

# How digital technology platforms are lubricating the NPA disposal process

*The digitalisation of the entire process, has the potential to reduce costs for banks and buyers, speed up recovery for banks, and provide fair access to buyers*

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India's huge stockpile of Non-Performing Assets (NPAs) is often considered an example of inefficiency in the banking sector and a systemic risk. Yet, there lies a significant opportunity in this crisis. Collateral properties on the defaulted loans are frequently offered at steep discount through bank auctions, at times 20-30 per cent lower than the prevailing market prices. This should create a compelling value proposition for a savvy investor.

## **Why is this sector not on the radar of the real-estate investor?**

There are many reasons for it – arguably rooted in the assumptions that have now changed. First, the [property should have clear legal titles](#), including the bank having followed the correct process in taking full possession of the assets. Investors also require an assessment of its physical condition and an estimate of its fair market value. This requires due diligence – investigating the property's legal history and potential liabilities. The due diligence costs are significantly higher for NPA properties because of their prior history. Potential buyers also need help in processing finances and bridge financing.

The NPA disposal market is a classic case of what economists call the “market for lemons”. There is significant information asymmetry between buyers and sellers (bankers), which stems from the nature of the NPA property – the original owner might have defaulted on the loan for a range of reasons, including the poor economic quality of the property. The cost of acquiring a low (economic) quality property is very high and difficult to reverse. And therefore, there are significant incentives for the sellers (and the defaulter) to misrepresent the fair value of the properties. In such cases, the market will degenerate into a “lemon's market”, where good quality products would be priced out of the market by low-quality products and sellers. Good buyers refrain from the market anticipating a lack of any good-quality property in the market, and by corollary, good quality sellers do not enter the market. Therefore such markets need a trusted intermediary that addresses the information asymmetry and enables efficient markets.

## **Regulatory backdrop**

India's regulatory architecture for managing NPAs has evolved significantly over the past two decades, anchored by two major frameworks: the SARFAESI Act (2002) and the Insolvency and Bankruptcy Code (IBC, 2016). The SARFAESI Act empowered the banks and financial institutions to enforce security interests without court intervention. It allowed lenders to seize and sell secured assets of defaulting borrowers after issuing a 60-day notice, bypassing lengthy litigation. The IBC marked a [paradigm shift in India's approach to insolvency](#). For the first time, it introduced a time-bound, creditor-in-control process for resolving corporate defaults. This helped the buyers, as it expedited the NPA disposal process.

However, we should add a word of caution. While the acts have improved the situation, on-ground challenges remain. Implementation has been constrained by institutional bottlenecks, capacity issues, and limited integration with modern digital infrastructure.

Therefore, the market has not matured sufficiently to attract many buyers. If the high transaction costs and uncertainties are reduced, it is very likely that sufficient borrowers would be willing to pay for such services.

### **The way ahead**

The banks would significantly benefit from a fast and efficient NPA disposal process (faster recovery of the value), as well as the buyers (fair value of distressed assets). Use of technology can help unlock value for all the participants in the ecosystem – digital platforms making search and discovery seamless; secure data and digital services providing authenticated property documents; and digital auctions enabling a fair and compliant process. The digitalisation of the entire process, therefore, has the potential to reduce costs for banks and buyers, speed up recovery for banks, and provide fair access to buyers.

In such a complex scenario, a start-up, AuctionBazaar.com, has been working to bridge the vast gap between potential buyers and the selling banks for the last 5 years. The platform is helping buyers and banks with the whole range of services – from making it easy to search for the property, securing legal opinion, due-diligence, facilitating the e-auction process, as well as post-auction processes, all in compliance with the regulations. They have seen the changes during this period. The NPA disposal time for residential units has reduced by 61 per cent. For residential units the number of bidders have increased 9 times, and the total number of e-auctions have increased almost 14 times.

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