Concerns with Mehta Panel Report

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What is the issue?

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- The Sunil Mehta Committee submitted a five-point plan on bad loan resolution.
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- But the recommendations are less likely to be an immediate solution for early resolution of NPAs.
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What are the concerns?

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- **Approach** - Large banks helping smaller lead banks to run the resolution process, if required, sounds an ineffective suggestion.
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- The bank-led resolution approach has largely failed in the past.
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- Clearly, this is the reason why alternative plans to resolve NPAs quickly are being sought.
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- **Consensus** - The lead bank's resolution plan to be approved by 66% of the lenders (by value) merely replaces the earlier JLF.
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- The JLF (joint lenders' forum) structure failed miserably as it fell short of building consensus.
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- The present committee report has missed to address this real challenge.
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- **Small banks** - The structure also fails to serve the interests of smaller banks.

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- If restructuring involves additional finance, small banks may be affected.
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- As, unlike the larger ones, smaller banks may not prefer giving good money after the bad loans.
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- **Reconstruction** - The report points out the lacunae in the existing functioning of asset reconstruction companies (ARCs).
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- But it fails to address how such issues will be tackled under the proposed AMC or AIF structure.
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- Success of price discovery through open auction under AMC/AIF depends on banks' willingness and capability to take financial risks.
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- Clearly, unattractive returns and poor recovery rates have discouraged investors from bringing in capital in the past.
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- **Complex** - The objective of early resolution to NPAs may be hampered by complicated work processes.
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- E.g. there is lack of clarity on how AIFs will work with a series of AMCs for a quick resolution.
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- Also, there are 26 ARCs and a couple of resolution advisory service companies in operation.
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- Given this, creation of new platforms like the AMC in AIFs for NPA resolution seems illogical.
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What is the way forward?

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- Quick-fixes like utilising healthy banks' or institutions' assets to rescue stressed banks may not be sustainable.
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- The long awaited structural reforms for the banks are:
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i. empowering the bank boards
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ii. setting a roadmap for consolidation
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iii. Centre diluting its stake in PSBs
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- These have to be paid attention to, and the Centre has to push through these reforms.
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Source: BusinessLine

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