Sector Report –
Banking Sector in India

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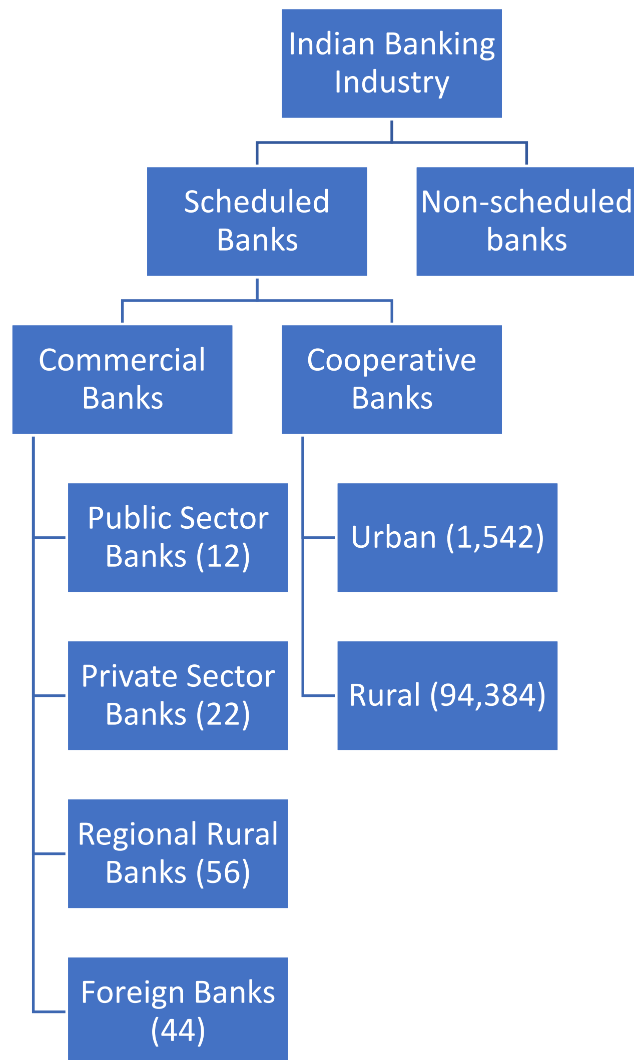
Structure of Banking in India

As per Section 5(b) of the Banking Regulation Act 1949, "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise.



1. Scheduled Banks: All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks.
   a. Scheduled Commercial Banks: in India are categorized into five different groups according to their ownership or nature of operation.
      i. Public Sector Banks: Majority stake is held by Government of India.
      ii. Private Sector Banks: Majority of share capital is held by private individuals
      iii. Regional Rural Banks: RRBs were established in 1975 with a view of serving primarily the rural areas of India with basic banking and financial services

iv. Foreign Banks: Incorporated in foreign countries and operate their branches in India

b. Scheduled Cooperative Banks:

i. Rural Cooperative Banks

ii. Urban Cooperative Bank:

Differentiated banks:

- **Small Finance Banks:** Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
    - SFBs are subject to all prudential norms and regulations of RBI as applicable to commercial banks including requirement of maintenance of CRR and SLR
    - SFBs are required to extend 75 per cent of its Adjusted Net Bank Credit to the sectors eligible for classification as priority sector lending by the RBI
    - At least 50 per cent of its loan portfolio should constitute loans and advances of up to Rs. 25 lakhs.

- **Payments Banks:** Payments banks are aimed at deepening financial inclusion and redefine banking business models in India. These institutions can accept a restricted deposit, which is currently limited to ₹100,000 per customer and may be increased further. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue ATM cards or debit cards and provide online or mobile banking. They are sewing up a thread of unorthodox revenue streams including data monetisation, cross-selling of financial products, forming credit access platforms and creating alternate merchant payment models to get around the constraint of not being able to lend.

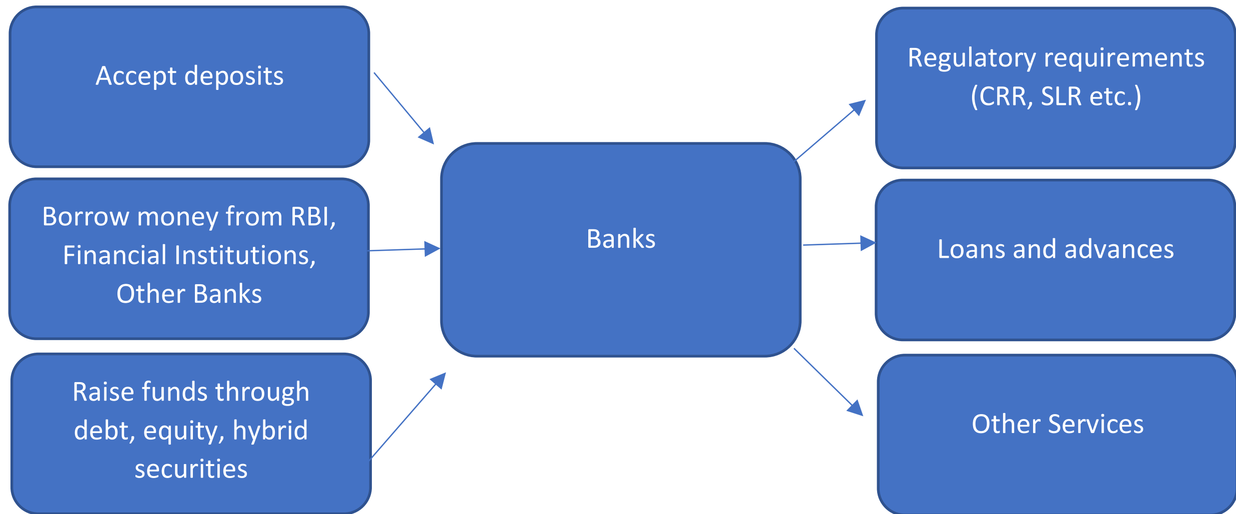
GOING FURTHER AFIELD

While some services offered by payments banks and small finance banks will be similar, there are some key differences. Here is a look at what they will offer.

PAYMENTS BANK	SMALL FINANCE BANK
Can accept deposits, but only up to ₹1 lakh per individual customer	Allowed to take deposits of any amount
Can't lend in any form	Can lend but the focus will be on small lending
Can open small savings accounts	Can finance small business units, small and marginal farmers, micro and small industries and unorganised sector entities
Can provide remittance services	Can provide remittances as well as credit cards
Allowed to issue automated teller machine (ATM) or debit cards	Allowed to issue ATM or debit cards
Not allowed to issue credit cards	Has to ensure that 50% of loan portfolio constitutes advances of up to ₹25 lakh
Can distribute products such as mutual funds, insurance and third-party loans	Can distribute financial products such as mutual funds, insurance and pension

Source: RBI website

Operating model



Portfolio of services

RETAIL BANKING

LOAN PRODUCTS
- Auto & personal loans
- CV & construction equipment finance
- Credit/debit cards
- Loans against gold
- Agri & tractor and education loans

DEPOSIT PRODUCTS
- Savings accounts
- Current accounts
- Fixed / recurring deposits
- Corporate salary accounts

OTHER OFFERINGS
- Depository accounts
- Mutual fund, insurance and gold sales
- Private banking
- NRI, bill payment & foreign exchange (forex) services
- POS terminals

WHOLESALE BANKING

COMMERCIAL BANKING
- Working capital & term loans
- Bill collection
- Wholesale deposits
- Forex & derivatives
- Letters of Credit & Guarantees

TRANSACTIONAL BANKING
- Cash management
- Custodial and clearing bank services
- Correspondent banking
- Tax collections
- IPO underwriting

INVESTMENT BANKING
- Debt capital markets
- Equity capital markets
- Project finance
- M&A and advisory

TREASURY OPERATIONS

TREASURY PRODUCTS
- Forex
- Debt securities
- Derivatives
- Equities

OTHER FUNCTIONS (INTERNAL)
- Asset liability management
- Statutory reserve management

OTHER BANKING ACTIVITIES

OFFERINGS
- Leasing operations
- Dealership business
- Third-party product distribution

Source: Dun & Bradstreet, Bank websites

Important rates in the banking industry

Term	Details	Current Level
Non-Performing Assets	Loans that have not yielded interest 90 days or more after the interest payment due date.	Ratio of gross NPAs: 8.5% (March 2020)
MIBOR (Overnight)	The Mumbai Interbank Offer Rate (MIBOR) is one iteration of India's interbank rate, which is the rate of interest charged by a bank on a short-term loan to another bank	3.70% (1.10.20)
Repo Rate	The rate at which commercial banks can borrow from RBI for short term liquidity adjustment (net amount after borrowing among themselves).	4.00%
Reverse Repo Rate	The rate at which the RBI absorbs excess liquidity from the commercial banks	3.35%
Marginal Standing Facility Rate	The rate at which banks borrow funds, in excess of the specified threshold, overnight from RBI against government securities	4.25%
Bank Rate	The rate at which the RBI lends to commercial banks for long term borrowing	4.25%
Statutory Liquidity Ratio	The proportion of Net Demand and Time Liabilities that the commercial banks have to invest in specified government securities	18.50%
Cash Reserve Ratio	The proportion of Net Demand and Time Liabilities of commercial banks that must be kept as cash or in liquid form so as to meet any unexpected demand of money by depositors	3.00%

Example of financial statements of a commercial bank

Income and expenses of a commercial bank

CONSOLIDATED

State Bank of India
Consolidated Profit and Loss Account for the Year Ended 31st March 2020

(000s omitted)

		Schedule No.	Year Ended 31.03.2020 (Current Year) ₹	Year Ended 31.03.2019 (Previous Year) ₹
I.	INCOME			
	Interest earned	13	269851,65,54	253322,17,41
	Other Income	14	98158,99,38	77365,18,53
	TOTAL		368010,64,92	330687,35,94
II.	EXPENDITURE			
	Interest expended	15	161123,79,86	155867,46,03
	Operating expenses	16	131781,56,30	114800,30,80
	Provisions and contingencies		56928,45,91	56950,51,70
	TOTAL		349833,82,07	327618,28,53

Major components of other income include commission, exchange & brokerage, insurance premium income, P/L on sale of investments etc. Major components of operating expenses include employee expenses, rent & utilities, insurance, expenses of subsidiary businesses etc.

Balance sheet structure of a commercial bank

CONSOLIDATED

State Bank of India
Consolidated Balance Sheet as on 31st March 2020

(000s omitted)

	Schedule No.	As on 31.03.2020 (Current Year) ₹	As on 31.03.2019 (Previous Year) ₹
CAPITAL AND LIABILITIES			
Capital	1	892,46,12	892,46,12
Reserves & Surplus	2	250167,66,30	233603,19,93
Minority Interest		7943,82,20	6036,99,13
Deposits	3	3274160,62,54	2940541,06,11
Borrowings	4	332900,67,03	413747,66,10
Other Liabilities and Provisions	5	331427,10,24	293642,82,22
TOTAL		4197492,34,43	3888464,19,61
ASSETS			
Cash and Balances with Reserve Bank of India	6	166968,46,05	177362,74,09
Balances with Banks and Money at Call & Short Notice	7	87346,80,31	48149,52,30
Investments	8	1228284,27,77	1119269,81,62
Advances	9	2374311,18,12	2226853,66,72
Fixed Assets	10	40078,16,81	40703,05,26
Other Assets	11	300503,45,37	276125,39,62
TOTAL		4197492,34,43	3888464,19,61
Contingent Liabilities	12	1221083,11,09	1121246,27,83
Bills for Collection		55790,69,54	70047,22,64
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Capital Requirements

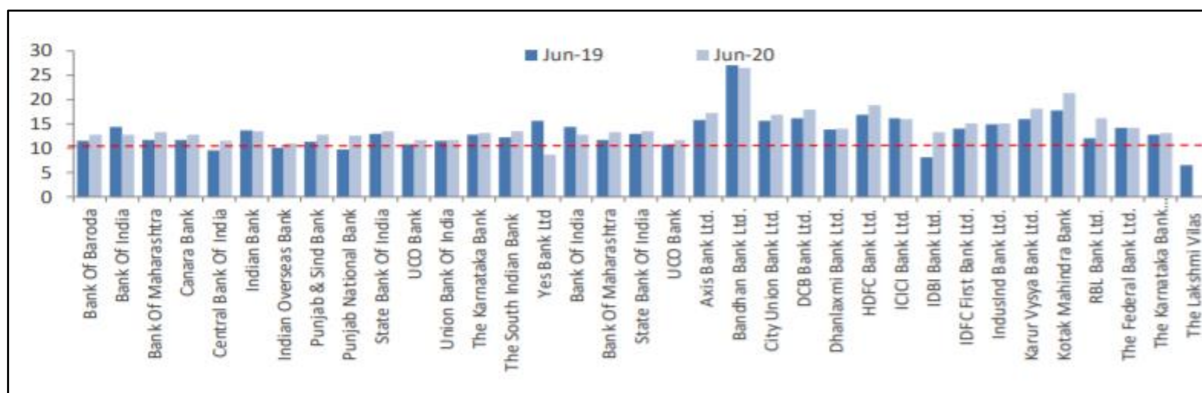
Regulatory capital or capital adequacy is the amount a bank needs to hold as required by the financial regulators. It is expressed as a capital adequacy ratio of equity and must be held as a percentage of risk weighted assets. These requirements are put into place to ensure that these institutions do not take on excess leverage and become insolvent. Capital requirements govern the ratio of equity to debt, recorded on the liabilities and equity side of a firm's balance sheet.

The main international effort to establish rules around capital requirements has been the Basel Accords. It sets a framework on how banks and depository institutions must calculate their capital. After obtaining the capital ratios, the bank's capital adequacy can be assessed and regulated.

As per Basel III regulations, all SCBs were required to maintain a CAR of 11.5% from March 31, 2020 onwards (CAR of 9.0% along with capital conservation buffer (CCB) of 2.5%). However, with the outbreak of COVID-19, RBI decided to defer the implementation of the last tranche of 0.625% of the CCB from March 31, 2020 to September 30, 2020 which is likely to be extended further, however, the current required CAR stands at 10.875%.

Further, systemically important banks need to maintain an additional requirement of over and above the 10.875% CAR (which includes SBI: 0.6%, HDFC: 0.2% and ICICI Bank: 0.2%).

Apart from Yes Bank and Lakshmi Vilas Bank all SCBs reported CAR higher than the minimum regulatory requirement as on Jun-20.



Key metrics to evaluate a bank's performance

1. **Net Interest Margin**: Measure of profitability for banks and financial institutions. It refers to the difference between interest received and interest paid.

$$\frac{(Interest\ Income - Interest\ Expense)}{Average\ Earning\ Assets} \times 100\%$$

2. **Return on Assets:** Since bank assets largely consist of bank loans, the per-dollar return is an important metric of bank management. The ROA ratio is a company's net, after-tax income divided by its total assets. An important point to note is since banks are highly leveraged, even a relatively low ROA may represent substantial profit.

$$\frac{Net\ Income}{Total\ Assets} \times 100\%$$

3. **Return on Equity:** The return on equity (ROE) metric reveals how effectively a corporation is generating profit from the money that investors have put into the business. However, minimum capital requirements, such as Basel III, increased the amount of capital banks had to keep in hand. This has pushed ROEs down.

$$\frac{Net\ Income}{Shareholders'Equity} \times 100\%$$

4. **Cost to Income Ratio:** Cost to income ratio indicated how efficiently the bank is being run. Changes in the ratio indicate relative rates of growth of costs and income.

$$\frac{Operating\ Expenses}{(Net\ Interest\ Income + Other\ Income)} \times 100\%$$

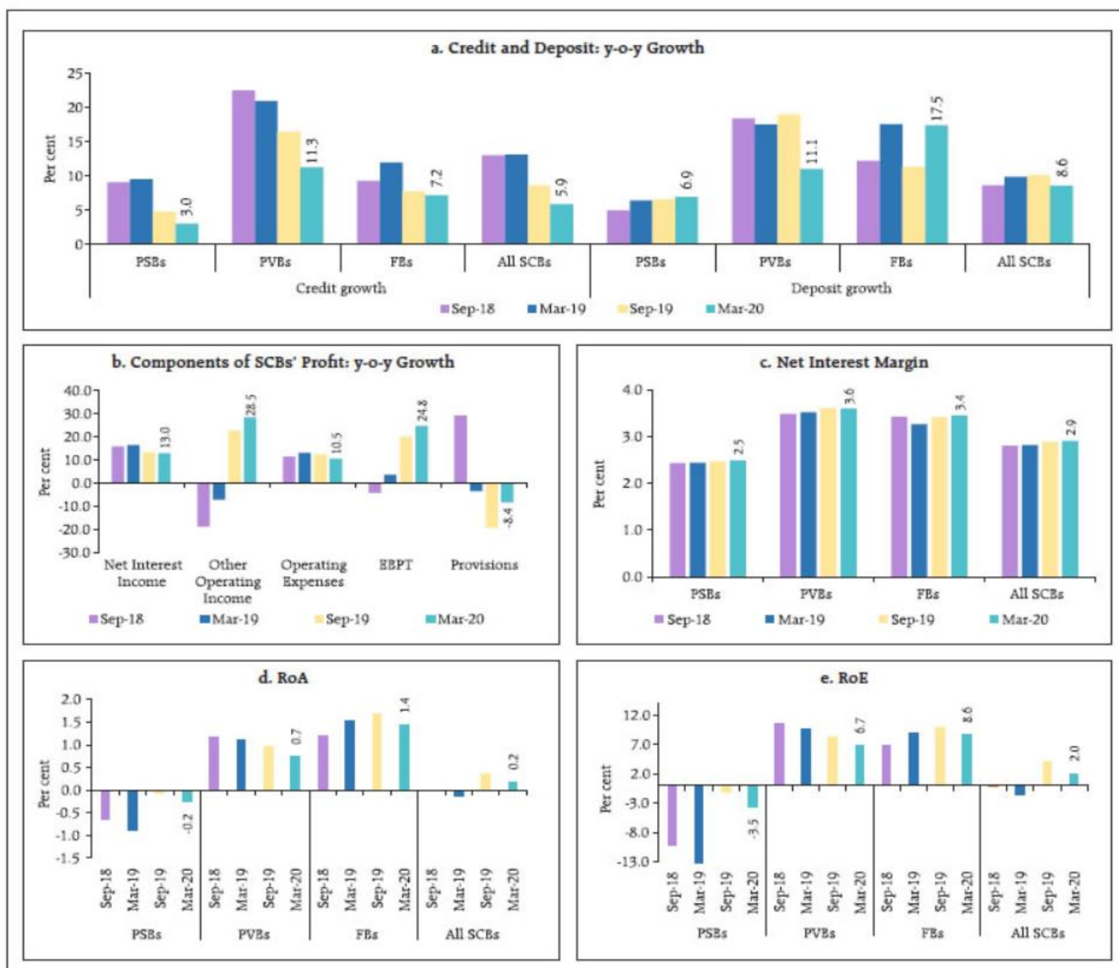
5. **Loan Deposit Ratio:** The loan-to-deposit ratio is used to assess a bank's liquidity If the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements. Conversely, if the ratio is too low, the bank may not be earning as much as it could be.

$$\frac{Total\ Loans}{Total\ Deposits} \times 100\%$$

6. **Capital Adequacy Ratio:**

$$\frac{Capital\ Funds}{Risk\ Weighted\ Assets} \times 100\%$$

Key performance indicators (RBI Financial Stability Report)



Valuation methods:

1. **P/B Ratio:** Assets held by banks are typically in the form of financial instruments (loans, bonds and other securities as well as derivatives) that have well defined cash flows. These are relatively liquid assets that can be valued at fair market value. Book values are much closer to market values than is the case for non-financial corporates, where most of the assets are carried at depreciated cost.

$$\frac{Stock\ Price\ \times No.of\ shares\ outstanding}{Book\ Value}$$

2. **Intrinsic valuation:** Since the book value of equity is more reliable and cash flows are highly volatile, and less accurate as a metric of assessing management competence, shareholders equity can be used as a starting point for valuing banks. This method is known as the Excess Return Model and it arrives at the value of equity as the sum of the current equity capital and the present value of expected excess returns to equity.

   $$Excess\ Returns = (Projected\ Return\ on\ Equity - Cost\ of\ Equity) \times (Beginning\ Equity\ Capital)$$

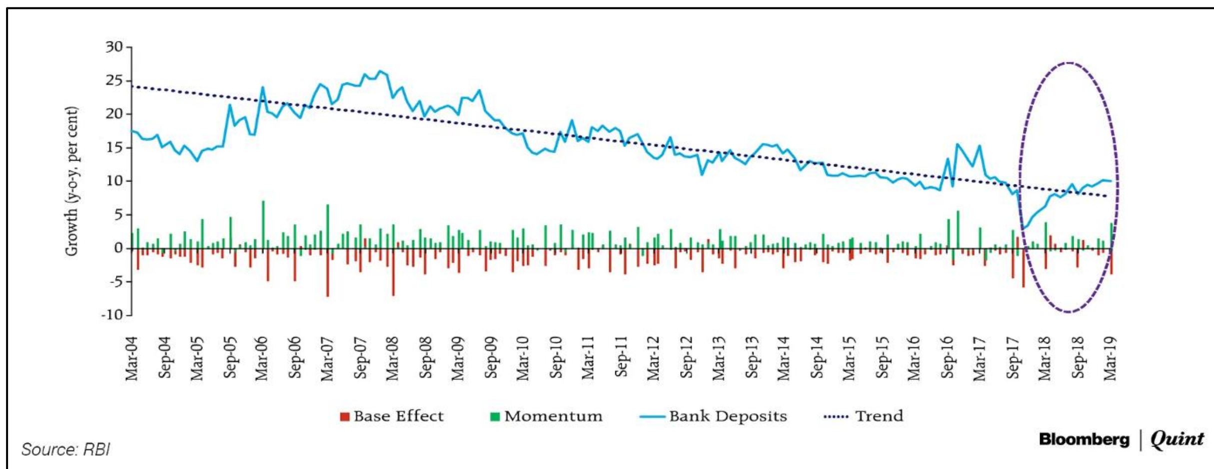
   If a bank is earning extremely high excess returns, it is important to do a multi-period valuation whereby returns decline to a long-term sustainable level over time. Once the firm reaches its long-term sustainable operating level, terminal value can be calculated that incorporates this long-run moderate growth.

3. **Other methods:** Banks can also be valued by discounting the dividend stream using projected pay-out ratios, or asset liquidation values, or relative valuation methods with respect to the loan book etc.

Credit and Deposit Trends:

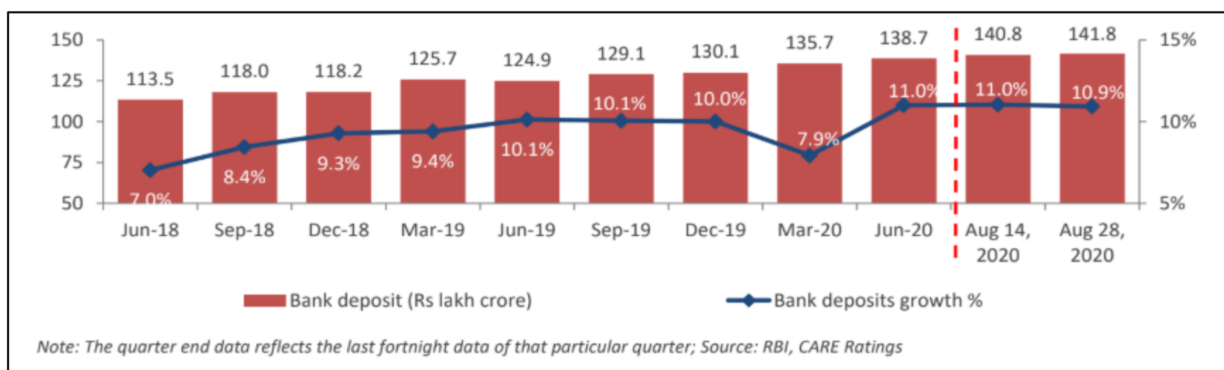
1. **Rate of deposit growth:** After a 53-year low of 3% in November 2017, there has been an acceleration in rate of growth of deposits building up since the beginning of 2018. Notwithstanding this improvement, it is noteworthy that the recent pick-up is occurring against the backdrop of a secular deceleration that has set in since August 2009, barring the demonetisation driven spike during November-December 2016.

Deposit growth of ~10% in 2019 was marginally higher than the 15-year downtrend



After a dip in March 2020, deposit growth has increased faster at ~11.0%, indicating that depositors are spending less and saving funds in bank deposits. The growth in deposits is being seen despite banks lowering interest rates, disincentivizing customers amid an increase in liquidity.

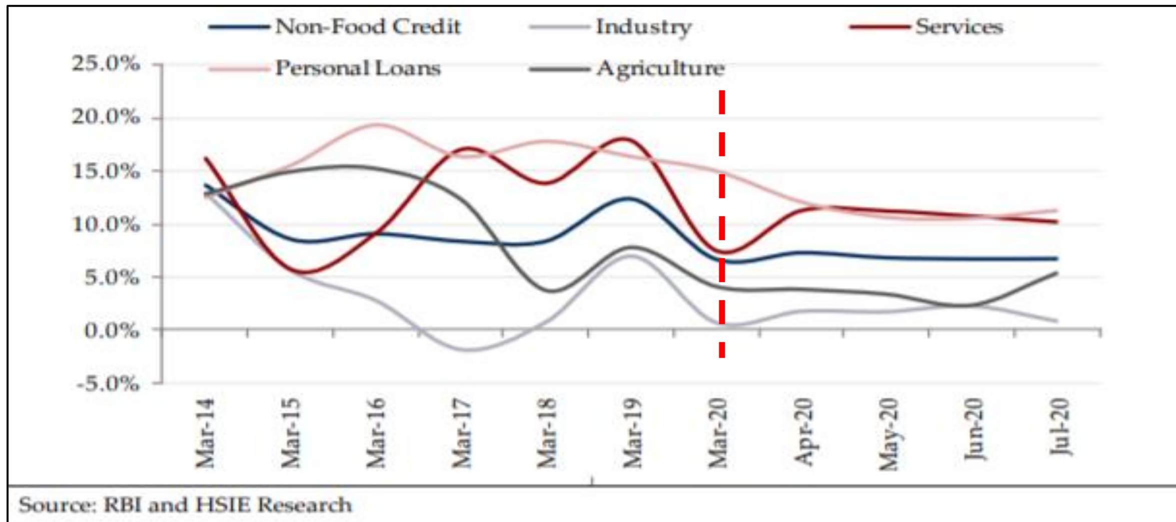
Growth of Bank Deposits (y-o-y growth%)



As per a 2019 study by the RBI, key factors affecting deposit growth, include income levels, interest rates on deposits, substitution effects stemming from small savings & stock markets.

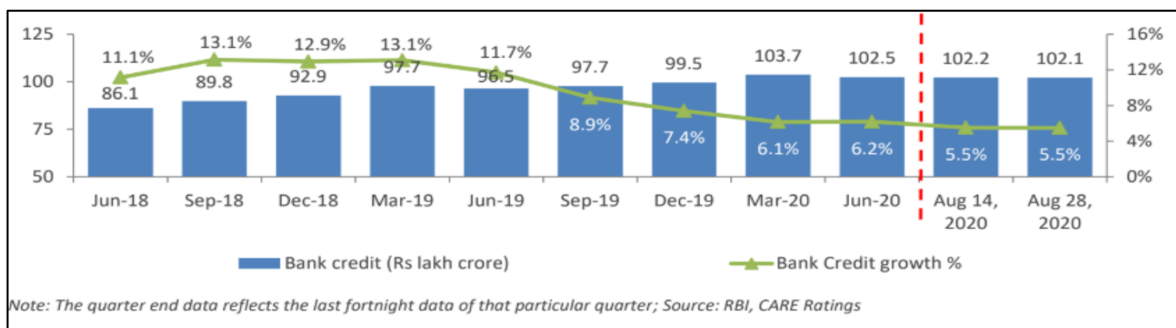
2. **Rate of credit growth:** Even prior to COVID-19 induced recession, bank credit growth had slowed down to ~7.5% in 2019. Given the NPA cycle, credit-risk perceptions increased in the economy, and banks were cautious towards lending. The decline in growth came on the back of weakness in sanctions to industries, mainly small & medium sized businesses. Despite the moderation, growth in personal loans remained robust at over 15% per annum before March.

Moderation in Non-Food Credit growth



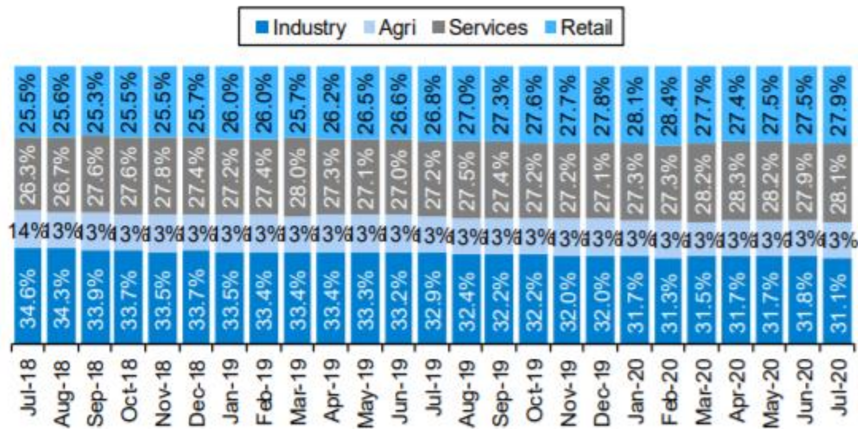
The credit growth continued to remain less than half the level compared to last year, reflecting weak demand & risk aversion. Despite of Government's Emergency Credit Line Guarantee Scheme for MSMEs, the incremental credit growth was weak.

Growth of Bank Credit (y-o-y growth%)



Additionally, as the SCBs are cherry picking their credit portfolios with caution due to asset quality concerns, and with economic activities remaining subdued, the overall bank credit is expected to remain slower in the near term.

3. **Credit split:** Lenders have been shifting focus from large industrial loans towards retail loans as bad loans of the latter have traditionally been low. With corporate loans rigidly at multi-year lows, risk-averse banks lapped up retail credit. The recent slowdown followed by COVID-19 induced recession has imposed limits to this growth strategy.



Source: RBI, PL

Rs bn	July-19	Mar-20	June-20	July-20	YoY (%)	MoM (%)	YTD (%)	% of Total
Non-Food Credit	**84,958**	**92,115**	**90,470**	**90,691**	*6.7*	**0.2**	**-1.5**	**99.1**
Agriculture & Allied Activities	**11,090**	**11,578**	**11,529**	**11,693**	*5.4*	**1.4**	**1.0**	**12.8**
Industry	**27,984**	**29,052**	**28,752**	**28,213**	*0.8*	**-1.9**	**-2.9**	**30.8**
Micro & Small	3,616	3,818	3,527	3,547	*-1.9*	0.6	-7.1	3.9
Medium	1,052	1,056	957	1,020	*-3.1*	6.6	-3.4	1.1
Large	23,315	24,177	24,268	23,646	*1.4*	-2.6	-2.2	25.8
Services	**23,129**	**25,949**	**25,285**	**25,472**	*10.1*	**0.7**	**-1.8**	**27.8**
Transport Operators	1,409	1,445	1,467	1,487	*5.5*	1.4	2.9	1.6
Computer Software	182	201	206	212	*16.2*	2.8	5.6	0.2
Tourism, Hotels & Restaurants	399	460	463	474	*18.8*	2.4	3.1	0.5
Shipping	59	66	52	52	*-11.9*	0.4	-21.0	0.1
Professional Services	1,666	1,771	1,739	1,768	*6.2*	1.7	-0.2	1.9
Trade	5,135	5,524	5,430	5,606	*9.2*	3.2	1.5	6.1
Wholesale Trade	2,298	2,634	2,552	2,677	*16.5*	4.9	1.6	2.9
Retail Trade	2,837	2,890	2,878	2,929	*3.2*	1.8	1.3	3.2
Commercial Real Estate	2,086	2,298	2,293	2,332	*11.8*	1.7	1.5	2.5
NBFCs	6,367	8,074	7,985	7,935	*24.6*	-0.6	-1.7	8.7
Other Services	5,826	6,113	5,651	5,607	*-3.7*	-0.8	-8.3	6.1
Personal Loans	**22,755**	**25,537**	**24,904**	**25,312**	*11.2*	**1.6**	**-0.9**	**27.7**
Consumer Durables	56	93	88	91	*62.3*	3.2	-1.8	0.1
Housing (incl. PSL)	11,998	13,390	13,359	13,476	*12.3*	0.9	0.6	14.7
Advances against FD	649	795	615	623	*-4.0*	1.4	-21.6	0.7
Advances to individuals against securities	54	53	58	64	*18.5*	10.1	19.8	0.1
Credit Cards	940	1,081	976	1,014	*7.9*	3.9	-6.2	1.1
Education	677	657	650	651	*-3.8*	0.1	-1.0	0.7
Vehicle Loans	2,013	2,206	2,146	2,177	*8.1*	1.4	-1.3	2.4
Other Personal Loans	6,369	7,261	7,012	7,216	*13.3*	2.9	-0.6	7.9
Food Credit	**658**	**516**	**890**	**790**	*20.1*	**-11.2**	**53.2**	**0.9**
Total Gross Bank Credit	**85,615**	**92,631**	**91,360**	**91,481**	*6.9*	**0.1**	**-1.2**	**100.0**

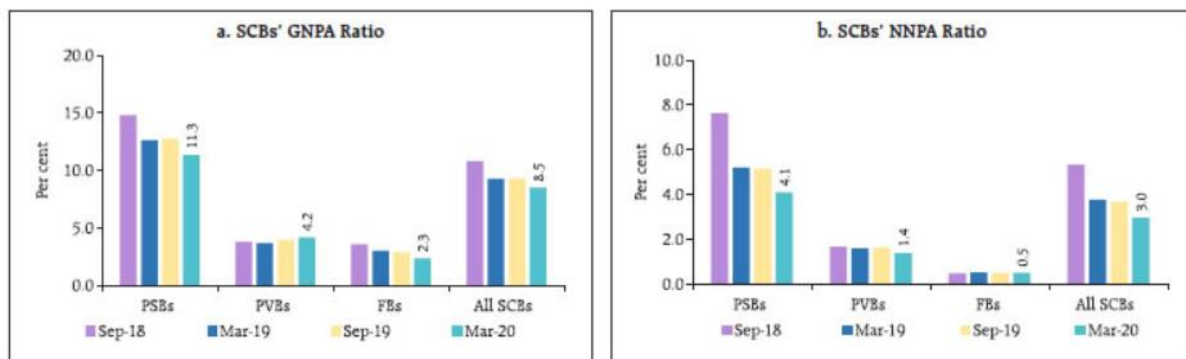
Source: RBI and HSIE Research

Asset quality in India's banking sector:

NPA Problem: Banks give loans and advances to borrowers. Based on the performance of the loan, it may be categorized as: (i) a standard asset (a loan where the borrower is making regular repayments), or (ii) a non-performing asset. NPAs are loans and advances where the borrower has stopped making interest or principal repayments for over 90 days.

In December 2015, the RBI initiated asset quality review (AQR) wherein it listed 150 companies that has to be downgraded as non-performing assets. As RBI tightened its grip, Gross NPAs of banks increased from 4.3% of total loans in 2015, to 11.5% in 2018, before declining to 8.5% by March 2020.

A lot of the loans classified as NPAs originated in the mid-2000s, at a time when large corporations were granted loans for projects based on recent growth and performance. Corporations grew highly leveraged, and when projects for which the loan was taken started underperforming, borrowers lost their capability of paying back the bank. Banks took to the practice of 'evergreening'.



Insolvency and Bankruptcy Code, 2016: The Insolvency and Bankruptcy Code (IBC), which came into effect in 2016, provides for a time-bound and market-linked resolution of stressed assets. In case, the resolution does not happen, the company concerned goes for liquidation. As per the Economic Survey released January 31st, 2020 the "Insolvency and Bankruptcy Code (IBC) has improved resolution processes in India compared to the earlier measures." The proceedings resulted in recovery of 42.5% of the amount involved as compared to 14.5% under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act. In terms of duration, the survey stated that the IBC proceedings take 340 days on an average as compared to the duration of 4.3 years earlier.

Impact of COVID-19:

Loan Moratorium: RBI had announced a 3-month moratorium starting March 1,2020 on loan & interest repayment. This was subsequently extended by another 3 months to August 31, 2020. The Supreme Court virtually extended this till September 28, 2020 as it directed banks not to declare any loan as NPAs till then. Depending upon the nature and scale of the lending institution, the outstanding loans that are coming under moratorium ranged from 30% to over 70%.

Loan restructuring scheme: RBI announced a one-time restructuring scheme for lenders, which will allow them to change repayment terms for their borrowers who have been hit by the COVID-19 lockdown. Lenders can now do this while keeping the borrower's account standard and will not have to tag them as defaulters/their account as a non-performing loan. Non-performing loans are those that remain unpaid for over 90 days. Lenders can now also restructure debt without changing the owners of a stressed company, which was the case under existing rules. However, these easier terms are only allowed for those borrowers who have been impacted by COVID-19, and no others.

Key Ratio	Definition
Total Outside Liabilities / Adj Tangible Networth	Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities
Total Debt / EBIDTA	Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortization.
Current Ratio	Current assets divided by current liabilities
Debt Service Coverage Ratio (DSCR)	For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges
Average Debt Service Coverage Ratio (ADSCR)	Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges

Source: RBI, PL

The KV Kamath committee has selected 26 sectors (29% of the banking credit) which will require restructuring based on its analyses of financial parameters hit due to the economic crash caused by the Covid-19 pandemic. In its report the five-member committee said power, construction, iron and steel, roads, real estate, wholesale trading, textiles, consumer durables, aviation, logistics, hotels, restaurants and tourism, mining are among the sectors that will need restructuring. The committee selected five financial parameters related to leverage, liquidity, & debt serviceability.

Sectors	TOL / ATNW	Total Debt/ EBITDA	Current Ratio	Average DSCR	DSCR
Auto Components	<= 4.50	<= 4.50	>= 1.00	>= 1.20	>= 1.00
Auto Dealership	<=4.00	<=5.00	>=1.00	>=1.20	>=1.00
Automobile Manufacturing	<= 4.00	<= 4.00	NA	>= 1.20	>= 1.00
Aviation	<= 6.00	<= 5.50	>= 0.40	NA	NA
Building Materials - Tiles	<=4.00	<=4.00	>=1.00	>=1.20	>=1.00
Cement	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Chemicals	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Construction	<=4.00	<=4.75	>=1.00	>=1.20	>=1.00
Consumer Durables / FMCG	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Corporate Retails Outlets	<=4.50	<=5.00	>=1.00	>=1.20	>=1.00
Gems & Jewellery	<=3.50	<=5.00	>=1.00	>=1.20	>=1.00
Hotel, Restaurants, Tourism	<=4.00	<=5.00	>= 1.00	>=1.20	>=1.00
Iron & Steel Manufacturing	<=3.00	<=5.30	>=1.00	>=1.20	>=1.00
Logistics	<=3.00	<=5.00	>=1.00	>=1.20	>=1.00
Mining	<=3.00	<=4.50	>=1.00	>=1.20	>=1.00
Non Ferrous Metals	<=3.00	<=4.50	>=1.00	>=1.20	>=1.00
Pharmaceuticals Manufacturing	<=3.50	<=4.00	>=1.00	>=1.20	>=1.00
Plastic Products Manufacturing	<=3.00	<=4.00	>=1.00	>=1.20	>=1.00
Port & Port Services	<=3.00	<=5.00	>=1.00	>=1.20	>=1.00
Power					
- Generation	<=4.00	<=6.00	>=1.00	>=1.20	>=1.00
- Transmission	<=4.00	<=6.00	>=1.00	>=1.20	>=1.00
- Distribution	<=3.00	<=6.00	>=1.00	>=1.20	>=1.00
Real Estate					
- Residential	<=7.00	<=9.00	>=1.00	>=1.20	>=1.00
- Commercial	<=10.00	<=12.00	>=1.00	>=1.20	>=1.00
Roads	NA	NA	NA	>=1.10	>=1.00
Shipping	<=3.00	<=5.50	>=1.00	>=1.20	>=1.00
Sugar	<=3.75	<=4.50	>=1.00	>=1.20	>=1.00
Textiles	<=3.50	<=5.50	>=1.00	>=1.20	>=1.00
Trading – Wholesale	<=4.00	<=6.00	>=1.00	Interest Coverage Ratio > = 1.70	

Source: RBI, PL

RBI Macro Stress Tests: The resilience of Indian banking in the face of macroeconomic shocks was tested through macro-stress tests which attempt to assess the impact of cumulative shocks on SCBs' balance sheet and generate projections of GNPA ratios over a one-year horizon under a baseline and three adverse (medium, severe and very severe) scenarios. The stress tests indicate that the GNPA ratio of all SCBs may increase from 8.5% in March 2020 to 12.5% by March 2021 under the baseline scenario. If the macroeconomic environment worsens further, the ratio may escalate to 14.7% under the very severely stressed scenario.

Other trends and developments:

Digital disruption and Neobanks: FinTech and digital innovations have emerged as a potentially transformative force in the banking services space, with payment and settlement systems migrating from cash transactions to electronic payments in recent years. India has witnessed a rapid increase in the volume of cashless payments in the last 5 years at a CAGR of 51%. The steep increase towards digital payments is largely attributed to mobile banking and a growing penetration of smartphones particularly in the rural India. Yet, among countries in the Asia Pacific region, cash propensity in India remains high, at 49.3%, against China (35.9%) and Japan (3.4%). Neobanks are digital branchless entities that provide a suite of financial services. They have been seeing steady growth and many players say they have got a boost post-Covid and are looking to launch new products.

PSB bank mergers: 10 public sector banks were consolidated into 4 banks. The mega-merger was announced by the Finance Minister in 2019 and closed in 1st April, 2020. The amalgamation of PSBs is based on bad loans intensity and regional factors. There were as many as 27 PSBs in 2017, compared to 7 large and 5 smaller PSBs post this merger.

Co-operative banks regulatory changes: The Banking Regulation (Amendment) Bill, 2020 brings cooperative banks under the supervision of the RBI. The bill, which comes in the backdrop of the PMC Bank scam, seeks to strengthen cooperative banks by increasing their professionalism, enabling access to capital, improving governance and ensuring sound banking through the RBI.

Operation Twist: The Reserve Bank of India conducted several simultaneous sales and purchases of government securities under open market operations since March. The actions were taken following a review of current and evolving liquidity and market conditions induced by covid-19 pandemic. RBI's simultaneous sales and purchases of government securities, termed 'Operation Twist' is a way to manage yields in the market.

The idea is that by purchasing longer-term bonds, the RBI can help drive the bond prices up and yields down. At the same time, selling shorter-term bonds should cause their yields to go up. In combination, these two actions twist the shape of the yield curve. Lower longer-term yields help boost the economy by making loans less expensive for those looking to buy homes, purchase cars, and finance projects.

LTRO / TLTRO: The Reserve Bank of India on March 27 announced Targeted Long-Term Repo Operations (TLTROs) as a tool to enhance liquidity in the system, particularly the corporate bond market, in the wake of the COVID-19 crisis. LTROs provide banks with access to cheaper long-term capital from the RBI at the repo rate. This, in turn, encourages them to lend more and spur economic activity. They can also invest these long-term funds in assets that yield better returns to improve profitability. Also, as banks provide government securities as collateral, the demand for such government bonds increases and helps in lowering yield.

Emergency Credit Line Guarantee Scheme: As part of the COVID-19 relief, the government, in May, had announced the 100% collateral-free loans of up to Rs 3 lakh crore with a 100% guarantee for severely impacted MSMEs, which is being provided by the National Credit Guarantee Trustee Company (NCGTC) through banks, NBFCs and Financial Institutions. Amount extended as credit under ECLGS to a business/MSME will be up to 20 percent of total outstanding as on 29 February 2020. Actual loan extended can therefore be less than 20 percent, depending on terms agreed between the borrower and lender. Coverage 100% guarantee cover will be provided for additional funds sanctioned under the ECLGS.