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Private banks turn more cautious in granting new loans after controversies

BY JOEL REBELLO, ET BUREAU | APR 19, 2018, 08.19 AM IST

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The [ICICI Bank](#) controversy and Axis Bank's chief cutting short her tenure have now made private sector lenders extra watchful about making loans, picking up a trend that's been prevalent at state-owned banks in the wake of corruption investigations. Decisions that were considered routine a few months ago are getting delayed, said bankers and others with knowledge of the matter.

"Bankers are unwilling to sign a single paper especially after these issues about ICICI Bank and the [Axis Bank](#) CEO have come to light," said Purvesh Shelatkar, senior vice president, institutional sales at Centrum Broking. "In one case that I personally know of, an IT solutions provider had been sanctioned a loan but the money has not been released because there are questions over its credit rating. These things will happen more often now."

It's too early to say whether this additional vigilance at [private banks](#) will slow credit growth, which is a critical component of India's push for economic revival.

The executives at private banks that ET spoke to for this story confirmed processes had tightened up considerably in the past few weeks, declining to be identified.

ICICI Bank has had to defend itself against allegations of impropriety over loans to [Videocon](#) group, which has defaulted on its debt. Videocon promoter Venugopal Dhoot is said to have loaned money to a company started by Deepak Kochhar, husband of ICICI Bank chief [Chanda Kochhar](#).

Deepak Kochhar has denied there was any quid pro quo involved and the bank has said it has faith in its boss. Axis Bank CEO [Shikha Sharma](#) cut short her term after the central bank queried a three-year extension, reportedly over the bank's performance.



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Some said this will make private banks pay greater attention to loan viability. "Banks will be careful to run the processes and ensure

checks and balances,” said Rajesh Mokashi, CEO at Care Ratings. “We will go through a transition where processes will be reexamined. Banks have to go through a phase of introspection which will lead to healthy banks going forward.”

However, questions being raised even five years after loans were sanctioned have increased concerns that bankers could face investigation even after retirement for alleged impropriety.

“No one will want to come into the banking profession now,” said a former banker. “Nobody is safe, nobody can do their work in peace. That is the situation currently.” The latest case became public on the weekend and involved stateowned UCO Bank.

The Central Bureau of Investigation is said to have registered a case against its former chairman and managing director Arun Kaul and four others over allegations they defrauded the bank by Rs 621 crore through “diversion and siphoning off the bank loans, without utilising it for the sanctioned purpose and produced false end-use of certificates issued by the chartered accountant, by fabricating business data,” according to PTI. Some executives said the investigative agencies don’t have a clear idea of how lending works.

“Credit decisions are not tick-box decisions. They are taken based on judgement calls taken based on rational assumptions validated for relevance at the time of the decision,” said State Bank of India deputy managing director Sunil Srivastava, who retired after more than 30 years at the country’s largest lender.

“Take for instance the power sector — in 2007, the Central Electricity Authority projected a steep rise in demand for power, which it reiterated in 2012. But then in 2017, we have a situation of more power being generated than demand. Should banks which have financed these projects then be hauled up for lending to this sector?”

Srivastava said the allegations seem to reflect a lack of understanding. “It is the basic business of the banks to lend and lending would have to be differentiated from auctions or allocation of quotas or for that matter tenders and we shouldn’t create an atmosphere of extreme distrust,” he said. “If we don’t develop the maturity to differentiate between malfeasance and misfeasance, we may unwittingly land up encouraging only nonfeasance.”

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