

Guidelines for Compromise Settlement of Dues of Banks and Financial Institutions through Lok Adalats

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All Scheduled Commercial Banks and All India Financial Institutions (IDBI, IFCI, ICICI, TFCI, IDFC, NABARD, NHB, SIDBI, and EXIM Bank)

Dear Sir,

Guidelines for Compromise Settlement of Dues of Banks and Financial Institutions through Lok Adalats

As you are aware, the Indian Banks' Association (IBA) has been issuing guidelines to member institutions for taking up of cases for settlement through Lok Adalats. The position was reviewed and it was observed that banks have not taken adequate advantage of the Lok Adalats for compromise settlement of their NPAs. There are certain advantages in using the forum of Lok Adalats by banks and financial institutions in compromise settlement of their NPAs. There are no court fees involved when fresh disputes are referred to it. It can take cognizance of any existing suit in the court as well as look into and adjudicate upon fresh disputes. If no settlement is arrived at, the parties can continue with court proceedings. Its decrees have legal status and are binding. It has, therefore, been decided that with a view to making increasing use of the forum of Lok Adalats to settle banking disputes involving smaller amounts, banks and financial institutions should follow the following guidelines for implementation.

1. Ceiling of amount for coverage under Lok Adalats

As hitherto, cases involving an amount upto Rs.5 lakh may be referred to Lok Adalats. The matter of raising the amount upto Rs.10 lakh has been taken up with the appropriate authority.

2. Coverage of Borrowers

In order to make a definite impact on reduction of NPAs, the scheme may include all NPA accounts, both suit filed and non-suit filed accounts, which are in "doubtful" and "loss" category, with outstanding balance of Rs.5 lakh (Rs. 10 lakh when the limit is enhanced). No cut off date is suggested since Lok Adalat is an on-going process.

3. Settlement Formula

The settlement formula would be flexible and left to the Board of Directors of each institution. However, certain essential parameters, as under, should be kept in view:

- i. A decree should be sought from the Lok Adalat for the principal amount and interest claimed in the suit, and after full payment of decree amount, a discharge certificate should be issued by the bank / financial institution.
- ii. As regards recovery of the book dues as on the date the account became NPA or transferred to protested bills account, and interest and other costs charged to the borrower's account thereafter, the Board of Directors of the bank/institution should frame flexible policies in this regard, taking into account the value of security, the repaying capacity of the borrower, and cost of recovery, etc.
- iii. As regards repayment period, it is suggested that in order to make any immediate impact on reduction of NPAs, the repayment period should be within one to three years.

- iv. The negotiated agreement with the borrower should contain a default clause in terms of which if the borrower does not pay the installments due regularly, within the repayment period, the entire debt will fall due for payment and bank may initiate legal proceedings.
- v. The Lok Adalats settle cases on the spot. The Officers representing the institutions should have sufficient powers to accept the compromises worked out within the policy framework laid down by the Board of Directors of each institution. As the objective of the whole exercise is to settle arrear cases expeditiously the banker should respond pro-actively to the suggestion of the Presiding Officer of the Lok Adalat.

4. Organisational Arrangements

The individual banks and financial institutions should be more pro-active and should take the responsibility of organising Lok Adalats. The experience of implementation of RBI guidelines issued to public sector banks vide our circular DBOD.No. BP.BC.11/21.01.040/99-00 dated July 27, 2000 on one-time settlement may be kept in view. In this regard, the institutions should get in touch with State / District / Taluk level Legal Services Authorities for organising Lok Adalats. The banks / financial institutions should prescribe clear guidelines to their operating staff and monitor the progress regularly. The banks should report the progress to the Central Office of the Department of Banking Operations and Development, and the financial institutions should report to the Central Office of the Department of Banking Supervision (Financial Institutions Division), Reserve Bank of India at quarterly intervals within one month from the quarters ending March, June, September and December, as per format enclosed. Reserve Bank of India would monitor the progress made by the institutions in effecting recovery under the scheme. The convener banks of State Level Bankers' Committee (SLBC) and lead banks of districts should give necessary publicity to the Scheme through various modes, under their areas of operations.

5. These guidelines become effective immediately. A copy of instructions / circular issued by the banks / Financial Institutions to the operating units may be sent to RBI and the Government of India, Ministry of Finance, Department of Economic Affairs (Banking Division), New Delhi.

6. Please acknowledge receipt.

Yours faithfully,

Sd/-

(M. R. Srinivasan)

Chief General Manager-in-Charge

Encls: As above

Format for reporting to Reserve Bank of India of the progress made in recovery under the forum of Lok Adalats

Name of the institution:

Report for the quarter ended:

(Amount in lakh of rupees)

	Total Cases		Cases Decided		Recoveries Effected	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount of Compromise	No. of Accounts	Amount

Opening Balance						
During the quarter ended						
Total						