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CHAPTER - V
SUMMARY OF FINDINGS AND CONCLUSION

5.1 INTRODUCTION

The major activities of a bank are to deal with money and people. Since the money and people are highly sensitive, they are to be handled carefully with more skills and knowledge. Today the non performing assets are posing a session’s threat to the banking industry. The financial health of the banks is greatly affected by the NPAs. The high level of NPAs is the greatest impediment to the economic growth of the country and any bottleneck in the smooth flow of credit is bound to create adverse repercussions of NPAs which has emerged as one of the major challenges for the banks.

The present study has analyzed the Credit Risk Management System employed to oversee the magnitude of NPAs of four bank groups in India namely, Public Sector Bank groups, Old Private Sector Bank groups, New Private Sector Bank groups and Foreign Bank groups; examined the Credit Risk Management System regarding recovery of NPAs by SCBs through various measures recommended by RBI and studied the implication of NPAs on selected macro economic and micro banking variables. The effectiveness of NPAs management by SCBs has also been studied through scaling technique using secondary data. In addition, the perceptions of branch managers on the various aspects relating to Credit Risk Management System on treatment of NPAs at branch level have been studied based on primary data collected through field survey.

The summary of major findings of the present study and suggestion for effective management of NPAs and reduction of credit risks associated with NPAs are presented in the following paragraphs.
SUMMARY OF FINDINGS

5.2 MAGNITUDE OF CREDIT DEPOSIT RATIO

5.2.1 The percentage of Credit deposit ratio of SCBs has increasing trend and it also prevails above the standard ratio of 60 percent.

5.2.2 The percentage of Credit deposit ratio of Public Sector Bank groups has an increasing trend and the banks have a strong credit disbursement network.

5.2.3 The Credit deposit ratio of Old Private Sector Bank groups has an increasing trend and Compound Growth Rate of credits is more than the deposits.

5.2.4 The Credit deposit ratio of New Private Sector Bank groups has a remarkable increase of more than 83 percent and the Compound Growth Rate of deposits and credits has increased proportionately by each other.

5.2.5 The Credit deposit ratio of Foreign Bank groups has an increasing trend from 71.42 percent on 2001-02 to 81.24 percent on 2010-11 and the Compound Growth Rate of deposits (18.2 percent) and credits (18.6 percent) has also increased proportionately. Foreign Bank groups have a strong credit disbursement network.

5.3 MAGNITUDE OF CAPITAL ADEQUACY RATIO

The Capital Adequacy Ratio of all Scheduled Commercial Banks i.e. all bank groups has an increasing trend during the study period.
The standard capital adequacy ratio is 11 percent. From 2001-02 to 2010-11, the Capital adequacy ratio has increased and it is shown as follows: Public Sector Bank groups from 12.5 percent to 17.7 percent, New Private Sector Bank groups with 12.3 percent to 14.2 percent, Foreign Bank groups has 12.9 percent to 14.2 percent. All the bank groups in India have maintained their capital adequacy ratio above the standard ratio. Therefore, banks are having a strong capital base to meet the time liability and other risks such as credit risk, operational risk etc.

5.4 MAGNITUDE OF NPAs OF BANKS
5.4.1 The share of PSB groups in the gross advances of SCBs is high (i.e.) more than 75 percent of the total advances of bank groups in India provided by PSB groups followed by New Private Sector Bank groups (14.4 percent), Foreign Bank groups (5.7 percent) and Old Private Sector Bank groups (4.83 percent) as on 31st March 2011.

5.4.2 The share of PSB groups in the gross NPAs of SCBs is high 75.9 percent followed by New Private Sector Bank groups with 13.02 percent, Old Private Sector Banks groups with 5.59 percent and closely followed by Foreign Bank groups with 5.49 percent.

5.4.3 The growth rate on gross NPAs in respect of all the bank groups remains positive except Old Private Sector Bank groups during the study period. New Private Sector Bank groups and Foreign Banks groups have a remarkable growth of 11.9 percent and 11 percent respectively. The gross NPAs of Old Private Sector Bank groups have reduced considerably by 4.5 percent.

5.4.4 The gross NPAs ratio of SCBs has declined from 10.4 percent in 2001-02 to 2.25 percent in 2010-11 and that of PSB groups has declined from 11.1 percent to 2.23 percent, New Private Sector Bank groups have declined from 8.9 percent to 2.33 percent, Old Private Sector Bank groups has declined from 11 percent to 1.97
percent, Foreign Bank groups has declined from 5.4 percent to 2.54 percent during the study period.

5.4.5 The negative growth rate of gross NPAs ratio for all bank groups during the study period are found to be significant.

5.4.6 The Compound Growth Rate of gross problem assets ratio for all bank groups have negative growth of SCBs by 14.2 percent, PSB groups by 15.1 percent, Old Private Sector Banks groups by 16.3 percent, New Private Sector Bank groups by 10 percent and Foreign Bank groups by 8.2 percent and it found to significant during the study period.

5.4.7 The Net Advances of SCBs in India, the share of PSB groups has more than 75 percent of total net advances of among four bank groups in India followed by New Private Sector Bank groups (14.43 percent), Foreign Bank groups (5.7 percent) and Old Private Sector Bank groups (4.82 percent).

5.4.8 The Compound Growth Rate of Net advances of all bank groups is positive and significant during the study period.

5.4.9 The Net NPAs in respect all four bank groups have shown a decreasing trend till the year 2005-06 and then it increased gradually in the subsequent years of the study period due to change in assets classification norms from 180 days to 90 days on 31st March 2005.

5.4.10 The Compound Growth Rate of net NPAs are negative as a whole for New Private Sector Bank groups (18.3 percent), Old Private Sector Banks groups (17.9 percent), Public Sector Bank groups (15.3 percent) and Foreign Bank groups (5.9 percent) and significant during the study period.
5.4.11 All the four bank groups have witnessed a declining trend in their net NPAs ratio during the study period. The Compound Growth Rate of net NPAs ratio of all four bank groups is negative and significant.

5.4.12 The Net Problem Assets ratio of SCBs as a whole the PSB groups, Old Private Sector Bank groups, New Private Sector Bank groups and Foreign Bank groups is less than one present from 2005-06 onwards during the study period.

5.4.13 The Compound Growth Rate of Net Problem Assets ratio of all the four bank groups is negative and significant during the period of study.

5.5 ANALYSIS OF LOAN ASSET QUALITY OF BANKS

5.5.1 The proportion of Standard Assets (Performing Assets) in the total loan assets of SCBs has been increasing during the study period which may be attributed to both increased recovery of NPAs and overall reduction in asset slippages. There is significant decline in the share of doubtful assets, substandard assets and loss assets in the total advances of SCBs till the year 2007-08, thereafter it has an increasing trend in the composition of all loan assets for the remaining period of study.

5.5.2 The proportion of Standard Assets in the total advances of all the four bank groups namely Public Sector Bank groups, Old Private Sector Bank groups, New Private Sector Bank groups and Foreign Bank groups has been increasing during the period of study. There is significant decline in the share of doubtful assets, substandard assets and loss assets in the total advances of all the four bank groups till the period of 2007-08 thereafter, it has an increasing trend in the composition of all loan assets for the remaining period of study.

5.5.3 The sub standard asset ratio of SCBs, Public Sector Bank groups, Old Private Sector Bank groups, New Private Sector Bank groups and Foreign Bank groups
are declining significantly till the period of 2005-06 indicating upgradation of Performing Assets. Thereafter the substandard ratio has increasing trend during the remaining period of study which shows the high degradation of performing assets which leads to increase the level of NPAs.

5.5.4 The Compound Growth Rate of Substandard Asset ratio shows a positive growth of 7.7 percent for PSB groups, 2.9 percent for Old Private Sector Bank groups, 1.7 percent for New Private Sector Bank groups, 8.4 percent of Foreign Bank groups and 7.4 percent of SCBs as a whole during the study period.

5.5.5 The Doubtful Asset ratio for all four bank groups has decreasing trend except in the year 2004-05 and 2010-11. The Compound Growth Rate of doubtful assets ratio of all bank groups are negative and significant during the study period.

5.5.6 The growth rates of Loss Asset ratio of all the four bank groups are negative except Private Sector Bank groups (Old and New) and significant except Private Sector Bank groups during the study period

5.6 ANALYSIS OF SECTOR-WISE NPAs OF BANK GROUPS

5.6.1 While the share of priority sector in Gross NPAs of PSB groups has increased from 44.49 percent on 2001-02 to 63.62 percent as on 2007-08, the share of Public Sector has declined from 1.97 percent to 0.4 percent during the study period and Non priority sector has also decreased significantly from 53.54 percent to 35.63 percent on 2007-08 and to 41 percent on 2010-11. The Compound Growth Rate of sector-wise NPAs has a negative growth.
5.6.2 The share of SSIs in the total NPAs under priority sector advances of PSB groups declined from 18.73 percent as on 2001-02 to 14.6 percent as on 2007-08 and it has increased to 20.2 percent on 2010-11 and the share of agriculture has increased from 13.84 percent as on 2001-02 to 20.4 percent as on 2010-11. The Compound Growth Rate of priority sector advances, NPAs under advances to others sector has increased by 62.9 percent followed by agriculture with 7.3 percent.

5.6.3 The share of non priority sector in Gross NPAs of Old Private Sector Bank groups has declined from 60.46 percent as on 31st March 2002 to 54.45 percent as on 31st March 2011 and that of Public Sector has declined from 0.18 percent to 0.03 percent as on 2005-06. In the year 2006-10, there are no NPAs in Public Sector and in the year 2010-11, it is 4 percent. But the share of Priority sector has increasing trend from 39.35 percent as on 2001-02 to 52.34 percent as on 2007-08 and it has decreased to 41.57 percent during the remaining period of study. It has negative Compound Growth Rate in public sector (35.6 percent), non priority sector (8.1 percent) and priority sector (3 percent).

5.6.4 While the share of SSIs in the total NPAs under Priority sector Advances of Old Private Sector Bank groups has declined from 21.15 percent as on 2001-02 to 14.33 percent on 2010-11, the share of Agriculture has increased from 6.06 percent to 10.84 percent during the study period. The share of others under priority sector has increased from 12.14 percent to 28.83 percent as on 2007-08 and it decreased to 16.41 percent during the study period.

5.6.5 While the share of Priority sector in the Gross NPAs of New Private Sector Bank groups has increased marginally from 9.35 percent to 22.6 percent during the
study period, the share of Non priority sector has declined from 90.32 percent to 77.4 percent during the study period.

5.6.6. The share of SSI in the total NPAs under Priority sector advances of New Private Sector Bank groups has declined from 6.74 percent to 2.6 percent during the study period.

5.7 **RECOVERY OF NON PERFORMING ASSETS OF BANK GROUPS**

5.7.1 The percentage of recovery of NPAs by SCBs through Lokadalats has lies between 14.02 percent as on 2003-04 to 14 percent as on 2006-07. It is considered as better recovery channel next to the SARFAESI Act 2002. But in the year 2007-08 onwards it has decreasing trend of recovery from 8.2 percent to 2.87 percent on 2010-11.

5.7.2 The percentage of NPAs recovery by SCBs through DRTs has increased from 17.2 percent in 2003-04 to 81 percent as on 2008-09 and thereafter it has declined to 27.89 percent. But in the year 2008-09 it has a remarkable recovery rate of NPAs of 81 percent, it indicates the better recovery performance of DRTs.

5.7.3 The percentage of NPAs recovery by SCBs through enforcement of security interest under SARFAESI Act has increased from 14.73 percent in 2003-04 to 61 percent in the year 2007-08. The SARFAESI Act is considered as most important channel for recovery NPAs in India. Thereafter, the recovery rate of NPAs through SARFAESI Act has declined to 37.78 percent on 2010-11.

5.7.4 The percentage of recovery of NPAs by SCBs through One Time Settlement and Compromise Settlement Scheme has increased from 40.86 percent in 2003-04 to 78.76 percent in the year 2005-06.
5.7.5 During 2004-2005, several banks and certain financial institutions sold their NPAs to the ARCIL to the extent of Rs.15,343 crores. The setting up of the Asset Reconstruction Corporation of India Ltd (ARCIL) has provided a major boost to banks’ efforts to recover their NPAs.

5.7.5.1 In the year 2005-2006, ARCIL acquired Rs.21,126 crores of NPAs of banks. The portfolio of assets acquired by ARCIL was diversified across major industry segments, which were generally performing well in the stock market.

5.7.5.2 At the end of June 2007, the book value of total amount of assets acquired by SCs/RCs registration with the RBI stood at Rs.28,544 crores. The security receipts subscribed to by banks amounted to Rs.6,894 crores. The security receipts redeemed amounted Rs.660 crores.

5.7.5.3 At the end June 2008, the book value of total amount of assets acquired by SCs/RCs registered with the RBI was at Rs.41,414 crores, showing an increase of 45.1 percent during the year July 2007 to June 2008. While security receipts subscribed to by banks amounted to Rs.8,319 crores, security receipts redeemed amounted to Rs.1,299 crores.

5.7.5.4 In the year 2009, as at end June 2009, the book value of total amount of assets acquired by SCs/RCs registered with the RBI was Rs.51,542 crores, showing an increase of 24.5 percent during the year July 2008 to June 2009. While security receipts subscribed to by banks amounted to Rs.9,570 crores, security receipts redeemed amounted to Rs.2,792 crores.

5.7.5.5 Of the total amount of assets securitized by these companies at the end June 2010; the largest amount of Rs.10,314 crores was subscribed to by bank. However, there was a steady decline in the percentage share of banks in total value of securitized assets in the recent years.
5.7.5.6 In 2010-2011, the book value of assets acquired by SCs/RCs grew at 19 percent (74,088 crores) over the previous year. Out of the total security receipts issued by SCs/RCs in 2010-2011, 71 percent (11,233 crores) was subscribed by banking sector.

5.8 PERCEPTIONS OF BRANCH MANAGERS ON THE CREDIT RISK MANAGEMENT SYSTEM TO OVERSEE THE MANAGEMENT OF NPAs

5.8.1 GENERAL OPINION OF BRANCH MANAGERS

5.8.1.1 Among all finance activities, most of the sample branches are providing financing assignment to business activities followed by personal segment and agricultural activities.

5.8.1.2 Majority (92 percent) of the sample respondents are accepting land and building as securities to sanction credits.

5.8.1.3 Majority (64 percent) respondents are getting financial details of borrowers through CRISIL followed by personal asking with neighbouring banks followed by getting information from Credit Cell and only 28 percent of the branches are having internal risk rating system.
5.8.1.4 A majority (84 percent) of the respondents collect the information to assess the creditworthiness of the borrowers by previous loan transaction in the same branch followed by getting information from neighboring banks.

5.8.1.5 Most of the respondents (88 percent) have identified the source of repayment of borrowers through income or salary statement followed by assessment of balance sheet (84 percent) and income tax assessment order (48 percent).

5.8.1.6 A majority (76 percent) of the respondents have opined that, the repayment of credit is prompt and the balance 24 percent of respondents have opined that the repayment of credit is irregular which turns into nonperforming assets.

5.8.1.7 Most of the respondents (80 percent) have reasoned that difficulty to realize the securities is due to deterioration, maintenance etc., accompanied by market fluctuation (76 percent) and only 16 percent of the respondents have opined that the fake securities are the reasons for the failure to realize the desired return.

5.8.1.8 Among sample respondents, 84 percent of the respondents have opined that the non payment of loan arises from willful borrowers, followed by from first time borrowers (44 percent).

5.8.1.9 The level of NPAs in business activities has been ranked as first because most of the sample branches are providing more amounts of its credits to business activities followed by personal segment and agricultural activities.

5.8.2 OPINION ON CAUSES OF NPAs

5.8.2.1 Willful default has been ranked as the most important reason for NPAs followed by Diversion of funds, Business failure. Selection of inappropriate technology and Inflation has been given the least rank.
5.8.2.2 There are no significant differences between the bank groups in ranking of factors influencing NPAs by their branch managers except diversion of funds, under financing, willful default, improper selection of borrowers, lack of proper post supervision and follow up and loan to priority sector advances.

5.8.2.3 There are no significant differences between the branch locations in ranking of factors influencing NPAs by the branch managers except in respect of factors namely diversion of funds, selection of in appropriate technology, accidents and natural calamities, loan waiver and wrong guidance given by political parties.

5.8.3 OPINION ON IMPACT OF NON PERFORMING ASSETS

5.8.3.1 In the opinion of managers, the impact of NPAs is felt mostly on profit (i.e.) reduction in profit followed by increase in the operating expenses, decrease in return on assets, liquidity of the bank, capital adequacy ratio and considerable reduction in advances of the banks. However, the impact of NPAs on borrowing capacity of bank and repayment of deposits and recycling of funds has been ranked low.

5.8.3.2 While there are significant differences between the bank groups in their opinion on the level of impact of NPAs on the borrowing capacity of the bank, solvency liquidity of the bank, ability of finance to other profitable ventures and increasing the operating cost of the bank, there are no significant differences between bank groups in their opinion on the level of impact on their performance variables.

5.8.3.3 There are no significant differences among the branch location in the opinion on the level of impact of NPAs on the selected performances variable except repayment of deposits, capital adequacy ratio, ability of finance to other profitable ventures and considerable reduction in advances of banks.
5.8.4 OPINION ON EFFECTIVENESS OF VARIOUS RECOVERY MEASURES

5.8.4.1 All the given recovery channels are used by the branch managers regarding recovery of NPAs but Bankadlat the recently introduced channel by the RBI for recovery of NPAs has been used only by 24 percent of sample branch managers.

5.8.4.2 In the opinion of the bank managers, for effective recovery of NPAs, Compromise Settlement Scheme ranked as first followed by enforcement of security interest under SARFAESI Act, then by other means in the following order: by visit to borrowers’ premises, Recovery camp and One Time Settlements (OTS)

5.8.4.3 There are no significant differences between bank groups in the perceptions of their branch managers on the effectiveness of recovery measures recommended by RBI and Government except Civil Court, Visit to borrowers’ premises and Sale through ARCs

5.8.4.4 There are significant differences among the branch locations, namely Metro, Urban, Semi-urban and Rural branch in their opinion on effectiveness of NPAs recovery measures regarding Compromise Settlement, Recovery camp and Civil Courts.

5.8.5 OPINION ON SUPPORT FROM VARIOUS AGENCIES REGARDING RECOVERY OF NPAs

5.8.5.1 The majority (84 percent) of branch managers have the support from Head office in the recovery of NPAs followed by Co-bankers (72 percent), Government agencies (64 percent) and Trade associations and other agencies (48 percent)

5.8.5.2 The majority (72 percent) of branch managers have the support from Co-bankers in the recovery of NPAs and such a support or lock of it has no significant
association with the bank groups and there is a significant association between opinion on support from co-bankers and branch locations.

5.8.5.3 The majority (84 percent) of branch managers have 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 and their areas of operations.

5.8.5.4 The majority (64 percent) of branch managers have the support of Government agencies in the recovery of NPAs and such a support or lack of it has no significant association with the bank groups and there is a significant association between opinion on support from government agencies and branch locations.

5.8.5.5 The majority (52 percent) of branch managers do not have the support of Trade associations in the recovery of NPAs and such a support or lack of it has no significant associations with the bank groups in which they work and their areas of operations.

5.8.6 OPINION ON ISSUES ON MANAGEMENT OF NPAs

In the opinion of the branch managers regarding the management of NPAs, provision of the SARFAESI Act, waiver of loan to be abolished, analysis of financial statement of borrowers, appraisal of the amount and timing of cash flows are given highest ranking and the agricultural loans below Rs. 1 lakh and unsecured loans which are outside the purview of SARFAESI Act has been ranked as low.
5.8.7 OPINION ON SUGGESTIONS FOR EFFECTIVE MEASURES TO AVOID/MINIMIZE THE LEVEL OF NPAs

5.8.7.1 In the opinion of branch managers regarding, maintaining continuous rapport or relationship with borrowers, compromise settlement Scheme, regular monitoring of loan accounts, inspection of the business units, case by case analysis, publishing the list of willful defaulters through CIBIL are given highest ranking as far as the effective measures to avoid/minimize NPAs are concerned. However, the lowest ranking is given to more transparencies in the granting of loans and reduction of priority sector lending.

5.8.7.2 While there are significant differences between the bank groups in their opinion on suggestions for effective measures to avoid/minimize the level of NPAs such as maintaining continuous rapport/relationship with borrowers, making the bank staffs more responsible, effective Corporate Governance and reduction of priority sector lending, there are no significant differences among the bank groups in their opinion with regard to all other suggestions for effective measures to reduce the level of NPAs at branch level.

5.8.7.3 There is significant differences among branch locations in their opinion on reconstruction 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 responsible and accountable, proper pre-sanction appraisal and effective corporate governance, but there are no significant differences among the branch locations in their opinion on all other suggestions for effective measures to reduce the level of NPAs at branch level.

5.8.8 OPINION ON THE REASONS FOR DECLINE IN THE LEVEL OF NPAs SINCE 2002
Improvement in quality of advances in the recovery of non performing assets has been accorded the highest importance followed by improvement in credit appraisal made by Credit Risk Management System in the banks as the second most important reason, legal measures and personal effort of managers and staffs in the recovery of NPAs are considered as the other important reasons for decline in the level of non performing assets of banks, write-off of non performing assets has been given the least rank.

5.8.9 OPINION ON GENERAL COMMENTS AND SUGGESTIONS

The branch managers have agreed to the largest extent with the statement like ‘loans sanctioned under government sponsored schemes turn into NPAs than other categories’ followed by ‘the 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 are in the least favourable to reducing the NPAs norms from 90days to 60days so as to increase the quality of advances.

5.8.10. SUGGESTIONS

Based on the major findings of the study, the following suggestions are offered to have effective credit risk management system to control the NPAs and increase the profitability and productivity of the banks.

5.8.10.1. SUGGESTIONS TO THE GOVERNMENT OF INDIA AND RBI

5.8.10.1.1 A high powered committee on the credit risk management system to oversee the management of NPAs comprising of legal experts and a peer team who have wide knowledge in the field of global financial sector should be setup. The proposed committee should also address the effective Credit Risk Management System to oversee the Credit deposit Ratio, Capital Adequacy Ratio and the NPAs related issues especially on unsecured advances, priority sector lending, micro financing , secured advances and the likes.
5.8.10.1.2 Management of NPAs requires specialized skill and knowledge, most of the Foreign Banks are engaging professional agencies right from the stage of identification of genuine borrowers till the recovery of advances. However, banks in India are not permitted at present to engage such agencies. If they are permitted to use such agencies in the effective management of credit risk, it would reduce the cost of managing such funds and thus to enhance competitiveness in financing. International experiences also show a positive sign on the engagement of professional agencies by the banks.

5.8.10.1.3 The concept of securitization is at present getting momentum worldwide. It gives mutual benefits to the lenders and borrowers on the effective utilization of funds. Hence, RBI should formulate an ideal framework, keeping in mind the global scenario for securitization of stressed assets of banking sector advances to reduce the level of NPAs at minimum possible level.

5.8.10.1.4 The RBI insists that all banks be subjected to assessment and accreditation by a special rating agency approved by RBI. The NPAs level should be one of the criteria for evaluating the performance of the banks. Based on this, banks would be given grades by the rating agencies. This will improve the image and ultimately help the stakeholders of the banking industry.

5.8.10.1.5 The sharing of credit information is vital for banks. Hence, the functioning of CIBIL should be strengthened to facilitate smooth flow of credit information among the banks and guidelines should be sent to all the banks compulsorily, credit information about their borrowers should be supplied to CIBIL.

5.8.10.1.6 The ARCIL has been playing a critical role in the sale of NPAs of the banks. Hence, permission should be given for setting up more numbers of ARCs
and banks must be encouraged to sell this stressed asset to ARCs. This will also reduce the burden of bank employees who are engaged in the recovery process.

5.8.10.1.7 At the present, the percentage of recovery of NPAs through Civil Courts is highly time consuming, more DRTs should be setup to speed up the recovery of NPAs. Existing DRTs should be strengthened in terms of infrastructure, staff and expertise.

5.8.10.2 SUGGESTIONS TO THE BANKERS

5.8.10.2.1 The borrowers should be educated that repayment of loans is their social responsibility. For this purpose, an association of borrowers at branch level should be organized to inculcate the accountability of borrowers to repay the loans promptly. The proposed association should also address grievances and inconvenience of the borrowers in the repayment of loans. Besides, it should also act as supplier of information to the borrowers.

5.8.10.2.2 The bank should formulate a comprehensive credit insurance scheme especially for priority sector lending and government sponsored scheme in order to make good the losses on account of NPAs. For this there should be a proper co-ordination between bank and the government agencies to solve problems associated with the NPAs. Besides, a separate Credit Risk Management System should be established in every branch to monitor the stressed loan accounts under priority sector and government sponsored scheme.

5.8.10.2.3 In case the borrower’s ability to repay the dues and banker’s ability to recover the same are limited, it would be better to organize more Recovery camps, Compromise Settlements Scheme and Lokadalats. The Bankers should take adequate measures to strengthen banker’s customer relationship. The branch manager should be given sufficient powers to accept the compromise proposals
worked out at the Lokadalats within the broad policies and guidelines of each individual bank at rural and semi-urban areas.

5.8.10.2.4 The SARFAESI Act has given the required power to fight the menace of the NPAs for effective recovery of NPAs; the banks should initiate the legal action under this act where there is no room for Compromise Settlement.

5.8.10.2.5 The quality of loan assets ensures the profitability and competitiveness of the bank. Hence, bank should be very cautious in identifying genuine borrowers and ask them to provide complete information to be stored in a database and monitor the loan accounts closely to prevent slippage of loan accounts into NPAs category.

5.8.10.2.6 Each bank should set up separate ARCs to take over the bad and doubtful debts at a discount so that the responsibility of managing NPAs can be minimized.

5.8.10.2.7 In the case of loan accounts where recovery is affected by temporary problems or natural causes, necessary steps should be taken by the branch managers for rescheduling or restructuring of such loan accounts before they slip into NPAs category. Slippages from standard assets to NPAs category should be regularly monitored and recovery measures should be intensified to prevent such slippages in future.

5.8.10.2.8 Know Your Customer (KYC) norms should be implemented very strictly by every bank, since the decision regarding sanctioning of loans depends upon the information available about the integrity of character, capacity, family background, knowledge, technical competence, managerial capabilities, initiative and market standing of the borrowers, the banks should maintain a proper information system using the information technology.
5.8.10.2.9 The experiences of branch covered in the present study indicate the recovery of NPAs is possible if adequate care is taken by the bank officials. Hence, there should be pragmatic approach, sincerity and involvement on the part of the branch officials. They should shoulder the responsibility of recovery more enthusiastically and confidentially.

5.8.10.2.10 The bank should make vigorous effort to strengthen the internal control and risk management system and set up early warning signals to detect the NPAs at the early stage and initiate necessary actions.

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5.8.10.3 SUGGESTIONS TO THE BORROWERS

Willful defaults and diversion of funds are the major reasons for chronic NPAs. To avoid this, a quality circle should be formed among borrowers in consultation with bankers. Defaulters should be prompted by fellow borrowers in regulating their loan accounts. The quality circle should be created for healthy practices among the borrowers in the repayment of loans. A self control mechanism as a part of quality circle should be evolved to avoid willful default and diversion of funds.

CONCLUSION

In the present study, a sincere attempt has been made to analyze the parameters of Credit Risk Management Systems to oversee the management of NPAs by banks and together the experiences of branch managers of both Public and Private Sector Bank groups in metro, urban, semi-urban and rural areas which suggest that recovery of NPAs
will be more effective if proper care is taken by bank officials in shouldering the recovery drive more enthusiastically and confidently. The SARFAESI Act has significant positive implication in the recovery of NPAs by banks. With the passage of the Enforcement of Security Interest and Recovery of Debt Laws (Amendment) bill on 7th December 2004 by the Central Government, the recovery of NPAs has improved significantly. The success of credit risk management requires maintenance of proper credit risk environment, credit strategy and policies to manage the credit risk. Thus the ultimate aim is to protect and improve the loan quality to reduce the level of NPAs.

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