CHAPTER-2

REVIEW OF LITERATURE AND GENESIS OF COMMITTEE

It is the pre-requisite for any systematic study, to review all the available relevant literature in order to design the study in a meaningful way. It also helps in framing the research questions appropriately basing on the available experiences in the study area.

In view of the importance of NPAs management in banks and in the process of reducing NPAs, large number of studies has been carried out by researchers, on the concept, type, impact, reasons and measures for NPAs in banking industry. Several research studies have been made by academicians, research institutions, Government, working groups and committees appointed by the RBI related to the commercial banks in general and also specific studies pertaining to individual banks focusing on NPAs. Research Students from various institutions and universities have also made significant contribution to this literary wealth.

The available literature relating to NPAs is in the form of committee reports, text books, research publications, review from magazines, and group of studies. However, review of relevant research papers published since and a brief review of all other available committee reports, text books and research reports relevant to the study area have been presented chronologically under different categories – Committee Reports, Text books, Research Publications, Review from Magazines, and Group of studies.

2.1 COMMITTEE REPORTS

(Tandon, 1975) Tandon Committee Report (1975)\(^1\) In the background of the new approach to lending after the Nationalization of the 14 Major Commercial Banks in 1969, with the emphasis shifting from security-oriented approach to production related lending, so that banks should keep in close touch with the operations of the borrowers so as to

\(^1\) Tandon, “Report of Tandon Committee to suggest guidelines for commercial banks”, 1975

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ensure that the borrowed funds were properly utilized if the desired objectives were to be achieved. It was considered necessary in view of the unprecedented inflation in 1973-74 and in the context of the imbalance in the demand for and supply of bank credit and the need to curb the use of bank credit for hoarding commodities in short supply.

The Reserve Bank of India constituted a Study Group popularly known as Tandon Committee in July, 1974 for framing guidelines for commercial banks for follow–up and supervision of bank credit for ensuring proper end-use of funds. The Study Group was asked to make recommendations for obtaining periodical forecasts from the borrowers of their business or production plans and credit needs, suggest an information system for the flow of data from the borrowers to the financing banks and from the latter to the Reserve Bank.

(Chore, 1979) Chore Committee Report (1979)\(^2\) reviewed the operation of the cash credit system of lending, particularly with reference to the gap between the sanctioned credit limits and the extent of their utilization. The Committee was required to suggest modifications in the system with a view to making it more amenable to the judicious and rational management of funds by commercial banks. The Committee was also authorized to suggest and recommend alternative types of credit facility so as to ensure greater credit discipline and use of credit limits for increasing production.

This Committee observed that the system of lending should have certain attributes so that it works effectively. The banks should be amenable to rational management of funds by banks. The banks should be able to relate credit limits to changes in output and productive activity. The system should be amenable to credit control measures by the Reserve Bank of India. The system should be convenient in terms of operation both to the banks and their customers.

The Committee indicated that the gap between the sanctioned limits and their utilization is not unique in India only. The gap arises as the credit limits are fixed on the basis of peak level requirements. Sometimes the utilization is low due to the tendency on the part of some of borrowers to inflate their credit requirements while submitting their

\(^2\) Chore K.B., “Report of Chore Committee for ensuing greater credit discipline and credit limits”, April,1979
applications as they need not to pay any commitment charge for the unutilized portion of the limit.

(Pendarkar, 1981) Pendharkar Group Report (1978)\(^3\) recognized the need for classifying advances into different categories, to index the overall quality of the asset portfolio. This was the starting point for the introduction of the health coding system of bank loan portfolio by the Reserve Bank of India in 1985. This system provided information regarding the health of individual advances, the quality of credit portfolio and the extent of advances causing concern in relation to total advances. It was considered that such information would be of immense use of bank management for control purposes.

(Basel, 1988) Basel Group Report (1988)\(^4\) adopted weighted risk assets which assigns weights to both on and off balance exposure of a bank according to their perceived risk, as the method of measuring capital adequacy and set the minimum standard at 8 percent to be achieved by the end of 1996.

(Narasimham, 1991) Narasimham Group Report (1991)\(^5\) led to the erroneous belief that there was little worry about a low capital base of the banks. The lack of proper disclosure norms led to the problem being kept under cover. Poor internal controls raised serious doubts about the integrity of the system. All this was reflected in the need for higher spreads that pointed to the inefficiency of the system. By 1990, there was a cause for serious concern on account of poor financial condition of public sector commercial banks and financial institutions. The Government appointed a high level committee headed by M. Narasimham, Ex-RBI Governor, to examine all aspects relating to the structure, organization, functions and procedures of the financial system. The Committee made certain recommendations relating to Capital Adequacy Norms, Prudential Norms, Revaluation of the Assets, SLR, CRR, etc.

\(^3\) Pendarkar, “Report of Pendarkar to recognize the need for classifying advances into different categories, 1981
\(^4\) Basel, “Report of Basel to release the agreed frame work on International convergence of capital measure and capital standards”, 1988
\(^5\) Narasimham, “Report on Narasimham Committee to examine all aspects relating to the structure, Organization, function and procedures of the financial system”, 1991
2.2 TEXT BOOKS

(Mohan R., 2009) Rakesh Mohan (2009)\(^6\) opined that, since the beginning of reforms a set of micro-prudential measures have been stipulated aimed at imparting strength to the banking system as well as ensuring safety. With regard to prudential requirements, income recognition and asset classification (IRAC) norms have been strengthened to approach international best practice. Despite tightening norms, there has been considerable improvement in the asset quality of banks. Improvement in the credit appraisal process, upturn of the business cycle, new initiatives for resolution of Non-Performing Loans (NPLs) and greater provisioning and write off of NPLs enabled by greater profitability, have kept incremental NPLs low.

(Jain V., 2007) Jain Vibha (2007)\(^7\) detailed on commercial banks, various aspects relating to NPAs, methods of reduction of NPAs in PSBs during 1997-2003 etc. Discussion was made on recovery measures and different types of risks pertaining to credit management and the solutions for resolving the problems of NPAs in South and Far East Asian Nations, initiatives and solutions taken in India.

(Pai D.T., 2007) Pai D.T. (2007)\(^8\) concluded that Indian banking system has emerged stronger, sounder and more resilient and compares well with global range under all vital parameters. Author has also attempted a comparison between public and private sector banks in such areas as branch network in rural semi-urban, urban and metro-Politian areas, market share of business in deposits advances investment and assets advances to priority sectors, financial performance, capital and assets quality, ratio of operating profits/net profits to total assets, use of technology etc.

(Bidani, 2001) Bidani S.N. (2001)\(^9\) discussed the reasons for high NPAs in banks. The cause for slippage of accounts to NPAs category are identified and categorized into (i) borrowers related (ii) bank related and (iii) general causes. The concept of NPAs is explained with references to different credit facilities. RBI instructions on asset


\(^7\) Jain Vibha, “Non-performing Assets in Commercial Banks”, Regal Publications, New Delhi, 2007


classification, prudential norms relating to income recognition and provisioning were also discussed. Monitoring system for existing and likely NPAs along with guidelines for recovery measures and strategies and action plans for reduction of NPAs are also discussed.

(Srivastava, 2001) Srivastava R.M. (2001)\(^{10}\) mentioned that NPAs adversely affect lending activity of banks as non-recovery of loan installments as also interest on the loan portfolio negates the effectiveness of credit-dispensation process. Non-recovery of loans also hurt the profitability of banks. Besides, banks with high level of NPAs have to carry more owned funds by way of capital and create reserves and provisions and to provide cushion for the loan losses. NPAs, thus, make two pronged attack on the bottom lines of commercial banks; one, interest applied on such assets is not taken into account because such interest is to be taken into account only on its realization unlike interest on performing assets which is taken into account on accrual basis; two, banks have to make provision on NPAs from the income earned by them on performing assets.

(Shahoo, 2000) Banbar Shahoo (2000)\(^{11}\) mentioned the various tenets of effective NPA Management and how it helps to improve bankers’ management skills at the field level. Different dimensions of NPAs, effects of NPAs on profitability, return on assets, interest rates, image of banks, the principles of NPAs Management, the concept of NPAs and prudential norms, methods of prevention of NPAs – credit management and up gradation of NPAs are the aspects covered and it does not contain any statistical analysis of the data relating to NPAs in the banking sector.

(Tannan, 1998) Tannan M.L. (1998)\(^{12}\) stated that interest income should not be recognized until it is realized. In respect of non-performing assets interest is not to be recognized on accrual basis but is to be treated as income only when actually received. Income in respect of accounts coming under health code 5 to 8 should not be recognized until it is realized. As regards accounts classified in Health Code 4, RBI has advised the banks to evolve a realistic system for income recognition based on prospect of reliability

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of the security. On Non-performing accounts the banks should not charge or take into account the interest. On overdue bills interest should not be charged or taken as income unless realized.

(Toor, 1997) Toor N.S. (1997)\(^\text{13}\) explained the concept of NPAs and management of NPAs from bankers’ point of view and explains the strategy to be followed in handling borrowing accounts right from pre-sanction stage till recovery of the loan. The book is a practical guide for the practicing bankers and serves as a ready reckoner. However, this book does not contain any statistical data of NPAs.

2.3 RESEARCH PUBLICATIONS

(Radhika R, 2011) Radhika R. and Jaya Sree (2011)\(^\text{14}\) observed that NPAs cease to generate any income for the bank and hence become the major concern of banks in India. NPAs have direct impact on net profit and also on the performance of the banks. The authors further attempted to establish relationship between net profits and total advances. The impact of NPAs on net profit and impact of total advances on NPAs is also examined.

(Bhavani, 2011) Bhavani Prasad G.V. and Veena D. (2011)\(^\text{15}\) reported that PSBs, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs, falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service and adoption of modern technology. The best indicator for the health of the banking industry in a country is its level of Nonperforming assets. NPAs generally give the impression that banks have strengthened their credit appraisal process over the years and NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banks are facing a serious problem of NPA. The magnitude of NPAs is

\(^{13}\) Toor N.S., “Non-performing Advances in Banks”, Shylark publications, New Delhi, 1997


comparatively higher in public sectors banks. For better efficiency and profitability of banks the NPAs needs to be reduced and controlled.

**Rani, 2011** Shalu Rani (2011)\(^{16}\) examined the existing position of banks in Scheduled Commercial Banks (SCBs) of India in respect of NPAs, the causes and remedial measures thereof and concluded that the level of NPA has increased, eroding whatever reduction was made with the ever increasing level of fresh NPAs and tightening of norms by RBI time to time. Total elimination is not possible in banking business so it is wise to follow the proper policy for appraisal, supervision and follow up of advances to avoid NPAs.

**Sikarwar, 2010** Roopak Kumara Gupta and Ekta Sikarwar (2010)\(^{17}\) observed that the Commercial banks, especially the dominant public sector banks, have been facing competition from the banks in the private sector. They stated that Asset Quality is one of the components of performance of banks which can be assessed by Net NPA to Net Advances (NNPA/NA). Asset Quality determines the existing and potential credit risk associated with loan and investment portfolios and other off Balance Sheet transactions. Higher the ratio, lower is the asset quality of the bank.

**Chavan, 2010** Chavan V.M. and Sangapur N.B. (2010)\(^{18}\) reported that Indian banking sector is facing a serious situation in view of the mounting Non-performing Assets (NPAs). Their study revealed that Gross NPAs of UCBs has been high at 22.7% and 23.2% of the total advances during 2004 and 2005. The gross NPAs have declined to 18.9% and 17% of the total advances during the year 2006 and 2007 respectively. Net NPAs as percentage of total advances went up steeply from 2.1% in 2004 to 12.3% in 2005. However, the net NPAs as percentage of total advances came down to 8.8% in 2006 and further to 7.7% in 2007.

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\(^{16}\) Shalu Rani, “A study on NPAs with Special reference to SCBs of India”, RMS journal of management & IT, vol. 5th June, 2011, pp. 60-68.


\(^{18}\) Chavan V.M. and Sangapur N.B., “Dimensions of NPAs in UCBs: Micro Study”, Southern Economist, June 1st, 2010, pp.5-6
(Singh, 2010) Ashok Khurana and Mandeep Singh (2010)\textsuperscript{19} observed that new private banks have a strong competitive advantage over public sector banks on several dimensions such as use of low cost technology and operations to address the urban mass market, alignment between IT and business heads, more focus on value adding activities, better talent management, superior complexity handling and the ability to use infrastructure optimization facilities. In spite of all this, these new generation banks have also become a victim of NPAs. However, NPAs should not be seen as a dilemma but as a challenge for the banking sector.

(Agnani, 2010) Jaya Agnani (2010)\textsuperscript{20} stated that the financial quarter is undergoing a phase of makeover and convergence and there has been escalating blur of boundaries amid the role of banks and financial institutions, which is likely to set up spirited pressures in the prospecting future. NPAs as a syndrome are not new but are casting adverse impact on financial spine of banking structure during the recent years and are cause for concern. All the factors including level of NPAs, profitability figures and rating given by agencies should be considered collectively to chart out a best investment strategy in banks.

(Gurav, 2010) Laxminarayan Ramanathan and Gurav A.M. (2010)\textsuperscript{21} identified the credit facility extended to Self Help Group (SHG) accounts under the SHG – Bank linkage accounts by SBI. Looking into the efficacies of micro finance as the potential tool for poverty alleviation this study attempts to gauge the extent by inclusiveness’ or financial support how the scheme was able to deliver under ‘Priority sector lending’ by studying SBI which is the market leader in SHG linkage since inception as the sample model. The study findings reveal that there is a continuous positive earning to the bank through SHG lending. As one of the popular schemes in priority sector advances, SHG Banking is a viable venture which shows potential for substantial growth in the near future.

\textsuperscript{19} Dr.Ashok Kurana and Dr.Mandeep Singh, “NPA Management: A study of New Private Sector Banks in India”, Indian Journal of Finance, Sept, 2010, pp.3-13
(Lal, 2010) Rajini Saluja and Roshan Lal (2010) observed that the burgeoning NPAs in baking industry are a matter of deep concern. It is just not a problem for banks but also proves fatal to the economic growth of the country. The study concludes that there is huge difference in NPAs of public and foreign banks. Public sector banks are highly pressurized by the NPAs. Moreover, great quantum of NPAs was observed in non-priority sector than in priority sector. Gross and Net NPAs of PSBs have improved over the years because of rigorous policy initiatives and enforcement of various legal and non-legal measures.

(Singh D. J., 2009) Jasbir Singh Deswal (2009) concluded that NPA of PSB has been continuously decreasing in all times. Gross NPAs and net NPAs decreased and NPA Reduction Instrument was established. Reserve Bank and the Government of India took several measures to expedite the recovery of NPAs and several channels of recovery measures have been designed.

(Narasaiah, 2009) Sudarsana Murthy and Narasaiah P.V. (2009) stated that despite tremendous progress in the availability of institutional credit to rural areas, the contribution of co-operatives and commercial banks together have not exceeded 40% of the estimated rural credit requirements. They concluded that the bank authorities have to implement one time settlement programme towards reducing NPA s level. Regional Rural Banks (RRBs) are not satisfactory due to lack of operational viability and it is the time for RRBs to strengthen their recovery of loans. To fill the financial health the loss making banks have to be restructured and also implement innovative loan products like commercial banks.

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Nigamananda Biswas (2009) found profit to be the most crucial parameter of judging the health of a bank. Profit is essential to satisfy the stakeholders’ expectations and expansion of the existing business. The most direct result of profitability changes is increasing competition and narrowing of spreads and its impact on the profitability of banks. Hence, tremendous efforts in the area of technology and to build capabilities of banks to handle much bigger volumes are necessary.

Usha Arora, Bhavana Vashist and Monica Bansal (2009) analyzed and compared the performance in terms of loan disbursement and non-performing assets of credit schemes of selected banks for the last five years. A positive relationship is found between total loan disbursement and total non-performing Assets Outstanding (NPA O/S) of selected banks. They suggested that proper steps like negotiated compromise, legal remedies, acquisition and take over should be taken to solve the NPA problem.

Sharma (2009) stated that the public sector banks have emerged strong across all key indicators as the global financial turmoil and slowing domestic economy put the banking sector on a test. According to this study, the public sector banks have shown impressive performance across all the significant banking parameters. Despite lower lending rates, the net interest income growth of the PSBs was much higher than the private banks which fuelled the bottom line growth of public banks. The public sector banks have considerably improved their quality of assets and the rise in Net NPAs of the private banks was far higher than the public sector banks.

Rajendran P. and Karthikeyan K. (2008) stated that high level of Non-performing assets will also affect the productivity of the banks by increasing the cost of funds and by reducing the efficiency of the bank employees. Since, the employees are involved with the task of recovery of non-performing assets, productivity of employees is affected. They made an attempt to study the impact of non-performing

28 Rajendran P. and Karthikeyan K., “Impact of NPAs on Micro Banking Variables”, Published in Southern Economist, May 15, 2008, pp.5-8
assets on the productivity of SCBs and observed that the Nonperforming assets continue
to influence the profitability and productivity of the scheduled commercial banks in India
to a greater extent.

(Goyal, 2008) Ritu Goyal and Rajindar Kaur (2008)\textsuperscript{29} studied the New Private Sector
Banks and analysed their performance by using various Balance Sheet and Profit and
Loss Account ratios. They observed that there is a significant difference amongst the
mean ratios of the banks in 12 out of 16 selected parameters.

(Kaur, 2008) Sangeeta Arora and Shubapreet Kaur (2008)\textsuperscript{30} analyzed the financial
performance of diversified banks over a period of 2000-05 considering various internal
and external factors like economies of scale and scope, competition, risk reduction etc.
which are forcing banks to diversify and found a continuous decline in interest margins
after 2001 which indicates that a low level of interest margin pushes the banks to
generate income from alternative sources of revenues other than interest income. Banks
will have to concentrate more on providing better, faster and more efficient customer
service to permit banks to charge higher rates for better and faster service.

(Karunakar, 2008) Karunakar (2008)\textsuperscript{31} stated that the problem of losses and lower
profitability of NPAs and liability mismatch in banks and financial sector depend on how
various risks are managed in their business. The lasting solution to the problem of NPAs
can be achieved only with proper credit assessment and risk management mechanism. It
is better to avoid NPAs at the market stage of credit consolidation by putting in place of
rigorous and appropriate credit appraisal mechanisms.

(Kaur R. U., 2007) Uppal and Rimpi (2007)\textsuperscript{32} studied that although reforms have
produced favourable effects on the performance of commercial banks general witnessed
by their achievement of medium capital adequacy norms and increased non-interest
income. But on the other side their poor performance of priority sector advances,

\textsuperscript{29} Ritu Goyal and Rajindar Kaur, “Performance of New Private Sector Banks in India’, The
\textsuperscript{30} Sangeeta Arora and Shubapreet Kaur, “Diversification in Banking Sector in India Determinants
of Financial Performance”, The Indian Journal of Commerce, Vol.61, No.3, July-September,
2008.
\textsuperscript{31} Karunakar, M., Vasuki, K. and Saravanan S. “Are Non - Performing Assets Gloomy or Greedy
persistence of large NPAs and decreasing interest income are the issue that call for careful attention in the subsequent dose of the reforms. Hence, there is a need to consider the above listed measures for third banking/banking sector reforms to improve performance of the banks, particularly of public sector banks to meet the requirement of new and open competitive environment.

(Krishna Mohan V. and Rao, 2007) Krishna mohan and Rao (2007) examined the problem of NAPs in the banking sector in the new millennium, and to evaluate its intensity in the new millennium and to evaluate its intensity on different bank-groups also reviews the strategies adopted by banks to manage the NPAs and to suggest a few preventive measures.

(Parimalam, 2007) Amlan and Parimalam (2007) studied the trend of NPA in the banking Industry in general and priority sector in particular and present the ways to manage them efficiently.

(Kaur U. R., 2007) Uppal and Kaur (2007) reviews the banking sector reforms policy, crucial and agenda for the future. On the basis of certain parameters like productivity, profitability and NPAs management, but the foreign banks and new private sector banks are much better in the performance as compared to our nationalized banks in the post-banking sector reforms period. It is also stated that the Indian banking industry, particularly for PSBs to make them efficient and strong, to compete with the global banks.

(Krishna, 2007) Krishna Chaitanya (2007) measured the financial soundness of UCO bank, Indian bank and United Bank of India by using strategies rating method. The study also emphasizes on the strategies adopted by these three banks during the last five years as a part of their internal restructuring programme.

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(Jain, 2007) Jain (2007)\(^{37}\) stated that the problem is more acute in PSBs where the gross and net NPAs as on 31\(^{st}\) March 2003 were at 9.4% and 4.5% higher than the overall figures for SCBs at 8.8% and 4.4% the gross NPAs of PSBs as on March 2003 were Rs.54,086 crore, while the net NPAs are Rs. 24,963 crore. An attempt was made to find the reasons for the rising trend of NPAs despite the prudential measure taken from time to time. Generally RBI and GOI have been sincere up of Dept Recovery Tribunals, Asset Reconstruction Companies, Lok Adalats etc. The attempt also examined the variations in the incidence of NPAs to various sectors, time periods, and the efficiency of the banks through univariate analysis of variance (ANOVA) technique.

(Panda, 2006) Panda (2006)\(^{38}\) stated the fresh accretion of NPAs are significantly increasing as a result of which significantly increased the percentage of NPAs to Total Assets unusually rise up. This may be attributed to the management inefficiency. The method of classification of assets reflects more of persistent irregularities at the time of converting the standard assets into non-standard assets. The large number of cases pending at judicial level possesses a great problem for the banking sector for downsizing its NPA level.

(Singh Y. P., 2006-07) Prof. Singh,Y.P Prof. Seth A.K. & Prof. Rajput Bhawna\(^{39}\) have written an article on “Non-Interest Income and Risk Adjusted Performance of Commercial Banks in India” In this research study the researcher tried examine the link between the revenue portfolio and risk adjusted performance of banks in Indian context. Traditionally it is believed that earning from non-interest income generating revenue are more stable than loan based earning and the increases focus on these activities overall revenue and profitability volatility via diversification effects.

(Rosie S. and G, 2006) Mr. Rosie, Smith and Geoffrey, Wood\(^{40}\) have written an research article on “Non-Interest Income and Total Income Stability” In this research study some focuses on business lending, some on household lending and some on fearing activities.

\(^{39}\) Prof. Singh,Y.P, Prof. Seth A.K. & Prof. Rajput, Bhawna “Indian Journal of Finance and Research” Vol-6, year 2006-07
Banks can differ markedly in their sources of income. This paper examines the variability of interest and non-interest income, and their correlation.

(Singh P. , 2006) Singh (2006) explained that to maintain the liquidity and profitability, it is essential to maintain the NPAs at the lowest level and efficiently recover the same before they become bad debts. SARFAESI Act and ARCs can play a vital role in the management of NPAs in Indian banking.

(Sanjeev, 2006) Sanjeev (2006) in his study used a non-parametric linear programming-based technique. Data Environment Analysis (DEA) is used to determine the technical efficiency of the public, private and foreign banks operating in India. The study has also investigated the relationship between the efficiency and the percentage of non-performing assets (NPAs) of the commercial banks operating India.

(Uppal R. K, 2005) Uppal and Kaur (2005) analyses the major parameters of productivity, profitability of major banks and also analyzed their NAPs and share of non-interest income from the total income in the pre-and post-e-banking period.

(Sharma M. , 2005) Sharma (2005) explained the problem of non-performing Assets in public sector banks and also its impact on the performance of those banks. Impact of NPAs on the profitability of the banks is analyzed by applying multiple regression models. Impact of NPAs on the productivity, achievement of capital adequacy levels, funds mobilization and deployment policy of the banks is also analyzed.

(Pandey A, 2005) Pandey and Ghosh (2005) analyses NPAs management practice in several Asian countries and seek to find out whether Indian institutions should emulate these. It also looks at several innovations in NPAs and credit risk management techniques at banks and financial institutions in the last decade.
Yeole, Arun (2004) stated that the NPAs of Indian PSBs are considered relatively high by international standards. The judicial system needs to be revamped to facilitate quicker recovery of dues from defaulters. It is essential to enforce the securitization Act with more stringent provisions to realize the securities and personal assets of the defaulters.

Sharma (2004) highlights the most significant factors contributing towards the problem of top non-performing assets from the point of view of top bankers from public sector banks and the measures required for management of NPAs are reformulation of bank’s credit appraisal techniques, establishment of monitoring departments etc.

Sinha (2004) studied the change in asset composition of public and Indian private sector banks for the period 1996-97 to 2002-03 in respect of loans, advances, off balance sheet exposures and non-performing assets. The econometric study undertaken on the basis of data available for 20 public sector and 10 private sector banks suggests that operating efficiency plays a major role in determining the risk taking behavior and risk incidence of the Indian commercial banks.

Rao and Chowdari (2004) study states that considering the changed scenario of financial sector with economic reforms introduced in 1990s in India enforcing competition as well as less restrictive government regulations playing major role in demanding the PSB to forcefully compete with private and foreign banks, the authors went on to examine PSB with each other in closed model and to examine PSB with private and foreign banks in an open model cluster analysis technique for the period 1997-98 to 2000-01. It is observed by the authors that out of 98 banks analyzed, 16 fall in the “best” group of which only 2 are PSB, 1 in “better” of the total 11,15 in “good” of 45

total and 9 in “moderate” of the total 26. The parameters examined by the authors are (i) efficiency, (ii) financial (iii) profitability and (iv) size and scale.

(Reddy, 2004) Reddy (2004) discussed about the concept of NPAs for the first time which was introduced during the year 1992-93 to the Indian banking industry. Since the launch of economic liberalization and financial sector reforms, banks and financial institutions are under pressure to bring down their NPAs at par with international standards and to improve their profitability.

(Murthy, 2003) Murthy (2003) stated that public sector banks, hitherto seen as Government’s white elephants, have entered into a golden era. Reduced NPAs and better operating polices have tuned these enterprises into a force to reckon with.

(Ahmed, 2003) Ahmed (2003) examined that the banks since nationalization have diverted their attention ‘class banking’ to ‘mass banking’. But many problems cropped up such as inter-region inequality in bank operations, managing overdues, willful default, increased political interference, deterioration of customer services, redtapsism, neglect of supervision, declining efficiency and profitability.

(Shekhar, 2003) Shekhar, Chander (2003) stated the third and the most important dimension of the banking sector reforms was reduction of the non-performing assets. In fact the whole effort to reform the banking sector would collapse if the banking is not able to contain and reduce their NPAs.

(Sundharam K. P. M., 2003) Sundharam K.P.M. & Varshney P.N. (2003) reported that the declining interest income was the result of high proportion of the total deposits – being impounded in SLR and CRR and earning relatively low rate of interest. Further, a high proportion of bank deposits had to be allocated to priority sectors under social banking and the rate of interest was relatively lower. Besides, banks were often forced to

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lend to dubious parties – in agriculture and industry – and much of these loans become doubtful debts – commonly known as non-priority assets (NPAs). The banks have long been suffering from the serious problem of over dues.

(Latha, 2002) Latha. K. (2002)\(^{55}\) studied the magnitude, composition and causes of non-performing assets (NPAs) of commercial banks in India. The study has carried out an econometric analysis at possible determinants of NPAs. The major findings of the study are 20-26% of variation in NPAs across commercial banks in India can be explained by efficiency regional pressure; capital adequacy ratio and return of assets are negatively related to NPAs.

(Desai B. H., 2002) Desai and farmer (2002)\(^{56}\) have stated the impact of non-disclosure or inadequate disclosure will be untruthful and unfair presentation of financial position and profitability of PSBs. In order to avoid increase in NPAs, a tendency might develop amongst bank managers to reduce the quantum of advances and avoid or minimize risk.

(Raddy P., 2002) Reddy (2002)\(^{57}\) stated the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.

(Rai, 2002) Rai (2002)\(^{58}\) study was about the gender of NPAs, both in terms of number of accounts and their amounts. Since the gender segregated data was available for accounts with credit limit of over Rs. 25,000, the gender-wise analysis of NPAs was restricted to those accounts only. This was undertaken in two ways. (i) Male/Female NPAs as a percentage to Male/Female outstanding advances and (ii) Male/Female NPAs as a percentage to individual advances.

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(Rao, 2002) Rao (2002)\textsuperscript{59} stated that the new ordinance SARBESI Act, 2002 covers three unrelated issues—scrutinisation, reconstruction, perfection of security interests. It would be better if these issues would be addressed specifically and independently. There is no doubt that the ordinance to rid the banking system in India of bad debts is just the beginning. However, much remains to be done.

(Rao K. N., 2002) Rao (2002)\textsuperscript{60} stated that out of the six distress one banks identified by Verma Committee, Vijaya bank, Indian Overseas Bank and Union Bank of India have gone public and now Indian overseas bank still has an adverse coverage ratio. The remaining two banks are in comfortable position.

(Bidani S. , 2002) Bidani (2002)\textsuperscript{61} said that banks should try to list out specific causes which are responsible for increasing NPAs and evolve strategies and account specific action plan for their removal. Such an approach would not only help them in bringing down the existing NPAs but also check slippage of performing accounts into this category.

(Kaveri, 2001) Kaveri (2001)\textsuperscript{62} studied the non-performance assets of the various banks and suggested various strategies to reduce the extent of NPAs. In view of the steep rise in fresh NPAs advances, credit should be strengthened. RBI should use some new policies/strategies to prevent NPAs.

(Khan, 2000) Khan (2000)\textsuperscript{63} pointed that banks and financial institutions could convert part of the NPA debt into equity of the defaulting company as a recovery strategy. Researcher advocated usage of credit derivatives and credit default protection contracts as a part of credit risk management and observed that risks associated with economic environment, unforeseen events specific to corporate borrowers are not covered under the present credit risk models.

\textsuperscript{60} Rao, K.N (2002), “PSBs and Distress Zone”, Professional Banker, ICFAI, Hyderabad, October Issue, pp. 18-19
\textsuperscript{61} Bidani S.N (2002), Managing Non-Performing Assets in Banks, Vision Books. New Delhi, p. 19
Baiju S. and Garbriel Thattil (2000) highlighted the magnitude of NPAs in the banking sector taking the current position of SCBs. They graded all the four categories – SBI Group, Nationalized Banks, Other Scheduled Commercial Banks and Foreign Banks into very good, good, bad and worst group on the basis of NPAs and Capital adequacy. For the purpose of analysis banks with gross NPAs percentage of 5 or below international standards had been categorized as “very good”, Banks with NPA percentage of 16% (National Average or less but above 5% were categorized as “Good”. Banks with above 16% and below 20% NPAs were categorized as “Bad”. Banks with gross NPAs of 20% or above were categorized as “Worst”. For the purpose of analyzing capital adequacy ratio (CAR) under each category, number of banks meeting the stipulated percentage of 8% and number of banks which do not satisfy this percentage were taken separately. They came to the conclusion that banks which secured ‘Very Good’ rating in terms of NPAs are new private sector banks and foreign banks. The main reason for this was that these banks had low net work of branches specifically in rural areas. Further, these banks imposed stringent conditions for credit disbursal. They suggested that managerial cadre has to be trained a vet loan proposals and recovery programmes.

Professional Banker research Team (2000) specified the major reason for bank loans to agriculture to the tune of Rs.15000crores were written off in 1990-91, thanks to social banking. Such a write-off promoted dishonesty, default and lowering of repayment ethics. The problem of NPAs confronts both public and private sector banks. Banks in their anxiety to recovery dues ignore the advantages of supporting a viable rehabilitation plan. In result the small units on the verge of sickness become actually sick. Banks are advised to shift their policy from recovery to credit management. Banks resort to negotiated settlement out of fear.

Majumdar Aloka (2000) discussed the efficiency of debt Recovery Tribunals (DRTs) which were set up in 1993 by an Act of parliament as a Fast Track

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64 Baiju S. and Garbriel Simon Thattel, “Performance Banks with Nonperforming Assets: An analysis of NPAs”, Yojna, Mar 2000, pp.5-9
System for recovery of bank dues. Recent amendments to this Act have incorporated desirable features like empowering DRTs to attach the property of the borrower on filing of the application to that effect and providing for appeal system for persons aggrieved by the order of the Recovery officers. The presiding officers are now empowered to execute the degree of civil courts based on the certificates issued by the DRTs. The DRTs Act now takes precedence over the companies Act. But the question is, one of the effective implementation of these well thought out amendment. Some lawyers suggested that establishing separate bank courts within the existing legal frame work could accelerate recoveries. DRTs are successful in at least bringing defaulters to the settlement table. However, the High Court and Supreme Court can still be moved by defaulter borrowers against DRT decision. Even now, DRT Act cannot supersede SICA even though the latter is on its way out.

(RBI, 1999) Article issued by RBI in RBI Bulletin (1999)\textsuperscript{67} as the thrust of the second phase of reforms is on improvement in the organizational efficiency of banks, the most critical area in the improvement of profitability of banks is the reduction of NPAs. This issue is intimately connected with the overall stability of the financial system and need to be so recognized for concerned and multi pronged efforts. Apart from internal factors such as weak credit appraisal, Non-compliance and willful default, there are several external factors such as preponderance of certain traditional industries in the credit portfolio of certain banks, majority of which are suffering from serious inherent operational problems, natural calamities, policy and technological changes which increase the incidence of sickness, labour problems and non-availability of raw materials and other such factors which are not within the control of banks. While banks cannot be blamed for advances becoming non-performing due to external factors, there is an urgent need that the banks address the problems arising out of internal factors, and this may call for organizational restructuring of banks, a change in the approach of banks towards legal action which is generally the last step, no sooner the account becomes bad and clear thrust on improving the skills of officials for proper assessment of credit proposal, risk factor and repayment possibilities.

\textsuperscript{67} Reserve Bank of India, “NPAs in Indian Commercial Banks”, Published in Southern Economist, Sept, 1999, pp.17-20
(RBI, 1999) RBI Study (1999) explained how the second phase of reform is an improvement in the organizational efficiency of banks and the most critical area in the improvement of profitability of banks is the reduction of NPAs.

(Rajaraman, 1999) Rajaraman, Bhaumik and Bhatia (1999) presented the findings of a formal attempt to explain inter-bank variations in NPAs for the year 1996-97. The specification tests for the impact of region of operation on domestically-owned banks, as measured by percentage branches in each of a set of state clusters.

(Das, 1999) Das (1999) has compared the various efficiency measures of public sector banks by applying data envelopment analysis model and concluded that level of NPAs has significant negative relationship with estimated efficiency.

(Jain R., 1999) Jain (1999) stated that the government must get down to planning a phased programme to remove the burden of non-performing assets from the banking sector. This would not only increase the liquidity of the banks, but will also result in a more effective albeit, slightly costlier credit delivery system to the priority sectors.

(Reserve Bank of India, 1999) Verma (1999) has concluded that high level of NPAs leads to operational failure of the banks.

(Murthy J.V. and Reddy, 1998) Murthy (1998) has examined that default bring down the return accruing and to them, reduces effective rate of interest and reduces the funds recirculation and increases their dependence on external sources thereby increasing the costs.

(Sudhakar, 1998) Sudhakar (1998)\textsuperscript{74} in his study attempted to analyze the policies pursued by the banks with focus on PSBs since their NPA level was considerably high. The policies followed by different banks vary, based on the magnitude of the problems and limitation imposed by the practices they follow. He made an attempt to relate incidence of NPAs to industry, geographical area, scheme of finance sector, etc.

(Banger, 1998) Ajit and Banger (1998)\textsuperscript{75} presented a tabulation of the performance of private sector banks vs. public sector banks over the period 1991-1997, using a number of indicators: profitability ratio, interest spread, capital adequacy ratio, and the net NPA ratio. The conclusion is that Indian private banks outperform public sector banks.

(Berger, 1997) Berger and Yang (1997)\textsuperscript{76} has examined the relationship between problem loan and bank efficiency by employing Granger-Casualty technique and found that high level of problem loans cause banks to increase spending on monitoring, working out and/or selling off these loans and possibly become more diligent in administering the portion of their existing loan portfolio that is currently performing.

(Gupta, 1997) Gupta (1997)\textsuperscript{77} has also concluded that NPAs effect the profitability of banks and leads to liquidity crunch and slow down in the growth in GDP.

Kaveri (1995) has also examined the impact of NPAs on profitability by taking profit making banks and concluded that loss making banks maintained higher NPAs in the loan portfolio which led them to show losses.

(Kwan, 1994) Kwan and Eisenbeis (1994)\textsuperscript{78} also concluded that there is negative relationship between efficiency and problem loans.

(Shinde S. R., 1992) Shinde and Kaveri V.S. (1992)\textsuperscript{79} studied about non-performing assets and outlined a brief outcome of the programmes conducted on “Management of


Non-Performing Advances”, by National Institute of Bank Management. The outcome was to prevent any advance becoming non-performance asset, it is necessary to identify early warning signals and take timely follow-up measures. Apart from legal remedies, the non-legal remedies include compromise proposals, role of BIFR in respect of Non-Performing assets, encouraging mergers and acquisitions, debt discounting exchange of debt for swapping of debts, discounting of decrees, write-off of loans, use of the state Government machinery etc. The study also touched upon the recommendations made by Narasimham Committee.

2.4 REVIEWS FROM MAGAZINES

(Varman, 2014) Raghuram Rajan (2014). Governor of RBI pointed "Rising NPAs in PSU banks are a concern...Here in India, especially in PSBs, not in private banks, we have growing NPAs. Hopefully, it will stabilize. It has become somewhat an issue".

(Kamath, 2014) KV Kamath (March, 2014). Chairman of ICICI Bank started “The burgeoning non-performing assets (NPAs) of the banks in India are setting of alarm bells ringing in banking industry in general and the finance ministry in particular.”

(Ministry, 2014) “The finance ministry has put the lending of state-run banks under close watch after a spike in non-performing assets (NPAs) that has forced many of them to slow down credit.”

(Bhattacharya A., 2014) SBI chairperson Arundhati Bhattacharya announcing, “We have decided to move stressed assets recovery branches that were reporting to the national banking group (NBG) so as to have better focus and outcomes," said while third quarter numbers.

80 Raghuram Rajan, Governor of RBI (2014), presented a Seminar on “Expressing Concern over Rising NPAs” an event in New Delhi (http: Businessstoday/business/india/npa/expressing-concern-over-rising- NPAs-reserve-bank-governor-RaghuramRajan/ an event in New Delhi)
81 K.V. Kamath (March 2014), Chairman of ICICI Bank presented a seminar on “Article on NPA” (2014), (http: times of india. indiatimes.com/business/india/banks/NPA/article at 3.40 P.M.2014/04/26)
83 Arundhati Bhattacharya, SBI chairperson, announcing, “SBI declares war on NPAs as bad loans spurt”.(http:timesofindia.indiatimes.com/business/india-business/sbi-declares-war-on-NPAs-as-bad-loans-spur/articles)
Chief Executive Officer Chanda Kochhar of ICICI Pointed that "The economy has bottomed out...There is a need to bring back investment to revive the economy and adding that there was a need to improve the decision-making environment”.

Rashesh Shah, Chairman & CEO, Edelweiss Group, “Because of high interest rates, inflation and NPA issues, the entire banking industry is under stress from an investor's point of view, but there are lots of private sector banks which are good quality companies, which will do well as and when this cycle gets over”

B A Prabhakar State-run Andhra Bank’s chairman and managing director, “The entire banking sector in the country is now facing nonperforming assets (NPA)-related problems due to the slowdown in the economy for the last 3-4 years”.

CBI Director Ranjit Sinha (2013) pointed that “Non Performing Assets (NPA) is not alarming”

Madhuri U. (2008) reported that the Non-Performing asset is one, which ceases to generate income to the bank. The NPAs have a direct bearing on the profitability of banks on several counts. They do not bring in interest income, lead to heavy provisioning, cost of maintenance of accounts and litigation charges, low return on assets and capital adequacy etc. The banking sector reforms have gone a long way in improving the performance and operational efficiency of Indian Banks.

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84 Chanda Kochhar, Chief Executive Officer of ICICI, “The issue of rising of NPs”, an event at Delhi, (http://businesstoday/business/india/ the- issue- of- rising- NPAs / Chief- Executive-Officer- Chanda Kochhar -of –ICICI/an event at Delhi)
(Boroli, J., 2003) Boroloi, Jyothish (2003)\textsuperscript{89} made a comparative study of financing priority sector by public sector and Co-operative Banks and found commercial banks have a lion’s share, when compared to co-operative Banks.

(Radha, 2002) Radha T. (2002)\textsuperscript{90} reported that the advances covered with Government guarantee should be shown to have fuller disclosure and transparency of operations. No change in definition of NPA and banks should avoid practice of “ever greening” by making fresh advances to their troubled constituents dues and avoid classification of loans in question as NPA. No further recapitalization of banks is undertaken from Government as it is not sustainable in long run and further there is no need for institution of an ARF(Asset Reconstruction Fund) as envisaged by the CFS Report (Committee on Financial Sectors). Banks shall take sensible steps to prevent or limit re-emergence of new NPA through strict application of prudential norms and managerial improvement.

2.5 GROUP OF STUDIES


\textsuperscript{93} FICCI (1999), “NPA-The Unwanted Burden of Nationalised Banks”, FICCI, New Delhi

\textsuperscript{94} Shivpuje, C.R. and V.S. Kaveri (1997), Management of Non-Performing Advances, Sultan Chand & Sons, New Delhi


Mukherjee (2003), Sharma (2002), Shrivastava (2001), Klingebiel (2000), Reddy (2005), discussed the suitability model of asset reconstruction companies to solve the problem of NPAs and also according to (Bloem A, 2001) NPAs may be caused by wrong economic decisions or by plain bad luck.

The review of the foregoing literature, which has thrown light on the wide ranging aspect of problems of NPAs and management strategies of PSBs in India, helped to a considerable extent, in getting the background materials for the present study and also in the designing of its overall framework.

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