CONCERNS OVER RISE IN DEFAULTS
As pressure mounts, RBI Deputy Guv defends new stressed asset rules

 Warns against large number of borrowers, even some highly rated ones, failing on 1-day defaults

ENS ECONOMIC BUREAU PUNE/MUMBAI, APRIL 18

WITH BANKS and the government putting pressure on the Reserve Bank of India (RBI) for dilution of the new stressed asset framework, RBI Deputy Governor NS Vishwanathan on Wednesday said the new framework for resolution of distressed borrowers is required “to make sure that the excesses observed during the last credit cycle are not repeated and we don’t end up in a similar situation few years down the line”.

“The RBI believes that a focused framework for resolution of distressed borrowers which respects and enforces the sanctity of the debt contract is required... I would say certain changes are sooner brought in than later. The search for that perfect time for a long overdue reform can become a never ending exercise,” he said.

“I am not sure whether the protagonists of the view that the reform was untimely know when the right time is other than that it is some time in future.”

On February 12, 2018, the RBI withdrew all existing stressed asset schemes and the joint lenders forum (JLF) mechanism and banks were told that they must start working on a resolution plan even if an account is overdue by a day. The RBI had said failure to come up with a resolution plan in 180 days would lead to the account being referred for insolvency proceedings. The new framework has evoked criticism from the government and bankers. The argument against the new rules is that working on a resolution after one day of default was unfair and the requirement to refer stressed accounts for insolvency after 180 days would lead to a pile up of cases at the National Company Law Tribunals.

Vishwanathan said the debt contract embedded in bank loans in India has been continuously losing its sanctity, especially where the borrowing is large. “There is a need to change this and restore the sanctity of the debt contract, lest bank debt becomes subordinate even to equity. The new framework is aimed at doing this. Prompt repayment to banks is critical because they access unlimited uncollateralised funding from among others, the common persons, on the strength of the banking licence,” he said at an event organised by the National Institute of Bank Management.

“The lenders have complete freedom to decide on the contours of the resolution plan. However, the credibility of the resolution plan is sought to be ensured through the requirement of independent credit evaluation by credit rating agencies,” he said.

NPAs went up from 4.62 per cent in FY15 to 7.79 per cent in FY16, and rose to 10.41 per cent by December 2017, he said.

“The data shows that a large number of borrowers, even some highly rated ones, have failed on the 1-day default norm. This has got to change. If borrowers fail to pay on the due date because of a cash flow problem, banks should see that as an early warning indicator warranting immediate action. If borrowers, with ability to pay on the due date, delay it routinely or because they see other arbitrage options, that must change too,” Vishwanathan said.