Prospects and Challenges for Bad Banks in India

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Abstract

The concept of bad banks is a new phenomenon in the Indian financial system because it is well-known that both public and private sector banks face emerging challenges due to distressed or non-performing assets. In these consequences, the present paper emphasizes the concept, evolution, prospects and challenges of bad banks and their effect on the Indian financial system. The study's methodology is based on the empirical-based survey and analysis of primary data with quantitative techniques. The study's findings show that there will be a significant impact of bad banks in the Indian financial system, and prospects and challenges will emerge in implementing bad banks in India. Therefore, there is a positive effect on the bad bank in the Indian financial system with the recommendation of better policies for setting up systematic bad banks in India. Additionally, this paper would encourage policymakers, researchers, and academicians for better policy-oriented research in the study area of bad banks in India.

Keywords: Bad banks, evolution, prospects, challenges, Indian financial system.

Introduction

The concept of a Bad bank can be defined as a corporate structure that isolates the illiquidand high-risk resources (assets) in a bank. In other words, the mechanism and function of a Bad bank are based on the management of the non-performing loans of banks, financial organizations, or a group of banks in India. Mellon Bank gave the concept of the bad bank in 1988. The function of the bad bank is based on buying of Non-Performing Assets from other banks to free up banks for fresh lending. The function of the bad banks is based on the recovery of loans. In the context of India, the Indian Banks' Association (IBA) submitted its proposal to the ministry of finance and the Reserve Bank of India (RBI) for establishing "BadBanks "in India to take charge of non-performing assets (NPAs) of INR 75,000 crore of Indian banks and also requested the government to provide initial capital of INR 10,000 crore. The main advantage of bad banks is associated with providing financial help to banks to help in the recovery of bad loans or non –performing assets (NPAs). The National Assets Reconstruction Company Limited will purchase (Source: https:// groww. in/blog/ what-is-a- bad-bank).

The national assets reconstruction limited (NARCL)will purchase toxic assets in the ratio of 15:85, whereby it would becentered on sale purchasing in cash and matter of the security receipts for the remaining percent. The mechanism of the security receipts (SRs) will be guaranteed by the government. These consequences provide help in cleaning the balance sheet of banks. As a result, banks easily focus on their core financial business and lending in India. In the context of India, National Assets Reconstruction Limited (NARCL) will control and monitor the function of the bad banks in India because it is well known that the problem of non –performing assets (NPAs) emerges as a major financial problem for banks and financial institutions of India. Therefore, Indian Banks' Association (IBA) is interested in giving their responsibility of recovery of loans or non-performing assets (NPAs) to proposed Bad banks in India because it is well known that India is the world's largest emerging financial market whereby customers have taken loans from banks but is found that banks or financial institutions are failing to recover distributed loans from the borrower.

In the context of the financial market of India, it is known that the problem of non-performing assets (NPAs) is producing lots of technical and financial problems for banks in the way of properly functioning of the banks, therefore, the concept and proposal of bad banks are based on the financial management of the non-performing assets (NPAs) in India. Therefore, it is found that the prospects and function of the bad banks are based on the debate of long discussion in the context of retrospective to the prospective study design in India. The concept of Bad banks is a new phenomenon in the financial market of India. Therefore, it needsfor depth analysis ofthe concept of bad banks in India before startinga debate on the concept of prospects and challenges of bad banks in India(Source: https://groww.in/blog/what-is-a-bad-bank).

Evolution of Bad Banks in India

According to Tiwari (2018), there is asignificant role inthe function of the bad banks in India because Indian banks and financial institutions are facing the problem of imbalance in their balance sheet due to the high volume of distributed loans and Non-Performing Assets (NPAs) in banks. Therefore, based on the experiences of the global financial markets, the proposed concept of the bad banks will reduce the pressure of loans on banks and provide economic assistance to banks for managing their financial task to recover loans from the market. Therefore, the bad bank concept is a new phenomenon with many prospects and challenges.

According to Kumar and Venkatesh (2021), In the context of India, an economic survey of India recommended establishing a public sector rehabilitation agency (PARA) in 2017 when the proposal of a bad bank was proposed by the Indian banks association (IBA). During the COVID-19 pandemic epidemic, bad banks played a significant role on a global level. In these consequences, the Indian banks association proposed the concept of bad banks because they would assist conventional banks by taking their non-performing assets characteristically at a concession to the market price of their mortgages and managing them to eventually recoup the money.

According to Sajoy (2019), the bad bank concept is based on providing economic assistance to conventional banks regarding the recovery of loans and performing assets. The function of the bad bank is based on the differences between performing and non-performing assets (NPAs) because major principles of the bad banks are associated with the phenomena of loan recovery. The bad bank is in charge of overseeing and selling non-performing assets. Since distressed or hazardous assets are withdrawn from the conventional bank's balance sheet, the institution is sometimes called a "good bank".

According to Arora (2021), In the context of the function of a bad bank, An Asset Management Company (AMC) is known as a bad bank because the principles of setting up a bad bank are based on the acquire stressed assets or risky debts of conventional banks. After all, stressed and risky debts become toxic assets for conventional banks. Therefore, the principles of bad banks establish their financial association with conventional banks because bad banks provide support to conventional banks when conventional banks face losses from non – performing assets (NPAs) in markets. In these consequences, bad banks recover the outstanding cash and provide it to the conventional bank in a financial disaster. Therefore, there are cordial financial nexus between conventional and bad banks in financial relationships regarding managing the non-performing assets (NPAs) in banks. In India, a proposal about establishing bad banks under the master plan ofthe Indian Banks' Association (IBA) under the monitoring of the Reserve Bank of India and the Ministry of Finance, Government of India.Therefore, the proposal for the bad banks will be based on emerging prospects and challenges inthe financial market of India.

According to Rajan and Dhal (2003), there are lots of challenges are emerging in the way of proposed bad banks in India because it is well known that there isa technical problem to acquiringall NPAs of conventional banks because both economic and non-economic issues are associated with principles and function in nexus of conventional and bad banks in India. Therefore, IBA, RBI and the Finance Ministry government of India are working on setting up bad banks in India to better implement the principles of bad banks in India with conventional banks.

Based on the above concise introduction part, there are the following points about the background of the concept of bad banks in India:

i. The concept of the bad bank is a new phenomenon in the financial and banking institution of Indiabecause it can emerge as a revolutionary step in the management of the non-performing assets (NPAs) or stress assets of conventional banks of India as well as reduces the burden on financial work of conventional banks in India.

ii. Principles of bad banks establish a financial relationship between bad banks andbanks,financial institutions of India because the proposed principles and functions of the bad banks provide a financial platform to evaluate the resources of non-performing assets (NPAs) for enhancing the financial stability of banks or financial institutions in India. Therefore, the concept of the bad bank is based on the reconstruction of the role of banks in acquiringthe NPAs of banks in India. Therefore, the concept of bad banks is so relevant in India's context for establishing the building capacity of awell-developed financial market in India.

iii. Based on the global experiences, it is realized that there is relevant importance of the concept of bad banks in India because it is well known that there isa huge quantity of non-performing assets (NPAs) in financial institutions and banks of India. In these consequences, the importance of the bad banks may be subject to discussion in the context of financial inclusion in the banks of India in the context of prospects and challenges in the perspective of globalization.

iv. There is significant role of the IBA and RBI in ensuring the role and function of the bad banks in India because the phenomena of the bad bank are new concepts in the banking and financial market of India. Therefore, financial, and non-financial prospects and challenges would emerge in the way of bad banks in India. Therefore, itneeds to analyze the prospects and challenges of bad banks in India in the context of global experiences of bad banks in the western world. In these consequences, the study of prospects and challenges of bad banks can give a new approach to developing an understanding ofthe nature, process, and consequences of the function of bad banks in India.

Literature of Review

Based ona concise description of bad banks,a section of the literature review emphasizes the prospects and challenges in the function of bad banks in the rest of the world and India. Therefore, a literature review tries to focus on the phenomena and components of the concept, issues, prospects, and challenges of bad banks. Therefore, part of a review of the literature is divided into the following two sections:

i. Prospects and challenges of "Bad Banks on global level.
ii. Prospects and challenges of "Bad Banks in India

Both sections of the literature reviewunderstand how to develop an analytical base study about the nature, process, and consequences of the function of bad banks in India and abroad.

Prospects and challenges of "Bad Banks" on global level

In the context of the United States of America, it is found that there is asignificant role of bank deregulation in the financial market of United States of America because the consequences of the deregulation of banks removed the restriction on intrastate branches of banks as well as improved the performance of banks and financial competition among banks. Bad banks play a significant role in the financial market because they acquire the distressed or toxic assets of conventional banks or financial institutions. In these consequences, bad banks work together with conventional banks, reduce the pressure on conventional banks, andmanage the non-performing assets (NPAs) in the United States of America (Beck et al., 2010,pp. 1637-1667). In the context of the European Union (EU), 12 member countries of the European Union created Assets Management Companies (ASM) which are known as "Bad Banks" in European Union.

The objective behind the establishment of bad banks is to provide financial assistance to commercial banks because commercial banks are failing to be recovering of toxic debt due to a lack of decision-making process. In these perspectives, bad banks emerge as important financial tools of Asset Management Companies in the financial market of the countries of the European Union (Gandrud and Hallebarg, 2014). In the context of Ireland, Bad banks emerged as Asset Management companies (ASM)to manage toxic debt and provide financial assistance to banks in the process of management of the balance sheet of banks. Bad banks play a significant role in the urban dimension due to the increasing role of the finance companies and real estate in urbanization. Therefore, the function of the Bad banks is designed to save conventional banks from the burden of toxic assets of a loan from financial companies and real estate companies in urban areas (Byrne, 2015, pp. 255-266). In the context of the function and dynamics of bad banks in the financial market of Germany, it is found that there are a lot of complexity emerged in the function of bad banks due to a lack of awareness and participation of commercial banks in the function of bad banks (Suntum & IIgmann,2013, pp.367-384).

Therefore, it can be concluded that bad banks emerge as a financial tool for managingthe financial crisis of toxic debts in the financial market of Europe, but there is a need to re-define the role of bad banks with the collaboration of commercial banks because it is found that there is lack of proper participation between bad banks and commercial banks inthe management of financial crisis (Martini et al.,2009).These can bedescribed as "Payment Banks,""Challenger Banks," and "Bad Banks," which are new-age banks that have unexpectedly sprung into the domestic and global economic scene. The United Kingdom, the United States, Canada, and India were significant nations that adopted such concepts. Although currently infantile, the conception of a "little Finance Bank,""payment Bank,""challenger Bank," and "bad bank," each with a distinct goal, is not necessarily a negative one and holds the ability to completely transform the banking industry. It remains to be determined how every concept function in actual life. It was questionable if the concepts underlying banks would materialize and provide the intended outcomes (Gogisetti, 2021).

Slovenia has changed throughout the financial downturn from among the most prosperous new European Union (EU) citizens to among the most troublesome. The main source of this was persistently serious banking issues, which have a harmfulbrunt on the nation's reputation and, as well as the rate of financing for both public and private companies. These issues continue to generate uncertainties in the financial system. Slovenia has used a bad bank (DUTB), which only started operating after 2013, to revitalize its finance industry.The study concludes that the bad bank has been confirmed to be an acceptable option in the Slovenian case when all applicable factors were considered. However, the postponement in rehabbing the banking system has had substantial negative economic consequences, as shown by contrast to other focused areas that chose to shell out the banking industry before Slovenia. Political turmoil and state control of problematic institutions substantially hampered progress (Markovic and Tomec, 2015). It isfound that the National discourse on proposals to deposit bad mortgages inside one or worse banks has picked up momentum over the last week as the banking industry globally continues to feel the consequences of the economic meltdown. The following article outlines a strategy for how authorities might effectively free struggling banks from hazardous assets by moving such holdings into a publicly supported rehabilitation unit, or “bad bank”. This strategy successfully addresses three important issues. It guarantees the transparency disposal of hazardous holdings and offers the banks a new beginning. In addition, it provides an opportunity to keep taxpayer costs down. Furthermore, moral hazard danger is reduced (Schafer and Zimmermann, 2009).

Prospects and Challenges of Bad Banks in India

The idea of a bad bank was developed in response to the toxic asset problem. It performs admirably when a bad bank is founded with enough governmental and regulatory assistance. The idea of a bad bank has traditionally been despised in India. Because the bad bank is essentially an asset rehabilitation firm, the banking industry has the chance to be ready to discharge capital Accounts Receivable Conversion (ARC). In previous years, there had been an increase in a public conversation over the possibility of putting non-performing assets in one or more bad banks as the global financial meltdown continues to be felt. Around the world, there was a perception that a bad bank's ability to manage stressed assets depends on legal and governmental backing (Harshitha & Shailaja,2022).

There has been a rise in recent times in public debate of ideas to deposit toxic assets in one or more bad banks. That was because the effects of the economic meltdown are still being felt around the globe. Professional expansion in the administration of non-performing assets suggests that government and legal backing are essential for a bad bank's performance of NPAs. There was a particular purpose and a government guarantee that helped commercial banks in India. To dispose of significant non-performingassets, the New Asset Resolution Company (NARCL) enhanced current asset management companies' operations. With continued dedication, experienced personnel, and transparency in how work was performed, the exercise became more cost- and time-effective. Distressed assets are moved from the latter group to the former to strengthen a conventional bank's financial statement. After that, the bad bank handled the acquired assets and sold them. The bad bank has to pay expenses during this procedure. While establishing a bad bank, there are a lot of critical factors to keep in mind. Numerous historical instances may be used to illustrate both the benefits and drawbacks of poor banks (Bandhu et al., 2022).

The COVID-19 epidemic has made it necessary to consider different approaches in every element to ensure that the crisis, which has gotten harsher, may be brought back on track, as was mentioned. The creation of bad banks to deal with the banks' distressedassets is one such endeavor. The rising number of distressed assets in banks has served as a signal that the condition is worsening. The government has endeavored to make it simple for banks to remove NPAs. The bad bank is subject to several critiques, and these objections will prevent banks from holding or selling their NPAs to the bad bank. The reduction in several industries has caused a significant economic decline. The Gross Domestic Products (GDP) decline is extremely dangerous because it was the sharpest decline. The federal government had considered the idea of a bad bank after considering all the issues. The actions that may be performed in the future will demonstrate whether the project was successful because additional potential issues are now being thought of that may render it useless for a while (Chhipa, 2021).

In the context of India, there are distress conditions in the distribution of bad loans in India because commercial banks distribute a high volume of loans in the market. In these consequences, it increases the quantity of NPAs in both public and private banks; in these consequences, it is realized that there is a need to set up a bad bank in India for the revivalof non-performing assets as well as provide financial assistants to banks in its management of the balance sheet (Ramesh, 2019, pp.22-30).

In the context of the Indian financial market, it is well known that there is a high quantity of non-performing assets (NPAs) due to the distribution of debt in the market. These consequences increase the financial burden on commercial banks as well as the imbalance in the balance sheet. In these consequences, the existence of bad banks may be more relevant than commercial banks in the context of handling the crisis and crisis of NPAs of banks and financial institutions in India. Therefore, it is relevant to study thefinancial function of bad banks in India (Shaban, 2018, pp. 42-46).

There is a need for risk analysis to evaluate the NPAs of private banks in India because it is observed thatprivate banks are failing to evaluate their non-performing assets due to the high quantity of distributed bad loans in market India. In these consequences, there is a need to set up a "Bad Bank" in India to recover the bad loans to manage the balance sheetof the banks as well as also need collaboration betweenthe financial management system of private banks and the government of India under the monitoring of Reserve Bank of India (Kochar, 2019).

Therefore, it needs to manage the non-performing assets in commercial banks of India because a high quantity of non-performing assets increases the financial burden on commercial banks as well as creates a financial risk in the way of implementation of the financial rules, regulations, and acts in the implementation of the function of recovery of bad loans. In these consequences, there is a need to set up a bad bank with the financial power to better enhance the recovery of the bad loans and establish a financial association between commercial banks and bad banks in India (Khanna, 2012, pp.152-163).

Based on the above review of literature, there are two important points emerged:

i. The concept of bad banks is a new phenomenon in India due to managing the riskfactors of the NPAs of commercial and private banks in India. Therefore, the function of bad banks may be important in managing the risk factors of NPAs of private and commercial banks.

ii. There is well known that there is economic inequality in the society of India by income distribution and consumption patterns. These consequences influence the management of non-performing assets in India; therefore, it is needed to give depth analysis ofthe study of prospects and challenges of the bad banks in India.

Methodology

Based on the above review of literature about the critical study of the concept, evolution, prospects, and challenges of bad banks in India and the rest of the world, it can be realized that the concept of the bad bank is a new phenomenon in Indian financial system, but the role of the bad banks would be managed the distress and problem of distress or toxic assets of commercial banks as well as managing to the problem of NPAs in India. In these consequences, there are the following objectives concerning around study of the concept, evolution, prospects, and challenges of bad banks in India:

i. To understand the concept and evolution of bad banks.
ii. To study the effect of bad banks on the Indian Financial System.
iii. To identify the issues and challenges of implementing bad banks in the Indian financial system.

These objectives explore and emphasize the nature, process and consequences of concept, evolution, prospects, challenges, and their effect on the Indian financial system. These objectives are based on the literature review gap and trying to fill the review gaps about the study of bad banks in India. The nature of the research is based on the empirical- based collection of primary data from a total of 140 financial institutions and banks about the justification of objectives. Therefore, it is important to discuss that the nature of this research work is relevant in the context of the collection and analysis of primary data according to the theme of the objectives.

In this research work, the first objective is analyzed by description with the help of related literature to develop an understanding ofthe concept and evolution of bad banks in India, while the regression model analyzes the second and third objectives because the regression model is most used statistical technique for research work in the study of economics and social science. It appliesto statisticaltechniques in the context of unearths the associationbetween variables. The regression analysis method is based on mathematical association, which predicts value based on independent variables.

There is the following formula forthe regression model:

$$\mathbf{Y} = \beta 0 + \beta 1 \text{ X1 } + e$$

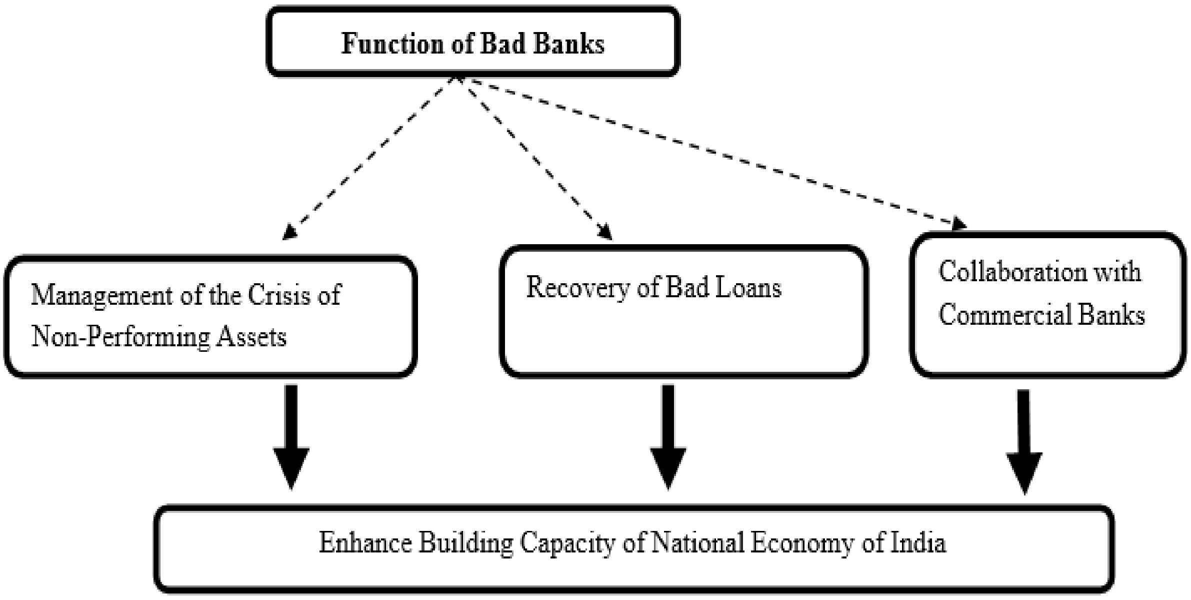
Here, the Y variable is used as the dependent variable and linear function of the independent variables. The intercept β0 is the value of the linear function when it crosses the Y-axis. The slope β1 is the change in Y for a unit change in X.

Hence, these objectives give a better understanding ofthe study of concepts, evolution, prospects and challenges in bad banks and their effect on the Indian financial system. Therefore, this research work's findings may help develop a conceptual and theoretical model for better understanding about role of the bad banks in India as well as enhance the policy- oriented research in the Indian financial system in the context of bad banks.

Result

Concept and evolution of bad banks

The concept of bad banks is a new phenomenon in the Indian financial system because theimpact and consequences of the role of bad banks give a new approach tothe study of the concept and evolution of bad banks in India in the 21st century. It is also important to discuss the significant role of bad banks in developed countries like the United States of America andBritain, but different dimensions may be discussed about the role of bad banks in the context of India with manage of emerging challenges of the Indian financial system. It is also realizedthat there isa huge burden of toxic assets known as non-performing assets (NPAs) in commercial banks of India. Therefore, the purpose of setting up a bad bank is to manage the bad loans, recover the non-performing assets (NPAs), and provide financial assistance to commercial banks in their financial work. It is also well known that there are socio-economic inequalities in India, and the consequences of economic inequalities influence the function of commercial banks in markets because it is found that commercial banks are failing to recover their distributed loans in the market. These consequences, the Indian Banks Association (IBAs) submitted a proposal to the ministry of finance, the government of India,to set up bad banks in India under the direction of the RBI because commercial banks are facing financial challenges due to a huge quantity of bad loans in the market and these consequences are creating a financial crisis among commercial banks of India. Therefore, the role and function of the bad banks are so relevant in the context of the Indian financial system for the recovery of NPAs of commercial banks in India.



Source: *Author's own*

Figure 1: *System and Function of Bad Banks in India*

Management of Non- Performing Assets (NPAs) and Role of Bad Banks

According to Hosmani and Hudagi (2012), non-performing assets emerge as an epidemic for the financial market of Indian commercial banks in India because technical faults have emerged in the area of recovery of bad loans in India. These technical faults are increasing the quantity of NPAs and the financial crisis in India. In these consequences, setting up bad banks may be relevant for reducingthe financial crisis and managing the problem of NPAs of commercial banks in India in the 21st century. According to Rao and Patel (2015), there is a need for risk factor analysis in public sector banks, private sector banks and foreign banks in India in the context of management of the non-performing assets of these banks in the financial market of India. It is also important to discuss that concept of Bad Banks can give a better role in the recovery of bad loans and managingthe financial crisis of non-performing assets of banks in India. Therefore, this study explainsthe impact and consequences of the non-performing assets (NPAs) and the bad bank's role in managing the financial crisis of Indian financial institutions and banks.

Emerging Challenges in Bad Banks in India

According to Balasubramaniam (2012), there are lots of challenges and issues are emerged in the better implementation of the bad banks in India because it is found that there are communication gaps and a lack of collaboration between commercial banks and the government regarding setting up a bad bank for recovery of the bad loans and management of the crisis of the non-performing assets of commercial banks in India. Therefore, taking serious steps is needed to better implement the bad banks in India. According to D Souza (2017), the problem of rising non-performing assets is increasing the financial burden on commercial banks. Therefore, it needs to analyze the emerging risk factors about the impact and consequences of non-performing assets of commercial banks. It may be subject to securitization as a solution to the crisis of non-performing assets in India in the context of emerging financial issues in the 21st century. Therefore, the collaboration-based behavior of commercial banks is needed to set up bad banks in India and its role in managing problems of non-performing assets of commercial banks of India.The study about the composition of non-performing assets in commercial banks of India by Ibrahim and Thangavelu (2014) shows that the crisis of non-performing assets may be solved and managed by risk factor analysis about prospects and challenges of bad banks based on the global experiences. Therefore, challenges can be transformed into an opportunity for better implementation of the bad banks in the Indian financial market.

National Economy and Role of Bad Banks in India

The role and function of the bad banks can be better implemented in the context of their role in the enhancement of building capacity of India's national economy because the increasing quantity of non-performing assets is adversely influencing the economy of India. These consequences,the function of bad banks can better managebad banks' financial crises andreduce the financial burden of commercial banks in India (Oval, 2019). According to Kayarkatte (2022), the concept of the bad bank is an emerging issue in the nexus of commercial banks and the national economy of India because increasing tendency of non- performing assets has emerged as a financial epidemic in the financial market of India. In these consequences, there is a need to revisit and redefine the role of commercial banks toward setting up bad banks and its better implementation in managing financial crises due to non-performing assets in India. However, it may be the subject of long discussion and debate to develop an understanding of the concept, evolution, prospects, and challenges of bad banksin India in the 21st century.

Effect of bad banks on the Indian Financial System

The table shows that PASW assigns numerous models in one regression command. Here, the R-value is .199, and R is the square root of the R-Squared. The value of R-Square is .040, which means there is about a 4.0 percent variation in the dependent variables. The value of the adjusted R Square is .033; it tries to give a more realistic picture of the fit of regression value to estimate the R-squared for the population. Here, bad banks are used as predictors as the independent variables, while their effect on the Indian financial system is used as the dependent variable (Table 1)

Table1: *Model Summary*

Model	R	R Square	Adjusted RSquare	Std. Error ofthe Estimate
1	.199[a]	.040	.033	3.16443

a. Predictors: (Constant), bad banks

The Sum of Square is associated with three sources of variance –Total, Model and Residual. R-Square is obtained by dividing the regression Sum of Squares by the Total Sum of Squares.Here, the Sum of Squares values is 57.008 for regression and 1381.878 for residual, while themean square value is 57.008 and 10.014 for regression and residual, respectively. The F- value is 5.693, and the significant value is .018, which is less than 0.05,and indicates thatthere is a significant impact of bad banks on the Indian financial system (Table 2).

Table 2: *ANOVA[a]*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	57.008	1	57.008	5.693	.018[b]
	Residual	1381.878	138	10.014		
	Total	1438.886	139			

a. Dependent Variable: Indian Financial System
b. Predictors: (Constant), bad banks

This table shows the value t and significant, it indicates that there isa significant coefficient ofthe impact of bad banks on the Indian financial system (Table 3)

Coefficients[a]

Model		UnstandardizedCoefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.512	1.302		12.680	.000
	bad banks	-.244	.102	-.199	-2.386	.018

a. Dependent Variable: Indian Financial System

Issues and challenges of implementing bad banks in the Indian financial system

The table shows that PASW indicatesassigning numerous models in one regression command.Here, the R-value is .213, and R is the square root of the R-Squared. The value of R-Square is .045, which means about 4.5 percent variation in the dependent variables. The value of the adjusted R Square is .039; it tries to give a more realistic picture of the fit of regression value to estimate the R-squared for the population. Here, issues and challenges of implementing bad banks are used as the independent predictor variable, and bad banks are used as the dependent variable (Table 4)

Table 4: *Model Summary*

Model	R	R Square	Adjusted RSquare	Std. Error ofthe Estimate
1	.213[a]	.045	.039	2.57818

Predictors: (Constant) issues and challenges ofimplementing bad banks

The Sum of Square is associated with three sources of variance –Total, Model and Residual. R-Square is obtained by dividing the regression Sum of Squares by the Total Sum of Squares.Here, the Sum of Squares values is 43.684 for regression and 917.288 for residual, while the mean square values are 43.684 and 6.647 for regression and residual, respectively. The F- value is 6.572, and the significant value is .011, which is less than 0.05, which indicates that there is a significant impact of issues and challenges of implementing on bad banks (Table 5)

Table 5: *ANOVA[a]*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	43.684	1	43.684	6.572	.011[b]
	Residual	917.288	138	6.647		
	Total	960.971	139			

a. Dependent Variable: bad banks
b. Predictors: (Constant) issues and challenges of implementing bad banks

This table shows the value t and significant; it indicates that there are the significant coefficient of the impact of issues and challenges of implementing on bad banks (Table 6).

Table 6: *Coefficients[a]*

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.632	.755		14.075	.000
	issues and challenges of implementing badbanks	.274	.107	.213	2.564	.011

a. Dependent Variable: bad banks

Discussion

Impact of Bad Banks on the Indian Financial System

Based onthe aboveresult part, it can be discussed that there would be a significant effect ofthe bad banks onthe Indian financial system, both positive and negative affect, but it is realized that mechanism of the dynamics and structure of the Indian financial system would be entered in the newly emerging concept of bad banks in segmentations of the Indian financial system. The phenomena of the emerging concept of bad banks pave the way forthe management of non-performing assets and provide financial assistance to public and private sector banks, those facing crisis of toxic assets and the burden of the non-performing assets in commercial banks of India. It is well known that increasing quantities of non-performing assets (NPAs) adversely influence the interest rate of loans and the expenditure and consumption patterns of middle and upper-middle-class families in India.

In these consequences, introducing bad banks would positively improve the financial function of banks in the determinants of nature, process and consequences of the impact loans and size of interest rate of loans in the market. It is also important to discuss that function of the bad banks would create financial awareness among customers about loans, interest rates and non-performing assets in the Indian financial market of India. It is well known that India is the emerging market of consumption-based society due to the huge presence of the world's largest number of middle and upper-middle-class families. In these consequences, it is expected that there would be a significant impact of the bad banks on the Indian financial system as multiple factors because the Indian financial system is the component of system-based approaches of the Indian financial system. Therefore, bad banks would enhance the role of commercial banks by collaborating with bad banks under the monitoring of the Reserve Banks of India and the Ministry of Finance. Therefore, the concept of bad banks is based on the structural reform in the segmentation of the Indian financial system with emerging concepts, evolution, prospects, and challenges of bad banks in the Indian financial system.

Issues and challenges of implementing bad banks in the Indian financial system

- It may be the most hazardous challenge regarding developing a mechanism for planning to document banks' accounts in the bad banks.
- In the context of India, there will be emerged such kinds of challenges for analysis of the risk factors about the impact of non-performing assets (NPAs) because there is not any proper mechanism for the implementation of the aspiration of sizable return.
- Major fundamental challenges may be originated from selling toxic assets in India's market because there is no proper way to analyze the purchasing cost of toxic assets in India.
- According to the dynamic economy of India, a lack of awareness about purchasing non-performing assets (NPAs) may be quite challenging to find potential purchases fornon-performing assets in the Indian financial market.
- There will be financial challenges in public sector banks because public sector banks will be equal shareholders and customers of the insolvent bank. These consequences will create a financial clash between the public sector and insolvent banks because insolvent banks will cause considerable hardship to shareholders and customers.
- The consequences of the failureto un-purchase toxic assets would be an increased financial burden on National Asset Reconstruction Company Limited (NARCL) due to the storage of dangerous assets. It would increase the long-term financial challenges regardingthe function of bad banks in the Indian financial system of India.
- The increasing role of the National Assets Reconstruction Limited (NARCL) will enhance the role of bad banks in the Indian financial system, but questions will be emerged about the management of the financial sustainability between commercial banks and bad banks in the context of the management of crisis of toxic assets and non–performing assets (NPAs) in India. The issues with the government's finances and revenue have been reported and debated for a while. The question of whether the authorities would've been better off sustaining the bad bank rather than recapitalizing it has recently been up for discussion.
- The overwhelming majority of public sector banks (PSBs) deny disputing independent appraisals; the approach is unclear and not market-driven, making evaluating toxic debts challenging.
- The creation of thorough contingency planning and the administration of sufficient resources in areas like reconfiguration and restoration, commercial real estate, IT, and portfolio sales may result in the NARCL experiencing an initial statistical problem

Conclusion

Based on the above concise discussion about the concept, evolution, prospects and challengesof bad banks and their effect on the Indian financial system, it can be concluded that the concept of the bad bank is a new phenomenon in the Indian financial system because it wouldgive an enhancing in building the capacity of the development in the system of Indian financial system. Additionally, it is also important to mention that set up bad banks will create financial awareness among customers of India about the nature, process and consequences of the non-performing assets and toxic assets of commercial banks. The major purpose behind the setupof bad banks is to reduce the financial burden of non- performing assets in commercial banks and increase the loyalty of the Indian commercial banks. Therefore, it is also important to mention the bad banks' significant role on the global level in the management of non-performing and distressed assets. In these consequences, the NationalAssets Reconstruction Company Limited (NARCL) will play a significant role in setting up bad banks in India because there is a need to take a serious step for financial reform of distressed assets of NPAs of commercial banks of India. Therefore, it is also realized that way of setting up a bad bank is not easy in the market of Indian financial system because it will be difficult to build up confidence building among commercial banks regarding their collaboration in setting up a bad bank because there is a lack of technical issues in the analysis of risk factors about NPAs of commercial banks in India. In India, public and private sector banks face theproblem of distressed assets of NPAs.

In these consequences,it will be the responsibility of the National Assets Reconstruction Limited Company (NARCL) to workwith commercial banks to set up bad banks in India on the experiences of the role and function of bad banks on a global level. Therefore, it is also expected that there will be emerged a challenge in the implementation of bad banks in India; hence, there is a need to depth analysis of multiple determinant factors about the process and consequences of the rules, regulations, and acts of the bad banks before its regular implementation in the Indian financial system. Therefore, it can be concluded that both public and private sector banks will play a positive role in setting up bad banks and sharing their information about distressed assets of NPAs because increasing the quantity ofNPAs is increasing the imbalance in the balance sheet of commercial banks in India.

Based onthe above concluding remarks, there are the following recommended policies:

i. There is a need to depth analysis ofthe risk factors of the impact of bad banks on the Indian financial system because the concept of the bad bank is a new phenomenon in the Indian financial system regarding managing the burden of NPAs in India.
ii. There is also needed to start policy-oriented research for better implementation of the rules, regulations and acts of bad banks in the Indian financial system because it is well known that India's financial system is facing the problem of non-performing assets. In these consequences, the introduction of bad banks should be led by the government of India with the collaboration of the Reserve Bank of India.
iii. National Assets Reconstruction Company Limited (NARCL) should be recognized and implemented by a pilot-level project of the ministry of finance and RBI in the context of emerging challenges of NPAs in commercial banks of India.

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