

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-4711
ANSWERED ON-22.07.2019

BANK NPAs

4711. SHRI GIRISH BHALCHANDR BAPAT:
DR. PRITAM GOPINATH RAMUNDE:
DR. SHRIKANT K NATH SHINDE:

Will the Minister of FINANCE be pleased to state:

- (a) whether gross NPAs increased to 11.2 per cent in 2018-19 as compared 10.2 per cent in September 2017 which has cautioned against further deterioration if so, the details thereof;
- (b) whether the Government and RBI are readying a strategy to deal with the bad loan problem, including a one-time settlement scheme for weak sectors and penal action against siphoning off funds, if so, the details thereof and the plan prepared by the Government in this regard;
- (c) whether any comprehensive strategy has been chalked out by the Government to nab the defaulters, if so, the details thereof;
- (d) whether the report from banks post completion of forensic audit on big defaulters has been received by the Government, if so, the details thereof and the time by which the action against the defaulters is likely to be initiated; and
- (e) the corrective and preventive measures taken by the Government to check such type of frauds in future?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) to (e): As per Reserve Bank of India (RBI)'s data on global operations, aggregate gross advances of Scheduled Commercial Banks (SCBs) increased from Rs. 25,03,431 crore as on 31.3.2008 to Rs. 68,75,748 crore as on 31.3.2014. As per RBI inputs, the primary reasons for the 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 Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPA ratio of SCBs, as per RBI data on global operations, rose from 4.28% as on 31.3.2015, to 9.84% as on 30.9.2017. As a result of Government's 4R's strategy consisting of recognition of NPAs transparently, resolution and recovery of value from stressed accounts, recapitalising of PSBs, and reforms in PSBs and the wider financial ecosystem, the gross NPA ratio of SCBs has since improved to 9.08% as on 31.3.2019 (provisional data reported by RBI on 2.7.2019).

Comprehensive steps have been taken under the 4R's strategy to deal with the problem of stressed/bad loans and reduce NPAs of PSBs, including *inter-alia*, the following—

- (1) Change in credit culture has been 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.
- (2) Over the last four financial years, PSBs have been recapitalised to the extent of Rs. 3.12 lakh crore, with infusion of Rs. 2.46 lakh crore by the Government and mobilisation of over Rs. 0.66 lakh crore by PSBs themselves enabling PSBs to pursue timely resolution of NPAs.
- (3) Key reforms have been instituted in PSBs as part of the PSBs Reforms Agenda including the following:
 - (i) 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.
 - (ii) 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.
 - (iii) 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.
 - (iv) As per extant RBI instructions, banks have Board-approved loan recovery policies that also cover negotiated settlements of NPAs, and PSBs have One Time Settlement (OTS) schemes in place under their loan recovery policies. To ensure timely and better realisation in OTSs, online end-to-end OTS platforms have been set up in PSBs.

Enabled by the above steps, as per RBI data on global operations, the NPAs of SCBs, after reaching a peak of Rs. 10,36,187 crore as on 31.3.2018, have declined by Rs. 1,02,562 crore to Rs. 9,33,625 crore as on 31.3.2019 (provisional data for the financial year ending March 2019), and SCBs have effected record recovery of Rs. 4,01,424 crore over the last four financial years, including record recovery of Rs. 1,56,746 crore during 2018-19 (provisional data).

With respect to report from banks post completion of forensic audit, as per RBI's Master Directions on Frauds, banks undertake forensic audit and take action upon forensic audit reports. These Directions do not envisage submission of such reports to and action thereon by the Government.

A comprehensive strategy has been put in place with a view to deter and check wilful defaulters and perpetration of fraud, including measures taken against siphoning off of funds, and to help realise repayment in cases involving wilful default or fraud. Measures taken in this regard include, *inter-alia*, the following:

- (1) As per data reported by PSBs, till 31.3.2019, suits for recovery have been filed in 10,022 cases. In cases involving secured assets, action under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 has been initiated in 8,067 cases. Further, in accordance with RBI instructions of initiation of criminal proceedings wherever necessary, FIRs have been registered in 3,154 cases.

- (2) To deter wilful defaulters, as per RBI's instructions, wilful defaulters are not sanctioned any additional facilities by banks or financial institutions and their unit is debarred from floating new ventures for five years. Further, *vide* Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) (Second Amendment Regulations, 2016), wilful defaulters and companies with wilful defaulters as promoters/directors have been debarred from accessing capital markets to raise funds. In addition, the Insolvency and Bankruptcy Code, 2016 has debarred wilful defaulters from participating in the insolvency resolution process.
- (3) For effective action against wilful defaulters fleeing Indian jurisdiction, the Fugitive Economic Offenders Act, 2018 has been enacted to provide for attachment and confiscation of property of fugitive offenders and has disentitled them from defending any civil claim. Further, Government has advised 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. Heads of PSBs have also been empowered to request for issue of Look Out Circulars.
- (4) Government has issued "Framework for timely detection, reporting, investigation *etc.* relating to large value bank frauds" to PSBs, for systemic and comprehensive checking of legacy stock of their NPAs, which provides, *inter-alia*, that—
 - i. all accounts exceeding Rs. 50 crore, if classified as 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.
- (5) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.
- (6) In order to bring transparency and accountability in the larger financial system, bank accounts of 3.38 lakh inoperative companies were frozen over the last two financial years.

The impact of the above steps is reflected in RBI's Financial Stability Report (FSR) of June 2019. As per FSR, systemic and comprehensive checking of legacy stock of NPAs of PSBs for frauds has helped unearth frauds perpetrated over a number of years.
