GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

STARRED QUESTION NO. *117

TO BE ANSWERED ON THE 10TH FEBRUARY 2020/ MAGHA 21, 1941 (SAKA)

“Banking Sector”

***117.** SHRI PASUNOORI DAYAKAR**:**
SHRI KOTHA PRABHAKAR REDDY:

Will the Minister of FINANCE be pleased to state:

(a) whether the economic revival is key to banks’ health and if so, the details thereof and the steps being taken by the Government in this regard along with the results yielded therefrom so far;

(b) whether waning of banks’ confidence in extending loans is worrisome as per RBI report and if so, the details thereof and the corrective steps being taken in this regard; and

(c) whether the Government is working on strict governance norms for banks soon which is likely to reflect global best practices and if so, the details thereof and the progress made in this regard so far?

ANSWER

The Finance Minister
(SMT. NIRMALA SITHARAMAN)

(a) to (c): A statement is laid on the Table of the House.

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Statement for Lok Sabha Starred Question no. *117 for 10th February 2020, regarding "Banking Sector" by SHRI PASUNOORI DAYAKAR: SHRI KOTHA PRABHAKAR REDDY, Member of Parliament

(a) to (c): With regard to economic revival and banks' health, it is stated that the Report on Trend and Progress of Banking in India 2018-19 ("Banking Trend Report") published by the Reserve Bank of India (RBI) in December 2019 observes, *inter alia,* that the health of the banking sector hinges around a turnaround in macroeconomic conditions. An account regarding economic revival and steps taken in this regard is given in Economic Survey 2019-20 in its chapter on the State of the Economy, which details that having duly recognised financial stresses built up in the economy, Government has taken significant steps towards speeding up the insolvency resolution process under the Insolvency and Bankruptcy Code (IBC) and easing of credit, particularly for the stressed real estate and Non-Banking Financial Companies (NBFCs) sectors, and that the impact of critical measures taken to boost investment present green shoots for growth in the second half of 2019-20 and 2020-21. Further, an account regarding banks' health and steps taken in this regard is given in RBI's Financial Stability Report, published in December 2019, as per which the capital adequacy ratio of scheduled commercial banks has improved significantly from 14.3% in March 2019 to 15.1% in September 2019 following recapitalisation of Public Sector Banks (PSBs) by the Government, their provision coverage ratio has risen to 61.5% from 60.5% over the same period implying increased resilience of the banking sector, and their net non-performing assets ratio has declined reflecting increased provisioning. Besides these, Government has instituted comprehensive reforms in PSBs to improve, governance, underwriting, monitoring and recovery, and has leveraged technology in all aspects of banking, resulting in reduction in their NPAs from Rs. 8.96 lakh crore in March 2018 to Rs. 7.27 lakh crore in September 2019, record recovery of Rs. 2.03 lakh crore over the 1½-year period ending September 2019, 12 out of 18 PSBs reporting profit in the first half of the current financial year, and the highest provision coverage ratio in 7½ years.

With regard to bank's confidence in extending loans, it is stated that the RBI's Banking Trend Report observes, *inter alia,* that sporadic credit default events and incidents of frauds have contributed to reluctance in lending by banks. A number of steps have been taken to address these and other matters concerning lending by banks, including, *inter alia,* the following:

(1) To provide liquidity, extend financing to stalled projects and enable resolution, and thereby reduce the risk of credit default,—
  - (i) Overall positive liquidity has been maintained through open market operations by RBI and treating incremental credit of banks to NBFCs as high-quality liquid assets for calculation of former's liquidity coverage ratio,
  - (ii) The NBFC sector, in which there have been instances of credit default, has received liquidity support through:
    - I. National Housing Bank's Liquidity Infusion Facility (LIFt) for refinance to Housing Finance Companies (HFCs)for affordable housing;

II. Substantial increase in credit extended by banks;
III. Partial Credit Guarantee Scheme for purchase of high-rated pooled assets of NBFCs;
IV. Bank credit to NBFCs for on-lending being classified as priority sector; and
V. Banks co-originating loans with NBFCs.

(iii) Financing for stalled housing and real estate projects has been enabled through:

I. An Alternate Investment Fund to finance the affordable and middle-income housing sector projects, and NBFCs, including HFCs, are also eligible for finance from the fund, and
II. The permission announced by RBI on 6.2.2020 for advancement of date of commencement of commercial operations in commercial real estate projects delayed due to reasons beyond control.

(iv) Mechanism for resolution of stress in NBFCs has been created by empowering RBI to take action in this regard through amendments effected to the Reserve Bank of India Act, 1934 and bringing NBFCs with asset size of Rs.500 crore and above within the ambit of resolution under IBC.

(v) Concerns in lending to stressed entities in respect of which market perception regarding risk of credit default is higher have been addressed by improvements made in respect of resolution under IBC, in terms of:

I. Protecting the primacy of secured creditors in realisation from secured assets;
II. Bringing the resolution and bankruptcy of personal guarantors of corporate debtors within the ambit of the resolution process; and
III. Ring-fencing resolved corporate debtor in favour of successful resolution applicant, from criminal proceedings against offences committed by previous management/promoters.

(2) To address concerns arising from incidents of fraud, contributing in reluctance to lend—

(i) Prevention of Corruption Act has been amended to prohibit conduct of inquiry/investigation of offences relatable to decision taken by public servant in discharge of functions, without previous approval of the authority competent to remove him.

(ii) The Advisory Board for Banking and Financial Frauds has been set up for distinguishing between commercial failure and criminal action cases of suspected frauds over Rs. 50 crore, before initiation of investigation by the Central Bureau of Investigation.

(3) To facilitate and incentivise lending—

(i) By reduction in lending rates:

I. Successive cuts effected in the benchmark Repo rate since February 2019, resulting in the weighted average lending rate of banks on fresh loans reducing by 69 basis points till December 2019,
II. All fresh floating loans for retail and micro, small and medium enterprises (MSMEs) lending have been linked to an external benchmark rate, and

III. RBI, on 6.2.2020, has announced relief in the Cash Reserve Ratio requirement of banks on incremental outstanding loans for automobiles, residential housing and MSMEs between 31.1.2020 and 31.7.2020;

(ii) For MSMEs, measures taken include:

I. Introduction of a scheme for restructuring of loans,
II. Up to 25% enhancement by PSBs in existing working capital limits in standard MSME accounts,
III. Launch of MSME Outreach Initiative by PSBs,
IV. Online bill discounting via TReDS platform, and
V. Time-bound in-principle approval on the PSBloansin59minutes.com platform;

(iii) For export, measures taken include:

I. expanding the eligibility for classification of such credit as priority sector lending, and
II. infusing capital in Exim Bank;

(iv) For retail, measures taken include:

I. reduction in risk weight on consumer loans other than on credit cards, and
II. introduction of in-principle approvals for retail lending through PSBloansin59minutes.com;

(v) For infrastructure, equity support has been provided to India Infrastructure Finance Company Limited (IIFCL) to enable it to borrow and finance infrastructure projects; and

(vi) External commercial borrowings have been facilitated through expansion of eligibility to include all entities eligible to receive FDI and reduction in the minimum average maturity requirement of the borrowing to three years

With regard to governance norms for banks, it is stated that Government has recently introduced comprehensive reforms in PSBs, taking into account global best practices, for empowering bank Boards, strengthening the Board committee system, improving the effectiveness of non-official directors and building a leadership pipeline. Specific reforms include, *inter alia,* empowerment of Boards to recruit Chief Risk Officers from the market at market-linked compensation, introduced Chief General Manager level, and decide sitting fees of non-official directors, assignment to non-official directors role analogous to that of independent directors, mandate to Boards to provide non-official directors necessary training and to undertake annual peer evaluation of their performance. Banks have taken steps for implementation in line with the reforms.

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