



## Loan Write-Offs and NPA Reduction in PSBs

For Prelims: [Debt Recovery Tribunals \(DRTs\)](#), [NPA](#), [National Asset Reconstruction Ltd \(NARC\)](#), [Reserve Bank of India \(RBI\)](#), [India Debt Resolution Company Ltd](#), [SARFAESI Act](#), [Insolvency and Bankruptcy Code \(IBC\)](#)

For Mains: Loan Write-Off: Implication, Challenges and Way Forward, Challenges of NPA, Provisions to NPA resolution

[Source: IE](#)

### Why in News?

A large-scale **loan write-off** by banks over the past few years has contributed to a significant reduction in **non-performing assets (NPAs)**.

- As a result, banks have achieved a **12-year low NPA ratio of 2.8%** of advances by March 2024.

### What is the Key Data Regarding Loan Write-Offs by Banks?

- **Loan Write-Offs:**
  - Between **FY2015 and FY2024**, Indian commercial banks wrote off loans amounting to **Rs 12.3 lakh crore**, with **Rs 9.9 lakh crore** in the **last 5 years** alone (FY 2020-2024).
  - The **peak in loan write-offs occurred in FY2019** at **Rs 2.4 lakh crore**, following an [asset quality review](#) initiated in 2015.
  - However, write-offs have **decreased since then, with FY2024** recording the lowest at Rs 1.7 lakh crore, amounting to just **1%** of the total bank credit.

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# LOAN WRITE-OFFS BY BANKS (₹ cr)

| Year    | Amount   |
|---------|----------|
| 2023-24 | 1,70,270 |
| 2022-23 | 2,08,037 |
| 2021-22 | 1,74,966 |
| 2020-21 | 2,02,781 |
| 2019-20 | 2,34,170 |

Source: RBI

## ▪ Public Sector Banks' Share:

- **Public sector banks (PSBs)** accounted for **53% (Rs 6.5 lakh crore)** of the total loan write-offs in the last 5 years (FY 2020-2024).

## ▪ Recovery Rates:

- Despite loan write-offs, the **recoveries** from these write-offs have been **relatively low**, standing at **only 18.7% (Rs 1.85 lakh crore)** in the last 5 years (FY 2020-2024).

- **Over 81% of the written-off amount (over Rs 8 lakh crore)** remained **unrecovered** between FY 2020-2024, indicating challenges in recovering defaulted loans.

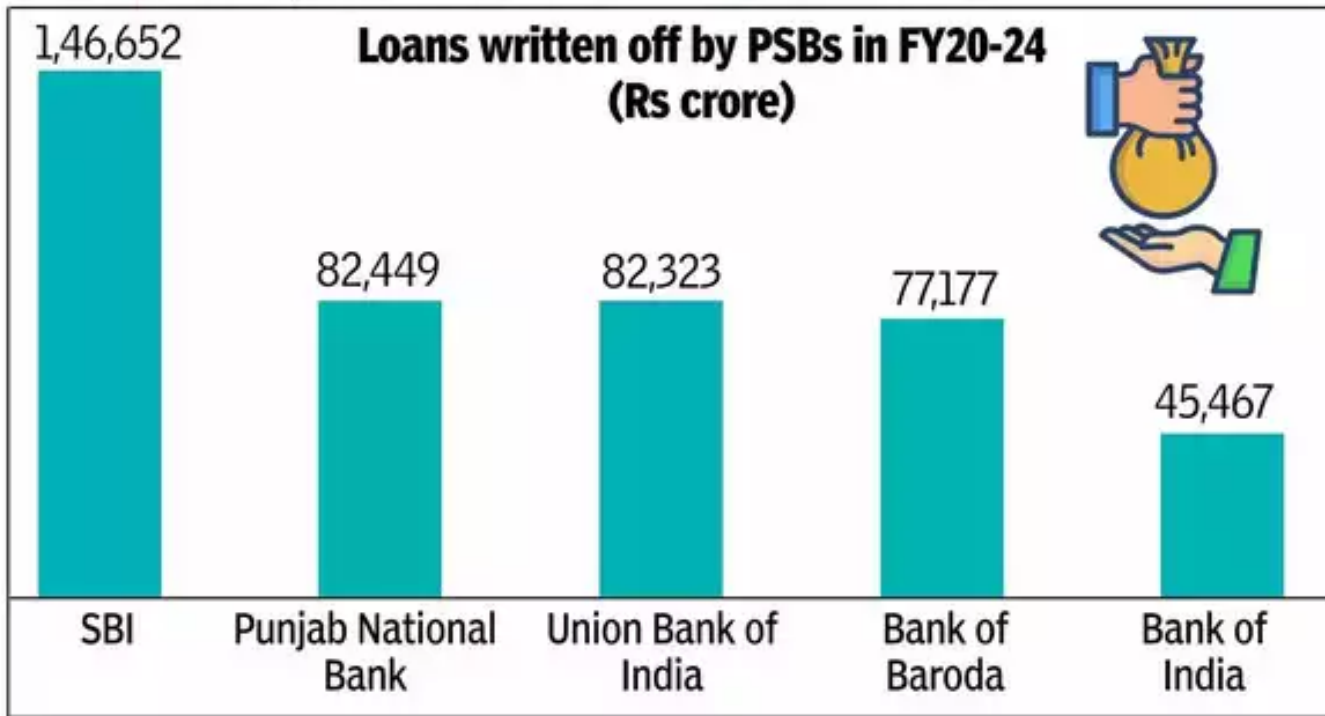
- These loan accounts were **mostly wilful defaults** with promoters and directors of some of the companies even fleeing the country.

## ▪ Impact on NPA Ratios:

- As of September 2024, the **gross NPAs** of PSBs and **private sector banks (PSBs)** stood at **Rs 3.16 lakh crore** and **Rs 1.34 lakh crore**, respectively.

- The **NPA ratio as a percentage of outstanding loans** was **3.01%** for PSBs and **1.86%** for private sector banks.

# SBI, PNB, UNION BANK TOP LIST



## Note:

- A **wilful defaulter** is a borrower or guarantor who has **intentionally failed to repay a loan**, with an outstanding amount of **Rs 25 lakh or more**.
- A **large defaulter** refers to a borrower with an outstanding loan balance of Rs 1 crore or more, whose account has been classified as doubtful or a loss.
- **Write-offs** refer to the **removal of a non-performing loan or asset from a bank's financial records**, recognizing that the debt is unlikely to be recovered.
  - This process **does not relieve the borrower of the responsibility to repay** the debt but acknowledges the improbability of recovery.

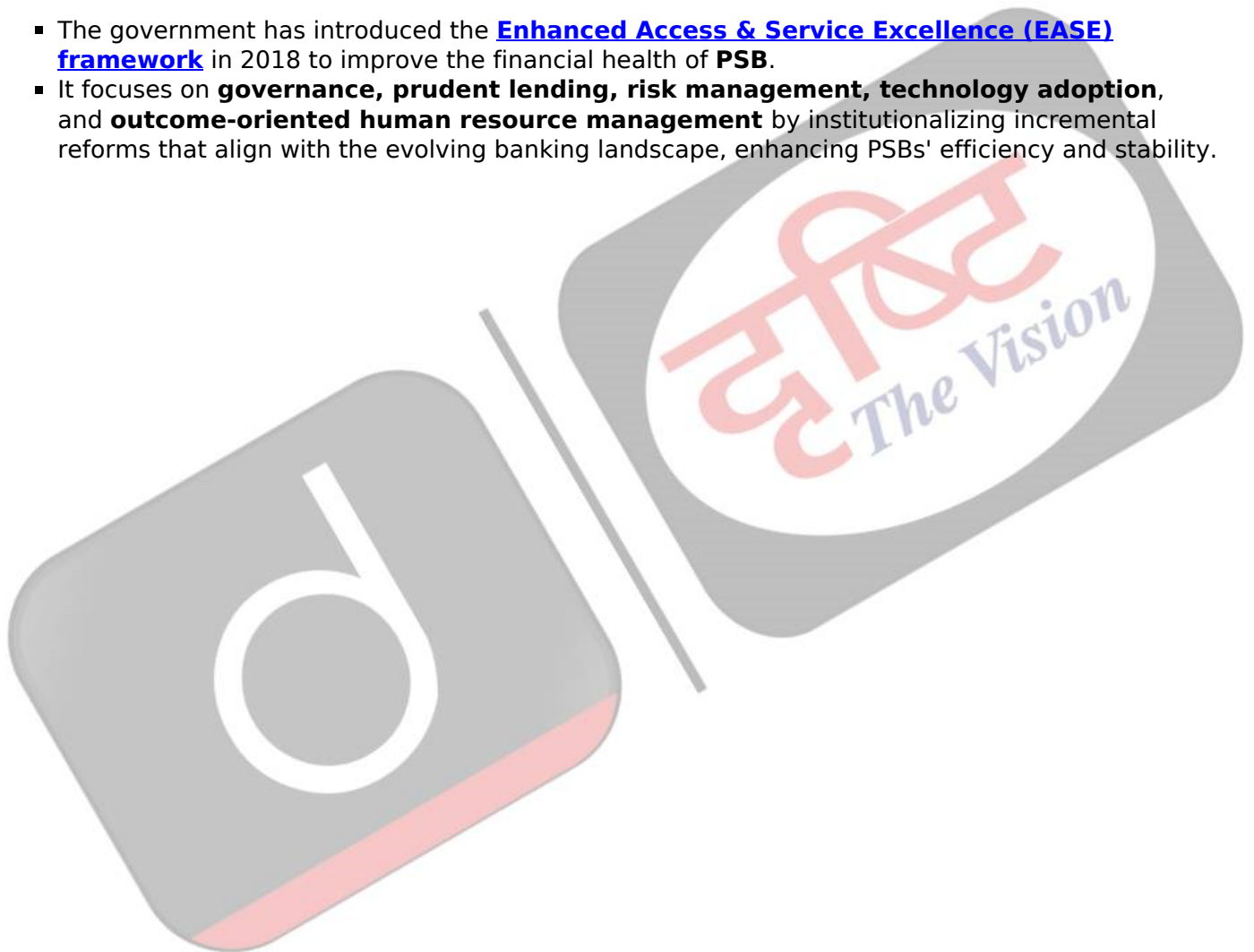
## What is Non-Performing Asset (NPA)?

- **About:**
  - It refers to **loans or advances issued by banks or financial institutions that no longer bring in money for the lender** since the **borrower has failed to make payments** on the **principal and interest** of the loan for **at least 90 days**.
  - For agricultural loans, a loan granted for short duration crops will be treated as NPA, if the installment of principal or interest thereon remains **overdue for two crop seasons**.
- **Types of NPAs:**
  - **Gross NPA:** This is the total amount of NPAs **without deducting the provisional amount**.
  - **Net NPA:** This is the **gross NPA minus the provision**.
    - Provision refers to **funds left aside by banks to cover potential losses** arising from bad loans or NPAs.
- **Laws and Provisions Related to NPAs:**

- **Bad Bank:**
  - The [National Asset Reconstruction Company Ltd \(NARC\)](#) is India's designated "bad bank."
  - To facilitate the sale of these assets, the government has also established the [India Debt Resolution Company Ltd \(IDRC\)](#), which works to sell the assets in the market.
- [Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest \(SARFAESI\) Act, 2002:](#)
- [Insolvency and Bankruptcy Code \(IBC\), 2016:](#)
  - It also established the [National Company Law Tribunal \(NCLT\)](#) and the [Insolvency and Bankruptcy Board of India \(IBBI\)](#) to oversee the process.
- [The Recovery of Debts Due to Banks and Financial Institutions Act \(RDB Act\), 1993.](#)

## EASE Framework

- The government has introduced the [Enhanced Access & Service Excellence \(EASE\) framework](#) in 2018 to improve the financial health of **PSB**.
- It focuses on **governance, prudent lending, risk management, technology adoption,** and **outcome-oriented human resource management** by institutionalizing incremental reforms that align with the evolving banking landscape, enhancing PSBs' efficiency and stability.



## Prudential Lending:

❖ PSBs are now systematically monitoring adherence to risk-based pricing and have established data-driven risk-scoring mechanisms for the appraisal of high-value loans, factoring in group entities.

## IT-based Early Warning Systems:

These systems leverage third-party data to enable timely, proactive action in stressed accounts.

## Stressed Assets Management Verticals:

❖ Dedicated units have been set up for focused slippage prevention and recovery in large-value stressed loans, resulting in a sharp decline in such loans.

## Tech-Enabled Smart Banking:

❖ The adoption of retail and MSME loan management systems has reduced loan turnaround times. Additionally, platforms like OTS (One-Time Settlement) and the e-Bkay stressed assets auction platform have enhanced recovery processes.

## What are Loan Write-Offs by Banks?

### ▪ About:

- Loan write-offs refer to the **process of removing a loan from a bank's asset records**, indicating that the **bank no longer expects to recover the amount**.
  - It is primarily an **accounting measure** undertaken by banks to **clean their balance sheets** of NPAs and **improve their financial health**.
- This process allows banks to **focus on recoverable assets** and **manage their tax liabilities** efficiently.

### ▪ Accounting Mechanism:

#### ◦ NPA Classification and Provisioning:

- As per **Reserve Bank of India (RBI)** prudential norms, banks must create provisions for NPAs, which increase with the aging of the asset and are influenced by the realizable value of the collateral.

- This ensures a cautious accounting approach to mitigate financial risks associated with non-performing loans.
- **Technical Write-offs:**
  - Technical write-offs occur when **provisions match the outstanding loan amount**, allowing banks to **remove the loan from their balance sheets** while classifying it as an off-balance-sheet item under "**Advances Under Collection.**"
  - Despite the write-off, the **borrower's liability remains**, and recovery efforts persist through legal and institutional mechanisms.
- **Regulatory Guidelines:**
  - It requires that **write-offs adhere to board-approved policies** focused on balance sheet management and tax efficiency.
  - Banks must **continue tracking written-off accounts and actively pursue recoveries to optimize returns.**
  - Additionally, the **Income Tax Act** allows deductions for written-off amounts, helping to reduce the tax burden on banks.

## What are the Causes of Rising NPA in India?

- **Defective Lending Process: Inadequate due diligence** during borrower selection **and periodic review of credit profiles** result in improper assessment of repayment capabilities.
  - Also, lack of end-use monitoring systems facilitates the **diversion of funds for non-productive purposes**, further exacerbating the problem of NPAs.
- **Willful Defaults and Poor Credit Culture:** A rise in the number of willful defaults, contributes higher NPAs. PSBs have seen a **steady increase in the number of willful defaulters** with outstanding loans of **Rs 2.5 million and above**, rising from 10,209 in June 2019 to 14,159 by March 2023.
  - Frequent loan waivers, especially for **agricultural loans**, have adversely impacted the credit culture.
    - Promises of **loan waivers** encourage borrowers to default **in anticipation of future waivers.**
- **Industrial Sickness:** Industrial sickness arises from **ineffective management**, inadequate technological advancements, and **frequent shifts in government policies** render industries **financially unstable, leading to poor loan recovery rates** for banks.
- **Frauds and Malpractices:** Increasing fraud cases by **both bankers and borrowers** have exacerbated the NPA crisis.
  - In the **first half of FY 2023-24, Indian banks reported a 166% rise in fraud cases** to over 36,000.
  - **High-profile scams** like the Nirav Modi-PNB fraud and Vijay Mallya-Kingfisher default have severely **impacted** public trust and **financial stability.**
- **Regulatory and Policy Risks:** Non-compliance with RBI guidelines, such as **deficiencies in statutory and regulatory adherence**, has led to penalties on banks such as the recent Rs 2.91 crore fine on Axis Bank and HDFC Bank by RBI in September 2024.
  - Furthermore, practices like **evergreening of loans** and **window dressing of balance sheets** (manipulating financial statements to present a healthier financial position) have been prevalent, especially among **PSBs and cooperative banks.**
    - These practices **distort true asset quality**, masking underlying financial stress and **hindering accurate risk assessment.**
- **Sector-Specific Challenges:** Industry-specific factors such as high operating costs in the **aviation sector** lead to higher NPAs.
  - Indian airlines are projected to incur net losses of Rs 2,000–3,000 crore in FY 2025, **primarily due to high operating expenses and low ticket prices.**
  - **Priority Sector Lending (PSL) to agriculture and MSMEs** often face repayment challenges, leading to higher NPAs in the banking sector.
- **Inefficiencies in Resolution Mechanisms:** **Delay in the resolution of cases** before **Debt Recovery Tribunals (DRTs)** and the **slow implementation of recovery laws** like the **Insolvency and Bankruptcy Code (IBC)** and **SARFAESI Act** have hindered effective NPA management.

## What are the Challenges Related to NPA Recovery?

- **Legal and Regulatory Hurdles:** NPA recovery in India is hindered by a **slow and outdated legal framework**. Despite laws like the IBC and SARFAESI Act, the resolution of corporate **insolvency cases takes over 400 days**, as reported by the **Insolvency and Bankruptcy Board of India (IBBI)**.
  - **Borrowers often exploit legal tactics to delay recovery**, exacerbating the situation.
- **Proper Asset Valuation and Realization:** Accurate asset valuation is critical in NPA recovery. **Market conditions and economic factors** can lead to **overvaluation or undervaluation**, resulting in financial losses.
  - **Converting collateral into cash**, especially during economic downturns or in niche markets, can be **slow and challenging**, with assets often failing to meet their original valuation.
- **Debtor Cooperation:** It is crucial for NPA recovery. Many borrowers **either lack the ability or willingness to repay**, resorting to tactics such as **hiding or undervaluing assets**, or **using legal delays**, significantly hampering the recovery process.
- **Operational Inefficiencies:** Internal inefficiencies, such as **poor documentation, inadequate tracking systems**, and **lack of coordination**, hinder NPA recovery.
  - The **absence of a centralized management system** leads to mismanaged information, delaying recovery and increasing costs.
- **Economic and Market Conditions:** Economic downturns lead to a **decline in asset values**, making it difficult to recover full loan amounts. **Market volatility**, especially in sectors like real estate and machinery, further complicates the recovery process.

## Way Forward

- **Government Support:** Implement a **4R strategy- Recognition, Resolution, Recapitalization, and Reforms** to **strengthen PSBs and reduce NPAs** through transparent recognition, improved recovery, recapitalization, and financial ecosystem reforms.

**Recognising** NPAs transparently to ensure accurate identification of stressed assets.

**Resolution and Recovery** of NPAs through targeted measures and legal frameworks.

**Recapitalising** PSBs to strengthen their financial position and lending capacity.

**Reforms** in governance and operational practices to enhance efficiency and resilience.

- **Enhanced Monitoring:** Banks should invest in **better monitoring systems to detect early signs of loan defaults** and take **preventive measures** before loans become NPAs.
  - **Proactive engagement** with borrowers and regular reassessment of loan performance can help mitigate the risk of defaults.

- **Approval Process:** Establish a **structured credit approval process**, including comprehensive assessments and **periodic reviews of borrowers' financial health** and repayment capacity.
- **Institutional Mechanism:** Create new **Development Financial Institutions (DFIs)** to support long-term industrial and infrastructure funding.
- **Public-Private Collaboration:** Collaborative efforts between **public and private sector** banks, along with **specialized agencies**, could improve the efficiency of recovery actions.
  - Using technology and data analytics to **track defaulters and locate absconding promoters** could also enhance recovery efforts.
- **Risk Management:** Mitigate concentration risks by **diversifying loan portfolios, reducing reliance on specific sectors or borrowers** to minimize NPAs during downturns.
  - Banks should **adopt stricter lending norms** and focus on financing projects with a **higher probability of success**.

## Conclusion

While loan write-offs have provided temporary relief by reducing NPAs for Indian banks, the long-term sustainability of this approach depends on improving recovery mechanisms, strengthening legal frameworks, and enhancing the overall governance of financial institutions.

### **Drishti Mains Question:**

Analyze the causes of rising NPAs in Indian banks and evaluate the effectiveness of government and RBI measures to address them.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### **Prelims**

**Q.** Which of the following statements best describes the term 'Scheme for Sustainable Structuring of Stressed Assets (S4A)', recently seen in the news? (2017)

- (a) It is a procedure for considering ecological costs of developmental schemes formulated by the Government.
- (b) It is a scheme of RBI for reworking the financial structure of big corporate entities facing genuine difficulties.
- (c) It is a disinvestment plan of the Government regarding Central Public Sector Undertakings.
- (d) It is an important provision in 'The Insolvency and Bankruptcy Code' recently implemented by the Government.

**Ans: (b)**