The two facets of NPA management

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Highlights

- The phenomenal increase in non-performing assets (NPAs) and wilful defaults over the last three years raises serious concerns about the effectiveness of NPA management and its mechanisms.
- Policies concerning NPA resolution must address two critical aspects: first, how to prevent it occurring at this scale in the future? and second, how to manage the existing accumulated NPAs?
- Till recently, most of the initiatives by the government and the RBI (Reserve Bank of India) had centred on the latter — how to manage the existing NPAs.
- While it is important to clean up the balance sheet of banks by reducing or eliminating bad loans, it is equally important to think about preventive measures.
- On preventive measures, there is a need for evolving a framework in order to bring transparency into the operation and management of SCBs (scheduled commercial banks), particularly the PSBs (public sector banks), on four major parameters — project appraisal, monitoring, accounting, and auditing
- Large loans tend to be relatively technically complex, the banks must enhance their technical capabilities to undertake project monitoring effectively
- On NPA resolution, to deal with the existing accumulated NPAs, there is a need for creating a publicly funded 'bad bank' or an asset management company very similar to the Swedish model where the bad bank bought the stressed assets from the affected banks and sold it at a higher price at the time of economic expansion

Source: The Hindu