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ONE-DAY DEFAULT NORMS

RBI DG flags rising breaches

SHAYAN GHOSH
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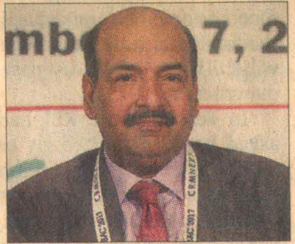
A LARGE NUMBER of borrowers, including some highly rated ones, have defaulted on loan repayments under the current one-day default norm, Reserve Bank of India (RBI) deputy governor NS Vishwanathan said on Wednesday. The new rules require lenders to report a missed interest payment on day one. Citing the "first few reports received from banks", Vishwanathan said non-payment on the due date appears to be viewed by both lenders and borrowers as par for the course.



NS Vishwanathan
RBI deputy governor

"The data shows a large number of borrowers, even some highly rated ones, have failed on the one-day default norm. This has got to change," the deputy governor asserted.

Addressing the 14th convocation at the National Institute of Bank Management (NIBM), Vishwanathan said bankers should warn customers that the one-day default would lead to their being on watch for resolution. Borrowers too, he said, should realise they must meet payment obligations as per the contract and it is no longer enough to pay up only by 60/90 days past the due date.

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One-day default norms: RBI DG flags rising breaches

ACCORDING TO the DG, the revised framework for stressed assets issued on February 12 is an attempt to reduce the arbitrage that borrowers are currently enjoying, by missing payment deadlines, over those raising funds from the capital markets.

Vishwanathan pointed out that if a borrower happened to delay a coupon or principal payment on a corporate bond even for one day, he would end up being penalised heavily — the rating would be downgraded, the yields on the bonds would shoot up, cost of further financing would increase and suits would be filed by investors.

"So far, defaults in bank borrowings have not attracted similar reactions. Only when the overdues stretch beyond 90 days, the loans would be classified as non-performing assets (NPAs)," he said, adding that accounts have not been classified as NPAs, notwithstanding the de-facto status.

According to Vishwanathan, debt contracts embedded in bank loans in India have been continuously losing their sanctity, especially where the borrowing is large. There is, he said, a need to change this and restore the sanctity of the debt contract, lest bank debt becomes subordinate even to equity. "The new framework is precisely aimed at doing this," he added.

Vishwanathan said the revised framework urges banks to enforce their contracts or renegotiate their contracts with their borrowers so that they are not in default in the first place. "Where the contracts are renegotiated, banks books should reflect this through asset classification and provisioning," he said. He reiterated that while it is mandatory to report defaults on a weekly basis, the classification of loans as NPAs will still be on the 90-day-past-due criterion.

In February, the RBI had asked banks, either singly or jointly, to initiate a resolution plan as soon as a corporate default is spotted. In other words, banks have several options to revive the defaulting companies but these must be exercised within 180 days. Going by the new framework for resolution of stressed accounts, the fate of a defaulting entity will be sealed within 465 days. If lenders are not able to work out a solution to revive a company within 180 days, the account must be referred to the National Company Law Tribunal and the case would be decided under the Insolvency and Bankruptcy Code.

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PSU banks miss out on NIBM talent

WITH PUBLIC SECTOR banks unable to recruit from campus, private banks, NBFCs and consultancies have made the best of picking talent from the post graduate programme of the National Institute of Bank Management (NIBM).

Though the PSBs are promoters of NIBM, they cannot recruit from there because of the 2014 Bombay High Court judgment barred the state-run lenders from directly recruiting officers from campuses without inviting application from the public at large. They cannot recruit even for specialised positions. NIBM offers a PG diploma in management of banking and financial services and the 14th batch has just graduated. This diploma is equivalent to an MBA. The PSBs used to sponsor candidates when it was a one year programme but now its a two-year programme and so they are unable to spare staff for two years, said K L Dhingra, director, NIBM.

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Phone calls from Delhi at root of PSBs' problems: Damodaran

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HINTING THAT PUBLIC sector banks have been pressured by the government into sanctioning several loans in the past, former Sebi chairman M Damodaran said telephone calls from Delhi to Bombay over the years have been at the root of the problem at public sector banks (PSBs).

"People in Bombay have unquestionably responded to the direction from Delhi," he said. Public sector banks face an issue of ownership, he said, adding that the answer to its woes does not lie in privatisation.

"I am not for a moment arguing that we should privatise everything, because we have very recent evidence that privatisation is not a synonym for honesty or efficiency or avoidance of conflict of interest," Damodaran said at the 14th convocation of National Institute of Bank Management (NIBM).

"People in Bombay (Mumbai) have unquestionably responded to the direction from Delhi," former Sebi chairman M Damodaran said

He added that a country as heterogeneous as India, needs a very strong public sector. "There are well-intentioned people and I don't discredit their intelligence. There is a simple difference between ownership and management," he said, adding that when ownership equals management, then one starts looking over the shoulders of bank management to see the correctness of every transaction. When ownership translates into transactional supervision, which one is not tasked with, then there is a problem of ownership, he argued.

"We need a healthy public sector. Don't think merit lies in privatisation but you need to fix the public sector," he said.