FICCI-IBA Survey of Bankers

Issue 7
January – June 2018

Survey Findings – Summary

The seventh round of the FICCI-IBA survey was carried out for the period January to June 2018. A total of 22 public sector, private sector 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 have shot over Rs. 10 trillion and continue to rise. The Insolvency and Bankruptcy Code (IBC) has shown success with resolution of stressed assets even as the law continues to evolve. Banks continue facing challenges in lending even as GDP growth has bounced back while CPI inflation faces upward risks in the form of rising oil prices and increasing government expenditure. The current round of FICCI-IBA Bankers' survey also covers respondents' views on recent amendments to the IBC, Central Bank Digital Currency and MSME financing.

The survey findings reveal stark difference in the banking sector performance as compared to July – Dec 2017 period on the parameters studied. 67% respondents among participating banks have reported tightening of standards, steeply increasing from 28% in the last round of the survey. Proportion of respondents who have maintained credit standards fell to 23% from 67% in the last round. Since RBI had signaled tightening of the monetary policy by increasing the repo rate in view of expectations of higher inflation, banks had also increased their lending rate. Banks have already started offering higher interest rate on deposits which also increases their cost of funds. Further, in view of the stress in the asset portfolios, banks have generally adopted a cautious approach on lending to prevent fresh slippages. It is pertinent to note that increase in deposit rates would benefit the millions of depositors who have been getting lower rate for quite some time.

In the first half of 2018, RBI hiked the repo rate by 25 bps in June 2018. As per the survey, over half of the respondents (55%) have increased their MCLR by up to 20 bps during the period Jan-Jun 2018. Further, 27% respondents increased MCLR by more than 30 bps. Since then another hike in repo rate by 25bps was announced.

In case of term deposits, 41% respondents increased their rates by more than 50 bps on term deposits of tenure below one year, while 50% did so for term deposits of one year or above. 32% respondents reported a rise in rates by up to 50 bps for term deposits tenured below one year, while 36% did so for those above one year. This is a reversal of trend from the last round of the survey, when majority respondents had decreased rates for both kinds of instruments.

There has been an increase in CASA deposits in the first half of 2018. In this round of the survey, 68% respondents recorded an increase in their CASA deposits, up from 48% in the last round, with 14% banks indicating a substantial rise. This rise has been attributed to factors like broadening of customer base, higher rate on savings deposits and new product offerings.

Similar to the previous round of the survey, 59% of the respondent banks reported a rise in NPAs in the current round of the survey. Infrastructure, metals and engineering goods were the key sectors reported with the highest NPAs. More than two-thirds of the respondents have cited these as sectors with high NPAs. Other major sectors with high NPAs are Engineering Goods, Textiles, Food Processing and Gems and Jewellery.

Survey Findings – Summary

Banks were asked if they saw any improvement in recovery rate since the implementation of the IBC and were asked to provide suggestions to further improve it. Most responding banks agreed that the IBC has definitely put recovery process on a faster track and improved recovery position of banks. They highlighted that it has also increased promoters' willingness to come forward for resolution at an early stage of default. To improve the resolution, bankers suggested enhancing capacity, strengthening of the judiciary, empowerment of local level government officials among other suggestions. Participating bankers suggested that extension of moratorium beyond 270 days for any reason should not be permitted. They also suggested to increase the tenor of debt for companies that have viable businesses but are currently suffering from over-leveraged balance sheets, along with a moratorium period.

Respondents were also asked to provide views on the recent amendments to IBC recognising home buyers as financial creditors. Most of the respondents said that this will bring in more discipline in builder segment. Respondent banks also mentioned that this provision provided an additional safety net to buyers along with relevant rules under RERA. Bankers sought further clarity in norms for representation by the homebuyers in the committee of creditors. It is to be clarified whether home buyers are secured creditors or unsecured creditors. It was also indicated that there is a likelihood that this move will slow down the credit flow to the real estate sector.

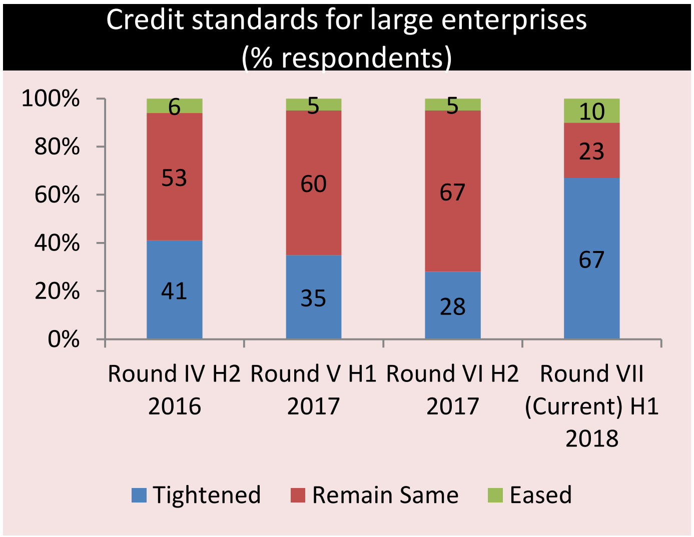
In view of the inter-departmental group set up to study feasibility of the introduction of a central bank digital currency (CBDC) formed by the RBI, bankers were asked for their views on same. Participating bankers have highlighted the benefits from CBDC, key concern areas and provided suggestions. Introduction of CBDC would increase digitization and greater competition between banks for deposits, benefitting depositors. Amongst the key areas of concern, respondents flagged the risk of increase in illegal transactions, cybersecurity threats, its use for speculative gains and effects to profitability and business model of banks. They further suggested that there should be a detailed evaluation of this subject and given the associated security and financial crime risks, the step should be pursued very slowly and carefully.

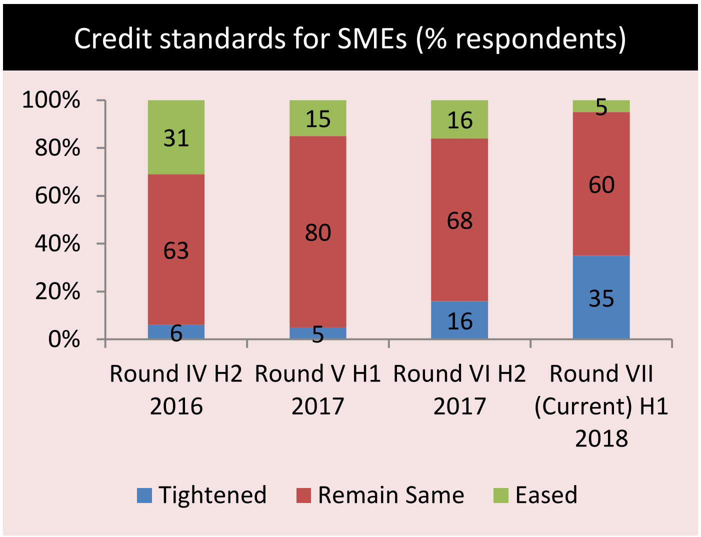
Respondents were also asked to give various suggestions to close the MSME financing gap and share their views on potential collaboration of the banking sector with fintech companies for this purpose. Suggestions included setting up of credit history database for MSMEs to address the issue of information asymmetry that restricts lending to MSMEs. It was also suggested that the government should ensure timely release of payments due to MSMEs, as this is a major issue for MSMEs in managing finance. Respondents said that with innovative technologies and business models, fintech platforms enjoy a competitive edge due to cost-effective operations and fewer regulations than the traditional finance sector, citing that fintechs have a major role to play in MSME financing in the future. The tie-up between Banking and Fintech can benefit lenders with additional data, whereby they can enhance market penetration as well as receive early warning signals with respect to any portfolio deterioration. To spread awareness amongst MSMEs about various Government support schemes, banks can collaborate with Fintech companies as digital platform can be effectively used to popularize the schemes.

Change in Credit Standards

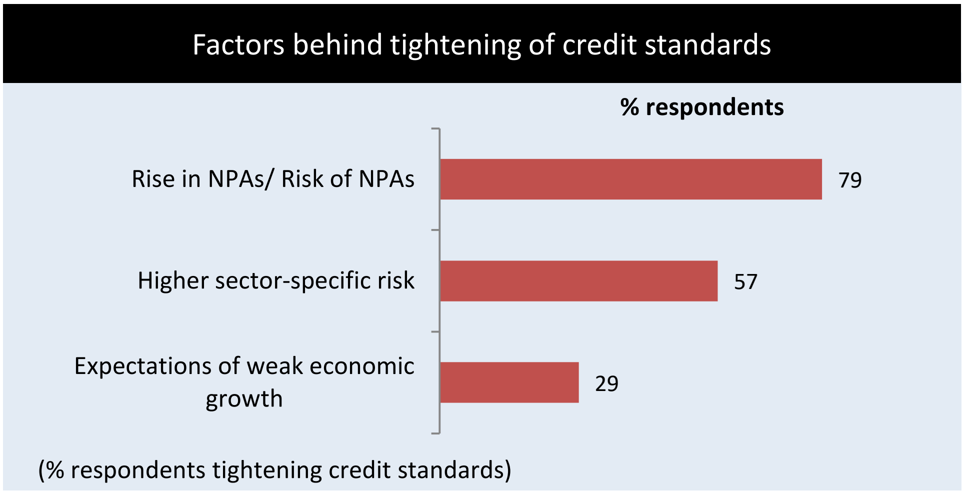
In the current round of the survey, 67% respondents among participating banks have reported tightening of standards for large enterprises, steeply increasing from 28% in the last round of the survey. Proportion of respondents who have maintained credit standards fell to 23% from 67% in the last round. 10% respondents cited easing of credit standards for large enterprises, up from 5% in the last round.

35% of responding banks cited a tightening of credit standards for SMEs, up 19 percentage points from the last round. Respondents citing easing of credit standards have decreased to 5% in the current round from 16% in the last round.





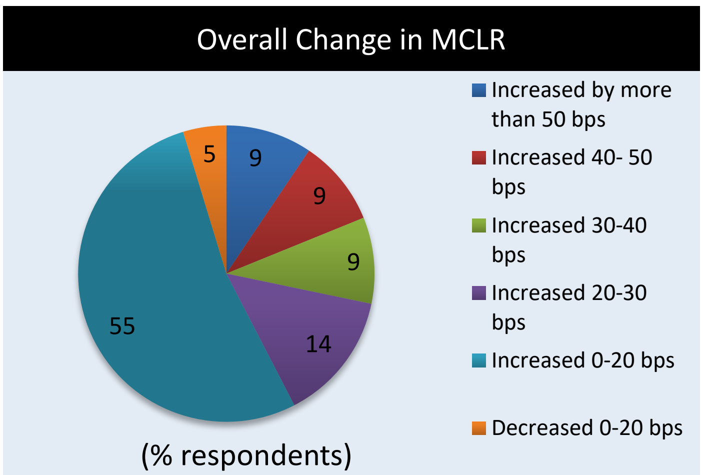
Out of the respondents reporting a tightening in credit standards, 79% have cited a rise in NPAs, 57% cited higher sector-specific risk and 29% cited expectation of weak economic growth as factors for doing so.

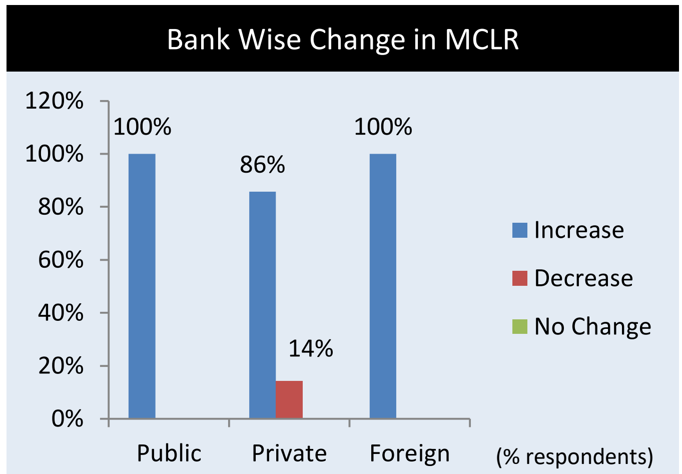


Movement in Marginal Cost of Lending Rates (MCLR)

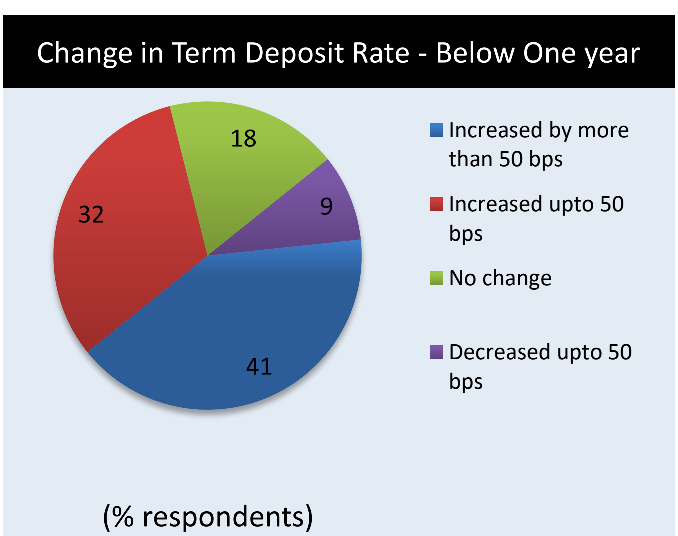
Over half of the respondents (55%) have increased their MCLR by up to 20 bps during the period Jan-June 2018. Further, 14% respondents increased their MCLR by 20-30 bps. 9% respondents each increased MCLR by 30-40 basis points, 40-50 basis points and more than 50 basis points, respectively. The RBI hiked the key policy repo rate by 25 bps in the June 6 monetary policy review meeting.

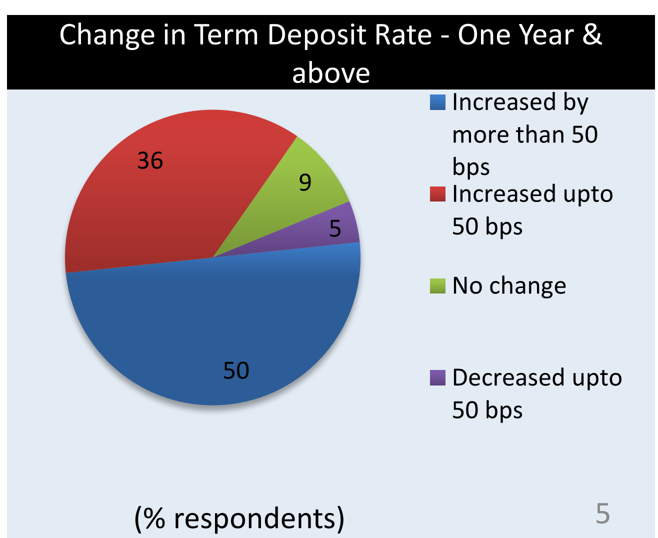
Among the respondents to the survey, all public sector banks and foreign banks have increased their MCLR. 86% of the private sector bank respondents increased their MCLR, while the remaining decreased the rate.





The responses gathered indicate that term deposit rates have risen across the board. 41% respondents increased their rates by more than 50 bps on term deposits of tenure below one year, while 50% did so for term deposits of one year or above. 32% respondents reported a rise in rates by up to 50 bps for term deposits tenured below one year, while 36% did so for those above one year. Only 9% respondents cited a decrease of up to 50 bps for term deposits below one year, and 5% for deposits tenured one year and above. This is a reversal of trend from the last round of the survey, when majority respondents had decreased rates for both kinds of instruments. It indicates that banks are keen to raise resources through deposits which is the main source for funding the loans.



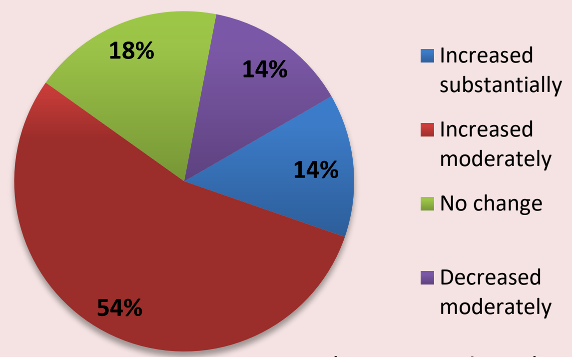


Changes in Current Account and Savings Account Deposits

In this round of the survey, 68% respondents recorded an increase in their CASA deposits, up from 48% in the last round, with only 14% banks indicating a substantial rise. This rise has been attributed to factors like broadening of customer base, higher rate on savings deposits and new product offerings. In-fact, 14% of the respondents reported a moderate decline in the share of CASA deposits.

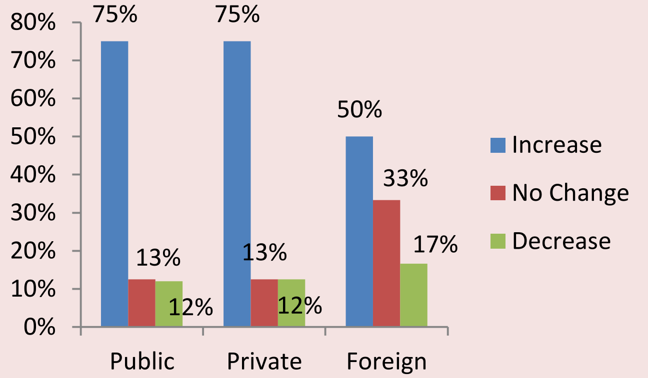
When compared across bank types, 75% private bank respondents experienced a rise in share of CASA deposits, followed by 75% public sector bank respondents and 50% foreign bank respondents.

Change in share of CASA deposits to total deposits



(% respondents)

Bank-wise change in share of CASA deposits (%)

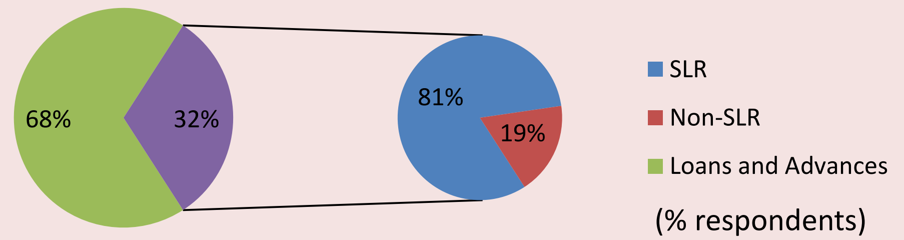


(% respondents by type of banks)

Composition of Funds Portfolio

The composition of the respondent banks' portfolio has shown little change in this round of the survey as compared to the last round. Loans and advances comprised of 68% of the respondents assets as compared to 66% in the previous round. 81% of the respondents' investments were towards SLR instruments, while the remaining were Non-SLR investments.

Banks Portfolio : Loans and Investments

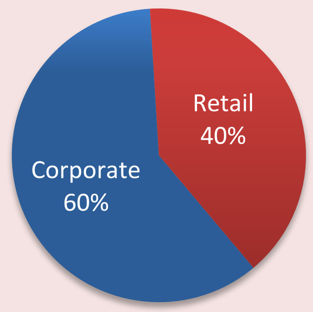


(% respondents)

Composition of loans and advances

In the current round of the survey, the corporate loans comprised 60% of total loans and advances of respondent banks, with the other 40% going to retail loans. In the immediately preceding survey period, corporate loans comprised of 56% and retail loans 44% of the loan books of the respondents.

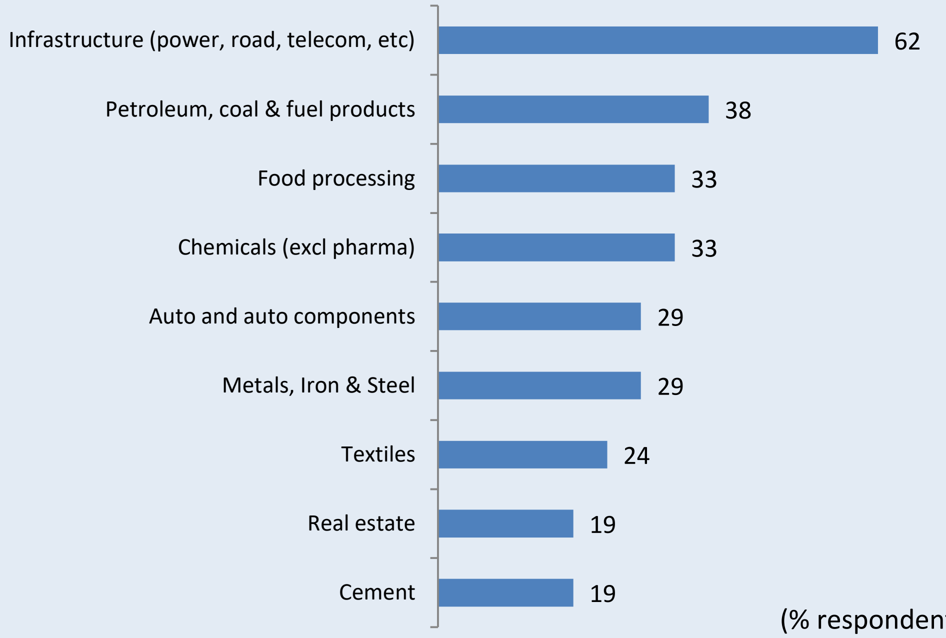
Composition of loans and advances during Jan-June 2018



(% respondents)

Infrastructure, Petroleum and Fuel products, Auto and Auto components, Food Processing, Metals and Chemicals are witnessing a rise in long term credit according to the survey respondents Some other sectors seeing increased long term credit off-take include Real Estate, Textiles and Cement.

Sectors witnessing increase in long term loans



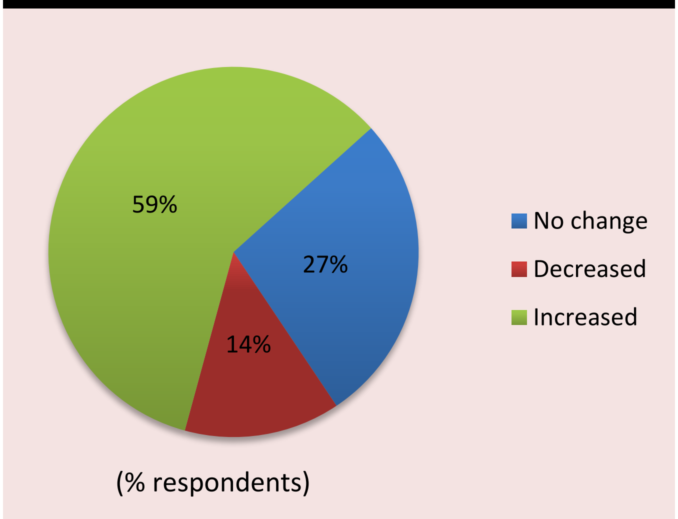
(% respondents)

State of NPAs and Stressed Assets

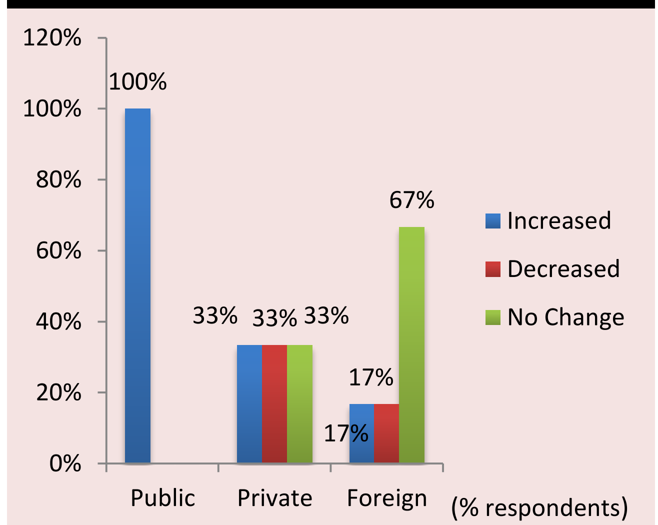
The proportion of banks reporting a rise in the NPA levels has remained similar to the previous survey's period at 59%. 27% of respondents indicated same level of NPAs as in the previous six months.

All public sector bank respondents reported a rise in NPAs. In the previous round of survey, 75% of PSB respondents had seen a rise in NPAs. Amongst the private sector bank respondents in current round of survey, 33% reported an rise in NPAs while 33% reported a decrease. In case of foreign bank respondents, only 17% reported a rise in NPAs while 67% reported no change.

Change in the level of NPAs

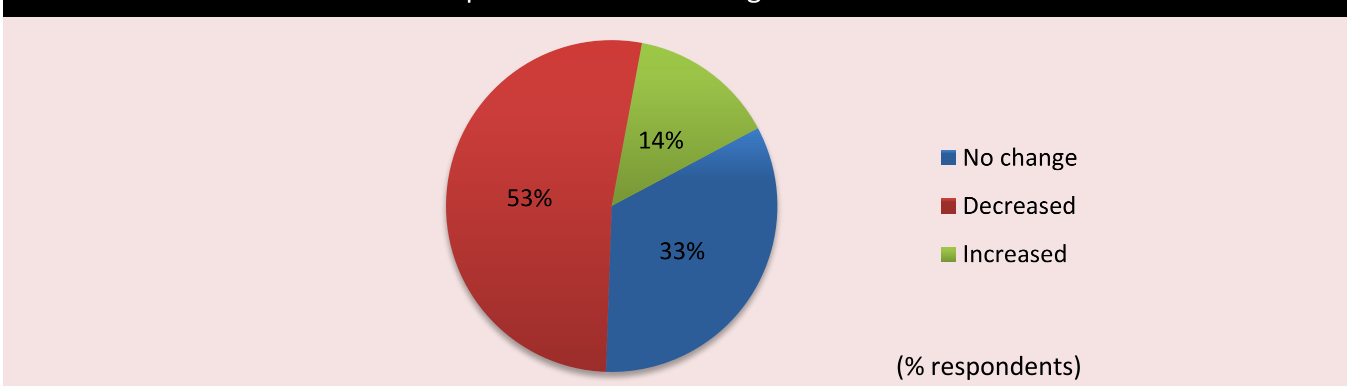


Bank Wise Increase/Decrease in NPAs



In the current round of survey, only 14% respondent banks stated an increase in the requests for restructuring of advances, as compared to 28% in the previous round. On the other hand, 53% respondents stated a fall in number of such requests, as compared to 39% in the last survey period.

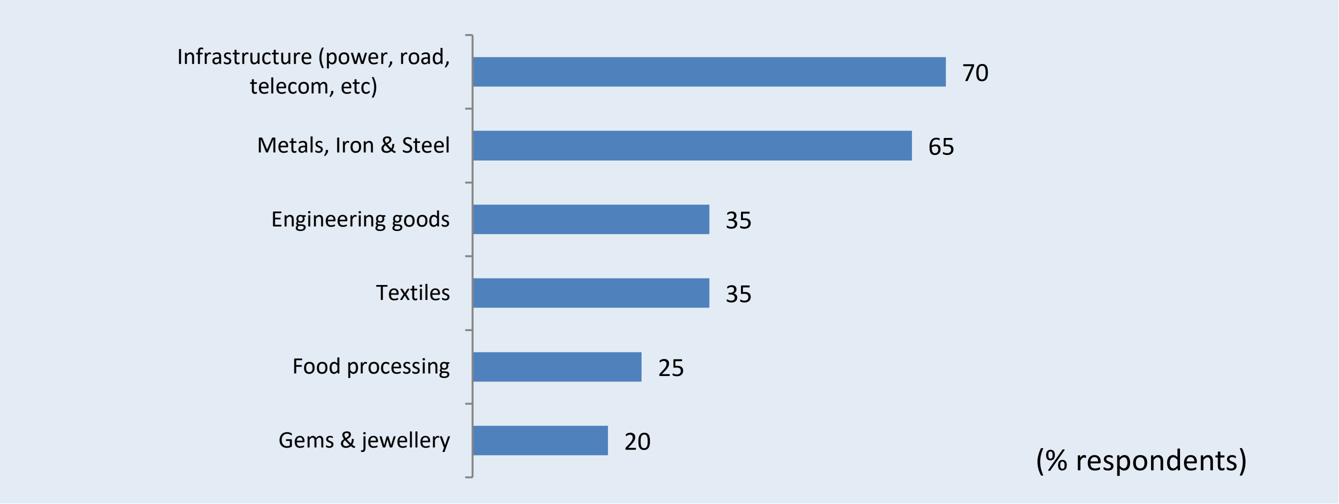
Requests for restructuring of Advances



Key Sectors with High Level of NPAs

Major sectors with high levels of NPAs are Infrastructure and Metals, Iron and Steel. More than two-thirds of the respondents have cited these as sectors with high NPAs. Other major sectors with high NPAs are Engineering Goods, Textiles, Food Processing and Gems & jewellery.

Key sectors with high levels of NPAs



Trend in NPAs in key sectors

- From the banks citing infrastructure as the key sector with high levels of NPAs, 79% of respondents have reported an increase and 14% have cited a decrease. In the previous round, 83% respondents cited an increase and 8% cited a decrease.

- While Food Processing sector is among the top sectors with high NPAs, 80% of respondents have in fact cited a fall in NPAs in this segment vis-à-vis the previous round, with 20% respondents stating a rise.

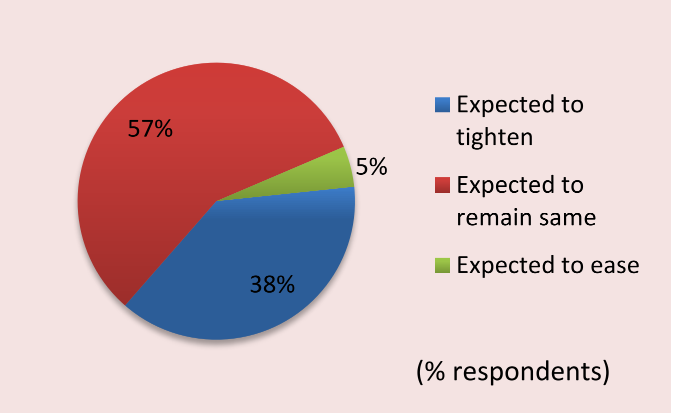
- In the Metals, Iron and Steel sector, 54% of respondents citing it as a sector with high NPAs have reported an increase in the NPAs, while 23% reported a decrease.

- The Engineering goods sector saw a fall in proportion of respondents citing it as a key sector NPAs as compared to the last round of the survey, from 47% to 35% in the current round. 57% respondents from those citing it as a key sector reported an increase in NPAs.

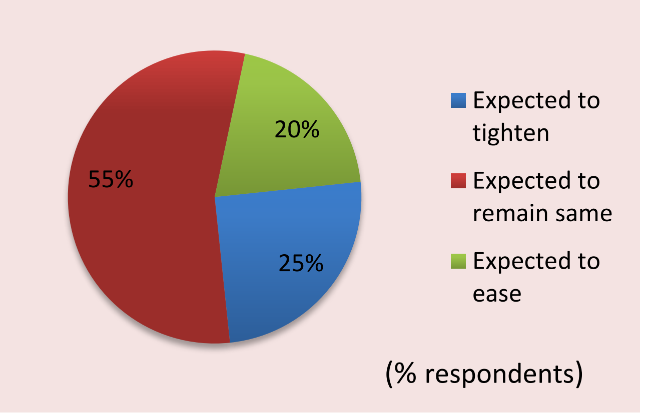
Expectations and Outlook on Credit

The expected pattern of credit standards largely remains the same for next six months. For the period July-Dec 2018, 57% respondents expect credit standards for large enterprises to remain same. Similarly, 55% respondents expect credit standards for SMEs to remain the same. 38% respondents expect further tightening of credit standards for large enterprises and 25% respondents expect further tightening of credit standards for SME units.

Credit standards for large enterprises

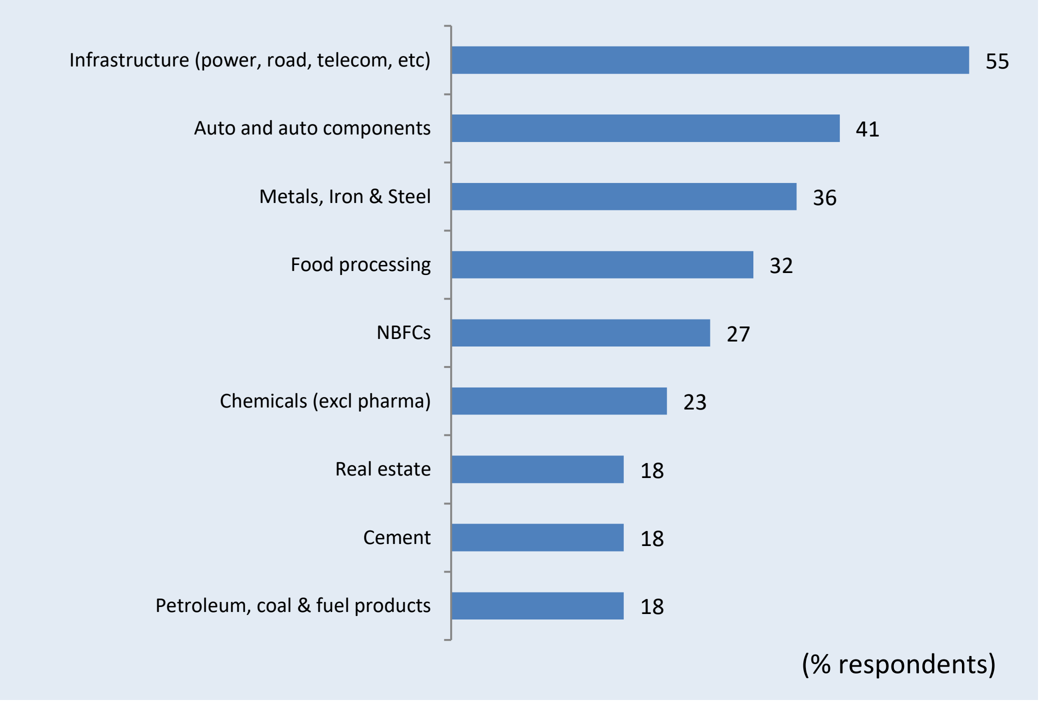


Credit standards for SMEs



Like the last survey period, 55% respondents stated Infrastructure as an important sector for credit growth. Auto and Auto components was stated by 41% as the next best sector to see a rise in long term credit. This was followed by Metals (36%), NBFCs (27%) and Food Processing (32%). Respondents also mentioned other key sectors like Chemicals, Cement, Real Estate and Petroleum and Fuel products.

Sectors expected to see rise in long term credit



Suggestions for the Insolvency and Bankruptcy Code (IBC)

Banks were asked if they have seen improved recoveries since the implementation of Insolvency and Bankruptcy Code and what more needs to be done to improve the recovery rate.

Views of Bank Respondents on the Insolvency and Bankruptcy Code	
	The IBC has definitely put recovery on a faster track and improved the recovery position of banks.
	Respondents highlighted that it has also increased the promoters' willingness to come forward for resolution at an early stage of default.
	There are a number of petitions/appeals pending before the NCLTs and NCLAT which has led to an increase in the resolution time period.
	The recoveries have largely been seen in Metals/Steel sector. However, sectors like power have not seen any significant achievement.
	Since the implementation of the IBC, banks are initiating ARC sales for recovery. However, haircuts are a key area of concern, with the haircut being as high as 60% in some cases.

Suggestions to improve the recovery rate under the IBC

Law

- Extension of moratorium beyond 270 days for any reason should not be permitted.
- DRTs as adjudicating authority for Partnership firm/ Proprietary concern is yet to be notified, which once done will improve recovery from these segments.
- Increase the tenor of debt for companies that have viable businesses but are currently suffering from over-leveraged balance sheets along with a moratorium period.

Capacity Building

- Strengthening of the judicial and legal systems should be undertaken to avoid delays in the resolution of stressed assets. This can be done by increasing the number of NCLT courts/benches.
- Deepen the debt and capital market so as to attract additional funding domestically and internationally, similar to other global markets like Singapore and Hong Kong. Tax concession for the capital invested in the companies under IBC could be considered.
- Additionally, the option of allowing listing of Asset reconstruction companies can also be explored by RBI, SEBI etc.

Amendments to the IBC for Protecting Home Buyers

Respondents were asked to provide views on the recent amendments to IBC recognising home buyers as financial creditors. Most bankers have welcomed the move and agreed that the amendment to IBC equating home-buyers with financial creditors will bring in more discipline in builder segment.

Respondents' views on the amendment	In addition to RERA, home-buyers can now also seek relief under IBC, which provides them an additional safety net.
	Recognizing homebuyers as financial creditors will give them significant relief as it will give them representation on the panel of creditors and make them an integral part of decision-making.
	Homebuyers can jointly or individually file a petition to initiate insolvency proceedings against a defaulting developer. This amendment ensures that they get their homes or dues when developer becomes insolvent.
	Respondents further highlighted that delay in completing a real estate project does not mean default, hence real estate developer would have to default on payments, before a home buyer could drag this developer to NCLT. This can be mitigated if there is an agreement between the parties that developer will pay penal interest in case of delay in project and subsequently developer fails to do so.
	Respondents however cited that there is no clarity on the process and norms for representation by the homebuyers in the committee of creditors. It is to be clarified whether home buyers are secured creditors or unsecured creditors
	Respondents also indicated that there is a likelihood that this move will slow down the credit flow to the real estate sector.

Views on Central Bank Digital Currency (CBDC)

In view of the inter-departmental group to study feasibility of the introduction of a central bank digital currency formed by the RBI, bankers were asked for their views on the subject. Participating bankers have highlighted the benefits from CBDC, key concern areas and provided suggestions for the same.

Benefits

- Increased digitization and greater competition between banks for deposits, benefitting depositors.
- Increase the speed of domestic and cross-border transactions and reduce transaction costs. It may possible to create a payment system that is essentially free for consumers and businesses.
- Preventing counterfeiting, better record keeping & monitoring of transaction and reduction of cost associated with printing, storage, maintenance and transportation of physical currency.

Concern Areas

- Risk of increase in illegal transactions and cybersecurity threats to the digital currency
- Unsolicited use of the digital currency for speculative gains
- Impact on commercial lending activity of banks, affecting their profitability. This may lead to changes in the business model of the banks and their role in the financial system.
- Banks' finances will also get impacted due to the investment in technology upgradation of their respective Core Banking Systems.

Suggestions

- The group should have in-depth discussions pertaining to effects of the digital currency on consumer welfare, financial inclusion, monetary policy, payment and economic stability
- The associated security and financial crime risks, along with the wider implications of the this move means that the step should be pursued very slowly and carefully.

Suggestions on MSME Financing and Role of Fintech

Bankers were asked what steps to be taken by the government and the banking sector to enhance MSME financing and the role fintech can play for a deeper foray into MSME financing.

Policy and Regulatory Suggestions	Creation of credit history database for MSMEs (like CIBIL, Equifax etc.) will help in addressing the issue of information asymmetry that restricts lending to MSMEs.
	Government should ensure timely release of payments due to MSMEs, as this is a major issue for MSMEs in managing finance. Even though the MSMED Act has provisions for delayed payment, there is a need for due implementation of same.
	Support to MSMEs from Banks/ Government agencies with respect to financial literacy as well as to support preparation of project proposals, technical feasibilities, etc.
	Liberal NPA norms can also support MSMEs start-ups. RBI should consider relaxing certain norms for banks while they finance MSME units, such as doing away the requirement of stock statement for provision of working capital finance, revising the MSME definition based on turnover as approved by the Government of India, etc.
	Banks to ensure effective utilization of Udyami mitra portal as virtual market place for sourcing MSME proposals.

Role of Fintech and Banking Collaboration for MSME financing	Fintech and NBFCs along with alternative financing platforms such as peer-to-peer (P-2-P) lending, Trade Receivables Discounting System (TReDS) and BSE SME/ NSE Emerge platforms can speed up and streamline the MSME credit delivery mechanism.
	The tie-up between Banking and Fintech can benefit lenders with additional data, whereby they can enhance market penetration as well as receive early warning signals with respect to any portfolio deterioration.
	To spread awareness amongst MSMEs about various Government support schemes, banks can collaborate with Fintech companies as digital platform can be effectively used to popularize the schemes.
	Fintech companies can provide digital solutions for on boarding of customers, credit assessment and monitoring for MSME clients. They can help reach out to MSME through automation of selection and credit process.

Respondents Profile

Twenty-Two Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Various indicators in the survey reflect information for the period January to June 2018. Expectations are for the period July to December 2018.

Profile of respondent banks (%)