

WHAT SHOULD BANKS DO?

Friday, May 22, 2020

SUMMARY OF DISCUSSIONS

Background

COVID-19 came with not much of advance notice, and wrought, and continues to wreak, untold havoc on the lives and health of humankind, across continents, and the economic health of most nations. Understandably, the manner in which the pandemic is to be tackled, has led to much discussion and debate. Initially, healthcare was the overriding focus. Thereafter, with a lockdown being imposed, and with economic activity coming to a standstill, the revival of the economy began to move centerstage. In the ongoing debate on how to kickstart the economy, the role of banks is clearly very significant. With the RBI loosening its purse strings, liquidity with the banks no longer seems to be an issue. However, banks have chosen to opt for the safety of parking the additional available funds with the RBI, even if the returns therefrom are unlikely to amount to much.

The reluctance of bankers to lend to corporates, big or small, presumably arises from the lack of credit worthy proposals, and the fear among bankers that credit decisions, that go wrong, would be seen through the lens of suspicion by investigative agencies. Meanwhile, those that are in dire need of credit, are unable to keep their businesses going, leading to unemployment and translating to diminishing demand. In this scenario, what can banks do to break this cycle and to help kickstart the Indian economy?

DISCUSSIONS

- The question 'What should banks do?' is inappropriate. Given the constraints within which the banking system operates, the question that should be asked is 'What should banks be enabled to do?'
- There is no clarity yet on which sectors are likely to require credit, because that would depend on the ability of those sectors to recommence business quickly.
- It is abundantly clear that demand has collapsed.
- While there is a lot of concern being expressed regarding the manner in which banks should approach the provision of credit to MSMEs (Micro, Small and Medium Enterprises), it is necessary to classify the MSMEs into different categories. If the CIBIL MSME Rank (CMR) - CMR1 to CMR10 - classification is used, there should be no problem in extending credit to the units falling within CMR1 and CMR6. The answer to deciding which of the units are creditworthy, and which are not, lies in parametrisation.
- In order to lend to MSMEs in a speedy manner, algorithm-based decision-making models should be put in place. 59minutes.com was cited as an example.
- MSMEs will need long tenure capital, without which all the present efforts will fall short.
- State governments have an important role to play in keeping the MSME system afloat and therefore, they should be onboarded in the exercise of rehabilitation of MSMEs.
- The possibility of guarantees being extended by the state governments for credit to MSMEs should be examined.
- State governments should not be indiscriminate in pushing for loan waivers and write-offs. Instead they should work with the borrowers to help in the repayment of bank loans.
- With increasing use of technology, safeguards, especially in respect of cyber security systems, are critical.
- Artificial intelligence (AI) and data analysis should be used extensively, and skillsets required should be revisited.
- Since we are likely to witness a new dawn, upskilling of employees as well as new products are needed. Marketing, sanctioning of loans and other related banking transactions will increasingly go digital. This will need significant preparation.

- This is also an opportunity for improving the quality and reliability of data so as to help in technology-based solutions.
- It is certain that the Non-Performing Assets (NPAs) in the banking system will increase exponentially. This will be a major setback for the banking sector.
- The low activity in the banking sector had one positive which is that the merger of Public Sector Banks did not get hindered, by way of pre-emption of management bandwidth.
- There are a number of sectors which have been adversely affected by COVID-19. Equally, there are a number of sectors which have benefitted as a result of the pandemic. Banks should look at the requirements of these two segments separately.
- A structured, rather than slapdash approach, should be brought into the banking sector.
- The banking industry is a blood vessel through which blood must flow for the health of the economy.
- Banks have liquidity. But that alone is not enough. They will be needing more capital to undertake significant lending.
- We should work on the premise that the banking system needs to be healthy for a long term so as to serve the interests of the economy.
- While looking at the banking sector, aspects relating to operations, credit and human resources should get equal attention.
- If the treasury or the payment system is impacted, banking operations will come to a complete halt.
- Even in large branches, only one-third of the staff is present. This leads to delays including, but not limited to, in the matter of renewals of limits sanctioned. Further, even stamping of the documents gets delayed. The time available for renewals should be extended.
- There is a trust deficit operating at different levels, especially between the branches and the Head Office. Unless this trust deficit is addressed, no amount of planning at the central level will translate to disbursement of credit.
- Accountability is important, but it should not hang like a sword over all banking decisions. Vigilance and non-vigilance cases must be separated, and dealt with differently.
- Malafides must not be presumed if a credit decision goes wrong. The process, and not the outcome, should be the matter of focus while fixing accountability.
- Banks should have better coordination, especially in consortium accounts, where every bank asks for a no objection certificate (NOC) from other participating banks. The better method is for the bank with the largest share in the consortium to undertake the disbursement and to apportion the amounts among participating banks.
- In the foreseeable future, as at present, NPA recovery will be the major focus area at the branch level.
- Since the process under the Insolvency and Bankruptcy Code (IBC) has been suspended for one year, should banks go in for aggressive recoveries?
- There must be a depository for bank guarantees.
- Safety of employees is a major concern since they, like everyone else, are exposed to the pandemic.
- Communication with staff and with customers is critical.
- The banking Regulator must test the resilience of the banking sector.
- MSMEs require equity capital. There must be an organisation like the Small Business Administration in the United States of America which helps MSMEs with equity.
- The capital market Regulator must significantly open up the space for equity capital for MSMEs.
- In rural areas, the focus should not remain confined to agriculture and allied activities, but should also include rural industry and rural infrastructure.

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