Implementation of Insolvency and Bankruptcy code will help in debt recovery: FICCI – IBA Bankers Survey

- Majority of the participating banks (85%) reported an increase in their NPA levels

- Along with capital infusion by the Govt., more steps are needed to beef up the banks' capital

NEW DELHI, 8 August 2016: The Third FICCI-IBA Bankers survey was conducted during July 2016 for the period January-June 2016. The survey saw a participation of 20 banks including public, private and foreign banks.

The key findings on the key operational areas of the banking sector are:

Majority of participating banks have not reported any change in credit standards during the period January-June 2016 vis-à-vis the previous six months. However, about 44% of respondents have tightened their credit standards for large enterprises due to rising NPAs and higher sector-specific risk. In case of SMEs, about 16% of respondents have eased their credit standards vis-à-vis 24% reported in the earlier round due to higher provisioning and the asset quality review undertaken by the banks. A high majority of participating banks (91%) reported tightening lending standards due to higher provisioning of NPA, followed by higher sector specific risk prevailing in the economy.

- **A majority 58% of the participating banks in the latest round of survey have reported a status quo on the base rates during January-June 2016 time period, indicating weak transmission of repo rate reduction into the lending rates.** However, effective from 1st April, 2016, MCLR is operative and banks are reducing the MCLR along with deposit rates.

- **There has been a sharper reduction in term deposit rates by the participating banks. In case of short duration term deposits of less than one year, 60% of respondent banks have reduced rates by more than 50 bps, while in case of long duration term deposits of one year and above, 70% of respondent banks have reported reduction of more than 50 bps. Such reduction in rates may be attributed to reduction in repo rate by RBI, and nearly 60-130 bps reduction in interest rates offered by the Government on small savings schemes.**

- In terms of Current and Savings Account (CASA) deposits, 75% of the respondent banks in the survey have reported a rise in CASA deposits during the period January-June 2016, backed by a healthy growth in the savings account deposits.

- During the period January-June 2016, **56% of the participating bank's lending portfolio was directed towards corporate lending against 42% for retail lending. In the preceding round, the share of corporate loans and retail loans were 62% and 38% respectively. The increase in relative share of retail loans indicates the increased focus of banks towards the retail portfolio.**

- In terms of the composition of banks' fund portfolio, loans and advances for the banks were 60%, followed by SLR requirements at 30%. The corresponding figure for share of loans and advances in the previous round was 68%.

- A majority 56% of the participating banks in the latest round of survey reported an increase in long-term loans especially in the infrastructure sectors namely, power, road, and telecom. Other sectors witnessing higher credit growth include real estate sector and food processing industry.

- **The profitability of the banks took a dip during January-June 2016 due to higher provisioning for NPAs. Majority of the participating banks i.e. 85% reported an increase in their NPA levels, amongst which all the Public Sectors Banks reported a rise in their NPAs.** However, in terms of restructuring of advances, 32% of the respondents indicated a moderate decline in the number of cases requested for restructuring.

- Majority of participating banks believe that the Insolvency and Bankruptcy Code provides an effective mechanism for resolution of insolvency and will help Banks in their recovery efforts.

- Banks were asked for listing some key steps to beef up the capital of Indian banks, given the BASEL III requirements. **Majority of participating banks expect that along with capital infusion by the Government, more steps are needed to beef up the banks' capital. Banks need to take measures such as improvement in internal processes, optimization of the capital allocation, rebalancing of loan portfolio in favour of retail loans, and raising resources through sale of non-core assets. Additionally, the Government can help in beefing up capital by diluting its equity in Public Sector Banks upto 51%, creating bad bank for one-time resolution of bad debts and through mergers and consolidation of banks**.

- Banks have welcomed guidelines for 'On Tap' Licensing of Universal Banks, which they believe will be effective in promoting competition in the banking sector and for achieving the objective of financial inclusion in India.

About the Survey

Federation of Indian Chambers of Commerce & Industry (FICCI) and Indian Banks' Association (IBA) jointly conduct a bi-annual survey of Bankers. The survey essentially captures insights of the banking sector on business operations, the status of NPAs, credit standards, interest rate movements and views of Banks on some key policy measures. This is the third round of the survey corresponding to the period January to June 2016.

Weblink: http://ficci.in/SEDocument/20372/FICCI-IBA-Bankers-Survey-June-2016.pdf

FICCI MEDIA DIVISION