The Big Picture – Tackling NPAs: The New Strategy

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Independent asset management companies and steering committees will be set up for faster resolution of bad loans in the banking system, Finance Minister Piyush Goyal said as the government accepted a five-pronged plan of the Sunil Mehta-panel. The finance minister said the **committee did not recommend setting up a 'bad bank'** to deal with the mounting NPAs in state-owned banks.

Sunil Mehta Panel Recommendations

The panel under the chairmanship of PNB non-executive chairman Sunil Mehta has recommended a five pronged approach in Project **"Sashakt"** consisting of the following:

- **SME resolution approach** for dealing with bad loans up to Rs 50 crore, involving creation of a steering committee by banks for formulating and validating the schemes, with a provision for additional funds.
- **Bank-led resolution approach** for loans between ₹50 crore and Rs. 500 crore, with the resolution being achieved in 180 days.
- **Asset Management Company (AMC)/Alternative Investment Fund (AIF) led resolution approach** to deal with NPA cases of more than Rs 500 crore. Alternative Investment Fund will raise resources from banks and institutional investors so that it can bid for the insolvent assets under insolvency and bankruptcy.
- **National Company Law Tribunal (NCLT)/IBC approach** for assets larger than Rs 500 crore already before the NCLT and any other assets whose resolution is still pending.
- **Asset-trading platform** for both performing and non-performing assets.

How effective will these recommendations prove to be?

- This will make the task of resolution of loans for the banks easier as it prescribes for predefined norms and fixed time limits.
- Auctioning will help in resolving the problem of stressed assets as competition in bidding will increase prices of stressed assets.
- As government does not need to interfere for small as well as medium loans, the process will become smoother for these loans.
- The reduction in delinquency limit to 90 days will speed up the process of resolution of loans.
- The plan will help in turning around the assets in such a manner that will create additional jobs by reviving businesses and preventing job losses which would otherwise have occurred from these foreclosures.
- It will bring in credible long term external capital to limit the burden on the domestic banking sector.
- It will ensure a robust Governance and credit architecture is put in place to prevent similar build up of non-performing loans in the future.

Limitations of the panel’s report

- The panel solely presents the bankers’ perspective and is comprised only of PSU bankers.
- The relatively short period in which the panel came up with the report has also raised questions like whether adequate time was given to such a complex and humongous issue.
- For loans less than Rs. 50 Crore, a time limit of 90 days is suggested. Most banks already have a time limit of 90 days for resolution of such loans. By giving it another extension of 90 days, the panel has subverted the RBI's circular of February this year that mandated the banks to report a bad loan to RBI by the 91st day and plan to take it to insolvency thereafter.

- The suggestion of giving extra loans to revive the asset is meeting with criticism that this will lead to the evergreening of loans. Borrowers will be continuously getting loans so that they can pay the previous ones.
- For loans of Rs 50-500 crore, the panel has suggested another bank-led resolution within 180 days. This process already exists under the Insolvency and Bankruptcy Code.

Way Forward

- It is important that people within banking, law and finance come together to devise a solution for dealing with this burgeoning problem of stressed assets.
- It is often seen that the Asset Reconstruction Companies struggle in the legal battles and are not able to recover the assets. It is important that the legal way out of this issue is institutionalized.
- The banks need to be given more power to discipline the borrowers. The bankers need to be trained in order to skill them for lending more judiciously. For the same, legal mechanisms also need to be put up in place.
- As we have separate commercial lending banks and retail banks, their merger has done more harm than good. It is high time we consider the separation of the two types of banks once again so that the general public does not have to bear the brunts of irresponsible lending by the banks.