FICCI-IBA Bankers' Survey

- ***Banks witness a rise in NPAs, 91% respondents from public sector banks reporting an increase in first half of 2017***
- ***Banks hope that amendment of Banking Regulation Act along with Insolvency and Bankruptcy Code will help in resolution of stressed assets***
- ***Banks suggest easing of provisioning norms for stressed assets referred to IBC and strengthening of legal infrastructure to facilitate quicker disposal***

NEW DELHI, 10 August 2017: The fifth round of the FICCI-IBA survey was carried out for the period January to June 2017. A total of 20 public, private and foreign banks participated in the survey. These banks together represent 64% of the banking industry, as classified by asset size.

The survey has been conducted at a time when NPAs are at a worrisome position, especially for the Public Sector Banks. The amendment to section 35 of the Banking Regulation Act enables banks to resolve the NPA problem. The current round of FICCI-IBA Bankers' survey covers respondents' views on this subject as well as about the recent RBI's suggestions for Wholesale and Long Term Finance Banks, Bank Account Number Portability and Bank Consolidation.

NPAs in public sector banks have shot up considerably, with 91% respondents from public sector banks reporting an increase in NPA levels. Private sector banks and foreign banks both have mixed experiences with regards to NPAs with 71% of private bank and 50% of foreign bank respondents stating that NPAs have increased during Jan-Jun 2017. During this period, Metals, Infrastructure and Textiles have witnessed high level of NPAs with at least 50% of total respondents stating the same. 40% of respondents also mentioned an increase in requests for restructuring of advances as against 18% in the previous round of the survey.

Banks were confident that the recent amendment to the Banking Regulation Act will help them with NPA resolutions. The participating banks have given several suggestions for dealing with the issue of stressed assets. One of the suggestions is to set up industry committees to determine valuation of large stressed accounts and get large PSUs in respective sectors to bid for the said accounts at such valuations. **Banks have recommended easing of provisioning norms for stressed assets referred to IBC. They have also urged for strengthening the legal infrastructure to facilitate quicker disposal**, such as setting up of more benches of Debt Recovery Tribunal and National Company Law Tribunal.

A large majority of respondents have not changed their credit standards for large enterprises or SMEs in first half of 2017. However, about 35% of the respondents reported tightening of credit standards for large enterprises in first half of 2017 and about 40% respondents expect further tightening in the next six months. On the other hand, about 15% of respondents have eased the credit standards for SMEs in the first half of 2017 and about 20% expect further easing of standards in the next six months.

During the first half of 2017, **majority (75%) of the respondent banks have reduced their Marginal Cost of Funds based Lending rate (MCLR),** with 45% of banks reducing it by more than 50 basis points, aided by adequate liquidity and low cost deposits. **The recent reduction in MCLR can also be attributed to gradual reduction in deposit rates which reduced the cost of funds for the banks.**

Infrastructure sector continues to witness the largest increase in long term loans, with 60% respondent banks stating the same. This was followed by Real Estate and Textiles. Sectors like Cement, Auto and Auto Components, NBFCs and Food processing were among other sectors that sought greater long term credit during Jan -June 2017**. In the next six months (Jul-Dec 2017), participating banks expect sectors like infrastructure, automobiles and pharmaceuticals to drive credit growth.**

A large majority of participating banks have welcomed the suggestion from RBI about setting up of specialized Wholesale and Long Term Finance Banks. Such institutions are expected to ease pressure off commercial banks, help them match tenure of their asset- liabilities, and improve quality of lending due to better expertise in evaluating infrastructure projects.

Bankers were asked their views on consolidation of other Public Sector Banks post SBI merger, to which the responses have been largely mixed. While some banks are supportive of moving ahead with consolidation of banks in current times, others have expressed concerns related to timing and have suggested that priority should be given to resolve the problem of mounting NPAs and measures to raise capital. Some participating banks suggested exploring avenues of privatization alongside merger of PSBs. For instance, a Bank Investment Company (BIC) with a holding structure that provides greater autonomy to boards and reduces government shareholding to below 51% in select PSBs can be considered. It was also suggested that the government may review the impact of consolidation of SBI group after a few years, and thereafter further consolidation can be taken up on selective basis.

Banks were also requested to present their views on the idea of Bank Account Number portability (similar to a Mobile Number Portability) that had been suggested by RBI Deputy Governor Mr. S.S. Mundra. Banks acknowledged that such initiative should be approached cautiously and cited technological challenges and requirement of heavy IT infrastructure investments as key issues in adoption of such initiative. Banks will need to adopt a standard approach for account number calibration, which currently range from 11 to 16 digits. Such standardisation will require heavy investment in IT infrastructure.

Link: http://ficci.in/SPdocument/20935/FICCI-IBA-Survey-.pdf

About the Survey

Federation of Indian Chambers of Commerce & Industry (FICCI) and **Indian Banks' Association** (IBA) conduct a Survey of Bankers twice every year. The survey gives an outlook on the status of the Indian Banking Sector, highlighting key operational and financial indicators of the banks. It also includes the expectation from bankers on some of the important financial and regulatory policy measures which are being undertaken by the Government and the Reserve bank of India (RBI).

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