

## For a nuanced policy on bad debts

S Adikesavan

1

Life Insurance for Seniors

2

Small Business Ideas

3

Best Investments for Retirement

*In resolving the issue, the government, regulator and industry should be mindful of the impact on jobs and infrastructure*



At least the road's there Even if such projects are non-performing assets

From a practising banker's perspective, the decision of Raghuram Rajan, the youngest-ever Governor of the RBI, to step down in another two months is significant for at least two related reasons.

The first is that along with Urjit Patel (born in 1963), Rajan represents the energy and the weltanschauung of a young India, highly self-confident and willing to look the world in the eye and say its piece, come what may.

Not for nothing is he a rock-star central banker, liked by the young for doing what he thought to be right and having the guts to speak the truth to power.

But like the "young" everywhere, were there signs of impulsive and spontaneous responses to developments, particularly in the Asset Quality Review? It is an open secret among top bankers that they have no clue how resolution will happen for huge debts of corporate India. And hence stuff like SDR, 5/25 and now the S4A!

### Confusion over asset review

Did we all get into this without equipping ourselves on how to deal with the fallout? Is it a case of too much, too soon? Too much anaesthesia, making the patient comatose, as one banker put it? And aren't we losing the master surgeon from the operation theatre with the surgery only half done?

Rajan lists the asset quality review as one of his unfinished tasks. "The bank clean up initiated under the Asset Quality Review (AQR), having already brought more credibility to bank balance sheets, is still ongoing," he writes, and one discerns a touch of concern over the uncharted waters that the exercise has got into.

The AQR has led to the classification of a number of stressed loan accounts as non-performing assets in what was part of Governor Rajan's well-meant exercise in the cleaning up of banks' balance sheets. In its wake, the aggregate addition to NPAs over the last two financial quarters has been above ₹ 1,50,000 crore with bank chiefs indicating that the pain is not yet well and truly over.

The larger question of who was asleep at the wheel, whether at all there was a cover-up, who was accountable (if indeed the AQR was an exercise in "unravelling") and how banks uncovered additional NPAs in just six months cannot be brushed aside.

### What about NPA misreporting?

Just two years ago, Archana Bhargava of United Bank of India quit citing "health reasons" following a major issue of "mis-reporting of NPAs" and the RBI put a temporary cap of ₹ 10 crore on new loans, pending a forensic audit of the bank. Heads rolled in UBI, as NPAs started unravelling.

It is worth considering whether the issue of "mis-reporting" of NPAs would apply with equal, if not greater, force in the context of the AQR exercise. But why nobody in authority, including the RBI, has broached the topic of accountability across all the banks for wrong classification is interesting, to say the least.

One has also to remember that all public sector banks have an RBI nominee on their Boards and these banks have been also subject to the Annual Financial Inspection of the RBI. If one raises the question of regulatory slack in this massive non-classification/suppression of NPAs, it should be come up for discussion as well.

Penalties have been imposed by the RBI on banks for lesser “crimes” like “under-reporting” in Special Mention Accounts to the Credit Repository on Large Value Credits and lapses in KYC compliances. Admittedly, these are very important compliance requirements but surely not in the same category as under-classification of NPAs. One fails to understand how non-classification of NPAs in good time and in accordance with regulatory norms, is less of a systemic issue.

Be that as it may, it is widely acknowledged that the resolution of these large number of NPAs, in the core sectors and in infrastructure, is a matter of national importance and crucial to cementing the GDP growth momentum.

Chairman of the State Bank group, Arundhati Bhattacharya put it across succinctly in a recent media conversation: “We have a developmental role. Who will contribute to the nation’s economic development, through the core sector growth, if we do only housing and other retail loans?”

It is now becoming clear the banks, the regulator, the borrowers and the government as also agencies such as the CVC should coordinate their responses. And in this attempt, the Government should take the lead. The regulator should be part of the solution so that units thrive and jobs are protected.

### **Employment factor**

Posit the action or non-action in our backyard, to be more precise, in one of the most stressed sectors in India — steel — against the dynamic role played by the UK Business Secretary, Sajid Javid, in trying to protect just about 12,000 jobs in the Talbot plant of Tata’s British operations. He flew down to India and offered British Government equity for the project (a resolve that will perhaps only be strengthened by Brexit).

Nobody seems to be bothering about the employment impact of the NPAs. We are adding a million to the labour force every month, and the social implications of an insensitive handling of the NPA problem cannot be overemphasised.

Among the stressed accounts are two steel majors with a combined capacity of 9.5 million tonnes between them and their total outside liabilities are about ₹ 90,000 crore. Together, they provide jobs to about 10,000 people.

At present, what one sees in most of the bigger NPAs, whether in steel, textiles or infrastructure, is a lack of clarity in dealing with the issue.

What is immediately required is coordinated action in finding quick solutions to the stressed assets without too much rocking of the boat. Sunlight and transparency and cleaning up are all very well but the nation’s long-term interest is paramount. Sir Osborne Smith, the first Governor of the RBI, wired the Government on April 1, 1935, the foundation day, that his “utmost endeavour will be to promote the economic well-being of India”. We need the Smiths and Javids more than ever.

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