

RBI Financial Stability Report: Consortium lending led to more stress at PCA banks

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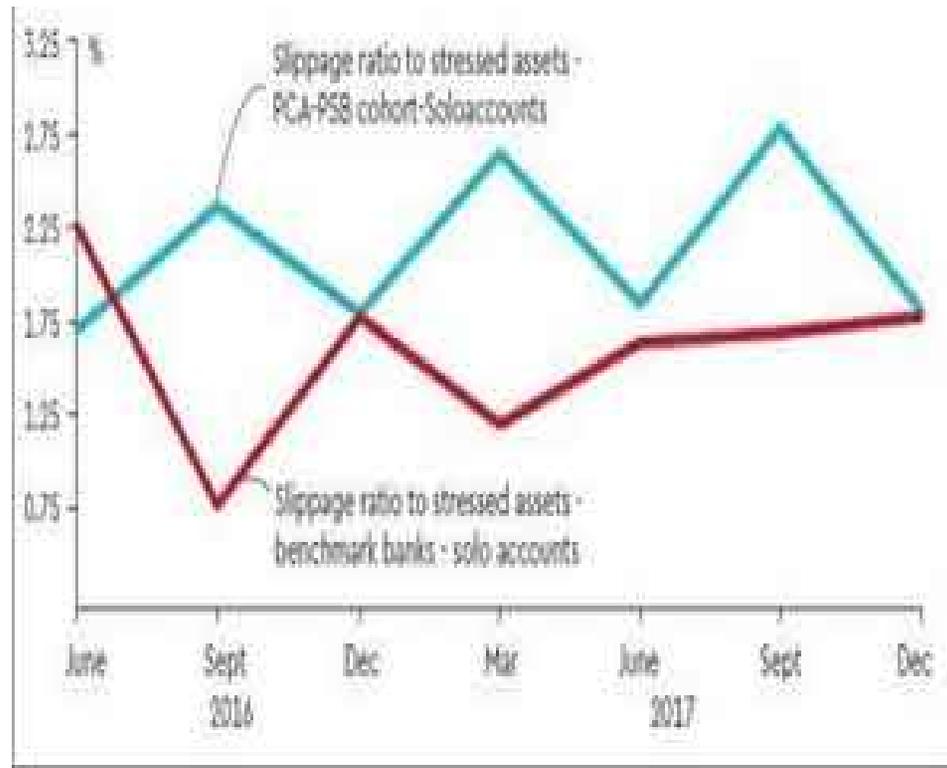


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Banks under the prompt corrective action (PCA) framework showed a higher incidence of stress in loans.

Banks under the prompt corrective action (PCA) framework showed a higher incidence of stress in loans originated as part of multiple banking/consortium (M/C) arrangements than in those originated by the banks themselves, the Reserve Bank of India (RBI) said in its financial stability report (FSR) for June 2018, adding that nearly half of all multiple-banking assets involving PCA banks are stressed.



The observation suggests that there are general issues with respect to the screening of such loan accounts, the central bank said. “Such screening issues are pervasive for PCA-PSBs (public-sector banks) in general, that is, PCA-PSBs with a relatively lower share of M/C assets in aggregate loan portfolios also have impairment issues with regard to M/C assets,” the RBI noted, adding, “However, the superior asset screening ability of benchmark PSBs can be seen from the relative slippage ratios of ‘self originated assets’ to stressed assets.”

The RBI highlighted the phenomenon of information asymmetry between larger and smaller banks, which hits the latter set hard. Noting that while M/C arrangements by their construct carry the benefit of risk sharing and that participating banks must be passive in such arrangements, there is an “absence of appropriate institutional mechanisms to deal with information flow across the participating banks”. This, in turn, inhibits fruitful co-ordination of efforts towards recovery or rehabilitation with other consortium partners, RBI said. The regulator also observed that the implementation of the Insolvency and Bankruptcy Code (IBC) has given the 11 banks under PCA a chance to get rid of their legacy stressed assets.

This set of banks has referred 64% of their gross non-performing assets (NPAs), as on March 31, 2018, for resolution under the IBC. The provisions held against these accounts are, on aggregate, about 52% of the referred amount.

The IBC does away with the case for a forbearing regulatory approach, the RBI wrote in the FSR, justifying its move to withdraw all existing loan restructuring schemes earlier this year. ‘...with the benefit of hindsight it is clear now that “a regulation susceptible to forbearing instincts carries the concomitant chance of risk inducing behaviour by stakeholders,” the central bank said.

That nearly 50% of all consortium-based loans are stressed points to behavioural tendencies whereby the regulated entities turned dependent on regulatory dispensations and the entire regime of forbearance had been getting institutionalised. This effectively blurred the distinction between good and bad forbearance, RBI noted.

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