

## Tackling 'Twin Balance Sheet Syndrome'

### Why in news?

The Financial Stability Report (FSR) of the RBI indicated that the challenges of 'twin balance sheet syndrome' (TBS) is fast receding.

### What is 'Twin Balance Sheet Syndrome' (TBS)?

- 'Twin Balance Sheet Syndrome' (TBS) is a scenario where banks are under severe stress due to:
  1. High levels of non-performing assets (NPAs)
  2. High provision requirements
  3. Low profits and
  4. Low capital adequacy ratios (CAR)
- Under TBS the corporates are overleveraged to the extent that they cannot repay their loans.
- In the mid-2000s, infra companies faced TBS problem.

### What is the status of TBS at present in Indian banking sector?

- TBS is fast shaping into a '**Twin Balance Sheet Advantage**' (TBA).
- This is due to the improvement in the performance of banks and the corporate sector through various measures and efforts.
- The analysis based on 6 BSI indicators in FSR show that the banks are well-capitalised and capable of absorbing macroeconomic shocks over a one-year horizon even in the absence of any further capital infusion.

**Data** - The gross non-performing assets (GNPAs) of banks sharply fell from 11.5 % in FY18 to 3.9% in FY23. The return on assets (ROA) of banks trailing in the negative zone (-0.2%) in FY18 improved significantly to 1.1% by FY23.

### How TBS was tackled?

- The corporate sector, banks and the RBI played a critical role in tackling the perils of TBS.
- **Banks** - Significantly improved their performance to come out of the toxic loan crisis.
- Banks also came out of irrational lending.
- **Corporate sector** - It realised the risks of excessive borrowing.
- Corporates started deleveraging balance sheets.
- **RBI Measures** - The merger of PSBs during 2017-21 brought them down from 27 to 12 and turned PSBs into stronger entities with potential higher risk appetite.

- **Data collection and sharing** - Introduced the Central Repository of Information on Large Credits (CRILC) to enable banks to share information on large loan accounts of ₹5 core and above in 2014.
- RBI insisted collection of information on loans overdue up to 90 days known as Special Mention Accounts (SMA).
- The RBI having detected divergence in the asset quality data introduced an Asset Quality Review (AQR) in September 2015.
- **IBC** - The enactment of the Insolvency and Bankruptcy Code (IBC) in 2016 and the formation of the Insolvency and Bankruptcy Board of India (IBBI) helped hasten problem loan resolution.
- **EASE** -To perpetuate TBS, PSBs needed large capital infusion.
- To fulfil that condition, the government introduced another set of bank reforms called 'Enhanced Access to Service Excellence' (EASE) in 2018.
- The format of EASE reforms got modified and now EASE 5.0 is in use.
- **Bad bank** - National Asset Reconstruction Company Ltd (NARCL), also had to be formed to tackle toxic assets.

### What lessons can be learnt from the TBS experience?

- Banks and the corporate sector will have to work in unison to harness the full potential of their newly acquired strengths.
- **Banks** - Now the banks have strong stability, and adequate working regulatory controls, banks will now have to focus on improving the quality of credit origination, monitoring, and control of credit.
- The risk governance and all 3 lines of defence in risk management (SMAs) should be well equipped to ring-fence the banks against credit risk.
- The internal credit rating system needs to be more robust.
- The development of a strong talent pool in managing credit risks like Credit risk managers, should receive priority.
- **Corporates** - Proportionality in lending to the corporate sector must be maintained with the right kind of credit assessment.
- The corporate sector should adopt responsible borrowing and ensure timely repayment of loans to bring down the cost of borrowing.
- Taking advantage of the scenario, banks and corporates can play a more strategic role in taking the economy to a higher trajectory of growth to put it into the orbit of developed economies in coming years.

### Quick Facts

#### Banking Stability Indicator (BSI)

- BSI is an overall assessment of changes in underlying conditions and risk factors that have a bearing on the banking sector's stability during a period.
- The six composite indices represent risks in six dimensions are soundness, asset quality, profitability, liquidity, efficiency, and sensitivity to market risk.

## References

1. [Business Line - Lessons from twin balance sheet syndrome](#)
2. [TOI - Twin balance sheet problem to twin balance sheet advantage](#)

