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## **EFFECTIVENESS OF RBI POLICY MEASURES IN MANAGING NPAS IN INDIAN SCHEDULED COMMERCIAL BANKS**

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### **ABSTRACT**

The Indian banking sector is facing an NPA problem, which is one of the crucial challenges faced by the banking sector. It is essential to take precautionary measures to manage and control the NPAs, because they affect the balance sheet of the banks. Banks have to face many risks like credit risk, operational risk, market risk, etc. One of the important risks is credit risk, the five Cs: character, capacity, capital, collateral and conditions. Proper credit evaluation measures are essential to control the NPAs. Before lending the loans to the borrower, it's essential to measure the creditworthiness of the borrower.

The research study aims to understand the root causes of NPAs, current trends of gross and net NPAs of SCBs, and Government initiatives to recover NPAs. There are many recovery channels like Lok Adalats, DRTs, SARFAESI Act, 2002, and IBC 2016. The paper focuses on new recovery channels introduced by the Government and their effectiveness in managing the NPAs of SCBs

**KEYWORDS:** Gross and net NPAs, ECS, DRTs, AQR and IBC, etc.

### **1. INTRODUCTION**

Non-performing assets are advances or loans provided by banks to various borrowers that have stopped generating interest income for the bank. A loan or advance is considered non-performing if the borrower has defaulted on timely principal and interest payments for a specified period. As the borrower stops principal and interest repayments, the loan ceases to perform for the bank and is classified as a non-performing asset. The impact of NPAs on banks is negative, and they are then required to classify the NPAs into substandard, doubtful and loss assets.

Indian banks face significant NPA challenges, including reduced profitability, capital erosion, and hindered credit growth due to bad loans (over 90 days overdue). Causes stem from economic slowdowns, policy shifts (such as mining bans), weak loan recovery mechanisms (DRTs overloaded),



and internal issues like aggressive lending, which leads to provisioning burdens, reduced trust, and higher capital costs, ultimately impacting overall economic growth and stability. The research paper examines the root causes of NPAs, current trends of NPAs in SCBs, the new RBI measures to recover NPAs and Government initiatives in the recovery of NPAs.

### **REVIEW OF LITERATURE.**

Kumar, Subba Rao, and Kusuma (2018) make an interesting study to find out the main reasons behind accumulating NPAs. They identify the main reasons as industrial sickness, changes in government policies, a poor credit appraisal system, willful defaults, and defects in the lending process. Dey (2018), in a very recent research paper, looks at the recovery aspect of recovery of poor loans of the Indian commercial banks. The author finds the role of DRTs to be much better compared to the recovery through Lok Adalats and the SARFAESI Act.

Navyashree and Jogish (2023) study on NPA management at the State Bank of India highlighted significant improvements in asset quality and credit risk management from 2019 to 2023. Their analysis suggested a strong correlation between gross and net NPAs and underscored the importance of reducing NPA ratios in high-risk industries, diversifying loan portfolios, and strengthening credit assessment and recovery mechanisms for better financial performance and economic growth. The research papers don't throw any light on the new recovery measures by the RBI in the recovery of NPAs and their impact on the performance of the banks.

### **OBJECTIVES OF THE STUDY**

This paper aims to elaborate on the effectiveness of RBI policy measures in managing NPA in Indian scheduled commercial banks. The following objectives were set for the paper.

The study describes the current trends of NPAs of SCBs.

The study examines the root causes of NPAs in SCBs in the Indian banking sector. The study describes the Government initiatives to recover NPAs

To offer suggestions based on the findings of the research.

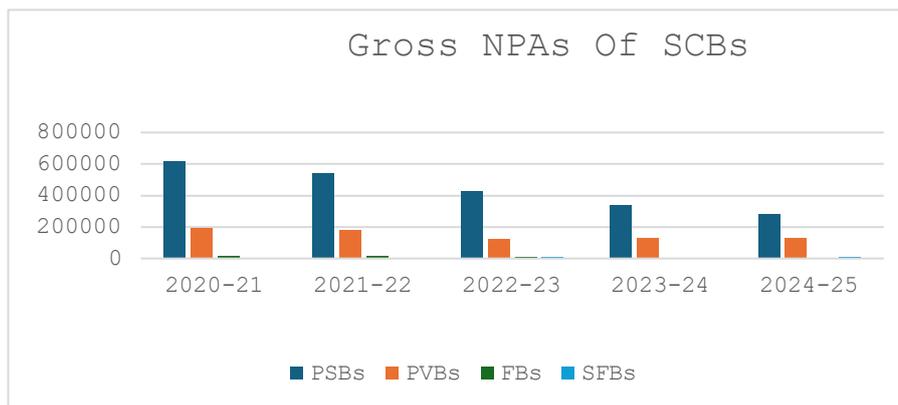
### **RESEARCH METHODOLOGY**

The research study is based on secondary data, which is collected from RBI annual reports, RBI reports on trends and progress on banks, Money Control reports, and IBEF reports. From 2020-21 to 2024-25, five years of data were used for analysis and interpretation of the data. Tables and graphs, as well as ratios, were used for analysing the data.

**Table 1.1 Current trends of NPAs in SCBs (Amoun in ₹ crore)**

Year	PSBs	PVBs	FBs	SFBs
2020-21	616616	197508	15044	5971
2021-22	540958	180769	13786	6911
2022-23	428197	125214	9526	8608
2023-24	339541	129164	6523	5590
2024-25	283650	132674	5321	9989

**Source: RBI trends report**

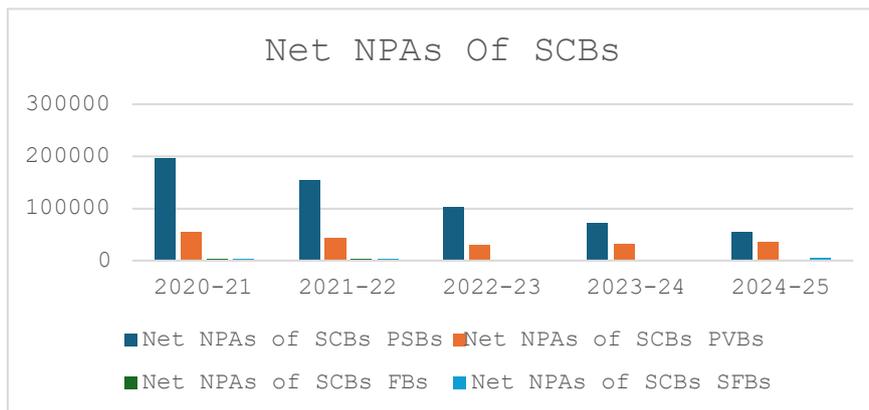


The decline in the gross non-performing assets (GNPA) of Scheduled Commercial Banks (SCBs) in India over the last five years is due to a combination of structural reforms by the government and the RBI, improved recovery mechanisms, transparent asset recognition, and robust economic growth. The IBC improved asset recovery rates and provided a time-bound resolution process for stressed assets. The RBI's Asset Quality Review enabled banks to transparently recognise and provision for stressed assets, thereby cleaning up their balance sheets. The government implemented a strategy of Recognition, Resolution, Recovery, and Recapitalisation for PSBs, along with systemic reforms.

**Table 1.1 Current trends of Net NPAs in SCBs (Amount in ₹ crore)**

Year	PSBs	PVBs	FBs	SFBs
2020-21	196451	55377	3241	2981
2021-22	154745	43738	3023	2725
2022-23	102532	29510	1656	1622
2023-24	72544	31594	812	1796
2024-25	55634	35069	776	3910

Source: RBI trends report



The net non-performing assets (NNPAs) of Scheduled Commercial Banks (SCBs) in India have been consistently decreasing over the last five years. This significant improvement is a result of a combination of structural reforms, stringent regulatory measures, and better risk management by banks. A major portion of the NPA reduction has been driven by the recovery of bad loans and the upgradation of stressed accounts to performing assets. Recoveries and upgrades accounted for over 40% of the decline in gross NPAs during 2024-25. Amendments to the Securitisation and Reconstruction of Financial Assets and Enforcement of Security.

Interest (SARFAESI) Act and the Recovery of Debt and Bankruptcy Act have made the legal framework for recovery more effective.

Root causes for NPAs in Scheduled Commercial Banks (SCBs) stem from both **external factors** (economic slowdowns, policy changes, industry-specific issues) and **internal failures** (weak credit appraisal, poor risk management, political interference, willful defaults, managerial gaps). Key



culprits include sluggish economies, aggressive lending without due diligence, crony capitalism, project delays, and lapses in bank management, leading to loan defaults and balance sheet stress.

#### External Causes (Macroeconomic & Sectoral)

- **Economic Slowdown:** Sluggish GDP growth reduces corporate profitability, hindering loan repayment.
- **Industry-Specific Issues:** Downturns in key sectors like power, infrastructure, or real estate (due to land issues, regulations, etc.) cause cash flow problems.
- **Policy & Regulatory Changes:** Sudden policy shifts or complex legal systems (like slow recovery tribunals) impede resolution.
- **Natural Calamities:** Affect borrowers, especially in agriculture, leading to repayment failures.

#### Internal Causes (Bank-Specific & Management)

- **Weak Credit Appraisal:** Lax risk assessment, poor due diligence, and inadequate borrower integrity checks.
- **Aggressive Lending:** Granting large loans based on expected growth rather than current performance.
- **Political Interference & Cronyism:** Loans granted due to influence, not viability, especially in Public Sector Banks (PSBs).
- **Willful Defaulters:** Borrowers intentionally avoiding repayment, sometimes misusing funds.
- **Managerial Incompetence:** Poor loan monitoring, lack of professionalism, and absence of strong recovery mechanisms.
- **Defective Lending Process:** Failure to ensure funds are used as intended and lack of proper SWOT analysis.

#### Government initiatives to control and recover NPAs

Comprehensive government initiatives with regard to stress recognition, asset resolution, and re-capitalisation have markedly strengthened the banking sector's financial health and resilience. This was driven by a series of regulatory measures, which commenced over a decade ago-

**The Asset Quality Review (AQR)** launched in 2015 compelled banks to recognise the true state of their loan books, bringing hidden NPAs to light and strengthening the supervisory framework. Additionally, the Government also implemented a comprehensive 4Rs strategy, consisting of recognition of NPAs transparently, resolution and recovery of value from stressed accounts, recapitalising of PSBs, and reforms in PSBs and the wider financial ecosystem for a responsible and clean system.



**The Prompt Corrective Action (PCA)** framework helped restore the health of weak banks, followed by the consolidation of 27 PSBs into 12 by 2020. A detailed review of business in terms of sustainability, profitability, viability and projections along with credit risk-related actions, has been beneficial.

**The Insolvency and Bankruptcy Code (IBC)**, introduced in 2016, along with complementary out-of-court resolution mechanisms, transformed India's credit culture and improved recovery processes. It changed the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarred wilful defaulters from the resolution process.

**Sharper recovery laws:** Key legislations such as the SARFAESI Act, 2002 (The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) and the Recovery of Debt and Bankruptcy Act have been amended to enhance their effectiveness in asset recovery. **Focused debt resolution:** The pecuniary jurisdiction of Debt Recovery Tribunals (DRTs) was raised from ₹10 lakh to ₹20 lakh, enabling them to prioritise higher-value cases and improve recovery efficiency.

**Specialised recovery mechanisms:** PSBs have established dedicated stressed asset management units for close monitoring and faster resolution of NPAs. The deployment of business correspondents and incorporation of a business strategy that uses physical sales and marketing force to interact directly with customers (Feet-on-street model), has further boosted recovery efforts.

In October 2025, the RBI issued a landmark reform through its Draft Directions 2025, proposing a shift to the **Expected Credit Loss (ECL) framework**. The framework applies to scheduled commercial banks, including foreign banks, and introduces a risk-sensitive approach to provisioning. These are expected to further support credit risk management practices, promote greater comparability across financial institutions, and align regulatory norms with globally accepted regulatory and accounting standards.

**Proactive stress management:** The RBI's **Prudential Framework for Resolution of Stressed Assets** promotes early identification, reporting, and time-bound resolution of stressed loans, with incentives for lenders to act swiftly.

## CONCLUSION

The trend of improvement in asset quality of banks observed since 2018-19, measured by their declining GNPA, continued during 2024-25. The GNPA ratio of scheduled commercial banks (SCBs) declined further to a multi-decadal end-March 2024. The Indian banking sector's efforts to recover



Non-Performing Assets (NPAs) through key legal frameworks like the Insolvency & Bankruptcy Code (IBC) and the SARFAESI Act yielded mixed results for the last five years. While these primary mechanisms demonstrated improved recovery levels, the overall rate at which banks recouped their stressed assets saw only a marginal uptick, highlighting persistent challenges in debt resolution. **Your Money, Your Right" Initiative**, launched in October 2025, is a nationwide campaign that facilitates citizens in identifying and reclaiming their unclaimed assets across banks, insurance companies, mutual funds, and retirement funds. The initiative uses digital portals and district-level camps to simplify the process of reclaiming forgotten savings that often become unclaimed due to migration or changes in contact details.

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