

# Fear psychosis returns to banks

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A loan, even one given with all the perfect set of papers and collaterals, can still turn bad – many times for reasons that have little to do with the banker's competence or integrity - Getty Images/iStockphoto

## MUMBAI, JULY 3

Hindsight, they say, is 20:20. We are all wiser after the event. Not before. The Central Bureau of Investigation (CBI) as well as other law enforcement agencies of State governments would have to remember this while dealing with their investigations into bank loans that have soured.

The charge-sheeting of S Raman, former chairman and managing director, Canara Bank, and a former member of SEBI, as well as AC Mahajan, another former CMD, and the recent arrest of Ravindra Marathe, a serving managing director of Bank of Maharashtra, have definitely caused a great deal of heartburn and agony for bank officers around the country.

The reputation and track record of these bankers are well-known and need no recounting in their defence.

For many years now, it has been a standing complaint of honest bank officers that they are victimised by the system that second-guesses the credit decisions they took many years ago – often with inadequate information, or without the required clairvoyance of future events.

A loan, even one given with all the perfect set of papers and tonnes of analysis, and the necessary collaterals, can still turn bad – many times for reasons that have little to do with the banker's competence or integrity. Sometimes it is just the macroeconomic environment turning hostile. For instance, changes in import duty structures have resulted in many companies, across industries, suddenly becoming unviable and struggling to service loans that they were paying off comfortably a few months earlier.

## A leap of faith...at times

At the best of times, sanctioning loans is a leap of faith. When times turn bad, and the loan repayments get delayed or turn sour, it can quickly turn into a new form of witch-hunt of bankers who took decisions.

The vigilance manuals in public sector banks, written with the perfectly good intention of protecting government and tax-payer money, often turn into tools of harassment. Government officials, vigilance commissioners, and now policemen, judge commercial transactions and decisions taken by bankers many years ago.

This is a matter that has been highlighted many times in the past, but the government has yet to figure out a way to modernise its manuals in a manner that would meet the ends of justice and fairplay.

An immediate impact of these recent arrests and charge-sheeting has been the return of the 'fear psychosis' among bankers. It will take brave men and women to sign on loan applications, knowing that they may be targeted later if anything goes wrong.

## Rise in credit growth

Credit growth just seemed to be picking up recently, a rather unusual occurrence in the first quarter of the fiscal. It grew 12.7 per cent year-on-year against 5.7 per cent at the same time last year. And the country seems poised to grow faster and economic growth move up from around 7 per cent to higher levels this year.

It needed something special to slow that down. To use a football analogy, a self-goal – and that is exactly what the government may be doing by going after bankers with a good reputation. If improved flow of credit is needed to grease the wheels of the economy, that’s just been kissed goodbye.

No one would fault the government if it went after genuine offenders or even corrupt bankers – and did it in a timely and transparent manner. But when many of those elements are lacking, then other bankers are frightened and will simply clamp down on giving loans even to the needy and disciplined borrowers. After all, not taking a decision cannot be punished under any vigilance manual. It’s a matter serious enough for the Prime Minister to take note and intervene.

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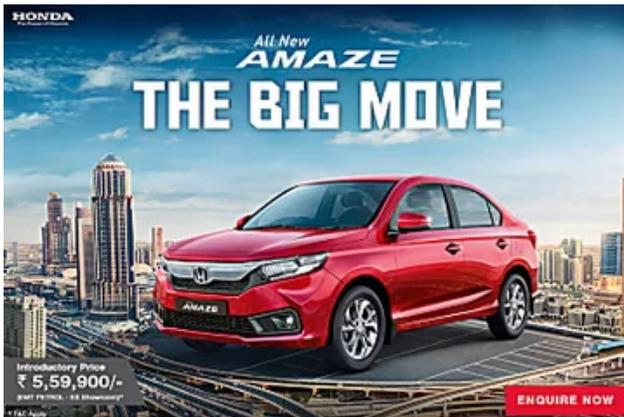


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I Agree with action taken against those who are not honest . But why involve those who did their jobs . Further also needs to be checked under what kind of pressure such decisions were taken .

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**Dr.T.V.Gopalakrishnan Krishnan** 4.1K points

4 hours ago

Banks cannot be run by suspicion, influence of politicians, bureaucrats and policemen's commercial judgement and wisdom.Credit decisions can go wrong based on economic policies pursued and freedom of operations available to take right decisions .Populism cannot be a deciding factor using depositors' money. Banks are unique institutions and they require to be run with skills,knowledge expertise, integrity honesty and above all with a sense of purpose of bringing in economic prosperity to the nation in handling public money and human resources with lots of sensitivity, commercial judgement to fetch adequate returns on investments in an atmosphere of open loot given a chance, weak judicial system, laxity of Governance standards, corrupt practices, inadequate regulatory system and lack of accountability to any one.The checks and balances in ensuring efficiency in running the banks are deliberately kept weak or absent to suit the conveniences of the authorities who matter.

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