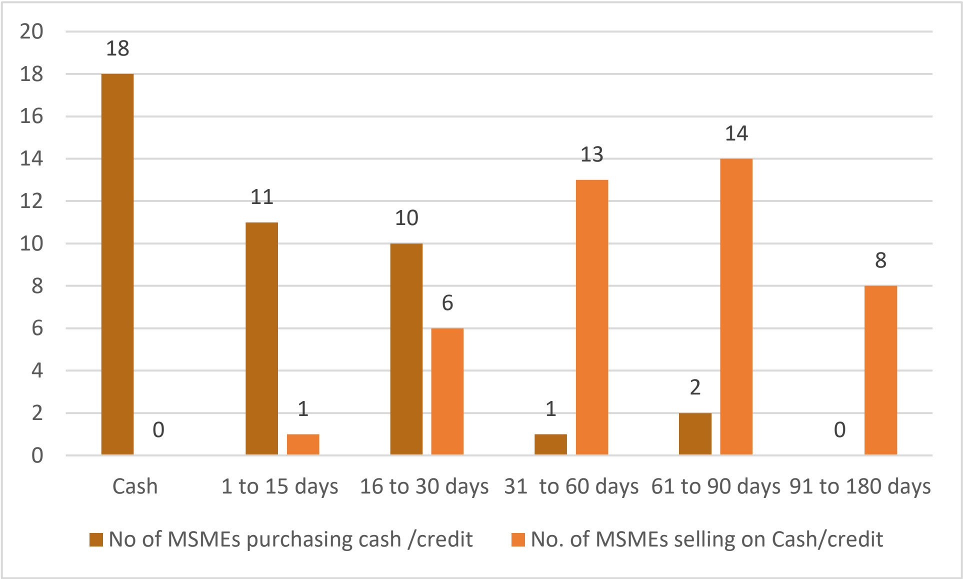
**2.4 Managing working capital cycle: Accounts receivable vs accounts payable**

2.4.1 **Purchase of raw material**

Eighteen respondents (43%) informed that they purchased raw material in cash. Eleven respondents (26%) purchased on credit up to 15 days, ten (24%) on credit of 16 days to 30 days, one (2%) on credit of 31 days to 60 days, and two (5%) on credit of 61 days to 90 days.

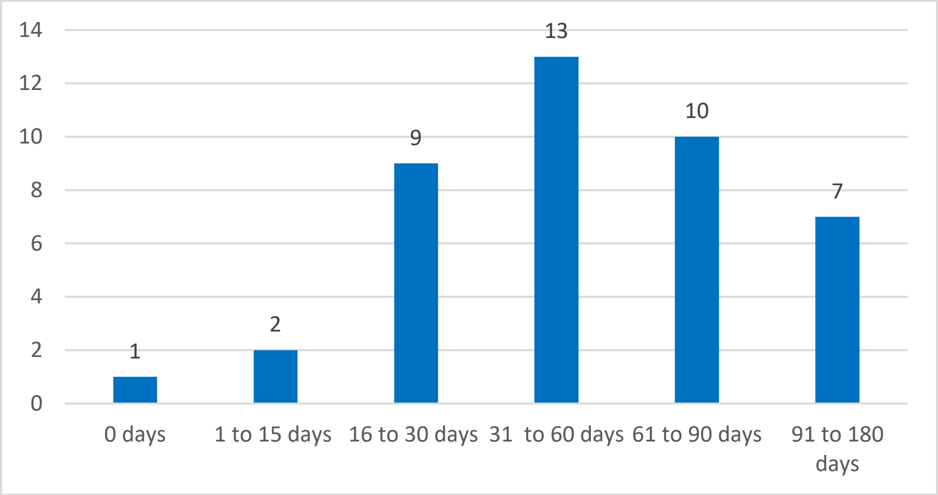
### 2.4.2 Sale of finished goods

One respondent (2%) sold the finished goods on credit for a period up to 15 days, 6 (14%) sold on credit for a period between 16 days to 30 days, 13 (31%) on a credit of 31 days to 60 days, and 14 (33%) on credit for a period between 61 days to 90 days and eight (19%) on credit for a period between 91 days to 180 days.The above pattern of purchase on credit and sales on credit is shown in the Chart 1.




It was observed while comparing the accounts receivable period and accounts payable period of individual entrepreneurs that the gap between the two was between 16 days and 30 days in case of nine respondents (21%), between 31 days and 60 days in case of 13 respondents (31%), between 61 days and 90 days in case of 10 respondents (24%), and between 91 days and 180 days in case of seven respondents (17%). In the remaining cases, it was less than 15 days. The detailed break-up is given in Chart 2.

**Chart 2: Gap in Accounts Receivable Period and Accounts Payable Period (No of Respondents)**




It may be observed that the accounts receivable period was generally higher than the accounts payable period, having an impact on the cash flow of the enterprise. As institutional finance was not easily available to meet this gap, they moved towards more of purchases on credit. The entrepreneurs' preference towards purchase on credit and the reasons thereof have been discussed in section 2.2 (ii).

### 3.1 Bankers' response to the questionnaire - Survey results

The data was collected from the 17 bank branches covered in the study. The data has been analysed and the observations have been presented in the following paragraphs.

#### 3.1.1 Credit Proposal Tracking

Based on the data reported by the banks, it was observed that nine of the 14 commercial banks confirmed having put in place the online tracking system to acknowledge and track all loan applications submitted by their MSME borrowers. The data pertaining to applications received, loans sanctioned and loans disbursed during the last three years suggested that in the manufacturing sector, the percentage of sanctioning was 82% for micro, 73% for small and 82% for medium. For the services sector, these figures were 78%, 79% and 93% respectively. It emerged that majority of the loans were sanctioned for micro loans in absolute terms.

Overall sanction percentage in manufacturing was 80% whereas in the case of services, it was 78% (Chart 21).

The figures reported in the study indicate that only 20% MSME borrowers who approached the banks could not get the loan.

#### 3.1.2 Collateral free loans

The data on collateral-free loans in respect of 14 banks (excluding RRB) was compiled for the last three years, 2015-16, 2016-17 and 2017-18. The summary on sanctioning of collateral-free loans is given in Table 1.

**Table 1: Collateral free loans to MSMEs – Gap in coverage**

| Year | loans ≤10 lakh | Collateral free loans | Gap | Out of which covered under CGTMSE | Loans with collateral security |
|---|---|---|---|---|---|
| (1) | (2) | (3) | (4)={(2)-(3)} | (5) | 6= (4)-(5) |
| 2015-16 | 993 | 836 | 157 | 62 | 95 |
| 2016-17 | 917 | 785 | 132 | 41 | 91 |
| 2017-18 | 1033 | 929 | 104 | 38 | 66 |
| Total | 2943 | 2550 | 393 | 141 | 252 |

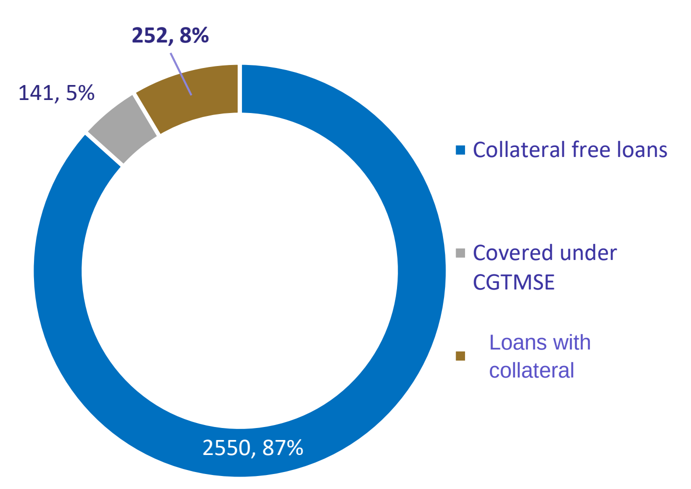
(Source : Data provided by banks covered in the study)

**Observations:**

i. Chart 3 indicates the gap in sanction of collateral-free loans vis-à-vis eligible cases. Of the sample of 2,943 loans of value ₹ 10 lakh or below reported during the study, 2,550 were sanctioned without collateral.

ii. Of the remaining 393 loans, 141 were covered under CGTMSE collateral was taken in case of 252 loans (8% of the sample) below ₹ 10 lakh.

**Chart 3 : Collateral free loans : Gap in coverage**




(Source : Data provided by banks covered in the study)

Overall, it may be observed that despite extant instructions mandating banks not to accept collateral security in the case of loans up to ₹ 10 lakh extended to units in the MSE sector, there were instances of accepting collateral in such loans. While it appears to be primarily an implementation issue, it also indicates towards a larger issue that is manifested in bankers' preference for collateral-based lending.

### 3.1.3 Turnaround time

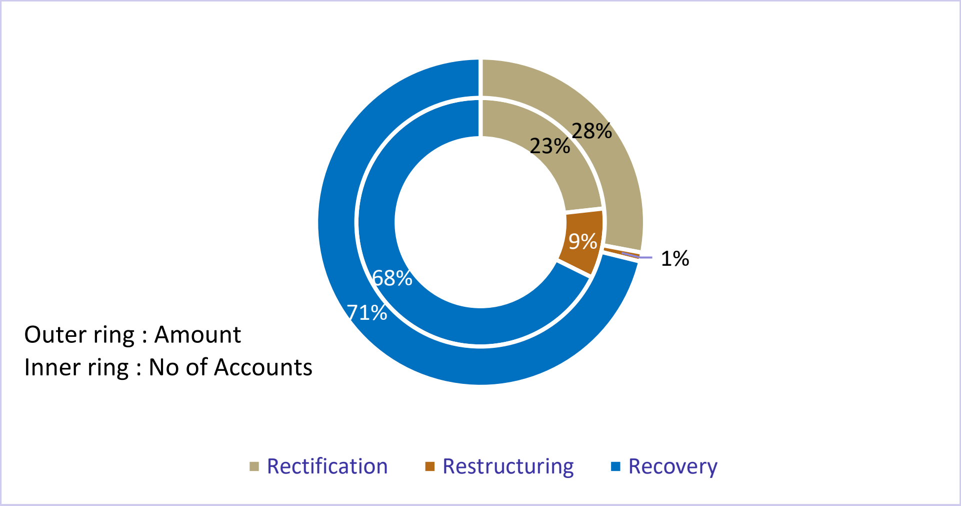
All the respondent bank branches confirmed that they were aware of the timelines given in the BCSBI code of Bank's Commitment to Micro and Small Enterprises and that they adhered to the timelines given in the BCSBI code. It may be mentioned here that most of the entrepreneurs, who participated in the study corroborated the bankers' response in their feedback.

### 3.1.4 Implementation of Framework on Revival, Rehabilitation and Restructuring of MSMEs

The framework on revival, rehabilitation and restructuring of MSMEs, *inter-alia*, provides that all banks having exposure towards the MSME sector shall constitute a committee at the district level where they are present or at Division level or Regional Office level, depending upon the number of MSME units financed in the region. These committees will be Standing Committees and will resolve the reported stress of MSME accounts of the branches falling under their jurisdiction. The bank branches also have been given powers to resolve the reported stress of MSME accounts of loans up to ₹10 lakh. The Corrective Action Plan (CAP) comprises of three measures *viz.,* rectification, restructuring and recovery.

Out of the 14 banks covered in the study, only three branches submitted data regarding the CAP. The remaining banks either reported nil or not reported any data. Based on the data submitted by the three banks, the position of rectification, restructuring and recovery is given in Chart 4.

**Chart 4 : Implementation of Framework on revival, rehabilitation and restructuring of MSMEs by banks**




(Source : Data provided by banks covered in the study)

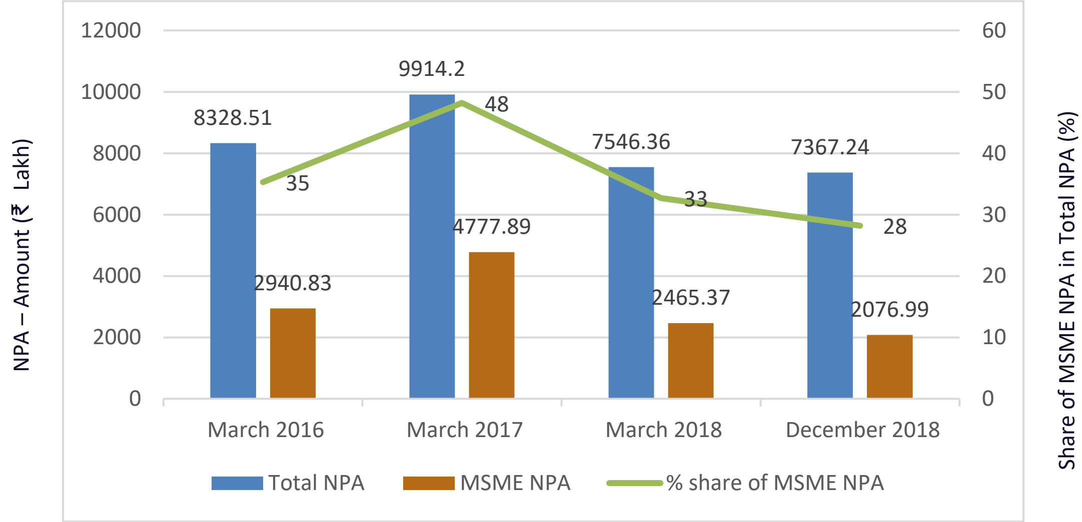
It may be observed that in terms of the number of accounts, the framework was used in 68% of accounts for recovery, 23% for restructuring and 9% for rectification. Whereas in terms of amount, it was 71% used for recovery, 1% for restructuring and 28% for rectification of stressed accounts. The framework had not been effectively utilized to reduce stressed assets in the MSME sector.

### 3.1.5 Position of advances and level of NPA

As per the data reported by 15 bank branches of 13 banks covered in the study, as on December 31, 2018, the total MSME advances stood at ₹ 373.52 crore, of which ₹ 25.09 crore was reported as NPA, i.e. 6.71% of total MSME advances.

Eleven bank branches could furnish the data for three years ended March 2016, March 2017 and March 2018 and for the period ended December 2018. The NPA levels in MSME advances had been compared with the overall NPA of these bank branches and the position is presented in Chart 5.

**Chart 5 : Position of advances and level of NPA**




(Source : Data provided by banks covered in the study)

The level of NPA in MSME loan accounts had generally followed the pattern of overall NPA except during March 2017 when it increased from 35% of total NPA in March 2016 to 48% of the total NPA as on March 2017. While enquiring about the steep rise in March 2017, with the bankers, it was generally attributed to the process of demonetization. However, the NPA levels normalized for the periods ending March 2018 and December 2018. Since the study was conducted in January 2019, the impact of revised guidelines on restructuring of MSME advances issued on January 01, 2019 could not be captured.

### 3.1.6 Financing of entrepreneurs trained by RSETIs/Credit linkage of entrepreneurs trained by RSETIs

The responses from bankers and the data reported by RSETI indicated that the credit linkage of trainees from RSETI was low (8%). Besides, the RSETI did not include training programmes in the area of lock and hardware manufacturing which was product identified under the ODOP scheme of the State Government.

The RSETIs are expected to play the role of CCI more effectively to provide a direct interface with bankers before the completion of each training programme. This could help in better assessment of credit needs and credit linkage of the trainees.

Since RSETI had also been identified as Credit Counselling Institution, building the required capacity among the Directors/Officials of RSETI may be useful.

### 3.1.7 Other credit facilities to MSMEs

With a view to provide timely financial support to micro and small enterprises facing financial difficulties during their 'Life Cycle', in terms of RBI instructions contained in paragraph 4.6 of Master Direction on Lending to Micro, Small & Medium Enterprises (MSME) Sector, banks are advised to review and tune their lending policies to the MSE sector, inter-alia, by incorporating therein provision for extending standby credit facility in case of term loans, additional working capital to meet emergent needs of MSE units and a composite loan limit of ₹ 1 crore to enable the MSE avail of their working capital and term loan requirements through single-window approach.

The response from bank branches indicated that these provisions were not put to effective use. The response is indicative of an implementation issue with regard to the referred guidelines.

### 3.1.8 Conduct of Financial Literacy programmes for entrepreneurs

During the study, 10 bank branches reported having conducted 59 financial literacy programmes during the last three years 2015-16 (16), 2016-17 (24) and 2017-18 (19) at an average of less than 2 financial literacy programme per year per branch. The remaining seven bank branches did not report having conducted any financial literacy camps.

### 3.2 Constraints faced by banks while lending to MSMEs

The bankers expressed the following major constraints in the financing of MSMEs :

i. The challenges faced by MSMEs in accessing finance were due to the non-availability of documents relating to income, business transactions and accounts. As a result, loans were provided to the MSMEs mainly through appraisal of their collaterals rather than assessing their true business potentials.

ii. Incomplete documents led to deficient credit assessment. Besides, getting the required documents also consumed resources and time. The assessment had to be done fast to avoid losing the deal/lead to the competitor.

iii. One of the respondents mentioned that there was no consolidated database exclusively for MSME enterprises wherein he could access the credit profile of the entrepreneur.

**4. Benefits of cluster approach**

Infrastructural facilities such as power, roads, drainage etc. and land/shed provided by the State Government, ease in getting statutory clearances and approvals and availability of skilled labour and raw material on credit were reported as major benefits of setting up MSMEs in a cluster.

The bankers reported ease in the appraisal of loans due to better understanding of the overall profile of the cluster and the MSMEs. They also shared that monitoring of loans was easier and cost-effective in lending to MSME clusters.

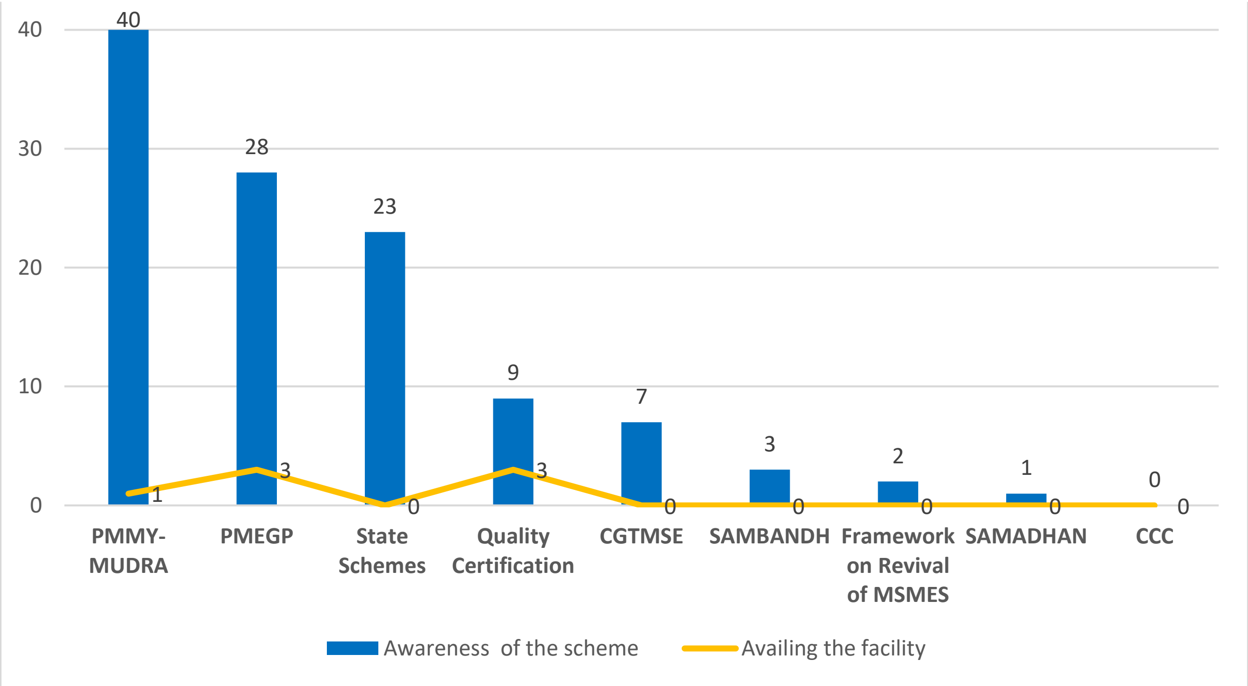
**5. Benefits of GST registration**

All the units covered under the study were registered under GST. It was reported that the implementation of GST had brought down the accounts receivable period. The buyers settled the bills in a timely manner which in turn enabled the entrepreneurs pay their dues to their suppliers of raw materials. This had helped in efficient working capital management.

**6. Financial literacy and awareness among MSMEs**

The study revealed that the level of awareness about various schemes pertaining to MSMEs was low among entrepreneurs except in case of schemes like Pradhan Mantri Mudra Yojana (PMMY), Prime Minister Employment Generation Programme (PMEGP) etc. The awareness level in respect of Certified Credit Counsellor (CCC), framework on revival, rehabilitation and restructuring of MSMEs, procurement portal (MSME-SAMBANDH), delayed payment and grievance redressal portal (MSME-SAMADHAN) was significantly low. The chart 6 presents the level of financial literacy among entrepreneurs covered in the study.

Chart 6 : Financial literacy and awareness among MSMEs




The response from bank branches regarding implementation status of certain schemes/initiatives like collateral-free loans up to ₹10 lakh, credit guarantee coverage for MSME loans, implementation of framework on revival, rehabilitation and restructuring of MSMEs etc., and use of alternative credit appraisal methods for credit assessment of entrepreneurs indicated that the bank branch officials did not have adequate awareness/clarity about these schemes/initiatives.

## 8. Suggestions

In view of the above findings, the following suggestions may be considered :

i. **Capacity building of bank officials**

As part of the National Mission on Capacity Building (NAMCABs) of officials of bank branches lending to MSMEs, RBI conducts workshops across the country to build capacity among bankers for lending to MSMEs and create awareness about softer aspects of MSME lending such as entrepreneurial sensitivity, empathy and appropriate communication with entrepreneurs. The workshop also aims at creating awareness about recent developments in MSME sector with special focus on credit related issues, movable asset based finance, use of technology platforms, credit scoring models, use of big data in analyzing credit worthiness of MSMEs, CGTMSE, etc. The trainers in banks training establishments have also been trained to further train the branch officials on similar lines.

It was observed that none of the officials from the 17 bank branches covered in the study had attended the NAMCABs workshop. The banks may consider availing of the benefits of the workshops being conducted every quarter at various centres by RBI or they themselves may conduct such programmes in their training establishments. This would be an important step in capacity building of bank branch officials on financing to MSMEs.

ii. **Knowledge sharing platform**

The bank branch officials also need to be abreast with latest initiatives of RBI Government of India and the State Government. At present, District Consultative Committee (DCC) acts as a forum to facilitate coordination in implementing various developmental activities under the Lead Bank Scheme. However, it does not explicitly provide for a platform for knowledge sharing or dissemination of information relating to various guidelines or recent initiatives. As the bank branch officials change at frequent intervals, there is a need for knowledge sharing platform which could meet at regular interval. In this context, constitution of a District Level Bankers Forum (DLBF) with the membership of all bank officials posted in the district, the Lead District Manager (LDM) from Lead Bank, District Development Manager (DDM) from NABARD could be considered. The LDO of RBI can play the lead role in such forum. The forum may have knowledge sharing sessions of one to two hours, once in a quarter, which could be held on the day of DCC meetings or any other day convenient to the members.

iii. **Processing of cases under Government Sponsored Scheme for bank finance by DIC**

At present, loan applications in case of various government sponsored schemes are routed through District Industries Centre (DIC). It is suggested that the prospective MSME borrowers may directly submit such applications to banks instead of routing through DIC. Banks may ascertain viability of the proposals before sending them to DIC for release of margin money/subsidy. This would eliminate delays and rejection in the processing of loan applications. Further, the process of releasing margin money/subsidy may be completely made online to ensure transparency and avoid any delay.

iv. **MIS on implementation of guidelines**

During the study, various indications of non-implementation of RBI guidelines were observed. These instances particularly related to online credit proposal tracking system, collateral-free loans up to ₹10 lakh and implementation of framework on revival rehabilitation and restructuring. With a view to eliminate the issues relating to implementation of various initiatives and improve credit flow to the sector, it is suggested that the banks may improve/upgrade existing MIS to oversee the compliance status. Non-compliance of RBI guidelines by banks may be commented upon in the inspection reports of banks which should have a bearing on the overall assessment of the compliance culture of the bank.

v. **Universal portal for MSMEs**

At present, there are online loan application portals for MSMEs like PMEGP portal and 'psbloansin59minutes' portal. However, these portals have utility limited to a particular scheme or a group of banks (e.g. PSU banks). Government of India may consider commissioning a single universal portal subsuming the existing portals to act as single window for entrepreneurs and provide an online market place for lenders.

vi. **Cluster development**

Clusters provided large potential for increasing credit flow to MSMEs. The potential needs to be tapped. Therefore, emphasis may be laid on increasing the number of clusters particularly in micro and small segments on the lines of MSE-CDP.

vii. **Financial Literacy Centre for MSMEs**

In order to create financial literacy and awareness about various schemes and policy initiatives, including quality control e.g. ZED certification, apart from the current approach like financial literacy camps, town hall meets, regular customer meetings by banks etc. a dedicated financial literacy centre for MSME in each district could also be set up.

viii. **Role of RSETIs**

a) At present, training programmes at RSETI and Entrepreneurship Development Programmes of State Government are conducted independently. The RSETI may collaborate with District Industries Centre for the benefit of entrepreneurs.

b) There is a need to create adequate awareness about RSETIs' role as CCI, wherever designated, among entrepreneurs. A dashboard for reporting performance of RSETIs as CCI may be also be put on the SLBC website. Wide publicity may be given about their roles and responsibility through use of electronic and print media.

**Conclusions**

In order to ensure growth of MSMEs, adequate credit flow, hand-holding, and institutional support are needed. The traditional approach to lending has certain limitations reflecting under-financing and entrepreneurs' preference for informal sources of finance. In order to finance the unmet credit needs of the sector, the banks need to develop new models of lending to overcome the limitations of the traditional methods of credit assessment. The reach of technology has deepened in a big way during the last few years, creating new data points in the form of digital footprints to assess credit-worthiness of the borrower and predict his/her willingness to repay. Various initiatives have been taken by the Government and RBI to address the above issues. However, it is important to effectively implement these schemes and initiatives to achieve the intended outcomes for the sector. Lack of awareness among entrepreneurs is also a cause of financial exclusion of MSMEs. Therefore, financial literacy would hold the key to financial inclusion of MSMEs.

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# Customer Relationship Management and Business Strategy in Mid-Sized Urban Co-operative Banks: Vision, Opportunities and Challenges

**Dr Ashish Srivastava**[2]

*The cooperative movement is one of the successful models globally for organizing and conducting a wide cross-section of economic activities. Notwithstanding their small size in proportion to commercial banks, Urban Co-operative Banks (UCBs) in India play an important role in the economy through their local reach and personalized services. In India, the UCB sector is quite heterogeneous in terms of the size of the business, and their response to business challenges is somewhat fragmented and ambiguous. Customer Relationship Management (CRM) and Business Strategy play an important role in augmenting the capacity and scope for growth of the business and ensuring its sustainability. This study focuses on the mid-sized UCBs having a deposit size of ₹ 1 – 10 billion to examine their position and preparedness in the context of CRM and business strategy formulation. The study shows that the perceived competition in the banking sector did not impact all the UCBs in the same proportion and the banks with better positioning in terms of products, delivery channels, and market base did not feel the pinch, and some of them even found good business opportunities to explore and benefit from. The study indicates certain areas requiring focused attention and also shows silver-linings as many mid-sized UCBs appeared gearing up for the challenges and were trying to use tech-driven approaches to capitalize on their strengths to expand, grow and achieve their potential.*

## I. INTRODUCTION

### 1. An Overview of Urban Co-operative Banks (UCBs)

The term Urban Co-operative Banks (UCBs) in India, though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. Notwithstanding their small size in proportion to commercial banks, UCBs play an important role in providing banking services to and meeting the credit needs of the small and medium scale borrowers through their local reach and personalized services. However, the UCB sector is quite

[2] Member of Faculty, CAB, RBI, Pune. This article is for academic and information purposes only. The views expressed in this article are those of the author and do not represent the views of the RBI or CAB. The readers are also requested to be guided by the relevant laws, circulars, instructions etc. in this regard. Usual disclaimer shall apply.

heterogeneous and comprises of a significant number of very small banks as well as a few reasonably large banks. As on March 31, 2018, about 95% of UCBs held less than ₹ 10 billion in aggregate deposits and UCBs with deposits in the range of ₹1 billion to ₹2.5 billion turned out to be the modal class during 2017-18. Further, 97.2% of UCBs had only about half (49.7%) of the aggregate advances of the UCB sector as on March 31, 2018. Amongst this skewed distribution, the mid-sized UCBs having a deposit base in the range of ₹1 billion to ₹ 10 billion presented a somewhat balanced position and are the key entities in the sector to watch for. These banks constituted 36% of the total number of UCBs and enjoyed 34.8% of the total deposits held by the UCBs as on March 31, 2018, and as such, these banks are neither too small to perish nor too large to become unsustainable and have scope and capacity for growth, as also an ability to meet the challenges (*data as per the Report on Trend and Progress of Banking in India, 2017-18*). Customer Relationship Management and Business Strategy play a crucial role in this process of transformation and growth. It is quite interesting to study the preparedness of mid-sized UCBs in this area and to examine as to how they intend to operate in future.

## 2. Objectives, Methodology, and Key Research Questions

This study intends to examine and assess the preparedness of mid-sized UCBs in the area of customer relationship management and business strategy. It also endeavours to explore the prospects of implementing a niche strategy by some of the banks, whereby they might choose one or two business segments, or products to develop a specialised focus and expertise in catering to customer's requirements. To survive, grow and achieve their goals, these banks needed to think through and come up with business strategies which are tailored to their unique requirements and business positioning. Further, the business strategies should encapsulate the nuances related to customer relationship management. This study was oriented towards understanding the mid-sized UCBs preparedness and approach in this area. The following were the **key research questions** for the study.

(i) How the bank finds itself in the competitive space?

(ii) What has been the impact of the competitive environment on the performance of the bank over the last 3 – 5 years?

(iii) How often the Board deliberates on the positioning of the bank and competitive environment facing the bank?

(iv) Has the Board ever thought through as to how the bank will be placed over the next 10 years?

(v) Has the bank come up with any strategic roadmap?

(vi) Is there a vision document in the bank?

(vii) How much time and resources are devoted by the bank on fine-tuning, and customization of its products and delivery channels?

(viii) Has the bank made any effort to find out new business opportunities?

(ix) Has the bank ever attempted a business process reengineering (BPR) exercise?

(x) Is there a process for understanding the needs and wants of the bank's customers?

(xi) Has the bank conducted any customer satisfaction survey?

(xii) Has the board undertaken any review in the area of customer relationship management?

(xiii) What is the view of the bank about a niche banking model?

(xiv) Is there any effort for leveraging cooperative advantage in banking?

(xv) Does the bank aspire to become a model institution in respect of certain products or services?

The study was exploratory and was based upon the inputs received from the banks in the sample. Inputs were obtained through structured questionnaires targeted at board members and chief executive officers. Responses were tabulated using both the quantitative variables and qualitative inputs for the analysis and interpretation.

### 3. The sample for the Study

The study focused on mid-sized UCBs having a deposit size of ₹ 1 to 10 billion. The universe of the study comprised of 558 UCBs having a total deposit of ₹ 1588 billion based on March 2018 figures. The sample for the study included 42 UCBs spanning across 11 states having a total deposit of ₹ 153.63 billion, thereby covering 7.5% of numbers and 9.7% of deposits of mid-sized UCBs. The average size of deposits of the sample UCBs at ₹ 3.2 billion (universe – ₹ 2.9 billion) and average CD ratio of 57.21% (universe – 66.50%). The sample displayed higher dispersion in the deposit size and therefore, its normal distribution could be drawn only with a 68.27% coverage due to higher variance. The CD ratio, however, did not show very high variance and the normal distribution had 99.73% coverage. This pattern was very similar to the universe of the study which also had substantial heterogeneity and divergence in the deposit size. The sample for the study was representative, well-distributed, reliable, and significant[3]. Figure 1 shows the dispersal of deposit size and CD ratio of the sample in a normal distribution.

[3] Single factor Anova was used to determine whether there were any statistically significant differences between the means of independent variables/groups. The results (F value 12.6565 > F critical 1.8517) showed that groups/variables were not behaving identically. This signified that responses received through questionnaire (Annex) were consistent and reliable.

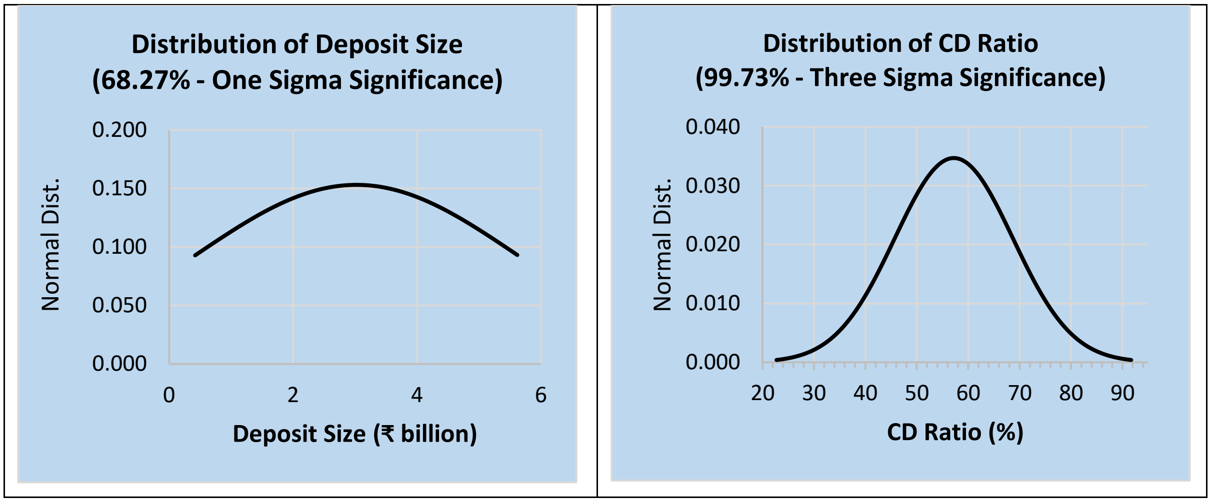


**Figure 1: Distribution of Deposit Size and CD Ratio in Sample UCBs**

Data-points and qualitative information gathered from sample UCBs through structured questionnaires were used for analysis and interpretation. Responses were tabulated using binary categorical variables across 11 dimensions, namely, cooperative advantage, business growth, competitive positioning, customization of products and services, needs and wants analysis, new business exploration, board reviews, satisfaction surveys, delivery innovations, business process reengineering, and niche banking model.

## II. ANALYSIS AND INTERPRETATION

Based on the data gathered through a structured questionnaire, an analysis was undertaken with reference to the following broad areas.

### 1. Customer Relationship Management and Business Strategy

#### (a) Divided opinion about the UCB's positioning in the competitive space

Based on the responses it was observed that about 50% (31% + 19%) of the UCBs felt that there were fair business opportunities or there was almost no real competition in their space. However, 19% of UCBs sensed increasing competition from small finance/payment banks. About 31% UCBs, however, opined that there was too much competition and it was difficult to do business (Figure 2).

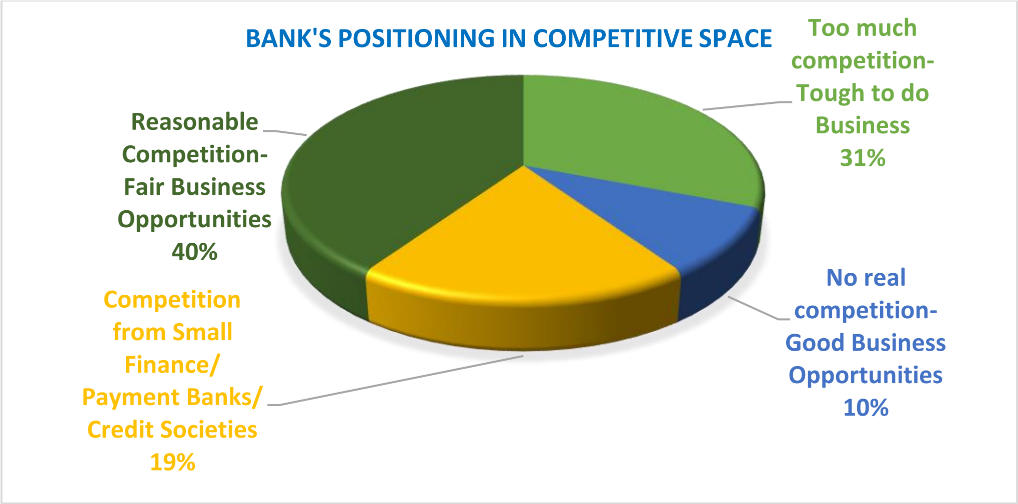


**Figure 2: UCB's positioning in competitive space**

The above shows that competition in the banking sector did not impact the UCBs in the same proportion and no specific geographical pattern was visible. It transpired, therefore, that the respective bank's positioning in the competitive space was the key factor which decided their opinion about the competition. Further, there were certain differentiators, such as better positioning, products, delivery channels, or market base due to which certain UCBs did not feel the pinch of competition and some of them even found that there were good business opportunities to explore and benefit from.

### (b) Notwithstanding competition, a majority of UCBs registered improved or stable performance.

It was quite interesting to observe that about 55% UCBs registered improvement in their performance with respect to the growth of business and profit during the last three financial years. This was followed by 41% banks which observed a stable performance (Figure 3). As such, the performance and growth of about 98% of banks were not negatively impacted by competitive pressure. Interestingly, several UCBs which perceived too much competition leading to difficulty in continuing their business also registered growth in their business and profits.

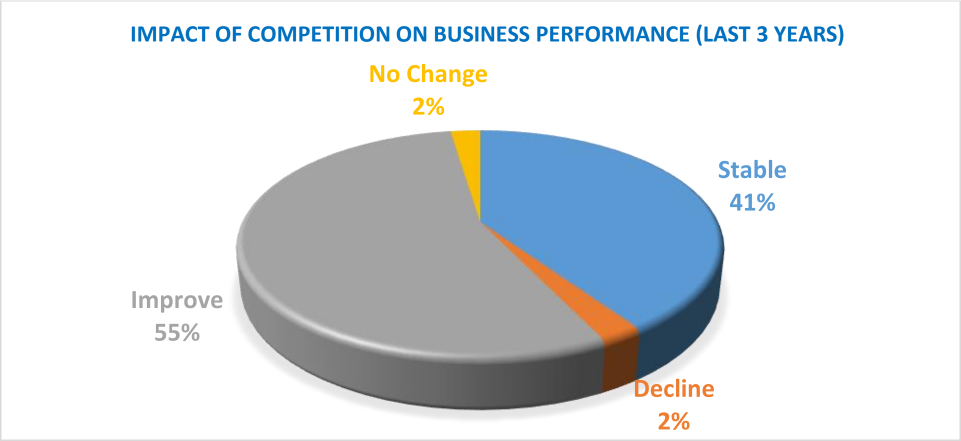


**Figure 3: Impact of Competition on Business Performance**

This further illustrates the fact that though some of the mid-sized UCBs had a notion about intense competition, they were not negatively impacted by the same. It also vindicated the thought that in essence, right positioning in the competitive space was the key factor and there was no dearth of adequate business opportunities for UCBs. Using cluster analysis[4] , the study screened out three strategic initiatives undertaken by banks, namely, **(1)** customer's needs and wants analysis, **(2)** new business exploration, and **(3)** delivery innovations, which significantly differentiated the competitive positioning of mid-sized UCBs and helped them in managing competitive challenges. It was apparent from the following cluster analysis that a majority of mid-sized UCBs did not effectively engage in the above strategic initiatives. However, it showed that the banks which experienced too much competition (n=13), did significantly better than their peers in undertaking customer's needs and wants analysis, and also in exploring new business opportunities. These banks, however, significantly lagged in delivery innovations. On the other hand, mid-sized UCBs which experienced a reasonable competitive pressure (n=25) paid significantly less attention to exploring new business opportunities than their peers. This showed that the competitive positioning of mid-sized UCBs varied across the segment

[4] Cluster analysis has been used with two sample t test - assuming unequal variance. Based on the responses, three clusters were created out of the total sample of 42 UCBs depending upon their responses about the competitive pressure, namely, (a) too much competition (n=13), (b) reasonable competition (n=25), (c) no real competition (n=4). These clusters were tested with the total sample group using t-test and based on the p-values, it was found that only three strategic initiatives – needs & wants analysis, new business exploration, and delivery innovation – were significant ($p<0.05$).

and significantly depended on strategic initiatives undertaken by their respective Boards.

| Strategic Differentiators of Competitive Positioning | |
|---|---|
| Strategic Dimensions | Variable Operationalization[5] |
| Customers' Needs and Wants Analysis | Proactive efforts to assess the needs and wants of present and potential customers. |
| New Business Exploration | Endeavour to explore viable and remunerative fresh business opportunities. |
| Delivery Innovation | Offering customer-centric innovations in products and service deliveries. |

**Results of Cluster Analysis**
**Comparison of Cluster Means with Sample Means**

| Strategic Variables | Sample | Competitive Positioning as Perceived by UCBs | | |
|---|---|---|---|---|
| | | **Too Much Competition** | **Reasonable Competition** | **No Real Competition** |
| | *(n = 42)* | *(n = 13)* | *(n = 25)* | *(n = 4)* |
| (1) Customers' Needs and Wants Analysis | 0.476 | **0.769*** | 0.360 | 0.250 |
| (2) New Business Exploration | 0.381 | **0.769*** | **0.120*** | 0.750 |
| (3) Delivery Innovation | 0.286 | **0.077*** | 0.320 | 0.750 |

**Significant difference from the sample mean, two-tail t-test (p-value < 0.05).*
*Data obtained from the questionnaires were converted into categorical variables for statistical analysis.*

### (c) Boards considered strategic issues as routine business subjects/reviews.

As a part of the study, mid-sized UCBs were enquired as to how and at what frequency their boards reviewed the bank's positioning and competitive environment as a part of the board agenda. While only 2% of UCBs never had any such review, about 67% UCBs confirmed that the same was

[5] Variable operationalization refers to the operational elements of the strategic variables shown along the strategic dimensions. It essentially explains as to what actions are normally taken by banks in respect of the strategic variables, such as needs and wants analysis, new business exploration, and delivery innovations.

discussed in every board meeting. Quarterly reviews were undertaken by 21% banks, while 10% of them undertook an annual review (Figure 4).

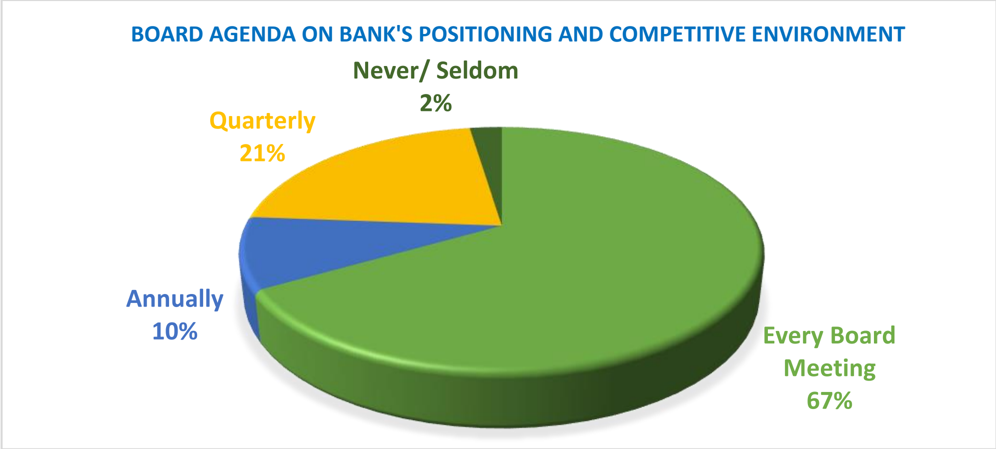


**Figure 4: Frequency of Board Discussions on Bank's Positioning and Competitive Environment**

The above position shows that a majority of UCBs did not clearly understand the strategic nature of the review which was required to be undertaken by their board in respect of the UCB's positioning and competitive environment. Being a subject of strategic importance, conducting such reviews with a high frequency, during every board meeting, was not tenable as the same required threadbare discussions with help of data analytics. Relegating highly important and critical subjects to routine kind of reviews was not helpful. The mid-sized UCBs needed to understand the criticality and act accordingly with sincerity and diligence.

### (d) A sense of short-sightedness in policy-making.

Figure 5 and 6 present the position of UCBs with regard to the formulation of long-term and near-term plans.

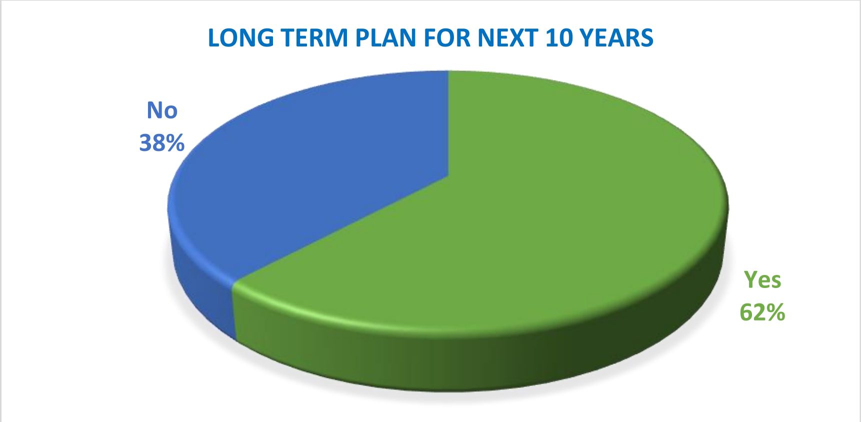


**Figure 5: Existence of a long-term plan**


**Figure 6: Existence of a near-term plan**

It was observed that about 38% UCBs did not have any long-term plan for their next 10 years of operations. On the contrary, however, only 19% of UCBs did not have a near-term strategic plan about their next 3 to 5 years of operations. This probably demonstrated that boards due to their elected nature and a fixed term were somewhat reluctant to think much beyond and accordingly, many of them did not come up with their plans for a longer time horizon. Lack of professionalism could also be one of the factors for this pattern.

### (e) A majority of UCBs did not have a vision document.

It was observed that about 71% of UCBs did not have a vision document (Figure 7).

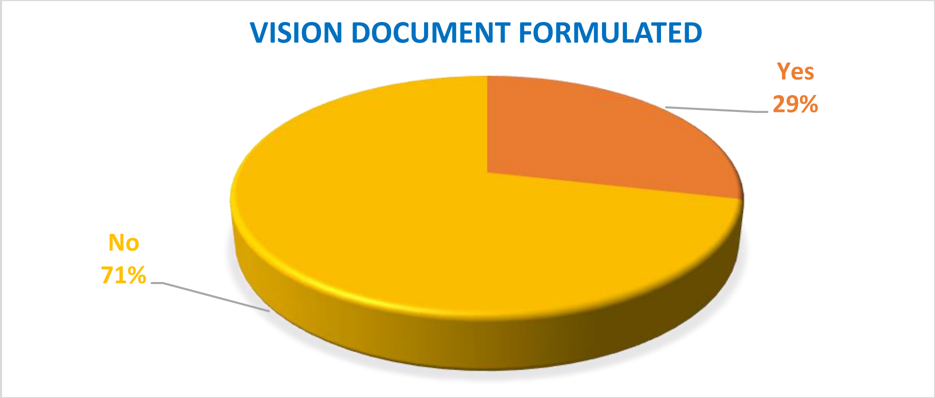


**Figure 7: Formulation of the Vision Document**

The above observations were somewhat in sync with the previous segment. However, it was a little surprising that many banks which claimed to have a long-term plan responded negatively about the formulation of a vision document.

## 2. Customer Relationship Management (CRM) in UCBs

CRM as a sound business strategy helps identify the bank's most profitable business segment and prospects, services, and channels. Using the responses gathered from the study, an assessment was made regarding the following five benchmarks.

### (a) Time and Resources devoted by UCBs for fine-tuning and customization of products and delivery channel

The study shows that not many UCBs appreciated the need for continual fine-tuning and customization of their products and services. While 26% of them did not have any such process at all, several others considered the exercise similar to business promotion, or skill development of their staff. Some of the banks though underscored the importance of providing low-cost services, used tech-assisted evaluations[6] and adopted a committee approach wherein several committees were formulated to examine issues concerning customization of their products and services.

### (b) Efforts at undertaking a business process reengineering (BPR) exercise for fine-tuning and improving the efficiency of work processes

It was observed from the responses that about 50% of the UCBs had never undertaken a BPR exercise. It was further observed that several UCBs reported having undertaken BPR annually, or, on a half-yearly/quarterly basis. This meant that these banks did not understand the essence of BPR. However, some of them, though not in a systematic manner, had attempted certain improvements such as professional recruitments, automation of processes, etc.[7]

### (c) Process for understanding needs and wants of customers, including conducting surveys to assess the requirements of banking products and services

It was noted that about 38% of the UCBs did not undertake any structured assessment of the needs and wants of their present and potential customers. Several UCBs used customer meets and complaints/suggestions box as an alternative to understanding customer's requirements. Some UCBs, however, conducted limited surveys and also arranged one-to-one discussions with customers besides maintaining personalized

[6] Such as, use of automated credit scoring appraisal methods.

[7] All the tables presented in section 2 follow from the questionnaires served for obtaining responses from UCBs. In the tables, 'intended approach' means as to what these questions seek to examine/ and what is a correct way of doing the things. Further, the top row in the right-hand column presents a summary of responses, followed by some of the specific key inputs/attributes indicated by the UCBs.

relationships (greetings/floral bouquets) with select customers.

### (d) Conduct customer satisfaction surveys

The study shows that about 55% of UCBs did not conduct structured customer satisfaction surveys as a majority did not feel any need for conducting such surveys. Other commonly adopted approaches included using customer feedback forms, monthly/annual customer meets, or customer contact programmes, which was not scientific and hence, not very helpful.

### (e) Board's review on CRM process

It was noted that about 52% of UCBs did not have a defined process of review of the CRM framework by their boards. Some of the banks claimed to have a system of periodic reviews but such review was mostly confined to complaints and follow-up actions. Some of the banks had a system wherein certain board members participated in customer meets or maintained liaison with key customers/stakeholders to obtain a sense of adequacy of the CRM process.

To sum up, the study revealed that the overall CRM framework in mid-sized UCBs lacked a systemic, organised, and professional approach. Many banks did not have a proper system for putting in place an effective CRM framework. Though certain banks appeared to have undertaken some piecemeal actions relating to certain aspects of CRM, those were not sufficient for meeting the emerging challenges and reaping the benefit of opportunities in the banking sector.

## 3. Business Strategy in UCBs: An Assessment

Business strategy as the bank's near-term working plan for achieving its vision, prioritizing objectives, and optimizing financial performance with its business model works as a key differentiator between successful and unsuccessful institutions. The adoption of a particular strategy also depends to a great extent on the bank's present and potential positioning in the competitive market. Using the responses gathered from the study, an assessment was made with regard to the effectiveness of the business strategy in mid-sized UCBs regarding the following five benchmarks.

### (a) Efforts to find new business opportunities/ markets.

The analysis demonstrated that about 55% of UCBs were oblivious towards finding fresh business potential through a blue ocean of opportunities. Certain banks, however, came up with new ideas such as green financing for solar/rainwater harvesting projects, finance for old machinery purchases, petty vendor financing, and certain special deposit schemes.

### (b) New services launched during the last five years.

Barring a few banks (10% of UCBs) almost all the banks reported having launched new tech-driven services. These services mostly centred on digital payment services, namely, NEFT, IMPS, RTGS, NACH, BBPS, UPI, etc. Certain banks offered additional services, such as insurance subscription, PAN/ Aadhar enrolments, etc. Driving on the core-banking solutions, UCBs also offered e-passbooks, SMS alerts, etc.

### (c) Delivery innovations during the last five years.

Delivery innovations were lacking in a majority of UCBs and about 71% of them could not come up with any significant delivery innovations or improvements in the services offered by them. Some of the UCBs however, offered new delivery channels such as micro-ATM for door-step banking for their customers. Certain other improvements included all week-days banking, extended service hours, and time-bound service deliveries at their branches.

### (d) Ability to leverage cooperative advantage in banking

Despite being cooperative institutions, about 52% of UCBs could not indicate any specific/tangible advantage of the cooperative structure which they could leverage. About 5% of them believed that it did not provide them with any leverage but on the contrary, it has caused certain restrictions in their growth prospects. On the other hand, several banks pointed out certain advantages such as local reach and familiarity, close connection with customers, customer loyalty, etc. Scope for recovery under cooperative laws was also identified as a key advantage. However, the cooperative philosophy rooted in community welfare, people-driven approach, and its not-for-profit motive which is a globally successful business model, was not identified by the UCBs as their core advantages. This perhaps reflected that cooperative as a sound business concept is yet to gain real roots in India.

### (e) The aspiration to become a model institution in certain products/services.

The study finds that about 57% of UCBs did not find themselves well placed to emerge as model institutions in their fold. Certain specific loan and deposit products such as, personal unsecured loans, gold-loans, and daily door-step deposits, were the most sought after products which the UCBs preferred. Besides the products, banks also indicated tech-driven focus, and a good governance model as their key strength to further capitalise upon and expand in the future.

## 4. An Aerial View of the inputs received – Complementarity and Heterogeneity

The above analysis of customer relationship management (CRM) and business strategy in mid-sized UCBs offered mixed signals about their appreciation of the criticality of CRM for growth and societal relevance of their business, their strategic orientation, and their preparedness for meeting the upcoming challenges.

An aerial view of the inputs suggested that around 40-50% of such banks were yet to appreciate the importance of **professional managerial processes**. These UCBs, though not very small in terms of the size of their business, were yet to come out of their inhibitions to embrace the need for professional management, medium-term strategic focus and long-term vision.

Further, there was an interplay of **perception vs reality** in some of the responses provided by the UCBs. Many UCBs which perceived the competitive environment as cutthroat and tough for doing business did not report any shrinkage in the growth of their business and profits. It demonstrated that while the banks with better positioning and preparedness fared better, hardly 2% of UCBs experienced fall in business and profits. Another example of the perception biases reflected in the finding that many banks did not feel the need for conducting customer satisfaction surveys because there were no complaints. Modern management science has proved that ‘no dissatisfaction’ does not necessarily mean ‘satisfaction’ and hence, formal randomized processes help institutions to understand the areas where they needed improvement.

Customer Meets were used to assess the **needs and want** of customers as also for analysing the degree of customer satisfaction. However, satisfaction surveys are meant for existing customers, whereas the needs and wants survey can be used both for existing and potential customers. Probably UCBs did not understand the fact that for expansion, potential customers should be the key focus of their business strategy.

Finally, many UCBs did not see any material advantage of the **cooperative structure** in their business, however, several others felt that being a cooperative was helpful and they referred to the local presence, familiarity, and recovery laws as the key facilitators. This was in contrast with the large international cooperative financial institutions, which could leverage the cooperative principles of self-help, mutual benefit, member participation, self-governance, not-for-profit motive, etc. for multiplying their business potential.

### 5. Determinants of Business Growth in term of Strategic Factors

The study analyzed strategic factors relating to business strategy and customer relationship management and attempted to find the determinants of business growth in terms of the strategic factors. It was observed that competitive positioning was defined by strategic initiatives such as customer’s needs and wants analysis, new business exploration, and delivery innovation. Moreover, continual fine-tuning and customization of their products and services significantly benefited the mid-sized UCBs which implemented such processes.

However, about 26% of them did not have any such process at all, and several others erroneously considered the exercise similar to business promotion, or training of their staff. Using regression analysis with a zero intercept, three significant strategic factors (p-value<0.05) were identified, namely, **(1)** competitive positioning, **(2)** customization of products and services, and **(3)** cooperative advantage.

| ***Regression of Business growth as the dependent variable and strategic factors as explanatory variables for a sample of Mid-Sized UCBs*** | | | | |
|---|---|---|---|---|
| **Significant Explanatory Variables** | | ***Coefficients*** | ***t Stat*** | ***P-value*** |
| **Intercept** | | **0** | | |
| **Competitive Positioning** | **COMP_POS (+)** | **0.470** | **3.384** | **0.002** |
| | | | | |
| **Customization of Products and Services** | **CUST_P_S (+)** | **0.307** | **2.664** | **0.011** |
| | | | | |
| **Cooperative Advantage** | **COOP_ADV (+)** | **0.302** | **2.225** | **0.032** |
| **N** | | **42** | | |
| **Adjusted $R^2$** | | **0.779** | | |

Based on the study and statistical analysis, the above three factors were assessed as statistically significant for driving business growth. All the above three variables were significant at 5% and the high value of Adjusted $R^2$ at 77.9% reflected the statistical robustness of the observations.

## 6. A Niche Model for UCBs: Prospects and Risks

Niche banks cater to and serve the needs of a certain demographic segment of the population by typically targeting a specific market or type of customer, and tailor the product/ service mix and operations to this target market's preferences. With a niche strategy, UCBs could leverage their expertise in one area to stand out from the competition. They might also provide other products or services and could serve a broader audience, but specializing in one area helps them to distinguish and differentiate them from the crowd. The study examined the inclination of UCBs towards a niche banking model. The following chart (Figure 8) presents the summary of UCB's opinion towards this concept.

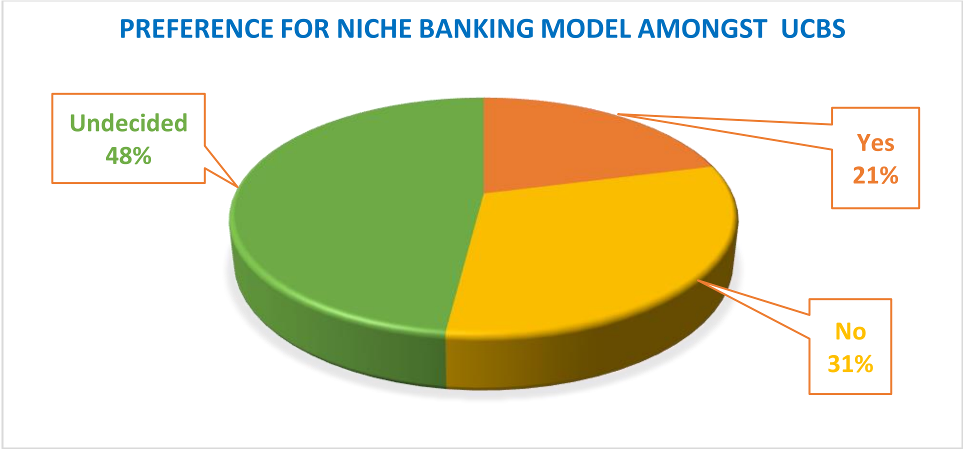


**Figure 8: Preference for Niche Banking Model for UCBs**

The study showed that about 21% of UCBs did favour the concept of niche banking model for their prospects. Gold loans and personal loans were the most favoured products. Conversion into a small finance bank was also favoured. On the other hand, 31% of the UCBs did not like the idea of transitioning into niche banking. Such banks cited reasons such as concentration risk, preference for the full-service bank, and problems arising out of limited service offerings in the niche banking model for their dislike of this model. About 48% of the UCBs, however, were either indecisive or had no idea about the niche banking model.

## III: FINDINGS AND SUGGESTIONS

### 1. Major Findings

**(1)** The study shows that competition in the banking sector did not impact different UCBs in the same proportion and no specific geographical pattern was visible. The respective bank's positioning in the competitive space was the key factor which decided their outlook about the competition. Banks with better positioning in terms of certain products, delivery channels, or market base did not feel the pinch of competition and some of them even found that there were good business opportunities to explore and benefit from.

**(2)** Though a few mid-sized UCBs regarded the market as thoroughly competitive, they were hardly negatively impacted by the same. Possibly, there was an interplay of perception vs reality in some of the responses provided by the UCBs. Many UCBs which perceived the competitive environment as cutthroat and tough for doing business did not report any shrinkage in the growth of their business and profits.

**(3)** Strategic orientation though not very professional did exist in UCBs whereby they had a medium-term plan for their future. However, a majority of UCBs did not clearly understand the strategic nature of reviews which were required to be undertaken by their boards in respect of their positioning and competitive environment. A majority of UCBs also did not have a vision document. This perhaps demonstrated that boards due to their elected nature and a fixed-term were somewhat reluctant to think much beyond and accordingly, many of them did not come up with their plans for a longer time horizon.

**(4)** Not many UCBs appreciated the need for continual fine-tuning and customization of their products and services. These UCBs, though not very small in terms of the size of their business, were yet to come out of their inhibitions to embrace the need for professional management, medium-term strategic focus and long-term vision.

**(5)** Almost half of the UCBs had never undertaken a BPR exercise and probably these banks did not understand the essence of BPR. However, some of them, though not in a systematic manner, had attempted certain improvements such as professional recruitments, automation of processes, etc.

**(6)** A structured assessment of the needs and wants of their present and potential customers was lacking in most of the UCBs. Several UCBs used customer meets and complaints/suggestions box as alternatives for understanding customer's requirements.

**(7)** A majority of UCBs did not conduct structured customer satisfaction surveys as they did not feel any need for conducting such surveys. Customer Meets were used to assess the needs and want of customers as also for analysing the degree of customer satisfaction. However, satisfaction surveys were meant for existing customers, whereas the needs and wants survey could be used both for existing and potential customers. Probably UCBs did not understand the fact that potential customers should be the key focus of their business strategy. An example of the perception biases reflected in the finding that many banks did not feel the need for conducting customer satisfaction surveys because there were no complaints. Modern management science has proved that 'no dissatisfaction' does not necessarily mean 'satisfaction' and hence, formal randomized processes help institutions to understand the areas where they needed improvements.

**(8)** A majority of UCBs did not have a defined process of review of the CRM framework by their boards. Some of the banks claimed to have a system of periodic reviews but such review was mostly confined to complaints and follow-up actions.

**(9)** Many UCBs were little oblivious towards finding fresh business potential through a blue ocean of opportunities. Certain banks, however, came up with new ideas such as green financing for solar/rainwater harvesting projects, finance for old machinery purchases, petty vendor financing, and certain special deposit schemes.

**(10)** Except some of the banks, UCBs launched new tech-driven services. These services mostly centred on digital payment services, namely, NEFT, IMPS, RTGS, NACH, BBPS, UPI, etc. Certain banks offered additional services, such as insurance subscription, PAN/ Aadhar enrolments, etc. Driving on the core-banking solutions, UCBs also offered e-passbooks, SMS alerts, etc.

**(11)** Delivery innovations were lacking in most of the UCBs and a majority of them could not come up with any significant delivery innovations or improvements in the services offered by them. Some of the UCBs however, offered new delivery channels such as micro-ATM for door-step banking for their customers.

**(12)** Despite being cooperative institutions, a majority of UCBs could not indicate any key functional advantage of the cooperative structure which they could leverage upon. Some of them even believed that being a cooperative did not provide them with any leverage but on the contrary, caused certain restrictions in their growth prospects. The cooperative philosophy rooted in community welfare, people-driven approach, and its not-for-profit motive, which is a globally successful business model, was not identified by the UCBs as their core strength.

**(13)** A majority of UCBs did not find themselves well placed to emerge as model institutions in their fold. However, personal unsecured loans and gold-loans were indicated as most preferred by a good number of banks. Besides products, banks also indicated tech-driven focus, and best governance as their key strengths to further capitalise upon and expand in future.

**(14)** The banks included in the study did not favour the idea of transitioning into niche banking. They cited reasons such as concentration risk, preference for a full-service bank, and problems arising out of limited service offerings in a niche banking model for their dislike for this model. Almost half of the UCBs, however, were either indecisive or had no idea about specialized niche banking model.

**(15)** Using cluster analysis, the study screened out three strategic initiatives undertaken by banks, namely, **(i)** customer's needs and wants analysis, **(ii)** new business exploration, and **(iii)** delivery innovations, which significantly differentiated the competitive positioning of mid-sized UCBs and helped them in managing competitive challenges. The study showed that the banks which experienced too much competition, did significantly better than their peers in undertaking customer's needs and wants analysis, and also in exploring new business opportunities. These banks, however, significantly lagged in delivery innovations. On the other hand, banks which experienced a reasonable competitive pressure paid significantly less attention to exploring new business opportunities than their peers. This showed that competitive positioning of mid-sized UCBs varied across the segment and significantly depended on strategic initiatives undertaken by their respective Boards.

**(16)** The study also indicated three strategic factors, namely, **(i)** competitive positioning, **(ii)** customization of products and services, and **(iii)** cooperative advantage, which was assessed as statistically significant for driving business growth. All the above three variables were significant at 5% and a high value of Adjusted $R^2$ at 77.9% reflected the statistical robustness of the observations.

The study highlighted several strengths as also weaknesses in the approach, attitude, strategy, and vision of the UCBs relating to the CRM and business strategy. It showed silver-linings and bottlenecks in certain areas and screened out strategic initiatives and factors which should be focused upon by the mid-sized UCBs to grow and achieve their objectives.

## 2. Concluding Observations and Suggestions

The study brought out several interesting dimensions about the customer relationship management processes and strategic orientation in mid-sized UCBs. It highlighted several strengths as also weaknesses in the approach, attitude, strategy, and vision of the UCBs relating to the CRM and business strategy. It transpires from the foregoing analysis that not all the mid-sized UCBs were resilient enough to rise to the challenge of professionalism and foresight required to succeed in the ensuing time. However, several UCBs showed positive signals in the form of willingness and commitment to travel the extra mile. Based on the findings of the study, the following suggestions are made to further strengthen the sector and to place the mid-sized UCBs on a stable growth trajectory.

**(1)** UCBs needed to formalize and professionalize their processes instead of depending on personal judgments, or individual perceptions.

**(2)** To be successful, they needed to implemented data-driven scientific approaches to CRM and also put in place a sound framework of mid-term strategic plans along with a long-term vision.

**(3)** The above would require a thrust on professionalization at the level of executives and board. This is a step which might be achieved from the proposed RBI guidelines on Board of Management.

**(4)** As pointed out in the study, there was a need to develop competitive advantage through customer's needs and wants analysis, new business exploration, and delivery innovations. The study has also shown that the competitive positioning coupled with efforts for customization of products and services, and the cooperative advantage facilitates the growth of the business of mid-sized UCBs. These factors should be paid special attention to the Managements of these banks.

**(5)** Though, a niche banking model did not find much favour of mid-sized UCBs in this study, it needed to be deliberated upon to examine its advantages for some of the small-sized banks.

**(6)** Last but not the least, being co-operative institutions, mid-sized UCBs should try to leverage the strength of the co-operative principles of self-help, mutual benefit, concern for community, member's economic participation, etc. in their business operations. The operational activities relating to the cooperative structure, which brings UCBs close to their members, such as providing consultancies, technical support and know-how, community welfare activities, etc. should be promoted with suitable safeguards and ring-fencing, whereby without compromising on the quality and efficacy of financial regulations, free and active member participation is encouraged instead of just nominal or passive memberships. The co-operative banking, with a wider social reach and member-driven focus, ought to have a different business model than the commercial banking to realize its true potential.

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# Decoding the Insolvency and Bankruptcy Code, 2016 – A legal and economic reform in resolution of stressed assets

Mohan Venkateswaran K[8]

## Introduction

The Insolvency and Bankruptcy Code, 2016 ('Code' or 'new law') revamped the framework for insolvency resolution in India. The Code was passed by Lok Sabha on 5 May 2016 and by Rajya Sabha on 11 May 2016. The Code received the assent of the President of India on 28 May 2016. The Code is being considered[9] as the biggest economic reform next only to GST.

2. While announcing the enactment of the Code, the Government observed that in India, the legal and institutional machinery for dealing with debt default has not been in line with global standards[10]. As per the extant options, recovery action by creditors, could be initiated either through the Contract Act or through special laws such as the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. However, these options have not had desired outcomes[11]. Similarly, the action through the Sick Industrial Companies (Special Provisions) Act, 1985 and the winding up provisions of the Companies Act, 1956 have neither been able to aid recovery for lenders nor aid restructuring of firms. Certain Laws dealing with individual insolvency, the Presidential Towns insolvency Act, 1909 and the Provincial Insolvency Act. 1920, are almost a century old[12] and are seldom used. As of 2018, insolvency resolution in India takes 4.3 years on an average[13]. *Figure 1* provides a comparison of the time to resolve insolvency for various countries.

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[8] Member of Faculty, CAB, RBI, Pune. This article is for academic and information purposes only. The views expressed in this article are those of the author and do not represent the views of the RBI or CAB. The readers are also requested to be guided by the relevant laws, circulars, instructions etc. in this regard. Usual disclaimer shall apply.

[9] Parliament passes the Insolvency and Bankruptcy Code - Press Information Bureau, Government of India, Ministry of Finance -available at http://www.pib.nic.in/newsite/PrintRelease.aspx?relid=145286 - (Accessed on 7.8.2019)
[10] Ibid
[11] Ibid
[12] Ibid
[13] Time to resolve insolvency (years)- World Bank, Doing Business project; 2018- available at https://data.worldbank.org/indicator/IC.ISV.DURS - (Accessed on 7.8.2019)

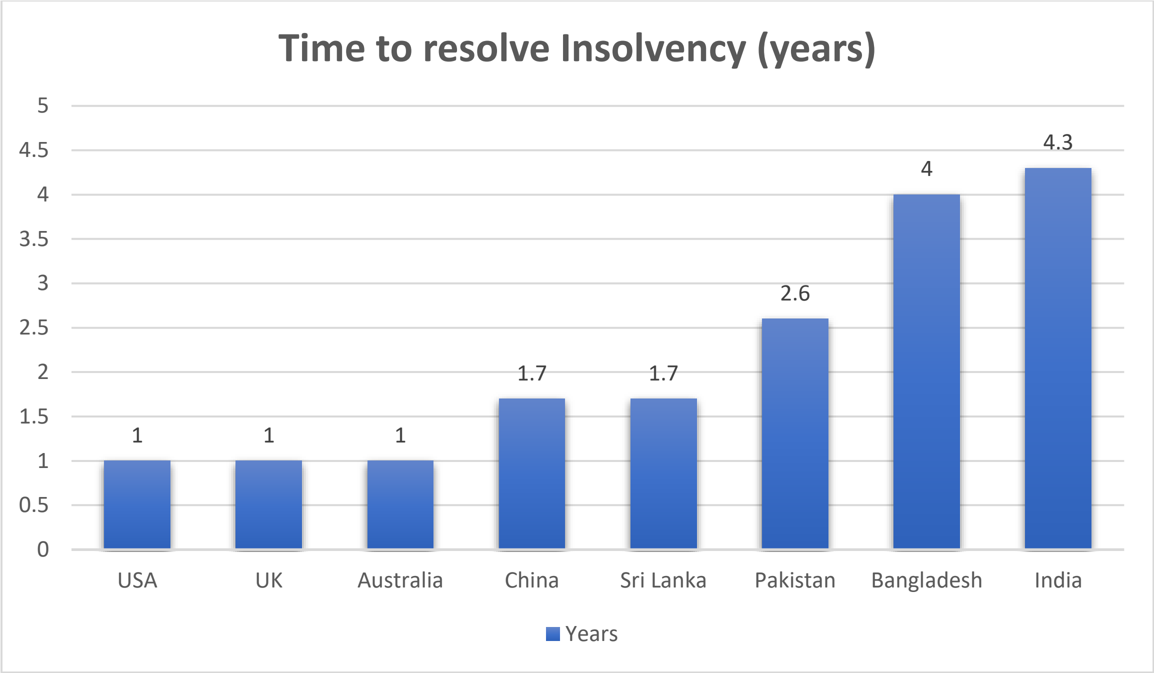


**Figure 1: Time to resolve Insolvency (years)**

*Source: World Bank, Doing Business project (2018)*

3. The delay in recovery has resulted in the increase of Non-performing assets (NPAs) in both public and private sector banks in India. One key factor that holds back the credit market is the mechanism for resolving insolvency[14]. The existing laws (before the advent of the Code) have several problems and are enforced poorly[15].

## Need for Insolvency Code

4. Every business venture has certain inherent risks. A business entity may make losses due to a variety of reasons. It could be because of a faulty business plan, wrong execution of business plan, change in state policies etc. A failure in business always results in default in repayment obligations. Dr. M S Sahoo, the Chairperson of Insolvency and Bankruptcy Board of India in one of his speeches[16] stated that default is a

[14] Bankruptcy Law Reforms Committee, The Interim Report of the Bankruptcy Law Reforms Committee (2015)- available at http://ibbi.gov.in/BLRCReportVol1_04112015.pdf (Accessed on August 7, 2019)

[15] Ibid

[16] Freedom to Exit: The Insolvency and Bankruptcy Code, 2016 builds the third pillar of economic freedom, (2016)- Dr. M S Sahoo, Chairman IBBI – available at https://ibbi.gov.in/uploads/resources/the%20Insolvency%20and%20Bankruptcy%20Code,%202016%20builds%20the%20third%20Pillar%20of%20Economic%

state of insolvency and is often a legitimate outcome of business operations and it does not necessarily warrant the closure of a business, which destroys organisational capital. Further, Dr Sahoo observed that it is necessary to have a mechanism to resolve insolvency in an orderly manner and markets need freedom broadly at three stages of a business - to start a business (free entry), to continue the business (free competition) and to discontinue the business (free exit).

5. Though the legal framework in the country provided for free entry and free competition, there was a lack of an efficient system for free exit due to which several defunct entities were plaguing the system. This problem has been addressed with the advent of the Insolvency and Bankruptcy Code, 2016. This Code offers a market directed, time bound mechanism for resolution of insolvency, wherever possible, or exit, wherever required, and thereby ensures freedom to exit[17].

## Decoding the Code

6. The Code aims to consolidate the laws relating to insolvency of companies and limited liability entities (including limited liability partnerships and other entities with limited liability), unlimited liability partnerships and individuals, presently contained in a number of legislations, into a single legislation. Such consolidation provides for a greater clarity in law and facilitates the application of consistent and coherent provisions to different stakeholders affected by business failure or inability to repay debt. The Code repeals the Presidency Towns Insolvency Act, 1909, and Provincial Insolvency Act, 1920. In addition, it amends 11 laws, including the Companies Act, 2013, and the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, among others. The objective of the Code is to promote entrepreneurship, availability of credit, and to balance the interests of all stakeholders by consolidating and amending the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner, and for maximization of value of assets of such persons and matters connected therewith or incidental thereto[18]. The salient features of the new law are enumerated[19] as under:

20Freedom%20in%20IBBI%20Newsletter%20October-December%202016.pdf (Accessed on August 7, 2019)

17 Ibid

18 Parliament passes the Insolvency and Bankruptcy Code - Press Information Bureau, Government of India, Ministry of Finance - available at http://www.pib.nic.in/newsite/PrintRelease.aspx?relid=145286 - (Accessed on August 7, 2019)

19 Ibid

a) In respect of corporate insolvency resolution process, the Code provides a clear, coherent and speedy process for early identification of financial distress and resolution of companies and limited liability entities if the underlying business is found to be viable.

b) In respect of individual insolvency, the Code provides for two distinct processes, namely- "Fresh Start" and "Insolvency Resolution".

c) National Company Law Tribunal and Debt Recovery Tribunal are designated to act as Adjudicating Authority and deal with the cases related to insolvency, liquidation and bankruptcy process in respect of companies and limited liabilities entities respectively and in respect of individuals and unlimited partnership firms.

d) Establishment of an Insolvency and Bankruptcy Board of India (IBBI) to exercise regulatory oversight over insolvency professionals, insolvency professional agencies and information utilities.

e) Insolvency professionals would handle the commercial aspects of insolvency resolution process. Insolvency professional agencies will develop professional standards, code of ethics and be first level regulator for insolvency professionals members leading to development of a competitive industry for such professionals. Three insolvency professional agencies[20] have been registered with IBBI.

f) Information utilities would collect, collate, authenticate and disseminate financial information to be used in insolvency, liquidation and bankruptcy proceedings. Presently, National E-Governance Services Limited (NeSL) is licensed by IBBI as an information utility to facilitate time-bound resolution by providing verified information to adjudicating authorities that do not require further authentication.

g) Enabling provisions to deal with cross border insolvency.

[20] Indian Institute of Insolvency Professionals of ICAI, ICSI Institute of Insolvency Professionals, Insolvency Professional Agency of Institute of Cost Accountants of India- available at https://ibbi.gov.in/service-provider/professional-agencies - (Accessed on August 7, 2019)

**BOX.1**

**"Insolvency Professionals (IPs) constitute a key institution of the insolvency regime and market economy. An IP plays an important role in resolution, liquidation and bankruptcy processes of companies, LLPs, partnership firms, proprietorship firms and individuals in distress. His work affects the lives and livelihood of all stakeholders of the person in distress. He needs an array of abilities to deliver on his statutory duties and obligations in an ever-evolving market environment."**

***Insolvency and Bankruptcy Board of India (Continuing Professional Education for Insolvency Professionals) Guidelines, 2019***

**https://ibbi.gov.in/uploads/whatsnew/a07fd3a763b9aba461c35c7208a0b4af.pdf (Accessed on 7.8.2019)**

7. At present the Code is operationalised in respect of corporate persons and the provisions of the Code relating to insolvency and bankruptcy of individuals and partnership firms are yet to be notified. As per section 4 of the Code, the relevant provisions of the Code shall apply to matters relating to the insolvency and liquidation of corporate debtors where the minimum amount of the default is one lakh rupees.[21] Further, section 78 of the Code provides that the relevant provisions of the Code shall apply to matters relating to fresh start, insolvency and bankruptcy of individuals and partnership firms where the amount of the default is not less than one thousand rupees.

8. In the event a debtor is unable to pay its debts, the mechanism provided under the Code for insolvency resolution process can be triggered by the financial creditor or operational creditor or the debtor. As per the Code, "financial creditor" means[22] any person to whom a financial debt is owed and includes a person to whom such debt has been legally assigned or transferred to. Financial Debt means a debt alongwith interest, if any, which is disbursed against the consideration for the time value of money and includes a list of items enumerated in section 5(8) of the Code. Further, "operational creditor" means[23] a person to whom an operational debt is owed and includes any person to whom such debt has been legally assigned or transferred.

[21] The Central Government has now specified the minimum amount of default as One Crore Rupees by Notification No. SO1205(E), dated 24.03.2020.

[22] Section 5(7) of the Code
[23] Section 5(20) of the Code

"Operational debt" means[24] a claim in respect of the provision of goods or services including employment or a debt in respect of the payment of dues arising under any law for the time being in force and payable to the Central Government, any State Government or any local authority.

**Process under the Code**

9. The first stage is the filing of application before the Adjudication Authority. On filing an application, the NCLT has to make a decision regarding admission or rejection. Once the application is admitted, the interim resolution professional (IRP) is appointed, public announcement is made and moratorium period[25] is declared. The moratorium period operate as a 'calm period' during which there is no judicial proceedings for recovery, enforcement of security interest, sale or transfer of assets/ legal rights/ beneficial interest can take place against the debtors. The moratorium continues to be in operation till the completion of the insolvency and resolution process, which is required to be completed within 180 days[26] of the application being admitted. The period can be extended by a maximum period of 90 days[27].

10. The second stage involves formation of the Committee of Creditors (CoC)[28]. In terms of section 21 of the Code, the committee of creditors shall comprise of all financial creditors of the corporate debtor. The Resolution Professional takes control of the assets and management of the debtor entity and is now guided by the CoC[29]. Therefore, now the "creditor is in control". This has been a significant change from the earlier position of the debtor in possession. The CoC evaluates the bids or plans submitted by eligible resolution applicants. The committee of creditors may approve[30] a resolution plan by a vote of not less than sixty-six per cent. of voting share of the financial creditors, after considering its feasibility and viability, and such other requirements as specified by IBBI. The resolution professional shall submit[31] the resolution plan as approved by the committee of creditors to the Adjudicating Authority.

11. If no plan is approved within the statutory time limit or if the implementation of the approved plan fails or if the CoC decides to liquidate the debtor entity, then the process of liquidation kicks in. The proceeds from the sale of assets will be distributed based on an

[24] Section 5(21) of the Code
[25] Section 14 of the Code
[26] Section 12(1) of the Code
[27] Section 12(3) of the Code
[28] Section 21 of the Code
[29] Section 22 of the Code
[30] Section 30(4) of the Code
[31] Section 30(6) of the Code

order of priority. As per section 53 of the Code, the priority is as under:

(i) fees of insolvency professional and costs related to the resolution process,

(ii) workmen's dues and secured creditors,

(iii) employee wages,

(iv) unsecured creditors,

(v) government dues and remaining secured creditors (any remaining debt if they enforce their collateral),

(vi) any remaining debt,

(vii) preferential shareholders, and

(viii) equity shareholders.

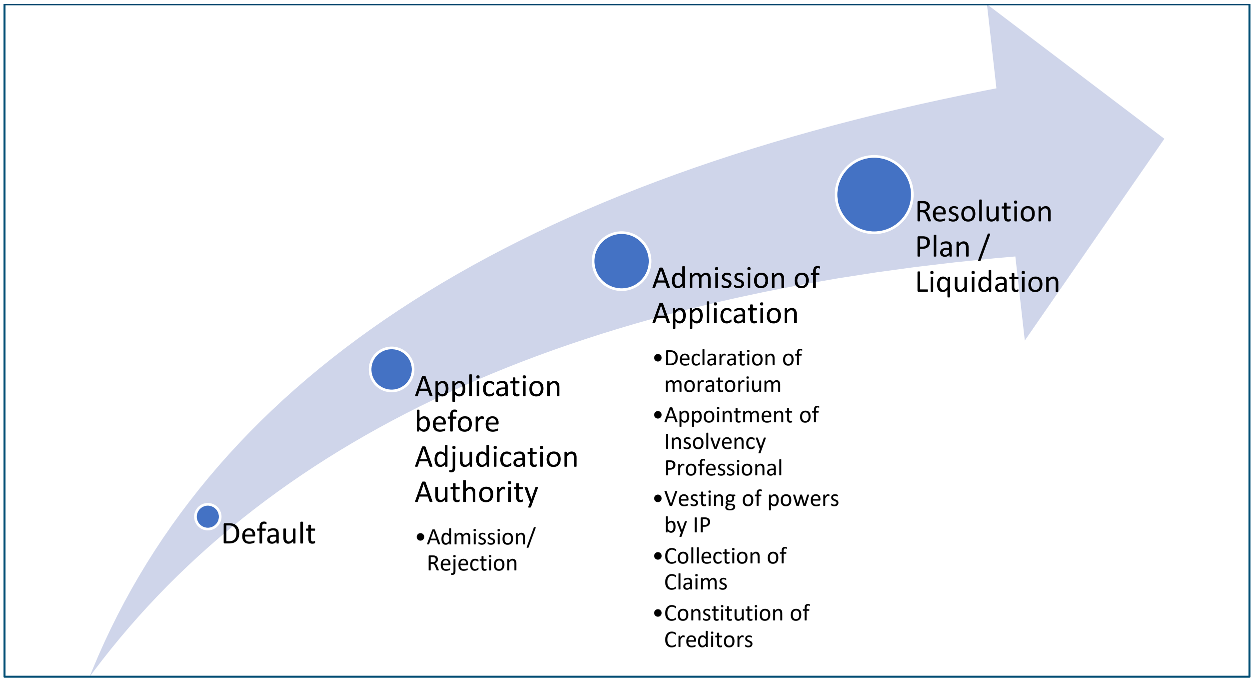


**Figure 2: Process flow of Insolvency Resolution**

12. Once the assets of the corporate debtor have been completely liquidated, the liquidator shall make an application to the Adjudicating Authority for the dissolution of such corporate debtor and the said Authority shall pass an order that the corporate debtor shall be dissolved from the date of that order.

## Evolution of the Jurisprudence

13. The law of insolvency and bankruptcy has evolved over the last 2 years due to several amendments brought about by the legislature, the regulations made by the IBBI and the judicial precedents set forth by the Courts and tribunals. The Supreme Court in several cases have provided clarification to the Code and this has resulted

in settling several issues. Since many of the issues are no longer *res integra,* the future cases may be resolved expeditiously. Some of the issues and the judicial pronouncements are discussed in the following paragraphs.

## Constitutionality of the Code

14. The constitutionality of the Code was tested in several cases before the Supreme Court. In *Innoventive Industries Ltd. vs. ICICI Bank and Ors*[32]*,* the apex Court examined the question of law as to whether the Code would prevail over the Maharashtra Relief Undertakings (Special Provisions Act), 1958. Section 238 of the Code provides that provisions of this Code shall have effect, notwithstanding anything inconsistent therewith contained in any other law for the time being in force or any instrument having effect by virtue of any such law. Relying on the said provision, apex Court held that in view of the non-obstante Clause of the Parliamentary enactment, the Maharashtra Act cannot stand in the way of the corporate insolvency resolution process under the Code.

15. In another recent landmark judgement of *Swiss Ribbons Pvt. Ltd. and Ors. vs. Union of India*[33]*,* the Supreme Court examined the constitutional validity of various provisions of the Code including the amendments made to the Code. In this case, the Court held that the primary focus of the legislation is to ensure revival and continuation of the corporate debtor by protecting the corporate debtor from its own management and from a corporate death by liquidation. Further, the Court held that the Code is thus a beneficial legislation which puts the corporate debtor back on its feet, not being a mere recovery legislation for creditors and the resolution process is not adversarial to the corporate debtor but, in fact, protective of its interests.

## Financial and operational creditors - Intelligible differentia

16. A financial creditor may trigger and initiate the process under the Code either by itself or jointly with other financial creditors when a "default" occurs. In terms of Section 7(4), the Adjudicating Authority shall, within the prescribed period, ascertain the existence of a default on the basis of evidence furnished by the financial creditor; and under Section 7(5), the Adjudicating Authority has to be satisfied that a default has occurred, when it may, by order, admit the application, or dismiss the application if such default has not occurred. On the other hand, under Sections 8 and 9 of the Code, an operational creditor may, on the occurrence of a default, deliver a demand

[32] MANU/SC/1063/2017

[33] MANU/SC/0079/2019

notice which must then be replied to within a period of 10 days. If the corporate debtor can prove that the debt is disputed, application filed by the operational creditor would be rejected. Hence, the Code distinguishes between the Financial and Operational creditors. Further, as per section 21 of the Code, the committee of creditors (CoC) shall comprise all financial creditors of the corporate debtor. The interest of operational creditors are required to be protected in the resolution plan to be approved by the CoC. All these provisions were challenged stating that the distinction between financial creditor and operational creditor is violative of Article 14 of the Constitution of India.

17. The apex Court in the *Swiss Ribbons case* indicated certain differences between the two types of creditors. Financial creditors, particularly banks and financial institutions, are secured creditors whereas most operational creditors are unsecured. Financial creditors generally provide finance (term loan or working capital) that enables the corporate debtor to either set up and/or operate its business. On the other hand, contracts with operational creditors are relatable to supply of goods and services in the operation of business. Financial contracts generally involve large sums of money whereas operational contracts have dues whose quantum is generally less. Operational debts also tend to be recurring in nature and the possibility of genuine disputes in case of operational debts is much higher when compared to financial debts. Goods that are supplied may be substandard. Services that are provided may be substandard. Goods may not have been supplied at all. All these deficiencies and operational debts are matters to be proved in arbitration or in the courts of law. On the other hand, financial debts made to banks and financial institutions are well-documented and defaults made are easily verifiable. Financial creditors are, from the very beginning, involved with assessing the viability of the corporate debtor. On identifying the above differences, the apex Court held that financial creditors "can, and therefore do, engage in restructuring of the loan as well as reorganization of the corporate debtor's business when there is financial stress, which are things operational creditors do not and cannot do". After emphasising that there is a clear difference between the financial and operational creditor, the Court held as under:

> *"Thus, preserving the corporate debtor as a going concern, while ensuring maximum recovery for all creditors being the objective of the Code, financial creditors are clearly different from operational creditors and therefore, there is obviously an intelligible differentia between the two which has a direct relation to the objects sought to be achieved by the Code."*

BOX.2

CoC Dharma: Maximisation with Fairness

"The turnaround of the firm thus is the heart of resolution that preserves the going concern surplus. The Code does not contemplate recovery as it destroys the value of the firm. When creditors recover their dues - one after the other or simultaneously - from the available assets of the firm, nothing may be left in due course, bleeding the firm to death…The Code does not contemplate liquidation either. Liquidation destroys the going concern surplus, and renders its resources idle till reallocation, reducing the value of the assets of the firm…Resolution preserves the going concern surplus(excess of fair value overthe liquidation value), while liquidation destroys it. Therefore, the CoC must prefer resolution wherever fair value exceeds liquidation value.

The CoC or its members do not own the assets of firm. They hold the assets as trustees for the benefit of all stakeholders. The gain or pain emanating from the resolution, therefore, need to be shared by the stakeholders within a framework of fairness and equity."

- *Dr. M S Sahoo, Chairperson, IBBI*

Available at https://ibbi.gov.in/uploads/resources/FromChairmansDesk19092018.pdf
(Accessed on 7.8.2019)

### Time is the essence

18. Two of the primary objectives of the Code is to maximise the value of the assets of the debtor entity and time-bound resolution. Maximising the value depends on the time taken to resolve. Delay erodes the value of the assets. NCLAT in one of the cases[34] held that time is the essence of the Code.

### Time Limit for admission or rejection of application

19. To address this issue, the Code has prescribed time-lines for every process. However, in some cases there have been appeals, counter-appeals and the litigations have some what resulted in delay. In one landmark case[35], the Supreme Court examined the question of law as to whether the time limit prescribed in the Code for admitting or rejecting a petition or initiation of insolvency resolution process is mandatory. The apex court relied upon its earlier decision in the case of *P.T. Rajan v. T.P.M. Sahir and Ors* [36] and settled this position by

[34] Order dated 01.05.2017 passed by the National Company Law Appellate Tribunal at New Delhi in Company Appeal (AT) No. 9 of 2017

[35] Surendra Trading Company vs. Juggilal Kamlapat Jute Mills Company Ltd. and Ors. (19.09.2017 - SC) : MANU/SC/1248/2017

[36] MANU/SC/0768/2003 : (2003) 8 SCC 498, the Hon'ble Supreme Court observed that where

holding that the time-limits are directory and not mandatory.

### Time limit for resolution

20. Further in the case of resolution process, section 12 of the Code prescribes the maximum time limit of 180 days, which is extendable by another 90 days. The proviso to section 12(3) of the Code provides that any extension of the period of corporate insolvency resolution process under this section shall not be granted more than once. In this regard, there was a question of law as to whether the said maximum time line can be extended further in certain exceptional circumstances. In the case of *Arcelor Mittal India Private Limited v. Satish Kumar Gupta and Ors.*[37], the Supreme Court interpreted the provisions of section 12 of the Code and held that the time line for resolution process is mandatory. Further, the apex Court held that it is of utmost importance for all authorities concerned to follow (as closely as possible) the model time-line prescribed in Regulation 40A of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 (hereinafter referred to as CIRP Regulations).

### Time spent in litigation

21. In some of the cases, the delay is also attributable to the time taken by the Courts/Tribunals in deciding the issues raised in appeal by the parties. In a landmark case of *Jang Singh vs. Brijlal and Ors.*[38], the apex Court held that it is the bounden duty of Courts to see that if a person is harmed by a mistake of the Court he should be restored to the position he would have occupied but for that mistake. This is aptly summed up in the latin maxim "Actus curiae neminem gravabit", which means the act of the Court shall harm no man. Keeping this in mind, the apex Court in the *Arcelor Mittal Case*[39] held that the period of time taken in litigation ought to be excluded. A second proviso has been inserted in section 12 (3) of the Code by Insolvency And Bankruptcy Code (Amendment) Act, 2019, which provides that the corporate insolvency resolution process shall mandatorily be completed within a period of three hundred and thirty days from the insolvency commencement date, including any extension of the period of corporate insolvency resolution process granted under this section and the time taken

Adjudicating Authority has to perform a statutory function like admitting or rejecting an application within a time period prescribed, the time period would have to held to be directory and not mandatory.

[37] MANU/SC/1123/2018

[38] Jang Singh vs. Brijlal and Ors. (20.02.1963 - SC) : MANU/SC/0006/1963

[39] MANU/SC/1123/2018

in legal proceedings in relation to such resolution process of the corporate debtor.

### Withdrawal of application admitted under IBC

22. The CIRP Regulations permitted withdrawal of application filed under the Code before its admission by the Adjudication Authority. However, post admission, where the proceedings were underway, a question of law arose as to whether the application filed under the Code can be withdrawn. The Insolvency Law Committee (March 2018)[40] recommended that even in the cases of applications which were admitted, withdrawal of such applications may be allowed provided the CoC approves such action by ninety per cent of voting share. Based on the committee recommendations, section 12A was introduced in the Code by Insolvency and Bankruptcy Code (Second Amendment) Act, 2018[41]. In terms of the new provision, the Adjudicating Authority may allow the withdrawal of application admitted under the Code on an application made by the applicant with the approval of ninety per cent. voting share of the committee of creditors, in such manner as may be specified. Regulation 30A of CIRP Regulations provide that an application for withdrawal under section 12A shall be submitted to the interim resolution professional or the resolution professional, as the case may be before issue of invitation for expression of interest under CIRP Regulations. The essence of the matter is that withdrawal is possible before the commencement of the bidding process. Due to these enabling provisions, today there is a possibility that the corporate debtors may come forward with a reasonable proposal for settlement of the matter outside the ambit of IBC. If the proposal is beneficial for all stakeholders, the financial creditors may choose the option of exiting the IBC process. This has enabled many cases to be settled out of Court at the instance of the debtors.

### Ineligibility of resolution applicants

23. In terms of section 5(25) of the Code, "resolution applicant" means a person, who individually or jointly with any other person, submits a resolution plan to the resolution professional pursuant to the invitation made under the Code. Section 29A of the Code provides the list of persons who shall not be eligible to submit a resolution plan. The list includes persons who are undischarged insolvent, wilful defaulters, having an account classified as NPA, prohibited by SEBI from trading etc. This provision was

[40] Report of the Insolvency Law Committee (2018) – available at http://www.mca.gov.in/Ministry/pdf/ReportInsolvencyLawCommittee_12042019.pdf (Accessed on August 7, 2019)

[41] w.e.f. 06.06.2018.

first introduced by the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017, which amended the Insolvency and Bankruptcy Code on 23.11.2017. The Finance Minister while moving the Amendment Bill stated[42] that this section *"will mean that those, who are in management and on account of whom this insolvent or the nonperforming asset has arisen, will now try and say, I do not discharge any of the outstanding debts in terms of making the accounts operational, and yet I would like to apply and get the same enterprise back at a discounted value, for this is not the object of this particular Act itself".*

24. The Supreme Court in the case of *Chitra Sharma and Ors. vs. Union of India (UOI) and Ors*[43] held that the Court must bear in mind that Section 29A has been enacted in the larger public interest and to facilitate effective corporate governance. The Court also observed that the Parliament rectified a loophole in the Act which allowed a back-door entry to erstwhile managements in the CIRP and Section 30 of the Code, as amended, also clarifies that a resolution plan of a person who is ineligible under Section 29A will not be considered by the CoC. The section was challenged in the Supreme Court on the ground that the vested rights of erstwhile promoters to participate in the recovery process of a corporate debtor have been impaired by retrospective application of Section 29A. However, the Supreme Court in both the *ArcelorMittal Case* and the *Swiss Ribbons Case* held that there is no vested right to be considered as resolution application and therefore, Section 29A has not taken away any such right.

### Supply of essential goods and services

25. Section 14(2) of the Code provides that the supply of essential goods or services to the corporate debtor as may be specified shall not be terminated or suspended or interrupted during the moratorium period. The question which arises in this context is what falls within the term essential goods or services. Regulation 32 of CIRP Regulations provides the answer and it states that the essential goods and services referred to in section 14(2) shall mean electricity, water, telecommunication services; and information technology services, to the extent these are not a direct input to the output produced or supplied by the corporate debtor. It has further clarified by way of an illustration that the water supplied to a corporate debtor will be essential supplies for drinking and sanitation purposes, and not for generation of hydro-electricity. Another question which arose was whether the payments for such essential supplies are required to be paid

[42] Swiss Ribbons Case

[43] MANU/SC/0834/2018

during the moratorium period. In this regard, the NCLAT in the case of *Dakshin Gujarat VIJ Company Ltd. Vs. ABG Shipyard Ltd. And Ors*.[44] held that no prohibition has been made or bar imposed towards payment of current charges of essential services and if any cost is incurred towards supply of the essential services during the period of 'Moratorium', it may be accounted towards 'Insolvency Resolution Process Costs', but law does not stipulate that the suppliers of essential goods including, the electricity or water to be supplied free of cost, till completion of the period of 'Moratorium'.

### Position of Secured Creditors

26. Section 52 of the Code provides that a secured creditor in the liquidation proceedings may either relinquish its security interest to the liquidation estate and receive proceeds from the sale of assets by the liquidator in the manner specified in section 53 or realise its security interest in the manner specified in section 52 of the Code. Where the secured creditor realises security interest, she shall inform the liquidator of such security interest and identify the asset subject to such security interest to be realised. The liquidator will permit the secured creditor to realise the security interest only after due verification. While enforcing the security interest, if the secured creditors recovers in excess of the debts, the secured creditor shall transfer the surplus to the liquidator. This provision is applicable only in the case of liquidation proceedings.

27. The law regarding the rights of secured creditors in terms of their priority in charges during the process of resolution planning is still evolving. For e.g a bank having a first charge over a secured asset, which has a liquidation value more than the debt owed to it, would have ideally recovered their debt in full if permitted to enforce their security interest under the applicable law (e.g. SARFAESI Act). However, in the event of insolvency resolution process, the said bank may have to take a haircut as per the terms of the resolution plan approved by majority of the financial creditors. The Adjudication Authority in such cases have held that the secured creditor's objection to the resolution process cannot be accepted as the claims of financial creditors are decided as per the provisions of the Code and all financial creditors are treated to be similar if similarly situated. Therefore, the manner in which a resolution plan should deal fairly with first chargeholders is still unclear.

[44] MANU/NL/0020/2018

### MSME Insolvency

28. The World Bank Report[45] (2017) on the Treatment of MSME Insolvency indicated that having an efficient, expeditious insolvency system in place that rescues Micro, Small and Medium Enterprises (MSMEs) or swiftly reallocates their productive assets to more efficient activities is paramount. The Report highlighted that there remains a question of whether broad parameters for corporate insolvency systems, as reflected in the international standards, can effectively respond to the needs of MSMEs. The World Bank after analysing the various country experiences has observed that there are typically two ways in which MSME insolvency is being addressed – either first, by making slight modifications or allowing exemptions from certain requirements to the existing provisions in the insolvency legislation, or second, by drafting entirely new provisions that target MSMEs, such as the cases of Japan and Korea. Relying on the World Bank Report, the Insolvency Law Committee (2018) recommended to allow the Central Government to exempt MSMEs from application of certain provisions of the Code such as Section 29A of the Code. The rationale for this relaxation as per the report is that a business of an MSME attracts interest primarily from a promoter of an MSME and may not be of interest to other resolution applicants. Based on the recommendation of the Committee, section 240A was inserted in the Code which provides that certain conditions of section 29A shall not apply to the resolution applicant in respect of corporate insolvency resolution process of any MSME. Further, the Central Government may, in the public interest, by notification, direct that any of the provisions of this Code shall not apply to MSMEs; or apply to MSMEs, with such modifications as may be specified in the notification.

### Platform for Distressed Assets

29. The processes under the Code are conducted by the Insolvency Professional, who is a key pillar of the Code and is the fulcrum of the process and the link between the Adjudicating Authority and stakeholders - debtor, creditors-financial as well as operational, and resolution applicants. The IBBI is in the process[46] of creating a

[45] Report on the Treatment of MSME Insolvency (2017) – available at http://documents.worldbank.org/curated/en/973331494264489956/pdf/114823-REVISED-PUBLIC-MSME-Insolvency-report-low-res-final.pdf (Accessed on August 7, 2019)

[46] Invitation of Application for Empanelment for Platform for Distressed Assets (PDAs) (2019) – available at https://ibbi.gov.in//uploads/tender/2019-06-12-224257_Platform_Distressed_Assets-_Invitation_original_(Final)-R.pdf (Accessed on August 7, 2019)

Platforms for Distressed Assets to create a marketplace for Interim Finance, virtual data room for Invitation of Resolution Plans/ Liquidation, to allow invitation and Evaluation of resolution plans and conduct auction during Liquidation. This may enable the Insolvency Professionals to discharge their responsibilities more efficiently in an ecosystem of IT platforms where the systems and processes are automated.

## Conclusion

30. In the *Swiss Ribbons case*, the Supreme Court observed that of the eighty cases resolved, the amount realized from the resolution process is in the region of Rs. 60,000 crores, which is over 202% of the liquidation value and as a result of this, there has been a jump in the flow of credit. The Court further held that the experiment conducted in enacting the Code is proving to be largely successful and the defaulter's paradise is lost.

**BOX. 4**

**"Since 1 December 2016, nearly 1500 Corporate Debts have been brought before CIRP and 142 have already been closed, while 63 have been withdrawn. As many as 302 cases have ended in liquidation, while the resolution plans have been approved in 72 cases."**

***Vice President of India on IBC- Aug 2, 2019***

**http://pib.nic.in/PressReleasePage.aspx?PRID=1581185**

**(Accessed on 7.8.2019)**

31. The Government has been responsive to the needs of the sector by introducing several amendments to the Code to ensure there is seamless operation of the Code and resolution and revival of accounts. The Code will enable an efficient and robust credit recovery mechanism in the country.

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# *Gist of Important Circulars*

**January 2019**

**Restructuring of Advances to MSME Sector**

The Reserve Bank on January 1, 2019, issued guidelines on restructuring of advances to Micro, Small and Medium Enterprises (MSMEs). As per the guidelines, lenders will be allowed a one-time restructuring of existing loans to MSMEs that are in default but 'standard' as on January 1, 2019, without an asset classification downgrade. To be eligible for the scheme, the aggregate exposure, including non-fund based facilities of banks and NBFCs, to a borrower should not exceed ₹250 million as on January 1, 2019. The restructuring has to be implemented by March 31, 2020. A provision of 5% in addition to the provisions already held, is to be made in respect of accounts restructured under this scheme. Each bank/NBFC should formulate a policy for this scheme with Board approval which would include a framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts. Furthermore, post-restructuring, NPA classification of these accounts shall be as per the extant Income Recognition and Asset Classification (IRAC) norms. Banks and NBFCs are required to make appropriate disclosures in their financial statements. All other instructions applicable to the restructuring of loans to MSME borrowers would continue to be applicable.

The guidelines were released with the objective of facilitating a meaningful restructuring of MSME accounts that have become stressed. The issue of restructuring of MSME accounts was discussed in the meeting of the Central Board of RBI on November 19, 2018. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45879)

**Tokenisation of Card Transactions**

In its continuous endeavour to provide higher security in payment systems, the Reserve Bank on January 1, 2019, released guidelines on tokenisation of debit, credit and prepaid card transactions. These guidelines allow authorised card payment networks to provide tokenisation services to any token requestor or third-party app providers subject to conditions. For now, the facility will be offered through mobile phones and tablets only and its extension to other devices will be examined later. All extant instructions of the Reserve Bank on safety and security of card transactions, including the mandate for Additional Factor of Authentication (AFA) and PIN entry shall be applicable to tokenised card transactions. The ultimate responsibility for card tokenisation services rendered will rest with authorised card networks. Payment Card network operators will have to put in place a mechanism for periodic system audit by empanelled auditors of Indian Computer Emergency Response Team (CERT-In) and related RBI instructions pertaining to system audits also need to be adhered to. Tokenisation involves a process in which a unique token can be used to perform card transactions instead of sharing sensitive credentials of payment cards. This provides for secure and contactless transactions at Point of Sale (POS) terminals, Quick Response (QR) code payments, etc. No charges shall be recovered from the customer for availing this service.

(https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11449)

The Reserve Bank on January 8, 2019, launched the 44th round of Order Books, Inventories and Capacity Utilisation Survey (OBICUS) for the reference period October – December 2018 (Q3: 2018-19). RBI has been conducting the OBICUS of the manufacturing sector on a quarterly basis since 2008. The information collected in the survey includes quantitative data on new orders received during the reference quarter, backlog of orders at the beginning of the quarter, pending orders at the end of the quarter, total inventories with a breakup between work-in-progress (WiP) and finished goods (FG) inventories at the end of the quarter and item-wise production in terms of quantity and value during the quarter vis-à-vis the installed capacity from the targeted group. The level of capacity utilisation (CU) is estimated from these responses. The survey provides valuable input for monetary policy formulation. The survey findings are released on the website of the bank regularly. Company level data are treated as confidential and never disclosed. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45953)

**February 2019**

**MSMEs Restructuring of Advances - Clarification**

The Reserve Bank on February 22, 2019 issued a clarification on one of the conditions enlisted in the circular DBR.No.BP.18/21.04.048/2018-19 on Restructuring of Advances to Micro, Small and Medium Enterprises (MSME) sector dated January 1, 2019. The condition that the borrowing entity is GST registered on the date of implementation of restructuring will not apply to those MSMEs that are exempt from GST-registration. However, the eligibility for restructuring without GST registration as per the circular should be determined on the basis of the exemption limit obtained as on January 1, 2019.

(https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11480&Mode=0)

**Interest Subvention Scheme for MSMEs**

The Government of India had announced the 'Interest Subvention Scheme for MEME 2018' on November 2, 2018. The Reserve Bank on February 21, 2019 has requested the Chairmen and Managing Directors of all Scheduled Commercial Banks to take appropriate action as envisaged for banks and issue necessary instructions to bank branches and controlling offices of banks for the successful implementation of the scheme.

(https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11478&Mode=0#enclosed)

**Credit Flow to Agriculture – Collateral Free Loans**

The Reserve Bank of India, keeping in view the overall inflation and rise in agriculture input cost since 2010, decided to raise the limit for collateral free agricultural loans from the existing level of ₹ 1 lakh to ₹ 1.6 lakh. Accordingly, banks were asked to waive margin requirements for agriculture loans up to ₹1.6 lakh. Announcement to this effect was made in paragraph 13 of the Statement on Developmental and Regulatory Policies of the Sixth Bi-Monthly Monetary Policy Statement 2018-19 on February 7, 2019.
(https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11469&Mode=0)

**Ombudsman Scheme for Digital Transactions**

The Reserve Bank notified the Ombudsman Scheme for Digital Transactions (OSDT) for redressal of complaints in digital transactions on January 31, 2019. The Scheme, launched under Section 18 of the Payment and Settlement Systems Act 2007, will provide a cost-free and expeditious complaint redressal mechanism for deficiency in customer services in digital transactions conducted through non-bank entities regulated by RBI. Complaints relating to digital transactions conducted through banks will continue to be handled under the extant Banking

Ombudsman Scheme. The offices of Ombudsman for Digital Transactions will function from the existing 21 offices of the Banking Ombudsman and will handle complaints of customers from their respective territorial jurisdiction. The Scheme also provides for an Appellate mechanism under which the complainant/System Participant has the option to appeal against the decision of the Ombudsman before the Appellate Authority. Details of the complete scheme are available on the RBI website.

(https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3631)

**March 2019**

**Interest Subvention Scheme**

Reserve Bank of India on March 7, 2019 notified that Government of India had approved the implementation of the Interest Subvention Scheme with modifications for the year 2018-19 and 2019-20 for short term crop loans up to ₹ 3 lakhs. As per stipulations issued by the Government of India, Public-Sector Banks (PSBs) and Private Commercial Banks will be offered interest subvention of 2% per annum in respect of loans given by their rural and semi-urban branches only. This has been done with the objective to provide short-term crop loans up to ₹3 lakh to farmers at an interest rate of 7% per annum during the years 2018-19 and 2019-20. The interest subvention of 2% will be calculated on the crop loan amount from the date of its disbursement/ drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks whichever is earlier, subject to a maximum period of one year. Additional interest subvention of 3% per annum will be given to farmers repaying in time. In this way, farmers repaying promptly would get short term crop loans at the rate of 4% per annum during the years 2018-19 and 2019-20. This benefit would not accrue to farmers who repay their crop loans after one year of availing such loans. The benefit of interest subvention will be available to small and marginal farmers having Kisan Credit Card for a further period of up to six months post the harvest of the crop. It will be at the same rate as available to crop loan against negotiable warehouse receipts issued on the produce stored in warehouses accredited with Warehousing Development Regulatory Authority (WDRA). The benefit is given with the objective to discourage distress sale by farmers and to encourage them to store their produce in warehouses. To provide relief to farmers affected by natural calamities, an interest subvention of 2% per annum will be made available to banks for the first year on the restructured loan amount. Such restructured loans will attract a normal rate of interest from the second year onwards. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11494&Mode=0)

**April 2019**

**RBI extends Ombudsman Scheme to eligible Non-Deposit Taking NBFCs**

Reserve Bank of India extended the coverage of Ombudsman Scheme for Non-Banking Financial Companies (NBFCs), 2018 to eligible Non-Deposit Taking Non-Banking Financial Companies (NBFC-NDs) on April 26, 2019. The scheme has been extended to eligible Non-Deposit Taking NBFCs having an asset size of ₹ 100 crore or above with customer interface vide Notification dated April 26, 2019. An announcement about the Bank's intent to extend the coverage of the scheme to eligible Non-Deposit Taking NBFCs was made in Para 11 of the Statement on Developmental and Regulatory Policies of the Monetary Policy Statement dated April 04, 2019.

However, Non-Banking Financial Company-Infrastructure Finance Company (NBFC-IFC), Core Investment Company (CIC), Infrastructure Debt Fund-Non-Banking Financial Company (IDF-NBFC) and an NBFC under liquidation, are excluded from the ambit of the Scheme. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46900

**May 2019**

**Rationalisation of Branch Authorisation Policy- Revision of Guidelines**

RBI/2018-19/194 DBR.RRB.BL.BC.No.40/31.01.002/2018-19 dated May 31, 2019.

In terms of announcement made in the first Bi-monthly Monetary Policy Statement 2016-17 on April 5, 2016, it was, inter alia, proposed to redefine branches and permissible methods of outreach keeping in view the various attributes of the banks and the types of services that are sought to be provided. An Internal Working group (IWG) was constituted for the purpose and its Report was also placed on our web-site on October 6, 2016 seeking public comments.

Taking into account the suggestions/feedback received from the Government of India and other stakeholders, final guidelines on 'Banking Outlets' were issued for commercial banks on May 18, 2017 and now are being issued for RRBs as detailed in the Annex which shall be operational with immediate effect.

https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11570&Mode=0

**Priority Sector Lending – Targets and Classification (All Regional Rural Banks/All Small Finance Banks)**

RBI/2018-19/179 0 - FIDD.CO.Plan.BC.18 /04.09.01/2018-19 dated May 6, 2019

In terms of  Para 10 of the Statement on Developmental and Regulatory Policies of the First Bi-Monthly Monetary Policy Statement 2019-20 dated April 4, 2019, the instructions contained in Para 9 of Master Direction – Regional Rural Banks (RRBs) - Priority Sector Lending – Targets and Classification dated July 7, 2016 and Para 5 of the Compendium for Small Finance Banks (SFBs) – Priority Sector Lending – Targets & Classification dated July 6, 2017, prescribing eligibility criteria of housing loans for classification under priority sector have been revised.

In terms of the above Master Direction for RRBs, loans to individuals up to ₹ 20 lakh for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit does not exceed ₹ 25 lakh are eligible to be classified under priority sector. In terms of the Compendium for SFBs, loans to individuals up to ₹ 28 lakh in metropolitan centres (with population of ten lakh and above) and ₹ 20 lakh in other centres, are eligible to be classified under priority sector, provided that the cost of dwelling unit does not exceed ₹ 35 lakh and ₹ 25 lakh, respectively.

In order to bring the RRBs and SFBs at a level playing field with other Scheduled Commercial Banks, it has now been decided to enhance the housing loan limits for eligibility under priority sector lending. Accordingly, in respect of RRBs and SFBs, housing loans to individuals up to ₹ 35 lakh in metropolitan centres (with population of ten lakh and above) and ₹ 25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centres and at other centres does not exceed ₹ 45 lakh and ₹ 30 lakh, respectively will be eligible for classification under Priority Sector Lending.

Furthermore, the existing family income limit of ₹ 2 lakh per annum, prescribed under Para 9.4 of the above Master Direction for RRBs/Para 5.4 of the Compendium for SFBs, eligible for loans to housing projects exclusively for the purpose of construction of houses for Economically Weaker Sections (EWS) and Low Income Groups (LIG), is revised to ₹ 3 lakh per annum for EWS and ₹ 6 lakh per annum for LIG, in alignment with the income criteria specified under the Pradhan Mantri Awas Yojana.

Accordingly, the RRBs/SFBs are allowed to reckon their outstanding portfolio of housing loans meeting the revised criteria for classification under priority sector lending from the date of this circular. All other terms and conditions specified under the Master Direction/Compendium shall remain unchanged.

**June 2019**

**Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account (BSBDA)**

RBI/2018-19/206 - DBR.LEG.BC.No.47/09.07.005/2018-19 dated June 10, 2019

The Basic Savings Bank Deposit (BSBD) Account was designed as a savings account which will offer certain minimum facilities, free of charge, to the holders of such accounts. In the interest of better customer service, it has been decided to make certain changes in the facilities associated with the account. Banks are now advised to offer the following basic minimum facilities in the BSBD Account, free of charge, without any requirement of minimum balance.

i. The deposit of cash at bank branch as well as ATMs/CDMs
ii. Receipt/ credit of money through any electronic channel or by means of deposit /collection of cheques drawn by Central/State Government agencies and departments
iii. No limit on number and value of deposits that can be made in a month
iv. Minimum of four withdrawals in a month, including ATM withdrawals
v. ATM Card or ATM-cum-Debit Card

The BSBD Account shall be considered a normal banking service available to all.

Banks are free to provide additional value-added services, including issue of cheque book, beyond the above minimum facilities, which may/may not be priced (in non-discriminatory manner) subject to disclosure. The availment of such additional services shall be at the option of the customers. However, while offering such additional services, banks shall not require the customer to maintain a minimum balance. Offering such additional services will not make it a non-BSBD Account, so long as the prescribed minimum services are provided free of charge.

The holders of BSBD Account will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a BSBD Account. Further, before opening a BSBD account, a bank should take a declaration from the customer that he/she is not having a BSBD account in any other bank.

The BSBD Account shall be subject to RBI instructions on KYC/AML for opening of bank accounts issued vide Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 on 'Master Direction - Know Your Customer (KYC) Direction, 2016', as amended from time to time.

The instructions issued on free transactions available for normal savings bank account in own-bank/other bank ATMs vide circulars DPSS.CO.PD.No.316/02.10.002/2014-15 dated August 14, 2014 and DPSS.CO.PD.No.659/02.10.002/2014-15 dated October 10, 2014 are not applicable to BSBD accounts. The minimum free withdrawals available to the BSBD Account holders can be made at all ATMs (own-bank/other bank ATMs).

This circular superseded earlier instructions issued vide circulars DBOD.No. Leg.BC.35/09.07.005/2012-13 dated August 10, 2012 on 'Financial Inclusion- Access to Banking Services–Basic Savings Bank Deposit Account' and DBOD.No. Leg.BC.52/09.07.005/2013-14 dated September 11, 2013 on 'Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account (BSBDA) – FAQs'.

These instructions came into force with effect from July 1, 2019. Banks were advised to frame Board approved policy/ operational guidelines in this regard.

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Campus Capsule

## Training

### Programmes/Conferences/Seminars/Workshops:

**Customized Training Programme on Agri-financing for officers of Canara Bank (January 14-18, 2019)**

A customized training programme on agri-financing for officers of Canara Bank was organized during January 14-18, 2019. The objective of the programme was to familarise the participants with recent policy initiatives on agriculture and allied sector and provide an overview of the sector; to build skills in the technical and financial appraisal of agriculture and allied sector projects; provide insight into the opportunities for financing the emerging sector like farm mechanization, hi-tech agriculture; agricultural value chain and risk management in agri-financing. Thirty nine officers of the bank attended the programme.

**Workshop on Priority Sector Lending Certificates (PSLCs) (February 1, 2019):**

A workshop was held for the first time for officers of UCBs where hands on training on trading on PSLC platform was provided. Twenty two participants attended the workshop.

**Workshop on Insolvency and Bankruptcy Code (IBC), 2016 (February 15-16, 2019)**

In view of the importance of the Insolvency and Bankruptcy Code and several developments surrounding the code, the College included a workshop on IBC in its calendar of programmes for the year 2018-19. The first workshop was conducted in February 2019. The objective of the workshop was to enable participants to understand IBC and the insolvency and liquidation process, the role and responsibilities of banks, the practical issues faced, valuation of assets and liabilities, and resolution of NPAs through restructuring or recovery of the account in a time-bound manner and experience sharing about cases resolved under the Code. Dr. Mukulita Vijayawargiya, Whole Time Member of the Insolvency and Bankruptcy Board of India delivered the keynote address on “IBC – An economic reform which guarantees freedom to exit”. Thirty six officers of banks and NBFCs attended the workshop.

**Annual Conference of HR Heads of Banks and Financial Institutions (March 11-12, 2019):**

The annual conference of HR Heads of Banks and Financial Institutions was held during March 11-12, 2019. The objective of the conference was to (a) Identify strategies for human resources development for sustainable business growth and inclusive finance; (b) Deliberate on best practices in talent development and succession planning in the digital era and (c) Sharing perspectives on human resources aspects of operational risks and compliance culture. Twenty-Four participants from Commercial Banks including RRBs and Small Finance Banks and NBFC attended the programme.

**Seminar on Policy Framework on Cyber Security (March 25, 2019)**

One day seminar on Policy framework on Cyber Security was conducted at the College on March 25, 2019. The objective of the programme was to handhold UCBs in formulating cyber-security policies and to create awareness about IT & Cyber Security and to enable them to comply with RBI guidelines on cyber-security framework and implement basic Cyber Security Controls. Fifty-two officers working in the IT department of UCBs attended the programme.

**Programme for Heads of Regional Offices of DCBS (April 15-17, 2019)**

The objective of the programme was to impart knowledge about the operational aspects of DCBS and the latest developments in the cooperative banking sector. Thirty seven officers from different Regional Offices participated in the programme.

**Conference on Credit Flow to the Priority Sector / SLBC – Policy and Implementation (June 24-25, 2019)**

The fifteenth Annual Conference on Credit Flow to Priority Sector – Policy and Implementation was held during June 24 - 25, 2019. The objectives of the Conference were to deliberate on ways and means to enhance the flow of credit to priority sectors, particularly to Agriculture sector and Micro, Small & Medium Enterprises (MSME) sector and to provide a forum for sharing experiences relating to Priority Sector Lending (PSL) and functioning of district-level fora. Forty –five delegates from SCBs, SLBC, RRBs, RBI, and NABARD and BIRD attended the conference.

Smt Surekha Marandi, ED, RBI inaugurated the Conference through video conference. During her inaugural speech, she emphasized the need to accelerate credit flow to Agriculture and MSME sectors which have the highest employment potential. Shri U D Shirsalkar, CGM, NABARD addressed the participants on "Credit flow to Community Based Farming Models and Microenterprises".

**National Conference on Lead Bank Scheme (Celebrating 50 years of the LBS): -July 19, 2019**

The Lead Bank Scheme has entered into 50 years of its existence in 2019. To commemorate this occasion Financial Inclusion and Development Department, Central Office, and College of Agricultural

Banking, Pune (CAB) jointly organized the National Conference on Lead Bank Scheme on July 19, 2019. The objective of the conference was to provide a platform for the stakeholders to deliberate on the contemporary relevance of the Lead Bank Scheme, reflect on the role of Lead Bank Scheme in catalysing economic development and strategize and discuss ways to improve the effectiveness of the scheme in meeting its objectives. Around 50 delegates, including conveners of SLBCs, heads of priority sector divisions of scheduled commercial banks, senior officers from small finance banks and payment banks, chairmen of select RRBs, and senior officials from RBI and NABARD attended the Conference. The speakers included Shri B Ramesh Babu, Deputy Managing Director and COO of State Bank of India, and Shri H. R. Dave, ex-Deputy Managing Director, NABARD.

**Seminar on Policy Issues for CEOs and Directors of Urban Cooperative Banks (UCBs) (June 21 – 22, 2019)**

A Seminar on policy issues for CEOs and Directors of UCBs was conducted during June 21-22, 2019. The theme of the seminar was "Strengthening Urban Co-operative Banks – Current Status and the Way Forward". This theme was suggested by the representative of DCBR, CO in the first meeting of Sub-committee of the College Advisory Committee held on September 24, 2018.

The objectives of the seminar were (a) to facilitate discussions/deliberations on the ways to further strengthen the UCB sector, and (b) to provide a platform to the participants for exchange of views on various issues impacting the functioning of UCBs. Forty two CEOs/Directors of UCBs attended the seminar.

**MDP on Leadership and Change Management (June 10-12, 2019)**

The College conducted MDP on Leadership and Change Management for CEOs/Directors of Urban Cooperative Banks during June 10-12, 2019. Fourteen CEOs/Directors participated in the programme. The objective of the programme was to help participants improve their self-awareness, exercise leadership required at their banks, resolve conflicts, manage stress, enable better customer service and design strategies for business growth and to help participants hone their leadership potential to provide better leadership at their banks. The feedback received indicated that there is a need to offer MDP programmes separately for CEO and Directors in view of the differences in their background and awareness levels. Accordingly, the College has included two separate MDP for CEOs and Directors in the training plan for the year 2019-20.

**Golden Jubilee Celebrations**

**CAB Golden Jubilee Walkathon – April 13, 2019**

As part of Golden Jubilee year celebrations, the College organised “CAB Golden Jubilee Walkathon for Staff and their family members” on April 13, 2019. The walkathon covered a distance of 5 km. The occasion was also used to spread Financial literacy messages displayed on placards carried by the participants. The walkathon started at 7.00 am and concluded at 8.30 am. Around 150 staff and family members participated in the walkathon.

**CAB Golden Jubilee Celebration – Financial Literacy Programme and Tree Plantation- July 19, 2019:**

As part of its Golden Jubilee Celebrations, the College of Agricultural Banking, Reserve Bank of India, Pune, conducted a Financial Literacy and Tree Plantation Programme on July 20, 2019, at the ‘New English High School’, located in a village at Khamgaon, 50 km away from Pune. Students were sensitized about the importance of financial discipline in life, the role of banks in an economy, and the important functions of the Reserve Bank of India. The school children were also informed about the advantages of keeping deposits and borrowing from formal banking channels and the role of RBI in the Indian Banking system. The students were also apprised of the new initiatives in banking such as mobile/ internet banking and cards etc. and were cautioned against the sharing of sensitive information such as CVV, PIN, and OTP, etc. Features of genuine banknotes were also demonstrated to the students. As a green initiative, 40 saplings were planted on the school premises.

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### वित्तीय क्षेत्र में क्षमता निर्माण एवं विकास

कृषि बैंकिंग महाविद्यालय (सीएबी) की स्थापना भारतीय रिज़र्व बैंक द्वारा 1969 में ग्रामीण एवं सहकारिता बैंकिंग में प्रशिक्षण प्रदान करने के लिए की गयी थी। तत्पश्चात, भारतीय वित्तीय क्षेत्र की बदलती आवश्यकताओं को पहचानकर, महाविद्यालय ने सूचना प्रौद्योगिकी, मानव संसाधन प्रबंधन, साधारण बैंकिंग और गैर-बैंकिंग वित्तीय सेवाओं जैसे क्षेत्रों में प्रशिक्षण प्रदान करने के लिए अपना दायरा बढ़ाया। महाविद्यालय कई अंतर्राष्ट्रीय संस्थाओं जैसे एफएओ, अपराका, सिकटैब, यूएनडीपी एवं कॉमनवेल्थ सेक्रेटेरिएट के सहयोग से भी प्रशिक्षण कार्यक्रम आयोजित करता आ रहा है। महाविद्यालय ने विकास बैंकिंग में उत्कृष्टता के अंतर्राष्ट्रीय केंद्र के रूप में ख्याति प्राप्त की है। भारतीय वित्तीय क्षेत्र की वर्तमान चुनौतियों के मद्देनज़र महाविद्यालय ने ग्रामीण विकास एवं सहकारी बैंकिंग के अलावा महाविद्यालय, विभिन्न संस्थोओं (राष्ट्रीय व अंतर्राष्ट्रीय) के लिए उनकी विशिष्ट आवश्यकता के अनुसार भी प्रशिक्षण कार्यक्रम आयोजित करता है।

महाविद्यालय, समय की मांग के अनुसार वित्ती य क्षेत्र में क्षमता निर्माण एवं विकास के लिए प्रतिबद्ध है।

### Building & Enhancing Capabilities in the Financial Sector

College of Agricultural Banking (CAB) was established by the Reserve Bank of India in 1969 to provide training inputs in Rural and Cooperative Banking. Subsequently, recognising the changing needs of the Indian financial sector, the College has expanded its scope to provide training in other areas like Information Technology, Human Resource Management, General Banking and Non-Banking Financial Services. The College also conducts programmes in collaboration with international agencies like FAO, APRACA, CICTAB, UNDP and the Commonwealth Secretariat. It has earned acknowledgment as an international centre of excellence for development banking. The College also conducts customized training programmes for institutions, both national and international, as per their specific requirements.

The College is committed to enhancing and building capabilities in the financial sector in tune with the changing times.

**College of Agricultural Banking**
www.cab.rbi.org.in