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Powerful signal if a few bad promoters eased out

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Delivering the third Dr Verghese Kurien Memorial lecture, in November 2014, [RBI](#) Governor [Raghuram Rajan](#) spoke of how the sanctity of the debt contract in India had been eroded in recent years—not by the small borrower but by the large borrower. Too many large borrowers, the Governor observed, were able to extract concessions from banks and regulators to keep the business going without taking a hit themselves. They were, he said, forever running to lenders asking them to take a haircut when in trouble but not sharing a penny with them once the enterprise was back on its feet. One fallout of this was that bankers were pricing in high-risk premiums into their interest rates which then resulted in a higher cost of borrowing. Last week, at the global summit in Davos, Switzerland, Rajan reiterated some of these concerns, pointing out the bankruptcy code (which is in the making) should help lenders recover their money more easily. To be sure, strong legislation will mean more power to lenders who have been at the receiving end all these years, primarily because the legal system is so skewed against them. However, in the meanwhile, the balance-sheets of state-owned banks are becoming weaker, with the quality of assets deteriorating, and the government needs to take some immediate measures to ensure promoters pay up.

NITI Aayog vice-chairman Arvind Panagariya has talked of a bad bank as being the panacea to the problem but as this paper has argued consistently, the answer does not lie in creating one. Taking the assets off the books of banks will merely create a moral hazard making borrowers less responsible than they are today. As the Governor has pointed out, there is little chance of the bad bank being able to recover the dues of lenders. Indeed, the only way to recover money from borrowers is by cracking down on them, compelling them to sell assets or give them up altogether. The way to go about it would be to set up a crack team—armed with specialists and lawyers—whose mandate it will be to follow up with promoters. However, none of this will work if the cases get delayed indordinately in courts. That is precisely what is happening with the Kingfisher case; the promoters are able to delay payments on one count or another and with the tax authorities staking their claims, bankers are unable to make much headway. Even declaring Vijay Mallya and Kingfisher a wilful defaulter has taken forever. What is needed now is for the government to step in and get promoters to pay up, and persuade the Supreme Court to fast-track the legal process; after all, the government is the biggest owner of the banks with the most skin in the game. This is where it needs to be adversarial, not in tax matters. If even a couple of big promoters can be pushed to pay up or move out, it will send a signal to the rest, telling them they can't be free-loaders and that the days of using political connections to get their way are over. Else, they will continue to bully the banks.