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No witchhunt against legal lending, says Vinod Rai

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MUMBAI

The chief of the newly established Banks Board Bureau (BBB) stressed the need for prudence in commercial banking on Wednesday, but held out reassurances that no witchhunt is intended against legitimate lending.

"Caution and prudence in banking activity can hardly be overemphasized," BBB chairman Vinod Rai said in his speech at the convocation of the National Institute of Bank Management in Pune.

"However, not all loan defaults are wilful and not all lending activity, even if it is to salvage such stressed accounts, can be branded as corrupt practice or criminal misconduct," Rai, former Comptroller and Auditor General of India, said.

The remarks matched the tone adopted by finance minister Arun Jaitley and Reserve Bank of India (RBI) governor Raghuram Rajan as the government and the central bank try to persuade commercial banks to turn on the credit tap and pass on policy rate cuts to companies and con-

TURN TO PAGE 2▶

No witchhunt against legal lending: Rai

FROM PAGE 1

sumers by lowering borrowing costs.

Rajan has said that not all defaulters should be tarred with the same brush. In an interview on 11 April, Jaitley said banks must be allowed to resolve stressed loans without fear.

"Banks must have flexibility to settle. And settlements can't be looked at with suspicion," the finance minister said.

There has been some concern that commercial bank executives may be reluctant to extend fresh loans or resolve sticky assets by sacrificing a part of the money due to the lenders, because of fears that they may be subjected to a witchhunt by enforcement agencies.

In late March, the Enforcement Directorate (ED) questioned officials of IDBI Bank in connection with ₹950 crore loan advanced to Vijay Mallya's grounded Kingfisher Airlines.

"Let me emphasize that there is no intention of any agency to launch any kind of witchhunt. In fact, the attempt will always be to defend transparent and well-considered decisions taken in good faith which went awry for conditions beyond the control of the lender or the borrower," said Rai.

He added: "These are acts of omission and do occur in any decision-making process. They need to be addressed for an early resolution."

The Indian banking sector is in the midst of a bad-loan clean-up after RBI set a March 2017 deadline for commercial banks to improve their asset quality.

Gross non-performing assets (NPAs) of 39 listed banks surged to ₹4.38 trillion in the quarter ended 31 December from ₹3.4 trillion at the end of September. The bad loans are the legacy of an economic downturn and snags in project execution that made it difficult for over-extended corporate borrowers to repay their debt.

Banks have got tough against defaulters in recent months, in some cases converting their debt into equity and seeking to sell their assets. A consortium of banks is pursuing Mallya, whose Kingfisher Airlines owes them more than ₹9,000 crore, in the courts. Mallya flew overseas on 2 March as creditors closed in on him.

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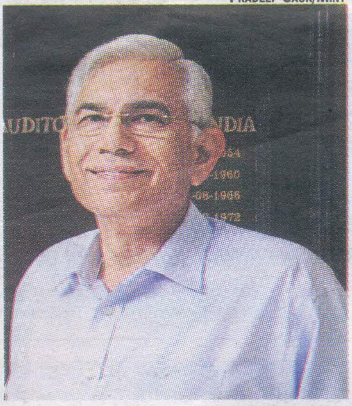

Regulatory backing: *Not all lending activity can be branded as corrupt practice or criminal misconduct, said Rai.*

"Let me also dwell a while on the fear psychosis being unfairly projected—that of being hounded by vigilance agencies when bank executives take decisions to advance loans or conclude settlements of stressed loans," said Rai.

"The issue of such vigilance oversight should have been a matter of concern and hence factored in when the initial decision to advance to maybe subprime borrowers was undertaken. In cases where prudence was ignored, naturally the attention of vigilance agencies would be attracted," he added.

Undue scrutiny by external agencies on day-to-day banking operations could also make lenders risk-averse, which in turn could hurt credit growth, which has held near 10% for most of the last fiscal year.

"Most of the credit growth has been coming from the retail segment. Credit growth on the corporate side is only refinancing," said Soumya Kanti Ghosh, chief economic adviser at State Bank of India. "The problem may persist if banks remain risk-averse."

Rai reiterated a need to address stressed assets with "urgency and diligence".

"We need not debate ad infinitum the escapades of one or two industrialists. Unfortunately, the legal system does not permit easy and rapid resolution of stressed assets of banks," said Rai.

"Within the framework of the existing laws, tenacious steps have to be taken to ensure that the assets are resolved and not allowed to depreciate. It needs to be recognized that all loan defaults cannot be viewed as corporate frauds and all such decisions of banks to provide the loans as acts of malfeasance. That will be a grave travesty of justice."

BBB, which was set up by the government to select top executives of state-run banks and help lenders raise capital and develop business strategies, is also focussing on governance.

"Governance in banks has to be strengthened and improved. The BBB proposes to work in the direction of creating a structure to enhance comfort in professionalizing the decision-making process. We also propose to introduce into the public banking system executives with domain knowledge and requisite experience in handling banking institutions," said Rai.

In particular, Rai noted a need to improve the compensation structure for public sector bank employees to attract experienced talent. Public sector banks still account for close to 70% of the banking sector but employees of these banks are paid far less than private and foreign counterparts, which often leads to a drift of talent away from government banks.

"If they have to face complex challenges, and do so in the face of competition from foreign and other entities, their efforts and capabilities need to be adequately rewarded and to some extent at least be made comparable to similarly placed executives in the private sector," Rai said.

He suggested a reward structure centred on employee stock options, performance-linked incentives and other benefits to attract executive talent to public sector banks.