THIRTIETH REPORT

COMMITTEE ON PETITIONS

(SIXTEENTH LOK SABHA)

MINISTRY OF FINANCE

(DEPARTMENT OF FINANCIAL SERVICES)

(Presented to Lok Sabha on 16 March, 2017)

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(2016-2017)

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THIRTIETH REPORT OF THE COMMITTEE ON PETITIONS

(SIXTEENTH LOK SABHA)

INTRODUCTION

I, the Chairperson, Committee on Petitions, having been authorised by the Committee to present the Report on their behalf, present this Thirtieth Report (Sixteenth Lok Sabha) of the Committee to the House on the representation received from Shri Rajendra Prasad regarding alleged collusion of high profile people, industrialists with bank officials in getting sanctioned large amount of Bank Loans resulting into growing Non-Performing Assets (NPAs).

2. The Committee considered and adopted the draft Thirtieth Report at their sitting held on 14 March, 2017.

3. The observations/recommendations of the Committee on the above matters have been included in the Report.

NEW DELHI;

BHAGAT SINGH KOSHYARI
Chairperson,
Committee on Petitions

14 March, 2017
23 Phalguna, 1938 (Saka)

REPORT

REPRESENTATION RECEIVED FROM SHRI RAJENDRA PRASAD REGARDING ALLEGED COLLUSION OF HIGH PROFILE PEOPLE, INDUSTRIALISTS WITH BANK OFFICIALS IN GETTING SANCTIONED LARGE AMOUNT OF BANK LOANS RESULTING INTO GROWING NON-PERFORMING ASSETS (NPAs).

Shri Rajendra Prasad submitted before the Committee on Petitions a Representation regarding the alleged collusion of high profile people, industrialists with the Bank officials in getting sanctioned large amount of loans resulting into growing Non-Performing Assets (NPAs) (Annexure-I).

2. The representationist, in his Representation, *inter alia* alleged that high profile people, in collusion with the Bank officials get large amount of loans sanctioned on the pretext of establishing industries. However, subsequently, the loan amount is not used by them for the intended purposes and rather the money borrowed from Banks is utilised for other business purposes. The Representationist also stated that due to insufficient money invested in the business venture due to diversion of funds, the condition of the industries deteriorate and as such they become unprofitable due to which the loan amount is not repaid to the Banks and later on, the unpaid loan amount is converted into Non-Performing Assets(NPAs) by the Bank and other Financial Intuitions.

3. The Committee on Petitions took up the Representation for examination under Direction 95 of the Directions by the Speaker, Lok Sabha. Accordingly, the Representation was forwarded to the Ministry of Finance (Department of Financial Services) for furnishing their comments on the issues raised in the Representation. In response thereto, the Ministry of Finance (Department of Financial Services), *vide* their communication dated 16.08.2016, furnished their comments on the role of Banks on credit related matters, Guidelines and Advisories issued from time to time with respect to fixing accountability on the aspect of irregularities, malpractices, corruption, etc., and the existing Vigilance Mechanism as follows:-

I. *Role of Banks on credit related matters*

The credit related matters, including the approval and follow-up aspects have mostly been deregulated to Banks and they are required to have their own board approved policy. Banks are required to take credit related decisions based on their internal assessment of the commercial viability of the loan within their Board approved policies and broad regulatory guidelines. Banks are free to take credit decisions based on their own Board approved policies within the broad regulatory requirements.

II. *Guidelines and Advisories with respect to fixing accountability on the aspect of irregularities, malpractices, corruption, etc.*

Various guidelines have been issued applicable to all categories of banks, on examining staff accountability under various circumstances, including the accountability of the top management level of Public Sector Banks. The Banks have been advised that with a view to keeping the incidence of corruption and malpractice under check, there is a need for fixing staff accountability on the aspect of irregularities, malpractices, etc. at all levels. Banks also have a vigilance mechanism in place and they need to examine staff accountability in various situations.

III. *Vigilance Mechanism.*

All Public Sector Banks have a well established Vigilance Mechanism headed by a Chief Vigilance Officer. CVOs are expected to keep a close watch on the various aspects of functioning of the banks.

4. On the aspect of Non-Performing Assets (NPAs), the Ministry of Finance (Department of Financial Services) *inter alia* explained the aspects of Non-Performing Assets, categories of NPAs, reasons for NPAs and Gross Non-Performing Assets as under:-

I. *Non-Performing Assets (NPAs)*

RBI Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (updated on 1 July 2015) defines an asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A Non-Performing Asset (NPA) is a loan or an advance where:-

(i) Interest and/or installments of principal remain overdue for a period of more than 90 days in respect of a term loan.

(ii) The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC).

(iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

(iv) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.

(v) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

(vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated 1 February, 2006.

(vii) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

(viii) In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter."

II. <u>Categories of NPAs</u>

Banks are required to classify non-performing assets into the three Categories based on the period for which the asset has remained non-performing and the realizability of the dues:-

(i) <u>Sub-standard Assets</u>

With effect from 31 March, 2005, a sub-standard asset would be one, which has remained NPA for a period less than or equal to 12 months.

Such an asset will have well defined credit weaknesses that jeopardize *the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss if deficiencies are not corrected.*

(ii) <u>Doubtful Assets</u>

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full - on the basis of currently known facts, conditions and values - highly questionable and improbable.

(iii) <u>Loss Assets</u>

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

III. <u>Reasons of NPAs</u>

Main reasons for increase in NPAs of Banks inter-alia are sluggishness in the domestic growth during the recent past, slowdown in recovery in the global economy and continuing uncertainty in the global markets leading to lower exports of various products like textiles, engineering goods, leather, gems, external factors including the ban in mining projects, delay in clearances affecting Power, Iron & Steel sector, volatility in prices of raw material and the shortage in availability of power have impacted the operations in the Textiles, Iron & steel, Infrastructure sectors, delay in collection of receivables causing a strain on various Infrastructure projects, aggressive lending by banks in past.

Infrastructure loan requirements are such that only the big Public Sector Banks could assume the exposure under consortium arrangements.

IV. Gross Non-Performing Assets(GNPAs)

As per the data made available by the Reserve Bank of India (RBI), Gross NPAs of the Scheduled Commercial Banks (SCBs), especially Public Sector Banks (PSBs) have shown an increase during the recent years.

(Rs. in crore)

Bank Group	Gross NPAs				Gross NPAs to Advances (%)				Total Gross Advances			
	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2013	Mar 2014	Mar 2015	Mar 2016
PSBs	155890	216739	267065	476816	3.84	4.72	5.43	9.32	4055874	4590458	4917228	5116994
Private Banks	19992	22744	31576	49155	1.91	1.88	2.20	2.74	1046665	1211731	1437338	1791872
SCBs	183854	251060	309408	541763	3.42	4.11	4.62	7.43	5371151	6101775	6692522	7286952

The increase in NPAs is due to sluggishness in the domestic growth during the recent past, slowdown in recovery in the global economy and continuing uncertainty in the global markets leading to lower exports of various products like textiles, engineering goods, leather, gems, etc. The PSBs continue to be under stress on account of their past lending. Taking GNPA and restructured advances together, the stress on PSBs is 14.34% to total advances as on March, 2016 and 11.44% to total advances as on March, 2016 in respect of for SCBs (provisional).

5 . On the issue, the Committee also undertook a Study Visit to Ooty from 22 to 23 August, 2016 to have a realistic assessment of the gross and net NPAs of Scheduled Commercial Banks and other aspects raised by the representationist.

6. During the said Study Visit, the Committee categorically desired to know the present status of Gross NPAs vis-a-vis Gross Advances of Public Sector Banks in general and the State Bank of India in particular along with the suggestions made by the Reserve Bank of India in its latest Financial Stability Report with regard to the NPAs. The representatives of the Ministry of Finance (Department of Financial Services), in this connection, submitted before the Committee:-

"The Gross NPA vis-a-vis Gross Advances of all Public Sector Banks as well as the State Bank of India, as on 31.03.2016, are as under:-

(Rs. in crore)

	Gross Advances	Gross NPA	Gross NPA % vis-à-vis Gross Advances
All Public Sector Banks	58,23,865	5,39,955	9.27%
State Bank of India	15,09,500	98,173	6.50%

The regulatory steps taken by the Reserve Bank of India (RBI) are aimed at improving banks' ability to deal with stressed assets. While the proposed 'Large Exposures' framework will help in mitigating the risk posed to the banking system on account of large aggregate lending to a single corporate entity, the recent guidelines on a 'Scheme for Sustainable Structuring of Stressed Assets (SSA)' will help in putting real assets back on track through another avenue for reworking the financial structure of entities facing genuine difficulties, while providing upside to the lenders when the borrower turns around.

The corrective steps taken by the SBI to contain further rise in NPAs are as follows:-

(i) Early diagnosis of the problems and analysis of the reasons for irregularity, with appropriate strategies for time bound action to prevent slippage as NPA.

(ii) Loan Origination and Loan Life Management Software (LOS and LLMS)

(a) Capturing of pre-sanction process of credit portfolio.
(b) Ensuring quality and uniform standards of credit dispensation.
(c) Robust record and information retrieval system.

(iii) Early Warning Signal (EWS) developed as a part of proactive management of stressed assets to contain and control NPAs. It is a system which would generate Early Warning Signals in the form of actionable alerts that would help the Bank to identify assets at the incipient stage of stress and facilitate their early resolution.

(iv) Tightening the process of supervision, follow up and monitoring – Stock Audit, opening of current accounts by borrowers with other Banks outside consortium/ MBA, Legal Audit, Compliance Certificate."

7. The Committee specifically desired to know about the impact of frauds committed by individuals, Companies, Industrialists, etc., on the Non-Performing Assets of the State Bank

of India. The representative of the Ministry of Finance (Department of Financial Services) deposed before the Committee as under:-

"In the State Bank of India, the fraud constitutes only 1.52% of the Gross NPAs across all the fiscal quarters, the details of which, as on 31.3.2016, are as follows:-

	Amount (Rs. in crore)
Gross Advances	15,09,500
Gross NPAs	98,173
Fraud Related NPAs	1,492
% of fraud related NPAs to the total NPAs	**1.52%**

8. The Committee, thereafter, wanted to know as to whether the quantum of NPAs in the PSBs, including the SBI, has increased in the recent years and asked for the details of NPAs of PSBs, including that of SBI, for various sectors, *viz*. private individuals, Corporate, Housing, Commercial Real Estate, Infrastructure and Agriculture. The representative of the Ministry of Finance (Department of Financial Services) furnished the details of GNPAs with respect to SBI for the last three years as under:-

(Rs in crore)

As on -	Gross NPAs
31.03.2016	98,173
31.03.2015	56,725
31.03.2014	61,605

In this context, the representative also submitted:-

(as on 30.6.2016)

Sl. No.	Sectors	Gross NPA	Gross Advances	Gross NPA %
1.	Private individuals	2,911	3,37,518	0.86
2.	Corporate Sector	81,914	9,33,451	8.78
3.	Housing Sector	1,212	1,97,575	0.61
4.	Commercial Real Estate Sector	1,086	27,418	3.96
5.	Infrastructure Sector*	14,510	1,88,408	7.70
6.	Agricultural Sector	8,764	1,24,600	7.03

** Infrastructure sector includes educational institution, power, roads, real estate, ports, shipping, etc.*

9. The Committee further desired to know about the top five Sectors of the economy having the maximum NPAs. In response, the Ministry of Finance (Department of Financial

Services) informed the Committee that the sector where there is high incidence of NPA is the Iron and Steel, wherein, as on 30.6.2016, the NPA stands to Rs. 27985. As regards the other Sectors, the Ministry submitted:-

(Rs. in crore)

Sl. No.	Sector(s)	Gross NPA
1.	Iron and Steel	27,985
2.	Textiles	8,464
3.	Trading	6,130
4.	Infra Others	6,014
5.	Food Processing	4,610

10. On being enquired by the Committee about the total amount written-off by the PSBs, including the SBI, during the last 10 years, the Ministry of Finance (Department of Financial Services) submitted:-

(Rs. in crore)

FY	Amount Written-Off
2015-16	15,763
2014-15	21,313
2013-14	13,176
2012-13	5,594
2011-12	1,049
2010-11	4,007
2009-10	1,649
2008-09	1,648
2007-08	1,105
2006-07	1,176

11. The Committee further desired to know about the various steps taken by the Reserve Bank of India to help the Public Sector Banks to effectively deal with the growing NPAs. In this regard, the Ministry of Finance (Department of Financial Services) furnished details about the flexible structuring for long term Project Loans and the scheme for Sustainable Structuring of Stressed Assets as follows:-

I. Flexible Structuring for Long Term Project Loans.

RBI has issued guidelines to banks for flexible structuring and refinancing of fresh term loans to long term project loans to infrastructure and core industries.

With a view to overcoming the problem of stress, banks were allowed to fix longer amortization period for loans to projects in infrastructure and core industries sectors, say 25 years, based on the economic life or concession period of the project, with periodic refinancing, say every 5 years.

Eligibility

(i) Term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs.500 crore, in the infrastructure and core industries sector will qualify.

(ii) The Fresh loan amortization schedule should be within 85% of the initial concession period/life of the project.

(iii) Loan is a standard/restructured as on the date of change of loan amortization schedule.

(iv) NPV of loan remains same before and after the change in amortization schedule.

II. Strategic Debt Restructuring Scheme

With a view to ensuring more stake of promoters in reviving stressed accounts and provide banks with enhanced capabilities to initiate change of ownership in accounts which fail to achieve the projected viability milestones, at their discretion, the Reserve Bank of India undertake a 'Strategic Debt Restructuring' (SDR) by converting loan dues to equity shares.

Eligibility

All Companies are eligible for undergoing change in management through SDR provided:

Loan documents have an option to convert the entire loan into equity in case of -

(a) Non-achievement of the viability milestones and/or.

(b) Non-adherence to critical conditions as stipulated in the restructuring package.

Issues

(i) Success of SDR implementation is too much dependent on Co-operation by current promoter.

(ii) No Personal Guarantee of Existing Promoter is required after change in ownership takes place and hence creating issue of moral hazard among the existing promoters.

(iii) By taking over ownership of the company, lenders are responsible for any on-going issues in company like Income Tax Disputes, labour disputes, disputes involving statutory payments like employee PF etc.

(iv) In companies facing the industry wide headwinds, it would be difficult for banks to find buyer within the stipulated time frame, creating a possibility that equity remains on books of lenders for indeterminate time.

(v) Fundamentally SDR provision provides lenders with time to rectify the situation rather than itself providing solution for problems faced by the company.

(vi) New promoter may not agree on the recompense of sacrifice made by the lenders in accommodating refinancing request and may also request for further debt reduction in order to make the asset attractive enough for acquisition.

III. Scheme for Sustainable Structuring of Stressed Assets

In order to ensure that adequate deep financial restructuring is done to give projects a chance of sustained revival, the Reserve Bank, after due consultation with banks, has come out with a scheme for the resolution of large accounts and allowed the Banks to segregate the existing debt into sustainable and un-sustainable exposure. RBI has issued the distinct eligibility guidelines for both the parts. The scheme is named as "Scheme for Sustainable Structuring of Stressed Assets.

Eligibility

All Operational Companies which have -

(a) At least 500 crore loans
(b) achieved COD
(c) 50% sustainable debt

Issues

(i) Sustainable debt assessment and viability to be established based on latest audited cash flow & 6 months future cash flow. This shall make the scheme not applicable to companies facing temporary drop in profitability due to external environment/cyclical headwinds.

(ii) Companies having less than Rs. 500 Crore loan exposure are not eligible.

(iii) No interest holiday or repayment re-phasement is allowed. This would lead to extreme conservative estimates of sustainable debt.

(iv) Scheme for Sustainable Structuring of Stressed Assets is applicable only for the projects that are operational, which would leave several power and infrastructure projects out of this scheme. Infrastructure and Power sectors are some of the most stressed sectors in the country at present.

12. On being asked by the Committee about the relationship between the Asset Reconstruction Companies (ARCs) and the PSBs, including the SBI, the Ministry informed that ARCs are set up under Section 3 of SARFAESI Act -2002 and granted a certificate of registration by the RBI and submitted the details of ARCs as follows:-

I. Facts regarding Asset Reconstruction Companies (ARCs)

(i) As of now, there are 16 ARCs in the country who have been issued certificate of registration by RBI.

(ii) Amongst the ARCs, ARCIL, is the oldest set up in 2002 with ICICI, IDBI, PNB and SBI, holding major stakes in it. SBI share is 19.95%.

(iii) Majority of the ARCs are sponsored by PSBs/Private Sector Banks/Fix. (7 out of 16).

Public Sector Banks including SBI sale NPAs to ARCs. The ARCs purchase the NPAs either on total cash basis or on cash and Security Receipt (SR) basis. Financial assets sold to ARC on SR basis are transferred in a newly created Trust with the ARC working as the trustee for resolution of these assets. Earlier the minimum ratio of cash to SRs in relation to Sale to ARC was 5:95 which has been increased to 15:85 by RBI.

The ARCs after sale dons the role of secured creditor and follows up for recovery from the debtor. It redeems the SRs issued at the time of sale on recovery in the account and after appropriation of its fees and expenses.

II. <u>Procedure of Sale.</u>

Preliminary Information Memorandum of a particular account is showcased to all the ARCs. This contains all the details of the account including outstanding, value of securities, actions initiated by the Bank, etc. The interested ARCs then perform due diligence by visiting the branch and checking all the documents and also inspecting the unit. On the date of auction, interested ARCs submit bids in sealed envelope to the bank and the account is then sold to the ARC with maximum bid price.

III. <u>Recent Developments</u>

(i) Government has issued instructions to banks to withdraw their stake in existing ARCs to enhance bank's share capital and to avoid conflict of interest.

(ii) RBI has also directed ARCs not to acquire assets from their sponsor banks on a bilateral basis.

(iii) Government has allowed 100% FDI in ARCs.

(iv) FPIs and FIIs are also allowed to invest in 100% of the tranche of SRs issued by ARCs.

(v) Three (3) more ARCs have been provided license by RBI, *viz.,* Encore, CFM and Maximus.

IV. Sale of NPAs by the ARCs

From 2013-14 to June 2016	**Amount in crore**
Sale of NPAs/AUCA to ARCs	20,375
Sale Price	11,533
Cash	1,579
SRs	9,954
SRs redeemed	83

13. On the aspects of year-wise details of total loan provided, recovered and written-off by the PSBs, including that of State Bank of India to the farmers and the corporate houses during the last three years, the Committee had been furnished the following requisite information:-

(Rs. in crore)

FY	**Total Loan Provided***		**Amount Recovered**		**Written Off**	
	Agriculture	Corporate	Agriculture	Corporate	Agriculture	Corporate
2015-16	1,25,387	5,61,652	968	1,269	2,827	8,591
2014-15	1,19,782	4,99,533	1,596	5,290	1,700	14,413
2013-14	1,16,081	4,71,103	1,471	3,092	1,639	7,400

** Outstanding as on year end.*

14. On being asked by the Committee about the 'Concept of Non-Cooperative Borrowers' in reducing the quantum of NPAs in the PSBs, the Ministry of Finance (Department of Financial Services) submitted:-

"A Non-Cooperative Borrower is one who does not engage constructively with his lender by defaulting in timely repayment of dues while having ability to pay, thwarting the lenders' efforts for recovery of their dues by not providing necessary information sought, denying access to assets financed/collateral securities, obstructing sale of securities, etc. In effect, a Non-Cooperative Borrower is a defaulter who deliberately stone walls legitimate efforts of the lenders to recover their dues.

Declaration of borrowers as "Non-Cooperative Borrowers" helps in creating pressure on the borrowers for recovery in NPA accounts. The recovery may be through Compromise, Sale of Assets under SARFAESI, etc. as to whether the borrower's details of NPAs could be disclosed."

15. Thereafter, the Committee desired to know the reasons for increase in NPAs in the PSBs, including the SBI and the initiatives taken by them to keep a strict vigil on the NPAs/ bad loans. In response thereto, the Ministry of Finance (Department of Financial Services) submitted:-

'The NPA of SBI, as on 31.03.2016, is Rs. 98,173 crore as compared to Rs. 56,725 crore as on 31.03.2015. The substantial increase in NPA during the FY 2015-16 is largely on account of the Asset Quality Review (AQR) carried out by RBI (Rs 22,060 crore). Besides, some other factors which also have had an impact on the economy and consequently the quality of the loan of Banks/FIs as under:-

(i) Continued Recessionary Trend in the economy.

(ii) Continued stress in sectors like power, steel, textiles etc.

(iii) Stalled infrastructure projects and non achievement of approved DCCO time measure.

(iv) Cheap imports of major commodities from China.

(v) Withdrawal of regulatory forbearance for restructuring/CDR.

(vi) Delay in disposal of cases before DRTs.

(vii) Grant of stays in DRTs in SARFAESI action."

16. In this connection, the Ministry of Finance (Department of Financial Services) further submitted:-

"The Government has brought forward amendments in various Acts thereby increasing the scope of recovery. It has come out with amendments in the following Acts to deliver faster resolution of NPAs:-

(i) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

*(ii) Recovery of Debts Due to Banks and Financial Institutions (*RDDBFI) *Act, 1993.*

(iii) Indian Stamp Act, 1899.

(iv) Amendments in Sale of assets to Asset Reconstruction Company.

(v) Introduction of Bankruptcy Code."

17. However, on the subject, the Committee took on record the statistical details of gross and net NPAs in Scheduled Commercial Banks, Public Sector Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks in the country which have been published by the Reserve Bank of India as 'Handbook of Statistics on Indian Economy (2015-16)' (Annexure-II).

OBSERVATIONS/RECOMMENDATIONS

Burgeoning trend of Non-Performing Assets (NPAs)

18. The Committee are deeply concerned to note that in spite of various measures taken by the Government and the Reserve Bank of India (RBI) from time to time, the burgeoning trend of Non-Performing Assets (NPAs) is not only affecting the vital financial and various other sectors of the economy but also raising a big question mark about the credibility of the banking system in the country.

19. The Committee take a very serious note of the fact that instead of witnessing a declining trend, the Gross NPAs of the Scheduled Commercial Banks (SCBs), especially, the Public Sector Banks (PSBs) have shown a progressive trend during the recent years. For instance, in March 2013, the Gross NPAs in respect of PSBs, Private Banks and SCBs were Rs. 1,55,890 crore, Rs.19,992 crore and Rs. 1,838,54 crore respectively which, in March 2016, galloped to an alarming level of Rs. 4,76,816, Rs. 49,155 and Rs. 5,41,763 crore respectively. Within this short period of three years, in terms of percentage, the GNPAs for PSBs and SCBs rose to 205% and 194% respectively.

20. The Committee further note with concern that taking the GNPAs and the restructured advances together, as on March, 2016, the stress on SCBs was 11.44%, whereas, on PSBs, the same stood to 14.34%.

21. A careful scrutiny of the statistical details of gross and net NPAs in Scheduled Commercial Banks, Public Sector Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks in the country, published by the Reserve Bank of India, brings out the fact that such an unabated trend in the volume of Gross NPAs

during the last decade, raises serious question about the objectivity and the efficacy of the mechanism to deal with NPAs. Being totally dissatisfied with the overall management of NPAs at various strata of policy making, viz., the Government, the Reserve Bank of India and more importantly the operational levels of the PSBs and the SCBs. The Committee intend to caution the management of PSBs/SCBs to professionally manage the sanctioning of loans and devise all the requisite wherewithals to notice early signs of stress on the loans disbursed by them for taking urgent corrective measures. The Committee are also of the firm view that there is an urgent need for PSBs/SCBs to reduce their stressed assets and clean up their balance sheets - which would increase their ability as also their credibility to raise capital in the future. The Committee, therefore, strongly recommend that the Government should take urgent remedial measures to put a check on the burgeoning trend of NPAs and to reduce the volume of stressed assets in the country. The Committee would like to be apprised of the outcome of renewed strategy worked out by the Ministry of Finance (Department of Financial Services) - in coordination with the Reserve Bank of India and the Management of PSBs/SCBs.

Strengthening of the 'Credit Appraisal Mechanism'

22. The Committee note that one of the fundamental issues that hampers the efficient management of Non-Performing Assets is the inadequacy in the Credit Appraisal Capability of the Banks, more specifically on the aspect of 'Project Appraisal'. The Committee are constrained to point out that there is now an urgent need not only for bolstering the technical capabilities of Banks to undertake proper evaluation of the Projects but also formulating a rational *post* sanction monitoring procedures. The Banks should be extremely vigilant in evaluation of the projects prior to giving the requisite clearances for sanctioning of loans. While granting

credit, the Banks should set realistic re-payment schedules on the basis of an objective analysis of cash flows of borrowers which would facilitate prompt and timely repayment by the borrowers and also significantly improve the record of recovery in advances. The Committee, therefore, recommend the Government to issue necessary advisory to the Reserve Bank of India to take the initiative and organize need-based Capacity Building Programmes for the Banks which would enhance credit appraisal skills of the Bank Officials and help them to ensure the financially viable 'Credit Appraisals'.

Check on the diversion of loan funds

23. The Committee note that diversion of funds by industrialists to their un-related businesses and negligence on the part of Bank Officials in pre-sanctioning of loans are the determining factors for bank loans - *turning bad*. The Committee are of the considered opinion that a proper and stern audit should be made mandatory for specific class of borrowers, especially, the big loan seekers. Since it is widely believed that the current internal audit practices in the Banks are not effective enough to prevent diversion of funds by the borrowers, the Committee would like to emphasize that due diligence should be exercised by the Bank Officials by scrupulously following the Rules/Guidelines before disbursing the loans. The Committee also desire that whenever the decision taken by the Bank Officials to sanction loans - in violation of norms/guidelines - leads to creation of NPAs, the same should be inquired into at the highest hierarchal level, responsibility fixed for the lapses, and appropriate penal action be taken against the erring Bank Officials, in a time bound manner. The Committee would like to be apprised of the measures taken by the Ministry of Finance (Department of Financial Services) in this regard.

<u>Vigilance Mechanism to contain irregularities, malpractice, corruption, etc., in the functioning of Banks</u>

24. The Committee take note of the various Guidelines and Advisories issued by the Government and the Reserve Bank of India for determining accountability of all categories of Banks including the top Management of Public Sector Banks. The Committee have also been apprised by the Ministry of Finance (Department of Financial Services) that Banks have been advised that with a view to keeping the incidences of corruption and various other malpractices under check, there is a need for fixing the accountability on the aspects of irregularities, malpractices, corruption, etc., at all levels. The Committee further observe that the Banks also have an in-built Vigilance Mechanism, headed by a Chief Vigilance Officer (CVO) which is mandated to keep a close watch on the various aspects of functioning of the Banks. The Committee are, however, constrained to note that even after having a 'Vigilance Mechanism' *in vogue* in the Banking system in the country, there are incidences of fraud relating to NPAs. In this regard, the Committee strongly feel that merely issuing of Guidelines or Advisories by the Government or the Reserve Bank of India for averting the incidences of fraud relating to NPAs do not seem to have yielded the desired results and the Reserve Bank of India - being a Regulator - does not seem to have succeeded in so far as implementation and enforcement of its own Guidelines are concerned. The Committee would, therefore, expect the Government to impress upon the Reserve Bank of India to monitor and follow up strict compliance of the relevant instructions, with the banks and financial institutions on a regular basis. The Committee do not expect RBI to be a passive regulator, when major lapses occur in Banks, rather a pro-active action is expected of the RBI, whenever required - such as for ensuring quick punitive action in cases of default and violation of its guidelines. The Committee, therefore recommend the existing Vigilance Mechanism should be

re-visited and, if required, the same be amended to provide more teeth to existing Vigilance Mechanism. The Committee would like to be apprised of the measures taken by the Ministry in this regard.

<u>Reviewing of the existing instruments/schemes to curb NPAs</u>

25. The Committee take note of the various measures initiated by the Reserve Bank of India to facilitate the Public Sector Banks deal with the problem of growing NPAs, such as Flexible Structuring for Long Term Project Loans, Debt Restructuring Scheme, Scheme for Sustainable Structuring of Stressed Assets and Sale of NPAs to the Asset Reconstruction Companies (ARCs). However, the Committee have also noticed that all these instruments/schemes have not been able to contain the problem of NPAs which has now attained a frankensteinian proportion. The Committee, therefore, strongly recommend that the Ministry of Finance (Department of Financial Services) - in coordination with the Reserve Bank of India - should undertake an objective analysis and evaluation of the effectiveness of these instruments/schemes being implemented by Banks to deal with their NPAs/ Stressed Assets. The loopholes noticed in any of these instruments/schemes should immediately be plugged by the Ministry. The Committee urge the Union Government to take necessary action in this regard and apprise the Committee accordingly.

<u>Sharing of details of loan defaulters in the public domain</u>

26. The Committee note that Section 44 of the State Bank of India Act, 1955 as well as some other Clauses of confidentiality in the relevant laws invariably prohibit disclosing the names of individuals, who owe money to the Banks or are responsible for bad loans on account of their default to repay. The Committee also note that the names of defaulters are, however, shared with the Reserve Bank of India and the

Credit Information Bureau (India) Limited (CIBIL). The Committee also take note of the averments made by the Ministry of Finance (Department of Financial Services) that there is no proposal to amend the relevant provisions of law to disclose the names of defaulters and publish the same in the public domain. In this connection, the Committee would like to point out that in view of serious magnitude of NPAs in the country, there is now an urgent need to make a clear distinction between 'wilful defaulters' and 'other defaulters' in the procedure prescribed under the relevant Acts so that the 'wilful defaulters' should be dealt with sternly and the loan amount is recovered from them within a specified time frame. With a view to containing the burgeoning NPAs in the Banks, the Committee, therefore, strongly recommend that the Government should make appropriate amendments in the archaic provisions of the SBI Act and other relevant laws to disclose the names of individuals - who owe money to the Banks or are responsible for bad loans on account of their default to repay. The Committee would like to be apprised of the final outcome in this regard within three months of presentation of this Report to the House.

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