Economy This Week
(29th July to 4th August 2019)

The Banning of Unregulated Deposit Schemes Bill 2019 (IE 1/8/19)

- The bill has been passed by RS in July 29 (LS has already passed it)
- The bill aims to protect investors from fraudulent investment schemes such as Ponzi Schemes
- It amends
  - The RBI Act 1934
  - The Securities and Exchange Board of India 1992
  - The Multi-State Co-operative Societies Act 2002
- As per the bill, the deposits collected will be declared as unregulated if these deposits are undertaken for business purposes and additionally are not registered with any of the nine regulatory bodies/authorities as mentioned in the bill. The deposit taking scheme will be considered legal only upon its registration under any one of the nine bodies (RBI will oversee the deposits from NBFCs, SEBI will oversee mutual funds etc)
- This provides for an appointment of a competent authority (of rank not below the Secretary to the state or central government) with a power to provisionally attach the properties of the deposit taker

Survival struggle for payment banks (LM 30/7/19)

- Since 1969, financial inclusion has been the core goal of Indian policy making. One of the measures in this direction has been to promote the Payment banking (PB) system
- Unlike the classic banks, the PBs are not in the business of borrowing at lesser rate and lending at a higher rate of interest. These were conceptualised as new age banks that would be leveraging the ICT (Information and Communication Technology) to grant transactional ease to people in far flung parts of the country (especially to those people who had never visited the bank before)
- This sector has come under stress which was evident with Aditya Birla Idea Payments Bank winding up barely 18 months after its launch
- It was in 2015 that RBI issued the in principle approval for 11 entities for the opening of these Payment banks and 4 of them dropped out within months
- These banks faced issues
  - Limit of ₹ 1 lakh in deposit collection
  - Signing the customers became difficult
  - Guideline of investing 75% of the deposits on G-securities which give lower earnings, reduced their margins

Govt may promote private sector participation in power sector (BL 30/7/19)

- Though govt has implemented reforms in the power sector, the financial health of discoms has not improved as per the expectations. Hence the govt is thinking of pushing for more private sector participation as an alternative
- The first leg of debt restructuring and loss reduction measures have achieved about half of its intended goals
  - The AT&C (Aggregate Technical and Commercial Losses) for the states and UTs have averaged at 18.2% in FY19 (reduction of 2.6 percentage points) and under UDAY the discoms were supposed to bring it down to below 15% by FY19
  - AT&C losses are a combination of technical losses such as theft, inefficiency in billing etc; and commercial loss such as default in payment and inefficiency in collection etc
  - The discoms were booking losses of around ₹ 60000 Cr before the UDAY 1 was implemented and with implementation, it has been reduced to ₹ 23000 Cr per annum
    - The financial health of discoms was affected by higher railway freight, lower tariff hike, more expensive cost of power, hike in coal cost etc

PM Kisan target may be missed (BS 4/8/19)

- Govt under this scheme provides income support of ₹ 6000 per year in three instalments to the identified farmers
- The scheme was allocated with ₹ 75000 Cr for this fiscal
- The beneficiaries will have to be identified by the state governments
- The scheme was earlier limited to small and marginal farmers. In a cabinet decision taken in May 2019, it has been expanded to cover all the farmers irrespective of the size of the landholdings (with this, the estimated beneficiary farmers increased from 125 mn to 146 mn - as mentioned in the agriculture census of 2015-16). The estimated expenditure was to increase to ₹ 87000 Cr
- The states are sending their list of farmer beneficiaries to be covered under PM-Kisan. As per the present estimates it might not exceed 110 mn. This is much lesser than 146 mn which was calculated earlier (of this 125 mn was expected to be small and marginal farmers)
- The lower number of beneficiaries has been attributed to
  - Insufficient land records
  - Land not mutated in the name of the original holder (land mutation means the name of the buyer has to be entered in the revenue records maintained by the local authorities)
  - Presence of joint holdings in land
  - Farmers not willing to reveal the land details
- This has led to a discrepancy in the numbers. As per the census, the state of Karnataka has 8.7 mn farmers, but the state government has sent a list of 6.3 mn beneficiaries. In case of Kerala the census figures are 7.5 mn but the state has sent a list of 3.5 mn farmers
- Apart from this, the state of West Bengal is not participating in the scheme

Added to this, there have been issues related to transfers as NEFT transactions (for transferring the income) have failed and there have non-compliance of KYC verification in case of some of the accounts which are adding to the issues.

PMFBY - crop insurance made voluntary (BS 30/7/19)

- Govt in July, has announced to make PMFBY (Pradhan Mantri Fasal Bima Yojana) voluntary
- Earlier the loanee farmers (farmers taking agriculture loans from the banks) had to compulsorily take the insurance coverage under PMFBY and it was voluntary for others. Between Kharif 2016 to Rabi 2018, more than 115 mn farmers were covered under PMFBY, of which 73% were loanee farmers
- 27 states and UTs had opted for PMFBY, which tried to address issues with the earlier crop insurance schemes such as NAIS (National Agriculture Insurance Scheme) and MNAIS (Modified National Agriculture Insurance Scheme). The premium paid by farmers under PMFBY was 2%, 1.5% and 5% of the sum insured in case of Kharif, Rabi and horticulture respectively (in case of earlier scheme - NAIS, it was in the range of 8 to 12%)
- Reason for making it voluntary
    - Centre has spent over ₹ 36500 Cr between 2015-16 to 2018-19
    - Complaints of poor claim recovery
    - States are not prompt in conducting the CCEs (Crop Cutting Experiments)
    - States have delayed their share of premium payment (to correct this, centre has announced a penalty of 12% if there is a delay of more than three months in payment of premium by the states and if the settlement is delayed by more than two months from the due date)
- Impact of making it voluntary
    - The number of enrolments would come down
    - The premium payments would increase