UPSC Civil Services Examination

Subject – UPSC GS-III

Topic – Non-Performing Assets

Non Performing Assets is not a new problem faced by banks. Hence there have been continuous efforts on the part of Government of India and Reserve Bank of India (RBI), over the years to tackle the problem of Non Performing Assets. Through this article, aspirants will get to know, what is the meaning Non Performing Assets (NPA) in India and what are the measures that are being taken to address it as it is important for IAS Exam.

What is the meaning of NPA?

When a person delays the payment of the loan or an amount which was due on him through the delay in payment in either interests or installments or principal amount, that particular loan or amount is termed as Non-Performing Asset.

What is the difference between Bank fraud and Non-Performing Assets (NPA's)?

Bank fraud is a criminal offence, Non-Performing Assets is a loan or advance wherein interest or instalments of principal remain overdue for a period of 90 days.

As per Reserve Bank of India (RBI), an asset becomes non-performing when it stops to generate income for the bank. The Non Performing Assets in Public Banks are valued at approximately $ 62 Billion, which represents 90% of total NPA in India.

What were the reasons behind the rise of Non Performing Assets in India?

1. In the period from 2004 to 2009, there was a huge growth in the economy, which led to firms taking bank loans very aggressively.
2. Most of the investment was in infrastructure sectors like roads, power, aviation, steel
3. Laxity in lending norms by the banks, without analysing the financial health of the companies and their credit ratings
4. The banning of mining projects, delay in environment permit, led to a rise in prices of raw materials and a big gap in demand and supply thereby affecting power, steel and iron industries. This affected the capacity of the companies to repay the loans to banks which resulted in Non-Performing Assets (NPA).

NPA (Non-Performing Assets) - 3 Classifications

Based on different parameters the Non Performing Assets are classified into different types.

Below table gives the different classification of Non Performing Assets:

Classification of Non-Performing Assets (NPA)	Criteria
Substandard Assets	These are the assets which have remained NPA for a period of less than or equal to 12 months
Doubtful Assets	If the asset is in the substandard category for a period of 12 months
Loss Assets	These assets are of little value, it can no longer continue as a bankable asset, there could be some recovery value.

What are the impacts of Non-Performing Assets (NPA)

1. Banks won't have sufficient funds for other development projects which will impact the economy
2. To maintain a profit margin, banks will be forced to increase interest rates.
3. Due to curb in further investments, it may lead to the rise of unemployment.

Measures to control Non-Performing Assets (NPA) - Government of India and RBI

As the Non-Performing Assets is not a new phenomenon, there have been many efforts on the part of the Government of India and RBI to sort out the problem.

Below table gives the list of measures taken to control Non-Performing Assets (NPA)

Measures	Details
Debt Recovery Tribunal (DRT) - 2013	1. It was set up to reduce the time required for settling cases 2. Governed by Recovery of Debt due to Banks and Financial Institutions Act, 1993 3. Insufficient numbers, hence cases are pending for longer durations.
Credit Information Bureau (2000)	1. This step is to prevent NPA's by sharing of information on wilful defaulters
ARC (Asset Reconstruction Companies)	1. Recovering value from stressed loans bypassing courts which was a time-consuming process.
Corporate Debt Restructuring (2005)	1. Reduce the burden of debts on the company by giving more time to the company to payback as well as decreasing the rates along with it
5:25 Rule (2014)	1. This is also called Flexible Restructuring of Long Term Project Loans to Infrastructure and Core Industries 2. This involves refinancing of long term projects
Joint Lenders Forum (2014)	1. It is done to avoid a situation where a loan is taken from one bank to repay the loans in other banks
Mission Indradhanush (2015)	1. It is the most comprehensive reforms undertaken to improve the functioning

	of the Public Sector Banks, by using ABCDEFG formula.
Strategic Debt Restructuring (SDR) - 2015	1. Corporates who have taken loans from banks if they are unable to repay, then the banks can convert part or complete loans into equity shares
Asset Quality Review (2015)	1. This is a kind of preventive measure, involving early identification of assets which could turn out to be stressed at a later stage.
Insolvency and Bankruptcy Code (2016)	1. One-stop process for solving insolvencies. 2. Aims to protect small investors.

Aspirants reading the topic, 'Non-Performing Assets (NPAs) can also read other Economics related articles linked in the table below:

Interim Budget	Fiscal Deficit	Analysis of Interim Budget 2019-20
Important Economic Terms Related to Union Budget	Economic survey 2020	Taxation in India

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