

Introduction of Bad Bank in the Indian Banking System

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DOI: <https://doi.org/10.58260/j.mas.2202.0105>

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A bank is a type of financial institution that deals with money and offers a variety of financial services. They have the responsibility of accepting the deposits and providing the loans to the customers and earning profit. The bank receives deposits from a range of customers, which are then circulated to the general public in the form of loans. If everything goes well, the loan is repaid on time then the loan is categorized as a normal asset, but if things go wrong the same asset can become a burden for the bank, if the repayment is not made on time for a variety of reasons, then these assets are classified as NPAs (non-performing assets). The idea of a bad bank has been suggested by many professionals in India, but during COVID-19 the idea got some major consequences. As a result, when presenting the budget for 2021-2022, the Union Finance Minister advocated the construction of these new types of banks. The governor of the Reserve Bank of India has also agreed to participate in this unique concept for maintaining the banking sector's growth and financial stability. The current paper examines the concept of bad banks, as well as its origins and implementations around the world.

Keywords: NPA, Bad bank, normal asset, financial stability

Corresponding Author	How to Cite this Article	To Browse
Ishika Jindal, , School of Business Studies, Sharda University, Greater Noida, Uttar Pradesh, India. Email: shalini.mittal@sharda.ac.in	Ishika Jindal, Shalini Mittal, Introduction of Bad Bank in the Indian Banking System. <i>Glo.Jou.of.Mgt.and.Sus.of.ADSRS.Edu.Res.</i> 2022;1(1):36-46. Available From http://mas.adsrs.net/index.php/mas/article/view/5	

Manuscript Received
2022-06-10

Review Round 1
2022-06-13

Review Round 2
2022-06-16

Review Round 3
2022-06-23

Accepted
2022-06-30

Conflict of Interest
Nil

Funding
Nil

Ethical Approval
Yes

Plagiarism X-checker
16%

Note



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Introduction

A bank is a type of financial institution that deals with money and offers a variety of financial services. They accept deposits and provide loans to the customers and earn profit from the difference in the interest rates paid and charged. Bank encourages savings among people. The Reserve Bank of India (RBI) is the central bank of the country. The banking system of India works according to the guidelines issued by the RBI. The Reserve Bank of India (RBI) is responsible for regulating India's financial system. They supply currency in the shape of reliable notes and coins to the Indian public. The Reserve Bank of India (RBI) was founded in 1935 as a private corporation, but it was nationalized in 1949.

Structure of banking system in India-

A. RBI (Reserve Bank of India) - It is the main decision-making body that helps in managing and governing the Indian financial system. It is the only institution that has the power of issuing and printing currency notes.

B. Scheduled Banks- Banks that are listed in schedule II of the RBI Act are Scheduled banks. To be classified as a scheduled bank, the bank's paid-up capital and raised funds must total at least Rs 5 lakhs.

C. Unscheduled Banks- The banks which are not listed in the schedule II of the RBI act. These banks have more risk. They are not eligible for loans from the RBI for day-to-day operations, but RBI can provide them loans if there is an emergency. For example- Capital Local Area Bank Ltd, Krishna Bhima Samruddhi Local Area Bank Ltd.

D. Commercial Banks- These are the banks that accept deposits from the public and provide them loans with the intention to make a profit. There are 4 types of commercial banks.

- Public Sector Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks

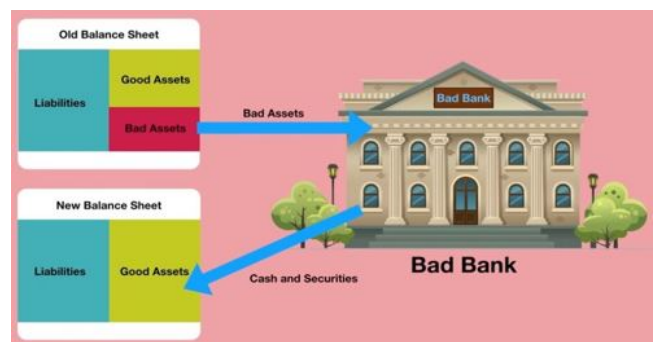
E. Co-operative Banks- Banks that are operated by the members who are also the bank owners and clients, which means customers are also the owners of the bank.

They offer various banking services to their members. The bank supports the agricultural sector and some small-scale companies. For example- Mehsana Urban co-operative bank, Saraswat Co-operative Bank Ltd, etc.

Bad Banks : Bad banks are those banks that purchased and managed the toxic NPA's (Non-Performing assets) of the commercial banks. They have been in the world since the 1980s. Many countries have started their bad bank in their respective countries. It was first started in the US in the 1980s. Bad banks are not those banks that are bad, they will just purchase the loans and then manage the loans of the commercial banks which have turned either doubtful or they are an incomplete loss. The finance minister, Nirmala Sitaraman, stated in the 2021-2022 budget speech that the government has begun the bad bank process to eliminate the non-performing assets (NPAs).

Just before 3 days for the Union budget of 2022-2023 the Finance Minister, Nirmala Sitaram announced to set up of a bad bank. Chairman of SBI, Dinesh Khara said that they have received all the essential permits from RBI. The National Asset Reconstruction Company Limited (NARCL) is planning to buy stressed assets worth 82,845 crores involving 38 non-performing assets (NPAs) in stages, with 15 NPA accounts worth 50,335 crores due by March 31 and the rest in the following fiscal year.

Meaning of Bad bank



<https://thefinancialpandora.com/bad-banks-explained/>

Figure 1.

The bad bank in India is called NARCL (National Asset Reconstruction Ltd). Reserve Bank of India has already granted a license to NARCL to operate as a bad bank. NARCL+IDRCL

Together form a bad bank. NARCL is the asset reconstruction company that will take the stressed assets or we can say non-performing assets from the bank and then they will engage with IDRCL (India Debt resolution company ltd) for the resolution of the non-performing assets. NARCL and IDRCL (India Debt Resolution Company Ltd) were both established to clear up NPAs valued at more than Rs 2 lakh crore in stages. The proposal to offer a government guarantee worth Rs 30,600 crore to security receipts issued by NARCL was approved by the union cabinet. The warranty is for five years. The NARCL will also be in charge of evaluating bad loans to determine how much they should be sold for. They would also provide government receipts to the banks, as they are taking their non-performing assets.

PM Nair (Stressed assets expert) from the State Bank of India has been appointed as managing director of NARCL. Other members of the board include IBA CEO Mehta, SBI deputy managing director SS Nair, and Canara Bank's chief general manager Ajit Krishnan Nair. NARCL will be 51 percent owned by public sector banks.

Working Mechanism of Bad Bank

What it means, and how it works

Finance minister Nirmala Sitharaman on Thursday announced measures that paved way for operationalisation of the bad bank, which was originally announced in Union Budget 2021-22

₹30,600 cr
in guarantees to be provided by Centre to buy bad loans from banks over a period of 5 years

WHAT WILL THIS COVER?
NARCL is intended to resolve stressed loan assets above ₹500cr which together amount to:
₹2,00,000cr worth bad loans

HOW WILL THIS HELP?
This will enable speedy disposal of stressed assets and clean balance-sheets of banks

WHO WILL PURCHASE THESE BAD LOANS AND HOW?
The National Asset Reconstruction Company Ltd (NARCL) has been incorporated under the Companies Act and has applied to RBI for licence as an asset reconstruction company. It will purchase bad loans at a discounted value from banks under a 15:85 structure, where it will pay up to 15% of the value in cash and issue security receipts for the rest

"[The structure] will incentivise quicker action on resolving stressed assets helping in better value realisation... This approach will also permit freeing up of personnel in banks to focus on increasing business and credit growth."
- NIRMALA SITHARAMAN, finance minister

<https://www.hindustantimes.com/india-news/bad-bank-to-help-monetise-chronic-npas-worth-2-lakh-crore-101631816471483.html>

Figure 2.

NARCL has been acquired by SBI, Union Bank of India, and Indian Bank, each with a 13.27% share. Punjab National Bank has purchased a 12.5% interest in the company.

NARCL provides various benefits to the banks which are as follows-

1. They increase the value of the bank.

2. They help the bank to clean up their balance sheet by transferring bad loans.

Bad loan burden

The bad loan burden

At ₹9.34 trillion, the total gross NPAs of banks accounted for 9.08% of their total gross advances of ₹102.87 trillion in 2019.

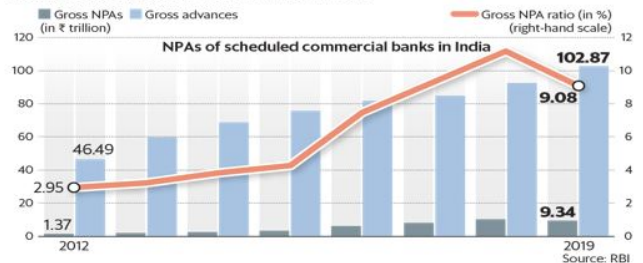


Figure 3.

IDRCL (India Debt Resolution Company Ltd) is an entity that resolved the stressed assets which are acquired by the bad bank. It is a service company that will manage the assets and it will join market professionals and turnaround experts in managing the bad assets in an attempt to turn them around. Public Sector Banks (PSBs) will hold a maximum of 49% stake in IDRCL, and the rest will be held 51% by private-sector lenders. IDRCL will be able to hire experts and management teams to operate bankrupt businesses, turn them around, and sell them for a profit.

IDRCL will be led by Manish Makharia, Head of Alternate Investment Fund, SBI Funds Management Private Ltd. IDRCL is majority-owned by private banks; the final authority will rest with NARCL, which is majority-owned by public sector banks.

Literature Review

The article examines whether bad banks and recapitalization result in a rise in generating bank lending and a decrease in non-performing loans and borrowing. The key finding is that bad bank is only beneficial in cleaning up the balance sheet and encouraging bank lending if they are combined with good bank segregations. Asset separation and recapitalization will not be able on their own to encourage lending and minimize future NPLs. Asset separation is more valuable when purchases of assets are privately financed and also asset segregation takes place in nations with more functioning legal frameworks.

Our first major discovery is that the two types of equipment that have the desired effect and have a significant impact on two alternative variables

Only when they are used together, neither of the equipment is successful on its own. We observed that when private funds are used to purchase damaged assets from the original bank, bank lending expands faster and future non-performing loans fall faster than when public funds are used. (Michael Brei, Leonardo Gambacorta, Marcella Lucchetta and Bruno Maria Parigi).

Many initiatives have been undertaken by financial institutions and policymakers in the United States and worldwide to address the repercussions of bad assets on the banks' balance sheets. The development of 'good banks' and 'bad banks' in which financial firms break off troubled assets and cancel business lines and operations into a new corporation is another approach.

The necessity to remove bad assets from financial institutions' balance sheets has become important as the financial crisis develops. Banking and the financial system require confidence in financial institutions and the regular reporting of losses and start writing which discourages improvement. The Mark-to-market accounting method was denied by U.S. Securities and Exchange Commission, which would have helped. The Financial Accounting Standards Board policy is directly addressing some of the concerns regarding mark-to-market and fair value accounting which may provide incremental improvements, but it is doubtful to significantly enhance balance sheets. Private investors dealing with individual institutions can build bad banks to fulfill their specific investment requirements. Whether a good bank-bad bank arrangement follows the path of past structure or introduces something new, regulators are willing to commend the plans that transfer unstable assets and restore safety. (Anna T. Pinedo).

The main thought to start a bad bank in India was first proposed in 2017 when the Indian economic survey advised to establish the Public sector rehabilitation agency (PARA) which is sometimes also known as a Bad bank. The significance or the need for this concept increased due to an increase in the problem of non-performing assets. The concept of a bad bank was first started in the U.S during the 1980s. The main goal of a bad bank is to help the regular banks by taking their non-performing assets which were usually valued at less than the book value of their loans, and managing them to recover the money over time.

For bad banks to operate effectively, strict legislation is essential. It requires a separate framework and the acceptance of the policy's financial statement consequences, as well as the recovery of a proper record of their operation. (Dr. Vijayakumar A B, Dr. S. N. Venkatesh).

The main idea is to develop two bad bank models to check their effectiveness for achieving the policymaker's goals and because of these global financial crises these bad bank models have been created. The financial crises which have been resulting in facing losses in the banking industry are because by the write-offs on bank's balance sheets with hazardous assets. Purchasing of bad assets by the bad bank is similar to the Swiss model, and in the German model, there is a repurchase agreement of bad assets between the bad bank and the originator bank. We show that the German approach is more superior in terms of accomplishing the goal of financial sector stability.

The policymaker has three goals-

- A. To restore financial sector stability
- B. To eliminate the banking crisis
- C. To reduce estimated taxpayer expenses.

The German bad bank design is more superior in terms of fulfilling the goal of financial sector stability because the probability of a bank failure is smaller in the German bad bank design as compared to the bad bank design that allows for direct purchase. (Ulrike Neyer, Thomas Vieten).

A bank is a financial institution that collects money, grants loans, and performs some other banking activities. The bank receives deposits from a range of customers, which are then allocated to the general public in the form of loans. If the repayment of the loan is regular then the loan is classified as a standard asset, but sometimes that same asset can become a burden for the bank, if the repayment of the loan is irregular. These assets are known as Non-performing assets. The concept of a bad bank has been raised by many experts in India but due to the COVID-19 pandemic, the idea got some serious consequences for the government and RBI. As a result, when presenting the budget for the years 2021-22, the Union Finance Minister recommended the construction of these new types of banks.

The position of these non-performing assets in the country as well as the predicted increase due to covid-19 identified the need to set up a strong institutional structure to turn these obstacles into possibilities. The key obstacle which they have to face is the source of finance and the asset price. The biggest problem with this concept is that these banks will not just become a garbage dump for bad assets with no enhancement in the amount of recovery. Covid-19 has brought so many challenges but at the same time, it brings opportunities for others also. Foreign countries, such as Canada are looking to engage in India's asset management industry to reap the benefits of low-cost stressed assets. To make the model successful, responsible ownership, effective governance, and proper support from the government and RBI are required, or else assets will only be transferred from one bag to another. (Dr. Sanjeev Kumar Bansal).

Relevance of the Study NPA and its Effects on the Indian Economy

Any assets (loans in terms of banks) which stop providing an adequate amount of return to their initial investor for a specified duration are popularly known as the Non-Performing asset (NPA). The Indian banking sector has been drastically affected by such NPAs. According to a study more than Rs. 7 lakh crore worth of loans are being classified under the concept of NPA. The crisis of NPA is set to get worse, due to insufficient information or wrong details provided by the customers boosts up the NPAs in India and the carelessness of the Indian Banking sector also plays a key role here. If this continues then the effect can get much worse and it could also result in a crisis in the Indian Banking sector as previously happened in the sub-prime crisis that occurred in the USA back in the year 2008. The comparison is also done within the BRICS as well where India has shown very poor performance in terms of having a low NPA rate.

According to the study, the ranking of NPAs in the Indian Banking Sector comes in 5th place in the globe. The constant increasing rate of NPAs in the banking sector not only reduces the profitability of these banks but also affects the bank's creditability at the same time. If the banks start to face reoccurring losses and at the same time the fundamentals are also not correct, then the problem can become chronic and this would result in demoralizing the confidence of the

Depositors and if once the confidence of the depositors goes down then these surplus units start to withdraw their money from the bank with at last results in the collapse of the banking system. This is the main reason why NPAs must always be at a very less rate and should be within the sustainable limit. The higher rate of the amount of NPA that a bank has within themselves also becomes the main reason to decrease the interest rate that they provide on the saving accounts to increase the margin. Thus, these increasing NPAs possess long-term threats and perils to the stabilized Banking System of a Nation.

Reasons For Increasing NPA

So, we have understood the definition along with its application around various countries but the main question that arises is what is the reason behind the constant increase of NPAs in the nations. Some reasons can be expressed in terms of macroeconomic factors such as the low rate of exports which causes the problem of global recession, a downturn in the prices cycle of various commodities, etc.

In the era of mid-2000s, the rising era or we can say the era in which the economy was booming along with business confidence was also buoyant. But, then the state of economic stagnation arose with the global financial crisis of 2008. Due to the financial crisis of 2008, the repayment capacity of individuals and entities declined by a massive margin. This, at last, led to what we called it today very often -India's Twin Balance Sheet problem, wherein both the banking and the corporate sectors are now reeling under financial stress.

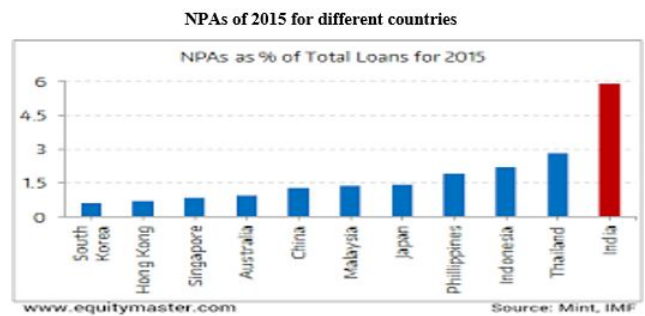


Figure 4.

Along with the reason mentioned above, there is also a factor that influences the NPA growth - Political factors like Crony Capitalism. This Crony Capitalism or popularly known as Cronyism has distorted the economy and made the

Indian economy crippled. Further, in recent times we have seen that the frauds of high margin and magnitudes have also contributed to the same. Even though the size of such frauds is very less when compared to the total volume of NPAs that we have but still such kinds are frauds are recurring in nature and are also increasing day by day. Among us, we have very popular examples to discuss—Vijay Mallya, Nirav Modi, and Mehul Choksey are popular.

Other reasons could also include that funds taken over are not utilized for the same purpose, malfunctioning in the lending process with false documentation and statements, having a poor credit appraisal system, lack of SWOT analysis, and technological advancement also plays a vital role. Other than these, some external factors encourage the NPA growth such as – the occurrence of natural calamities, industrial sickness due to changes in microeconomic factors, and lack of demand in the market.

So basically, these were the main reasons that were pushing the growth of NPA and because of these factors itself, India has a high ranking in terms of NPAs.

Corrective Action Plan

To establish a corrective action plan to the shock of the NPAs could be absorbed by the banks, banks should have the capacity to identify earlier that there could be happening of a non – payment and should immediately report it to the Central Repository of Information on Larger Credit (CRILC).

The following are the most prominent ways to prevent the happening of the NPAs –

- The moneylender should ensure that the CIBIL (Credit Information Bureau Limited of India) score should be relevant to the requirement.
- If NPA occurs then the bank or the financial institution should either compromise with the situation or should use various settlement schemes to reduce the effects.
- The banks and financial institutions should actively reveal and circulate all the relevant data and information about the defaulters of loans.
- The banks should take strict actions and legal frameworks against large NPAs.

- Such banks should also use Asset Reconstructions Companies (ARC) in order to recover the loans.
- Banks and financial institutions should propose ethical guidelines on the wilful diversion of funds.
- Banks should use more alternative dispute resolutions and mechanisms to have more fastest settlements of NPAs such as the use of Lok Adalat's and even death recovery tribunals.
- Monetization of the assets should be done of the defaulters' assets that are held by their banks themselves. In such cases, banks usually sell out such assets in an auction so that more and more value could be recovered by the banks.
- Banks should use the SARFAESI Act (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act) it allows the banks and the financial institutions to get their NPAs recovered without even the involvement of courts through the way of acquiring and disposing of the assets that are held with the banks itself.

So, these were the solutions to the NPA problems that can help to reduce the challenge of NPA or even make it come to an end. One of the main solutions is to spread awareness among the general public about such issues and they are needed to be addressed so that more and more participation of ideas could be accumulated and it will also help individuals to know what a bank/ the nation had to face after an NPA occurrence.

Objective of the Research

1. The report has been prepared in order to examine the idea of a bad bank and to analyze the concept's applicability to the Indian economy.
2. To investigate the concept's significance for the Indian economy, as well as its pros and cons in the development of these new types of bad banks.
3. To have an overview of how bad bank operations are incorporated and what is the need to set up these kinds of banks.
4. Understanding the current trends of the bad banks in various countries and drawing attention in reference of global perspectives on the implementation of bad banks.

5. In order to recommend/suggest new approaches and models that could help the Indian banking sectors to reduce the problem of non-performing assets

Discussion

Many steps have been taken by financial institutions and regulators in the United States to overseas to address the lingering effects of problematic assets. Asset guarantee programmes have been announced whereby losses incurred by government entities are shared. Financial institutions' balance sheets are ring-fenced with pools of distressed assets. Another strategy has been launching a series of initiatives to sell off assets. The third strategy has been the 'Good banks' and 'bad banks' are formed.

The concept of a bad bank becomes a central element of all the problems which are happening due to the financial crisis. These bad bank entities were established to address the problems that came during the credit crunch. The financial crisis of 2007-2010 led to the establishment of bad banks in various nations. In the Republic of Ireland, a bad bank, the National Asset Management Agency was established in 2009, of the country's financial crisis.

A. Mellon Bank (1988): Mellon Bank was the first bank to adopt the bad bank method, establishing a bad bank entity in 1988 to store \$1.4 billion in bad loans. The Federal Reserve was initially concerned to provide Grant Street National Bank (in liquidation) a charter, but Mellon's CEO, Frank Cahouet, pushed, and the regulators eventually consented. Grant Street, a dumping site for non-performing energy and real estate loans, was split off with its five-member board of directors and around \$130 million in Mellon capital and was named after a key street in Pittsburgh where Mellon Financial headquarters were located. There were no public deposits required. Mellon owners received one-for-one shares in both the good and bad banks as a dividend. After serving its purpose of issuing preferred shares and equity purchase contracts to finance the purchase of \$1 billion in Mellon's bad loans at 57 percent of face value and then collecting what it could on the individual loans, the Grant Street National Bank was liquidated and its employees returned to Mellon Bank quietly.

McKinsey & Company suggested four fundamental models for bad banks in a 2009 paper-

1. On-balance-sheet guarantee- When a bank utilizes a mechanism (usually a government guarantee) to protect a portion of its portfolio from loss. In this structured solution, the bank ensures a portion of its portfolio against losses, usually with a government-backed second-loss guarantee. The approach is simple to adopt and requires less immediate cash, but it only transfers a small amount of risk. The continuous presence of problematic assets on the balance sheet, as well as the lack of clear legal separation, make this the least appealing model for new investors, the bank's basic performance remains invisible to them. The strategy could be utilized as the first step to stabilize the bank while a more comprehensive solution is developed.

2. Internal restructuring unit- The bank provides a new unit to hold the problematic assets in an internal reorganization. Although this strategy is more transparent, it still exposes the bank to risk. Any bank that intends to set up as a complete autonomous bad bank must begin with an internal restructuring unit.

3. Special purpose entity- The bank transfers its toxic assets to another institution, usually, one that is guaranteed by the government. This solution demands major government involvement. This strategy works best for a small, homogeneous set of assets because transforming credit assets into a special purpose entity is a fairly complex step for many banks.

4. Bad-bank spinoff- This is the most well-known model, as well as the most comprehensive and effective model. The bank moves the assets off the balance sheet into a legally independent banking organization in a spinoff. Such an external bad bank enables maximal risk transfer and strategic flexibility for the bank. To hold the bad assets, the bank establishes a new, independent bank. The original bank is completely cut off from the riskier assets.

B. Swedish Banking Crisis (1992): It was caused by a mixture of over-speculation in real estate and the Swedish krona's exchange rate. Three of the four largest banks were bankrupt by 1992. The Swedish government hired McKinsey & Company to help them come up with a solution, and they decided to create two bad banks, Retriva and Securum.

Retriva took over all of Gota Bank's nonperforming loans, while Securum took over all of Nordbanken's nonperforming debts, with the good bank activities continuing as Nordea. The government also owns a large portion of Nordea. Lars Thunell was named CEO of Securum, with Anders Nyrén and Jan Kvarnström tasked with managing the company's toxic book, which was valued at sek 51 billion at the time.

Many others, including Claes Bergström, have studied Securum's performance. While the figures are variable, depending on the original costs and time frame, the cost was less than 2% of GDP, an incredibly good result, and both failed banks finally turned a profit. Nordea has long been regarded as one of Europe's strongest and most successful banks.

C. United Kingdom: UK Asset Resolution, a state-owned limited organization, was founded in 2010 to control the assets of the two public-owned mortgage lenders Bradford & Bingley and Northern Rock (Asset Management). This terrible bank is in charge of a £62.3 billion mortgage book (as of 30 September 2013). The Royal Bank of Scotland shifted £38.3 billion of bad loans to an internal bad bank in 2013.

D. Spain: The Spanish government approved the Fund for the orderly rebuilding of the bank sector (FROB) powers in 2012 to push banks to transfer toxic assets to a financial organization intended with removing the problematic assets from banks' balance sheets and selling them at a profit over 15 years. On its financial sheet, the SAREB (Restructured Banks Asset Management Company) holds assets of over €62 billion. SAREB is a bad bank for the Spanish government.

E. Indonesia: The Indonesian government formed the Indonesian Bank Restructuring Agency (IBRA) as an official entity to manage the asset disposals of a large number of insolvent banks during the Asian Financial Crisis that affected Indonesia and several other Asian nations in 1997 and 1998.

CAMCs (Centralized Asset Management Company) and their Establishment Dates:

Country	Name of the centralized Asset Management company	Establishment Date
United States	Resolution Trust Corporation (RTC)	1989
Sweden	Securum	1992
Indonesia	Indonesian Bank Restructuring Agency (IBRA)	1998
United Kingdom	UK Asset Resolution Limited (UKAR)	2010
Spain	SAREB	2012

Findings and Analysis

Since all the banks in India are found to be grappling with non-performing assets, despite having taken several measures for reducing the non-performing assets of banks. It has been observed that the banks have suffered heavily in the past because of large non-performing assets on their balance sheet. In some cases, some banks have been forced to be merged with other banks or have been privatized. For example- Allahabad bank has been merged with an Indian bank; Syndicate Bank has been merged with Canara bank.

This step was necessary because of the huge losses which the banks were making and the government was not in the position to capitalize on them every year. Similarly, there are certain banks like Indian Overseas Bank and Punjab & Sind bank which are running losses for the last couple of years. The government has decided to privatize these banks by offering equity shares to the public.

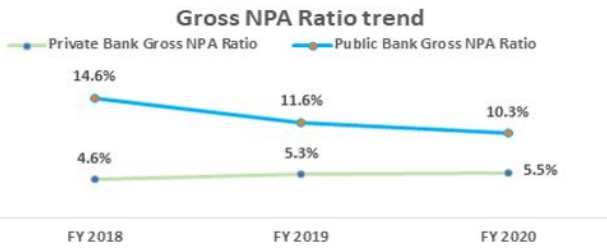
The government of India has decided to strengthen further the recovery mechanism for the non-performing assets accounts. The latest measure taken by the government is the formation of "BAD BANK". Hence the concept of a bad bank has come into the Indian banking system to curb these types of bad performances in terms of non-performing assets by the existing commercial banks.

This bank aims to reduce the non-performing assets of all the banks by focusing on existing NPA accounts with full synergy so that the balance sheets of commercial banks clean off the NPA amounts.

The government of India nationalized the 14 largest private banks in 1969 to promote socialism and connect the banking industry with the government's interests. Moving forward 52 years, the government declared in the budget that two public sector banks would be privatized in 2021-22. This declaration was accompanied by the announcement of the formation of Bad Bank to cope with the rising number of nonperforming assets (NPAs).

The graph above indicates public banks' worsening NPA situation, but it hides as much as it shows. However, the notion that Public sector banks are incapable of properly evaluating projects and dealing with non-performing assets (NPAs) may not be accurate. They are reporting higher quality

Of genuine state of affairs in their loans than their private competitors under the watchful eyes of RBI.



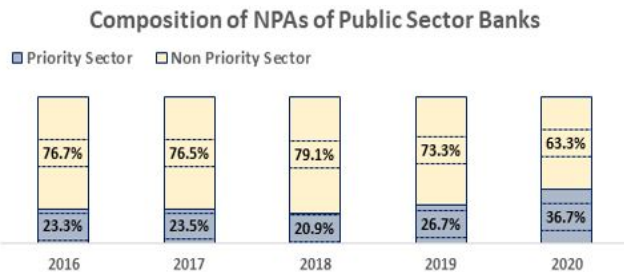
Source : RBI

Figure 5.

Though it is true, that some Public sector banks have a higher NPA ratio, it is also important to finance social projects and provide loans such as agricultural loans, fisheries loans, and other types of loans that the private sector is not interested in.

Public sector banks have played a key role in the expansion of banking and financial activities across India, as well as in the implementation of government programmes. They are always seen as a supporter of India's infrastructure development and socialist policies, such as Priority Sector Lending.

NPAs of Public sector banks



Source: RBI

Figure 6.

Since all the banks in India are found to be grappling with non-performing assets, despite having taken several measures for reducing the non-performing assets of banks. It has been observed that the banks have suffered heavily in the past because of large non-performing assets on their balance sheet. In some cases, some banks have been forced to be merged with other banks or have been privatized. For example- Allahabad bank has been merged with an Indian bank; Syndicate Bank has been merged with Canara bank.

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Recommendations

According to the study, the ranking of NPAs in the Indian Banking Sector comes in 5th place in the globe. The constant increasing rate of NPAs in the banking sector not only reduces the profitability of these banks but also affects the bank's creditability at the same time.

The following are the most prominent ways to prevent the happening of the NPAs –

- If NPA occurs then the bank or the financial institution should either compromise with the situation or should use various settlement schemes to reduce the effects.
- The banks and financial institutions should actively reveal and circulate all the relevant data and information about the defaulters of loans.
- The banks should take strict actions and legal frameworks against large NPAs.
- Such banks should also use Asset Reconstructions Companies (ARC) in order to recover the loans.
- Banks and financial institutions should propose ethical guidelines on the wilful diversion of funds.

Strict monitoring and post-sanction follow-up of all the loans is very much required, rather than waiting for the loan to become non-performing assets. In other words, the bankers should become

Proactive rather than reactive in their decisions. Transfer of loans to bad banks should always be the last priority for the recovery of non-performing assets.

Conclusion

In the end, I want to conclude that NPAs affect the banking sector of any nation drastically because loans are given by the banks to the general public are a type of investment that a bank is making and for which they expect the return in the form of interest they charge from the borrower. This non-performing asset decreases not only the financial conditions of the banks and financial institutions but also brings down the goodwill reputation and many other things along with it. NPAs will always be considered as bad for any banking sector and also for the economy of any nation so to avoid or decrease the effects of NPAs the concept of bad banks plays a vital role here. Bad banks are those banks that purchased and managed the toxic NPA's (Non- Performing assets) of the commercial banks. These bad banks will help all these commercial banks and financial institutions to recover their NPA in such a manner that the loss amount can be recovered or nearly recovered. In this research paper, we have seen how NPA affected the Indian economy and we have also discussed the various factors and reasons involved in it, according to our perspective suggestive methods and corrective action plans are also mentioned as well. From the perspective of the Indian banking sector the concept of bad banks is new as the finance minister of India has recently introduced bad banks that will be operated and for that, the operation has already been started. NARCL will be India's first bad Bank that would help the Indian banking sector to cope with such NPAs. The banking sector of India is looking forward to the implementation of this bad bank and it would surely be beneficial for the economy if this bad bank works efficiently and effectively.

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