

# Gist of EPW November Week 3, 2022

The Economic and Political Weekly (EPW) is an important source of study material for [IAS](#), especially for the current affairs segment. In this section, we give you the gist of the EPW magazine every week. The important topics covered in the weekly are analyzed and explained in a simple language, all from a [UPSC](#) perspective.

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## 1. Writing off Non-performing Assets

**Context:** In September 2022, the quarterly profits of commercial sector banks reached an all-time high of approximately Rs 59,000 crore. **The finance minister credited the increase in bank profitability to the sharp reduction in non-performing assets ([NPAs](#)) of banks.**

### NPA Data:

- Gross NPAs of the commercial banks have **sharply reduced from the peak levels of Rs 10,36,187 crore, which was about 11.2% of their gross assets, in March 2018 to Rs 75,37,835 crore or 5.9% of their gross assets by the end of March 2022**, which is a six-year low.
- According to the Financial Stability Report - June 2022, the gross NPAs may further reduce to 5.3% by March 2023.
- In India major NPAs are caused by large borrowers.** They accounted for around half of the loans provided by scheduled commercial banks in March 2022 and almost two-thirds of the gross NPAs.

### Concerns involved:

- The reduction of NPAs came at a very high cost. Data show that this sharp reduction in NPAs was mainly achieved through writing off loans amounting to Rs 9.91 lakh crore in the five years ending 2021–22.**

- However, **despite these huge write-offs, the recovery on the non-performing loans was only Rs 1.32 lakh crore.** Thus there has been a marginal improvement in recovery rates despite having many recovery mechanisms to collect their dues.
- The data shows that while the public sector banks wrote off Rs 7.27 lakh crore in the five years ending 2021–22, they were only able to recover Rs 0.96 lakh crore (13.2%) during this period.
- Writing off loans allows banks to avail tax benefits and clean up their balance sheets while continuing with the loan recoveries.

#### **Steps taken by the government for recovery of loans:**

- **Debt recovery tribunals:** The Debts Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRATs) were established for providing speedy adjudication and recovery of debts of Banks and Financial Institutions.
- **The [SARFAESI Act of 2002](#)** was enacted to protect financial institutions against loan defaulters.
  - The banks have powers under this law to take control of securities pledged against the loan, and manage or sell them to recover dues without court intervention.
- **ARC** - An [Asset Reconstruction Company](#) is a specialised financial institution that buys NPAs or bad assets from banks and financial institutions to clean up their balance sheets.
- **IBC** - The [Insolvency and Bankruptcy Code 2016](#) was introduced to unify the existing framework by establishing a single insolvency and bankruptcy law.
- **Bad Bank** - It is an ARC or an Asset Management Company that takes over the bad loans of commercial banks and manages them and finally recovers the money over a period of time.

## Non-Performing Assets:

### Classification of Non-Performing Assets (NPA):

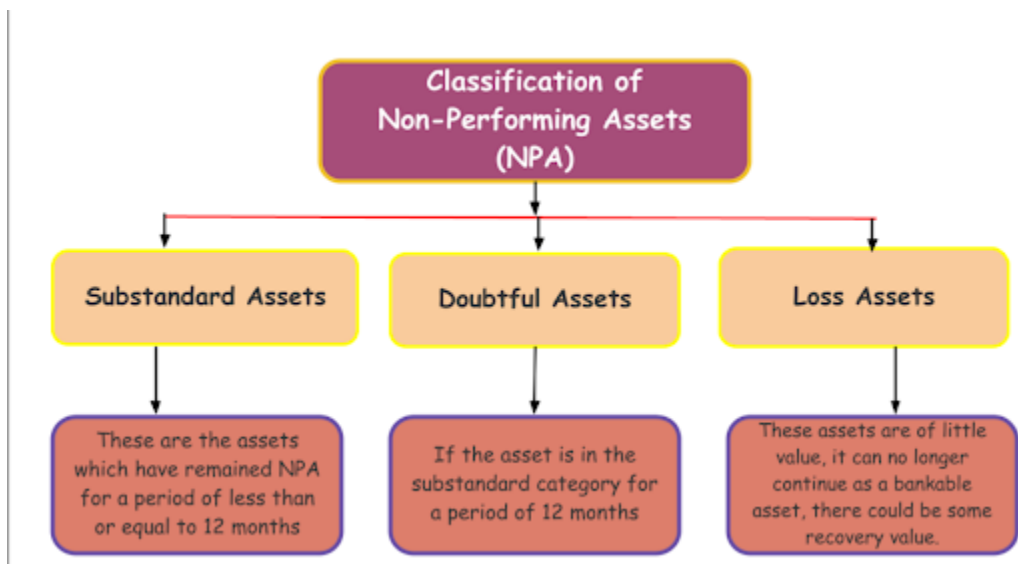


Image: Classification of NPAs

### Causes for the rise of Non-Performing Assets (NPA):

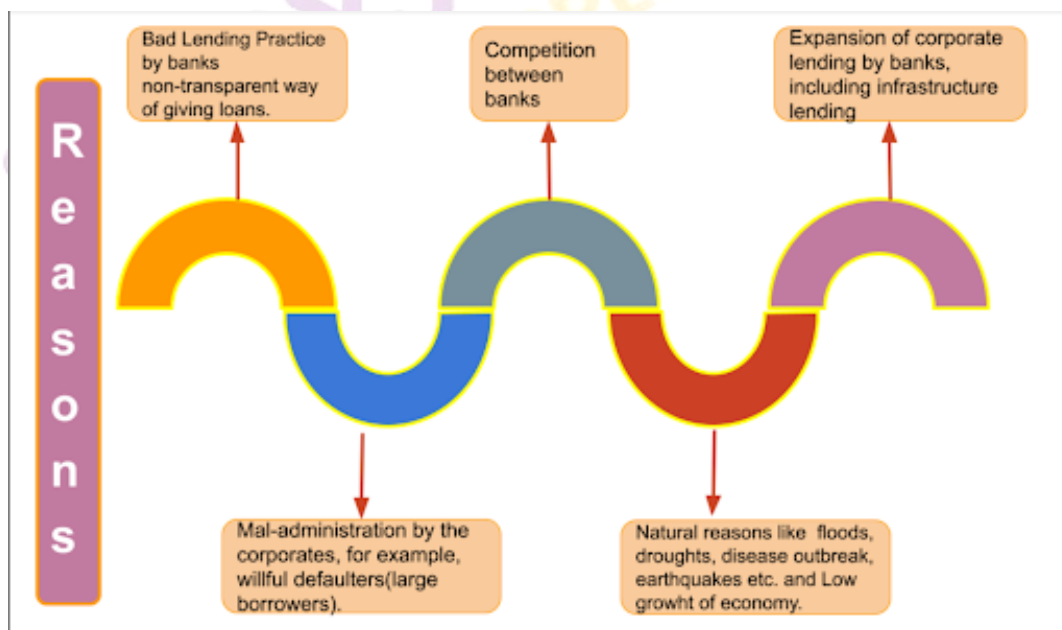


Image: Causes of NPAs

## Impact of NPAs:

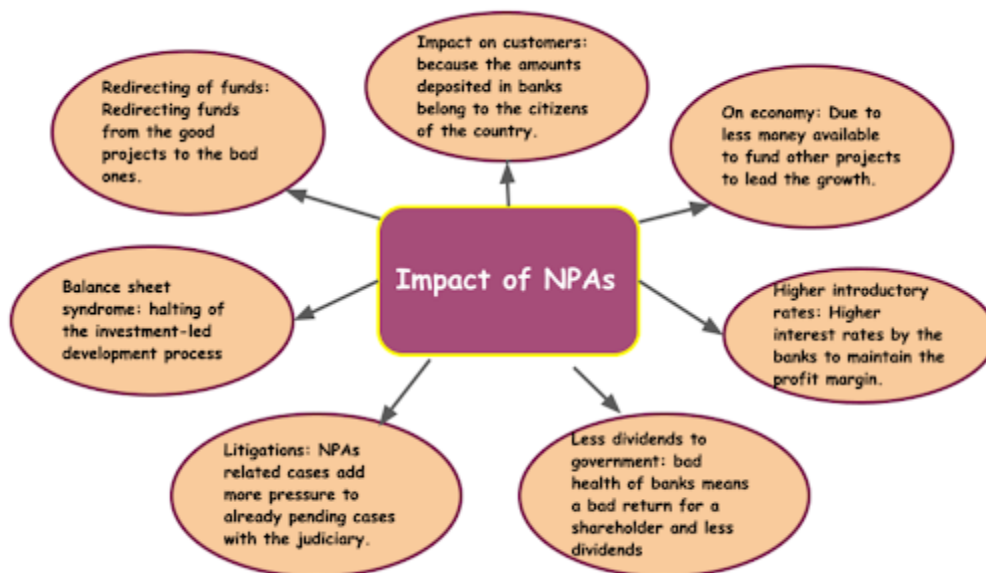


Image: Impact of NPAs

## Way Forward:

- **Being cautious:** Banks should be cautious when lending huge loans.
  - **Banks need to conduct fraud risk assessments every quarter.**
- **Evaluating CIBIL score thoroughly:** The CIBIL score of the borrower should be evaluated by the bank concerned and RBI officials.
- **Improve the loan recovery process:** Rather than having to continuously write off the bad loans of large corporations, India has to improve its loan recovery processes.

## 2. The Adoption of Unified Payments Interface in India

### Introduction:

- India is experiencing a digital payment revolution led by the Unified Payments Interface (UPI) platform.
- It is becoming one of the best financial innovations in India since independence, and on the verge of replacing the country's cash economy.
- UPI peer-to-merchant (P2M) transactions have significantly taken over the share of card and other payment modes.

- In January 2022, the share of credit cards was under 2%, compared to 18% of UPI in retail digital payments.
- UPI is pushing credit cards out of the arena and also replacing the cash in payments ecosystem.
- It is the single largest retail payment platform, in terms of volume of transactions, in the country.

### **What is UPI?**

- The UPI is an instant real-time payment system regulated by the Reserve Bank of India (RBI) and developed by the National Payments Corporation of India (NPCI).
- It was launched in 2016 to promote digital transactions and pave the way for a cashless economy.
- It allows immediate transactions from one bank account to another through various smartphone applications.
- The transaction can take place through scanning of quick response (QR) codes, registered phone numbers, or even through the Indian Financial System Code (IFSC) details.
- UPI applications are also used to pay home bills, transit charges, and to avail financial services like loan payments and credit card bills.
- The UPI users can make any kind of transaction up to rupees 1 lakh per day.
- UPI payments are free of cost and there is no extra charge for doing a UPI payment.

### **Trend of UPI Payments in India:**

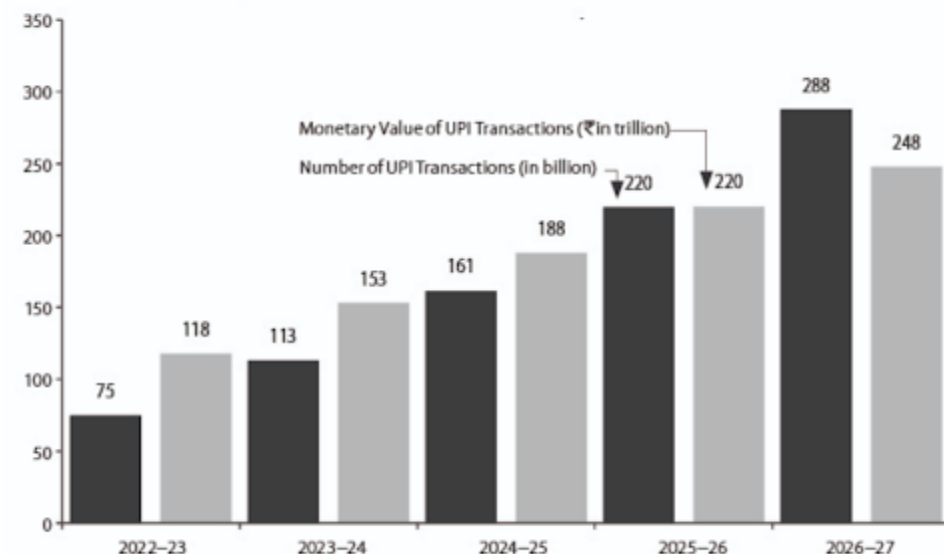
- According to the NPCI, the number of UPI transactions and monetary value of the same have doubled during the last fiscal year.
- The number of transactions increased from 22.33 billion in 2020–21 to 45.97 billion in 2021–22, while the monetary value of transactions increased from ₹41.04 trillion in 2020–21 to ₹84.18 trillion in 2021–22.
- The number of banks that have adopted UPI service in India is 323 from 220 banks in April 2021 and 153 banks in April 2020.

### **Forecasting UPI Transactions:**

- Understanding the market's progress is necessary for the efficient management and regulation of the UPI platform by regulators and policymakers.
- Factors such as market potential, timing and speed of adoption are of great relevance for digital payment apps using UPI platform for their capacity building.
- There are very few studies on the adoption of new technology, mobile phones, mobile banking, and digital payment in India and lower middle income countries.
- Below graph presents the projected number of UPI transactions in India.

- The number of UPI transactions is projected to grow from around 46 billion in 2021–22 to 288 billion in 2026–27.
- The number of transactions grew at the rate of more than 100% from FY21 to FY22. It is likely to grow at a rate of around 63% from FY22 to FY23 and 51% from FY23 to FY24

**Figure 1: Projected Number and Monetary Value of UPI Transactions in India**  
(Rounded off to zero decimal places)



Source: Authors' calculations on NPCI data.

Image Source: EPW

### Factors responsible for massive adoption of UPI payments in India:

- Growth in the number of smartphone users.
  - According to the Telecom Regulatory Authority of India (TRAI), India has 750 million smartphone users out of 1.2 billion mobile subscribers in 2021.
- Convenience in using UPI ID and making payments through it.
- Faster and less complicated procedure.
- Cross operability
- Large adoption by merchants.
  - Using UPI for the payments eliminates the problem of carrying cash for customers as well as merchants.

### Issues with UPI adoption:

- Poor Internet bandwidth, especially in rural areas.
  - Delayed and failed transactions either due to slow speed of internet or when the respective bank's server faces some problem.

- Daily transaction limit of ₹1 lakh (₹2 lakh for stores run by “verified merchants”) may discourage people from using UPI at a larger scale in the coming future, and security issues.
- Users can become victims of cybercrimes due to lack of financial and tech knowledge.

**Conclusion:** UPI is likely to help India move towards a cashless economy, which will increase transaction efficiency and also mitigate corruption arising from cash transactions. Solutions for various problems can be brought up in the future with the advancement in technology and updates in UPI as a platform. The NPCI and RBI shall pay special attention to address security issues to improve the confidence in UPI.