3.1 Statement of the problem

Prior to 1991 the Indian Banking was dominated by state controls of direct credit delivery and regulated interest rates. The Indian banking sector is also dominated by public sector banks (PSBs) that include SBI & associates and nationalized banks. After the liberalization, many private sector banks and foreign banks come into the banking industry. The major objectives of banking sector reforms were to encourage operational self-sufficiency, flexibility and competition in the system and to improve banking standards in India to the international best practices. Based on the recommendations of various committees’ especially the Committee on Financial Sector Reforms under the chairmanship of Mr. M. Narasimham and according the Basel requirements, various measures were implemented to liberalize the banking sector and it include;

- Liberalizing rules for entry of more domestic and foreign banks.
- Infusion of government capital in PSB and permission to inject private equity
- Deregulation of interest rate except for specific classes
- Reduction in the requirements of SLR and CRR.
- Reduction in credit controls
- Incorporation of prudential measures for income recognition, asset classification and provisioning requirements.
- Implementing Basel based capital adequacy requirements.
- Emphasis on performance, transparency and accountability.

RBI issued guidelines in 1993 based on the recommendations of the Narasimham Committee that mandated identification and reduction of NPA to be treated as ‘National Priority’. The level of the NPA indicates the efficiency of banker’s credit risk management and allocation of resource. The measures incorporate to manage NPA can be classified into precautionary measures and curative measures. Precautionary measures focus strengthening credit risk management system and continuous risk assessment systems of the bank. This will reduce the instances of fresh NPA that have been generated. The curative measures are reactionary in nature and focused on recovering from NPA accounts. It includes measures initiated by RBI such as setting up Asset Reconstruction Companies (ARCs), Debt Recovery Tribunals (DRTs), Securitization Act, Compromise Settlement Schemes, etc. Despite the various prudential measures taken from the post – liberalization period, the non-performing assets still
pose an important threat to the very existence of banking. From 636.09 billion in 2000-01, the total gross NPA (GNPA) has increased to 979.25 billion in 2010-11 and 1,423.26 billion in 2011-12. In percentage terms, Gross NPA increased to 45.3% in 2011-12, compared to 15.7% increase during the previous year. Similarly, from 314.63 billion in 2000-01, the total net NPA (NNPA) has increased to 418.15 billion in 2010-11 and 649.75 billion in 2011-12. Along with increase of NPA, there exists an increase in the level of loan restructuring in standard advances during the study period. The observation made by Reserve Bank of India in its annual report 2011-12 state that “In the period immediately following the global financial crisis, when asset quality of banks in most advanced and emerging economies took a beating, the asset quality of Indian banks was largely maintained, partly on account of the policy of loan restructuring”. The restructured standard advances of public sector banks (PSBs) as a percentage of gross advances 5.07% in 2009-10, 4.2% in 2010-11 and 5.92% in 2011-12. The total NPA written off by banks in India during the last 13 years (2000 to 2013) is 100,000 crores.

Examination of published works on NPA in scheduled commercial banks (SCBs) in India showed that; (1). Most of the studies focused on NPA ratio’s (gross NPA ratio and net NPA Ratio) to assess the asset quality and effectiveness of credit risk management. (2). Very few studies were conducted examining the relationship between NPA and Securitization Act 2002 and its effect on asset quality is not studied in depth (4). Only a few studies were conducted using banker’s perception on incidence, impact and management of NPA, and (5). Many measures were initiated since 2000 to effectively manage the menace of NPA. Further, limited studies have been done on the effectiveness of various measures taken from the post-millennium period, including One Time Settlement/Compromise Scheme (2000), Debt Recovery Tribunals (originally established in 1993, significant amendment was carried out during 2003), Corporate Debt Restructuring (2001), SARFAESI (the act was passed during 2002) and Asset Reconstruction Company (ARC).

The RBI and Government of India took a number of measures from time to time like the Securitization Legislation in India deals with NPAs through Assets Reconstruction Companies and Enforcement of Security Interest besides the Securitization. Considering all this and the significance of the Securitization Act 2002 in the recovering of the NPAs of the Banks and Financial Institutions, An effort is made to probe the impact of the Securitization Act in
improving the financial markets, increasing the profitability and solvency of the Banks and Financial Institutions Through effective Management of NPAs.

3.2 Need and importance of the study

The Indian banking industry has been affected by bad & doubtful assets the multiple factors are responsible for the NPAs in those Financial Institutions in India. The banks and financial institutions have been burdened with ever increasing Non Performing Assets. Prior to 2002, no any legal provisions for facilitating securitization of financial assets of banks and take possession of securities and sell them without the intervention of the court. The securitization and reconstruction of the Financial Assets and the security interest Act, 2002 was a step in this direction. Under this Act the recovery of the NPAs increased in the banking sector.

3.3 Objectives of the Study

The specific objectives of the present study are given as:

1. To study the trends in the level of NPAs before and after the enactment of SARFAESI Act 2002 in Indian public sector banks.
2. To analyze the performance of the Indian public sector Banks before and after the enactment of SARFAESI Act 2002.
3. To analyze the trends in the sector wise NPAs of Indian public sector banks before and after the enactment of SARFAESI Act 2002.
4. To know the Banker’s perception regarding effectiveness and the role played by the enactment of SARFAESI Act 2002 in recovering of dues from the borrowers.

3.4 Hypothesis of the study

1. $H_0$: (There is no significant difference between the level of NPAs in public sector banks before and after the enactment of SARFAESI Act 2002.)

$H_1$: (There is a significant difference between the level of NPAs in public sector banks before and after the enactment of SARFAESI Act 2002.)

2. $H_0$: (There is no significant difference between the performance of public sector banks before and after the enactment of SARFAESI Act 2002.)

$H_1$: (There is a significant difference between the performance of public sector banks before and after the enactment of SARFAESI Act 2002.)

3. $H_0$: (There is no significant difference between the Sector wise NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)
H₁: (There is a significant difference between the Sector wise NPAs of public sector banks before and after the enactment of SARFAESI Act 2002.)

4. H₀: (There is no significant difference between the mean values of Banks and regions wise regarding effectiveness and the role played by the SARFAESI Act 2002 in recovering dues from borrowers.)

H₁: (There is a significant difference between the mean values of Banks and regions wise regarding effectiveness and the role played by the SARFAESI Act 2002 in recovering of dues from the borrowers.)

3.5 Scope of the study

1. The study is to evaluate the trends in the level and sector wise NPAs of public sector banks before and after the enactment of SARFAESI Act 2002. Phase wise study is carried out i.e., the study is divided into two phases.
   Phase –I covered the period (1995-96 to 2001-02) of 7 years before the enactment of the Act because after the introduction of economic reforms, many changes come in the banking industry like low interest rate, increase credit in the market so that NPAs start increasing since the year 1995-96.
   Phase –II covered the period (2003-04 to 2013-14) of 11 years after the enactment of the Act.

2. The study also evaluates the performance of all the public sector banks before and after the enactment of SARFAESI Act 2002. Phase wise study is carried out i.e., the study is divided into two phases.
   Phase: 1 (1995-96 to 2001-02)
   Phase: 2 (2003-04 to 2009-10)

3. The study focuses on public sector banks (PSBs) even though for comparative purpose, all public sector banks are considered. The variables selected for the research include NPA indicators (net NPAs to total Assets ratio, Gross NPAs to total Assets ratio, Net NPAs to total Advances ratio and Gross NPAs to total Advances ratio) and bank performance indicators (capital adequacy ratio and net profit to total asset ratio) which are based on previous studies on NPA conducted in India and international context.

4. In order to substantiate secondary data analysis and to analyze the Impact of Securitization Act 2002 on non-performing assets, primary data were collected from officers working with public sector Banks in Haryana to provide The Requisite data and information.
3.6 Rationale of the study

Managing Financial Services business is becoming more and more complex as the competition come from the financial market. Gone are the old days when investors looked upon the banks as the first choice for depositing their savings and bankers had little anxiety over getting deposits. Nor the investors were concerned about the risk of fluctuating interest rates in the market. Thus, the investors swam in calm water. But the development of the eighties has changed the scenario completely and investors are now facing a strong weather. Management of liquidity risk, credit risk, capital risk and interest rate risk has become the focal points in ensuring success in banking business.

Capital adequacy regulations not only increase the cost of resources for the institutions but also places restriction on the asset expansion. Similarly, the illiquidity in the loan portfolio doesn’t allow the bank to reduce the concentration of the bank’s exposure on a certain pocket of trade business and industry and thus increasing the portfolio risk.

To tide over these problems, some innovative solutions were required to be thought out in terms of making of illiquid loan portfolio somehow liquid and saleable. The solution was found in the process of Securitization of loans in the early seventies in the USA. The housing loan financial companies and saving and loan associations and few commercial banks, which hand a sizeable exposure to the long term housing loans built up by taking the help of short term sources have to think of this novel method to tide over liquidity constraints. Securitization became popular in other developed countries and is gradually spreading to developing countries of the world. Thus, Securitization of assets world over has become an important tool of asset-liability Management of Banks and Financial Institutions to tide over the liquidity and other risks and also to supplement income by way of profit on sale of loans and recurring service charges of collection and remittance of principal and interest on Securitized asset.

Considering all these aspects of growth and development of securitization and its impact in the Management of NPAs in India, the researcher was motivated to undertake the study of “An impact of Securitization Act 2002 on NPAs and performance of Public Sector Banks in India. This study aims at examining various aspects of Securitization Act 2002 in controlling and managing NPAs of the Public Sector Banks through well designed and Pilot studied questionnaire and by analyzing the collected information through various types of tables and statistical tests. The study shall attempt to offer useful measures that can be adopted in the
banking Institutions for the overall effective utilization of Securitization Act 2002 for effective 
Management of NPAs to develop the Indian Banking System.

3.7 Chapter plan of the study

The study consists of six chapters:

**Chapter-1** is developed to the Introduction of the banking industry in India, Banking sector reforms, NPAs and Indian banking sector, Loan procedure in public sector banks, meaning, classification and causes of NPAs, measure to reduce NPAs, Securitization Act 2002 at its provisions.

**Chapter-2** deals with review of existing literature. The literature broadly refers to information relevant to your topic of interest. Such works may deal specifically or more generally with your topic of interest. It describes, compares, contrasts and evaluates the major theories, arguments, themes, methodologies, approaches and controversies in the scholarly literature on a subject. In a literature review, your central focus is examining and evaluating what has been said before on a topic, and establishing the relevance of this information to your own research. You may also identify what has not been said in the literature on a subject (this is called ‘a gap in the literature’, and filling such gaps with new knowledge is a particular interest of postgraduate scholarship).

**Chapter-3** Deals with the Research Methodology covers the statement of the problem, Rationale of the study, Plan of the study, Data used and Limitations of the study.

**Chapter-4** This chapter deals with the secondary data analysis. Makes the empirical analysis of the collected information related to trends in NPAs of PSBs, data related to performance of the banks and sector wise NPAs before and after the enactment of Securitization Act 2002 with the help of percentage and appropriate statistical tool like average, Standard Deviation, CAGR and t-test.

**Chapter-5** Analysis of Structured Questionnaire filled by the officers and loan mangers regarding the role played by the Securitization Act 2002 with the help of tabulation and presentation of absolute figures, percentage and appropriate statistical tool like average, Standard Deviation, Chi-square and ANOVA.

**Chapter-6** consists of the findings, suggestions, further scope and conclusion of the study.
3.8 Research Design

In order to realize the stated objectives, the researcher utilized a combined approach that embraces features of both descriptive and exploratory research designs. Though several research studies on NPA in Indian banking sector are available, the studies on a closer look validated NPA problem using secondary data and most often depended ratio analysis to identify whether NPA is managed efficiently. A closer look into the studies highlighted insufficient analytical studies on the interaction between different bank specific performance indicators and macroeconomic indicators on incidence of NPA of banks. The methodology for this research is designed considering the above aspects; to evaluate asset quality of public sector banks explained using the trend in movement non-performing assets.

3.8.1 Descriptive Research

This research by and large is descriptive in nature. A descriptive study used to “make descriptions of the phenomena or the characteristics associated with a subject population: who, what, when, where and how of a topic. The methods typically used in a descriptive study could be surveys, panels, observations or secondary data analyzed in a quantitative manner. This research used both primary and secondary sources in order to explain the impact of the enactment of SARFAESI Act 2002 on non-performing assets of public sector banks in India. Statistics on NPA and various NPA indicators during period (from 1995-96 to 20009-10) along with selected bank performance indicators were utilized in order to study the trends in movement of NPA, its relationship with selected variables, and efficiency of management of NPA during post Act period. A preliminary study focused on two groups - (a) academicians and researchers in banking, (b) experts working in banks’ loan/advances section – provided input, which is used to refine the research problem and develop the questionnaire.

The present project is also exploratory in nature. The main objective of the exploratory research design is to define the problem into researchable one and transformation of discovered problem into defined one. So the data is being adjusted according to the need.

In the present study exploratory and descriptive research design is used.

3.9 Data Analysis

The analytical part of this research employed facts or information already available, and analyzed them to make a critical evaluation of the subject. Basically, the analytical part utilized the statistical inputs and verified the research hypotheses put forward in the study. In addition to
this, the results of secondary data analysis are verified to provide an insight into ‘why’ such
trends are observed. In order to achieve the stated objectives; this research utilized both primary
data and secondary data.

3.9.1 Secondary Data

The primary emphasis of this research is focused on analyzing Impact of Act on the

trends of the level of NPAs and sector wise nonperforming assets of public sector banks in India
during the study period. In specific terms, it includes (a) to analyzing the variance between the
trends in NPAs before and after the enactment of Act (b) to analyzing the variance between the
trends of sector wise NPAs before and after the enactment of Act (c) analyzing the impact of
NPAs on Capital Adequacy and net profit ratio.

To achieve the stated objectives, data are collected from various sources and include;

1. Research reports, published articles, news reports and conference proceedings available in
both national and international level related to NPA. The information obtained from these
sources is used for critical evaluation of the subject and identify research gaps in the area of
study. These secondary sources are part of different chapters in this report.

2. Statistical Data on NPA, bank-specific and economic indicators during 1995-96 to 2013-
2014, collected mainly from RBI website, Indian Banks Association, India Stat and Ministry
of National Economy. In addition to the above, information is obtained from individual bank
web sites.


Sampling Unit

For Secondary data the sampling unit constitutes all the public sector banks to analyze the
trends in NPAs, performance indicators and sector wise NPAs.

Sampling Methods

For the secondary data judgment sampling used for selection of public sector banks on
the basis that high ratio of NPAs in public sector banks with compared to other Banks

Tools of Analysis

In order to achieve the various objectives mentioned, the data collected were entered,
arranged and presented using Microsoft Excel and SPSS 13. All information collected for the
purpose of the study has been arranged in cross sectional tables, depending upon the
requirements of the analysis. The tabulation encompasses absolute figures supported by simple
percentage and subjected to statistical analysis through the use of Average, Standard Deviation, CAGR and Independent T-test.

To achieve the first, second and third objective of the study, i.e., to study the pre and post impact enactment of SARFAESI Act 2002 on the level of NPAs, performance and sector wise NPAs independent T-test are used for comparing mean of pre and post Act period.

3.9.2 Primary Data

To carry out the present study about the “An impact of Enactment of Securitization Act 2002 on the NPAs and Performance of Public Sector Banks” The relevant information has been collected with the help of the Structured Questionnaire (Appendix-I) from Assistant managers and loan managers working with public sector banks in Haryana. The Questions cover the various aspects of Securitization Act and Management of NPAs, such as the problem of NPAs, Factor responsible for NPAs, Role and importance of Securitization Act 2002 in the recovery of NPAs. The same Questionnaire is meant for the bank respondents of Public Sector Banks.

Research Instrument

A pre-tested questionnaire is used to collect primary data. The questionnaire was divided into four sections. The first section includes questions on demographic characteristics of the sample taken for the study. The second part includes questions relating to various causes of the NPA, the third part includes questions related to the impact of the Securitization Act in the recovery of NPAs and the fourth part includes questions related to the role played by this Act in the banking industry.

The drafted questionnaire based on literature review and after consultation with experts was refined based on a pilot study. A sample of 10 managers was approached and their feedback was obtained. Based on the feedback, some questions were removed and measurement scale was revised for some questions. Also, the pattern of questions and its grouping is revised based on the feedback obtained. The reliability of the questionnaire is assessed using Cronbach alpha. To measure the reliability, the data collected were entered and analyzed in SPSS 13, and its reliability is measured.

Sampling unit

For primary data the sampling unit constitutes all the Assistant managers, NPA department manager and credit officers of public sector banks in Haryana State.
Sample size

The total Sample size is 200 respondents for the questionnaire. The target respondents will be the officers working in the various capacities (like Assistant manager, NPA department manager, credit officers) in public sector banks. The study is conducted Bank wise and Region wise. According to administrative purpose Haryana divided into four regions i.e. Ambala, Rohtak, Hisar and Gurgaon. 40 respondents of each selected bank will be taken from Haryana State (10 respondents from each 4 region).

Sampling Methods

In proposed study Judgment sampling, multistage sampling and convenience sampling method used.

Judgment Sampling (Selection of 5 public sector banks on the basis that according to the data 75% of the total NPAs covered by these banks.)

Multistage Sampling: (Selection of divisions, selection of districts, Selection of Banks and Selection of Managers.)

Convenience Sampling used for selection of bank branches from the districts.

Profile of selected Public sector banks for primary data

The banks selected on the basis that according to the data 75% of the total NPAs covered by following 5 banks.

- Punjab National Bank
- State Bank of India
- State Bank of Patiala
- Oriental Bank of Commerce
- Central Bank of India

Tools of Analysis

In order to achieve the various objectives mentioned, the data collected were entered, arranged and presented using Microsoft Excel and SPSS 13. All information collected for the purpose of the study has been arranged in cross sectional tables, depending upon the requirements of the analysis. The analysis part, responses of the total respondents has been tabulated. The tabulation encompasses absolute figures supported by simple percentage and subjected to statistical analysis through the use of Average, Standard Deviation, ANOVA and Chi-Square test.

The questionnaire included three types of questions, (1) questions with five point scale (2) multiple choice questions (other than five point scale), and (3) open ended questions. The some questions were analyzed using percentage; Mean Percentage ANOVA, etc. Hypothesis testing is also used in the study. In order to test the association among the selected banks and regions Chi-Square test is applied. ANOVA used for analysis of variance of mean in different banks.