



Telangana Today
FOR LOCAL TO GLOBAL NEWS

Recovery derails

Even the more conservative estimates of economic recovery in India have now gone awry in the face of the devastating impact of the second wave of the Covid-19 pandemic. The unprecedented surge across the country, at a time when the developed economies have already started recovering, could derail the recovery process and put pressure on inflation. Local lockdowns in several States, growing commodity prices, increasing global inflation and a weaker currency could further push the prices. Though there has been no full-fledged lockdown anywhere in the country and the restrictions are less severe than those imposed last year, their impact is being felt in the broader economy. The economists at SBI have scaled down the growth projections from 11% to 10.4% per cent this year. Earlier this month, the International Monetary Fund (IMF) upgraded India's economic growth forecast to 12.5% — the fastest among major economies. However, such an optimistic project is now under severe doubt because of an unprecedented surge in infections. The Reserve Bank of India (RBI), on its part, is in a waiting mode, keeping the policy repo rate unchanged and maintaining an accommodative stance “for as long as necessary to sustain growth, while ensuring that inflation remains within the target”.

The wholesale price index (WPI)-based inflation rose to an 8-year high of 7.39% in March driven by the increase in prices of fuel and manufactured products. Rising unemployment, collapsing businesses leading to reverse migration and plunging demand have once again turned the spotlight on the gloomy urban economy. The data from the Centre for Monitoring Indian Economy (CMIE) shows that urban unemployment crossed 10% in the week ended April 18. These levels were last seen for a few months after Prime Minister Narendra Modi announced a nationwide lockdown in March 2020. The most worrying aspect of the pandemic impact is that a two-decade-long trend of poverty reduction has now been reversed and the number of people below the poverty line increased to 50 million in India. There is a need to step up revenue expenditure targeting income support measures. This is essential to sustain sources of livelihood and contain poverty. As the Covid-19 cases keep rising, there is every possibility of State governments imposing fresh restrictions which might hamper economic activities and cause disruptions in supply chains. This, coupled with higher commodity prices, will exert upward pressure on inflation. The sharp fall in the revenues is expected to force the States to borrow more, thereby putting further pressure on bond yields. Rating agency, Fitch, which recently affirmed India's 'BBB-' sovereign rating, has warned that the outlook is negative, as there continues to be uncertainty over the country's debt trajectory following a deterioration in public finances.

Rising unemployment and plunging demand have once again turned the spotlight on the gloomy urban economy

This West Bengal election was unprecedented and unique in its own way. With a lot of maturity, in spite of all provocations, a high standard of electioneering maintained by BJP. TMC displayed the lowest level of ethics, immaturity and provocative electioneering. In this election, Mamata ji tried to create false narratives



JP Nadda
BJP president



K Palaniswami
Tamil Nadu Chief Minister



HD Deve Gowda
Former Prime Minister



Mamata Banerjee
West Bengal Chief Minister

The government at the Centre is monumentally incompetent and a total failure. They have the single motto to capture Bengal anyhow. In doing so, they ruined the country. The Prime Minister and Home Minister have been stationed in Bengal for the last three months. There is a deliberate attempt to destroy Bengal first instead of handling the pandemic

[Less Wrong]

It is risky to ignore ignorance

Taming cognitive biases in lending will help significantly reduce decision errors and thus NPA incidence



B SAMBAMURTHY

The government and the RBI have been exhorting banks to step up lending to revive the economy and put India on the fast track once again. But with heavy pile-up of NPAs, which reached a peak of over Rs 10.3 lakh crore in 2018, banks have been wary of lending. If it was exaggerated optimism a decade ago, it is exaggerated caution over the last 4-5 years.

Credit growth has been sluggish in single digits and some PSU banks even registered negative growth. Credit to industry suffered significantly and has been negative over the last three years. Imposing Prompt Corrective Action on over 12 banks also constrained credit growth. Recovery through various channels like DRT, Sarfaesi, Lok Adalat, ARC and IBC has been tardy at around 15% of the monies sought to be recovered. This has also contributed to risk aversion.

Cognitive Biases & Decision Errors

Over the last few years, banks have invested resources in improving the appraisal, follow-up skills and processes to reduce the incidence of NPAs. This is necessary but not adequate to minimise NPA creation. Besides malfeasance and alleged frauds and crimes, cognitive biases lead to decisions errors and NPAs. But cognitive weaknesses have not been given due attention.

There is a body of well-researched literature that traces errors in decision-making to cognitive biases. These cognitive biases are far beyond hard and soft skills. These are quite common in several areas like policymaking, healthcare diagnostics, and financial services and relevant in lending decisions as well.

In simple terms, a cognitive bias is deviation from rational judgment. It is about processing information from a particular point of view, is one-sided and aligned with one's own beliefs, values, opinions and even prejudices. Many a time, it is misinformation, a systematic error, a tendency and disposition. These

CONFIRMATION BIAS One unconsciously seeks and favours information that conforms to their prevailing views, beliefs, values and knowledge. The information may be of low quality. Diverse or opposite opinions are not sought or listened to and at times even suppressed. One tends to disregard evidence that doesn't conform to his/her beliefs, which leads to poor quality of decision and outcomes. This is a natural tendency to seek or emphasise with people that conform to existing conclusion or hypothesis. This blindsides several dimensions of risks. This is a widely prevalent bias and can be countered by seeking contrarian information. Einstein famously said that he sought diverse answers for the same question.

BANDWAGON BIAS People draw comfort in a decision because other people do the same. Under this influence, people lose the ability to independently analyse, think and decide. This herd instinct is too common and many bubbles are attributed to this bias. We have seen either groups of lenders are active and go on a lending binge or demonstrate risk aversion in a group as is witnessed now. This 'group think' and 'collective mindset' is seen in syndications/ consortiums. Lenders who took the road less travelled look better off.

DUNNING-KRUGER BIAS One believes that s/he knows more than what s/he actually does. They think they are smarter than actually they are. This prevents one to acknowledge own limitations and weaknesses.

OVERCONFIDENCE TRAP Confidence is not a good indicator of accuracy of their judgements. One does not know the limits of their knowledge or expertise. Experience does not necessarily translate to expertise as the world is irregular and not linear. They have too much confidence in their beliefs and experience, more than warranted. They suffer from the illusion of control when actually they cannot control the outcomes of their decisions. They either do not seek feedback or ignore it.

ENDOWMENT EFFECT/BIAS People place a higher value on what they know and possess rather than on a skill they do not know.

HINDSIGHT BIAS This is a tendency to see past beneficial events, even random ones, as predictable and bad events as unpredictable. These people are the 'I told you so' type. Worse the consequence/outcomes, greater the hindsight bias. Scrutiny of decisions much later with hindsight leads to risk aversion. As such, hindsight bias is not kind to decision-makers. Many decision-makers are blamed for not seeing the writing on the wall. But the writing is in invisible ink.

ANCHORING BIAS One relies too much on the first piece of information. Subsequent negative or bad news is ignored or rationalised. This is close to Halo and Horn effect.

FALSE CONSENSUS BIAS One overestimates how much the other agrees with one's own opinions and skills. This operates when a group that makes decisions has members of several layers of hierarchy. A Committee approach to decision-making is prone to suffer from this bias.

may be subconscious and decision-makers are even unaware of their own biases. At times, it is deliberate. According to psychologists, 95% of cognition happens below the threshold of consciousness.

Nobel laureate Prof Daniel Kahneman highlights the role of cognitive biases in contributing to decision errors. "Thinking fast and slow", one of his bestsellers, dealt at length with cognitive biases that lead to decision errors. Some of the cognitive biases that lead to decision errors and suboptimal decisions in lending, which lead to the creation of NPAs are: **Heuristics approaches to decisions:** This approach follows rules of thumb that are developed on past experiences and current assumptions. These decisions are shortcuts. They are snappy and quick. They may be educated guesses or pure intuition. The following are some of the heuristic approaches used in quick decision making, which may not be rational:

- **Availability Heuristic** is the most common approach. Snap decisions are made on the basis of immediately available information, which may be true or not. There is no time

or inclination to deep dive to gather more information by research.

- **Representative Heuristic** decisions are based on one's own mental prototypes or stereotype.
- **Affect Heuristic** is about making decisions based on how one feels at that moment, essentially mood swings, and these decisions are influenced by past experiences, be it positive or negative.

This approach may be useful in responding to some emergencies but not rational in financial markets, including lending. (see box for more)

Sunk Cost Fallacy: This is a common trap. One does not like to recognise losses in the investments/lendings already made. Further decisions are made not on the future costs but on sunk costs fallacy on assumptions to avoid waste/protection of resources already committed. One often encounters this fallacy in situations like restructuring/ forbearance decisions. At times, this fallacy may end up in throwing good money after bad money. This dilemma is as much emotional as economic.

Prof Kahneman packages all these bi-

ases into System 1 and System 2 thinking. System 1 is variously characterised by rule of thumb, quick, hasty, emotional, irrational and ill-informed thinking and decisions. System 2 is more deliberative, effortful, rational and careful thinking decisions. Both systems are contextually correct or wrong. In System 2, there is more objectivity and fewer errors. In the real world, it is more an interplay of both the thinking systems.

De-biasing Strategies

Cognitive biases are like silent killers, which impact the quality of decision making. But these biases can be tamed through a well-structured de-biasing strategy and execution. One can overcome these biases if they are identified, acknowledged and neutralised in time. One way of combating bias is to engage in conversations with people of diverse or even opposite biases. Another good practice is to document all relevant facts and then base the decision on the facts gathered. It is important to identify "what is not known" and fill the knowledge gap. Use of artificial intelligence and automation tools may also mitigate some biases. But it needs to be ensured that AI models themselves do not suffer from biases.

Role of Chief Risk Officer

Credit and Risk Officers must undergo regular training on de-biasing. The entire credit cycle must be designed to identify and tame cognitive biases. Besides financial experts, lenders need psychologists to help reduce decision errors, risk and keep NPAs to the minimum thereby not threatening financial stability. The Chief Risk Officer should formulate and execute de-bias strategies.

Boards and policymakers need to be proactive. Cognitive biases are universal and around us but not obvious. Investors, lenders, insurers, policymakers are overwhelmed by cognitive biases, mostly subconsciously. But the buck stops at the lenders' board and CEO. Coaching, counselling and mentoring at the top sets the tone.

Taming cognitive biases, at least, in lending, especially for large borrowers, would help significantly reduce decision errors and thus NPA incidence. Even if this helps less NPAs by say 20-25%, it is no small change. Don't miss the opportunity to get less wrong. As Prof Kahneman says, it is risky to ignore ignorance.

(The author is former Chairman of a PSU bank)

Now is the time to test whether the Central government actually believes in competitive federalism or sticks to brazen central diktat

Free vaccines

This refers to the editorial "Free vaccines for all" (April 26). There is an immediate necessity to declare National Vaccination Policy by the government and implement it with all command and sincerity. Two issues merit attention. First, the general public must be weaned away from vaccine hesitancy, second administer vaccines to all from 18-plus. The Centre has to take into confidence all political parties, experts, vaccine manufacturers. It cannot afford to be one-sided, arrogant and complacent. We have to remember that vaccines, along with strict adherence to Covid rules, is an insurance to save lives. All bigger and developed nations are resorting to massive vaccination. For heaven's sake don't allow vaccine manufacturers to make money at the cost of human lives and allow differential pricing. Now is the time to test whether the Central government actually believes in competitive federalism or sticks to brazen central diktat, fair with some and unfair to others. Salutes to the Telangana government and other State governments who have expressed intent to administer free vaccination. Free vaccination and no compromise on Covid discipline will promote herd immunity, the greatest need. More lives saved from extinction will be the moment of joy for all.

Parthasarathy Sen, New Delhi

Strengthen healthcare

While the nation is battling out to bridge the supply and demand gap for oxygen requirements, lockdown comes as another blow on the common man's shoulder. Though lockdown has been imposed in the best interest of the health and safety of the common man, there is a dire need to ramp up medical facilities to meet the urgent needs of both symptomatic and asymptomatic patients. It is also appreciable that some of the countries like Iran, Bhutan, the USA, UK, Germany and Australia have come jointly to support India. The world should be indebted to India, as the nation took a lead in supplying vaccines through the 'Vaccine Maitri' operation to many countries.

Varun Dambal, Bengaluru

Judicial reforms

NV Ramana who assumed office as the 48th Chief Justice of India had held many high positions with distinction. He has delivered many landmark judgements, particularly in cases related to human rights. He is known for his profound knowledge of jurisprudence, a penchant for upholding human rights and retaining his self and cool even in the face of caustic comments and severe personal allegations against him. It is hoped that he would take steps to implement long-pending judicial reforms, reduce piled up cases in our courts, check custodial deaths, ensure speedy and fair justice to all and above all to bring the office of the CJI under the RTI Act.

M Somasekar Prasad, Hyderabad

India the hotspot

theguardian

Modi's mistakes: a pandemic that is out of control

Political hubris met pandemic reality in India this week. At the beginning of March, the Hindu nationalist government of Narendra Modi claimed the country was in Covid-19's "endgame". India is now in a living hell. Nations have either banned flights from India, suggested avoiding travelling there or insisted visitors quarantine on their return.

THE WALL STREET JOURNAL.

A Covid-19 vaccine's 1,500-mile journey through India

India is simultaneously battling the world's fastest-growing surge of infections and carrying out one of the most logistically complex vaccination campaigns. New Delhi has set a target of vaccinating 300 million of its more than 1.3 billion people by the fall. Some of those doses will be transported hundreds of miles — by truck, plane, scooter, boat and even on foot.

The Japan Times

World's biggest Covid crisis threatens Modi's grip on India

As India recorded more than 234,000 new infections last Saturday, Prime Minister Narendra Modi held an election rally in the West Bengal town of Asansol and tweeted, "I've never seen such huge crowds." The second wave has since grown into a tsunami. India is now the global coronavirus hot spot, setting records for the world's highest number of daily cases.



Letters to the Editor

We invite your views and comments at
letters@telanganatoday.news