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CURRENT AFFAIRS

Date: 27 September 2023

SARFAESI ACT 2002

This article covers "Daily Current Affairs" and the topic details "SARFAESI Act, 2002". This topic has relevance in the "Economy" section of the UPSC CSE exam.

For Prelims:

What is the SARFAESI Act 2002?

For Mains:

GS3: Economy

Why in the news?

The Reserve Bank of India (RBI) has recently issued directions to Regulated Entities (REs) under the SARFAESI Act, 2002.

Background of SARFAESI Act, 2002:

- Before introducing the SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, banks and financial institutions faced a cumbersome process of recovering their delinquent debts.
- They had to navigate civil courts or designated tribunals to secure 'security interests' to recover defaulted loans.
- This prolonged procedure slowed the recovery process and contributed to the increasing number of non-performing assets held by lenders.

Aim of the Act:

- The primary objective of the SARFAESI Act is to **protect financial institutions from loan defaulters and expedite the recovery of bad debts.**
- Under this law, banks can take control of assets pledged as security against a loan and manage or sell them to recover dues without court intervention.

Coverage:

- The SARFAESI Act applies nationwide and encompasses **all types of assets, whether movable or immovable, pledged as collateral to the lender.**
- A 2020 Supreme Court ruling extended the Act's **applicability to cooperative banks**, and the Finance Ministry clarified that non-**banking financial companies (NBFCs)** can initiate recovery proceedings in cases involving loan defaults of up to Rs 20 lakhs.

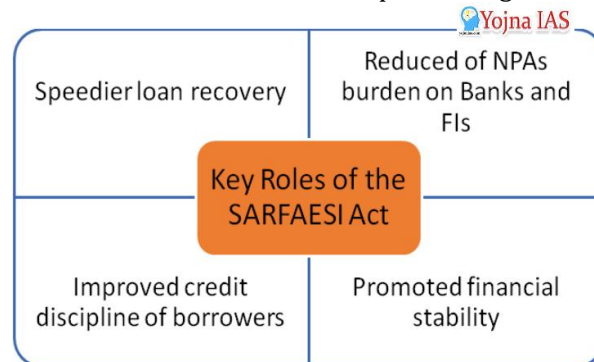
Procedure under the Act:

- The Act comes into play when a borrower defaults on payments exceeding six months. In such cases, the lender can issue a notice to the borrower, giving them 60 days to clear the outstanding dues.
- The defaulting party can approach an appellate authority established under the law within 30 days of receiving the lender's notice.

- If this recourse is not pursued, the financial institution can take possession of the secured assets and sell, transfer, or manage them.

Modes of Recovery:

- The SARFAESI Act provides three modes of recovery:
 - **Securitisation:** Converting loans into tradable securities to raise funds, often involving the sale of loan portfolios to investors.
 - **Asset reconstruction:** Professional management and restructuring of distressed assets to maximise recovery and value.
 - **Enforcement of security interests without court intervention:** The lender can take possession and sell or manage the secured assets to recover dues without court proceedings.



Issues associated with the Act:

- **Applicability:** The Act does not apply to unsecured creditors. For unsecured loans, banks must move the court to file a civil case of defaulting.
- **Misuse by Banks:** There's criticism that the banks are misusing the SARFAESI Act, 2002 provisions, which are sometimes draconian.
- **Borrowers' Concerns:** Many borrowers feel they are being harassed by bank officials unreasonably and using the SARFAESI Act, 2002 provisions.
- **Interpretation of Provisions:** Initially, there was a lot of confusion about how certain provisions of the SARFAESI Act, 2002, are to be interpreted.
- **Protection of Borrowers' Interests:** The judiciary has made every effort to ensure that the object of the SARFAESI Act, 2002, is not diluted. At the same time, the interests of the borrowers are also protected.
- **Right to Property:** Though the property right is not a fundamental right, it is a Constitutional Right, and there's a need to balance between a right of recovery and protection of a right.

More About the News:

- As per the RBI's directions, Regulated Entities (REs) now must display information in a specified format on their websites regarding borrowers whose secured assets have been taken into possession under the SARFAESI Act, 2002.
- These REs include commercial banks, non-banking finance companies (NBFCs), and other licensed entities under Section 22 of the Banking Regulation Act 1949.
- The first list of such borrowers must be displayed within six months from the circular date, with subsequent updates to be made monthly.
- This measure towards greater transparency aims to provide stakeholders and borrowers with visibility into the status of their assets and promote accountability in the financial system.

Sources:

RBI asks banks to display information on borrowers linked to SARFAESI Act

Q1. With reference to the SARFAESI Act, consider the following statements:

1. The SARFAESI Act aims to protect financial institutions from loan defaulters and expedite the recovery of bad debts.
2. The Act applies nationwide and encompasses all assets pledged as collateral to the lender.
3. The Act only applies to cooperative banks and does not include non-banking financial companies (NBFCs).

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 3 only
- (d) None

Answer: (a)

Q2. Consider the following:

1. The Act allows banks to take control of assets pledged as security against a loan and manage or sell them to recover dues without court intervention.
2. The Act allows for converting loans into tradable securities to raise funds.
3. The SARFAESI Act applies to unsecured creditors, and banks can initiate recovery proceedings against them.

How many of the abovementioned statements are correct?

- (a) Only one
- (b) Only two
- (c) All three
- (d) None

Answer: (b)

Q3. Discuss the significance and provisions of the SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, 2002, in promoting financial institutions' recovery of bad debts.

Gaurav Nikumbh

VIBRIO VULNIFICUS

This article covers "Daily Current Affairs" and the Topic details "Vibrio vulnificus". This Topic has relevance in the Science and Technology section of the UPSC CSE exam.

GS 3: Science and Technology

Why in the news:

Studies indicate that *Vibrio vulnificus* is likely to experience increased growth and proliferation as a consequence of the favorable environmental conditions created by rising ocean temperatures and increased precipitation.

Origin and Transmission of *Vibrio vulnificus*:

Natural Habitat: *Vibrio vulnificus* is naturally found in marine environments, primarily thriving in warm coastal waters characterized by low salinity levels.

Transmission Routes:

- **Consumption of Contaminated Seafood:** People can contract *Vibrio vulnificus* by consuming raw or undercooked seafood that has been contaminated with the bacterium.
- **Contact with Open Wounds or Cuts:** Another mode of transmission occurs when open wounds or cuts come into contact with waters where *Vibrio vulnificus* is present. Such contact can result in a severe and potentially life-threatening flesh-eating disease, which carries a mortality rate ranging from 15% to 50%.

Symptoms:

- **Consumption of Infected Raw Shellfish:** When *Vibrio vulnificus* is ingested, it can lead to symptoms including diarrhea, vomiting, abdominal pain, and fever. In individuals with compromised immune systems, these symptoms can be severe.
- **Exposure to Wounds:** If the bacterium enters the body through wounds, it can initially cause localized symptoms such as pain, swelling, and redness at the infection site. In severe cases, this can progress to necrotizing fasciitis, a life-threatening condition characterized by rapid skin and soft tissue deterioration. When the infection enters the bloodstream, it can result in septicemia, leading to more severe symptoms like high fever, confusion, and organ failure.

High-Risk Groups: Individuals who have underlying medical conditions such as chronic liver disease, cancer, chronic kidney disease, and diabetes, as well as those with weakened immune systems, are at an elevated risk of experiencing severe infections.

Treatment: Treatment typically involves antibiotics to combat the infection. However, the effectiveness of treatment decreases if the bacterium has already entered the bloodstream. In severe cases, especially when the infection has progressed to gangrene or septicemia, surgical procedures like amputation may be necessary.

Source:

<https://www.downtoearth.org.in/news/climate-change/this-marine-bacterium-could-become-a-major-threat-to-coastal-populations-in-the-future-91396>

Q.1 What are the primary modes of transmission for *Vibrio vulnificus* infections?

- (a) Inhalation of airborne bacteria and direct skin contact
- (b) Consumption of contaminated water and mosquito bites
- (c) Consumption of infected raw or undercooked seafood and contact with open wounds
- (d) Contact with infected animals and swimming in chlorinated pools

ANSWER: C

Q.2 *Vibrio vulnificus* infection can potentially cause:

- (a) Pneumonia
- (b) Meningitis
- (c) Septicemia
- (d) Gastritis

ANSWER: C

Q.3 “Discuss the interplay between climate change and the emergence of super pathogens. How does global warming affect the evolution and spread of infectious diseases?”

Rishabh