

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO: 2905
TO BE ANSWERED ON THE 28th DECEMBER, 2018/PAUSHA 7, 1940 (SAKA)

QUESTION
Impact of NPAs

2905: SHRI PARVESH SAHIB SINGH:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has taken note of the negative impact of Non-Performing Assets (NPAs) of Banks on Micro, Small and Medium Enterprises (MSMEs) in India and if so, the details thereof;
- (b) whether the Government has chalked out a roadmap for safeguarding MSMEs *vis-a-vis* strict norms of Reserve Bank of India on lending due to rising NPAs, if so, the details thereof; and
- (c) the steps taken by the Government to prevent frauds and misappropriation in banks?

ANSWER

To be answered by

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

(a): As per Reserve Bank of India (RBI) data on domestic operations of Scheduled Commercial Banks (SCBs), the year-on-year (YoY) growth rate of total advance outstanding—funded of Micro, Small and Medium Enterprises (MSME) has increased from 6.86% as on 31.3.2018 to 14.06% as on 30.9.2018, while the gross Non Performing Assets (NPAs) of SCBs have decreased from Rs. 9,62,621 crore as on 31.3.2018 to Rs. 9,46,062 crore as on 30.9.2018.

(b): Government and RBI have taken several steps to facilitate lending to MSMEs, which include, *inter-alia*, the following:

- (1) registration of all Public Sector Banks (PSBs) on the Trade Receivables Discounting System (TReDS) platform for faster bill discounting to address delay in payments;
- (2) enhancement of working capital to GST-registered MSMEs;
- (3) automated processing of MSME loan proposals through a common portal (www.udyamimitra.com);

- (4) launch of the “59 minutes” portal (www.psbloansin59minutes.com), through which, on the basis of income-tax returns, GST data, bank statements and the MCA21 portal, decision on in-principle approval for loans up to Rs. 1 crore is conveyed by PSBs within 59 minutes;
- (5) “Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises”, issued by RBI to banks, for revival and rehabilitation of MSMEs having loan limits up to Rs. 25 crore; and
- (6) Dispensation given by RBI on 7.2.2018, advising banks and Non-Banking Financial Companies of extension of time for classification of loan accounts of eligible MSME borrowers as NPAs to 180 days, subject to certain conditions.

(c): With regard to steps taken by the Government to prevent frauds and misappropriation in banks, a number of steps have been taken to enhance the fraud risk management framework of the banks and to ensure proper check on banking frauds, including, *inter-alia*, the following:

- (1) Government has issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to PSBs, which provides, *inter-alia*, that—
 - (i) all accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets (NPAs), be examined by banks from the angle of possible fraud, and a report placed before the bank’s Committee for Review of NPAs on the findings of this investigation;
 - (ii) examination be initiated for wilful default immediately upon reporting fraud to RBI; and
 - (iii) report on the borrower be sought from the Central Economic Intelligence Bureau in case an account turns NPA.
- (2) Fugitive Economic Offenders Act, 2018 has been enacted to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts. It provides for attachment of property of a fugitive economic offender, confiscation of such offender’s property and disentitlement of the offender from defending any civil claim.
- (3) Central Fraud Registry (CFR), based on Fraud Monitoring Returns filed by banks and select financial institutions, has been set up by RBI as a searchable online central database for use by banks.
- (4) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.
- (5) For management of fraud risk and to direct the focus of banks to early detection of loan frauds, prompt reporting to RBI and investigative agencies and timely initiation of staff accountability proceedings, RBI has issued a

framework for dealing with loan frauds and Red Flagged Accounts (RFA), with timelines for actions incumbent on banks, for dealing with loan frauds of Rs. 50 crore and above, requiring banks to classify potential fraud accounts as RFAs based on observation/evaluation of Early Warning Signals noticed. The red flagging is done on an information technology platform where all banks report large exposure to entities/individuals so that other banks can be forewarned about fraud risk.

- (6) RBI has issued a circular to all banks in February 2018 to implement security and operational controls such as straight-through process between the Core Banking Solutions / accounting system and the SWIFT messaging system, enable time-based restrictions in SWIFT, review logs at regular intervals, undertake reconciliation, etc. in a time-bound manner.
- (7) RBI has instructed banks to report deficient third party services (such as legal search reports, property valuers' reports etc.) and ineffective action against collusion of these providers with fraudsters to the Indian Banks' Association, which maintains a caution list of such service providers.
- (8) Instructions / advisories have been issued—by Government to PSBs to decide on publishing photographs of wilful defaulters, in terms of RBI's instructions and as per their Board-approved policy, and 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.

Sample Only