

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO 499

TO BE ANSWERED ON THE 20TH JULY, 2018 (FRIDAY)/ ASHADHA 29, 1940 (SAKA)

Classification of NPAs

499. SHRI B. N. CHANDRAPPA:
SHRI D. K. SURESH:
SHRI NALIN KUMAR KATEEL:

Will the Minister of FINANCE be pleased to state:

- a) whether the Government has directed Public Sector Banks (PSBs) to examine all the bank accounts exceeding Rs. 50 crore, classified as Non-Performing Assets (NPAs), to prevent any fraud incident, if so, the details thereof;
- b) whether the Government has received any reports from the PSBs regarding said examination of all such accounts;
- c) if so, the details thereof and the salient features of the said report; and
- d) the measures taken to further minimize the incidents of fraud cases and the menace of NPA in the banks?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SHIV PRATAP SHUKLA)

(a) to (d): The Department of Financial Services, vide OM No. 4/5/2014-Vig dated May 13, 2015 issued instructions to all the CMDs/MD & CEOs of Public Sector Banks (PSBs) on "Framework for timely detection, reporting, investigation etc. relating to large value bank frauds", which, inter-alia provides that all accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets, should be examined by banks from the angle of possible fraud. A report would be placed before the Bank's Committee for review of NPAs on the findings of this investigation. The above instructions have been reiterated vide this department's OM No. 4/5/2014-Vig.(Part-III) dated 27.02.2018.

In addition to above, the measures taken to control and prevent frauds in the Banks, are as follows:

- (i) For deterring economic offenders from evading the process of Indian law by remaining outside Indian jurisdiction, Government has introduced the Fugitive Economic Offenders Bill, 2018 to provide for attachment and confiscation fugitive economic offender's property and has advised PSBs to obtain certified copy of the passport of the promoters/directors and other authorised signatories of companies availing loan facilities of more than Rs. 50 crore.
- (ii) For enforcement of auditing standards and ensuring the quality of audits, Government has initiated establishment of National Financial Reporting Authority as an independent regulator.

- (iii) To send a clear message that borrowers cannot wilfully default and continue to enjoy ownership of their assets, wilful defaulters and connected persons have been debarred from participating in the resolution process under the Insolvency and Bankruptcy Code (IBC).
- (iv) Launch of Central Fraud Registry (CFR), a web based searchable database of frauds reported by the banks, containing data for the last 13 years has been made operational by RBI in January, 2016.

Further, the steps/measures taken to reduce NPAs are as follows:

- (i) To squarely address the issue of NPAs, stressed assets of banks have been transparently and realistically recognised as NPAs.
- (ii) To put in place a transparent resolution mechanism, the IBC has been enacted, which has redefined the debtor-creditor relationship. To enable timebound resolution, RBI has been authorised under law to direct banks to refer cases to NCLT for resolution under IBC, and RBI has mandated reference of a number of high-value stressed assets to NCLT.
- (iii) The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act has been amended to make it more effective. Further, six new Debts Recovery Tribunals have been established to expedite recovery.
- (iv) To ensure prudential lending, better customer service, enhanced credit availability and better governance, a comprehensive PSB Reforms Agenda has been approved by bank Boards.

PSBs have, inter-alia, committed to create Stressed Asset Management verticals for stringent recovery and ensure clean and effective post-sanction follow-up for large credit exposures through specialized monitoring agencies.

- (v) Guidelines issued by RBI in this regard are as follows:
 - a) RBI has issued a revised framework for resolution of stressed assets, which provides for time-bound resolution of high-value stressed accounts.
 - b) Banks have been advised to establish Recovery Cells, fixing of recovery targets and close monitoring of recovery performance.
 - c) The Board of Directors of the bank were advised to review slippages in asset classification in the borrowal accounts with outstanding Rs.5 crore and above and to review top 100 borrowal accounts of below Rs.5 crore in each category of NPA.
 - d) Banks were advised to put in place robust mechanism for early detection of signs of distress and to use such early warning signal to put in place an effective preventive asset quality management framework, including a transparent restructuring mechanism in case of viable accounts for preserving the economic value of such accounts.
- (vi) RBI has set up the Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders. CRILC's main objective is two-fold – (i) early recognition of asset quality problems by reducing information asymmetry and (ii) to help banks to take informed credit decisions.
