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"Banks, Non-Performing Assets, and Citizens"

Whether the Regulator of India is protecting the Interest of the Public in the Bank's Rising Non-Performing Assets

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ABSTRACT

The Banking industry is dominant in the financial sector and is considered as the backbone of the economy. It engages in the business of providing loans and advances from deposits obtained from household savings. This lending entails immense risk due to the uncertainty of repayment and banks had to be cautious while granting loans. This paper assesses the failure of the banks to do proper due diligence before granting loans which leads to a significant rise in Non-performing Assets. It discusses the reasons behind the rise of non-performing assets in the Indian banking system and the major banks' crises occurred. It finds from the analysis that the steps were taken by the regulatory body, 'Reserve Bank of India' to resolve it, is not enough and such governance has affected the people to a large extent and created problems for them. It recommends and concludes that the bank and regulatory body together need to have accountability and transparency in their transactions to protect the interest of the public at large.

Keywords: *Banking system, Non-Performing Assets, Financial position, Banks crisis, Depositors, withdrawal limits, Co-operative Banks, Governance*

I. INTRODUCTION

The Indian banking system plays a vital role in the development of the economy. This sector develops the economy by catering needs of credit from various sectors of the business, collecting people's savings and making them available for investment, and promoting trade by issuing credit instruments to the parties. Nevertheless, the primary purpose of banks is to give loans and advances from deposits obtained from household savings. Banks, however, have failed to do proper due diligence before granting loans which lead to a significant rise in Non-performing Assets. Regarding this, the paper discusses the Indian banking system and how its operation had led to a rise in non-performing assets.

Non-performing Assets are the major factors that affect the banks' profitability, management, and liquidity. Its mounting up also affects the deposits made through the household savings of

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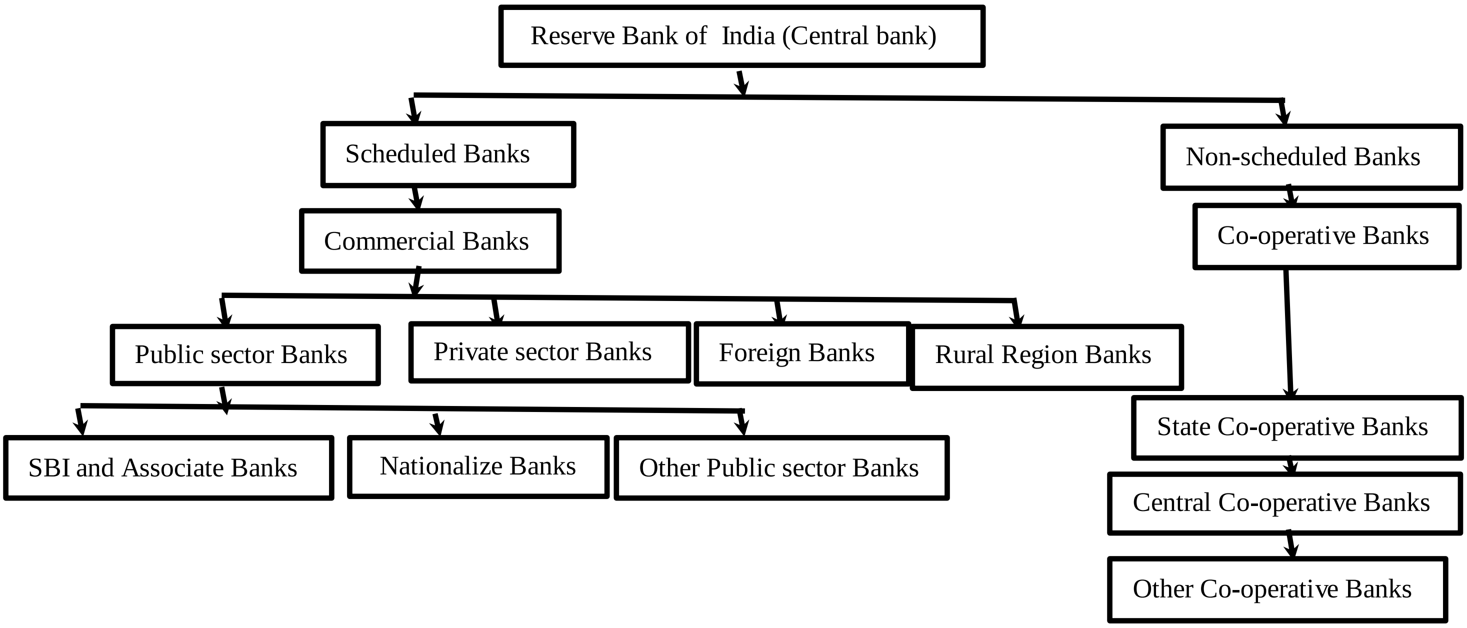
the public. Therefore, to prevent and overcome it, the regulatory body initiates strict measures to maintain the confidence of banks and the public. Measures taken to improve the financial status of the bank and to protect public interest are such as moratorium and restricting the amount of withdrawal from the accounts of depositors. This has a negative effect on the people who have deposited their money.

(A) Indian Banking System: The Indian banking system has a regulator body, the Reserve Bank of India regulating through the provisions of the Reserve Bank of India Act, 1934(RBI Act) and Banking Regulation Act, 1949(Banking Act). The Reserve Bank of India (RBI) is the central banking institution that frames policy and guidelines and passes circulars from time to time to regulate the money market involving the banking sector.[3] The structure of the banking system as provided in the RBI Act, 1934[4] is classified into two categories as follows:



(B) Non- Performing Assets: Non-Performing Assets (NPA) are those assets of the banks that cease to generate income for the bank.[5]In exercise of the powers conferred on the RBI under section 45JA of the RBI Act, the Reserve Bank of India may issue directions to any Banking company from time to time relating to income recognition, accounting standards, making proper provision for bad and doubtful debts.[6] In place of this, RBI issued a master

[3] The Banking Regulation Act, 1949, §35, 35A, 35AB
[4] The Reserve Bank of India Act, 1934, §2(e)
[5] Reserve Bank of India Master Circular, "Prudential Norms on Income Recognition, Asset Classification and provisioning pertaining to the Advances Portfolio" (30-07-2011), Available at https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx%3FId%3D449.
[6] The Reserve Bank of India Act, 1934, § 45JA

circular on August 30, 2001, and defined Non-performing assets *as a credit facility in respect of which the interest and/ or installment of principal has remained overdue for a period of more than 90 Days*.[7] Further, the banks are also required to classify their Non-Performing Assets into three categories based on the period as follows:[8]

Categories	The basis for classification – Principal or interest payment or any other amount wholly or partly overdue for a period
Substandard Assets	Less than or equal to 18 months
Doubtful Assets	More than 18 months
Loss Assets	Uncollectible and its value as a bank's assets is not warranted

II. A RISE IN NON-PERFORMING ASSETS:

The issue of Non-performing assets has become a subject of analysis and discussion in the banking industry. There are various analyses undertaken by RBI and other scholars concerning the increase of NPA in India. Some of the relevant figures analyzed by RBI and the Ministry of Finance in the scheduled banks are discussed.

Public sector banks reported a 9.6 percent credit growth in March 2019 among bank groups, while credit growth for private sector banks remained high at 21.0 percent. Deposit growth of public sector banks remained slow at 6.5 percent while that of banks in the private sector remained double-digit at 17.5 percent.[9] It means that, because of the relationship between banks and the public, depositors are not able to deposit further sums into banks.

Banks, despite fewer sources from depositors, can increase their credit. It suggests one of the reasons for NPA's rise where banks are raising their credit despite fewer sources of funds. Banks' gross NPA has increased from 2.3 percent of total loans in 2008 to 4.3 percent in 2015 in recent years. As of 31 March 2018, preliminary estimates indicate that the total amount of the economy's gross NPA is Rs 10.35 lakh crore. Approximately 85 percent of these NPA comes from public sector bank loans and advances.[10] Over the past few years, banks' gross

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[7] Supra Note 3.
[8] Ibid.
[9] Reserve Bank of India Public Reports, "Financial Institutions: Soundness and Resilience" (27-06-19) https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=931#C2C22A
[10] Vatsal Khullar, "The Rise in Non-performing Assets" (11-05-19), Available at https://www.prsindia.org/theprsblog/rise-non-performing-assets-india

NPAs rose from 2.3% of total loans in 2008 to 9.3% in 2017.[11]

However, because of the increase in scandals related to the bank's financial position, RBI has started monitoring bank's actions more closely and estimated some improvement in the NPA, especially in scheduled Public and Private sector Banks as their NPA is recognized on time. The increased rate of recognition of NPAs culminated in the height in March 2018. For most NPAs already recognized, the NPA process turned in March 2019, with the Gross NPA ratio dropped to 9.3%. [12] Bank-wise asset quality distribution indicates a decrease in the number of banks with a very high GNPA ratio compared to September 2018 in March 2019. This means a wider improvement in the quality of assets.[13]

(A) Reasons for Rising in Non-Performing Assets:

On September 6, 2018, the former governor of RBI, Mr. Raghuram Rajan was asked to give his opinion on the mounting of NPA and regarding this, he has submitted a detailed 17 page Note to the Parliamentary Estimates Committee under the Chairmanship of Mr. Murli Manohar Joshi.[14] This note highlighted the reasons behind a rise in NPA involving external factors such as a decline in the price of global commodities such as steel and other products and a decrease in exports, however, the important one was from the Indian banking sector itself. It stated the following reasons:

- Over-Optimism: Between 2006 and 2008, a huge amount of bad loans originated.[15] In such a time, the economy was booming and all the projects such as infrastructure were completed on time and were within the budgets. Banks extrapolated past growth and performance to the future and started giving loans to large corporate bodies without doing due diligence as it was lending money based on the project reports and sometimes it waved checkbooks to the promoters and filled as much amount they wanted.[16] With this loan became more easily available and large corporations were highly leveraged as there were more external borrowings and no internal promoter equity.[17]

[11] Ahita Paul, “Examining the rise of Non-Performing Assets in India”(13-08-2018), Available at https://www.prsindia.org/content/examining-rise-non-performing-assets-india
[12] Reserve Bank of India Public Reports, “Financial Institutions: Soundness and Resilience” (27-06-19) https://m.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=931#C2C22A
[13] Ibid.
[14] Raghuram Rajan, Note prepared by Professor Raghuram G. Rajan on September 6th, 2018 at the request of the Chairman of the Parliament Estimates Committee, Dr. Murli Manohar Joshi, MP. Available at https://www.thehindubusinessline.com/money-and-banking/article24924543.ece/binary/Raghuram%20Rajan%20Parliamentary%20note%20on%20NPAs
[15] Ibid.
[16] Ibid.
[17] Ibid.

- Global Crisis: After the Global Financial Crisis, the economy of India stagnated, and the repayment capability of large corporations decreased and thus promoters were left with no money to pay the debts taken from banks leading to financial stress.[18] At that time the economy was booming and to further give more boosts to the economy, loans were made available to corporations easily. As a result, most of the financing was done using external financing rather than internal financing like equity. This also led to the “Twin balance sheet” problem which affects the balance sheet of both, the banking and corporate sector due to financial distress.[19]

- Ever-greening Practice: Because of the underperformance of the projects for which loans were granted and consequently failure of repayment by the promoters let the banks approach the band-aids method also called ever-greening, where more fresh loans are given to pay off the interest. This led to an increase in the recognition of bad loans and NPA after some time. However, this increased lending but could not resolve the root cause of the bank's profitability.[20]

- Frauds: There was also an increase in frauds that led to an increase in NPA. However, no strict actions were taken to penalize the fraudsters.[21]In the year 2019, all public sector banks reported a loss of ₹71,542 crore due to fraud. RBI gives proper data which shows that all these losses were related to loans.[22] This is leading to erosion of confidence in depositing their money into the banking system and most importantly is proving to be a threat for financial stability to both the economy and banks.

- Faulty lending process: There are 3 principles on which banks usually give loans.[23]
    - Safety: It focuses on the ability of the borrower to repay the principal as well the interest. But the ability to pay back the loan depends on the willingness and obviously on the financial position of the borrower.[24]
    - Liquidity: To know the liquidity position of a borrower its balance sheet plays a crucial role. Banks should carry out an analysis of all of the financial statements to know the short term obligation and make judgments accordingly.[25]

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[18] Ahita Paul, “Examining the rise of Non-Performing Assets in India”(13-08-2018), Available at https://www.prsindia.org/content/examining-rise-non-performing-assets-india
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Puja Mehra, "The link between NPAs and frauds at government-run banks”(11-12-2019), Available at https://www.livemint.com/industry/banking/the-link-between-npas-and-frauds-at-govt-run-banks-11576083200294.html, Also see Financial soundness Indicators, IMF, Finance Ministry, RBI.
[23] R. Rajesh, T. Sivagnanasithi, Banking Theory: Law and Practice, Tata McGraw-Hill Education, 2009
[24] Ibid.
[25] Ibid.

- Profitability: There are various ways to check the profitability of a firm. One very easy and reliable way is ratio analysis. By calculating ratios like gross profit ratio, net profit ratio, and operating profit ratio banks can get a fairly satisfactory idea about profitability.[26]

(B) Consequences of increasing NPA:

The Standing Committee on Finance has released the 68th Report in the Lok Sabha on the subject 'Banking sector in India - Issues, Challenges and the way forward including Non-Performing Assets/Stressed Assets in Banks/Financial Institutions', it observed that the banking sector is severely affected by the mounting of NPA[27] and the consequences of it are as follows:

- NPA curtails the ability of the banks to lend as it ceases to generate cash flows in the business.[28]
- It also affects banks' ability to further credit.
- It increases high leverage (Ratio of Assets and Capital) and weakens returns as it reduces the growth in assets, causes steep losses and erosion in the capital.[29]
- It declines the bank's profitability i.e. Return of Assets- Bank's Net Profits/Net Assets. This is because the increasing NPA requires banks to make higher provision for doubtful debts in the books and thus more funds are set aside to pay anticipated future losses.[30]
- Banks run their operations when there is a growth in deposits and advances. However, due to a decline in profitability and no recovery of debts consequently puts depositors' money at risk which was invested or given in the form of a loan and now is considered as NPA.[31]
- Leads to asset contraction because when a bank experiences NPA the funds.

III. LEGISLATIVE MECHANISMS TO RECOVER PAYMENT:

There are primarily four legislative mechanisms that deal with the stressed assets in the banks

[26] Ibid.
[27] 68th Report, The standing committee on finance on "Banking sector in India - Issues, Challenges and the way forward including Non-Performing Assets/Stressed Assets in Banks/Financial Institutions",(August 2018).
[28] Ibid.
[29] Ibid.
[30] Supra Note 16.
[31] Ibid.

and recovery of debts from the defaulters.

1) Banking Regulation Act, 1949: It confers powers on the RBI to issue guidelines and directions to be imposed on the banks if they are not conducting proper due diligence on the loans granted. It also confers power on RBI to make changes in the framework of the resolution of stressed assets. [32]

2) Insolvency and Bankruptcy Code, 2016: The Code provides adjudicatory authorities for corporate persons, firms, and individuals for the resolution of insolvency, liquidation, and bankruptcy[33] and the National Company Law Tribunal which deals with cases related to companies.[34]

3) Recovery of Debt Due to Banks and Financial Institutions Act, 1993 (DRT Act): It provides for the establishment of debt recovery tribunals and debt recovery appellate tribunals for timely adjudication and debt recovery due to banks and financial institutions, partnership firms, and individuals.[35]

4) Securitization and Reconstruction of Financial Assets and Security Interest Act, 2002 (SARFAESI Act): The Act simplified the bank recovery process and specified financial institutions at the first stage to recover secured borrowers' debts without court intervention. Borrowers file applications to enforce security interest in the Debts Recovery Tribunals against measures taken under this Act.[36]

(A) Recent Crisis of Non-Performing Assets and steps taken by RBI to resolve it:

To highlight the concerns associated with the increase of NPA in the Indian banking sector, the recent major crisis in India must be traced.

Punjab National Bank Scam: In Public sector Banks, the infamous tragedy occurred on 29 January 2018, in the second-largest public sector lender, Punjab National Bank. It is a state-owned bank that suffered losses after Nirav Modi and his partner Mehul Chokshi, the billionaire jewelers, and some bank employees defrauded the bank with the amount of Rs. 11,4000 crores.[37] This fraud involved an unnoticed issue of letter of undertakings with the help of bank employees for years without sanctioning any credit limit of maintaining funds to obtain

[32] The Banking Regulation Act, 1949, §35, 35A, 35AB.
[33] Insolvency and Bankruptcy Code, 2016. Preamble.
[34] Insolvency and Bankruptcy Code, 2016. Chapter II, §5(1)
[35] Recovery of Debt Due to Banks and Financial Institutions Act, 1993. Preamble.
[36] Securitization and Reconstruction of Financial Assets and Security Interest Act, 2002, Preamble.
[37] Devidutta Tripathy, "PNB fraud explained: How India's 2nd largest PSU bank lost Rs11,400 crore"(15-01-18). Available at https://www.livemint.com/Industry/YegzgaJhyB66N2byVCGv7L/PNB-fraud-explained-How-Indias-2nd-largest-PSU-bank-lost-R.html

short-term credit from overseas branches of the other Indian banks.[38] This practice led to an increase in the Gross NPA ratio from 2.93 percent to 12.90 percent from 2011-12 to 2015-2016.[39]The fund was blocked as Gross NPA involved a huge amount of 55818 crores during the year 2015-16.[40] However, there was no follow-up to recover the blocked amount and it was difficult for the bank to maintain its cost of operations.

Steps initiated by RBI:

- In exercise of the powers conferred under section 35AB of the Banking Act, RBI undertook the supervisory assessment of control system of the bank's[41] and issued a revised framework and directions for early recognition, reporting, and timing bound resolution of stressed assets. [42]
- It provided a strict 180-day deadline for implementing a resolution plan, failing which stressed assets must be referred to the National Company Law Tribunal under Insolvency and Bankruptcy Code, 2016 within 15 days. The framework also introduced a one-day default monitoring provision, where the incipient stress is identified and immediately flagged when repayments are overdue by one day.[43]

Punjab and Maharashtra Co-operative Bank fraud scandal: In the Co-operative banking sectors, in September 2019, a money laundering and fraud case occurred in the co-operative bank behind the eyes of the regulatory body. After the First Information Report filed by the Enforcement Directorate, the Reserve Bank of India found that the Bank had underreported its non-performing assets.[44] It was revealed that to avoid regulatory actions of RBI and to protect the reputation risk of the bank, it created dummy accounts to hide their NPA of Housing Development and Infrastructure limited despite the company's non-payment for seven years.[45]

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[38] Ibid.

[39] Dr.Ashok Kumar Gupta, Priyanka Gautam, "NON PERFORMING ASSETS (NPAS): A STUDY OF PUNJAB NATIONAL BANK", International Journal of Science Technology and Management, Volume No. 6, Issue No. 1, January 2017.

[40] Ibid.

[41] Press Release, "RBI's statement on fraud in Punjab National Bank(16-02-19)", Available at https://m.rbi.org.in/commonperson/English/Scripts/PressReleases.aspx?Id=2604

[42] Reserve Bank of India Notification, "Resolution of Stressed Assets-Revised Framework (18-02-18)". Also, see Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019 (June 2019).

[43] Ibid.

[44] Ira Dugal, "Confession Letter Of PMC Bank's Former MD: The Story Of A Decades-Long Relationship Gone Wrong"(30-09-19),
Available at https://www.bloombergquint.com/business/confession-letter-of-pmc-banks-former-md-the-story-of-a-decades-long-relationship-gone-wrong

[45] Saurab Vaktaria, "PMC Bank crisis: MD's letter reveals how 21,049 dummy accounts were created to hide HDIL NPAs"(1-10-2019), Available at https://www.indiatoday.in/business/story/pmc-bank-crisis-md-s-letter-reveals-how-21-049-dummy-accounts-were-created-to-hide-hdil-npas-1605024-2019-10-01. *Also see* Chitranjan Kumar, "PMC Bank's bad debts had increased from Rs 148 crore to Rs 315 crore in FY19"(24-09-19). Available at https://www.businesstoday.in/current/corporate/rbi-pmc-bank-bad-debts-had-increased-from-rs-148-crore-to-

Steps initiated by RBI:

- In exercise of the powers conferred under section 35A(1) read with section 56 of the Banking Act, the RBI gives directions to the co-operative bank to prevent the affairs conducted as they were detrimental to the interests of the depositors and prejudicial to the interest of the banking Company.[46]
- It notified in its direction that the bank will not grant or renew any loans and advances, make any investment, incur any liability, and enter in any arrangement or compromise.[47]
- All the depositors of saving account or current account or any other deposit account will not withdraw more than Rs. 10,000/- of the total balance held.[48]
- These restrictions were imposed for six months and the bank will be under the investigations and scrutiny of the regulator.[49]

Yes Bank crisis: In the private banking sector, the bad loan crisis happened in one of the buzziest banks which was the fifth-largest private sector lender. In March 2020, the bank's inability to recognize its NPA led it to be more susceptible to bankruptcy even after RBI pulled it up for its under-reporting of NPA.[50] On 7 July 2015, a global financial services firm USB, has also highlighted in its report that the bank's asset quality has deteriorated because of giving loan more than its net worth to the large corporations in sectors which were already struggling the most in the past few years.[51] Many borrowers defaulted and led to an increase in its gross NPA ratio to 7.39% in September 2019.[52] Thus, the financial position of the bank declined steadily.

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rs-315-crore-in-fy19/story/380951.html

[46] The Banking Regulation Act, 1949, §35A. Also see RBI clamp down on PMC Bank: What is Section 35A of Banking Regulation Act (24-09-19), Available at https://www.businesstoday.in/sectors/banks/rbi-clamp-down-on-pmc-bank-punjab-and-maharashtra-cooperative-bank-section-35a-of-banking-regulation-act/story/380973.html

[47] Reserve Bank of India Press release, "Directions under Section 35A of the Banking Regulation Act, 1949 (AACS) – Punjab and Maharashtra Cooperative Bank Limited, Mumbai, Maharashtra"(24-09-2019), Available at https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48218

[48] Reserve Bank of India Press Release, Directions under Section 35A of the Banking Regulation Act, 1949 (AACS) – Punjab and Maharashtra Cooperative Bank Limited, Mumbai, Maharashtra - Relaxation in withdrawal limit of Deposit Accounts (26-09-19),
Available at https://rbidocs.rbi.org.in/rdocs/content/pdfs/DIRECTIVE26092019.pdf

[49] Supra Note 39.

[50] Udit Mishra, "Explained: How Yes Bank ran into crisis" (10-03-20). Available at https://indianexpress.com/article/explained/how-yes-bank-ran-into-crisis-rana-kapoor-arrest-6307314/

[51] Remya Nair, "Fears of crisis at Yes Bank over dodgy loan book were raised as far back as 2015" (06-03-2020) Available at https://theprint.in/economy/fears-of-crisis-at-yes-bank-over-dodgy-loan-book-were-raised-as-far-back-as-2015/376956/

[52] Ibid.

Steps initiated by RBI:

- Bank's inability to raise capital, address potential loan losses, and having serious governance issues and practices resulted in taking strict actions and engagement with the management.[53]
- In exercise of the powers vested under section 35A(1) of the Banking Act, the RBI issued directions in the interest of depositors and public interest that the bank shall not grant any loans and advances, make any investment, incur any liability, enter any arrangement or compromise.[54]
- It could not find any credible revival plan and thus in the exercise of the power vested under section 45 of the Banking Act, it imposed order of moratorium for a period and made it effective through the central government. [55]
- All the depositors will not withdraw more than Rs. 50,000/- for unforeseen circumstances.[56]

(B) Governance of Co-operative sector banks:

In recent years, it is observed that most of the mismanagement in the banks is happening in the co-operative sector banks. These happening involve the serious tragedy happened in Punjab and Maharashtra Co-operative banks as mentioned above in the crisis, after few months recurring tragedy happened in Shri Guru Raghavendra Sahakara Bank, Bengaluru where similar steps were initiated by RBI as it imposed a set of restrictions on the bank after its inspection team found slippages in its loan book and increase in non-performing assets.[57] These co-operative banks also include the tragedy of Kolkata Mahila Co-operative Bank in Kolkata.[58]

This is because the banks of the cooperative sector are subject to the laws of the State on cooperative societies.[59] Because of the vast majority of cooperative societies exist only in one

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[53] Reserve Bank of India Press Release, Yes Bank under moratorium (05-03-2020), Available at https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49476

[54] A directive under Section 35A of the Banking Regulation Act, 1949 (05-03-2020), Available at https://rbidocs.rbi.org.in/rdocs/content/pdfs/DD05032020.pdf.

[55]The Banking Regulation Act, 1949. § 45 Also see, Notification-Ministry of Finance, an order of moratorium against yes bank ltd. (05-03-20). Available at https://rbidocs.rbi.org.in/rdocs/content/pdfs/21655005032020.pdf.

[56] Ibid. Para 3.

[57] K R Balasubramanyam, Crisis-hit cooperative bank looks to raise Rs 300 crore in fresh capital(11-02-20), Available at https://economictimes.indiatimes.com/industry/banking/finance/banking/crisis-hit-cooperative-bank-looks-to-raise-rs-300-crore-in-fresh-capital/articleshow/74075817.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

[58] Rajeev Kumar, RBI allows cash withdrawal up to Rs 1000 from this bank for 6 more months(16-01-20), Available at https://www.financialexpress.com/money/kolikata-mahila-cooperative-bank-ltd-rbi-rs-1000-cash-withdrawal-six-months-extension/1824967/

[59] Constitution of India, Schedule VII, List II, Item 32.

State;[60] the State Government and the State-appointed Registrar of Co-operative Societies are the main regulatory authorities for the cooperative banks.[61]Therefore, they are not regulated by the banking act, DRT act, and SARFESI Act, and their NPA are managed by banks itself or state authorities. It raises more governance concerns because they do not have to follow the legal requirements of other banks so that they can manage their NPA with their whims.

However, in ***Pandurang Ganpati Chaugule* v. *Vishwasrao Patli Murgud Sahakari Bank Ltd***, the recent judgment of the Supreme Court, held that cooperative banks are "banks" for Section 2(1)(c) of the SARFAESI Act and that the recovery procedure u/s 13 of the Act also applies to such banks. These banks must carry out any operation under the provisions of the 1949 Act and any other legislation applicable to those banks and the RBI Act.[62] Therefore, Co-operative banks thus come under the regulatory authority of RBI and other related legislations. This judgment extended RBI’s regulation to govern NPA in co-operative sectors alongside banks to take measures to restructure and handle banks' affairs.

IV. AFTERMATH IMPACT OF THE CRISIS ON CITIZENS:

Public deposits are the basis of banks for providing loans and advances to creditors, large businesses, and companies. If these loans are not paid, there is a serious deterioration of the financial position of the bank which ultimately puts the money of the depositors at risk and affects the interest of the public at large.

- Because of recurring bank fraud, rise in NPA, and decreasing earnings, it triggers uncertainties, fears, worries in the minds of people not to deposit where banks are unable to keep their working capital costs to the optimum level and where there is no proper due diligence.
- The RBI's withdrawal limit in most cases puts citizens in panic or they're thrown into disarray without relief at times. This led the citizens, who are banks' account holders, to lose their trust in banks.
- They stand in a queue for long hours in front of the banks' gates to secure their lifetime salary earned and deposited in the bank for a specific purpose for a specific time.
- This restricts account holders' own money to be used for their expenses.

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[60] Enactments such as Andhra Pradesh Co-operative Societies Act, 1964 and the Andhra Pradesh Mutually Aided Co-operative Societies Act, 1995

[61]K.D.Zacharias, Legal and Regulatory Framework for Co-operatives, Available at https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/62572.pdf

[62] Pandurang Ganpati Chaugule v. Vishwasrao Patli Murgud Sahakari Bank Ltd, (2016) SCC OnLine SC 459

- It also restricts the bank's ability to provide additional loans to citizens due to the inability of the bank to maintain its financial position and thus hinders citizens' demand for loans.

V. RBI ORDER OF WITHDRAWAL LIMIT WAS CHALLENGED BY CITIZENS:

RBI’s decision to enforce withdrawal limits affects a large number of traders and day-to-day wage earners who have been engaged with banks for decades. Such a decision keeps the account holder under stress as it restricts the depositors' right to withdraw their deposits from the accounts. It is therefore considered as a violation of fundamental rights, though RBI issues directions under its powers conferred under article 35A of the Banking Act.[63] It is recommended that if banks do not have adequate reserves then the central government has to finance the bank with the infusion of capital and not force depositors to not withdraw their money. It has to make this decision fairly, keeping in mind the interests of both public funds and bank operations.[64]

VI. RECOMMENDATION:

The rise in NPA has a significant impact on both banks and their depositors. It is well established when NPA increases and causes that reduction in bank operations and deteriorates financial position. The variety of guidelines and directions for maintaining the interest of both banks and depositors by the regulatory body must be reasonable by not removing bank's licenses and takes an approach of bringing back the financial position of banks on track. It has issued a framework for the resolution of stressed assets in different cases by amending the Insolvency and Bankruptcy Code in 2016, SARFESI Act, DRT Act, but the desired results are yet to be achieved. It must take further measures to regulate the management of banks as recommended, so that irregularities in the conduct of banking operations, as demonstrated by the above-mentioned major crisis, are controlled, and recognized as quickly as possible. This conduct in banks diminishes economic growth as well as loses public trust in banks and therefore the issue of NPA must be resolved to maintain the integrity and stability of the banking system in India.

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[63] PIL filed in Bombay High Court seeking relief from RBI’s order of withdrawal limit in PMC bank but has been dismissed on the ground that RBI acted reasonably under its powers. See, Vidya, PIL in Bombay High Court seeks relief from RBI order of Rs 10,000 withdrawal limit in PMC bank(01-10-19), Available at https://www.indiatoday.in/business/story/pil-bombay-high-court-rbi-withdrawal-limit-pmc-bank-1604959-2019-10-01.

[64] Sonam Saigal, PMC Bank depositors’ pleas on raising withdrawal limit dismissed(06-12-19), Available at https://www.thehindu.com/news/states/pmc-bank-depositors-pleas-on-raising-withdrawal-limit-dismissed/article30199817.ece

Banks must also scrutinize its transactions when dealing with the creditors and must not, in fear of reputation, avoid the supervision of RBI. Consequently, RBI must increase its supervision on the banks so that it is not too late to recognize the NPA when it has become worse and there is no misappropriation of public funds. There must be more transparency and accountability towards the public and encourage the establishment of more Assets Restructuring Companies that can absorb NPA. Besides, the depositors must be allowed to challenge the withdrawal limit imposed by the RBI because such restrictions are placed on them without informing them in advance, or sometimes the banks are not even informing them and imposing the instructions of the RBI though it is within its powers conferred under the Statute.

VII. CONCLUSION:

Banks face a rise in NPA because of its users who take loans from them. These users involve two categories, on one hand, there are those users who pay interest and principal amount on time and thus lead to a decrease in NPA and an increase in net profits. On the other hand, some do not pay interest or principal amount on time or become incapable of repayment. Thus, they increase NPA and decrease the net profit of the banks. Therefore, it is concluded that Banks need to improve their management with the help of RBI, where the latter users do not take advantage of the services offered by the banking industry.

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