



RBI Report on Asset Reconstruction Companies

Why in News

The [Reserve Bank of India \(RBI\)](#) in its report on [Asset Reconstruction Companies \(ARCs\)](#) said that the **growth of the ARC industry has not been consistent** over time and **not always been synchronous with the trends in [Non-Performing Assets \(NPAs\)](#) of banks and [Non-Banking Financial Companies \(NBFCs\)](#).**

- However, the RBI has **supported the government's proposal for a new ARC**, saying that "such an entity will strengthen the asset resolution mechanism further."

Key Points

- **About the Asset Reconstruction Company (ARC):**
 - It is a **specialized financial institution that buys the Non Performing Assets (NPAs) from banks** and financial institutions so that they can clean up their balance sheets.
 - A **NPA** is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.
 - This **helps banks to concentrate in normal banking activities**. Banks rather than going after the defaulters by wasting their time and effort, can sell the bad assets to the ARCs at a mutually agreed value.
 - The [Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest \(SARFAESI\) Act, 2002](#) provides the **legal basis for the setting up of ARCs** in India.
 - The Act helps reconstruction of bad assets without the intervention of courts. Since then, a large number of ARCs were formed and were registered with the RBI.
 - **RBI has got the power to regulate the ARCs.**
- **Growth of the ARC Industry:**
 - **Number of ARCs:** The **ARC industry began with the establishment of the Asset Reconstruction Company India Ltd (ARCIL) in 2003**. After remaining **subdued in the initial years** of their inception, a **jump** was seen in the number of ARCs in **2008**, and then in **2016**.
 - **Concentration of Business among Few ARCs:** There has been a concentration in the industry **in terms of Assets Under Management (AUM) and the Security Receipts (SRs)** issued.
 - **Security Receipts (SR) are issued by the ARCs** when NPAs of commercial banks and/or financial institutions are acquired by the ARCs for the purpose of recovery.
 - **AUMs can be measured** with the help of SRs outstanding.
 - **Decline in 'Assets Under Management':** The **growth in ARCs' AUM has been largely trendless** except for a major spurt in FY14.

- The AUM of ARCs has been on a declining trend **when compared with the volume of NPAs of banks and NBFCs**, except during the period of high growth in the AUM around 2013-14.
- During **2019-20, asset sales by banks to ARCs declined**, which could probably be due to **banks opting for other resolution channels** such as [Insolvency and Bankruptcy Code \(IBC\)](#) and SARFAESI.

▪ **Issues with Indian ARCs:**

- Indian ARCs have been **private sector entities** registered with the Reserve Bank. **Public sector AMCs in other countries** have often enjoyed easy access to government funding or government-backed.
 - The **capital constraints** have often been highlighted as an area of concern for ARCs in India.
- Despite the regulatory push to broaden, and thereby enhance, the capital base of these companies, they **have remained reliant primarily on domestic sources of capital, particularly banks**.
- Banks supply NPAs to the ARCs, hold shareholding in these entities and also lend to them, which makes it necessary to monitor if there is a "**circuitous movement of funds between banks and these institutions**".

▪ **About the New ARC:**

- The **movement in asset quality of banks and NBFCs** following the Covid-19 pandemic **could bring ARCs into greater focus and action**.
- The **ARC** proposed in the Budget **will be set up by state-owned and private sector banks**, and there will be **no equity contribution from the Centre**.
 - The ARC, which will have an Asset Management Company (AMC) to manage and sell bad assets, **will look to resolve stressed assets of Rs. 2-2.5 lakh crore** that remain unresolved in around 70 large accounts.
- The introduction of a new ARC for addressing the NPAs of public sector banks **may also shape the operations of the existing ARCs**.
- There is **a definite scope** for the entry of a well-capitalised and well-designed entity in the Indian ARC industry. Such an entity will strengthen the asset resolution mechanism further.

▪ **Committee on ARCs:**

- The RBI has announced the setting up of a committee, under the **chairmanship of Sudarshan Sen**, to undertake a comprehensive review of the working of ARCs in the financial sector ecosystem.

[Source: IE](#)

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