Banking Baatein: T.R. Radhakrishnan

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Building trust and understanding between banks and borrowers is the need of the hour

India has brought in the concept of NPA (Non-Performing Asset) which has changed drastically the perception and approach of banks towards customers when dealing with loans financed by the bank. This concept has created a divide between them leading to a relationship marred by lack of understanding and mutual distrust. The divide has widened with the enactment of the SARFAESI ACT (The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) which empowers banks to take over secured assets without the intervention of courts.

The prudential norms introduced on account of the banking reforms have generated more pressure on the performance and profitability of the banks. The alarming increase in NPAs has led to banks to resort to more stringent and desperate measures based on their new found strength derived out of the SARFAESI ACT to regularise and recover their loans.

Many aggrieved defaulting borrowers feel that the SARFAESI ACT is a draconian law and the banks indiscriminately invoke the harsh provisions of this Act without understanding their problems and predicaments. They complain that the bank does not distinguish between an intentional defaulter and a defaulter due to circumstances beyond his control.

The basic problem is that while banks think that borrowers are always responsible for the account becoming NPA, many borrowers on the other hand know that the many wrong-doings of banks are the reasons for their accounts becoming NPAs. Thus, there is a stalemate and a disconnect in their respective thinking.

What are the reasons for such divergent views? The basic reason is lack of effective communication between banks and borrowers. Communication can make or mar relationships. The purpose of effective communication is to understand and to be understood and the result is the creation of trust between the bank and the customer which is the key that opens all doors.

In any relationship, the essence of trust is not in its “bind”, but in its “bond”. Communication, if effective, leads to cooperation - that is to say understanding between each other creating an intimate relationship where both value each other’s views. So it is with the bank and its customer. Acceptance comes out of understanding and acceptance can lead to better customer-banker relationship which should be complimentary to each other and not contradictory.

But how can a congenial and conducive atmosphere of trust and understanding be built up? Only when the banker and the borrower can understand their respective roles, duties and responsibilities and how these are interconnected with regard to their mutual welfare in their correct perspectives, can there be an everlasting, enduring and endearing relationship. The banker has certain rights and so also the customer. But no one should overlook the fact that a right is derived out of a duty first to be performed. Hence, it is necessary to define precisely and without any ambiguity the rights and responsibilities of the banker and of the customer respectively.

The primary objective of commercial banks is to accept deposits from the public and to lend. When the banks accept the deposits from the public, they become the custodian of public fund and keep it under trust. The duty and responsibility of the banks starts when they deploy the funds for business and development purposes. The important considerations for deployment of funds are as follows:

1. The quantum of fund deployed.
2. The period for which the fund is deployed.
3. The safety and security of the fund deployed.
4. The return on the fund deployed.
5. The purpose for which the fund is deployed.

Being the custodian of public funds, banks have a lot at stake and have a great duty and responsibility towards its depositors. Hence, they have to take appropriate safe guards to protect the interest and safety of their depositors. Besides, the bank has also to utilise the funds to make a profit for themselves to meet their own expenses and to sustain the stakeholders' interest. Hence, they have to appraise and assess the investments they make by taking into account all the deployment needs and analysing the risks involved. Only then can they make available the funds for various business and social activities as per Government policies and Reserve Bank of India directives with their terms and conditions which are to be strictly complied with by the borrowers who avail bank facilities. Recovery of loans is also as important as lending because the recovered loan amounts can be deployed for relending.

The duty and responsibility of banks do not end with making available the funds for productive purposes. The funds are provided for long term use by way of term loans and for short term use by way of working capital. The long term use is recovered in installments and interest over a period of time as per the terms of sanction and the short use being recurring and interest being serviced, is to be renewed after the stipulated period. The banks have a more important duty and responsibility of monitoring the utilisation of funds released by them and also the performance of the recipient of such funds so that they recover their funds deployed with the stipulated interest for which the borrowers are required to submit their feedback by way of controlling returns as stipulated by the bank. They also have to undertake periodical inspection, review and assessment of the borrower's performance and the conduct of their account based on which the future course of action is determined. What the banks expect from the borrower is as follows:

1. Strict compliance of terms and conditions of sanction.
2. Proper execution of all loan agreements.
3. Submission of periodical controlling statements.
4. Timely servicing of interest and payment of installments on time.
5. Financial discipline.
6. Proper planning and execution of plans and programmes, if any, as planned.
7. Effective communication and transparent business dealings.
8. Not to indulge in diversion of funds.
9. Payment of statutory dues to government on time.
10. Effective working capital management for achieving results.
11. Good governance of business and fulfillment of all commitments of the borrowers to the bank and others connected with the business.

But the bank's grouse is that the borrowers do not fulfill their commitments and they flout all the terms and conditions as stipulated in the sanctions of bank facilities. Lack of financial discipline and good governance among the borrowers and rampant diversion of funds lead to sickness in industry and then the accounts become NPA. Banks believe that huge amounts of cash transactions are taking place in business deals which do not reflect in the Balance Sheet and P & L account or in the bank accounts which goes against the KYC (Know Your Customer) norms and difficult to monitor. They also complain that not all business transactions are being routed through the accounts and cheques are being issued without providing sufficient balances in the accounts. The common belief is that the borrowers are after the bank till the loan is released and then the banks are after borrowers for the regularisation of the accounts and recovery of debts.

On the other hand, the borrower feels that the bank is at fault to make their account as NPA. The strain in relationship starts from the submission of application and the appraisal and assessment of the credit proposal. The genesis of the borrowers' grievance comes out of their belief as given below:

1. The borrowers most of the time nurse a feeling that the banks do not sanction the bank facilities as demanded by the borrowers and it is far less than what had been demanded. Further the appraisal and assessment of financial needs done by the bank are faulty and their reports on how they have arrived at the financial needs are not given at all in spite of the request of the borrowers seeking them.

2. There is considerable delay to sanction the various limits and further delay to release them because of which there is an escalation of cost of the project and the non-implementation of the project on time as per schedule results in the account tending to become NPA.

3. Stringent and harsh terms and conditions put forth by the banks to avail finance create many impediments resulting in delay to implement the project as per schedule which affects the early cash flow.

4. The rigid stand taken by the banks to provide collateral securities to avail loan is one of the unkind and unsympathetic terms and conditions of sanction.

5. The borrowers find difficulty to fulfill the Innumerable paper work including various statements to be submitted to the bank and many of them do not know how to prepare these documents and they also do not understand the importance of such paper work. Engaging Chartered Accounts will involve a cost factor.

6. Banks do not take into consideration any event that affects the market and if such an event happens, they do not offer any timely help.

7. Borrowers feel that the branch level officials and many of the bank higher executives do not have the expertise to solve the problems faced by the borrowers.

8. Decision making is very important and timely decision can prevent the account becoming NPA. Most of the bank officers and executives lack decision making capacity.

9. The employees' behaviour towards the borrowers is not congenial to create confidence among the borrowers regarding bank services.

10. The general belief of the borrowers is that the bank violates all Reserve Bank of India guidelines and government of India policies on economic growth particularly those units coming under the category of MSMEs (Micro, Small and Medium Enterprises).

11. The banks resort to drastic steps for the recovery of the loan without analysing the reasons for the sickness and without rendering any helping hand as per RBI guidelines and government of India policies particularly on MSMEs.

12. The general apathy and callousness of the banks towards financing projects particularly those coming under the category of MSMEs.

The borrowers expect the bank to be their partner in business and more as friends in distress ever ready to help them. They want the bank to adhere to the directives of Reserve Bank of India without dilution and follow the banking codes and standards as set up by the Banking Codes and Standards Board of India. Transparency is lacking in bank's dealing with the borrowers. What customers want and need is a financial distribution system that is convenient and secure. The customers feel that their perception of quality is not taken into consideration by the banks with the result even a well defined defect free customer service and care will not succeed if they do not fit in the customer perception of quality and if appropriate follow up measures and services are not available. They feel that quality program and quality improvement program are to be customer driven and not technology driven or competitor driven. Marketing policy, if it is to be effective, should be based on the customer perception of quality. The present trend is that customers now demand high quality at a lower price. Hence the paramount importance should be given to understanding the changing trend and attitude of the customer and to respond positively to the changes taking place in the market.

In the ultimate analysis, the bank has to reorient their attitude towards their customers to match the habits of the customer. The banker has to take decisions to serve the customer with a delightful service and improve upon further on the basis of feedback and through innovation. The banker is expected to analyze the influencing factors of the customer to provide a totally harmonious offering where the service image of the bank matches with the self image of the customer. The customers, particularly the borrowers, can match and reciprocate the proactive borrower-friendly good gesture of the banks by understanding their role and duties in their correct perspective so that the bank can become the friend, philosopher, and guide to the borrowers which can produce excellent economic results. The perceptions, culture, values, and business ethics of the bank and that of the customers are complimentary to each other and if united will not only lead to excellence in business but also ensure an adoring relationship between the bank and the customers.

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