

PNB scam has hit credit to SMEs

In the current milieu, bank managers look at borrowers with suspicion, says FKCCI chief

OUR BUREAU

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The Indian financial system is witnessing major turbulence as the banking sector is being dragged down by mounting NPAs and scams severely hurting the country's exchequer.

Data from RBI show that state-run banks in the last five years have reported 8,670 "loan fraud" cases totalling \$9.58 billion (excluding the Punjab National Bank fraud), with bad loans peaking at \$149 billion last year.

In this backdrop, *BusinessLine* on Wednesday organised 'Financial Conclave 2018', in association with FKCCI (Federation of Karnataka Chambers of Commerce and Industry) and XIME (Xavier Institute of Management and Entrepreneurship) as knowledge partner.

Two key issues facing the industry – NPA conundrum, and whether fintech companies and banks can co-exist – were chosen for panel discussion.



K Ravi, President, FKCCI

K Ravi, President, FKCCI, in his keynote address pointed out that the general mood in the country is that of suspicion due to the recent developments. "The PNB case has impacted credit off-take for SMEs as every bank

branch manager is viewing a potential borrower as a threat to the bank," he said. This, market watchers believe, could choke economic growth as lenders become wary of lending. Hence, it is necessary for the government and the RBI to ensure that new projects and businesses do not get affected as a result of delays in bank credit. Despite the the government infusing ₹50,000 crore into the banking system, the industry believes that it is not enough.

Further, the closure of Nirav Modi and Mehul Choksi's jewellery businesses by investigative agencies, is likely to result in another ₹8,000 crore of loans extended to them by banks turning into NPAs, Ravi pointed out.

As is the norm of late, big defaulters are booking a one-way ticket to safe havens in an effort to escape from law enforcers. The industry is seeking measures that the RBI can take to make banks track bad loans on a daily basis. "This can go a long way in restoring public confidence," said Ravi, adding that a clear set of guidelines need to be put in place.

India, meanwhile, is witnessing a rise in fintech ventures. Despite a slowdown in fintech investments in most developed economies, in Asia it has increased significantly.

So, would this make banks redundant in the future? Ravi signed off saying that banks will not disappear as customers feel secure and safe as they are looked upon as custodians of their money.