

## 'BAD BANK IS A GOOD IDEA'

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

India should set up a bad bank so that bankers can devote time to credit flow than just loan recovery, say experts

A [bad bank](#) might be India's best shot at recovering dud assets and provide an impetus to credit growth in the aftermath of covid-19, experts said at *Mint's* Road to Recovery webinar on Monday.

Panellists highlighted the success story of the sovereign bad bank, Danaharta, established by the Malaysian government to clean up bad loans after it had reached unsustainable levels. India, the experts said, could learn a lesson or two from that initiative and build a bad bank with its own set of regulations so that bankers can devote more time to the flow of credit instead of only trying to recover legacy bad loans.

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Anant Narayan, associate professor, SP Jain Institute of Management and Research, said the objective is not just the survival of the financial services ecosystem, but to ensure it can finance India's tremendous growth aspirations and potential. "It is not only that non-performing assets could reach 14.8% (RBI projections), also remember that a lot of NPAs have been written off over the last five years. These are not showing up as gross NPAs, but is in the queue for recovery," said Narayan.

[Banks](#) wrote off loans worth 2.37 trillion in FY20 and, as RBI said in its annual *Trends and Progress of Banking in India 2019-20* report, the asset quality improvement was led by write-offs.

"I do still think there is scope for a bad bank and the experience that I particularly like is that of Malaysia in the aftermath of the Asian financial crisis. They created a bad bank sponsored by the government and purchased bad loans at what they considered to be the market price on the books of the banks," said Narayan.

Similarly, the US had launched the Troubled Asset Relief Program (TARP) in the wake of the Lehman crisis in 2008. "Vietnam also faced a similar issue of bad banks. They chose a different solution. It asked public and private banks to transfer their bad assets to the new structure against a bond and after five years amortize the bad loans to ensure they could still keep a good capital adequacy ratio," said Aymar de Liedekerke Beaufort, chief executive officer, BNP Paribas India.

Beaufort said there were many lessons that India could learn from other markets like Europe, where several banks exist because mergers did not take place. "There is space for public banks. India needs strong banks. The debate should be what type of banks and how many banks does India need," Beaufort added.

Last year, the government merged 10 public sector banks into four, creating larger entities—Punjab National Bank took over Oriental Bank of Commerce and United Bank of India; Syndicate Bank merged with Canara Bank; Union Bank of India absorbed Andhra Bank and Corporation Bank; and Indian Bank was merged with Allahabad Bank.

However, a section of panel members was of the view that in the past India's bad loan problems could not be solved by setting up a bad bank. Ashish Chauhan, chief executive, BSE Ltd, said the Indian financial system has been witnessing bad loan problems for 30 years, but the Industrial Reconstruction Bank of India (IRBI), created to deal with sick industrial units, had failed. "All bad loans were kept aside in one bank and nothing came out of it," he added.

However, Narayan said the problem with the earlier bad bank was that assets were transferred at book value, which basically moved it from under one carpet to another.

Roopa Kudva, managing director, Omidyar Network India, said the key issue with India's banking system was governance.

"If the bank boards can be freed up to be truly independent, and I am talking about the public sector banks as well, that would be a huge step forward," said Kudva.

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