



Essay on Banks and NPA

Key Points

1. Introduction

- 1) A nonperforming asset (NPA) refers to a classification for loans on the books of financial institutions that are in default on scheduled payments of principal or interest (mostly within 90 days).
- 2) The problem of NPAs in the Indian banking system is one of the most formidable problems that had its impact on the entire banking system. Higher NPA ratio trembles the confidence of investors, depositors, lenders etc.

2. Body

1) Problems -

- The gross non-performing assets (NPAs) of all the banks in the country amounted to Rs **8,40,958** crore in December, led by industry loans followed by services and agriculture sectors
- 6 lakh crore from Industry and 70000 crore from agriculture.
- Highest NPA is from – SBI, PNB, IDBI bank etc
- there are as many as **8,457** cases pending in the National Company Law Tribunal to recover loans from defaulters.
- Defaulters like – **Nirav Modi, Vijay Malya** etc

1) Corrective actions -

- Reserve Bank has issued a Prompt Corrective Action (**PCA**) framework to maintain sound financial health of banks.
- Amendment in banking law to give RBI more powers
- Under **New Insolvency and Bankruptcy Code**, cases of 12 major defaulters under NCLT.

1) What to be done -

- Independent borrower background checks
- Enhancing internal skill sets on credit assessment/evaluation

- Stress on the importance of mandating forensic audit to check borrower intent

3. Conclusion

- 1) While the rate of growth in NPAs is showing signs of slowing down, the overall problem is still far from any sort of quick resolution.
- 2) Only honest business persons should be able to access loans from strong and reformed banks.
- 3) Recapitalization to increase credit off-take and creation of jobs.
- 4) NPA resolution is very important for healthy growth of Indian economy.

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