Indian Banks' Association

FICCI-IBA Survey of Bankers

Issue 5

January – June 2017

Survey Findings – Summary

The fifth round of the FICCI-IBA survey was carried out for the period January to June 2017. A total of 20 public, private and foreign banks participated in the survey. These banks together represent 64% of the banking industry, as classified by asset size.

The survey has been conducted at a time when NPAs are at a worrisome position, especially for the Public Sector Banks. The amendment to section 35 of the Banking Regulation Act enables banks to resolve the NPA problem. The current round of FICCI-IBA Bankers' survey covers respondents' views on this subject as well as about the recent RBI's suggestions for Wholesale and Long Term Finance Banks, Bank Account Number Portability and Bank Consolidation.

NPAs in public sector banks have shot up considerably, with 91% respondents from public sector banks reporting an increase in NPA levels. Private sector banks and foreign banks both have mixed experiences with regards to NPAs with 71% of private bank and 50% of foreign bank respondents stating that NPAs have increased during Jan-Jun 2017. During this period, Metals, Infrastructure and Textiles have witnessed high level of NPAs with at least 50% of total respondents stating the same. 40% of respondents also mentioned an increase in requests for restructuring of advances as against 18% in the previous round of the survey.

Banks were confident that the recent amendment to the Banking Regulation Act will help them with NPA resolutions. The participating banks have given several suggestions for dealing with the issue of stressed assets. One of the suggestion is to set up industry committees to determine valuation of large stressed accounts and get large PSUs in respective sectors to bid for the said accounts at such valuations. Banks have recommended easing of provisioning norms for stressed assets referred to IBC. They have also urged for strengthening the legal infrastructure to facilitate quicker disposal, such as setting up of more benches of Debt Recovery Tribunal and National Company Law Tribunal.

A large majority of respondents have not changed their credit standards for large enterprises or SMEs in first half of 2017. However, about 35% of the respondents reported tightening of credit standards for large enterprises in first half of 2017 and about 40% respondents expect further tightening in the next six months. On the other hand, about 15% of respondents have eased the credit standards for SMEs in the first half of 2017 and about 20% expect further easing of standards in the next six months.

During the first half of 2017, majority (75%) of the respondent banks have reduced their Marginal Cost of Funds based Lending rate (MCLR), with 45% of banks reducing it by more than 50 basis points, aided by adequate liquidity and low cost deposits. The recent reduction in MCLR

Survey Findings – Summary

can also be attributed to gradual reduction in deposit rates by banks which reduced their cost of deposits.

Infrastructure sector continues to witness the largest increase in long term loans, with 60% respondent banks stating the same. This was followed by Real Estate and Textiles. Sectors like Cement, Auto and Auto Components, NBFCs and Food processing were among other sectors that sought greater long term credit during Jan -June 2017. In the next six months (Jul-Dec 2017), participating banks expect sectors like infrastructure, automobiles and pharmaceuticals to drive credit growth.

A large majority of participating banks have welcomed the suggestion from RBI about setting up of specialized Wholesale and Long Term Finance Banks. Such institutions are expected to ease pressure off commercial banks, help them to manage their asset- liabilities mis-matches, and improve quality of lending due to better expertise in evaluating infrastructure projects.

Bankers were asked their views on consolidation of other Public Sector Banks post SBI merger, to which the responses have been largely mixed. While some banks are supportive of moving ahead with consolidation of banks in current times, others have expressed concerns related to timing and have suggested that priority should be given to resolve the problem of mounting NPAs and measures to raise capital. Some participating banks suggested exploring avenues of privatization alongside merger of PSBs. For instance, a Bank Investment Company (BIC) with a holding structure that provides greater autonomy to boards and reduces government shareholding to below 51% in select PSBs could be considered. It was also suggested that the government may review the impact of consolidation of SBI group after a few years, and thereafter further consolidation can be taken up on selective basis.

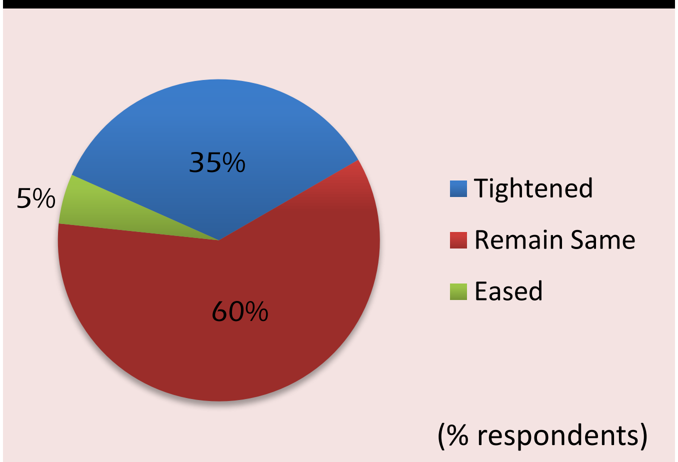
Banks were also requested to present their views on the idea of Bank Account Number portability (similar to a Mobile Number Portability) that had been suggested by RBI Deputy Governor Mr. S.S. Mundra. Banks acknowledged that such initiative would benefit the customers but cited technological challenges and requirement of heavy IT infrastructure investments as key issues in adoption of such initiative. Banks will need to adopt a standard approach for account number calibration, which currently range from 11 to 16 digits. Such standardisation will require heavy investment in IT infrastructure and cost. In short, the response was mixed.

Change in Credit Standards

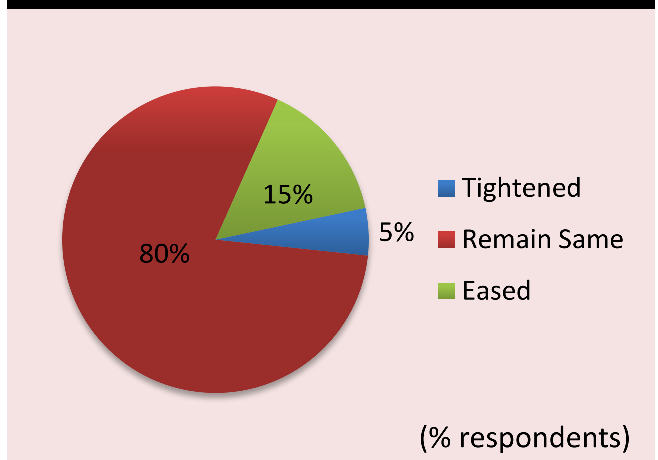
Among the participating banks, 35% respondents have reported tightening of credit standards for large enterprises during the period Jan-June 2017, down from 41% for the immediately preceding six months. However, 60% respondents maintained their credit standards for large enterprises.

On the other hand, in case of SMEs, 80% of the respondent banks reported no change in their credit standards, whereas 15% have further eased them down. In the previous round of the survey, 31% of the respondents had reported easing of credit standards.

Credit standards for large enterprises



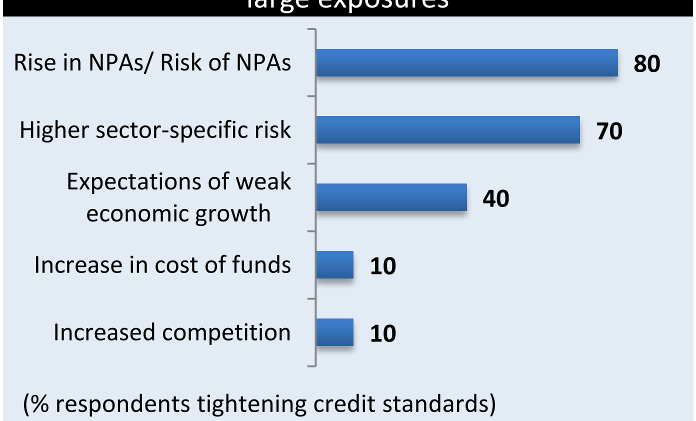
Credit standards for SMEs



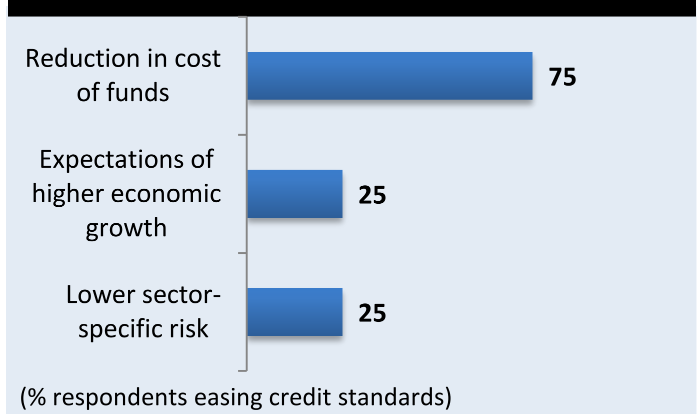
As many as 80% of respondents who have tightened credit for large enterprises have cited rise in NPAs or a risk of the asset turning into an NPA as the main reason explaining their action. This is followed with high sector specific risk. Majority of the respondents have indicated high level of NPAs in sectors like Infrastructure, metals and textiles.

With respect to SMEs, 75% of respondent banks which have eased credit standards for SMEs mentioned reduction in cost of funds as their main reason for doing so.

Reasons for tightening of credit standards for large exposures



Reasons for easing of credit standards for SMEs

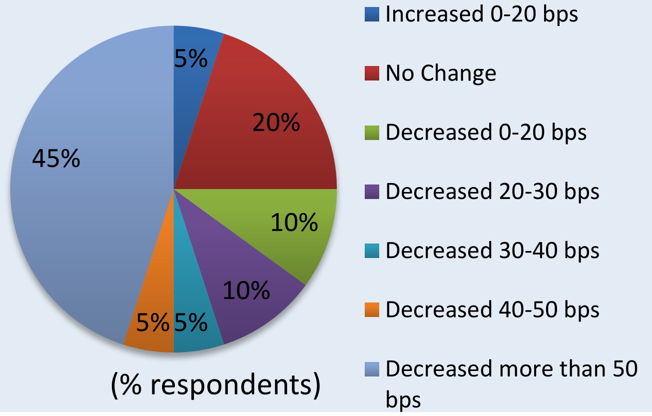


Movement in Marginal Cost of Lending Rates (MCLR)

Aided by adequate liquidity, sufficient low-cost deposits and recent developments in the monetary policy, such as the 50 basis points reduction in the SLR, and rationalization of risk weights and loan to value ratios for individual housing loans, a large majority of respondents (75%) have brought down their MCLR during the period Jan-Jun 2017. During this period, 45% of the respondents reduced their MCLR by over 50 basis points, 5% by 40-50 basis points, 5% by 30-40 basis points, 10% by 20-30 basis points, and 10% by 0-20 bps.

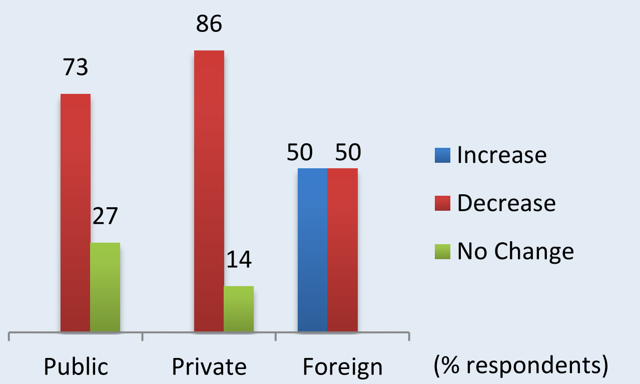
About 73% of the public sector bank, 86% of the private bank and 50% of the foreign bank respondents reduced their MCLR. In-fact, a decrease of more than 50 basis points in the MCLR was recorded by 45% of public sector bank and by 57% of private bank respondents.

Overall Change in MCLR Rates



(% respondents)

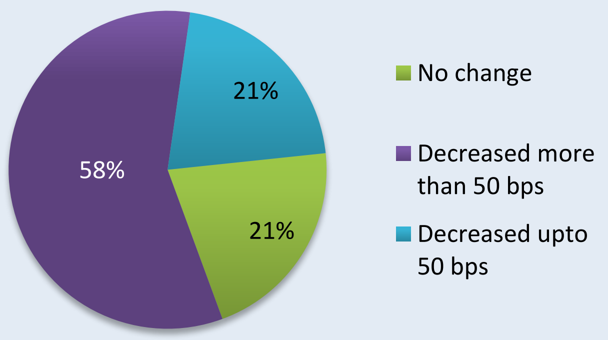
Bank Wise Change in MCLR Rates



(% respondents)

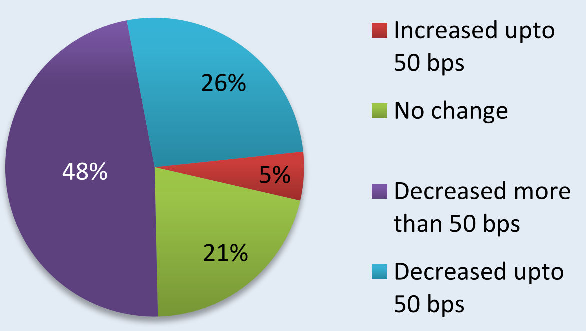
The responses gathered indicate that term deposit rates have fallen across the board. 79% respondents decreased their rates on term deposits of tenure below one year, while 74% did so for term deposits of one year or above. In the last round, 88% of the respondents had reported reduction in deposit rates for short duration term deposits and all respondents had reported reduction in deposit rates for long duration term deposits.

Change in Term Deposit Rate - Below One year



(% respondents)

Change in Term Deposit Rate - One Year & above



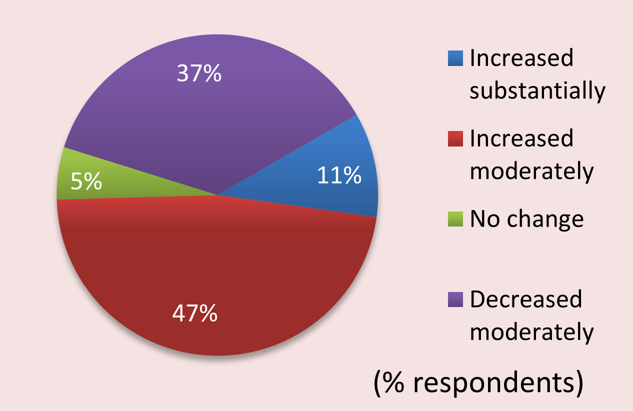
(% respondents)

Changes in Current Account and Savings Account Deposits

After a substantial rise reported in CASA deposits following demonetisation of SBNs in November 2016, the current round of survey shows that the pace of rise in CASA deposits has moderated. Nearly 58% of respondent banks mentioned a rise in the share of CASA deposits over total deposits, with only 11% indicating a substantial rise. In-fact, 37% of the respondents reported a moderate decline in the share of CASA deposits owing to withdrawal of deposits mobilised during the demonetisation period.

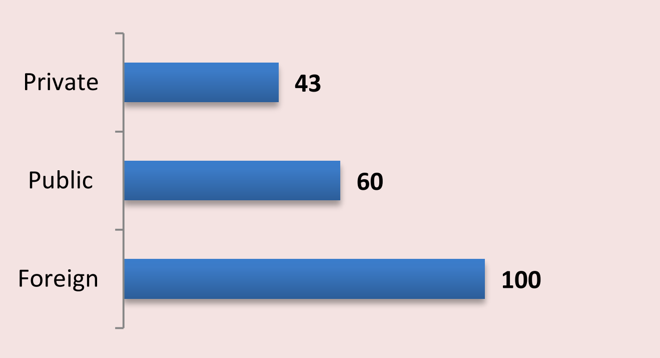
A comparison across type of banks shows that all participating Foreign Banks witnessed a rise in the share of CASA deposits during Jan-Jun 2017, followed by 60% of Public Sector Banks and 43% of Private Banks respondents, respectively.

Change in share of CASA deposits to total deposits



(% respondents)

Bank-wise respondents reporting rise in share of CASA deposits (%)



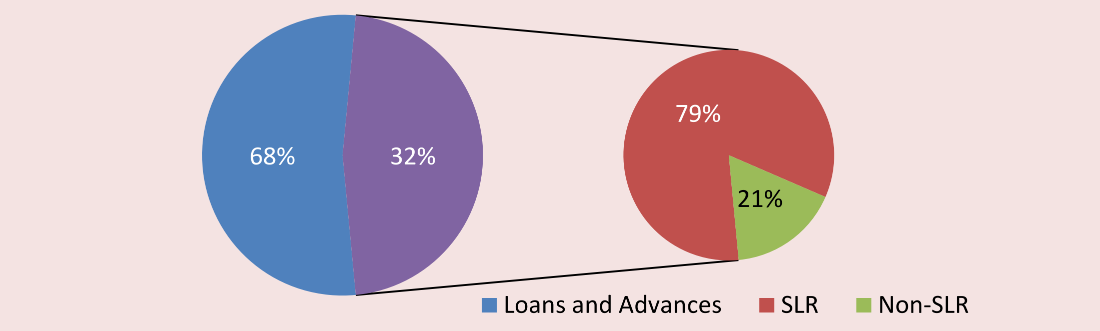
(% respondents by type of banks)

Composition of Funds Portfolio

There has been some improvement in fund utilization by banks during the period Jan-Jun 2017. Participating banks in the current round of survey utilised on an average 68% of their funds towards loans and advances as against 53% reported in the previous round of survey.

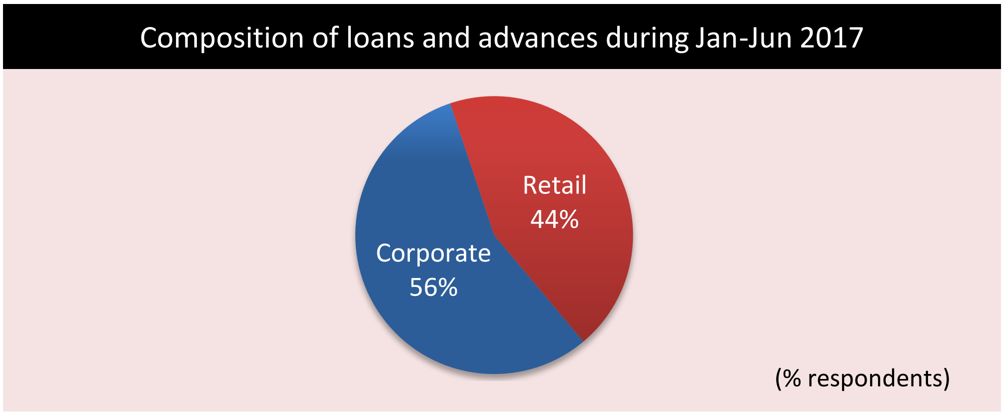
As per this round of survey, SLR investments amounted to 79% and Non-SLR investments amounted to 21% of total investments by participating banks. The ratio stood at 83% SLR investments and 17% Non-SLR investments in the last round of the survey.

Banks Portfolio : Loans and Investments

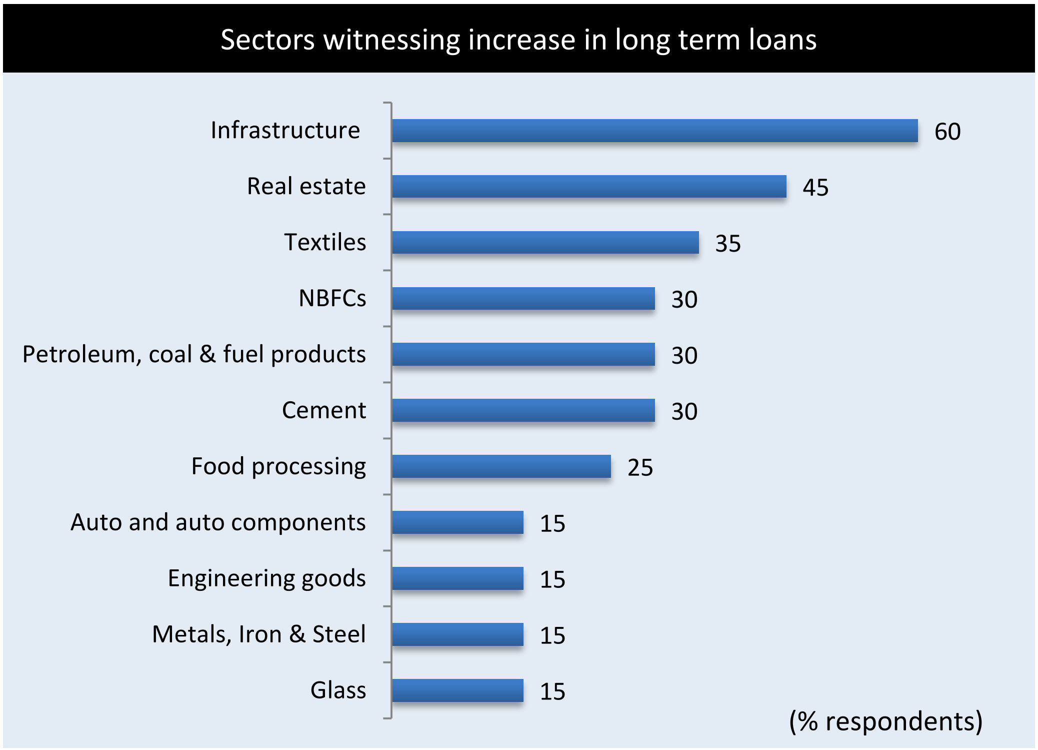


Composition of loans and advances

The corporate loans comprised 56% of total loans and advances of respondent banks, with the other 44% going to retail loans. As compared to the immediately preceding survey period, there has not been any significant change in this ratio. For the last survey period, corporate loans were 53% and retail, 47%.



Similar to the last survey period, Infrastructure, Real Estate and Textiles have been the key drivers of credit growth. These three sectors have been cited as the sectors witnessing the most rise in long term credit by 60%, 45% and 35% of the respondents respectively. Sectors like NBFCs, Cement, and Fuels are also witnessing growth in long term credit.

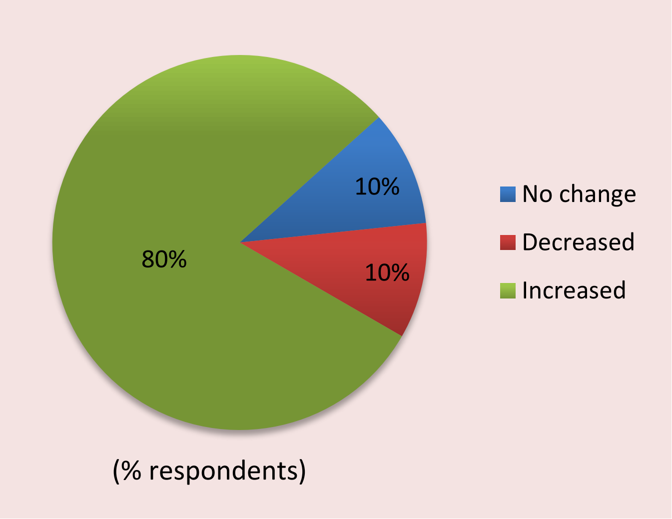


State of NPAs and Stressed Assets

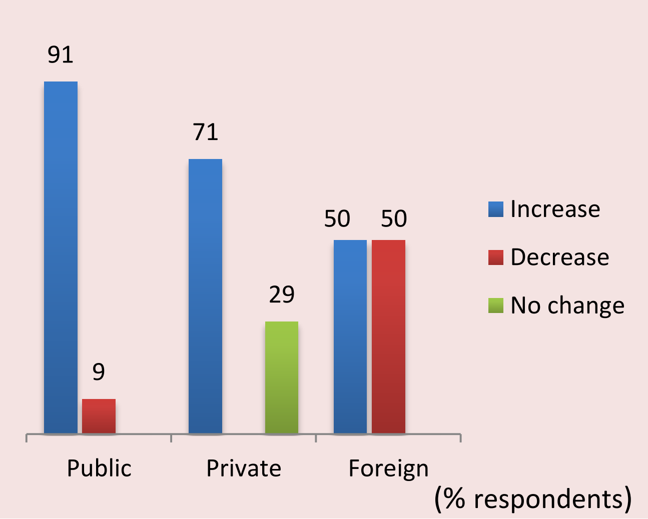
The number of banks reporting a rise in the NPA levels has increased from the previous survey's period. While share of respondents citing rise in NPAs in the preceding survey period stood at 76%, it has increased to 80% as per the current round of survey.

A staggering 91% of respondent public sector banks reported a rise in NPAs, with the remaining 9% reported no change. 71% of private bank respondents reported an increase in NPAs. As far as foreign banks are concerned, half of the respondents indicated an increase and other half indicated a decrease in NPAs.

Change in the level of NPAs

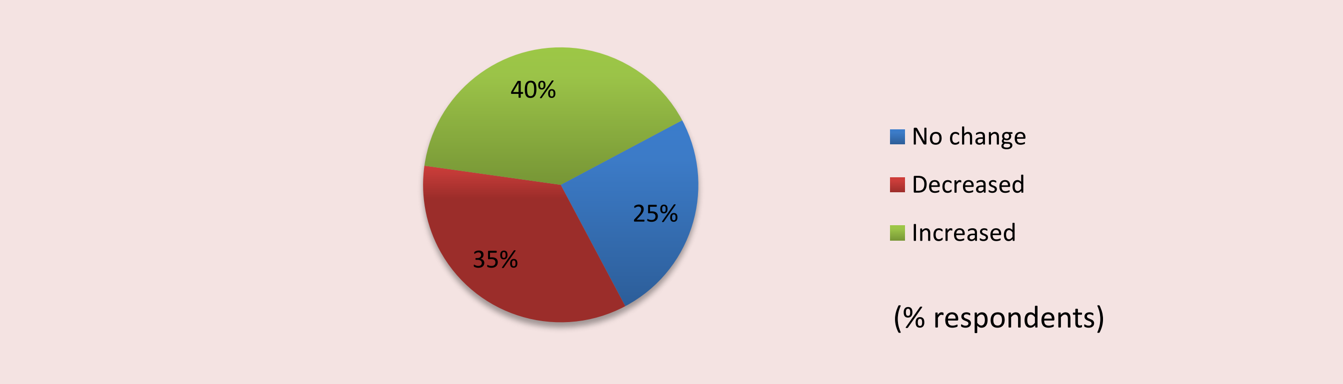


Bank Wise Increase/Decrease in NPAs



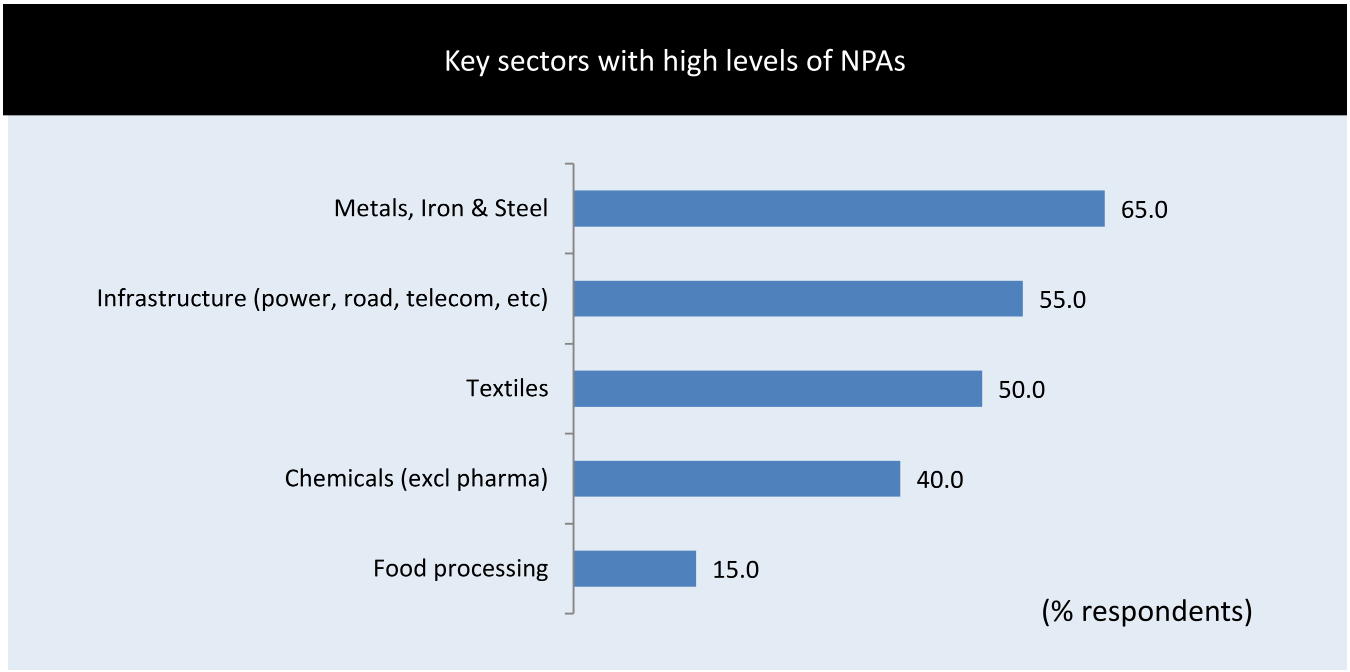
The responses regarding requests for restructuring of advances have reversed as compared to the last survey period. In the current round of survey 40% of respondent banks stated an increase in the requests for restructuring of advances, as compared to 18% in the previous period. On the other hand, only 35% respondents stated a fall in number of such requests, as compared to 44% in the last survey period.

Requests for restructuring of Advances



Key Sectors with High Level of NPAs

Major sectors with high levels of NPAs are Metals, Iron and Steel, Infrastructure and Textiles. More than 50% of respondents have cited these as sectors with high NPAs. Other major sectors with high NPAs are Chemicals, Food Processing, Construction and trading, Power generation, machinery, and sugar among others.



Trend in NPAs in key sectors

- For the infrastructure sector, 77% of respondents who cited infrastructure as the key sector with NPAs, have reported an increase in the NPAs in this segment, with remaining citing no change. In the previous round, while 50% respondents cited an increase, 29% respondents had cited a decrease in infrastructure NPAs.

- For the iron & steel sector, 85% respondents citing steel as the sector with high NPA levels, have reported a rise in NPAs. In the previous round 64% had reported an increase.

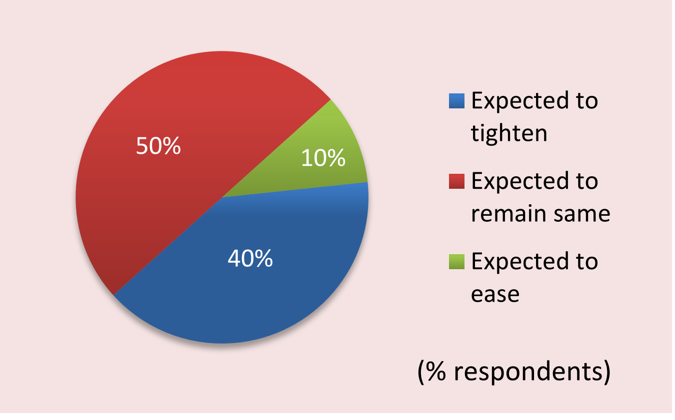
- As far as the textile sector is concerned, 73% of respondents who stated high level of NPAs for textiles sector, have reported a rise in NPAs, with remaining reporting no change. This is lower than the last round of survey, when 90% respondents cited a rise in textile NPAs.

- Even though chemicals continue to be among the sectors with high NPAs, only 33% of participating banks reported a rise in NPAs, whereas 67% maintained that there was no change during the period under study.

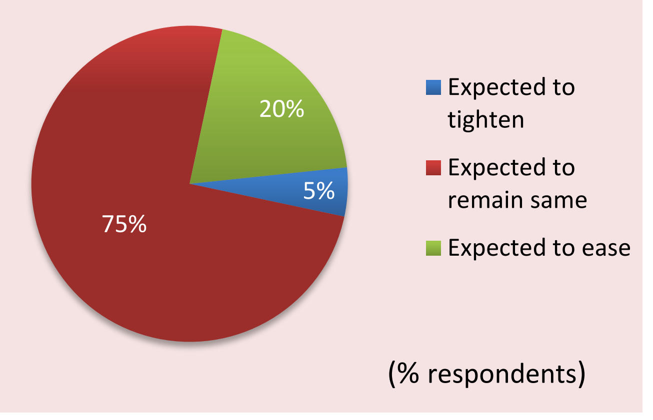
Expectations and Outlook on Credit

The pattern of credit standards largely remains the same for future outlook. For the six month period of Jul-Dec 2017, 40% respondents stated that they expect tightening of credit standards for large enterprises. 75% respondents stated that credit standards for SMEs will remain unchanged as the current period and 20% stated that they expect easing of credit standards for SMEs.

Credit standards for large enterprises

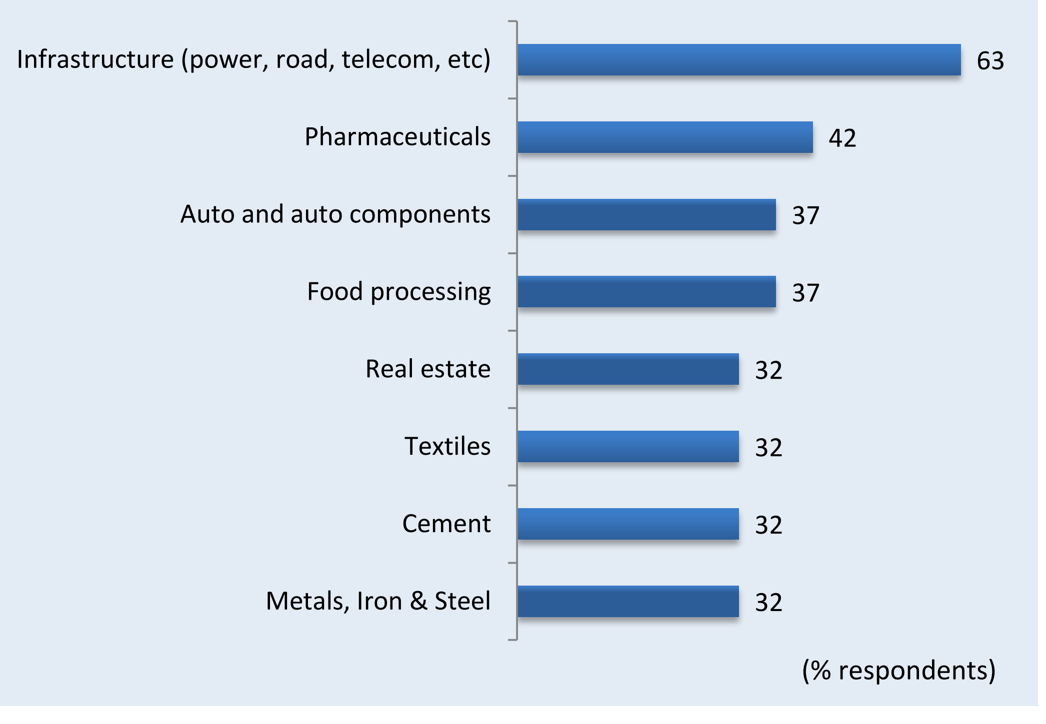


Credit standards for SMEs



Like the last survey period, 63% respondents stated Infrastructure as an important sector for credit growth. Pharmaceuticals was stated by 42% as the next best sector to see a rise in long term credit. This was followed by Auto and auto components (37%), Food Processing (37%), Real estate and textiles (32% each).

Sectors expected to see rise in long term credit



Views on amendment of Section 35 of the Banking Regulation Act

All respondent banks have welcomed amendment of Section 35 of Banking Regulation Act. They agree that this will help them to resolve the looming problem of NPAs. This move will empower RBI in resolving the long standing NPA problem in the banking industry.

Suggestions by respondent banks for resolution of NPAs problem

Special dispensation maybe provided in provisioning norms for the cases referred under the Insolvency and Bankruptcy Code (IBC). This will incentivize banks to refer more cases under IBC.

RBI may consider a few changes in S4A scheme (i) to reduce percentage of sustainable level of loan up to 40% , and (ii) to extend repayment terms, subject to maintaining the NPV post resolution.

Widen the definition of 'qualified buyers' so that the retail investors may also be allowed to deal with security receipts issued by ARCs.

The legal process and infrastructure should be augmented to have quicker disposal. Introduce more benches of Debt Recovery Tribunal and National Company Law Tribunal to avoid backlog of cases.

The Government can set up industry specific committees to assess and determine valuation of large stressed accounts, and may consider getting large PSUs in respective sectors to put in bids at the assessed value.

Views on setting up WLTF Banks

Bankers were asked to present their views on the recently released discussion paper of RBI in 'Wholesale and Long Term Finance (WTLF) Banks.' Majority of the respondent banks believe that establishment of WTLF Banks will be positive for the economy.

Key benefits of introducing specialised WTLFs	*Will help Universal Banks overcome mismatch in tenure of their assets and liabilities.*
	Enable commercial banks to reduce the long tenor risk which they are currently running on the infrastructure projects.
	Improvement in quality of lending due to better evaluation and funding of long term projects
	Enhance competition and lead to more efficient allocation of financial resources.
	It has been proposed that funding of WLTF will be done through equity and bonds. The latter would help in deepening and broadening of corporate bond market.

Suggestions	*Higher capital requirement and availability of long term funding for WLTFs would be one of the major factors determining creation of such institutions*
	Licenses for such institutions should be issued cautiously by the regulator; only those entities should be selected that are able to demonstrate the ability to build these specialized banks and are adequately capitalized.

Views on consolidation of Public Sector Banks

Bankers were asked their views on consolidation of other Public Sector Banks post SBI merger, to which the responses have been largely mixed. While some banks are supportive of moving ahead with consolidation of banks in current times, others have expressed concerns related to timing and have suggested that priority should be given to resolve the problem of mounting NPAs and measures to raise capital.

Issues and Challenges associated with Consolidation of PSBs	*Before resolution of high value NPAs, consolidation does not help as capital requirement does not come down by merger alone*
	Banks should be capitalized adequately to allow them to grow as an institution of global stature.
	Opposition from employee unions can considerably drive up merger costs
	Weak capital position of banks means they do not have excess funds to acquire meaningfully sized peers.

Suggestions by respondents	*Review the impact of consolidation of SBI group after a few years, and thereafter further consolidation can be taken up on selective basis*
	Consolidation exercise should not be focused on Balance Sheet size alone but also on financial parameters. Banks coming together should provide value based growth instead of facing same issues like weak asset quality, low capital base, etc.
	Consolidation should be a synergy of two strong banks instead of a strong bank taking over relatively weak bank(s).
	Avenues of privatization need to explored alongside merger of PSBs. A Bank Investment Company (BIC) with a holding structure that provides greater autonomy to boards and reduces government shareholding to below 51% in select PSBs can be considered.
	The consolidation exercise should emanate from the bank themselves with the Government playing a supportive role.

Views on Bank Account Number Portability

RBI's Deputy Governor, Mr. S S Mundra had recently suggested introduction of bank account number portability. Most of the bank respondents were of the view that while the concept of account number portability will provide flexibility to customers, the feasibility of same needs to be thoroughly examined in wake of technical difficulties in its implementation.

Issues and Challenges	*Banks will need to adopt a standard approach for account number calibration, which currently range from 11 to 16 digits. Such standardisation will require heavy investment in IT infrastructure.*
	There are several technical changes in integrating different ecosystems of banks in the industry, like different CBS modules.
	The potential cost and pain to the banking system for technology and process compliance of implementing this can be enormous.
	There is a need to examine capability of all banks including co-operative banks for adopting such initiative.

Respondents Profile

Twenty Banks responded to the survey, representing a mix of public sector, private sector and foreign banks. Various indicators in the survey reflect information for the period January to June 2017. Expectations are for the period July to December 2017.