

RBI must not relax new rule – Here is why

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Ever since the Reserve Bank of India (RBI) came up with stringent rules for identifying and dealing with stressed exposures, both banks and the government have been asking for more lenient terms. (Reuters)

Ever since the Reserve Bank of India ([RBI](#)) came up with stringent rules for identifying and dealing with stressed exposures, both banks and the government have been asking for more lenient terms. However, the central bank, so far, has rightly been firm in not allowing any forbearance. On February 12, the central bank asked banks to discontinue all restructuring schemes—

the SDR, S4A and 5/25—saying a resolution for these stressed accounts should be sought via the Insolvency and Bankruptcy Code, 2016 (IBC).

More important, it wants stress to be identified and classified as such on day one and acted on within a specified time period. Given how banks have been reluctant to call a spade a spade, it is necessary a default be identified even if one day's interest is overdue, especially since it does not call for any incremental provisioning. That kicks in only if interest is overdue for more than 90 days. Banks argue that once word about a 'default' gets out, the company would find it difficult to access funds from other lenders. They claim these borrowers can be disciplined given time, and are requesting for a month to ensure the payments are made.

The argument is a flimsy one, more so since a very large number of accounts are classified SMA-0 (Special Mention Accounts), which means interest payments are late by anywhere between one and 30 days. RBI should be firm in sticking to the one-day norm rather than giving lenders 30 days to regularise the account because all that will do is encourage ever-greening. While the new rules may seem harsh, especially since the guidelines have been so lenient all these years, it is better lenders are disciplined.

RBI is also right in asking banks to find quick solutions on their own; for accounts of Rs 2,000 crore and above, the timeline is 180 days.

If they don't come up with a resolution plan within 180 days, insolvency proceedings must be initiated. This seems a reasonable time frame. As we have seen bankers have been too generous and let the debt pile up till it is too late to recover any of it. The SDR—strategic debt restructuring—while well-intentioned didn't really take off, so it is just as well these exposures are dealt with under the IBC. The other two schemes may have worked, but unfortunately, there were not too many loan accounts that could have been recast under these schemes. To be sure, classifying these accounts as non-performing assets would push up the quantum of provisioning required and the government is apprehensive much of the fresh capital injected would be used up with none left for growth capital.