CHAPTER II

REVIEW OF LITERATURE

This chapter reviews different studies with regard to non-performing assets in banks connected with the present study. There are many studies have been conducted by academics, professionals, research agencies in India and abroad on the concept of NPAs in view of importance of managing NPAs effectively there by paving way for growth of banks as well as the economy of a country. Therefore the review of literature highly useful to design the present study as it indicates the research gap in the study of non-performing assets in the banking industry.

Mrs. Mohina Satish Kulkarni, (1986)¹ the author reviewed the progress made by the scheduled banks since nationalization in financing agriculture. The study also emphasized on interstate and regional imbalances. Deals with adoption of multi agency approach and agricultural credit which will enable disbursement of credit directly or indirectly to the borrowers and also suggest maximum agricultural credit is utilized by the rural borrowers. The study mainly deals with agricultural credit and there was an imbalance between the states and Union territories and the percentage of credit level exceed rural populations.

Keeton and Morris, (1987)² conducted a research in America to identify the factors which are causing non-performing loans in the banking sector of this country by taking the data from 1979-85 and according to them bad performance of agriculture and energy sectors along with poor economic settings/conditions are the main factors causing non-performing loans.

Benjamin, (1989)³ has analysed the performance of commercial banks in Tamil Nadu during the period from 1969 to 1986. The analysis was carried out with the help of some simple indicators like population coverage by the banks, distribution of their branches, deposits and advances in different population groups etc. The progress of commercial banks in the state was compared with that of the similar banks in the state. The comparative analysis pointed out that by and large, the banking industry in Tamil Nadu was not in a good state of health.

Basavaraj, and Bhavi, G. (1990)⁴ a teacher, conducted a study on Assessment of Regional rural banks credit on target groups-A case study of Krishna Grameena Bank. The essential objective of the study is to Banks credit on target groups in terms, Formation of assets, and to examine the extent of repayment of loan and overdue position and reasons for over dues.

Mcgoven, (1993)\(^5\) in the study of loan losses of US banks, argued that ‘character’ has historically been a paramount factor of credit and a major determinant in the decision to lend money. Mcgoven refutes the idea of business cycle having a prominent influence on creation of non-performing loans in banks and financial institutions. He supported the view that it is majorly banks’ aggressive credit lending policy which drives the growth of non-performing assets in their balance sheets. His views state that there are inadequate checks and screening before disbursement of loans which add to the woes of these banks.

Gunasekaran, (1995)\(^6\) the author highlighted through his research financing of agriculture by commercial banks in micro level. His study was restricted to Tanjaur District in Tamil Nadu. The researcher examined the lending pattern and disbursement of farm finance and their overdue on farm finance by the commercial banks. The overall comparisons of the commercial banks in farm lending with other institutional partner namely the crop finance. Deals with areas of farm lending and their improvements in quantitative and qualitative lending pattern and recovery methods also brings about scheme lending operations on user which is effectiveness in rural areas.

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Sergio, (1996)\(^7\) in a study of non-performing loans in Italy found that an increase in the riskiness of loan assets is rooted in a bank’s lending policy adducing to relatively unselective and inadequate assessment of sectoral prospects. Business cycle could be a primary reason for bank’s non-performing loans. But the increase in bad debts as a consequence of recession alone was not empirically demonstrated. In a study of loan losses of US banks.

Sreedharan, (1996)\(^8\) studied the performances of Indian banking industry for the year 1995 and 1996. The analytical exercise was carried out with reference to net worth, liabilities, assets, income, expenditure, profitability and efficiency of different groups in the banking system. It was revealed that by and large, the public sector banks lagged far behind the foreign and private sector banks in respect of all the variables analysed. The researcher suggested that the programmes and policies regarding commercial banks should be redefined in such a way that that there exist a co-ordination between the commercial viability and social responsibility of the public sector banks.

Rangarajan, C. (1997)\(^9\) RBI at the Bankers Training Centre of the Nepal Rashtra Bank Katmandu on 18th May 1997 addressed in his speech in respect of direct lending, there is a prescription that 40 per cent of the net bank credit should go to priority sector such as agriculture, small scale industries, small business man and programmes for poverty alleviation without affecting

\(^9\)Rangarajan, C. Governor, RBI, Speech at the Bankers’ Training Centre of the Nepal Rashtra Bank Katmandu on 18th May 1997.
the viability and profitability of the bank. Speaker emphasized on operational efficiency and allocation efficiency. Operational efficiency relates to the transaction cost and allocation cost deals with the mobilized funds among competing demand. Governors speech covered aspects such as Global experience, reforms undertaken in India, Philosophy, strategy, policy framework, improvement in financial health, and institutional strengthening in India.

**Kohli, (1997)**\(^{10}\) analysed the impact of directed credit under priority sector on the profitability of commercial banks in India. She brought into light the matters related to the directed credit which was not solely responsible for the deterioration in the profitability and the poor quality of the portfolio of the financial institutions. The researcher, however, has called for the re-appraisal of the credit policy of India on the lines of the policies implemented in East-Asian countries.

**Rangaswami and Subbiah, (1997)**\(^{11}\) analysed the comparative performance of different bank groups in financing priority sector in Kamarajar district of Tamilnadu. The analysis, which covered a time period 1985-1998, was carried out with the help of the ‘Kruskal-Wallis Test’. On the basis of the study, the performance of public sector commercial banks was found to be better when it is placed in comparison with the regional rural and private sector banks in the matter of lending to the agricultural sector. But in financing the

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industrial sector, the performance rating of the private sector banks was found to be quite high, when compared with the regional rural as well as public sector commercial banks.

Sunit Sikidar, (1997)\textsuperscript{12} explained the linkage between the NPAs and credit management. For better credit management it is desirable that banks with high NPAs should keep down their credit expansion to a level just below that of the system because credit expansion has the propensity to cause hike in NPAs and the bank management has to arrive at the strike off level between the two propositions.

Fuentes and Maquieira, (1998)\textsuperscript{13} undertook an in-depth analysis of loan losses due to the composition of lending by 4 type of contract, volume of lending, cost of credit and default rates in the Chilean credit market. Their empirical analysis examined different variables which may affect loan repayment such as the limitations on the access to credit, macroeconomic stability, collection technology, bankruptcy code, information sharing, the judicial system, prescreening techniques, and major changes in the financial market regulation. They concluded that a satisfactory performance of the Chilean credit market, in terms of loan repayments hinges on a good information sharing system, an advanced collection technology, macroeconomic performance and major changes in the financial market regulation.


\textsuperscript{13}Fuentes, R. and Carlos Maquieira, (1998) Determinants of loan repayment in Chile”, School of Business and Economics, Universidad de Chile.
Patel and Kaveri, (1998)\textsuperscript{14} considered the factors responsible for accounts becoming non-performing advances in priority sector as improper selection of borrowers. Under financing, non-financing in time, socio-political pressures, lack of income generation due to natural calamities, mismanagement of funds, lack of proper follow-up, bank’s failure to appreciate the acts of good re-payers, mentality of people and attitude to default willfully, non-co-operation of Government agencies in recovery and effect of agricultural debt relief scheme.

Sudhakar, V.K. (1998)\textsuperscript{15} this study attempted to examine the issue relating to policies and practices prevailing in the area of NPA reduction. This study also indicated that though the top management of Public Sector Banks (PSBs) was enlightened and concerned about the dimensions of NPAs in their bank, the same is not shared by the staff at operational level. NPA reduction as organizational goals not translated into action in true spirit. The methods and system followed by most PSBs can at best be categories as conventional and crude.

George, P.T. Namasivayam, D. and Ramachandraiah, G. (1999)\textsuperscript{16} development of agriculture can take place only if farmers move from traditional to modern agriculture, besides a large variety of inputs and services. This paper tries to put together empirical data on cost of borrowing by the

farmers. This paper also analyzes the impact of the cost of borrowing on the repayment behaviour of the borrowers. The author emphasized on issues such as source and type of defaulters, to find out farmers borrowing cost, identify crop and term loan, different types of institutional and non-institutional sources.

**Kishor Bhoir, (1999)** deals with the various aspects of NPA in public sector banks. Study highlighted the main reason which turns the performing advances to non performing ones. The author recommends remedial measures taken by the public sector banks and compromise settlement as one of the solutions to the problem faced by the Public sector banks. The author analyzed internal and external Industrial sickness. According to the researchers NPA has a multiple effects on the total working of Indian banking system and the banks looses further opportunity of investment. The study also emphasized different categories of borrowers.

**Khan, S.H. (2000)** mentioned that the defective credit appraisal system, absence of risk rating and deficiency in post-credit supervision and follow-up were important reasons that lead to accumulation of NPAs. Further he examined the conflict between Government policy and the bank’s interest as generating in the priority sector. The pre-approved nature of loans sanctioned under sponsored programs, lack of effective follow-up due to large number of

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*Kishor Bhoir, (1999)* Non-Performing Assets (NPAs) Genesis, Evaluation, Early Detection and Remedial Strategies with Special Reference to NPA in Banks- Mumbai University

accounts led to the formation of NPA in priority sector in Indian public sector banks.

Narayanan, V. (2000)\(^\text{19}\) found that what a banker’s need was not NPA management but slippage management before the assets become NPA. Any performing assets did not turn into non-performing overnight. The performing assets passes through a relatively lengthier period of two quarters, in some cases seven months, after becoming due but before sleeping down to the dangerous red band of non-performing assets. During this journey, every asset is giving out certain signals for warning the banker that something bad is about to happen.

Rajanakumar, (2000)\(^\text{20}\) identified the reasons of NPA problems in Indian PSBs such as malfunctioning of the institutional environment, captured by its economic, political, legal and social manifestations. Use of the banks as an instrument of public policy, incompatibility of bank’s interest with certain policy instruments as well as the change in the economic regime.

Lis, et al, (2000)\(^\text{21}\) used a simultaneous equation model in which they explained bank loan losses in Spain using a host of indicators, which included GDP growth rate, debt-equity ratios of firms, regulation regime, loan growth, bank branch growth rates, bank size (assets over total size), collateral loans, net interest margin, capital asset ratio (CAR) and market power of default


\(^\text{21}\)Lis, S.F. de, J.M. Pages, and J. Saurina (2000), ‘Credit Growth, Problem Loans And Credit Risk Provisioning’ In Spain, Banco de España-Servicio de Estudios, Documento de Trabajono 0018.
companies. They found that GDP growth (contemporaneous, as well as one period lag term), bank size, and CAR, had negative effect while loan growth, collateral, net-interest margin, debt-equity, market power, regulation regime and lagged dependent variable had positive effect on problem loans. The effect of branch growth could vary with different lags.

Kent and D’Arcy, (2000)\textsuperscript{22} while examining the relationship between cyclical lending behaviour of banks in Australia argued that, the potential for banks to experience substantial losses on their loan portfolios increases towards the peak of the expansionary phase of the cycle. However, towards the top of the cycle, banks appear to be relatively healthy - that is, non-performing loans are low and profits are high, reflecting the fact that even the riskiest of borrowers tend to benefit from buoyant economic conditions. While the risk inherent in banks’ lending portfolios peaks at the top of the cycle, this risk tends to be realized during the contradictory phase of the business cycle. At this time, banks’ non-performing loans increase, profits decline and substantial losses to capital may become apparent. Eventually, the economy reaches a trough and turns towards a new expansionary phase, as a result the risk of future losses reaches a low point, even though banks may still appear relatively unhealthy at this stage in the cycle.

Sanjay Kumar, (2000)\textsuperscript{23} found that the effects of NPAs in regional rural banks increased the liquidity risk of banks and slowed down loan assets turnover ratio that led to higher interest on performing borrowers and reduced the risk-taking ability of the banks. An effective and prudent management of non-performing asset consisted of checking certain of NPAs in the first place particularly of fresh loans, improving the quality of NPAs and reducing the NPAs.

Bimal Jalan, (2001)\textsuperscript{24} in his speech titled “Banking and Finance in the New Millennium” delivered at 22nd Bank Economists Conference, New Delhi, 15th February, 2001 cited “As regards internal factors leading NPAs, the onus rest with the banks themselves. This calls for organisational restructuring improvement in managerial efficiency, skill up gradation for proper assessment of creditworthiness and a change in the attitude of the banks towards legal action which is traditionally viewed as a last resort. Highlight of the speech was setting up of independent Settlement Advisory Committees headed by retired judge of the High Court to scrutinise and recommend compromise proposals and appointment of Lok Adalat, Debt recovery Tribunal, and circulation of Information on defaulters, Asset Reconstruction Company to negotiate with banks and financial institution for acquiring distressed assets and develop markets for such assets.


\textsuperscript{24}Bimal Jalan, Governor RBI, in his speech titled “Banking and Finance in the New Millennium” delivered at 22nd Bank Economists Conference, New Delhi, and 15th February, 2001.
Altman, Resti and Sironi (2001)\textsuperscript{25} analysed corporate bond recovery rate adducing to bond default rate, macroeconomic variables such as GDP and its growth rate, the amount of bonds outstanding, amount of default, return on default bonds, and stock return. It was suggested that default rate, amount of bonds, default bonds, and economic recession had negative effect, while the GDP growth rate, and stock return had positive effect on corporate recovery rate.

Bloem and Gorter, (2001)\textsuperscript{26} suggested that a more or less predictable level of non-performing loans, though it may vary slightly from year to year, is caused by an inevitable number of "wrong economic decisions" by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, \textit{etc.}). Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. Enterprises may well be able to pass a large portion of these costs to customers in the form of higher prices. For instance, the interest margin applied by financial institutions will include a premium for the risk of non-performance on granted loans.


Bloem et al, (2001) remarked that issues relating to NPA affect all sectors (in particular if parallel issues with defaulting trade credit is also considered). The most serious impact, however, is on the financial institutions, which tend to own large portfolios, indirectly; the customers of these financial intermediaries are also implicated; deposit holders, share-holders and so forth. Add to this, NPA is not only affecting the banks and its intermediaries, it is having impact on the development of the nation as well. For a bank, NPA means unsettled loan, for which they have to incur financial losses. The cost for recovering NPA is as well considerable. There are banking failures on account of the mounting NPA since it is affecting the profitability and long run survival of the bank.

K. Ramesha, (2002) while the growth in terms of deposits and advances of urban banking sector in the post reforms period has been appreciable, the vexatious issues such as duality of control, presence of large number of weak or sick banks, lack of professionalism and legislative rigidities continue to bother this sector. The author dealt monetary and credit policy and its implication for Urban Cooperative Banking Sector. The study reflects major recommendations of the Madhava Rao Committee. The author in his study mentioned the setting up of a new supervisory structure for UCBs. The study highlighted the concept of Scheduled UCB Sector and Scheduled Commercial

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Banking Sector. The author has also made a reference of a leading cooperative bank.

**Namboodiri, T.C.G. (2002)** identifies 5Cs, and 7Ps which are simple and basic point a banker has to apply his mind and be alert about while appraising a credit proposal. And also adds the phrase as banker an employee should act in good faith and without negligence to avoid the problem by the bank. The author emphasized NPA is really breaking the backbone of the Indian Commercial banks. Credit appraisal is the best early opportunity available to the bankers to ensure the asset quality. Study has proved ‘adverse credit selection’ is one of the major reasons for the growing number of NPAs. To improve the quality of credit appraisal is the core study conducted by the author.

**Jain, (2002)** in his thesis titled, “Non-performing Assets in Commercial and Development Banks in India” highlighted that the future profitability of banks would depend on their alertness, operational efficiency, customer orientation, creation of large volume of performing assets, attainment of optimum levels of productivity. Since retail customers are fast becoming more demanding in the current competitive environment, banks have to offer value-added services. Harnessing technology to improve productivity, to ensure required standard of customer service and internal efficiency, continual product innovation and strengthening of competitive edge on an ongoing basis to mass

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30 *Jain, (2002)* in his study, “Non-performing Assets in Commercial and Development Banks in India”.
business will be the key factors that will impact banking sector in the days to come. Ensuring optimum performance by each manager and staff will also be vital.

Gopal Sigh and Manjula Tyagi, (2003)\textsuperscript{31} analysed the impact of NPAs on business of banks. In all spheres, asset quality has been placed as one of the most important parameters in measurement of bank’s performance under CAMELS rating system of RBI (C - Capital Adequacy, A - Asset Quality, M - Management, E - Earnings, L - Liquidity and S - Supervision). According to them, NPAs can be better avoided at the initial stage of credit sanction by putting in place rigorous and appropriate credit appraisal system.

Ketkar, Noulas and Agarwal, (2003)\textsuperscript{32} in their work have analysed the efficiency and productivity growth of the Indian State – Controlled, nationalized, private and foreign banks. They have concluded that the Indian domestic banks need to greatly improve their efficiency through introduction of computer technology, improved management skill and through consolidation and merger of banks.

Kothari, K. (2003)\textsuperscript{33} in this paper on ‘Non Performing Assets of Scheduled Commercial Banks in India: An Analysis’ made a study of all the public and private sector banks. She concluded that in terms of branch expansion, deposit mobilization and deployment of credit and NPA, the

performance of public sector banks is extremely good. The NPAs of this group has been showing a decreasing trend during the study period. The study reveals that the reduction of NPA is mainly due to write off bad debts and expansion of total advances over the years.

Mishra, T.P. (2003) revealed the high rise in gross and Net NPA of the banking sector in the recent past as the exponential rate giving an indication, that the ongoing recession was taking a heavy toll on corporate audit discipline. This was further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems and existing set up, bans had to perform well and achieve the target for NPA reduction affixed as per international standard.

Naidu and Nair, (2003) analysed the technical efficiency of commercial banks in pre reform as well as post reform period. They concluded that technical efficiency level among bank groups has declined in the past reform period indicating the enhanced competition among banks.

N.B. Shete, (2003) deals with priority sector advances of banks during the post reform period addressed two major issues in this article, viz. to displace evil moneylenders and cheap credit was necessary to allow poor and rural household to adopt new technologies and to escape the cycle of poverty.

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and indebtedness and also considers performance of PSBs lending to priority sector, agricultural advances, advances to SSI, advances to other priority Sector, weaker section financing. The study has also dealt with the policy initiation of banking sector reforms. There has been a significant and favourable changes related to reduction of CRR, and SLR, interest rate deregulation.

**Ruchi Trehan and Niti Soni, (2003)** used the data envelopment analysis technique to generate the technical efficiency scores of individual public sector banks. The banks affiliated to State Bank of India Group were more efficient than nationalised banks. The relationship between profitability and efficiency reveal that profitability significantly influenced the operating efficiency in the Indian public sector banking industry.

**Amutha, R. (2004)** listed preventive measures of NPA in commercial banks. These were credit assessment and risk management mechanisms, organizational restructuring, reduction of dependence on interest debt recovery tribunals, Lok Adalats, corporate debt restructuring, circulation of information on defaulters, recovery action against large NPAs and credit information bureau.

**Arunyeole, (2004)** observed that the “Successful management of NPA pre-supposes the right type and right amount of credit given to the right

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type of clients”. She viewed that it was essential to enforce the securitization Act, with more stringent provisions to realize the securities and personal assets of the defaulters.

**Gopalakrishnan, T.V. (2004)** projected annual growth rate of NPAs as percentage of gross advances of 5 per cent. The NPA as percentage of gross advances would be 9.9 percent in March 2012 as against 12.4 per cent in March 2001. It was recognized that in this period the gross advances would certainly be increasing in absolute terms considerably (almost double) making the need for reduction in NPAs even more significance.

**Karn, S.K. (2004)** identified that the gross NPA, as a proportion of gross advances, had been declining steadily and distinctly over the years since RBI introduced the objective criteria for identification of NPAs. Since the assets of public sector banks constitute nearly three-fourth of the total assets of the banking system, this declining trend of NPAs, manifested and overall positive impact of reform measures.

**Pradipkumar Biswas and Ashis Taru Deb, (2004)** found that the important determinants of NPAs in the Indian public sector banks were expert information asymmetry which included lack of organizational learning in the bank, lack of vision of bank in sanctioning, reviewing and enhancing credit

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40 Gopalakrishnan, T.V. (2004), Effective management of NPAs, the ICFAI Journal of Bank Management, Volume 3.2 pp. 24-29.
limit and political interference, expert information asymmetry, lack of monitoring on the part of banks and incomplete contracts.

Gupta, S. and Kumar, S. (2004)\textsuperscript{43} defined that redeeming features of banking sector reforms is the continuing downfall in gross and net non-performing asset as a proportion of total assets for all bank groups. Non-performing assets needs resolution otherwise it can break the backbone of entire economic system with financial system.

Rajendra Kakker, (2004)\textsuperscript{44} observed that in the absence of direct funding support by the Government; Asset Reconstruction Companies would be self-help mechanism of banking system. The onus now was with the banks to clean up the NPAs. The banks should be proactive in making realistic provisions based on assessment of realization from NPAs towards their dues.

Shanmuga Sundaram G. and Palaniswamy, P. (2004)\textsuperscript{45} stated that the reduction of non-performing assets was one of the steps to increase the return on net worth of commercial banks. They also mentioned that there was a growing awareness to bring down NPAs as they had an adverse impact on their profitability due to recognition of interest as well as requirement of heavy loan loss provision on such assets.

Murinde, V. and Yaseen, H. (2004)\textsuperscript{46} on management of NPA made it clear that the traditional approaches to bank regulation are not conducive for management of NPA. These approaches emphasized the view that the existence of capital adequacy regulation plays a crucial role in the long-term financing and solvency position of banks, especially in helping the banks to avoid bankruptcies and their negative externalities on the financial system. In general, capital or net worth serves as a buffer against losses and hence failure. Rather than accommodating measures to combat the NPA issues, the traditional measures tried to protect the interests of deposits through maintaining adequate capital in liquid form. This has impacted the availability of funds for productive purpose, since banks were not able to lend it, rather forced to keep as reserves.

Vinod Sharme, (2004)\textsuperscript{47} revealed that the decline in Gross NPA in public sector banks could be attributed to improved risk management techniques and greater recovery efforts of PSBs. Most of the PSBs are left far behind their new generation counterparts in setting up modern delivery channels. Private sector and foreign banks have adopted and are using sophisticated channels to deliver their products. Technology would help to reduce transaction cost and provide new channels of delivery.

\textsuperscript{46}Murinde, V. and Yaseen, H. (2004), The Impact of Basle Accord Regulations on Bank Capital and Risk Behavior: 3 D Evidence from the Middle East and North Africa (MENA) Region, 3rd International Conference of the Centre for Regulation and Competition (CRC) on “Pro-Poor Regulation and Competition: Issues, Policies and Practices”.

Rajesh Chakrabarti and Gaurav Chawla, (2004) authors suggested increasingly popular methodology of Data Envelopment Analysis to evaluate the relative efficiency of Indian Banks in comparison with Foreign Banks. The result of the study suggests on a value basis, the foreign banks, as a group, have been considerably more efficient than all other bank groups, followed by the Indian Private Banks. From the quantitative performance aspect private banks supersedes the other bank group. The study emitted their views on regulatory mechanism is a cause for poor performance aspects like poor quality of goods is a cause of NPA and emphasizing the level of profitability and in performance.

Rajesh Chakrabharti, (2004) the author highlighted the Reforms and Reorganization in banking industry in India. The banking industry in India is undergoing a transformation since the beginning of liberalization. The social objectives rural credit of banking measured in terms of rural credit are expectedly taking a back seat. Adoption of SARFAESI Act and Basel II norms implies new challenges for Indian banks as well as regulators. Financial performance of Indian banking industry has become more competitive and raised issues about efficiency and regulatory effectiveness.

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Ranjana Kumar, (2004)\(^{50}\) speech delivered at the Business Session “Strategies for Managing Risk in Volatile Time”, on April 4, 2003 on the occasion of “Banking Summit 2003” organised by the Confederation of Indian Industries at Mumbai April 3rd to 5th 2003. The address of the chairperson emphasised on the annual financial inspection and the process is based on the CAMELS (applicable to all domestic banks) CALCS (applicable to Indian operations of banks incorporated outside India) approach where Capital Adequacy, Asset Quality, Management Aspects, Earnings, Liquidity and Systems and Control are examined keeping in view the requirement of Section 22 of the Banking Regulation Act, 1949 (BRA). Author concluded that implementation of “Risk Based Supervision” has been firmly laid by the regulators.

Sanjay Choudhari and Arabinda Tripathy, (2004)\(^{51}\) in their study made an attempt to use Data Envelopment Analysis (DEA) to evaluate the relative performance of public sector banks in India. The authors made an attempt to evaluate the banks on five indicators namely, Profitability, Financial Management, Growth productivity, and Liquidity. The analysis showed that most of the banks form efficient frontier in profitability and financial indicators compared to productivity, growth and liquidity indicators. The authors emphasized on lacuna that banks are not giving importance to other measures


such as productivity, growth and liquidity as compared to profitability and financial management.

Uday S Bose, (2005)\textsuperscript{52} the growing NPA and its implications on the banking system need no emphasis. While there have been several schemes in the past to facilitate the recovery from NPAs, the success of such efforts in terms of NPA reduction has been far from satisfactory. SARFAESI Act greatly helps bank in their effort to reduce recovers money from NPAs. An attempt to provide a glimpse of the Act against this backdrop. The author has cited certain limitation on the Act and also put certain light of the Supreme Court landmark Judgment in ordinance 2004

Christian Roland (2005)\textsuperscript{53} the author focused on the changing intensity of three policies that are commonly associated with financial repression, namely interest rate controls, statutory pre-emptions’ and directed credit as well as the effects the policies had. The study attempted to evaluate the reforms that have occurred in the banking sector by focusing on the changes in three policies that are commonly associated with financial repression, namely interest rate controls, statutory preemption and directed credit. The indices were used to evaluate the changing intensity of repressive policies Kanishka.

\textsuperscript{52}Uday S. Bose, Vinimaya, (2005), SERFAESI ACT: An Effective Recovery Tool, Vol. XXV, No.4, pp. 44-46.

Meena Sharma, (2005) who examined the impact of NPAs on the profitability, productivity, achievement of capital adequacy level, funds deployment and mobilization policy, credibility of the banking system and overall economy suggested that the Government should not use PSBs as a vehicle to achieve its political objectives by mandating them to learn to lend unviable projects, announcing loan festival and loan waiver schemes, etc.,

DAS, S. and Bose, S.K. (2005) in his research paper, "SERFAESI Act: An Effective Recovery Tool", elaborated while there have been several schemes in the past to facilitate the recovery from NPAs, the success of such efforts in terms of NPAs reduction has been far from satisfactory. SERFAESI Act, it was hoped, would greatly help banks in their efforts to reduce and recover money from NPAs. Nonetheless, the recent developments have also brought out the limitations of the Act, thereby creating apprehensions amongst banks and financial institutions. Notwithstanding this, to take full advantage of the Act, the cool causes of NPAs, which were evident in the system, may have to be addressed first. The author has made an attempt to provide a glimpse of the SERFAESI Act against this backdrop.

Islam, S.M. (2005) conducted a study to find the causes and consequences of non-performing loans and described that non-performing loan cannot be avoided but can handle in a wise able way. Loans are defaulted due

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to poor plans to deal with risk, reduce attentions to borrowers, moving along the risk curve and lack of good models. The non-performing loans can be recovered timely by early risk assessments, motivation, and law and order situation, helped from recovery agency, reducing relaxation, developing situation specific models, real time training, regular monitoring and trade off.

\textbf{Harpreet, (2006)}\textsuperscript{57} in her thesis titled “Credit management and problem of NPAs in Public Sector Banks” highlighted the problem of non-performing assets in public sector banks. Various developments in the banking sector in India have been analyzed by studying the growth of banking sector in Pre-and Post – Independence era. The study has covered the prudential norms given by RBI and also analyzed the NPA management policies of public sector banks. Viewpoints of the managers regarding problem of NPAs have also been studied by selecting 120 managers from various branches of public sector banks in Punjab. Perceptions of borrowers contributing to NPAs have also been studied by selecting 100 defaulters from public sector banks in Punjab. Author suggested that for effective handling of NPAs, there is an urgent need for creating proper awareness about the adverse impact of NPAs on profitability amongst bank staff, particularly the field functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

Banerjee, B. and Dan, A.K. (2006)\textsuperscript{58} analyzed that non-performing assets are one of the most crucial problem which is faced by bank to require attention for improvement in the management of PSBs are increasing very speedily at present scenario due to following reason. One is government has got to bail out banks with monetary fund provisions sporadically and ultimately tax payers bear the value. Second is cash borrowed for investment, for not utilized properly, affects the creation of assets and therefore the growth of economy is vulnerable. The author has urged many strategic measures to manage Non-playing assets of Public sector banks.

Khasnobis, S. (2006)\textsuperscript{59} a large part of the banking sector growth, has been on the back of financing consumptions, as reflected in the growth of retail banking. Growth driver would involve financing the emerging Small and Medium Enterprise sector of the economy. The evaluation of the NPA has been blended by the author by the asset companies which specialise in certain segment of the financial sector. The author highlighted pre-liberalization and post liberalization effect through these articles.

Sachin Agrawal and Kavita Agrawal, (2006)\textsuperscript{60} in their study they pointed that the NPAs of the banks is a break in the progress of the bank. The NPAs can affect the profitability of the bank and hence affect the future growth


of the bank. The cooperative banks although facing the problem of NPAs. Therefore it is necessary to adopt proper policies for disbursing the loan and the good chain of recovery is possible lower the NPAs.

P. Veerachamy, (2006)⁶¹ the bank faces various difficulties in good performance with respect to priority sector. The researcher in his study clearly deals with the performance of primary co-operative agricultural and rural development in Dindigul District in Tamil Nadu. The author analyzed and examined through his study the impact of overdue of the banks. The study revealed the external factor and internal factor as to the cause of borrower not making the due and account becoming NPA. Socio-economic factors, institutional factors, psychological factors and political factors. Default in payment of credit is correlated with literacy and illiteracy of a borrower.

Sukhdev Singh, (2006)⁶² the author had suggested the alternative measures for improvement in the banking industry. The study evaluated the performance of banks against benchmark and ratio analysis was employed as the tools. The analysis of the NPA observed the decline in post liberalisation period. The study insisted that the ideal level benchmark is less than 1 percent, the segments curtail the growth rate of NPAs and followed certain policy like counterparts who had not only arrested the NPA but reduced them.

⁶¹P.Veerachamy (2006), a Study on NPA of Primary Cooperative Agriculture and Rural Development Bank In Dindigul District, Annamalai University.
Report of the Fourth International Conference on Ethiopian Economy, (2006) banks plays a very important role in economic development of every nation. Banks are the main stimulus of the economic progress of a country. The study deals with the NPAs in commercial banks of Ethiopia. Essentially deals with the provision for doubtful debts are one among the most important cause for reducing the profitability of the bank. And also highlights NPA is a double edged weapon, which affects bank profitability due to interest income not being recognized on NPA accounts and loan loss previously to be created from profit earned.

Arabi, U, (2007) keeping in view the alternative sources of finance and its role in economic development in India, the study aims at evaluating bank credit role and how it is channeled to the different sectors in India. The author has made an attempt to understand the effective performance of credit delivered to different development sectors. The paper also deliberated the analysis on the bank credit to the various sectors like agriculture, SSI, micro finance, housing finance, infrastructure lending, Government. Finally the author concludes in their findings the need to further liberalise the interest rate structures to ensure efficiency in financing the credit to core sectors.

Milind, (2007) the objective of the paper is to measure the productive efficiency of banks in developing country. The measurement of efficiency in this paper is done using Data Envelopment Analysis. The study shows the

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mean efficiency score of Indian banks compares well with the world mean efficiency score and the efficiency of private sector commercial banks as a group is, paradoxically lower than that of public sector banks and foreign banks in India and brings an insight to the existing policy of reducing non-performing assets.

Gita. A. Kumta, (2007)\textsuperscript{66} the study evolves modes for efficient management of funds with special reference to inflow, planning functions and policy changes. The study highlights to identify various steps taken by various agencies to guide the District Central Cooperative in Maharashtra. The author opined that the cooperative banks are unable to take the advantages of the liberalization measures unless the cooperative societies Act and Banking Regulation Act give full protection to DCCB. The opinion of the author further more highlights on the fact that unless there is a reliable bench marks the study may not yield a proper conclusion and also there could be a possibility of window dressing in the financial statements.

Sethi, J. and Bhatia, N. (2007)\textsuperscript{67} clarified on implications of NPA accounts that Banks cannot credit income to their profit and loss account to the debit of loan account unless recovery thereof takes place. Interest or other charges already debited but not recovered have to be provided for and provision on the amount of gross NPAs also to be made. All the loan accounts of the borrower would be treated as NPA, if one account is NPA. Many authors

\textsuperscript{66}Gita A. Kumta, (1997) Fund Management in District central Cooperative Banks in Maharashtra, Mumbai University

emphasized the straddling impact of NPA and stressed its impact on loan growth. A higher NPA force banks to invest in risk-free investments, thus directly affect the flow of funds for productive purpose.

Vallabh, Bhatia and Mishra, (2007) in their empirical study 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. This study aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed. This model tries to extend the methodology of widely known Altman model. The empirical analysis assesses how macroeconomic factors and bank-specific parameters affect NPAs of a particular category of banks. The macroeconomic factors of the model included are GDP growth rate and excise duty, and the bank-specific parameters are Credit Deposit Ratio (CDR), loan exposure to priority sector, Capital Adequacy Ratio (CAR), and liquidity risk. The results show that movement in NPAs over the years can be explained well by the factors considered in the model for the public and private sector banks. The co-linearity between independent variables was measured by Durbin Watson test and VIF characteristic and it was found to be a little for public and private banks. The factors included in the model explain 97.1 per cent (adjusted

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R-square value of regression results) of variations in NPAs of public banks and 76.9 per cent of the same of private banks. The other important results derived from the analysis include the finding that banks’ exposure to priority sector lending reduces NPAs.

**Thomas P. Ferguson, (2007)** in their study stated that the asset securitization is a burgeoning trend in Russia as companies burdened by poor credit ratings seek access to capital at lower costs than they would be allowed in traditional equity or debt markets. Study indicates that securitization of these bad loans has not occurred in Russia at the levels one might expect. This has been due to both a relatively small amount of loans that under-perform as well as legal and regulatory impediments that have discouraged investors and lenders alike. The study has been conducted to examine the expansion of consumer credit in Russia and the circumstances under which it is occurring indicate that the level of non-performing loans is due to rapidly increase and as the rationale for maintaining the impediments that stand in the way of securitizing these loans is being re-examined, those impediments are being scaled back to make way for market participants to engage in such securitizations. Thus, this article anticipates a significant rise in the level of non-performing loans, which will be logically paired with an increased interest of Russian lenders in securitizing these assets.

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Sundararaman, S. (2008) in hot pursuit of NPA the articles dealt with the formation and procedural aspect of DRT which also includes the issue of summons, counter Claim and DRAT (Debt Recovery Appellate Tribunal). The author had considered various factors for the delay in pronouncing the judgment. Thus banks and financial institution should bring about some measures which could bring moral or social pressures upon the concerned borrowers which can act as deterrent for unscrupulous disposal of secured assets.

M. Karunakar, K. Vasuki and S. Saravanan, (2008) stated that it is necessary that the banking system is to be equipped with prudential norms to minimize if not completely to avoid the problem of NPAs. The onus for containing the factors leading to NPAs rests with banks themselves. This will necessitates organizational restructuring, improvement in the managerial efficiency and skill up gradation for proper assessment of credit worthiness. It is better to avoid NPAs at the nascent stage of credit consideration by putting in place of rigorous and appropriate credit appraisal mechanisms. Having regard to strong possibilities of NPAs assuming high proportion of total assets, unless the authorities for preventing mounting NPAs thereby eroding the profitability and liquidity of the banks initiate serious corrective action. At the outset NPAs are considered to be gloomy as well as greedy to the Indian economy.

Naushad. M. Mujawar, (2009)\textsuperscript{72} Lending has always been associated with credit risk, arises out of the borrower’s default in repaying the loan with the stipulated time. In recent years some UCBs, which are mostly engaged in retail banking, have faced mergers and strict action by RBI for having failed to successfully manage their NPAs. The inflating bubble of NPAs may mar the balance sheets of the banks if they fail to adopt better credit monitoring practices to prevent further slippage of NPAs. In the case study, an attempt has been made to tackle the problem of NPAs. The objective of the study is to understand the concept of NPA and classification of assets.

Naushad.

Usha Arora, Bhavna Vashisht and Monica Bansal, (2009)\textsuperscript{73} in the research on “An Analytical Study of Growth of Credit Schemes of Selected Banks” analyzed and compared the performance (in terms of loan disbursement and non-performing assets) of credit schemes of selected banks for the last five years. This paper is divided into two parts. In the first part, bank-wise as well as year-wise comparisons are done with the help of Compound Annual Growth Rate (CAGR), mean and standard deviation; and in the second part, a positive relationship is found between total loan disbursement and total NPA outstanding of selected banks with the help of a correlation technique. The


study found a positive relationship between total loan disbursement and total Non-Performing Assets Outstanding (NPA outstanding) of selected banks.

**P.R. Kulkarni, (1999)**\(^{74}\) the small scale sector has been assigned an important role in national economy. Competitiveness of the products of SSI units, particularly in the international market, is dependent on their prices and quality considerations. Besides providing financial inputs, the need for extension services assumed importance. In the liberalized economic era, the role of technology up gradation and modernization had assumed significant importance. The paper emphasized light on the role played by the Government of India and the SIDBI towards achieving the goal. In view of the priority accorded to technology up gradation and modernization for SSI sector in the Ninth Plan the initiative should be taken to bring the awareness of technology up gradation and modernization needs among small entrepreneurs.

**Naushad, M. Mujawar, (2009)**\(^{75}\) lending has always been associated with credit risk, arises out of the borrower’s default in repaying the loan with the stipulated time. In recent years some UCBs, which are mostly engaged in retail banking, have faced mergers and strict action by RBI for having failed to successfully manage their NPAs. The inflating bubble of NPAs may mar the balance sheets of the banks if they fail to adopt better credit monitoring practices to prevent further slippage of NPAs. In the case study, an attempt has


been made to tackle the problem of NPAs. The objective of the study is to understand the concept of NPA and classification of assets

Vikas Choudhary, (2010)\textsuperscript{76} analysed the performance of public sector banks in India. It has been observed that the banking sector in India has responded very positively in the field of enhancing the role of market forces regarding measures of prudential regulations of accounting, income recognition, provisioning and exposure, introduction of CAMELS supervisory rating system and reduction of NPA’s and upgradation of technology. But at the same time reforms failed to bring banking system at a par with international level and still the Indian banking section is mainly controlled by government as PSB’s being leaders in this sphere. It is suggested that government should formulate bank specific policies and should implement these policies through Reserve Bank of India for upliftment of Public Sector Banks. Public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.

Kanika Goyal, (2010)\textsuperscript{77} the study observed all the categories of loan assets i.e. substandard assets, doubtful assets and loss assets as a percentage of gross non-performing assets have registered a decline over the period of study. The public sector banks have managed to reduce NPAs in the public sector lending as non-priority sector, however, NPAs in the agriculture sector have increased over the period of study. Statistical results observed highly

\textsuperscript{76}Vikas Choudhary (2010), Performance evaluation of public sector banks in India, Sri Krishna international research and educational Consortium, Volume 1, Issue 1, pp.1-17.

significant difference in mean sub-standard assets, doubtful assets and loss assets. It is further observed highly significant difference between the sector wise NPAs on an average, with highest NPAs in the priority sector. The study finally observes that the prudential and provisioning norms and other initiatives taken by the regulatory bodies has pressurized banks to improve their performance, and consequently resulted into trim down of NPA as well as improvement in the financial health of the Indian banking system.

Poongavanam, S. (2011)\textsuperscript{78} in her article highlights the reasons for an assets becoming NPA and remedial measures to be taken. Banking industry has undergone a major change after the first phase of economic liberalization; hence the importance credit management has emerged. In recent time banks are very cautious in extending loan, because of mounting NPA. Due to various steps taken by the Government of India NPA levels were reduced to considerable level. (Nearly 2.7 per cent of the loans on the balance sheet of bank, from 8.8 per cent) So it is an indication for the bankers with bad loan in their portfolio to take appropriate actions immediately.

Kajal Chaudhary and Monika Sharma, (2011)\textsuperscript{79} he stated that it is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in


preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower or project and in analyzing the financial statement.

Pacha Malyadri, S. Sirisha, (2011) the study observes that the prudential and provisioning norms and other initiatives taken by the regulatory bodies has pressurized banks to improve their performance, and consequently resulted into trim down of NPA as well as improvement in the financial health of the Indian banking system. It has been observed that the banking sector in India has responded very positively in the field of enhancing the role of market forces regarding measures of prudential regulations of accounting, income recognition, provisioning and exposure, introduction of CAMELS supervisory rating system and reduction of NPA’s and up gradation of technology. But at the same time reforms failed to bring banking system at a par with international level and still the Indian banking section is mainly controlled by government as PSB’s being leaders in this sphere. It is suggested that government should formulate bank specific policies and should implement these policies through Reserve Bank of India for upliftment of Public Sector Banks. Public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.

Jayanta Kumar Bihari, (2012)\textsuperscript{81} stated that the selection of right borrowers, viable economic activity, adequate finance and timely disbursement, correct end use of funds and timely recovery of loans is absolutely necessary preconditions for preventing or minimizing the incidence of new NPAs. However, banks are yet another sector where the rot has already set in. It is high time to take stringent measures to curb NPAs and see to it that the Non-Performing Assets may not turn banks into Non-Performing Banks; instead above steps should be taken to convert Non-Performing Assets into Now-Performing Assets.

Chidambaram, N. (2012)\textsuperscript{82} in the present study, the performance of private banks (OPSB and NPSB) has been compared and examined on the basis of select parameters. Relatively both categories of private banks are doing well than their public sector counterparts. NPSBs are one step ahead of OPSBs, in offering a better performance. Selective banks the NPA list should tighten their credit grant mechanism as well as collection mechanism. As the ratio of intermediation cost to total assets is observing an uptrend both OPSB and NPSB bank management(s) should closely monitor the same and should initiate some actions to manage. Old private sector banks have the need to fundamentally strengthen and horn their skill levels.


Muhammad Farhan, et al, (2012)\textsuperscript{83} this study provides the perception of Pakistani bankers regarding the economic factors causing non-performing loans in the Pakistani banking sector since 2006. This study was conducted via a well structured questionnaire and data was collected from 201 bankers who are involved in the lending decisions or analyze the credit risk or handling non-performing loans portfolio and analyses the impact of selected independent variables (Interest Rate, Energy Crisis, Unemployment, Inflation, GDP Growth, and Exchange Rate) on the non-performing loans of Pakistani banking sector. Top 10 Pakistani banks were selected as a sample. According to the results Pakistani bankers perceive that Interest Rate, Energy Crisis, Unemployment, Inflation, and Exchange Rate has a significant positive relationship with the non-performing loans of Pakistani banking sector while GDP growth has significant negative relationship with the non-performing loans of Pakistani banking sector and also discusses how good loans are turning into bad loans due to disaster in energy sector of Pakistan and how these energy crisis are badly affecting the banking sector of Pakistan.

VARIOUS COMMITTEE REPORTS ON NPA

Narsimhan Committee, (1991)\textsuperscript{84} the development of the financial sector is a major achievement and it has contributed significantly to the increase in our savings rate, especially of the household sector. The terms of reference were to examine the existing structure of the financial system and its


\textsuperscript{84}Narsimhan Committee-Reform I, (1991).
various components and to make recommendations for improving the efficiency and effectiveness of the system with particular reference to the economy of operations, accountability and profitability of the commercial banks and financial institutions.

Khan Committee, (1997)\(^{85}\) RBI had constituted a seven member Working Group on 15th Dec. 1997 under the Chairmanship of Shri S.H. Khan, keeping in view the need for evolving an efficient and competitive financial system. The terms of reference were to review the Role, Structure and Operations of DFIs and Commercial Banks in the emerging operating environment and suggest changes and to examine whether DFIs could be given increased access to short term funds and the regulatory framework needed for the purpose.

Tarapore Committee, (1997)\(^{86}\) the Union Finance Minister, Shri P. Chidambaram, in his Budget Speech for 1997-98 had indicated that the regulations governing foreign exchange transactions need to be modernized and replaced by a new law consistent with the objective of progressively liberalizing capital account transactions. Committee on Capital Account Convertibility under the Chairmanship of Shri S.S. Tarapore was appointed. The terms of reference were to review the international experience in relation to Capital Account Convertibility and to indicate the preconditions for

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\(^{85}\) S.H. Khan, Chairman and Managing Director of IDBI, Committee on Financial Reforms, (1997).

\(^{86}\) S.S. Tarapore, (Chairman) Committee on Capital Account Convertibility, (1997).
introduction of full Capital Account Convertibility and to specify the consequences and time frame in which such measures are to be taken.

**Pannir Selvam Committee on NPA, (1998)** Banking Division constituted a 3 Member Committee. The committee assigned for Causes of NPAs, factors for slump in recovery of loans; measures to be taken for effective recovery of bank dues and reduction of NPAs and banks wise study on factors responsible for the NPAs and banks specific suggestions for recovery.

**Narsimhan Committee (1998)** reform of the Indian banking sector is now under way following the recommendations of the Committee on Financial System (CFS), which reported in 1991. The second generation of reform could be conveniently looked at in terms of 3 broad interrelated issues and actions that need to be taken to strengthen the foundation of the banking system and structural changes in the system suggested capital adequacy, asset quality, prudential norms, systems and methods in banks.

**RBI Panel on DRT’s, (1998)** the RBI had set up Working Group in the month of March 1998 to review the functioning of Debt Recovery Tribunals. The objectives of the panel were to look into various issues and problems confronting the functioning of DRTs in expeditious recovery of banks dues and to examine the existing statutory provisions and suggest

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87 Pannir Selvam, Committee on NPA, Under the chairmanship of Shri A.T. Pannir Selvam, Chairman, IBA and Chairman and Managing Director, Union Bank of India. (1998).
89 RBI Panel on DRT’s, under the Chairmanship of Shri N.V. Deshpandey, (1998).
necessary amendments to the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and Rules framed there under with a view to improving efficacy of legal machinery,

**Special Report on NPA by RBI, (July 1999)** in order to study some aspects and issues relating to NPAs in Commercial Banks, RBI has prepared a report in the Department of Banking Supervision. This study has been carried out using the RBI inspection reports on Banks, information / data obtained from public sector banks and 6 private sectors banks and those collected from the files on borrowable accounts maintained in banks for assessing comparative position on NPAs and their recoveries in banks. The causes for sickness /weak performance and consequently the account turning NPA in respect of Public sector banks and private sector banks.

A review of the above literature reveals the following fact. Some of the research studies conducted in India have highlighted the importance of a through pre sanction scrutiny of loan assets. Some studies proved that NPAs to be alarming in the sphere of priority sector lending, improper selection of borrowers, under financing defective securities, defective loan appraisal mechanism, etc., are some of the factors accentuating the problem of NPAs. Few researchers have outlined the significance of post sanction follow up of loan assets. The studies by few a researchers have brought out certain variables triggering NPAs due to external factors like political intervention, waiver of loan by government absence of any reward mechanism for recognizing prompt

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loan repayments, poor credit indiscipline, willful default, lengthy recovery procedures and so on. But a research study apprising the management of loan assets with particular reference to State Bank of India has not been attempted by Indian researchers till date. In this backdrop the present study is undertaken to bridge the gap.