



Analysis of the Factors Causing Non Performing Assets and Reduction Strategies for PSB in India

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Abstract

Banking sector plays an essential role in economic progress and development of a country through mobilization of savings and deployment of funds to the productive sectors. India has a bank based financial system where banks and financial institutions are the principal intermediaries for the commercial sector credit. And the problem of ‘Non Performing Asset’s is not limited to Indian banks only in fact, this is the problem of almost all countries of the world, no matter country is developing, developed or poor. Indian government has already taken number of initiatives in this direction. It points out that the financial conception of NPA as a mere risk phenomenon is inadequate, because a number of reasons leading to non-random generation of NPA are related to the dimension of uncertainty. It highlighted that the use of a secondary asset market may take care of NPA problem, but it requires a number of conditions for its use, which hardly exist in India. The study analyses factors responsible for the generation of NPAs which are important and peculiar to India. This is followed by a critical evaluation of the series of policy measures that have been adopted to improve the NPA scenario since liberalization. The paper analyses the process leading to formation and upholding of high levels of NPAs in Indian public sector banks and further review the impact of ‘Securitization Act’ and other policy measures for the control ahead.

Keywords: Bank, Loan, Asset, NPA, Securitization

Index Terms—Component, formatting, style, styling, insert. (key words)

I. INTRODUCTION

All As long as an asset generates income expected from it, it is treated as “performing asset” and when it fails to generate income, a loan asset becomes a “Non Performing Asset”. The problem of NPA is not limited to Indian banks but in fact, this is the problem of almost all countries of the world, no matter country is developing, developed or poor. It cannot be denied that mismanagement, wilful default, fund diversion and siphoning off of funds, delay in project completion, changes in industrial policy, and the dropping interest rate regime have contributed tremendously to rendering several assets sick. Though the NPAs of the Indian financial system are not as alarming as those of pre-crisis South Asia or China, but they are still quite high



Countries such as Korea, China, Japan, Taiwan have a well functioning Asset Reconstruction/Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, there is an absence of such mechanism and whatever exists, it is still in nascent stage. India is interesting case to study as the problem of NPAs is very stark in Indian banks especially in the Indian public sector banks.

According to Crisil, bad loans are seen rising mainly because of withdrawal of regulatory forbearance on restructuring, and high slippages from restructured assets. As much as 40 per cent of assets restructured between 2011- 14 have degenerated to NPAs. It is said that in the current fiscal, gross non-performing assets (NPAs) of Indian banks are seen edging up by 20 basis points (bps) to 4.5 per cent of advances - or rise by Rs. 600 billion to four trillion. According to Crisil, worryingly, exposure of banks to vulnerable sectors is expected to remain high, just the way it was in 2014-15," Therefore, it is high time for the Indian banking sector to solve the problem of NPA.

II Abbreviations and Acronyms

A. REVIEW OF LITERATURE

The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector (Vallabh *et al*, 2007). Evidence from across the world suggests that a sound and evolved banking system is required for sustained economic development. India has a better banking system in place *vis-a-vis* other developing countries, but there are several issues that need to be tackled out (Kaul, 2005). Among these, Non Performing Assets is biggest issue of concern (Vittal, 2002). study made by the Reserve Bank of India states that, compared to other Asian countries and the US, the gross non-performing asset figures in India seem more alarming than the net NPA figure (Narshimam, 1999). In the banking literature, the problem of NPLs has been revisited in several theoretical and empirical studies. And there is an emergent need to focus on the problem of swelling non- performing assets in banks and financial institution of the country as it becomes more and more unmanageable and created threats for the financial sector. It is further found that securitization can be used for the liquidating the illiquid and long terms debt like loan receivables of the financial institutions or bank by issuing marketable securities against them(Rajeshwari Krishnan (2002). She concluded that the SARFAESI act is defiantly and big leap forward not only in the filled of NPA management but also promoting the securitizing market in India. The act may be required to fine tuned to bring in 'natural justice'. So it was investigated that the growth of selected NPA variables and compare it with banking performance indicators (Siraj K.K. & Sudarsanan Pillai P.2013)

B. OBJECTIVES OF THE STUDY

- To examine and review the factors causing NPAs in the Indian public sector banks



- To analyse the regulatory frame- work for reducing the problem of NPAs in the Indian public sector banks
- To Study the impact of SERFAESI Act in reducing the problem of NPAs
- To suggest the strategies to manage the problem of NPAs' in Indian public sector banks.

C. HYPOTHESIS OF THE STUDY

H1 It is hypothesized that there is no relationship between internal and external factors causing NPAs in Indian public sector banks

H2 It is hypothesized that regulatory frame-work plays significant role in the control of NPAs in the Indian public sector banks

H3 It is hypothesized that SRFAESI Act has no impact on reducing the problem of NPAs

III RESEARCH METHODOLOGY

Research Types: The present research is mainly of **quantitative nature**. The **Research design** is exploratory design. Further, the study formulates more precise research problem by developing hypotheses. Since the scope of the study is very vast, the present study also represents some characteristics of descriptive research design. **Sampling Technique** used in the study is **non probability convenient sampling**. For analysis and interpretation both simple and advanced statistical tools: non- parametric statistical tests based on **Chi-square test** and **five point Likert scale** has also been used to measure the intensity of the respondents attitudes towards the selected attributes. 60 bank branches from public sector (State Bank of Group and Nationalized Banks) located in Delhi, Haryana and Punjab were selected & one respondent (Branch Manager) was selected from each bank branch. Thus sample size is total 60.

IV RESULTS ANS FINDINGS

A. Internal Factors as Causes of Bad Loans

To study the various factors causing bad loans were developed as parameters by the researcher. Table 1 indicates that majority of the respondents showed their acceptance regarding all the parameters indicating the reasons how internal factors cause bad loans. 45 percent of the respondents were strongly agreed with parameter E1, whereas 35 percent supported them.

Table 1: Internal factors /causes of bad loans in the selected banks.

Parameters (Coding)	SA	A	N	D	SD	Total
Appraisal (E1)	27 (45.00)	21 (35.00)	2 (3.33)	5 (8.33)	4 (6.67)	60 (100)
Managers have poor skills in credit scoring (E2)	24 (40.00)	25 (41.67)	1 (1.67)	4 (6.67)	6 (10.00)	60 (100)



Managers have lack of motivation (E3)	23 (38.33)	22 (36.67)	2 (3.33)	7 (11.67)	6 (10.00)	60 (100)
Managers are not fully competent in appraising the value of collateral (E4)	25 (41.67)	23 (38.33)	3 (5.00)	4 (6.67)	5 (8.33)	60 (100)
No administrative penalties (E5)	20 (33.33)	19 (31.67)	2 (3.33)	10 (16.67)	9 (15.00)	60 (100)
Target Completion (E6)	26 (43.33)	22 (36.67)	1 (1.67)	6 (10.00)	5 (8.33)	60 (100)
Monitoring and Controlling						
Efforts to reduce costs (E7)	21 (35.00)	18 (30.00)	4 (6.67)	6 (10.00)	11 (18.33)	60 (100)
Lack of efforts on part of managers (E8)	18 (30.00)	19 (31.67)	7 (11.67)	9 (15.00)	7 (11.67)	60 (100)
Lack of manpower (E9)	28 (46.67)	18 (30.00)	2 (3.33)	4 (6.67)	8 (13.33)	60 (100)
Lack of focus of the top management (E10)	30 (50.00)	10 (16.67)	5 (8.33)	8 (16.67)	7 (11.67)	60 (100)
Seizing and disposing of collateral (E11)	22 (36.67)	21 (35.00)	3 (5.00)	5 (8.33)	10 (16.67)	60 (100)
Bad pre section scrutiny (E12)	20 (33.33)	13 (21.66)	9 (15)	10 (16.66)	8 (13.33)	60 (100)



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Note: Figure in parenthesis indicate percentage

Table 1.1: Analysis of Table 1

Variable name	Parameters	Mean score	Rank
E1	Appraisal	3.98	1.5
E2	Managers have poor skills in credit scoring	3.95	4
E3	Managers have lack of motivation	3.82	6
E4	Managers are not fully competent in appraising the value of collateral	3.98	1.5
E5	No administrative penalties	3.52	12
E6	Target Completion	3.96	3
Monitoring and Controlling			
E7	Efforts to reduce costs	3.53	10.5
E8	Lack of efforts on part of managers	3.53	10.5
E9	Lack of manpower	3.90	5
E10	Lack of focus of the top management	3.80	7
E11	Seizing and disposing of collateral	3.72	9
E12	Bad pre section scrutiny	3.78	8

From the ranking of the mean score in the table 1.1, four important internal factors can be identified which causes the bad loans in the selected public sector banks. There are: (1) Appraisal, (2) Managers are not fully competent in appraising the value of collateral. The above two factors are most and equally important factors which causes the bad loans. Next two important factors which ranked at 3 and four are: Target completion and Managers have poor skills in credit scoring. It is also found that no administrative penalty is least important internal factor causes bad loans in the selected banks. It is also found that monitoring and controlling factors are least important than the general factors causing bad loans in Indian public sector banks



B. External Factors/ Causes of Bad Loans

Table 2 deals with the external factors /causes bad loans in the selected banks. To study these factors various parameters were developed & the responses to these parameters were collected and shown in the table in appendix. From the ranking of the mean scores in the table 3.1, three important external factors have been identified which causes of bad loans in the selected public sector banks and ranked as (1) Economic down turn, (2) Influence from the central government and (3) Economic down turns. These three external factors are most important causes' bad loans. It is also found that the external factors i.e. Natural calamities resulting in crop failure and 90 days non payment time for account turning NPA too short are least important external factors causes' bad loans in selected public sector banks.

Table 3: External factors /causes bad loans

Parameters (Coding)	SA	A	N	D	SD	Total
Influence from the central government (F1)	26 (43.33)	18 (30.00)	4 (6.67)	6 (10.00)	6 (10.00)	60 (100)
Interference from the local government (F2)	30 (50.00)	12 (20.00)	2 (3.33)	7 (11.67)	9 (15.00)	60 (100)
Economic down turns (F3)	23 (38.33)	26 (43.33)	1 (1.67)	5 (8.33)	5 (8.33)	60 (100)
Political intervention (F4)	22 (36.67)	20 (33.33)	6 (10.00)	8 (13.33)	4 (6.67)	60 (100)
Willful defaults by borrowers (F5)	29 (48.33)	16 (26.67)	3 (5.00)	4 (6.67)	8 (13.33)	60 (100)
Soft budget constraints (F6)	22 (36.67)	20 (33.33)	2 (3.33)	8 (13.33)	8 (13.33)	60 (100)
Intense competition (F7)	25 (41.67)	15 (25.00)	5 (8.33)	9 (15.00)	6 (10.00)	60 (100)
Insolvency (F8)	20 (33.33)	24 (40.00)	2 (3.33)	7 (11.67)	7 (11.67)	60 (100)
Business failure (F9)	28 (46.67)	15 (25.00)	4 (6.67)	6 (10.00)	7 (11.67)	60 (100)
Government policy (F10)	27 (45.00)	12 (20.00)	5 (8.33)	5 (8.33)	11 (18.33)	60 (100)
Natural calamities resulting in crop failure (F11)	18 (30.00)	25 (41.67)	3 (5.00)	4 (6.67)	10 (16.67)	60 (100)
90 days non payment time for a/c turning NPA too short (F12)	19 (31.67)	22 (36.67)	1 (1.67)	9 (15.00)	9 (15.00)	60 (100)

Note: Figure in parenthesis indicate percentage

Table 2.1: Analysis of Table 2

Variable Name	Parameters	Mean score	Rank
F1	Influence from the central	4.06	2



	government		
F2	Interference from the local government	3.78	6
F3	Economic down turns	4.95	1
F4	Political intervention	3.80	5
F5	Willful defaults by borrowers	3.90	3
F6	Soft budget constraints	3.67	9
F7	Intense competition	3.73	7
F8	Insolvency	3.72	8
F9	Business failure	3.85	4
F10	Government policy	3.65	10
F11	Natural calamities resulting in crop failure	3.62	11
F12	90 days non payment time for a/c turning NPA too short	3.55	12

Table 3 Hypotheses testing

Hypothesis	Table value of Chi Square (χ^2)	Calculated value of Chi Square (χ^2)	Degree of Freedom (df):	Level of Significance
* H1	19.68	0.8563095	11	5%
**H2	16.92	3.7974	9	5%
***H3	3.84	4.04	1	5%

H1 It is hypothesized that there is no relationship between internal and external factors causing NPAs in Indian public sector banks

Since the *calculated value of Chi Square (χ^2) as mentioned in the above table 3 is less than the table value at 5 per cent level of significance and at 11 df , thus, the null hypothesis is accepted. Therefore, it is revealed that internal and external factors causing NPAs are not related with each others' and both factors are not equally responsible for causing NPAs in Indian public sector banks.

C. Difficulties usually faced in Implementing Inspection of Accounts on Regular Basis

Further study deals with the difficulties faced in inspection of accounts on regular basis in the selected banks. To study the difficulties faced by banks in inspection of accounts, various parameters were developed. The respondents were asked to rate the parameters. The responses of respondents were collected and shown in the table 4 in the (appendix) From the ranking of the mean score in table 4.1, two main difficulties faced by banks in inspection of accounts are identified. These are: - (1) Heavy routine work and inadequate staff and (2) Non submission of



stocks statements by parties. It is also found that distance borrowers units from branches are not the main difficulty faced by banks in inspection of accounts on regular basis in banks of India.

Hypothesis **H2 II** It is hypothesized that bank managers faced difficulties in inspection of accounts in Indian public sector banks

Table 4: Difficulties faced by banks in inspection of accounts

Parameters (Coding)	1	2	3	4	Total
Non Submission of Stock statements by parties (G1)	22 (36.67)	16 (26.67)	13 (21.67)	9 (15.00)	60 (100)
Distance borrowers units from branches (G2)	20 (33.33)	17 (28.33)	15 (25.00)	8 (13.33)	60 (100)
Heavy routine work and inadequate staff (G3)	24 (40.00)	15 (25.00)	14 (23.33)	7 (11.67)	60 (100)
Non- availability of trained staff (G4)	25 (41.67)	12 (20.00)	11 (18.33)	12 (20.00)	60 (100)

Note: Figure in parenthesis indicate percentage

Table 4.1: Analysis of Table 4

Variable Name	Parameters	Mean score	Rank
G1	Non Submission of Stock statements by parties	2.85	2
G2	Distance borrowers units from branches	2.82	4
G3	Heavy routine work and inadequate staff	2.93	1
G4	Non- availability of trained staff	2.83	3

**Since the calculated value of Chi Square(χ^2) as mentioned in table 3 is less than the table value at 5 per cent level of significance and at 11 *df*, thus, the null hypothesis is rejected. Therefore, it is revealed that bank managers have not faced difficulties in inspection of accounts in public sector banks.

Research deals with the number of factors considered early warning signals of accounts in the selected banks. To study these factors various parameters were developed by the researchers. The responses to these parameters were collected and shown in the table 5 in the (appendix)

D. Factors Considered as Early Warning Signals of an Account Turning into NPAs

Table 5: Factors considered early warning signals of accounts

Parameters (Coding)	Yes	No	Total
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No operation in account (H1)	39 (65.00)	21 (35.00)	60 (100)
Irregular repayment (H2)	42 (70.00)	18 (30.00)	60 (100)
Not routine transactions (H3)	33 (55.00)	27 (45.00)	60 (100)
Frequent return of cheques (H4)	29 (48.33)	31 (51.67)	60 (100)
Frequent over drawings N(H5)	30 (50.00)	30 (50.00)	60 (100)
Income generation from projects no as per the plan (H6)	32 (53.33)	28 (46.67)	60 (100)
Any other (H7)	18 (30.00)	32 (53.33)	60 (100)

Note: Figure in parenthesis indicate percentage

Table 5.1: Analysis of Table 5.

Variable Name	Rank
H1	2
H2	1
H3	3
H4	6
H5	5
H6	4
H7	7

Table 5.1 depicts that 'irregular payment' is highly reported warning signals of accounts turning into NPAs in Indian public sector banks, followed by the 'No operation in Account' and 'Income generation from projects no as per the plans. But the least important warning signals are the 'frequent return of checks' and any others.

Table 6 deals with the various suggestions for improving the NPAs recoveries. To study the possible suggestions, various parameters were developed. The responses to these parameters were collected and shown in the table 7 in the (appendix)

Table 6: Suggestions for improving NPAs recoveries

Parameters (Coding)	SA	A	N	D	SD	Total
Sufficient staff to be given (J1)	24	20	3	8	5	60



	(40.00)	(33.33)	(5.00)	(13.33)	(8.33)	(100)
Support from controlling office (J2)	28 (46.67)	16 (26.67)	1 (1.67)	7 (11.67)	9 (15.00)	60 (100)
Follow up of NPAs to be increased (J3)	22 (36.67)	23 (38.33)	2 (3.33)	5 (8.33)	8 (13.33)	60 (100)
Recovery machinery to be improved in PSU banks like new generation banks (J4)	26 (43.33)	18 (30.00)	4 (6.67)	6 (10.00)	6 (10.00)	60 (100)
Revenue and government body involvement is necessary to recover (J5)	25 (41.67)	15 (25.00)	5 (8.33)	9 (15.00)	6 (10.00)	60 (100)
SARFAESI Act where ever applicable is to invoked (J6)	30 (50.00)	12 (20.00)	1 (1.67)	7 (11.67)	10 (16.67)	60 (100)
Appoint recovery officer to collection daily basis from transport operators and retailers etc. (J7)	23 (38.33)	17 (28.33)	3 (5.00)	8 (13.33)	9 (15.00)	60 (100)
Stern action to be taken after analysis in the case of willful defaults (J8)	21 (35.00)	16 (26.67)	6 (10.00)	10 (16.67)	7 (11.67)	60 (100)
Effective laws are required to deal with NPAs (J9)	25 (41.67)	10 (16.67)	8 (13.33)	5 (8.33)	12 (20.00)	60 (100)
Compromise is better than recovery through the legal suits (J10)	20 (33.33)	14 (23.33)	8 (13.33)	11 (18.33)	7 (11.67)	60 (100)
More power to the branches (J11)	27 (45.00)	12 (20.00)	1 (1.67)	7 (11.67)	13 (21.67)	60 (100)
Any other (J12)	19 (31.67)	20 (33.33)	2 (3.33)	8 (13.33)	11 (18.33)	60 (100)

Note: Figure in parenthesis indicate percentage

Table 6.1: Analysis of table 6

Variable Name	Parameters	Mean score	Rank
J1	Sufficient staff to be given	3.83	2.5
J2	Support from controlling office	3.83	2.5
J3	Follow up of NPAs to be increased	3.77	4
J4	Recovery machinery to be improved in PSU banks like new generation banks	3.86	1
J5	Revenue and government body involvement is necessary to recover	3.73	6
J6	SARFAESI Act where ever applicable is to invoked	3.75	5
J7	Appoint recovery officer to collection daily basis	3.62	7



	from transport operators and retailers etc.		
J8	Stern action to be taken after analysis in the case of willful defaults	3.47	11.5
J9	Effective laws are required to deal with NPAs	3.52	9
J10	Compromise is better than recovery through the legal suits	3.48	10
J11	More power to the branches	3.55	8
J12	Any other	3.47	11.5

From the ranking of the mean score in table 6.1, top five parameters were identified which are the most important suggestions to improve NPA recoveries in the banks. These are: (1) Recovery machinery to be improved in PSU banks like new generation banks. (2) Sufficient staff to be given. (3) Support from controlling office. The second two factors were equally important. (4) Follow up of NPAs to be increased. (5) SARFAESI Act where ever applicable is to invoke. It is also found that suggestions to appoint recovery officer to collect daily basis from transport operators and retailers.

etc and others were not the important suggestions to improve NPAs recoveries in the selected public sector banks.

Table 8(appendix) indicates that highest 48.33 per cent respondents were strongly agreed with the parameter K1; whereas 36.67 per cent of the respondents supported them. 36.67 per cent of the respondents strongly agreed with the parameter K2 and only 5 per cent of the respondents were strongly disagreed

Table 7 Suggestions to control the problem of NPAs

Parameters (Coding)	SA	A	N	D	SD	Total
Good pre-sanction scrutiny (K1)	29 (48.33)	22 (36.67)	1 (1.67)	5 (8.33)	4 (6.67)	60 (100)
Effective post-sanction supervision (K2)	22 (36.67)	26 (43.33)	2 (3.33)	7 (11.67)	3 (5.00)	60 (100)
Frequent interaction with borrowers (K3)	23 (38.33)	25 (41.67)	3 (5.00)	3 (5.00)	6 (10.00)	60 (100)
Adherence to KYC (know your customer) norms (K4)	26 (43.33)	20 (33.33)	3 (5.00)	4 (6.67)	7 (11.67)	60 (100)
Take adequate realizable security (K5)	20 (33.33)	27 (45.00)	4 (6.67)	2 (3.33)	8 (13.33)	60 (100)
Branches to have adequate manpower for follow up/supervision of advances (K6)	24 (40.00)	16 (26.67)	0 (0)	9 (15.00)	11 (18.33)	60 (100)
Need based financing (K7)	27 (45.00)	23 (38.33)	2 (3.33)	3 (5.00)	5 (8.00)	60 (100)



Obtain confidential opinion from other banks where the customer is also maintain an a/c (K8)	28 (46.67)	15 (25.00)	4 (6.67)	6 (10.00)	7 (11.67)	60 (100)
Effective recovery steps (K9)	25 (41.67)	18 (30.00)	5 (8.33)	6 (10.00)	6 (10.00)	60 (100)
Any other (K10)	18 (30.00)	24 (40.000)	1 (1.67)	8 (13.33)	9 (15.00)	60 (100)

Note: Figure in parenthesis indicate percentage

Table 7.1: Analysis of table 7

Variable Name	Parameters	Mean score	Rank
K1	Good pre-sanction scrutiny	4.17	1
K2	Effective post- sanction supervision	3.95	3
K3	Frequent interaction with borrowers	3.93	4
K4	Adherence to KYC (know your customer) norms	3.90	5
K5	Take adequate realizable security	3.87	6
K6	Branches to have adequate manpower for follow up/supervision of advances	3.55	10
K7	Need based financing	4.07	2
K8	Obtain confidential opinion from other banks where the customer is also maintain an a/c	3.67	8
K9	Effective recovery steps	3.83	7
K10	Any other	3.56	9

From the ranking of the mean score in table 8.1, three parameters were identified which were the most important suggestions to control the problem of NPAs in the banks. These were: (1) Good pre-sanction scrutiny. (2) Need based financing. (3) Effective post sanctions supervision. It is also found that branches to have adequate manpower for follow up/supervision of advances were not the appropriate suggestion to control the problems of NPAs in the banks of India.

E. Impact of Securitization Act on NPAs

Table 9 deals with the impact of Securitization Act on Non Performing Assets. To study the impact of Securitization Act the respondents were asked to give their opinion whether they are agreed (L1) or not (L2) and cannot say anything (L3). Responses to these opinions were gathered and shown in the table 9 (appendix).

Table 8: Impact of Securitization Act on NPAs

Opinion (Coding)	Responses
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	(Percentage)
Yes (L1)	49 (81.67)
No (L2)	11 (18.33)
Total	60 (100)

Note: Figure in parenthesis indicate percentage

Table 8 depicts that Securitization Act has impact on reducing the level of NPAs in the selected public sector banks. Very few respondents reported that Securitization has no impact on NPAs. Hypothesis **H3** *It is hypothesized that Securitization Act has no impact on reducing the problem of NPAs ,as mentioned in the table 4*

Since the calculated value of Chi Square (χ^2) is more than the table value at 5 per cent level of significance at 1 *df*, thus, the alternate hypothesis is accepted. Therefore, it is revealed that Securitisation Act has positive impact on NPAs, thereby reduced the magnitude of problem

F. Experiences with the Public or Judicial Auction Procedures

Table 9 deals with the experience of the respondents with the public or judicial auction procedures whether these procedures were highly satisfactory (M1), Satisfactory (M2), Less Satisfactory (M3), Not satisfactory (M4). Responses to these parameters were developed and shown in the table 10 in (appendix)

Table 9: Experience with the Public or Judicial Auction Procedures

Levels of Satisfaction (Coding)	Response
Highly satisfactory (M1)	23 (38.33)
Satisfactory (M2)	14 (23.33)
Less Satisfactory (M3)	10 (16.67)
Not satisfactory (M4)	13 (21.67)
Total	60 (100)

Note: Figure in parenthesis indicate percentage

Table 9.1: Analysis of table 9

Variable name	Rank
M1	1
M2	2
M3	4
M4	3

Survey deals with the trend in recovery from NPAs through various initiatives. To study these factors various parameters (N1, N2, N3, and N4) were developed & responses to these parameters were collected and shown in the table 11(appendix) indicates that highest 43.33 per cent respondents reported that Recovery was done through SARFAESI Act (N4), followed by parameter N3, N2 and N1. SARFAESI Act has been found major instrument of NPAs recovery in the Indian public sector banks followed by DRTs and Lok Adalats. Compromise scheme and



one time settlement scheme has been found least effective in regards to recovery of NPAs in the Indian public sector banks.

V SUGGESTIONS TO MANAGE PROBLEM OF NPAs(Preventive and curative measures)

These NPA management strategies for Indian public sector are given as under:

- **Special Mention Accounts:** In a recent circular, RBI has suggested to the banks to have a new asset category - 'special mention accounts' - for early identification of bad debts. This would be strictly for internal monitoring. Loans and advances overdue for less than one quarter and two quarters would come under this category. Data regarding such accounts will have to be submitted by banks to RBI. However, special mention assets would not require provisioning, as they are not classified as NPAs. Nor are these proposed to be brought under regulatory oversight and prudential reporting immediately. The step is mainly with a view to alerting management to the prospects of such an account turning bad, and thus taking preventive action well in time..
- **Establishment of an AMC** may be useful when the size of problem reaches systematic proportions so that special management skills are needed. An important purpose of have asset management companies is the managerial factor. The handling of bad loans and assets requires other skills than are normally available in a bank. Real estate specialists, liquidation experts, and people with insights into various industrial sectors may be needed. In addition, managing large amount of bad assets would interfere with the daily running of the bank. If a separate AMC is established to handle bad assets, both the good bank and the AMC could be given independent and transient profit goals. This would provide clearer incentives for managers and staff.
- The study reveals that **poor pre and post sanction scrutiny** is one of the reasons behind the growing non-performing assets in the Indian public sector banks. Thus, the study identifies the need of effective of pre and post sanction scrutiny. **Effective and regular follow-up** of the end use of the funds sanctioned is required to ascertain any embezzlement or diversion of funds. This process can be undertaken every quarter so that any account converting to NPA can be properly accounted for.
- **Combining traditional wisdom with modern statistical tools** like Value-at-risk analysis and Markov Chain Analysis should be employed to assess the borrowers. This is to be supplemented by information sharing among the bankers about the credit history of the borrower.
- The study identifies the need of **improving the relationship** between the banker and borrowers. A healthy Banker-Borrower relationship should be developed. Many instances have been reported about forceful recovery by the banks, which is against corporate ethics. Debt recovery will be much easier in a congenial environment.
- **The study proved that securitization is very effective tools** to fight with the problem of NPAs. This has been used extensively in China, Japan and Korea and has attracted international participants due to lower liquidity risks. The Resolution Trust Corporation has helped develop the securitization market in Asia and has taken over around \$ 460 billion as bad assets from over 750 failed banks. Its highly standardized product appeals to a broad investor base. Securitization in India is still in a nascent stage but has potential in areas like mortgage backed securitization.



ICRA estimates the current market size to be around Rs 3000 Crores. There is need to make the securitisation system more effective in India.

- Countries such as Korea, China, Japan, Taiwan have a well **functioning Asset Reconstruction/Recovery mechanism** wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, there is an absence of such mechanism and whatever exists, it is still in nascent stage. One problem that can be accorded is the pricing of such loans. Therefore, there is a need to develop a common prescription for pricing of distressed assets so that they can be easily and quickly disposed.
- **Some tax incentives** like capital gain tax exemption, carry forward the losses to set off the same with other income of the Qualified Institutional Borrowers (QIBs) should be granted so as to **ensure their active participation** by way of investing sizeable amount in distressed assets of banks and financial institutions.
- The study reveals that highest lending has been made to the priority sector by the Indian public sector bank. So far the Public Sector Banks have done well as far as lending to the priority sector is concerned. However, it is not enough to make lending to this sector mandatory; it must be made profitable by sharply reducing the transaction costs. This entails faster embracing of technology and minimizing documentation. The study suggest whatever be the sector, the **financing should be made on the basis of need**.
- The study also identifies the **need of improvement in the existing NPAs recovery machinery**. An effective strategy of NPA resolution has to involve the financial and operational restructuring of unviable industrial borrowers. Because the representative NPAs of larger size are industrial loans collateralized by the fixed assets of the borrowers, they typically do not have much value if the viability of the borrower is in doubt. However, corporate restructuring has been a difficult process worldwide. Its success depends not only on an efficient and effective corporate insolvency regime, but also on labour laws, competition policies, trade policies, and other structural factors. From this perspective, the resolution of the NPAs in the banking system is only a part of the larger effort of industrial restructuring and structural reforms.
- Last but not the least, another way to manage the NPAs by the Indian public sector banks is Compromise Settlement Schemes or One Time Settlement Schemes.

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