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Impact of the SARFAESI Act, 2002 on Recovery of Non-Performing Assets in the Banking Sector

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ABSTRACT

The rising volume of Non-Performing Assets (NPAs) has long posed a serious challenge to the stability and efficiency of the Indian banking sector. To address this problem, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) was enacted to empower banks and financial institutions to recover dues by enforcing security interest without the intervention of courts. This study examines the impact of the SARFAESI Act, 2002 on the recovery of NPAs in the banking sector. It analyses the key provisions of the Act relating to possession, sale of secured assets, and the role of Asset Reconstruction Companies. The research also evaluates the practical effectiveness of the recovery mechanism, the contribution of judicial interpretations by the Supreme Court and High Courts, and the major operational and legal challenges faced by banks during implementation. The study further assesses the overall contribution of the Act towards improving recovery rates, reducing NPAs, and strengthening the financial health of banks. The findings aim to provide a clear understanding of the legal and practical outcomes of the SARFAESI framework and offer suggestions for improving its functioning in the interest of a more robust banking system.

Keywords: *SARFAESI Act 2002; Non-Performing Assets; Banking Sector Recovery.*