CHAPTER - VI

SUMMARY, FINDINGS AND CONCLUSIONS

A strong financial system is central to the objective of strengthening the real economy of a country and for its healthy and orderly growth. A financial system is a complex, well-integrated set of sub-systems of Financial Institutions, Markets, Instruments, and Services which facilitates the transfer and allocation of funds, efficiently and effectively. Financial Institutions are intermediaries that mobilize savings and facilitate the allocation of funds from surplus units to deficit unit in an efficient manner. Good financial institutions are vital to the functioning of an economy.

The financial systems of most of the developing countries are characterized by coexistence and cooperation between the formal and informal financial sectors. The Indian financial system can also be broadly classified into the formal (organized) financial system and the informal (unorganized) financial system. In India, the financial sector comprises of banking and non-banking financial institutions. There is no hard and fast rule to distinguish between banking and non-banking institutions. The banking system is at the heart of the financial system. The Indian financial system comprises a large number of commercial and cooperative banks specialized developmental banks for industry, agriculture,
external trade and housing, social security institutions, collective investment institutions, etc.

Banks play a very useful and dynamic role in the economic life of every modern state. They are important constituents of the money market and their demand deposits serve as money in the modern community. Banks can work as catalytic agents of growth by following the right kind of policies in their working, depending upon the socioeconomic conditions prevailing in a country. It is realized that since the banks have the required investment potentiality, they can make a significant contribution in eradicating poverty, unemployment, and they can bring about progressive reduction in inter-regional, inter-state, and inter sectoral disparities through rapid expansion of banking services.

India’s banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit and payment services, such as checking accounts, money orders and cashier’s cheques. The banks also offer investment and insurance products.

The Indian banking system has the Reserve Bank of India at the apex. It is the nerve centre of the Indian monetary system. Since inception, the RBI has been guiding, monitoring, regulating, controlling and promoting the destiny of the financial system in India. The commercial banks help the economic development
of a country by faithfully following the monetary policy of the central bank i.e. RBI.

Within the banking institutions, the role of commercial banks has occupied a new meaning and significance, in view of the changing structure and requirements of a developing economy. The increasing horizon of commercial banks identifies itself with the problems and responsibilities for making banking an instrument for bringing about an instrument for bringing about social and economic transformation of a developing country. The banking is a basic industry, which not only caters to the development of a trade, commerce and industry, but also helps in removing many obstacles in the way of economic development.

Bank as an Institution, dealing with lending and collection of money in its most primitive and the business of banks is to deal in money and with people. The activity of banking has to be carried out to ensure healthy growth of the economy. Banks and borrowers face the future with unpredictable uncertainties caused by the dynamics and have to adopt to the changing situations.

While banks have to instill confidence among the depositors and continue to maintain the confidence level to continuously enjoy their patronage, they would like to have the same level of confidence to lend to borrowers and of getting back the funds and when they require. Here lies the problem; public confidence in banks and their confidence in borrowers have a direct link with ‘Non Performing
Assets’ (NPAs). More NPAs mean public/ depositors to that extent lose confidence in bank’s ability to run the business effectively, efficiently and as viable units and safeguard their interests. Such weak banks themselves lose confidence in identifying and selecting the borrowers for their future expansion of credit and its safe return.

Uncertainty about the future scares the depositors, bankers and the borrowers. As such, the bankers particularly need to know to stand on their own legs with the required financial strength and managerial competence. Affordability of the RBI and the Government to continue to support, banking system that is not so healthy is a matter of concern, but, is essential for healthy growth of the economy.

The remedies attempted so far have certainly helped to create awareness about the serious of the problem particularly among the bankers which reflect in their overall business complexion. However, despite these measures, the borrowers do not seem to be concerned or affected and they continue to be recalcitrant as they do not seem to be bothered about the NPAs created by them, other than enjoying the benefits which they do not deserve. As stated earlier, Business Ethics are fast disappearing and the safety of public money in borrowers hand is becoming a major concern.

A careful review of the available literature on NPAs reveals that NPs are to a great extent caused due to the very nature of banking business involving people,
money and environment. The business environment is dependent on political
economical social and technological developments which are influenced by the
natural process of changes. Reforms have become the order of the day and the
changes are inevitable. The ability of banking to adjust and service these changes
and continue to be in business giving life support to the economy has been under
constant threat because of the continued persistence of the problem of NPAs.

The positive side of reforms is that the banks have come to know of their
real health and the bad borrowers have been exposed. The negative aspect of the
reforms that are banks shy away from real banking business and try to keep the
borrowers away and resort to relatively safer avenues of Investment. If this trend
continues, it will weaken the Economy, public will lose confidence in Banking
system and banks themselves would become difficult in conducting normal
banking business.

There is ample evidence in literature that the magnitude of the problem of
NPAs is severe, affecting the depositors, borrowers, shareholders, the economy
and the public, particularly the tax payers. Accumulated NPAs, fluctuations and
narrow activity in the market are some of the major issues which derail the major
economics activities. Unless and until a lasting solution is found to contain and
minimize the problem and its impact, the banking system and the economy cannot
expect to contribute for the overall development of the country. Their mutual
interests also get greatly affected.
Many research studies have been taken up so far on the management of NPAs. However, the main focus was laid only on identifying causes of NPAs and extending suggestions in the form of some measures to be taken at micro level, that too specific to some individual banks. Realizing the need, the present study has been proposed to make a comparative study of public sector and private sector commercial banks with regard to their NPA situation and management in terms of the operational performance of four banks, two each selected from Public and Private Sectors.

The present study is designed to be a narrative study with appropriate analytical discussions presented in tune with the proposed objectives. For the present purpose, State Bank of India and Canara Bank from the public sector, while HDFC Bank and Karur Vysya Bank from the private sector have been selected considering bank profitability based on the recent performance figures of the banks. In each sector, one bank from the high performing group and the other from the low performing group has been picked up on random basis. The data used in the present analysis is confined to the past one decade (11 years to be exact) from 2001-2002 to 2011-2012.
6.1 SUMMARY OF THE FINDINGS

Performance in terms of Gross Returns on Total Assets appears good in the case of the two private sector banks compared to the two public sector banks during the reference period and this holds good for all the private sector banks for the reference period (2001-2002 to 2011-2012).

The Net Return on Total Assets appears good in the case of the two private sector banks compared to the two public sector banks during the reference period and this holds good for all the private sector banks for the reference period.

The Interest Income on Total Assets appears good in the case of Karur Vysya bank among the two private sector banks and in Canara bank among the two public sector banks during the period from 2001-2002 to 2011-2012. This average was more in the case of all public sector banks than in the private sector banks.

The Interest Expended as percentage of total assets appears better in the case of Karur Vysya bank among the two private sector banks and in Canara bank among the two public sector banks during the reference period and these two figures are more than the averages computed for all public and private sector banks separately. The average interest expended was more in the case of private sector banks than in the public sector banks during the reference period.

The average net interest income (spread) appears better in the case of two
private sector banks compared to the two public sector banks during the reference period. These averages for the two private sector banks are more than the average computed for all private sector banks. In case of the public sector banks, SBI recorded average that was slightly better than the one computed for all public sector banks. This average was more in the case of all public sector banks than in all private sector banks for the same period.

The average ‘provisions and contingencies’ for the HDFC bank were more than the average computed for all private sector banks. In case of the public sector banks, SBI recorded average that was better than the one computed for all public sector banks. This average was better in the case of private sector banks than in the public sector banks during the 11 year reference period.

The average ‘opening expenses’ for the HDFC bank was more than the average computed for all private sector banks. In case of the public sector banks, SBI recorded average that was better than the one computed for all public sector banks. This average was better in the case of private sector banks than in the public sector banks during the reference period.

The average of ‘other income’ for the HDFC bank was more than the average computed for all private sector banks. In case of the public sector banks, SBI recorded average that was better than the one computed for all public sector banks. The average operating expenses was better in the case of private sector banks than in the public sector banks.
The average ‘return on equity’ for the Canara bank and SBI was more than the average computed for all public sector banks. In case of the private sector banks, Karur Vysya bank and the HDFC bank recorded average that was better than the one computed for all private sector banks. The average ‘return on equity’ was better in the case of public sector banks than in the private sector banks during the reference period.

The average capital adequacy ratio for the Canara bank was more than the average computed for all public sector banks. In case of the private sector banks, Karur Vysya bank recorded average that was better than the one computed for all private sector banks. This average was better in the case of private sector banks than in the public sector banks.

The average business per employee for the Canara bank was more than the average computed for all public sector banks. In case of the private sector banks, HDFC bank recorded average that was better than the one computed for all private sector banks. The average business per employee was slightly better in the case of private sector banks than in the public sector banks.

The average profit per employee for the Canara bank was more than the average computed for all public sector banks and in case of the private sector banks, HDFC bank recorded average that was better than the one computed for all private sector banks. This average was better in the case of private sector banks than in the public sector banks.
The rate of increase in NPAs, sub standard assets, doubtful assets and loss assets stand minimal, while the proportion of standard assets in NPAs and the rate of increase in standard assets and total advances are encouraging.

There was a decline in gross NPAs in all the four banks covered in the study over the 11 years. The average gross NPAs to gross advances for the SBI was more than the average computed for all public sector banks and in case of the private sector banks, Karur Vysya bank recorded average that was better than the one computed for all private sector banks. The average gross NPAs were better in the case of private sector banks than in the public sector banks.

There was a decline in net NPAs in all the four banks covered in the study over the 11 years. The average net NPAs to net advances for the SBI was more than the average computed for all public sector banks and in case of the private sector banks, both Karur Vysya bank and HDFC bank recorded average that was better (Lower) than the one computed for all private sector banks. The average net NPAs were better in the case of private sector banks than in the public sector banks.

The gross NPAs to total assets have come down significantly from 2001-02 to 2011-12. The average for the SBI was more than the average computed for all public sector banks and in case of the private sector banks, both Karur Vysya bank and HDFC bank recorded average that was lower than the one computed for all private sector banks. The average was better in the case of private sector banks than in the public sector banks.
There was a marked decline in the average net NPAs to total assets from 2001-02 to 2011-12, with the focus and attention put by the banks. The average net NPAs to total assets for SBI was slightly more than the average computed for all public sector banks and in case of the private sector banks, both HDFC and Karur Vysya banks recorded average that was less than the one computed for all private sector banks. The average net NPAs (% of total assets) were better in the case of private sector banks than in the public sector banks during the reference period.

The proportion of provision for NPAs out of the Total Provisions and Contingencies has come down during the reference period. The average provision for NPAs of Canara bank was more than the average computed for all public sector banks and in case of the private sector banks, both HDFC bank and Karur Vysya banks recorded average that was less than the one computed for all private sector banks. This average was more in the case of private sector banks than in the public sector banks.

The average proportion of NPAs in agriculture sector in the case of public sector banks was little over double than in the private sector banks during the period 2001-02 to 2010-11. This average was more in Canara bank than in SBI among the two public sector banks and more in the case of HDFC bank than in the Karur Vysya bank among the private sector banks.
The average proportion of NPAs in Small Scale Industries sector in the case of public sector banks was nearly double than in the private sector banks during the 10 year reference period. The average was more or less similar in SBI and in Canara banks among the public sector banks and was more in the case of Karur Vysya bank than in the HDFC bank among the private sector banks.

The average proportion of NPAs in public sector was more in SBI (1.6 percent) than in Canara bank (0.6 percent) while the two private sector banks did not report any NPAs in public sector during the 10 year period.

The average proportion of NPAs in priority sector in the case of public sector banks was more than double compared to that of private sector banks during the period 2001-02 to 2010-11. The average was slightly more in Canara bank than in SBI among the public sector banks and was more in the case of Karur Vysya bank than in the HDFC bank among the private sector banks.

The average proportion of NPAs in non-priority sector in the case of public sector banks during 2001-02 to 2010-11 was less than the average for private sector banks. This average was more or less similar in SBI and Canara banks among the public sector and was more in the case of HDFC bank than in the Karur Vysya bank among the private sector banks.

The average proportion of NPAs from other investments in the case of public sector banks was more than the average for private sector banks during 2001-02 to 2010-11.
2001-02 to 2010-11. This average was also more or less similar in SBI and Canara banks among the public sector and was more in the case of Karur Vysya bank than in the HDFC bank among the private sector banks.

The number of cases disposed off by the DRTs was quite significant during 2002-03. As high as 23,393 cases were disposed off during this year. Since then, there was a lag up to 2008-09. From 2009-10, there was an increasing trend in the number of cases disposed off. Thereafter, during 2010-11, 12,872 cases were referred with `14,092 crores amount involved and `3,930 crores had been recovered.

The percentage of amount recovered against the amount involved was highest at 81.1 percent during 2008-09 followed by 75.5 percent during 2005-06 and it is 51.9 percent during 2007-08. In all the remaining years, the percentage recovery is less than 50.

During the period 2003-04 to 2010-11, out of the total cases (37,43,421) referred for recovery of NPAs 29,29,647 were settled through Lok-Adalats followed by One-time settlement (2,82,605), SARFAESI Act (4,85,338) and DRTs (44,473).

Of the different means, the SARFAESI Act stood first which accounted for an NPA recovery of `34,900 crores out of the total NPAs recovered during 2003-04 to 2010-11. It was followed by DRT’s accounting for `26,434 crores, ARCs
accounting for ` 14,506 crores, one-time settlement accounting for ` 2,105 crores and Lok Adalats accounting for ` 1,168 crores, during the reference period.

The percent recovery of NPA amount (percentage of amount recovered to amount involved) was high during 2004-05 (69.3 percent) followed by 50.7 percent during 2005-06, 50.1 percent during 2007-08. This percentage was less than 40 during 2006-07, 2008-09 and 2010-11 while it is less than 25 during 2003-04 and 2009-10. Lowest percentage recovery was recorded during 2003-04 during the 8 year reference period considered here.

A major share of the NPA amount recovered from 2003-04 to 2005-06 was through DRTs while during the years 2006-07 to 2010-11 the contribution of recovery through SARFAESI Act was more.

Regarding the amount involved in NPAs recovery during 2003-04 to 2010-11, major share was from SARFAESI Act that accounted for 44.1 percent (`.34,900 crores) followed by DRTs 33.4 percent (`.26,434 crores). In this regard the share of Lok Adalats and One–time settlement were minimal with 1.5 per cent and 2.7 per cent respectively. The share of Arcs is 18.3 percent (`.14,506 crores).

It was reported by the bank officials that ‘Political Interference’ was the major cause of NPAs followed by willful default, diversion of funds and Lack of legal support. Reasons like ‘Lack of supervision and follow-up’, ‘Deficiency in Credit Appraisal Standards’, although generally perceived as stumbling blocks in
the recovery of loans, have been viewed comparatively low among the reasons for Non Performing Loans.

Most of the respondents (34 percent) were of the opinion that – there was a lack of support from representative chambers like FICCI, CCI, CII and FIEO etc in recovering the bank dues from their members. About 18 percent were of the opinion that banks have no system of exchange of information about borrower customers and nearly 18 percent reported that there was inadequacy of staff to manage loan portfolio. 10 percent opined that the interest rates were not fixed according to the borrower’s repaying capacity, and 6 percent reported that, in general, banks do not pay adequate attention to borrower customers.

Opinion of most of the respondents (28 percent) on implication of NPAs indicated that there was a marked preference for banks to investment in Government securities because of growing NPAs. About 18 percent expressed that the banks raise subordinates Debt at high cost supplement Tier-II capital and to meet capital Adequacy Norms because of the NPAs and 14 percent indicated that NPAs affect only banks and other Stake holder, other than defaulting borrowers. About 13 percent felt that banks have a general aversion to lending because of NPAs. Other indications reported by relatively less proportion of the respondents include – ‘Banks are unable to bring down Interest Rate on account of NPAs’ (11 percent), ‘Present Capital Adequacy reduces / minimizes the risk of NPAs’ (8 percent), ‘Interest charged to borrowers far exceed the declared PLR’ (5
percent) and ‘Overall cost to borrowers is very high resulting in NPAs’ (5 percent).

Twenty percent of the respondents reported that the implication of NPAs on bank books was in the form of ‘Increasing Provisions’. Impact of NPAs was reported on increasing intermediation costs by 20 percent and 19 percent were of the opinion that the NPAs impact was high on declining reserve and surpluses. 19 percent reported that the impact of NPAs on bank books by way of ‘erosion of profit’. Other implications reported are - ‘increasing spread’ by 13 percent and ‘increasing market borrowings’ by 10 percent.

A majority (89 percent) of the respondents suggested that the borrowers need to be made more accountable/ responsible in containing the NPAs. About 81 percent suggested that continuous rapport with borrowers was to be maintained and 79 percent suggested that auditors, accountants, regulatory and representative bodies should be involved. Nearly 73 percent suggested the need to have effective corporate governance in corporate bodies to contain the growing problem of NPAs.

A majority (89 percent) of the bank officials suggested that there was a need for improvement in the system of Appraisal and 88 percent feel that political interference should be avoided. About 86 percent felt that there should be a continuous monitoring and follow-up. Need for improvement in Legal system was suggested by 76 percent and 63 percent felt the need for improving the mechanism
for exchange of information while 61 percent suggested improvement in Market Intelligence, 60 percent suggested that representative bodies should be involved and 55 percent incentive / reward system to the staff need to be introduced in order to contain the future formation of NPAs.

These observations indicate that both the public and private sector banks have diversified their activities and focusing more on other than the core-banking activities - loans and advances- for generating income.

These observations reflect that compared to the private sector banks, the public sector banks were cautious in interest expenditure. The variations in interest expenditure across the 11 year period may be attributed to the changes in interest rates on deposits.

Basing on the observations made from the survey and information obtained during the course of non-formal interviews or discussions, it can be concluded that NPAs were caused because of willful default, diversion of funds, deficiency in the credit appraisal standards and lack of supervision and follow-up. Opinions indicate that banks were becoming averse to lending and prefer to have safe investment in Government securities. Lack of market intelligence system, need of adequate trained staff to supervise the credit portfolio, absence of exchange of credit information among banks was the major obstacles in containing NPAs.
6.2 SUGGESTIONS

New patterns must inevitably be adopted, but they must be integrated with the old. Sometimes the new, through very different, appears in terms of pre-existing patterns, and thus creates a feeling of a continuous development from the past- JAWAHARLAL NEHRU’s “Discovery of India”.

1. “Prevention is better than cure” or “A stitch in time saves nine”, holds good in monitoring of credit portfolio and arresting fresh growth of NPAs as well. Hence, besides recovery of NPAs containment of NPAs should be the focus of Banks. The magnitude of the problem of NPAs calls for immediate corrective steps so that the problems are contained. The NPAs issue needs to be tackled at two inter dependent levels. Nothing motivates a banker more to day than effective NPA management (1) Formulation of policies and procedures to contain fresh addition and reduction of the current stock of NPAs and (2) Reforms that will be needed to present future occurrence of NPAs these are explained in further points in this section.

2. Some of the enactments related to NPAs are several decades old and in quite a few cases, out of tune with present realities. These provision need to be amended urgently and some new enactments are called for in order to cater to the requirements of the changed and for more complex current economic and Business environment. In case of Legislation on Bank
raptly or fore closure; the related laws should be expeditiously implemented. In the mean time, at least the special recovery measures available with SFC’s should be made applicable to bank loans as well.

3. Enactment / amendment of Revenue Recovery Act, comprehensive amendment in the DRT Act. Opening more DRT’s and DRATs, strengthening DRT set up modifications, comprehensive amendment in sick industrial companies Act (SICA) and strengthening BIFR branches (sick unit under SICA “Erosion of Net Work” should be substituted by “debt default”), opening of special Rehabilitation and Recovery Branches (RARBs), compromise settlements, credit Risk assessment system, exploring mergers and acquisitions etc. steps should be taken to recovery of NPAs.

4. The Bank management (Not Branch Level) should consider the following special and specific strategies to curtail NPAs.

- Credit Audit to Pre-empt NPAs
- Identification of potential NPAs.
- Problem Loan review and Reporting.
- Monitoring of exposures during holding on operation.
- Risk management system.
- Strong and effective credit monitoring.
• Open and co-operative working relationship with borrowers.

• Effective legal framework to bring recovery suits to their logical conclusion.

• Effective recovery system with reasonable time frame.

• Compromise settlement should be explored as an effective non-legal option for recovery.

• Explaining the policies and procedures adopted in making provisions towards NPAs.

• Write-off of bad loans by Banks are decided by the Board of Directors, depending among others on the repayment cultures and legal system.

• Reporting the balance of uncollected interest on NPAs as a memorandum item, which would be useful if addition and deletion during the preceding specified period for reflection.

• General provisions may be required to be reported as a separated item” Capital and Reserves”. The ‘Specific provisions’ may be required to be reported so as to facilitate arriving at “Provision –Adjusted NPAs i.e. Net NPAs”.

• It should be a requirement that the system followed in the matter of classification of Assets, should be explained fully in the form of Foot-Notes to the accounts in the case of NPAs.

• Direct constant with the borrowers.
• Involvement of staff at the branch level in recovery programmes at the rural and semi-urban branches. (Recovery is not one-man Job at rural areas).
• Monitoring of standard Assets on a quarterly basis.
• Branches with sizable NPAs should be identified, and skilled, Trained and motivated staff should be posted.
• Periodical Meetings with the NPA borrowers should be convinced in order to ascertain the reasons for defaults and true financial position of the borrowers units.
• In case of doubtful and Loss Assets, periodical review to explore the possibilities for quick write–offs in cases where these are fully provided for.
• At branch level, the branch manager in particular should accept the responsibility for both bending and recovery of huge amounts.

5. Direct recovery is the best indicator for reduction of NPAs close follow-up, including periodical inspection of Units, borrowers education and sympathetic consideration of genuine problems of the borrowers will help banks in making better loan Recovery.

6. Complexities of documentation and operational features of Indian Banking system impeded the recovery process. Placement of more recovery officers, training of tribunal recovery officers about Banking practices,
appointment of receivers with power of realization, protection and preservation of property, will definitely add momentum in the recovery of NPAs.

7. Circulation of information among defaulters by banks or bank groups, strengthening Settlement Advisory Committees (SACs), proper utilization of power vested on the banks under the SRFAESI Act are empower the banks in their war against NPAs.

8. Proper perception and evaluation of risk is extremely important of Banks in case of NPAs, like market risk, credit risk, liquidity risk, default risk, interest rate risk, forex risk and other risks. At present environment is Fraught with risks of various kinds and dimensions, a tested and sound credit risk model needs to be put in a place by banks to hamper NPAs.

9. The following are preventive and corrective measure for reducing the NPAs in Indian Banking system.

- Banks should examine the viability of the project before providing financial assistance. It is required to ensure that the project will generate sufficient returns on the recourses invested in it.
- Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advances. Disbursement of funds according to the requirements of the project, effective supervision and timely follow-
up, involvement of all the staff members for better recovery and update knowledge of NPA accounts are also equally essential. If proper care is taken for appraisal, supervision and follow-up of the advances, future NPAs can be avoided.

- The service of professional should be used in credit appraisal. Towards implementing such professionalism, professionals such as Charted Accountants, Engineers, Lawyers etc. should be required and associated at all levels of credit appraisal (and of course at other stages too).

- However, good the credit dispensation process may be, total elimination of NPAs is not possible in banking business owing to the externalities, but their incidence can be minimized by taking necessary precautions special care should be taken for those advances which are showing irregularities and likely to become NPAs.

- There should be operational restricting covering aspects like revamping management, staff and branch rationalization. Simultaneous steps should be taken to prevent reemergence of NPAs by stricter application of prudential norms. By the use ‘Critical Amount Concept’ and other strategies like Lok Adalat, CDR scheme and ARCs etc., NPAs in future can be reduced to a great extent.
10. There are some suggestions to enable scheduled commercial Banks, more effective for managing NPAs successfully through MIS (Management Information system):

- Organized efforts should be made to ensure that there is a minimum duplication of effort in collection of information each bank should have an effective statistical cell for planning and developing the statistical services. Adequate training and documentation should be provided for the operation and users of the system.

- There is need for an integrated financial reporting system of NPAs in banks. The Management information system should clearly bring out the inter-relationship between the volumes of NPAs, the cost and related collections and disbursements so that the managerial decision-making may lead to improve in managing NPAs.

- To achieve competitiveness both in domestic and international market, the banking sector necessarily needs to launch various efforts of innovation, with respect to NPAs.

- Management Information System have potential to improve the performance of the organization or system by enhancing the (a) quality of decision-making process, (b) quality of services provided by the staff in satisfying the customer needs, (c) efficiency of resources.
mobilization and (d) by providing a performance appraisal (accountability) of the staff involved.

- MIS can also be used as a training tool for improving the skills of manager and other staff. As we are living in ‘Techno Era’ an effective Management Information System (MIS) in organization has become panacea to exploit the opportunities and utilize its strength to combat the threats as well as its weakness of banks in relation to NPAs.

11. There are few suggestions to enable Banks’ more effective for managing NPAs successfully through morale and motivation.

- Employees should satisfy with the working hours of the bank in related to deal with NPAs.
- Employees have to maintain good interpersonal relation with borrowers.
- Sense of responsibilities and belongingness with the organization and NPAs should clearly reflect among the employees in dealing with NPAs.
- Remuneration commensurate with the task assigned and performed in case of NPAs.
- Physical facilities and the level of employee’s satisfaction. As per Herzberg’s Motivation and Hygiene theory, working condition (environment) are one of the main factors which affect an individual’s willingness to work and job satisfaction. Hence the employees should
have office equipment, computers and telecommunications facilities in the fields and offices.

- Authority and decision making power makes one to feel important about his role in the organization and acts like a motivating factor.

- Recognition of good work is very much important to boost the morale of the employees.

- Satisfaction level with Supervisory Mechanism and behaviour of the supervisors.

- Need for more Decentralization of Authority and Decision Making power.

- In general, a word of praise from the supervisors is enough for improving it but for specific and extraordinary performance rewarding the employee publicly by management is equally important. In the absence of recognition of good work, the performance of the employees decrees and ultimately they loose interest in work.

- Similarly some clear-cut incentive schemes in financial terms viz. cash prize advances increments for better performance and achievement of targets may also be introduced. Such schemes may bring sense of complete fineness amongst the employees and finally it leads to good results for the bank. Similarly for non-performance some positive
measures may also be prescribed to bring the sense of commitment and involvement with the organization among the employees.

- Job enrichment can be done which is the horizontal expansion of jobs by including greater variety of tasks and preparing the modules for better use of the skills.
- One way to reduce the boredom and monotony among the employees is job rotation in which employees can be rotated from task to task without any major disruption in the work flow. It helps in developing other skills and also a larger vision of the entire system.

6.3 CONCLUSION

As the sanctity of ethics and values is getting eroded and challenges and risks faced by banks and borrowers are increasing because of fast changes taking place in business environment and the economy in the context of economic liberalization and globalization, the possibility of some investment failures cannot be ruled out both from banks’ and borrowers’ angle. In such a scenario, the presence of NPAs is unavoidable and the only way to come out of this is to have the suggested Fund built up over a period of time. This will certainly prove to be a win-win situation for all stakeholders of banking including the major stakeholders the Government.
This suggestion on implementation can become an effective Regulatory Tool. It has to be noted that a good violently executed now in better than a perfect future plan. Time is always the enemy, as it increases the repair bill exponentially. We have neither the time nor the money to experiment with the problem of ever growing NPAs.

The suggestions to contain NPAs inter-alia include making the banks more effective in appraisal, supervision and follow-up of loan accounts, making the borrowers more accountable and responsible and strengthening and expending the legal machinery.

Since the problem of NPAs emanates from borrowers and it is problem of money, which ultimately money only can solve, a model has been developed through this study to find some practical solution to contain the menace in future and at the same time strengthen the balance sheets of banks. The solution is simple and practicable. Create a fund named Precautionary Margin Reserve, by recovering an annual levy in the range of 0.10% (i.e. approximately 10 paise for every Rs 100/ borrowers by the client) from all standard advances, in a graded manner depending on the performance of borrowers reflected in the conduct of their accounts. The model also recommends a contribution from the banks towards the said fund by away of paying compound interest on the fund, to make them involve themselves, also share the burden of future NPAs and be more vigilant in the conduct of credit portfolio. The fund should directly go to the
liability side of the balance Sheet. Since it is in the nature of bank’s owned funds, it can be considered for capital adequacy purpose. Consequently the raising of subordinated debt which is a recurring liability and at a high cost can be avoided.

It is envisaged through this model that the rapport between the banker and the borrowers improves and the administration of credit portfolio is made more effective, efficient and transparent and above all free from all possible malpractices like corruption, ever green of advances, extending undue favors and connected lending. The model is also expected to introduce an element of healthy competition among borrowers to maintain high standards of dealings with banks reflecting in their sub-classification proposed under Standard Advances, for the purpose of levy. With this model in force, borrowers will have a right to demand fair treatment and justice from bankers in a more standardized and transparent manner. The sub-classification under standard advances should become the benchmark rating for the borrowers for availing of special concessions/ incentives from Government or any institution. The taxation rules can also be linked to this rating, so that borrowers will have the inclination and incentive to be more responsible and accountable. Reprehensive bodies should insist on this Rating for all their members and Companies. Act should insist on incorporation of this Rating in the Annual Accounts of corporate borrowers duly certified by auditors. The Job of Regulator is made easy as banks can be evaluated on the basis of sub-classification of their standard Advances to NPAs can also be
better monitored and recovery measures intensified on NPAs. With the implementation of this suggestion, the balance sheets of banks would emerge strong, enhance the confidence of banks, thus facilitating them to have better general image and reputation in the market and improve their all round business potential particularly the loan portfolio. With improvement in confidence level everything else improves.

6.4 SCOPE FOR FURTHER RESEARCH

Further research may be aimed at

1) Studying the strength and weakness of legal system and to suggest legal reforms required for debt recovery.

2) Developing a Borrowers Credit Rating System to enable banks to have effective Credit Appraisal.

3) Developing comprehensive software for appraisal and monitoring of borrowers.

4) A detailed analysis of NPAs at bank level to assess the real problems and to work out strategies for reduction of NPAs.

5) A detailed study on the Auditors’ role in disclosing NPAs and in strengthening internal control mechanisms.