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Banking reforms right on course

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BANKING

The Modi government's four years in office have been a mixed bag of positives and misses for the banking sector with the key reform being the introduction of the Insolvency and Bankruptcy Code (IBC) in December 2016. IBC is a new tool for the lenders in their war against delinquent borrowers. While value maximisation and time bound resolution were the two things that the government had intended to achieve through the insolvency law, the code so far has met with little success.

Under the code, the bankruptcy proceedings must be completed within 180 days though an additional 90 days' time may be given by the NCLT subject to the progress of the resolution process and if it believes there is a possibility to revive the company. In case there is no solution, the liquidation process will begin.

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Limited success

While the IBC is still being improved upon by the government over the last two years, the actual success for banks has been limited. Of the 12 large corporate defaulters identified by the central bank on June 13, 2017 to initiate IBC, only two cases have met with some success. According to government data, these 12 defaulters owe banks a massive Rs 3.12 lakh crore.

Barring the steel sector that has seen a lot of interest from buyers, there have been very few bidders for other sectors such as power, engineering and real estate with banks likely to take large haircuts of over 50 per cent.

PSB mergers and appointment of CEOs: After coming to power; the government had announced its intention to merge public sector banks to create four or five large banks. But so far it has been able to only merge the associates of State Bank of India (SBI) and the Bhartiya Mahila Bank with SBI. The government has also been slow in appointing CEOs at public sector banks. Four public sector banks have not had a CEO for several months. Similarly, the deputy governor's post at the Reserve Bank of India (RBI) has been lying vacant for over nine months.

NPAs persist: A sharp spurt in non-performing assets (NPAs) continues to remain a major area of concern. From an average 2.96 per cent between fiscals 2010 and 2014, the share of gross non-performing assets (GNPAs) in total advances almost tripled to 7.95 per cent between fiscals 2015 and 2018.

Bank credit: Despite falling interest rates, bank credit growth plunged between fiscals 2015 and 2018, driven by lower corporate investment appetite, which is nearly 35-40 per cent of total credit offtake. Retail credit, however, picked up, supported by softening inflation and interest rates and revisions in government salaries and pension – all of which favoured demand for consumer-linked sectors. Bank credit growth has gradually picked up since fiscal 2017.

Financial inclusion: The trinity of Jan Dhan, Aadhaar and mobile has played a critical role in accelerating financial inclusion. According to a World Bank study, 80 per cent of Indian adults have a bank account today – same as in China and up from 35 per cent in 2011. The digital medium has also been leveraged for disbursal of subsidy and welfare benefits.

Says Karthik Srinivasan, head financial sector rating at ICRA, "The Insolvency and Bankruptcy Code has strengthened the legal framework for lenders to recover their dues. While the resolution process has been slow, it should yield results in the medium term."