CHAPTER-V

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 INTRODUCTION

The present study is listed the detailed findings along with the suitable suggestions based on the data analysis and discussion and review of literature. The concluding remarks and the way ahead in controlling the non-performing assets in banks are explained in a brief manner. Finally concluding remarks along with the scope for further research is presented.

5.2 FINDINGS BASED ON THE SECONDARY DATA

1. **Level of NPAs: 2012:** It is noted from the table 4.1, that the highest level of NPAs are recorded at 3.09 percent in central bank of India and the lowest level of net NPAs are recorded at 0.54 percent in the Bank of Baroda during the year 2012. The average level of net NPAs is recorded at 1.42 percent for the nineteen nationalized banks and 1.53 percent of average level of Net NPAs are recorded during the financial year 2012 among the public sector banks.

2. **2013:** During the year 2013, it is noted that the highest level of Net NPAs are recorded at 3.19 percent in Allahabad bank and lowest percentage of net NPAs are recorded at 0.52 percent in bank of Maharashtra and the average level of net NPAs are recorded at 2.01 percent among the public sector banks.

3. **2014:** During the year 2014, it is observed that the average level of net NPAs in Public sector banks is recorded at 2.56 percent and the highest level of net NPAs at 7.09 percent in United bank of India and the lowest percentage at 1.52 percent in bank of Baroda. It is clearly noted that the net NPAs levels among the public sector banks is gradually increasing year by year, the evidence shows that, 1.53 percent for 2012, 2.01 percent for the year 2013 and 2.56 percent for the year 2014 respectively.
4. **Business per employee:** The amount of business carried out per employee is recorded at Rs.23.87 crores for the year 2012, Rs.25.64 crores for the year 2013 and Rs.24.65 crores for the year 2014 respectively. It indicates the fluctuating trend of business per employee is recorded in the public sector banks. It is also observed that the level of business per employee is keeping on increasing in certain banks and keep on reducing in others. Hence, it is noted that there is a performance gap between the banks in public sector.

5. **Profit per employee:** It is measure of the employee’s efficiency and the overall business performance of a bank. It is observed that the profit per employee is recorded at Rs.12 lakhs, Rs.10 lakhs and Rs.10 lakhs as highest in Bank of Baroda for the financial years 2012, 2013 and 2014 respectively. Similarly lowest profit per employee is recorded at Rs.1.51 lakhs in central banks of India, Rs.1.99 lakhs in Indian overseas bank and Rs.-3.11 lakhs in central banks of India for the years 2012, 2013 and 2014 respectively. It indicates the performance gaps among the public sector banks.

6. **Operating expenses as percentage to total expenses:** It is noted that the average level of operating expenses is recorded at 21.53 percent for the year 2012, 20.58 percent for the year 2013 and 20.80 and 20.61 percentages for the financial year 2014 respectively. It indicates that one fifth of the operating expenses are in the form of salaries and allowances to the employees. It indicates that the need for the control on operating expenses and to improve the profits for provisioning purposes.

7. **Return on assets:** It is noted that the return assets among the public sector banks is recorded at 1.24 percent in bank of Baroda for the financial year 2012, 1.07 percent in syndicate bank for the year 2013 and 07 percent in syndicate bank for the year 2014 respectively. It indicates that the poor performance in terms of return on assets held by the banks. The fixed assets need to be valued on real value basis and the issue of over valuation needs to be addressed.

8. **Capital Adequacy Ratio- BASEL-I:** It is noted from the table 4.2, that the capital adequacy ratios are not prepared by all the banks as per the BASEL Accord. It is evident from the fact that The RBI reports mentioned
dissatisfaction on the banks behavior in observing the circulars sent by the RBI from time to time. In addition, the table indicates that the non provision of such crucial items indicates that level of governance in banking sector. The highest capital adequacy ratio is observed in 12.81 percent and 12.71 percent in Punjab and Sind Bank during the year 2012 and 2013 respectively.

9. **Capital Adequacy Ratio- BASEL-II:** The highest capital adequacy ratio is observed at 13.26 percent, 12.91 percent in Punjab and Sind Bank for the year 2012 and 2013 respectively. Similarly highest level of capital adequacy ratio is observed at 13.10 percent in Indian Bank for the financial year 2014, among the public sector banks.

10. **Credit Deposit Ratio:** It is noted that the highest credit deposit ratio is recorded at 79.81 percent in Union bank of India, as against to the average of nationalized bank’s ratio of 75.14 and average public sector bank’s ratio of 77.51 during the year 2012. Similarly, the highest credit deposit ratio for the year 2013 is recorded at 80 percent in Bank of Maharashtra, 81.90 percent for syndicate bank for the year 2014 respectively. The average credit deposit ratio of the public sector banks is recorded at 77.85 percent and 77.42 percent for the years 2013 and 2014 respectively. It indicates that, some of the public sector banks are doing well and others are below the average.

11. **Investment Deposit Ratio:** It is noted from the table that, the average investment deposit ratio of public sector banks is recorded at 30.13 percent, 30.62 percent and 29.95 percent for the financial years 2012, 2013 and 2014 respectively. On the other hand the average investment deposit ratio of nationalized banks is recorded for the same period is 29.73 percent, 30.44 percent and 29.78 percent for the financial years 2012, 2013 and 2014 respectively. The highest investment deposit ratio recorded among the public sector banks is recorded at 34.87 percent in corporation bank for the financial year 2012, 35.33 percent in Dena bank for the year 2013 and 40.24 percent in Union bank of India for the financial year 2014 respectively. It indicates that the investment deposit ratios are not consistent among the public sector banks.
12. **Spread as % of Assets**: It is observed from the table 4.3, that the spread as % of assets in public sector banks is observed at 3.12 percent in Indian bank during the financial year 2012, 3.10 percent in Punjab National bank for the year 2013 and 2.93 percent in syndicate bank for the year 2014 respectively. The average spread as % to assets of the public sector banks for the same period is recorded at 2.59 percent, 2.40 percent and 2.30 percent for the financial years 2012, 2013 and 2014 respectively. In case of nationalized public sector banks, the average spreads as % of assets is recorded at 2.44 percent, 2.28 and 2.14 for the financial years 2012, 2013 and 2014 respectively.

13. **Operating Profit**: It is noted from the table 4.4, that the highest operating profit among the public sector banks is recorded at Rs.10614 crores, Rs.10957 and Rs.11384 crores min Punjab national Banks for the financial years 2012, 2013 and 2014 respectively. Similarly, the total operating profit for the nationalized banks is recorded at Rs.72498, Rs.76573 and Rs.81474 for the financial years 2012, 2013 and 2014 respectively. On the other hands the State bank of India recorded an average level of operating profit for the financial years at Rs.31574, Rs.31082 and Rs.32109 crores for the financial years 2012, 2013 and 2014 respectively. It indicates that the operating profit in public sector banks is not consistent.

14. **Provisions and contingencies**: The highest level of provisions and contingencies is observed at Rs.5730 crores, Rs.6160 crores and Rs.8042 crores in Punjab national Bank among the nationalized public sector banks during 2012, 2013 and 2014 respectively. On the other hand the total amount of provisions and contingencies recorded in public sector banks during the period 2012 to 2014 are ,Rs.66823 crores, Rs.71256 crores and Rs.90626 crores for the financial years 2012, 2013 and 2014 respectively.

15. **Net Profit**: The net profit trends of the public sector banks during 2012 to 2014 are as follows. The highest amount of net profit is recorded at Rs.5007 crores in Bank of Baroda during the year 2012, Rs.4748 crores in Punjab national banks during the financial year 2013 and Rs.4541 crores in Bank of Baroda for the year 2014 respectively. The net profits recorded in the state bank of India during the
period are Rs.11707 crores, Rs.14105 crores and Rs.10891 crores for the financial years 2012, 2013 and 2014 respectively. The total amount of net profits for the period for all the public sector banks put together is recorded at Rs.49514 crores for 2012; Rs.50583 crores for the year 2013 and Rs.37007 crores for the year 2014 respectively. It indicates that the level of net profits is showing a fluctuating trend.

16. **Interest Expended:** Interest expended is a big operating expenditure in banks. The interest paid to the deposit holders from time to time need to be controlled for the effective liquidity of banks. The highest interest expended among the public sector banks during the year 2012 is recorded at Rs.23161 crores by Canara Bank, Rs. 27037 crores in Punjab National Bank and Rs.27080 in Bank of India for the financial years 2013 and 2014 respectively. The total amount of interest expended by the public sector commercial banks during the financial year 2012 is recorded at Rs.328597 crores; Rs.387927 crores for the year 2013 and Rs.437139 crores for the year 2014 respectively. The interest expended shows an increasing trend during the period.

17. **Operating Expenses:** The highest level of operating expenses of public sector commercial banks is recorded at Rs.90155 crores for the year 2012; Rs.101890 crores for the year 2013 and Rs.120540 crores for the financial year 2014 respectively. The trend is in steep increase from year on year and indicates the liquidity risk among the public sector banks. The highest amount of operating expenses is recorded in Punjab National Bank for the same period with Rs.7003 crores for the year 2012, Rs.8165 crores for the year 2013 and Rs.9338 for the year 2014 respectively.

18. **Total Expenditure:** The total expenditure recorded in nineteen nationalized public sector banks is recorded at Rs.275729 crores for the financial year 2012. The same is Rs.323288 for the financial year 2013 and Rs.367382 crores for the year 2014 respectively. At independent bank level, the highest level of total expenses is recorded in Punjab National Banks for the financial years 2012 and 2013 at Rs.30064 crores and Rs.35202 crores respectively. Whereas for the
financial year 2014, the highest total expenditure is recorded at Rs.36684 crores in canara bank among the nationalized banks in the sample.

19. Interest Income: The highest level of interest income is recorded at Rs.36476 crores, Rs.41886 crores and Rs.43223 crores in Punjab national banks for the financial years 2012, 2013 and 2014 respectively. Similarly, the total interest income earned by the public sector banks for the same period is recorded at Rs.484740 crores for the year 2012, Rs.554872 crores for the year 2013 and Rs.620184 crores for the financial year 2014 respectively. The interest income trends in the public sector banks is appreciating trend and can improve the same in the years to come. This can help in boosting the return on capital invested and return of assets and gain the investor’s confidence levels from time to time.

20. Other Income: The other incomes are recorded as highest in Punjab national banks for the financial years 2012 to 2014 at Rs.4203 crores, Rs.4223 crores and 4577 crores respectively among the nationalized public sector banks. The total other incomes earned by the public sector banks for the same period is recorded at Rs.50347 crores for the year 2012, Rs.56785 crores for the year 2013 and Rs.65127 crores for the year 2014 respectively. This indicate that the other incomes in the public sector banks are increasing year on year and can boost the same through many value added and technology enabled services provision to the customers from time to time.

21. Total Income: The total income earned by the public sector banks during the period 2012-2014 are as follows. The Highest total income among the individual nationalized public sector banks for the year 2012 is recorded at Rs.40679 crores, Rs.46109 crores of the year 2013 and Rs.47800 crores for the year 2014 respectively as highest in the Punjab national bank. On the other hand it is recorded at Rs.535087 crores in all the public sector banks put together for the financial year 2012, Rs. 611656 for the year 2013 and Rs.685312 crores for the year 2014 respectively.

22. Total assets: The value of total assets of the public sector banks is estimated at Rs. 6039620 crores during the year 2012. The same was increased to Rs.6961988 crores for the year 2013 and to Rs.7966550 crores for the year 2014 respectively.
The independent bank wise, total assets, the highest level of total assets is recorded at Rs.458192 crores in case of Punjab national bank for the year 2012, Rs.547135 crores, Rs.659505 crores for the financial years 2013 and 2014 respectively. The value of total assets is increasing year on year with the market value.

23. Gross NPAs: The highest level of Gross NPAs is observed at Rs.8720 crores, Rs.13466 Crores, and Rs.18880 Crores in case of Punjab national bank for the financial years 2012, 2013 and 2014 respectively among the nationalized public sector banks. The total level of gross NPAs for the same periods is recorded at Rs.117262 crores for the year 2012, Rs.164462 crores for the year 2013 and Rs.227264 crores for the year 2014 respectively. It indicates that the alarm situation of NPAs level in public sector banks. The steps needs to taken from gross route level in order to control the same and to mitigate the credit risk in the years to come.

24. Net NPAs: The net NPAs are recorded at Rs.4557 crores as highest in Central bank of India for the year 2012, during the year 2013 and 2014, Punjab national banks stood at higher Net NPAs level with Rs.7237 crores and Rs.9917 crores respectively. The total net NPAs of the public sector banks during the same period is recorded at Rs.59162 crores for the year 2012, Rs.89950 crores for the year 2013 and Rs.130360 crores for the year 2014 respectively. It indicates the level of provisions requirements in the public sector banks and the level of credit risk persistently existing. The support of government and the regulatory authorities’ needs to engaged in the collection of doubtful and loan assets from the defaulters. The legal and regulatory measures need to be strengthened from time to time at all levels of credit sanctioning and dispersal to the customers. Productive and recoverable security based loans needs to be encouraged rather than the unproductive and unsecured loans. The interference of political and government in the management of loan assets needs to be streamlined from time to time.

25. Total Deposits: The highest level of deposits collected is recorded at Rs.384871 crores, Rs. 473883 crores and Rs.568894 crores in Bank of Baroda for the
financial years 2012, 2013 and 2014 respectively. During the same tome the total amount of deposits collected by the nationalized public sector banks is recorded at Rs.3386497 crores for the year 2012; Rs.3900136 crores for the year 2013 and Rs.4524797 crores for the year 2014 respectively. Similarly, all the public sector banks put together collected the total deposits of Rs. 5002013 crores for the year 2012, Rs.5745697 crores for the year 2013 and Rs. 6588934 crores for the year 2014 respectively. The growth level of deposits in banks is appreciable from time to time.

26. Investments: The highest level of investments are made by the Punjab national bank during the financial years 2012, 2013 and 2014 with Rs. 122703 crores, Rs.129896 crores and Rs.143786 crores respectively. Similarly the total amount of investments made by the nationalized public sector banks for the year 2012 is Rs.1006773 crores, Rs. 1187307 crores for the year 2013 and Rs. 1347473 crores during the year 2014 respectively. The amount of investments made in the portfolio assets needs to be reviewed from time to time for the effective spread of returns.

27. Advances: The total amount of advances granted by the public sector banks during the year 2012 is recorded at Rs. 3,877,307 crores for the year 2012, Rs.4472845 crores for the year 2013 and Rs.5101054 crores for the year 2014 respectively. The level of advances grated at independent bank wise is highest of Rs.293775 crores for the year 2012 and Rs.308796 crores for the year 2013 by the Punjab national bank. For the financial year 2014, the highest level of advances is granted by the Bank of Baroda with the total advances of Rs. 397,006. The major portfolio of the bank advances are for priority sector, non priority sector and for service sector in the order of priority. The total amount of advances granted by the public sector banks during the year 2012, 2013 and 2014 are Rs.3877307 crores, Rs.4472845 and Rs.5101054 crores respectively. The major portfolio of these loans and advances are for priority sector and without any collateral security. This is one of the reasons for accumulated doubtful and loss assets and there by NPAs in the banks.
28. **Public sector banks:** The level of Gross Non-performing assets (NPAs) in public sector banks during 2008-2014 is showing a mixed fluctuating growth trend. The percentage of Gross Non-performing assets (NPAs) during the year 2008 is recorded at 2.03 percentage, and it was come down to 2.10 percent during the year 2009. Later it starts growing and stood at 3.84 percent for the financial year 2014. It indicates that the level of Gross Non-performing assets (NPAs) is increasing in a steady manner and the effective control on the same is needed on war footing basis.

29. **Private sector banks:** The level of Gross Non-performing assets (NPAs) in private sector banks is recorded at 2.17 percentage during the year 2008 and it was come down to 1.91 percent for the year 2014. The gradual reduction in the level of Gross Non-performing assets (NPAs) in private sector banks is due to the efforts in the form of site visits and customer counseling and collection methods adopted by the private banks are adoptive and appreciable. The same can be adopted in public sector banks to reduce the level of Gross Non-performing assets (NPAs) in private sector banks for the benefit of the banks and to the economy at large.

30. **Foreign Banks:** The level of Gross Non-performing assets (NPAs) in foreign sector banks is recorded at 1.91 percent for the year 2008 and increased to 2.97 percent for the year 2014. It indicates that the foreign banks are focused on corporate sector and the huge loan losses are due to corporate loans. The recovery process is slow due to legal procedures. The credit assessment of the banks needs to be streamlined and strengthened in the banking sector for corporate customers to avoid the huge losses in loan portfolio.

31. **All banks:** The average level of Gross Non-performing assets (NPAs) in all banks is recorded at 2.39 percent for the year 2012 and increased the same to 3.29 percent for the year 2014. It indicates that the majority of the banks are facing the credit risk and the average level of Gross Non-performing assets (NPAs) in banks is in increasing trend. The regulatory and the independent banks needs to be come to a platform to discuss the issues in high level of Gross Non-
performing assets (NPAs) in banks and its implications and to develop the strategies to mitigate the credit and default risk in banks.

32. **Loan Assets in Public sector banks:** The composition of loan assets classification in public sector banks during the period 2006 to 2011 is as follows. The standard assets of public sector banks for the year 2006 is recorded at 96.01 percent as against to the all scheduled commercial banks average of 96.5 percent. The composition of standard assets are gradually increased and stood at 97.7 percent as highest for the year 2011.

33. **Standard assets in Private sector banks:** The highest level of standard assets in private sector banks is recorded at 97.6 percent during the year 2007 and lowest level of standard assets is recorded at 97 percent for the year 2010. Similarly, sub standard assets composition in private sector banks shows a fluctuating trend and recorded as lowest at 0.6 percent for the year 2011. The trends of doubtful assets are also fluctuating in nature and recorded at a maximum of 1.5 percent during the financial years 2006 and 2011. It shows a mixed growth trend of loan assets for the period 2006 to 2011 among the private sector banks.

34. **Standard assets in Foreign banks:** It is noted from the table 4.10, that the level of standard assets for the period 2006 is recorded at 97.9 percent as highest during the period. On the other hand the lowest level of standard assets is recorded at 95.7 percent during the year 2009. The composition of doubtful assets during the period is recorded at a maximum of 1.1 percent during the financial year 2011 and a minimum of doubtful assets is found at 0.5 percent during the financial year 2008. Here the trend is observed as mixed and fluctuating in nature.

35. **Assets composition of All scheduled commercial banks:** The average level of standard, sub-standard and doubtful assets of the all scheduled commercial banks is as follows. The maximum level of standard assets is found at 97.7 percent during the year 2011 and minimum level is found at 96.5 percent for the year 2006. Similarly, the maximum level of sub standard assets is found at 1.3 percent for the financial year 2009 and 2010, and the minimum level is recorded at 1.0
percent for the year 2006. The trend of doubtful assets is diminishing from 2006 to 2011 from 2.0 percent to 1.0 percent and it is appreciable in nature.

36. Loss assets in public sector banks: The composition of loss assets in public sector banks during the period is as follows. The loss assets are recorded at 0.5 percent for the year 2006 and it is gradually reduced to 0.2 percent for the year 2011 and it shows an improvement in the quality of assets during the period. The level of gross nonperforming assets are recorded at 3.9 percent during the year 2006 and it was reduced to 2.3 percent for the year 2011 and The total advances of public sector banks is recorded at Rs.1070872 crores during the year 2006 and it was increased by three fold and recorded at 3079804 crores for the year 2011. It shows the level of advances granted by the public sector banks during the period.

37. Sector Wise Composition of NPAs in Nationalized Banks: It is noted from the above table 4.43, that the priority sector composition of non-performing assets are started increasing from the year 2005 to reached a maximum composition from priority sector advances during the year 2008, later, it was started diminishing in by year on year till date. On the other hand, the composition of non-priority sector non-performing assets are increased from 1995 to 2005 and stared diminishing and reached the lowest composition from the non priority sector during the year 2008. Later the composition of non-performing assets from non-priority sector started increasing and continuing the same trend till date. The composition of non-performing assets from the public sector is nominal throughout the period and further diminishing in the recent past. Hence, there is a need to focus on non priority sector loans recovery from the corporate groups by exercising the all measures to recover the loans from the customers.

38. Total amount of NPAs in nationalized banks during 1995-2013: It is noted from the table 4.43, that the saga of non-performing assets was started way back 1995 after liberalization of the economy. Till that date, the level of nonperforming assets is nominal and managed to some extent with the support of the government. The trend of increasing loss assets and non-performing assets is increased from 1995 and reached the peak level in the year 2002 and the same
trend was followed till 2004. Later the nonperforming assets started diminishing and reached the lowest level during the year 2008. Further the level of nonperforming assets started increasing and reached the highest level for the year 2013. It shows a linear and steep growth in the level of non-performing assets over a period of time. It indicates that the steeps to mitigate the credit risk in banks need to be continued and regular in nature. Thus, the problem of non-performing assets can be kept under control.

39. Sector Wise Composition of NPAs in Public Sector Banks (PSBs): It is noted from the table 4.45, the composition of nonperforming assets from different sectors are as follows. The priority sector composition to nonperforming assets is high during 1995, 2006 to 2012. Whereas non-priority sector composition to non-performing assets is high during 1996 to 2005 and 2013. The composition of public sector to the level of nonperforming assets in the public sector banks is as low as less than 3 percent from 1995 to 1999 and later it was reduced to 2 percent and in the recent past the composition has come down to less than one percent. The primary reason could be social banking policies, political and government pressures in case of priority sector. Policy issues and the business failures and intentional defaults are the reasons in case of non-priority sector.

40. Total amount of NPAs in Public Sector Banks (PSBs) during 1995-2013: The net nonperforming assets in public sector banks during the period 1995 to 2013 shows a trend reversal trend with seasonal variances behavior. The net non-performing assets during the year 1995 in all the 26 public sector banks put together is Rs.39562 crores and it was gradually followed a mixed trend of growth and reached Rs.1,58,625 crores at the end of the year 2013. The high level of growth is observed in the recent years from 2009 to 2013.

5.3 FINDINGS BASED ON THE PRIMARY DATA

1. The poor level of adoption of Integrated risk Management Division is observed with 56.5 percent response level in the sample survey, Similarly, 53.7 percent of the sample perceived that, Operational risk management Policy on NPAs is poor among the public sector banks in the sample area. On the other hand, good level of Risk management policy on NPAs is observed with the 53.5 percent of the
respondent’s support, good level of Information technology policy adoption in banks is endorsed by the 53.1 percent of the sample. Recovery policy on NPAs adoption in public sector banks is highly endorsed the adoption by 56.3 percent of the sample.

2. 48.2 percent of the sample bank officers felt that, the rating of loan assets in public sector banks are fairly rated in all aspects of loan products. Some of the attributes of the loan products mentioned are Economical and competitive rate of interest, terms and conditions, documents required to avail a loan, pre-closure and delay closure procedures, penalties and additional charges are fairly and reasonably less when compared to other banks in the market.

3. 52 percent of the banks officers felt that, high level of Status of outstanding entries of loans in a bank in the sample survey. It indicates that the many accounts are not updated and classified as NPAs. Hence, timely action on the same may increase the level of NPAs and to focus on the recovery of the same.

4. 52.2 percent of the bankers in the sample survey felt that good level of progress in measurement of level of non-performing assets from time to time in the sample banks. It indicates that the level of NPAs measuring for the purpose of identifying the quantity, focus on settlement through counseling and consultation or arbitration, provisioning for the estimated losses and to maintain the quality of assets in banks is quite appreciable and the same can be continued in the years to come.

5. 58.7 percent of the respondents in the sample survey felt that low level of usage and assistance of Regulatory measures of BIS help to manage NPAs in public sector banks. It indicates the need for the review of the BIS regulatory measures of nonperforming assets management and customization, revision may help the banks to practice further and to control the level of NPAs in banks.

6. 44.8 percent of the sample respondents in the survey perceived that, moderate level of usage of the Regulatory measures of RBI helps to manage NPAs in public sector banks. It indicates that the recommendations given by the RBI needs to be reviewed in the light of changed socio economic conditions in
consultation with the shop floor officers and field officers in the bank. This can to
review and recustomise the existing practices and readopt the Regulatory
measures of RBI to manage NPAs in public sector banks in the years to come for
the benefit of the banks in specific and to the benefit of the society at large.

7. 53 percent of the sample bank officers felt that, the rating of loan assets in public
sector banks is moderately rated in all aspects. Some of the aspects of loan
products trend is measured in terms of demand for loans, number of clients
applied, number of new customers approaching a banks for loans, continuation of
the existing customers, loyalty of the customers while repaying the loan,
information during the default time, and request for rescheduling of loans.

8. 53.5 percent of the bankers measure the level of NPAs in banks at a frequency of
3-6 months once in a bank. Very few banks measure the level of NPAs at
monthly basis and report for the remedial and corrective action of the recovery
department in the public sector banks (9.6 percent of the sample respondent
banks). Another 10.3 percent of the banks in the sample survey measure the level
of nonperforming assets after six months and reports for the recovery measures.

9. Average level of NPAs comes across in the sample banks are recorded at 3 to 4
percent among the 53.7 percent of the sample. It indicates that the average level
of nonperforming assets in the public sector banks is stood at 3-4 percent among
the sample. On the other hand 10.9 percent of the banks in the sample reported
that less than 3 percent of the NPAs and another 13.8 percent reports that above
12 percent of the level of NPAs with them. It indicates that at an average 10
percent of the banks are in the extreme ends in the sample.

10. 29.3 percent of the banks perceived that the Person liable for failure of recovery
of outstanding loan in a bank is recovery agent. Another 27.3 percent of the
respondents feel that manager of a branch is held responsible for the failure of
recovery of a loan.

11. 29.3 percent of the bankers felt that branch manager is held responsible for the
non performing assets in a bank and it is followed by another 27.3 percent of the
sample respondents felt that, vice president of the loan division is responsible for
the NPAs in banks and 22.9 percent of the survey respondents opinioned that charted accountant is responsible for the NPAs in banks in the order of priority respectively.

12. Time taking to recover and to declare the loan assets as NPAs among the public sector banks in the sample survey is observed at above 12 months among the 56.3 percent of the sample banks. It indicates that, majority of the banks focus on recovery and declaration of loan assets as non-performing after one the financial year ending.

13. 56.3 percent of the banks followed a practice of approving the credit policies of a bank by the board of directors from time to time. Around 19.4 percent of the banks followed a practice of approving the credit policies of a bank by its general manager in consultation with the board of directors from time to time and by observing the instruction from the RBI.

14. Loan approval committees are set up by the public sector banks in different formats. 29.3 percent of the banks in the sample set up the loan approval committees at zonal level, 27.3 percent of the banks in the sample set up the loan approval committees at registered office level and 22.9 percent of the banks in the sample set up the loan approval committees at regional level. It indicates that there is no uniformed practice is followed in setting up of the loan approval committees of a bank.

15. 29.3 percent of the banks in the sample survey conduct the credit assessment at quarterly basis, 27.3 percent of the banks in the sample survey conduct the credit assessment at annual basis and only 22.9 percent of the banks perform the credit review and assessment at bi-monthly frequency. It indicates that, there is no hard and fast rule observed in credit assessment and review in the public sector banks.

16. 27.3 percent of the banks reviews its loan policies at quarterly intervals, 27.3 percent of the banks in reviews at annual basis and 22.9 percent of the banks reviews their credit policies at bi-monthly basis among the sample. It indicates that, credit policies review by the individual banks is not uniform, though the regulatory bank reviews on quarterly basis and at times need basis.
17. 56.3 percent of the banks in the sample observed a practice of forming and approving the huge loans at registered office level. The loan approval committee is held responsible to review the same from time to time and see to it should not go as default loan and arise any NPAs out of it.

18. Since p value is less than 0.001, the null hypothesis, there is no relationship between the frequency of measuring NPAs in a bank and the Preventive activities performed by a bank to control NPAs, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs, Strategies to reduce level of NPAs in banks among the public sector banks in the sample is rejected at 1% level of significance. Hence, it is concluded that, there is a highly significant relationship between the frequency of measuring NPAs in a bank and the Preventive activities performed by a bank to control NPAs, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs, Strategies to reduce level of NPAs in banks among the public sector banks.

19. There is a highly significant relationship between the Level of NPAs in Banks and the Preventive activities performed by a bank to control NPAs, steps taken by banks to recover loans, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Difficulties in the management of NPAs, Strategies to reduce level of NPAs in banks.

20. The null hypothesis, There is no relationship between Person liable for failure of recovery of outstanding loan in Banks and Sector Contributes maximum outstanding, Preventive activities performed by a bank to control NPAs, Bank takes to recover the loans, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs in banks is rejected at 1% level of significance.

21. There is a highly significant relationship between person responsible for NPAs in Banks and Sector Contributes maximum outstanding, Steps taken by Bank to
recover the loans, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs among the banks. It is noted that the high level of concern for the various dimensions of management of Non-performing assets in banks is observed among the banks perceived vice president as responsible for the level of NPAs in banks.

22. There is a highly significant relationship between Time taking to declare NPAs in Banks and Preventive activities performed by a bank to control NPAs, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs in banks.

23. There is a highly significant relationship between Person approves credit policy of a bank and Preventive activities performed by a bank to control NPAs, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs in banks. Hence, the credit policy decision has greater impact on the management of NPAs in banks and thereby it cannot be in the control of individual and needs to be shared and the decision authority should be vested with the group for unbiased decisions. High level of concern for the same is observed among the banks vested the credit policy decision with the board of directors when compared to others in the sample. Board of directors should be responsible for the wrong decisions pertaining to credit policies of a bank.

24. Since p value is less than 0.001, the null hypothesis, There is no relationship between the frequency of credit assessment of loan accounts and Sector Contributes maximum outstanding, Preventive activities performed by a bank to control NPAs, Steps taken by Bank to recover the loans, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the
management of NPAs, Strategies to reduce level of NPAs in banks is rejected at 1% level of significance.

25. There is a highly significant relationship between the level at which credit approval committees are setup and Sector Contributes maximum outstanding, Preventive activities performed by a bank to control NPAs, Bank takes to recover the loans, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs in banks.

26. Since p value is less than 0.001, the null hypothesis, There is no relationship between the people reviews the credit policy and Preventive activities performed by a bank to control NPAs, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs in banks is rejected at 1% level of significance.

27. The correlation between Strategies to reduce level of NPAs in banks and Aspects considered while granting loan to customer, Sector to which Bank prefers to lend loans, Sector Contributes maximum outstanding, Preventive activities performed by a bank to control NPAs, Steps taken by bank to recover the loans, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs is observed at 39.9 percent, 44.5 percent, 38.7 percent, 39.3 percent, 29.2 percent, 43.7 percent, 35.7 percent, 36.6 percent, 36.2 percent and 31.6 percent respectively and the relationship between the variables is found highly significant at 1% level with the p value of less than 0.001.

28. Since p value is less than 0.001, the null hypothesis, There is no significant difference between the mean ranks of perceptions with regard to Degree of adoption of the Management practices to control NPAs in banks is rejected at 1% level of significant. Statistically, it indicates that, there is a highly significant difference between the mean ranks of perceptions with regard to Degree of adoption of the Management practices to control NPAs in banks.
29. Based on the mean scores, it is observed that the primary factors considered while granting the loans are earning capacity with the mean score of 7.67, capacity to pay with the mean score of 6.95 and the customer profile in terms of character with the mean score of 6.39 in the order of priority. Hence, 3Cs are the primary factors considered while granting the loans by banks. It is advisable to focus on the purpose of a loan and the feasibility of the project to be undertaken can help further in the reduction of NPAs in banks.

30. The multiple correlation coefficient is 0.744 measures the degree of relationship between the actual values and the predicted values of the Adjustment. Because the predicted values are obtained as a linear combination of Precautions taken while lending loans ($X_1$), Post disbursement stage Reasons for NPAs ($X_2$), Bankers preference to lend loans ($X_3$), Sector Contributes maximum outstanding ($X_4$), Steps taken by banks to recover the loans ($X_5$), Preventive activities performed by a bank to mitigate credit risk and NPAs ($X_6$), Appraisal stage Reasons for NPAs ($X_7$), and Sanction and disbursement and follow-up Reasons for NPAs in banks ($X_8$), the coefficient value of 0.744 indicates that the relationship between adjustment and the twelve independent variables is quite strong and positive.

5.4 SUGGESTIONS BASED ON PRIMARY DATA ANALYSIS AND DISCUSSION

1. **Integration of Risk management division**: The need for adoption of integrated risk Management Division and Operational risk management Policy on NPAs by reviewing the same and simplifying and removing the bottlenecks in the adoption. Initiatives on integration of all the departments relating to risk management and functioning together by sharing and caring helps in controlling the level of non-performance assets in banks.

2. Focusing on the settlement practices and early closure of the outstanding loans may help in reduction in the level of Non-performing assets in banks.
3. The practicing managers and the field officers opinions and inputs on the revised measures may help to reach out the usage of the Regulatory measures of BIS to manage NPAs in public sector banks.

4. Review and recustomise the existing practices and readopt the Regulatory measures of RBI to manage NPAs in public sector banks in the years to come for the benefit of the banks in specific and to the benefit of the society at large. The governing council of the regulatory body should consult the bankers while designing and developing Regulatory measures to manage NPAs can help in reducing the gaps and difficulties in practicing.

5. Designing a loan product various aspects of a loan needs to be considered from highly positive of full recovery to extreme of becoming a loan asset into loss assets.

6. Earliest action of the recovery may help in reducing the level of loss. Hence, insisting on uniform practices of measuring and reporting the defaults and non performing assets can help in streamlining the issue.

7. The need for careful appraisal of a loan application and regular follow-up of the same for effective recovery. The responsibility needs to be fixed at team and a branch instead of single person or authority. It can bring lot of co-operation and co-ordination between the employees of a bank.

8. The loan sanction authority should not be a person, it should be a system and adopted uniformly by all and controlled through transparent systems. Unless, it made as transparent and uniform, blaming the individuals may not help is resolving the issue. Hence, the strong and transparent loan management system design, development, introduction, adoption, and control in the uniformed platform may help in minimizing the level of NPAs in banks.

9. The early identification and recovery measures may help in reducing the level of NPAs in the banks. One observation is that lack if sufficient filed staff on recovery and lack of continuous visits to the customer place are the prime reasons for high level of NPAs in public sector banks when compared to others in the banking sector.
10. The involvement and inputs from the branches and review and incorporation of such micro level ideas may help in controlling the issues at field level decision making. The detailed guidelines on appraisal, sanctioning, and follow up can help in reduction of the level of NPAs in Public sector banks from time to time.

11. Individual banks decide the frequency on the basis of the need and conduct the same for internal control purposes. Regarding this, bank need not report anywhere to the external and regulatory authorities from time to time. Hence, the gap of liberal credit review assessment needs to be closed by introduction of uniform time and frequency with which banks should conduct the credit review and assessment and report to the regulatory body. This can help in controlling the level of NPAs in banks.

12. Credit policies review by the individual banks is not uniform, though the regulatory bank reviews on quarterly basis and at times need basis. The broad guidelines given by the RBI is observed by all and no individual banks are fall in line with RBI. The uniformity lapses here and it leads to deviations at all points of time. Hence, a control on the same may help in controlling the NPAs in the banks.

13. Uniformity, integration and sharing of customer base knowledge on loan assets and borrowers and defaulter lists may serve the purpose of controlling multiple loans taking on the single collateral assets and defaulting with intention to create bad debts.

14. Lot of care and concern needs to be insisted in case of huge corporate loans. The members should not have any conflict of interest with the projects for which the loan approval committee is formed. The quantity of the loan should not exceed the 75 percent of the project value and the price escalations should not be considered while granting the loan such stringent regulations should be mentioned in the sub classes and do the reviews from time to time may help in controlling the NPAs in banks.
5.5 SUGGESTIONS TO CONTROL LEVEL OF NPAS IN BANKS

Effective NPA Management has become very vital in view of the multifarious impact NPAs have on profitability. No income accrues from NPAs. Provisioning eats into the profit made from other operations. Cost is involved in holding corresponding capital. Though no income is generated bank continues to incur cost on funds lent. The image of the bank also gets a beating. Effective NPA Management is a real challenge to day and the entire staff members need to be sensitized to the urgency of task on hand.

1. Avoiding the Slippages
   - Avoiding large-scale slippages.
   - The credit appraisal system should be upgraded.
   - Effective risk assessment mechanism at various levels.
   - Annual review of the accounts should be taken up seriously.
   - Credit monitoring has to be done effectively.
   - Identification of watch category accounts is to be done in time.
   - CARE (Critical amount recovery exercise) should be undertaken on an ongoing basis.
   - Rehabilitation/ Restructuring/ Rephrasing are to be undertaken wherever feasible before accounts slip into NPA category.
   - In accounts where problems are of temporary nature Holding- on- Operation can be allowed to restore the health of the account.

2. Up gradation: All out efforts should be made to upgrade NPA accounts by recovering over dues. In accounts where it is not possible to affect recovery immediately, rephrasing/restructuring should be tried out so as to facilitate up gradation of the accounts at the earliest.

3. Recovery/Reduction can be affected by using any of the following means:

   Follow up / Persuasion / Psychological pressure, Compromise Recovery Camps, Revenue Recovery, Lok Adalat, Civil Suit, DRT, SARFAESI ACT, Write off, Compromise settlements.
4. Recovery Management in Rural Credit:

The authors have carried out study titled “Recover Management in Rural Credit” and gave their findings in the occasional paper published by National Bank for Agriculture Rural Development. On various aspects of NPA management such as reasons for non-performing assets, recovery measures, legal remedies etc. As regards recovery management they say that the recovery and NPA management strategies adopted by the RFIs may be classified into two broad categories viz. 1. Preventive 

1. Preventive Methods

The preventive methods include-

- More careful and responsible scrutiny and appraisal. This includes timely sanction, realism in fixing repayment schedule and adequacy of credit with efficient delivery.
- Evolving a broad loan recovery policy and implementing through the cadres with adequate accountability and empowerment.
- Regular and effective follow up with borrowers and timely action on sensing the likely default.
- Title, value, etc. and additional security are to be investigated before the disbursement of loan.
- More detailed information about the borrowers is to be obtained in terms of his / her family background such as i) size of the family ii) number of dependents in the family iii) earning members in the family iv) standard of living v) length of residency in the area, etc.
- Reviewing the advances in time and taking appropriate immediate action.
- Sending demand notices in time.
- Proper supervision of the borrowal account through personal visits and calling for periodical returns to get incipient signals of default.
- Efficient MIS system on the borrowers and on the branches.
- Credit rating of clientele.
- Developing an early warning system for identifying potential weakness in the accounts.
• Strict observance of time schedules.
• Timely extension of period of limitation through debt acknowledgement, partial payment, renewal of documents etc.
• Timely replacement or rescheduling of loan in the event of natural calamities.

2. Corrective Methods

The corrective methods conventionally start with initiating legal action for recovery and followed by lodging insurance claims with DICGCI wherever possible and initiating coercive against the borrower and the surety. However, corrective methods, in recent years, have become more innovative and participatory.

i) Sharing the Threat Perception
ii) Staff Motivation
iii) Constitution of Special Recovery Cells and Related Measures
iv) Involvement of Government Agencies
v) Extraordinary Methods
vi) Corrective Management for NPA Management

5. Recovery through Legal Process:

Experience has shown that legal support is critical to recovery management. The recovery of loans through crystallized collateral and other back shopping’s subject to a prolix process as the present legal system normally does not provide a fast and effective exit route.

6. Use of Collaterals and Collateral substitute

It is seen that the recovery process through legal system with or without collateral is equally costly and lengthy. The court fee is payable on the amount of default or on the amount to be recovered and not on the value of the security. Judiciary and Revenue machinery have been generally unable to help the RFI’s in recovery. The sheet volume of cases weights them down even if the system has the intention. Except for the demonstrative effect, filing of summary or money suit for unsecured loans does not provide any tangible benefit for the RFI’s. RFI’s observe that pursuing such suits to a logical end is not prudent as it involves higher administrative
and risk costs for them. The expenses made on the court lie in the books of accounts until affecting the sale makes their recovery. This is a drain on the RFI’s resources and is often without any return for the RFI during the period. The RFI’s feel that the cost of executing the collateral is quite high for RFI’s.

7. Revenue Recovery Acts:

An Expert Group headed by Shri R.K. Talwar in 1970 had recommended extension of similar facilities to commercial banks by appropriate State legislation (Talwar Committee, 1970). On the basis of the recommendations of the Talwar Committee, the State Governments (barring nine) had passed the Agricultural Credit Operations and Miscellaneous Provisions (Banks) Act. The act empowers designated officials of Revenue Department to issue an order having a force of decree of a civil court for payments of any sum due to a bank by sale of the property charged or mortgaged in favour of the bank. This facilitates foreclosure of mortgage on land in bank’s favour and brings the property for sale. Under the act a nominal fee and not the entire salary of the government official, is charged to the bank.

The recovery officers under the Act have helped in recovering small loans of the banks. The banks, in States like Uttar Pradesh, Karnataka, have taken proactive steps to fund the cost (salary of recovery officers and other incidental expenses) by making a collective contribution for their establishment and / or allowing a recovery fee of 5% to 10% of the recovered amount towards their maintenance. But the above system has not worked uniformly well in all the states. The state governments had found it difficult to spare officials possessing zeal for this type of work, which is a prerequisite for a supporting machinery to work efficiently. Use of government official machinery helps in infusion of the threat perception amongst people, but the political interference becomes a part of it. Therefore, the lack of political will becomes a hindering factor in the process. It would perhaps be necessary to study the relative efficiency of the system across the country, so that improvements wherever possible, could be made.
8. Debt Recovery Tribunals:

Special Debt Recovery Tribunals (SDRTs) have been set up under the Recovery of Debts due to banks and Financial Institutions Act, 1993 for expeditious adjudication and recovery of debts. These court now adjudicate banks’ suits involving amount of Rs.10 lakh and above by transferring the cases pending with the civil courts. These loans are normally secured with collaterals. Only six such tribunals are operative now. The number of such tribunals is inadequate resulting in large number of cases pending before them. They are not yet equipped with proper infrastructure and flexibility to function smoothly. Again since the Tribunals are specially appointed and empowered to administer only these types of banks and financial institution’s legal proceeding, the Presiding Officer gets a good grip of the banking operations and also the law relating to banking which in turns enables him to dispose -off the cases in a very expeditious manner. There also seems to be, therefore, a development of specialized branch of law, lawyers, and law officers of various banks who are specializing in this work of the debt recovery tribunals.

For recovery of small loans and to ensure quick justice on settlement of dues, Lok Adalats (People’s Courts) have been set up in some States. Retired high court judges and two other members head these courts. These small courts are founds to be of success in selected pockets. Efforts are continuing to popularize this arrangement. The judgment of these courts is found to lack the teeth of a civil court judgment for their enforceability. But these courts have provided good opportunity to narrow or bridge the differences between the banker and the defaulter by creating a favourable environment for a settlement and also in formalizing such settlements.

9. Rephasement of the Loan:

It is necessary to fix repayment schedule for term loan according to the income generating capacity of the unit. If repayment schedule is not fixed properly or a unit is not fixed properly or a unit is not able to generate expected profit, possibility may be explored in consultation with the borrowers for rephasing of loan installment. Rephasement of the loan installment should be done only when it is expected to get payment after the rephasing.
10. Compromise Proposal:

A compromise may be called where borrower agrees to pay a certain amount to the banker with some concession. A large number of compromise proposals are being approved by banks with a view to reduce their NPAs and recycling of funds instead of resorting to legal procedures.

11. Compromises with Borrowers:

The bank should also enter into compromises through negotiations with the borrower to carry forward a clear picture of the latest position. It is a redundant to carry the non-recoverable loans on the bankbooks indefinitely. With proper justifications and convincing arguments, compromises could be entered into and implemented immediately. Rehabilitation package for potentially viable sick units will helps in the revival of the NPA into performing assets. A little help in this regard may go a long way resulting in constructive solution. It is the mechanism for settling outstanding dues through compromise. Negotiation in this regard is to be handled skillfully on the basis of relative strengths of the borrower and the banker. Banks should make all endeavours to strike a Zero-loss deal on a deal with minimum sacrifice waiver. Such compromise must be related to

- Waiver of penal interest
- Reduction in interest rate
- Write off the full or a part of the amount of interest debited to the account of the borrower.

12. The SARFAESI Act 2002-Need of the hour is essentially about enforcement of the lender rights and improving recovery of NPAs. The financial sector is under severe stress due to its inability to enforce security interest and other rights, mainly due to slow legal system. The resulting increase in NPAs in the banking sector, the liquidity pressure on central and state financial and investment institutions and threat to the stability of the financial sector have forced the government to bring this legislation.

13. The PSBs have to study the problems of NPAs branch wise and age wise, should prepare a loan recovery policy for NPA. They should create special
recovery cell at various levels for effecting timely recovery to improve the recovery status of the account. The banks have to maintain a regular contact with borrowers to ensure close monitoring of loan accounts and updating of clients profile with strong MIS among loans, operations and recovery departments. The banks have to be careful on the doubtful nature of operations in the account, overdraw, low rating score and persistent default which are considered as early warning signals (EWS).

14. **Bank should adherer (Know Your Customer) Norms** for identification of borrower, guarantor and verification of their address to minimize the risk of default in case of housing sector lending. In respect of agriculture advances, recovery camp should be organized during the harvest season. The RBI and the other regulatory bodies should relax the provisioning norms on the standard assets as the provisions are made out of the current profit.

15. **The credit monitoring system need to be improvised** to handle compromise settlement processes for the recovery of the outstanding loans categorized as NPAs. The system should develop a strategy wherein to identify the borrowers deliberately calling for compromise to get the benefit of cut down interest rate. The Public Sector Banks should avoid outsourcing the scrutinisation of loan applications and the recovery process as leads to enormous careless, mistakes ending with bad borrowers becoming bad. To avoid the cause of such recovery agents the bank should design a strategy of introducing incentives and rewards for the team of employees achieving the said recovery targets.

16. **The credit department of the Public Sector Banks should be revamp with skilled and specialized officers** trained in credit appraisal, recovery of dues to avoid external recovery agents. A credit audit system should be implemented by the banks start from review of loan application till the recovery of the loans. The public Sector banks should have internal rating agencies to rate the borrowers in all aspects of credit proposal. The banks should design a new MIS on performance of various sector of economy for better credit appraisal system.
a. SUGGESTIONS FOR PROFIT MAKING BANKS

1. **Reduces earning capacity of the assets:** NPA’s reduce the earning capacity of the assets and as a result of this return on assets get affected.

2. **Blocks capital:** NPA’s carry risk weight of 100% (to the extent it is Uncovered). Therefore they block capital for maintaining Capital adequacy. As NPA’s do not earn any income, they are adversely affecting “Capital Adequacy Ratio” of the bank.

3. **Incurrence of additional cost:** Carrying of NPA’s require incurrence of „Cost of Capital Adequacy”, „Cost of funds in NPAs” and „Operating cost for monitoring and recovering NPAs”.

4. **Reduces EVA:** While calculating Economic Value Added (EVA = Net operating profit after tax minus cost of capital) for measuring performance towards shareholders value creation, cumulative loan loss provisions on NPAs s considered as capital. Hence, it increases cost of capital and reduces EVA.

5. **Low yield on advances:** Due to NPAs, yield on advances shows a lower figure than actual yield on “standard Advances”. The reasons that yield are calculated on weekly average total advances including NPAs.

6. **Affect on Return on Assets:** NPAs reduce earning capacity of the assets and as a result of this, ROA gets affected.

5.7 CONCLUSION

Non Performing Assets are global issue for all banks irrespective of the sector. It originates from lethargic sanction of loans and failure in recovery. In the study undertaken, it is found the major loss on account of NPA is caused by public sector banks compare to private sector banks. There are common characteristics which are responsible for NPAs in selected banks due to lack of supervision, political interference, willful defaulters, diverted use of funds, internal and external causes, fraudulent approach of borrowers, irresponsible attitude of officers and poor appraisal system. Thus NPA is a threat to the existence of bank. Default on account of big borrowers is a problem in recovery for public sector banks. The quality of
standard assets is important factor in determining NPA. The process of maintaining the quality of the assets starts from appraisal stage, sanctioning of loan, post disbursement activities, efficient use of legal norms, which strengthen the recovery process resulting in lower level of NPA. NPAs found at higher level are an indication of low profitability. The seed of success of managing the loss asset in any economy lies in the speed of recycling these assets and their realization into cash.

The legal environment and the norms of RBI, BIS and BASEL should strongly support and effectively monitor the follow-up of such norms by the public sector banks. It is preferable to opt for a structured model to handle risky assets separately. The crucial factor is to quickly identify the problem and approach professionally utilizing the effects and impacts out of the past experience prudently and pragmatically.

5.8 SCOPE FOR FURTHER RESEARCH

The present study covers all the aspects relating to credit management and internal affairs of the NPAs management in banks. The types of risks covering in the banking sector may have some degree of influence on the banking and its relevance to level of NPAs. A comprehensive study on that dimension can be a value addition to the existing literature. The behavioural aspects of banking and administration, policy making and collection of credit can also be the interesting areas of research pertaining to NPAs in banks. A cross country comparison of the Asian countries can help to understand the deficiencies in the management of loan accounts among PSBs in the county.

5.9 IMPLICATION OF THIS STUDY TO THE THEORY AND PRACTICE

Banks in India are saddled with alarming levels of NPA which eroded the profitability and productivity of banks. Since the post – liberalization period, RBI has initiated several measures to restrict NPA and improve profitability and productivity of the banking sector. Even though the Indian banking sector remained competitive and productive and to a greater extent resilient to the recessionary pressures in comparison to many Asian markets, the current NPA trends is not satisfactory for the well being of Indian SCBs.
This study has provided the dimensions of credit risk and its effect on asset quality that banks and regulatory authorities might utilize in their decision making. NPA is closely related to the level of advances and this relationship is mediated and moderated by many bank specific and economy specific indicators. NPA can be reduced to a great extent if banks plan and implement strategies looking into the administrative policies and follow up and nature of bank performance variables and macroeconomic variables. The research has identified the variables, which impact NPA of banks. Banks may benefit from the results of this study to revisit their approach to managing NPA of banks. The evaluation of the results identified a better need for information gathering, information dissemination and better client relationship management as a key for appraising the loan portfolio and evaluating the status of projects from time to time. Potential unviable projects can be identified if bank groups share client details among themselves. To a great extent, the willful default and misappropriation of funds can be minimized if banks disseminate credit related information of clients among themselves. With new Basel regulations, higher NPA will obligate banks to keep more funds (CRAR) hence affect the income earning capacity.

Banks must realize the effect of recessionary pressures and should develop ad-hoc plans to mitigate its risk on quality of assets. A period of economic progress should not lead to relaxing standards and norms followed in credit appraisal and follow up. The results of the study shall be used by banks and regulatory authorities to appraise the existing tools to assess the quality of assets. Overall, this research might help banks to develop indicators that better appraise the quality of credit portfolio and monitor the effect of change in various bank specific and economy specific indicators.