

RBI's Asset Quality Review May Affect Some Banks

The asset quality review process of the Reserve Bank of India will take a toll on some banks, Deputy Governor SS Mundra has said.

“If you look at the results which are coming in, you will find them as a mix kind of outcome,” Mundra said at the first Banking Conclave organised by the Confederation of Indian Industry (CII). “That essentially reflects at what point of time the individual bank has started on this journey. If a bank has started on this journey a little earlier, probably the reflection is there in the result.”

He also said that all banks were on board and were adhering to the road map laid by the banking regulator.

RBI had recently asked banks to clean up their balance sheets by March 2017 and provision for those losses before the end of the current fiscal year.

Mundra added that RBI would consider whether the steep bad loan numbers would trigger its restrictions on lending activities.

“PCA (prompt corrective action) is a comprehensive framework, which is trend over a period of time,” Mundra said. “Single isolated indication really does not reach to a PCA level. The banks are in the process, once the industry cycle is completed, we will have a relook and assess what has to be done going forward.”

With many banks showing gross NPA levels as high as 10% of the total loans, RBI's prompt corrective action plan can technically kick in, which would put restrictions on the lending activities of banks.

Gross NPAs plus written off assets and restructured assets accounted for 14.1% of total bank loans as on September 2015, against 13.6% in March 2015, said Mundra.

However, for public sector banks, the total stress (GNPA plus written off assets plus restructured assets) was at 17% of total loans as on September 15. For private banks, that number was at 6.7%. The medium industries showed the highest stress, with 31.5% of its loans being stressed while 23.7% of loans to large industries were stressed, added Mundra. A large part of the write-off, however, is technical and more of a balance sheet management issue, he noted.

Allaying fears on the system-wide bad loan stress ailing the banking system, Mundra said prevention was better than cure.

“Be assured that the present ailment is well within cure and the treatment is being administered,” he said. “While the medicine is important, the willpower of the patient has its own importance. While we are administering the medicine, there is a complete willingness of all the affected persons.”

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