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STANDING COMMITTEE ON FINANCE
(2017-18)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)

BANKING SECTOR IN INDIA-ISSUES, CHALLENGES AND THE WAY FORWARD INCLUDING NON-PERFORMING ASSETS/STRESSED ASSETS IN BANKS/FINANCIAL INSTITUTIONS

SIXTY-EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

August, 2018 / Bhadrapada, 1940 (Saka)

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Presented to Hon'ble Speaker on 31 August, 2018

Presented to Lok Sabha on 3 January 2019

Laid in Rajya Sabha on 3 January 2019

LOK SABHA SECRETARIAT
NEW DELHI

August, 2018 / Bhadrapada, 1940 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2017-18

Dr. M. Veerappa Moily - Chairperson

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LOK SABHA

2. Kunwar Pushpendra Singh Chandel
3. Shri Bandaru Dattatreya
4. Shri Nishikant Dubey
5 Shri Venkatesh Babu T. G.
6 Shri P.C. Gaddigoudar
7 Shri C. Gopalakrishnan
8 Shri Shyama Charan Gupta
9 Shri Rattan Lal Kataria
10 Shri Chandrakant Khaire
11 Shri Bhartruhari Mahtab
12 Shri Prem Das Rai
13 Shri Rayapati Sambasiva Rao
14 Prof. Saugata Roy
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RAJYA SABHA

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25 Shri A. Navaneethakrishnan
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28. Shri C.M. Ramesh
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30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1. Smt. Abha Singh Yaduvanshi - Joint Secretary
2. Shri Rajesh Ranjan Kumar - Director
3. Shri Ramkumar Suryanarayanan - Additional Director
4. Shri Kh. Ginlal Chung - Committee Officer

INTRODUCTION

I, the Chairperson of the Parliamentary Standing Committee on Finance, having been authorized by the Committee, present this Sixty-eighth Report on the subject 'Banking sector in India - Issues, Challenges and the way forward including Non-Performing Assets/Stressed Assets in Banks/Financial Institutions '.

2. The Committee heard the views of the representatives of the Ministry of Finance (Department of Financial Services) on 17 April, 2018. At their sitting held on 04 June, 2018, the Committee heard the views of the Indian Banks Association (IBA) and PNB; on 12 June, 2018, the views of the representatives of RBI; and on 26 June, 2018, the views of 11 banks under Prompt Corrective Action (PCA).

3. The Committee at their sitting held on 27 August, 2018 considered and adopted the draft report and authorised the Chairperson to finalise the same and present it to the Speaker/Parliament.

4. The Committee wish to express their thanks to the officials, representatives and experts of the aforementioned Ministry, RBI, IBA and other banks for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

5. For facility of reference, the observations/recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
27 August, 2018
05 Bhadrapada, 1940 (Saka)

DR. M. VEERAPPA MOILY
Chairperson
Standing Committee on Finance

Report

Part-I

(I) Introduction

The banking sector is central to the working of the economy of the country. Banks provide financial services to general public and business, ensuring economic and social stability and sustainable growth of the economy. However, the credit growth as well as deposits growth continue to remain sluggish; the Reserve Bank of India's recent guidelines on identification of defaulters seem to have put in a tight spot, small borrowers in the informal and MSMEs sectors. There have been serious issues relating banking frauds, non-conformity by banks with the norms and guidelines, mounting and ever rising NPAs etc. ailing the banking system. The Prompt Corrective Action (PCA) framework prescribed by RBI for certain public sector banks also seems to have severely restricted the banking operations of these banks as they are not freely able to lend even on the retail side or raise even short -term deposits. Furthermore the NPAs/ stressed assets resolution tools/mechanism put in place are also yet to yield the desired results. Against such a grim backdrop, the Committee feel imperative to immediately address the issues of banking supervision, governance and also regulation so as to restore and preserve the stability and integrity of the banking system in the country and thereby ensure its accountability to the general public. The Committee deliberated upon the remedial measures that need to be taken to restore the confidence of the bankers so that banks can come out of this existential crisis soon, and start thriving again and contribute for the revival of economic growth in the country.

1.2 The written as well as the oral submissions made during tendering evidence before the Committee made by the representatives of Ministry of Finance (Department of Financial Services), Reserve Bank of India, the Indian Banks' Association (IBA) and 11 PCA banks as the Committee undertake examination of this subject " Banking Sector in India - Issues, Challenges and the Way Forward with specific reference to NPAs/ Stressed Assets in Banks/Financial Institutions' are placed in the subsequent paras. The observations/recommendation of the Committee are contained in part II of the Report.

High leverage, weak returns

1.3 Under the news captioned "High leverage, weak returns trouble PSBs" of the Business Line issue dated 17 May 2018, it has been stated/furnished that:

"Muted growth in assets, steep losses and erosion in capital have led to the build-up of high leverage (ratio of assets to capital) in the banking system, particularly for public sector banks (PSBs).

The problem with high leverage is that it magnifies profits when the returns from assets are healthy, but it also blows up the losses in case of abysmal returns.Punjab National Bank, which reported a loss of around ₹12,200 crore in 2017-18, has a high leverage of 18.6 times, up from an already high 17 times last year.Allahabad Bank, too, which reported significant losses for the 2018 fiscal, has seen a sharp rise in leverage to about 21 times. Oriental Bank of Commerce, Canara Bank, and Union Bank are some of the other PSU banks that have declared their full-year results, sporting high leverage."

	Net Profit (Rs. Cr)		**Leverage (assets to capital) (times)**		**Net NPA as a % of Networth**	
	FY18	**FY17**	**FY18**	**FY17**	**FY18**	**FY17**
Oriental Bank	-5,872	-1,094	19.8	17.9	121.2	100.0
Canara Bank	-4,222	1,122	17.3	17.3	80.2	64.3
UCO Bank	-4,436	-1,851	14.4	18.1	94.2	83.9
Union Bank	-5,247	555	19.4	18.8	96.9	78.5
Dena Bank	-1,923	-864	13.1	16.9	85.2	100.7
Bank of Maha	-1,146	-1,373	15.7	21.6	97.0	152.2
Allahabad Bank	-4,674	-314	21.5	16.1	103.9	91.3
Punjab National Bank	-12,283	1,325	18.6	17.1	118.5	77.7

Low growth in Bank Business

1.4 Indian Banks' Association (IBA) made the following submission on low growth in Bank Business as stated below:

"Growth in Deposits and Advances are considered as Banks' Business. In the financial year 2017-18, the bank deposit growth was just 6.7 per cent as against 11.3 per cent of the previous year. This marks the slowest pace of growth in aggregate deposits of scheduled commercial banks in a fiscal year. Low interest rates offered by bank deposits have resulted in people shifting away from FDs to mutual funds which witnessed significant inflows in FY18. However, there was a slight rise in rates this may be reversed.

In the case of advances, the growth was 10.3 per cent in FY18 as against 4.5 per cent of FY 17 and the non-food credit growth is only just 8.4 per cent. At the disaggregated level, credit to services and retail showed double digit growth. Following table captures the picture.

Growth in per cent

	2017-18	2016-17	2015-16
Non food credit growth	8.4	8.4	9.1
Agri and allied sectors	3.8	12.4	15.3
Industry Small, Medium and Large	0.7	-1.9	2.7
Services	13.8	16.9	9.1
Personal Loans	17.8	16.4	19.4

Source: RBI Sectoral Deployment of Gross Bank Credit

While the demonetization effect has largely been overcome by the Small and Medium Enterprises, the debt overhang has affected the large corporates. As a result the demand from the industrial segment for credit was adversely affected."

Banks - way forward

- ✓ NPA coupled with low capital has curtailed the ability of banks to lend. With recent recapitalization space is available for them to extend credit to productive and high quality sectors.
- ✓ Investment climate is not changed much. While the SMEs are slowly recovering, the corporates are riddled with debt servicing issues. As a result, there is muted demand from these sectors.
- ✓ Despite huge haircuts to revive the assets, recoveries are expected from large corporates referred to NCLT
- ✓ A few incidence of frauds is making the banks cautious about lending which is expected to be overcome in the coming days.
- ✓ Competition from NBFCs.
- ✓ Speedy resolution of NPAs is important to increase the cash flow to the banking system.
- ✓ Special efforts should be made to activate the TreDS for increasing the cash flow to the SME sector and revive demand from this segment.
- ✓ A trade receivables discounting system (TReDS) for public sector units (PSUs) was announced by the Government in October 2017. The volume has not grown much.

1.5 Representatives of IBA further made the following oral submission on low credit growth while tendering evidence before the Committee on 04.06.2018

"The credit growth was subdued. There were many reasons. Now, we are seeing the pick- up in the growth as far as the credit is concerned. It has already exceeded 10 per cent from the banking system. There may have been lot of structural changes in the economy also. Earlier our formula in relation to credit to GDP growth was 2.2. If GDP growth is seven per cent, we would expect the credit to grow around 15 per cent. Now the services sector is growing a lot more and the credit needs of the services sector are relatively low. So, that is one major change.

The spending by the Government on the infrastructure is helping in reviving the economy in certain sectors. "

"When we look at the credit growth, we have to look at the demand side and the supply side. In spite of all the problems behind us relating to supply side, I feel that banking sector will be able to meet the requirement of credit. As I submitted, the demand in the economy for the credit is picking up."

Sectoral deployment of Gross Bank Credit by major sectors is shown in

Annexure-1

(II) Capital Adequacy of Banks - Challenges, Measures and Way Forward

Challenges

2.1 Higher level of capital adequacy is needed due to higher provisioning requirements resulting from deterioration in asset quality, kicking in of the Basel III capital norms which is under implementation till FY19, capital required to cover additional risk areas under the risk based supervision framework as also to sustain and meet the impending growth in credit demand, going forward.

2.2 The Annual Report 2017-18, Ministry of Finance furnished the following on banking:

> "The Scheduled Commercial Banks (SCBs) in the country comprise the public sector banks, private sector banks, regional rural banks, and foreign banks. Presently, the total business of SCBs, as on 30.9.17 amounts to Rs. 198,86,961 crore (deposits Rs. 112,45,251 crore and advances Rs. 86,41,710 crore).The Public Sector Banks (PSBs), presently numbering 21, have, as on 30.9.17, total business of Rs. 139,31,155 crore, comprising aggregate deposits and advances of Rs. 81,00,858 crore and Rs. 58,30,300 crore respectively. PSBs thus constitute about 70% of the banking industry in India. They are also the principal source of finance for several segments and areas underserved by private banks, financial institutions and financial markets, including segments such as agriculture, MSMEs, housing, education and infrastructure project financing. Therefore, the health of the PSBs is of prime importance to enable the credit-offtake for economic growth.
>
> RBI's Asset Quality Review (AQR) findings in Dec. 2015 and consequent classification of large stressed assets, which till then were being treated as non-NPA through flexibility in loan classification and restructuring, revealed high incidence of NPAs requiring manifold increase in provisions to meet expected losses from transparent recognition for clean balance sheets. Thus, Gross NPAs in PSBs rose rapidly from 4.96% of advances in Mar. 2015 to 12.75% in Jun 2017 with provisioning for expected losses too growing substantially – Rs. 3.79 lakh crore provisioning made for the period 2014-15 to 2017- 18 being almost double of Rs. 1.97 lakh crore made for the preceding ten years. Thus, the PSBs needed to be recapitalized more."

Measures and Way forward

2.3 In respect of public sector banks, government has prepared a four year plan known as Indradhanush for recapitalization needed to support higher credit growth as per Basel III norms. Government has committed itself to Rs 70,000 crore out of total expected requirement of Rs 1,80,000 crore till FY19. The remaining amount is likely to be raised by banks through sale of non-core assets and dilution of government equity to 52%.

2.4 Government has initiated new performance framework for banks through Indradhanush based on efficiency and capital optimization. It is likely to go a long way to address capital related issues of banks. Further, beginning this year, government has introduced another new feature to capitalization program under which 25% infusion is dependent on achievement of certain benchmarks related to cost and efficiency and which will address capital concerns too.

2.5 During examination of the Demands for Grants (2017-18) of the Ministry of Finance (Department of Economic Affairs, Expenditure, Financial Services & Investment and Public Asset Management), the Ministry submitted the following on the issue of recapitalisation of PSBs:-

"In August, 2015 Government unveiled Indradhanush, a comprehensive bank's reform plan in which a detailed recapitalisation plan for four years (Financial Year 2015-16 to Financial Year 2018-19) was worked out.

The capital requirement of capital for the next four years was **estimated at Rs.1,80,000 crore**. This estimate was based on credit growth rate of 12% for the Financial Year 2015-16 and 12 to 15% for the next three years depending on the size of the bank and their growth ability. Out of the total requirement, the Government of India proposed to make available Rs.70,000 crores out of budgetary allocations for four years (as tabulated below) and remaining Rs.1,10,000 crore is to be raised by the banks from the market.

(i)	Financial Year 2015 -16	Rs. 25,000 crore
(ii)	Financial Year 2016-17	Rs. 25,000 crore
(iii)	Financial Year 2017-18	Rs. 10,000 crore
(iv)	Financial Year 2018-19	Rs. 10,000 crore
	Total	**Rs. 70,000 crore**

2.6 On 5 January 2018, Ministry of Finance has made the following announcement (PIB, Govt. of India, Ministry of Finance) on PSBs:

"Government announced Indradhanush plan for revamping Public Sector Banks (PSBs) in August 2015. The plan envisaged, inter alia, infusion of capital in PSBs by the Government to the tune of Rs. 70,000 crore over a period of four financial years. Government has recently announced decision to further recapitalise PSBs to the tune of Rs. 2,11,000 crore, through recapitalisation bonds of Rs. 1,35,000 crore and budgetary provision of Rs. 18,139 crore (the residual amount under Indradhanush plan) over two financial years, and the balance through capital raising by banks from the market. Government has so far infused capital of Rs. 59,435 crore in PSBs under Indradhanush.

Capital infusion is aimed at supplementing the achievement of regulatory capital norms by PSBs through their own efforts and, in addition, based on performance and potential, augmenting their growth capital. Government has announced that a differentiated approach would be followed, based on the strength of each bank.

Under the State Bank of India Act, 1955 and the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980, the Board of Directors of the bank is responsible for general superintendence, direction and management of the affairs and business of the bank. Further, Companies Act, 2013 provides that the directors of a company shall act in good faith and in the best interests of the company, its employees and the shareholders. Under the Banking Regulation Act, 1949, the Reserve Bank of India (RBI) has the power to remove managerial and other persons from office for, inter alia, securing proper management of any banking company."

2.7 On the issue of Capital Requirements of PSBs, IBA made the following submission:

"In October, 2017 the Government has announced Rs 2.1-lakh-crore capital infusion plan for state-owned banks burdened by bad loans will get,Rs 1.35 lakh crore from bonds, .Rs 18,000 crore from the Budget and raise the remaining,Rs 58,000 crore through share sales. Fitch Ratings estimates India’s banks will need nearly $65 billion in bank capital by March 2019. This should boost the ability of banks to lend.

Issues faced by banks

- ✓ After the recapitalization announcement, in the subsequent quarters also the NPAs have increased.
- ✓ Resolution process takes time.
- ✓ Huge provisioning for NCLT cases as well as the regulatory provisions. As per the latest framework, bank requires to report even one day default and draw up resolution plans within 180 days from the date of such default.

Way forward

- ✓ Extending the time frame for full implementation of Basel III
- ✓ Realistic assessment of capital requirement for PSBs and need for further infusion of capital by Promoters/owners."

2.8 The Basel Committee on Banking Supervision (BCBS) has observed that "several accepts of the Indian framework are more conservative than the Basel framework". RBI has required banks to maintain the Capital Risk-Weighted Asset Ratio (CRAR) 1% higher than the global Basel norms both under the Basel II and Basel III framework.

2.9 On being asked specific query on extending the deadline for the implementation of Basel III regulations to alleviate the stress faced by the scheduled commercial banks, the RBI inter alia submitted the following in their post evidence reply:

"The Basel III regulations address a number of shortcomings in the pre-crisis regulatory framework and provide a foundation for a resilient banking system that will help avoid the build-up of systemic vulnerabilities. It strengthens the micro-prudential regulation and supervision while adding a macro-prudential overlay. The framework will also allow the banking system to support the real economy through the economic cycle. Therefore, it is imperative that these regulations are implemented within the laid-out timelines. As a leading and globally interlinked emerging market economy, India can ill-afford to be seen as lagging behind in implementation of globally accepted norms on banking regulation. In several areas, the implementation has been deferred in alignment with deferment by Basel Committee on Banking Supervision / international practices."

2.10 On being asked the steps taken by the RBI develop/promote corporate bond markets, RBI inter alia furnished the following post-evidence reply dated 24th August, 2018:

"While development of corporate bond market falls largely within the remit of SEBI, Reserve Bank of India, has also taken the following recent initiatives:

(a) RBI has permitted Tri-party Repos in corporate bonds, following which NSE and BSE have introduced repo in corporate bonds recently. This is expected to contribute to liquidity in the corporate bond market.

(b) The Reserve bank has issued guidelines on enhancing credit supply for large borrowers through the market mechanism, which disincentivises large borrowers to depend fully on bank finance by assigning higher risk weights and provisioning for incremental exposure beyond a limit with banks.

(c) RBI has permitted banks to issue partial credit enhancement in the form of non-funded contingent line of credit up to 50 per cent of the corporate bond issue size, with a limit up to 20 per cent of the bond issue size for an individual bank.

(d) SEBI is working in consultation with RBI and other stakeholders to come out with a framework for uniform price of corporate bonds."

(III) Human Resource Issues - Challenges, Measures and Way Forward

Challenges

3.1 The current decade is a decade of retirement for a large number of experienced senior staff of the PSBs; the pinch of the loss of officers with professional depth and

experience is already being felt. While fresh recruitments are happening at the junior levels, a slowdown in recruitment in the past coupled with attrition of officer staff has led to a shortage at the middle and senior levels, which will persist for some time to come. Bridging human resource gaps and managing employee turnover are major challenges that banks need to be prepared to address.

Measures and Way forward

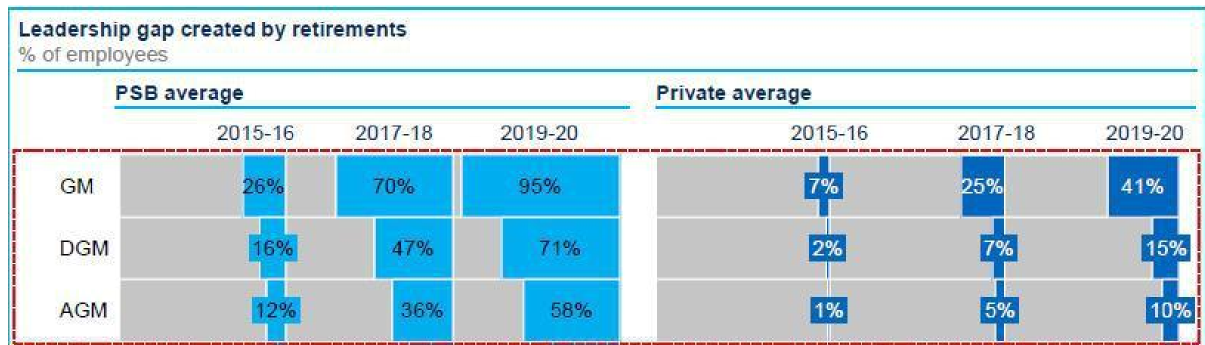
3.2 Public Sector Banks have managerial autonomy in the matter of human resources including recruitment, staffing, training, promotions, etc. The banks need to continuously enhance the skill levels of their employees so as to remain viable and competitive and to take advantage of new opportunities. The banks to continuously build capacity at a rate which matches the loss of existing talent and skills to retirement, poaching and resignations. The training initiatives must ensure that the available talent pool in the banks is able to always keep pace with the fast changing ways in which banking is conducted. There also lie an inherent opportunity for banks to redraw their organizational profile and to create HR systems and processes best suited to the needs of the future.

3.3 Possibilities of giving Employee Stock Ownership Plan (ESOP) to employees of PSB are also being explored, timely wage revision is also being considered, and improvement in Annual performance appraisal system is also on cards so as to attract and retain talent and also improve the efficiency in PSBs. Initiatives for further strengthening training needs/capacity building for employees are also being taken. Banks Board Bureau (BBB) has also been mandated to advise Government on desired structure a Board level and senior management personnel, evolving suitable training and development programmes for management personnel and formulation of a code of conduct for managerial personnel in PSBs.

3.4 On the HR issue in banking sector, IBA made the following written submissions:

- ✓ "For the success of an organization able and efficient employees are essential.
- ✓ Banks face acute competition not only from other banks, but also from NBFCs, Fintech companies etc.

- ✓ Very often, public sector banks bear brunt of losing trained and skilled employees being poached by other players in the market and attract them with high remuneration.
- ✓ The issue of succession planning is a very big challenge for public sector banks. A large number of employees especially in the middle management are on the verge of retirement in near future. A substantial number of employees are retiring in next 5 years. These senior employees carry with them exposure, experience and wealth of knowledge about clients and other business related information. The retirement of these employees would always create vacuum unless institutionalized framework is put in place to pass on this wealth of knowledge to next level.
- ✓ It would be a challenge to replace the experience of these senior employees. This situation was the result of a policy of no recruitment or limited recruitment adopted by the PSBs two decades ago. As a result, banks are finding it difficult to replace the retired employees as there are very limited middle management level employees.



Source:IBA McKinsey Bank Benchmarking Survey 2016

- ✓ Challenge of attrition and retention of talent is another issue. A large number of youngsters are being recruited by Banks now. These youngsters have high aspirations and it is important for Banks to nurture their talent, their aspirations so that HR processes can be aligned to the Banks objectives.

Challenges faced by the banks

- ✓ Essentially, banks especially PSBs face challenges in recruiting, retaining and mentoring potential employees to senior and leadership positions.
- ✓ Attrition coupled with retirement could be a serious challenge faced by the banks.

Way forward

- ✓ Banks are aware of this critical issue and several initiatives are being taken at the bank level to retain and motivate the staff.
- ✓ RBI appointed Gopalakrishna Committee on Capacity Building in banks made recommendations on capacity building in terms of HR management practices,

underlining the strategic importance of HR in affecting the top and bottom lines of balance sheets, training methodologies and interventions, including requiring employees to pass certification programmes prior to being promoted, and system-wide measures which include creating a banking aptitude test and creating centres of leadership development.

- ✓ For specialised functions such as risk management, treasury, legal etc lateral recruitment is essential to fill the gap in the middle to senior management.
- ✓ IBA had initiated the certification of certain mandatory courses for the banking personnel for improving the knowledge and efficiency level of the manpower.
- ✓ Manpower planning, training and mentoring are other areas to be reviewed to improve the situation.
- ✓ To offer remuneration commensurate to talent, skill, attitude and aptitude for retention of highly skilled personnel."

3.5 A National Financial daily- Business Line (4 July 2017) has reported the following under the news caption "For young Indian, bank jobs are no prize catch":

"There has been a discernible fall in the number of candidates registering themselves for clerical and probationary officer/management trainee positions at public sector banks (PSBs), reveal data from the Institute of Banking Personnel Selection (IBPS).

IBPS conducts recruitment tests for about 20 PSBs apart from a few private financial institutions. SBI, however, recruits on its own.

The number of candidates registered with IBPS for clerical jobs declined from 20.31 lakh in FY17 to 19.67 lakh in FY18. For probationary officer/management trainee posts, the registrations were down from 19.67 lakh to 11.27 lakh. A similar trend is seen for specialist officer posts as well.

The reasons are varied. “There is negative feedback from new employees about the nature of the job, the long hours and work pressures, which is leading to disillusionment,’’ CS Vepa, Director, National School of Banking (NSB), told *BusinessLine.*

Banks reducing rectuiment is also a factor. According to an IBPS notification, the number of vacancies dipped from 33,488 in FY15 to 19,243 in FY17 and to 7,883 in FY18."

3.6 In public sector banks, 95% of the GM level employees, 75% of the Deputy GM level employees, and 58% of Additional GM level employees are going to retire by 2019-20. The Reserve Bank were asked whether they contemplate to take any steps with regard to this issue of HR management so that such alarming gaps are closed expeditiously, RBI in their post-evidence reply furnished on 24th August, 2018 stated as below:

"The Reserve Bank had constituted a ‘Committee on Capacity Building’ (July 2014) under the Chairmanship of former Executive Director, Shri G Gopalakrishna, with the objective of implementing non-legislative

recommendations of the Financial Sector Legislative Reforms Commission (FSLRC), relating to capacity building in banks and non-banks, streamlining training intervention and suggesting changes thereto in view of ever increasing challenges in banking and non-banking sector. The Committee has made extensive recommendations pertaining to the overall HRM function per se, as also specific recommendations relating to particular areas/components of HRM function, viz., recruitment, performance assessment, promotion, placement, job rotation, etc. After examining the recommendations in detail, the RBI has advised that these may be implemented by the banks based on their organisational objectives and business strategies, after taking approval from their respective Boards. As such, the policy and planning pertaining to recruitment/ remuneration/ manner of recruitment in both Public and Private Sector Banks requires to be implemented at the individual banks' level depending on their requirement and under the overall guidance of their respective board and the industry practice. Nevertheless, the Reserve Bank as part of its Risk Based Supervision framework, assesses the 'people risk', which inter alia considers availability of 34 | P a g e key persons in banks. The framework also looks into capacity building aspects of employees. Based on its assessment, supervisory concerns are flagged for necessary action by the banks."

(IV) Technology and its impact - Challenges, Measures and Way Forward

Challenges

4.1 Issues with technology in the current banking scenario are pertinent for the PSBs. All PSBs are now on CBS platform and have developed capabilities to offer "anywhere banking. A few have also started offering basic banking transactions on mobile for their customers. But this is just beginning, as information technology can be leveraged to a far greater extent. PSBs must be able to leverage technology for building data warehouses and then be able to do data mining and analytics. The goal should be to use data for effective decision making at various levels, including product customization, developing business models and delivery channels, etc.

Measures and Way forward

4.2 PSBs are pitching suitable products for their customers after thorough analysis of data and through internet and mobile banking channels. Traditional businesses are slowly moving on-line and e-commerce is the preferred choice of the gen-next customer. The challenge before the PSBs is to upscale their capabilities, train their employees on the new technologies to benefit from the possibilities that adoption of technology can open up. Data mining and analytics should be instrumental in helping decision making process of the banks.

4.3 A good thing going for the banks is the current recruitment of youngsters in the work force. These new-generation staff are tech-savvy and can quickly connect with technology. The enterprising among them must be accorded freedom to experiment and suggest ways in which the bank could reengineer its processes for its own benefit and that of its customers.

(V) Oral submission by the representatives of the Ministry of Finance

5.1 The Secretary, Department of Financial Services, Ministry of Finance tendered evidence before the Committee on 17.04.2018. The submission include the issues below:

(a) Non-Performing Assets (NPAs)

"Sir, to squarely address the issue of NPAs, the stressed assets of banks have been transparently and realistically recognised under the Asset Quality Review which the RBI has started in the 2015. As a result of this Asset Quality Review, gross NPAs of PSBs have increased by nearly Rupees five lakh crore between March, 2015 and December, 2017 and it rose to around Rupees seven lakh seventy thousand crore as on December. It is because of this increased NPAs, the PSBs had to make the upfront provisioning and that provisioning was on account of the expected losses and it was Rupees three lakh seventy-nine thousand crore. So, this was an unprecedented amount of the provisioning which the banks had to make till June, 2017. Thereafter, another important landmark has been the Transparent Resolution Mechanism through the Insolvency and Bankruptcy Code which is in a way redefining the creditor and debtor relationship in this country. "

(b) Role of Government Nominee Director

"Sir, you also asked me as to what the Government Nominee Directors were doing. If we look at the entire NPA of around Rs. 8 lakh crore, 12 accounts have gone to NCLT involving Rs. 1,75,000 crore approximately. So, 12 companies/corporates have taken around Rs. 1,75,000 crore as loan. If we go further and extend it to another 28-29, which is in the second round, this is around Rs. 90,000 crore. So, in this country, 40 corporates or persons involved have taken loans up to around quarter to 3 lakh crore. It is not a small amount. All these have gone to - whether they were financed akin, whether they were given loans under the schemes of the RBI, which have been stated here --they were restructured, they were restructured to pay it, there was a greening involved. Whatever was involved, this went up to the Management Committee and the Management Committee was represented by the Board Members and the RBI. The Government Nominee Director does not sit in the Management Committee. So, he is not party to the corporate bigger loans."

(c) Powers of RBI vis-a-vis Government on PSBs

"With regard to powers in respect of PSBs, the RBI which has the powers under the three main categories which is regulation, supervision and appointments. As regards regulation, under Section 35A and 35AA of the Banking Regulation Act and Section 10 of the Bank Nationalisation Act, RBI has powers for giving directions in public interest and in the interest of banking policy or depositors or the bank or to secure the proper management of the bank directing references to loan account to NCLT and approving appointment of auditors. On this supervision side, under Section 35, 35(3), 35(1)(A), 27(2), 21 and 31(B) of the Banking Regulation Act and Section 12 of FEMA and paragraph 11 of the Nationalised Banks scheme framed under the Banking Nationalisation Acts, RBI has powers to inspect bank books and accounts, examine bank directors and officers on oath, scrutinise bank details, call for bank details, decide loan policy, direct special audit of bank, do inspection of

compliances with Foreign Exchange Management law, sit on the management committee of the board for deciding on large loans, secure details of loans of above rupees five crore and require reports from the banks to RBI Central Fraud Registry.

Sir, as regards appointments which was recently in news, Section 9A of the Banking Nationalisation Act and Section 36(1)(DB) of the Banking Regulation Act, RBI has power to appoint additional directors on the board and the Government appoints senior whole time directors only after consulting the RBI"

5.2 **Secretary further added**

"Sir, there is also a problem with the Government and the Regulator. As I mentioned earlier, I am sure the Regulator will respond to this, all the powers of inspection of audit, deciding the credit, keeping the loan details above Rs. 5 crore, getting the reports on fraud is with the Regulator. It is not with the Government. Under the RBI Act, the Government, under Section 45, cannot even ask the details of an account because of the privacy issues involved. So, as a Department, I am not in a position to analyze all the loans which are of Rs. 5 crore and above, which are entered into the CRILC, which is the software that RBI maintains. The fraud data is maintained by RBI. So, if I interfere and ask the banks as to what isthe credit they have given, what is the fraud they have reported, it is all reported to the Regulator as per their instructions and circulars. I am rather prevented under the Act to seek details of the individual accounts."

(VI) Re-Capitalisation of PSBs

6.1 Capital adequacy ratio of banks is considered to be one of the key indicators of bank health. RBI has been implementing international best practices in the field of capital adequacy regulation in India. In this direction, RBI has implemented Basel III standards to ensure that banks' capital adequacy ratios are robustly determined as well as internationally comparable.

6.2 Average Capital to Risk Weighted Assets Ratio (CRAR) of the banking system had marginally improved to 13.80% as on December 31, 2017 from 13.66% as on March 31, 2017. In the case of PSBs however, average CRAR had declined from 12.14%% to 11.77% during this period.

6.3 However, the Government has announced a large-scale bank recapitalisation plan of Rs. 211,000 crore to reinvigorate PSBs struggling with high levels of stressed advances. The announcement was a significant step in repairing the stressed balance sheets of the PSBs. Out of the above, Rs. 80,000 crore has already been infused in different PSBs in March, 2018. What set this round of recapitalisation apart from previous ones was: (i) the stress on a differentiated approach; (ii) the concomitant requirement of market raising by all banks; and, (iii) the announcement of a reform program for all PSBs.

6.4 On the issue of recapitalisation of PSBs, the Ministry of Finance (Department of Financial Services) submitted the following in their post evidence reply:

> "Recapitalisation is aimed at supplementing the efforts of Public Sector Banks to meet regulatory capital norms and augment growth capital for enhanced credit off-take. Resources for recapitalisation include infusion by the Government through Recapitalisation Bonds that are cash-neutral, raising of capital from the markets, and monetisation of non-core assets".

6.5 RBI has stated that "Basel III reforms are the response of Basel Committee on Banking Supervision (BCBS) to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy. During Pittsburgh summit in September 2009, the G20 leaders committed to strengthen the regulatory system for banks and other financial firms and also act together to raise capital standards, to implement strong international compensation standards aimed at ending practices that lead to excessive risk-taking, to improve the over-the-counter derivatives market and to create more powerful tools to hold large global firms to account for the risks they take."

(VII) Asset Quality and steps taken by the Government and RBI to deal with stressed assets

7.1 As explained in the 'Background Note' submitted for the last meeting held with the Committee on July 12, 2017, a series of measures have been taken over the last few years to provide a mechanism for identifying problem accounts early and a forum for coordinated decision making by banks. Further, additional tools to deal with problem assets were also designed and communicated to the banks. These tools primarily facilitate optimal structuring of credit facilities, ability to change ownership/management and deep restructuring of stressed assets. A framework was put in place for greater transparency in sale of stressed assets by banks with a view to ensuring the sale is at market determined prices. These measures were necessary since an efficient insolvency and bankruptcy resolution framework was then absent. A circular dated February 12,2018 has been issued by RBI in this connection-Annexure 2

(a) The Insolvency and Bankruptcy Code, 2016

The enactment of the Insolvency and Bankruptcy Code, 2016 (IBC) was a watershed event towards improving the credit culture in the country. For a creditor, an asset – in most cases – is more valuable when it is a going concern and generates adequate cash flow, as compared to the asset under liquidation. IBC, by putting a time limit of 180 days (extendable by a further 90 days) within which creditors have to agree to a resolution plan, provides for a time-bound process for resolution of an asset with an explicit emphasis on promotion of entrepreneurship, maximisation of value of assets, and balancing the interests of all stakeholders.

(b) Banking Regulation (Amendment) Act, 2017

The Banking Regulation (Amendment) Act, 2017, and the subsequent authorisation given by the Government of India therein, empowered the Reserve Bank to issue directions to the banks for resolution of stressed assets, including referring assets for resolution under the IBC. The Reserve Bank has taken steps over the last year in this direction, based on the recommendations of the Internal Advisory Committee (IAC), with a focus on reference under the IBC of certain large value stressed accounts, covering approximately 40% of banking sector's overall exposure to the stressed assets. The details of the various steps taken were elaborated in the earlier

Background Note submitted to the Committee for the last meeting held on July 12, 2017.

7.2 While appearing before the Committee on 12.06.2018, the Governor, RBI made the following oral submissions on the issue of Capital Adequacy:

> "The Capital Adequacy Ratio is the most significant financial variable that is internationally accepted as a gauge for the health of a bank. No Public Sector Bank in India, except one, has a CRA of below 9 per cent. The internationally accepted norm is 8 per cent.
>
> This is after all the provisioning including the 12th February, 2018 circular. It is expected that the banks will have sufficient avenues to raise additional capital in fiscal year 2018-2019 so as not to face any capital constraints."

(c) Framework for Resolution of Stressed Assets – Revised Framework

7.3 Further, the IAC had also recommended that the Reserve Bank may consider putting in place a steady-state framework for a time-bound IBC reference for all NPAs. The Revised Framework for Resolution of Stressed Assets released by the Reserve Bank on February 12, 2018 is a step towards laying down the steady-state approach, as recommended by the IAC. The steady-state approach is aimed at ensuring early resolution of stressed assets in a transparent and time-bound manner so that maximum value could be realised by the lenders while also recognising the potential ongoing concern value of stressed assets.

7.4 The revised framework substitutes for the various pre-IBC schemes and does away with the embedded forbearance since it delayed resolution. The revised framework, thus, relies on the biggest structural reform in the credit system in the country in several decades, *viz*., the IBC, as an important part of resolution

The revised framework requires banks to report all instances of default, even if it is only for a single day past due to Central Repository of Information on Large Credits (CRILC). This aligns recognition of default to the definition as per the IBC.

Subsequent to reporting, resolution plans are required to be formulated and implemented from the first instance of such default. In particular, in respect of accounts with aggregate exposure greater than the threshold of Rs.2,000 crore, if the resolution plan is not implemented within 180 days from the date of default, the banks will have to

file insolvency application under the IBC. This threshold will be brought down only gradually over a period of two years.

7.5 The revised framework provides full flexibility to lenders and the stressed borrowers in shaping the contours of the resolution plan subject to meeting certain implementation conditions. The credibility of the resolution plan is sought to be ensured through the requirement of independent credit evaluation by credit rating agencies on a "user pays" model basis.

7.6 The revised framework provides for an account to be treated as 'standard' in case a genuine change in ownership is implemented, provided certain specified conditions are met, including the condition that the acquirer is not a person disqualified under Section 29A of the IBC.

However, the asset classification norms of the Reserve Bank have not been changed. Banks are required to classify a loan account as non-performing asset (NPA) only if the delay in payment is beyond 90 days, as hitherto. As such, the idea is to incentivize lenders and borrowers to take timely corrective action so that the deterioration in the asset quality is avoided to the extent possible. At the same time, with defaults being reported to a central database, which is accessible to all banks, the credit discipline is expected to improve and so is consistency in the asset quality recognition at banks.

The IBC and RBI's Revised Framework are, thus, complementary tools aimed at ensuring timely resolution of stressed assets.

(d) Large Exposures Framework

7.7 Currently, the concerns arising from concentration risk due to banks' exposures towards their single and group borrowers are addressed by way of limits on such exposures. However, in order to converge the current prudential norms on "banks' exposures" with the BCBS standards on 'Supervisory framework for measuring and controlling large exposures', RBI has issued the final guidelines on 'Large Exposures Framework' vide circular dated December 1, 2016. The Framework would be fully applicable by January 1, 2019.

7.8 Under the framework, the LE limit in respect of each counterparty and g roup of connected counterparties, under normal circumstances, will be capped at 20 percent and 25 percent respectively of the eligible capital base i.e. Tier 1 capital of the bank as against ‘Capital Funds’ at present.

Guidelines on Framework for enhancing Credit Supply for Large Borrowers through Market Mechanism

7.9 With a view to mitigating the risk posed to the banking system on account of overleveraging of a single corporate, RBI has issued guidelines on Framework for enhancing Credit Supply for Large Borrowers through Market Mechanism vide circular dated August 25, 2016. The Framework has come into effect from the financial year 2017-18 and will be applicable to all banks in India as well as branches of Indian banks abroad.

7.10 Under the Framework, incremental bank credit to borrowers having aggregate sanctioned fund-based credit limits (ASCL) in excess of a threshold, from the banking system, will invite additional risk weights and higher standard asset provisions. This should encourage larger borrowers to access more of their financing needs from market sources, e.g. bond issuance.

7.11 The submission of RBI regarding GNPAs/NNPAs are as below:

> "The major challenge faced by the Indian banking sector today is on account of the stress in asset quality faced by the Scheduled Commercial Banks (SCBs), which account for about 88 % of the banking system. The stress on the banking sector’s balance-sheet, especially of public sector banks, has been mounting over the past several years and has now materially crystallized in the form of high levels of non-performing assets (NPAs). The total stressed advances ratio for the scheduled commercial banks, however, had improved marginally to 11.54% as on December 31, 2017 as compared to 11.61% as on March 31, 2017. A significant amount of addition to the Gross NPAs (i.e., amount of NPAs without adjusting for provisions) has been from the restructured standard asset portfolio of banks."

Amount in Rs crore; Ratios in %	Public Sector Banks (PSBs)			Private Sector Banks			All Scheduled Commercial Banks		
	Mar-16	Mar-17	Dec-17	Mar-16	Mar-17	Dec-17	Mar-16	Mar-17	Dec-17
GNPAs	5,39,968	6,84,732	7,77,280	55,853	91,915	1,07,796	6,11,619	7,90,488	8,99,659
NNPAs	3,24,372	3,82,087	4,08,165	26,680	47,655	54,111	3,53,815	4,31,994	4,64,104
GNPA Ratio	**9.27**	**11.66**	**13.03**	**2.83**	**4.05**	**4.19**	**7.48**	**9.31**	**10.11**
NNPA Ratio	**5.8**	**6.86**	**7.29**	**1.37**	**2.15**	**2.15**	**4.48**	**5.31**	**5.49**
Restructured Std. Assets	2,32,986	1,68,617	1,09,242	34,802	25,072	17,843	2,68,966	1,95,353	1,27,305
Stressed Advances	7,72,954	8,53,350	8,86,522	90,655	1,16,986	1,25,639	8,80,585	9,85,841	10,26,963
Restr. Std. Assets Ratio	**4**	**2.87**	**1.83**	**1.76**	**1.11**	**0.69**	**3.29**	**2.30**	**1.43**
Stressed Advances Ratio	**13.27**	**14.53**	**14.86**	**4.6**	**5.16**	**4.89**	**10.77**	**11.61**	**11.54**

7.12 The Financial Stability Report, RBI (June 2018 issue) furnished the following on the issue of Stressed Assets/ NPAs

"The stress tests indicate that under the baseline scenario, the GNPA ratio of all SCBs may increase from 11.6 per cent in March 2018 to 12.2 per cent by March 2019. However, if the macroeconomic conditions deteriorate, their GNPA ratio may increase further under such consequential stress scenarios). Among the bank groups, PSBs' GNPA ratio may increase from 15.6 per cent in March 2018 to 17.3 per cent by March 2019 under severe stress scenario, whereas PvBs' GNPA ratio may rise from 4.0 per cent to 5.3 per cent and FBs' GNPA ratio might increase from 3.8 per cent to 4.8 per cent."

7.13 On being asked to furnish total write-offs of loans/defaults made by banks-PSBs and private separately in the last 3 years, the RBI inter alia submitted the following

(Amount in Rupees crores)

	Items	Public Sector Banks			Private Sector Banks		
		31-Mar-16	31-Mar-17	31-Dec-17	31-Mar-16	31-Mar-17	31-Dec-17
1.	NPAs at the beginning of the FY	2,78,481	5,39,968	6,84,732	32,945	55,853	91,915
2.	New Accretion to NPAs (April to Date)	3,98,822	3,38,710	2,37,475	47,116	79,560	60,800
3.	Reduction in NPAs (April to Date)	1,36,525	1,94,655	1,50,960	25,258	44,090	46,091
3.1	*Reduction in NPAs - due to upgradation (April to Date)*	*38,038*	*59,452*	*25,297*	*4,881*	*6,512*	*11,103*
3.2	*Reduction in NPAs - due to actual recoveries (April to Date)*	*40,903*	*53,250*	*41,391*	*8,387*	*15,279*	*15,752*
3.3	***Reduction in NPAs - due to write-offs (April to Date)***	***57,585***	***81,683***	***84,272***	***11,675***	***21,519***	***18,571***
3.4	*Reduction in NPAs - due to other reasons (April to Date)*	*0*	*271*	*0*	*316*	*781*	*666*
4.	Increase/Decrease in NPAs due to other adjustments	-809	709	6,034	1,050	592	1,173
5.	Gross NPAs at the end of Period	5,39,968	6,84,732	7,77,280	55,853	91,915	1,07,796

7.14 RBI, in their post-evidence reply, furnished the following in respect of rate of recovery for written-off loans for a period of April 2014 to April 2018:

> "Based on the data on write-off and cash recovery out of write-off for the 4-year period viz. FY 2014-15 to FY 2017-18, it was observed that recovery rate in PSBs was 14.2 per cent followed by Private Banks at 5.0 per cent. PSBs recovered Rs.449 bn during the 4-year period while write-off amount was Rs 3,165 bn. It has to be noted that the recovery takes place on total cumulative write-off and not only on write-off for a specific period."

The RBI further added:

> "The decision to write-off loans fully or partially, actual or only technical, is a business decision taken by banks based on various viability factors viz., scope of up-gradation of a NPA asset into standard category, chances of recovery from such assets, market conditions, availability of security and its valuation. At times, such decisions are also taken keeping in view the taxation benefits that are available and to manage the level of Non-Performing Assets ratios (NPA) of banks.
>
> There have been instances where loans to certain category of borrowers have been paid by the State/Central Governments and in some such scheme banks may have had to write-off certain portion of overdue interest/principal as per the scheme floated by the respective Governments".

7.15 With reference to IBC as stated in Para 7.1,it has been submitted to the Committee that it might be appropriate to consider a floor price for bidding of assets. As the Banks would have made a provision of 50% of te asset value, the floor price could be at 50% or such other number the Committee of Creditors thinks appropriate. For assets where the bid price falls below the floor price, they could be taken over by an Asset Reconstruction Company (ARC) which would need to be set up. Existing ARCs, even though well intentioned, have not succeeded because they have not been able to access funding to support their operations. The ARCs in the West have primarily succeeded because they bought assets at distressed prices, as mentioned earlier, which is not the model India should be adopting.

(VIII) Exemption for MSMEs

8.1 RBI's Revised Framework specifically exempts the revival and rehabilitation of Micro, Small and Medium Enterprises (MSMEs) with exposures of up to Rs.25 crore, which shall continue to be covered under the extant norms. In order to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs, the Ministry of Micro, Small and Medium Enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. Subsequently, Reserve Bank issued operational instructions in this regard vide Circular No. FIDD.MSME & NFS.BC.No.21/ 06.02.31/ 2015-16 dated March 17, 2016. These instructions shall continue to guide the resolution of stressed assets in the MSME sector.

(IX) Operational Risk

9.1 Reserve Bank of India (RBI), as part of its ongoing efforts for strengthening of the supervisory framework in the country, has been issuing necessary instructions to banks from time to time on a variety of issues of prudential supervisory concern, including the management of operational risks inherent in the functioning of banks. The risks arising from the potential malicious use of the SWIFT infrastructure, created by banks for their genuine business needs, has always been a component of their operational risk profile. RBI has been, therefore, repeatedly cautioning and alerting banks of such possible misuse, advising them to implement the safeguards detailed in the RBI's communications, for pre-empting such occurrences.

9.2 Further, in view of large divergences observed in asset classification and provisioning in the credit portfolio of banks as well as the rising incidence of frauds in the Indian banking system, it has been decided to constitute an Expert Committee under the chairmanship of Shri Y H Malegam, a former member of the Central Board of Directors of RBI, to look into the reasons for high divergence observed in asset classification and provisioning by banks vis-à-vis the RBI's supervisory assessment, and the steps needed to prevent it; factors leading to an increasing incidence of frauds in banks and the measures (including IT interventions) needed to curb and prevent it; and the role and effectiveness of various types of audits conducted in banks in mitigating the incidence of such divergence and frauds.

(X) Corporate governance

10.1 Robust corporate governance is critical to the proper functioning of the banking sector on a sustainable basis. An effective Board evaluation process is a sine quo non for measuring the performance and accountability of individual directors and of the Board itself. The notion that the Board is meant to evaluate and not be evaluated itself is losing ground. Another major challenge is to ensure that remuneration system promotes good performance and reinforces the bank's operating and risk culture. The incentive structure should focus on long term sustainable profit and growth of banks rather than short term profiteering. Further, significant remuneration differences between PSBs and private sector banks leads to lopsided distribution of talented manpower in banks.

10.2 Some of the recent measures taken to improve the banks' Corporate Governance framework are as under.

- Banks were advised to determine the Board agenda items and the periodicity thereof, with the approval of their Boards, such that there is adequate focus on matters of strategic and financial importance, including the seven broad themes prescribed by the Nayak Committee namely, business strategy, financial reports and their integrity, risk, compliance, customer protection, financial inclusion and human resources.

- Against the backdrop of innovations in banking and technology and need for corresponding domain knowledge and experience, the fields of specialization for persons who could be considered for appointment as director in the banks were broadened to include (i) Information Technology (ii) Payment & Settlement Systems (iii) Human Resources (iv) Risk Management and (v) Business Management.

- Guidelines have been issued on minimum qualifications and experience criteria for Chief Risk Officers and Chief Financial Officers of scheduled commercial banks.

- It is reiterated that the Reserve Bank concurs with the recommendations in the 27th report of the Standing Committee on Finance of 16th Lok Sabha that the RBI Nominee Directors should be distanced from the Management Committee of the Board (which takes credit decisions), to avoid any conflict of interest (Recommendation No.2) and that RBI nominees should not be on the boards of PSBs. (Recommendation No.8). The Reserve Bank has been in correspondence with the Government on this.

10.3 Role of RBI in appointment matters relating to PSB whole-time directors

Selection of whole-time directors and non-executive chairmen of Public Sector Banks is done by the Banks Board Bureau (BBB), which includes Deputy Governor, RBI as *ex officio* member. Further, on receipt of recommendations from BBB, whole-time directors of nationalised banks and SBI are appointed by the Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 ("bank nationalisation Acts")and the State Bank of India Act, 1955.

Removal of whole-time directors of nationalised banks is provided for in paragraph 8 of the Nationalised Banks (Management and Miscellaneous Provisions) Schemes of 1970 and 1980, made by the Central Government under the provisions of the banks nationalisation Acts, which envisage consultation by director. Further, the said paragraph also provides for termination of the term of office of whole-time director by giving three months' notice or salary and allowances in lieu thereof and, as per paragraph 7c *ibid* BBB - on which Deputy Governor, RBO is member- advises the Central Government on such termination. Further, as and when RBI has flagged need for change in management of Public Sector Banks, Government has given it due consideration.

10.4 Gazette notifications dated 23 March, 2016 on issues pertaining to Nationalised Banks (Management and Miscellaneous Provisions) Schemes of 1970 and 1980, made by the Central Government are shown in the Annexures III and IV respectively.

10.5 On being asked why Public Sector Bank management is not incentivised as private sector banks, the Ministry of Finance (Department of Financial Services) submitted the following in their post evidence reply:

> "Government has granted managerial autonomy to Public Sector Banks (PSBs), allowing their Board of Directors to exercise power in respect of decision on remuneration and compensation of officers and staff. The Boards are free to sanction differential pay, linked to performance.As per the PSB Reforms Agenda, Public Sector Banks have committed to reward select top performers through a Board-approved policy that covers incentives and fast-track promotions".

(XI) Challenges in implementation of IFRS converged Indian Accounting Standards

11.1 The Ministry of Corporate Affairs (MCA), in consultation with the RBI, issued a roadmap for scheduled commercial banks (excluding RRBs) to implement Ind AS (Indian Accounting Standards) from April 1, 2018 onwards (with comparatives). This was subsequently followed up with an RBI circular dated February 11, 2016 directing banks to implement Ind AS with effect from April 1, 2018. However, necessary legislative amendments to make the format of financial statements, prescribed in the Third Schedule to Banking Regulation Act 1949, compatible with accounts under Ind AS are under consideration of the Government. In view of this, as also the level of preparedness of many banks, it has been decided to defer implementation of Ind AS by one year by when the necessary legislative changes are expected.

11.2 Some of the key challenges for the banking sector arising from Ind AS implementation are in the area of impairment provisions, business model requirements for classification and measurement of financial assets, impact on capital, extensive disclosures, greater subjectivity and management discretion, skilling of human resources, and modifications to IT systems, etc.

11.3 On the challenges of implementation of Ind AS for banking sector, the RBI furnished their post-evidence reply as stated below:

> "Banks in India, vide Section 29 of the Banking Regulation Act, 1949, ("BR Act") are required to prepare financial statements as per the formats prescribed by the Central Government in the Third Schedule to the said Act. The present formats, notified in 1992, are not compatible with Ind AS. Further, the possibility of future updates to Ind AS coupled with various developments in the banking sector (more products, differentiated bank licensing, etc.) necessitates periodic changes in the formats. Therefore, the RBI has suggested that the Government may favourably consider delegating its power to notify formats under Section 29 to the Reserve Bank on the same lines as the insurance sector. Additionally, Section 15 of the BR Act precludes banks from paying dividends if they have any unamortised expenditure on their balance sheet. Under Ind AS, there may be situations where complying with the accounting standard may result in 14 | P a g e amortising of certain expenses over several accounting periods rather than immediately writing it off, thereby attracting the Section 15 restriction. Therefore, an amendment of Section 15 to facilitate payment of dividend under Ind AS was also proposed. These issues have been discussed previously at various levels with the Government. More recently, it was proposed in our letter dated December 27, 2017 on 'Reserve Bank's Proposals for Union Budget 2018-19'.

Apart from the formats of financial statements, feedback received from banks (particularly Public Sector Banks) indicated that more time was needed for better preparedness. Another major challenge is the shift to an expected credit loss model under Ind AS from the present incurred loss model which would result in bringing forward provisions for future expected losses. Consequently, the transition would potentially result in a significant impact to the capital position of banks, and in view of the unsatisfactory financial position of many PSBs, there was a request from several PSBs to the Government to defer the implementation of Ind AS.

The implementation of Ind AS has been deferred by one year, by when the necessary legislative changes are expected and also banks are likely to be better prepared for the transition.

The original implementation date was arrived at after several consultations with various stakeholders including the Government, bankers and audit professionals. Indeed, it was after taking into account the additional challenges faced by banks (as highlighted above) that banks were scheduled to implement Ind AS three years after the corporate roadmap by which time the legislative changes were also anticipated."

(XII) Emergence of new banks and bank types

12.1 In order to improve the competition in the banking system, licences have been issued to 10 entities to start small finance banks, and to seven entities for starting payments banks. As on date, ten small finance banks and six payments banks have commenced operations. Further, RBI had issued Guidelines for On Tap Licensing of Universal Banks in the Private Sector on August 1, 2016, which envisage receiving applications, processing the same, and issuing banking licences, if found fit, on an on-going basis. The Reserve Bank has received one application for a banking licence, under the above guidelines.

12.2 In their post evidence reply, the Ministry of Finance (DFS) submitted the following with regard to specific query on future banking as given below:

> "Under the Public Sectors Banks Reforms Agenda, PSBs are committed to promote digital banking, automated processing and time-bound decision-making on MSME and retail loans (such as home, education, vehicle and personal loans) with transparent status-tracking, digitalisation of non-retail credit appraisal process on end-to-end basis, online platform for one-time settlement, and improved due diligence, better risk assessment and faster turnaround through fintech. Financial inclusion initiatives have been taken for enabling massive expansion in micro-insurance coverage by tagging MSME, agricultural and other retail loan disbursements to cover borrowing individuals and employees of borrowing entities, under Pradhan Mantri Jeevan Jyoti BimaYojna, Pradhan Mantri Suraksha BimaYojana, Atal Pension Yojana etc."

(XIII) Banking frauds (including PNB scam) and RBI plea for more power

13.1 Allegations and inefficiencies in governance and frauds both in Public Sector Banks and Private Sector Banks are coming to the fore everyday putting the Bankers on backfoot in so far as lending is concerned such as PNB/ICICI Bank/Axis Bank etc. On being asked the role of RBI nominee Directors on Boards of the Banks in containing frauds and to state whether the RBI nominee Directors keep the interests of the shareholders or just do CEO's bidding, the RBI inter alia furnished the following written submission:

> "The main role of any director on the bank's Board, including Nominee Directors (NDs), is to ensure that the bank is efficiently and professionally managed and that the proposals coming before the Board and its committees are consistent with normal banking practices, guidelines/directions /instructions of the Government/ Reserve Bank of India and are not violative, or in contravention, of any law. The separation of the post of Chairman from that of the CEO, which is a recent development in nationalized banks, has been done with a view to strengthening the independence of the Board, and enhancing its oversight over the management, which includes the CEO.
>
> The incidence of frauds is best contained by strengthening the "three lines of defence" as discussed in the response to Question 4, ibid. The primary, and collective, responsibility for this rests with the bank's Board. Improving the quality and independence of Board members and banks' management, by way of implementation of the governance related reforms suggested by the Nayak Committee and by the Reserve Bank, will go a long way in improving the role of the Boards of nationalized banks.
>
> *It may be added that the Reserve Bank concurs with the recommendations in the 27th report of the Standing Committee on Finance of 16th Lok Sabha that the RBI Nominee Directors should be distanced from the Management Committee of the Board (which takes credit decisions), to avoid any conflict of interest (Recommendation No.2) and that RBI nominees should not be on the boards of PSBs. (Recommendation No.8). The Reserve Bank has been in correspondence with the Government on this*."

13.2 It has been perceived that in the case of the recent PNB scam, Letters of Undertaking were issued without any collateral for years which went unnoticed. On being asked whether it has pointed to the failure of the supervisory function of the RBI by way of inspections etc. in this regard, and whether any enquiry/disciplinary action has been initiated by RBI in this regard to fix responsibility in the matter, the RBI inter alia furnished the written reply as stated below:

"Currently RBI inspects commercial banks under Risk Based Supervision (RBS) framework which seeks to focus attention and supervisory resources on banks that face greater risks and within a bank, those areas which are of greater risk to the bank. Thus, RBS envisages continuous monitoring of banks through robust offsite reporting mechanism coupled with need based on-site inspection.

Since RBI's supervisory process does not constitute an audit of banks and does not seek to replace it, RBI has issued to banks detailed instructions for putting in place and strengthening their internal control system and on scope of concurrent audit, which is an important component of banks' control system. With the number of commercial bank branches being more than 1,16,000 in the country, it would be impossible to cover each and every branch of banks under the RBI's supervisory process. RBI has no option but to rely on internal control system of banks and supervisors can only do the test checks. Moreover, the migration of the RBI's supervisory process from the erstwhile Annual Financial Inspection to that of RBS was a conscious, well-considered policy decision of the RBI's Board for Financial Supervision, which is a committee of the Central Board of Directors of the RBI. Further, the RBI's approach of RBS has been commended by IMF in its Financial System Stability Assessment Report of December 2017, and any change in the supervisory approach does not appear warranted now.

As regards LOUs issued for years without collateral by the PNB branch which went unnoticed, it is pertinent to recognize that primary responsibility of understanding the risks undertaken by a bank and ensuring that the risks are appropriately managed through necessary risk mitigants, controls, etc. clearly rests with the Board of Directors of the bank concerned. The Board is responsible for putting in place robust internal control mechanisms, within the overarching regulatory and supervisory framework of the RBI. The enterprise-wide risks of a bank are expected to be managed under the 'three lines of defence' model which provides for three levels of checks and balances for risk mitigation. The first line of defence is the line functions that assume, own and manage the risk in the first instance, being closest to the risk taking activity, and thus, are primarily responsible and accountable for assessing and controlling the risk arising from their own acts. The second line of defence is the risk monitoring function that specializes in overseeing the risks being taken and the management of the same by first line of defence, and provide necessary guidance and support. The third line of defence is the audit function, viz. concurrent/internal/statutory audit that provides independent risk assurance to the top management and governance structure/Board of the bank that the prescribed control measures are actually being implemented and that the risk inherent in the bank's operations are well managed. In the case of PNB, there seems to have been failure of all the three lines of defense, resulting in perpetration of such large value fraud.

As far as RBI's supervisory guidance is concerned, RBI had issued instructions to banks on each of the aspects which have come to light in the case of PNB. These included integration of SWIFT and CBS, ensuring reconciliation thereof, securing SWIFT from malware and misuse, adopting four-eye principle in case of large value transactions, expanding mandate of internal audit to check these aspects, etc. In addition, RBI had also issued a confidential Caution Advice to banks, specially

citing examples of similar misuse of SWIFT and LoUs in another bank, asking banks to be cautious in dealing with the LoUs/FLCs and specially, the SWIFT messaging system. In this case, the PNB furnished to the RBI a compliance (which turned out to be factually incorrect) to the effect that above measures have been duly implemented.

Further, in view of large divergences observed in asset classification and provisioning in the credit portfolio of banks as well as the rising incidence of frauds in the Indian banking system, an Expert Committee under the chairmanship of Shri Y H Malegam, a former member of the Central Board of Directors of RBI, has been constituted to look into the reasons for high divergence observed in asset classification and provisioning by banks vis-à-vis the RBI's supervisory assessment, and the steps needed to prevent it; examining factors leading to an increasing incidence of frauds in banks and the measures (including IT interventions) needed to curb and prevent it; and the role and effectiveness of various types of audits conducted in banks in mitigating the incidence of such divergence and frauds, is also part of the Committee's mandate."

13.3 While tendering evidence before the Committee on 04.06.2018 the representative of PNB made oral submission on the recent PNB scam as stated below:

"Coming specifically to the PNB issue, PNB is the second largest lender with 7000 branches and roughly Rs.11 lakh crore of business. This particular incident happened only in one of our branches. We have checked all our other branches. This was not a systemic problem. It was one of the people's issues and it was happening in one of the branches. The moment this surfaced, we took corrective action. We started filling with the regulatory authority; we started filing with the investigation agencies. One of the Members was asking about the values. So, the seizures were made by the Enforcement Director. I think maybe, they are showing the approximate assets value and the actual value will be known at the time of going for the actual sale. We will get an opportunity and the bank will know about it. Sir, the bankers will have a claim on this."

13.4 When asked to specify the number and value of banking frauds detected by RBI and other agencies during the last three years, the RBI submitted the following:

(with amount involved of ₹ 1 lakh and above)

Financial Year	No. of frauds reported by banks	Amount involved (₹ in crore)
2015-16	4,693	18,698.80
2016-17	5,076	23,933.90
2017-18	5,904	32,361.27

(For PSBs the quantum of funds involved had gone upto 29,246 cr during 2017-18 from, Rs 19,529 cr in the preceding year)

RBI's Lack of Powers on PSBs

13.5 RBI as regulator was asked whether it has sought more regulatory powers, whether there is any suggestion for amendments in the provisions of the RBI Act, 1934 or the Banking Regulation Act, 1949 for this purpose, the RBI inter alia, submitted the following written reply:

"BR Act, 1949 is a legislation aimed at regulating and supervising banking companies. A banking company is defined in section 5(c) of that Act as 'any company' which transacts the business of banking in India. State Bank of India and Nationalised Banks (hereinafter referred to as PSBs) are not companies, but corporations formed by statutes. They are therefore not 'banking companies'. BR Act does not apply to PSBs in full. Only those provisions of the BR Act specifically enumerated in section 51 of that Act or elsewhere in that Act, apply to PSBs. This forms a great constraint for a regulator and supervisor.

Some of the important powers that RBI enjoys under BR Act in respect of banking companies but lacks in respect of PSBs are the powers to:

(i) remove the Chairman and Managing Director and appoint them (sections 10B(6) and 10BB)

(ii) grant licenses and impose conditions while giving them (section 22)

(iii) approve the appointment, re-appointment or termination of appointment of a Chairman, a Managing Director or a whole-time director, or of a Manager or a Chief Executive Officer, by whatever name called (section 35B)

(iv) call a meeting of directors of the bank concerned, depute one or more of its officers to the Board meetings, appoint observers, and require the bank to make changes in the management as the Reserve Bank may consider necessary (section 36(1)(d))

(v) remove managerial and other persons from office (section 36AA)

(vi) supersede the Board of Directors (section 36ACA)

(vii) make application for winding up (section 37)

(viii) sanction scheme of voluntary amalgamation (section 44A) and

(ix) apply to Central Government for suspension of business and to prepare scheme of reconstruction or amalgamation (Section 45)."

13.6 OM dated 19 June, 2018 forwarded the written submission of the Reserve Bank of India on the issue of lack of powers of RBI over PSBs has been sent to the Ministry of Finance (DFS) for their comments. The Ministry of Finance (DFS) in their reply furnished the following:

"In the course of discussions, RBI had sought power to issue directions to banks for mandatory reference under the Insolvency and Bankruptcy Code, 2016. Government brought in legislation in 2017 to amend the Banking Regulations Act (BR Act) for authorising RBI to direct banks to initiate insolvency resolution process before NCLT under the Insolvency and Bankruptcy Code, 2016 in respect of a default (section 35AA of B R Act). Government also amended BR Act to empower RBI to issue directions to banks for resolution of stressed assets (section 35AB of B R Act).

RBI regulates and supervises public sector and private sector banks. Section 51 of the Banking Regulation (BR) Act specifies the sections of the B R Act which apply to Nationalised Banks, the State Bank of India.

Under the provisions of the Banking Regulation Act, 1949, it can, *inter alia,*

(a) inspect the bank and its books and accounts (section 35(1));
(b) examine on oath any director or other officer of the bank (section 35(3));
(c) cause a scrutiny to be made of the affairs of the bank (section 35(1A));
(d) give directions to secure the proper management of the bank (section 35A);
(e) call for any information of account details (section 27(2));
(f) determine the policy in relation to advances by the bank (section 21);
(g) direct special audit of the bank (section 30(1B)); and
(h) direct the bank to initiate insolvency resolution process in respect of a default, under the provisions of Insolvency and Bankruptcy Code, 2016(section 35AA).

Further, in respect of nationalised banks and the State Bank of India (SBI), under the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 ("Bank Nationalisation Acts") and the State Bank of India Act, 1955 ("SBI Act") respectively, *inter alia*,:

(a) RBI's nominee Director is a member on—

(i) the nationalised bank's Management Committee of the Board, which exercises the powers of the bank's Board with regard to credit proposals above specified threshold (section 9(3)(c), and paragraph 13 of the Nationalised Banks (Management and Miscellaneous Provisions) Schemes of 1970 and 1980 made by the Government under the Bank Nationalisation Acts), and
(ii) the Executive Committee of the Central Board of SBI, which may deal with any matter within the competence of the Central Board subject to the SBI General Regulations, 1955 and Central Board's directions (sections 19(f) and 30 of SBI Act, and regulation 46 of the SBI General Regulations, 1955);

(b) RBI approves the appointment and fixes the remuneration of the bank's auditors (section 10 of Bank Nationalisation Acts and section 41 of SBI Act); and

(c) RBI can appoint additional Directors on the nationalised bank's Board and State Bank of India's Central Board (section 9A of the Bank Nationalisation Acts and section 19B of SBI Act).

In addition, whole-time Directors of nationalised banks and State Bank of India are appointed in consultation with RBI.

RBI has powers under other laws as well, which include, *inter alia*, the power under section 12 of the Foreign Exchange Management Act, 1999 to inspect for compliance with the Act and rules etc. made there under.

RBI also maintains the Central Repository of Information on Large Credits (CRILC)on aggregate fund-based and non-fund-based exposures of Rs.5 crore and above of all banks. Further, RBI maintains the Central Fraud Registry and banks report all frauds involving amount above Rs.1 lakh to RBI. In addition, RBI's master directions on frauds lay out guidelines on categorisation, reporting and review of frauds, along with norms for consequent provisioning.

The powers of RBI are wide-ranging and comprehensive to deal with various situations that may emerge in all banks, including public sector banks."

13.7 In recent times some really big scams that have come to light like Nirav Modi – PNB fraud of Rs.13,000 crore and Rotomac fraud of almost about Rs.4,000 crore. The reform agenda for PSBs was put in place to ensure a prudential and a very clean lending norm. The Committee wants to know where the gap is and what the reasons are for this failure of scrutiny. The Ministry of Finance (DFS) in their post evidence reply furnished the following:

"RBI has constituted an Expert Committee under the chairmanship of Shri Y. H. Malegam to look into, *inter alia,* factors leading to increasing incidence of frauds in banks and the measures (including IT interventions) needed to curb and prevent it, and the role and effectiveness of various types of audits conducted in banks in mitigating the incidence of such divergence and frauds.

In the context of the fraudulent issuance of Letters of Undertaking in PNB, in response to Department's request regarding the responsibility for any lapses in implementing RBI's instructions, RBI has apprised that the fraud at PNB has been a failure of all three lines of defence, *viz.*, line functions that assume, own and manage the risk, the risk monitoring function that specialises in overseeing the risk-taking and risk management by the aforementioned line function and provides guidance and support, and the audit function. RBI informed that none of the audit reports brought out the underlying serious deviations and gaps in the processes in vogue since 2011 at PNB's Brady House Branch, andsince the circumvention and deviant processes at PNB's Brady House Branch never came on bank's record through its multiple audit mechanisms in place, Directors on the Board of the bank had no means to be aware of these irregularities, given that the Directors are entirely dependent on the information provided by the bank management to the Board through various agenda considered at these meetings. RBI has apprised that

in view of certain frauds reported to it in 2016, it had carried out supervisory visits to several banks, focussing on arrangements at banks in managing SWIFT infrastructure. Based on the findings of the visit, RBI issued two circulars — one on 3.8.2016 and the other on 25.11.2016. In addition, a caution advice was sent, in August 2016, to all the banks about similar frauds. RBI has further apprised that in response, *vide* letter dated 19.8.2016, PNB had confirmed compliance with the RBI's prescriptions in RBI's circular of 3.8.2016, which has turned out to be factually incorrect. RBI's letter also stated that a scrutiny conducted by it of PNB' Brady House Branch after the reporting of the fraud revealed many instances of non-compliance with RBI's instructions, and weak controls surrounding the SWIFT messaging system. RBI stated in conclusion that the compliance lapses on the part of the bank are a result of failures at all the three levels of defence, of the audit machinery (internal audit as well as concurrent audit) as also of bank's Top Management in exercising proper control over the functioning of the bank. There was also a failure of the bank's customary oversight mechanisms at the levels of the Branch, its controlling office and the Head Office, which, in turn, deprived RBI of critical signals of supervisory concern, which could have enabled timely intervention.

Taking note of RBI's letter, Department requested CVO, PNB for officers responsible for compliance of RBI instructions and controls relating to SWIFT messaging system at Brady House Branch. PNB informed that an investigation team, headed by a Senior DGM of the bank, had identified erring officials for various alleged lapses, and procedure is being followed to find out actionable lapses to enable the bank with the issuance of charge-sheet against the charged officials. Taking note of RBI's conclusion that the bank's Top Management failed in exercising proper control over the functioning of the bank, and the names of whole-time Directors identified by PNB, Government sought explanation from all serving whole-time Directors, whether currently serving in PNB or in other PSBs. Further, Government advised its nominee Directors on the Boards of the PSBs concerned to raise in the bank's Board,concerns relating to continued entrustment of functional responsibilities to these whole-time Directors,for appropriate consideration and decision of the Board.After deliberations, the Boards concerned, *viz.,* Allahabad Bank in respect of a former MD & CEO of PNB and PNB in respect of two incumbent Executives of PNB decided to divest them of functional responsibilities. Separately, CBI filed charge-sheets against bank officers concerned for offences under various sections of the Indian Penal Code and the Prevention of Corruption Act, 1988.Further, on 13.8.2018, the MD & CEO of PNB during 2016 was removed from the office of MD & CEO, Allahabad Bank and Government granted sanction of prosecution to both CBI and RBI in respect of the said MD & CEO and an Executive Director of PNB.

In order to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts, the Fugitive Economic Offenders Act, 2018 has been enacted. It provides for attachment of property of a fugitive economic offender, confiscation of such offender's property and disentitlement of the offender from defending any civil claim. In the same connection, Government has also advised Public Sector Banks (PSBs) to obtain a certified copy of the passport of the promoters/directors and other authorised signatories of companies

availing loan facilities of more than Rs.50 crore. They have also been asked to ensure that robust systems and procedures are in place for confirming due approvals, necessary applications/documents and entry in the bank's system in respect of all Letters of Undertakings/Comfort and SWIFT messages, and ensuring scrutiny and reconciliation of Nostro accounts, and to take all necessary steps to safeguard against occurrence of such frauds. Government has further advised public sector banks to collectively prepare a report for effective management of operational risks, including technology risk, so as to safeguard against occurrence of frauds. Government has also asked public sector banks to examine all accounts exceeding Rs.50 crore, if classified as Non-Performing Asset (NPA), from the angle of possible fraud.

In addition, Government has initiated the process for setting up National Financial Reporting Authority as an independent regulator for enforcement of auditing standards and ensuring the quality of audits."

13.8 In respect of Trade Credits for Imports into India-Issue of Guarantees, Delegation of Powers, RBI circular on the issue, dated November, 2004 has stated:

"....it has been decided to accord general permission to ADs to issue guarantees/LoUs/LoCs in favour of overseas supplier, bank and financial institution, up to USD 20 million per transaction for a period up to one year for import of all non-capital goods permissible under Foreign Trade Policy (except gold) and up to three years for import of capital goods, subject to prudential guidelines issued by Reserve Bank from time to time. The period of such guarantees/LoUs/LoCs has to be co-terminus with the period of credit, reckoned from the date of shipment."

13.9 The Banking Regulation Act, 1949 Section 35(1) and Section 35(3) states that:

"(1) Notwithstanding anything to the contrary contained in 6 [section 235 of the Companies Act, 1956 (1 of 1956)], the Reserve Bank at any time may, and on being directed so to do by the Central Government shall, cause an inspection to be made by one or more of its officers of any banking company and its books and accounts; and the Reserve Bank shall supply to the banking company a copy of its report on such inspection.

(3) Any person making an inspection under sub-section (1) 3[for a scrutiny under sub-section (1A)] may examine on oath any Director or other officer 4[or employee] of the banking company in relation to its business, and may administer an oath accordingly."

(XIV) Prompt Corrective Action and Submission made By Banks Under PCA

14.1 Reserve Bank of India (RBI) has issued a Prompt Corrective Action (PCA) framework to maintain sound financial health of banks. It facilitates banks in breach of risk thresholds for identified areas of monitoring, *viz.,* capital, asset quality (which is tracked in terms of the net Non-Performing Assets ratio) and profitability, to take corrective measures in a timely manner, in order to restore their financial health. Thus, it is intended to encourage banks to eschew certain riskier activities, improve operational efficiency and focus on conserving capital to strengthen them. The framework is not intended to constrain the performance of normal operations of the banks for the general public. as per the Press Release by PIB, dated 16 March, 2018, RBI has placed eleven PSBs, *viz.,* Dena Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, IDBI Bank, Oriental Bank of Commerce, Indian Overseas Bank, Corporation Bank, Bank of India, Allahabad Bank and United Bank of India under the PCA framework.

14.2 While appearing before the Committee on 12.06.2018 the Governor, RBI made the following oral submission:

> "It may be mentioned that the decision by the Reserve Bank to place several banks under prompt corrective action is intended to better manage the risks at the PSBs given their recent positions. To prevent any further deterioration in their health as well as preserving the capital levels by mitigating further losses, it is, in fact, designed to strengthen the bank if anything other than what we are doing now. It is important that PSBs not simply be recapitalised but also be reformed operationally and financially to be rehabilitated to good health in a sustainable manner. "

14.3 On the rationale of invoking the Prompt Corrective Action (PCA) framework on 11 banks and issues related thereof, the RBI furnished the following post-evidence reply on 24 August, 2018

> "The Prompt Corrective Action (PCA) framework for commercial banks introduced in 2002 was reviewed and the revised framework for Commercial Banks was put in place with effect from April 1, 2017. The framework, applicable 29 | P a g e for all banks operating in India without exception, is intended to facilitate the banks to take corrective measures, in a timely manner, to restore their financial health. PCA framework is not intended to constrain normal operations of banks for the public, but aims at encouraging banks to eschew certain riskier activities and focus on conserving capital so that their balance sheets can become stronger.

A bank is placed under PCA framework based on the audited financial results and supervisory assessment made by RBI. The final decision to place a bank under PCA is taken by the Board for Financial Supervision(BFS), the apex supervisory authority in RBI.

No restriction has been imposed on the retail deposit taking activity of any bank till date. However, as a cost reduction measure, certain banks have been advised to reduce/avoid the high cost/bulk deposits and improve their Current Account/Saving Account (CASA) levels.

The banks' under PCA are subjected to close monitoring by RBI through monthly monitoring of its financial position and quarterly meetings of the top management of the banks with the senior management of RBI, aimed at restoring the financial health of the banks. The progress towards turnaround, achieved by banks under PCA, is also closely monitored by the Board for Financial Supervision. As and when the banks are able to show significant improvement and sustainable progress in their financial position and bring the key indicators within the threshold levels prescribed under the PCA framework, the banks may be considered by the BFS for exit from the PCA framework.

No bank is being considered for winding up action since none of the banks has breached Risk Threshold 3 of CET 1, as on date".

Allahabad Bank

Written submission furnished by Allahabad Bank

14.3 Allahabad Bank submitted the following road map for the bank to come out of PCA.

"We will primarily be a "Retail Bank" deepening our presence in our heartland of operations by facilitating inclusive growth and focusing on resource mobilization through domestic savings and also providing wealth management solutions to the customers besides expanding on retail lending covering personal, agriculture and MSME segments.

Based on above projections, we are confident of coming out of PCA as per the following roadmap:

Year	RoA	Net NPA	CRAR	CET 1	Leverage Ratio
2017	-0.13	8.92	11.45	8.2	5.14
	(TH 1)	(TH 1)	(Out of PCA)	of PCA)	(Out of PCA)
2018	-1.96	8.04	8.69	5.57	3.57
	(TH 2)	(TH 1)	(TH 1)	(TH 2)	(TH 1)
2019	-1.92	5.50	13.10	9.97	4.98
	(TH 3)	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)
2020	0.16	3.15	12.98	10.32	5.03
	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)
2021	0.16	1.93	12.94	10.53	5.08
	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)
2022	0.17	1.59	12.77	10.74	5.17
	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)
2023	0.35	1.63	12.74	11.11	5.37
	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)	(Out of PCA)

14.4 Allahabad bank furnished the following written submission further:

SECTORWISE ADVANCE & GROSS NPA AS ON 31.03.2018

Sl	Category	Advance as on 31.03.18 (Rs in crore)	GNPA as on 31.03.18 (Rs in crore)	NPA %
1	Agriculture	26713.01	1603.46	6.00 %
2	MSE	30154.23	4703.54	15.60 %
3	Housing Loan	8345.46	156.15	1.87 %
4	Education Loan	1326.16	59.40	4.48 %
5	Other PSC	55.05	4.13	3.05 %
	Total PSC	**66593.91**	**6526.68**	**9.80 %**
6	Large Industries	38722.42	15715.93	40.59 %
7	Trade & Services	37595.05	2954.63	7.86 %
8	Commercial Real Estate	2539.20	890.02	35.05 %
6	Other Non-Priority Sector	10876.19	332.14	3.05 %
	Total Non Priority Sector	**89732.86**	**19892.72**	**22.17 %**
	HongKong	10108.96	143.39	1.42 %
	Total Credit	**166435.86**	**26562.79**	**15.96 %**

Gross NPA in Major Industries:

Sl	Category	Advance as on 31.03.18 (Rs in crore)	Gross NPA as on 31.03.18 (Rs in crore)	NPA %
1	Iron & Steel	7346.74	5515.94	75.08%
2	Power Sector	9394.07	1967.10	20.94 %
3	Textile	4643.77	1582.16	34.07 %
4	Commercial Real Estate	2539.20	890.02	35.05 %
5	Infrastructure	7219.00	867.85	12.02 %
	Sub Total	**31142.78**	**10823.07**	**34.75 %**
	% of Total Credit	**18.71%**	**40.75%**	
6	Others	135293.08	15739.72	11.63 %
	Total Credit	**166435.86**	**26562.79**	**15.96 %**

NPA AMOUNT INVOLVED IN FRAUD ACCOUNTS :

As on	Total NPA (Br.level) (Rs in crore)	Fraud Amount (Rs in crore)	% of Total NPA
31.03.2016	19877.44	1340.09	6.74%
31.03.2017	26923.59	1839.35	6.83%
31.03.2018	**32968.04**	**3229.18**	**9.79%**

14.5 Human Resources

Challenges:

1. Huge retirements (losing experienced employees)
2. Compensation policy is not enough to attract talent to match today’s business complexities. No performance based incentives at present.
3. Skill Upgradation required in a quicker way.
4. Capacity building in specific operation areas, like, Treasury operations, Risk management, Accounting, Credit management and Foreign Exchange operations.
5. Career progression opportunities for all sections of employees to meet their legitimate aspirations.

14.6 Way forward

1. Imparting training through On line modules and class room training, both in house as well as at other training centers.
2. Promoting Capacity Building courses in specific areas like Treasury, Credit, Risk etc.
3. Creating Job families, indentifying core competencies, skill sets and grooming the human resources accordingly

UCO BANK

14.7 Written submission furnished by UCO Bank

India is well positioned to become the fourth-largest economy in the world by 2025 with a GDP growth rate of 7 - 8 % a year. This robust economic growth would be possible if the banking sector is able to adequately and efficiently meet the needs of a growing economy.

1. Economic reform initiatives undertaken by the Government since early 1990s and subsequent implementation of wide range of financial sector reforms, Indian banking has also undergone complete metamorphosis. All these have brought in a sea-change in the operating environment of the banks. Moreover, increasing emphasis on globalisation of the Indian economy has opened up new avenues and challenges for Indian banks but at the same time profit margin is reduced. In view of these developments, Indian banks are subjected to tremendous pressures for enhancing profitability to sustain competition in the market. These pressures may emanate from within the banking system as well as from non-banking institutions because the product boundaries have blurred, the number of players in the sector has increased and more importantly there has been increasing participation of shareholders even in case of public sector banks. Thus, all these factors are mounting pressures on the performance of banks and in their quest to remain competitive, Indian banks are now more concerned for enhanced profitability and they have become even more accountable to their stakeholders.
2. Today, banks are subjected to cut-throat competition and in order to survive, Indian banks need to be proactive in meeting these emerging challenges. Moreover, competition has resulted in extending the frontiers of banking activities, which calls for understanding and upgradation of skills in various areas and more importantly in the area of risk management. The Indian banking companies were required to ensure full implementation of Basel II guidelines – the revised capital norms mandated by the Bank for International Settlements (BIS). Basel II mandates Capital to Risk Weighted Assets Ratio (CRAR) of 8%. However, the RBI has stated that Indian banks must have a CRAR of minimum 9%, effective March 31, 2009. Further, the Government of India has stated that public sector banks must have a capital cushion with a CRAR of at least 12%, higher than the threshold of 9% prescribed by the RBI.

14.8 While tendering evidence before the Committee on 26.06.2018, the representative of UCO Bank made the following oral submission:

".....banks are under PCA because of breach of various parameters, basically three – the bank NPAs, ROA and CRAR. These are three focal points on which the banks are focusing come out of the situation. If you really see the PCA does not directly affect the normal borrower of the bank although the public perception is such that bank being put under PCA can't lend or do normal banking, or some issues would be there or some restrictions will be there. To some extent, yes because now we are going for especially the bigger account. As far as smaller account is concerned, up to Rs.5 crore there is no restriction. We can give normal lending irrespective of rate, small scale industry, mudra loans, etc. We are doing a normal banking. For the bigger accounts, we ensure that it has adequate satisfactory rating – triple B in banking terms. For other borrowers even that is not there. We will keep funding their requirements as per their needs.

As far as overall scenario is concerned, there is no restriction on lending. Yes, we do have constraint of capital because we have to meet the CRAR norms. Capital being a constraint that is limiting us in increasing our portfolio; entire balance sheet gets affected. The CRAR norms even compared to the entire international banking scenario, we are following more stringent norms. If we can get some relaxation in those, that would enable the banks to increase the lending much more.

Regarding the PCA as my colleagues have also stated, the main issue the banks are facing is increase in NPAs especially in the last three years, after the AQR came, everything has become transparent. We have declared all our NPAs virtually. I think this year the slippages would be much less than what has happened in the last two previous years. "

BANK OF INDIA

14.9 Written submission furnished by Bank of India

International Financial Reporting Standards (IFRS-converged Ind AS):

"The Reserve Bank of India (RBI) issued a circular on February 11, 2016 requiring banks to implement Indian Accounting Standards (Ind-AS) and prepare Ind-AS financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or thereafter. However, in a recent press release by RBI on Developmental and Regulatory Policies dated April 5, 2018, it was communicated that owing to the pending legislative amendments in Banking Regulation Act, 1949 and looking at the level of preparedness of Banks, date of implementation of Ind AS has been deferred by one year i.e. it will come into effect from April 1, 2019.

Although IFRS attempt to strengthen the accounting system by closing the gaps, it will increase the amount of provisions that the banks are making at present. In IFRS/Ind AS, Banks are required to make provisions for expected credit loss (ECL) from the time a loan is originated and due to this provisions are expected to increase significantly on initial application of Ind AS.

The implementation of Ind AS is expected to result in significant changes in the manner in which the Bank prepares and presents its financial statements. Since Ind AS is more principle-based compared to present reporting requirements, its implementation would involve use of substantial amount of judgments and assumptions, especially with respect to calculation of provision for advances as well as investments."

INDIAN OVERSEAS BANK

14.10 Written submission furnished by Indian Overseas Bank

Enforcement of securities under SARFAESI Act

1. Stay Orders are being passed by DRTs in favor of the borrowers against bank's action under SARFAESI Act in respect of mortgaged properties. The stay continues for a long time which delays the recovery efforts.
2. Stay orders many a time do not carry any conditional deposit against the Borrowers/ guarantors.
3. It has become a practice on the part of the borrower to file application on the day of auction under SARFAESI to stay the auction/sale. These applications are being entertained and arguments are heard by the PO but the orders are not passed on the same day. This indirectly results into stay of the sale proceedings. Entire exercise of the bank to put the properties on sale becomes futile since potential buyers are not interested in bidding for the properties due to pending litigation.
4. It is an arduous task to obtain orders under Sec 14 for physical possession from CMM / DM / District Collector, as the case maybe.

Challenges

14.11 Resolution under IBC through NCLTs and under RBI's revised framework of 12.02.2018 have thrown up various challenges such as,

1. Huge haircuts sought by Resolution Applicants
2. Where the lenders are already well into recovery action through DRTs / under SARFAESI, an unsecured operational creditor invariably files application to NCLT, throwing out of gear the Recovery Proceedings consequent upon moratorium on Recovery Action when under CIRP and also entailing substantive costs to the lenders
3. Number of cases being referred to NCLTs are on the rise at faster pace and the existing number of NCLTs are inadequate to handle the load ; Only one NCLAT is there currently.
4. Finding a resolution within 6 to 9 months under NCLT is a great challenge as most of these corporate debtors have already gone through CDR / SDR /S4A / Other Recovery Proceedings over past few years without success

5. Latest RBI guidelines for resolution vide their circular of 12.02.2018 have set a tight time line of 6 months to find a resolution to the stress which time line is not matched by the economy scenario obtaining currently; further, failure to find a resolution within the six months will entail referral of the account to NCLT

CORPORATION BANK

14.12 Written submission furnished by Corporation Bank

Sl No	Indicator	Regulatory stipulated level to comeout of PCA Framework	31.03.2018	31.03.2019
			Actual	Projection
1	Capital Adequacy			
	CET 1	8.00%	5.68%	8.00%*
	Tier I	9.50%	7.27%	9.50%*
	Tier II	2.00%	1.96%	2.00%*
	Total	11.50%	9.23%	11.50% *
2	Net NPA	<6.00%	11.74%	8.97% by March 2019 & Below 6% by March 2020
3	RoA	positive	-1.67%	RoA is expected be Positive by March 2019

*To meet the stipulated level of capital adequacy, the shortfall in the requirement of capital in the current financial year is expected to be around Rs 5000 Cr (including Tier 1 & Tier II). Shortfall in capital is expected to meet by way of infusion by Govt. of India, QIP and raising through Tier II bonds.

DENA BANK

14.13 Written submission furnished by Dena Bank

Bank has drawn a Road Map to come out of PCA as follows:

Area	Indicator	*Actuals as on 31/03/2018*		*Projections as on 31/03/2019*		*Projections as on 31/03/2020*	
		Position	**Risk Threshold Level**	**Position**	**Risk Threshold Level**	**Position**	**Risk Threshold Level**
Capital Adequacy	Total CRAR	11.09%	Not in Risk Threshold	11.62%	Not in Risk Threshold	11.51	Not in Risk Threshold
	Common Equity Tier1 + CCB	8.81%	Not in Risk Threshold	9.24%	Not in Risk Threshold	9.28	Not in Risk Threshold
Asset Quality	Net NPA ratio	11.95%	Risk Threshold 2	6.44%	Risk Threshold 1	2.29%	Not in Risk Threshold
Profitability	Return on Assets	Negative ROA for last 3 years	Risk Threshold 2	Negative ROA for last 4 years	Risk Threshold 3	ROA Turns positive	Not in Risk Threshold
Leverage	Tier 1 Leverage Ratio	5.10%	Not in Risk Threshold	5.25%	Not in Risk Threshold	5.30%	Not in Risk Threshold

14.14 While appearing before the Committee on 26.06.2018, representatives of Dena Bank made the following oral submission:

"We are a bank with more than 1800 branches and we dominate the scene in Gujarat, Maharashtra and Chhattisgarh. These are the main areas. We were put under BCA on 17th May last year. As per BCA the restrictions were there on staff expansion. We were told that March 17 level should not be crossed, no branch expansion was to be there. Of course, we had to reduce the risk-weighted assets by lending to better rated borrowers so that we can reduce the risk weight and reduce the capital requirement also.

On 7th of May last year there has been a total restriction on assuming any kind of fresh exposure, and there is complete restriction on staff recruitment. Just to share with the Committee, we have had meetings with the RBI at DFS level also and we have shown our concern there. RBI has said that you have to improve the NPA position; then, after some time when you improve the position you have to come back and then on your representation we will reconsider the restriction put on fresh exposure."

BANK OF MAHARASHTRA

14.15 Written submission furnished by Bank of Maharashtra include:

ISSUES:

1. High Level of NPA

14.16 Due to varied reasons non-performing asset (NPA) level of the Bank has increased. Comparative position of NPAs of the Bank during the last five years is as under.

(Rs in crore)

Particulars	*March,14*	*March,15*	*March,16*	*March,17*	*March,18*
Gross Advances	90369	101210	111240	101537	94645
Gross NPA	2860	6402	10386	17189	18433
Net NPA	1807	4126	6832	11230	9641
GNPA Ratio (%)	3.16%	6.33%	9.34%	16.93%	19.48%
Net NPA Ratio (%)	2.03%	4.19%	6.35%	11.76%	11.24%
Provision Coverage Ratio	46.57%	45.04%	44.48%	58.71%	
Fresh addition to NPA	2588	4624	5623	9035	5144

REASONS FOR NPA:

14.17 Overall slowdown in economic activities led to increase in NPAs over the past few years.

14.18 Industry specific distress, like those in metal, infra and commodities led to delinquencies in bit ticket loans.

14.19 Major industries with high NPAs of the Bank as on 31.03.2018 are Basic Metal & Metal Products Rs.3625 crore (19.67% of GNPA of the Bank), of which Iron &

Steel Rs.2077 crore (11.27%), Infrastructure Rs.1873 crore (10.16%), Textiles Rs.654 crore (3.55%), Cement & Cement Products Rs.521 crore (2.82%).

14.20 The sectors showing high proportion of NPAs are Medium & Large industries (sectoral NPA of 43.36% and 24.73% respectively), SME (20.49%) and Agriculture (16.53%).

14.21 Major reasons for high delinquencies in the recent years are as under.

Domestic and global slowdown in economic activities

Sharp fall in global demand and fall in prices of steel and other metal products

Spate of restrictive trade practices of the developed countries like the USA

Stalled projects due to difficulty in land acquisition and difficulty in getting various regulatory clearance

Large accounts which were restructured during 2013-14 & 2014-15 could not repay the dues as per restructured repayment programme and turned NPA subsequently as failed restructuring cases.

Spiraling effect on the industries and sectors having forward as well as backward linkage with the heavy industries and infrastructure sector

Transitory effects of a number of structural reforms of the Government like Demagnetization and introduction of GST.

Non repayment of agriculture loan in anticipation of loan waiver.

Stagnant Business Level

14.22 Business level of the Bank has come down in the past two years. It stood at Rs.233626 crore as on 31.03.2018 as compared to Rs.250230 crore as on 31.03.2016. Major reasons of the same are as under.

"Deposits level have remained almost stagnant (Rs.138981 crore as on 31.03.2018 as compared to Rs.138990 crore as on 31.03.2016). While CASA deposit of the Bank increased by Rs.15387 crore during this period, the Bank consciously shed high cost bulk term deposits and Certificates of Deposits.

Gross advances have come down by Rs.16595 in the past two years

Reduction in advances levels was due to the change in business model of the bank to shift its focus from lending to large corporates to RAM (Retail, Agriculture and MSME sectors).

While there was immediate reduction in corporate advances, relatively slow growth in RAM led to fall in advances level.

On top of it, due to losses incurred by the Bank ***there was a capital constraint restricting Bank's scope to increase advances.***

As the market conditions were not conducive to raise capital Bank relied on the GoI for capital infusion. In turn GoI has directed the Bank to undertake to reduce its risk weighted assets (RWA) in FY18 and FY19."

2. Pressure on Profitability

14.23 Unprecedented level of NPAs and other market forces have put pressure on profitability of the Bank. Operating profits of the Bank in FY18 has increased by 20% over the previous year. However it is lower than Operating Profit of FY16 by about 7%.

14.24 The main factors attributable to the reduction in profitability of the Bank are:

High level of delinquencies caused lower interest income from advances as well as reversal of interest. Interest on advances in FY18 was Rs.7073 crore as compared to Rs.8470 crore in FY17.

High level of NPAs required higher provisions leading to net loss in the past two years. NPA provisions in FY17 and FY18 were Rs.3800 crore and Rs.5331 crore respectively The Bank incurred net loss in the past two years, Rs.1373 crore and

Rs.1146 crore in FY17 and FY18 respectively.

Rise in interest rates in the recent past has led to depreciation in the investment portfolio necessitating to make provision for mark to market (MTM) losses. Provision of Rs.54 crore was made in FY18 towards depreciation in investments. There was a temporary relief in MTM loss provision in FY18 due to the special dispensation given by RBI to spread MTM losses in Dec 2017 and Mar 2018 quarters over 4 quarters.

Bank has initiated action under IBC-2016 (NCLT) in respect of 59 borrowal accounts. As per RBI guidelines Bank has to make higher provisions for these accounts.

Bank expects to take hit of deep hair cut in case of NCLT referred accounts. As per the Memorandum submitted to GoI, the Bank has to reduce its RWA. As a result Bank has to focus on better rated clients there by sacrificing on interest rates.

3. Capital Requirement:

14.25 Bank has maintained CET-1 ratio of 8.97% as against benchmark level of 7.375% and CRAR of 11% as against benchmark level of 10.875% as on 31.3.2018. In addition to capital infusion of Rs.3173 crore by GoI, Bank has also mobilised Rs.313.55 crore equity capital by way of QIP during FY-2017-18. There has been no internal accrual of capital due to

net loss incurred by the Bank in the last two years. On the other hand losses required additional capital to meet the minimum CRAR as per Basel III guidelines.

Incremental Capital conservation buffer requirement is an additional burden till March 2019.

Bank's position	31.3.2017	31.3.2018	Regulatory requirement for 2019 onwards
CET-1 including CCB	7.28%	8.97%	>8%
Tier-1 Ratio	9.01%	9.01%	>9.50%
CRAR	11.18%	11.00%	>11.50%

4. Human Resources:

14.26 Major issues related to human resources are:

Large scale retirements have resulted in wide gap in the middle and senior management grades.

Large number of freshly recruited staff with inadequate experience pose operational risk and lower quality of decision making.

CENTRAL BANK OF INDIA

14.27 Written submission furnished by the Central Bank of India:

1. **ROAD MAP TO COME OUT OF PCA:**

Area	**Indicator**	**Bank's Position as on 31/03/2018**		**Bank's Expected Position as on 31/03/2019**	
		Position	**Risk Threshold Level**	**Position**	**Risk Threshold Level**
Capital	CRAR	9.04%	Risk Threshold 1	9.45%	Risk Threshold 1
	Common Equity Tier1 + CCB	7.01%	Risk Threshold 1	7.65%	Risk Threshold 1
Asset Quality	Net NPA ratio	11.10%	Risk Threshold 2	5.95%	Bank will move out of PCA
Profitability	Return on Assets	Negative ROA for last 3 years	Risk Threshold 2	Negative ROA for last 4 years	Risk Threshold 3
Leverage	Tier 1 Leverage Ratio	3.63%	Risk Threshold 1	3.51%	Risk Threshold 1

Assumptions/Strategies:

a. **Capital and Leverage Ratio**: CET 1 + CCB ratio of 7.65%, CRAR ratio of 9.45% and Leverage Ratio of 3.51% has been calculated assuming capital infusion of Rs.7519 cr from GoI in FY 2018-19 in form of CET capital. **Hence, Bank will continue to remain in Risk Threshold 1 as on 31.03.2019 in terms of Capital and Leverage ratio.**
However, in order **to come out of PCA** and meet minimum regulatory requirements in Capital and Leverage in FY 18-19, **Bank requires minimum capital infusion of Rs.10855 crore from GoI in form of CET capital**.
The Bank will also explore the possibility of raising required equity capital from Public through QIP/Preferential Issue/FPO/Rights Issue, etc. However success of the Issue

will largely depend upon the Bank's profitability, quantum of NPAs, conducive capital market conditions, etc.
Further, the Bank will also explore the possibility of raising Tier II capital on Private Placement basis from the market.

b. **Asset Quality**: With resolution in NCLT cases, Bank is expecting to reduce its exposure in NPA by Rs.13500 cr in FY 2018-19. Further Bank will make its best efforts to arrest further slippages. With projected recovery of Rs.8955 cr, write off of Rs.9105 cr and projected fresh slippage of Rs.8360 cr in 2018-19, Net NPA ratio is expected to come down from 11.10% as on March 18 to 5.95% as on March 19. **This will result in movement of Bank in terms of asset quality from Risk Threshold 2 as on 31.03.2018 to out of PCA as on 31.03.2019.**

c. **Profitability**:Bank will move to Risk Threshold 3 in terms of Profitability measure through negative return on assets on account of additional provisions to be made for MTM losses and NPA accounts under NCLT. However, **Bank is likely to record a marginal profit during Q4 of FY 19, therefore, bank is expected to earn profits in FY 2019-20 and expect to move out of PCA**.

14.28 While appearing before the Committee on 26.06.2018, the representative of Central Bank of India made the following oral submission on the issue of NPAs:

"A major part of the NPAs in industry now stands recognized. In future, fresh accretions in NPAs are not likely to be there to an extent that we saw in the past. So, I do believe that the worst we have seen in terms of NPAs is behind us now. The recognition of NPAs has come about in a very transparent fashion in the light of all the changes made by the Reserve Bank of India. It has helped us to come out with the NPAs as they were. The industry's gross NPA is around 11.5 per cent, as on March, 2018 and this can only come down. I say so because when I look at the figures of my Bank, we had gross NPAs of around 20 per cent. Now, with the various resolutions which are in the offing, especially more so in the NCLT cases where the accounts which have been referred to NCLT and which are almost at a stage when we are seeing the happenings of the resolution, the NPAs are likely to come down much below 14 to 15 per cent. In terms of net NPAs, all the banks have been making good provisions in the last 3-4 years."

ORIENTAL BANK OF COMMERCE

14.29

1. Recovery measures initiated by Bank:

(a) Deployed 6 General Managers in Field.

(b) To give more impetus on high value stressed accounts, SAM Vertical has been created.

(c) A separate TWO Vertical has also been created at HO to effective monitoring of TWO A/cs.

(d) Bank has referred 98 cases to NCLT with aggregate O/s of Rs. 12290 Crore.

(e) Provision Coverage Ratio increased from 54% (March-17) to 64% (March-2018) bps.

(f) The recovery in Bhushan Steel Ltd has resulted into reduction in Net NPA level by 48 bps and Gross NPA by 88 bps.

2. Verticalised Structure: Specialized verticals were created with focus on Retail, MSME, recovery & CASA.

3. Capital Light Model: Bank has adopted capital optimized growth by financing assets with lower risk weight.

	March-2017	March-2018	Variance
Advances	166438	148206	-11%
RWA	131503	107666	-18%

4. Rationalisation of Branch & Space Audit: The bank has undertaken the space audit of its branch network to identify opportunity to downsize the branch network without affecting business and customer service.

5. Fee Based Income: The Bank has created a separate vertical for exploring various avenues to enhance fee based income and further supplement the operating income. Consequently, the bank has registered approx 30% y-o-y growth in fee based income during FY 2017-18.

6. Monetization of Non-Core Assets: Incompliance with PCA as well as PSB reform agenda directives, the bank has been continuously putting concerted effort for monetization of non-core assets. Details of such non-core assets monetized in FY 2017-18.

7. Cost Control: Various initiatives for cost control have been initiated by the bank. A target of 25% cost reduction (excluding establishment cost) on y-o-y basis for FY 2018-19 has been fixed.

8. Differentiated Banking Strategy: Bank intends to establish itself as National Bank of Retail & MSME Segment as part of Bank's differentiated strategy in consonance with PSB reform agenda.

UNITED BANK OF INDIA

14.30 " PCA imposition in the Bank & Road Map for coming out of PCA:

- PCAimposed on 19.12.2017.

Existing and projected PCA indicators(with the proposed capital infusion by GOI):

Sl	Indicator	Min Req. %	Mar 2017 (RBI Assessment)	Mar 2018	Mar 2019	Mar 2020
1	CRAR %	10.25	10.38	12.62	12.18	12.04
2	CET1 %	6.75	7.70	8.39	9.79	9.93
3	NNPA ratio	6.00	10.38	16.49	9.58	5.95
4	ROA	Positive	0.21	-1.04	-0.41	0.35
5	Leverage Ratio	4.50	3.98	4.26	4.29	4.39

4.1 Road Map for coming out of PCA:

A. Capital conservation:

- Proper allocation of financial securities to assets.
- Restricted Corporate loans to borrowerswith higher rating of AAA, AA & A.
- No exposure extendedto entities with rating below investment grade.

B. OtherInitiatives:

- Focus on differentiated banking.
- Retail, Agriculture and MSME segments (RAM) is the thrust area.
- Requested Govt. of India for capitalinfusion of Rs. 2000crduring the current FY.
- Strengthened recovery mechanism and constituted a dedicated Stressed Asset Management Vertical (SAMV).
- Resolution of stressed assets through DRT, SARFAESI, NCLT platform and warehousing of the power assets
- Robust monitoring and recovery mechanism to arrest fresh slippages and recovery of NPAs will bring down the NNPA to below 6% by March 2020.
- Rationalise cost by reduction in overhead expenses.
- Bank is projecting to make profit in the Q4 of the current financial year and in all four quarters of the FY 2019-20 thereby ensuring positive ROA.

IDBI BANK

Governance issues & Frauds in Banks:

14.31 "PSBs are being maligned in the media for their rising NPAs, recent capital injection of the Government at the cost of the tax payer and recent instances of fraud in some PSBs. This has raised questions regarding their governance practices and operational failure and has set the stage for demands of privatisation and of overhauling the governance in PSBs. While it is true that the extent of scams and

corruption is highest in PSU banks, data shows Indian private banks are not entirely immune. Frauds can impact any bank irrespective of their ownership as the financial sector is rife with information asymmetries and market imperfections.

The recent burgeoning growth of bank frauds and scams requires the apex bank to address some fundamental issues that are the root cause of such frauds and related irregularities in the banking sector.Instead of the present trend of detection of frauds post occurrence, it is desired to create systems and processes that raise alarms before the event or while transactions are taking place. Hence it is necessary to improve the risk mitigation techniques, emphasize equally on operation risk, along with credit and market risks. Further, there is still excessive dependence on manual supervision, at both external and internal levels, which deters corporate governance.

The whole gamut of corporate governance is essentially a blend of different segments like regulatory governance, market governance, stake holder governance and internal governance. While the general bias is that NPAs in PSBs are reflective of their corporate governance failure, it merits a mention that most NPAs have occurred due to a variety of well documented factors, many beyond the control of the PSBs.However, it would serve the banks well to revisit their governance structure and risk management systems to address the existing gaps to strengthen their operations.

HR related issues:

14.32 This is a decade of retirement for the PSBs, leading to a loss of experienced hands in their day to day operations. While the recruitments would be happening at the junior levels, there would be a virtual vacuum at the middle and senior level for some time to come. The absence of middle management could lead to adverse impact on banks' decision making process as this segment of officers played a critical role in translating the top management's strategy into workable action plans.

14.33 All banks, including those in the private sector, are witnessing high attrition rates, giving rise to resource gaps. The problem is set to get accentuated further once the banks that have been newly licensed/ likely to be licensed, start hiring. Therefore, bridging resource gaps and managing employee turnover are major challenges that banks need to be prepared to address.

14.34 The banks need to continuously enhance the skill levels of their employees so as to remain viable and competitive and to take advantage of new opportunities. The banking personnel, across the cadres need to be suitably trained to acquire necessary skill sets to perform their jobs more efficiently and embrace digital/technological initiatives for augmented sales/service. The biggest challenge is to build capacity at a rate which matches the loss of existing talent and skills to retirement, poaching and resignations. The training initiatives must ensure that the available talent pool in the banks is able to always keep pace with the fast changing ways in which banking is conducted. Along with service orientation, focus on enhancing sales orientation of the staffs is also required to augment the business spectrum.

Conclusion

14.35 The banking landscape in India is rapidly evolving, shaped by changes in regulatory environment, technological advancements, demographic factors, changing customer expectations, greater competition and issues with banks' operating models. Banks need to get ahead of these challenges and reorient their business models to retain or build their dominance. They need to be agile, innovative and adaptable to overcome the challenges and tap the opportunities. Banks will have to put in place a comprehensive strategic model to take an end-to-end view of changes in markets. The success in such endeavors would be entirely dependent upon the bank's current position, aspirations for the future, desired customer focus, organizational capabilities, brand promise, regulatory situation and capital constraints.

Stressed Assets in Banks/Financial Institutions

Issue

14.36 Certain predominant sectors like power, telecom, EPC, iron & steel, textiles, aviation,etc. have contributed majorly to increase in the stressed assets in the banking industry. Problems in these sectors did not get resolve on time and several large assets slipped into NPAs, resulting in an adverse impact on asset quality, capital adequacy and profitability of the banking system in India. Bankers are trying to reach a resolution and nurse these assets back to health. But, as of now, working out a viable resolution plan, within RBI's revised framework, has remained a major challenge for the banks.

Way Forward

Enactment of the Insolvency and Bankruptcy Code, 2016

14.37 In May 2016, the Insolvency and Bankruptcy Code, 2016 (IBC), which is a comprehensive bankruptcy code, was enacted and notified. It provides a speedy process for resolution if the underlying business is viable. The Code envisages timely resolution through collective decision making by the creditors. The lenders may also appoint a new management,which would then take steps to revive the business in a timely manner. The Code is both process-oriented and time-oriented. It lays down, in detail, the various steps which would need to be followed once a borrower is admitted for insolvency; it is time-oriented because it specifies strict timelines for insolvency resolution, failing which the borrower would have to be taken into liquidation.

Red Flagging of Stressed Assets

14.38 In compliance of RBI Guidelines, a committee has been constituted by the banks to review the accounts showing signs of incipient sickness. RBI has given an illustrative list of 45 Early Warning Signals (EWS) for the guidance of banks and advised the banks to adopt the relevant signals from the list for red flagging the accounts; banks may also include other alerts/signals based on their experience, client profile and business models. The EWS compiled by the Bank form the basis for classifying an account as RFA and commencing its investigation to ascertain incidence of fraud or fraudulent activity in these accounts. Once approved by the RFA Committee, the same is reported to RBI and also disclosed on the CRILC platform, as per stipulated guidelines.

Audits

14.39 The banks' internal and concurrent audit systems have been strengthened, so as to prevent the occurrence of NPAs at the initial stage itself. More vigorous internal audit is now resulting in the bank officers using their traditional business intelligence more extensively, such as speaking to people in the industry, competitors, suppliers&customers,which provide valuable financial information on real time basis.

Pro-activeness in resolution of stress

14.40 Large lenders with significant exposures to infrastructure and core sector companies are showing keenness in resolving stress in these firms, rather than waiting

for assets to turn into bad loans and then either selling them to Asset Reconstruction Companies (ARCs) or referring to NCLT for resolution/liquidation.

Issues in Banking Sector:

- Rising NPA in Banking Sector;
- Impact of RBI circular Feb 12, 2018,
- Low morale of Banking Professionals due to questioning of commercial / business decisions

Challenges in Banking Sector:

- Allocation of scarce capital
- Quick need for enhancing automation in Credit Risk management / Supervisory framework / Loan application processing etc
- New definition of 1 day default
- Stringent norm for completion of resolution ie 100% consent, 180days period, rating of the sustainable debt
- Capacity building of NCLT framework, resolution potential under IBC for small cases
- As the CIRP process in new, some delays, non-uniform approach to IBC code by NCLTs
- Stressed assets in infrastructure sector and the infrastructure sector bottlenecks have affected rise in NPA.
- Rising NPA in retail sector
- Revision / non-adherance in power tariff structure
- **Selling to ARC**: Limited appetite of ARC for large value assets. Price expectation of Banks and Buyers being at large variance.
- **SARFAESI actions getting stalled due to** (i) stay granted by DRT/High Court, (ii) delay in DM/CMM order (iii) required consent from other charge holders; (iv) security occupied by tenant, (v) problems in demarcating the security.

Way forward for Banking Sector:

- Substantial improvement in credit underwriting standard with higher automation.
- Improved monitoring, control and follow-up enabled with system driven early warning signals.
- Strengthening of Credit Risk evaluation, control on exposure limits and creation of rating based geographically/product wise diversified asset portfolio.
- Complete co-ordination and strict and regular information sharing among lenders.
- Enforcement of strict consortium lending practices, limited size of consortium membership for each case, strict action against bankers engaged in facilitating borrowers financial indiscipline (like opening of current account by a non-lending bank, etc)

(XV) Banks recovery from NPA a/cs via One Time Settlement (OTS)

15.1 A National Financial daily- Business Standard (7 August, 2018), has reported the following in their issue dated 7 August, 2018 under the news caption "Banks recover Rs 222 bn from NPA a/cs via OTS.

"Public Sector Banks (PSBs) have recovered over Rs 222 billion through one-time settlement (OTS) in 2.44 million accounts over the last three years as a part of cleaning up balance sheet. Banks seemed to have stepped up efforts the most in 2017-18 to get about Rs 90 billion from close to one million accounts.

This assumes significance in the light of Sashakt panel's (Sunil Mehta panel) advice for banks to resort to recoveries through schemes akin to OTS to settle dues of Non-Performing Assets (NPAs) up to Rs 500 million.

The information presented in the Lok Sabha covers 19 nationalised banks. It does not cover State Bank of India group and IDBI Bank.

In 2015-16, state-owned banks were able to arrive at a settlement in case of 0.69 million accounts and recovered Rs 64.6 billion. In the following year, 2016-17, they got Rs 67.8 billion from 740,000 accounts.

According to RBI instructions, banks are required to have a loan recovery policy, which may cover negotiated settlements of NPAs. According to inputs from nationalised banks, all nationalised banks have in place OTS schemes. These schemes are in pursuance of board-approved policies of banks, and are typically oriented towards sectors such as agriculture, Micro Small and Medium Enterprises (MSMEs), weaker sections and education loans, and typically have an upper limit on the amount of NPAs.

Sunil Mehta panel, which penned the five-pronged approach termed "Sashakt" to resolve the pool of non-performing assets, has suggested a scheme akin to OTS for SMEs

This approach will be applicable to assets that are less than Rs 500 million and contribute Rs 1.2 trillion to the PSBs' stressed asset pool. These are predominantly sole banking assets and do not need coordination between multiple banks to resolve.

15.2 In reply to specific query, the Ministry of Finance submitted the following (unstarred question no. 2905 - 3 August, 2018)

"As per data reported by nationalised banks, over the last three financial years 24,40,832 one time settlements (OTS) have been made and an aggregate amount of Rs.22,223 crore has been recovered..."

PART-II

OBSERVATIONS/RECOMMENDATIONS

1. Muted growth in assets, steep losses and erosion in capital have led to the build-up of high leverage (i.e ratio of assets to capital) in the banking system, particularly for public sector banks (PSBs). The Committee note that the problem with high leverage is that it magnifies profits when the return from assets are healthy, but it also blows up the losses in case of low returns. For instance, Punjab National Bank, which reported a loss of around Rs 12,200 crore in 2017-18, has a high leverage of 18.6 times. Allahabad Bank, Oriental Bank of Commerce, Canara Bank and Union Bank are some of the other PSBs that have declared their full-year results, showing high leverage. Barring two banks- Indian Bank and Vijaya Bank- which posted profits in the fourth quarter of fiscal 2018, the remaining nineteen PSBs have posted record losses. The Committee further note with concern that loan write-offs at PSBs grew at a faster rate than outstanding loans in the last quarter on account of lower credit. It has been reported that a group of 16 large and mid-sized PSBs has written off more than Rs 31,000 crore in the June quarter of 2018-19, which is stated to be a 37% increase over a year ago, whereas the same set of banks saw a meagre 4.5% growth in their loan book during that period. Although the situation is no doubt grim, the Committee would remain optimistic that as most of the large legacy NPAs get resolved/settled either through the Insolvency and Bankruptcy Code (IBC) process or outside it, the consequential recoveries/write-ins will help the banks shore up their balance sheets. It is necessary and prudent that these large legacy loans/NPAs are segregated for resolution and the balance sheet of banks

sanitised therefrom, allowing them to move ahead with their regular business without getting bogged/dragged down with legacy issues. The need of the hour for the banking sector is to look ahead and progress with vigour and vitality. Towards this end, the Committee desire that both the RBI as the regulator and the central government as the majority stakeholder in Public Sector Banks should formulate coherent policy responses, which will enable and empower the banks to overcome the present challenges and chalk out their growth path for the future with confidence. In this connection, the Committee would like to emphasise that the present crisis which the Committee believe is transient, should not become an alibi for privatisation of public sector banks

2. The Committee find that the RBI's revised framework on resolving stressed accounts has resulted in a sharp rise in bad loans in 2017-18, so much so that the bad loan provisioning has eaten into the earnings as well as the capital of PSBs, further accentuating their problem of leverage. The Committee are concerned that with limited scope of improvement in earnings, at least in the near term, existing high leverage of PSBs could inhibit their lending and lending capacity, which may in turn adversely impact the growth prospects in our economy. The Committee hope that the RBI will adequately factor in this prevailing scenario and the need to uplift Banking operations and business while reviewing their regulatory guidelines/framework. In this connection, the Committee would recommend for a new law to set up a Public Credit Registry (PCR) as recommended by the Y.M.Deosthalee Committee constituted by the RBI for structured sharing of credit information and follow-up action among banks. Such a mechanism will also go a long way in pre-empting/detecting frauds. The

Committee are also of the view that the Asset Reconstruction Companies (ARCs) have become an instrument to park the NPAs of banks as simply a window-dressing exercise. The Committee would therefore recommend that this policy should not be misused in such a manner, as it does not really serve the purpose of resolving the NPAs.

3. The Committee have been informed that while Basel framework requires application of capital standards to internationally active banks of the 21 PSBs, 9 PSBs are not internationally active as also most of the older private banks are also not internationally active. RBI has required banks to maintain CRAR 1% higher than global Basel norms both under Basel II and Basel III framework The Committee find that CRAR norm of 11.5% (including Capital Conservation Buffer) CCB requirement of 2.5% (by the end of 2018-19) under Basel III by RBI is higher by 3.5% than the required CRAR of 8% under global Basel II framework. In respect of the nine PSBs, (Central Bank of India, Andhra Bank, OBC, Corporation Bank, Vijaya Bank, Bank of Maharashtra, United Bank of India, Dena Bank and Punjab and Sind Bank) which had aggregate risk weighted assets of approximately Rs.9.93 lakh crore as of March 2018, this translates into additional capital requirement of approximately Rs.35,000 crore. Similarly, RBI has also required these banks to maintain the Capital to Risk-weighted Assets Ratio (CRAR) at 1% higher than the global Basel norms. Such stringent norms stipulated by RBI for our banks, particularly the aforementioned nine banks, who are not internationally active at all, is unrealistic and unwarranted. The stipulated additional capital requirement for these nine banks (who are already under RBI's PCA framework with lending restrictions etc.), if waived, will release

huge funds to the extent of approximately Rs.5.34 lakh crore, representing 51% growth in the loan book of these banks, generating additional interest income of appx. Rs.50,000 crore annually, which will obviate the need for additional capital infusion into these banks through our fiscally constrained national budget.

4. Against such a backdrop, the Committee note that the additional capital base further stipulated under the latest IFRS norms (beyond Basel III) for Indian banks may end up drastically reduce lending capacity of our banks and put greater pressure on their balance sheet which may accentuate matters and put more fetters on their already restricted lending and inherent lending capacity. The Committee would thus like the RBI/government to review the position on this issue particularly the requirement for a higher capital percentage under both Basel III and IFRS beyond even global norms, which stipulate the requisite minimum percentage of 9.5% (IFRS) while the same for our banks is much higher at 10.5%. Such a significant percentage point differential would actually require our banks to needlessly maintain a much higher capital base and baggage, which is uncalled for, particularly at this critical juncture, when our banks are short of capital and their provisioning requirement is also growing higher. The Committee would thus recommend to keep these norms under suspension in the light of the existing challenges confronting our banking sector, particularly the PSBs and also extend the time frame for full implementation of Basel III as well, keeping the present constraints in mind. The Committee also desire that an expert Committee should be set up to study with Indian perspective as to how the other signatory countries to Basel III/ IFRS have implemented the norms. The

Committee may be apprised of the findings of the proposed study within three months of presentation of this Report.

5. The Committee observe that about two decades since the shift to universal banking away from domestic financial institutions, which specialised in long-term finance, it has become evident that banks lack the expertise and resource-base to engage in project finance. As there is a vacuum now in this area, the Committee are inclined to suggest that the earlier institutional architecture may be re-considered for long-term finance (particularly at this juncture when the bond market in the country is not fully developed), which will facilitate higher medium/long term growth, particularly in the industrial and infrastructure sector. In the present scenario, Public Sector Banks, may be more inclined towards retail credit as a safer option at least in the shorter run. With the advent of small finance banks, NBFCs and micro-finance institutions, the traditional banks including the PSBs may find an easier route in re-financing these entities and supplementing their finances. The Committee would however expect these banks (including those under the RBI's PCA framework) to continue without any dilution in their ongoing priority sector lending with particular emphasis on agricultural/rural credit. In this context, the Committee would also recommend that banks like Vijaya Bank and Andhra Bank with particular regional presence should maintain their regional focus.

6. The Committee are concerned that the deposits in PSBs have been declining, which is yet another challenge warranting serious attention, particularly with a view to mobilising and channelising the savings of the general

public. PSBs thus should not slacken in their efforts to mobilise deposits, as retail savings migrate to mutual funds. In this context, it is also pertinent to emphasise the need also to develop and deepen the corporate bond market, for which tax-free retail bonds for public as well as private sector long term infrastructure projects can be encouraged, which would be another useful instrument in mobilising public savings, while providing additional avenues for corporate finance.

7. With a view to restoring confidence and morale among bankers, the Committee would like to emphasise that a climate of fear and uncertainty should not be created among bankers, which could translate into an unintended credit freeze, which may have the effect of slowing down the economy at a juncture when a higher growth trajectory is the need of the hour. Unless there is a proven quid pro quo, criminality of the bankers cannot be presumed for decisions taken in the usual course of business and they should be provided a fair chance to explain their position before proceeding in the matter. In the Committee's view, what is needed now is to improve governance standards and foster confidence-building in PSBs for which the suggestions made by the Banks Board Bureau (BBB) and the PJ Nayak Committee appointed by RBI be considered for early implementation. Towards this end, RBI as regulator cannot escape their responsibility to sort out and fix the lapses in their oversight functions. For this purpose, the erstwhile practice of separate promotional avenues in PSBs and SBI for the ED and CMD's post may be revived for greater harmony and accountability. The Committee also believe that more incentives and a better remuneration package should also be given to the senior management of PSBs,

as there exists a wide gap in compensation package between them and their private sector counterparts. The Committee desire that the Board of Directors of PSBs should be a fully empowered and professional body functioning without any kind of hindrance, structural or otherwise. The Committee desire that in case, the lateral mobility policy of senior officers in PSBs at the Board level is being considered by the Government, by promoting DMDs of SBI, then the movement should be made both ways, that is from SBI to PSBs and from PSBs to SBI, with a view to ensuring a level-playing field and motivation to all meritorious and competent officers, irrespective of the place of work. The Committee would also suggest that a three-month overlap may be provided at CEO level to facilitate smooth transition in PSBs. Further , with a view to utilising the expertise of Senior bankers, the retirement age of CEOs of PSBs can be raised to 70 years as in the case of their private sector counterparts.

8. The Committee believe that the RBI, as the banking regulator clearly bears the responsibility to proactively fix the flaws/lapses if any, in their oversight functions. However, while doing so, it needs to be kept in mind that difficulties arising out of sudden changes in economic/business /legal environment should be clearly distinguished from instances of intentional foul play or fraud. The Committee desire that RBI as regulator should consider separate treatment of NPAs due to wilful defaulters and those where defaults are because of extraneous reasons such as cancellation of coal blocks and policy interventions by the judiciary and general policy changes in various sectors such as Coal, Power, steel, telecom, roads etc. For this purpose, the concerned RBI guidelines/ circulars should be reviewed. The Committee would also recommend that a

legislation should be enacted for ensuring timely payments by government agencies to the affected entities in these sectors, failing which the 90-day deadline for NPA declaration should be reviewed. The Committee would also suggest that the process of identification of NPAs should also be made more transparent, particularly keeping the constraints of small borrowers in view. The Committee would also caution that knee-jerk reactions or responses such as stopping of LoUs (which was brought by RBI) to make available cheaper credit to business on the part of RBI should be avoided, which may stifle the investment scenario as well as the entire decision-making processes in banks, which after all operate in a dynamic commercial environment. It is thus necessary that any crisis that may unfold in the usual course of banking business should be handled both decisively and judiciously without affecting the overall investment climate of the business and undermining the general confidence level and professionalism of bankers in taking prudent risks. In this context, the Committee are constrained to observe that scrutiny of all NPA accounts/cases more than Rs 50 cr from the angle of possible fraud and closely monitoring them accordingly is not a fair and judicious process, as this will only lead to counter-productive results and in the demotivation of bankers in taking any lending risk. The Committee, therefore desire that RBI's guidelines in this regard should be reviewed.

9. The Committee note that the RBI has been tightening the screws on the operations of 11 identified PSBs including their lending and hiring activities under the Prompt Corrective Action (PCA) framework. The RBI's revised PCA framework, implemented in 2017, monitors and classifies banks into three risk

parameters based on their capital adequacy, net non-performing assets (NPAs), return on assets and leverage. That many of the PSBs brought into PCA last year are already on the brink, show how quickly their finances have deteriorated. Further, RBI's sudden decision in February earlier this year to revoke all earlier corporate debt restructuring schemes has hastened the slide. It is not clear as to how these banks will turn around their operations with the existing curbs on their lending and even deposit-taking in the case of some. The sole purpose of imposing PCA must have been to focus on recoveries. However, even this objective does not seem to have been largely achieved since the recoveries have either stayed stagnant or nominally grown mainly because the parties with NPAs have no motivation to payback and prove their credibility as they do not look forward for any new loans from the bank. The Committee would therefore expect the RBI to provide a coherent and positive road map for each of these eleven banks to come out of the stringent PCA framework within a stipulated time-frame, so that they can resume their normal banking operations. It needs to be recognised that each of these banks has its own distinct identity, tradition and flavour which they have nurtured over the years. Their uniqueness thus should be preserved. They cannot, at any reckoning, be allowed to slide down this descending path. The Committee are apprehensive that the PCA framework may end up bringing more and more PSBs under its ambit, which may aggravate matters and culminate in a vicious cycle in the banking sector and the economy at large. The Committee would therefore urge both the RBI and the government to constantly monitor the situation for each of these banks and relax/review the PCA framework especially in case of Banks where even retail Banking is

prohibited. The recovery plans submitted by them to RBI should be finalised in a short time-frame so that they can resume their normal functioning without any delay. The concerned banks should also remain pro-active from their side for effecting loan recoveries. They should utilise the 180-day window available to them for exposures greater than the threshold of Rs 2000 crore under the Insolvency and Bankruptcy Code (IBC) and the RBI circular of February 12, 2018 providing for a revised framework for resolution of stressed assets. As the RBI believes that this revised framework provides full flexibility to both the lenders and the stressed borrowers in shaping the contours of a resolution plan subject to certain conditions, the Committee would expect the bankers to seize this opportunity to settle/resolve the NPAs/stressed assets in their books to the maximum extent possible. The Committee would suggest that even as bankers seek to resolve the bigger cases, the smaller cases involving outstanding loan of less than say, Rs 200 crore should be straightaway resolved in accordance with extant guidelines without letting them linger on indefinitely in DRTs.

10. In this connection, it has been submitted in the Ministry's written reply to a question in Lok Sabha that PSBs have recovered over Rs 222 billion through the process of one-time settlement (OTS) in respect of 2.44 million accounts over the last three years (excluding SBI and IDBI Bank) as a part of a drive to clean up the balance sheet. This assumes significance in the light of the suggestions of the Sashakt panel (headed by Shri Sunil Mehta) appointed by the government, which has advised the PSBs to resort to recoveries through schemes such as OTS to settle dues of NPAs upto Rs 500 million. The Committee note in this regard that according to RBI instructions, banks are required to have a loan recovery policy,

which may also cover negotiated settlements of NPAs. As these accounts are predominantly sole bank assets, it does not require any coordination between multiple banks to resolve them. For this purpose, the Committee desire that banks should set up focussed verticals with clear targets and staff this vertical appropriately. A template resolution approach for resolution of different types of stressed loans should be devised based on simple and objective metrics. As these accounts mostly relate to MSMEs with large job creation potential but minimal ability to survive in difficult times, the Committee believe that such a constructive approach to resolve these NPA cases will go a long way in not only bolstering banks' balance sheets, but also in the much-needed revival of growth in the MSME sector. The Committee desire that with regard to long term/medium-term projects, particularly in critical core sectors such as energy, coal, steel etc., it would only be fair to effect recoveries after the projects are commissioned, as there may be genuine and insurmountable factors beyond the control of the promoter/borrower, delaying the commissioning of projects.

11. The Committee note with concern that the resolution process of certain large NPAs under the Insolvency and Bankruptcy Code (IBC) has been taking an unduly long time far beyond the 270-day (extended period) timeline stipulated in the statute itself. The cases referred to the NCLT under IBC are still quagmired at different points/stages in the whole process. As the timelines and deadlines are an integral and critical part of the legal architecture devised under the IBC, undue delays and circumventing the due process by some entities may derail a progressive legislation and render it infructuous. In some genuine cases in the interest of fairplay, extension of deadline may be permissible on a case to case

basis. It is a moot point here whether those identified as "wilful defaulters" should be debarred from the ambit of IBC altogether so that they do not stymie the legal process. Considering the fact that unduly large "haircut" have been suffered by the creditors in some cases, the Committee would recommend for fixing reasonable base price for any bidding so that large "haircuts" can be avoided in the course of the IBC process in NCLT. The Committee would hope that the NPA crisis, confronting the banking sector which has caused banks to be heavily burdened by large unproductive loans on their books, will be resolved fairly and swiftly enough, through the IBC process, so that banks will be able to move ahead unhindered without any baggage, stimulating investment and growth in the economy. In this regard, the Committee desire that the NCLT, which has to shoulder a burgeoning workload, should be beefed up and made self-sufficient in resources. Simultaneously, the role of NCLT also needs to be evaluated with regard to their performance as recoveries made so far have been insignificant.

12. In a written submission to the Committee, the RBI has stated that some of the important powers that they enjoy under the Banking Regulation Act, 1949 in respect of banking companies are not enjoyed by them in respect of Public Sector Banks (PSBs). According to RBI, the Banking Regulation Act does not apply to PSBs in full and only those provisions of the Act specifically enumerated in Section 51 of the Act or elsewhere in the Act apply to PSBs. RBI has thus submitted that this constitutes a constraint for them as a regulator and supervisor of PSBs. RBI has further submitted to the Committee that they have made a reference to the government for certain amendments in the Banking

Regulation Act for empowering RBI vis-a-vis PSBs along with consequential changes in the Banking Companies (Acquisition and Transfer of Undertakings) Acts 1970/1980 and State Bank of India Act, 1955 to avoid inconsistencies therein. RBI has averred that they have sought these amendments to enable them to exercise effective control over PSBs, as it does in the case of private sector banks on an "ownership neutral basis". The Committee, however note that under the omnibus Section 51 of the Act which applies to Nationalised Banks and SBI, the RBI enjoys the powers to inspect the bank, its books and accounts specifically under section35(1) and section 35(3) of the Act. Thus, all the relevant information is already available with RBI concerning the banks including their forensic audit reports, if any. Further, it also needs to be kept in mind that the government, as a convention, maintains regular consultations at various stages with RBI in matters relating to appointments of senior officials including EDs and MDs. The Committee also note that as per provisions of Banking CO(s) (Acquisition and Transfer of undertakings) Act of 1970 and 1980 and SBI Act 1955 vide Gazette notification of the Ministry of dated 23rd March, 2016, Banks Board Bureau (BBB) was created by Central Government for the purpose of evolving a sound Managerial Policy for the nationalised banks and Deputy Governor, RBI is an ex-officio Member of the Bureau. He is a part of the BBB directly involved in recommendation to the Government regarding appointment of Director(s) (ED and MD) of Public Sector Banks and SBI. Similarly, under the provisions of banks (Para 8 of Nationalised Banks Schemes 1970 and 1980) Nationalisation Act, for removal of whole time directors of nationalised banks, the Central Government consults the bank's board, which

includes RBI nominee director. The same paragraph also provides for termination of the term of office of whole time director by giving three months notice on salary and allowance in lieu thereof and the BBB (on which Deputy Governor, RBI is a member) advised the Central Government on such termination. The Committee has also been informed that whenever RBI has flagged need for change in management of Public Sector Banks, Government has given due consideration. However, in view of the above submission of RBI, the Committee would now expect the government to critically examine the same for empowering RBI with respect to the PSBs, while also evaluating the application and enforcement thus far of already existing powers/authority by the RBI. It also needs an objective appraisal as to the extent to which RBI has been enforcing their assigned authority and powers with respect to digressions by private banks such as ICICI and HDFC etc. The Committee would thus recommend that the government should constitute a high-powered committee to evaluate the role, powers and authority of RBI in its entirety, while also appraising the economic impact of the various NPA resolution guidelines/schemes formulated by RBI from time to time. The proposed Committee should look into those provisions of the RBI Act, Banking (Regulation) Act and other relevant statutes with a view to ensuring the accountability of RBI as the regulator of the banking sector including the matter of having RBI nominees on the Boards of banks.

13. The Committee note with concern that as per data submitted by the RBI to the government, the quantum of funds involved in frauds in banks and other financial institutions during the year 2017-18 increased to Rs 32,048 crore as

against Rs 23,930 crore in the previous year mainly due to banks such as HDFC, ICICI and PNB. For public sector banks, it had gone up significantly from Rs 19,529 crore to Rs 29,246 crore mainly due to PNB reported fraud. The number of frauds detected in banks were 2883 in 2017-18 as against 2709 in the financial year 2016-17. The RBI has, in February 2018, constituted a panel under the chairmanship of Y.H. Malegam to look into the factors that contributed to the increase in the number of frauds and come up with measures to prevent frauds. The Committee would expect the RBI to take concrete follow-up action on the findings of the Malegam panel urgently and apprise the Committee of the same within three months of presentation of this Report. The Committee desire that the RBI should also look into and review the role and effectiveness of various types of audit conducted in banks and its inability so far to mitigate incidence of frauds in banks. The RBI should also evaluate the efficacy of their own guidelines of May 7, 2015 providing a framework for dealing with loan frauds, (based on their own Internal Working Group recommendations), wherein they have expressed their serious concern on the rising trend in loan related frauds and the delay in detection and reporting of such frauds by banks, particularly when there is an RBI nominee Director [Sec 51 of Banking (Regulation) Act] on Nationalised Bank Management Committee of the Board which exercises the powers of Bank's Board w.r.t credit proposals above specified threshold. The Committee are dismayed to note that these guidelines notwithstanding, the incidence of banking frauds has only been increasing. It is therefore a matter requiring serious introspection by the RBI, as the regulator, to have a thorough/ holistic re-examination of the whole gamut of issues related to frauds in the

banking sector and initiate effective regulatory/supervisory measures to stem the tide, instead of piecemeal and impulsive reactions such as stopping the LoUs (which had initially been brought out by the RBI notification dated Nov. 1, 2004). It was inter alia stated therein that it has been decided to accord general permission to ADs to issue guarantees/LOUs/LOCs in favour of overseas supplier, banks and FIs, upto USD 20 million per transaction for a period upto one year for import of all non-capital goods permissible under Foreign Trade Policy (except gold) and upto 3 years for import of capital goods, subject to prudential guidelines issued by RBI from time to time. The Committee, would emphasise in this context the crucial role of forensic audit in banks and appropriate use of technology in various day to day banking processes to detect and investigate frauds, particularly in regard to large loan accounts. RBI should scrupulously monitor compliance in this regard and ensure flawless adoption of prescribed systems and procedures by banks. Early warning systems/alerts should be deployed and linked with the Core Banking System (CBS) of the banks for regular monitoring. The Committee desire that "wilful defaulters" including those who siphon off funds borrowed from banks should be clearly distinguished, identified and booked through these early warning systems and artificial/market intelligence. Such defaulters should be proceeded against in accordance with criminal law, while large number of borrowers, who might have defaulted in their repayment schedule due to commercial constraints or business uncertainties and are willing to repay their debt, should be treated on a different footing in a fair manner. However, the Committee note with strong disapproval the practice of "ever-greening" by banks, who extend further credit

to a defaulter, which only accentuates the problem. Such a lending policy should therefore be discontinued forthwith.

14. The Committee note with concern that there are just not enough ATMs being installed or added to cater to the rising demand for cash in an expanding economy, even as more and more debit cards are being issued and large number of Jan Dhan accounts opened by banks. Further, RBI's re-monetisation drive has not augmented/resolved the cash supply to ATMs in rural/semi-urban areas, forcing shutdown of many ATMs. As digital transactions have not become anywhere near universal, the Committee would urge upon the RBI to pursue the lingering problem of dysfunctionality as well as shortage of ATMs vigorously with banks, while ensuring the economic viability of ATMs for all stakeholders, so that a forced cash crunch is not imposed on the public.

15. The Committee are given to understand that there has been strangely a discernible fall in the number of candidates registering for clerical, probationary officer and specialist officer positions at public sector banks as per data available from the Institute of Banking Personnel Selection. The Committee believe that while banks reducing their recruitment could be a factor, undue stress and work pressure from long hours and difficult working conditions without commensurate compensation/incentive package may be discouraging prospective candidates. Considering the fact that there may be large number of retirements in the near future in public sector banks at various levels, the Committee desire that proper manpower planning and human resource development strategies should be put in place in public sector banks, so that the staff/officers groomed into the system, remain motivated and a sudden vacuum

is not created at the junior/middle levels due to manpower shortage. In this context, the Committee would also like to emphasise that efforts should be made to recruit technically-equipped specialist officers at appropriate levels in these banks.

Annexure 1

Statement 1: Deployment of Gross Bank Credit by Major Sectors										
										(Rs. billion)
		Outstanding as on								
Sr.No	Sector	Jun.27, 2014	Mar.20, 2015	Jun.26, 2015	Mar.18, 2016	Jun.24, 2016	Jun.26, 2015 / Jun.27, 2014	Jun.24, 2016 / Jun.26, 2015	Jun.26, 2015/ Mar.20, 2015	Jun.24, 2016/ Mar.18, 2016
							%	%	%	%
I	Gross Bank Credit (II + III)	57170	61023	61756	66500	66295	8.0	7.3	1.2	-0.3
II	Food Credit	1158	994	1042	1031	757	-10.0	-27.3	4.9	-26.5
III	Non-food Credit (1 to 4)	56012	60030	60714	65469	65538	8.4	7.9	1.1	0.1
1	Agriculture & Allied Activities	7150	7659	7946	8829	9044	11.1	13.8	3.8	2.4
2	Industry (Micro & Small, Medium and Large)	25094	26576	26301	27307	26469	4.8	0.6	-1.0	-3.1
3	Services	13402	14131	14331	15411	15651	6.9	9.2	1.4	1.6
4	Personal Loans	10365	11663	12135	13922	14374	17.1	18.5	4.0	3.2
5	Priority Sector	18679	20103	20585	22259	22588	10.2	9.7	2.4	1.5

Statement 1: Deployment of Gross Bank Credit by Major Sectors										
										(Rs. billion)
							Variation (Year-on-Year)		Variation (Financial Year)	
Sr.No	Sector	Jun.24, 2016	Mar.31, 2017	Jun.23, 2017	Mar. 30, 2018	Jun.22, 2018	Jun.23, 2017 / Jun.24, 2016	Jun.22, 2018 / Jun.23, 2017	Jun.23, 2017 / Mar.31, 2017	Jun.22, 2018 / Mar.30, 2018
							%	%	%	%
I	Gross Bank Credit (II + III)	66478	71455	69279	77303	76949	4.2	11.07	-3.0	-0.5
II	Food Credit	941	511	582	419	624	-38.2	7.2	13.9	48.9
III	Non-food Credit (1 to 4)	65538	70945	68698	76884	76325	4.8	11.10	-3.2	-0.7
1	Agriculture & Allied Activities	9044	9924	9719	10302	10355	7.5	6.5	-2.1	0.5
2	Industry (Micro & Small, Medium and Large)	26469	26798	26185	26993	26417	-1.1	0.9	-2.3	-2.1
3	Services	15651	18022	16393	20505	20218	4.7	23.3	-9.0	-1.4
4	Personal Loans	14374	16200	16401	19085	19336	14.1	17.9	1.2	1.3
5	Priority Sector	22588	24356	23492	25532	24975	4.0	6.3	-3.5	-2.2

Annexure 2

RBI/2017-18/131
DBR.No.BP.BC.101/21.04.048/2017-18

February 12, 2018

All Scheduled Commercial Banks
(Excluding Regional Rural Banks (RRB)),
All-India Financial Institutions
(Exim Bank, NABARD, NHB and SIDBI)

Dear Sir/Madam,

Resolution of Stressed Assets – Revised Framework

1. The Reserve Bank of India has issued various instructions aimed at resolution of stressed assets in the economy, including introduction of certain specific schemes at different points of time. In view of the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC), it has been decided to substitute the existing guidelines with a harmonised and simplified generic framework for resolution of stressed assets. The details of the revised framework are elaborated in the following paragraphs.

I. Revised Framework

A. Early identification and reporting of stress

2. Lenders[1] shall identify incipient stress in loan accounts, immediately on default[2], by classifying stressed assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

3. As provided in terms of the circular DBS.OSMOS.No.14703/33.01.001/2013-14 dated May 22, 2014 and subsequent amendments thereto, lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) on all borrower entities having aggregate exposure[3] of ₹ 50 million and above with them. The CRILC-Main Report will now be required to be submitted on a monthly basis effective April 1, 2018. In addition, the lenders shall report to CRILC, all borrower entities in default (with aggregate exposure of ₹ 50 million and above), on a weekly basis, at the close of business on every Friday, or the preceding working day if Friday happens to be a holiday. The first such weekly report shall be submitted for the week ending February 23, 2018.

B. Implementation of Resolution Plan

4. All lenders must put in place Board-approved policies for resolution of stressed assets under this framework, including the timelines for resolution. As soon as there is a default in the borrower entity's account with any lender, all lenders − singly or jointly − shall initiate steps to cure the default. The resolution plan (RP) may involve any

actions / plans / reorganization including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership, or restructuring[4]. The RP shall be clearly documented by all the lenders (even if there is no change in any terms and conditions).

C. Implementation Conditions for RP

5. A RP in respect of borrower entities to whom the lenders continue to have credit exposure, shall be deemed to be 'implemented' only if the following conditions are met:

a. the borrower entity is no longer in default with any of the lenders;

b. if the resolution involves restructuring; then

i. all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
ii. the new capital structure and/or changes in the terms of conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

6. Additionally, RPs involving restructuring / change in ownership in respect of 'large' accounts (i.e., accounts where the aggregate exposure of lenders is ₹ 1 billion and above), shall require independent credit evaluation (ICE) of the residual debt[5] by credit rating agencies (CRAs) specifically authorised by the Reserve Bank for this purpose. While accounts with aggregate exposure of ₹ 5 billion and above shall require two such ICEs, others shall require one ICE. Only such RPs which receive a credit opinion of RP4[6] or better for the residual debt from one or two CRAs, as the case may be, shall be considered for implementation. Further, ICEs shall be subject to the following:

a. The CRAs shall be directly engaged by the lenders and the payment of fee for such assignments shall be made by the lenders.
b. If lenders obtain ICE from more than the required number of CRAs, all such ICE opinions shall be RP4 or better for the RP to be considered for implementation.

7. The above requirement of ICE shall be applicable to restructuring of all large accounts implemented from the date of this circular, even if the restructuring is carried out before the 'reference date' stipulated in paragraph 8 below.

D. Timelines for Large Accounts to be Referred under IBC

8. In respect of accounts with aggregate exposure of the lenders at ₹ 20 billion and above, on or after March 1, 2018 ('reference date'), including accounts where resolution may have been initiated under any of the existing schemes as well as accounts classified as restructured standard assets which are currently in respective specified periods (as per the previous guidelines), RP shall be implemented as per the following timelines:

i. If in default as on the reference date, then 180 days from the reference date.
ii. If in default after the reference date, then 180 days from the date of first such default.

9. If a RP in respect of such large accounts is not implemented as per the timelines specified in paragraph 8, lenders shall file insolvency application, singly or jointly, under the Insolvency and Bankruptcy Code 2016 (IBC)[7] within 15 days from the expiry of the said timeline[8].

10. In respect of such large accounts, where a RP involving restructuring/change in ownership is implemented within the 180-day period, the account should not be in default at any point of time during the 'specified period', failing which the lenders shall file an insolvency application, singly or jointly, under the IBC within 15 days from the date of such default.

'Specified period' means the period from the date of implementation of RP up to the date by which at least 20 percent of the outstanding principal debt as per the RP and interest capitalisation sanctioned as part of the restructuring, if any, is repaid.

Provided that the specified period cannot end before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium under the terms of RP.

11. Any default in payment after the expiry of the specified period shall be reckoned as a fresh default for the purpose of this framework.

12. For other accounts with aggregate exposure of the lenders below ₹ 20 billion and, at or above ₹ 1 billion, the Reserve Bank intends to announce, over a two-year period, reference dates for implementing the RP to ensure calibrated, time-bound resolution of all such accounts in default.

13. It is, however, clarified that the said transition arrangement shall not be available for borrower entities in respect of which specific instructions have already been issued by the Reserve Bank to the banks for reference under IBC. Lenders shall continue to pursue such cases as per the earlier instructions.

E. Prudential Norms

14. The revised prudential norms applicable to any restructuring, whether under the IBC framework or outside the IBC, are contained in Annex-1[9]. The provisioning in respect of exposure to borrower entities against whom insolvency applications are filed under the IBC shall be as per their asset classification in terms of the Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning, as amended from time to time.[10]

II. Supervisory Review

15. Any failure on the part of lenders in meeting the prescribed timelines or any actions by lenders with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory / enforcement actions as deemed appropriate by the Reserve Bank, including, but not limited to, higher provisioning on such accounts and monetary penalties[11].

III. Disclosures

16. Banks shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to resolution plans implemented. Detailed guidelines will be issued separately.

IV. Exceptions

17. Restructuring in respect of projects under implementation involving deferment of date of commencement of commercial operations (DCCO), shall continue to be covered under the guidelines contained at paragraph 4.2.15 of the Master Circular No.DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances'.

V. Withdrawal of extant instructions

18. The extant instructions on resolution of stressed assets such as Framework for Revitalising Distressed Assets, Corporate Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, Strategic Debt Restructuring Scheme (SDR), Change in Ownership outside SDR, and Scheme for Sustainable Structuring of Stressed Assets (S4A) stand withdrawn with immediate effect. Accordingly, the Joint Lenders' Forum (JLF) as an institutional mechanism for resolution of stressed accounts also stands discontinued. All accounts, including such accounts where any of the schemes have been invoked but not yet implemented, shall be governed by the revised framework.

19. The list of circulars/directions/guidelines subsumed in this circular and thereby stand repealed from the date of this circular is given in Annex - 3.

20. The above guidelines are issued in exercise of powers conferred under Section 35A, 35AA (read with S.O.1435 (E) dated May 5, 2017 issued by the Government of India) and 35AB of the Banking Regulation Act, 1949; and, Section 45(L) of the Reserve Bank of India Act, 1934.

Yours faithfully,

(Saurav Sinha)
Chief General Manager-in-Charges

Minutes of the Twenty Second sitting of the Standing Committee on Finance
The Committee sat on Monday, the 27 August, 2018 from 1100 hrs,
Committee Room No. D, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Bandaru Dattatreya
3. Shri Nishikant Dubey
4. Shri Shyama Charan Gupta
5. Shri Rattan Lal Kataria
6. Shri Chandrakant Khaire
7. Shri Bhartruhari Mahtab
8. Prof. Saugata Roy
9. Shri Gopal Shetty
10. Dr. Kirit Somaiya
11. Shri Shivkumar Udasi

RAJYA SABHA

12. Shri Anil Desai
13. Dr. Narendra Jadhav
14. Shri A. Navaneethakrishnan
15. Dr. Mahendra Prasad
16. Shri C.M. Ramesh
17. Shri T.K. Rangarajan
18. Shri Digvijaya Singh
19. Dr. Manmohan Singh

SECRETARIAT

1. Smt. Abha Singh Yaduvanshi - Joint Secretary
2. Shri Rajesh Ranjan Kumar - Director
3. Shri Ramkumar Suryanarayanan - Additional Director
4. Shri Kulmohan Singh Arora - Deputy Secretary

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee and thanked the Members for their cooperation and participation in the deliberations of the Committee. The Members also expressed their appreciation and thanks to the Hon'ble Chairperson for his consensual leadership as Chairperson of the Committee. The Committee lauded the excellent work done by the Secretariat officials attached to the Committee in rendering able assistance to the Committee in the finalisation and presentation of 69 Reports to Parliament so far in the current Lok Sabha (20 reports presented in the current term ending 31st August, 2018). The Committee, thereafter, took up the following draft reports for consideration and adoption:

(i) Draft Report on "Banking Sector in India - Issues, Challenges and the Way Forward including Non-Performing Assets / Stressed Assets in Banks / Financial Institutions".

(ii) Draft Report on Action Taken by the Government on the Recommendations contained in the 56th Report of the Standing Committee on Finance on 'Transformation towards a Digital Economy'.

After some deliberations the Committee adopted the above draft Reports with some minor modifications as suggested by Members. The Committee authorised the Chairperson to finalise the Reports in the light of the modifications suggested and present the same to Hon'ble Speaker / Parliament.

The Committee then adjourned.