Chapter VI

Summary of the Findings, Suggestions and Conclusion
SUMMARY OF THE FINDINGS, SUGGESTIONS AND CONCLUSIONS

In the present chapter, an attempt has been made to recapitulate the major findings of the study, recommend various suggestions on the basis of the findings of the study and also to give directions for further research. The present study on “Management of Non-Performing Assets in Commercial banks – A study in Dakshina Kannada and Udupi districts” was carried out to understand the strengths and weaknesses of the banking sector in the recovery front and how the banks manage NPAs efficiently and effectively. The banks find it challenging to identify feasibility of recovery of NPAs in Dakshina Kannada and Udupi districts.

The present study has been carried out with the following core objectives

- To study the growth and development of Commercial Banks in Dakshina Kannada and Udupi districts.
- To understand the overall performance of Commercial Banks in the field of deposits, advances and recovery of loans in Dakshina Kannada and Udupi districts.
- To understand the magnitude of NPAs of commercial banks at National level and Regional level in Dakshina Kannada and Udupi districts.
- To analyse the causes for poor recovery of loan and mounting NPAs.
- To offer suggestions having policy implications for the purpose of reducing NPAs by the sample banks in particular and their counter parts working in the state and national level in general.

The study consists of a sample of 237 defaulters whose loan has become NPAs and a sample of 52 branch managers of the sample commercial banks viz Karnataka Bank Limited, a major private sector bank and Syndicate Bank, a leading public sector bank hailing from the regions in Dakshina Kannada and Udupi Districts. The branch managers and defaulters of the commercial banks from the study region were interviewed with the help of two separate structured questionnaires for the purpose of study. A sample of 10 percent of total branches of the sample banks and on an average 3 -5 defaulters from each sample branch on judgments sampling method was selected. This is because the branch managers are not prepared to disclose the details of NPAs and defaulters of their branches due to
confidential nature of loan accounts. The study has been conducted in the two districts of Karnataka viz., Dakshina Kannada and Udupi. The important observations and findings of the study are given in the following paragraphs.

1. THE CONCEPT OF NPA

The introduction of economic reforms in 1991 was a milestone, which marked the shifting of gears of the Indian economy towards deregulation, liberalization, and globalization. The financial sector reforms have given a thrust to the banking sector. The committee on financial sector reforms noted with concern, in 1991 the alarming proportions of Non-performing assets of banks and suggested to take measures to minimize them. It has also aimed to chart a programme on financial sector reforms necessary to strengthen India's financial system and make it internationally competitive, keeping in view the vast changes that have taken place in the international and financial markets, technological advancement and the experience of the developing countries in adapting to such changes. Keeping in view these developments government of India appointed the second Narasimham Committee in the year 1998. The recommendations of the committee are widely accepted by RBI and are popularly known as second generation norms.

The banks, in their Balance Sheet, have different kinds of assets, such as cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The non-performing asset or NPAs concept is restricted to loans and advances. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as a 'Performing Asset'. In other words, a loan asset becomes a Non-Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission, or any other dues for the bank for more than 90 days.

Non-Performing Assets are defined as an advance where interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan, overdraft/cash credit, bills purchased and discounted, interest and/or instalment of principal remains overdue for two harvest seasons for short term and one harvest season for long term crop loans in the case of advance granted for agricultural purpose, and any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
The basis for defining a credit, as NPAs will vary depending on the nature of the loan account such as term loan account, running account (cash credit and overdraft), bills discounted (bills purchased and discounted).

**Asset Classifications and Provisioning Norms**

Loan assets of the banks are broadly classified as performing and non-performing while non-performing asset (NPA) is further classified into substandard, doubtful and loss assets. After proper classification of loan assets the banks are required to make sufficient provision against each of the NPA account for possible loan losses as per prudential norms. The minimum amount of provision required to be made against a loan asset is different for different types of assets.

**Standard assets**

Standard asset is a credit facility, which is not classified as NPA and which does not disclose any problem and also does not carry more than the normal credit risk attached to a business. At present, no provision is required for standard asset. However, Banks should make a general provision of a minimum of 0.25 percent against standard assets for the year ending March 31, 2000 and onwards.

**Substandard Asset**

Substandard asset is a credit facility, which has been classified as NPA for period not exceeding two years. However, with effect from March 31, 2001, an asset may remain in substandard category for 18 months. This period has further been reduced to 12 months with effect from 31st March, 2005. A general provision of 10 percent of the total outstanding amount is required to be made.

**Doubtful Assets**

An asset should be classified as doubtful, if it has remained in the substandard category for 18 months instead of 24 months, by March 31st, 2001. For the purpose of provisioning, a doubtful asset is again classified into three subcategories as Doubtful -1, status as doubtful asset up to 1 year and status as NPA up to two and half years; Doubtful - 2 status as doubtful asset for more than 1 year upto 3 years and status as NPA up to two and half years upto four and half years; Doubtful -3 status as doubtful asset for more than 3 years and status as NPA for more than four and half years.
The quantum of provision in case of doubtful assets depends upon the realizable value of security and the age of doubtful assets of the asset. 50 percent of the additional provisioning requirement on the assets, which become doubtful on account of new norm of 18 months for transition from sub-standard assets to doubtful assets category. 20 percent for provision on the secured portion on Doubtful - 1 category, 30 percent for provision on the secured portion on Doubtful - 2 category and 50 percent for provision on the secured portion on Doubtful -3 category are required to be made.

**Loss Assets**

A loss asset is a credit facility where the bank’s internal or external auditors or the RBI inspection have identified as loss but the amount hasn’t been written off, wholly or partly. Provision required is 100 percent of the outstanding balance of the loss asset.

2. MAGNITUDE OF NPAs IN COMMERCIAL BANKS

In India, the magnitude of the problem of bad debts was first realized only in early 1990s. Subsequently, following the recommendations of the Narasimham Committee (1991, 1998) and Verma Committee (1999), some steps have been taken to solve the problems of NPAs. Though concern regarding the reduction of NPAs in the Balance Sheet of the banks, particularly PSBs, continues to be expressed from every corner, there has hardly been any systematic evaluation of the best way of tackling the problems. There seems to be no unanimity in the proper policies to be followed in resolving this problem. There is also no consistency in the application of NPA norms, ever since these have been recognized.

3. EFFECT OF NPAs ON COMMERCIAL BANKS

NPAs have affected the profitability, liquidity and competitive functioning of banks and developmental financial institutions and finally the confidence of the bankers in respect of their disclosure towards credit delivery and credit expansion.

4. GROWTH OF COMMERCIAL BANKS IN THE STUDY REGION

Erestwhile D.K. district was popularly known as “The Cradle of Banks”. The Udupi district was carved out from the D.K district in the year 1998 and a separate district with the formation of Udupi district having three taluks has emerged. The
two districts have contributed to the nation four major nationalized banks and one private sector bank, which have nationwide branches and 2 of them viz Syndicate Bank and Karnataka Bank limited are the sample banks of our study. (One Public sector and One private sector).

**PROFILE OF SAMPLES**

**Profile of Branch Managers**

1. Among 52 branch managers of sample commercial banks viz; KBL and SB, 25 branch managers are from KBL and 27 branch managers are from SB.

2. Large number of the branch managers belong to Rural and Urban areas, accounting for 34.6 percent each respectively, (Rural area 44.0 percent are from KBL and 25.9 percent are from SB and Urban area 24.0 percent are from KBL and 44.4 percent are from SB). While 30.8 percent belong to Semi-urban areas (32.0 percent are from KBL and 29.6 percent are from SB). It shows that sample branch managers of both the sample banks are equally spread in rural and urban areas.

3. In the study region, a majority of (94.2 percent) branch managers have Degree as educational qualifications (88.0 percent are from KBL and 100.0 percent are from SB). Only 3.8 percent of managers studied above Degree (8.0 percent is from KBL only). It shows that, both the banks have well qualified managers irrespective of public sector bank and private sector bank.

4. A majority (50.0 percent) of the branch managers of the sample commercial banks have experience ranging between 30 and 39 years; Whereas, 44.2 percent of branch managers have experience ranging between 20 and 29 years. It shows that most of the branch managers of both KBL and SB in the study region have many years of experience in all aspects of banking.

5. A majority of the branch managers of both KBL and SB (67.3 percent) have experience in the present position of less than 10 years, while 21.2 percent of branch managers have experience in the present position ranging between 10 years and 19 years. It shows that experienced branch managers are there in KBL and SB.
Profile of Defaulters

1. It can be observed that 43.0 percent of defaulters belong to KBL and 57.0 percent of defaulters belong to SB in both Dakshina Kannada and Udupi districts.

2. Most of the defaulters of KBL (40.7 percent) belong to Semi-urban areas and 25.9 percent belong to Rural areas; whereas 33.3 percent belong to Urban areas. Most of the defaulters of SB (39.2 percent) belong to Rural areas, 35.3 percent belong to Urban areas and 25.5 percent belong to Semi-urban areas. In both KBL and SB majority of the defaulters (80.2 percent) are male defaulters.

3. In the study region a majority of defaulters (39.7 percent) (41.2 percent of KBL and 38.5 percent of SB) have below SSLC as their educational qualification, Only 19.8 percent of the defaulters are Graduates (18.6 percent of KBL and 20.7 percent of SB) and 21.1 percent of defaulters have SSLC and PUC level of education. (19.6 percent of KBL and 22.2 percent of SB).

4. Of the defaulters, a majority (63.7 percent) are Self-employed/Businessmen (68.6 percent of KBL and 60.0 percent of SB), 23.6 percent are Government employees who borrowed and defaulted in Personal loan, Housing loan, Overdraft. (16.7 percent of KBL and 28.9 percent of SB) and 11.4 percent are carrying other type of occupation such as Member in SHG, Auto drivers, caterers, Helpers, Servants and so on.

5. Of the defaulters a majority (57.0 percent) are in the age group ranging between 31 years and 40 years. (48.0 percent of KBL and 63.7 percent of SB).

6. A majority of the defaulters of both KBL and SB (80.2 percent), (KBL 85.3 percent and SB 76.3 percent defaulters) are male defaulters only.

CREDIT FACILITIES AVAILED

7. Of the total Defaulters of sample banks, majority (67.93 percent) (76.4 percent of KBL and 61.4 percent of SB) have availed Small business loan and 23.6 percent have availed loan for other purposes which include Personal loan, Housing loan, Educational loan and Commercial loan.

8. A large number of the defaulters of KBL (33.4 percent) availed cash credit/Overdrafts facilities and other 44.1 percent of defaulters of KBL availed Long term credit facilities. Majority of (65.2 percent) defaulters of SB have availed long term credit facilities from the bank.
9. A majority of KBL defaulters (96.1 percent) and most of the SB defaulters (84.4 percent) have opined that there is liberal and well explained lending formalities/procedures in the banks and a few defaulters of SB have felt irrational, discouraging and lengthy procedures and formalities.

10. A majority of KBL defaulters (82.4 percent) and most of the SB defaulters (68.9 percent) have not exerted influence for borrowing loan from the banks.

11. Of the defaulters who exerted influence, 16.7 percent of KBL and 35.7 percent of SB defaulters have exerted influence through local prominent people.

12. A majority of the KBL defaulters (65.7 percent) and most of the SB defaulters (38.5 percent) have 6 to 10 years period of relationship with the banks.

13. A majority of both KBL (53.9 percent) and SB (57.8 percent) defaulters have presently do not carry on any business and economic activities.

14. A majority of both KBL (78.4 percent) and SB (77.0 percent) defaulters have defaulted more than 6 instalments of loan for repayment.

15. A majority of defaulters of both KBL (45.1 percent) and SB (55.5 percent) have understood about classification of their account as NPAs only after Manager/Staff/Credit Officer of the banks explained to them about NPAs.

**APPRAISAL OF LOAN PROPOSAL AND RECOVERY PERFORMANCE OF NPAS BY THE BRANCH MANAGERS OF THE SAMPLE COMMERCIAL BANKS**

16. Only 13.5 percent of borrowers including Defaulted borrowers (KBL 4.0 percent and SB 22.2 percent) of both the banks were aware of information required to borrow loan from the bank.

17. A majority of the branch managers (92.3 percent) (KBL 95.8 percent and SB 92.6 percent) appraised the loan proposal before sanctioning.

18. A few branch managers of both the banks (5.76 percent) (KBL 4.2 percent and SB 7.4 percent) have faced difficulties in following procedural formalities. They have felt that genuine borrowers struggled very much to produce various documents needed to fulfill procedural formalities (8.0 percent of KBL and 22.2 percent of SB branch managers) and they have also felt that sometimes borrowers do not adhere to, if too much of procedural formalities are involved (28.0 percent of KBL and 18.5 percent of SB branch managers).
19. A majority of KBL branch managers (84.0 percent) and SB (96.3 percent) branch managers insisted on properly filled in applications forms with all details, and proper evaluation and selection of the borrowers. Another 72.0 percent of KBL and 85.2 percent of SB branch managers maintained regular contact with borrower and regular monitoring of accounts while sanctioning the loan.

20. A majority (86.5 percent) of both KBL (88.0 percent) and SB (85.2 percent) branch manager allotted sufficient time for monitoring, follow-up and recovery of loan.

21. Of the branch managers who have not allotted sufficient time, 33.3 percent of KBL and 50.0 percent of SB branch managers have faced problems as they have busy schedule of attending the routine work, meetings, functions and they do not have time to look after monitoring, follow-up and recovery. Another 33.3 percent of KBL and 75.0 percent of SB branch managers have felt that the recovery of loans and recourse to legal procedures is time consuming and expensive.

22. A majority of KBL (76.0 percent) and SB (70.4 percent) branch managers scrutinized the loan applications thoroughly from the beginning. 72.0 percent of KBL and 92.6 percent of SB branch managers monitored the loans to prevent from becoming non-performing. Another 96.0 percent of KBL and 92.6 percent of SB managers have taken steps to recover the loan by serving reminder notices to the defaulters and conducting follow-up of the same to recover the loan.

23. A majority of (74.0 percent) branch managers of both the banks (Garrets Mean Score 64.34) preferred first step as 'Educating the borrowers to repay their debts' as measure undertaken to bring back the NPAs to Performing Assets. Another 14.0 percent branch managers of both the banks ranked it second and another 6.0 percent of branch managers ranked it third.

24. A large number of (44.0 percent) KBL and 55.6 percent of SB branch managers have NPAs ranging between 1.0 percent and 3.0 percent. Another, 8.0 percent of KBL and 14.8 percent of SB branch managers have NPAs ranging between 3.0 percent and 5.0 percent.
RECOVERY MEASURES AND RECOVERY PERFORMANCE OF NPAs IN COMMERCIAL BANKS

25. A majority of (80.0 percent) KBL and 96.3 percent of SB branch managers have involved in compromise proposal of NPA accounts.

26. A few (28.0 percent of KBL branch managers) and majority of (59.3 percent of SB branch managers) have opined that defaulters approached them directly for Compromise.

27. Most of the branch managers (55.8 percent) of both the banks (KBL 72.0 percent and SB 40.7 percent) observed that defaulters have not approached them directly for compromise. Of these branch managers a majority (77.8 percent of KBL and 63.6 percent of SB managers) approached the defaulters through the branch managers/employees for compromise.

28. A majority of KBL branch managers (88.0 percent) have considered factors such as capacity of the defaulters to repay for giving concession in a compromise proposal and all SB branch managers (100.0 percent) have considered availability of securities in the account along with capacity of the borrowers to repay for allowing concession in a compromise proposal.

29. All the (100.0 percent) KBL branch managers and 44.4 percent of SB branch managers have not organized recovery camps for recovering the loans considered NPAs on large scale.

30. A majority of (88.0 percent) KBL and all (100.0 percent) SB branch managers have considered the cost involved in the recovery process at the time of compromise settlement.

31. A majority of (72.0 percent) KBL and 63.0 percent of SB branch managers have not attended any training programmes on recovery of loans during the recent past.

32. A majority of (88.0 percent) KBL branch managers and 92.6 percent of SB branch managers recommended filing suit for recovery of NPAs only when limitation period of documents is necessary to expire and other 80.0 percent of KBL branch managers and 92.6 percent of SB branch managers recommended for the same where chances of recovery is less in view of inadequate securities available in the loan account.
33. A majority of (96.0 percent) KBL and 96.3 percent of SB branch managers have interacted with the borrowers/guarantors before filing suit on them for recovery of NPAs.

34. A majority of both KBL (96.0 percent) and SB (96.3 percent) branch managers have been keeping track of whereabouts of borrowers/guarantors and their assets after filing suit.

35. Of the branch managers who have kept track of whereabouts of borrowers/guarantors, 62.5 percent of KBL and 61.5 percent of SB branch managers got information about the whereabouts of borrowers during joint inspection with the bank authorities. Whereas, another 50.0 percent of KBL and 88.5 percent of SB branch managers opined that the source of information about the whereabouts of borrowers/guarantors is visiting the borrowers place based on the address as mentioned in the loan application form.

36. In the opinions of majority (76.0 percent) of KBL and 74.1 percent of SB branch managers, the bank advocates have shown adequate interest and co-operation in the follow-up of the suit filed/decreed accounts.

37. A majority of (76.0 percent) KBL branch managers and 66.7 percent of SB branch managers have felt that the lawyers meet was very useful in awarding decrees in the recovery of NPAs.

38. All (100.0 percent) KBL branch managers and majority of (88.9 percent) SB branch managers experienced very cordial relationship between them and the bank’s advocates.

39. A majority of (80.0 percent) KBL branch managers and comparatively less number (55.6 percent) of SB branch managers experienced no delay/difficulties in the execution of decrees.

40. Of the branch managers who faced delay/difficulties in the execution of decrees, 40.0 percent of KBL and 66.7 percent of SB branch managers have opined that they faced difficulties regarding verification of documents, inspection of security, determination of the jurisdiction of the court and serving reminder notices execution of decrees and 80.0 percent of KBL and 50.0 percent of SB branch managers faced difficulties of Prolonged proceedings of the legal system, seeking adjournments by the defendants on flimsy grounds and making use of the loopholes in the legal system and taking undue advantage.
41. A large number of (44.0 percent) KBL branch managers contacted the bank advocates whenever it is convenient and 44.4 percent of SB branch managers contacted the bank advocates before the date of hearing in each case.

42. Out of the suit filed accounts relating to NPAs of SSIs, large number of KBL (32.0 percent) and SB (44.4 percent) branch managers have suit filed accounts at their branches relating to small business sector. Only a few branch managers of KBL (8.0 percent) have ten to twenty suit filed accounts and 7.4 percent of SB managers have more than 20 suit filed accounts at their branches relating to NPAs of Small business; Whereas 16.0 percent of KBL and 22.2 percent of SB managers have the amount in various NPA accounts ranging between Rs.15000 and Rs.50000.

43. A few of the KBL (8.0 percent) and SB (3.7 percent) branch managers have suit filed accounts at their branches relating to agriculture sector and only a few branch managers of KBL (4.0 percent) have DRTs proceedings to file a suit in case of SSI NPAs.

44. Majorities of (74.0 percent) KBL branch manager have Suit-filed accounts and 3.7 percent of SB managers have decreed accounts at their branches relating to Non-SSI sector.

45. In the case of suit filed accounts relating to NPAs of other types of loans most of the (20.0 percent) KBL and 18.5 percent of SB branch managers have decreed accounts at their branches.

46. Only few (4.0 percent) each of KBL branch managers have four NPA accounts at their branches relating to other type of loan.

47. Another 4.0 percent each of KBL branch managers have ten to twenty NPA accounts and also more than twenty NPA accounts respectively at their branches relating to Other type of loan.

48. 3.7 percent of SB branch managers have ten to twenty NPA accounts at their branches relating to other type of loan.

49. Another 3.7 percent of SB branch managers have more than twenty NPA accounts at their branches relating to other type of NPA.

50. Very few KBL (4.0 percent) and 11.1 percent each of SB branch managers have NPAs ranging between Rs.100001 and Rs.200000 and also Rs.500001 and Rs.1000000 respectively at their branches relating to other type of NPA accounts.
51. A majority of (92.0 percent) KBL and 81.5 percent of SB branch managers are not interested in the Special Squad from the controlling office of the bank to be sent for execution of decrees.

52. A majority of (92.0 percent) KBL and 96.3 percent of SB branch managers have received required support from higher authorities in effective execution of decrees and ensuring adequate follow-up of suit filed cases.

53. A large number of (28.0 percent) KBL and 48.1 percent of SB branch managers have received support from DIC/Govt. in recovery of NPAs.

54. 32.0 percent of KBL and 40.7 percent of SB branch managers have received required support from co-banks and financial institutions in execution of the decrees.

**ROLE OF RECOVERY TOOLS**

55. A majority of (96.0 percent) KBL and 77.8 percent of SB branch managers failed to arrive at any compromise settlement through Lok Adalats and 80.0 percent of KBL and 85.1 percent of SB branch managers have not recovered NPAs through DRTs.

56. A majority of (88.0 percent) KBL and 96.3 percent of SB managers have agreed that the Securitisation Act, 2002 has helped the banks in recovering the heavy NPAs and sticky accounts.

57. All KBL branch managers (100.0 percent) and majority of (96.3 percent) SB branch managers have received the required support from the Legal/Recovery section at the Regional/Zonal office.

**PROBLEMS FACED BY THE BRANCH MANAGERS IN MANAGING THE NPAs**

58. A majority of KBL (56.0 percent) and SB branch managers (74.1 percent) have experienced that the Wilful default cases are more in number; Another 48.0 percent of KBL and 48.1 percent of SB branch managers have felt Siphoning off /Diversion of Fund as the problem for NPAs.

59. A majority of (64.0 percent) KBL and 51.9 percent of SB branch managers have opined that Selection of activity was the reason for loan accounts more susceptible to loan account becoming NPAs.
60. Most of the branch managers gave multiple ranking for the causes for NPAs. Majority of branch managers of both the KBL and SB (Garret mean score 46.77) have felt that 'Mis-management, managerial incompetency of the borrowers and Unfavorable repayment climate due to loan waiver schemes' were major cause for NPAs and Second important cause mentioned by the branch managers of both the KBL and SB was (Garret mean score 44.83) 'Failure to recognize the early warning signals and to detect the incipient sickness'.

61. Most of the KBL branch managers (Garrets Mean Score - 41.64) felt that 'Mismanagement, managerial incompetency of the borrowers and Unfavorable repayment climate because of loan waiver schemes' as the major cause for NPAs. Second important cause felt by the KBL branch managers for NPAs as (Garrets Mean Score – 39.40) ‘Failure to recognize the early warning signals and to detect the incipient sickness’.

62. Most of the SB branch managers (Garrets Mean Score - 46.44) felt that ‘Failure to recognise the early warning signals and to detect the incipient sickness’ as the major cause for NPAs.

63. A majority of (48.0 percent) KBL and large number of the (22.2 percent) SB branch managers expressed that recovery of the loan is the sole responsibility of the branch managers.

**ACTIONS TAKEN BY THE BRANCH MANAGERS IN MANAGEMENT OF NPAs**

A majority of KBL (Garrets Mean Score 72.21) and SB branch managers (Garrets Mean Score 71.85) have taken first corrective measure as 'Studying the reasons for default and taking corrective actions'. 20.0 percent (Garrets Mean Score 66.43) of KBL and 18.5 percent (Garrets Mean Score 65.59) of SB branch managers preferred first measure as 'allowing some more time to the borrower to bring back the NPAs to normal loan account'. 25.0 percent (Garrets Mean Score 54.17) of KBL and 3.7 percent (Garrets Mean Score 50.51) of SB branch managers preferred second measure as “Reporting to the higher authorities and act according to their instructions”. 40.0 percent of KBL (Garrets Mean Score 54.17) and 14.8 percent of SB (Garrets Mean Score 50.51), branch managers preferred third corrective measure as ‘Contacting the party for a compromise proposal’. 16.0 percent of KBL (Garrets Mean Score 53.34) and 18.5 percent of SB (Garrets Mean Score 49.37) branch
managers preferred fourth corrective measure as “Issuing legal notices and recalling the advances” to bring back the NPAs to normal loan account.

STUDY OF DEFAULTERS

REASONS FOR NON-REPAYMENT OF DEBTS/OVERDUES OF NPAs

1. A few (4.9 percent) of the defaulters of KBL and SB (9.6 percent) have expressed recession in the market/lack of demand and mis-utilization of loan as the reasons for non-repayment of overdues. Another 31.4 percent of KBL and 19.3 percent of SB defaulters have stated Closure of Business due to loss/business failure as the reason. 25.5 percent and 34.8 percent defaulters of KBL and SB respectively have pointed out low income and borrowal of many loans and personal problems especially in generation of income as the reasons for non-repayment of NPAs.

2. All KBL defaulters (100.0 percent) and Majority of the SB defaulters (94.7 percent) have expressed that original sanction limit of loan is adequate to meet requirements.

3. Of the defaulters of SB (5.9 percent) who have opined that the original sanction limit of loan is not adequate, majority of the defaulters (50.0 percent) have made own arrangements to meet the short fall in the loan amount.

4. All KBL defaulters (100.0 percent) and majority of the (89.6 percent) SB defaulters have not experienced excessive delay in sanctioning of loan.

5. A majority of both KBL (95.1 percent) and SB (94.1 percent) defaulters have not responded to their intention of diversifying their present business activity and only 2.0 percent of KBL and 3.0 percent of SB defaulters have the intention of diversifying the activity since present business has no scope for development in future.

COMPROMISE SETTLEMENT

6. Large number of the KBL defaulters (39.2 percent) and the SB defaulters (44.4 percent) have approached the bank for compromise settlement in order to settle the NPAs dues. Another 11.8 percent of KBL defaulters and 24.4 percent of SB defaulters were approached by managers/staff for compromise settlement regarding NPAs.
7. Of the defaulters who approached themselves/through managers/staff, a majority of KBL (76.9 percent) and SB (86.0 percent) defaulters’ compromise proposal was taken up immediately.

8. Of the defaulters who approached themselves/through managers/staff, majority of KBL (86.5 percent) and large number of the SB (53.8 percent) defaulters’ compromise proposal is finalized in a period ranging between 1 month and 6 months. Another 11.5 percent of KBL and 30.1 percent of SB defaulter’s compromise proposal is finalized in a time period ranging between more than 1 year and less than 2 years.

9. A majority of the KBL (99.0 percent) and SB (96.3 percent) defaulters have not contacted the Regional office for pursuing the compromise proposal.

10. Of the defaulters who are proposing to make the repayment under compromise proposal, most of the defaulters of both the banks (KBL- 26.5 percent and SB - 23.7 percent) are ready to pay the over dues on their own arrangement. Among these, some repayments are not the real settlements, (16.7 percent of KBL and 20.7 percent of SB). It is only an arrangement whereby one overdue account is settled by another fresh loan account.

11. All KBL defaulters (100.0 percent) and majority of SB defaulters (99.3 percent) were reminded by the bank branch managers to regularize the NPA accounts.

12. Of the defaulters who were reminded by the bank branch managers to regularize the NPA loan account, majority of both KBL (89.2 percent) and SB (85.8 percent) defaulters were reminded on a monthly basis.

13. Most of KBL defaulters (77.5 percent) and majority of SB defaulters (88.9 percent) do not like to repay their overdues through legal/court action and a few KBL defaulters (22.5 percent) and SB defaulters (11.1 percent) intend to repay their debts through legal/court action also.

14. A majority of KBL (70.0 percent) defaulters and most of the SB (69.2 percent) defaulters have taken steps to avoid legal action through submitting the compromise proposal to settle the NPAs.

15. A majority of KBL defaulters (99.0 percent) and SB defaulters (94.8 percent) have expressed co-operative type of attitude shown by the branch managers and employees towards them.
16. Only 41.2 percent of KBL defaulters and majority of (51.9 percent) SB defaulters have received good support from the banks if business/ agricultural activities faced problems.

17. Of the defaulters who received good support from the banks, 47.6 percent of KBL and 70.0 percent of defaulters of SB received support in the form of counseling.

PROBLEMS FACED BY THE DEFAULTERS

A few (10.0 percent) of KBL and 11.11 percent of SB defaulters have faced the problems while borrowing and dealing with loan account like inadequate sanction of term loan/ working capital and delayed sanction leading to time overrun and cost overrun to the borrowers; Another 6.0 percent of KBL, 5.18 percent of SB defaulters have been faced with the problems like inadequate income which led to diversion of funds to family expenditure and for clearance of old debts. 42.0 percent of KBL and 39.99 percent of SB defaulters have complained that credit counseling is not available to the borrowers especially to the small borrowers and many procedures and documents made it difficult to borrow for the common borrowers. 8.0 percent of KBL and 2.96 percent defaulters of SB reported that the problems of high competition, high risk in business, business failure and business loss caused problems to repay the dues on regular basis.

LEGAL ACTION TAKEN AGAINST DEFAULTERS

18. Legal action is not taken against most of the KBL defaulters (66.7 percent) and a majority of SB defaulters (83.0 percent) do not come under the suit filed account in the court.

19. Of the defaulters against whom the suit is filed in the court, majority of (58.1 percent) KBL and 57.9 percent of SB defaulters are in the Just suit filed stage. Another 35.5 percent of KBL and 15.8 percent defaulters of SB are in the position of Decreed stage.

20. A majority of (82.4 percent) KBL and 78.5 percent of SB defaulters were not aware of the functioning of Lok Adalats for recovery of NPAs from the defaulters.

21. All KBL defaulters (100.0 percent) and majority of the SB defaulters (88.9 percent) have not attended borrowers meet.
22. Majority of KBL defaulters (87.3 percent) and Most of the SB defaulters (71.1 percent) were not aware of the Special Tribunal/SARFAESI Act, 2002. Only 2.0 percent of KBL defaulters and a few (6.7 percent) of SB defaulters were explained by the Managers/Staff of the bank branches about this.

23. Of the defaulters who were aware on their own and were explained by Managers/Staff about Special Tribunals/ SARFAESI Act, 2002, in the case of majority of (69.2 percent) KBL and 74.4 percent of SB defaulters legal actions were not taken under SARFAESI Act, 2002 by the branch managers and only in case of 23.1 percent of KBL and 25.6 percent of SB defaulters legal actions were taken under the SARFAESI Act, 2002 by the branch managers.

24. A majority of (64.7 percent) KBL and 68.1 percent of SB defaulters were not aware of Government’s proposal to blacklist and publish their names and photos in newspapers.

HYPOTHESES TESTED

1. The hypothesis that, “Percentage of NPAs to total advances is more in public sector bank compared to private sector bank” is tested and found rejected.

2. The hypothesis that, “Wilful defaulters are the major cause for the NPAs compared to other causes” is tested and found accepted.

3. The hypothesis that, “Recovery of overdues is the sole responsibility of the branch managers” is tested and found rejected.

4. The hypothesis that, “There is significant relationship between educational qualification and defaulters attitude towards banks for repayment of NPAs” is tested and found accepted.

5. The hypothesis that, “Recommendations made by the Narasimham committee play a vital role in overall performance of recovery of NPAs” is tested and found accepted.
SUGGESTIONS

A Successful bank will have to meet and address several challenges that the industry currently faces. One among the most important challenges is recovery management of NPAs. It is up to the banks to convert the challenges in risk management into a business opportunity by arriving at an optimum risk return trade off. If a banking institution wants to survive and grow, it has no option but to recover the interest and principal of loan in accordance with the terms of sanction. In case, income is not received as per prudential norms, the loan will become a non performing asset with all its necessary consequences.

Therefore, certain measures are necessary and helpful to the banks to reduce the level of NPAs on their balance sheet which will improve bank’s strength. Proper evaluation and selection of the borrowers, need based financing, ensuring proper end use of the loan, proper post sanctioning follow up, regular contact with borrowers are some of the important measures required to reduce the NPAs in the context of NPA management. In this direction few suggestions can be put forth based on the findings of the study to check NPAs and to reduce the magnitude of NPAs.

1. The branch managers should carefully and thoroughly verify credit worthiness of the proposed borrowers and give counseling to borrowers regarding basic knowledge of the proposed project, technical skill and business talents in the area in which they start business.

2. The branch managers must strengthen reminder system in banks along with credit Officers/Staff to send reminders on timely basis.

3. Development of rigorous but flexible methods of credit appraisal and of a credit management information system for faster and effective decisions and introducing Know Your Customer Norms (KYC) at Commercial banks is essential.

4. All the branch managers should necessarily follow strict pre-sanctioning appraisal and post disbursal follow-up to avoid diversion of funds.

5. The branch managers should obtain confidential reports from other banks and financial institutions about the Borrowers/Defaulters bank accounts if they are maintaining account with other banks/Financial Institutions (Implementation of Basel III norms).

6. The RBI and GOI should enact appropriate legislation that accords priority to recovery of bank dues and eliminates delays.

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7. Co-operation and involvement is necessary from the co-operative society, Govt. District Administration and Revenue authorities in the recovery of bank overdues. Board for Financial Supervision (BFS) must initiate steps to establish supervise the working of the banks specially relating to recovery of NPAs.

8. It is essential to appoint a committee on computer Audit in banks to audit particularly the management of NPAs.

9. Steps must be taken to give more authority and power to the branch managers in dealing with all types of NPAs and to extend State Recovery of land dues Act in case of Commercial banks which is already applicable in Co-operative banks.

10. Branch managers/Credit Officers/Staff visit to borrower's business premises/ Residence must be made compulsory in case of hard-core NPAs to recover the overdues.

11. Efforts must be made to strengthen Recovery Camp and discuss in detail about the problems and difficulties of the borrowers in order to suggest possible alternatives to overcome such problems/difficulties.

12. Branch managers efforts should be strengthened in case of overdues of loan, installments, rescheduling of outstanding loan/ installments in respect of small advances especially due from sincere and hardworking borrowers and consideration must be given to rescheduling of loan only to the borrowers who fail to pay loan installment due to natural calamities or for some other convincing reasons.

13. Steps must be taken for appointment of professional Agencies for Recovery and their services can be utilized to ascertain whereabouts of the borrowers and enforcement of securities in a very pleasant manner. Outsourcing of employees who have taken VRS from the banks for recovery purpose after examining their credentials and keeping a constant vigil on their practices is useful in this regard.

14. It is essential to review existing system of staff incentives and provide attractive incentives for recovery of hard core NPAs and personnel trained in credit management should be placed at branches having more percentage of NPAs.
15. In respect of small advances loan write-offs may be considered in a meaningful way especially when the chances of recovery are remote and monitoring of standard assets through asking to submit quarterly financial results from borrowers, the same should be analysed and compared with the status of account and suitable recovery compromise policy should be put in place.

16. Timely Review of borrowers’ accounts must be given prominence so that these are completed before expiry of their limitation period. Irregular borderline loan accounts must be closely monitored for evolving strategy / action to prevent their slippage to the NPA category. Prompt repayment of loans by the borrowers should be recognized and rewarded by way of relief in interest, which would act as a motivational factor for repayment.

17. Sub-standard assets should be intensively monitored for their up gradation. Holding periodic meeting at various levels for interaction with borrowers having relatively large dues to ascertain their true financial position is required. Decisions taken at the periodic meetings are to be properly recorded.

18. Establishment of new cell to recover bank overdues in a speedy manner other than ARC, Lok Adalat, DRTs and Securitization Act, 2002 and Establishment of reliable Management Information System and Decision Support System for devising appropriate strategy to avoid NPAs in banks is very much essential.

19. Efforts must be made for obtaining additional securities to strengthen the loan asset and reduce the provision requirements.

20. Up gradation of the system/techniques of credit appraisal by imparting training to a dedicated cadre of officers to be deployed at Regional/Zonal offices is necessary. Minimum number of borrowers to be managed by each credit officer should be fixed to maintain the quality of credit portfolio.

21. Strengthening the functioning of existing DRTs as well as setting up of DRTs in states where they are yet to be set-up is essential.

22. Civil courts should earmark a separate bench for dealing with recovery cases of banks/FIs at all levels (Taluks/Districts/High Court).

23. The RBI through banks should give publicity and awareness about the NPAs in banks and functioning of SARFAESI Act, 2002, ARCs, CDRs, DRTs,
Lok Adalats, and also about legal actions taken on defaulters through electronic and print media.

24. The government should educate the public about the bank loan, overdues and NPAs for prompt repayment through the curricula of schools and colleges.

25. Outgoing manager should give details of the defaulters and their problems to the incoming managers and on the basis of the severity of the problems of the genuine defaulters managers should provide more time to repay the over dues.

26. Bank should sanction adequate and timely finance to the borrowers and protect them from the private financial institutions and money lenders.

27. Credit counseling should be provided to all types of borrowers. For agricultural loan, the Government should make changes in the policy of agricultural produces relating to scientific method of cultivation, fixation of profitable price for the crops and avoid interference of middlemen.

28. The credit officer of the bank should explain each and every aspect of the rules relating to loan in detail to the borrowers. Loan application should be printed in the regional languages also.

29. The RBI, Govt., and policy makers should boost the commercial banks' image by making new policies and regulations in the eyes of public to make them more revered institutions.

30. There is need to strike a balance between social and commercial objectives which is the need of the hour. Credit flows of the bank are linked with requirements of marketing. The bank has to undertake market research to identify the needs of various client groups of the bank and design products to take care of such needs.

31. An anti NPA device should be developed. PNB (Punjab National Bank) in January 2005 had developed an early alert system for post sanction monitoring of borrowers accounts to check fresh accrual of NPAs. Early warning signals of weakness in borrowers accounts quick corrective measures are required to detecte on an ongoing basis mainly from the point of preventing fresh NPAs. The net NPA of PNB has come down to 0.28 per cent as on December, 2004 from 2.2 percent in 2003.
DIRECTIONS FOR FUTURE RESEARCH

Non-Performing Asset is a universal problem. There are a number of organisations which have fallen under NPA category. In order to study the NPAs at organizations level in detail, a case study of a few organization can be taken up for the future research. A comparative study of Management of NPAs in old generation private sector and new generation private sector banks will be an interesting area in which the research could be taken up. The research can also be carried out by choosing some activities of banks like the training programmes for bank managers and staff and its effectiveness in managing the NPAs efficiently in their branches. The measure taken for management of NPAs by different states of India is another budding area of diagnosis. The nature of NPA cases and their effective handling and settlement by the bank managers/regional managers can also be studied in detail. The functioning and effectiveness of recovery institutions such as DRTs, Lok Adalats will be an interesting area for the future research. Evaluation of the impact of Legal action and SARFAESI Act, 2002 in recovery performance of NPAs can also be studied in detail.

CONCLUSION

The D.K and Udupi districts are considered to be the cradle of banks because these districts have given birth to many public sector and private sector banks, and borrowers who availed loan facilities from these banks have promptly repaid their overdues when compared to other districts. Even defaulters have paid their dues through compromise or legal measures after obtaining extension for repayment. The social psychology prevailing among the people of these region is borrowing the loan is a ‘sin’.

Growth in NPAs of banks needs to be checked for which mere changes in policies, systems and procedures will not be sufficient. What is more important is to create serious awareness among all those concerned with NPAs. In addition to bringing more transparency in accounts by properly classifying their advances and making adequate provisions it is also necessary to create better awareness of the importance of timely recovery among the staff. Besides having seriousness, the concerned staff should keep aside their age old practices and adopt a more practical and commercial approach while dealing with NPAs. Effective handling of NPAs calls for good leaders who can build up teams of motivated staff. In this regard
education and training have a vital role to play. Setting up of credit investigation and information agency, Amendments of Banking Regulations Act and other laws to enable repossession of collateral securities should be necessarily implemented by the policy makers to change the system. Legislative changes for supplementing the use of the Debt Recovery Tribunals with Lok Adalats are other important remedial measures to curb the growth of NPAs.

The problem of NPAs is ravaging even in some of the advanced countries like Japan. The high level of NPAs in banks and financial institutions has been a matter of concern from the point of economic development of the country and it is bound to create an adverse impact with all its consequential effect. The key element is that banks should strive to achieve significant increase in their assets for creating a vibrant and competitive financial system. In the context of global competition, it is a paramount task for the Indian banks to manage their NPAs and convert them to performing assets. It requires the co-ordinated efforts on the part of the Government, The RBI, The Policy makers, concerned bankers, branch managers, employees of the banks and borrowers. All those involved in the recovery process of loan must realize their responsibility and importance of recovery of bank loan. The borrowers must also extend their cooperation by timely repayment of loan which is prerequisite for recycling of a loan. A commitment on the part of the branch managers and employees is required to curtail and check the NPAs.