Space For Knowledge

ASBS & Co. | Knowledge Hub

CONTENT

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RBI's Pilot Project: Public Tech Platform for Frictionless Credit

- The RBI had set up a stall at the third meeting of the G20 Summit to showcase its recent initiatives on frictionless credit.

- RBI through its subsidiary 'Reserve Bank Innovation Hub' has developed a Public Tech Platform which is an end-to-end digital platform for frictionless credit.

- This process enhances the efficiency of financial data management by centralizing borrower information on a unified platform through banks, NBFCs, Fintech companies, and start-ups.

## Hurdles faced in implication of Public tech platform:

- The key challenge lies in accessing credit appraisal data scattered across entities like governments, banks, and digital identity authorities.

- There was a gap between lenders and borrowers due to necessary information being scattered over multiple platforms. This created a hindrance in the simplified lending process.

Unveiling the benefits of the Public Tech Platform:

1. The platform gathers diverse digital data from various sources into an all-inclusive view.

2. It combines banking, credit, corporate, and government information to enable fast and reliable underwriting further giving credit access to previously underserved segments.

3. This initiative provides a platform for lenders to access detailed borrower information before granting credit, avoiding lengthy delays.

4. It reduces lending costs and speeds up loan disbursement. This platform enhances lending efficiency through cost reduction, quicker distribution, and improved scalability.

5. It encourages collaboration among various stakeholders such as banks, NBFCs, FinTech firms, and startups, fostering joint solutions in payments, credit, and financial services.

6. The platform will focus on offerings like Kisan Credit Card loans, dairy loans, no-collateral MSME loans, personal loans, and home loans through participating banks.

7. It will enable linkage with services such as Aadhaar e-KYC, land records from onboarded State Governments, satellite data, PAN validation, Aadhaar e-signing, milk pouring data from select dairy co-operatives, house/property search data, etc.

Axis Bank's Move:

As part of the pilot, Axis Bank will leverage the Public Tech Platform for frictionless credit for accessing data for customers in a fully consented and secure manner. These include PAN validation, Aadhaar e-KYC, Account Aggregator data and verification of land records. Given that the data will come directly from authenticated sources, the Bank expects to be able to offer faster and better credit services to customers.

NARCL: Challenges in Loan Transfer Amid Pricing and Liability Conflicts

- In the 2021 Union Budget, the Finance Minister introduced an ARC-AMC framework to address Non-Performing Assets (NPAs) in banking.

- This structure includes Establishment of National Asset Reconstruction Company Limited (NARCL) and India Debt Resolution Company Limited (IDRCL).

- NARCL was established on July 7, 2021 with government holding the majority of the stake.

- It's registered with the Reserve Bank of India as an Asset Reconstruction Company under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
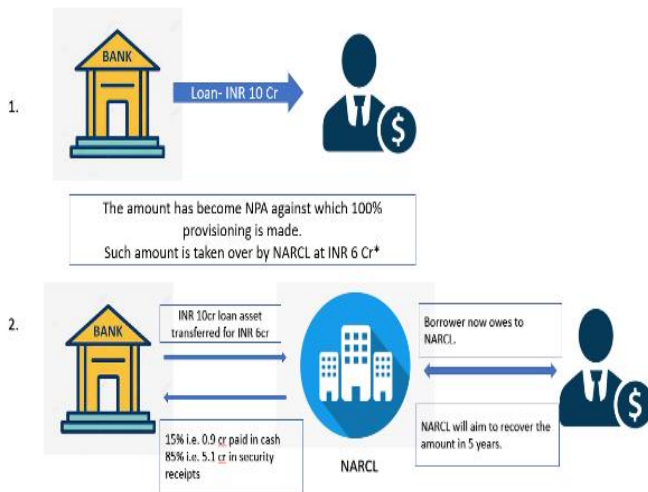
Challenges Faced by NARCL:

- The NARCL was estimated to buy about Rs 2,00,000 crores of bad loans since it's establishment, although so far it has bought Rs 21,350 crore worth of bad loans which is just 10% of its estimation.

- The National Asset Reconstruction Co Ltd (NARCL) is facing difficulties in acquiring 'bad loans' from lenders. These challenges mainly arise from conflicts over pricing, valuation of accounts, and concerns about future responsibilities.

- Delay in receiving security receipts is increasing the time period of the entire transfer process.

- The NARCL intends to have legal liabilities or government investigations after the purchase of fraud accounts and wants the banks to sign a clause pertaining to that although the bankers are reluctant to sign such a clause.

NARCL's Role and Functions:

- NARCL's primarily aims to resolve legacy stressed assets in Indian banking system, especially those with exposures of Rs 500 crore and above.

- It plans to use flexible methods for acquiring stressed assets, using a mix of cash and Security Receipts (SRs). These assets will be purchased from various Selling Banks and Financial Institutions across different sectors and locations.

- NARCL will follow its Financial Asset Acquisition Policy which is in line with existing rules for Asset Reconstruction Companies. Their strategy is to gather stressed assets together for efficient resolution.

- An important aspect of an offer for acquiring stressed loan assets made by NARCL's to Banks will be supported by a government guarantee. This unique guarantee gives NARCL a strategic advantage, making it easier to gather assets and preserve their value during resolution processes
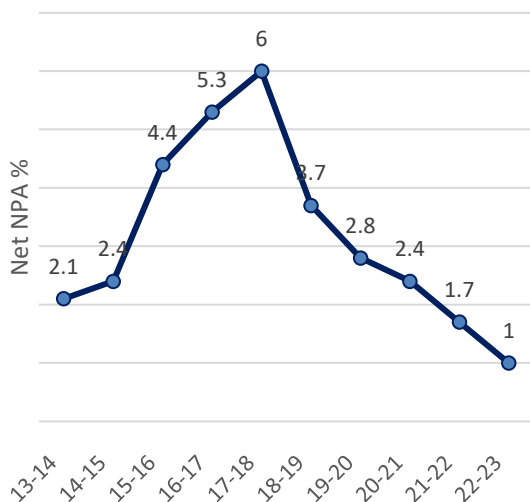

Our Views:

- There is a possibility of a conflict of interest arising too. Banks will be part-owners of both NARCL and the asset management company, and they will also be sellers to NARCL. It is important, therefore, that the processes are transparent and independent market professionals are employed to avoid conflicts.

- The transfer agreement between Banks and NARCL should be realistic and worded correctly to avoid any legal conflicts.

Indian banks' non-performing assets fall to a 10-year low: RBI

- On June 28th, 2023, RBI Released its financial stability report stating risks to financial stability and the resilience of the Indian financial system.

- The report highlighted the major point on NPAs of Indian Banks, which stated that the gross non-performing assets (GNPA) ratio of Indian banks has fell to a 10-year low of 3.9 percent in March 2023 & will continue its downtrend in future.

- The report further stated that the net non-performing assets (NNPA) ratio declined to 1.0 per cent as on 31st March 2023.

- The financial system has strengthened, and both banks and companies are in good financial health. This is leading ;to increased borrowing and investment, making India's future look promising

- Macro stress tests for credit risk reveal that SCBs would be able to comply with the minimum capital requirements even under severe stress scenarios.

Gross NPA %: 13-14: 3.8, 14-15: 4.3, 15-16: 7.5, 16-17: 9.3, 17-18: 11.2, 18-19: 9.1, 19-20: 8.2, 20-21: 7.3, 21-22: 5.9, 22-23: 3.9

Net NPA %: 13-14: 2.1, 14-15: 2.4, 15-16: 4.4, 16-17: 5.3, 17-18: 6, 18-19: 3.7, 19-20: 2.8, 20-21: 2.4, 21-22: 1.7, 22-23: 1
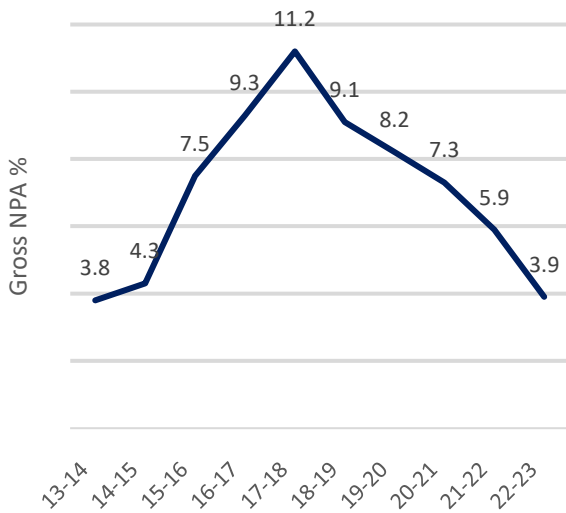
Viewpoint and Analysis:

- The NPAs of Indian Banks were on an increasing trend during 2013-2017 as banks were more focused on business growth rather than focusing on asset quality.

- Looking at the high NPA ratio, in year 2017 RBI released stringent policies and guidelines for granting Loans and advances.

- Further major write-off was done from 2018 onwards thereby cleaning the bad loans from the balance sheets and reducing the NPA's

- The improvement in SCBs' asset quality has been broad-based, with a steady decline in the stressed advances ratio across all major sectors.

- Indian banks' success in reducing NPAs, boosting financial stability.

- As per the stress test results, the GNPA ratio of all SCBs may improve to 3.6 percent by March 2024 and Sustained positive asset quality trend is anticipated

Banking Terminology

Credit Appraisal	Credit appraisal is the process of conducting a preliminary assessment to determine the financial status before providing any loans, project finance, or credit to individuals
Kisan Credit Card	The Kisan Credit Card scheme was brought about with the aim of simplifying the procedure for farmers to get adequate and timely credit.
Dairy Loans	Dairy Loan is a special loan designed to provide finance for the establishment of dairy units for milk production, High yielding milch animals. Construction of cattle shed. Unit cost excluding Margin Money.
Personal Loan	A personal loan is an amount of money you can borrow to use for a variety of purposes. For instance, you may use a personal loan to consolidate debt, pay for home renovations, or plan a dream wedding.
Bad Loans	They are loans in which the borrower defaults because they have not made their scheduled payments for a predetermined amount of time
Security Receipts (SRs)	It is instrument issued by Asset Reconstruction Companies as consideration for their purchase of distressed assets from banks/ NBFCs.
Asset Reconstruction Company (ARC)	It is a special type of financial institution that buys the debtors of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself
Credit Risk	Credit risk is the probability of a financial loss resulting from a borrower's failure to repay a loan. Essentially, credit risk refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection.
Account Aggregators	An Account Aggregator (AA) is a type of RBI regulated entity (with an NBFC-AA license) that helps an individual securely and digitaly access and share information from one financial institution (referred to as Financial Information Provider/FIP) that they have an account with to any other regulated financial institution (referred to as Financial Information User/FIU) in the AA network. Data cannot be shared without the consent of the individual.
Stressed Assets	Stressed assets are equal to non performing assets plus written off assets plus restructured loans. When assets are not performing, they become doubtful and non-performing assets. If those assets don't recover, they become bad loans. Before the period of 90 days, they are called Stressed Assets.

Source: ET News | inShorts | outlookindia | livemint | rbi.org

Summary of Newsletter Test Results

Top Performers for Newsletter Test 1

Employee Name	Department Name	Score
Raghavendra Kamble	CET	20
Sana Shaikh	CET	20
Sakshi Suvarna	Data Analytics	20
Mrunal Patil	Culture	20
Sameer Rane	SR	20
Saurabh Mishra	SAI	20
Aryan Tiwari	SAI	20
Meet Mota	SR	20

Top Performers for Newsletter Test 2

Employee Name	Department Name	Score
Abhishek Yadav	Data Analytics	25
Dhiraj Oza	CPMT	25
Indresh Soni	CPMT	25
Sunita Kapari	Forex & Corporate Banking	25
Akshay Chandarana	Service Recovery	24
Chaitanya Bastapure	Data Analytics	24
Dimple Uamaretiya	CPMT	24
Meet Mota	Data Analytics	24
Sagar Jambhale	Service Recovery	24
Sana Shaikh	CET	24
Saurabh Mishra	SAI	24
Tushar Sadavarte	CPMT	24

Top Participation (Department)

Department Name	Test 1	Test 2
Rural Lending	87%	61%
Service Recovery	77%	59%
Data Analytics	73%	76%