‘VIGILANCE IMPLIES PUTTING INTO PLACE SYSTEMS AND CHECKS’

At a talk jointly organised by the Public Concern for Governance Trust and the National Institute of Bank Management on April 1 at the NIBM premises in Pune, the focus of the speakers was on how to tackle the issue of non-performing assets and the role that vigilance can play in curbing or decreasing the level of NPAs

Implementation of the right systems, total transparency and adequate support and training to staff engaged in loan approvals are the key factors that can help bring down or curb the increasing level of non-performing assets (NPAs) in banks. This was the viewpoint expressed by K V Chowdary, Chief Vigilance Commissioner, Government of India. Chowdary was addressing a group of bankers and banking management students at a talk titled ‘Non-Performing Assets and Vigilance’, jointly organised by the Public Concern for Governance Trust (PCGT) and the National Institute of Bank Management (NIBM) at the NIBM premises in Pune on Friday, April 1, 2016.

Earlier, in his introductory address, Dr. Achintan Bhattacharya, Director, NIBM, pointed out why NPAs have now turned into a serious issue, all the more into the limelight due to certain cases of wilful borrowers who owe the banks huge sums of money. “With NPAs having reached about Rs 4 lakh crore, this pile-up is of concern. The need of the hour is to take a fresh look at the way we treat NPAs because antiquated criminal laws cannot be used to deal with financial frauds. We must understand the syndrome and find solutions to deal with it,” he said.

Agreeing with this opinion, Chowdary said that unfortunately not much attention was paid to the issue of NPAs prior to it receiving media attention due to a single celebrity. “The important question is not about whose NPAs it is but the fact that NPAs mean that taxpayers’ money has been wasted. Significantly, all this has now brought into prominence the factor of vigilance,” he said. Providing a definition of the various NPAs as categorised by the Reserve Bank of India, Chowdary further stated that there is also a need to first understand the distinction between NPAs and frauds. “Genuine NPAs may arise out the failure of a business entity to manage its operations, provide for adequate financial sustainability, technology failure, regulatory issues, labour problems or policy changes. A fraud though is a planned or deliberately carried out criminal act,” he pointed out.

As to why banks are usually wary of taking legal action against defaulters, Chowdary said that it is due to two reasons. “When a bank decides to declare an NPA as a fraud, it must provide for that amount within a period of four quarters, which will seriously impact its balance-sheet. Secondly, the onus is upon the branch manager to file a police complaint, in which case he or she will be subjected to intensive enquiries and investigations. Also, there being no central agency to take care of such complaints, where does one go to file a police case? Bank managers dread what will follow and therefore usually shy away from taking the legal course,” he said.

Moving on to the core subject of vigilance, Chowdary said that there has now come into place a wrong connotation of vigilance which implies some sort of proceedings undertaken against fraudsters. “Actually, vigilance means putting into place systems and checks that will prevent mistakes during the process of approving a loan so that bad debts can be avoided in the future. It starts with ensuring that accountability is in place before the process begins. A huge number of NPAs arise out of the absence of proper systems. For example, is it just enough to collect documents before processing a loan? Isn’t it the bank’s responsibility to ensure that the documents are not forged? Also, shouldn’t there be a physical verification of the assets declared by the borrower? There have been cases when financial statements have been submitted by chartered accountants who, later on, have been found to be non-existent,” he pointed out. System integrity, he added, is therefore of paramount importance and not the result.

Expanding upon the issue of NPAs and vigilance, Mrs. Subhalakshmi Panse, former CMD, Allahabad Bank, informed that of the total of 11.3 per cent of stressed assets as of September end, 5.1 per cent were NPAs, most of which were related to such sectors as infrastructure development, aviation and textiles. “The sudden rise in NPAs can also be attributed to global volatility. The phase of rapid growth a few years ago led to an increase in credit growth too but the contraction in GDP from 2014-15 led to several loans turning into NPAs. This was especially true of the telecom, coal, mining and power sectors. There was a spurt in Public-Private-Partnership (PPP) projects during the growth period but then delays and lack of deliveries led to an increase in NPAs,” she said.

Illustrating this with an example of how a massive spree of lending by public sector banks to power projects under the PPP model had a negative fallout due to absence of transmission lines in most of the states, Panse also informed the audience about how our legal system is also responsible for delays in recoveries of bad debts. “In many cases, borrowers have used legal loopholes to drag cases up to 8-10 years,” she said. Now, with no evidence of credit growth, Panse said that the onus is upon the banking sector to improve its systems and place emphasis on strict vigilance or due diligence prior to approval of any loan.

During the course of the event, Lt. Gen Ashok Kapur, PVSM, VSM (Retd.), Member of the Advisory Board of the PCGT Pune Chapter, highlighted the activities of the PCGT and the need to bring about more awareness among the public about issues impacting society at large. The concluding remarks were by S C Nagpal, IRS (Retd.) and Chairman, PCGT Pune Chapter while the vote of thanks was proposed by Shri Sushil Muhnot, CMD, Bank of Maharashtra.