GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA
UNSTARRED QUESTION NO. †3598
TO BE ANSWERED ON THE 15TH JULY 2019/ ASHADHA 24, 1941 (SAKA)
Disinvestment of Public Sector Banks

†3598. SHRI MOHAMMAD AZAM KHAN:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to disinvest large share of financially weak public sector banks;

(b) if so, the details thereof and the reasons for disinvesting the share of these banks to the private parties;

(c) if not, whether any measure is under consideration of the Government to strengthen the condition of financially weak banks; and

(d) if so, the details thereof along with the reasons for weak financial condition of these banks?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) to (d): As per RBI data on global operations, aggregate gross advances of Public Sector Banks (PSBs) increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. As per RBI inputs, the primary reasons for spurt in stressed assets have been observed to be, *inter-alia,* aggressive lending practices, wilful default/loan frauds/corruption in some cases, and economic slowdown. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of Non-Performing Assets (NPAs). As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. With the recognition of stress since 2015, the adverse impact of the hidden stress became manifest as weakness in financial indicators of PSBs.

To strengthen the financial position of PSBs, over the last four financial years Government has invested Rs. 2,45,997 crore in PSBs as a part of comprehensive 4R's strategy that comprises recognising NPAs transparently, resolution and recovering value from stressed accounts through clean and effective laws and processes, recapitalising PSBs and reforming banks through the PSB Reforms Agenda. Steps taken under this strategy include, *inter-alia*, the following:

(i) Change in credit culture was effected, with the Insolvency and Bankruptcy Code (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring wilful defaulters from the resolution process and debarring them from raising funds from the market.

(ii) Over the last four financial years, PSBs were recapitalised to the extent of Rs. 3,11,796 crore, including mobilisation of over Rs. 65,799 crore by PSBs themselves.

(iii) Key reforms were instituted in PSBs as part of PSBs Reforms Agenda, including the following:

a. Board-approved Loan Policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing.

b. Use of third-party data sources for comprehensive due diligence across data sources has been instituted, thus mitigating risk on account of misrepresentation and fraud.

c. Monitoring has been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs. 250 crore.

d. To ensure timely and better realisation in one-time settlements (OTSs), online end-to-end OTS platforms have been set up.

Positive impact on PSBs of Government's 4R's strategy is now visible and includes, *inter-alia*, the following:

(i) Record recovery of Rs. 3,16,479 crore over the last four financial years, including record recovery of Rs 1,27,987 crore in FY 2018-19, has been effected.

(ii) Assets quality has improved as reflected in 45% year-on-year reduction in slippage into NPAs in FY 2018-19, and 63% reduction in 31 to 90 days overdue corporate accounts by March 2019 from their peak in June 2017.

(iii) With stress recognition largely completed, significant headway in recovery and resolution under IBC, and reduced slippages as a result of improved underwriting and monitoring, gross NPAs of PSBs have started declining, after peaking in March 2018, registering a decline of Rs. 1,06,032 crore, from Rs. 8,95,601 crore in March 2018 to Rs. 7,89,569 crore in March 2019.

Thus, by addressing the underlying causes behind the build-up of stress in PSBs through comprehensive reform to change credit culture and tighten discipline in the financial system, institutionalising robust underwriting and monitoring, governance reforms, and leveraging technology, PSBs have emerged stronger.

Note: Figures cited above for PSBs include those for IDBI Bank Limited, which was recategorised as a private sector bank by RBI with effect from 21.1.2019

*****