GOVERNMENTOF INDIA
MINISTRYOF FINANCE
DEPARTMENTOF FINANCIAL SERVICES

LOK SABHA
UNSTARREDQUESTIONNO:**610**
TO BE ANSWEREDON THE 20th JULY,2018/ASHADHA29, 1940 (SAKA)

QUESTION
WRITTEN OFF BAD LOANSBY BANKS

610:
SHRI P.K. KUNHALIKUTTY: **SHRI A. ARUNMOZHITHEVAN:**
SHRI JYOTIRADITYAM. SCINDIA:

Willthe Ministerof FINANCEbe pleased to state:

a) whetherthe Public Sector Banks (PSBs) have writtenoff bad loans worth Rs. 1.44 lakh crore whichis nearlyone and a half times more than theirtotal losses posted in 2017-18;
b) if so, the facts and details thereof;
c) the basis on which PSBs have writtenoff loans and removed from the bank's balance sheet during2017-18;
d) whetherthe guidelinesof the Reserve Bank of India have been adheredto by the PSBs that loan writeoffs are not done in arbitraryand non-transparentways;and
e) if so, the steps takenby the Governmentfor faster resolutionof stressed accounts?

ANSWER
To be answered by
THE MINISTEROF STATEIN THE MINISTRYOF FINANCE
(SHRI SHIV PRATAPSHUKLA)

(a) to (c): As per Reserve Bank of India (RBI) guidelinesand policyapprovedby bank Boards, non-performingloans, including,*inter-alia*, those in respect of which full provisioninghas been made on completionof four years, are removed from the balance-sheet of the bank concerned by way of write-off. Writing-offof non-performingassets is a regular exercise conducted by banks to clean up their balance sheet, and achievingtaxationefficiency. Writingoff of loans is done, *inter-alia*, for tax benefit and capital optimisation. Borrowers of such written off loans continue to be liable for repayment. Recoveryof dues takes place on ongoing basis under legal mechanisms, which include *inter-alia,* the Securitizationand Reconstructionof Financial Assets and Enforcement of Security Interest Act (SARFAESI Act), and Debts RecoveryTribunals(DRTs). Therefore, write-off does not benefit borrowers.

Asset QualityReview (AQR) carried out in 2015 for clean and fully provisionedbank balance-sheets revealed high incidence of Non-PerformingAssets (NPAs). Expected losses on stressed loans, not provided for earlier under flexibilitygiven to restructuredloans, were reclassified as NPAs and provided for. PSBs initiated cleaning up by recognising NPAs and provided for expected losses. Primarilyas a result of AQR and subsequent transparent recognition, the gross NPAs of PSBs increased by Rs. 6,16,586 crore between March 2015 and March 2018 (provisionaldata), as per RBI data. As per RBI guidelinesand policyapproved by bank Boards, non-performingloans, including *inter-alia*, those in respect of which full provisioninghas been made on completionof four years are removed from the balance-sheet of the bank concerned by way of write-off. Thus, the amount written off during the financial year 2017-18 is substantiallyon account of such stressed loan accounts of earlier years, which have been transparently recognised following AQR and fully provisioned. As per RBI data on global operations, during the financial year (FY) 2017-18, the aggregate written off amount for PSBs was Rs. 1,28,229 crore.

As regards profit, as per provisional data reported by banks, PSBs had an aggregate operating profit of Rs. 1,55,586 crore in FY 2017-18. Due to transparent recognition of NPAs by PSBs and consequent requirement of ageing provision, they have reported aggregate net loss of Rs. 85,370 crore in the financial year.

(d): RBI has informed that compliance to its guidelines are examined on sample basis by RBI's Senior Supervisory Managers of the respective banks during the supervisory process and observations, if any, are taken up with the bank for rectification.

(e): A number of steps have been taken for faster resolution of stressed accounts.

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. In addition, recapitalisation of PSBs, announced and initiated by the Government, has enabled upfront provisioning, easing apprehensions in actively pursuing resolution. As per data reported by PSBs in May 2018, 1,402 cases pertaining to stressed accounts of PSBs, amounting to Rs. 3,44,062 crore, have been admitted in NCLT. Several of these are at an advanced stage, including accounts of high value. Recovery in these has begun, with reported deduction in NPAs of PSBs of Rs. 34,463 crore in the first large-value account. Through these steps, a clean and effective system has been put in place.
Further, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) has been amended for faster recovery with a 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 Tribunal have been established to expedite recovery.
In addition to the above changes in the financial ecosystem, reforms have been initiated in public sector banks under the PSB reforms Agenda announced by the Government this January. 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.
In addition, under the PSBs Reforms Agenda, PSBs have created Stressed Asset Management verticals for stringent recovery, segregated pre- and post-sanction follow-up roles for clean and effective monitoring, initiated creation of online one-time settlement platforms and committed to monitoring large-value accounts through specialised monitoring agencies.

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