

# Government move to identify NPAs and provisioning against them has been a big decision: Gopal

By Vinod | Published: Thursday, August 23, 2018, 9:04 [IST]

Gopal Krishna Agarwal is an economist and one of the important organizers of India Banking Conclave in New Delhi. He is also an independent director to the board of North Eastern Power Corporation and Bank of Baroda. Agarwal spoke to One India correspondent on various issues concerning the banking sector. Excerpts:



**Gopal Krishna Agarwal**

**Q. India Banking Conclave that is being organized on August 23 to 24, you are playing an important role to organise this conclave in such an environment when banking sector was plagued with many controversies. What is the purpose behind organizing this conclave?**

**A.** There are lots of debate about the banking sector if the reform process started by Prime Minister Narendra Modi ever since he has taken over in 2014 created healthy ecosystem for the banking sector or created problems for it. Huge increase in non-performing assets (NPAs) have been reported but as the PM himself stated many a times that these huge NPAs are not of his time period. They were already present in the system before 2014 but they were not properly identified. The Modi

government has taken a stride ahead with the resolve to short out the problem of NPAs. So the first move was to identify the problem in direction of resolving it. The government has identified NPAs and has done provisioning against them. It has taken several measures to resolve the problem in the past four-and-half-year, which are in the right direction. Earlier problems were not getting addressed rather old loans were getting recycled in the system magnifying the crisis. Actually money is getting realized in the banking system and promoters who were taking loans and running away from the banking system are forced to either pay their debt or part ways their assets. This is a big decision for the resolution of NPA issue and cleaning the balance sheet of banks and healthy realization of loans.

**Also Read | [India Banking Conclave to be addressed by political and banking honchos including Shah and Jaitley](#)**

**Q. Two important decisions that have been taken by the government - demonatisation and implementation of Goods And Services Tax (GST). How do you see these decisions impacting Banking as such?**

**A.** Demonetisation and implementation of GST will not directly impact the banking sector but what they are doing is that they are creating a complete business ecosystem where there is a total transparency in business dealings. Everyone is now forced to move through banking channels and once they are rooted through this channel, they leave audit trail and tax evasion is negated. Still if anyone tries to evades tax, the government can identify and slap tax on the person which is really an important move. The second benefit about demonatisation is that it has started

digitisation of economy helping the banking sector to move toward mobile banking and digital payment that is helping create a clear audit trail in the banking ecosystem.

**Q What is the role of high-debt-to-GDP in the banking sector?**

A. This is a very important question. Recently senior BJP leader Arun Jaitley articulated the matter through a write up after former Union finance minister P Chidambaram criticized the economic policy of the Modi government. Mr Jaitley writes that private capital formation during the UPA was higher than the NDA, majorly because of the debt given to the corporate sectors by the UPA government and if you see the period of 2009 to 2013 then debt-to-GDP-ratio is very high that shows banks were lending to corporate sectors for their projects without any proper scrutiny of projects and without proper security received by the banks. First this has created high-debt-to-GDP and secondly assets were created in the form of bad loan and non-performing assets (NPAs) etc. So capital formation during this period was due to bad debt. The government or public money was given to promoters to establish their set up which was not the right way of capital formation.

**Q. Lots of things are being talked about the use of technology such as IPod banking and Robot banking, how feasible are these technologies in the Indian context?**

A. Fintech in its own is an evolving sector and if you see in over two to three years products like BHIM App and API number etc, they have helped people to use mobile banking. This has really made banking easy as you don't have to run to the bank branch every time you have to deposit money or encash a cheque. You can do the banking through the mobile whether normal phone or smart phone and #99 is an important fintech product that is helping for payment and WhatsApp too is pitching into the banking sector in a big way. The government is also going for postal banking and then there are different payment banks coming up. All these fintech products are helping the common people. On the other hand at the banking level more and more technology is being adopted by banks for their operational usages basically software solutions like Finacle that is being used at the central office of the banks, use of technology in banking surveillance, audit and control and artificial intelligence. So there is better surveillance for loans and management of the banking operations. Artificial intelligence is being utilized to gather information about credit history of individual and institutions. All these information and products are example of fintech in the banking sector. There is immense possibility and big data management is part of technological innovations. They are helping create a revolution in the banking sector with regard to the financial participation and more surveillance and centralized control etc.

**Q. What do you have to say about privatization and merger in the banking sector?**

**A.** This is a big debate on which the government has to take a call. Some of the banks are not in good shape while some are healthy both in public sector and private sector. There are many regional and rural banks that too are not doing well but some others are really good.

Cooperative Banks have their own issues. So it is for the government to take a call if it wants to go for merger of weak banks with strong banks as the SBI did by merging its subsidiaries into the parent entity. They also tried to consolidate their operations. There is another set of opinion that says why the government should be into the banking sector at all. The government should privatise it leaving them to the private players to handle it. The government should remain into regulation and governance only. But no one is ready to buy weak banks even if the government wants to sell it. So the issue is if merger is a better option or privatization, the government is a better judge to take a call considering various factors. It cannot be said that if privatization is the only solution or merger is the only solution. Solution could be worked out both ways.

**Also Read | [CEPR and NITI Aayog to submit India Banking Conclave report to the government](#)**

**Q. There was a clear bifurcation of institutional financing and universal banking, now every bank is doing everything. Is this helping the industry or specialized thing was better?**

**A.** Earlier we had developmental financial institutions like IDBI, IFCI and ICICI which were financing infrastructure projects with long gestation period for implementation and its return on equity. The government used to provide them capital and long-term funds were provided by the international agencies also which used to give long-term lending for projects. There was synchronization between their liquidation from their loans and repayment on their deposit so the time lag was matching. Second thing was that there were specific institutions which were state development financial institutions then there were sectoral development financial institutions focusing on particular sector. They were catering to a big number of need and demand of the economy but since they were not very profitable banks slowly found commercial banking more lucrative and commercially viable so they shifted to universal banking. At the moment, we don't find much depth about development financing institution. There is technical know how into particular segments like power sector, road construction or dam building etc if they are financing sector-specific projects they knew how to evaluate them. Commercial banks' evaluation was based on their financial reports and balance sheet only, they don't have expertise on specific sector for that kind of project they required technological capabilities to evaluate any project. So

such problems were being faced by the commercial banks. Therefore many people have been discussing that we need developmental financial institutions. They have very strong role to for the development of the economy.

**Q. Role of banking sector for Plan 2030. Please elaborate!**

**A.** Banking has always been an important segment for the economic development of the country. It collects small savings from individual and help financing small investor, big industrial development and financial structuring and f even corporate houses. It provides them support in the form of debt. For the 2030 and many other thing, it is capitalizing big economic development of the country. They are also having a big role in the implementation of government scheme of social security. Onslaught of technology is coming and onslaught of international banks are coming into India then there is challenge into payment banks coming on the way. Indian Postal Bank is also coming into existence. New technology driven software, mobile banking all these are helping people to do away with the branch-centric banking operations across the country. SBI and PNB has over 5000 strong branch network across the country. In the future banks might not require that many branches in the country. What the future banking is and how the new generation will shape up the banking scenario, how much capital it can generate its own, whether the government will support it with the capital and all these issues will be taken up by the relevant people and road map will be prepared about the future of the banking. What could be the role of the banks in the economic development of the country by 2030.