THE EMERGENCE OF THE CONCEPT OF 'BAD BANKS' - A BOOST TO STRENGTHEN INDIAN BANKING

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ABSTRACT

Banks play a crucial role in the financial system of all economies in the globe. Even though the bank's primary function is receiving deposits and lending loans, at present context banks are performing many roles where the overall contribution is towards the growth and development of the country. By providing financial backup to industries, they promote production and employment generation. In turn, companies are also enjoying profits out of it. But it was also evident in India, businessmen who obtain funds from banks in the form of credit failed to repay the same which adversely affected the financial stability of major players in the banking sector. Taking cognizance of such situations, a proposal for establishing Bad Bank was made in Union Budget 2021-22. The establishment of Bad Banks to extract bad loans from the financial statement of banks, helps banks to focus on their core banking function. The success stories of bad banks operations in foreign countries made the Government of India initiate this step. However, the performance of such a Bank in India can be analyzed only after it's set up and made operational.

Keywords: *Bad Bank, NPAs, ARC, AMC.*

1.0 INTRODUCTION

Banking contributes to the growth of the economy. For a country like India, bank health is critical in ensuring access to financial services and a steady supply of credit to support the economy's growth. The banks have assets that bring in revenue. Banks have valuable assets in the form of loans, such as mortgages, because the interest that the customer pays on the loan increases income. Bank assets are divided into two categories: performing and non-performing assets. Assets that aren't nonaccrual loans or foreclosed assets are referred to as performing assets. The bank's non-performing assets are classified into three groups based on the length of time they have been past due and the likelihood of repayment. According to the Reserve Bank of India (RBI), Non-Performing Asset (NPA) is, "a credit facility in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time".

In normal conditions, if a debt is not serviced for 90 days, it becomes bad, but owing to the pandemic last year, the RBI extended this to 180 days. NPAs are bank loans or advances to

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borrowers who are unable to satisfy their contractual agreements of accumulated interest and principal, causing a credit crunch and a decrease in the financial system's overall efficiency and effectiveness[4]. In the case of CC/OD accounts, if an account is out of operation for more than 90 days, it is considered non-performing. Non-performing agricultural advances are those in which the interest or principal payment has been unpaid for two harvesting seasons in the case of short-duration crops and one harvesting season in the case of long-duration crops. Substandard Assets are assets that have been categorized as nonperforming for less than a year. A Doubtful Asset is an asset that has not been performed for more than a year. Loss Assets are assets that have no likelihood of repayment and must be written off. The concept of a bank's non-performing assets is not new, and it has long been a source of concern for policymakers, government, and bankers. Since the Industrial Revolution, the amount of nonperforming assets (NPAs) in the banking industry has risen steadily[3].

2.0 OBJECTIVES OF THE STUDY

- ❖ To understand the concept of Bad Bank
- ❖ To study the need for implementation of Bad Bank in India
- ❖ To highlight the utility of establishing Bad Banks for managing NPAs in banking sector in India.

3.0 RESEARCH METHODOLOGY

The present study depends mainly on secondary data collected from sources such as journals, websites, RBI reports, and newspaper articles. The published report of RBI has helped to understand the position of NPAs in the last few years.

4.0 CONCEPT OF BAD BANK

Banks are burdened financially by NPAs, which may suggest that the bank's financial soundness is in peril. NPAs stifle financial flow, disrupting budgets and lowering profits. It may potentially decrease the number of funds available to lend to another borrower. Bad debt write-offs erode capital, limiting credit expansion and, as a result, investment and working capital finance in all segments of the economy[4]. A new form of bank known as a Bad Bank has been envisaged to address the problem of rising Non-Performing Assets (NPAs) threatening the banking sector's profitability and stability[3]. A bad bank (also known as Asset Management Company or Asset Reconstruction Company) is a financial entity that recovers and realizes illiquid and high-risk assets usually non-performing loans owned by banks and financial institutions or a group of banks[5]. Bad banks typically acquire bad assets at a discount and handle them to recoup their losses[4].

It was intended in establishing Bad Banks to assist banks in cleaning up their balance sheets by moving bad loans, allowing them to focus on their primary business of accepting deposits and issuing credit[5]. Although the introduction of these separate banks will not eliminate NPAs from the banking industry, the separation of good and poor assets will aid in improved asset management and a greater focus on new lending[3]. Establishing a bad bank will include forming an Asset Reconstruction Company (ARC), which will be backed by the government and will be able to purchase bad loans from banks in exchange for security receipts. In addition to the ARC, the Indian Banking Association (IBA) has recommended that the NPAs be managed by an Asset Management Company (AMC), which would be run by commercial and public entities such as banks and turnaround specialists, among others. The IBA has also recommended the creation of an Alternate Investment Fund (AIF) to facilitate the secondary market dealing of these security receipts. This might indicate that a bad bank is subject to the same restrictions that apply to other financial institutions.The notion of a bad bank was presented in the Economic Survey of 2017, which emphasized the creation of the Public Sector Asset Rehabilitation Agency (PARA) to address the issue of stressed assets. This agency's main goal is to acquire toxic Non-Performing Assets (NPAs) from banks so that they may be quickly recovered and punitive actions were taken against defaulters. The government has been playing with the concept of forming bad banks up until now.

4.1 PROPOSED BAD BANK MODEL OF INDIAN BANKING ASSOCIATION (IBA)

Following the outbreak of COVID-19, it was projected that bank NPAs would rise as a result of lower market demand and the demise of a few enterprises. As a result, the IBA has proposed the formation of Bad Banks to the RBI and the Ministry of Finance to protect banks ahead of time. The recommended structure is based on the suggestions of the 'Sashakt' group, which was chaired by former Punjab National Bank chairman Sunil Mehta. The projected founding capital of Bad Bank is Rs. 1000 crore, which the government shall provide.

The IBA has designed three-tier frameworks for Bad Bank:

- ❖ Asset reconstruction Company (ARC)
- ❖ Asset Management Company (AMC)
- ❖ Alternate Investment Fund (AIF)
- ❖ The Asset Reconstruction Company, which will be supported by the government, would be in charge of purchasing stressed loans from banks and issuing Security Receipts in exchange.
- ❖ Security receipts of 15% will be held by the ARC.
- ❖ Banks will receive 15 percent in cash and the remaining 85 percent in Security Receipts. As a result, it's known as a 15:85 structure.
- ❖ The AMC would be run by both public and private entities, including banks.
- ❖ AMC will have qualified personnel on hand to assist with effective management and quick recovery.
- ❖ Alternate Investment Fund (AIF) to enable secondary market trading of these security receipts[3].

5.0 HISTORY

Bad banks arose in the late 1980s as a result of a catastrophe in the banking sector of the United States. Several banks were on the brink of insolvency at the time due to the sharp drop in real estate and oil prices [6]. Mellon Bank, situated in Pittsburg, Pennsylvania, was the hardest hit. That bank was losing money and needed to be recapitalized. Mellon Bank created the first bad bank in history, Grant Street National Bank (GSNB) specifically for the purpose. GSNB was not a traditional bank that took deposits and then lent them out. GSNB was established to transfer Mellon Bank's hazardous assets to it. The GSNB would then liquidate those risky loans before going bankrupt. Mellon Bank's bad assets, valued at $ 1.4 billion at the time of transfer, were transferred to GSNB for a discounted book value of $ 640 million. The majority of the money for this transaction came from a public offering of extensible pay-through notes and Mellon Bank shareholder dividends. Mellon Bank shareholders received GSNB shares in exchange for their dividend value. GSNB, established in 1988, liquidated all toxic assets assigned to it and ceased operations in July

1995. Mellon Bank, on the other hand, started making a profit roughly a year after GSNB was founded. The success of the Mellon Bank case has led to the adoption of the good bank-bad bank concept in the United States and other nations. The success of GSNB prompted the US government to create the Resolution Trust Corporation, an asset management firm.

Later to Mellon Bank various other banks throughout the world developed bad banks during the 2008 financial crisis to deal with Non-Performing Assets regularly. A bad bank was proposed as a part of the Emergency Economic Stabilization Act of 2008 to aid in the resolution of the United Nations Supreme Mortgage Crisis. The National Asset Management Agency was founded in 2009 in the Republic of Ireland, a bad bank in response to the country's financial crash. Bad Banks have been introduced in several nations, including Sweden, France, Germany, Finland, and Indonesia. The Bad Bank solution was effectively and extensively implemented throughout Europe to address the banking sector's bad loan issue, with each nation adding its flavor to the mix.

Some of the global experience in handling NPAs via the establishment of Bad Banks is presented in the form of the table below:

Table 1: Bad Banks-Global Experience

Country	Malaysia	Ireland	Thailand	Korea
AMC regime	Public	Public (Mixed Public and Private Ownership)	Public and Private	Public and Private
National AMC name	Danaharta	NAMA	SAM BAM	KAMCO
No. of National AMCs	1	1	2	1
First established	1998	2009	2001	1997
Current status	Inactive	Live	Live	Live
Main asset type	Corporate	CRE	Mixed SME and Retail	Corporate, Public and households

Key law/ regulation	Danaharta Act	NAMA Act	AMC Decree	KAMCO Act
Key characteristics	Transfer of NPLs from target banks with a finite life AMC. Dealt with approximately 3,000 NPL accounts and its lifetime debt recovery percentage of 58 percent above the	Focused on large-scale strategic real estate. NAMA bought 12,000 loans from five banks for 31.8 billion euros. NAMA used a	At the national, bank, and investor levels, there is a mix of public and private sector solutions. The fact that TAMC does not have the authority to	Obtains and settles NPLs and corporate restructuring for financial institutions. KAMCO acquired 30,000 NPLs with a face value of US$ 92 billion (won

Source:www.deloitte.com

India also initiated to set up bad banks to help Public Sector Banks as NPAs have been rising in India by the year since the Narasimham Committee framed the Banking Reforms Policy in 1991. Corporate Debt Restructuring, Joint Lenders Forum, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, Strategic Debt Restructuring, Scheme for Sustainable Structuring of Stressed Assets, and Asset Reconstruction Companies are some of the schemes that the government has announced to deal with NPAs [4].

5.1 Bad banks in India – Prior experience and evolution

While India has never had a Bad bank in the past, the concept is not new. The idea of settingup a Bad bank was first proposed in an Economic Survey conducted in January 2016. Therewere discussions on creating a Bad bank in 2018 as well, but it did not materialize.

5.1.1 Industrial Reconstruction Bank of India (IRBI) or Industrial Investment Bank of India (IIBI)

The Industrial Reconstruction Corporation of India Ltd. was set up in 1971, with the purpose of rehabilitation of sick units. It was reconstituted as Industrial Investment Bank of India (IIBI) in 1985 under the IRBI Act, 1984 and was assigned the role of buying bad loans from commercial banks to recover these debts. However, IIBI became sick eventually due to the lack of strict recovery laws. The Government had to infuse approximately INR 263crores as grants to IIBI for 2004-2005 and

2005-2006 for servicing its debts. There was also a proposal to merge IIBI and other institutions such as IFCI and IDBI, but the proposals were rejected; IIBI eventually closed down in 2012.

5.1.2 IDBI Stressed AssetStabilization Fund

In 2004, IDBI (Industrial Development Bank of India) was provided with a bailout package toshift its bad loans to a Stressed Asset Stabilization Fund (SASF) The SASF was constituted by the Government of India as a Special Purpose Vehicle (SPV) trust for acquiring NPAs of erstwhile IDBI. 636 Non-Performing Assets with aggregate loans of over INR 9,000 crore were hived off to the SPV. However, it could only recover less than half at INR 4,000 crore at theend of March 2013, according to a 2014 audit report by the Comptroller and Auditor General of India (CAG).

5.1.3 ARC models implemented in India

In India, private asset reconstruction companies (ARCs) have been buying NPAs from various banks (28 registered ARCs operate in India currently as per the RBI report), but the model has not yielded desired results. ARCs act merely as recovery agents because they lack the bandwidth to reconstruct any company understress which is sold as a going concern.

The efficacy of the ARC model isunder question:

a) The Central Vigilance Commission (CVC) submitted are port to the government in May 2019 after examining cases above INR 50 crore that was sold to ARCs between 2013-14 and 2017-18 by PSBs.

b) The report mentions that, in atleast 48 cases, assets were sold to ARCs below the realizable value of security

Low recovery: Recovery of security receipts via ARCs sold by PSBs between 2013-14 and 2017-18 has been subdued.

6.0 NEED OF BAD BANK IN INDIA

A Commercial Bank may amass a substantial portfolio of debts or other financial instruments that become suddenly vulnerable to partial or complete default. A large amount of Non-Performing Assets makes it harder for a bank to raise money, such as through bond sales. In these circumstances, the bank may desire to create a bad bank to separate its good assets from its bad assets. The purpose of separation is to give the investor a more accurate picture of the bank’s financial health. A bad bank can be founded by a single bank or financial institution as part of a strategy to cope with tough financial circumstances, or by the government or official entity as part of the reaction to financial issues affecting various financial institutions. A bad bank model allows specialised management to deal with the issue of bad loans in supplement to isolating or removing problematic assets from parent banks’ balance sheets. The strategy enables banks to concentrate on their primary activities like lending.

The bad banks have been around since 1980. The bad banks established in foreign countries have a track record of success, hence bad banking is prompting India to follow the suit. For India, Non-Performing Assets (NPAs) are not a new issue. For a long, it harmed bank profits. Despite the Government of India's efforts, the problem of Non-Performing Assets (NPAs) continued throughout. The Covid-19 pandemic even worsened the bank’s financial stability. Establishing bad banks to lower the NPA level was recommended during the 2021-22 budget presentation. Past reports of RBI have shown that the number of Non-Performing Assets (NPAs) was impacting the financial soundness of banking institutions [4].

By establishing bad banks, all distressed assets will be transferred from the balance sheet of the concerned bank to the bad bank, which would then collect the debts dues from their respective clients which will reduce the stress of banks and help to maintain their financial stability.

The Reserve Bank of India (RBI), in its 'Trend and Progress of Banking in India 2020-21' report, has said Scheduled Commercial Banks' (SCB) gross Non-Performing Assets (NPAs) declined from 8.2 percent at end of March 2020 to 7.3 percent at end of March 2021 and further to 6.9 percent at end of September 2021. Reduction in bad loans does not mean bad loans are recovered instead banks write off bad loans after a specified period from their books of account which shows a reduction in the value of NPAs [4]. But the writing off bad loans.

7.0 POLICIES AND PROGRAMS IMPLEMENTED IN INDIA TO REDUCE NPAs

The following are some of the initiatives that have been introduced in India to lower the number of Non-Performing Assets (NPAs):

7.1 The Debt Recovery Tribunals (DRTs) – 1993

To reduce the amount of time it takes to settle matters in law courts, the enactment was made of the Recovery of Debt Due to Banks and Financial Institutions Act, 1993, apply to them. However, because their numbers are insufficient, they face a time lag, with cases in many locations languishing for more than two years.

7.2 Credit Information Bureau – 2000

To avoid loans getting into the wrong hands and, as a result, becoming NPAs, a good information system is essential. Individual defaulters and wilful defaulters are tracked by CIBIL score and shared, which aids banks.

7.3 LokAdalats – 2001

They are useful in dealing with and recovering minor debts, but the RBI rules established in 2001 limit them to loans of up to 5 lakh rupees. They are beneficial in that they prevent additional cases from entering the judicial system.

7.4 Compromise Settlement – 2001

For advances under Rs. 10 crores, it gives a straightforward approach for recovering NPA. Wilful default and fraud cases are excluded; however, it covers litigation in courts and DRTs (Debt Recovery Tribunals).

7.5 SARFAESI Act – 2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act of 2002 allows banks and financial institutions to recover their Non-Performing Assets (NPAs) without involving the courts by acquiring and disposing of secured assets in NPA accounts with an outstanding balance of Rs. 1 lakh or more. The banks must first issue a notification. They can then take the following actions if the borrower fails to repay:

- ❖ Take control of the borrowing concern's management or
- ❖ Take ownership of security
- ❖ Make a decision on who will be in charge of the assets
- ❖ Later in the year, additional amendments to the Act were made to speed up its implementation.

7.6 Asset Reconstruction Companies (ARC)

Following the modification of the SARFAESI Act of 2002, the RBI granted licenses to 14 additional ARCs. These businesses were formed to extract value from bad loans. Before the passage of this law, lenders could only pursue their security interests through the courts, which was a lengthy procedure.

7.7 Corporate Debt Restructuring – 2005

Its purpose is to reduce the company's debt load by lowering the interest rates charged and lengthening the time it takes to repay the loan by refixing the instalments.

7.8 5:25 Rule – 2014

Flexible Structuring of Long-Term Project Loans to Infrastructure and Core Industries is another name for the 5:25 rule. The necessity of loans every 5-7 years and thus refinancing for long-term projects was advocated to preserve the cash flow of such organizations because the project schedule is lengthy, and they do not get the cashback into their books for a long period.

7.9 Joint Lenders Forum – 2014

It came about as a result of the inclusion of all PSBs with stressed loans. It is aimed to prevent many banks from lending to the same person or firm. It was created to prevent situations in which a person takes a loan from one bank to repay the loan of another bank.

7.10 Mission Indradhanush – 2015

Since banking nationalization in 1970, the Indradhanush framework for changing PSBs has been the most substantial reform effort executed by the ABCDEFG model to remodel the PSBs and enhance their overall performance.

Source: www.lawstreetindia.com

A-Appointments: Based on worldwide best practices and standards in the Companies Act, distinct posts of Chairman and Managing Director being created, with the CEO receiving the designation of MD & CEO, and a non-executive Chairman of PSBs would be separately appointed.

B-Bank Board Bureau: The BBB will replace the Appointment Board in the selection of Whole-time Directors and non-Executive Chairman of PSBs.

C-Capitalization: According to the finance ministry, the capital need for the four years up to FY 2019 was estimated to be around Rs.1,80,000 crore, of which the Government would pay Rs. 70000 crores and Public Sector Banks will have to increase the remainder from the market.

Table 2: Capital requirement

Financial Year	Total Amount
FY15-16	25,000 Crore
FY16-17	25,000 Crore
FY17-18	10,000 Crore
FY18-19	10,000 Crore
Total	70,000 Crore

D-Destressing: In PSBs strengthening the risk control procedures, and the disclosure of nonperforming assets (NPAs).

E-Employment: The Government of India has said that there would be no Government involvement, and banks are stimulated to make autonomous judgments while keeping commercial and organizational interests in mind.

F-Framework of Accountability: New KPIs (Key Performance Indicators) that are connected to performance, as well as the consideration of ESOPs for senior management PSBs.

G-Governance Reforms: Gyan Sangam, for example, is a gathering of PSBs and financial organizations. For fair and meritorious recruitment in PSBs, the Bank Board Bureau was established.

7.11 Strategic debt restructuring (SDR) – 2015

Under this program, banks that have provided a corporate debtor a loan, have the option to convert all or part of their loan into equity shares in the firm that has accepted the loan. Its main goal is to give promoters a bigger role in rescuing stressed accounts and to give banks better tools for initiating a change of ownership in suitable instances.

7.12 Asset Quality Review – 2015

Categorize stressed assets and make provisions for them to ensure the banks' long-term viability, as well as early detection of assets and appropriate measures to prevent them from becoming stressed.

7.13 Sustainable Structuring of Stressed Assets (S4A) – 2016

It has been designed as an alternative framework for resolving accounts that are heavily pressured. It entails determining a stressed borrower's sustainable debt level and bifurcating outstanding debt into sustainable debt and equity/quasi-equity instruments that are projected to deliver upside to lenders if the borrower recovers.

7.14 Insolvency and Bankruptcy Code Act-2016

It was created to address the Chakravyuaha Challenge (Economic Survey) of India's departure dilemma. The goal of this law is to encourage entrepreneurship, credit availability, and balance the interests of all stakeholders by combining and amending the laws governing the timely reorganization and insolvency resolution of corporate persons, partnership firms, and individuals, as well as matters related to or incidental to such reorganization and insolvency resolution.

In the 2021-22 budget speech, Finance Minister Nirmala Sitharaman mentioned the potential of founding an Asset Reconstruction Company (ARC)-Asset Management Company (AMC) to address India's non-performing asset (NPA) problem. The RBI registers Asset Reconstruction Companies (ARCs), and the SARFAESI Act governs them. It purchases poor loans from banks and financial institutions, restructures them into bonds, debentures, or security receipts, and then sells them to investors[4].

8.0 DISCUSSION

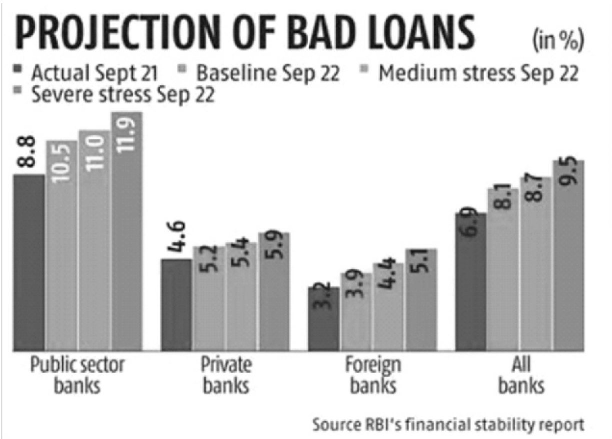
The Bad Banks are to be established to clean the balance sheet of banking institutions as these banks retrieve all bad loans from the concerned banks. After the purchase of a bad loan from a bank, the bad bank may later try to restructure and sell the NPA to investors who might be interested in purchasing it [9]. A bad bank makes a profit in its operations if it manages to sell the loan at a price higher than what it paid to acquire the loan from a commercial bank. However, generating profits is usually not the primary purpose of a bad bank. The objective is to ease the burden on banks, holding a large pile of stressed assets, and to get them to lend more actively. Even though the problems of NPAs are prolonged in the history of the banking sector in India but the pandemic has even worsened the situation. The Covid-19 epidemic has an impact on everyone's life. Many people were unable to repay their loans as a result of job loss, which had an impact on the banking industry's financial streams. In light of the scenario, the

RBI has determined that outstanding loans can be classified as Non-Performing Assets (NPA) after 180 days rather than 90 days.

For the year 2019, Non-Performing Assets (NPAs) account for 9.1% of total assets held by India's banking industry. According to the RBI's research, commercial banks' bad loans in India may climb to between 8.1 and 9.5 percent under various degrees of stress by September 2022, up from 6.9% in September 2021[10]. To deal with the rise in nonperforming assets (NPAs), the formation of bad banks was proposed. It is thought that the development of bad banks allows banks to concentrate on their primary functions. The Asset Reconstruction Company (ARC)-Asset Management Company (AMC) structure was suggested in the budget for 2021, with the ARC aggregating debt and the AMC acting as a resolution manager. The suggested structure calls for the formation of a National Asset Reconstruction Company (NARC) to buy stressed assets from lenders in bulk, with the National Asset Management Company resolving the issues[1].

Strategic investors, AIFs, special situation funds, stressed asset funds, and other institutional investors will be capable of supporting a skilled and professional set-up focused on stressed asset resolution by bringing institutional funding in bad loans through professional investors, AIFs, special situation funds, stressed asset funds, and other means for involvement in the resolution process. Furthermore, moving these stressed assets to bad banks will result in a 15 percent cash recovery and an 85 percent recovery of government-guaranteed security receipts. For a set amount of time, these Government promises are valid, but will bear a zero-risk weight[1]. The result of this strategy would be the creation of open architecture and a thriving market for distressed assets.

The substantial discount on bad loans for Asset Reconstruction Companies (ARC) is another factor for the rebirth of the bad bank concept in India. The IBA has recommended that the bad bank buy bad loans at book value, minus minimal regulatory provisions, obviating the need for an assessment and due diligence procedure. As a result, the bad bank may likely buy bad loans at the price that banks want, resulting in a price distortion for stressed assets. Another challenge that may develop is the sale of stressed assets to probable purchasers while also correcting the system's fundamental dilemma. Finding prospective purchasers for distressed assets might be difficult in the current circumstances when economic circumstances are worsening, and the Insolvency and Bankruptcy Code (IBC) is suspended[4]. Greater control and oversight during the lending process, strict loan monitoring for early identification of distress symptoms, and allowing market-driven mechanisms to sell bad loans to improve the price discovery process for a poor asset are just a few of them.



According to the RBI's NPA report, commercial banks' gross non-performing assets (gross NPAs) decreased from 7.5 percent in March 2021 to 6.9 percent at the end of September 2021. At the same time, their net

NPA ratio fell 10-basis points to 2.3 percent in September 2021, down from 2.4 percent in March 2021. Commercial banks' annualized slippage ratio increased somewhat, but private banks' asset quality deteriorated at a faster rate. However, from March 2021 to September 2021, their provisioning coverage ratio (PCR) increased from 67.6% to 68.1%. According to the study, the percentage of major borrowers in gross NPAs decreased from 75.9% in March 2021 to 62.1 percent in September 2021. Personal loans' gross nonperforming assets (NPA) ratio is higher than it was six months ago and a year ago. Housing and vehicle loans were the main causes of the decline. The industrial sector's gross nonperforming assets (NPA) ratio continued to fall. Some sub-sectors, such as food processing, chemicals, and infrastructure (excluding power), however, saw rises from March 2021 levels. As of end-September 2021, restructuring by firms touched by the second wave under Resolution Framework 2.0 accounted for 1.5 percent of overall advances, according to the FSR. The restructuring of micro, small, and medium enterprises (MSMEs) and retail loans accounted for 2.4 percent of the overall sectoral advances. It applied to 80% of the debtor accounts where it was used[10].

9.0 CONCLUSION

Bad Banks looks like a great initiative based on its implementation and success in foreign countries. Even though the roadmap appears to be quite appealing, the system's implementation and maintenance are fraught with difficulties. When bad banks are introduced, they may help in improving the performance of Public Sector Banks. In addition to increasing profitability in their operations, the cash that had previously been trapped in bad loans would be released and could be utilized to lend as additional money in circulation, preventing interest rates from rising. Furthermore, bank owners and depositors would be unconcerned about the banks' deteriorating financial status[12]. But, the establishment of a bad bank whether boosts the financial system in the country or it is an exercise of mere transfer of bad assets from the balance sheets of Public Sector Banks to Bad Banks account, that is the game to be watched in the future.

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