Report on Trend and Progress of Banking in India 2015-16

Report on Trend and Progress of Banking in India 2015-16,
submitted to Central Government in terms of
Section 36(2) of the Banking Regulation Act, 1949

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2015-16

RESERVE BANK OF INDIA

This publication can also be accessed through Internet at **http://www.rbi.org.in**

Published by Financial Stability Unit, Reserve Bank of India, Mumbai 400 001 and designed and printed at Alco Corporation , Gala No. A-25, A Wing, Gr. Floor, Veerwani Industrial Estate, Goregaon East, Mumbai – 400 063.

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

गवर्नर
Governor

LETTER OF TRANSMITTAL

FSU.76 /01.04.003/2016-17

December 29, 2016
Pausha 08, 1938 (Saka)

Dear Shri Lavasa,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I have pleasure in transmitting herewith two copies of the Report on Trend and Progress of Banking in India 2015-16.

Sincerely,

Urjit Patel

Urjit R. Patel

The Finance Secretary
Government of India
Ministry of Finance
New Delhi – 110001

केन्द्रीय कार्यालय भवन, 18वी मंज़ील, शहीद भगतसिंह मार्ग, मुम्बई - 400 001. भारत
फोन : +91 22 2266 0868 फैक्स : +91 22 2266 1784 ई-मेल : urjitpatel@rbi.org.in

Central Office Building, 18th Floor, Shahid Bhagat Singh Marg, Mumbai - 400 001. INDIA
Tel : +91 22 2266 0868 Fax : +91 22 2266 1784 E-mail : urjitpatel@rbi.org.in

Contents

Page No.

List of Charts

List of Tables

The detailed data on balance sheets as well as income and expenditure of SCBs are available in the 'Statistical Tables Relating to Banks in India 2015-16' (www.rbi.org.in)

List of Select Abbreviations

AAs	Account Aggregators
ADF	Acceptance Development Fund
AFCs	Asset Finance Companies
AIFI	All India Financial Institution
ANBC	Adjusted Net Bank Credit
AQR	Asset Quality Review
ARCs	Asset Reconstruction Companies
BC	Business Correspondent
BCBS	Basel Committee on Banking Supervision
BO	Banking Ombudsman
BSBDA	Basic Savings Bank Deposit Account
CAB	College of Agricultural Banking
CAMELS	Capital adequacy, Asset quality, Management, Earning, Liquidity & System and control
CASA	Current Account and Saving Account
CBS	Core Banking Solution
CBSE	Central Board of Secondary Education
C-D ratio	Credit-Deposit ratio
CEOBE	Credit Equivalent of Off-Balance sheet Exposure
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest in India
CFL	Centres for Financial Literacy
CFR	Central Fraud Registry
CKYCR	Central KYC Records Registry
CMBs	Cash Management Bills
CMPFI	Committee on Medium-term Path on Financial Inclusion
CRAR	Capital to Risk-Weighted Assets Ratio
CRILC	Central Repository of Information on Large Credits
DCCB	District Central Co-operative Bank
DRTs	Debt Recovery Tribunals
DTAs	Deferred Tax Assets
ECBs	External Commercial Borrowings
EME	Emerging Market Economy
EXIM Bank	Export Import Bank of India
FB	Foreign Bank
FCTR	Foreign Currency Translation Reserves
FIP	Financial Inclusion Plan
FL	Financial Literacy
FLCs	Financial Literacy Centres
FPO	Follow-on Public Offer
FSLRC	Financial Sector Legislative Reforms Commission
GCC	General Credit Cards
IDRBT	Institute for Development and Research in Banking Technology
IFTAS	Indian Financial Technology and Allied Services
KCC	Kisan Credit Cards
KYC	Know Your Customer
LAB	Local Area Bank
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NABARD	National Bank for Agriculture and Rural Development
NAMCABS	National Mission for Capacity Building of Bankers for Financing the MSME Sector
NBFC	Non-Banking Financial Company
NBFC-D	Non-Banking Financial Company – Deposit Taking
NBFC-IFC	Non-Banking Financial Company – Infrastructure Finance Company
NBFC-ND-SI	Non-Banking Financial Company – Non-Deposit Taking – Systemically Important

NCFE	National Centre for Financial Education
NHB	National Housing Bank
NIM	Net Interest Margin
NPAs	Non Performing Assets
NSFI	National Strategy for Financial Inclusion
NSFR	Net Stable Funding Ratio
OTC	Over the Counter
PACS	Primary Agricultural Credit Society
PAT	Profit After Tax
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PD	Primary Dealer
PMFBY	Pradhan Mantri Fasal Bima Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PPI	Pre-paid Payment Instrument
PSB	Public Sector Bank
PSLCs	Priority Sector Lending Certificates
PVB	Private Sector Bank
QIP	Qualified Institutional Placement
RBS	Risk Based Supervision
RoA	Return on Asset
RoE	Return on Equity
RRB	Regional Rural Bank
S4A	Scheme for Sustainable Structuring of Stressed Assets
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SFB	Small Finance Banks
SHGs	Self-Help Groups
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers' Committee
SMA	Special Mention Account
StCB	State Co-operative Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UCB	Urban Co-operative Bank
UDAY	Ujwal Discom Assurance Yojana
UIDAI	Unique Identification Authority of India
UPI	Unified Payments Interface
WLAs	White Label ATMs

Chapter I

Perspective and Policy Environment

Introduction

1.1 The year 2015-16 saw an increase in financial stability concerns for emerging market economies (EMEs) though such concerns eased for advanced economies. The performance of most EMEs was marked by severe domestic imbalances emanating from economic slowdown and downturn in credit growth coupled with rising stress in corporate and financial sectors making them vulnerable to the changing external financing conditions.

1.2 In the group of EMEs, India stood out in terms of higher economic growth despite two consecutive years of deficient monsoon. The banking sector, however, was under stress primarily on account of the burden of non-performing assets (NPAs) which increased sharply during the year.

1.3 Apart from prudential regulatory measures, to supplement the existing supervisory processes, an asset quality review (AQR) of banks was conducted during 2015-16 to address concerns over NPAs. AQR brought to the fore significant discrepancies in the reported levels of impairment and actual position and hence, led to increase in provisioning requirements for banks. Although aimed at better recognition of and provisioning for NPAs in the medium- to long-term, AQR resulted in an adverse impact on the profitability of banks in the short term. Hence, the banking sector's performance as captured through the annual accounts of banks showed a continued deterioration during the year when compared to the previous year.

1.4 The aggregate balance sheets of scheduled commercial banks (SCBs) showed a single-digit growth in 2015-16. The slowdown in credit growth was significant. Growth in profits showed a decline, primarily on account of a sharp increase in provisions made by public sector banks. Given the falling profit levels, both return on assets (RoA) and return on equity (RoE) showed a decrease. Notwithstanding these adverse developments, the capital adequacy positions of banks, including that of public sector banks, showed an improvement during the year mainly due to the capital infusion by the Government and changes in the treatment of revaluation reserves, foreign currency translation reserves (FCTR) and deferred tax assets (DTAs). These changes are expected to align the capital adequacy framework in India more closely with the Basel Committee on Banking Supervision's (BCBS) guidelines.

1.5 The year was also marked by the introduction of several regulatory, supervisory and developmental measures aimed at addressing short- to medium-term concerns, including mis-selling of financial products/services and cyber security along with a long-term vision of developing a sound, competitive, inclusive and customer-friendly banking sector.

Major policy measures for scheduled commercial banks*

I. Measures for improving the system's ability to deal with distress

Regulatory reinforcements

1.6 As part of the framework for revitalising distressed assets, on June 13, 2016, the Reserve Bank introduced the Scheme for Sustainable Structuring of Stressed Assets (S4A) for a deep financial restructuring of large accounts. Also, the process

* Relevant policy measures undertaken till December 6, 2016 have been included.

of selling stressed assets by banks was further streamlined to facilitate better valuation, price discovery and creation of a vibrant stressed assets market. Further, keeping in view the difficulties often faced by micro, small and medium enterprises (MSMEs) in resolving/restructuring their stressed bank loans, in consultation with the government the Reserve Bank of India released a separate framework for revival of distressed loans in this sector on March 17, 2016.[1]

1.7 To complement the existing risk-based capital standards and to provide a back-stop measure to contain concentration risks, the Large Exposures Framework was issued on December 1, 2016 to limit a bank's exposure to a single counter-party or a group of connected counter-parties. Alongside, a complementary framework for discouraging large borrowers to depend solely on banks for their funding needs was released on August 25, 2016 to contain concentration risks for the banking system as a whole.

1.8 As part of liquidity risk management, on May 28, 2015 draft guidelines for the Net Stable Funding Ratio (NSFR), measuring the funding resilience of a bank over a longer time horizon, were laid down. This is expected to limit the banks' reliance on short-term wholesale funding and promote funding stability. The Reserve Bank issued draft guidelines on June 22, 2016 with regard to counter-party credit risks and exposures to central counter-parties in over-the-counter (OTC) derivative transactions.

1.9 In order to facilitate the mobilisation of additional capital to meet Basel III capital regulations, ownership limits in private sector banks were rationalised. Separate ownership limits were laid down for natural (individuals) and legal persons (entities/institutions); and within legal persons, higher limits were prescribed for well-diversified financial institutions. While the shareholding proportion for natural persons and non-financial entities was capped at 10 per cent, the cap for non-regulated or non-diversified and non-listed financial institutions was fixed at 15 per cent. The shareholding proportion for regulated, well-diversified and listed/supra-national institutions/ public sector undertakings/government financial institutions was proposed to be capped at 40 per cent.

II. Supervisory measures

1.10 For focused attention on asset quality with regard to large borrowal accounts across banks, AQR was conducted during 2015-16. The Review extensively used off-site data and other data dumps in a coordinated manner and compared the quality of these loan assets against applicable Reserve Bank norms. The banks were advised about the position that emerged from the review along with a recommendation to appropriately adjust impairments in their books.

1.11 The Central Repository of Information on Large Credits (CRILC) has proved to be an important tool for effective off-site supervision. Efforts were made to further improve the quality of CRILC data by modifying its reporting mechanism with respect to external ratings and industry. Additionally, the dates of assets turning into NPAs and special mention accounts (SMAs) were captured in the database for an insight into the ageing of stressed accounts.

1.12 The ambit of risk-based supervision (RBS), which helps in timely identification of supervisory concerns and their mitigation, was further widened

[1] The Ministry of Micro, Small and Medium Enterprises, Government of India, had notified this 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' vide their Gazette Notification dated May 29, 2015. The Reserve Bank helped revise the framework so as to make it compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification and Provisioning pertaining to Advances' issued to banks by the Reserve Bank.

with migration of all scheduled commercial banks (excluding Regional Rural Banks and Local Area Banks), during the supervisory cycle 2016-17. While retaining the underlying concepts and principles of the main model, during the supervisory cycle 2015-16, a smaller RBS model, as a variant model, was developed for the small banks operating as a branch with few/niche business lines.

1.13 To address supervisory concerns emanating from IT and cyber security, the IT examination of major banks was taken up during the year. Further, the SWIFT ecosystem of certain banks was tested on a sample basis. Banks were advised to develop a risk-based approach in tackling cyber threats through a board-approved cyber-security policy.

1.14 To deal with concerns relating to banking sector frauds, the Central Fraud Registry (CFR), a web-based searchable database of frauds containing data for the last 13 years was made operational on January 21, 2016. This will help in timely identification and mitigation of frauds and also serve as a potent tool for banks in taking informed business decisions. At the instance of the Reserve Bank, a Committee on Large Value Banking Frauds was also set up at Department of Financial Services, the Ministry of Finance in order to have greater coordination and synchronised action among various agencies, including investigating agencies.

III. Measures for broadening and deepening access to finance

1.15 There were two major developments during 2015-16 which will shape the financial landscape in the years to come and will also be instrumental in furthering financial inclusion. First, in-principle approvals for setting up payments banks to eleven applicants were granted on August 19, 2015 and on September 16, 2015, in-principle approvals were granted to ten applicants for setting up small finance banks (SFBs). Accordingly, two entities – the Capital Small Finance Limited and Equitas Small Finance Bank Limited – commenced operations as small finance banks, while Airtel Payments Bank Limited began operating as the first payments bank. Secondly, on August 1, 2016 guidelines for 'on tap' licensing of universal banks in the private sector were released. Following the Reserve Bank discussion paper on 'Banking Structure in India: The Way Forward,' the process of continuous authorisation will keep competitive pressure on existing banks and, with financial inclusion as an integral part of the proposed business plan of a given bank, this will also help in enhancing financial inclusion. Chapter V of this report provides further details of various policy developments and progress achieved in the area of financial inclusion.

1.16 Leveraging technology in the retail delivery of financial services is turning out to be a game changer for the financial landscape in India. It is a cost-effective means of reaching last mile finance and thus helps in financial inclusion. For providing a greater impetus to card-based retail payments, an Acceptance Development Fund (ADF) is being designed to step up the card acceptance infrastructure. Further, the Unified Payments Interface (UPI) was launched on August 25, 2016 to give a boost to mobile banking. This is expected to revolutionise retail payments given the high degree of penetration of mobile phones in the country.

1.17 Apart from the use of technology by the mainstream banking institutions, recent years have also witnessed the entry of several alternative non-financial institutions providing financial services, typically known as Fin Tech. The entry of these alternative institutions is expected to improve competition in the financial sector. However, it can also pose challenges resulting in long-term systemic concerns. Accordingly, on July 14, 2016 the Reserve Bank set up an inter-regulatory working group to examine various aspects related to Fin Tech innovations and the related risks and opportunities.

1.18 In India, financial literacy has been regarded as a process that provides demand side support for financial inclusion. Accordingly, till date various initiatives have been taken by all stakeholders to enhance awareness about finance among the general public (details in Chapter V).

1.19 While expanding the reach of finance and financial literacy, the Reserve Bank has been conscious about protecting the rights and interests of customers, particularly small customers. Accordingly, the Reserve Bank has formulated the Charter of Customer Rights and banks were advised to formulate board-approved customer rights' policies on similar lines. Further, the Banking Ombudsman (BO) scheme was reviewed during the year along with the rationalisation/augmentation of offices of BO. For informed policies for customer protection, the Reserve Bank also took up the issue of mis-selling of third-party financial products by banks in rural/semi-urban areas as a subject for a field level study. Similarly, for enhancing awareness about fictitious money transfers in the name of the Reserve Bank, a pan-Indian awareness campaign too was undertaken.

1.20 On November 26, 2015 the Central Registry of Securitisation Asset Reconstruction and Security Interest in India (CERSAI) was notified as the Central KYC Records Registry (CKYCR) for receiving, storing and retrieving KYC records of customers in digital form. This will ensure a single KYC across all financial products and thus make financial access more convenient. The CKYCR has started its 'live run' with effect from July 15, 2016.

IV. Other measures

1.21 In pursuance of the non-legislative recommendations of the Financial Sector Legislative Reforms Commission (FSLRC) for capacity building in banks, banks were advised to identify specialised areas for certification of their staff. For benchmarking India with the international best practices with regard to green finance, the Reserve Bank set up a working group in September 2016. SCBs (excluding RRBs) were advised to follow Indian accounting standards as notified under the Companies (Indian Accounting Standards) Rules, 2015 from the financial year 2018-19 (with previous year comparatives). To enhance monetary policy transmission and transparency in the methodology for determining interest rates on loans, banks were mandated to compute base rates based on marginal cost of funds.

Regulatory and supervisory measures in the co-operative and non-banking segments

1.22 In recent years, a general guiding principle for the regulation of the co-operative and non-banking financial segments has been minimising regulatory arbitrage between banks and these segments. In pursuance of this principle, steps were taken to further harmonise the regulatory treatment of NBFCs, for instance, regulations on the framework for revitalising distressed assets, reporting frauds and options on refinancing of project loans.

1.23 The existence of unlicensed district central co-operative banks (DCCBs) has been a regulatory concern. With the implementation of the revival scheme announced by the central government, the number of unlicensed DCCBs was reduced to only three as at end-September 2016 from 23 as at end-June 2013.

Way forward for the banking sector

1.24 In pursuance of the long-term vision of developing a sound, competitive, inclusive and customer-friendly banking sector, the Reserve Bank will continue with the on-going regulatory and supervisory reforms and also explore newer areas. The possibility of creating new kinds of differentiated banks, such as custodian and wholesale financing banks, will also be explored. The Business Correspondent (BC) model, which has been at the heart of financial inclusion efforts by the Reserve Bank, will be scaled up further to expand its outreach to remote rural areas through registry, certification and training of these entities. Following the 'Payment and Settlement Systems in India – Vision 2018,' payment infrastructure will be stepped up to address the five Cs of coverage, convenience, confidence, convergence and cost. Further, to address customer services-related concerns in the non-banking segment, the Reserve Bank will also take up the issue of designing an appropriate ombudsman scheme for NBFCs.

Chapter II

Operations and Performance of Scheduled Commercial Banks

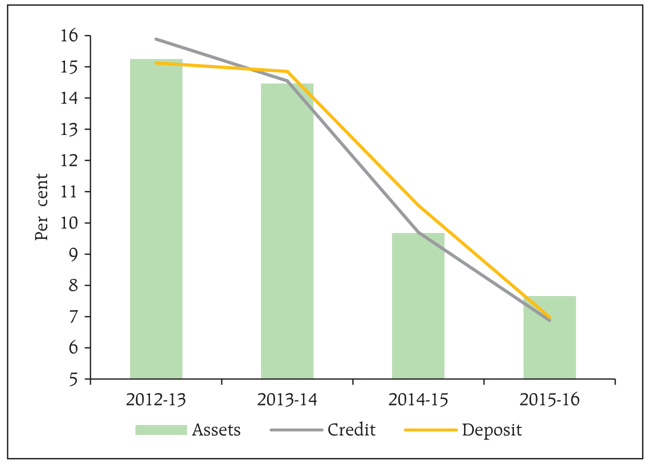
Consolidated operations[1]

2.1 The consolidated balance sheets of the banking sector continued to grow at a modest pace during 2015-16 with assets/liabilities expanding at 7.7 per cent as compared to 9.7 per cent in 2014-15 (Chart 2.1). A high and rising proportion of banks' delinquent loans, particularly those of public sector banks (PSBs) and a consequent increase in provisioning for non-performing assets (NPAs) continued to weigh on credit growth reflecting their lower risk appetite and stressed financial position. Consequently, growth in loans and advances of PSBs decelerated to 2.1 per cent in 2015-16 from 7.4 per cent in the previous year (Chart 2.2). On the liability side, moderation in deposit growth was commensurate.

Current and saving account deposits

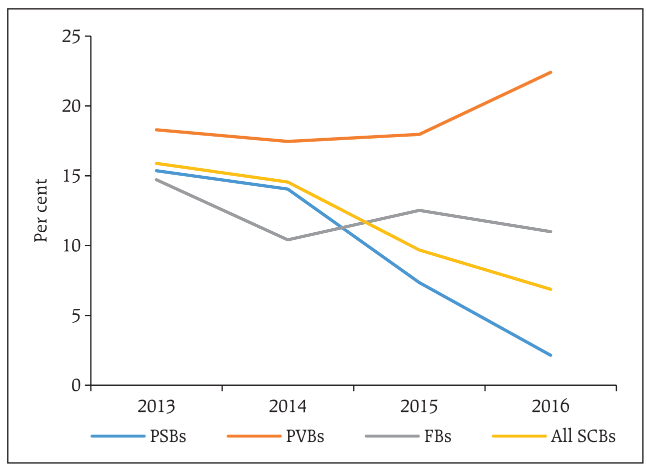
2.2 During 2015-16, SCBs' low-cost current and saving account (CASA) deposits posted marginally higher growth as compared to the previous year. Both private sector banks (PVBs) and foreign banks (FBs) witnessed higher growth in CASA deposits as compared to PSBs (Chart 2.3).

Chart 2.1: Trends in growth of select banking aggregates



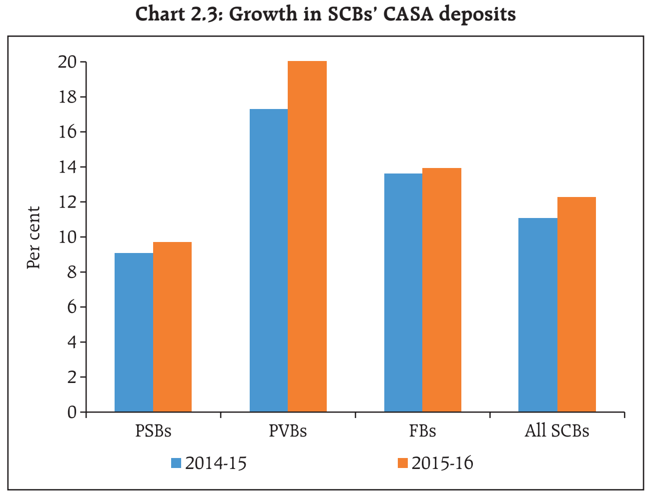
Source: Banks' annual accounts and DBIE, RBI.

Chart 2.2: Bank group-wise growth in advances



Source: Banks' annual accounts.

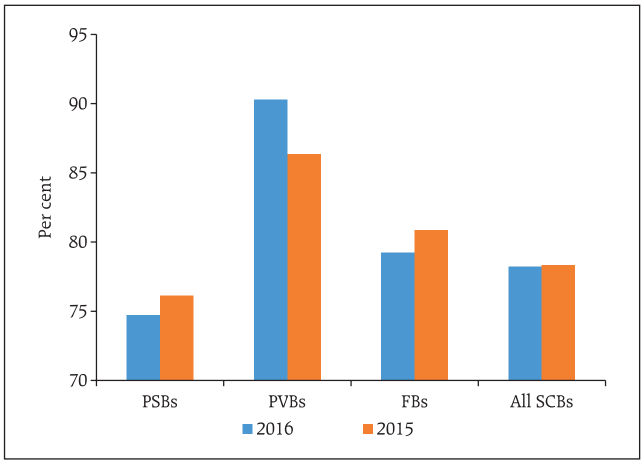
Chart 2.3: Growth in SCBs' CASA deposits



Source: Banks' annual accounts.

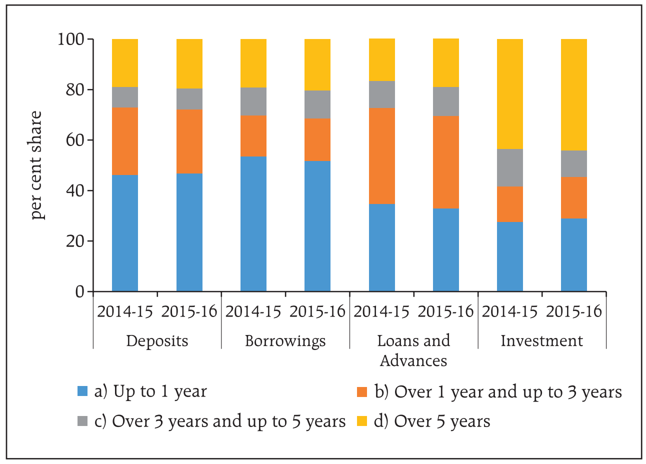
[1] Including overseas operations.

Chart 2.4: Trends in outstanding C-D ratio (as on March 31, 2016)



Source: Banks' annual accounts.

Chart 2.5: Maturity profiles of select liabilities/assets of SCBs



Source: Banks' annual accounts.

Credit-deposit ratio

2.3 While the credit-deposit (C-D) ratio of the banking system remained around 78 per cent, it was significantly higher at 90.3 per cent for PVBs as at end-March 2016 (Chart 2.4).

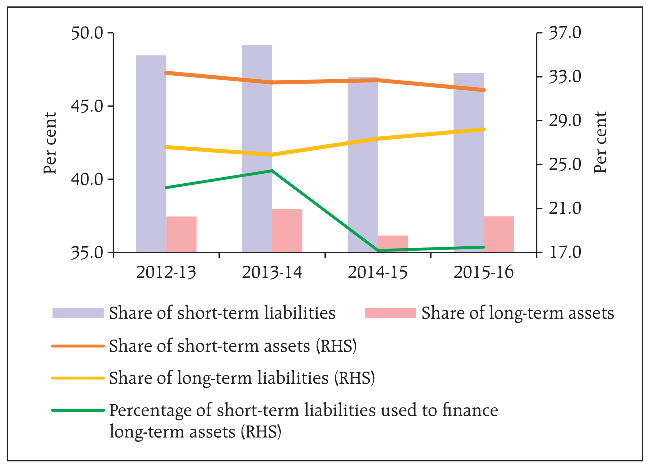
Maturity profile of liabilities and assets

2.4 Almost half of the total deposits and borrowings of the banking sector were short-term in nature as at end-March 2016 (Chart 2.5). Long-term assets financed by short-term liabilities showed an increase during 2015-16 (Chart 2.6).

Off-balance sheet operations

2.5 During 2015-16, banks' off-balance sheet operations contracted. Forward exchange contracts which accounted for more than 86 per cent of the total off-balance sheet liabilities of banks in 2015-16 declined by 4.9 per cent during the year (Chart 2.7). The share of FBs in total off-balance sheet operations of the banking sector remained the highest at 50.9 per cent, followed by PSBs (25.7 per cent) and PVBs (23.4 per cent).

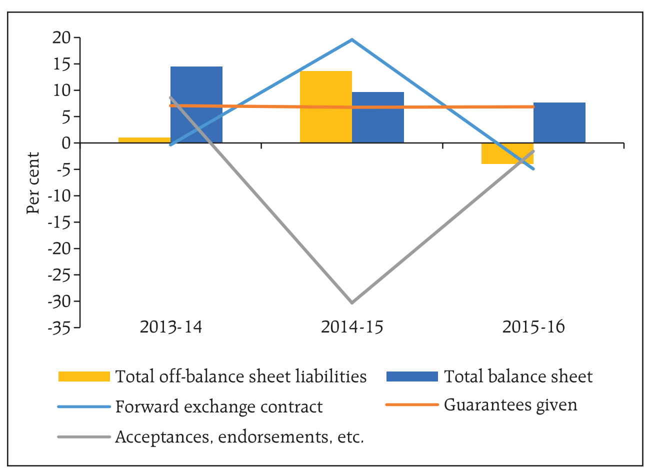
Chart 2.6: Trends in SCBs' maturity profiles of assets and liabilities



Note: 1. Short-term is up to 1 year while long-term is more than 3 years.
2. Assets consists of loans & advances and investement. Liabilities consists of deposits and borrowings.
3. Percentage of short-term liabilities used to finance long term assets is calculated as (long-term assets minus long-term liabilities)/short-term liabilities*100.

Source: Banks' annual accounts.

Chart 2.7: Growth in SCBs' off-balance sheet liabilities



Source: Banks' annual accounts.

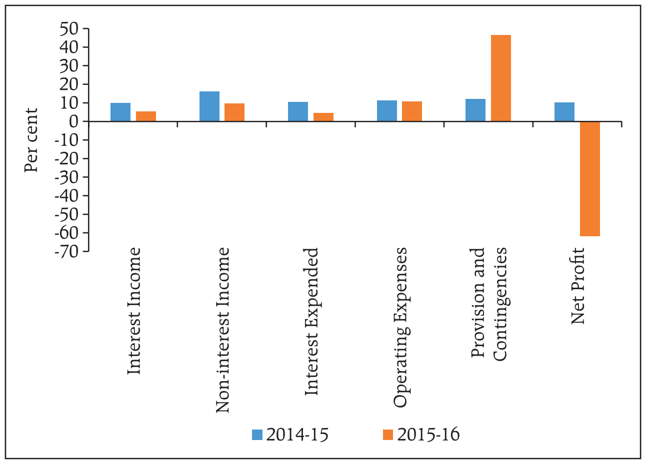
Financial performance of SCBs

2.6 During 2015-16, SCBs' interest earnings and non-interest incomes were adversely affected. Interest income reflected the impact of the continuing slowdown in credit growth. Interest expended also witnessed deceleration. However, growth in net interest income declined as compared to the previous year. Further, operating expenses showed an improvement largely due to moderate growth in the wage bill. Provisions and contingencies surged due to a sharp deterioration in asset quality. Provisioning for NPAs more than doubled on account of improved recognition of non-performing assets. This led to a more than 60 per cent drop in net profits for the banking sector as a whole though it remained in the positive zone (Chart 2.8). Bank group-wise, PVBs and FBs reported net profits while PSBs incurred losses. PSBs reported losses to the tune of ₹180 billion with net profits declining by 148 per cent over the previous year.

2.7 Net interest margin (NIM) came under further pressure during the year due to loss of interest from standard assets slipping into NPAs, the impact of implementation of the Ujwal DISCOM Assurance Yojana (UDAY) leading to lower yields and adoption of the marginal cost lending rate (MCLR) during a decreasing rate scenario. Lower costs of funds could not offset the decline in NIM. Spread marginally increased in 2015-16 (Chart 2.9).

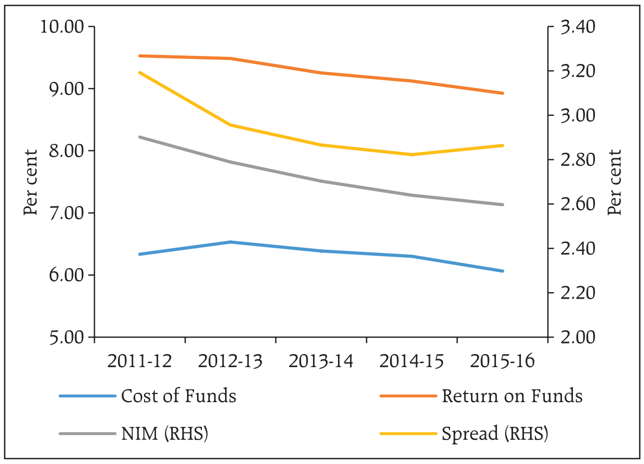
2.8 During the year, major indicators of profitability, that is, banks' return on assets (RoA) and return on equity (RoE) showed a substantial decline as compared to the previous year, reflecting the impact of a sharp decline in net profits. PSBs reported negative RoA (Table 2.1).

Chart 2.8: Growth of select items of income and expenditure



Source: Banks' annual accounts.

Chart 2.9: Financial performance of SCBs



Notes: Cost of funds= (interest paid on deposits + interest paid on borrowings)/(average of current and previous year's deposits + borrowings). Return on funds = (interest earned on advances + interest earned on investments)/(average of current and previous year's advances + investments). Net interest margin = net interest income/average total assets. Spread = difference between return and cost of funds.
Source: Banks' annual accounts.

Table 2.1: SCBs' return on assets and return on equity (bank group-wise)

(per cent)

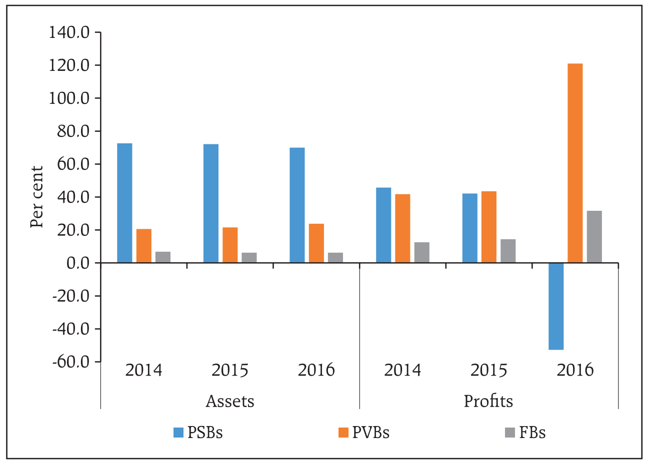
Sr. no.	Bank group	Return on assets		Return on equity	
		2014-15	2015-16	2014-15	2015-16
1	Public Sector Banks	0.46	-0.20	7.76	-3.47
	1.1 Nationalised Banks*	0.37	-0.49	6.44	-8.52
	1.2 The State Bank Group	0.66	0.42	10.56	6.78
2	Private Sector Banks	1.68	1.50	15.74	13.81
3	Foreign Banks	1.84	1.45	10.24	8.00
4	**All SCBs**	**0.81**	**0.31**	**10.42**	**3.59**

Notes: Return on assets = net profit/average total assets. Return on equity = net profit/average total equity.
* Nationalised banks include IDBI Bank Ltd and Bharatiya Mahila Bank Ltd.
Source: Banks' annual accounts.

Bank group-wise share in assets and profits

2.9 The declining trend in the share of assets and profits of PSBs continued during 2015-16 reflecting slower growth in assets and large losses (Chart 2.10).

Chart 2.10: Bank group-wise share in total assets and profits of the banking sector



Source: Banks' annual accounts.

Recovery of NPAs

2.10 Banks have been making all efforts to reduce their non-performing assets through various legal channels like resolutions through Lok Adalats, Debt Recovery Tribunals (DRTs) and invocation of SARFAESI. However, the amount recovered by all SCBs during 2015-16 reduced to ₹227.68 billion as against ₹307.92 billion during the previous year (Table 2.2). PSBs, which are burdened with a high proportion of the banking sector's NPAs, could recover only ₹197.57 billion as against ₹278.49 billion during the previous year (Table 2.3). The deceleration in recovery was mainly due to a reduction in recovery through the SARFAESI channel by 52 per cent from ₹256 billion in 2014-15 to ₹131.79 billion in 2015-16. On the other hand, recovery through Lok Adalats and DRTs increased.

Table 2.2: SCBs' NPAs recovered through various channels

(Amount in ₹ billion)

	2014-15 (Revised)			2015-16		
Channel of Recovery	**No. of cases Referred**	**Amount involved**	**Amount Recovered ***	**No. of cases Referred**	**Amount involved**	**Amount Recovered ***
Lok Adalats	29,58,313	309.79	9.84	44,56,634	720.33	32.24
DRTs	22,004	603.71	42.08	24,537	693.41	63.65
SARFAESI	1,75,355	1,567.78	256.00	1,73,582	801.00	131.79
Total	**31,55,672**	**2,481.28**	**307.92**	**46,54,753**	**2,214.74**	**227.68**

Note: * refers to the amount recovered during the given year, which could be with reference to cases referred during the given year and those referred during earlier years.
Source: RBI Supervisory Returns.

Table 2.3: PSBs' NPAs recovered through various channels

(Amount in ₹ billion)

	2014-15 (Revised)			2015-16		
Channel of Recovery	**No. of cases Referred**	**Amount involved**	**Amount Recovered ***	**No. of cases Referred**	**Amount involved**	**Amount Recovered ***
Lok Adalats	25,96,351	270.20	9.31	42,44,800	690.17	31.34
DRTs	18,397	532.03	34.84	19,133	574.39	55.90
SARFAESI	1,66,804	1,463.06	234.34	1,59,147	650.08	110.33
Total	**27,81,552**	**2,265.29**	**278.49**	**44,23,080**	**1,914.64**	**197.57**

Note: * refers to the amount recovered during the given year, which could be with reference to cases referred during the given year and those referred during earlier years.
Source: RBI Supervisory Returns.

2.11 Banks also reduced their stressed assets by selling them to asset reconstruction companies (ARCs). This has been increasing since March 2014 because of the regulatory support extended to banks under the Framework to Revitalise the Distressed Assets in the Economy (Table 2.4).

Table 2.4: Number of ARCs and assets acquired from banks

(Amount in ₹ billion)

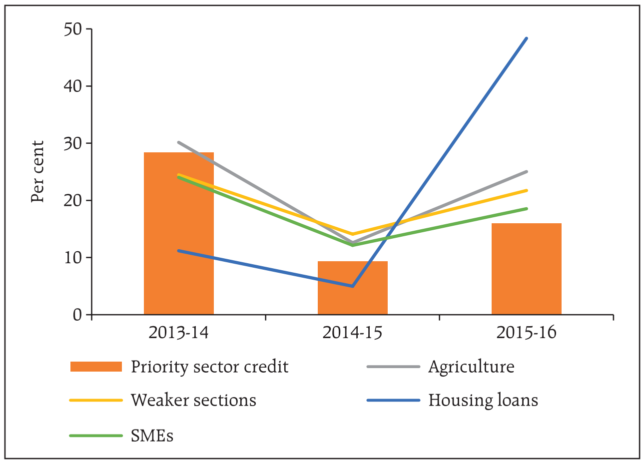
Values	December 2013	March 2014	March 2015	March 2016
Company count	5	13	14	16
Total acquired from banks	**163.56**	**351.64**	**584.79**	**726.26**

Source: RBI Supervisory Returns.

Priority sector credit

2.12 In contrast to the trend in total credit, the priority sector registered a strong growth of 16.0 per cent during 2015-16 as compared to 9.3 per cent in the previous year. Credit for housing loans increased significantly (Chart 2.11). SCBs as a whole could achieve the priority sector target of 40 per cent (of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher). As on end-March 2016, bank-group wise achievement of priority sector target is: PSBs (39.3 per cent), PVBs (45.1 per cent) and FBs (35.3 per cent).

Chart 2.11: Trend in growth in priority sector credit



Source: RBI Supervisory Returns.

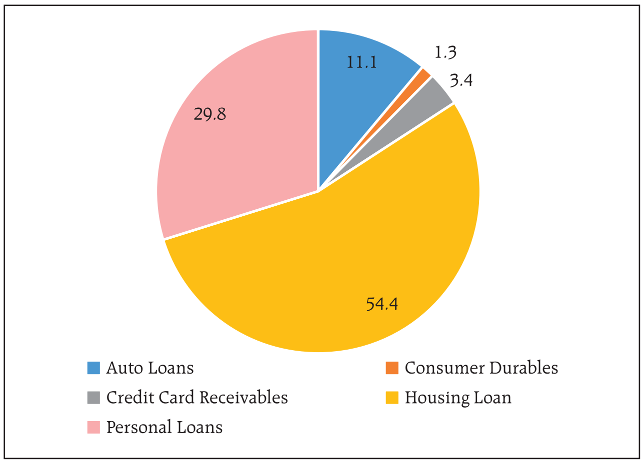
Priority sector lending certificates

2.13 The priority sector lending certificates (PSLCs) scheme introduced by the Reserve Bank in April 2016 provides for the purchase of these instruments by banks in the event of a shortfall in their achievement of PSL targets/sub-targets. It simultaneously incentivises surplus banks by making available a mechanism to sell their over-achievement thereby enhancing lending to the categories under the priority sector. The PSLC mechanism does not involve transfer of credit risk or underlying assets.

Retail credit

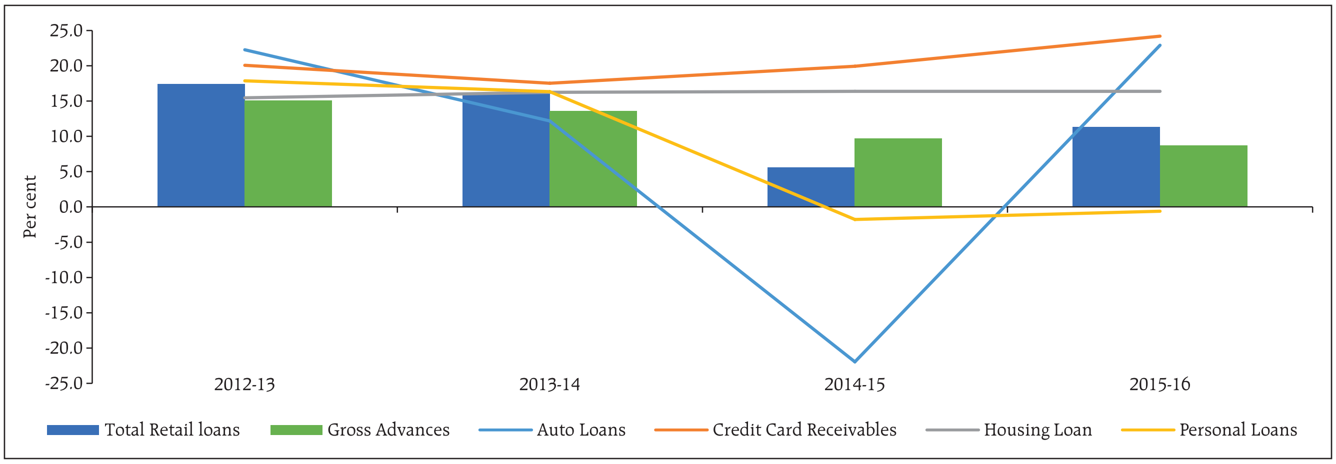
2.14 Banks' retail loan portfolios registered double-digit growth. The housing loan component which constitutes more than 54 per cent of the total retail loan portfolio of banks increased by 16.4 per cent (Chart 2.12). The personal loans component, which is the second major retail segment and consists of education loans, loans against fixed deposits, shares and bonds, among others, however,

Chart 2.12: Composition of retail loans (in per cent – as at end-March, 2016)



Source: RBI Supervisory Returns.

Chart 2.13: Growth in retail loans



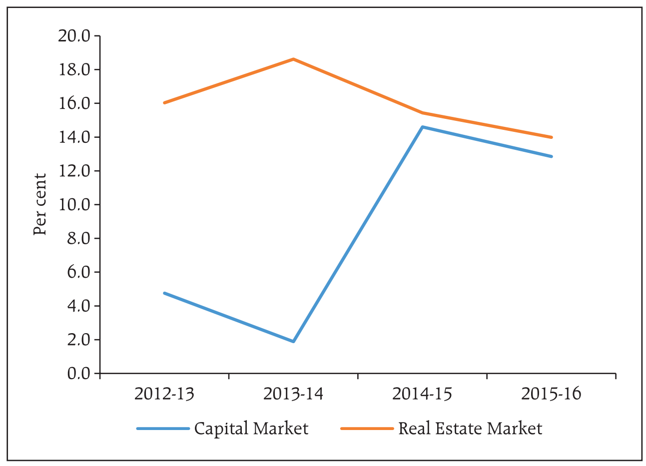
Source: RBI Supervisory Returns.

continued to witness negative growth. In comparison, the auto loan segment made a smart recovery after registering negative growth during the previous year (Chart 2.13).

Credit to sensitive sectors

2.15 Credit to sensitive sectors *viz.* the capital market and real estate sector accounted for around 20 per cent of the total loans and advances by SCBs. Among bank-groups, exposure of FBs to these sectors was the highest at 27.7 per cent followed by PVBs (26.3 per cent) and PSBs (16.9 per cent). Even among these two sectors, 92.5 per cent of the credit pertained to the real estate sector. During 2015-16, credit to both the sectors witnessed deceleration. (Chart 2.14).

Chart 2.14: Growth in lending to sensitive sectors



Source: Banks' annual accounts.

SCBs' ownership patterns

2.16 Government of India continued to maintain more than the statutory minimum shareholding of 51 per cent in all PSBs. The maximum non-resident shareholding during the year among PSBs[2] was 11.9 per cent as against 72.7 per cent in the case of PVBs[3]. However, as the government has allowed PSBs to raise capital from markets through the follow-on public offer (FPO) or qualified institutional placement (QIP) by diluting the government's holding up to 52 per cent in a phased manner based on their capital requirements, their stock performance and liquidity and market conditions, the government shareholding in some of the PSBs is expected to come down.

[2] 20 per cent is the regulatory maximum prescribed by the Reserve Bank.
[3] 74 per cent is the regulatory maximum prescribed by the Reserve Bank.

Regional rural banks

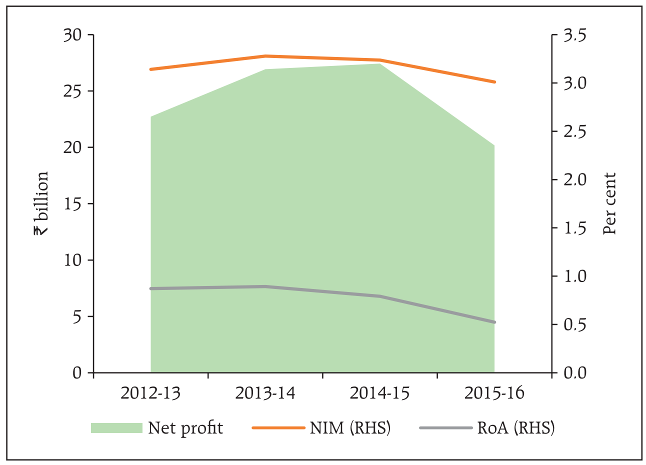
2.17 As at end-March 2016, there were 56 regional rural banks (RRBs) in the country with 45 sustainable RRBs, *i.e.*, earning profits and carrying no accumulated losses. Assets/liabilities of RRBs increased by 8.4 per cent during the year. On the asset side, loans and advances witnessed a growth of 14.6 per cent against 22.9 per cent in the previous year, while investments improved by 3.6 per cent against an increase of 10.0 per cent during the corresponding period. On the liability side, deposits witnessed a marginal increase in growth to 14.8 per cent as against 14.0 per cent in the previous year, while borrowings declined by 19.4 per cent *vis-a-vis* a 28.0 per cent increase in the previous year.

2.18 During 2015-16, both interest income and interest expended witnessed lower growth as compared to the previous year. Interest expended increased by 14.6 per cent against 11.1 per cent increase in interest income. This led to a marginal decline in NIM. Further, provisions and contingencies increased by 71.0 per cent largely on account of deteriorating asset quality. These factors led to a decline in the overall net profits of RRBs by 26.5 per cent as against a 1.9 per cent increase during the previous year (Chart 2.15).

Local area banks

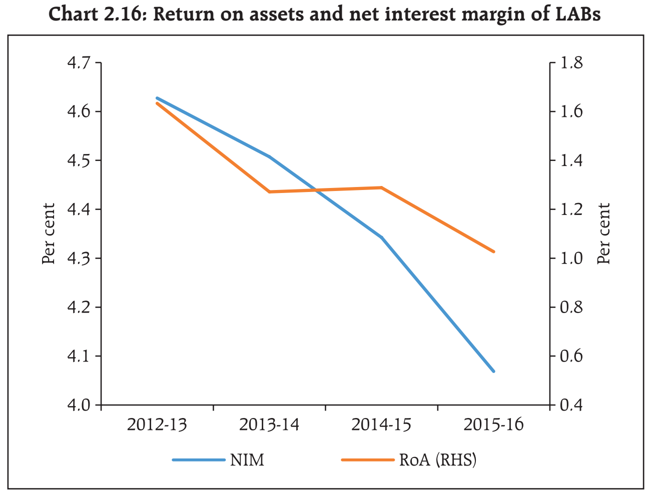
2.19 There were four local area banks (LABs) at the end of March 2016. However, this number reduced to three with the Capital Local Area Bank transforming into a small finance bank w.e.f. April 24, 2016. These banks witnessed a growth of 19.6 per cent in assets with their net interest incomes growing by 13.3 per cent during 2015-16. However, their net profits declined by 4.0 per cent resulting in a decline in RoA (Chart 2.16). As the assets of the erstwhile Capital Local Area Bank Ltd. constituted over 74 per cent of the assets of all LABs, the significance of LABs as a bank-group has diminished further.

Chart 2.15: Financial performance of RRBs



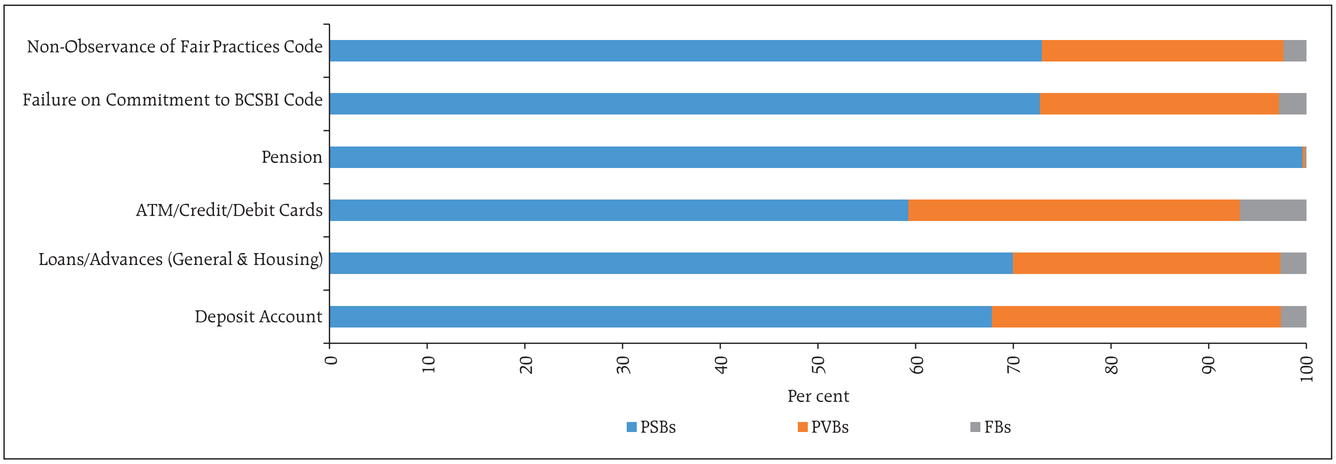
Source: NABARD.

Chart 2.16: Return on assets and net interest margin of LABs



Source: RBI supervisory returns.

Chart 2.17: Bank group-wise break-up of major complaint types (2015-16)

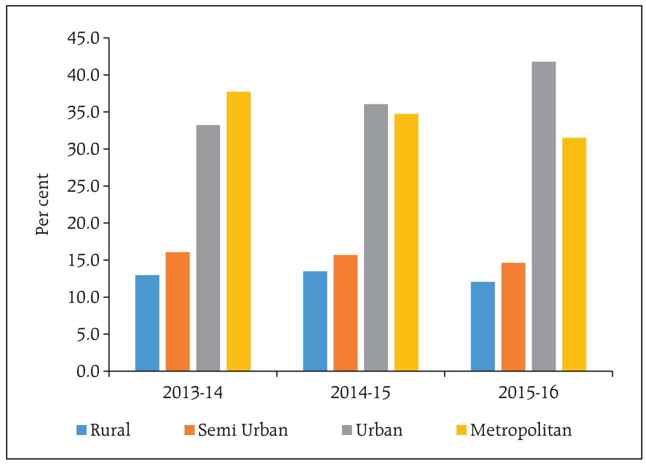


Source: RBI.

Customer services

2.20 During 2015-16, 95,377 complaints were received against SCBs by 15 regional offices of the Banking Ombudsman as against 85,131 during the previous year. PSBs witnessed a marginal decline in the share of complaints received at Banking Ombudsman Offices to 68.2 per cent from 70.5 per cent in the previous year. PVBs' share of the complaints increased during this period (Chart 2.17). Population group-wise, urban and metropolitan centres received a majority of the complaints (73 per cent of the total complaints in 2015-16) under the Banking Ombudsman scheme (Chart 2.18).

Chart 2.18: Population group-wise distribution of complaints received

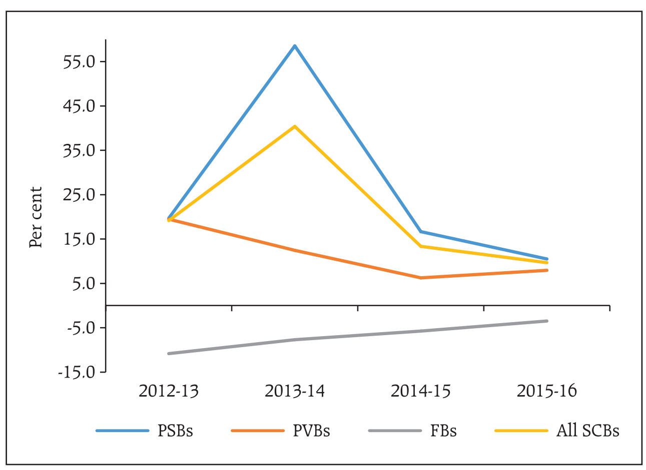


Source: RBI.

Growth in ATMs

2.21 The geographic reach of ATMs increased further as the number of ATMs installed increased to around 0.2 million as at end March 2016, an increase of 9.7 per cent over the previous year. PSBs maintained more than a 70 per cent share in the total number of ATMs. FBs, however, continued to post a decline in the number of ATMs (Chart 2.19).

Chart 2.19: Growth in the number of ATMs



Note: Data excludes WLAs.
Source: RBI.

Distribution of ATMs

2.22 Regional distribution of ATMs became more balanced with the share of metropolitan, urban and semi-urban centres in total installed ATMs varying between 26.0 per cent and 29.0 per cent. However, metropolitan centres witnessed a marginal decline in the share of ATMs to 26.9 per cent in March 2016 from 27.7 per cent during the previous year. Semi-urban and urban centres registered a marginal increase in their share of ATMs (Chart 2.20).

Off-site ATMs

2.23 More than 60 per cent of the PVB and FB ATMs are off-site ATMs which are set up on a standalone basis and not on the premises of a bank's branches. However, in case of PSBs the share of off-site ATMs is less than 45 per cent. During 2015-16, the share of off-site ATMs in total ATMs declined in every bank-group (Chart 2.21). Given that the Reserve Bank has allowed banks to offer all their products and services through the ATM channel, a decline in the share of off-site ATMs is a disquieting development.

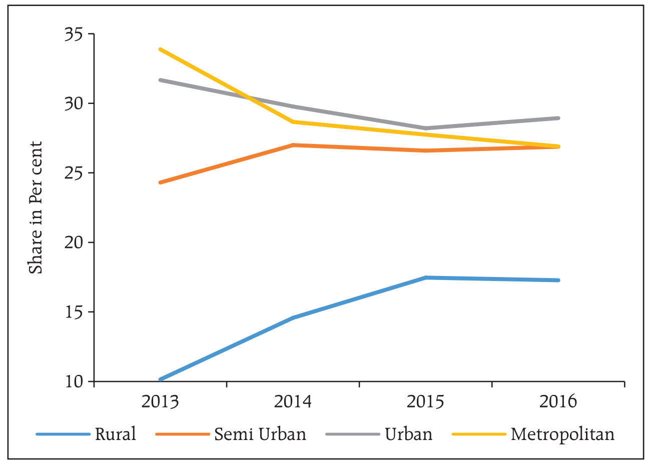
White label ATMs

2.24 During 2015-16 the number of white label ATMs (WLAs), which are owned and operated by non-bank entities, increased significantly to 12,962 from 7,881 during the previous year. This spurt in WLAs can be attributed to the entry of new players in the banking space such as payments banks and small finance banks which are collaborating with WLA operators rather than having their own ATMs to minimise costs.

Debit and credit cards

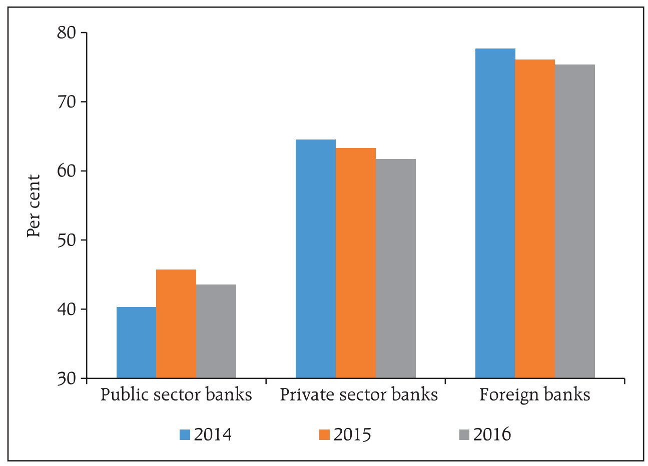
2.25 Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year. During 2014-15, the spurt in debit card growth was attributed to the Pradhan Mantri Jan Dhan Yojana (PMJDY) under which every account holder under the scheme was issued a RuPay debit card. As the growth in account opening under PMJDY decelerated, this resulted in a decline in the growth of debit card issuances. However, credit cards registered increased growth of 16.1 per cent during the year as against 10.1 per cent during 2014-15 (Chart 2.22). Bank group-wise, PSBs maintained a strong lead in issuance of debit cards with a share of 82.8 per cent. On the other

Chart 2.20: Geographical distribution of ATMs



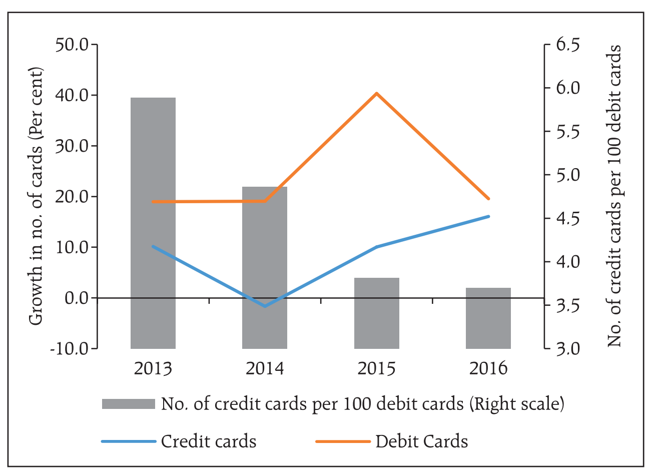
Note: Data excludes WLAs.
Source: RBI.

Chart 2.21: Share of off-site ATMs



Note: Data excludes WLAs.
Source: RBI.

Chart 2.22: Trends in debit and credit cards



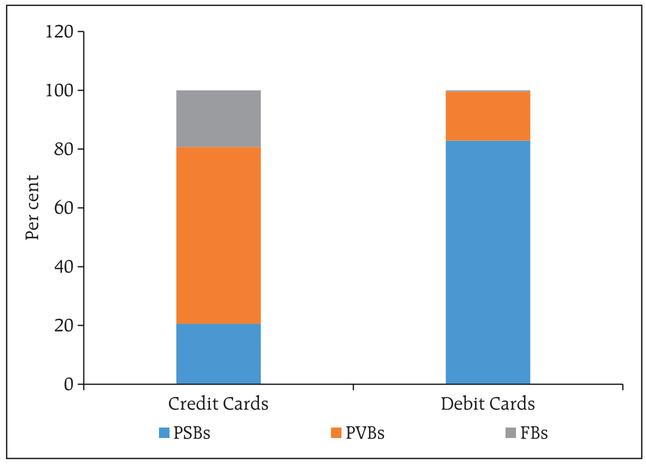
Note: Data excludes WLAs.
Source: RBI.

hand, PVBs had a dominant position in credit card issuances with a share of 60.1 per cent (Chart 2.23).

Prepaid payment instruments

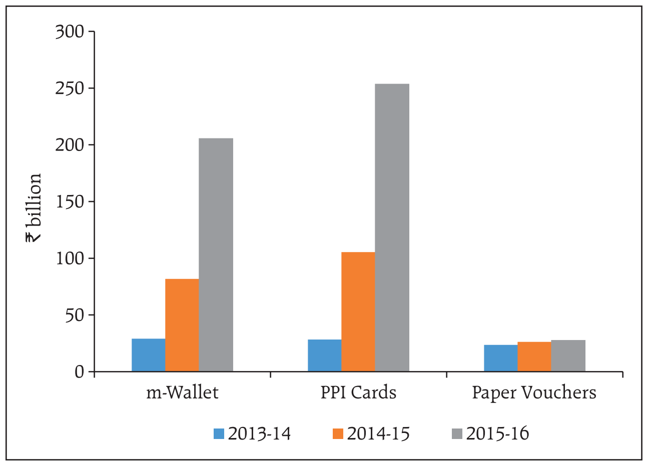
2.26 Due to greater use of prepaid payment instruments (PPIs) for purchase of goods and services and for fund transfers, the value of transactions by these instruments has increased considerably in recent years. Among the prepaid instruments, PPI cards (which include mobile prepaid instruments, gift cards, social benefit cards, foreign travel cards and corporate cards) remained the most popular mode followed by mobile-wallets. During 2015-16, the value of transactions through PPI cards and mobile-wallets increased significantly to ₹254 billion and ₹206 billion respectively, against ₹105 billion and ₹82 billion respectively in the previous year (Chart 2.24).

Chart 2.23: Share of bank-groups in credit/debit cards



Source: RBI.

Chart 2.24: Progress of prepaid instruments (value)



Source: RBI.

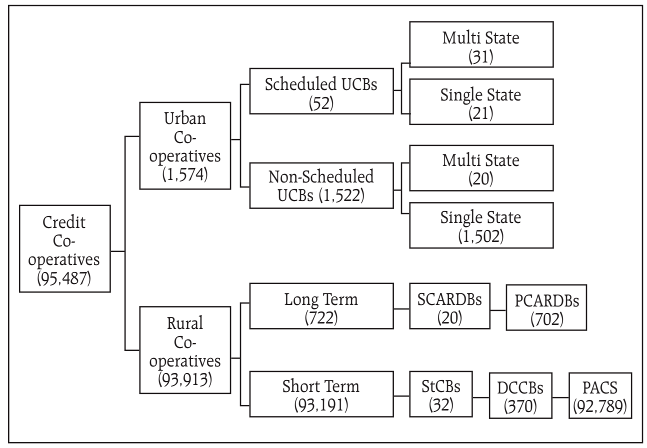
Chapter III

Developments in Co-operative Banking

Introduction

3.1 As at end-March 2016, India's co-operative banking sector comprised of 1,574 urban co-operative banks (UCBs) and 93,913 rural co-operative credit institutions, including short-term and long-term credit institutions (Chart 3.1). During 2015-16, there was a moderation in the growth of UCBs' balance sheets. Their profitability indicators and asset quality also deteriorated. During 2014-15, the balance sheets of short term-rural co-operatives, except primary agricultural credit societies (PACS), had undergone deceleration in growth while the balance sheets of long-term rural co-operatives had exhibited accelerated growth. At the same time, there was an improvement in asset quality across all rural co-operatives even as most of them registered a decline in net profits.

Chart 3.1: Structure of co-operative credit institutions in India (as on March 31, 2016)



StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes: 1. Figures in parenthesis indicate the number of institutions at end-March 2016 for UCBs and at end-March 2015 for rural co-operatives.

2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

Source: RBI.

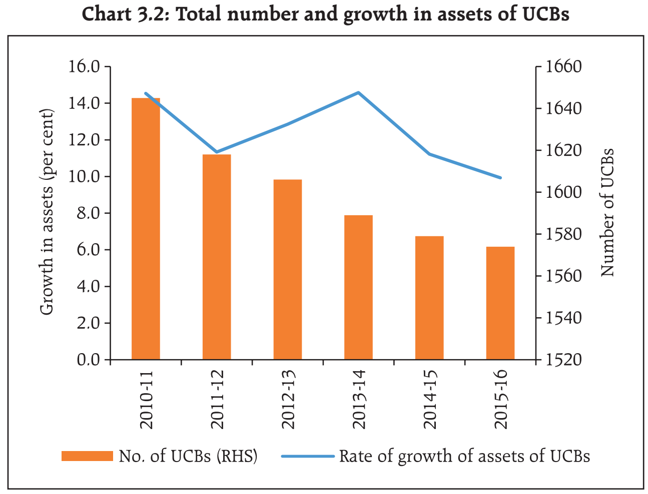
Urban co-operative banks

3.2 The number of UCBs came down from 1,579 in 2015 to 1,574 in 2016. While the number of scheduled multi-state UCBs increased from 29 to 31, non-scheduled single-state UCBs decreased from 1,507 to 1,502 by end-March 2016 (Chart 3.1).

Balance sheet operations

3.3 Growth in assets of UCBs continued to decelerate in 2015-16 -- 9.9 per cent in 2015-16 *vis-à-vis* 11.2 per cent in 2014-15 (Chart 3.2). Loans and advances on the asset side grew by a lower rate of 9.2 per cent as compared to 11.9 per cent in 2014-15. On the liability side, deposits and reserves and surplus accumulated at a slower pace (10.4 per cent and 6.7 per cent respectively against 11.8 per cent and 7.4 per cent respectively in 2014-15).

Chart 3.2: Total number and growth in assets of UCBs



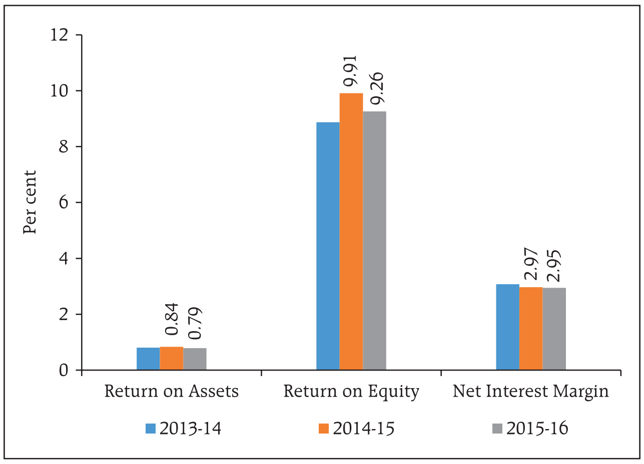
Note: Data for 2015-16 are provisional.

Source: RBI Supervisory Returns and staff calculations

Profitability

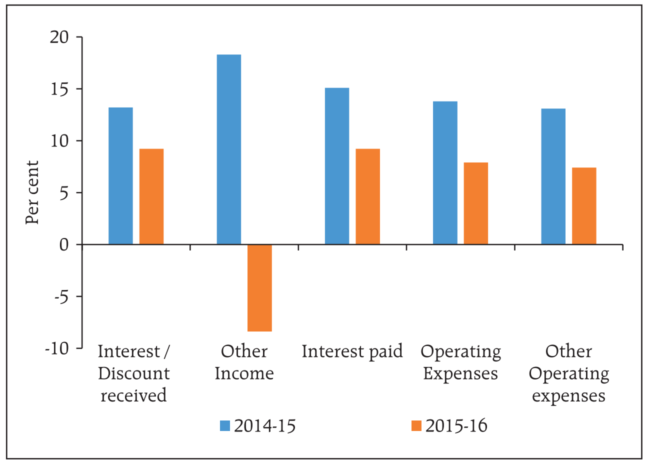
3. 4 UCBs witnessed a reduction in their returns on equity as well as assets in 2015-16. The net interest

Chart 3.3: Select indicators of profitability of UCBs



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Chart 3.4: Income and expenses of UCBs – variations in per cent



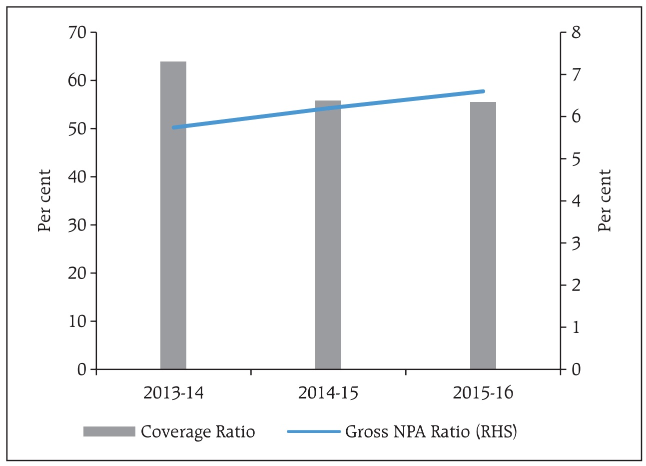
Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

margin continued to narrow down (Chart 3.3). Continuing the trend of 2014-15, their total expenses grew relatively higher (8.8 per cent) than their total income (7.9 per cent). Additionally, provisions made during 2015-16 against risks/contingencies were higher by 4.6 per cent as compared to the previous year. Net profits of UCBs decelerated. Growth rate of interest income continued to shrink and was placed at 9.2 per cent in 2015-16 as against 13.2 per cent in 2014-15. Moreover, other income which rose by 7 per cent during 2014-15 recorded a decline of 8.4 per cent in 2015-16 (Chart 3.4).

Asset quality

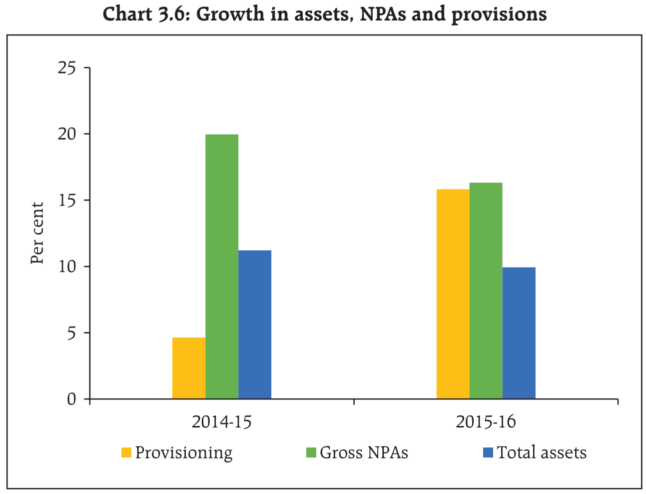
3.5 UCBs' gross NPAs continued to increase at a higher rate than assets. The gross NPA ratio stood at 6.6 per cent at end-March 2016 as compared to 6.2 per cent at end-March 2015 (Chart 3.5). While during 2014-15 provisions grew at a much lower rate than GNPAs resulting in a fall in coverage ratio to 55.8 per cent from 63.9 per cent in 2013-14, commensurate growth in provisions and GNPAs during 2015-16 ensured that the coverage ratio remained stable at 55.5 per cent (Chart 3.6).

Chart 3.5: UCBs' non-performing assets



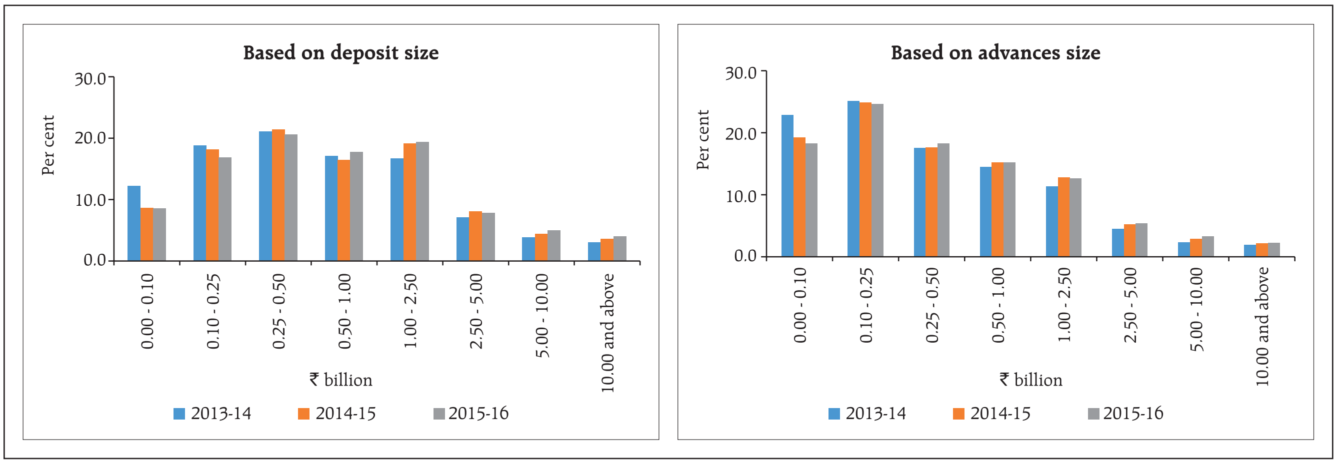
Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Chart 3.6: Growth in assets, NPAs and provisions



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations

Chart 3.7: Distribution of UCBs based on size of deposits and advances



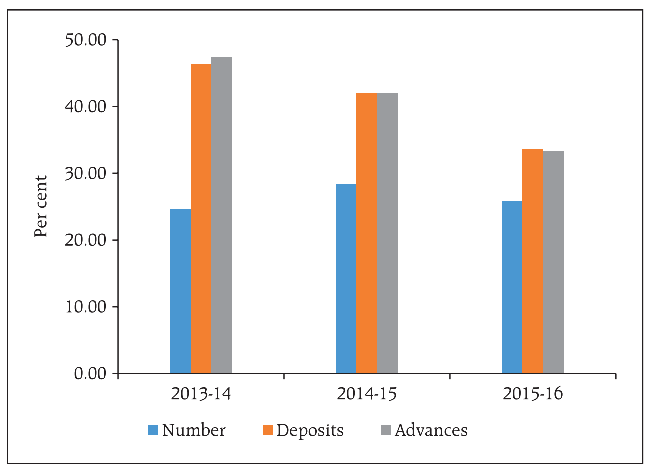
Note: 1. Position as on March 31, 2016.
2. Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

Developments with regard to UCBs

3.6 The number of Tier-II UCBs[1] continued to increase (from 412 at end-March 2013 to 442 at end-March 2014 and further to 447 at end-March 2015). In 2015-16, in general, the number of UCBs which held larger sizes of deposits and advances continued to exhibit an increase (Chart 3.7).

3.7 The share of UCBs under the highest rated category 'A' under the CAMELS model, slipped from 28.4 per cent in 2014-15 to 25.8 per cent in 2015-16. The share of banking business under this category also fell sharply indicating rising risks in the larger UCBs (Chart 3.8).

Chart 3.8: Share of UCBs in rating category A (by number and business size)



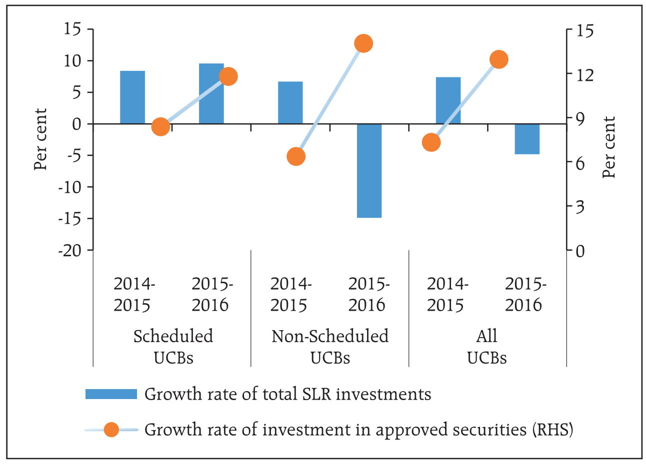
Note: 1. Position as on March 31, 2016.
2. Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

[1] Tier-I UCBs are defined as UCBs with:
- A deposit base below ₹1 billion operating in a single district.
- A deposit base below ₹1 billion operating in more than one district provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively of the bank.
- A deposit base below ₹1 billion, whose branches were originally in a single district but subsequently became multi-district due to re-organisation of the district.

All other UCBs are defined as Tier-II UCBs.

3.8 In a trend comparable to scheduled commercial banks (SCBs), the credit to deposit ratio of UCBs dipped marginally from 63.2 per cent in 2014-15 to 62.5 per cent in 2015-16 and the investment to deposit ratio decreased from 34.7 per cent in 2014-15 to 30.8 per cent in 2015-16. In 2015-16, UCBs' SLR investments fell by 4.8 per cent as balances with central/state co-operative banks ceased to be reckoned as SLR investments from April 01, 2015. This also resulted in an increase in the growth rate of 'investments in approved securities' from 7.3 per cent in 2014-15 to 13 per cent in 2015-16 (Chart 3.9). On a disaggregated level, the effect was more pronounced for non-scheduled UCBs as they held a higher share of their SLR investments as balances with central/state co-operative banks.

Chart 3.9: Change in the growth rate of UCBs' SLR investments



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

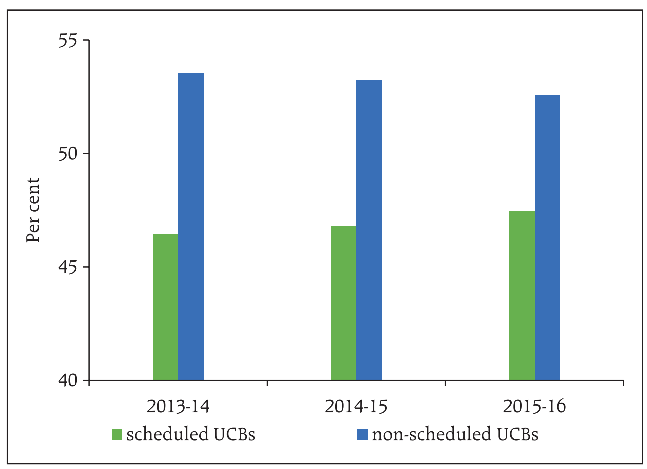
Implementation of core banking solution (CBS)

3.9 In April 2016, a scheme was formulated by the Reserve Bank, in consultation with Institute for Development and Research in Banking Technology (IDRBT), to provide financial assistance and technology support for implementation of CBS in UCBs. The scheme is implemented through IDRBT/ Indian Financial Technology and Allied Services (IFTAS). UCBs which have not yet / partially implemented CBS are eligible for financial assistance under the scheme. The scheme has received favourable response from UCBs.

Trends for scheduled UCBs

3.10 There were 52 scheduled UCBs at end-March 2016 (50 as at end-March 2015). Their share of assets in the total assets of all UCBs increased in 2015-16 (Chart 3.10).

Chart 3.10: Scheduled and non-scheduled UCBs' share in total assets



Note: 1. Position as on March 31, 2016.
2. Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

3.11 The balance sheets of scheduled UCBs expanded by 11.5 per cent in 2015-16. This is comparable to the pace of expansion witnessed during the previous year. Growth in deposits and loans and advances continued to be the leading components contributing to the expansion of UCBs' balance sheets during the year.

3.12 Profitability indicators of scheduled UCBs deteriorated in 2015-16. Both return on equity and return on assets fell while the net interest margin increased marginally (Chart 3.11). Expenditure growth remained higher than the growth in income and, in contrast to non-scheduled UCBs, the level of net profits of scheduled UCBs fell in 2015-16.

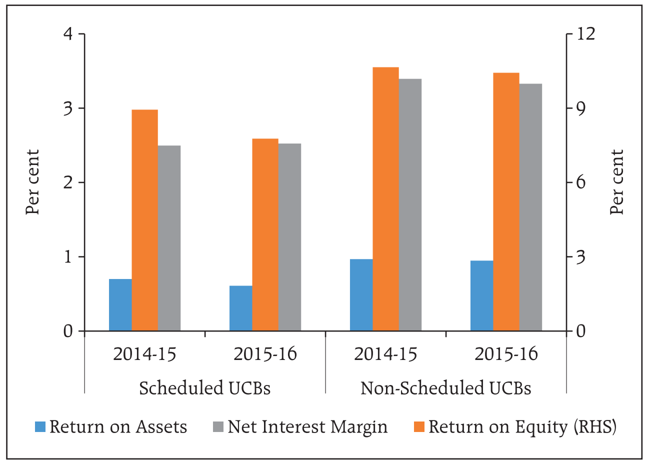
Priority sector advances of UCBs

3.13 In 2015-16, credit to small enterprises and housing witnessed a marginal increase, while the share of advances to the agricultural sector remained almost stable (Chart 3.12). The share of priority sector advances directed towards weaker sections improved across all sectors, especially for the micro, small enterprises and housing sectors between 2014-15 and 2015-16 (Chart 3.13).

Rural co-operative banks

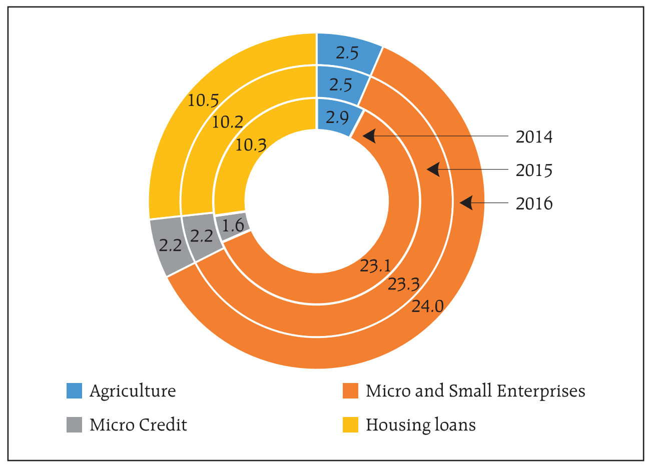
3.14 The number of primary rural co-operative credit institutions (both short- and long-term) decreased in 2014-15, bringing down the total number of rural co-operatives to 93,913 from 94,718 in 2013-14. The share of short-term credit co-operatives, comprising state co-operative banks (StCBs), district central co-operative banks (DCCBs) and primary agricultural credit societies (PACS), stood at about 93 per cent of the total assets of the

Chart 3.11: Profitability indicators of UCBs (by type)



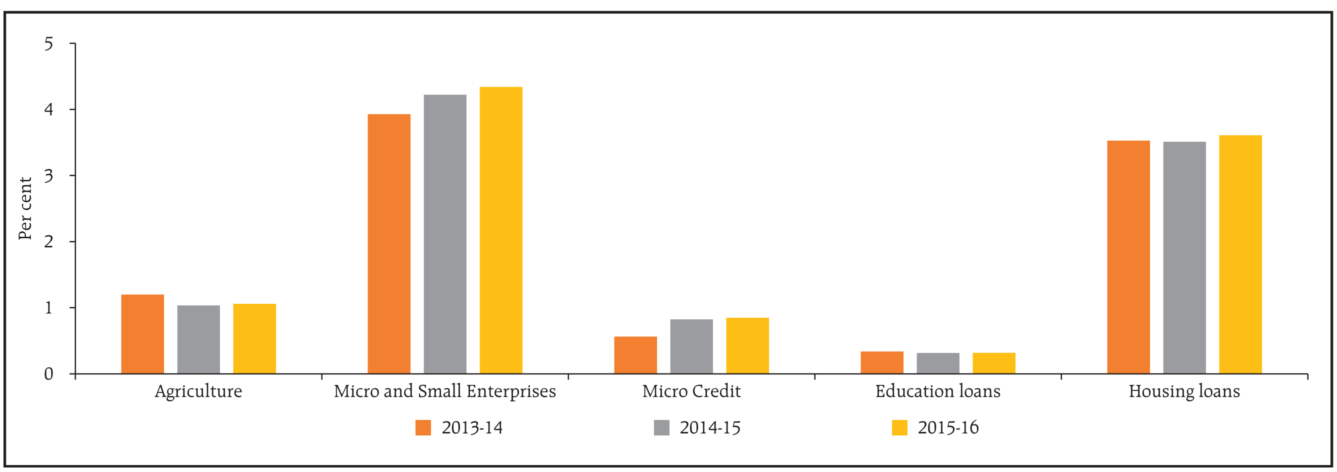
Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

Chart 3.12: Distribution of credit to select priority sectors as a percentage of total credit by UCBs



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

Chart 3.13: Percentage of priority sector advances by UCBs to weaker sections



Note: Data for 2015-16 are provisional.
Source: RBI Supervisory Returns and staff calculations.

Table 3.1: A profile of rural co-operatives (as on March 31, 2015)

(₹ billion)

Item	Short-term			Long-term	
	StCBs	DCCBs	PACs	SCARDBs	PCARDBs
1	2	3	4	5	6
A. Number of Co-operatives	**32**	**370**	**92789**	**20@**	**702**
B. Balance Sheet Indicators					
i. Owned Funds (Capital +Reserve)	141.8	293.7	216.8	74.7	53.5
ii. Deposits	1028.1	2588.1	846.2	18.4	10.2
iii. Borrowings	687.3	800.0	999.8	161.1	163.7
iv. Loans and Advances	1145.5	2194.0	1472.3*	211.9	148.1
v. Total Liabilities/Assets	1988.6	4076.9	2237.1+	332.9	306.8
C. Financial Performance					
i. Institutions in Profit #					
a. Number	28	304	43653	9	319
b. Amount of Profit	11.1	18.3	28.3	1.1	1.8
ii. Institutions in Loss					
a. Number	4	58	37440	4	381
b. Amount of Loss	0.3	10.5	43.8	5.0	5.6
iii. Overall Profits (+)/Loss (-)	10.8	7.8	(-)15.5	(-) 3.9	(-) 3.8
D. Non-performing Assets					
i. Amount	57.2	208	357.9++	64.4	53.6
ii. As percentage of Loans Outstanding	5.0	9.5	24.3	30.3	36.2
E. Recovery of Loans to Demand Ratio (Per cent)	**94.9**	**77.3**	**NA**	**46.7**	**44.6**

Note: = @ Out of these, 9 have reported profits, 4 have reported losses (Haryana, Jammu and Kashmir, Puducherry and Tripura), 3 are non-functional/dormant (Assam, Bihar, Odisha), one is defunct (Manipur), two are under liquidation (Madhya Pradesh and Maharashtra) and in Chhattisgarh, the LT structure has been merged with the ST structure. # As per data submitted by 362 DCCBs. * Loans & Advances Outstanding, + Working Capital, ++ Total overdues, NA= Not Available.
Source: NABARD and NAFSCOB.

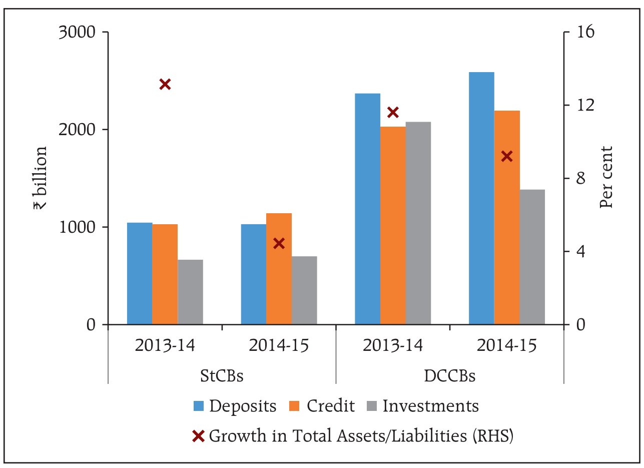
rural co-operative credit institutions at end-March 2015 (Table 3.1).

Short term rural credit institutions – StCBs and DCCBs

3. 15 StCBs experienced a slowdown in balance sheet expansion from 13.1 per cent in 2013-14 to 4.4 per cent in 2014-15 (Chart 3.14). This was primarily due to negative growth in deposits, a pronounced slowdown in the growth of the 'other liability' component, negative growth in cash and bank balances and lower growth in loans and advances on the asset side.

3. 16 Growth in income for StCBs decelerated from 9.7 per cent in 2013-14 to 5.6 per cent in 2014-15 on account of a slowdown in the growth of interest income. Despite a sharp increase in the growth of operating expenses (9.3 per cent) in 2014-15, expenditure growth witnessed moderation from 12.9 per cent in 2013-14 to 4.1 per cent in 2014-15. This was due to the 'provisions and contingencies' component of expenditure being lower by 19.9 per

Chart 3.14: Select balance sheet indicators of StCBs & DCCBs



Source: NABARD.

cent in 2014-15 (as compared to being higher by 42.6 per cent in 2013-14). The lower level of provisions and contingencies also resulted in higher growth of net profits during 2014-15 at 29.9 per cent as against a decline of 24.7 per cent in 2013-14.

3. 17 The balance sheets of DCCBs expanded by 9.2 per cent in 2014-15, which was lower than that in previous years (13.3 per cent in 2012-13 and 11.6 per cent in 2013-14). A dip in the growth of other liabilities and deposits contributed to the slowdown from the liability side while lower growth in loans and advances and negative growth in investments accounted for the deceleration from the asset side.

3. 18 Net profits of DCCBs recorded a negative growth of 49.9 per cent in 2014-15 *vis-à-vis* a negative growth of 0.7 per cent in 2013-14. Income increased by 9.3 per cent in 2014-15 as compared to 10.8 per cent in 2013-14 due to lower growth in interest income. On the other hand, the sharp increase in the 'provisions and contingencies' component of expenditure (26.8 per cent in 2014-15 versus (-)22.4 per cent in 2013-14) drove expenditure growth up from 11.1 per cent in 2013-14 to 12.2 per cent in 2014-15.

3. 19 StCBs fared better than DCCBs in all aspects of financial performance. The NPA ratio of StCBs declined further from 5.5 per cent in 2013-14 to 5.0 per cent in 2014-15 while their recovery ratio increased from 82.5 per cent in 2013-14 to 94.9 per cent in 2014-15. There was a slight decline in DCCBs' NPA ratio (9.5 per cent in 2014-15 as against 10.3 per cent in 2013-14); their recovery ratio fell marginally from 78.3 per cent in 2013-14 to 77.3 per cent in 2014-15 (Table 3.2).

3. 20 During 2014-15, StCBs in all regions saw an increase in profits, except in the north-eastern region. The increase was the highest for the eastern region with aggregate profits in 2014-15 being about four times that in 2013-14. With the exception of the central region, the NPA ratio of StCBs fell or remained stable across all regions with the decrease being the most pronounced in the north-eastern region (2.6 percentage points). Recovery as a percentage of demand exhibited a mixed trend with a turn-around in the eastern region where the recovery to demand ratio picked up from a low of 58 per cent in 2013-14 going up to 94.5 per cent in 2014-15 which was higher than the trend level of the region (about 90 per cent).

Table 3.2: Soundness indicators of rural co-operative banks (short-term)

(₹ billion)

Item	StCBs				DCCBs			
	As at end-March		Percentage Variation		As at end-March		Percentage Variation	
	2014	2015P	2013-14	2014-15P	2014	2015P	2013-14	2014-15P
1	2	3	4	5	6	7	8	9
A. Total NPAs (i+ii+iii)	57.0	57.2	1.2	0.4	209.0	208.0	15.8	-0.5
i. Sub-standard	20.7 (36.2)	20.8 (36.3)	0.3	0.5	100.2 (47.9)	93.2 (44.8)	27.3	-7.0
ii. Doubtful	26.1 (45.9)	24.7 (43.2)	31.2	-5.4	86.9 (41.6)	91.1 (43.8)	14.0	4.8
iii. Loss	10.2 (17.9)	11.7 (20.5)	-35.4	15.0	21.9 (10.5)	23.7 (11.4)	-14.4	8.3
B. Gross NPA-to-Loans Ratio (%)	5.5	5.0			10.3	9.5		
C. Recovery-to-Demand Ratio (%) (as on 30 June of previous year)	82.5	94.9			78.3	77.3		

Notes: Figures in parenthesis are percentages to total NPAs. P: Provisional.
Source: NABARD.

3. 21 At the district level, there was an increase in NPAs of DCCBs across all regions, except western and northern regions. The increase was marginal barring the central region. The central region, along with the southern region, also saw a fall in their recovery to demand ratio in 2014-15. The declining trend of recovery in the southern region continued (90.9 per cent in 2012-13, 81.3 per cent in 2013-14 and 75.9 per cent in 2014-15).

Developments with regard to DCCBs

3. 22 Significant progress has been made with respect to issuing licences to unlicensed DCCBs. With the implementation of the revival scheme announced by the central government in November 2014, the number of unlicensed DCCBs came down sharply from 23 to just 3 at the end of September 2016.

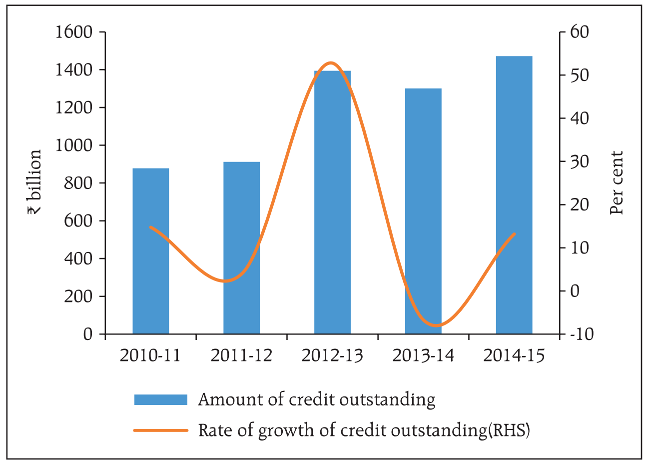
Primary agricultural credit societies (PACS)

3. 23 PACS witnessed growth in credit outstanding during 2014-15 after experiencing a slowdown in 2013-14 (Chart 3.15).

3. 24 The overall borrower to member ratio, which is a useful indicator of access to credit from PACS, improved from the level witnessed during 2013-14. Farmers – small and marginal – remained majority members of PACS but the increase in access to credit by the 'rural artisan' group contributed substantially to the increase in the overall borrower to member ratio (Chart 3.16).

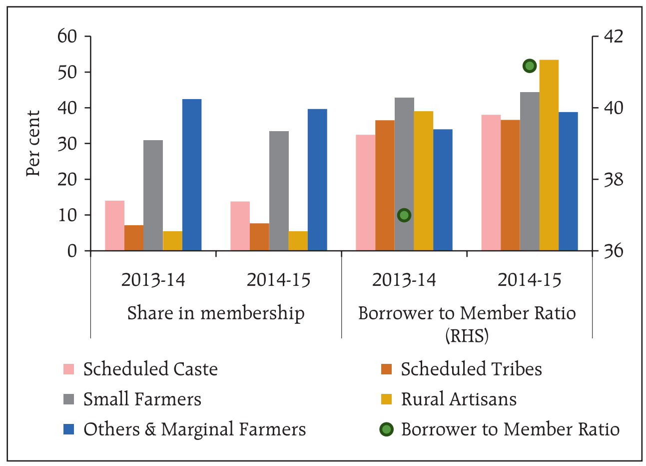
3. 25 There was no change in the percentage of PACS making both profits and losses from the 2013-14 levels (Chart 3.17). The eastern region, followed by the north-eastern region, continued to remain the weakest performing regions with loss-making PACS

Chart 3.15: Growth in credit outstanding from PACS



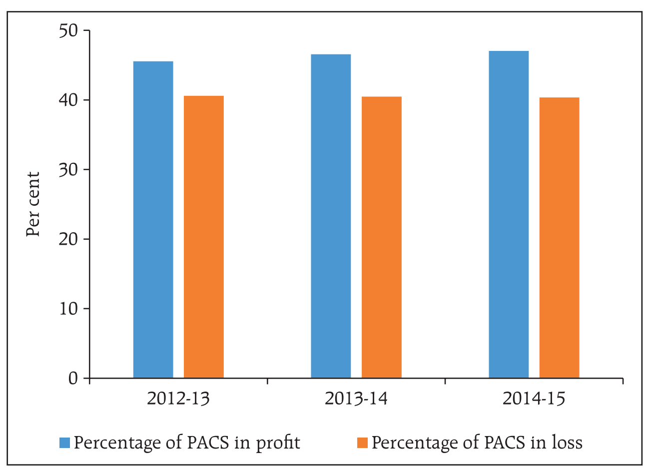
Source: NAFSCOB and staff calculations.

Chart 3.16: Share in membership and borrower to member ratio



Source: NAFSCOB and staff calculations.

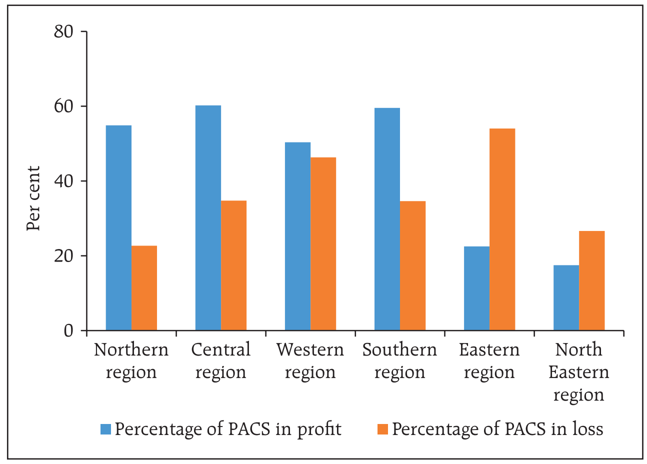
Chart 3.17: Percentage of PACS in profit and loss (all India)



Source: NAFSCOB and staff calculations.

outnumbering profit-making PACS (Chart 3.18). The central and northern regions emerged the strongest with the number of profit-making PACS far exceeding the number of loss-making ones.

Chart 3.18: Percentage of PACS in profit and loss – regional level (as on March 31, 2015)



Source: NAFSCOB and staff calculations.

Long-term rural credit

SCARDBs

3.26 SCARDBs' balance sheets expanded by 7.6 per cent in 2014-15 as against 0.7 per cent in 2013-14. On the liability side, major contributors were borrowings and other liabilities while on the asset side, investments, other assets and loans and advances contributed to the higher growth. There was a dip in growth of interest income and hence in the growth of total income in 2014-15. Nonetheless, there was a reduction in net losses in 2014-15 even as higher operating expenses caused the operating profits to fall. This was brought about as provisions against contingencies made during 2014-15 were lower by 28.9 per cent.

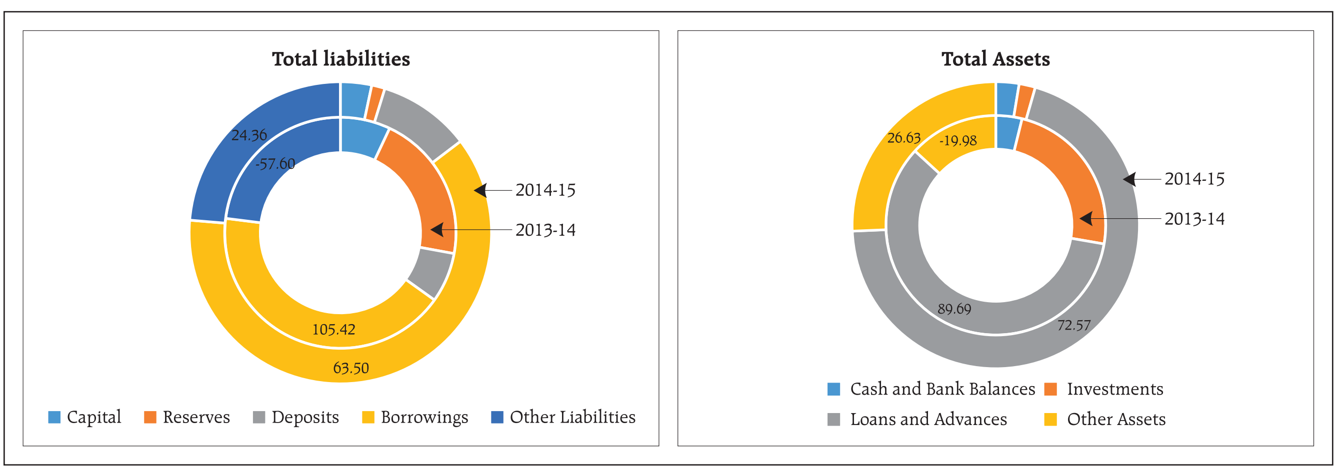
PCARDBs

3.27 PCARDBs' balance sheets expanded by 4.7 per cent in 2014-15 which was higher than the 3.3 per cent in 2013-14. This was mainly on account of higher growth in loans and advances, other assets (-1.4 per cent in 2013-14; 2.8 per cent in 2014-15) and other liabilities (-6.7 per cent in 2013-14; 4.4 per cent in 2014-15) and steady growth in borrowings (Chart 3.19).

3.28 PCARDBs' losses increased during 2014-15 as expenditure growth outpaced income growth. All items of expenditure witnessed acceleration in growth while interest income recorded a low growth of 2.4 per cent in 2014-15 *vis-à-vis* 9.8 per cent in 2013-14.

3.29 Asset quality and recovery performance of the long term rural credit institutions, especially SCARDBs, improved in 2014-15. Between 2013-14

Chart 3.19: Percentage contributions of components to percentage variation in total liabilities and assets of PCARDBs



Source: NABARD.

and 2014-15, SCARDBs' NPA ratio fell from 35.6 per cent to 30.3 per cent and the recovery ratio increased noticeably from 33.2 per cent to 46.7 per cent. The NPA ratio of PCARDBs fell from 37.3 per cent in 2013-14 to 36.2 per cent in 2014-15 and recovery to demand ratio continued to improve (42.7 per cent in 2012-13; 43.9 per cent in 2013-14; and 44.6 per cent in 2014-15) (Table 3.3).

Table 3.3: Soundness indicators of rural co-operative banks (long-term)

(₹ billion)

Item	SCARDBs				PCARDBs			
	As at end-March		Percentage Variation		As at end-March		Percentage Variation	
	2014	2015P	2013-14	2014-15P	2014	2015P	2013-14	2014-15P
1	2	3	4	5	6	7	8	9
A. Total NPAs (i+ii+iii)	72.6	64.4	7.5	-11.3	48.1	53.6	-0.3	11.5
i. Sub-standard	31.05 (42.8)	24.6 (38.1)	10.3	-20.9	22.1 (46.0)	27.3 (50.9)	-0.6	23.6
ii. Doubtful	41.4 (57.0)	39.2 (60.9)	8.7	-5.2	25.6 (53.3)	26.0 (48.5)	-0.04	1.4
iii. Loss	0.1 (0.2)	0.6 (0.9)	-91.1	445.5	0.4 (0.8)	0.3 (0.6)	-2.6	-13.5
B. Gross NPA-to-Loans Ratio (%)	35.6	30.3			37.3	36.2		
C. Recovery-to-Demand Ratio (%) (as on 30 June of previous year)	33.3	46.7			43.9	44.6		

Note: Figures in parenthesis are percentages to total NPAs. P: Provisional.
Source: NABARD.

Chapter IV

Non-Banking Financial Institutions

Introduction

4.1 Non-banking financial institutions (NBFIs) consist of various types of financial institutions, of which Reserve Bank of India regulates and supervises three important categories – all India financial institutions (AIFIs), non-banking finance companies (NBFCs) and stand-alone primary dealers (PDs). While AIFIs largely undertake long-term financing in specific sectors, NBFCs specialise in meeting the credit needs of niche areas such as hire purchase, financing of physical assets, commercial vehicles and infrastructure loans. PDs perform an important role as market makers for government securities in both primary and secondary markets. This chapter presents an analysis of the financial performance of each of these entities of NBFIs in 2015-16.

I. All India financial institutions (AIFIs)

4.2 As at end-March 2016, there were four AIFIs under the Reserve Bank's full-fledged regulation and supervision *viz.* the Export Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI).

Balance sheet

4.3 The consolidated balance sheet of AIFIs increased by 13.3 per cent during 2015-16 (Table 4.1). On the asset side, loans and advances, with a growth of 11.4 per cent during 2015-16, was the largest component. On the liability side, deposits showed only a modest growth of 3.4 per cent while resources raised through bonds and debentures expanded by 16.7 per cent during the year.

Table 4.1: Liabilities and assets of financial institutions

(Amount in ₹ million)

Item	2015	2016	Percentage Variation
Liabilities			
1. Capital	109,594 (2.21)	135,963 (2.42)	24.0
2. Reserves	381,197 (7.69)	435,017 (7.75)	14.1
3. Bonds and Debentures	1,187,625 (23.96)	1,385,767 (24.69)	16.7
4. Deposits	2,309,436 (46.60)	2,387,282 (42.53)	3.4
5. Borrowings	469,271 (9.47)	741,117 (13.2)	57.9
6. Other Liabilities	499,011 (10.07)	528,285 (9.41)	5.9
Total Liabilities or Assets	**4,956,133**	**5,613,432**	**13.3**
Assets			
1. Cash and Bank Balances	205,305 (4.14)	272,872 (4.86)	32.9
2. Investments	323,585 (6.53)	421,663 (7.51)	30.3
3. Loans and Advances	4,273,155 (86.22)	4,761,769 (84.83)	11.4
4. Bills Discounted/ Rediscounted	35,736 (0.72)	26,383 (0.47)	-26.2
5. Fixed Assets	6,584 (0.13)	6,922 (0.12)	5.1
6. Other Assets	111,769 (2.26)	123,822 (2.21)	10.8

Notes: i. Data pertain to four FIs *viz.* EXIM Bank, NABARD, NHB and SIDBI. Data for EXIM Bank, NABARD and SIDBI for end -March and end-June for NHB.
ii. Figures in parenthesis are percentages to total liabilities or assets.

Source: 1. Audited OSMOS returns of EXIM Bank, NABARD and SIDBI for end-March 2015 and 2016, respectively.
2. Audited OSMOS returns of NHB for end-June 2015 and 2016, respectively.

Table 4.2: Financial performance of AIFIs

(Amount in ₹ million)

	2014-15	2015-16	Variation	
			Amount	Percentage
A) Income (a+ b)	**350,113**	**395,084**	**44,971**	**12.84**
a) Interest Income	333,694 (95.31)	385,641 (97.61)	51,947	15.57
b) Non-Interest Income	16419 (4.69)	9443 (2.39)	-6,976	-42.49
B) Expenditure (a+ b)	**262,646**	**300,667**	**38,021**	**14.48**
a) Interest Expenditure	243,332 (92.65)	278,544 (92.64)	35,212	14.47
b) Operating Expenses	19,314 (7.35)	22,123 (7.36)	2,809	14.54
of which Wage Bill	13,624	15,381	1,757	12.90
C) Profit				
Operating Profit (Profit Before Tax)	78,339	69,722	-8,617	-11.00
Net Profit (Profit After Tax)	52,930	48,088	-4,842	-9.15

Note: Figures in parenthesis are percentages to total income/expenditure.
Source: 1. Audited OSMOS returns of EXIM Bank, NABARD and SIDBI for March 31, 2015 and 2016, respectively.
2. Audited OSMOS returns of NHB for end-June 2015 and 2016, respectively.

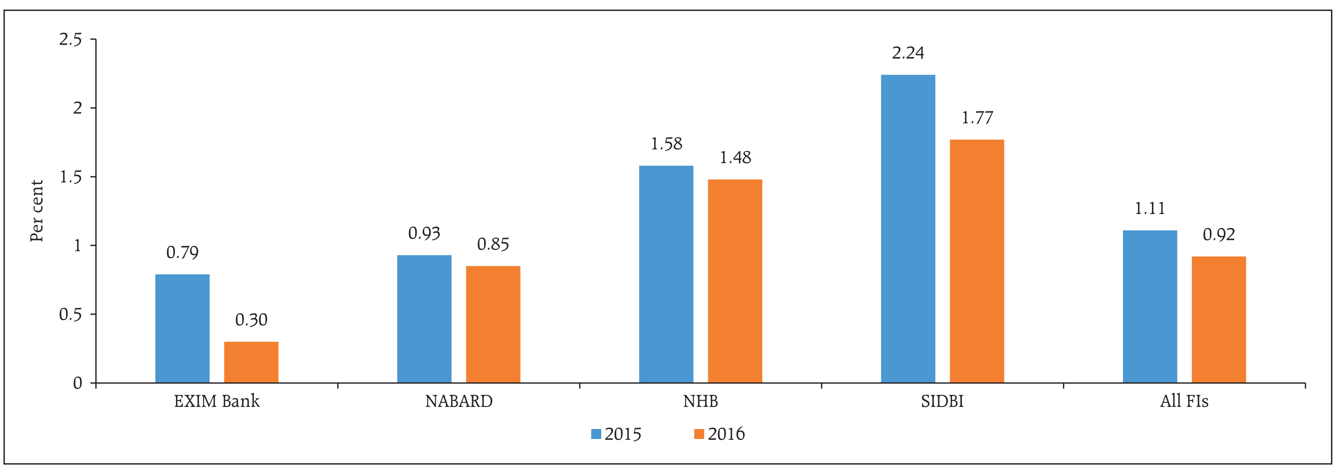
Financial performance

4.4 On the back of strong growth in interest income, AIFIs registered a double-digit growth in income during 2015-16 despite a significant decline in non-interest income (Table 4.2). With the growth in expenditure exceeding income, the major indicators of profitability, such as operating profits and net profits showed a decline during the year.

Return on assets (RoA)

4.5 During the year, the return on assets (RoA) of all the four AIFIs showed deterioration, partially due to increasing operating costs (Chart 4.1). RoA was the highest for SIDBI followed by NHB, NABARD and EXIM Bank.

Chart 4.1: Average RoA of AIFIs



Source: 1. Audited OSMOS returns of EXIM Bank, NABARD and SIDBI for March 31, 2015 and 2016.
2. Audited OSMOS returns of NHB for June 30, 2015 and 2016.

Capital adequacy

4. 6 AIFIs' capital adequacy witnessed marginal deterioration during 2015-16. The capital adequacy position of EXIM Bank and SIDBI deteriorated while that of NABARD and NHB improved (Chart 4.2). Yet, all the four AIFIs maintained CRAR higher than the minimum regulatory requirement of 9 per cent.

Asset quality

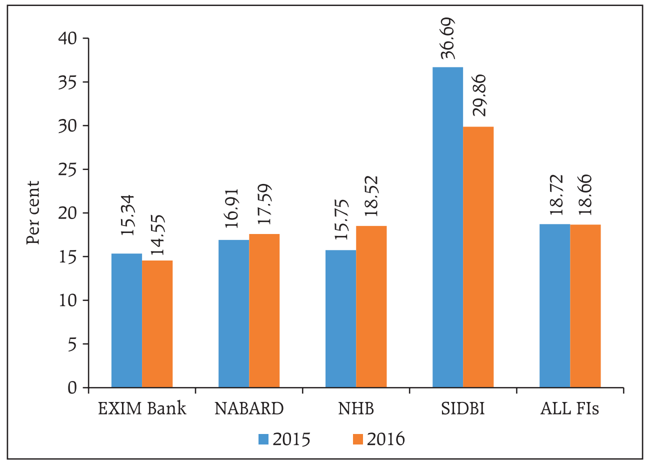
4. 7 The asset quality of AIFIs deteriorated marginally as net NPAs as percentage to net loans increased from 0.26 per cent in 2014-15 to 0.29 per cent in 2015-16 (Chart 4.3). NHB and SIDBI's asset quality improved whereas that of EXIM Bank witnessed deterioration. EXIM Bank also had the largest quantum of net NPAs among the AIFIs.

II. Non-banking financial companies

4. 8 NBFCs are categorised into two types on the basis of their liability structure: deposit-taking NBFCs (NBFCs-D) and non-deposit taking NBFCs (NBFCs-ND). As at end-March 2016, there were 11,682 NBFCs registered with the Reserve Bank out of which 202 were NBFCs-D and 11,480 were NBFCs-ND entities. There were 209 systemically important non-deposit taking NBFCs (NBFCs-ND-SI), which are subject to more stringent prudential norms and provisioning requirements.

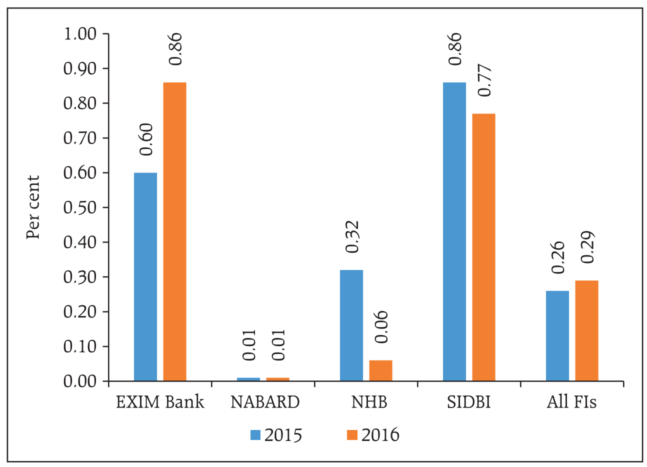
4. 9 Amidst the consolidation process, which reduced the number of both NBFCs-D and NBFCs-ND-SI registered with the Reserve Bank, the asset side of NBFCs continued to register significant growth. The

Chart 4.2: Capital to risk (weighted) assets ratio (CRAR) of AIFIs
(as at end-March)



Source: 1. Audited OSMOS returns of EXIM Bank, NABARD and SIDBI for March 31, 2015 and 2016.
2. Audited OSMOS returns of NHB for June 30, 2015 and 2016.

Chart 4.3: Net NPAs/ net loans of AIFIs
(as at end-March)



Source: 1. Audited OSMOS returns of EXIM Bank, NABARD and SIDBI for March 31, 2015 and 2016.
2. Audited OSMOS returns of NHB for June 30, 2015 and 2016.

Table 4.3: Ownership pattern of NBFCs (number of companies)

Ownership	2015 NBFCs-D	2016 NBFCs-D	2015 NBFCs-ND-SI	2016 NBFCs-ND-SI
A. Government Companies	7 (3.2)	5 (2.5)	10 (5.0)	16 (7.7)
B. Non-Government Companies	211 (95.9)	194 (97.5)	190 (95.0)	193 (92.3)
1. Public Limited Companies	209 (95.0)	188 (94.5)	105 (52.5)	105 (50.2)
2. Private Limited Companies	2 (0.9)	6 (3.0)	85 (42.5)	88 (42.1)
Total No. of Companies (A)+(B)	**220** (100.0)	**199** (100)	**200** (100.0)	**209** (100)

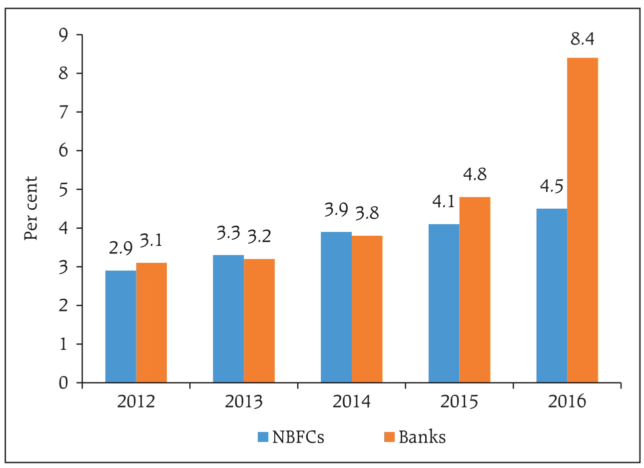
Note: Figures in parenthesis represent % to total number of NBFCs. NBFCs-ND-SI means non-deposit taking NBFCs having asset size more than or equal to ₹500 crore.
Source: Department of Non-Banking Supervision, RBI.

ownership pattern of NBFCs-D and NBFCs-ND-SI is given in Table 4.3.

4.10 While banks witnessed subdued credit growth in sectors constrained by asset quality stress, NBFCs did well. The NBFC sector registered a 15.5 per cent credit growth during 2015-16 as against an increase of 9.1 per cent in non-food credit by commercial banks. The quality of assets of the NBFC sector has been deteriorating since 2012. However, the NPAs of NBFCs remained relatively lower than the NPAs of the banking sector (Chart 4.4).

4.11 The Reserve Bank initialized a new category of NBFCs as NBFC-account aggregators (AAs) in September 2016 with a view to facilitating a consolidated view of individual investors' financial asset holdings, especially when the entities fall under the purview of different financial sector regulators. AAs fill this gap by collecting and providing information about a customer's financial assets in a consolidated, organised and retrievable manner to the customer or any other person as per the instructions of the customer. Further, as peer-to-peer (P2P) lending is gathering momentum globally and also taking roots in India, the Reserve Bank is in the process of bringing this under its regulatory ambit.

Chart 4.4: NPAs (gross NPA to gross advances ratio) across NBFCs and banks (end-March)



Source: RBI Supervisory Returns and Annual accounts of banks.

II-A. Deposit-taking NBFCs (NBFCs-D)

4.12 As a matter of deliberate policy, the Reserve Bank has been discouraging NBFCs from engaging in public deposit mobilisation activities. This is being done with a view to protecting depositors' interests and for fostering financial stability. Regulations for NBFCs-D have been strengthened so that only sound and well-functioning entities are able to accept deposits.

Balance sheet

4.13 NBFCs-Ds' balance sheet expanded by 29.2 per cent during 2015-16 (Table 4.4). On the asset side, loans and advances, which constituted close to 90 per cent of the assets, registered significant growth and NBFCs-Ds' investment activities also witnessed an increase during the year. Borrowings from banks still constituted the largest source of funding for NBFCs-D. Mobilisation of funds through debentures, the second major source of funding, increased by 38.6 per cent during the year.

Aggregate public deposits of NBFCs-D

4.14 Public deposits garnered by NBFCs-D have been showing a rising trend since 2010 (Chart 4.5).

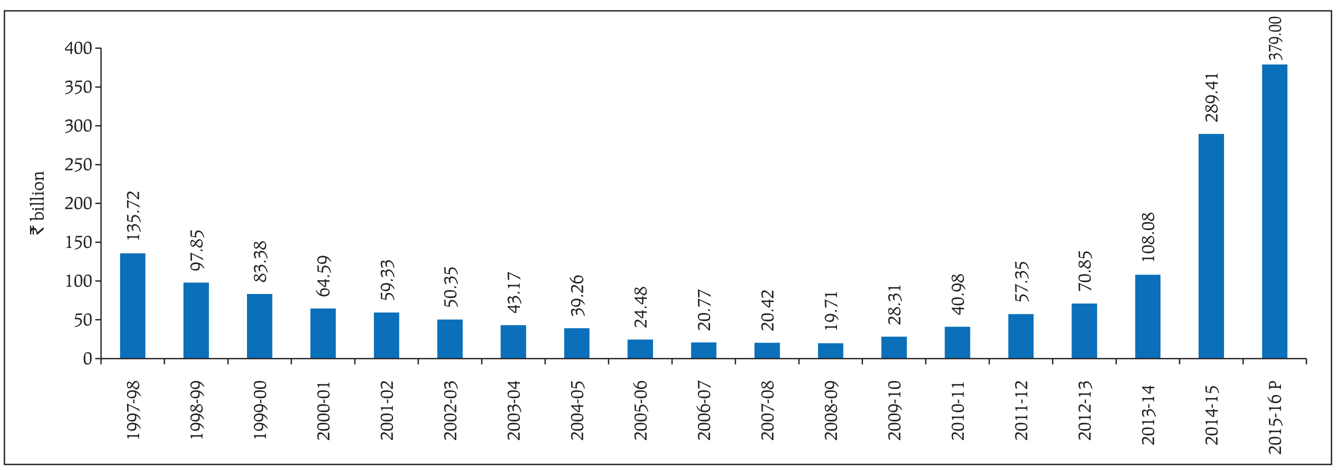
Table 4.4: Consolidated balance sheet of NBFCs-D
(as at end-March)

(Amount in ₹ billion)

Items	2015	2016 P	Variation (Per cent)
1	2	3	4
1. Share Capital	31	34	9.2
2. Reserves & Surplus	258	337	30.9
3. Public Deposits	270	379	40.6
4. Debentures	389	539	38.6
5. Bank Borrowings	552	659	19.3
6. Borrowings from FIs	16	23	43.1
7. Inter-Corporate Borrowings	2	6	283.3
8. Commercial Papers	58	66	13.8
9. Borrowings from the Government	38	30	-21.3
10. Subordinated Debts	76	88	15.6
11. Other Borrowings	157	224	42.2
Total Liabilities/Assets	**1,847**	**2,386**	**29.2**
1. Loans & Advances	1,590	2,117	33.1
2. Investments	69	85	23.9
3. Cash & Bank Balances	120	98	-18.7
4. Other Assets	68	87	26.7

P: Provisional.
Note: Percentage variation in figures could be slightly different because amounts have been rounded-off to ₹ billion. The data pertain to 162 NBFCs-D companies.
Source: Quarterly returns of NBFCs-D.

Chart 4.5: Aggregate public deposits of NBFCs-D



Source: RBI Supervisory Returns.

Financial performance

4.15 Income of NBFCs-D income recorded a growth of 26.8 per cent during the year, contributing to higher operating and net profits, despite higher operating and other expenses (Chart 4.6).

NPA position of NBFCs-D

4.16 During 2015-16, NBFCs-Ds' NPAs as reflected by gross NPAs, further deteriorated (4.9 per cent) (Chart 4.7). Category-wise, deterioration in asset quality was more with respect to asset finance companies (AFCs) as compared to loan companies (LCs). The NPAs were mainly concentrated in some sectors such as transport operators, agriculture and medium and large industries.

II-B. Non-deposit taking systemically important NBFCs (NBFCs-ND-SI)

Balance sheet

4.17 During 2015-16, NBFCs-ND-SIs' balance sheet expanded by 10.6 per cent, a moderation from the previous year (15.9 per cent) (Table 4.5). Loans and advances extended by NBFCs-ND-SI posted a growth of 12.5 per cent during 2015-16, though

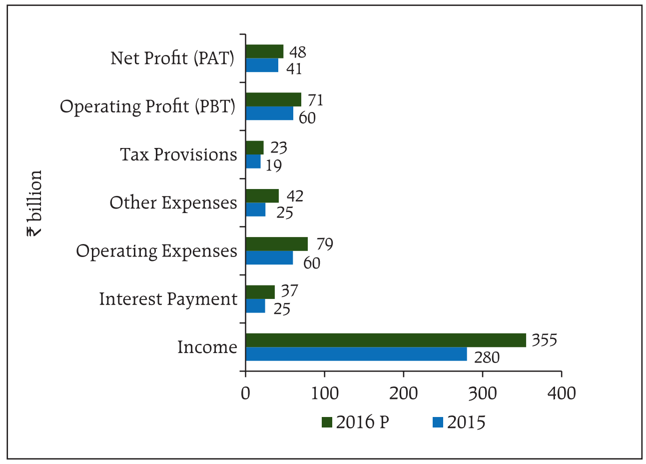
Table 4.5: Consolidated balance sheet of NBFCs-ND-SI
(as at end-March)

(Amount in ₹ billion)

Items	2015	2016 P	Variation (per cent)
Liabilities			
1. Share Capital	630	678	7.7
2. Reserves & Surplus	2,271	2,550	12.3
3. Total Borrowings	9,411	10,335	9.8
4. Current Liabilities & Provisions	608	725	19.3
Total Liabilities/ Total Assets	**12,920**	**14,288**	**10.6**
Assets			
1. Loans & Advances	9,516	10,709	12.5
2. Investments	2,042	2,052	0.5
3. Cash & Bank Balances	463	434	-6.4
4. Other Assets	899	1,093	21.7

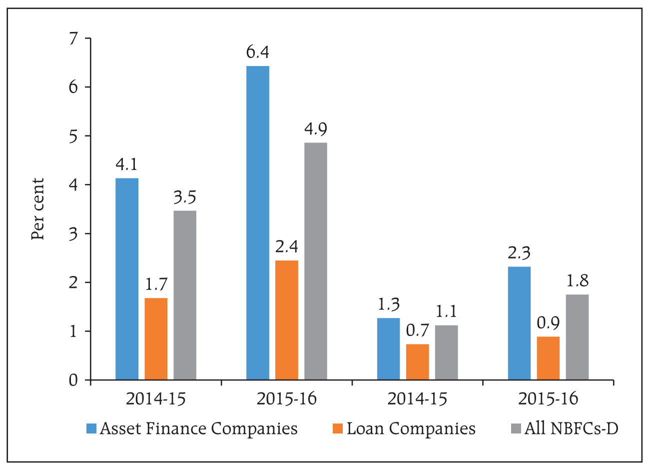
P: Provisional.
Note: Data pertain to 259 entities. Percentage figures are rounded-off.
Source: Quarterly returns of NBFCs-ND-SI (₹500 crore and above).

Chart 4.6: Financial performance of NBFCs-D



Source: RBI Supervisory Returns.

Chart 4.7: Gross and net NPAs of NBFCs-D



Source: RBI Supervisory Returns.

this was lower than the previous year due to slow growth in credit extended by infrastructure finance companies (NBFCs-IFCs) and LCs.

4. 18 During the year, NBFCs-ND-SI raised funds mainly through debentures, borrowings from banks and commercial papers. Investments by NBFCs-ND-SI showed marginal growth.

Asset quality

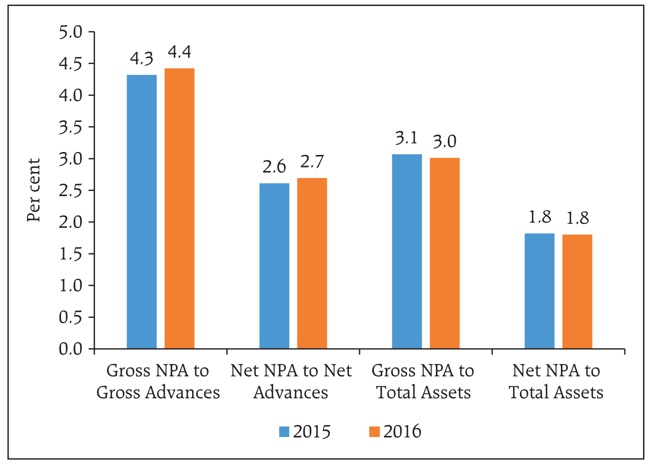
4. 19 Their asset quality continued to remain stressed as their NPA ratios increased marginally *vis-à-vis* the previous year's level (Chart 4.8). Among the NBFCs-ND-SI, LCs accounted for a major chunk of NPAs followed by NBFC-IFCs and AFCs. Profits of NBFCs-ND-SI witnessed a modest improvement during 2015-16 (Chart 4.9).

III. Primary dealers (PDs)

4. 20 As on March 31, 2016 there were 21 PDs of which 14 were banks and the remaining seven were non-bank entities (standalone PDs) registered as NBFCs. During 2015-16, all the PDs achieved the stipulated minimum success ratio (bids accepted to the bidding commitment of 40 per cent for T-bills and cash management bills [CMBs] put together every half year) both in the first half as well as in the second half of the year. The PDs subscribed 75 per cent of the T-bills issued during 2015-16 as against 62 per cent during 2014-15. The underwriting commission paid to PDs during 2015-16 was marginally higher during the year as compared to last year.

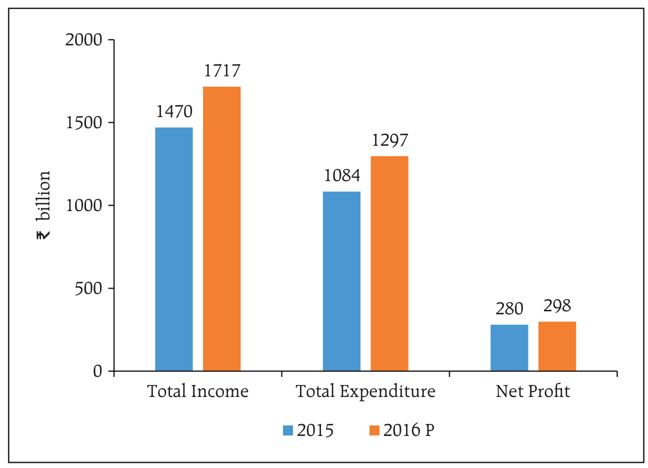
4. 21 During 2015-16, in the secondary market, all the 21 PDs had individually achieved the required minimum annual total turnover (outright and repo transactions) ratio of 5 times in G-Secs and 10 times in T-bills. Partial devolvement of the PDs took place on seven occasions for ₹109.99 billion as compared to two instances for ₹52.71 billion in 2014-15.

Chart 4.8: NPA ratios of NBFCs-ND-SI



Source: RBI Supervisory Returns.

Chart 4.9: Financial performance of NBFCs-ND-SI



Source: RBI Supervisory Returns.

Financial performance of standalone primary dealers

4.22 All seven standalone PDs, except Goldman Sachs (India) Capital Markets Pvt. Ltd. posted profits in 2015-16. Profit after tax (PAT) decreased on account of limited trading opportunities due to lack of fresh triggers and a relatively flat yield curve during a large part of the year (Chart 4.10).

Capital adequacy position of standalone PDs

4.23 Standalone PDs held lower risk-weighted assets during the year *vis-à-vis* the previous year (Chart 4.11). The capital adequacy position of PDs at 41.5 per cent during the year was well above the regulatory stipulation of 15 per cent. During the year, all the PDs fulfilled all their primary and secondary market regulatory requirements.

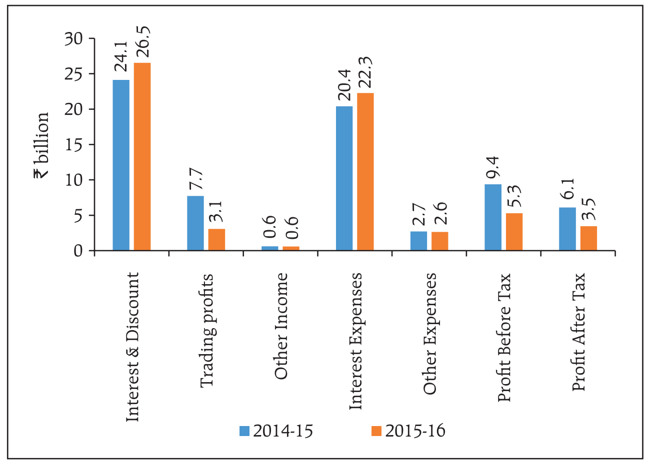
Overall assessment of the NBFC sector

4.24 The NBFC sector assumes a critical role in financial inclusion as it caters to a wide range of financial activities particularly in areas where commercial banks have limited penetration. NBFCs are expected to play a crucial role in fostering inclusive growth, especially in sectors like MSMEs.

4.25 Consolidation within the NBFC sector continued during 2015-16, resulting in a reduction in the number of both NBFCs-D and NBFCs-ND-SI. Their assets continued to register substantial growth. The accelerated growth in credit deployment by NBFCs was due to their ability to contain risks and tap demand in niche markets. The profitability of NBFCs was significantly higher as compared to commercial banks.

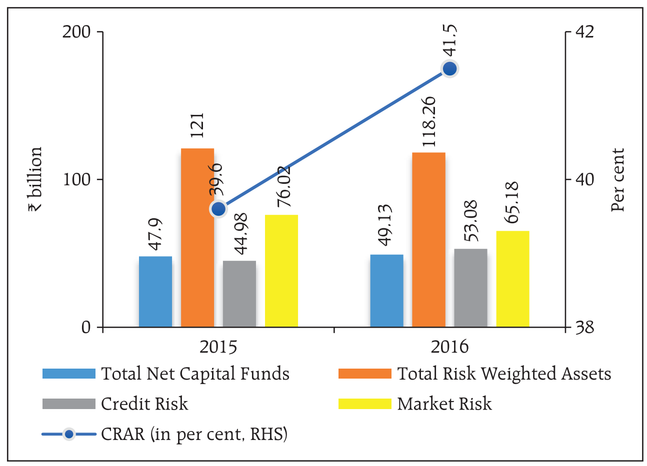
4.26 The NBFC sector continued to raise funds mainly through debentures, borrowings from banks and commercial papers. The Reserve Bank also eased the norms for external commercial borrowings (ECBs) for NBFCs that lend to the infrastructure sector, to raise ECBs with a minimum maturity of

Chart 4.10: Financial performance of standalone PDs



Source: RBI Supervisory Returns.

Chart 4.11: Capital and risk weighted asset position of standalone PDs (as at end-March)



Source: RBI Supervisory Returns.

five years. In addition, the Reserve Bank also allowed NBFCs to raise funds through rupee denominated bonds overseas.

4. 27 The quality of assets of the NBFC sector has, however, showed steady deterioration since 2012, though their NPAs have remained relatively lower than those of the banking sector. On the policy front, the revised regulatory framework for NBFCs, introduced in 2014 by the Reserve Bank of India, is beginning to be phased in to harmonise the prudential norms.

Chapter V

Financial Inclusion: Policy and Progress

5.1 Providing universal access to banking services and improving the forms of credit delivery, especially for the weaker sections of the population, form the basis of the Reserve Bank's financial inclusion agenda. With a view to achieving sustainable and scalable financial inclusion, multiple strategies are being used such as appropriate relaxations in guidelines, provision of new products and other supporting measures.

I. Financial inclusion: policy approach and interventions

The Reserve Bank has since the last decade made the following policy interventions in the area of financial inclusion.

Allowing correspondent banking

5.2 The Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators and Business Correspondents (BCs). The BC model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the problems of last mile reach.

Providing banking services in villages with population more than 2,000

5.3 In order to provide door step banking facilities in all the unbanked villages in the country, a phase wise approach has been adopted. During Phase-I (2010-13), all unbanked villages with population more than 2,000 were identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through State Level Bankers' Committees (SLBCs) for coverage through various modes – Branch or BC or other modes such as ATMs, mobile vans, *etc.* During Phase-I, as reported by SLBCs, banking outlets have been opened in 74,414 unbanked villages with population more than 2,000. Such newly opened banking outlets comprised of 69,589 outlets opened through BCs and 2,332 by other modes, apart from 2,493 branches.

Opening banking outlets in unbanked villages with population less than 2,000

5.4 After the completion of the first phase of the roadmap, the second phase (2013-16) to provide banking services in unbanked villages with populations less than 2000 was rolled out. About 4,90,298 unbanked villages with population less than 2000 have been identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through SLBCs across the country for coverage in a time bound manner. As on June 30, 2016, as reported by SLBCs, 4,52,151 villages have been provided banking services; 14,976 through branches, 4,16,636 through BCs and 20,539 by other modes *viz.* ATMs, mobile vans, *etc.* thereby achieving 92.2% of the target.

Financial inclusion plans

5.5 All domestic Scheduled Commercial Banks (SCBs) – both in the public sector and private sector – were advised to draw up board-approved Financial Inclusion Plans (FIPs) as an integral part of their business strategy based on their competitive advantage. FIPs are submitted to the Reserve Bank and are implemented over blocks of three years. These plans broadly include self-set targets with respect to: opening rural brick and mortar branches; Business Correspondents (BCs) employed; coverage of unbanked villages through branches/ BCs/ other modes, opening of Basic Savings bank deposit accounts (BSBDAs) including through BC-ICT; issuance of Kisan Credit Cards (KCC) and General Credit Cards (GCC) and other specific products aimed at the financially excluded segments.

5.6 In April 2011, domestic SCBs were mandated[1] to open at least 25 per cent of the total branches opened during a year, in unbanked rural (Tier-5 and Tier-6) centres. Subsequently, in 2013, banks were advised to front-load the opening of branches in unbanked rural centres over a 3-year cycle co-terminus with their FIPs for the period 2013-16. With a view to accelerating the progress in opening of bank branches in rural areas, 'credit' was given for opening more (in excess of 25 per cent in a year) branches in unbanked rural centres while allowing for the 'credit' to be carried forward to the subsequent year of the FIP.

Relaxed know your customer (KYC) requirements

5.7 Recognising that the KYC requirements and related documentation may potentially become a hindrance in encouraging sections of the population in opening bank accounts, KYC for opening bank accounts was simplified to the extent possible. Consequently, small accounts could be opened with self-certification in the presence of bank officials. Further, Aadhaar, the unique identification number allotted by the Unique Identification Authority of India (UIDAI), Government of India was allowed to be used as one of the eligible documents for meeting KYC requirement for opening a bank account. In September 2013, banks were allowed to provide e-KYC services based on Aadhaar thus paving the way for bank accounts to be opened by all and facilitating easy access to banking services.

II. Recent policy initiatives and developments

Revised priority sector lending guidelines

5.8 Priority sectors refer to those sectors of the economy such as agriculture, small enterprises and housing for poor people which, though viable and creditworthy, may not get timely and adequate credit in the absence of a special dispensation. The priority sector lending policy of the Reserve Bank envisages that banks extend credit to the priority sector as part of their normal business operations and not as a corporate social responsibility. Towards this end, pricing of all credit has been made free, though with the expectation that it will not be exploitative.

5.9 Drawing upon the recommendations of an Internal Working Group set up by the Reserve Bank,[2] revised guidelines on priority sector lending were issued in April 2015. The salient features are:

- Separate targets of 8 per cent[3] for small and marginal farmers (within the agriculture target of 18 per cent) and 7.5 per cent for micro enterprises to be achieved by 2017. After a review in 2017, these targets will be made applicable to foreign banks with 20 branches and above from 2018.
- Coverage of the priority sector widened to include medium enterprises, social infrastructure and renewable energy (Bank loans of up to ₹150 million for solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, *etc.* For individual households, the loan limit is ₹1 million per borrower).
- Priority sector lending compliance to be monitored on a 'quarterly' average basis from 2016-17.
- Priority sector lending certificates (PSLCs) made an eligible tradable instrument for achieving priority sector targets.
- Educational loans (including loans for vocational courses) up to ₹1 million irrespective of the sanctioned amount made eligible for the priority sector.

[1] Monetary Policy Statement April 2011.

[2] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9688&Mode=0.

[3] All PSL credit targets are applicable with reference to adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher, of the banks.

- Export credit up to 32 per cent made eligible as part of the priority sector for foreign banks with less than 20 branches. For domestic banks and foreign banks with 20 branches and above, the incremental export credit over the corresponding date of the preceding year reckoned up to 2 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-balance Sheet Exposure (CEOBE) (whichever is higher), made eligible as part of the priority sector, subject to certain conditions.
- Foreign banks with less than 20 branches required to achieve the total priority sector target of 40 per cent of ANBC or CEOBE, whichever is higher, in a phased manner by 2020.

Priority sector lending certificates (PSLCs)

5.10 The scheme of priority sector lending certificates (PSLCs) was operationalised on April 7, 2016 to facilitate the achievement of priority sector lending targets by banks. It simultaneously incentivises surplus banks by making available a mechanism to sell their over-achievement, thereby enhancing lending to the categories under the priority sector.

5.11 The PSLC scheme[4] enables banks that have under-achieved their PSL targets to achieve them by purchasing PSLCs from banks that have over-achieved the targets/ sub-targets. Four types of PSLCs *viz.* General, Agriculture, Small and Marginal Farmers and Micro Enterprises can be bought/ sold by banks. The entities eligible for trading in PSLCs include public sector banks, private sector banks, regional rural banks, urban co-operative banks and small finance banks. The PSLC mechanism does not involve transfer of credit risk or underlying assets.

5.12 Banks have been provided with an on-line anonymous trading platform through the Reserve Bank's Core Banking Solution (CBS) portal e-Kuber for trading in PSLCs. PSLCs have a standard lot size of ₹2.5 million or multiples thereof and are valid till the end of the financial year, *i.e.*, March 31, irrespective of the date of issuance. The total volume traded at the end of September 2016 was about ₹140 billion.

Phase III of FIP

5.13 With the conclusion of Phase II (2013-16) of FIP in March 2016 all domestic scheduled commercial banks (including RRBs) were advised to set new board approved FIP targets for the next three years, *viz.* 2016-19 . Recognising the important role of robust monitoring, banks were also advised to submit district level data on the progress made under FIPs. A snapshot of the progress reported by banks under their FIPs for certain key parameters as on September 30, 2016 is given below:

- The number of banking outlets in rural locations went up from 67,694 in March 2010 to 589,849 in September 2016.
- Urban locations covered through BCs went up from 447 in March 2010 to 91,039 in September 2016.
- The total number of Basic Savings Bank Deposit Accounts (BSBDAs) increased from 73.5 million in March 2010 to 495.2 million in September 2016. The surge in opening of BSBDAs can be attributed to the push given by the Government of India under the Pradhan Mantri Jan Dhan Yojana.

[4] https://rbi.org.in/scripts/NotificationUser.aspx?Id=10339&Mode=0.

- The total number of KCC issued went up from 24.3 million in March 2010 to 46.4 million in September 2016.
- General credit cards issued went up from 1.4 million in March 2010 to 11.5 million in September 2016.
- BC-ICT transactions recorded a considerable increase during these years. From 26.5 million transactions recorded for the quarter ended March 2010, it increased to 550.6 million in the quarter ended September 2016.

Committee on medium-term path on financial inclusion

5.14 The Committee on Medium-term Path on Financial Inclusion (CMPFI) constituted by Reserve Bank of India submitted its report in December 2015. Among the various recommendations made by the committee, some of the important ones that have been implemented include:

- Framework on BC Registry and BC Certification issued to Indian Banks' Association (IBA).
- Introduction of a Movable Asset Registry.
- Universal crop insurance and satellite imagery for crop mapping and damage assessment as a part of the Pradhan Mantri Fasal Bima Yojana (PMFBY).
- Registration of mobile numbers through ATMs connected with NFS.
- Celebration of financial literacy week at regional offices.

5.15 Some of the recommendations that are under implementation include introduction of a system of professional credit intermediaries/advisors for MSMEs, a survey for assessing the level of financial literacy and inclusion across the country, a pilot project for installing kiosks (30 interactive and 70 non-interactive) at 100 locations to encourage self-learning by people newly inducted into the financial system, impact assessment of the financial literacy camps and preparing a curriculum for training programmes for lead literacy officers by the College of Agricultural Banking (CAB), Pune.

Financial Inclusion Advisory Committee (FIAC)

5.16 The Reserve Bank had set up the Financial Inclusion Advisory Committee (FIAC) in 2012 to review Financial Inclusion (FI) policies on an on-going basis and to provide expert advice on additional efforts under FI. Considering the need for convergence of the FI efforts of various stakeholders, FIAC was reconstituted in July 2015 with representation from the Government of India, SEBI, IRDA, PFRDA with renewed focus on review and monitoring of FI and financial literacy (FL) policies and progress; impact evaluation and preparing a national strategy for financial inclusion (NSFI).

Roadmap for opening brick and mortar branches in villages with population more than 5,000 without a bank branch of a scheduled commercial bank

5.17 For increasing banking penetration and financial inclusion, brick and mortar branches are an integral component and hence it has been decided to focus on villages with population above 5000 without a bank branch of a scheduled commercial bank. Therefore, SLBC Convener Banks have been advised[5] to identify villages with population above 5000 without a bank branch of a scheduled commercial bank in their State. As reported by SLBCs, 6,593 villages were identified and allotted among SCBs (including RRBs) for opening branches. The opening of brick and motar branches under this Roadmap is to be completed by March 2017.

[5] RBI circular No FIDD.CO.LBS.BC. 82/02.01.001/2015-16 dated December 31, 2015.

Streamlining the flow of credit to micro and small enterprises

5.18 In order to provide timely financial support to Micro And Small Enterprises (MSEs) facing financial difficulties during their life cycles, banks were advised[6] in August 2015 to review their existing lending policies to the MSE sector. Accordingly, these policies were required to be modified by incorporating therein, among others, the provisions for sanctioning of a standby credit facility in case of term loans, additional working capital limits, a mid-term review of regular working capital limits and timelines for credit decisions.

Framework for the revival and rehabilitation of micro, small and medium enterprises

5.19 To provide a simpler and faster mechanism to address stress in the accounts of Micro, Small and Medium Enterprises (MSMEs), in March 2016, a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' was issued to banks, in consultation with Government of India. Under this framework, the revival and rehabilitation of MSME units having loan limits up to ₹250 million would be undertaken.

National Mission for Capacity Building of bankers for financing the MSME sector

5.20 With a view to develop entrepreneurial sensitivity amongst banks' field-level functionaries for lending to the MSME sector, in August 2015, the Reserve Bank rolled out a capacity building programme named as 'National Mission for Capacity Building of Bankers for Financing the MSME Sector' (NAMCABS) in collaboration with CAB, Pune, which involves:

(i) Training programme for MSME division in-charges of commercial banks.

(ii) Training the trainers of commercial bank-owned training colleges.

(iii) Capacity building for in-charges of specialised branches for MSMEs

Financial literacy initiatives

5.21 In India, financial literacy has been regarded as a process that provides demand side support for financial inclusion. To assess the extant level of financial literacy and inclusion, a pan-India survey is being conducted by the Reserve Bank. Target-specific content for five target groups *viz.* farmers, small entrepreneurs, self-help groups (SHGs), school students and senior citizens is also being designed for tailored financial literacy programmes conducted by Financial Literacy Centres (FLCs). A pilot project for setting up 100 Centres for Financial Literacy (CFL) at the block level to scale up the existing FLC infrastucture has been initiated.

Functioning of financial literacy centres (FLCs)

5.22 Guidelines for banks' financial literacy centres and the operational guidelines for conducting camps by FLCs and rural bank branches were revised in January 2016. Banks have been advised to put in place board approved policies for stronger FLC architecture in terms of providing basic infrastructure to FLCs as well as appointing FLC counsellors. As on March 2016, 1,384 FLCs were operational. During 2015-16, 87,710 financial literacy activities (outdoor camps) were conducted by FLCs.

Pilot project on setting up Centres for Financial Literacy (CFLs)

5.23 Given the challenges of skewed distribution of existing FLCs in a few states, limited outreach and to have an exclusive focus on financial literacy at the ground level, the Reserve Bank is encouraging banks to set up CFLs at the block level on a pilot basis in a few states. The key elements of this block level CFL project are:

a) Area based approach (block)

b) Schedule of camps

[6] Streamlining flow of credit to micro and small enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle', RBI, Circular, https://rbi.org.in/SCRIPTS/BS_CircularIndexDisplay.aspx?Id=10000.

c) Skilled workforce

d) Partnerships with NGOs

e) Use of technology

f) Common name and logo 'Moneywise Centre for Financial Literacy'

5.24 The pilot project to set up 100 CFLs across 10 states with support from the Financial Inclusion Fund has been initiated. Possibilities of partnerships with eligible NGOs/institutions are being explored to bring in innovative and more efficient approaches/ methods for conducting financial literacy activities.

Technical group on financial inclusion and financial literacy

5.25 A Technical Group on Financial Inclusion and Financial Literacy of the FSDC sub-committee was set up to co-ordinate the efforts on financial inclusion and literacy at the policy level. The group is chaired by the Deputy Governor, Reserve Bank of India and has representatives from all regulators and the Finance Ministry. A National Centre for Financial Education (NCFE), comprising representatives from all financial sector regulators has been set up to implement the National Strategy on Financial Education (NSFE). NCFE's main role is to create material on financial education and conducting financial education campaigns across the country.

Some of the initiatives undertaken under the aegis of the Technical Group are:

Kiosk project

5.26 About 100 kiosks (30 interactive kiosks and 70 non-interactive LFDs) are being set up in five states on a pilot basis in public places like banks, post offices, collector's offices and primary health centres to promote financial awareness. The kiosks will display messages in different languages controlled from a central location.

Financial education in school curriculum

5.27 In collaboration with CBSE, NCFE has prepared financial education workbooks for classes VI to X; these are in the process of getting CBSE's final approval. Meanwhile, NCFE and the Reserve Bank are pursuing with state education boards for the adoption of the financial education workbooks in the school curriculum in their jurisdictions by appropriately integrating them with different subjects. Four state governments *viz.* Goa, Meghalaya, Jammu and Kashmir and Mizoram have agreed in principle to include financial education topics in state board school curricula. Talks with other state governments are at different stages.

III. The way forward

Improving financial literacy levels

5.28 Going forward, Reserve Bank envisages further steps for improving the financial literacy levels which include, among others, designing and implementing capacity building programmes for FLC counsellors and bank branch heads in rural areas and conducting surveys for obtaining insights on financial knowledge, attitudes and behaviour of the people.

Scaling-up the BC model

5.29 The Reserve Bank of India has prepared the framework for graded certification/training programme for BCs. BCs with a good track record who would undergo advanced training and receive certification shall be entrusted with more complex tasks such as handling/delivery of financial products that go beyond deposits and remittances.

5.30 In order to have a tracking system of BCs, a framework for a Registry of BC agents covering all BCs, both existing and new, has been created. The registry is intended to capture basic details including the identity of a BC, location of fixed point BCs and nature of operations.

Table 5.1: Progress made under financial inclusion plans – as on September 2016

(Scheduled commercial banks including RRBs)

Sr. No.	Particulars	Year ended March 2010	Year ended March 2016	Half year ended# September 2016
1	Banking Outlets in Rural locations – Branches	33,378	51,830	52,240
2	Banking Outlets in Rural locations – Branchless mode	34,316	534,477	537,609
3	Banking Outlets in Rural locations -Total	67,694	586,307	589,849
4	Urban Locations covered through BCs	447	102,552	91,039
5	BSBDA-Through branches (No. in million)	60.2	238.2	247.4
6	BSBDA-Through branches (Amt. in ₹ billion)	44.3	474.1	537.9
7	BSBDA-Through BCs (No. in million)	13.3	230.8	247.8
8	BSBDA-Through BCs (Amt. in ₹ billion)	10.7	164.0	181.1
9	BSBDA-Total (No. in million)	73.5	469.0	495.2
10	BSBDA Total (Amt. in ₹ billion)	55.0	638.1	719.0
11	OD facility availed in BSBDAs (No. in million)	0.2	8.0	8.4
12	OD facility availed in BSBDAs (Amt. in ₹ billion)	0.1	14.8	18.1
13	KCCs -Total (No. in million)	24.3	47.3	46.4
14	KCCs -Total (Amt. in ₹ billion)	1,240.1	5,130.7	5,543.4
15	GCC-Total (No. in million)	1.4	11.3	11.5
16	GCC-Total (Amt. in ₹ billion)	35.1	1,493.3	1,613.2
17	ICT-A/Cs-BC- Total number of transactions (in million) *	26.5	826.8	550.6
18	ICT-A/Cs-BC- Total amount of transactions (in ₹ billion) *	6.9	1,686.9	1,199.2

* For the reporting period FY 2009-10/FY 2015-16/Half Year April-September 16.

Provisional.

Accreditation of credit counsellors

5.31 Subsequent to the announcement in the First Bi-Monthly Monetary Policy Statement for 2016-17, Reserve Bank, after holding discussions with IBA, SIDBI and other stakeholders, finalised a framework for accreditation of credit counsellors, who can act as facilitators for entrepreneurs to access the formal financial system. Accordingly, the framework has been provided to SIDBI who have been assigned the task of rolling out the Certified Credit Counsellors scheme by acting as their registering authority.