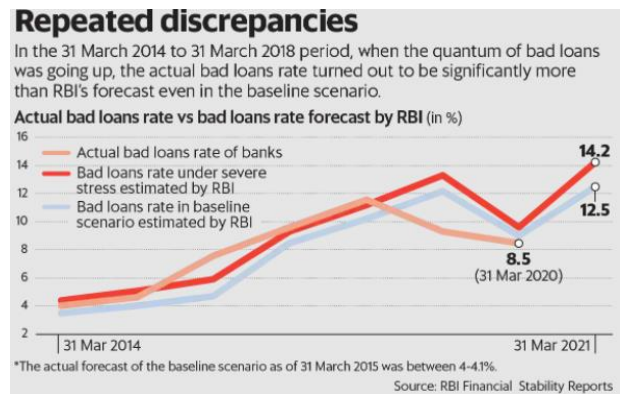


- Data transmitted through the AA is encrypted and are not allowed to store, process and sell the customer's data hence protecting customer privacy

## 5.16 Bad banks

The government has set up the new bad bank structure (NARCL-IDRCL) to acquire stressed assets from banks and then sell them in the market

- Technically, a bad bank is an asset reconstruction company (ARC) or an asset management company that takes over the bad loans of commercial banks, manages them and finally recovers the money over a period of time.
- The bad bank is not involved in lending and taking deposits.
- It just helps commercial banks clean up their balance sheets and resolve bad loans.
- The takeover of bad loans is normally below the book value of the loan and the bad bank tries to recover as much as possible subsequently.
- US-based Mellon Bank created the first bad bank in 1988.
- According to RBI's Financial Stability Report, the gross non-performing assets (GNPA) ratio of banks may rise to **9.8 per cent** by March 2022 from the **7.48 per cent** in March 2021
- Within the bank groups, public sector banks' (PSBs') GNPA ratio is **9.54 per cent** in March 2021
- To improve the financial health of PSBs, the government was forced to recapitalise them using taxpayers' money
- So bad banks are needed to relieve the commercial banks of their stressed assets.
- It also improves the bank's position and help them resume their normal banking operations, especially lending.



### New bad bank structure

- India's first-ever bad bank**, National Asset Reconstruction Company Limited (NARCL) will acquire stressed assets worth about Rs 2 lakh crore from various commercial banks
- It will pay 15% of the agreed price in cash and the remaining 85% will be in the form of Security Receipts.
- The rest will be paid when the assets are sold by **India Debt Resolution Company Ltd (IDRCL)**.
- Rs 90,000 crore of the asset will be managed in the first phase.
- A government guarantee will back the Security Receipts for a maximum amount of Rs.30,600 crore, and the guarantee will be valid for a resolution period of five years.
- If the bad bank is unable to sell the bad loan, or has to sell it at a loss, then this government guarantee of RS.30,600 crore will be invoked.
- The NARCL is essentially an Asset Reconstruction Company (ARC) with only two distinguishing features
  - NARCL is intended for dealing in big sized tickets
  - NARCL has a partial government guarantee.
- The effectiveness of ARCs hinges on
  - A focused mandate for setting up the ARCs
  - Limited lifespan of the ARC

