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SHINE THE LIGHT

RBI must ensure that loan write-offs are not done in arbitrary and non-transparent ways

IT IS ONE thing for a bank loan to be declared a non-performing asset (NPA) — that is, when the borrower has ceased to pay interest and/or principal instalments due for a period of more than 90 days. It is another thing, though, for an NPA loan to be "written off" or removed from the bank's balance sheet. Such write-offs, according to a report in this newspaper, amounted to a record Rs 1,44,093 crore during 2017-18 and aggregated Rs 4,80,094 crore over the last 10 financial years, with Rs 4,00,604 crore (83 per cent) of it accounted for by public sector banks (PSB). By comparison, gross NPAs of Indian banks as on March 31 were estimated at Rs 10.25 lakh crore.

From a technical accounting standpoint, there's nothing wrong in loan write-offs per se. For banks, loans are assets that generate the bulk of their income. When loans become NPAs, to the extent that any collection of amounts due is difficult, it makes little sense to treat these as "assets". Instead, it is better to write down such assets from a bank's operating income, which will, in turn, reduce the reserves and surpluses on the liabilities side of the balance sheet. Also, it's not as if banks will stop recovery measures even after a bad loan is written off. So long as there is no let-up in the pursuit of these debts, which may actually result in recovery, taking toxic loans out of bank books makes for prudent accounting practice.

The problem with write-offs is when they are done in an arbitrary and non-transparent manner. In the past, the Reserve Bank of India (RBI) has been cagey about disclosing the names of big defaulters, citing so-called fiduciary relationships between lenders and borrowers. That may have some meaning when loans are recoverable even after turning NPAs. Maligning a promoter's reputation under such circumstances would, if anything, only hamper the chances of the company's finances turning around. But once an NPA is written off and the loan has been removed from a bank's books, there is no commercial, leave alone moral, basis for hiding behind the veil of client confidentiality. In this case, the public — be it depositors or taxpayers whose money is being used for recapitalisation of PSBs — has every right to know which are the NPA accounts being written off, by how much, and why. The RBI must, in fact, make it mandatory for banks to give information on every such loan account beyond, say, Rs 100 crore. The RBI has done a commendable job in forcing banks to recognise the true extent of their NPAs and providing fully for even restructured/rescheduled loans. Now, it should make them disclose the names of those behind large loan write-offs.