

Open House Discussion on NPAs and Wilful Defaults

Tuesday, 20th March 2018 at PHD Chamber, New Delhi

PHD Research Bureau, the research arm of PHD Chamber of Commerce and Industry in collaboration with Banking & Financial Services Committee organized an Open House Discussion on NPAs and Wilful Defaults on Tuesday, 20th March 2018 at PHD Chamber, New Delhi. Eminent dignitaries released report on Restraining Wilful Defaults: Need of the hour for Indian Banking system prepared by PHD Research Bureau. The eminent speakers of the Open House Discussion were Shri Bhagwan Dass Narang, Former Chairman and Managing Director, Oriental Bank of Commerce, Shri Pradeep Shankar, Former MD of State Bank of Indore, Shri Bimal Mohanty, Former General Manager, SBI, Shri Umesh Mehta, Executive Director (ED), Pinkerton. Other panelists were Shri D K Aggarwal, Vice President, PHD Chamber, Shri Jyoti Prakash Gadia, Chairman, Banking & Financial Services Committee, PHD Chamber, Shri Saurabh Sanyal, Secretary General, PHD Chamber and Dr. S P Sharma, Chief Economist, PHD Chamber.

Glimpse of the Open House Discussion on NPAs and Wilful Defaults and releasing report on Restraining Wilful Defaults: Need of the hour for Indian Banking system prepared by PHD Research Bureau



Photo caption from left to right: Ms. Neha Gupta, Research Associate, PHD Chamber; Ms. Surbhi Sharma, Senior Research Officer, PHD Chamber; Dr. S P Sharma, Chief Economist, PHD Chamber; Shri Pradeep Shankar, Former MD of

State Bank of Indore; Shri Jyoti Prakash Gadia, Chairman, Banking & Financial Services Committee, PHD Chamber; Shri Bhagwan Dass Narang, Former Chairman and Managing Director, Oriental Bank of Commerce; Shri D K Aggarwal, Vice President, PHD Chamber; Shri Umesh Mehta, Executive Director (ED), Pinkerton and Shri Bimal Mohanty, Former General Manager, SBI.

While presenting the welcome remarks, **Shri D K Aggarwal, Vice President, PHD Chamber** stated that a sound banking system is an instrument for the growth and development of any economy and unless and until we have sound banking system it is doubtful that the confidence of the Indian economy will go up or will sustain growth. In financial year 2007, the NPA figure was around Rs 50,000 crore and wilful default figure was around Rs 8000 crore. In financial year 2017, the figure has gone up to Rs 7,00,000 crore for NPAs and for wilful default it is almost Rs 1 lakh crore. Such a high figure of wilful defaults is a big cause of concern for our country. He added that due to rising NPAs and willful defaults the Government and the Central Bank have started tightening the policies of sanctioning, monitoring and even the audits by the CBI. Recently, RBI has come out with ban on LoCs / LoUs which will impact trade facilitation and ease of doing business. Further, there is huge tightening of funds to businesses and importers. He added that large companies can still afford to do but what about the MSMEs which are the instrument of inclusive growth and it's the MSMEs sector which is severely impacted and lots of funds have been stucked up due to GST. Hence, it's really taking a heavy toll on MSMEs sector and impacting its growth scenario. He also added that it is required by the Government and the Central bank that instead of tightening the credit sanctioning mechanism and implementing a lot of stringent policies, effective mechanism should be implemented for identifying NPAs and wilful defaults but not at the cost of impacting the growth of MSMEs.

Shri Bhagwan Dass Narang, Former Chairman and Managing Director, Oriental Bank of Commerce opined that 68% of the frauds are happening because of very common and simple mistakes and there exists lack of due diligence. He added that surprisingly, maximum frauds were happening in accounts which were old. He stated that the reason that old accounts are more prone to frauds is because accommodation becomes a sort of indulgence. Second most important thing is the source and quality of equity. It is important to go through the balance sheet of all the promoters who have come out with these large funds as to see where does this equity come from. He added that suddenly, in the last three years, NPAs have increased tremendously and it's not a one-day story but a 25 years story. This happened because account was weak and it was the indulgence of the society towards the so-called big account holder which led to the situation. He expressed his worry over why there is panic in banks. Shri Narang said that when we talk of economy, then 60% of what we mean by economy is banking. Banking accounts for about 60% of the economic universe of this country. If banking goes bad then 60% of the economy will be impacted. Hence, banking needs to be protected. He added that RBI has now come out with a circular which has changed the norm for handling of NPA accounts. The change from existing procedures to new procedures is that earlier there were a number of classifications of NPA accounts but now there are just 3 classifications: SM0, SM1 and SM2. The beauty now is that instead of waiting for 180 days, now the accounts are classified from 0 to 30 days, 30 to 60 days and 60 to 90 days. So they have recognized very close monitoring and very close watch. They want banks to report to a credit monitoring body of RBI every week on Friday. The focus is on the resolution plan, that is a plan for handling and not restructuring. The resolution plan means either the account goes to liquidation or all the irregularities are removed. So now there's going to be a change of management if a resolution plan fails after 180 days.

He also made some recommendations and said that 35 to 40% of the exports are from SMEs, largest job creation is from the SMEs sector in our

country. Though only 5% of our population are entrepreneurs but our country has the largest class of entrepreneurs in the world. He added that the focus of this forum should be to how do we support those entrepreneurs who are the backbone of the economy for creating the jobs, for creating the exports and for developing the infrastructure. He suggested that there should be a difference in the guidelines for the corporate sector and difference in guidelines for MSMEs sector. Secondly, the problem of this sector has been the lack of equity but now they come up with the tier-2 exchanges in the country like small exchanges in the country for the SMEs sector, for the mid-corporate sector. So, today the requirement is to assist the small entrepreneurs for the capital, for the equity, for the long term funds so that the investments and the capacity building can take place. He also said that all manufactures have become traders, so there is a need to build excess capacity to support the sector which is not glamorous sector. We must end this culture of excess borrowing, he added.

Shri Bimal Mohanty, Former General Manager, SBI talked about remedial measures to address the issue of NPAs and willful defaults. He stated that an account doesn't become an NPA overnight and it has been witnessed that credit ratings of many accounts fall from ratings of above A to D over a period of 6 months. He suggested that reliance shouldn't be too much on the credit rating agencies. He also said that early warning signals are being missed by banks at a very nascent stage. So, there are various mechanisms and monitoring tools with the commercial banks to check early warning signals giving indications. Banks have time to correct it on the basis of early morning signals. He added that Special Mention Accounts is available to the banks by the RBI. So, the transparency is missing between the bankers and the customers. There is a need to curb the tendency of greed and the problem of NPAs has happened over a period of time.

Shri Pradeep Shankar, Former MD of State Bank of Indore said that there are many factors which go into an account of becoming an NPA and it's not because of the borrower itself, however, because of factors which are beyond the borrowers control, the borrower comes into problem. He added that there are problems with the banks also. Once an account becomes an NPA, the banks withdraw all their support and unable to provide the money required at the relevant time to the extent the capital is required to run the businesses. Industry bodies should play an important role in bringing these issues to the notice of the Government and the RBI and create a movement by which correct things are made aware so that they take actions and realize the importance of these things.

Shri Umesh Mehta, Executive Director (ED), Pinkerton said that the menace of wilful defaults has increased manifolds. He talked about how a financial institution or bank can collaborate with the risk mitigation organisations to mitigate the risk. Involving of professional NPA management organisations can actually reduce the extent of risk specially with the expertise they have in terms of investigations. He also said that scope of due diligence should not be restricted to the background verification of the individual but all the parameters are also important to be checked such a business check, check on proprietary and database checks. He also talked about early warning signals which we need to capitalise on before an asset goes bad. He suggested that training of banking officials is an important aspect and to do these due diligences and checks would help banks to mitigate the risk to some extent. Assessment and quantification of credit risk need to have a scientific approach towards it. It has to be continuous process which should include background verification before the allocation of funds.

Shri Jyoti Prakash Gadia, Chairman, Banking & Financial Services Committee, PHD Chamber expressed his concern over rising NPAs and willful defaults in the country. Banking industry is the backbone of the country and if the banking industry which is to drive the growth of the country is

getting weaker then we cannot get ahead of this system and processes. He said that the first issue that needs to be addressed is whether we give 200% collateral or not giving any of the collateral, the same rule should not be applied for all types of categories of borrowers, for all types of categories whatever we are leaving. So, NPAs should be recognized by time or by the underline security or by the percentage of efficacy of how much money can be realized. He also said that CC/OD concept is being given only in India where you access a working capital limit and entire limit is being credited to you on day one. One of the problem of CC/OD transaction is the entire monitoring of the transaction. So, entire one transaction should be bifurcated into four or five parts and there should be different specialized agencies which come and fund that particular transaction. Another problem in case of CC/OD limit is that if it's a transaction based limit and one of my invoice is not paid on time then my entire CC/OD limit becomes an NPA. So, some mechanism of credit appraisal process needs to be changed from a CC/OD limit approach and not transaction to transaction funding approach to transaction based limit approach which will facilitate both the bankers and the MSME borrowers. The bankers Association should here stipulate which are the good buyers of the machines and what is the price of that machine. He also suggested that working capital assessment should be standardized and also talked about the efficacy of the credit ratings also. He suggested that early warning signals software are required to be effectively implemented.

Shri Saurabh Sanyal, Secretary General, PHD Chamber thanked all the speakers for their enlightening talk. He expressed his concern not for NPAs but definitely for willful defaults. He appreciated the illuminating points discussed by the speakers and suggesting various measures to address these concerns. Going ahead, it is imperative to have skilled workforce for banks to have necessary expertise and develop internal capabilities to evaluate projects and their feasibility to avoid occurrence of NPAs and willful defaults. At the same time, he stated that banking is required to be here and banks are meant for servicing the business and if stringent measures are taken by the RBI then it's not in a good sense of doing business in the country.

Dr. S P Sharma, Chief Economist, PHD Chamber moderated the Open House Discussion and stated that today's program on NPAs is to discuss about various developments in banking sector. The focus is to discuss NPAs as they are now becoming a crucial problem which is impacting not only the ecosystem but also the business processes. After the NPAs, there are lot of other developments also like ban on LOCs and LUTs by Reserve Bank of India. He also talked about how these developments are going to impact industry scenario and businesses in India and abroad. He said that to discuss majorly NPA problem, willful defaults and other issues of banking sector, PHD Research Bureau has come out with a study with very good suggestions to reduce the NPA impact and to suggest few measures how to tackle with NPAs, going forward.

Glimpses of the Open House Discussion on NPAs and Wilful Defaults



Eminent dignitaries on the dais at Open House Discussion on FRDI Bill



Shri D K Aggarwal, Vice President, PHD Chamber presenting a plant to Shri Bhagwan Dass Narang, Former Chairman and Managing Director, Oriental Bank of Commerce at Open House Discussion on NPAs and willful defaults



Shri D K Aggarwal, Vice President, PHD Chamber welcoming the eminent dignitaries at the Open House Discussion on NPAs and willful Defaults



Participants at the Open House Discussion on NPAs and willful Defaults



Shri Jyoti Prakash Gadia addressing the audience at the Open House Discussion on NPAs and willful Defaults



Eminent speakers of the Open House Discussion and Team, PHD Research Bureau, PHDCCI

Study on Restraining Wilful Defaults - Need of the hour for Indian Banking System prepared by PHD Research Bureau is enclosed for your kind reference.

Please contact for any query related to this mail to Ms. Neha Gupta, Research Associate at neha.gupta@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in and Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in , PHD Chamber of Commerce & Industry.

Warm regards,

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