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Non-Performing Assets: An overview

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ABSTRACT

Finance is very important for every economy to run effectively and having a good financial position depends on its financial institution and banks. Banks ensure financial stability and effective utilization of funds. But, maintaining such financial soundness becomes difficult when the funds of banks are being misused or not repaid. The problem of Non- Performing Assets (NPAs) is not new to the banking Sector. For a long time, banks have seen loans being turned into bad assets and efforts have been made to reduce the number of NPAs. There are multiple reasons which together have given rise to the increasing number of NPAs. Over the past few years, some big fraud cases have occurred in the banking sector that caused huge losses to banks. The increasing number of bad loans and loss of public funds have insisted banks to bring changes and adopt a new mechanism to resolve the cases relating to NPAs.

Keywords: *Non-Performing Assets (NPAs), Bad loans, Reserve Bank of India (RBI), PSBs, financial institutions, credit.*

I. INTRODUCTION

In a developing country like India, economic progress relies much upon the stability of its financial institutions. Banks are the backbone of an economy that supports development through effective utilization of funds, the flow of funds, and by supporting and promoting the financial policies introduced by the government. The banking sector is an important part of the economy and its stability is crucial for economic growth and development. If the banking sector faces any challenges, it may cause economic distress in the country. This sector protects the country from crisis and ensures a healthy financial position. Such stability and the soundness of banks could be evaluated based on profits, revenue, and the quality of assets it possesses. Though the banks work with a social objective but in order to sustain the profit acts as the lifeblood of its survival and growth. Banks provide loans to individuals, businesses, and big corporate houses to finance their businesses. But if any default occurs in the repayment of loans, it creates a burden on the banks and amounts to Non-performing Assets. The presence of Non-Performing Assets (NPAs) hampers the growth of the banks and is a threat to the banking sector. When a loan granted by the banks remains unpaid in terms of interest or principal amount beyond a

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certain period it is termed to be an NPA. It creates a financial burden on the banks as the borrowers failed to repay the loan the bank had to cover the deficiency caused by such bad loans. It affects its operational efficiency which ultimately affects the functioning, liquidity, and profitability of banks. NPA affects the competitiveness of the banks the greater number of NPAs leads to full concentration on recovery mechanisms rather than expanding the business. It affects the credibility as depositors feel unsecured in terms of liquidity due to the large number of NPAs. And the mindsets of people working in the banks also shift from investing in more profitable but risky options to risk-averse choices which are not conducive to the economic growth of the country.

II. Non-performing assets

Non-Performing assets refer to the loan or advance issued by the bank for which the person has not repaid the principal or interest for more than Ninety days. As per the Reserve Bank of India[2] "An asset is said to be a non-performing asset when it ceases to generate income for the bank". Since 2004 in the Indian Financial system Ninety days overdue criterion has been fixed for identifying the NPA. So, as per the prevailing norm following will be covered under the category of non-performing assets:

- For a term loan if the interest or installment of principal remains overdue for more than Ninety days.
- For an Overdraft or Cash Credit, the account remains 'out of order for more than Ninety days.
- For Bills purchased and discounted the bills remains overdue for more than Ninety days.
- In case of an advance which is granted for the purpose of agriculture, the interest or installment of principal remains overdue for two harvest seasons but the period should not exceed two half years.
- For other accounts, any amount to be received remains overdue for more than Ninety days.

NPAs are a loss for a lender as money granted in the form of loans could no longer be recovered from the borrower. In such instances, if the borrower fails to pay back the loan or interest amount the banks try to recover the money by confiscating the assets belonging to the borrowers. Such assets are sold by banks through an auction to recover their money. NPAs have

[2] RBI, Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12171&Mode=0> accessed 28 August 2022.

bad effects on the banks as their financial conditions are affected because the burden of recovering the loss suffered shifts on banks. They could not charge interest on such accounts which turned into an NPA, therefore the revenue the banks generate through charging interest could not be generated if the loans turn into NPAs. The NPAs create an obstacle for banks as they have to face severe consequences from the RBI. The Brand image of banks is compromised based on the number of NPAs. It not only impacts the internal operation and rigid actions of RBI but also affects the stock market conditions and prices of bank shares.

III. TYPES

Non-Performing assets are classified into the following categories:

1. Substandard Assets

Before 2005, a sub-standard asset was the NPA not exceeding two years but in 2005, the duration was changed and a sub-standard asset is one that has been an NPA for a period of twelve months or less. In such assets, the market value of a security or the net worth of the borrower is not enough to cover the dues of the bank and it will sustain some losses, The loan agreement regarding principal and interest can be rescheduled after the initiation of production and such asset should remain under the substandard category for at least 12 months from re-negotiated terms and satisfactory performance under it.

2. Doubtful Assets

Initially, the doubtful asset was considered to be the one that remained an NPA for a period exceeding two years. But after 2005 the duration of a doubtful asset is changed and now a doubtful asset is one that remains an NPA for a period exceeding twelve months. The re-negotiation of the loan agreement does not entitle to convert it into another asset. And an asset could directly be classified as a doubtful asset if there is severe impairment in terms of credit.

3. Loss Assets

Loss assets refer to the asset in which the bank or the internal or external auditors or through RBI inspection loss is identified but it is not written off completely. Loss assets are required to be written off, if they are not written off and remained in books the entire outstanding is to be provided for. This asset could not be collected and it could not be continued as a bankable asset as it may only have some salvage value. In cases where the realizable value of a security as per the assessment of RBI, valuers or bank is less than ten percent of the amount of outstanding account it should be classified as loss assets.

IV. Reasons behind the growth of non-performing assets

The number of NPAs has increased over the period and it is detrimental to the financial position of the banks. There are various reasons that result in the NPAs making the situation worse for banks.

- The economic recession during 2008 led to an increased number of bad loans. After independence and especially after the 1991 economic reform the Indian economy was blooming various businesses were flourishing. Banks granted loans to corporates to expand and grow but due to the economic crisis, the businesses saw a sudden fall. Many businesses failed to generate enough revenues and eventually shut down. Due to vulnerable conditions, they failed to repay the credits taken from the banks resultantly the loans became NPAs.

- One of the major causes behind increased NPAs is the relaxation in the lending norms provided to the corporate houses. Due to inappropriate analysis of their credit worthiness and financial position it resulted in defaults. The banks relied on the promoter's investment banks instead of performing their own due diligence and analysis. They also provided unsecured loans in order to compete with other banks which ultimately resulted in NPAs.

- The breakdown of the COVID-19 pandemic is also one of the reasons that gave rise to the number of NPAs. Because of the pandemic, the economy of every nation has fallen hugely. The businesses suffered losses and the financial crisis continue to grow as a lockdown took place for a large span of time. Due to unstable income and loss of employment, many people failed to repay their loans and the bank saw a large and increasing number of NPAs during the period of the Covid-19 Pandemic.

- The failure on the part of the banks to do a proper appraisal before granting loans and not having a follow-up regarding the use of credit and repayment. In many cases banks have failed to do a proper analysis of customers' profiles before giving funds as per the set norms as a result they end up financing people who are not eligible to take loans as per the set norms and most often such people obtain loans by manipulating their profiles, as a result, such people end up committing fraud resulting into NPAs.

V. Impact of non-performing assets

- Due to the increase in the number of NPAs bank faces financial difficulty and due to the deficiency of funds available to the banks, they do not invest in other developmental projects which affect the economy.

- The restrain of banks from investing in developmental projects and new businesses increase the rate of unemployment which ultimately affects the National Income and Gross Domestic Production (GDP) of the economy.

- As banks need sufficient revenue to carry out their operations and maintain sufficient cash flow if any financial distress occurs due to loss suffered by bad assets the ultimate burden is being shifted on the borrowers by increasing the interest rates.

- If the borrower fails to repay the loan the account turns into a non-performing asset and his creditworthiness is affected by it. So, once a person becomes a defaulter his CIBIL gets affected and in the future, he might not be able to secure a loan from banks.

- Being classified under an NPA means a person becomes a defaulter in the eyes of the bank and his business assets and property are also taken. This affects the brand image or goodwill of the borrower in the market.

- It creates rigidity in the procedure for the approval of loans. In scenarios where it is found that the number of NPAs is growing the RBI keeps a strict watch on the banks and the procedure undertaken before sanctioning loans is made stricter which creates difficulty for borrowers as they have to undergo through a lot of paperwork and a time-consuming process.

VI. Actions to reduce the number of Non-Performing Assets

The issue of non-performing assets is not new to the banks, the problem is existing for a long time and continues to rise. To control the problem of NPAs government and RBI continuously make efforts. Some of the actions undertaken by the Government and RBI to curb this problem are as follows:

DEBT RECOVERY TRIBUNAL (DRT)

Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) were established under the Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993. It is a quasi-judicial body that aims at recovering loans by banks and financial institutions. Currently, there are thirty-Nine DRTs and five DRATs across the country[3]. The tribunal frames an effective and speedy recovery mechanism for recovery. They ensure that the money taken by the borrowers is recovered, settle claims and the balance is to be categorized as the NPA by the banks. The provisions of the RDDBFI Act provide for recovery from lenders and borrowers by the filing of original applications in DRT and DRAT.

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[3] Debt Recovery Tribunals, <*available at:* https://drt.etribunals.gov.in/front/composition.php> accessed 28 August 2022.

The Tribunal has powers similar to that of a district court. DRT has the authority to entertain applications received from banks and financial institutions. The matters that fall under the jurisdiction of DRT could not be adjudicated by other courts except High Court and Supreme court. Therefore, any order passed by the DRT could only be challenged before these higher authorities under articles 226[4] and 227[5] of the Constitution. The power of DRT is limited to dealing with the restoration of the unpaid amount declared as NPAs by the banks.

DRT is under the control of a presiding officer who is appointed by the central government and is qualified to be a district judge. To initiate a suit before DRT, an application containing a statement with details of debt due and circumstances leading to such situation with other documents necessary to be made accompanied by the application fee. The application is made to the registrar under whose jurisdiction the bank or financial institution is present. Once the application is submitted and presented before the registrar after verification it is registered and a serial number is allotted. An original application number is allotted and a copy of the application is served by the registrar to each respondent. Within one month of receipt of the application, the respondent may file a reply with documents. After the completion of the procedure, including summons, and presentation of evidence the order is made. And finally, a recovery certificate is granted and the Recovery officer executes the order.

ASSET RECONSTRUCTION COMPANIES (ARCs)

Asset Reconstruction Companies (ARCs) are specialized financial institutions registered under the RBI and regulated under the SARFAESI Act, 2002. ARC was set up based upon the recommendation of the Narasimham Committee as the number of NPAs was growing. The ARCs facilitate banks to perform their main functions by taking over NPAs and clearing the balance sheet of banks. ARCs buy the NPAs or bad loans from the banks at a certain agreed value and aim at asset reconstruction or securitization or both. Once the ARCs buy the debtors that are categorized under NPAs all the rights available against such debtors with the bank are transferred to ARC. Only secured debts declared as NPAs can be undertaken by ARC. In order to buy bad assets from banks and financial institutions, ARC is required to maintain capital, under SARFAESI Act ARC must have Rs. 100 Crore as minimum net owned fund and capital adequacy ratio of 15 percent of the risk-weighted assets, they possess. ARCs buy the bad assets or NPAs in exchange for fifteen percent cash and eighty-five percent security at a net book value from banks. In order to assist banks and improve the economic condition of the country more ARCs with adequate capital are required. This would help in decreasing the number of

[4] The Constitution of India 1950, art. 226.
[5] The Constitution of India 1950, art. 227.

bad assets with the banks and banks' balance sheets would be not filled with these stressed assets. The stressed assets could be tackled and reconstructed by ARCs in a more efficient and market-driven manner.

CREDIT INFORMATION BUREAU

Credit Information Bureau Limited (CIBIL) is a Company that maintains records related to credit activities such as credit cards and loans of individuals and companies. This organization collects credit information of individuals and provides such information to creditors which they utilize for decision making. The lending institution needs to know before giving money to the borrower whether they have the ability to repay the loan or they might default. The Banks and financial institutions submit the information periodically to CIBIL. The CIBIL issues the Credit Information report based on the information received from banks and institutions and credit score is issued to the applicants and institutions. This report provides full disclosure about the credit information of an individual including defaults and delays. If it is observed that an individual has defaulted in past generally in such cases the banks and financial institutions deny to grant loans to such individuals or the higher interest could be charged upon such borrowers owing to the higher risk. The role of CIBIL is only restricted to the collection and analysis of information for the lenders and it completely depends upon the creditors to decide whether to provide credit to an individual or not. CIBIL charges a fee for providing such information so any creditor or an individual who wants to know his credit history may collect such information. A credit report issued by the CIBIL includes a score which is a single figure number ranging between 300-900 based upon the creditworthiness of an individual, 300 being the lowest and 900 being the highest. This depends upon the factors like the past history, number of loans taken, duration of repayment, etc. This helps a lot in eliminating the probability of a loan being turned into an NPA as the creditworthiness is being verified through the credit history of an individual or a company. It is a good tool for banks and financial institutions to access creditworthiness and avoid sanctioning loans to existing defaulters.

CORPORATE DEBT RESTRUCTURING[6]

Corporate Debt Restructuring is the process undertaken to restructure corporate debts in order to reduce the losses to the creditors and others concerned by implementing a timely and effective restructuring programme. To avoid the risk of NPAs or bad loans the CDR is undertaken by the companies facing a financial crisis. The restructuring could be done by reducing the interest

[6] RBI, Corporate Debt Restructuring, <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=440&Mode=0#:~:text=The%20objective%20of%20the%20Corporate,the%20benefit%20of%20all%20concerned> accessed 28 August 2022.

rate and extending the repayment period of the loan or by clearing debt by exchanging equity with the creditor. When a company is going through a financial breakdown and could not fulfill its obligations towards the creditors then in order to avoid the risk of bankruptcy they negotiate with creditors. It is completely a voluntary process between debtor and creditor which could be undertaken through an agreement between the debtor and creditor or between two or more creditors. CDR tries to restructure only potentially viable companies in order to prevent the situation of bankruptcy. CDR mechanism is adopted when multiple banks or financial institutions are involved having an outstanding amount of Rs 20 crore or more. It applies only to the standard and sub-standard assets CDR could be initiated by one or more secured creditors having at least 20 percent share either in the working capital or term finance; or by a corporate debtor supported by the banks or financial institution having at least percent stake in the working capital or term finance.

JOINT LENDERS FORUM

Joint Lenders Forum is a group of banks that have given loans to the borrower which is formed when the loan becomes a stressed asset in order to make quick decisions. The objective of JLF is the revival of stressed assets. Corrective measures are undertaken by JLF when an asset is on the verge of becoming an NPA. JLF can take action if a loan of more than Rs 100 crores or more fails to return the payments. The motive of corrective action is to redress the problem of the stressed asset by rectifying, recovering, or restructuring. JLF ensures that the corrective action plan is undertaken in a timely manner to resolve the stressed assets. Corrective action may include flexible structuring of loans, ownership changes under strategic debt restructuring, sustainable structuring of stressed assets schemes, etc. could be adopted. There are specific timelines for deciding the Corrective Action Plan (CAP)[7] and lenders much decide within that time frame. The decision agreed by at least 60 percent of creditors by value and 50 percent by numbers in the JLF would be a basis for deciding corrective action plan it is binding on all lenders. If any bank does not support the decision taken by a majority, they can exit within the given timeframe otherwise the decision would be binding upon them.

5:25 SCHEME

The 5:25 Scheme[8] also known as “Flexible structuring of long-term project loans to infrastructure and core industries” introduced by the RBI provides for a longer period of

[7] RBI, Timelines for Stressed Assets Resolution, <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10957&Mode=0> accessed 28 2022.

[8] Jai, “What is RBI’s 5/25 Scheme”, (*Bankersclub,* 13 March 2018*)*, accessed 10 September 2017.

repayment to core industries and infrastructure projects. Under this scheme, banks can provide a longer period of amortization depending upon the concession period of the project. Under this scheme, the Initial debt is given by the bank for a term of five to seven years for the initial construction period and covers the period till the commencement of operations. Such loans are repaid in a small part and refinancing is done by the same lender or some new lenders through the issue of corporate bonds. This refinancing continues till the amortization period after every five years with a reduced amount.

STRATEGIC DEBT RESTRUCTURING

Strategic Debt Restructuring (SDR)[9] is a scheme under which the banks who have issued the loans can purchase the equity in the debtor's company against the amount of unpaid loans and interest. It allows the banks to jointly purchase the equity shares of the debtor and become part of the management of the company. This could be done by JLF by deciding to convert the loan either wholly or in part into equity shares. The loans due could be converted into equity shares by undertaking SDR. JLF at the time of restructuring should state under the terms of restructuring an option of converting the whole or part of the loan into shares in case the borrower could not achieve the viability milestone or comply with conditions stated under the restructuring strategy. On failure to achieve the viability milestone, the account will be reviewed by JLF to determine whether it could be made viable by shifting the ownership and deciding to undertake SDR in whole or in part to acquire a majority stake in the company. The lenders under the JLF will collectively become the shareholder and 51 percent or more equity would be issued by the company. This conversion of debt into equity under SDR should be completed within 90 days from the date the JLF approved the SDR plan. JLF or lenders holding equity shall divest such holding in favor of new promoters as soon as possible and on divestment, the asset would be upgraded to standard.

MISSION INDRADHANUSH

In order to deal with the challenges faced by Public Sector Banks (PSBs), the government came up with a scheme called mission indradhanush. This scheme aims at improving the performance of PSBs so they could compete with the private sector banks. This scheme has seven major components which cover the challenges of PSBs. This scheme provides for re-capitalization to induce funds and eliminate losses that occurred due to the large number of NPAs. An improved system of performance assessment is introduced to measure the NPAs and other aspects relating

[9] RBI, Strategic Debt Restructuring Scheme, <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9767> accessed 24 August 2022.

to the financial performance of banks.

ASSET QUALITY REVIEW

Asset Quality Review (AQR) is the process of reviewing the bank records annually to check whether the asset classification is matching the amount of loan repaid and whether banks have made necessary reserves or not. It is conducted by RBI to identify whether the NPAs have been reported by the banks. It has been observed that the banks show the accounts as performing which in reality are bad loans. To eliminate this practice of hiding the true classification the AQR process has been started.

INSOLVENCY AND BANKRUPTCY CODE

Insolvency and Bankruptcy Code (IBC), 2016[10] is a framework to govern the insolvency and bankruptcy proceedings for individuals, partnership firms, and companies. Before 2016, there were multiple acts dealing with insolvency cases such as the Sick Industrial Companies Act, 1985[11], SARFAESI Act, 2002[12], Companies Act, 1956[13], and RDDBFI Act, 1993[14] which created complexities and delays in the resolution process. In order to facilitate and ease the process of recovery, a new code was brought named the Insolvency and Bankruptcy Code (IBC). This empowered all creditors including banking and non-banking creditors to initiate the corporate insolvency process under the code. This process is time bound so the pending cases taking a long time could be resolved under the code. NPAs cases filed under this code are resolved by NCLT through Corporate Insolvency Resolution Process. Under this code, the focus shifted from 'Debtor in Possession' to 'Creditor in Possession' where the creditor remains in control of assets belonging to the corporate debtor through an appointed interim resolution professional. The resolution process is undertaken in a time-bound manner which is 180 days from the date of admission of application with the adjudicating authority. Further to expedite the resolution in cases of start-ups and small companies the fast-track resolution is provided where time is reduced to 90 days which may extend to 45 days.

VII. Major Cases related to NPAs in Indian Banking System

SYNDICATE BANK

A Chartered Accountant from Rajasthan Udaipur Bharat Bomb and his other associates were charged for a Syndicate Bank fraud case worth Rs. 1,267 Crore. They in connection with bank

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[10] The Insolvency and Bankruptcy Code 2016.
[11] The Sick Industrial Companies (Special Provisions) Act 1985.
[12] The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002.
[13] Companies Act 1956.
[14] The Recovery of Debts due to Banks and Financial Institutions Act 1993.

officials of Syndicate Bank defrauded by way of sanctioning loans in their name or the name of their family members and fake cheque discounting. They did not pay the loans back to the bank. The fraudster transferred money received by the way of loans to different bank accounts operated by him. This money was utilized by Bharat Bomb for buying various immovable properties in his name, family member, and friends. Based on the First Information Report (FIR) registered by CBI against officials of Syndicate Bank Enforcement Directorate (ED) began a money-laundering investigation and it came to light that the fraudster was defrauding through bank officials to Rs 1,267.79 crore. ED has recently attached the immovable property and movable property worth Rs 56.81 Crore including shops, plots, flats, offices, agricultural land, Fixed deposits, and bank accounts belonging to Bharat Bomb and his other associates involved in the Syndicate fraud case in association with Money laundering case.

VIJAY MALLYA CASE

Vijay Mallya is an Indian Businessman and former member of Rajya Sabha. He was the chairman of United Spirits and continues to serve as a chairman of United Breweries Group, which is a conglomerate having business in the areas of beverage alcohol, aviation, fertilizer, and real estate. The United Breweries Group flagship company United Spirits Ltd became the second largest company of spirits in the world. Mallya has been the chairman of Bayer CropScience, Sanofi, and several other companies. He also sponsored the Royal Challengers Bangalore Cricket Team. Mallya launched Kingfisher Airlines in 2005 his major business but had to shut the business as his business model failed due to the global recession of 2008 and he became insolvent. Due to the collapse of his business, he could not repay the loans and fled to the United Kingdom in 2016.

In 2016, seventeen banks collectively through a consortium of banks approached Supreme Court to restrain Mallya from leaving India but by that time he already left. Several non-bailable warrants to arrest were issued against Mallya in case of money laundering and fraud against Public Sector Banks in India. Various Indian assets of Mallya were provisionally attached by Enforcement Directorate against the loans that were not paid back by him. He was declared a fugitive economic offender by the Debt Recovery Tribunal in 2019. In 2020, Mallya had publicly offered to banks to pay back a settlement amount against the loan which was not accepted by the banks. He is living in the UK since 2016 and was arrested by UK Police on an extradition warrant for fraud committed in India. He was released on bail and fighting in the UK Court for extradition and fraud. recently The Supreme Court has ordered to sentence him for four months in a contempt case as the proceedings have hit the dead wall.

YES BANK

Rana Kapoor the co-founder and former managing director during his tenure had approved 71 loan accounts that later become NPAs. It is alleged that Rana Kapoor has sanctioned a loan to the promoters of Dewan Housing Finance Limited (DHFL) Kapil Wadhawan and Dheeraj Wadhawan for developing the Bandra Reclamation Project which was not utilized for the said purpose. Despite various issues were pointed out by the bank's risk management team in the project proposal loan was advanced. A large amount of money received from crime was siphoned off by Rana Kapoor to overseas and they are not available for attaching under the provisions of the Prevention of Money Laundering Act. It came to light that in 2018 debentures of DHFL were bought by Yes Bank and money was transferred to DHFL. DHFL gave a loan to a venture owned by Rana Kapoor and his family DOIT Urban Ventures. The loan granted by YES bank was purely a conspiracy between Rana Kapoor and Wadhawans'[15]. Many irregularities were found in granting this loan. On investigation conducted it was alleged that Rana Kapoor was connected with the fraud and he was arrested by the enforcement directorate.

STATE BANK OF INDIA (SBI)

ABG Shipyards is a shipbuilding company and is a part of ABG Group. The company was established in 1985 and has major operations in Surat. It also operates a ship repair unit in Goa and is one of the largest private companies in shipbuilding in India. ABG has defrauded a consortium of 28 banks to secure a loan of Rs. 22000 Crores. ICICI was the leading bank along with other banks including IDBI, SBI, Punjab National Bank, Bank of Baroda, and others. A petition was filed before CBI to investigate into the matter by SBI. The company through its directors took a loan from different banks including SBI and didn't pay it back. On investigation, it was revealed that the company's top management was involved in diverting the funds with the intent to use banks' funds for their personal use. The money was transferred to related parties, diverted to tax havens, and for getting letters of credit. The Corporate Debt Restructuring (CDR) mechanism was adopted to restructure the company but it could not revive as the shipping industry was going through a downfall. The account of ABG was declared NPA in 2016 and later in 2019 after discovering the fraud case was registered against ABG by CBI. Notices are issued against the Promoter and executives of ABG Ashwini Kumar and Santhanam Muthuswamy.

PUNJAB AND MAHARASHTRA COOPERATIVE BANK

Punjab and Maharashtra Cooperative (PMC) Bank was founded in 1983 and it is headquartered

[15] Rashmi Rajput, 'Yes bank scam: CBI arrests Pune-based builder', *The Economic Times*, (26 May 2022).

in Mumbai. It is registered under the Cooperative Societies Act and regulated by the Reserve Bank of India (RBI). It had 137 branches and approx. 100 branches are in Maharashtra. The PMC scam came into light in the year 2019 when the Reserve Bank of India (RBI) imposed operational restrictions owing to financial irregularities and under-reporting of non-performing assets. PMC was dealing with two entities named Housing Development Infrastructure Ltd (HDIL) and Dewan Housing Finance Corporation (DHFL). Loans over Rs. 6,700 crores were granted to HDIL when it was in the situation of bankruptcy by creating fictitious accounts. HDIL was the centre of RBI's investigations loans were advanced to them though the company was financially distressed and loans were not repaid by them. The connection was established between these two entities and the top management of PMC Bank. The under-reporting of bad loans and fake deposits was brought to light. All the top borrowers were affiliated with bank executives at the top management and they were intentionally manipulating the accounts to facilitate loans and close the previous NPAs. In relation to the scam, EOW had issued a lookout notice against Daljit Singh and other former directors of the bank. The former director of PMC Bank Daljit Singh Bal was arrested concerning the PMC Scam by the Economic Offences Wing (EOW) of Mumbai Police.

MODI-CHOKSI CASE

Nirav Modi is a renowned diamond jeweler, designer and founder of diamond jewelry retail stores called the Nirav Modi chain. In 1999, he founded a diamond sourcing and trading company named Firestar. He started manufacturing jewelry on a contract basis in 2002. Modi guaranteed loans taken in the name of Firestone Trading and Firestar Diamond the firms failed to repay the payments. Modi along with his maternal uncle Mehul Choksi, other relatives, and Punjab National Bank (PNB) employees committed a banking fraud of Rs 10,000 Crore. PNB employees issued the fake Letter of Undertakings (LOU) at Brady House Branch in Fort, Mumbai. Nirav Modi wanted money for importing diamonds for which a loan was required in foreign currency. He wanted money without having his own loan account so he arranged the buyer's credit in foreign currency through LOU from PNB. Modi did not repaid the due amount issued through LOU rather the income earned through exporting diamonds and pearls was used elsewhere. This continued to happen for seven years. The PNB employees involved with Modi were using the SWIFT system with no connection to the CORE system. When one of the employee retired and a new one came to his designation it came to the notice that something wrong was going on. After investigation, it was found that around 100 LOUs were issued in favor of Modi's Firm without any collateral. This turned into a fraud resulting in a huge loss to PNB. Under the Prevention of Money Laundering Act, his assets were confiscated by the order of the court. He was living in the UK and seeking asylum on the ground of political persecution in India. An extradition request was made by the Indian Government to the UK which was allowed by the UK court. Enforcement Directorate has also provisionally attached movable properties including jewelry and gems of Nirav Modi companies' group in Hong Kong.

VIII. CONCLUSION

The smooth flow of an economy is largely dependent upon the banking sector. Banks play a major role in ensuring the financial stability and effectiveness of a nation. Banks provide assistance to individuals and corporate houses in the form of credit and protection against any kind of loss to money by allowing depositors to keep funds in the custody of banks. It ensures smooth transactions between parties through different accounts and provides overdraft facilities to deal with contingencies. But over the period of time, it has been observed that banks are facing financial distress due to the increase in the number of Gross NPAs. The problem of turning loans into a bad assets is seen common over the last few years. No single reason in isolation contributes to this growing challenge of NPAs faced by the banks. There are several reasons behind the non-repayment of loans by the borrowers and the covid-19 crisis had significantly contributed to this problem. But what has been most commonly observed in cases where loans have turned into an NPA is first, the failure on the part of authorities to check the profile before sanctioning loans as per the set norms, and second, the involvement of bank officials in facilitating the fraudsters. There are multiple categories into which NPAs are classified. This problem needs to be tackled very carefully and a more stringent approach is required to regulate the banking sector. Many reforms had been done in the form of setting up of authorities to monitor and regulate the credit system but a more transparent approach will be beneficial to curb down the existing problem.

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