SECURITISATION OF STRESSED ASSETS - ECONOMY

NEWS: Recently, the **Reserve Bank of India (RBI)** released a draft framework proposing the **market-based securitisation of stressed assets.**

WHAT'S IN THE NEWS?

What are Stressed Assets?

- **Definition:** Stressed assets refer to loans or advances where borrowers have either **defaulted on repayments** or are **highly likely to default** in the near future.
- **Risk Factor:** These assets pose a **significant risk to the financial health of banks and lenders**, affecting their balance sheets and credit profiles.
- **Resolution Method (Traditional):** Traditionally, banks transferred these stressed assets to **Asset Reconstruction Companies (ARCs)** for resolution and recovery under legal provisions like the **SARFAESI Act**.

Securitisation of Stressed Assets – Overview

- **Objective:** The primary goal is to **convert stressed loans into marketable securities**, enabling wider investor participation and enhancing the resolution process.
- **Mechanism:**
    - Stressed loans are **sold to Special Purpose Entities (SPEs)**.
    - These SPEs then issue **tradable securities** backed by the underlying stressed assets.
- **Regulatory Framework:** Proposed under a **new draft framework by the RBI**, designed to complement the existing ARC route under the **SARFAESI Act**.
- **Cash-Based Sales:** All transactions must be **strictly cash-based**, ensuring full payment is received upfront at the time of asset transfer.
- **Role of Resolution Managers (ReMs):** A new category of professionals—**Resolution Managers**—will manage the **recovery and resolution process**, ensuring efficiency and transparency.

Comparison: Existing ARC Route vs. Proposed Securitisation Framework

Aspect	Existing ARC Route	Proposed Market-Based Securitisation
Legal Framework	SARFAESI Act, 2002	RBI's new draft framework
Type of Buyers	Primarily Asset Reconstruction Companies (ARCs)	Broader investor base including institutions, funds, etc.
Transaction Structure	Sale to ARCs with focus on reconstructing the asset	Sale to SPEs which issue securities to investors
Payment Method	Includes **deferred payments**	**Full payment in cash** at the time of transfer
Asset Management	Managed by ARCs	Managed by **Resolution Managers (ReMs)**

Significance of the New RBI Framework

- **Enhancing Market Liquidity:**
    - Aims to **deepen the distressed asset market** by converting bad loans into tradable instruments.
    - Improves **price discovery mechanisms** through market-based bidding.
- **Broader Investor Participation:**
    - Opens the market to **institutional investors, funds, and other capital providers**, increasing competition.
    - Reduces reliance on ARCs and encourages **diverse investment channels**.
- **Strengthening Financial Stability:**
    - Promotes **prudent structuring and transparency** in asset sales.
    - Helps in **even distribution of financial risks** and minimizes systemic threats.

Classification of Stressed Assets – As per RBI Guidelines

Category	Definition	Key Criteria
Standard Assets	Loans without any repayment issues and carry normal credit risk.	Payments are made regularly; **no overdue beyond 90 days**.
Sub-Standard Assets	Assets that have turned non-performing **for ≤ 12 months**.	**Overdue for more than 90 days but ≤ 12 months**.
Doubtful Assets	Assets that remain sub-standard **for more than 12 months**.	Have remained **NPA for over 12 months**.
Loss Assets	Assets identified by auditors or RBI as **unrecoverable**, even if not fully written off.	Considered **uncollectible and of minimal value**.
Non-Performing Assets (NPA)	Loans where **interest or principal is overdue for more than 90 days**.	Encompasses **sub-standard, doubtful, and loss assets**.
Special Mention Accounts (SMA)	Accounts that show **early signs of stress**, potentially slipping into NPAs.	Categorised by days overdue:

- **SMA-0**: 1–30 days
- **SMA-1**: 31–60 days
- **SMA-2**: 61–90 days |

Source: https://www.business-standard.com/finance/news/rbi-proposes-market-based-mechanism-for-securitization-of-stressed-assets-125040901129_1.html

SPECIES IN NEWS

MALABAR GREY HORNBILL

A team of researchers from **Kerala** was awarded the **Future Conservationist Award** by the **Conservation Leadership Programme (CLP)** for their project on **Malabar Grey Hornbill conservation.**

- This initiative aims to **protect this endemic and vulnerable species**, focusing on conservation beyond protected areas, particularly in **human-modified landscapes like plantations.**

Scientific Classification

- **Scientific Name:** *Ocyceros griseus*
- Belongs to the hornbill family, known for its unique casque-bearing beak structures and frugivorous habits.

Unique Physical Features

- **Body Appearance:** A large bird with a predominantly **grey body** and a **white underside**, offering a stark contrast for easy identification.
- **Wings:** The wings are **black-and-white**, adding to its striking appearance during flight.
- **Bill and Casque:** It has a **large, curved bill** topped with a **hollow casque** (a helmet-like structure), characteristic of hornbills and used for vocal resonance.
- **Throat Coloring:** Displays a **yellowish throat**, further distinguishing it from other hornbill species.
- **Call:** Known for its **muffled, grunting calls**, which are frequently heard in its forest habitats.

Habitat and Distribution

- **Geographic Range:** Found **exclusively in the Western Ghats** of southern India—a global biodiversity hotspot.
- **Preferred Environment:** Thrives in **evergreen and moist deciduous forests**, especially in areas with dense canopy cover.
- **Nesting Behavior:**
    - Relies heavily on **tree cavities** for nesting, particularly **secondary cavities** created by other species like woodpeckers.
    - Availability of suitable nesting sites is crucial for their breeding success and long-term survival.

Conservation and Protection Status

- **IUCN Red List Status:** Classified as **Vulnerable**, indicating a high risk of extinction in the wild.

- **Primary Threats:**
    - **Habitat Loss** due to deforestation, logging, and conversion of forests to plantations or agricultural lands.
    - **Destruction of Nesting Sites**, particularly due to the removal of old or dead trees which often host nesting cavities.

Ecological Importance

- **Seed Dispersal Agent:**
    - Acts as a vital **pollinator and seed disperser**, particularly for large-seeded fruiting trees.
    - Helps maintain **forest diversity** and promotes **natural regeneration** of trees.
- **Indicator Species:**
    - Serves as a **bioindicator** of forest health, meaning its presence suggests a **well-preserved and biodiverse forest ecosystem**.
    - Decline in hornbill populations often signals **degradation or fragmentation** of their forest habitat.

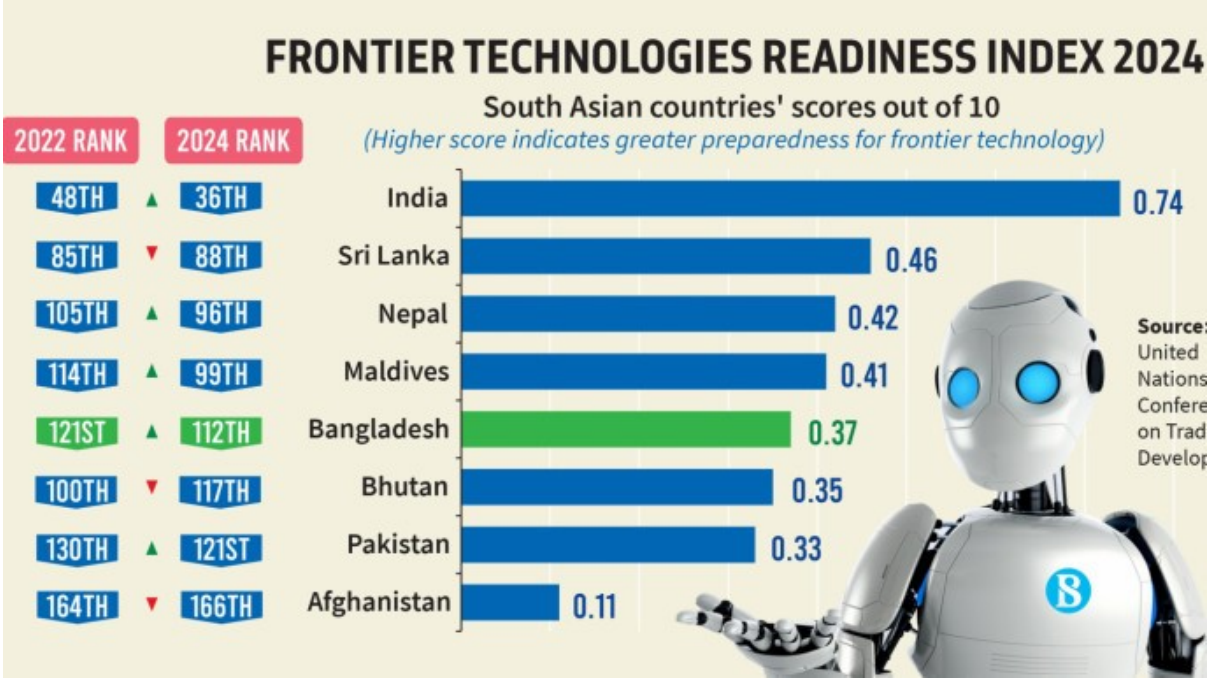
FRONTIER TECHNOLOGIES READINESS INDEX - REPORT

NEWS: India ranks 36 out of 170 nations in the Frontier Technologies Readiness Index.

WHAT'S IN THE NEWS?

India's Performance in Frontier Technologies Readiness

1. **Significant Rank Improvement**:
   In the 2025 **Technology and Innovation Report** by **UNCTAD**, India has improved its position on the **'Readiness for Frontier Technologies' index**, moving up to **36th place in 2024** from **48th in 2022**, showing notable progress in its preparedness for emerging technologies.



2. **Purpose of the Index**:
   The index serves as a valuable tool to assess how well countries are positioned to **adopt, utilize, and adapt to rapidly advancing frontier technologies** that are transforming global industries and economies.

3. **Index Composition – Key Pillars**:
   The index is calculated based on five important components that reflect a country's technological ecosystem:
   • **Information and Communications Technology (ICT) deployment** – availability and usage of internet, mobile networks, and related infrastructure.
   • **Skills** – the presence of an educated and tech-ready workforce.
   • **Research and Development (R&D)** – the intensity of innovation activities.
   • **Industrial Capacity** – the manufacturing and production strength to absorb technologies.
   • **Access to Finance** – availability of capital and investments to support tech innovation.

4. **India's Category-wise Global Rankings**:
   • **ICT Deployment** – India ranks **99th**, reflecting scope for improvement in tech infrastructure and connectivity.
   • **Skills** – At **113th**, India shows a pressing need to enhance education and workforce training in high-tech fields.
   • **R&D Activity** – India ranks **3rd**, indicating strong innovation output and active research institutions.
   • **Industrial Capacity** – At **10th**, India showcases a robust manufacturing base to support new technologies.

• **Access to Finance** – Ranked **70th**, indicating moderate support from financial systems for tech-based ventures.

Global Investment Trends in Frontier Technologies

5. **AI Investment Leadership**:
   The **United States** continues to dominate **private investments in Artificial Intelligence**, showcasing its strong private sector and innovation ecosystem.

6. **India Among Top Investors in AI**:
   India ranks 10th globally for private sector investments in AI, placing it among the top developing countries investing in future technologies, alongside **China**, which holds the **second position**.

7. **Leading Developing Countries in Tech Readiness**:
   According to the report, **Brazil, China, India, and the Philippines** are outperforming many other developing nations in overall frontier tech preparedness due to proactive policies and investments.

8. **Advances in Human Capital**:
   Countries like **Bhutan, India, Morocco, Moldova, and Timor-Leste** have made gains in **human capital**, attributed to improvements in **education levels** (years of schooling) and **increased share of high-skilled employment**, which boosts their ability to engage with emerging technologies.

Understanding Frontier Technologies

9. **Definition and Role**:
   The **United Nations Climate Change** platform defines **frontier technologies** as innovative tools that have the **potential to revolutionize industries, reshape communications**, and **offer solutions to pressing global challenges** such as climate change. These technologies can disrupt traditional systems while offering scalable solutions.

10. **Key Examples of Frontier Technologies**:

    Blockchain Technology:
    A decentralized digital ledger system that ensures **data transparency, immutability, and security**. Information is stored in a series of blocks linked by cryptography, making it **tamper-proof** and ideal for secure transactions and recordkeeping.

    Augmented Reality (AR) & Virtual Reality (VR):
    • **VR** replaces real-world environments with **fully immersive digital experiences**, often used in gaming, education, and training.
    • **AR** overlays digital elements on real-world surroundings, enhancing the user's environment with additional information or visuals, used in fields like retail, medicine, and architecture.

- **Internet of Things (IoT)**:
  IoT refers to a network of interconnected devices that **collect, share, and analyze data**. These devices can range from household gadgets to industrial sensors. For example, a fitness tracker that monitors your heartbeat and syncs with your smartphone illustrates how data moves across connected systems.

- **Quantum Technology**:
  Based on **quantum mechanics**, this area involves **quantum computing and quantum communication**. By utilizing principles like **superposition** and **entanglement**, quantum technologies can perform complex computations faster and more efficiently than traditional computers.

- **3D Printing (Additive Manufacturing)**:
  A technique of creating **three-dimensional physical objects layer by layer** using digital designs. It's used in various sectors like **healthcare (prosthetics), aerospace (engine parts), and automotive (custom parts)**, due to its ability to produce customized and precise components quickly.

- **Artificial Intelligence (AI)**:
  The ability of machines and software to mimic **human intelligence**.
  • **ANI (Artificial Narrow Intelligence)** – Designed for specific tasks like voice assistants, image recognition, or recommendation systems.
  • **AGI (Artificial General Intelligence)** – A more advanced form that can **perform any intellectual task** a human can, involving reasoning, learning, and adapting across different fields without pre-programming.

India's National Efforts: NITI Aayog's Frontier Tech Hub (NITI-FTH)

11. **NITI-FTH – A Dedicated Frontier Tech Initiative**:
    To accelerate India's leadership in emerging technologies, **NITI Aayog launched the NITI-FTH (Frontier Tech Hub)** as a specialized action tank to **strategize, coordinate, and promote India's role in frontier innovation**.

12. **Vision and Goals**:
    • The hub aims to **position India as a leading frontier tech nation**, aiding economic and societal development aligned with **Viksit Bharat** aspirations.
    • It supports a **human-centric development model**, promoting technologies that serve **human welfare and environmental sustainability**.

13. **Strategic Collaboration and Foresight**:
    NITI-FTH will work closely with **industry leaders, academic researchers, and policymakers** to gain **early insights into global tech trends**, assess their **domestic impact**, and provide **policy recommendations and roadmaps** to ensure India's readiness and proactive participation in future technology landscapes.

Source: https://indianexpress.com/article/upsc-current-affairs/upsc-essentials/knowledge-nugget-readiness-for-frontier-technologies-index-unctad-upsc-prelims-2025-9924092/