Standing Committee Report Summary

Non-Performing Assets of Financial Institutions

- The Standing Committee on Finance (Chair: Dr. M Veerappa Moily) submitted its report on Non-Performing Assets of Financial Institutions on February 24, 2016. The report makes recommendations to improve the management, and facilitate recovery of Non-Performing Assets.

- **Non-Performing Assets**: A non-performing asset (NPA) is a loan given by a financial institution, which ceases to generate income. NPAs include loans where payment has been overdue for more than 90 days. The Committee observed that despite the government and the Reserve Bank of India (RBI) taking several steps, NPAs continue to increase.

Table 1: NPAs of Scheduled Commercial Banks (in Rs Crore)

Year	NPA	Advances	% of NPAs to Advances
2008	56,606	25,03,431	2.26%
2009	69,954	30,24,652	2.31%
2010	81,718	32,62,079	2.51%
2011	93,997	39,95,982	2.35%
2012	1,36,968	46,48,808	2.95%
2013	1,92,769	59,71,820	3.23%
2014	2,63,015	68,75,748	3.83%
2015	3,22,916	75,60,666	4.27%

Note: All figures in gross.
Sources: Standing Committee Report on Non-Performing Assets of Financial Institutions; PRS.

- **Empowered Committees:** It observed that banks do not have adequate capability to undertake credit appraisal. Credit appraisal involves evaluating capacity of the borrower, to ensure he is capable of repaying the loan. In this context, it recommended that specially empowered committees should be set up at three levels, namely (i) RBI, (ii) banks, and (iii) borrower, to continuously monitor large loan portfolios. Further, these committees may be mandated to submit periodical reports on their findings, to the central government and Parliament.

- **Restructuring of loans**: The Committee observed that currently banks restructure loans on the basis of classification of their assets, and other benefits related to provisioning. It suggested that banks should carry out such restructuring by taking into account the temporary inability of the borrower to repay the loan and to preserve the economic value of the assets. It further suggested that indicators should be developed for projects when a loan is sanctioned. The indicators would facilitate monitoring of loans, and pre-empt the possibility of an NPA.

- **Wilful defaulters**: Wilful default refers to a situation where a borrower defaults in making repayments, despite having sufficient resources. The Committee observed that wilful defaulters constituted 21% of the total NPAs of banks. In this context, it suggested that banks should make names of the top 30 wilful defaulters public. Such a step would act as a deterrent for others to default willingly on loan repayment. It suggested that necessary amendments should be made to the RBI Act, 1934, and any law or guideline in force, to allow for such public disclosure. Further, the Committee recommended that names of companies that have undergone restructuring of their loans, should also be made public.

- **Timeline for Corporate Debt Restructuring**: Corporate Debt Restructuring (CDR) is a voluntary mechanism, which involves restructuring of debt of entities which are facing problems in repaying loans. The Committee observed that currently deliberations among stakeholders to settle CDR cases continue for years. It recommended that a timeline of six months should be introduced to settle such cases.

- **Strategic Debt Restructuring**: Strategic Debt Restructuring (SDR) empowers banks to take control over the management of the defaulting company, by converting the loan into equity. The Committee recommended that a change in management of the company should be made mandatory, in cases involving wilful default, or where funds have been diverted and no recovery is possible.

- **Absorbing written off NPAs:** The Committee suggested that the RBI should consider allowing banks to absorb their written-off assets gradually, in a staggered manner. This would help the banks in restoring their balance sheets to normal health.

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