

Efficacy of Debt Recovery Legislation: An Indian Experience

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An economy's performance can be assessed with the disposal rate of its non-performing assets. India has been struggling with them. Although measures have been taken to deal with their growing rate, no effective measure has been identified till now. The Parliament has enacted the Recovery of Debt Due to Banks and Financial Institutions Act, 1993 and the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 to deal with debt recovery. The Enforcement of Security Interest and Recovery Debt Laws and Miscellaneous Provisions (Amendment) Act, 2016 had made changes in the acts of 1993 and 2002 and other integrated acts. This Amendment Act was an effort to tackle the existing regulatory gap. This paper suggests the development of an exchange market for an effective resolution of such assets. By adopting the statistical analysis of the efficacy of Debt Recovery Tribunal and Act of 2002 in resolving the problem, it investigates the impact of the legislation on the recovery of debts.

I Introduction

The Indian banking system is dominated by the public sector banks (PSBs) or nationalised banks, dominating the market. Consequently, confidence is reposed in the banking sector due to the involvement of the Government. However, the banking sector has been struggling with the ever-growing number of non-performing assets (NPAs). An NPA is defined as a loan account that has stopped generating earnings for a bank whether in the form of interest or principal repayment (RBI, 2012). Banks should classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days. The NPAs not only reduce the profitability of the bank but also impact its net worth

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