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PSBs becoming free money pool for rich?

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The US sub-prime crisis is the result of the private banking system, which had affected across the globe while Euro Greece crisis is the result of the failure of public sector banks, which had created recession across the world. In India, the current banking crisis is due to bad loans or non-performing assets (NPAs) of public sectors banks. Public sector banks are one big free money pool for the rich and crony capitalists of this country.

RBI has recently issued a strict guideline to banks to clean up their NPAs from their balance sheets, affecting most of the public sector banks' third quarter earnings, valuations and also stock prices. Experts question if the banks really conduct asset allocation reviews on a daily basis or have the ability to do so. Do banks rely on credit rating agencies? What sort of collateral and margins do they impose on corporate borrowers?

Vikas Singh, founder Crux, an advisory firm in this space, told

Metro India, "It is not very clear if banks really have a robust loan monitoring system in place which is both digital and real time. Unlike stock exchanges which demand that companies publish investor sensitive information, not sure banks get updates on crucial and sensitive information on the companies."

When asked, several banks having exposure to power, mining, iron and steel, is it the vulnerability of the sector a borrower operates from, influencing the possibility of a loan turning out as a bad loan, Singh said, "Bank loans are not decided in terms of sectors but in terms of borrowers hold on the bank (via political pressure I guess).

Corporates operate across the country and can influence branches of banks anywhere. Another major challenge is the tenure of the chairmen in public sector banks which on an average is 11-13 months where there is no room for any form of accountability, as opposed to the private sector banks where chairmen occupy their posts for about seven years."

Singh added, "The key problem in banks is that they lack systems that can help them monitor their loan book positions on a periodic basis and hence a lot of irregular practices and fraud takes place because nothing gets monitored frequently. In fact I would be surprised if some of the banks even know who their top 10 borrowers are and what is the real level of exposure to each of them."

"Banks continue to suffer due to bad loans but there is no real impact on the life style of the promoters or so called company owners or the directors. How is this possible? Do banks really evaluate "direct skin in the game" of promoters or allow group companies to borrow for other companies so the promoter in the end is not touched due to the default?," he questions.

Institute of Public Enterprise director, professor R K Mishra and assistant professor, M Chandra Shekar point out, "Now, the banks are on the verge of cleaning NPAs from their balance sheets through write-offs. The immediate side effect of this cleaning process is the downfall of banking stock prices. This results in value loss to the investors, who made investments in banking stocks and banking funds."

They said, "Indian private sector is also affected due to NPAs but not to the extent of those operating in the public sector. Private banks are using digitalised technology which is helping them to minimise their operating costs and also in identifying NPAs to take timey action. All public sector banks must be fully digitalised to manage NPAs."

In the wake of Kingfisher Airlines controversy, there had been a variety of reports that suggest laxity on part of the banks in seeking reliefs against the airline, its promoters and holding/associated company. As leader of the consortium, State Bank of India (SBI) on Thursday denied such reports which according to it appeared to be based on hearsay and conjecture without any reference to the factual position in the matter. The Bank claimed it moved very promptly on taking the appropriate legal steps required to protect banks' interest and public money.

SBI contended, "In this matter the consortium of banks are currently fighting more than 20 cases in various courts including Debt Recovery Tribunal (DRT) from June 2013 and number of hearings held are in excess of 500 with more than 180 adjournments."

SBI argued that the Banks and in particular the bank itself has taken all prompt actions in getting reliefs as required and there was no laxity on the part of the banks in seeking appropriate reliefs and it did all that was possible at its command.

Tags Vikas Singh loans nonperforming assets public sector banks RBI R K Mishra

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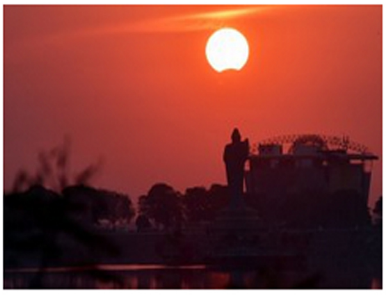

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