CHAPTER 7
FINDINGS SUGGESTIONS AND CONCLUSION

7.1 FINDINGS

7.1.1 Introduction

The present study entitled “A COMPARATIVE ANALYSIS ON NON-PERFORMING ASSETS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS” is broadly divided into two parts. The first part comprising of five chapters include introduction, objectives and methodology of the study and significance of the study. It also deals with the theoretical discussions on public sector commercial banks concerning their origin, growth and development in India, problems, and challenges of public sector banks in the post-reforms era, financial sector reforms in India with special reference to banking sector and the level of NPA. It also highlights the management of non-performing assets (NPAs) of public sector banks in India. The second part constitutes the core of the study consists of two chapters. It encompasses the empirical analysis of collected data. Attempts have been made to make a performance analysis in terms of a number of parameters. The major findings of the study are summarized in the following paragraphs.

A strong financial system is central to the objective of strengthening the real economy of a country and for its healthy and orderly growth. A financial system is a complex, well-integrated set of sub-systems of Financial Institutions, Markets, Instruments, and Services which facilitates the transfer and allocation of funds, efficiently and effectively. Financial Institutions are intermediaries that mobilize savings and facilitate the allocation of funds from surplus units to deficit unit in an efficient manner. Good financial institutions are vital to the functioning of an economy.

The financial systems of most of the developing countries are characterized by coexistence and cooperation between the formal and informal financial sectors. The Indian financial system can also be broadly classified into the formal (organized) financial system and the informal (unorganized) financial system. In India, the financial sector comprises of banking and non-banking financial institutions. There is no hard and fast rule to distinguish between banking and
nonbanking institutions. The banking system is at the heart of the financial system. The Indian financial system comprises a large number of commercial and cooperative banks specialized developmental banks for industry, agriculture, external trade and housing, social security institutions, collective investment institutions, etc.

Banks play a very useful and dynamic role in the economic life of every modern state. They are important constituents of the money market and their demand deposits serve as money in the modern community. Banks can work as catalytic agents of growth by following the right kind of policies in their working, depending upon the socioeconomic conditions prevailing in a country. It is realized that since the banks have the required investment potentiality, they can make a significant contribution in eradicating poverty, unemployment, and they can bring about progressive reduction in inter-regional, inter-state, and inter-sectoral disparities through rapid expansion of banking services.

India’s banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit and payment services, such as checking accounts, money orders and cashier’s cheques. The banks also offer investment and insurance products.

The Indian banking system has the Reserve Bank of India at the apex. It is the nerve centre of the Indian monetary system. Since inception, the RBI has been guiding, monitoring, regulating, controlling and promoting the destiny of the financial system in India. The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank i.e. RBI.

Bank as an Institution, dealing with lending and collection of money in its most primitive and the business of banks is to deal in money and with people. The activity of banking has to be carried out to ensure healthy growth of the economy. While banks have to instill confidence among the depositors and continue to maintain the confidence level to continuously enjoy their patronage, they would like to have the same level of confidence to lend to borrowers and of getting back the funds and when they require. Here lies the problem; public confidence in banks and their confidence in borrowers have a direct link with ‘Non Performing Assets’ (NPAs). More NPAs mean public/ depositors to that extent lose confidence in bank’s ability to run the
business effectively, efficiently and as viable units and safeguard their interests. Such weak banks themselves lose confidence in identifying and selecting the borrowers for their future expansion of credit and its safe return.

7.1.2 Review of Literature and Genesis of committee

In this chapter, a careful review of the available literature on NPAs reveals that NPs are to a great extent caused due to the very nature of banking business involving people, money and environment. The business environment is dependent on political economical social and technological developments which are influenced by the natural process of changes. Reforms have become the order of the day and the changes are inevitable. The ability of banking to adjust and service these changes and continue to be in business giving life support to the economy has been under constant threat because of the continued persistence of the problem of NPAs. 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.

7.1.3 Problems and Challenges of Public Sector Banks in India

The public sector banks face a number of problems in the LPG era. These problems are concerned directly or indirectly with the overall profitability of the banking industry, which leads to Non-Performing Assets (NPAs). These is a huge branch expansion, particularly during the rural areas; there is a strong opposition by bank employees union to introduce new technology due to the fear of retrenchment of employees; poor customer focus resulting in shifting of potential bank customers to new private sector banks and foreign banks. In addition, there is the difficulty of training the existing staff of PSBs, higher age group employees resisting to the changes, continuance of the traditional outdated technology, poor and defective policies of HRM, lack of autonomy, no proper planning for mergers and acquisitions, overstaffing and political interference are also the problems faced by the PSBs.

The major challenges that need to be improved are the change in the work culture, reduction of costs, improving customer service and upgrading the technology, delegation of powers, dispensing with sub-staff and clerks to improve front office dealings, besides reducing number of unions, providing flexibility in deployment and enhancing productivity, social commitment and maximizing profits without impinging on management’s autonomy in taking commercial decisions.
7.1.4 Profile of the Selected Banks

In 1908 Maharaja Sayajirao Gaekwad- III set up Bank of Baroda (BOB). In 1910 BOB established its first branch in Ahmedabad. Bank of Baroda is the third largest bank in India, after the State Bank of India and the Punjab National Bank and ahead of ICICI Bank. Bank of Baroda has a network of over 4,336 branches and offices, and about 2,630 ATMs during 2012-13. As on 31 st March, 2013, Bank of Baroda has operations in 24 countries with the number of branches at 60, the number of branches of its subsidiaries at 39 and one representative office, taking the total tally to 100.

In 1906 the late Sri Ammembal Subba Rao Pai, a philanthropist, established the Canara Hindu Permanent Fund in Mangalore India. The bank changed its name to Canara Bank limited in 1910 when it incorporated. The Government of India nationalized Canara Bank, along with 13 other major commercial banks of India, on 19 July 1969. Canara Bank is one of the oldest banks in the country. Canara Bank's first acquisition took place in 1961 when it acquired Bank of Kerala. Canara Bank is an Indian state-owned bank headquartered in Bangalore, Karnataka. As of March 2013, the bank had a network of 3,728 branches and more than 3,526 ATMs spread across India.

Housing Development Finance Corporation Limited, more popularly known as HDFC Bank Ltd, was established in the year 1994, as a part of the liberalization of the Indian Banking Industry by Reserve Bank of India (RBI). It was one of the first banks to receive an 'in principle' approval from RBI, for setting up a bank in the private sector. It is the fifth largest bank in India by assets, incorporated in 1994. The bank was incorporated with the name 'HDFC Bank Limited', with its registered office in Mumbai, Maharashtra. HDFC was ranked 45th on the list of top 50 banks in the world in terms of their market capitalization during March 2013. As of March 2013, the bank boasts of as many as 3,062 branches and over 10,743 ATMs across India.

“The Karur Vysya Bank limited”, popularly known as KVB was set up in 1916 by M.A. Venkatrma Chettiar and Athi Krishna Chettiar. The Karur Vysya Bank limited popularly savings habit and to provide financial assistance to traders and small agriculturists in and around Karur, a textile town in Tamil Nadu. Karur Vysya Bank is a privately held Indian bank; headquartered in Karur in Tamil Nadu. As of
March 2013, the bank had network of 551 branches in which nearest 100 branches (18% of total branches) are in rural areas and 1,277 ATMs across India.

7.1.5 Management of Non-Performing Assets (NPAs)

The problem of non-performing assets (NPAs) is more in public sector banks as compared to private sector banks and foreign banks. The magnitude of NPAs has a direct impact on the profitability, liquidity and equity. Non-Performing Assets means an advance where payment of interest or repayment of installments of principal or both remain unpaid for a period of more than 180 days. However, with effect from March 2004, default status will be given to a borrower account if dues are not paid for 90 days. The framework of NPAs include items such as (a) Term Loan, (b) Due Date, (c) Cash Credit/Overdraft, (d) Bills Purchased/Discounted, (e) Agricultural Advances, and other facilities. The gross NPAs came down to 3.6 percent in 2012-13 from 11.1 percent in 2001-02. Similarly, the net NPA position also declined from 5.8 percent to 2.0 percent in 2012-13 due to proper management of NPAs.

In India, the prudential accounting norms are based on the NPA concept i.e. ‘N’ for No Income, ‘p’ for Provisioning and ‘A’ for Asset Classification. The income recognition has introduced with eight health code classification. As per the present Health Code system (1992), assets have been classified into four categories like standard assets, substandard assets, doubtful assets and loss assets. Banks are required to make provisions against these assets for the interest not collected by them. As per the provisioning norms, loss assets should be either written off or 100 percent of the outstanding should be provided.

The positive side of reforms is that the banks have come to know of their real health and the bad borrowers have been exposed. The negative aspect of the reforms that are banks shy away from real banking business and try to keep the borrowers away and resort to relatively safer avenues of Investment. If this trend continues, it will weaken the Economy, public will lose confidence in Banking system and banks themselves would become difficult in conducting normal banking business.

Several measures have been implemented to curb NPAs in PSBs in India like laying emphasis on recovery of bank dues, better coordination, and delegation of more powers to the branch managers, constant touch with borrowers, establishment of special tribunals, fixation of time-fame for the recovery of dues, collection of adequate collateral security and severe punishment for dishonest officials etc.
Some other steps that have been taken for management of NPAs by commercial banks in India include One-time Settlement Scheme by encouraging out of court settlement of bad debts; Lok Adalats or People’s Court organized by Debt Recovery Tribunals (DRTs) helps banks to settle disputes involving small loans, whose ceiling has been raised from Rs. 5 lakh to Rs. 20 lakh. Debt Recovery Tribunals (DRTs) which was formed on 24th June 1993 for the recovery of debts. The Act also recommended setting up of Debt Recovery appellate Tribunals (DRATs) to entertain appeals against any order made by a DRT. The SARFAESI Act was passed on 21 June 2002 to enable banks and financial institutions to attach the asset of defaulting borrowers without having to approach the courts for recovery. The setting up of Asset Reconstruction Company (ARC) may be another channel to transfer the NPAs of bank.

The PSBs can take several measures for improving loan recovery and reducing NPAs and to manage them better. To solve the problem of existing NPAs, quality of appraisal, supervision and follow-up should be improved.

7.1.6 Analysis

Many research studies have been taken up so far on the management of NPAs. However, the main focus was laid only on identifying causes of NPAs and extending suggestions in the form of some measures to be taken at micro level, that too specific to some individual banks. Realizing the need, the present study has been proposed to make a comparative study of public sector and private sector commercial banks with regard to their NPA situation and management in terms of the operational performance of four banks, two each selected from Public and Private Sectors.

The present study is designed to be a narrative study with appropriate analytical discussions presented in tune with the proposed objectives. For the present purpose, Bank of Baroda (BOB) and Canara Bank from the Public sector, while HDFC Bank and Karur Vysya Bank from the Private sector have been selected considering bank profitability based on the recent performance figures of the banks. In each sector, one bank from the high performing group and the other from the low performing group has been picked up on random basis. The data used in the present analysis is confined to the past one decade (12 years to be exact) from 2001-2002 to 2012-2013.
Testing of Hypotheses

Hypothesis - I

The financial health and credibility of Banks is not similar in Public and Private sectors: The hypothesis has been examined taking into account Gross Return, Net Return, Interest Income, Interest Expended, Net Interest Margin (NIM), Provisions and Contingencies, Operating Expenses, Operating Incomes as percent to total assets and ratios like Return on Equity (ROE), Capital Adequacy Ratio (CAR), Business per Employee, and Profit per Employee also examined.

Performance in terms of ‘Gross Returns’ on Total Assets appears good in the case of the two private sector banks compared to the two public sector banks during the reference period and this holds good for all the private sector banks (2.23 percent) as compare to all public sector banks (1.99 percent) for the reference period [2001-2002 to 2012-2013].

The ‘Net Return’ on Total Assets appears good in the case of the two private sector banks compared to the two public sector banks during the reference period and this holds good for all the private sector banks (1.11 percent) as compare to all public sector banks (0.88 percent) for the reference period.

The average ‘Interest Income’ on Total Assets appears good in the case of Karur Vysya bank (8.36 percent) among the two private sector banks and in Canara bank (7.54 percent) among the two public sector banks during the period from 2001-2002 to 2012-2013. This average was more in the case of all public sector banks (7.76 percent) than in the private sector banks.

The average ‘Interest Expended’ as percentage of total assets appears better in the case of Karur Vysya bank (5.54 percent) among the two private sector banks and in Canara bank (5.13 percent) among the two public sector banks during the reference period and these two figures are more than the averages computed for all public and private sector banks separately. The average interest expended was more in the case of private sector banks (4.96 percent) than in the public sector banks (4.88 percent) during the reference period.

The average ‘Net interest Income/Margin’ (NIM) (spread) appears better in the case of two private sector banks compared to the two public sector banks during the reference period. These averages for the two private sector banks are more than the average computed for all private sector banks. In case of the public sector banks,
BOB recorded average that was slightly better than the one computed for all public sector banks. This average was more in the case of all public sector banks (2.66 percent) than in all private sector banks (2.55 percent) for the same period.

The average ‘Provisions and Contingencies’ for the HDFC bank (1.34 percent) were more than the average computed for all private sector banks. In case of the public sector banks, BOB (1.05 percent) recorded average that was little lower than the one computed for all public sector banks. This average was better in the case of all public sector banks (1.10 percent) than in the all private sector banks (1.04 percent) during the 12 year reference period.

The average ‘Operating Expenses’ appears better in the case of two private sector banks compared to the two public sector banks during the reference period. The average for the HDFC bank (2.42 percent) was more than the average computed for all private sector banks. This average was better in the case of all private sector banks (2.02 percent) than in the all public sector banks (1.82 percent) during the reference period.

The average ‘Operating Income’ appears better in the case of two private sector banks compared to the two public sector banks during the 12 year reference period. In case of the public sector banks, Canara Bank (1.28 percent) recorded average that was better than the one computed for all public sector banks. The average operating Income was better in the case of private sector banks (1.73 percent) than in the public sector banks (1.21 percent).

The average ‘Return on Equity’ for the Canara bank (20.1 percent) was more than the average computed for all public sector banks. In case of the private sector banks, Karur Vysya bank (20.7 percent) and the HDFC bank (18.5 percent) recorded average that was better than the one computed for all private sector banks. The average ‘Return on Equity’ was better in the case of public sector banks (16.9 percent) than in the private sector banks (14.3 percent) during the reference period.

The average ‘Capital Adequacy Ratio’ (CAR) appears better in the case of two private sector banks compared to the two public sector banks during the 12 year reference period. The average for the both the public banks were more than the average computed for all public sector banks. In case of the private sector banks, Karur Vysya bank (15.1 percent) recorded average that was better than the one
computed for all private sector banks. This average was better in the case of private sector banks (14.4 percent) than in the public sector banks (12.8 percent).

The average ‘Business per Employee’ appears better in the case of two public sector banks compared to the two private sector banks during the 12 year reference period. The average for the both the public banks were more than the average computed for all public sector banks. In case of the private sector banks, HDFC bank (690 crores) recorded average that was better than the one computed for all private sector banks. The average business per employee was slightly better in the case of private sector banks (676 crores) than in the public sector banks (642 crores).

The average ‘Profit per Employee’ appears better in the case of two private sector banks compared to the two public sector banks during the 12 year reference period. The average for the both the public banks and both the private banks were more than the average computed for all public sector banks and all private sector banks respectively. This average was better in the case of private sector banks (6.0 percent) than in the public sector banks (3.8 percent).

Hence, these developments reinforced the importance of building a strong and efficient financial system. The most visible structural change in the Indian banking sector is mostly due to policy guidelines offered by different committees and several other measures enforced by RBI for the improvement of performance of banks. **Hence the hypothesis -I holds good and valid.**

**Hypothesis – II**

**There has been a steady improvement in the management of NPA’s in Banks with Considerable variation between the public and private sector banks:**

The hypothesis has been examined taking into account the trends in Loan Assets, the trend of gross NPAs and net NPAs in relation to total assets and advances, Provision for NPAs and Sector-wise NPAs of selected banks in each group and all public & all private banks during the period from 2001-2002 to 2012-2013.

The proportion of standard assets in NPAs and the rate of increase in standard assets and total advances are encouraging while the rates of increase in NPAs sub standard assets, doubtful assets and loss assets stand minimal. In Standard assets, the average rate of loan assets was slightly better in the case of private sector banks (96.0 percent) than in the public sector banks (95.4 percent). While in case of Sub standard assets, Doubtful assets, and Loss assets these averages were more in all
public sector banks (1.6, 2.5, and 0.5 percent respectively) as compare to all private sector banks (1.5, 2.2, and 0.4 percent respectively). This shows good performance in private sector banks.

There was a decline in gross NPAs in all the four banks covered in the study over the 12 years. The average gross NPAs to gross advances for the BOB (5.0 percent) was more than the average computed for all public sector banks and in case of the private sector banks, Karur Vysya bank (4.3 percent) recorded average that was better than the one computed for all private sector banks. The average gross NPAs were better in the case of private sector banks (3.9 percent) than in the public sector banks (4.7 percent). This shows good performance in private sector banks.

There was a decline in net NPAs in all the four banks covered in the study over the 12 years. From the analysis it has been observed that net NPAs of all private sector banks have been declining progressively from 5.7 percent (2001-02) to 0.5 percent (2012-13). The average net NPAs to net advances for the BOB and Canara bank recorded average that was better (Lower) than the one computed for all public sector banks and in case of the private sector banks, both Karur Vysya bank and HDFC bank recorded average that was better (Lower) than the one computed for all private sector banks. The average net NPAs were better in the case of private sector banks (1.7 percent) than in the public sector banks (2.1 percent).

The Gross NPAs to Total assets have come down significantly from 2001-02 to 2012-13. From the analysis it has been observed that Gross NPAs of all selected banks have been declining progressively, in BOB (6.3 to 1.5 percent), in Canara bank (2.9 to 1.5 percent), in HDFC bank (0.9 to 0.6 percent) and in Karur Vysya bank (4.4 to 0.6 percent). The average for the BOB was more than the average computed for all public sector banks and in case of the private sector banks Karur Vysya bank recorded average that was more than the one computed for all private sector banks. The average was better in the case of private sector banks (2.0 percent) than in the public sector banks (2.3 percent).

There was a marked decline in the net NPAs to total assets from 2001-02 to 2012-13, with the focus and attention put by the banks. Net NPA reduced in BOB (2.7 to 0.8 percent), in Canara bank (1.8 to 1.3 percent) and in Karur Vysya bank (3.0 to 0.2 percent). In case of all public and all private sector banks, both the selected banks in each sector recorded average that was less than the one computed for all
public and private sector banks. The average net NPAs were better in the case of private sector banks (0.8 percent) than in the public sector banks (1.1 percent) during 12 years of the reference period.

The proportion of provision for NPAs out of the Total Provisions and Contingencies has come down during the reference period. The average provision for NPAs of BOB (56.3 percent) was more than the average computed for all public sector banks and in case of the private sector banks, both HDFC bank and Karur Vysya banks recorded average that was less than the one computed for all private sector banks. This average was more in the case of private sector banks (42.1 percent) than in the public sector banks (22.0 percent).

The average proportion of NPAs in ‘Agriculture sector’ in the case of public sector banks (16.4 percent) was little over double than in the private sector banks (8.2 percent) during the period 2001-02 to 2012-13. This average was more in BOB than in Canara bank among the two public sector banks and more in the case of Karur Vysya bank than in the HDFC bank among the private sector banks. The average was better in the case of private sector banks than in the public sector banks.

The average proportion of NPAs in Small Scale Industries sector in the case of public sector banks (17.4 percent) was nearly double than in the private sector banks (9.2 percent) during the 12 year reference period. The average was better in the case of private sector banks than in the public sector banks. The average was more or less similar in BOB and in Canara banks among the public sector banks and was more in the case of Karur Vysya bank than in the one computed for all private sector banks.

The average proportion of NPAs from other investments in the case of public sector banks (18.4 percent) was more than the average for private sector banks (8.2 percent) during 2001-02 to 2012-13. The average was better in the case of private sector banks than in the public sector banks. This average was also more in BOB and Canara banks among the public sector and was more in the case of Karur Vysya bank than in the HDFC bank among the private sector banks.

The average proportion of NPAs in Total Priority Sector in the case of public sector banks (52.1 percent) was more than compared to that of private sector banks (23.4 percent) during the period 2001-02 to 2012-13. The average was better in the case of private sector banks than in the public sector banks. The average was slightly lower in Canara bank than in BOB among the public sector banks and was
more in the case of Karur Vysya bank than in the HDFC bank among the private sector banks.

The average proportion of NPAs in Non-Priority Sector in the case of public sector banks (46.6 percent) during 2001-02 to 2012-13 was less than the average for private sector banks (73.0 percent). The average was better in the case of public sector banks than in the private sector banks. This average was more in BOB and Canara banks among the public sector and was more in the case of HDFC bank than in the Karur Vysya bank among the private sector banks.

The average proportion of NPAs in Public Sector in the case of public sector banks (1.3 percent) was more than compared to that of private sector banks (0.3 percent) during the period 2001-02 to 2012-13. The average was better in the case of private sector banks than in the public sector banks. The average proportion of NPAs in Public Sector was more in BOB (1.3 percent) than in Canara bank (0.6 percent) while the two private sector banks did not report any NPAs in public sector during the 12 year period.

Besides, the Gross NPAs in relation to total assets & advances and the Net NPAs in relation to total assets & advances ratio have registered lower level of NPAs during the period under review. Due to provisioning of funds for such assets the NPAs have reduced significantly in all the banks groups in general and in private sector banks particularly. **Thus, the hypothesis -II proved valid.**

**Hypothesis – III**

*The recovery measures are better followed in Private sector banks when compared to the Public sector banks:* The hypothesis has been examined taking into account the Progress of DRTs, details regarding recovery of NPAs through different channels, Percent of Recovery & Share of different Channels by the Scheduled Commercial Banks and Ratio of Reduction of NPAs to Total NPAs of selected banks in each group and all public & all private banks during the period from 2001-2002 to 2012-2013.

The number of cases disposed off by the DRTs was quite significant during 2002-03. As high as 23,393 cases were disposed off during this year. Since then, there was a lag up to 2009-10. From 2009-10, there was an increasing trend in the number of cases disposed off. Thereafter, during 2012-13, 13,408 cases were referred with 31.000 crores amount involved and 4,400 crores had been recovered.
The percentage of amount recovered against the amount involved was highest at 81.1 percent during 2008-09 followed by 75.5 percent during 2005-06 and it is 51.9 percent during 2007-08. In all the remaining years, the percentage recovery is less than 50.

During the period 2003-04 to 2012-13, out of the total cases 54,17,496 referred for recovery of NPAs 42,46,411 were settled through Lok-Adalats followed by SARFAESI Act 8,16,866, One-time settlement 2,82,605, DRTs 71,246 and ARCs 368.

Of the different means, the SARFAESI Act stood first which accounted for an NPA recovery of 63,500 crores out of the total NPAs recovered during 2003-04 to 2012-13. It was followed by DRT’s accounting for 34,934 crores, ARCs accounting for 14,506 crores, one-time settlement accounting for 2,105 crores and Lok Adalats accounting for `1,768 crores, during the reference period.

The percent recovery of NPA amount [Percentage of amount Recovered to amount Involved] was high during 2004-05 (69.3 percent) followed by 50.7 percent during 2005-06, 50.1 percent during 2007-08. This percentage was less than 40 during 2006-07, 2008-09 and 2010-11 while it is less than 25 during 2003-04, 2009-10, 2011-12 and 2012-13. Lowest percentage recovery was recorded during 2003-04 during the 10 year reference period considered here.

A major share of the NPA amount recovered from 2003-04 to 2005-06 was through DRTs while during the years 2006-07 to 2012-13 the contribution of recovery through SARFAESI Act was more.

Regarding the amount involved in NPAs recovery during 2003-04 to 2012-13, major share was from SARFAESI Act that accounted for 54.4 percent (63,500 crores) followed by DRTs 29.9 percent (34,934 crores). In this regard the share of Lok Adalats and One–time settlement were minimal with 1.5 percent and 1.8 percent respectively. The share of Arcs is 12.4 percent (14,506 crores).

**These observations** indicate that both the public and private sector banks have diversified their activities and focusing more on other than the core-banking activities - loans and advances- for generating income. These observations reflect that compared to the private sector banks, the public sector banks were cautious in interest expenditure. The variations in interest expenditure across the 12 year period may be attributed to the changes in interest rates on deposits.
“We do not fear to negotiate, but we do not negotiate out of fear”, so goes a wise saying. Banks appear to be forced to negotiate with willful defaulters more out of fear of non-recovery. The argument in favor of these negotiated settlements is that the value of future (uncertain) cash flows may be less than what is expected to be received under such settlements.

Reductions to NPA show the effectiveness of recovery measures of bank. It relates to the overhang component of NPA and a higher reduction enable bank to recover NPA accounts. It may be noted that a mixed trend exists in Indian banking sector with regard to recovery of NPA.

Among both Public and Private sector banks, there is a 5 time increase in the volume of reductions to NPA from 2001-02 to 2012-13. Among the four banks covered under the present study, the reductions during 2012-13 is Rs.3326 crores amount in BOB, Rs.3,591 crores amount in Canara bank, Rs.1,523 crores amount in HDFC bank and Rs.236 crores amount in Karur Vysya bank. In Karur Vysya Bank there is 16 times increase in the volume of reductions to NPA from 2001-02 to 2012-13.

The Reductions in NPAs as percent of Total NPAs of the all public sector banks was 24.5 percent in 2001-02 which was increase to 44.0 percent in 2012-13. In case of all private sector banks the same was 19.2 percent (2001-02) raised to 50.2 percent (2012-13). Among the four banks covered under the present study, the ratio was 8.2 percent (2001-02) to 41.7 percent (2012-13) in BOB, 18.8 percent (2001-02) to 57.4 percent (2012-13) in Canara Bank, 17.7 percent (2001-02) to 65.2 percent (2012-13) in HDFC bank, 6.7 percent (2001-02) to 82.5 percent (2012-13) in Karur Vysya Bank. The present data shows that the ratio of reductions in NPAs to total NPAs is much better in private sector banks than in public sector banks.

One important observation is that in all these four banks, there is an increase in reductions during the reference period of 12 years which can be attributed to the emphasis laid on recovery and efforts made by these banks for recovery to achieve reduction in NPAs but better reductions in private sector banks. From the observation it indicated that the reduction ratio high in private sector banks so recovery in private sector banks is more effective than public sector banks. Based on the above findings, the hypothesis – III holds valid.
7.2 SUGGESTIONS

The level of NPAs in the Indian Public and Private Sector Banks has reduced drastically both in absolute as well as percentage terms. However, to bring the banks at par with international level and to retain this position in coming years, the following suggestions are offered. The measures required to be undertaken are twofold; one, avoiding fresh addition of NPAs and two, recovering the amount from accounts which have already turned as bad debts.

1. Banks should reformulate their credit appraisal techniques (credit monitoring).
2. Proper evaluation of loan application helps in detecting the unviable projects.
3. The Information about industry, its financial position, management and other information like financial stake, annual accounts, stock reports, etc. should be collected prior to sanction of a loan.
4. Industry-Bank Integrated Cell should be established at the bank level in every branch. Banks should inspect the progress of the project or the business.
5. Some of the enactments related to NPAs are several decades old and in quite a few cases, out of tune with present realities. These provision need to be amended urgently and some new enactments are called for in order to cater to the requirements of the changed and for more complex current economic and Business environment. In case of Legislation on Bank raptly or for closure; the related laws should be expeditiously implemented. In the mean time, at least the special recovery measures available with SFC’s should be made applicable to bank loans as well.
6. Special monitoring department should be established in large braches for review of accounts and analyse the comparative statement, common size statement. Comparative risk and compliance, terms and conditions of action.
7. The senior bank officials should be imparted specialized training at regular intervals to equip them with latest procedures and practices of management of NPAs.
8. Proper perception and evaluation of risk is extremely important of Banks in case of NPAs, like market risk, credit risk, liquidity risk, default risk, interest rate risk, fore risk and other risks. At present environment is Fraught with risks of various kinds and dimensions, a tested and sound credit risk model needs to be put in a place by banks to hamper NPAs.
9. The Banks should be motivated to set up specialized committee like Audit Committee, Risk Management Committee, and Compensatory Committee which will strengthen the corporate governance.

10. The elimination of political interference in disbursement of loans to farmers, priority sector as well as industrialists.

11. Complete ban on loan waivers to farmers and subsidized loan holders.

12. Collection of interest on loan from clients on a monthly basis instead of quarterly collection. At branch level, the branch manager in particular should accept the responsibility for both bending and recovery of huge amounts.

13. The Banks are to develop compromise strategies like establishment of recovery teams at district, village level and satellite branch level.

14. The single window recovery system will help banks in making better loan recoveries.

15. Circulation of information among defaulters by banks or bank groups, strengthening Settlement Advisory Committees (SACs), proper utilization of power vested on the banks under the SRFAESI Act are empower the banks in their war against NPAs.

16. Direct recovery is the best indicator for reduction of NPAs close follow-up, including periodical inspection of Units, borrower’s education and sympathetic consideration of genuine problems of the borrowers will help banks in making better loan Recovery.

17. General provisions may be required to be reported as a separated item ‘Capital and Reserves’. The ‘Specific provisions’ may be required to be reported so as to facilitate arriving at “Provision Adjusted NPAs i.e. Net NPAs”.

18. The banks should strengthen the internal control system through simplification of documentation procedures and revision in audit procedures, operational manuals and implementation of related strategies and monitoring of their efficacy.

19. There is need for an integrated financial reporting system of NPAs in banks. The Management information system (MIS) should clearly bring out the inter-relationship between the volumes of NPAs, the cost and related collections and disbursements so that the managerial decision-making may lead to improve in managing NPAs.

20. MIS can also be used as a training tool for improving the skills of manager and other staff. As we are living in ‘Techno Era’ an effective Management
Information System (MIS) in organization has become panacea to exploit the opportunities and utilize its strength to combat the threats as well as its weakness of banks in relation to NPAs.

21. Banks should introduce the new system of branch inspection emphasizing prompt rectification of irregularities and early warning system for identifying incipiency of NPAs.

22. Form taking a cue that “Prevention is always better than cure”, the banks should accord major thrust on preventive vigilance, revision of existing guidelines and formulation of new policies of many policies of many key aspects for better control and results of declining of NPAs.

23. As a measure of on-site surveillance, vigilance officers inspect branches. In case of any irregularities or deviation are observed during the inspection, the same should be brought to the notice of Regional Heads for prompt corrective action.

The above suggestions may be considered, which would go a long way in further reducing the level of NPAs. Needless to mention here that reducing the level of NPAs will not only considerably improve the profitability of the banks and improve the quality of assts, but also make the Indian banking system stringent, resilient and geared to meet the challenges of global scenario. Apart from the preventive measures, there is need to strengthen the existing legal system like SARFAESI Act, 2002 and Corporate Debt Restructuring (CDR) mechanism. Lastly, before declaring any bank as insolvent, the policymakers may consider merging them with better performing banks, which would improve the asset quality of the bank and reduce the NPA levels.

7.3 CONCLUSION

As the sanctity of ethics and values is getting eroded and challenges and risks faced by banks and borrowers are increasing because of fast changes taking place in business environment and the economy in the context of economic liberalization and globalization, the possibility of some investment failures cannot be ruled out both from banks’ and borrowers’ angle. In such a scenario, the presence of NPAs is unavoidable and the only way to come out of this is to have the suggested Fund built up over a period of time. This will certainly prove to be a win-win situation for all stake holders of banking including the major stake holders the Government.
This suggestion on implementation can become an effective Regulatory Tool. It has to be noted that a good violently executed now in better than a perfect future plan. Time is always the enemy, as it increases the repair bill exponentially. We have neither the time nor the money to experiment with the problem of ever growing NPAs.

The suggestions to contain NPAs inter-alia include making the banks more effective in appraisal, supervision and follow-up of loan accounts, making the borrowers more accountable and responsible and strengthening and expending the legal machinery.

Since the problem of NPAs emanates from borrowers and it is problem of money, which ultimately money only can solve, a model has been developed through this study to find some practical solution to contain the menace in future and at the same time strengthen the balance sheets of banks. The solution is simple and practicable. Create a fund named Precautionary Margin Reserve, by recovering an annual levy in the range of 0.10% (i.e. approximately 10 paisa for every Rs 100/borrowers by the client) from all standard advances, in a graded manner depending on the performance of borrowers reflected in the conduct of their accounts. The model also recommends a contribution from the banks towards the said fund by away of paying compound interest on the fund, to make them involve themselves, also share the burden of future NPAs and be more vigilant in the conduct of credit portfolio. The fund should directly go to the liability side of the balance Sheet. Since it is in the nature of bank’s owned funds, it can be considered for capital adequacy purpose. Consequently the raising of subordinated debt which is a recurring liability and at a high cost can be avoided.

It is envisaged through this model that the rapport between the banker and the borrowers improves and the administration of credit portfolio is made more effective, efficient and transparent and above all free from all possible malpractices like corruption, ever greening of advances, extending undue favors and connected lending. The model is also expected to introduce an element of healthy competition among borrowers to maintain high standards of dealings with banks reflecting in their sub-classification proposed under Standard Advances, for the purpose of levy. With this model in force, borrowers will have a right to demand fair treatment and justice from bankers in a more standardized and transparent manner. The sub-classification
under standard advances should become the benchmark rating for the borrowers for availing of special concessions/ incentives from Government or any institution. The taxation rules can also be linked to this rating, so that borrowers will have the inclination and incentive to be more responsible and accountable. Reprehensive bodies should insist on this Rating for all their members and Companies. Act should insist on incorporation of this Rating in the Annual Accounts of corporate borrowers duly certified by auditors. The Job of Regulator is made easy as banks can be evaluated on the basis of sub-classification of their standard Advances to NPAs can also be better monitored and recovery measures intensified on NPAs. With the implementation of this suggestion, the balance sheets of banks would emerge strong, enhance the confidence of banks, thus facilitating them to have better general image and reputation in the market and improve their all round business potential particularly the loan portfolio. With improvement in confidence level everything else improves.

7.3.1 PRACTICAL UTILITY OF THE STUDY

The present study is designed to be a narrative study with appropriate analytical discussions presented in tune with the proposed objectives in duration from 2001-02 to 2012-13. Though significant progress has been made in NPA management, much still needs to be done in order to improve the performance of public sector commercial banks. The outcome of the study too will be of immense help to the policymakers who are involved in formulating policies for effective management of NPAs. Further, the study would also serve as a reference document for researchers and others concerned with the profitability and performance of Indian banking sector in general and management of NPAs in particular.

7.3.2 SCOPE FOR FURTHER RESEARCH

Further research may be aimed at: Studying the strength and weakness of legal system and to suggest legal reforms required for debt recovery, developing a Borrower’s Credit Rating System to enable banks to have effective Credit Appraisal, developing comprehensive software for appraisal and monitoring of borrowers, A detailed analysis of NPAs at bank level to assess the real problems and to work out strategies for reduction of NPAs, A detailed study on the Auditors’ role in disclosing NPAs and in strengthening internal control mechanisms. Hence, this study provides the scope for further research in this area.