

E.C. No. 1423

NINTH REPORT
ESTIMATES COMMITTEE
(2005-2006)

(FOURTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS-BANKING DIVISION)

**(Action taken by Government on the recommendation contained
in the Sixth Report (Fourteenth Lok Sabha) on the Ministry of
Finance(Department of Economic Affairs – Banking Division) –
‘Public Sector Banks – Non Performing Assets’)**

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Presented to Lok Sabha on 21st March, 2006

Lok Sabha Secretariat
New Delhi

March, 2006/ Phalguna ,1927(S)

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* Not Appended

COMPOSITION OF THE ESTIMATES COMMITTEE
(2005-2006)

Shri C. Kuppusami, MP - CHAIRMAN

MEMBERS

2. Shri Sartaj Singh Chhatwal
3. Shri Lal Muni Choubey
4. Shri Adhir Ranjan Chowdhury
5. Shri V. Kishore Chandra S. Deo
6. Shri Anant Gangaram Geete
7. Shri Anant Gudhe
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9. Shri P. Karunakaran
10. Shri Vijoy Krishna
11. Shri B. Vinod Kumar
12. Prof. Chander Kumar
13. Shri Samik Lahiri
14. Shri Bhartruhari Mahtab
15. Shri Sanat Kumar Mandal
16. Shri Zora Singh Mann
17. Shri Prabodh Panda
18. Shri Sukdeo Paswan
19. Shri Annasahib M.K. Patil*
20. Shri A.Sai Prathap
21. Prof. M. Ramadass
22. Shri K.S. Rao
23. Shri Iqbal Ahmed Saradgi
24. Shri Jyotiraditya M. Scindia
25. Shri Arjun Charan Sethi
26. Shri Manabendra Shah
27. Shri Lakshman Singh
28. Shri M.A. Kharabela Swain
29. Shri Akhilesh Yadav
30. Shri Chandra Pal Singh Yadav

SECRETARIAT

1. Smt. P.K. Sandhu - Additional Secretary
2. Shri A. Mukhopadhyay - Joint Secretary
3. Shri B.D. Swan - Deputy Secretary
4. Shri Cyril John - Under Secretary
5. Shri Munish Kumar Rewari - Committee Officer

***ceased to be the member of the Lok Sabha w.e.f 23rd December, 2005 and also of the Committee consequent on the adoption of a Motion by the Lok Sabha on the 23rd December, 2005 regarding expelling of some members from the membership of Lok Sabha.**

INTRODUCTION

I, the Chairman of the Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Ninth Report on action taken by Government on the recommendations contained in the Sixth Report of Estimates Committee (Fourteenth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs – Banking Division) – ‘Public Sector Banks – Non Performing Assets’.

2. The Sixth Report (Fourteenth Lok Sabha) was presented to Lok Sabha on 25th April, 2005. The Government furnished their replies indicating action taken on the recommendations contained in that Report on 7th February, 2006 . The Draft Report was considered and adopted by the Estimates Committee(2005-2006) at their sitting held on 17th March, 2006.

3. The Report has been divided into the following Chapters:-

- I. Report;
- II. Recommendations/Observations which have been accepted by Government;
- III. Recommendations/Observations which the Committee do not desire to pursue in view of Government’s replies;
- IV. Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee; and
- V. Recommendations/Observations in respect of which final replies of Government are still awaited.

4. An analysis of action taken by Government on the recommendations contained in the Sixth Report of Estimates Committee (14th Lok Sabha) is given in Appendix II. It would be observed therefrom that out of 23

observations/recommendations made in the Report, 14 recommendations, i.e. 60.6% have been accepted by Government and the Committee do not desire to pursue one recommendation i.e. 4.34% in view of Government's replies. Replies of Government in respect of 5 recommendations, i.e. 21.73% have not been accepted by the Committee and final replies of Government in respect of 3 recommendations i.e. 13.04% are still awaited.

NEW DELHI;
March 17, 2006
Phalguna 26, 1927(S)

C. KUPPUSAMI
Chairman
Committee on Estimates

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the recommendations contained in the Sixth Report (Fourteenth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs – Banking Division) – ‘Public Sector Banks – Non-Performing Assets’.

1.2 The Committee’s Sixth Report (Fourteenth Lok Sabha) was presented to Lok Sabha on 25th April, 2005. It contained 23 observations/recommendations. Action Taken Notes on all these observations/recommendations have been received from the Ministry of Finance (Department of Economic Affairs-Banking Division).

1.3 Replies to the observations and recommendations contained in the Report have broadly been categorized as under:-

- (i) Recommendations/observations which have been accepted by the Government :
Sl. Nos. 1 to 7, 13 to 15, 17 and 21 to 23.

(Total 14, Chapter II)

- (ii) Recommendation/observation which the Committee do not desire to pursue in view of Government’s reply:
Sl. No. 20

(Total 1, Chapter III)

- (iii) Recommendations/observations in respect of which Government's replies have not been accepted by the Committee:

Sl. Nos. 9 to 12 and 16

(Total 5, Chapter IV)

- (iv) Recommendations/Observations in respect of which final replies of Government are still awaited:

Sl.Nos. 8, 18 and 19

(Total 3, Chapter V)

1.4 The Committee will now deal with the action taken by Government on some of the recommendations.

Review of functioning of DRTs

Observations/Recommendations Sl.Nos.9 to 12 (Para Nos. 9.9 to 9.12)

1.5 Regarding review of functioning of DRTs, the Committee had recommended as follows:-

“The Committee, are unhappy to note that even after 11 years since the enactment of Recovery of Debts due to Banks and Financial Institutions Act, 1993, the performance of DRTs set up under the said Act is not very satisfactory. As per the information furnished by the Ministry of Finance as on 30.6.2004, 63,600 cases were filed before DRTs involving an amount of Rs. 91925.89 crores. Out of this, 27956 cases involving an amount of Rs. 26358 crores were decided and only an amount of Rs. 7845.31 crores had been recovered, which is around 30% of the amount settled. The Ministry have contended that subsequent to amendments made to the Act in 2000, the performance of DRTs has improved which has been reflected in the increase in percentage of cases decided by DRTs from 13% as on 31.12.1997 to 37.26% as on 31.3.2004, and in the percentage of recovery to total dues which also concurrently increased from 1.67% to 8.36% during the said period. As there are still large number of cases pending before DRTs involving huge amount, the Committee do not fully share the perception of the Ministry of Finance that the performance of DRTs has improved subsequent to the amendments to the DRT Act in 2000, and feel that still there exists a lot of scope for further improvements.

In a written reply furnished to the Committee in December, 2004, the Ministry of Finance (Department of Economic Affairs-Banking Division)

informed that after obtaining the performance review conducted by the RBI, the Government of India had set up a Working Group in February, 2001 under the Chairmanship of Shri S.N. Aggarwal, Presiding Officer of Debt Recovery Tribunal (DRT)-II, Delhi to review the existing provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and the Rules framed thereunder in the light of the suggestions received from various quarters such as banks, financial institutions, DRTs and individuals and to examine the adequacy of the infrastructure available with DRTs. The Working Group submitted its report in August, 2001 wherein it had suggested amendments to the Act and rules framed thereunder. The report was examined by RBI and their views communicated to the Government in February, 2002. On the recommendations of Reserve Bank of India the Government had further constituted another Working Group headed by Shri Vinod Rai, AS(FS) to examine afresh the issues related to DRT's role in recovery of NPAs for enhancing their effectiveness and to review the functioning of Debts Recovery Tribunals.

The Committee note that the Working Group headed by Shri S.N. Aggarwal had submitted its Report to the Government way back in August, 2001. In their comments/views, furnished to the Government on the recommendations of Working Group in February, 2002, the RBI supported the recommendations made by the Working Group for strengthening the infrastructure of DRTs in totality. As regards amendments to the DRT Act and the Rules framed thereunder, the RBI stated that they have no objection to the amendments proposed by the Working Group, barring six amendments on which RBI differed with the Working Group. Apart from

their views on the Working Group recommendations, RBI had also made some suggestions for consideration of the Government at the time of amendment of the DRT Act. The fate of the recommendations made by the Aggarwal Working Group are not known as the reply furnished by the Ministry is silent with regard to its implementation. It appears that the Ministry of Finance instead of examining the feasibility of implementing the recommendations of the Working Group headed by Shri Aggarwal, had rather chosen to constitute another Working Group headed by Shri Vinod Rai and that too after passage of more than two years to examine afresh the issues related to DRT's role in recovery of NPAs and to review the functioning of DRTs. The Committee deplore the casual approach of the Ministry of Finance to such an important issue of functioning of DRT system especially when the entire process of recovery of bad debts of banks and FIs hinges on its effective functioning. The Committee hope that in future Government will act with greater promptness in plugging loopholes in the system for speedy recovery of bad debts.

The Committee hope that the Working Group headed by Shri Vinod Rai shall go into the entire gamut of functioning of DRTs and suggest comprehensive measures for complete overhaul of the DRT structure for speedy recovery of bad loans. They further expect that the Working Group would also examine the feasibility of streamlining the existing procedures so that DRTs can take up high value cases on a priority basis and also for their expeditious settlement so that it would have a bearing on the overall recovery position of NPAs by the banks/FIs. The

Committee expect that the Working Group would submit its Report expeditiously and the functioning of DRTs would be streamlined at the earliest.”

1.6 In their action taken reply, the Ministry have stated as under:-

“The Recovery of Debts due to Banks and Financial Institutions Act, 1993 (DRT Act), was enacted to provide for the establishment of Tribunals for the expeditious adjudication and recovery of debts due to Banks and Financial Institutions and for matters connected therewith or incidental thereto. The performance of the Debts Recovery Tribunals is being monitored through periodical statements. The amount of debts recovered has increased considerably. As against a sum of Rs. 4,395 crores recovered in the year 2004-05, a sum of Rs. 8,011 crores has been recovered in the period from 1.4.2005 to 31.12.2005.

The report of the Working Group headed by Shri S.N. Aggarwal was under examination of the Government in February, 2002. At that time the validity of the DRT Act was under challenge before Hon'ble Supreme Court of India. After receiving the verdict of the Supreme Court of India in March, 2002, a Working Group under the Chairmanship of Shri Vinod Rai, Additional Secretary (FS) was constituted to consider the functioning of the DRTs, afresh. The Working Group submitted its report in December, 2004 and suggested amendments in the DRT Act. The suggested amendments are under examination of the Government in consultation with the Ministry of Law and other concerned organizations.”

1.7 It is distressing to note that despite the recommendation of the Committee to expedite the process of streamlining the functioning of Debt Recovery Tribunals (DRTs), the Government is moving at snail's pace in the matter. The Recovery of Debts due to Banks and Financial Institutions Act, 1993 (DRT Act) was enacted to provide for establishment of DRTs for the expeditious adjudication and recovery of debts due to banks and financial institutions. From the data made available to the Committee, it is evident that the progress both in adjudication of cases and recovery of debts has not been satisfactory. The performance of DRTs had not improved even after the amendments made to the DRT Act in 2000. It was in this context that a Working Group was set up by Government in February, 2001 under the Chairmanship of Shri S.N. Aggarwal. Although the RBI had supported most of the recommendations made by the Working Group for strengthening the infrastructure of DRTs in totality and

had made certain suggestions on its own for consideration of the Government at the time of amendment of the DRT Act, the Ministry decided to constitute another Working Group headed by Shri Vinod Rai, that too after a lapse of two years. It has been stated by the Ministry that the amendments to the DRT Act suggested by the Working Group which submitted its Report in December, 2004 are still under consideration of the Government.

1.8 The sequence of events is a clear indication of the indifference and lack of determination on the part of Government to improve the functioning of DRTs, so vital for improving the recovery of bad debts of banks and financial institutions. The reply furnished by the Ministry is silent on the recommendation made by the Committee that the Working Group should examine the feasibility of streamlining the existing procedure so that DRTs could take up high value cases for settlement on priority basis so that it would improve

the recovery position of NPAs. The Committee deplore such apathy on the part of the Government. They desire that final decision on the recommendations made by the Working Group on improving the functioning of DRTs should be taken within three months from the time of presentation of the Report and the Committee be apprised of the same.

Strengthening of DRTs

Observation/Recommendation Sl.No.13 (Para No. 9.13)

1.9 Highlighting the need for strengthening of DRTs, the Committee had recommended as follows:-

“The Committee note that lack of adequate staff at various levels, particularly at Recovery Officer/Inspector level had seriously jeopardized the working of DRTs. Key vacancies in the grade of Presiding Officer/Recovery Officer/Recovery Inspectors lie unfilled for several months, leading to delay in settlement of cases. The Committee decry the half-hearted measures proposed to be taken by the Ministry, such as soliciting the cooperation of nodal banks to come forward for providing staff support of DRTs as a temporary or adhoc measure, etc. The Committee desire that the possibility of constituting a separate cadre for manning the DRTs should be explored and till the same is constituted, steps should be taken in the right earnest to fill up the existing vacancies expeditiously. The Committee also recommend that in view of ever-burgeoning of pending cases of NPAs in the DRTs, the Working Group headed by Shri Vinod Rai may also examine if there is a need of setting up more DRTs in the country. Besides this, proper infrastructure and other amenities should be provided to the existing DRTs for their efficient functioning.”

1.10 In their action taken reply, the Ministry have stated as follows:-

“The Tribunals have been empowered to fill the vacancies of Recovery Inspectors. As reported by the Tribunals as on 30.09.2005 only 14 posts of

Recovery Inspectors were vacant. The Tribunals have been advised from time to time to take timely action to fill the vacant posts in Group `B`, `C` and `D` category.

Out of 58 posts of Recovery Officers in 29 Debts Recovery Tribunals, only 11 posts are vacant as on 2.1.2006. 5 officers have been selected and offers of appointment have been issued. The vacancies have been advertised again and action is being taken to fill up all the vacancies.”

1.11 While the Committee note with satisfaction that steps have been taken by Government to fill up the vacancies in various grades in the DRTs, the reply furnished by the Ministry is silent on the following recommendations made by the Committee: (i) to examine the possibility of constituting a separate cadre for manning the DRTs (ii) to examine if there is need to set up more number of DRTs in view of the large number of pending cases, and (iii) to provide proper infrastructure and other amenities to the DRTs for their efficient functioning. It needs no reiteration that DRTs are expected to play a very significant role in expeditious adjudication and recovery of NPAs due to banks and financial institutions. In view of this, the Committee reiterate their earlier recommendations for strengthening of DRTs. The Committee would, therefore, like to be apprised of the action taken by Government on the above recommendations contained in the Report.

Writing Off Loans

Observation/Recommendation SI.No.16 (Para No.9.16)

1.12 Taking note of the increase in the amount of written off NPAs in PSBs over the years, the Committee had recommended as follows:-

“It is a disturbing trend that the amount of NPAs written off in respect of PSBs has been steadily increasing over the years. As against an amount of Rs.4500 crores written off in the year 2000, the amount of NPAs written off in 2004 rose to Rs.13490 crore, which has more than trebled. The Committee recommend that due diligence should be exercised while writing off loans and the number of accounts as well as the amount written off should be kept to the barest minimum. As per the existing procedure, the loans are written off only at the Head Office level and remain recoverable at the branch level. The Committee, therefore, recommend that there should not be any let up on the part of banks with regard to loans written off and concerted efforts should be made for their recovery.”

1.13 In their action taken reply, the Ministry have stated as under:-

“RBI has advised that Bank’s Boards should lay down transparent, non-discretionary and non-discriminatory write-off policies and ensure that due diligence is exercised while writing off loans.

In this regard RBI has, inter alia, advised the banks that:-

- (i) each bank should lay down a loan recovery policy which sets down the manner of recovery of dues, targeted level of reduction (period-wise), norms for permitted sacrifice/waiver, factors to be taken into account before considering waivers, decision levels, reporting to higher authorities and monitoring of write-off/waiver cases;
- (ii) the Chairmen should bestow their personal attention to the conduct of larger advances and ensure that they were closely monitored at appropriate higher levels;
- (iii) there should not be any effort to `window dress' the position by showing reluctance to identify bad and doubtful advances and to write off or provide for them out of profits;
- (iv) the approval for write off proposal is with proper authority and excludes one who had sanctioned the advance in question in his individual capacity; and
- (v) to enable the authority concerned to take a proper decision, the write off proposal should be examined covering among other things the undernoted aspects:
 - (a) that the sanctioning authority had exercised his powers judiciously and adhered to the guidelines issued by the bank in the matter of grant of advances

and that normal terms and conditions were stipulated;

- (b) that there is no laxity in the conduct and post disbursement supervision of the advances;
 - (c) that there was no act of commission or omission on the part of the staff leading to the debt proving irrevocable;
 - (d) that all possible steps to recover the dues had been taken and there were no further prospects of recovering the debt and that writing off/compromise is in the larger interest of the bank ; and
- (vi) write offs, whether of principal or interest, had to be considered after proper evaluation of the circumstances of each such case at the appropriate level. RBI, through its on-site and off-site supervisory mechanism, continuously monitors,
- (i) banks' compliance with above prudential norms on write-off;
 - (ii) there is no let off on the part of banks with regard to loans written off; and
 - (iii) concerted efforts are made for their recovery.

Technical write-off: As per the provisioning norms prescribed by RBI, banks have the option to provide fully against losses on account of non-performing assets or write off the NPA out of profits. Certain banks resort to technical write-off of bad loans based on their assessment from the books of the Head Offices. The write off helps banks in availing

tax benefits. Loans would continue to remain outstanding in the branch books and are pursued for recovery. Where NPAs are fully provided for, future recoveries are used to reduce the corresponding provisions.”

1.14 The Committee had voiced their serious concern on the unhealthy trend of steady increase in the amount of NPAs written off by PSBs which had gone up from Rs.4500 crores in the year 2000 to Rs.13,490 crores in 2004. Therefore, the Committee had recommended that due diligence should be exercised while writing off loans and the number of accounts and the amount written off should be kept to the barest minimum. The Committee had also impressed upon the Government that there should not be any laxity on the part of the banks in pursuing recovery of the written off loans at the branch level. The Committee are constrained to note that in their reply the Ministry have merely reproduced the guidelines issued by RBI to the banks without making specific mention about implementation of the recommendations made by the Committee. The Committee express their serious displeasure for not furnishing information about the status of implementation of the guidelines issued by RBI.

1.15 As intimated by the Ministry at the time of examination of the subject, write off of loans is permitted as a last resort when all other means to recover the loans are exhausted. The branches are expected to take stringent action to recover the loan from whatever asset is available, i.e. security or from personal guarantees. In view of the rising trend in the amount written off by banks, the Committee stress that strict compliance of guidelines issued by RBI in writing off loans and recovery of loans written off by banks should be ensured so that the provisions are not misused. The Committee would like to be apprised of the status of compliance of the guidelines by banks and the outcome thereof.

Implementation of Recommendations

1.16 The Committee would like to emphasise that they attach the greatest importance to implementation of the recommendations accepted by the Government. They would, therefore, urge that the Government should keep a close watch so as to ensure expeditious implementation of the recommendations accepted by them. In case it is not possible to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation.

The Committee desire that Action Taken Notes in respect of the recommendations contained in Chapter V of the Report may be finalized and final replies of the Government furnished to the Committee expeditiously.

Appendix I

MINUTES OF SITTINGS OF THE ESTIMATES COMMITTEE (2005-06)

TWENTIETH SITTING

The Committee sat on Friday, the 17th March, 2006 from 1500 hours to 1545 hours.

Present

Shri C. Kuppusami - Chairman

Members

2. Shri V. Kishore Chandra S. Deo
3. Shri Anant Gudhe
4. Shri Jai Prakash
5. Prof. Chander Kumar
6. Shri Sanat Kumar Mandal
7. Shri Prabodh Panda
8. Shri Sukdeo Paswan
9. Shri A.Sai Prathap
10. Shri K.S. Rao
11. Shri Arjun Charan Sethi
12. Shri Lakshman Singh
13. Shri M.A. Kharabela Swain

Secretariat

1. Shri B.D. Swan - Deputy Secretary
2. Shri Cyril John - Under Secretary
3. Smt. Manju Chaudhary - Assistant Director

2. The Committee considered and adopted the following draft Reports with modifications as given in Annexure :-

- (i) Report on action taken by the Government on the recommendations contained in the Sixth Report of the Estimates Committee (14th Lok Sabha) on the Ministry of Finance (Department of Economic Affairs – Banking Division) – ‘Public Sector Banks -Non-Performing Assets (NPAs)’.

(ii)

3. The Committee authorized the Chairman to finalise the Reports in light of modifications and also to make verbal and other consequential changes, if any, arising out of factual verification by the concerned Ministries and present the same to the House.

The Committee then adjourned.

Annexure

Modifications made by the Estimates Committee in the Draft Report on action taken by Government on the recommendations contained in the Sixth Report of the Estimates Committee (14th Lok Sabha) on the Ministry of Finance (Department of Economic Affairs – Banking Division) – ‘Public Sector Banks -Non-Performing Assets (NPAs)’

<u>Para No.</u>	<u>Line</u>	<u>Modification</u>
1.14	at the bottom	<u>Add</u> : The Committee express their serious displeasure for not furnishing information about the status of implementation of the guidelines issued by RBI.
1.15	5	<u>For</u> : all possible <u>Read</u> : stringent

APPENDIX II

(Vide Introduction to Report)

Analysis of the Action taken by Government on the recommendation contained in the Sixth Report of the Estimates Committee (Fourteenth Lok Sabha)

(i)	Total number of Recommendations/observations	23
(ii)	Recommendations/observation which have been accepted by the Government Sl. No. 1 to 7, 13 to 15, 17 and 21 to 23	14
	Percentage	60.6%
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of Government's reply Sl. No. 20	1
	Percentage	4.34%
(iv)	Recommendations/observations in respect of which Government's replies have not been accepted by the Committee Sl. No. 9 to 12 and 16	5
	Percentage	21.73%
(v)	Recommendation/Observation in respect of which Final replies of Government are still awaited. Sl. No. 8,18 and 19	3
	Percentage	13.04%