

'Bank credit: can't be business as usual'

RBI's Vishwanathan says stressed asset norms aimed at changing behaviour of lenders and borrowers

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The Reserve Bank of India's latest norms for the resolution of stressed assets are aimed at warding off further risks to the banking sector from lending operations, according to RBI Deputy Governor N.S. Vishwanathan.

Speaking at the National Institute of Bank Management on Wednesday, Mr. Vishwanathan defended the new norms announced by the RBI in February, asserting that the rules were outcome-oriented and provided flexibility to banks on deciding the contours of resolution.

"Some concerns have been expressed that the 1-day default clause is onerous," Mr. Vishwanathan said in his speech titled 'It is not



Warding off default: Lenders need to be proactive in monitoring their borrowers, says Mr. Vishwanathan. ■ AFP

business as usual for lenders and borrowers; the text of which was posted on the RBI's website.

"These concerns are not well founded. Let me tell you why. For cash credit account, the 30-day trigger has been retained. For term

loans, where the repayment schedules are pre-determined, borrowers need to and indeed have enough notice to arrange funds in time. It is a behaviour change in repayment of credit that has to come about," he said.

The new norms mandate

banks to start the resolution process even if there is a payment default for one day. In many cases, banks have to increase provisioning if the resolution is implemented. In the wake of this, banks have represented to the central bank to ease the norms. They are also lobbying with the finance ministry to convince RBI to relax the norms.

Observing that data showed a large number of borrowers, even some highly-rated ones, failing on the 1-day default norm, Mr. Vishwanathan stressed that this had to change.

'Early warning'

"If borrowers fail to pay on the due date because of a cash flow problem, banks should see that as an early warning indicator warrant-

ing immediate action. If borrowers with ability to pay on the due date delay it routinely or because they see other arbitrage options, that must change too," he said.

Commenting that one had to note that 'default' in payment was a lagging, not leading, indicator of financial stress of a borrower, Mr. Vishwanathan said lenders needed to be proactive in monitoring their borrowers and being able to identify financial stress using a combination of leading indicators and renegotiation points in the form of loan covenants rather than waiting for a borrower to default. "The new resolution framework seeks a fundamental change for the better in the behaviour of lenders and borrowers, for it can't be business as usual."

'Lack of freedom in PSBs behind bad loans problem'

Peculiar governance, ownership to blame: ex-SEBI chief

SPECIAL CORRESPONDENT

PUNE

Former chairman of the Securities and Exchange Board of India (SEBI), M. Damodaran, has attributed the lack of freedom in public sector banks as one of the main reasons behind the rise in bad loans.

Speaking at an event at the National Institute of Bank Management on Wednesday, he said, "When you start looking over the shoulders of bank management to see the correctness of every transaction... when ownership translates to transactional supervision which you are not tasked with, then you have the problem of ownership."



M. Damodaran

"Telephone calls from Delhi to Bombay have, over the years, been at the root of the problems of the public sector banks," he said, indicating the finance ministry's interference in the functioning of public sector banks with respect to 'directed'

lending. Defending the public sector banks, he said privatisation cannot be the solution for all the bad loans issues they faced, and blamed it on their peculiar governance and ownership.

It may be noted that large private sector banks ICICI Bank and Axis Bank are steeped in controversies due to weak corporate governance practices.

'No to privatisation'

"The answer does not lie in privatisation. The answer lies in the fact that a country as heterogeneous as ours needs a very strong public sector," Mr. Damodaran said.

(With PTI inputs)