SWOT Analysis

Bad Banks in India

STRENGTHS

- Bad banks target banking systems with domain experts which focus particularly on Non-Performing Assets (NPA) and in this way are more effective in restructuring of the bad loans.
- Bad banks are able to clean up Non-Performing Assets (NPA) of banks and hence relieve the burden from the shoulders of banks.
- These banks also help in providing the stability of the financial system which is itself a major task.

WEAKNESSES

- The bad banks can face significant challenges in finding a potential buyer for distressed assets.
- Most of the bad loans are with the Public sector banks and there is more political influence that can weaken the functioning of the bad banks.

OPPORTUNITIES

- The bad banks after resolving the bad assets over a period of time can take more steps forward with new loans and utilize the opportunity to strengthen the financial system.
- The bad banks with their focussed goal with regard to bad loans have the opportunity to take bold decisions as compared to commercial banks and timely solution to the growing problem.
- The increasing gross NPA ratio of Indian banks which is projected to increase from 7.5 per cent in 2020 to 13.5 per cent by second half of 2021 can put severe stress on the Indian Banking system and the bad banks have the opportunity to manage these so that the banks can focus on their core business and activities.

THREATS

- Bad banks take a major discount while disposing the bad assets and in the process there are chances of distortion in the pricing of the stressed assets which may pose a major issue with the commercial banks and a threat to the banking system.
- There are also chances that commercial banks might perform their usual lending practices with the mindset that there are bad banks for recovering the loans.