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Managing and Reducing Non-Performing Assets in the Banking Sector: A Case for a Centralized Legal Mechanism in India

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Abstract

Non-performing assets (NPAs) remain one of the most persistent structural weaknesses of the Indian banking system. Despite a dense regulatory and legislative architecture comprising the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act), the Recovery of Debts and Bankruptcy Act, 1993 (RDB Act), and the Insolvency and Bankruptcy Code, 2016 (IBC), Indian banks continue to grapple with stressed assets, capital erosion, and impaired credit delivery. This article critically examines the existing legal and regulatory framework for NPA management in India and argues that the current model—in which individual banks exercise near-complete discretion in credit appraisal and loan sanction—has systemic limitations that cannot be cured by post-facto recovery mechanisms alone. Building on doctrinal analysis, empirical insights, and comparative experiences from jurisdictions such as the United States, the United Kingdom, China, and the European Union, the article proposes the establishment of a Centralized Loan Approval Department (CLAD). This specialized, multi-disciplinary body would scrutinize high-value and sensitive credit proposals ex ante, thereby standardizing risk assessment, strengthening collateral evaluation, reducing informational asymmetries, and curbing relationship-based lending. The article concludes that a centralized legal-cum-technical mechanism like CLAD, integrated with existing statutory regimes and prudential norms, can significantly reduce NPAs, enhance financial stability, safeguard public funds, and promote sustainable credit growth in developing economies such as India.

Keywords: Non-Performing Assets (NPAs); SARFAESI Act; Recovery of Debts and Bankruptcy Act (RDB Act); Insolvency and Bankruptcy Code (IBC); Reserve Bank of India (RBI); Debt Recovery Tribunals (DRTs); Centralized Loan Approval Department (CLAD); Credit Appraisal; Banking Regulation; Comparative Banking Law.

Introduction

The phenomenon of non-performing assets (NPAs) has emerged as a defining challenge for modern banking systems, particularly in developing economies where banking intermediation is central to growth and development. In India, NPAs erode bank profitability, depress return on assets and net interest margins, constrain fresh credit creation, and undermine public confidence in financial institutions. The problem is especially acute for public sector banks, which hold a substantial share of total banking assets and are custodians of public deposits.

Under the prudential norms of the Reserve Bank of India (RBI), a non-performing asset is broadly understood as a loan or advance where interest or instalments of principal remain overdue for a specified period, and the asset ceases to generate income for the bank.[1] Over the past three decades, India has witnessed successive waves of NPA stress—ranging from priority sector overdues in the 1990s to large corporate and infrastructure defaults after the global financial crisis and the subsequent credit boom. Each cycle has prompted legislative and regulatory responses, including the enactment of the SARFAESI Act, the strengthening of the debt recovery tribunal architecture, and the introduction of the IBC as a time-bound insolvency regime.

Yet, the persistence of NPAs despite these measures suggests that the core of the problem lies not only in recovery and resolution mechanisms, but also in the manner in which credit decisions are taken in the first place. Banks have historically extended large loans based on the perceived reputation or "face value" of influential borrowers, often with inadequate collateral, weak covenants, and optimistic projections. Genuine borrowers with sound business plans but weaker social or political capital frequently face stricter scrutiny and documentation requirements. This asymmetry has contributed to moral hazard, adverse selection, and ultimately to mounting NPAs.

This article situates the proposal for a Centralized Loan Approval Department (CLAD) within this broader context. CLAD is conceptualized as a specialized, independent body comprising legal experts, chartered accountants, economists, risk analysts, technologists, and sector specialists, tasked with ex ante scrutiny of specified categories of loan proposals. Rather than displacing banks' commercial judgment, CLAD would operate as a centralized legal and technical mechanism to standardize appraisal criteria, mitigate conflicts of interest, and bolster the integrity of credit decisions. The objective is to move the system from a predominantly relationship-driven model to a rule-based, data-driven, and law-compliant framework for credit allocation.

Literature Review

The academic and policy literature on NPAs in India has grown substantially, reflecting the systemic importance of asset quality in the banking sector. Narula and Singla, in their empirical study on NPAs in Indian banks, observe that gross NPAs have shown a rising trend over the years, largely due to mismanagement and weak internal controls in banks. They note that high NPAs restrict banks' ability to extend fresh credit and impose significant recovery costs, including expenditure on collection agents and legal proceedings.[2]

Vivek Rajbahadur Singh emphasizes the need for strengthening credit appraisal and monitoring mechanisms, recommending that the RBI and banks revisit their existing frameworks for assessing borrower creditworthiness and project viability.[3] While contemporary practice does involve reliance on credit information companies such as CIBIL and Experian, Singh's analysis suggests that mere access to credit histories is insufficient without deeper scrutiny of business models, cash flow projections, and sectoral risks.

[1] See Reserve Bank of India, Master Circular – Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances (as amended).
[2] Sonia Narula & Monika Singla, Empirical Study on Non-Performing Assets of Bank, 2 Int'l J. Advance Res. Computer Sci. & Mgmt. Stud. 75 (2014).
[3] Vivek Rajbahadur Singh, A Study of Non-Performing Assets of Commercial Banks and Its Recovery in India, 4 Ann. Res. J. SCMS, Pune 110 (2016).

Varuna and Nidhi Agarwala provide a critical review of NPAs in the Indian banking industry and highlight that NPAs adversely affect not only bank profitability but also shareholder wealth.[4] They observe that the introduction of stringent norms under the IBC and related RBI directions has led to some moderation in NPA growth rates, particularly for large corporate exposures admitted to the National Company Law Tribunal (NCLT). However, they also caution that legislative measures focused on recovery cannot substitute for sound ex ante credit discipline.

Prashanth K. Reddy, in his comparative work on NPAs in India and the global context, underscores instances where banks have extended credit to questionable borrowers in exchange for illicit benefits, facilitated by weak legal enforcement and inadequate internal controls.[5] He argues that unless both defaulters and complicit bank officials face meaningful sanctions, formal mechanisms will fail to address the root causes of chronic NPAs.

Malyadri and Sirisha trace the evolution of NPAs in the Indian banking industry and conclude that prudential norms and provisioning requirements have compelled banks to improve their performance, leading to some reduction in NPAs and enhancement of financial soundness.[6] Nonetheless, they note that the overall proportion of NPAs has remained stubborn over long periods, suggesting structural and behavioural issues in credit allocation practices.

Karunakar, Vasuki, and Saravanan argue that sustainable solutions to the NPA problem depend fundamentally on robust credit evaluation and risk management practices.[7] They caution that periods of excess liquidity often tempt banks to chase asset growth at the expense of asset quality, thereby sowing the seeds for future NPAs. Their work highlights the need for prudential regulations that restrain risk-taking during booms.

Asha Singh focuses on the performance of NPAs in Indian commercial banks and finds that high NPA levels correlate with increased probability of credit defaults, with public sector banks being particularly vulnerable.[8] She emphasizes the importance of lending to borrowers with strong creditworthiness and the need for effective NPA management strategies to protect profitability and liquidity.

While this literature collectively underscores the importance of credit appraisal, risk management, and legal enforcement, it largely focuses on intra-bank reforms and post-facto recovery mechanisms. There is relatively limited discussion on the possibility of a centralized, pre-sanction legal and technical mechanism like CLAD that could harmonize lending standards across institutions and reduce the scope for discretionary, relationship-driven lending. This article seeks to fill that gap by articulating a concrete institutional design for such a mechanism.

Research Gap

Existing scholarship on NPAs in India tends to cluster around three themes: (i) empirical measurement of NPA trends and their macroeconomic impact; (ii) evaluation of regulatory and legislative

[4] Varuna Agarwala & Nidhi Agarwala, A Critical Review of Non-Performing Assets in the Indian Banking Industry, 13 Rajagiri Mgmt. J. 12 (2019).
[5] Prashanth K. Reddy, A Comparative Study of Non-Performing Assets in India in the Global Context – Similarities and Dissimilarities, Remedial Measures (2002).
[6] Pacha Malyadri & S. Sirisha, A Comparative Study of Non-Performing Assets in Indian Banking Industry, 1 Int'l J. Econ. Practices & Theories 77 (2011).
[7] M. Karunakar, K. Vasuki & S. Saravanan, Are Non-Performing Assets Gloomy or Greedy from Indian Perspective, 3 Res. J. Soc. Sci. 4 (2008).
[8] Asha Singh, Performance of Non-Performing Assets (NPAs) in Indian Commercial Banks, 2 Int'l J. Mktg., Fin. Servs. & Mgmt. Res. 86 (2013).

interventions such as SARFAESI, DRTs, and the IBC; and (iii) recommendations for strengthening internal credit appraisal and risk management frameworks within individual banks. While these contributions are valuable, they leave at least four critical gaps.

First, most studies treat credit appraisal as a purely internal function of each bank, with limited exploration of centralized or shared mechanisms for high-value or systemically important exposures. Second, the interaction between ex ante appraisal and ex post legal recovery frameworks remains under-theorized; recovery statutes are often analyzed in isolation from the credit decision-making processes that generate NPAs. Third, comparative law analysis is typically confined to descriptive accounts of foreign experiences, without drawing institutional lessons for the design of Indian mechanisms. Fourth, there is little discussion on how multi-disciplinary expertise—combining law, finance, economics, technology, and industry knowledge—can be embedded within a formal legal structure to reduce NPAs.

This article addresses these gaps by (a) conceptualizing a Centralized Loan Approval Department as a statutory or quasi-statutory body embedded in the existing legal architecture; (b) linking CLAD's ex ante scrutiny function to the operation of SARFAESI, the RDB Act, and the IBC; and (c) situating the proposal within a comparative framework drawing on experiences from the United States, the United Kingdom, China, and the European Union.

Objectives of the Study

The principal objectives of this research article are:

1. To critically analyze the legal and regulatory framework governing NPAs in India, with particular reference to the SARFAESI Act, the RDB Act, the IBC, and RBI prudential norms.
2. To examine the practical effectiveness of existing enforcement mechanisms, including Debt Recovery Tribunals (DRTs), Debt Recovery Appellate Tribunals (DRATs), and the National Company Law Tribunal (NCLT), in resolving NPAs.
3. To identify structural and behavioural factors in credit appraisal and sanction processes that contribute to the persistence of NPAs.
4. To develop a detailed model for a Centralized Loan Approval Department (CLAD) as a centralized legal mechanism to standardize and strengthen loan appraisal across banks.
5. To undertake a comparative analysis of selected foreign jurisdictions and extract lessons for the design and implementation of CLAD in India.
6. To evaluate the potential impact of CLAD on the autonomy of banks, the protection of borrowers, and the overall stability of the financial system.

Research Methodology

The research adopts a predominantly doctrinal methodology, supplemented by an empirical orientation. The doctrinal component involves a close reading of statutes (such as the SARFAESI Act, the RDB Act, and the IBC), subordinate legislation, RBI circulars and master directions, policy reports, and judicial decisions of the Supreme Court of India, High Courts, DRTs, DRATs, and the NCLT. It also draws on academic articles, committee reports, and comparative materials from foreign jurisdictions.

The empirical orientation is reflected in the proposed use of structured questionnaires and interviews with senior officials in banks, financial institutions, regulatory agencies, and insolvency professionals. Their perspectives on credit appraisal practices, recovery challenges, and the perceived need for a centralized mechanism like CLAD inform the normative recommendations of this article. While the

present article primarily reflects doctrinal analysis and conceptual design, it is anchored in the realities highlighted by practitioners and policymakers in the field.

Analysis

A. Legal and Regulatory Framework on NPAs in India

The Indian framework for NPA management rests on three pillars: prudential norms issued by the RBI, special recovery statutes such as the SARFAESI Act and the RDB Act, and the insolvency and restructuring regime under the IBC.

1. RBI Prudential Norms and Supervisory Architecture

The RBI's Master Circulars and subsequent Master Directions on Income Recognition, Asset Classification and Provisioning (IRAC) lay down detailed criteria for classifying assets as standard, sub-standard, doubtful, or loss assets and prescribe provisioning requirements accordingly.[9] These norms incentivize banks to recognize stress early and create buffers for potential losses. The RBI has also issued guidelines on restructuring of stressed assets, prudential frameworks for resolution, and out-of-court mechanisms such as the Joint Lenders' Forum and the Resolution of Stressed Assets framework.

Despite these measures, persistent forbearance, optimistic restructuring, and delayed recognition of stress have often allowed incipient NPAs to balloon into large, unmanageable exposures. Supervisory findings have repeatedly pointed to weaknesses in credit appraisal, collateral valuation, post-disbursement monitoring, and early warning systems.

2. SARFAESI Act

The SARFAESI Act authorizes secured creditors—primarily banks and financial institutions—to enforce security interests without court intervention in the event of borrower default.[10] Upon classifying an account as a non-performing asset and issuing a notice under section 13(2), secured creditors may take symbolic and physical possession of secured assets, manage the borrower's business, or sell the assets through auction. The Act also provides for the registration and regulation of asset reconstruction companies (ARCs).

In Mardia Chemicals Ltd. v. Union of India, the Supreme Court upheld the constitutional validity of SARFAESI while reading down certain provisions to safeguard borrowers' rights.[11] Subsequently, in Transcore v. Union of India, the Court clarified that SARFAESI remedies are complementary to, and not exclusive of, remedies under the RDB Act.[12] More recently, the Court in Phoenix ARC Pvt. Ltd. v. Vishwa Bharati Vidya Mandir affirmed the wide scope of SARFAESI enforcement against guarantors and co-borrowers.[13]

3. Recovery of Debts and Bankruptcy Act (RDB Act)

The RDB Act, originally enacted as the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, established specialised Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) to expedite recovery of debts due to banks and financial institutions above specified monetary

[9] See Reserve Bank of India, Master Directions – Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances (as amended)

[10] Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, No. 54 of 2002, INDIA CODE (2002).

[11] Mardia Chemicals Ltd. v. Union of India, (2004) 4 SCC 311 (India).

[12] Transcore v. Union of India, (2008) 1 SCC 125 (India).

[13] Phoenix ARC Pvt. Ltd. v. Vishwa Bharati Vidya Mandir, (2022) 5 SCC 345 (India).

thresholds.[14] Amendments have since expanded its scope to cover bankruptcy of individuals and partnership firms, and the Act has been renamed accordingly.

While DRTs were envisaged as fast-track fora, in practice they have faced serious capacity constraints, procedural delays, and enforcement bottlenecks. The overall contribution of DRTs to NPA resolution, though non-trivial, has fallen short of expectations, compelling policymakers to search for more effective mechanisms.

4. Insolvency and Bankruptcy Code, 2016

The IBC introduced a creditor-in-control, time-bound corporate insolvency resolution process (CIRP) overseen by the NCLT.[15] For banking NPAs, the IBC has been transformative in several respects: it has shifted bargaining power from defaulting promoters to creditors, created a transparent market for stressed assets, and led to meaningful haircuts accompanied by changes in ownership and management.

In Innoventive Industries Ltd. v. ICICI Bank, the Supreme Court affirmed the primacy of the IBC over inconsistent state laws and emphasized strict adherence to statutory timelines.[16] In Swiss Ribbons (P) Ltd. v. Union of India, the Court upheld the constitutional validity of the Code and recognized its objective of maximizing the value of assets while balancing the interests of all stakeholders.[17]

Notwithstanding these advances, the IBC operates as a last-resort mechanism; it is invoked after default has occurred and often after erosion of asset value. High caseloads, delays in resolution, and deep haircuts have raised questions about its ability to single-handedly solve the NPA problem.

5. Synthesis

Taken together, RBI norms, SARFAESI, the RDB Act, and the IBC form a robust ex post framework for recognition, recovery, and resolution of NPAs. However, they do not directly regulate how banks originate and appraise loans in the first instance. The legal architecture focuses on curing the disease rather than preventing its onset. This asymmetry lies at the heart of the case for a centralized, ex ante mechanism such as CLAD.

Discussion

A. Structural and Behavioural Drivers of NPAs

Multiple structural and behavioural factors contribute to the persistence of NPAs in India. Cyclical economic downturns, sectoral shocks, regulatory delays, and infrastructure bottlenecks can impair borrowers' repayment capacity. However, these external factors are often compounded by internal weaknesses: inadequate due diligence, over-reliance on promoter reputation, inflated collateral valuations, weak credit covenants, and poor post-disbursement monitoring.

Empirical evidence and anecdotal accounts reveal that high-profile borrowers have sometimes received large loans with minimal documentation and relaxed conditions, while smaller borrowers with sound business models have faced stricter scrutiny and higher collateral requirements. This dualism fosters moral hazard and distorts resource allocation. Furthermore, bank officials may face subtle or overt pressures—commercial, political, or relational—that influence credit decisions.

B. Conceptualizing a Centralized Loan Approval Department (CLAD)

The Centralized Loan Approval Department is envisaged as a specialized, multi-disciplinary body taske-

[14] Recovery of Debts and Bankruptcy Act, No. 51 of 1993 (as amended), INDIA CODE (1993).
[15] Insolvency and Bankruptcy Code, No. 31 of 2016, INDIA CODE (2016).
[16] Innoventive Indus. Ltd. v. ICICI Bank, (2018) 1 SCC 407 (India).
[17] Swiss Ribbons (P) Ltd. v. Union of India, (2019) 4 SCC 17 (India).

d with ex ante appraisal of specified loan categories, such as large corporate exposures above a defined threshold, sensitive sectoral loans (e.g., infrastructure, real estate, and telecom), and repeat exposures to stressed groups. CLAD could be constituted as:

- A statutory body established under an amendment to the Banking Regulation Act, 1949 or a new dedicated statute; or
- A quasi-statutory entity notified under the RBI Act, 1934 and integrated with the RBI's supervisory architecture.

Its core functions would include:

1. Legal Due Diligence

Verifying title, security interests, encumbrances, and compliance with sectoral regulations.

This step confirms who legally owns the assets offered as security and ensures the title is clean, without disputes or defects. The lender checks for existing charges, mortgages, court attachments, or any other legal claims, and also verifies that the borrower and project meet all laws and sector-specific regulatory requirements.

2. Financial and Economic Appraisal

Assessing projected cash flows, sensitivity to macroeconomic variables, and stress scenarios.

Here the bank studies projected income, expenses, profits, and the cash available to service the loan to see if repayments are realistically sustainable. Different economic conditions are modelled, such as changes in interest rates, inflation, demand, or input costs, and stress cases like delays or cost overruns are tested to see whether the project remains financially viable.

3. Collateral Valuation

Standardizing valuation methodologies, mandating independent valuers, and stress-testing collateral values.

The security offered (like land, buildings, machinery) is valued using consistent methods so that estimates are not overly optimistic and can be compared across proposals. Independent professional valuers usually carry out the assessment, and the lender also considers downside situations where market prices fall or it takes longer and costs more to sell the asset.

4. Risk Scoring

Assigning standardized risk scores to loan proposals based on quantitative and qualitative factors.

Each proposal is given a risk grade using a scoring model that blends numbers (leverage, coverage ratios, financial trends) with judgmental aspects such as management strength, sector outlook, and governance standards. These scores help the institution apply a uniform view of risk across borrowers and decide on pricing, exposure limits, and how closely the account should be monitored.

5. Recommendation and Conditions

Issuing a reasoned recommendation—approve, modify, or decline—accompanied by binding or persuasive conditions on security, covenants, and monitoring.

After all analyses, the credit officer records a clear view on whether to sanction, change, or reject the loan, along with reasons. If the loan is to be granted, the note sets out the required security coverage, financial and non-financial covenants, restrictions on the borrower, and reporting and monitoring requirements that will apply during the loan period.

CLAD's composition should reflect its multi-disciplinary mandate: advocates with expertise in banking and insolvency law; chartered accountants and financial analysts; economists; sectoral experts;

technologists specializing in data analytics and AI; and former regulators or bankers with strong governance credentials. To insulate it from capture, appointments and removals should follow transparent procedures, with fixed tenures and robust conflict-of-interest norms.

C. Relationship with Existing Legal Frameworks

CLAD would not supplant existing statutes but complement them. Its ex ante appraisal can be integrated with:

SARFAESI: By ensuring that security documents are legally robust and that collateral is properly perfected at the time of loan sanction, CLAD can enhance the effectiveness of subsequent SARFAESI enforcement.

RDB Act and DRTs: Standardized documentation and covenants can streamline proof of debt and enforcement before DRTs, reducing litigation over basic issues such as quantum of debt and validity of security.

IBC: Better ex ante structuring of debt, security, and inter-creditor arrangements can facilitate quicker and more efficient resolution under the IBC, including pre-packs and out-of-court restructurings.

D. Autonomy of Banks and Constitutional Concerns

A common objection to CLAD is that it may impinge on the commercial autonomy of banks. However, banking has always been a heavily regulated sector, justified by the systemic importance of banks and the protection of depositors and public funds. RBI's prudential norms, exposure limits, and fit-and-proper criteria already constrain bank discretion. CLAD would operate within this constitutional and regulatory tradition as an additional safeguard.

The design of CLAD must, nonetheless, respect principles of proportionality and institutional competence. It should focus on high-impact exposures rather than routine retail loans, operate with clear time limits to avoid delaying credit decisions, and provide reasoned orders subject to limited internal review. Banks should retain the ultimate decision on whether to lend, but deviations from CLAD recommendations should be documented and subjected to enhanced supervisory scrutiny.

Comparative Analysis of Foreign Jurisdictions

Comparative experience suggests that centralized or specialized mechanisms for managing credit risk and distressed assets can materially improve banking stability when well designed.

United States: Following the savings and loan crisis and later the global financial crisis, U.S. regulators and institutions such as the Federal Deposit Insurance Corporation (FDIC) developed sophisticated frameworks for classifying problem assets, conducting stress tests, and resolving failed banks. The Troubled Asset Relief Program (TARP) and related measures facilitated the purchase, guarantee, or restructuring of toxic assets, helping to stabilize the system.

United Kingdom and European Union: The U.K.'s Prudential Regulation Authority (PRA) and the EU's Single Supervisory Mechanism (SSM) have adopted rigorous supervisory review and evaluation processes (SREP), including standardized approaches to non-performing exposures. The EU has also issued guidelines on the management of non-performing loans and established a framework for asset management companies and bad banks in crisis-affected member states.

China: China's approach to NPAs has included the establishment of state-owned asset management companies (AMCs) such as China Cinda and Huarong to acquire and resolve bad loans from banks. These AMCs operate with specialized legal and financial tools, enabling large-scale clean-up of bank balance sheets, albeit with significant state support and varying levels of transparency.

These experiences offer at least three lessons for India. First, centralized expertise—whether located in supervisory authorities or dedicated entities—can significantly enhance the quality of credit risk assessment and NPA resolution. Second, standardized classification and reporting norms are critical for comparability and timely intervention. Third, legal frameworks must be flexible enough to support innovative resolution tools while maintaining accountability.

The proposed CLAD draws on these insights but adapts them to India's institutional context. Unlike AMCs or post-facto resolution mechanisms, CLAD focuses on the upstream stage of credit origination, aiming to prevent the build-up of NPAs rather than merely cleaning them up after the fact.

Findings

The analysis yields several key findings:

1. Ex Post Focus of Current Framework - India's legal architecture on NPAs is heavily skewed towards ex post recognition, recovery, and resolution. While statutes like SARFAESI, the RDB Act, and the IBC have strengthened creditors' hands, they do little to influence the quality of credit decisions at the point of origination.
2. Persistent Weaknesses in Credit Appraisal - Literature, regulatory reports, and practitioner accounts converge on the conclusion that credit appraisal and monitoring remain uneven across banks, with significant reliance on promoter reputation and inadequate stress-testing of projects and borrowers.
3. Need for Multi-Disciplinary Expertise - Effective appraisal of complex loans requires integrated legal, financial, economic, and sector-specific expertise, which individual banks—especially smaller ones—may not possess in-house at the required scale and depth.
4. Potential of a Centralized Mechanism - A centralized body like CLAD, if properly designed, can standardize appraisal norms, reduce informational asymmetries, and mitigate conflicts of interest. It can also generate a rich repository of data on sectoral risks and borrower behaviour, informing macro-prudential policy.
5. Compatibility with Bank Autonomy - CLAD can be structured to respect bank autonomy by restricting its jurisdiction to high-value or sensitive loans, operating within strict timelines, and issuing recommendations rather than binding orders—subject to supervisory oversight for deviations.
6. Alignment with Comparative Practice - International experience supports the creation of specialized centralized institutions for managing credit risk and distressed assets. CLAD would represent a novel but conceptually aligned institutional innovation for India.

Conclusion

Non-performing assets are not merely a statistical artefact; they represent failed credit decisions, impaired enterprises, and ultimately a misallocation of scarce financial resources. India's response to NPAs has, understandably, focused on strengthening recovery and resolution mechanisms through SARFAESI, the RDB Act, and the IBC. These measures have improved creditor rights and introduced greater discipline into the system, but they have not eliminated the structural drivers of NPAs.

This article has argued that a more fundamental shift is needed—one that addresses the ex ante processes through which loans are appraised and sanctioned. The proposed Centralized Loan Approval Department offers a concrete institutional pathway towards this goal. By embedding multi-disciplinary expertise within a centralized legal mechanism, standardizing appraisal norms, and integrating with

existing statutory frameworks, CLAD can significantly reduce the incidence of NPAs, protect public funds, and enhance the resilience of the banking system.

Implementing CLAD will require careful legislative design, stakeholder consultation, and phased roll-out. It must be accompanied by continuous capacity-building within banks, robust governance reforms, and vigilant supervision by the RBI and other regulators. If these elements are aligned, India can move closer to a banking system in which NPAs are the exception rather than the norm, and where credit flows support sustainable, inclusive growth.

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