

Banking Baatein: T.R. Radhakrishnan



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Banks need to change approach to reduce NPAs

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 promulgated by the Government allows the banks direct access to securities charged without resorting to legal means which can bypass protracted legal battles.

The law, if viewed dispassionately, is against the doctrine of “justice, equity and good conscience” because it is arbitrary and unilateral for the simple reason that it does not distinguish between an intentional defaulter and a defaulter due to circumstances beyond his control.

Further it does not recognize the role of the banks in the creation of NPA. The premise with which the law is framed is that NPA is the creation of the borrower alone and that the bank has no role in it. It is also a well known fact that many of the accounts turning into NPA are due to shortage/ untimely receipt of working capital, heavy dependence on other sources for funding and untimely and inadequate availability of term loan.

If the role of the banks and other financial institutions in the creation of NPA is accepted, then there can be a drastic change in the approach to solve the question of NPA. It is true that banks and other financial institutions have a right to recover their dues from the borrower. But it should not be forgotten that every right is derived from a duty first to be performed, and here the duty is to provide adequate, appropriate and timely finance to borrowers and guide them properly through effective education and monitoring and help them at the right time when they are in dire need of help.

Non Performing Assets are also created on account of ineffective and improper credit monitoring and lack of timely decisions by banks and other financial institutions. Many times the banks fail to do their duty. "Harsh justice is rank injustice." There are instances of many good and honest customers became the victims on account of apathy and callousness of the banks and FIs who are languishing because of deprivation of their means of survival and livelihood. There are cases of borrowers taking the extreme step of even suicides.

Yet another undisputed fact is that all documents executed by the bank with regard to credit facilities sanctioned to borrowers are one sided implicating not only the borrowers but also their successors and assigns. Once the borrower signs the documents, not only the borrower but also his entire immediate family members are indebted to the bank and also the guarantors, many of them not even remotely connected with the day to day working. At the same time there is absolutely no condition that indicts the bank for its own acts of commissions and omissions to create the NPA.

There are three types of sickness in the industry. (i) Born sick ;(ii) Acquire sickness and (iii) Sickness thrust upon them. Each type should be treated differently while recovering the dues. Some of the causes of sickness are beyond the control of the borrowers and the banks, and in such cases the banks become mere spectators to a

deteriorating situation unable to do anything. Still when the recovery comes, the borrowers alone are blamed. Hence what is required is to take a pragmatic and practical approach when dealing with NPA and even if the recovery is initiated the honest borrowers should not be allowed to suffer.

Timely decision and prompt action by the bank can to a great extent prevent Assets becoming Non Performing. This is the area where most of the delay takes place. The basic behavior and strategy are decided through priority decisions which convert good intentions into effective commitments and insight into actions. But decision making is fraught with danger because of the repercussions, in case of decision going wrong, may be devastating for the decision maker.

Further the “Damocles Sword” of Chief Vigilance Officer and The Central Bureau of Investigation (CBI) is always hanging on the heads of decision makers because of which a “Fear Psychosis” syndrome is prevailing among the bank employees in general and particularly among the decision makers. Decisions are either postponed or responsibilities are shirked or shifted. “A help delayed is a help denied.” Any delay is detrimental to both the bank and the borrower. Had many timely decisions been taken, then many of the incidents of NPA could have been avoided. But Intentional defaulters particularly those who divert the funds should be treated differently and no mercy should be shown to them and they should be punished severely so that it will be a deterrent to others to conduct their business properly and diligently.

The decision of the government to write off loans granted by the banks to the farmers is a point to ponder. How far it is going to help the farmers is to be seen because no proper study seems to have taken place as to the reasons for such suicides and farmers’ misery and the banks’ role in inciting such suicides and the pathetic plight of the farmers. The reasons could only be untimely /inadequate funds from the banks, and the heavy

dependence on private lenders to bridge the gap, arm twisting by the banks through their collection agents etc. What steps the banks take during natural calamities and even if they take some steps, whether such steps are sufficient to help the farmers to tide over the contingencies? Yet another factor is whether the loan amount disbursed actually reaches the farmers fully?

It is high time that the government and the Reserve Bank of India should take effective steps to study the role the banks and financial institutions play and their impact in the creation of Non Performing Assets and to take steps to penalize the banks also for their acts of apathy and callousness in dealing with borrowers. There is a mechanism to redress the grievances of customers devised by Government and RBI in the matter of facilities available to the bank clients. Since the credit decisions are left to the banks and financial institutions, the effectiveness of customer grievance mechanism devised by the banks is not effective for the borrowers in spite of there being a very strong case. With the introduction of the concept of NPA and the enactment of SARFAESI and DRT Acts, which give substantial powers to banks and financial institutions, the borrowers face enormous problems and their grievance with regard to credit is never settled.

By understanding the psychology of the borrowers, by analyzing the causes of default by them and by adopting a practical and pragmatic approach , and removing the 'fear psychosis' prevailing among the decision makers, incidents of NPA can be reduced and recovery of NPA can be made more effective through mutual trust and faith between the bankers and borrowers.

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