

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-†1248
ANSWERED ON-19.09.2020

Monitoring of Banking Mechanism

†1248. SHRI KANAKMAL KATARA:

Will the Minister of FINANCE be pleased to state:

- (a) whether the condition of banks got further worsen due to interference in the working of banks during the time of United Progressive Alliance Government;
- (b) if so, the details thereof along with the corrective action taken/proposed to be taken by the Government in this regard; and
- (c) the steps being taken by the Government to strengthen the monitoring of banking mechanism?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ANURAG SINGH THAKUR)

(a) to (c): The May 2014 report of the P. J. Nayak Committee to review governance of banks of India observed that several arms of the Government issue informal oral instructions or proffer advice which may never be put on official record, a style of control that deeply politicises bank governance, and that when this also extends to loan sanctions, often at the behest of the corporates and other borrowers, and spawns an informal profession of intermediaries hawking loan proposals to banks, the banking industry becomes deeply imperiled. During subsequent discussions at the Gyan Sangam interaction held by the Government in January 2015 with the chief executives of Public Sector Banks (PSBs), Government conveyed in very clear terms that it will not interfere in the working of PSBs, including in commercial decisions, and advised all Government of India Ministries/Departments *vide* Ministry of Finance's office memorandum dated 13.1.2015 that banks should take all commercial decisions in the best interest of the organisation and that all decisions should be taken based on the facts of the case and objectivity.

Government has taken a number of steps to strengthen the monitoring of the banking mechanism in PSBs, including, *inter alia*, the following:

- (i) Since 2015, appointments of chairpersons, chief executives and other whole-time directors of PSB are being made at arm's length through a professional Banks Board Bureau. The Board has ensured transparency in the selection process by declaring selection results on the same day as the interaction/interview with the candidates. This has strengthened the independence of the selection process and thereby strengthened monitoring of the banking mechanism by the bank's Board and management.

- (ii) The position of the Chairman and Managing Director has been bifurcated since 2015 into those of a non-Executive Chairman and a Managing Director and Chief Executive Officer in nationalised banks, strengthening independent Board oversight and monitoring of the banking mechanism in PSBs.
- (iii) Transparent and tribunal-monitored resolution process under the Insolvency and Bankruptcy Code 2016 has strengthened monitoring of the banking mechanism of resolution by fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners, and debarring wilful defaulters from the resolution process.
- (iv) Enactment of Fugitive Economic Offenders Act, 2018 for confiscation of fugitive economic offenders' property, Government advisory for obtaining of passport details of promoters, directors and authorised signatories of companies availing of loans above ₹50 crore by PSBs, and empowerment by the Government of PSB heads to request for issuance of look-out circulars have strengthened monitoring and effectiveness of the banking mechanism to deal with the issue of borrows fleeing the jurisdiction of Indian courts.
- (v) Monitoring of the banking mechanism for underwriting and monitoring of loans has been strengthened by the use of third-party data sources for comprehensive due diligence across data sources, thus mitigating risk on account of misrepresentation and fraud, and by the institution of objective risk-scoring and scrutiny and comprehensive, automated Early Warning Systems in PSBs for ensuring proper appraisal, proactive monitoring of loans, timely detection of stress, and reduction in slippage into non-performing assets (NPAs).
- (vi) Strengthening of monitoring of the banking mechanism is also reflected in—
 - A. Comprehensive examination by PSBs of about Rs. 6 lakh crore of NPA accounts exceeding ₹50 crore from the angle of possible fraud and wilful default between April 2018 and June 2020; and
 - B. Steep reduction in the occurrence of bank frauds in PSBs, with the amount involved in frauds declining steeply from the peak of 0.96% of bank loans in the financial year (FY) 2013-14 to 0.15% in FY2019-20.
- (vii) Monitoring of the bank mechanism has also been strengthened through putting in place of Board-approved Loan Policies of PSBs mandatory tying up necessary clearances/approvals and linkages before disbursement, scrutiny of borrowing entity's group balance-sheet and ring-fencing of cash flows.
- (viii) Monitoring of bank mechanism has been made more effective in consortium lending with minimum 10% exposure being mandated for a PSB to participate in such lending, reducing the membership to a manageable number.
- (ix) Monitoring of loans 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.
