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Shams Tabrez

Microfinance and Women Empowerment
Nripinder Kaur & Harpreet Kaur

The Menace of Inflated Valuations
K C Jhavar

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Articles

- **A 'Bad' Bank within a Bank – Is it an Idea Whose Time has Come?**
  – *B V Chaubal*

The growing NPAs in PSU banks is a matter of grave concern not only for the bankers but also for the Government, the Reserve Bank of India (RBI) and for society. While several approaches (e.g. SDR, S4A etc.) have been attempted in the past, the results have not been very encouraging given the rising level of NPAs. Therefore, new ideas for NPA management need to be evolved. The mergers of banks may further aggravate the problem of NPAs, and therefore, a Financial Holding Company model could provide a more pragmatic approach towards NPA management in times to come.

- **Strategies to Strengthen Credit Flow to MSME Sector**
  – *V S Kaveri*

While the MSME sector has enough potential to grow in the coming years and continue to make significant contribution to the country's industrial output, exports and employment generation, enterprises therein are starved of bank credit. Hardly 40 per cent of the total credit requirement is met through formal institutional sources. Further, delay in credit sanction is commonly observed. They also experience innumerable difficulties in complying with terms and conditions of loan sanction. Hence, it calls for an analysis of problems associated with bank credit, a review of steps taken by the government and the Reserve Bank of India (RBI) and offer suggestions to ensure adequate, timely and hassle-free bank credit to MSMEs. Towards this end, the present article is written for the benefit of policy-makers and branch managers engaged with banks and financial institutions.

- **Marginal Cost of Funds-Based Lending Rate (MCLR): RBI Guidelines Towards an Innovative Step in Bringing Reforms in Lending Rates**
  – *Shams Tabrez*

According to guidelines issued by the Reserve Bank of India (RBI), "Banks will review and publish their MCLR of different maturities every month on a pre-announced date." The novel element of the MCLR system is that it facilitates monetary transmission and has been made mandatory for banks to consider the repo rate while deciding their lending rates. The RBI wants to bring transparency and efficiency so as to pass the benefits of the reduction in repo rate. Repo rate reduction by the RBI is aimed to reduce the overall costs on account of downward change in interest rate in the economy and thus promote loans for consumption and investment. Commercial banks have to depend upon the component of CASA (Current Account and Savings Account) deposits which have got low costs and this will have a major impact not only on deciding their MCLR but also in maintaining the competitive rates to be offered to the borrowers to book the advances' business. In the MCLR regime, commercial banks have to set their houses in order with focus on customer services and efficiency in order to improve their deposits as well as advances' business.

- **Microfinance and Women Empowerment**
  – *Nripinder Kaur & Harpreet Kaur*

Microfinance refers to small savings, credit and insurance services extended to socially and economically deprived sections of society. Microfinance service is provided to unemployed or low income individuals or groups who do not have other means of gaining financial services. Microfinance through Self Help Groups (SHGs) has been recognised internationally as the modern tool for poverty alleviation, rural development, women empowerment and creates awareness which finally results in sustainable development of the nation. The role of women in India is changing and they are now emerging from the past traditions into a new era of freedom and rights. In India, about 50 per cent of the total population are females but their representation in life is very low. This paper considers the role played by microfinance in women's empowerment and highlights some case studies related to this and also gives practicable suggestions associated with microfinance in India.

- **The Menace of Inflated Valuations**
  – *K C Jhavar*

Even after a decade, the subprime problem of the US is haunting our memories. According to experts, it was mainly due to bad valuations. In our country too, bad valuation is a cause of concern for the bankers. According to a news report published in 'Business Standard' dated June 24, 2011, the Reserve Bank of India (RBI) had drawn the attention of the banks to the problem of inflated valuations and advised them to submit an 'action taken' report on the issue. Further, it has been reported that during liquidation it is often found that the value of the property is far less than what was mentioned when the loan was sanctioned and a sharp spurt in such cases pointed to a nexus between independent valuers appointed by banks and a section of real estate developers. Valuations are still a cause of concern for our economy because the NPAs of the banking sector are growing unabated, which is evident from the fact that the gross NPAs have grown from 3.4 (March 2013) to 7.6 per cent (March 2016) and as per figures projected by the RBI they will be around 8.5 per cent by the end of March 2017. The net NPAs have grown from 2.3 per cent (September 2013) to 4.6 per cent (March 2016). Similarly, stressed assets have grown from 9.2 per cent (March 2013) to 11.5 per cent (March 2016).