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The bounce rate on auto-debit transactions on the National Automated Clearing House (NACH) platform shot up to 45% in June against the six-month range of 31-38%. The value of the transactions that 'bounced' was Rs 26,850 crore or 38% of the total mandates, data released by the National Payments Corporation of India (NPCI) shows. Most of these transactions are EMI payments, insurance premium debits or SIP mandates.

Industry players attribute the jump in the bounce rate to borrowers' reduced ability to make repayments, elongated cash-flow cycles, an increased propensity to save and confusion regarding the availability of the loan moratorium. Be that as it may, the surge in bounce rates is cause for concern as bounces are typically co-

related to slippages or loans turning bad.

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Aseem Dhru, MD and CEO, SBFC Finance, told FE bounce rates had been rising even before the emergence of Covid-19, but what the new data suggests — that nearly one in two requests are being dishonoured for want of sufficient funds— is cause for worry. “Even though most borrowers are paying when cash flows come back or through alternative arrangements, as a lender you know that when bouncing starts, slipping always follows,” Dhru said. The degree of co-relation between bounces and slippages varies for different lenders. “But by now, most lenders would know what they are looking at, whether they disclose it or not,” he added.

A top executive with a large public-sector bank said the bounce rates may have been higher because of miscalculations by customers while providing standing instructions to their lenders on auto debit. Yet he did not rule out the possibility of stretched household finances being a factor. “It may also be due to financial stress, which customers could not plan, such as salary delays or job cuts. Besides, there was a scheme of change in the second leg of moratorium by banks,” he added, referring to the phenomenon of some lenders switching to the opt-in mode of offering the moratorium from the opt-out mode earlier.

Several banks and non-bank lenders have said that they have seen a decline in the share of customers availing of the moratorium in its second leg, starting June. There is a view that by June, some lenders may have failed to convey to their borrowers that their account is no more under moratorium. As a result, debit requests may have been made to borrowers who were not prepared with sufficient funds in their accounts. This ties in with the number of auto-debit requests made in June — nearly 79 million — which is close to the pre-Covid levels and higher than the 64-68 million range seen during April and May.

While the bounce rate ranges between 30-70%, fintechs, whose loans have a smaller ticket size, report bounces between 50% and 70%. In the mid-market and mass-affluent segments, which have a relatively higher ticket size, the incidence of bounces is lower — anywhere between 30-45%.

Abhishek Agarwal, co-founder & CEO, CreditVidya, said that the bounce rates are an indication of borrowers’ reduced ability to pay and loan losses in the retail segment are set to rise massively from their pre-Covid levels. “With the second wave of lockdowns coming in, I am fairly confident that prior to Covid if we

were estimating x% loss, now we could see two to three times that,” he said.

This could pan out by the December quarter as till August 31, the asset quality pain will be masked by the moratorium, Agarwal said. Thereafter, accounts which remain in default through the three months to November will have to be classified as non-performing, unless there is a fresh dispensation from the Reserve Bank of India.

The increased incidence of bouncing itself has implications for recoverability. Till two years ago, bounce rates stood at around 18-19%. Since the beginning of 2020, they have come in higher than 31% every month. The current collection infrastructure that most lenders have is geared for an around 18% bounce rate. If over 40% of a lending institution’s loan book were to continue seeing delays in payments, it would dent the efficiency of recovery agents and the collection infrastructure. “The more the value of bounces, the more the slippages. They don’t increase in arithmetic proportion, but in a slightly geometrical proportion,” Dhru said.



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