TRENDS AND PROGRESS OF BANKING IN INDIA 2023-24 REPORT

RBI flags unsecured lending, pvt credit

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Mumbai, 26 December

The Reserve Bank of India (RBI) has flagged concerns over rising delinquency and leverage in unsecured loans, calling for enhanced vigilance despite a moderation in credit growth. In its annual Trends and Progress of Banking in India 2023-24 report, the central bank also highlighted the need for a closer look at interlinkages between lenders and private credit firms.

Gross non-performing assets (GNPA as a percentage of gross advances) for banks continued their steady decline, reaching a 13-year low of 2.7 per cent in March 2024 and further dropping to 2.5 per cent by September-end. Meanwhile, banks' profitability surged for the sixth consecutive year in 2023-24, with return on assets (RoA) at 1.4 per cent and return on equity (RoE) at 14.6 per cent for the first half of 2024-25.

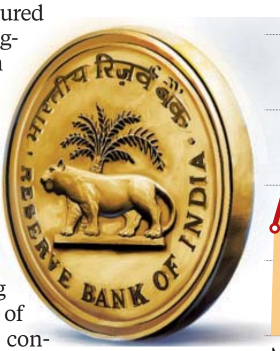
The share of unsecured loans in total credit extended by scheduled commercial banks has grown steadily since March 2015, touching 25.5 per cent by March 2023 before easing slightly to 25.3 per cent a year later. In response, the RBI introduced stricter norms in November 2024, mandating higher risk weights for unsecured loans and directing bank and non-banking financial company (NBFC) boards to set exposure limits.

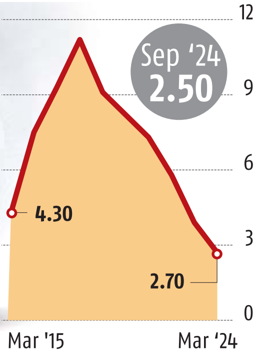
"However, some entities have fixed very high ceilings, which need to be continuously monitored," the report said. The RBI stressed the importance of prudence among regulated entities to safeguard their financial health and maintain systemic stability.

The regulator also raised alarms over top-up loans, noting that such products are often sanctioned with minimal due diligence and lenient underwriting standards. It found instances of lax adherence to prudential guidelines on loan-to-value (LTV) ratios, risk weights, and the monitoring of end-use of funds. Turn to Page 3

GROSS NPA RATIO EASES

Gross NPA of scheduled commercial banks as % of gross advances
(as of March-end)





STATUS CHECK

Gross NPA ratio in retail loans (%)

	As of Sep 2024
Education loans	2.7
Consumer durables	2.3
Credit card receivables	2.3
Auto loan	1.4
Other retail loans	1.2
Housing (including priority)	1.1
Loan against shares, bonds	0.6
Loan against FDs	0.2

Source: RBI

PAGE 11

Disasters@2024: Looking back

CLIMATE IS CHANGING, ARE WE?

Yet another year passed by with nature raising red flags about the crises unfolding before our eyes and with disasters that could have been prevented

PAGE 2

AFTER FALSE START, 10-MIN FOOD DELIVERY BACK ON ROAD

Regulator may consider tightening norms on top-up loans

"These practices could lead to build-up of risks, especially during times when collaterals for such loans become volatile or face cyclical downturns," it said. Last year, the RBI mandated banks to treat top-up loans as unsecured.

The regulator may consider further tightening of norms on top-up loans, if needed. "The Reserve Bank will assess the need, if any, for additional regulatory interventions to mitigate the identified risks in cases of other top-up loans," the report said.

Gold loans also came under scrutiny, with the RBI report pointing to "several irregularities" in loans against gold ornaments and jewellery. Lenders have been asked to closely monitor their gold loan portfolios and improve oversight of outsourced activities and third-party service providers.

The RBI called for a deeper examination of the private credit market, noting that while the size of such firms and the resources raised remain limited, the interlinkages between private credit firms, banks, and NBFCs "could give rise to systemic concerns, along with the possibility of regulatory arbitrage to circumvent regulations". In the broader retail loan segment, gross NPAs stood at 1.2 per cent as of September 2024, the lowest among sectors. Agriculture had the highest GNPA ratio at 6.2 per cent.

Education loans saw a notable improvement, with GNPA ratios dropping from 5.8 per cent in March 2023 to 3.6 per cent in March 2024 and further to 2.7 per cent by September 2024.