GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO: **3926**
TO BE ANSWERED ON THE 10th AUGUST, 2018/SHRAVANA 19, 1940 (SAKA)

QUESTION
STRESSED ASSETS

3926: SHRI SISIR KUMAR ADHIKARI:

Will the Minister of FINANCE be pleased to state:

(a) whether Government has taken initiatives to rescue banks from huge debt of over Rs. 8,75,000 crore gross Non Performing Assets (NPAs), if so, the details thereof;
(b) whether the Government has tried to dilute the mechanism for resolution of stressed assets and the time bound process of repayment schedule policy of Reserve Bank of India (RBI); and
(c) if so, the details thereof and the reasons therefor?

ANSWER
To be answered by
THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SHIV PRATAP SHUKLA)

(a) to (c): As per RBI inputs, the primary reasons for spurt in stressed assets have been observed to be, *inter-alia,* due to aggressive lending practices, wilful default / loan frauds / corruption in some cases, and economic slowdown. Asset Quality Review (AQR) carried out in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of Non-Performing Assets (NPAs). Stressed loans, not provided for earlier under flexibility given to restructured loans, were reclassified as NPAs and provided for expected losses. During financial year (FY) 2017-18, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of Public Sector Banks (PSBs) (as per RBI's off-site returns global operations provisional data, as on 31.3.2018) was Rs. 8,95,601 crore.

To strengthen banks, unprecedented recapitalisation of PSBs of Rs. 2,11,000 crore was announced in October 2017. Pursuant to this, Rs. 88,139 crore was infused during 2017-18 and Rs. 65,000 crore has been budgeted for 2018-19 for this purpose, out of which Rs. 11,337 crore has been infused so far in the current FY.
A number of initiatives have been taken to comprehensively address NPAs in banks and to strengthen the mechanism for resolution of stressed assets and making it timebound, while empowering RBI to direct banks to initiate the process for timebound resolution. The Insolvency and Bankruptcy Code (IBC) has been enacted to create a unified framework for resolving insolvency and bankruptcy matters. The Banking Regulation

Act, 1949 has been amended, to provide for authorisation to RBI to issue directions to banks to initiate the insolvency resolution process under IBC. Under this, by adopting a creditor-in-saddle approach, with the interim resolution professional taking over management of affairs of corporate debtor at the outset, the incentive to resort to abuse of the legal system has been taken away. This, coupled with debarment of wilful defaulters and persons associated with NPA accounts from the resolution process, has affected a fundamental change in the creditor-debtor relationship. Further, as per RBI's directions, cases have been filed under IBC in the National Company Law Tribunal (NCLT) in respect of 39 large defaulters, amounting to about Rs. 2.69 lakh crore funded exposure, as on 31.12.2017. The rate of recovery is dependent, *inter-alia*, on the quality of the asset in each case, the potential for the sector concerned, and market conditions. Prior to enactment of the IBC, options available to banks for resolution of stressed assets were restructuring of loans under various schemes of RBI, a one-time settlement by way of compromise, and filing of suits and enforcement of decree for recovery thereafter. These were not time-bound, and tapped either only the defaulting borrower or a limited pool of potential buyers. IBC has made resolution of stressed assets time-bound and transparent, with price discovery from a wider pool of buyers. Such a transparent and open resolution process offers banks a fair price discovery mechanism.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 has been amended to make it more effective with provision for three months imprisonment in case the borrower does not provide asset details and for the lender to get possession of mortgaged property within 30 days. Also, six new Debts Recovery Tribunals have been established to expedite recovery.

In addition to the changes in the financial ecosystem, reforms have been initiated in PSBs under the PSB Reforms Agenda announced by the Government in January 2017. These will help avoid recurrence of a situation of high NPAs and enable resolution/ recovery in respect of NPA accounts, PSBs have committed to ensure at least 10% share in consortium lending, ring-fencing of cash flows, strict enforcement of conditions of sanction, engaging specialised monitoring agencies for loans above Rs. 250 crore for clean post-sanction follow up, ensure strict role segregation and setting up of stressed asset management verticals for stringent recovery.

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