CHAPTER -IV
PERCEPTION OF BRANCH MANAGERS TOWARDS CREDIT
RISK MANAGEMENT SYSTEM

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CHAPTER -IV
PERCEPTION OF BRANCH MANAGERS TOWARDS CREDIT RISK MANAGEMENT SYSTEM

4.1 INTRODUCTION

In the present chapter an attempt has been made to study the perceptions of branch managers of Public and Private Sector Banks on various issues relating to Credit Risk Management System to oversee the Management of NPAs at branch level. For this purpose, field survey of 50 branch managers has been conducted with the help of a structured questionnaire (Vide appendix-I) for collection of primary data. An attempt has also been made to find out the significance of difference between the two bank groups (Public and Private Sectors), with regard to branch locations, and major activities financed and the opinions of sample respondents regarding the various issues. Discussions have also been held with the officers dealing with the Credit Risk Management System including the management of NPAs at regional and zonal levels. The results of the analysis of the primary data have been presented in this chapter.

4.2 DESCRIPTIONS OF SAMPLE RESPONDENTS

The descriptions of sample respondents has been presented in the following paragraphs
4.2.1 SECTOR-WISE CLASSIFICATION OF BRANCH MANAGERS

The sector-wise classification of sample Branch Managers is presented in Table 4.1

<table>
<thead>
<tr>
<th>BANK GROUPS</th>
<th>NO OF RESPONDENTS</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>34</td>
<td>68</td>
</tr>
<tr>
<td>Private Sector</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data

It is clear from Table 4.1 that, Out of 50 sample respondents, 34 Managers belong to Public Sector Bank groups and 16 Managers are from Private Sector Bank groups.

4.2.2 LOCATION-WISE CLASSIFICATION OF BRANCH MANAGERS

The frequency distribution of Sample respondents according to location of branch is represented in Table 4.2
TABLE 4.2
LOCATION-WISE CLASSIFICATION OF BRANCH MANAGERS

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>NO. OF RESPONDENTS</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro</td>
<td>06</td>
<td>12.0</td>
</tr>
<tr>
<td>Urban</td>
<td>28</td>
<td>56.0</td>
</tr>
<tr>
<td>Semi urban</td>
<td>10</td>
<td>20.0</td>
</tr>
<tr>
<td>Rural</td>
<td>06</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data

It is clearly evidenced from Table 4.2 that 6 bank branches are situated in the Metro, 28 bank branches are Urban branches, 10 banks are Semi-urban branches and 6 branches are situated in Rural areas. Most of respondents belong to Urban branches.

4.2.3 CLASSIFICATION OF SAMPLE MANAGERS ACCORDING TO MAJOR ACTIVITIES FINANCED BY THE BRANCH

The opinion of Branch Managers towards activities financed by their branches are analyzed by ranking techniques and it is presented in Table 4.3
CLASSIFICATION OF BRANCHES ACCORDING TO ACTIVITIES FINANCED

<table>
<thead>
<tr>
<th>ACTIVITIES FINANCED</th>
<th>OPINION SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HIGH</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Business</td>
<td>108</td>
<td>12</td>
</tr>
<tr>
<td>Personal segment</td>
<td>30</td>
<td>68</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Primary data

It is revealed from Table 4.3 that among all financial activities of banks, Business has ranked as first, Personal segment secured second rank and Agricultural activity financing occupy third rank.

Thus it is inferred that, under priority sector lending, the Commercial Banks should provide 18 percent of its credit to agricultural activities. The repayment of such loan was affected due to natural calamities, crop failures etc. Therefore, most of the Commercial banks in India are interested in providing loans and advances to Personal segment and Business activities rather than agriculture because such segments are more secured and generate higher Income.

4.2.4 CLASSIFICATION OF SAMPLE RESPONDENTS ACCORDING
TO COLLATERAL SECURITIES ACCEPTED BY BANKS

The frequency distribution of Collateral security accepted by the bank for sanctioning credit by sample branches is presented in Table 4.4

**TABLE 4.4**

**COLLATERAL SECURITIES ACCEPTED BY SAMPLE BRANCHES**

<table>
<thead>
<tr>
<th>COLLATERAL SECURITIES</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; Building</td>
<td>46</td>
<td>92.0</td>
</tr>
<tr>
<td>Bullion</td>
<td>24</td>
<td>48.0</td>
</tr>
<tr>
<td>Inventories</td>
<td>24</td>
<td>48.0</td>
</tr>
</tbody>
</table>

Source: Primary data

It would be observed from the above Table 4.4 that out of 50 sample branches, 46(92 percent) respondents are accepting land and building as collateral securities to sanction credit followed by bullion and inventory as 48 percent respectively.

It is inferred that most of the banks are accepting land and building as security against loans and advances because it has an increasing trend in value but in case of bullion and inventory, it carries certain risk like market fluctuation in value of stock, proper maintenance of inventory, difficulty to realize etc.,
4.2.5 CLASSIFICATION OF SAMPLE BRANCHES ACCORDING TO THE INTRODUCTION OF INTERNAL RISK RATING SYSTEM FOR CREDIT APPROVAL, FOLLOW UP AND MONITORING

The banks are accepting collateral security against loans and advances. Even though banks should ensure the creditworthiness of borrowers in terms of capacity, character, capital otherwise, there are chances of credit risk. Credit Risk is the risks that arise when counterparty or obligator fail to meet the contractual obligation in such case where the collateral will not cover the claim. Therefore, the banks have internal rating system for credit approval, follow up and monitoring.

The frequency distribution of internal risk rating system followed by sample branches is presented in Table 4.5

<table>
<thead>
<tr>
<th>CREDIT RATING SYSTEM</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRISIL</td>
<td>32</td>
<td>64</td>
</tr>
<tr>
<td>Personal asking with Neighbouring Banks</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td>Getting assistant from Credit Cell</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Internal risk rating system</td>
<td>14</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Primary data

It would be observed from the above Table 4.5 that out of 50 sample branches, 32 (64 percent) respondents are getting financial details of borrowers through CRISIL, 26(52 percent) respondents are monitored and follow up the borrowers through personal
asking with neighbouring banks, followed by 22 (44 percent) respondents getting assistant from credit cell and by Internal risk rating system (28 percent) to oversee, follow up and monitor the loan account.

Thus it is inferred that, CRISIL is the most important source for monitoring the loan account.

4.2.6 CLASSIFICATION OF SAMPLE BRANCHES ACCORDING TO THE SOURCES OF COLLECTION OF INFORMATION ABOUT THE CREDITABILITY OF THE BORROWERS

Before sanctioning loans and advances, the banks are collecting the reference of the prospective borrowers to ensure the promptness in repayment of loans and advances. In this way, the frequency distribution of the sources of information about creditability of the borrowers of sample branches are presented in Table 4.6

<table>
<thead>
<tr>
<th>SOURCES OF INFORMATION</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous loan transactions in the same bank</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>Neighbouring banks</td>
<td>32</td>
<td>64</td>
</tr>
<tr>
<td>Market Opinion</td>
<td>10</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Primary data

It would be evidenced from the above Table 4.6 that out of 50 respondents, 42 (84 percent) branch managers would collect the information through previous loan transaction in the same bank branch followed by neighbouring banks (64 percent) and
20 percent of respondents opined that they collect the borrowers’ information through market opinion about borrowers (i.e.) credit investigation report.

4.2.7 SOURCES OF REPAYMENT OF BORROWERS

Eventhough the borrowers have integrity of character to repay the loan with interest, the capacity (i.e.) the sources of income to repay the loan should be ensured.

The sources of repayment of borrowers have been identified and analyzed by the researcher in the sample branches through different sources which are presented in Table 4.7

<table>
<thead>
<tr>
<th>SOURCES OF REPAYMENT</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income/Salary</td>
<td>44</td>
<td>88</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>Income Tax Assessment</td>
<td>24</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Primary data

It is clearly understood that out of 50 respondents, 44 (88 percent) branch managers have confirmed that the repayment capacity of borrowers was assessed through income / salary statement and closely followed by assessment of balance sheet of borrowers (84 percent) and 48 percent of respondents rely on income tax assessment order of borrowers.
4.2.8 REGULARITY OF REPAYMENT OF CREDIT SANCTIONED IN THE SAMPLE BRANCHES

A proper repayment of credit ensures recycling of funds in the business if there is irregularity in repayment which results in creation of nonperforming loans / assets. It is a credit risk to the bank and credit risk may disturb the financial performance of the banks. The repayment of credit sanctioned in the sample branches is presented in Table 4.8

**TABLE 4.8**

REGULARITY OF REPAYMENT OF CREDIT IN THE SAMPLE BRANCHES

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>NO OF RESPONDENTS</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>38</td>
<td>76</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data

It observed from the Table 4.8 that out of 50 sample respondents, 38 (76 percent) respondents have opined that the repayment of credit is prompt and the balance 12 (24 percent) respondents have opined that the repayment of credit is irregular.

4.2.9 THE REASONS FOR THE SECURITIES FAILED TO YIELD THE DESIRED RETURNS

If there is a default on the part of borrowers or obligators, then the collateral securities offered by them are realized to set off the loan with interest. Sometimes the
security does not cover the loan loss due to market fluctuations, difficulty in realization and fake securities which result in arising of NPAs. The reasons are identified and analyzed by the researcher.

The reasons for the securities offered by the borrowers against loans and advances failed to yield the desired return in the sample branches are presented in Table 4.9.

**TABLE 4.9**

**REASONS FOR THE SECURITIES FAILED TO YIELD THE DESIRED RETURNS**

<table>
<thead>
<tr>
<th>REASONS</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty to realize</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>Market fluctuations</td>
<td>38</td>
<td>76</td>
</tr>
<tr>
<td>Fake securities</td>
<td>8</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: Primary data

It would be clearly understood that out of 50 respondents, 40 (80 percent) branch managers have stated that difficulty to realize the securities is the reason for the failure to yield desired return followed by 38 (76 percent) respondents who have cited the market fluctuation and only 8(16 percent) respondents have stated that the fake securities are the reason for the failure to realize the desired return to cover loan loss of the banks.

**4.2.10 OCCURRENCE OF NON PAYMENT OF LOANS AND ADVANCES OF THE SAMPLE BRANCHES**

The occurrence of non repayment of loan is inevitable in the Indian banking system. The researcher has identified the reasons for the non repayment of loan and analyzed the factors.
The occurrence of the non repayment of loans and advances in the sample branches is presented in Table 4.10

**TABLE 4.10**

**OCCURRENCE OF NON PAYMENT OF LOANS AND ADVANCES IN THE SAMPLE BRANCHES**

<table>
<thead>
<tr>
<th>OCCURRENCE OF NON REPAYMENT</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willful borrowers</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>First time borrowers</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Can not be predicted</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Repeated borrowers</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Primary data

It would be clearly understood from the above Table 4.10 that out of 50 sample respondents, 42(84 percent) respondents have opined that the non-repayment of loan arises from willful borrowers, 22(44 percent) branch managers have stated that the non repayment is from first time borrowers, 10(20 percent) respondents have opined that the reasons cannot be predicted and only 2(4 percent) of respondents have opined that, only repeated borrowers have defaulted because they are well aware of the existing borrowing transactions.

**4.3 CLASSIFICATION OF THE LEVEL OF NPAs UNDER EACH SEGMENT OF CREDIT IN THE SAMPLE BRANCHES**

The banks are providing loans and advances to all segment called agriculture, personal segment and business activities. The NPAs in each segment is inevitable, the researcher has identified and analyzed the level of NPAs in each segment of credit, the
scores given by sample branch managers were added to get the total scores and the value of means scores for all segment of credit arranged in a descending order and the rank were given to identify the most important segment which have high nonperforming assets /loans. The level of non performing assets in each segment of the sample branches is presented in Table 4.11

**TABLE 4.11**

**LEVEL OF NPAs UNDER EACH SEGMENT OF CREDIT**

<table>
<thead>
<tr>
<th>CREDIT SEGMENT</th>
<th>OPINIONS SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HIGH</td>
<td>MODERATE</td>
</tr>
<tr>
<td>Business</td>
<td>84</td>
<td>20</td>
</tr>
<tr>
<td>Personal segment</td>
<td>24</td>
<td>72</td>
</tr>
<tr>
<td>Agriculture</td>
<td>42</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Primary data

It is clearly evidenced from the Table 4.11 that among the sample respondents, the level of non performing assets in business activities has the first rank followed by personal segment and agriculture activities is assigned second and third rank respectively. Commercial banks in metro and urban areas are forced to provide 18percent of its credit to agricultural activities under priority sectors lending. While comparing to these three segments of credit, the level of NPAs under agricultural credit has least rank but in case of priority sector lending, the level of non performing assets in agricultural credit is high evidenced by the secondary data.

**4.4 REASONS FOR NON PERFORMING LOANS/ASSETS**

For ensuring better credit risk management system in the banks, it is necessary to assess the causative factors for accounts becoming non-performing and then take suitable
steps for corrective actions. Several committees, Task forces and research studies conducted earlier have identified the main causes for the increase in the loan account becoming non-performing and increasing the level of non performing assets also of banks. The categorization of reasons external and internal to the banks indicates that the external factors are essentially related to non-viability of activities. The internal factors broadly related to faulty assessment of the loan, ineffective supervision and absence of timely action. According to the bankers, the external factors are by and large more responsible for creation of NPAs than the internal factors.

A study was conducted by the RBI to ascertain the contributory factors for high level of NPAs in banks. The study revealed that the following major factors are contributing to the loans becoming non performing71.

1. Diversion of funds for expansion, diversification, modernization, undertaking new projects. This is coupled with recessionary trends and failure to trap funds in the capital and debt markets.
2. Business failure (product and marketing), inefficient management, strained labour relations, inappropriate technology, technical problems and product obsolescence.
3. Recession, input / power shortage, price escalation, accident and natural calamities.
4. Time / cost over-run during project implementation stage.
5. Government policies like changes in exercise duties and pollution control order.
6. Willful defaults, siphoning of funds, frauds / misappropriation promoters / directors’ disputes.
7. Deficiencies on the part of banks like delay in release of limited funds and delay in release of payments / subsidies by government.

Factors responsible for creation of NPAs are multidimensional. These are several internal factors such as weak credit appraisal, ignorance of credit risk, unsound credit

appraisal, poor planning, improper selection of borrowers, noncompliance to lending norms and operational irregularities which contribute to high level of NPAs.

Willful default occurs many times, although the borrower had the capacity to repay the loan. This may be either on account of lack of basic integrity in the borrower or because of influence of the political forces.

The factors responsible for accounts becoming non performing in priority sector are improper selection of borrowers, socio-political pressures, higher targets, mismanagement of funds, lack of proper follow up by banks and failure to take punitive action against willful defaulters, non co-operation of government agencies in recovery and the effect of agricultural debt relief scheme.

4.4.1 PERCEPTION OF BRANCH MANAGERS ON THE CAUSES OF NON PERFORMING ASSETS

There are several factors, internal and external, identified by earlier studies, influencing the non performing assets of banks. But, for the purpose of present study, the twenty most important factors influencing non performing assets in banks have been selected for ranking by the branch managers according to their experience in the management of non performing assets in their branches. The factors identified for ranking are; Diversion of funds, Mismanagement, Product Obsolescence or Market failure, Due to power failure results reduction in production, Business failure, Selection of inappropriate Technology / project, Under financing, Inflation ,Willful default,

---

Accidents / Natural calamities, Crop Failure, Loan Waiver, Changes in Government policies, Improper selection of borrower / Credit appraisal, Lack of proper post supervision / Follow up / Monitoring, Inadequate and delayed credit decision / Disbursement, Poor Monitoring and controlling system for credit risk, Loan to priority sector turn into NPAs more often than other sectors, Loans sanctioned under Government Sponsored Schemes. Wrong guidance given by political parties.

For each factor, the scores given by branch managers get the total scores and mean score was calculated by dividing the total score of each item by the number of respondents. The values of mean scores for all the factors were arranged in a descending order and the ranks were given to identify the most important factor influencing the non performing assets.

The ranks given by respondents to the various factors influencing non performing assets of banks are presented in Table 4.12.1
## TABLE 4.12.1

**REASONS FOR NON PERFORMING LOANS/ASSETS OF THE SAMPLE BRANCHES**

<table>
<thead>
<tr>
<th>S. NO</th>
<th>REASONS</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
<th>MEAN SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Willful default</td>
<td>46</td>
<td>92</td>
<td>0.92</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Business failure</td>
<td>44</td>
<td>88</td>
<td>0.88</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Diversion of funds</td>
<td>40</td>
<td>80</td>
<td>0.80</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>Crop Failure</td>
<td>40</td>
<td>80</td>
<td>0.80</td>
<td>3</td>
</tr>
<tr>
<td>5.</td>
<td>Wrong guidance given by political parties</td>
<td>38</td>
<td>76</td>
<td>0.76</td>
<td>5</td>
</tr>
<tr>
<td>6.</td>
<td>Due to power failure results in reduction of production</td>
<td>36</td>
<td>72</td>
<td>0.72</td>
<td>6</td>
</tr>
<tr>
<td>7.</td>
<td>Under financing</td>
<td>34</td>
<td>68</td>
<td>0.68</td>
<td>7</td>
</tr>
<tr>
<td>8.</td>
<td>Accidents / Natural calamities</td>
<td>32</td>
<td>64</td>
<td>0.64</td>
<td>8</td>
</tr>
<tr>
<td>9.</td>
<td>Lack of proper post supervision / Follow up / Monitoring</td>
<td>32</td>
<td>64</td>
<td>0.64</td>
<td>8</td>
</tr>
<tr>
<td>10.</td>
<td>Inadequate and delayed credit decision / Disbursement</td>
<td>32</td>
<td>64</td>
<td>0.64</td>
<td>8</td>
</tr>
<tr>
<td>11.</td>
<td>Loan to priority sector turn into NPAs more often than other sectors</td>
<td>30</td>
<td>60</td>
<td>0.60</td>
<td>11</td>
</tr>
<tr>
<td>12.</td>
<td>Loans sanctioned under Government Sponsored Schemes</td>
<td>28</td>
<td>56</td>
<td>0.56</td>
<td>12</td>
</tr>
<tr>
<td>13.</td>
<td>Loan Waiver</td>
<td>28</td>
<td>56</td>
<td>0.56</td>
<td>12</td>
</tr>
<tr>
<td>14.</td>
<td>Improper selection of borrower / Credit appraisal</td>
<td>28</td>
<td>56</td>
<td>0.56</td>
<td>12</td>
</tr>
<tr>
<td>15.</td>
<td>Poor Monitoring and Controlling system for credit risk</td>
<td>24</td>
<td>48</td>
<td>0.48</td>
<td>15</td>
</tr>
<tr>
<td>16.</td>
<td>Changes in Government policies</td>
<td>18</td>
<td>36</td>
<td>0.36</td>
<td>16</td>
</tr>
<tr>
<td>17.</td>
<td>Mismanagement</td>
<td>16</td>
<td>32</td>
<td>0.32</td>
<td>17</td>
</tr>
<tr>
<td>18.</td>
<td>Inflation</td>
<td>12</td>
<td>24</td>
<td>0.24</td>
<td>18</td>
</tr>
<tr>
<td>19.</td>
<td>Product Obsolescence or Market failure</td>
<td>12</td>
<td>24</td>
<td>0.24</td>
<td>18</td>
</tr>
<tr>
<td>20.</td>
<td>Selection of inappropriate Technology / project</td>
<td>10</td>
<td>20</td>
<td>0.20</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Primary data
It is observed from Table 4.12.1 that Willful default has been ranked as the most important factor influencing Non Performing Assets of banks with a mean score of 0.92 followed by Business failure as the second most important factors, Diversion of funds as the third most important factor influencing non performing assets. Under or over Product obsolescence/ Market failure, Selection of inappropriate technology or project has been given the last rank.

An evaluation of major contributing factors for the loans turning into NPAs revealed that adequate and timely sanction of credit is essential as the borrower can utilize the funds for the intended purpose in a cost effective manner, which will in turn increase his cash inflow and the repaying capacity. It is also observed that adverse selection of borrowers on one side and inadequate and delayed disbursement of credit on the other are major contributory factors for advances becoming bad in India.

Thus, it is inferred that constant follow up of credit is essential for maintaining a healthy loan portfolio.

### 4.4.2 DIFFERENCES IN PERCEPTIONS ON FACTORS INFLUENCING NON PERFORMING ASSETS

‘t’ test and ‘f’ test has been used to study the significance of difference in the ranking of factors influencing nonperforming assets by the sample branch managers belonging to the bank groups (Public sector and Private sector) and branches at different locations.

### DIFFERENCES IN PERCEPTIONS ON FACTORS INFLUENCING NPAs BETWEEN BANK GROUPS

To test whether there are significant differences between the two bank groups (Public and Private sector) in the ranking of factors influencing non performing assets by their branch managers, ‘t’ test has been applied and results are given in Table 4.12.2
## TABLE 4.12.2
### SIGNIFICANCE OF DIFFERENCES IN RANKING FACTORS
#### INFLUENCING NPAs BETWEEN BANK GROUPS

<table>
<thead>
<tr>
<th>S. NO</th>
<th>REASONS</th>
<th>MEAN</th>
<th>SD</th>
<th>PUBLIC SECTOR</th>
<th>MEAN</th>
<th>SD</th>
<th>PRIVATE SECTOR</th>
<th>‘t’ VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Diversion of funds</td>
<td>0.17</td>
<td>0.462</td>
<td>1.00</td>
<td>0.000</td>
<td></td>
<td></td>
<td>-2.530</td>
<td>0.015</td>
</tr>
<tr>
<td>2</td>
<td>Mismanagement</td>
<td>0.29</td>
<td>0.462</td>
<td>0.38</td>
<td>0.500</td>
<td></td>
<td></td>
<td>-0.562</td>
<td>0.577</td>
</tr>
<tr>
<td>3</td>
<td>Product Obsolescence or Market failure</td>
<td>0.24</td>
<td>0.431</td>
<td>0.25</td>
<td>0.447</td>
<td></td>
<td></td>
<td>-0.111</td>
<td>0.912</td>
</tr>
<tr>
<td>4</td>
<td>Due to power failure results in reduction of production</td>
<td>0.71</td>
<td>0.462</td>
<td>0.75</td>
<td>0.447</td>
<td></td>
<td></td>
<td>-0.318</td>
<td>0.752</td>
</tr>
<tr>
<td>5</td>
<td>Business failure</td>
<td>0.82</td>
<td>0.387</td>
<td>1.00</td>
<td>0.000</td>
<td></td>
<td></td>
<td>-1.814</td>
<td>0.076</td>
</tr>
<tr>
<td>6</td>
<td>Selection of inappropriate technology / project</td>
<td>0.18</td>
<td>0.387</td>
<td>0.25</td>
<td>0.447</td>
<td></td>
<td></td>
<td>-0.596</td>
<td>0.554</td>
</tr>
<tr>
<td>7</td>
<td>Under financing</td>
<td>0.59</td>
<td>0.500</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-2.074</td>
<td>0.043</td>
</tr>
<tr>
<td>8</td>
<td>Inflation</td>
<td>0.18</td>
<td>0.387</td>
<td>0.38</td>
<td>0.500</td>
<td></td>
<td></td>
<td>-1.539</td>
<td>0.130</td>
</tr>
<tr>
<td>9</td>
<td>Willful default</td>
<td>0.88</td>
<td>0.327</td>
<td>1.00</td>
<td>0.000</td>
<td></td>
<td></td>
<td>-1.431</td>
<td>0.159</td>
</tr>
<tr>
<td>10</td>
<td>Accidents / Natural calamities</td>
<td>0.53</td>
<td>0.507</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-2.470</td>
<td>0.017</td>
</tr>
<tr>
<td>11</td>
<td>Crop Failure</td>
<td>0.76</td>
<td>0.431</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-0.899</td>
<td>0.373</td>
</tr>
<tr>
<td>12</td>
<td>Loan Waiver</td>
<td>0.53</td>
<td>0.507</td>
<td>0.63</td>
<td>0.500</td>
<td></td>
<td></td>
<td>-0.625</td>
<td>0.535</td>
</tr>
<tr>
<td>13</td>
<td>Changes in Government policies</td>
<td>0.35</td>
<td>0.485</td>
<td>0.38</td>
<td>0.500</td>
<td></td>
<td></td>
<td>-0.149</td>
<td>0.883</td>
</tr>
<tr>
<td>14</td>
<td>Improper selection of borrower / Credit appraisal</td>
<td>0.41</td>
<td>0.500</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-3.350</td>
<td>0.002</td>
</tr>
<tr>
<td>15</td>
<td>Lack of proper post supervision / Follow up / Monitoring</td>
<td>0.53</td>
<td>0.507</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-2.470</td>
<td>0.017</td>
</tr>
<tr>
<td>16</td>
<td>Inadequate and delayed credit decision / Disbursement</td>
<td>0.71</td>
<td>0.462</td>
<td>0.50</td>
<td>0.576</td>
<td></td>
<td></td>
<td>1.415</td>
<td>0.164</td>
</tr>
<tr>
<td>17</td>
<td>Poor Monitoring and Controlling system for credit risk</td>
<td>0.47</td>
<td>0.507</td>
<td>0.50</td>
<td>0.516</td>
<td></td>
<td></td>
<td>-0.190</td>
<td>0.850</td>
</tr>
<tr>
<td>18</td>
<td>Loan to priority sector turn into NPAs more than other sectors</td>
<td>0.47</td>
<td>0.507</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-2.891</td>
<td>0.006</td>
</tr>
<tr>
<td>19</td>
<td>Loans sanctioned under Government Sponsored Schemes</td>
<td>0.53</td>
<td>0.507</td>
<td>0.63</td>
<td>0.500</td>
<td></td>
<td></td>
<td>-0.625</td>
<td>0.535</td>
</tr>
<tr>
<td>20</td>
<td>Wrong guidance given by political parties</td>
<td>0.71</td>
<td>0.462</td>
<td>0.88</td>
<td>0.342</td>
<td></td>
<td></td>
<td>-1.302</td>
<td>0.199</td>
</tr>
</tbody>
</table>

Source: Primary data
It is observed from Table 4.12.2 that there are significant differences between the bank groups and the factors influencing non performing assets by their branch managers regarding diversification of funds, under financing, willful default of borrowers, improper selection of borrowers, lack of proper supervision and follow up and loan to priority sector turn into NPAs and the remaining factors not having significant differences.

4.4.3 DIFFERENCES IN PERCEPTIONS ON FACTORS INFLUENCING NPAs AMONG BRANCH LOCATIONS

To test whether there are significant differences among the branch locations in ranking factors influencing NPAs by the branch managers, ‘f’ test has been applied and the results are presented in Table 4.12.3
### TABLE 4.12.3
SIGNIFICANCE OF DIFFERENCES IN RANKING FACTORS INFLUENCING NPAs AMONG BRANCH LOCATIONS

<table>
<thead>
<tr>
<th>S. NO</th>
<th>REASONS</th>
<th>MEANRANK</th>
<th>F VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>METRO</td>
<td>URBA N</td>
<td>SEMI URBAN</td>
</tr>
<tr>
<td>1.</td>
<td>Diversion of funds</td>
<td>1.00</td>
<td>0.64</td>
<td>1.00</td>
</tr>
<tr>
<td>2.</td>
<td>Mismanagement</td>
<td>0.33</td>
<td>0.43</td>
<td>0.20</td>
</tr>
<tr>
<td>3.</td>
<td>Product Obsolescence or Market failure</td>
<td>0.00</td>
<td>0.36</td>
<td>0.20</td>
</tr>
<tr>
<td>4.</td>
<td>Due to power failure results in reduction of production</td>
<td>1.00</td>
<td>0.64</td>
<td>0.90</td>
</tr>
<tr>
<td>5.</td>
<td>Business failure</td>
<td>1.00</td>
<td>0.79</td>
<td>1.00</td>
</tr>
<tr>
<td>6.</td>
<td>Selection of inappropriate Technology / project</td>
<td>0.67</td>
<td>0.14</td>
<td>0.20</td>
</tr>
<tr>
<td>7.</td>
<td>Under financing</td>
<td>0.67</td>
<td>0.71</td>
<td>0.70</td>
</tr>
<tr>
<td>8.</td>
<td>Inflation</td>
<td>0.00</td>
<td>0.36</td>
<td>0.20</td>
</tr>
<tr>
<td>9.</td>
<td>Willful default</td>
<td>1.00</td>
<td>0.86</td>
<td>1.00</td>
</tr>
<tr>
<td>10.</td>
<td>Accidents / Natural calamities</td>
<td>0.67</td>
<td>0.43</td>
<td>1.00</td>
</tr>
<tr>
<td>11.</td>
<td>Crop Failure</td>
<td>0.67</td>
<td>0.71</td>
<td>1.00</td>
</tr>
<tr>
<td>12.</td>
<td>Loan Waiver</td>
<td>0.33</td>
<td>0.43</td>
<td>0.80</td>
</tr>
<tr>
<td>13.</td>
<td>Changes in Government policies</td>
<td>0.33</td>
<td>0.29</td>
<td>0.50</td>
</tr>
<tr>
<td>14.</td>
<td>Improper selection of borrower / Credit appraisal</td>
<td>1.00</td>
<td>0.43</td>
<td>0.60</td>
</tr>
<tr>
<td>15.</td>
<td>Lack of proper post supervision / Follow up / Monitoring</td>
<td>0.67</td>
<td>0.50</td>
<td>0.80</td>
</tr>
<tr>
<td>16.</td>
<td>Inadequate and delayed credit decision / Disbursement</td>
<td>0.33</td>
<td>0.71</td>
<td>0.50</td>
</tr>
<tr>
<td>17.</td>
<td>Poor Monitoring and Controlling system for Credit risk</td>
<td>0.67</td>
<td>0.36</td>
<td>0.70</td>
</tr>
<tr>
<td>18.</td>
<td>Loan to priority sector turn into NPAs more than other sectors</td>
<td>0.67</td>
<td>0.57</td>
<td>0.70</td>
</tr>
<tr>
<td>19.</td>
<td>Loans sanctioned under Government Sponsored Schemes</td>
<td>0.67</td>
<td>0.57</td>
<td>0.50</td>
</tr>
<tr>
<td>20.</td>
<td>Wrong guidance given by political parties</td>
<td>1.00</td>
<td>0.57</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Primary data
It is observed from the Table 4.12.3 that there is no significant difference between the branch locations in the factors influencing NPAs of branches except in respect of factors, namely, diversification of funds, selection of appropriate technology, accidents / natural calamities, loan waiver, wrong guidance given by the political parties.

4.5 IMPACT OF NON PERFORMING ASSETS

The incidence of Non performance assets is affecting the performance of banks both financially and psychologically. The bankers are greatly concerned about the nature of the assets because the NPAs have a huge effect on the liquidity and profitability of the banks. They also have a great bearing on the quality of their balance sheet and the overall credibility of the banks to a very large extend gets affected by the extent of NPAs73.

Even though NPAs is not a new phenomenon, for the past few years Indian Banks have been weighed down by its enormous amounts. It has caused banking crisis and sometimes threatened the health of the banking system. Apart from the internal and external complexities, increase in NPAs directly affects banks’ profitability, even their existence74.

The impact of Non performing assets, like cancer, can be felt in all part of the economy viz, savings, investments, production, employment and services affecting adversely the capital formation, economic growth, fiscal deficit, inflation and finally the country’s rating and confidence level so far all the international image and standing are concerned75. Spiraling non performing

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assets are hurting banks’ profitability by way of both non recognition of interest income and loan loss provisioning. In fact, “the earning capacity/profitability of banks is limited by the quantum of NPAs and thus inversely related to NPAs”\textsuperscript{76}.

“None the less, higher provisioning requirement on mountain NPAs is adversely affecting capital adequacy and also Banks’ profitability”\textsuperscript{77}.

The level of return on assets reflects the efficiency of banks. NPAs do not generate interest income for the banks, but at the same time banks are required to make provisions for such NPAs from their current profits. High level of NPAs would force the banks to incur carrying costs on non-income yielding assets. Other consequences would be reduction in interest income, high level of provisioning, stress on profitability and capital adequacy gradual decline in ability to meet steady increase in cost, increased pressure on net interest margin (spread), thereby reducing competitiveness, steady erosion of capital resources and increased difficulty in augmenting capital resources. They limit recycling of funds, capacity to increase good quality risk assets in future, set in asset – liability mismatches, etc\textsuperscript{78}.

Increasing NPAs not only critically affect the liquidity of banks but also force the banks to maintain more liquid assets and thereby increasing the cost. Since the NPAs remain in the balance sheet of the banks till they are written off or adjusted against loan loss provision which is a long winded process, they have to be funded either through deposits or capital so far as they continue in


balance sheet. Capital enhancement is not always possible and cannot be resorted every year. Hence, every time NPAs increase, deposits are mobilized to fund the incremental NPAs and thereby increasing interest expenditure. Thus, as the level of NPAs to total loans and advances increases, the liquidity risk of bank also increases with the increase in NPAs, the turnover of loan assets become gradually slow and the very essence of banking i.e. credit creation is greatly hampered⁷⁹.

4.5.1 OPINION ON IMPACT OF NON PERFORMING ASSETS

In the present study, an attempt has been made to find the level of impact of nonperforming assets on various performance indicators based on the opinion of branch managers. The dependent variables selected for the present study are Profit, Return on assets, Repayment of deposits, Capital adequacy ratio, Borrowing capacity of the bank, Solvency of the bank, Liquidity of the bank, Recycling of funds, Ability of finance to other profitable venture, Increasing the operating cost and advances of banks have reduced considerably. The sample respondents have been asked to express their opinion on the level of impact of NPAs on the above variables on a three point scale as follows:

- High impact – 3 Marks
- Moderate impact – 2 Marks
- Low impact – 1 Mark

The ranking of opinion of branch managers on the level of impact of NPAs on various performance variables are furnished in Table 4.13.1

It is observed from Table 4.13.1 that in the opinion of branch managers, the impact of NPAs is the most on profit followed by increase in operating expenses of the bank, Return on assets, Liquidity of the bank. However, the impact of NPAs on borrowing capacity of bank, repayment of deposits has been ranked as low.
Thus it is inferred that due to the high level of NPAs, the financial performance of the banks are affected adversely.

4.5.2 DIFFERENCES IN OPINION ON THE LEVEL OF IMPACT OF NPAs BETWEEN BANK GROUPS

In order to find whether there are significant differences between the two bank groups (Public and Private sector) in the opinion level of impact of NPAs, ‘t’ test has been applied and the results are shown in Table 4.13.2
### TABLE 4.13.2
SIGNIFICANCE OF DIFFERENCES IN OPINION ON IMPACT OF NPAs BETWEEN BANK GROUPS

<table>
<thead>
<tr>
<th>S. NO</th>
<th>IMPACTS</th>
<th>MEANRANK</th>
<th></th>
<th>t VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PUBLIC SECTOR</td>
<td>PRIVATE SECTOR</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>MEAN</td>
<td>SD</td>
<td>MEAN</td>
<td>SD</td>
</tr>
<tr>
<td>1.</td>
<td>Profit</td>
<td>2.88</td>
<td>0.327</td>
<td>2.88</td>
<td>0.342</td>
</tr>
<tr>
<td>2.</td>
<td>Return on Asset</td>
<td>2.29</td>
<td>0.579</td>
<td>2.00</td>
<td>0.516</td>
</tr>
<tr>
<td>3.</td>
<td>Repayment of Deposits</td>
<td>1.59</td>
<td>0.609</td>
<td>1.63</td>
<td>0.500</td>
</tr>
<tr>
<td>4.</td>
<td>Capital Adequacy Ratio</td>
<td>2.00</td>
<td>0.696</td>
<td>1.75</td>
<td>0.447</td>
</tr>
<tr>
<td>5.</td>
<td>Borrowing Capacity of the Bank</td>
<td>2.00</td>
<td>0.696</td>
<td>1.13</td>
<td>0.342</td>
</tr>
<tr>
<td>6.</td>
<td>Solvency of the Bank</td>
<td>2.12</td>
<td>0.591</td>
<td>1.50</td>
<td>0.516</td>
</tr>
<tr>
<td>7.</td>
<td>Liquidity of the Bank</td>
<td>2.29</td>
<td>0.676</td>
<td>1.75</td>
<td>0.447</td>
</tr>
<tr>
<td>8.</td>
<td>Recycling of funds</td>
<td>2.12</td>
<td>0.591</td>
<td>2.00</td>
<td>0.730</td>
</tr>
<tr>
<td>9.</td>
<td>Ability of finance to other</td>
<td>1.56</td>
<td>0.613</td>
<td>2.13</td>
<td>0.957</td>
</tr>
<tr>
<td></td>
<td>profitable ventures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>NPAs are mainly due to high</td>
<td>2.12</td>
<td>0.478</td>
<td>2.50</td>
<td>0.730</td>
</tr>
<tr>
<td></td>
<td>Operating cost in terms of Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>rate, Processing cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Advances of banks have reduced</td>
<td>1.88</td>
<td>0.478</td>
<td>1.63</td>
<td>0.500</td>
</tr>
<tr>
<td></td>
<td>considerably</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

It can be seen from the Table 4.13.2 that while there are significant differences between the two bank groups in the opinion on the level of impact of NPAs on borrowing capacity of the bank, liquidity, solvency, ability to
finance other profitable ventures and increasing the operating cost at 5 percent level significant, there are no significant differences between the two bank groups in the opinion on the level of impact on other performance variables.

4.5.3 DIFFERENCES IN OPINION ON THE LEVEL OF IMPACT OF NPAs AMONG BRANCH LOCATIONS

To find whether there are significant differences among the branch locations in the opinion on the level of impact of NPAs on selected variables, ‘f’ test using one-way analysis of variance has been applied and the results are given in Table 4.13.3
### TABLE 4.13.3
SIGNIFICANCE OF DIFFERENCES IN OPINION ON IMPACT OF NPAs AMONG BRANCH LOCATIONS

<table>
<thead>
<tr>
<th>S. NO</th>
<th>IMPACTS</th>
<th>MEANRANK</th>
<th>F VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>METRO</td>
<td>URBAN</td>
<td>SEMI URBAN</td>
</tr>
<tr>
<td>1.</td>
<td>Profit</td>
<td>3.00</td>
<td>2.93</td>
<td>2.70</td>
</tr>
<tr>
<td>2.</td>
<td>Return on Asset.</td>
<td>2.00</td>
<td>2.21</td>
<td>2.10</td>
</tr>
<tr>
<td>3.</td>
<td>Repayment of Deposits.</td>
<td>1.67</td>
<td>1.29</td>
<td>2.10</td>
</tr>
<tr>
<td>4.</td>
<td>Capital Adequacy Ratio.</td>
<td>2.67</td>
<td>1.93</td>
<td>1.60</td>
</tr>
<tr>
<td>5.</td>
<td>Borrowing Capacity of the Bank.</td>
<td>1.67</td>
<td>1.93</td>
<td>1.40</td>
</tr>
<tr>
<td>6.</td>
<td>Solvency of the Bank.</td>
<td>2.00</td>
<td>1.79</td>
<td>2.20</td>
</tr>
<tr>
<td>7.</td>
<td>Liquidity of the Bank.</td>
<td>2.00</td>
<td>2.00</td>
<td>2.30</td>
</tr>
<tr>
<td>8.</td>
<td>Recycling of funds.</td>
<td>2.33</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>9.</td>
<td>Ability of finance to other profitable ventures.</td>
<td>2.67</td>
<td>1.46</td>
<td>1.90</td>
</tr>
<tr>
<td>10.</td>
<td>NPAs are mainly due to high operating cost in terms of Interest rate, processing cost.</td>
<td>2.00</td>
<td>2.07</td>
<td>2.60</td>
</tr>
<tr>
<td>11.</td>
<td>Advances of banks have reduced considerably.</td>
<td>1.67</td>
<td>1.64</td>
<td>2.00</td>
</tr>
</tbody>
</table>

Source: Primary data

It can be seen from the Table 4.13.3 that while there are significant differences between the locations in the opinion on the level of impact of NPAs on Repayment of deposits, Capital Adequacy ratio, Ability to finance to other
profitable ventures, operating cost increased and advances of the banks have reduced at five percent level, there are no significant differences between the locations in the opinion on the level of impact on other performance variables.

4.6 OPINION OF BRANCH MANAGERS ON RECOVERY CHANNELS OF NPAs

The recovery channels of non performing assets used by sample units are presented in Table 4.14

<table>
<thead>
<tr>
<th>S. NO</th>
<th>RECOVERY CHANNELS</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>By Compromise Settlement Scheme</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>2.</td>
<td>Enforcement of security interest under SARFAESI Act, 2002</td>
<td>48</td>
<td>96</td>
</tr>
<tr>
<td>3.</td>
<td>Visit to Borrowers Business premises /Residence</td>
<td>48</td>
<td>96</td>
</tr>
<tr>
<td>4.</td>
<td>Recovery Camps</td>
<td>48</td>
<td>96</td>
</tr>
<tr>
<td>5.</td>
<td>Lokadalats</td>
<td>44</td>
<td>88</td>
</tr>
<tr>
<td>6.</td>
<td>By issuing Legal notices</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>7.</td>
<td>Through DRTs</td>
<td>32</td>
<td>64</td>
</tr>
<tr>
<td>8.</td>
<td>Through One Time Settlement Scheme</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>9.</td>
<td>Through Civil Courts</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>10</td>
<td>Sale through ARCs</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>11</td>
<td>Through Bank adalats</td>
<td>12</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Primary data
It is evidenced from the above Table 4.14 that out of 50 sample branch managers, all branch managers have perceived that the most important channel for recovery of NPAs is Compromise Settlement Scheme, the next important channel of recovery is SARFAESI Act (96 percent) followed by Visit to borrowers business premises / Residence (96 percent), Recovery Camp (96 percent), Lokadalats (88 percent), Issue of legal notices (84 percent), Debt Recovery Tribunals (DRTs) (64 percent), One Time Settlement Scheme (60 percent), Civil Court (60 percent), Sale through ARCs (32 percent), Bankadalats (24 percent).

4.6.1 OPINION OF BRANCH MANAGERS ON EFFECTIVENESS OF VARIOUS RECOVERY MEASURES

Banks have been taking several institutional measures initiated by the RBI and the Central Government to contain the level of NPAs. These include Debt Recovery Tribunals (DRTs), Lokadalats (People’s court), Asset Reconstruction Companies (ARCs) and Corporate Debt Restructuring (CDR) Mechanism. In addition, banks can also issue notices under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 for enforcement of security interest without intervention of Courts. Thus, banks have a menu of options to resolve their NPAs problem.

An attempt has been made to find how far these measures are effective in the recovery of NPAs at branch level on the basis of opinion of branch manager. For this purpose of collecting the opinion of branch managers on the effectiveness of recovery measures, a five point scaling technique is used as follows;
Very effective - 5 points
Effective - 4 points
Moderately effective - 3 points
Ineffective - 2 points
Very ineffective - 1 point

For the purpose of the present study, the following recovery measures have been taken, namely, One Time Settlement Scheme, Compromise Settlement Scheme, Recovery Camps, Lokadalats, Civil Courts, Visit to borrowers business premises/Residence, DRTs, Sale through ARCs, Enforcement of Security Interest under SARFAESI Act, 2002.

The ranking of opinion on the effectiveness of recovery measures in branches given by branch managers is furnished in Table 4.15.1
TABLE 4.15.1
OPINION OF BRANCH MANAGERS ON EFFECTIVENESS OF VARIOUS RECOVERY MEASURES

<table>
<thead>
<tr>
<th>S.NO</th>
<th>RECOVERY CHANNELS</th>
<th>OPINION SCORE</th>
<th>TOTAL SCORE</th>
<th>MEAN SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>1.</td>
<td>Through Compromise Settlements</td>
<td>160</td>
<td>72</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2.</td>
<td>Enforcement of security interest under SARFAESI Act, 2002</td>
<td>190</td>
<td>32</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>3.</td>
<td>Visit to Borrowers Business premises /Residence</td>
<td>200</td>
<td>8</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>4.</td>
<td>Recovery Camps</td>
<td>60</td>
<td>72</td>
<td>42</td>
<td>12</td>
</tr>
<tr>
<td>5.</td>
<td>One Time Settlement Scheme</td>
<td>40</td>
<td>64</td>
<td>60</td>
<td>12</td>
</tr>
<tr>
<td>6.</td>
<td>Lokadalats</td>
<td>0</td>
<td>112</td>
<td>42</td>
<td>8</td>
</tr>
<tr>
<td>7.</td>
<td>DRTs</td>
<td>10</td>
<td>72</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>8.</td>
<td>Through Civil Courts</td>
<td>0</td>
<td>16</td>
<td>90</td>
<td>24</td>
</tr>
<tr>
<td>9.</td>
<td>Sale through ARCs</td>
<td>10</td>
<td>32</td>
<td>48</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Primary data, A-Very effective, B-Effective, C-Moderately effective, D-effective  E-Very Ineffective

It is inferred from Table 4.15.1 that the opinion on the effectiveness of recovery of non performing assets through Compromise Settlement has been ranked first closely followed by enforcement of security interest under SARFAESI Act, Visit to borrowers promises, Recovery camp and One Time Settlements. Under or over, the recovery of NPAs through Civil Court and Sale through ARCs has been given the least rank.
4.6.2 DIFFERENCES IN OPINION ON EFFECTIVENESS OF RECOVERY MEASURES BETWEEN BANK GROUPS

The ‘t’ test has been administered to find whether these are significant differences between the two bank groups (Public and Private sector) in opinion on effectiveness of recovery measures and the results are shown in Table 4.15.2

**TABLE 4.15.2**

SIGNIFICANCE OF DIFFERENCES IN OPINION ON EFFECTIVENESS OF RECOVERY MEASURES BETWEEN BANK GROUPS

<table>
<thead>
<tr>
<th>S.NO</th>
<th>RECOVERY CHANNELS</th>
<th>MEANRANK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PUBLIC SECTOR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MEAN</td>
</tr>
<tr>
<td>1.</td>
<td>Through One Time Settlement Scheme</td>
<td>3.47</td>
</tr>
<tr>
<td>2.</td>
<td>Through Compromise Settlements Scheme</td>
<td>4.65</td>
</tr>
<tr>
<td>3.</td>
<td>Through Recovery Camps</td>
<td>3.82</td>
</tr>
<tr>
<td>4.</td>
<td>Through Lokadalats</td>
<td>3.29</td>
</tr>
<tr>
<td>5.</td>
<td>Through Civil Courts</td>
<td>2.82</td>
</tr>
<tr>
<td>6.</td>
<td>By visit to Borrowers business premises /residence</td>
<td>4.35</td>
</tr>
<tr>
<td>7.</td>
<td>Through DRTs</td>
<td>3.18</td>
</tr>
<tr>
<td>8.</td>
<td>By Sale through ARCs</td>
<td>2.82</td>
</tr>
<tr>
<td>9.</td>
<td>By Enforcement of Security Interest under SARFAESI Act,2002</td>
<td>4.59</td>
</tr>
</tbody>
</table>

Source: Primary data
From Table4.15.2 it is observed that there is no significant difference between the bank groups in the perceptions of their branch managers on the effectiveness of recovery measures except Civil Court, Visit to borrowers’ business promises / residence and by sale through ARCs at 5 percent level of significance.

4.6.3 DIFFERENCES IN OPINION ON EFFECTIVENESS OF RECOVERY MEASURES AMONG BRANCH LOCATIONS

To find whether there are significant differences among the branch managers of different locations in the opinion in the effectiveness of recovery measures, ‘f’ test using one way analysis of variance has been applied and the results are shown in Table 4.15.3
### TABLE 4.15.3

**SIGNIFICANCE OF DIFFERENCES IN OPINION ON EFFECTIVENESS OF RECOVERY MEASURES AMONG BRANCH LOCATIONS**

<table>
<thead>
<tr>
<th>S. NO</th>
<th>RECOVERY CHANNELS</th>
<th>MEAN</th>
<th>F VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>METRO</td>
<td>URBAN</td>
<td>SEMI URBAN</td>
</tr>
<tr>
<td>1.</td>
<td>Through One Time Settlement Scheme</td>
<td>3.62</td>
<td>3.71</td>
<td>3.20</td>
</tr>
<tr>
<td>2.</td>
<td>Through Compromise Settlement Scheme</td>
<td>4.67</td>
<td>4.43</td>
<td>5.00</td>
</tr>
<tr>
<td>3.</td>
<td>Through Recovery Camps</td>
<td>3.33</td>
<td>3.50</td>
<td>4.10</td>
</tr>
<tr>
<td>4.</td>
<td>Through Lokadalats</td>
<td>3.67</td>
<td>3.07</td>
<td>3.60</td>
</tr>
<tr>
<td>5.</td>
<td>Through Civil Courts</td>
<td>3.33</td>
<td>2.36</td>
<td>2.90</td>
</tr>
<tr>
<td>6.</td>
<td>By visit to Borrowers Business Premises / Residence</td>
<td>4.67</td>
<td>4.29</td>
<td>5.00</td>
</tr>
<tr>
<td>7.</td>
<td>Through DRTs</td>
<td>4.00</td>
<td>3.07</td>
<td>3.20</td>
</tr>
<tr>
<td>8.</td>
<td>By Sale through ARCs</td>
<td>3.00</td>
<td>2.50</td>
<td>2.60</td>
</tr>
<tr>
<td>9.</td>
<td>By Enforcement of Security Interest under SARFAESI Act,2002</td>
<td>5.00</td>
<td>4.71</td>
<td>4.70</td>
</tr>
</tbody>
</table>

Source: Primary data

It is observed from Table 4.15.3 that there are no significant differences among branch locations namely, Metro, Urban, Semi-urban and Rural branches in respect of branch managers’ opinion on effectiveness of recovery measures except in Compromise Settlement, Recovery camps and Civil Counts at 5 percent level of significance.
4.7 SUPPORTS FROM VARIOUS AGENCIES REGARDING RECOVERY OF NPAs

The support of various agencies is inevitable for a bank in recovery of non-performing assets. In order to find out whether the sample bank branches under study are getting adequate support from Co-bankers, Head offices, Government agencies and Trade associations, an attempt has been made to study the opinion of branch managers about the support received for recovery of nonperforming assets and its association with their bank groups, branch locations. The support level from various agencies regarding Recovery of NPAs is presented in Table 4.16.1

<table>
<thead>
<tr>
<th>S.NO</th>
<th>VARIABLES</th>
<th>NO OF FREQUENCIES</th>
<th>PERCENTAGE TO TOTAL (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Head office</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>2.</td>
<td>Co-bankers</td>
<td>36</td>
<td>72</td>
</tr>
<tr>
<td>3.</td>
<td>Government Agencies</td>
<td>32</td>
<td>64</td>
</tr>
<tr>
<td>4.</td>
<td>Trade Associations /Other Agencies</td>
<td>24</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Primary data

It is observed from the Table 4.16.1 that out of 50 sample respondents, 42 (84 percent) branch managers have support from Head office for recovery of non-performing assets followed by 36 (72 percent) respondents getting support from Co-bankers for recovery of NPAs accompanied by Government agencies (64 percent) and Trade associations (48 percent).
Thus it is inferred that most of the banks depend more on support from their Head office for recovery of non performing assets.

4.7.1 SUPPORT FROM HEAD OFFICE

The classification of sample respondents on the basis of opinion on support received from their Head office for recovery of NPAs on the basis of bank groups, and branch locations is presented in Table 4.16.2

<table>
<thead>
<tr>
<th>TABLE 4.16.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSOCIATION BETWEEN OPINION ON SUPPORT FROM HEAD OFFICE WITH BANK GROUPS AND BRANCH LOCATIONS</td>
</tr>
<tr>
<td>VARIABLES</td>
</tr>
<tr>
<td>Public sector</td>
</tr>
<tr>
<td>Private sector</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Metro branches</td>
</tr>
<tr>
<td>Urban branches</td>
</tr>
<tr>
<td>Semi urban branches</td>
</tr>
<tr>
<td>Rural branches</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>CHI SQUARE VALUE</td>
</tr>
<tr>
<td>P VALUE</td>
</tr>
<tr>
<td>INFEERENCE</td>
</tr>
<tr>
<td>CHI SQUARE VALUE</td>
</tr>
<tr>
<td>P VALUE</td>
</tr>
<tr>
<td>INFEERENCE</td>
</tr>
</tbody>
</table>

Source: Primary data

It is revealed from Table 4.16.2 that a majority (84 percent) of branch managers has the support of Head office in the recovery of NPAs and such a support or lack of it has no significant association with the bank groups in
which they work. However, there is no significant association between opinions on support from Head office with branch location.

**4.7.2 SUPPORT FROM CO-BANKERS**

The classification of sample respondents on the basis of opinion on support received from Co-bankers for recovery of NPAs and on the basis of bank groups, branch locations has been done and the association between opinion on support from Co-bankers and each of bank groups and branch locations on the other hand has been analyzed using Chi square test. The results of the analysis are presented in Table 4.16.3

**TABLE 4.16.3**

**ASSOCIATION BETWEEN OPINIONS ON SUPPORT FROM CO-BANKERS WITH BANK GROUPS AND BRANCH LOCATIONS**

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>YES</th>
<th>NO</th>
<th>TOTAL</th>
<th>CHI SQUARE VALUE</th>
<th>P VALUE</th>
<th>INFERENC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>24.5</td>
<td>9.5</td>
<td>34(68%)</td>
<td>0.105</td>
<td>0.746</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Private sector</td>
<td>11.5</td>
<td>4.5</td>
<td>16(32%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36(72%)</strong></td>
<td><strong>14(28%)</strong></td>
<td><strong>50(100%)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metro branches</td>
<td>4.3</td>
<td>1.7</td>
<td>6(12%)</td>
<td>15.136</td>
<td>0.002</td>
<td>Significant</td>
</tr>
<tr>
<td>Urban branches</td>
<td>20.2</td>
<td>7.8</td>
<td>28(56%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi urban branches</td>
<td>7.2</td>
<td>2.8</td>
<td>10(20%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural branches</td>
<td>4.3</td>
<td>1.7</td>
<td>6(12%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36(72%)</strong></td>
<td><strong>14(28%)</strong></td>
<td><strong>50(100%)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
It is revealed from Table 4.16.3 that a majority (72%) of branch managers have the support of Co-bankers in the recovery of NPAs and such a support or lack of it has no significant association with the bank groups in which they work and their areas of operations. However, there is a significant association between opinions on support from Co-bankers with and branch locations.

**4.7.3 SUPPORT FROM GOVERNMENT AGENCIES**

The classification of sample respondents on the basis of opinion on support received from Government agencies for recovery of NPAs on the basis of bank groups, branch locations are presented in Table 4.16.4

**TABLE 4.16.4**

**ASSOCIATION BETWEEN OPINION ON SUPPORT FROM GOVERNMENT AGENCIES WITH BANK GROUPS AND BRANCH LOCATIONS**

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>YES</th>
<th>NO</th>
<th>TOTAL</th>
<th>CHI SQUARE VALUE</th>
<th>P VALUE</th>
<th>INFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>21.8</td>
<td>12.2</td>
<td>34(68%)</td>
<td></td>
<td>0.023</td>
<td>0.880</td>
</tr>
<tr>
<td>Private sector</td>
<td>10.2</td>
<td>5.8</td>
<td>16(32%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32(64%)</td>
<td>18(36%)</td>
<td>50(100%)</td>
<td></td>
<td>0.023</td>
<td>0.880</td>
</tr>
<tr>
<td>Metro branches</td>
<td>3.8</td>
<td>2.2</td>
<td>6(12%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban branches</td>
<td>17.9</td>
<td>10.1</td>
<td>28(36%)</td>
<td></td>
<td>14.451</td>
<td>0.002</td>
</tr>
<tr>
<td>Semi urban branches</td>
<td>6.4</td>
<td>3.6</td>
<td>10(20%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural branches</td>
<td>3.8</td>
<td>2.2</td>
<td>6(12%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32(64%)</td>
<td>18(36%)</td>
<td>50(100%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
It is revealed from Table 4.16.4 that a majority (64 percent) of branch managers has the support from Government agencies in the recovery of NPAs and such a support or lack of it has no significant association with the bank groups in which they work. However, there is a significant association between opinion on support from government agencies and branch location at 5 percent level.

4.7.4 SUPPORT FROM TRADE ASSOCIATIONS

The classification of sample respondents on the basis of opinion on support received from Trade associations for recovery of NPAs and on the basis of bank groups and branch locations are presented in Table 4.16.5

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>YES</th>
<th>NO</th>
<th>TOTAL</th>
<th>CHI SQUARE VALUE</th>
<th>P VALUE</th>
<th>INERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>16.3</td>
<td>17.7</td>
<td>34(68%)</td>
<td>1.039</td>
<td>0.308</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Private sector</td>
<td>7.7</td>
<td>8.3</td>
<td>16(32%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24(48%)</td>
<td>26(52%)</td>
<td>50(100%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metro branches</td>
<td>2.9</td>
<td>3.1</td>
<td>6(12%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban branches</td>
<td>13.4</td>
<td>14.6</td>
<td>28(56%)</td>
<td></td>
<td></td>
<td>Not Significant</td>
</tr>
<tr>
<td>Semi urban branches</td>
<td>4.8</td>
<td>5.2</td>
<td>10(20%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural branches</td>
<td>2.9</td>
<td>3.1</td>
<td>6(12%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24(48%)</td>
<td>26(52%)</td>
<td>50(100%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data
It is revealed from the Table 4.16.5 that majority (52 percent) of branch managers do not have the support of Trade associations and other agencies in the recovery of NPAs and such a support or lack of it has no significant association with the bank groups in which they work, their areas of operations.

**4.8 OPINION OF BRANCH MANAGERS ON THE MANAGEMENT OF NPAs**

There are several issues relating to Credit risk management system to oversee the management of NPAs which requires a detailed discussion. Most of the issues are related to recently enacted SARFAESI Act which gives powers to banks for enforcement of security interest in case of default without the interference of Court. Hence, an attempt has been made to study the opinion of branch managers on various issues in management of NPAs and Credit risk management system functioning in their Banks.

The respondents have been asked to express their opinion on various issues pertaining to Credit risk management system to oversee the management of NPAs. For this, five point scaling technique was constructed as follows:

- **Strongly Agree** - 5 points
- **Agree** - 4 points
- **Uncertain** - 3 points
- **Disagree** - 2 points
- **Strongly disagree** - 1 point

The ranking opinion of branch managers on the various issues relating to management of NPAs is given in Table 4.17.
## TABLE 4.17

**OPINION OF BRANCH MANAGERS ON THE MANAGEMENT OF NPAs**

<table>
<thead>
<tr>
<th>S.NO</th>
<th>MANAGEMENT TECHNIQUES</th>
<th>OPINION SCORE</th>
<th>TOTAL SCORE</th>
<th>MEAN SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Provisions of the SARFAESI Act are sufficient for dealing with NPAs</td>
<td>180 24 18 4 0</td>
<td>226</td>
<td>4.52</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Waiver of loan to be abolished</td>
<td>160 48 12 0 2</td>
<td>222</td>
<td>4.44</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Bank analyze the Financial Statement of borrowers to appraise the amount and timing of cash flows</td>
<td>150 16 48 0 0</td>
<td>214</td>
<td>4.28</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>Recovery of NPAs through SARFAESI Act is faster than other measures</td>
<td>90 112 12 0 0</td>
<td>214</td>
<td>4.28</td>
<td>3</td>
</tr>
<tr>
<td>5.</td>
<td>Furnishing of Credit information in respect of all suits filed against defaulters to CIBIL would help in enhancing the quality of credit decisions, improve the assets quality and facilitate faster credit delivery</td>
<td>70 136 6 0 0</td>
<td>212</td>
<td>4.24</td>
<td>5</td>
</tr>
<tr>
<td>6.</td>
<td>CIBIL will bring down the level of NPAs</td>
<td>80 120 12 0 0</td>
<td>212</td>
<td>4.24</td>
<td>5</td>
</tr>
<tr>
<td>7.</td>
<td>There is an effective Monetary and Controlling System for Credit risk</td>
<td>100 88 12 8 0</td>
<td>208</td>
<td>4.16</td>
<td>7</td>
</tr>
<tr>
<td>8.</td>
<td>The Support System available for measuring Credit Risk is appropriate</td>
<td>70 80 36 8 0</td>
<td>194</td>
<td>3.88</td>
<td>8</td>
</tr>
<tr>
<td>9.</td>
<td>There is a separate Credit Risk Management Department to ensure compliance with Risk Management Policy</td>
<td>60 88 30 12 0</td>
<td>190</td>
<td>3.80</td>
<td>9</td>
</tr>
<tr>
<td>10.</td>
<td>Clearance of SARFAESI Act in Supreme Court recently has a healthy deterrent action on fresh slippage of NPAs in banks</td>
<td>60 64 66 0 0</td>
<td>186</td>
<td>3.70</td>
<td>10</td>
</tr>
<tr>
<td>11.</td>
<td>Bank has Credit Risk Management Committee to over see Credit Risk Management function.</td>
<td>50 80 42 12 0</td>
<td>184</td>
<td>3.68</td>
<td>11</td>
</tr>
<tr>
<td>12.</td>
<td>The Support of representative bodies like FICCI,CII Trade Associations etc is a must for containing the level of NPAs to a greater extent</td>
<td>30 112 24 16 0</td>
<td>182</td>
<td>3.64</td>
<td>12</td>
</tr>
<tr>
<td>13.</td>
<td>Examination of the consistency and accuracy of risk rating is done periodically</td>
<td>50 64 54 12 0</td>
<td>180</td>
<td>3.60</td>
<td>13</td>
</tr>
<tr>
<td>14.</td>
<td>Credit policy proportional with the over all Risk Management Policy</td>
<td>20 96 60 4 0</td>
<td>180</td>
<td>3.60</td>
<td>13</td>
</tr>
<tr>
<td>15.</td>
<td>The agricultural loans, loans below Rs.1 lakh and unsecured loans are outside the purview of SARFAESI Act. However it will not affect the recovery of NPAs by banks.</td>
<td>60 32 36 36 0</td>
<td>164</td>
<td>3.28</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Primary data
It would be observed from the Table 4.17 that the opinion on the issues in management of non performing assets and Credit risk management system, the provisions of the SARFAESI Act dealing with NPAs has been ranked first closely followed by waiver of loan to be abolished, analysis of financial statement of borrowers to ensure the promptness of cash flow. However, the management techniques of NPAs by Credit risk policy, the accuracy of credit rating and agriculture loan has been ranked as low.

4.9 OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID / MINIMISE THE LEVEL OF NPAs

Banks have been provided with a menu of options for disposal recovery of NPAs. Banks resolve or recover their NPAs through Compromise Settlement, One Time Settlement, and filing of suits, Debt Recovery Tribunals, Lokadalat (People court) forum, Corporate Debt Reconstructing (CDRs), Sale to Assets Securitization / Assets Reconstruction Companies (ARCs) and other banks or to Non Banking Financial Companies (NBFCs). The promulgation of the SARFAESI Act, 2002 and its subsequent amendment have strengthened the position of creditors. Another significant measure has been the setting up of the Credit Information Bureau for information sharing on defaulters and other borrowers. The role of Credit Information Bureau of India Ltd (CIBIL) in improving the quality of credit analysis is financial institutions and banks need hardly be emphasized. With the enactment of the Credit Information Companies (Regulation) Act, 2005, the legal frame work has been put in place to facilitate the full fledged operationalisation of CIBIL and the introduction of other credit bureaus. However, from the point of view of management of NPAs at branch level, branch managers are taking several steps for recovery and reduce the level of NPAs taking into account the local constraints.
Based on the discussion with the officials of various banks at zonal level and regional level who are dealing with nonperforming loan accounts, the following suggestions have been identified to make recovery and reduce the level of NPAs effective at branch level. The suggestions are; Maintaining continuous support / relationship with borrowers, Compromise Settlement, Regular monitoring of loan accounts, Inspection of the business units, Case by Case analysis, Avoiding Political interference in the granting of loans, Publishing the list of willful defaulters through CIBIL, Proper pre-sanction / project appraisal, Making the bank staff more responsible, Making the borrowers more accountable / responsible, Enforcement of Security interests, Restructuring of advances, Effective Corporate Governance, More transparencies in the sanctioning of loans, Reduction in the target fixed for priority sectors lending were reduce the level of NPAs

An attempt has been made to seek the opinion of sample respondents on the effectiveness of the above suggestions at the branch level on a five point scale as follows;

- Strongly - 5 points
- Agree - 4 points
- Uncertain - 3 points
- Disagree - 2 points
- Strongly disagree - 1 point

The ranking of opinion of branch managers on effectiveness of various suggestions for recovery of non performing assets at branch level is furnished in Table4.18.1
### OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID /MINIMISE THE LEVEL OF NPAs

<table>
<thead>
<tr>
<th>S. NO</th>
<th>SUGGESTIONS</th>
<th>OPINION SCORE</th>
<th>TOTAL SCORE</th>
<th>MEAN SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>1.</td>
<td>Maintaining continuous rapport / relationship with borrowers</td>
<td>250</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2.</td>
<td>Compromise Settlement Scheme</td>
<td>160</td>
<td>72</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3.</td>
<td>Regular monitoring of loan accounts.</td>
<td>140</td>
<td>88</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4.</td>
<td>Inspection of the business units</td>
<td>130</td>
<td>72</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>5.</td>
<td>Case by Case analysis</td>
<td>100</td>
<td>112</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>6.</td>
<td>Avoiding Political interference in the granting of loans</td>
<td>150</td>
<td>40</td>
<td>24</td>
<td>4</td>
</tr>
<tr>
<td>7.</td>
<td>Publishing the list of willful defaulters through CIBIL</td>
<td>150</td>
<td>16</td>
<td>48</td>
<td>0</td>
</tr>
<tr>
<td>8.</td>
<td>Proper pre-sanction / project appraisal</td>
<td>110</td>
<td>80</td>
<td>24</td>
<td>0</td>
</tr>
<tr>
<td>9.</td>
<td>Making the bank staff more responsible</td>
<td>90</td>
<td>80</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>10.</td>
<td>Making the borrowers more accountable / responsible</td>
<td>50</td>
<td>128</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>11.</td>
<td>Enforcement of Security interests</td>
<td>90</td>
<td>80</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>12.</td>
<td>Restructuring of advances</td>
<td>70</td>
<td>72</td>
<td>54</td>
<td>0</td>
</tr>
<tr>
<td>13.</td>
<td>Effective Corporate Governance</td>
<td>60</td>
<td>88</td>
<td>48</td>
<td>0</td>
</tr>
<tr>
<td>14.</td>
<td>More transparencies in the sanctioning of loans</td>
<td>30</td>
<td>128</td>
<td>36</td>
<td>0</td>
</tr>
<tr>
<td>15.</td>
<td>Reduction in the target fixed for priority sector lending will reduce the</td>
<td>50</td>
<td>48</td>
<td>78</td>
<td>4</td>
</tr>
</tbody>
</table>
It is observed from Table 4.18.1 that in the opinion of branch managers on maintaining continuous rapport/relationship with borrowers, Compromise settlement, Regular monitoring of loan accounts, Inspection of the business units, Case by case analysis are given highest ranking as far as the effective recovery of NPAs is concerned. However the lowest ranking is given to restricting of advances, more transparencies in the sanctioning of loans, reducing the target of priority sector lending.

4.9.1 DIFFERENCES IN OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID/MINIMISE THE LEVEL OF NPAs BETWEEN BANK GROUPS

To find whether there are significant differences between the two bank groups (Public and Private sector) in the opinion of respondents on the suggestions for effective measures to avoid/minimize the level of NPAs, ‘t’ test has been applied and the results are given in Table 4.18.2
**TABLE 4.18.2**
SIGNIFICANCE OF DIFFERENCES IN OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID/MINIMIZE THE LEVEL OF NPAs BETWEEN BANK GROUPS

<table>
<thead>
<tr>
<th>S. No</th>
<th>SUGGESTIONS</th>
<th>MEANRANK</th>
<th></th>
<th></th>
<th>t VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PUBLIC SECTOR</td>
<td>PRIVATE SECTOR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>MEAN</td>
<td>SD</td>
<td>MEAN</td>
<td>SD</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Maintaining continuous rapport / relationship with borrowers.</td>
<td>5.00</td>
<td>0.000</td>
<td>5.00</td>
<td>0.000</td>
<td>-</td>
</tr>
<tr>
<td>2.</td>
<td>Making the bank staff more responsible.</td>
<td>3.47</td>
<td>1.161</td>
<td>4.75</td>
<td>0.447</td>
<td>-4.244</td>
</tr>
<tr>
<td>3.</td>
<td>Regular monitoring of loan accounts.</td>
<td>4.41</td>
<td>0.500</td>
<td>4.88</td>
<td>0.342</td>
<td>-3.350</td>
</tr>
<tr>
<td>4.</td>
<td>Inspection of the business units</td>
<td>4.47</td>
<td>0.615</td>
<td>4.25</td>
<td>0.856</td>
<td>1.041</td>
</tr>
<tr>
<td>5.</td>
<td>Restructuring of advances</td>
<td>3.82</td>
<td>0.869</td>
<td>4.13</td>
<td>0.619</td>
<td>-1.244</td>
</tr>
<tr>
<td>6.</td>
<td>Case by Case analysis</td>
<td>4.29</td>
<td>0.462</td>
<td>4.50</td>
<td>0.730</td>
<td>-1.212</td>
</tr>
<tr>
<td>7.</td>
<td>Compromise Settlement Scheme</td>
<td>4.59</td>
<td>0.500</td>
<td>4.75</td>
<td>0.447</td>
<td>-1.103</td>
</tr>
<tr>
<td>8.</td>
<td>Publishing the list of wilful defaulters through CIBIL.</td>
<td>4.41</td>
<td>0.857</td>
<td>4.00</td>
<td>1.033</td>
<td>1.483</td>
</tr>
<tr>
<td>9.</td>
<td>Enforcement of Security interests.</td>
<td>4.12</td>
<td>0.977</td>
<td>3.63</td>
<td>1.147</td>
<td>1.572</td>
</tr>
<tr>
<td>10.</td>
<td>More transparencies in the sanctioning of loans.</td>
<td>3.88</td>
<td>0.591</td>
<td>3.88</td>
<td>0.619</td>
<td>0.040</td>
</tr>
<tr>
<td>11.</td>
<td>Avoiding Political interference in the granting of loans.</td>
<td>4.47</td>
<td>0.861</td>
<td>4.13</td>
<td>0.957</td>
<td>1.277</td>
</tr>
<tr>
<td>12.</td>
<td>Making the borrowers more accountable / responsible</td>
<td>4.00</td>
<td>0.778</td>
<td>4.00</td>
<td>0.516</td>
<td>0.000</td>
</tr>
<tr>
<td>13.</td>
<td>Effective Corporate Governance</td>
<td>4.12</td>
<td>0.686</td>
<td>3.50</td>
<td>0.730</td>
<td>2.910</td>
</tr>
</tbody>
</table>
14. Proper pre-sanction / project appraisal

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14.</td>
<td>Proper pre-sanction / project appraisal</td>
<td>4.35</td>
<td>0.691</td>
<td>4.13</td>
<td>0.806</td>
</tr>
<tr>
<td>15.</td>
<td>Reduction in the target fixed for priority sector lending will reduce the level of NPAs.</td>
<td>3.41</td>
<td>0.783</td>
<td>4.00</td>
<td>0.894</td>
</tr>
</tbody>
</table>

Source: Primary data

It can be observed from Table 4.18.2 that there are no significant differences between the two bank groups namely Public sector and Private sector in the opinion of branch managers except making the bank staff more responsible, Regular monitoring of loan accounts, Effective Corporate Governance, Reduction in the target fixed for priority sectors lending will reduce the level of NPAs on suggestions for effective recovery of NPAs at branch level.

4.9.2 DIFFERENCES IN OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID/MINIMIZE THE LEVEL OF NPAS AMONG BRANCH LOCATIONS

To find whether there are significant differences among the branch locations in the opinion on the effectiveness of various suggestions to avoid/minimize the level of NPAs at branch level, ‘f’ test using one way analysis of variance has been applied and the results are given in Table 4.18.3
### TABLE 4.18.3
SIGNIFICANCE OF DIFFERENCES IN OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID/MINIMIZE THE LEVEL OF NPAs AMONG BRANCH LOCATIONS

<table>
<thead>
<tr>
<th>S. NO</th>
<th>SUGGESTIONS</th>
<th>MEAN</th>
<th>F VALUE</th>
<th>P VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>METRO</td>
<td>URBAN</td>
<td>SEMI URBAN</td>
</tr>
<tr>
<td>1.</td>
<td>Maintaining continuous rapport / relationship with borrowers.</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>2.</td>
<td>Making the bank staff more responsible.</td>
<td>3.67</td>
<td>3.64</td>
<td>4.40</td>
</tr>
<tr>
<td>3.</td>
<td>Regular monitoring of loan accounts.</td>
<td>5.00</td>
<td>4.50</td>
<td>4.50</td>
</tr>
<tr>
<td>4.</td>
<td>Inspection of the business units</td>
<td>4.33</td>
<td>4.64</td>
<td>4.10</td>
</tr>
<tr>
<td>5.</td>
<td>Restructuring of advances</td>
<td>5.00</td>
<td>3.71</td>
<td>4.20</td>
</tr>
<tr>
<td>6.</td>
<td>Case by Case analysis</td>
<td>5.00</td>
<td>4.36</td>
<td>4.00</td>
</tr>
<tr>
<td>7.</td>
<td>Compromise Settlement Scheme</td>
<td>4.67</td>
<td>4.57</td>
<td>4.60</td>
</tr>
<tr>
<td>8.</td>
<td>Publishing the list of willful defaulters through CIBIL.</td>
<td>4.33</td>
<td>4.57</td>
<td>4.10</td>
</tr>
<tr>
<td>9.</td>
<td>Enforcement of Security interests.</td>
<td>3.67</td>
<td>4.29</td>
<td>3.20</td>
</tr>
<tr>
<td>10.</td>
<td>More transparencies in the sanctioning of loans.</td>
<td>4.33</td>
<td>3.86</td>
<td>3.80</td>
</tr>
<tr>
<td>11.</td>
<td>Avoiding Political interference in the granting of loans.</td>
<td>3.33</td>
<td>4.79</td>
<td>4.10</td>
</tr>
<tr>
<td>12.</td>
<td>Making the borrowers more accountable / responsible.</td>
<td>4.33</td>
<td>4.29</td>
<td>3.80</td>
</tr>
<tr>
<td>13.</td>
<td>Effective Corporate Governance.</td>
<td>4.00</td>
<td>4.14</td>
<td>3.40</td>
</tr>
<tr>
<td>14.</td>
<td>Proper pre-sanction / project appraisal.</td>
<td>4.00</td>
<td>4.57</td>
<td>4.10</td>
</tr>
<tr>
<td>15.</td>
<td>Reduction in the target fixed for priority sector lending will reduce the level of NPAs.</td>
<td>3.33</td>
<td>3.71</td>
<td>3.60</td>
</tr>
</tbody>
</table>

Source: Primary data
It can be seen from the Table 4.18.3 that there is significant difference among the branch locations in the opinion on Restructuring of advances, Case by Case analysis, Publishing the List of willful defaulters through CIBIL, Avoiding Political interference in the granting of loans, Making the borrowers more accountable / responsible, Proper pre-sanction / project appraisal on only at 5 percent level but there is no significant difference in the opinion on all other suggestions for effective recovery on NPAs at branch level.

4.10 OPINION ON THE REASONS FOR DECLINE IN THE LEVEL OF NPAs SINCE 2002

The analysis of secondary data reveals a significant decline in the level of non performing assets of Scheduled Commercial banks since 2002 but in the year 2005-06 onwards it has an increasing trend due to change in asset classification norms. However, an attempt has been made to find the reasons for decline in the level of NPAs. The most important reasons have been identified and given to the branch managers of Public and Private sector banks during the field of survey for ranking. The following are the reasons identified for ranking:

- Improvement in quality of advances
- Financial discipline on the part of borrowers
- Legal measures
- Personal effort of managers and staffs
- Improvement in credit approved
- Write off

The ranks are given by the respondents to the various measures for decline in NPAs level of banks are presented in Table 4.19
TABLE 4.19
OPINION ON THE REASONS FOR DECLINE IN THE LEVEL OF NPAs

<table>
<thead>
<tr>
<th>S.NO</th>
<th>VARIABLES</th>
<th>OPINION SCORE</th>
<th>MEAN SCORE</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Improvement in quality of advances</td>
<td>50</td>
<td>1.00</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Improvement in credit appraisal</td>
<td>42</td>
<td>0.84</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Legal measures</td>
<td>40</td>
<td>0.80</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>Financial discipline on the part of borrowers</td>
<td>36</td>
<td>0.72</td>
<td>4</td>
</tr>
<tr>
<td>5.</td>
<td>Personal effort of managers and staffs</td>
<td>36</td>
<td>0.72</td>
<td>4</td>
</tr>
<tr>
<td>6.</td>
<td>Write off</td>
<td>6</td>
<td>0.12</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Primary data

It is seen from Table 4.19 that the improvement in quality of advances in declining the level of NPAs has been accorded the highest importance with a mean score of 1.00, which is followed by improvement in credit appraisal as the second most important reason for decline in the level of NPAs of banks. However, write off NPAs has been given the least rank.

4.11 OPINION ON GENERAL COMMENTS AND SUGGESTIONS

The response by the sample branch managers to the general comments and suggestions on Credit Risk Management System to oversee the management of NPAs is given in Table 4.20
<table>
<thead>
<tr>
<th>S.NO</th>
<th>NATURE OF COMMENTS AND SUGGESTIONS</th>
<th>MEAN SCORES</th>
<th>SD</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loans sanctioned under government sponsored schemes turn into NPAs as compared to other categories.</td>
<td>4.18</td>
<td>1.0039</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>The banking sector reforms have helped in enhancing the productivity and efficiency of the economy as a whole and increase the international competitiveness of the Indian banks.</td>
<td>4.02</td>
<td>0.8449</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>In Indian banking system some NPAs are inevitable and cannot be totally eliminated.</td>
<td>3.96</td>
<td>0.7814</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>60 days notice on defaulters under SARFAESI Act by banks to exercise security interest is sufficient to the borrowers to make good his cues to the bank.</td>
<td>3.80</td>
<td>0.8806</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Loan to priority sector turn in to NPAs more often than other sectors.</td>
<td>3.54</td>
<td>1.1287</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>The amended sec.19 of DRTs act which directs that the banks cannot take action simultaneously under SARFAESI Act and through DRTs will not affect the process of recovery of NPAs.</td>
<td>3.20</td>
<td>1.0302</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Staff strength in the branch is adequate for dealing with NPAs.</td>
<td>2.96</td>
<td>1.3547</td>
<td>7</td>
</tr>
</tbody>
</table>
The advances of banks have reduced considerably on account of huge NPAs.

NPAs are mainly due to high operating cost in terms of interest rate, processing charges, report charges, supervision, follow up charges etc.

The 90 days norms shall be reduced to 60 days to enhance the quality of advances.

Source: Primary data, Standard Deviation

It is observed from the Table 4.20 that branch managers have agreed to the largest extent with the statement like ‘loans sanctioned under government sponsored schemes turn into NPAs when compared to other categories’ followed by the statement ‘banking reforms have helped in improving productivity and efficiency of the economy and increasing the competitiveness of banks and NPAs cannot be eliminated totally’. Similarly the managers favour least the statement ‘reducing the NPAs from 90 days to 60 days so as to increase the quality of advances’.

CONCLUSION

The analysis of primary data reveals that the NPAs are mostly influenced by willful defaults and diversification of funds. Majority of sample branch managers are getting support from head office and co-bankers in the recovery of NPAs. In the opinion of branch managers, the measures like Compromise Settlement, SARFAESI Act and visit to the borrowers’ premises are considered effective in the recovery of NPAs. The impact of NPAs on profitability and solvency of banks is high and significant. It is felt that the suggestion of pre-loan appraisal has been the most important factor to prevent the occurrence of fresh NPAs. The personal efforts of the managers and staff and improvements in quality advances, financial discipline on the part of borrowers have been ranked as most important reasons for the decline in the level of NPAs since 2002 onwards.