ALL INDIA BANK OFFICERS' CONFEDERATION

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PRESS RELEASE

It is Provisioning Norms of RBI which is leading to a Banking Crisis. Time to Wake Up.

The Banking Sector is moving towards a crisis due to changes brought in the Asset Classification and Provisioning Norms which RBI keeps on changing. The Research Wing of AIBOC has the following recommendations to save the Banking Sector.

1. **RBI Circular to be Withdrawn:-**
   The Circular No.:RBI/2017-18/131 DBR.No.BP.BC.101/ 21.04.048 / 2017-18 dated 12th Feb 2018 issued by RBI is only going to increase the NPA and Provisions. It is estimated that all Public Sector Banks and most of the Private Banks also make losses due to this revised norms, which will lead to a financial crisis which the country can't afford now.
   Net loss is expected to exceed One Lakh cr. Because of this norms which are unscientific.
2. **Asset Classification Norms to be changed**:-

In 2001, the Gross NPAs of Public Sector Banks was 13.11% and which did not create any crisis, whereas 12.5% GNPA now is creating a crisis because of the Provisioning Norms.

- ✓ Provision for Standard Assets should be kept in abeyance. From 90 days , suddenly 30 day norm has been brought in which will have a drastic impact.
- ✓ The Asset Classification Norms should take the security available into account. The accounts guaranteed under (CGTMSE) have to be classified differently. The Housing Loans with mortgage of house property, the NPA should be only the amount in default and not the whole outstanding.
- ✓ SME borrowers (inclusive of Transport Operators) faces the crisis of working capital flow in the market due to the advent of GST and Demonetization. The NPA recognition for Loans & Advances extended to SME borrowers upto the limit of Rs.5 crs should be 180 days instead of 90 days as at present after the loan is identified as SMA.
- ✓ Loans extended to the Social & Downtrodden sector, in order to implement the strategies and objectives of the Central Govt/ State Govt, (PMMY, Start Up Entrepreneurs, Alternative or Renewable Energy Sector, SC/ST and Women Entrepreneur), suffers from generation of income very often, and remains un-organised to cope up with the volatile economic situation. In order to recycle the

Bank's fund, the NPA recognition norms should be 365 days instead of 90 days norms.

Asset classification norms followed in different countries is given as Annexure 5-7. The details prove that in our country there is a need to change the present norms.

3. **Restructuring of Loans should not be stopped:-**

   The RBI instead of implementing the recommendations of the Working Group recommendations on restructuring,it is now trying to put an end to restructuring for loans above Rs.2000 Crores and referring them to NCLT which will be destroying the industries and also destroy the Banks which have lent based on the policies of the Government and RBI. The RBI has also withdrawn the restructuring schemes for new NPA which would affect both the Industry as well as the Banks.

4. **Provisioning Norms need change:-**

   The Provisioning Norms followed in different countries is given as Annexure 1 and provisioning norms in our country is given as Annexure 2. Due to this the Operating Profit of Public Sector Banks including SBI and IDBI was Rs.1,58,982 crores as on March 2017, whereas the total NPA Provisions was 1,63,939 crores. (See Annexure 3).
   Provisioning for Housing Loans cannot be same as that of an overdraft.

   - ✓ Similarly the provisioning for the loans covered under CGMTSE should be different than that of other loans.
   - ✓ Infrastructure Industry and a medium enterprise cannot be treated at par.
   - ✓ To provide 50% on the outstanding in the first year itself for accounts transferred to National Company Law Tribunal (NCLT)is totally irrational.
   - ✓ Banks have been asked to provide another 50% in the second year as if, there will be no recovery in these Corporate advances. Most of these concerns are running units and they have huge assets including land and building. The provisioning can be maximum 15% in the first year based on a fair assessment value.

5. **Implement recommendations of the Parliamentary Standing Committee**: It is more than 2 years since the Parliamentary Standing Committee submitted its recommendations which were supposed to have been implemented within a year. We appeal to the Government and RBI to implement the recommendations at the earliest. The Parliament Standing Committee on NPA in its report submitted in Feb 2016, in the 6th recommendation (Total 14 Recommendations) stated as;

   Salient Features of the recommendations are ;

- *developing and strengthening a vibrant bond market to finance infrastructure projects as only banks and such other financial institutions are involved in funding large projects and there is huge mis-match between their deposit tenure and credit term.*
- *the Government should make the necessary structural changes including revival of Development Financial Institutions (DFI) for long-term finance.*

- *the Committee also urges the Government for allowing Infrastructure Finance Companies (IFCs) to purchase infrastructure projects turning into NPAs and keep them as Standard Assets.*
- *the Committee desire that there should be separate norms for NPA classification for infrastructure and non-infrastructure loans*

By implementing these recommendations of the Parliamentary Standing Committee on Finance, the Government can help the Public Sector Banks to reduce their debt burden to a large extent.

This will also help the companies involved in infrastructure promotion to survive and will be encouraged to improve the infrastructure. International experiences show that countries which support Development Financial Institutions are seeing overall growth in the economy.

The Asset Classification and Provisioning norms affect the Banks badly. (Annexure -2). The AQR created havoc on banks' profit & loss accounts as many large lenders slipped into losses due to provisioning of even standard assets and bad loans which jumped by 80 per cent in FY16, according to RBI data. Hence, it is established that the rise in NPA in the Indian banking Sector is primarily because of the RBI's forceful implementation of AQR.

6. **Reorient the Banking Policies:-**Review the Banking policies implemented in the last 27 years and reorient them towards the upliftment of the masses of the country and to give fillip to priority sector such as agriculture, cottage and village industries, small and micro enterprises, which will create employment. There should be ceiling on lending to corporates and they should move to the market for mobilisization of funds through bonds or shares. That will also add to scrutiny and supervision.
7. **No tax on NPA Provision**:- The Government should also consider waiver of tax on NPA provisions.
8. **Defer implementation of IND-As:-**Ind AS (as commonly known in India), is essentially bringing in the global standards on accounting to India. Corporate entities have already started implementing Ind AS from April 1, 2016, in a phased manner, whereas banks and NBFCs will start implementing it from April 1, 2018.
   - ✓ Adoption of Ind AS is expected to significantly enhance comparability of the financial statements of Indian banks with their global peers whereas the banking infrastructure in India, the customer base, the loan profile are totally different from that of the global counterparts.
   - ✓ The biggest impact of Ind AS comes from Ind AS 109 (equivalent of IFRS 9), an accounting standard on Financial Instruments, which impacts almost all line-items of banks' balance sheets.
   - ✓ Ind AS 109 will lead to early recognition and higher provisions for loans and off-balance sheet exposures using expected credit loss (ECL) model, thereby also impacting capital requirements of the banks.

- ✓ The Indian Banks have to upgrade their policies, IT systems and most importantly their capital for implementation of Ind AS, otherwise it will only bring further woes for the Indian banks by increasing their NPAs more.
- ✓ Hence as extended to LIC, Banks also should be permitted to defer the norms for atleast 2 years.

9. **Learn from the Experience of Foreign Banks quitting India:-**

India has ceased to be a priority for multinational foreign banks, as high capital and regulatory requirements in India have forced them to retreat in the last five years,

- ✓ Deutsche Bank has sold its credit card business, Barclays has shut its retail banking business, swiss lender UBS has given up its banking licence and so did US-based multinationals Morgan Stanley and Goldman Sachs;
- ✓ Bank of America-Merrill Lynch sold its wealth management business to Julius Baer and Dutch banking group ING sold its Indian operations to Kotak Mahindra Bank.
- ✓ The British bank RBS, which shut 23 of its 31 branches in India and Standard Chartered reduced by a quarter its staff in corporate and investment banking.

  HSBC, too, announced that it will shut down its private banking business. Hence there is an urgent need to change the Asset Classification and provisioning norms as well as Capital Adequacy norms.

10. **Provide Interest on CRR:-**

Another important aspect is CRR. The amount that banks set aside as CRR, does not fetch them any interest. The RBI has been using liquidity as a key instrument of monetary policy. By increasing the CRR (at times on temporary basis) from time to time, the additional burden is imposed on the banks, the RBI should reconsider its view on CRR.

11. **Reimburse Expenditure on Govt Schemes:-**Lastly, the public sector banks are used by the government as tools for implementing the government schemes or social welfare schemes. Opening Jan Dhan Accounts, implementing Demonetization, enrollment of aadhar etc.,It is unfortunate that the government does not reimburse the cost incurred by them. The RBI and Government should seriously consider these points to revise the public sector banks.

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