CHAPTER V
SUMMARY OF FINDINGS AND SUGGESTIONS

In any nation, banking system plays a vital role in the development of its sound economy. India is not an exception. Bankers are the custodians and distributors of the liquid capital of the country. The foremost function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus funds of the public. Herein lies the onerous duty of the banker in stimulating and mobilization of surpluses. Well knit banking system secures a good foundation for a nation’s industrial and economic progress. The role of banking in promoting development and growth especially in the context of planning and breaking the vicious cycle of poverty and to retrieve the economy from the trap of underdevelopment is a matter of paramount importance, particularly when our country is on the way of development.

Even though the banking sector in India has shown spectacular progress since nationalization, there has been significant decline in productivity and efficiency resulting in erosion of profit. To face the global challenges and to maintain the liquidity and profitability, it is essential to maintain the non performing assets at low level through efficient recovery of loans before they become bad.

In India the magnitude of the problem of bad debts was realized only in early periods. Subsequently following the recommendation of Narasimham Committee and Verma Committee some steps have been taken to solve the problem of nonperforming assets (hitherto will be referred to as NPA)in the balance sheet of the banks. It is continuously expressed from every corner that there has rarely been any systematic evaluation of the best way of tackling the
problem. There is no consistency in the application of NPA norms, ever since these have been recognized. NPA of individual banks which is expressed as a mathematical average for the entire bank cannot convey a dependable picture. The scenario is not so simple to be generalized for the industry as a whole to prescribe a readymade package of common solution for all banks and for all times.

The Indian banking system has undergone significant transformation following financial sector reforms. It is adopting international best practices with a vision to strengthen the banking sector. Several prudential and provisioning norms have been introduced and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health in the banking system. In the background of these developments, this study strives to examine the state of affairs of Non-Performing Assets of public sector banks, private sector banks and foreign banks.

At present the NPA level in Indian banks is much higher than in the banks of various western countries. With the globalization of Indian economy and the liberalization taking place, it is now necessary for Indian banks to come up to international standards and to bring down the NPA level. NPA management now becomes an important term for better banking.

The problem of NPAs arises either due to mismanagement or due to change in business cycle. Faulty lending policy is also responsible for mounting NPAs. There are many other causes which are also responsible for accumulation of NPAs. Faulty credit management like defective credit recovery mechanism, lack of professionalism in the work force, time lag between sanction and disbursement of loan, unscientific repayment schedule, mis-utilisation of loans by user, untimely communication to the borrower regarding their due date, politics at local levels and waive off policy of loan by government (in 1991 and 2008) have also been contributing to mounting NPAs in SCBs in India. People, who have got loan as priority sector advance, feel that loans given to them will be waived off with the
passage of time by one political party or the other, so willful default induced by officially announced loan waiver scheme vitiates the payment culture among the borrowers. Weak monitoring of loan accounts also lead to this problem of NPAs in banks. Lack of technical and managerial expertise on the part of the borrower is the next important factor. Moreover wrong identification of beneficiaries and weakness in credit appraisal system are the other important reasons for this problem.

Banks also have much discretion in granting of loan to priority sector because targets are fixed under directed priority sector lending irrespective of recovery potential. Banks have also been facing the problem of NPA from non-priority sector advance. Lack of systematic credit appraisal system for assessing the returns from the activities being financed, repaying capacities, risk bearing ability of the borrower has also resulted in NPAs. Also slow disposal of recovery cases is major factor contributing towards accumulation of NPAs in non-priority sector advance. The recovery process through legal measures is very lengthy and tedious process. NPAs of Indian banking sector have also been increasingly rising due to economic slowdown, high interest rates ,new reporting system and ailing aviation sector.

There is a general slackening of domestic economic activity in India both in manufacturing and the services sectors. A sluggish economy will have a direct impact on the balance sheets and profitability of many firms who have availed loans from the banking industry. Over a period of time, some of the hard hit firms will be compelled to default their loans. In India NPAs are more an outcome of economic factors rather than any internal systemic failures.

The gross NPA of scheduled commercial banks shows constant decrease from Rs.70,152 crores in 2003 to Rs 50,297 crores in 2008. From then onwards, it started to increase from Rs55,419 crores in 2009 to 1,42,700 crores in 2013. The same trend is observed in public sector banks with decrease from
Rs 54,090 crores in 2004 to Rs 38,968 crores in 2008 and then it showed an upward trend from Rs 40,089 crores in 2009 to Rs 1,17,800 crores in 2013. As far as private sector banks are concerned, gross NPA increased from Rs 9,096 crores in 2008 to Rs 18,700 crores in 2013. Gross NPA in foreign banks shows mixed trend during the study period. The value is high with Rs 7,133 crores in 2011 and low during 2007 with Rs 1,927 crores. The coefficient of variation reveals that the gross NPA in the beginning is more consistent in SCBs with C.V of 33.99 percent and less consistent in foreign banks with C.V of 48.28 percent.

The growth of additions to NPA of scheduled commercial banks showed a fluctuating trend from 2002 to 2005. In subsequent years it reveals an upward movement from Rs 21,406 crores in 2006 to Rs 1,36,700 crores in 2013. The growth in additions to NPA of public sector banks is marginal during 2002 to 2007 i.e. from Rs 15,668 crores to Rs 19,614 crores. The trend reversed and considerable increase in additions to NPA is seen from 2007 onwards with Rs 24,093 crores in 2008 to Rs 1,19,800 crores in 2013. A drastic fluctuation in additions to NPA is seen in private sector banks during the study period. In case of foreign banks addition to NPA exhibits a fluctuating trend during the study period.

Recovery has been increasing during the study period in all the banks. Recourse to aggressive restructuring by banks has helped in reducing the level of NPAs. Further banks have been able to recover NPAs through the use of legal measures which are a good sign for banks. Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and DRTs have been the most effective in recovering the amount.

In case of SCBs the reduction of NPA shows fluctuating trend during the study period. In public sector banks the highest reduction was made in 2006.
with Rs23,040 crores. As far as foreign banks are concerned the percentage of reduction is high with 692.67 percent in 2009.

The gross NPA at the end of the year shows a declining trend from Rs.70,904 crores in 2002 to Rs 50,486crores in 2007. From 2008 onwards, the gross NPA shows an increase from Rs56,435 crores to Rs1,93,900 crores. Same trend is observed in the case of public sector banks. But in case of private sector banks and foreign banks, gross NPA shows a fluctuating trend.

The private sector banks showed least coefficient of variation indicating the consistent performance in the gross NPA and the public sector banks revealed highest variation indicating the inconsistent performance in the gross NPA.

The total assets of scheduled commercial banks have increased from Rs.15, 36,425 crores in 2002 to Rs.95, 73,333 crores in 2013. The total assets of public sector, private sector and foreign banks have also shown an increasing trend. Foreign banks showed least coefficient of variation indicating the consistent performance in the total assets and the private sector banks showed highest coefficient of variation indicating the inconsistent performance in the total assets.

Gross advances given by all banks showed an increasing trend during the period of study. Advances of SCBs increased from Rs.6,80,957 crores in 2002 to Rs.59,88,279 crores in 2013, while in public sector banks from Rs.5,09,368 crores to Rs.45,60,169 crores, in private sector banks from Rs.1,20,958 crores to Rs.11,59,143 crores and in foreign banks from Rs.50,631 crores to Rs.2,68,967 crores. Coefficient of variation reveals that gross advances of foreign banks are stable while the advances of public and private sector banks are exhibiting fluctuations.

The percentage of gross NPA to total assets of SCBs showed a constant decrease from 4.64 percent in 2002 to 1.30 percent in 2008. A sharp increase in percentage is observed during the last year of the study with 4.02 percent.
Public sector banks exhibited a continuously declining trend from 4.89 percent in 2002 to 1.86 percent in 2012. It showed a slight increase in the last year of the study period with 2.36 percent. In case of private sector banks the percentage of gross NPA to total assets declined from 4.36 in 2002 to 1.04 in 2013. As far as foreign banks are concerned the percentage of gross NPA to total assets decreased from 2.45 in 2003 to 0.78 in 2008 and it exhibited slight increase during last two years from 1.08 percent to 1.28 percent. The coefficient of variation of private sector bank is greater (54.20%) indicating that it is less stable, while foreign banks are more stable which is shown by lower coefficient of variation (38.11%).

Percentage of gross NPA to gross advance of public sector banks has declined sharply from 11.09 in 2002 to 1.97 percent in 2009. Later on, it showed a gradual increase and reached 3.61 percent in 2013. In the case of private sector banks the percentage of gross NPA to gross advance declined from 9.64 in 2002 to 1.79 in 2013, while foreign banks exhibited a fluctuating trend during the study period ranging from 5.38 percent to 1.75 percent. In total, an analysis of the percentage of gross NPA to gross advance in all scheduled commercial banks revealed a decline from 10.41 in 2001-02 to 3.23 percent in 2012-13.

The provision for NPA by commercial banks shows a mixed trend during the study period. In public sector banks highest provision has been made in the year 2012 and it is lowest in the year 2004 (4.31%) and in the case of private sector banks highest percentage in provision is made in the year 2009 with 39.52 percent and lowest in the year 2004 with 3.36 percent. In case of foreign banks, highest percentage in provision is in the year 2010 (148.59%) and lowest during the year 2008 with 15.90 percent and for SCBs highest provision is in 2012 and lowest in 2007.
In case of SCBs excess provision written off shows a fluctuating trend with Rs 12,049 crores in 2003 to Rs 26,400 crores in 2012. Excess provision written off is maximum during the year 2011 with Rs 27917 crores. The PSBs also revealed the same trend though the value of excess provision decreased from Rs9131 crores in 2003 to Rs 19000 crores in 2012. The percentage increase in excess provision is maximum during the year 2011 with 67.91 percent. With regard to private sector banks and foreign banks excess provision written off shows a mixed trend during the study period. It is high with Rs 8782 crores in 2010 and low with Rs 1789 crores in 2007 as far as private sector banks are concerned, while it is maximum with Rs 2810 crores in 2010 and minimum with Rs 320 crores in 2007 with regard to foreign banks.

Provision for NPA at the end showed a fluctuating trend during the study period in all the banks. Annual growth rate of the provisions for NPA at the end recorded a maximum rate of 52.13 percent in 2012 in public sector banks, 39.05 percent in 2008 in case of private sector banks and in foreign banks it is 136.67 in 2009. In case of scheduled commercial banks, the annual growth rate is maximum in 2012 with 38.23 percent. It is also evident from the table that the provisions made by public sector banks have shown an upward trend from 2010 onwards, when the financial crisis erupted the market. Overall, the provisions made increased during the study period and indicated a reduction in asset quality except in case of private sector banks where there is reduction in provision during last year of the study indicating improvement in their asset quality.

Net NPA in scheduled commercial banks declined from Rs 35554 crores in 2002 to Rs18543 crores in 2006. In subsequent years, the net NPA started showing on upward trend from Rs20100 crores in 2007 to Rs98500 crores in 2013. The net NPA of public sector banks showed decreasing trend from Rs27958 crores in2002 to Rs14566 crores in 2006 and from 2007 onwards it
showed an increasing trend from Rs15145 crores to Rs90000 crores in 2013. The net NPA of private sector banks and foreign banks exhibits a mixed trend. The net advances of SCBs showed an increasing trend from 2002 to 2013. Public sector banks net advances have increased from Rs4,80,681 crores in 2002 to Rs 44,72,774 crores in 2013. Private sector banks net advances also have increased from Rs 1,16,473 crores in 2002 to Rs.11,43,248 crores in 2013, foreign banks net advances have increased from Rs.48,705 crores to Rs.2,63,680 crores during 2002 to 2013 and scheduled commercial banks from Rs 6,45,859 crores to Rs.58,79,702.

The percentage of net NPA to total assets shows a declining trend during the study period from 2002-2010 in all the banks. However during the last three years from 2011-2013 the percentage of net NPA to total assets shows a gradual increase. This shows the poor performance of banks which affects the profitability of all banks.

Standard assets of scheduled commercial banks show an increasing trend from Rs. 6, 09,972 crores in 2002 to Rs.57, 95,100 crores in 2013. As far as public sector banks, private sector banks and foreign banks are concerned there has been a constant increase in standard assets.

The sub-standard assets of scheduled commercial banks showed a constant increase from Rs 14,826 crores in 2006 to Rs 90,800 crores in 2013. In public sector banks, fluctuations can be seen in sub-standard assets. In case of private sector banks and foreign banks the sub-standard assets show a mixed trend during the study period.

The value of doubtful assets in all the banks showed an upward movement till 2008. Later it has shown an upward trend till the end of the study period.

Loss assets in public sector banks, foreign banks and SCBs had been very low in the first seven years of the study period i.e. 2002 to 2008. From 2009 to
2013 there is an increase in loss assets in all the three banks. Loss assets of private sector banks show constant increase during the study period.

In case of scheduled commercial banks the loans and advances have increased during the study period. Same trend is observed in all bank groups.

Bad loans written off reveals an increasing trend in SCBs during the period of study. Bad loans written off in public sector banks show a fluctuating trend. The trend in bad loans written off of private sector banks reveals mixed trend. With regard to foreign banks the bad loans written off indicate declining trend.

As far as agriculture is concerned, it continues to be a concern for banking sector. NPA in agriculture of SCBs shows an increasing trend for majority of the years. Public sector banks exhibit a fluctuating trend. It is interesting to note from the table that the NPAs in private sector banks show an increasing trend. But the size of NPAs reached an all time low of Rs.5708 crores during 2009 in PSBs and Rs.1441 crores during the same period in private sector banks which is mainly due to the Loan Waiver Scheme of Union Government and Debt Relief Scheme which was implemented in 2008. This shows that private sector banks are improving faster in this regard, but public sector banks are not paying much attention to agricultural sector.

The performance of private sector banks in respect of advances to small scale industries is highly impressive. NPA in SSI shows a declining trend in public sector banks. of NPAs in SSI reached on all time low of Rs 5805 crores in 2008 in public sector banks, Rs 645 crores in 2007 in private sector banks, Rs 54 crores 2007 in foreign banks. This was due to several favorable policy initiatives taken by the Central Government and RBI including the policy package for stepping up of credit to Small and Medium Scale enterprises (SMEs) announced on August 10th 2005 which had a positive impact.

Other priority sector advances are those advances made to various activities under priority sector other than agriculture and SSI. These are loans to
professionals, self employed, education, rural housing, small road transport operations, export credit, food and agro processing sector. The NPA in scheduled commercial banks and public sector banks has increased during the study period. As regard to NPA in private sector banks it exhibits a mixed trend during the study period. An analysis of NPA in other priority sector reveals that size of NPAs has decreased during the last year of the study (2013) in all categories of banks particularly foreign banks indicating that the management of foreign banks has taken enough care in granting advances and they have been very meticulous in recovering the loans from customers. Further the banks have strictly followed the RBI guidelines by making provisions against NPAs.

Interest income which has been a major contributor to the income of commercial banks shows a constant increase during the study period in all groups of banks.

From 2002 to 2013 the net profit of SCBs, public sector banks and private sector banks shows an increase. But in foreign banks the net profit has decreased in 2005 and 2010. The increase in the profitability of all the banks after 2006 is due to increase in non-interest income of the banks as compared to interest income. Now all the banks are focusing on non-interest income by diversifying their product portfolio offered to customers.

The percentage of interest lost on net profit of SCBs, public sector banks and private sector banks showed decreasing trend. In case of foreign banks the percentage of interest lost on net profit shows fluctuating trend during the study period. The continuous decrease in percentage of interest lost on interest income for majority periods of study is due to bad lending practices, internal bank management like credit policy, terms of credit etc.
The operating profit in all bank groups shows an increasing trend from 2002 to 2013. The increase in amount of operating profit of all banking sector is due to investments in risk free government securities and other types of investments.

Banks have been able to recover NPAs through the use of legal measures. Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the Debt Recovery Tribunals (DRTs) have been the most effective in recovering the loans.

The number of cases referred to DRTs has increased from 7544 cases in 2004 to 13408 cases in 2013 during the study period and also the amount involved in these cases and the amount recovered through DRTs has increased from Rs2117 crores to Rs4400 crores.

SARFAESI Act was vigorously implemented in 2008 in which year the recovery was 60.98 percent of the total amount involved in NPAs and in later years also the amount recovered by the Act shows improvement. It is able to recover 27.17 percent of the amount of NPA of the cases referred to it. This act has emerged as a blessing in disguise for the commercial banks as now they are using this act largely in recovering their NPAs in order to increase their profitability.

Other legal measures for recovering NPA are National Company Law Tribunal, Corporate Debt Restructuring Body, Asset Reconstruction Corporation, Lok Adalats, Civil Courts, Debt Settlement Tribunal.

Non legal measures include remainder System, Recovery Camps, Rehabilitation of sick units, Visit to Borrower’s Business premise/residence, Rephrasing unpaid loan installment, Loan Comprise, Recovery through Professional Agencies, One Time Settlement, Credit Information Bureau, Circulation of Information of Defaulters.
It is observed from the factor analysis with regard to NPA variables like gross NPA, net NPA, provisions, gross advance, net advance, total assets, standard assets, sub-standard assets, doubtful assets, loss assets, total loans and advances, interest earned, net profit, and operating profit it is found that three major factors are substituted out of fourteen variables with total variance 99.462. Since the total variance is above 95 percent, it can be noted that the data reduced from 14 variables to 3 factors is systematic and critical in explaining the typical elements of NPA.

From the analysis, a significant and positive correlation is evident between total income and net NPA ($r = 0.767$, Sig = 0.004), total income and gross advance ($r = 0.945$ Sig = 0.000), total income and net advance ($r = -0.965$, Sig = 0.000), total loans and advances and standard assets ($r = 0.937$, Sig = 0.000), total loans and advances and sub-standard assets ($r = -0.923$, Sig = 0.000), total loans and advances and total income ($r = 0.900$, Sig = 0.000), interest earned and net profit ($r = -0.991$, Sig = 0.000), interest earned and operating profit ($r = -0.991$, Sig = 0.000) of commercial banks during the study period.

An observation based on t-statistic highlighted there is high significance on total income and NPA variables during the study period except with regard to total income and total loans and advances ($t = -1.21$, Sig = .252).

Inference based on regression study indicated that $R$ value of .967 which shows substantial correlation between the dependent variable total loans and advances and independent variable standard assets, sub standard assets, doubtful assets and loss assets of commercial. The $R$ square value indicates that 93.5 percent of the variation in dependent variable (Y) is explained by four selected independent variables.

It is observed from the regression coefficient analysis the most important contributing factor for total loans and advances out of the four types of assets,
standard assets have influenced the total loans and advances positively 
\( (\beta = 2.034; \ t= 4.040) \) at 5 percent level. Hence, standard assets are the main 
contributing factor for total loans and advances.

Inference based on regression study revealed that the association between 
dependent variable total income and independent variables gross advance ,net 
advance, provisions, interest earned, net profit and operating profit of 
commercial banks. From the estimates it is found that the interest earned has 
influenced the total income variable \( (\beta = 12.630; \ t= 2.693) \) at five percent 
level of significance in a positive way. The result reveals that the interest 
earned is the main factor leading to an increase in the total income of the 
banking industry.

All the other independent variables are negatively associated with dependent 
variable and the „t“ statistic reveals that the coefficients of all the three 
variables are statistically insignificant, implying their relationship is not 
stronger.

Analysis of correlation coefficient highlights the relationship among NPA 
variables such as gross NPA, net NPA, provisions, gross advance, net advance 
there is significant and positive correlation.

The correlation study with regard to classification of assets such as standard, 
sub standard, doubtful and loss assets highlighted that all these explanatory 
variables are highly correlated with the dependent variable.

The inference based on factor analysis reveals that out of fifteen variables five 
major factors are substituted with regard to the reasons for NPA, 
Contribution to different sectors NPA and factors affecting NPA revealed a 
total variance of 98.235. Since the total variance is above 95 percent, it can be 
noted that the data reduced from 15 variables to 5 factors is systematic and 
critical in explaining the incidence of NPA.
The responses from bankers supported the view that inadequate credit appraisal system is the cause of NPA by bank executives. 43.9 percent of the respondents commented that the present credit appraisal is not adequate in the modern banking environment. However, inference based on Z value, i.e., -5.823 highlighted that the result is not statistically significant for occurrence of NPA.

Competitive pressure has forced banks in general to relax credit appraisal standards and thereby contributed to more NPAs. The inference based on Z value, i.e., -3.744 highlighted that the factor is not statistically significant for occurrence of NPA.

Inference based on analysis highlighted that the highest percentage of respondents (37.2%) considered the existing staff strength in credit portfolio as inadequate to support the tasks assigned. Based on Z value, i.e., -6.362 the factor is not statistically significant for occurrence of NPA.

It is observed from the analysis that the highest percentage of respondents (40.6 %) commented that the bank do not possess a strong market intelligence system to facilitate proper deployment of credit.

Based on the response from bankers, there is inadequate mechanism to gather credit information among banks .45 percent respondents agree the above view. 13.3 percent of respondents remarked that the dissemination of credit information is currently present in Indian banks.

The overhang component of NPA contributes for higher NPA of banks. The highest percentage of respondents (43.3%) strongly supported and remarked that this is always a significant problem affecting banking sector. But the inference based on Z value, i.e., -7.974 highlight that the statement is not statistically significant.
A ranking of the various impacts of NPA on banks rated increasing provisions as number one, followed by erosion of profit. The correlation of predictor variables with the discriminant function show that increasing provision is the best discriminating variable having highest (.866)correlation with discriminant function.

Based on the analysis, the following factors are found statistically significant impact on the occurrence of NPA.

- NPA affects the liquidity and its income generating capacity.
- Higher NPA force banks to maintain a higher rate of interest among the respondents.
- Higher NPA adversely affect credit growth
- NPA force banks to depend on subordinate debt to meet its legal and operational requirements.

Based on the analysis, the following factors are not found statistically significant factor for occurrence of NPA.

- Designation and increasing collateral required
- Designation and release of wilful defaulters list
- Designation and credit information bureau
- Designation and compromise settlement schemes
- Designation and reporting frauds to RBI
- Designation and risk assessment and risk management mechanism

From the analysis it is found that the variables considered for managing NPA is significant. The coefficient of determination $R^2$ value showed that these variables put together explained the variations of $Y$ to the extent of 0.951.ie it explains 95.1 percent of total variance.

Based on the regression study, it is inferred that nature of commercial banks can be taken as a significant explanatory variable for examining the behavior of NPA controlled by improving the system of loan appraisal(t value =4.32,
Sig = .000), maintaining continuous report (t value= -4.01, sig = .000), incentive to staff in loan departments (t value= 11.11, sig = .000), presence of credit rating (t value= 3.31, sig = .000) adding more staff in credit appraisal process (t value = 2.58, Sig = 0.011) and more training and development (t value = 1.01, Sig = .313) of SBI & associates.

And also from the regression estimates the system of loan appraisal has influenced the commercial banks (β = .679, t = 4.32).

SUGGESTIONS

Nonperforming assets are a drain to the banks. In case there is a recovery of principal and installments due in respect of the loans granted by the banks the question of non performing assets does not arise. However, there is no such ideal bank where the NPA is nil. Except banks which are established recently, all banks are prone to have some portion of their loans and advances as non performing advances. The banks in India are adopting various strategies to reduce the non performing assets in their banks and they are also adopting various methodologies by which further addition to NPA portfolio is minimized. However, if the following suggestions are implemented, then the amount of NPA may be reduced, if not completely eliminated.

Banks should have well defined policies in respect of their loan portfolio and those policies should be communicated to the staff at the service points clearly.

Credit appraisal has to be done by branch officials without any bias taking into consideration the well defined policies framed for the loan portfolio.

All loan accounts are to be reviewed at periodical intervals and they should be renewed in time wherever required.

Borrowers are to be contacted at periodical intervals and the managers should be in a position to ascertain the financial position of the borrowers at each stage.
Weakness in credit appraisal and credit monitoring can be overcome by proper training and human resource management.

Adherence to documented risk management policy, proper risk architecture, independent credit risk evaluation, centralized data base, credit management information system and credit modeling can help prevent nonperforming assets to a great extent.

The delayed practices adopted in the judicial system is putting premium on loan defaults to a great extent. The legal reforms should be made in tune with financial sector reforms. Legislation on bankruptcy or foreclosure should be brought out comprehensively and implemented. Creditors should have legal rights to change the management of the companies in the event of default or credit weakness signals. Such legislation will force re-orientation of the recalcitrant management for working to turn around their company. The Debt Recovery Tribunal mechanism should also be strengthened with necessary manpower and infrastructure to expedite the cases. Bankers should be legally permitted to publish the names of defaulters.

The SARFAESI Act 2002 provides for formation and operation of Asset Reconstruction Company/ Securitization company. There should be concerted efforts in all quarters to make the AMC/ARC to take off effectively. This concept has been fairly working in certain Asian countries like Japan, South Korea, Chine, Thailand, Malaysia and Indonesia.

Sincere application of principles of Corporate Governance and disclosure will enhance trust of the banker and general public on a company. Ethical business will lead to reduced non performing assets to a great extent.

Bank personnel should approach the defaulting borrowers for repayment at a place and time convenient to both the parties. These are more suited to small
loans. Normally the borrowers who had availed small loans will be more in number in rural and semi urban areas rather than urban and metro centres. As such, the banks instead of conducting the recovery camps at their branches, they usually conduct such recovery camps in centres like panchayat board offices, court buildings, government department buildings etc so that the borrowers find it convenient to attend the recovery camps. Under certain circumstances, the manager in charge of the bank branches along with some branch officials visit each house of the borrowers and recover the instalments due in respect of loans availed by them. This type of recovery camp will be successful in case an advance notice is served on the borrowers mentioning the date of recovery camps.

Banks should expeditiously and properly claim indemnity from organizations like Deposit Insurance and Credit Guarantee Corporation called DICGC, Export Credit Guarantee Corporation called ECGC, Credit Guarantee Fund Trust for small scale industries, Insurance Companies etc and invoke Government/other personal guarantees to recover loan dues and reduce non performing assets.

Compromise routes are adopted by banks, where borrowers experience certain genuine difficulties and where normal recovery is not possible. It involves certain sacrifices on the part of the banks on the principle of “one bird at hand is worth two in the bush”. Such proposals can be taken up considering the history of the borrowal account, security available, net worth of the borrower/guarantor, time value of offer made etc.

To reduce the absolute amount of non performing assets, Government of India along with Reserve Bank of India has announced one time settlement schemes periodically for the past few years. When the borrowers are farmers and small entrepreneurs they find it very difficult to pay their dues for various reasons like failure of their business ventures. However, they have the inclination to repay their
debts to the banks. This practice of one time settlement is very much helpful to the borrowers and the lending institutions.

Filing of suit is taken up as a last resort when all other remedies to recover non performing assets fail. Banks can initiate recovery proceedings with or without intervention of the courts of law. To expedite the process, banks should be alert and proactive in all stages of the proceedings. i.e. preparation of complaint, service of summons, written statements, trial of the suit, obtaining decree copy, praying for interim relief, execution of decrees, attachment of the property and arrest of the defendants, if needed.

The NPA can be reduced to a greater extent by improving the quality of credit appraisal and follow up. Bankers should critically review the existing credit appraisal framework in line with international standards. Based on interaction with bankers from other countries it is very obvious that credit appraisal and evaluation techniques are more important to mitigate the risk of NPA. A proper follow up after lending is also required to check any change in the risk category initially fixed. This will enable timely decision making.

The analysis revealed a higher growth of NPA in priority sector. Bankers also felt that priority sector lending is the major reason for NPA. Priority sector advances cannot be avoided since it involves a societal objective as well. Bankers should be given more autonomy while selecting projects for lending. All projects, whether it is a priority sector or non-priority sector, should be valued critically and decisions must be taken depending on the quality of the project and credit worthiness of the borrower.

It is obvious that NPA is mainly because of a willful default on the part of the borrower and diversification of funds. This is further aggravated by lack of follow up and supervision. This problem can be managed to a greater extent by
employing more staff in loan department and providing more training and development facility to them. It will enable the bankers to identify the potential NPAs and to take necessary measures to either revitalize project or to initiate recovery.

During the initial credit appraisal process, the banks should classify its customers into different risk categories depending on their quality of management. A regular review of the project should be carried out and any change in their performance from the targeted performance needs to notified. Such a review assists the bankers to determine whether the project moved into a higher risk category or not. This will enable bankers to take corrective measures if necessary, in order to avoid the chance of getting the asset into non performing in nature.

The analysis also revealed an increased fresh NPA (additions to NPA) every year, indicating the deficiencies in the credit appraisal process followed by banks. Hence, in order to manage NPA, it is important that loan proposals should not be influenced by the social and economic background of the promoter, but should be valued objectively based on the merit of the project involved.

The banks should ensure that there exists no delay in release of limits and no delay in the settlement of payments/subsidies by government bodies. In many cases, the success of the project depends on the timeliness in which they receive grants/assistance from various government bodies.

An observation based on primary data showed credit dissemination among banks is a major tool to manage NPA. Often, borrowers engaged in willful default and misappropriation of funds have their accounts in multiple banks. When information about borrowers and their credit history is exchanged among banks, the chances of lending to defaulters may be reduced. The banks must share credit information of borrowers among themselves and make it mandatory for borrowers
to furnish details of accounts with other banks. The RBI also should develop a repository of defaulters and shall disseminate the same to banks.

Banks need to diversify its activities and takes measures to improve its non-interest income (fee income, commission income etc). At present, around 90 percent of total income of the bank is generated from interest income. This poses a challenge for banks. When asset quality deteriorates or NPA increases, the interest income generation capacity of banks is affected considerably, hence pose a major threat to the liquidity of banks. This effect can be reduced if banks diversify their activities and generate more non-interest based income.

At present, many recovery measures are available for recovering NPA accounts. The legal impediments often delay the time taken for recovery which in turn affects the realizable value of NPAs. Efforts should be taken by the regulatory authorities to improve the recovery management process, so that the NPA accounts can be realized without much erosion in its value.

In order to mitigate the risks of NPA and to improve the operational efficiency, it is important that banks should be given more autonomy to incorporate more efficient and effective credit appraisal and evaluation system. Banks should be encouraged to integrate the best practices in banking and benchmark their practices with other banking institutions in India and abroad. Such benchmarking will enable the banks to understand their relative strengths and weaknesses, and enable them to implement measures to mitigate the weaknesses. While licensing new banks, the RBI should strictly ensure their implementation of a sound credit risk management system.

Enforcement of security and obtaining court decree take unduly long time; it encourages willful default and ultimately the banks may be compelled to write off loans. Willful default should be declared as a criminal offence.
Government should not go for mass waiver of interest/ installments as it is an unhealthy signal to the borrower. These types of activities put a premium on willful default and dishonesty. It lowers the repayment ethics.

In case of government sponsored schemes government should assist in recovery. Proper evaluation of the loan application may help in detecting the unviable projects at the first instance. Full information about the unit/ industry, its financial stake, management etc. should be collected.

Industrial cell should be established at the bank level, which would keep complete information about the industry and its prospects in future.

Proper credit monitoring should be equally emphasized. There should be proper flow of information from the units regarding their financial area, annual accounts, stock reports etc., which would enable the banker to know the need based credit requirement of borrower and warning signals for taking quick remedial action.

Banks should inspect the progress of the project periodically. Separate monitoring department should be established in large branches for periodical review of accounts, comparative risk analysis and compliance of terms and conditions of sanction. Equal emphasis should be given for monitoring of standard assets also.

Banks should be equipped with latest credit risk management techniques to protect the bank funds and minimize insolvency risks. Banks should develop credit derivatives markets to avoid these risks. There should be regular outflow of senior bank officers from all public sector banks for specialized training in training institute to equip them with latest procedures and practices.

It is suggested that the personal visit and face-to-face discussion and inspection of the borrower business will help the banker to know about the problems of the business and the financial status and also a chance to identify whether it is a case of willful default.
Loan disbursing mechanism should be strengthened through proper and scientific evaluation of the quality of assets being financed. It is necessary to control and restrict the advances to those sectors where the banks experience has not been satisfactory.

NPAs cells may be established at controlling offices to accelerate the recovery process. Transparent compromise proposals and setting up of internal committees at different levels in the bank can result in prompt disposal of cases.

The banks should retain staff working in NPA management cells for a sufficiently long period to facilitate continuity in efforts to recover NPAs.

There is a great need for involvement of top management and senior officers, to render guidance to the branch personnel through periodic reviews and counseling individual cases for ensuring quicker recoveries.

Loan recommendation should be discouraged.

A separate court to deal with default customers account should be established (may be closed within one year).

There should be a provision in our legal system wherein major NPA borrowers should be tried in the courts thereby inculcating a sense of responsibility among all the borrowers mind to repay their debts.

RBI should tighten the norms with regard to loans granted to corporate and big business establishments.

Each branch should have recovery department and controlling zonal offices should have qualified person to guide branches for effecting appropriate legal steps to ensure recovery.

NPA account should be followed up when the first installment was not paid.

Top management pressure and political influence for corporate people should be reduced for achieving targets.
Transparency among the bankers will help to reduce NPA.

More officers have to be provided for recovery in public sector banks.

Strict recovery measures to be initiated against willful defaulters. There are cases of genuine default more specifically under agricultural sector, MSME sectors due to natural calamities, unseasonal rains, drought, floods, economic recession etc. Compromise write off proposal may be considered in such genuine cases.

Frequent discussions with the staff in the branch and taking their suggestions for recovery of NPAs make them feel responsible.

**SCOPE FOR FUTURE RESEARCH**

A wide survey can be conducted on nationalized, private, foreign and cooperative banks separately to analyse the innovative strategies adopted by the bankers for reducing NPAs.

A separate study can be conducted in customer grievances and redressal measures in commercial banks.

A region wise study on NPA of commercial banks may be taken up for research.

In depth studies on the impact of NPAs on the profitability, liquidity and solvency of commercial banks may be pursued.