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RBI GUIDELINES ON WILLFUL DEFAULTERS

This article covers "Daily Current Affairs", and the Topic details " RBI Guidelines on Willful Defaulters ". This Topic has relevance in the Economy section of the UPSC CSE exam.

For Prelims:
About Willful Defaulters?
GS 3: Economy
Factors Responsible for High Number of Defaults?

Why in the news:
The Reserve Bank of India (RBI) has issued a draft master didirection on the treatment of wilful defaulters

About Guidelines:
The Reserve Bank of India (RBI) has put forth several amendments to its guidelines concerning the classification of "wilful defaulters" and the actions that should be taken against them :

- **Immediate Classification:** Lenders are now required to categorize a borrower as a "wilful defaulter" promptly within six months of their account being designated as a non-performing asset (NPA). This represents a significant change as there was previously no specific timeframe for identifying such borrowers, ensuring a more timely assessment of wilful default.
- **Defining Wilful Default:** The RBI defines wilful defaulters as borrowers or guarantors who have the financial capacity to repay the bank's dues but choose not to do so or divert bank funds. The minimum outstanding amount for a wilful defaulter is set at Rs 25 lakh and above, providing a clear definition of who falls into this category.
- **Identification Committee:** An Identification Committee, established by lenders, will be responsible for evaluating the evidence of wilful default and determining whether a borrower qualifies as a wilful defaulter. This committee ensures a fair and objective assessment process.
- **Publication of Photographs:** If lenders opt to publish photographs of wilful defaulters, they must establish a non-discriminatory board-approved policy outlining the criteria for such publication. This safeguards against unfair or biased publication practices.
- **Credit Facility Restrictions:** No lender can extend additional credit facilities to a wilful defaulter or any entity associated with them for up to one year after their name is removed from the List of Wilful Defaulters (LWD). This prevents wilful defaulters from obtaining additional credit both during and after their default status.
- **New Ventures Restriction:** Following their removal from the LWD, wilful defaulters and related entities are subject to a five-year restriction on obtaining credit facilities for launching new ventures. This prevents them from starting new businesses or taking on additional financial commitments.

- **Restructuring Limitation:** Wilful defaulters are ineligible for credit facility restructuring, meaning they cannot renegotiate their existing debt to make it more manageable.
- **Guarantor Liability:** Lenders can take action against the guarantor without first exhausting remedies against the primary debtor in the event of a default. The guarantor's liability is immediate, and non-compliance with the lender's demands may lead to their classification as a wilful defaulter, holding guarantors accountable for guaranteed loans.
- **Compromise Settlement:** Any account listed in the List of Wilful Defaulters can only be removed from the list once the borrower has fully repaid the compromised amount, ensuring that compromise settlements are honored and settled in full.
- **Credit Facility Transfer:** Lenders must investigate potential wilful default scenarios before transferring credit facilities to other lenders or asset reconstruction companies (ARCs), preventing the transfer of debt without first determining if wilful default was involved.

The RBI has invited feedback on these proposed changes from various stakeholders, with the comment deadline set for October 31. These proposed amendments aim to strengthen the framework for addressing wilful defaulters and provide transparency regarding the procedures and consequences associated with such cases.

Factors Responsible for High number of Defaults:
The current situation of defaults and, consequently high levels of Non-Performing Assets, which are eroding the stability of the banking sector, can be attributed to a set of structural weaknesses:
- **Poor Banking Practices:** Inadequate banking practices have played a significant role in this scenario.
- **Discretionary Authority of Banking Officials:** The discretionary powers vested in banking officials have also contributed to the problem.
- **Influence from Powerful Industrial Groups:** The influence wielded by influential industrial conglomerates has exerted additional pressure, often stemming from political circles, on banks.
- **Intense Competition Among Banks:** The intense competition among banks has led to the issuance of unsecured loans, which has become a cause for concern.

These factors collectively result in banks extending substantial loans without conducting thorough due diligence or obtaining adequate collateral.

Non-Performing Assets (NPAs)
- **Definition of NPAs:** NPAs encompass loans or advances where borrowers have fallen behind on their scheduled principal or interest payments, exceeding a specified timeframe, typically 90 days.
- **Asset Status for Banks:** Loans serve as assets for banks, generating substantial interest income. When borrowers, be they individuals or businesses, fail to meet interest payments, these assets lose their income-generating status and become "non-performing" from the bank's perspective.
- **RBI's Criteria:** The Reserve Bank of India (RBI) characterizes NPAs as assets that no longer contribute to a bank's income.
- **Disclosure Obligations:** Banks are mandated to publicly disclose their NPA figures and regularly report them to the RBI.
- **Classification of NPAs:** In accordance with RBI directives, NPAs are classified into three distinct categories:
  - **Substandard Assets:** Those holding NPA status for up to 12 months.
  - **Doubtful Assets:** Assets that have maintained substandard status for 12 months.
  - **Loss Assets:** Assets with minimal recovery potential, deemed uncollectible and unfit for classification as bankable assets.

Q.1 Consider the following statements regarding Willfull defaulters:
1. Only borrowers and not Guarantors can be classified as Willful defaulters.
2. The individual banks classify a borrower as willful defaulters and not the RBI.

Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

ANSWER: B

Q.2 Consider the following statements regarding Non-Performing Assets (NPAs):
1. Substandard Assets are those holding NPA status for up to 6 months
2. Loss Assets are those that have maintained substandard status for 12 months.

Which of the statements given above is/are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

ANSWER: D

Q.3 "What measures can the government and financial regulatory authorities implement to effectively address the issue of willful defaulters in the banking sector, ensuring the recovery of bad loans and maintaining the stability of the financial system?"

Rishabh

STATE OF WORKING INDIA 2023 REPORT

This article covers "Daily Current Affairs" and the topic details "State of Working India 2023 Report". This topic has relevance in the "Economy" section of the UPSC CSE exam.

For Prelims:
Basic Concepts of Employment

For Mains:
GS3: Economy
Indian Economy and Issues Relating to Employment

Why in the news?
The Azim Premji University's Centre for Sustainable Employment has released the 'State of Working India 2023' report.

About State of Working India 2023 Report

- The 'State of Working India 2023' report examines the effects of India's economic slowdown from 2018 to 2020 and the subsequent impact of the Covid-19 pandemic on the labour market.
- The report relies on official datasets such as NSO's Employment-Unemployment Surveys, Periodic Labour Force Surveys, National Family Health Surveys, Annual Survey of Industries, and Economic and Population Censuses to compile its findings.
- Additionally, it incorporates data from a unique primary survey conducted in rural Karnataka and Rajasthan, known as the India Working Survey.
- It employs regression analysis to provide precise estimates of how structural changes affect employment conditions and disparities.

STATE OF WORKING INDIA 2023

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KEY HIGHLIGHTS

- **Structural Change Accelerated:** Increase in regular wage/salaried jobs.
- **Upward Mobility Improved:** Sons of casual workers find better quality work.
- **Caste-Based Segregation Reduced:** Decline in SC representation in certain industries.
- **Gender Wage Gap Persists:** Women earn 76% of men's salaries.
- **Weak Link Between Growth and Jobs:** Economic growth doesn't guarantee job opportunities.
- **High Unemployment Rates:** Particularly among young graduates.
- **Rise in Female Workforce Participation:** Due to self-employment surge.
- **Gender Norms Impact Women's Employment:** Husband's income and mother-in-law's influence.
- **Lower Caste Underrepresentation in Entrepreneurship**

Key Highlights from the Report:

- **Faster Structural Change:**
  - Starting in 2004, there was a noticeable increase in the percentage of workers holding regular wage or salaried positions. This shift saw men go from 18% to 25% and women from 10% to 25%.
  - However, since 2019, the creation of such jobs has slowed due to economic stagnation and the pandemic.
- **Upward Mobility:**
  - In 2004, over 80% of the sons of casual wage workers found themselves in similar casual employment situations, irrespective of caste.
  - By 2018, this figure had dropped significantly to 53% for non-SC/ST castes, coinciding with an increase in better-quality work like regular salaried positions.
  - The decline was less pronounced for SC/ST castes.
- **Reduced Caste-Based Segregation:**
  - In the early 1980s, Scheduled Caste (SC) workers were significantly overrepresented in waste-related and leather-related work, with over 5 and 4 times more representation, respectively.
  - While this has decreased over time, some overrepresentation persists as of 2021-22, particularly in the leather industry.
  - However, the representation index declined in the leather industry, reaching 1.4 in 2021.
- **Gender-Based Earnings Disparities:**
  - In 2004, women in salaried positions earned 70% of what men earned. By 2017, this gender wage gap had reduced, with women earning 76% of men's salaries. This disparity remained constant through 2021-22.

- **Weak Link Between Growth and Quality Jobs:**
  - Since the 1990s, there has been no consistent correlation between year-on-year non-farm GDP growth and non-farm employment growth, suggesting that policies fostering economic growth may not necessarily lead to increased job opportunities.
  - However, between 2004 and 2019, there was a positive relationship between growth and decent employment, which was disrupted by the pandemic.
- **Unemployment Remains High:**
  - Despite a post-Covid decline, unemployment rates remain high, particularly for graduates, with a concerning 42% rate among graduates under 25 years old.
- **Rising Female Workforce Participation**:
  - Since 2019, female employment rates have increased due to a distress-driven surge in self-employment.
  - Before Covid, 50% of women were self-employed, which rose to 60% after the pandemic.
  - However, this increase in self-employment did not lead to higher actual earnings. Even two years after the 2020 lockdown, self-employment earnings were only 85% of their pre-pandemic levels.
- **Impact of Gender Norms:**
  - Gender norms significantly influence women's employment. Women are less likely to work as a husband's income increases, particularly in urban areas.
  - However, in urban areas, once the husband's income crosses ₹40,000 per month, the likelihood of the wife working increases again, creating a U-shaped relationship.
  - The presence and employment status of mothers-in-law also have a strong impact on married women's workforce participation.
- **Lower Caste Entrepreneurship:**
  - Lower caste (SC and ST) entrepreneurs are underrepresented in businesses of all sizes.
  - Even in the smallest firms, their representation is lower than their share in the overall workforce.
  - This underrepresentation becomes more pronounced in larger firms, while upper castes become more overrepresented.

Basic Concepts:

- **Labor Force:**
  - The Labor Force includes individuals who are either employed or actively seeking employment.
  - It consists of both the employed and the unemployed individuals within a population who are of working age and are available and willing to work.
- **Unemployment Rate (UR):**
  - The Unemployment Rate is the percentage of the labour force that is unemployed and actively seeking employment.
- **Worker Population Ratio (WPR):**
  - The Workforce Participation Rate measures the proportion of a country's population employed or actively seeking employment.
- **Labor Force Participation Rate (LFPR):**
  - The Labor Force Participation Rate is the percentage of the population in the labour force.

Sources:

Q1. With reference to Employment, consider the following statements:
1. The Labor Force includes exclusively employed individuals and not actively seeking employment.
2. The Unemployment Rate (UR) is the percentage of the labour force that is unemployed and actively seeking employment.
3. The Worker Population Ratio (WPR) measures the proportion of a country's employed population.

Which of the statements given above is/are correct?

(a) 1 and 2 only

(b) 2 only

(c) 3 only

(d) None

Answer: (b)

Q2. Consider the following :
1. The Centre for Sustainable Employment at the United Nations has published the 'Status of Working India 2023' report.
2. According to the report, Women in India are less likely to work when their husband's income rises, particularly in urban regions.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Answer: (b)

Q3. Analyse the gender-based earnings disparities in India's labour market. How has the gender wage gap evolved, and how does this disparity affect gender equality in the workforce?

Gaurav Nikumbh