CHAPTER SEVEN

DEVELOPMENT OF AN ACTION PLAN FOR MANAGEMENT OF NPAs IN PSBs IN INDIA

• SWOT Analysis

• Development of An Action Plan
In this chapter the researcher tried to work out, present Strengths, Weaknesses, Opportunities and Threats for Indian Public Sector Banks. For this purpose the researcher reviewed the literature available on the topic and conducted discussions with branch managers, credit and loan officers at regional / zonal offices and the banking consultants.

**SWOT ANALYSIS**

Organizations undertake SWOT analysis to understand the external and internal environment. Through such analysis, strengths and weaknesses, which exist within an organization, are matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated. An effective strategy of PSBs for the management of NPAs is one that capitalizes on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact of weaknesses. An understanding of environment in terms of the strengths, weaknesses, opportunities and threats is crucial for the existence, growth and profitability of any organization.

**STRENGTHS OF PUBLIC SECTOR BANKS**

Strength is an inherent capacity, which an organization can use to gain strategic advantage over its competitors. On the basis of discussions with the bank officials and the consultants, the researcher identified some major strengths of PSBs. These are:

- The major strength of PSBs is **wide coverage of its network**. In the post nationalization period, significant progress has been made in expending the branch network of banking system and in growth of banking activities measured in terms of deposits, advances and other variables. **Table 1.1** of chapter 1 shows clearly that the proportion of rural branches to the total branch network of PSBs has gone up significantly from 22.2% in 1969 to 47.13 % in the year 2003. Population per branch has also decreased from 64 per thousand in year 1969 to 16 per thousand in the year 2003.
• Public sector banks have **faith of the public** and therefore the level of credit worthiness of PSBs is quiet high in comparison of private sector banks and foreign banks. Indian public sector banks have not only been conceived as a vehicle of social change, but have also played a pivotal role in stepping up agricultural and rural development. Public Sector Banks in India have been shouldering enormous responsibility of social lending for a variety of activities like poverty alleviation, self employment, and directed lending to improve the standard of living of downtrodden / neglected section of the society.

• The third strength is **sufficient financial resources** with Public Sector Banks. The share of public sector banks in total commercial banking in respect of deposits, advances and profitability is highly significant. Therefore, PSBs have sufficient resources available for improvement of customer services, productivity, profitability and staff welfare schemes.

• The fourth strength of PSBs is **Use of electronic technology** in banking activities. In the banking and financial sector the introduction of electronic technology for transactions, settlement of account, book-keeping and all other related functions is now an imperative. In response to the compulsion imposed by the technological environment, the PSBs have accelerated the pace of computerization of branch operations, controlling offices and head offices. Operationalization of the shared payment network system (SPNS) of ATMs, the setting up of the INFINET, a wide area satellite based network using VSAT technology, and MICR clearing of cheques shows the pace of automation in banking sector.

• The mean strength of PSBs is their **better quality of services**. PSBs are in better position in respect of better customer services in comparison of their competitors. Due to competition, PSBs are forced to improve their customer services in recent years.
WEAKNESSES OF PUBLIC SECTOR BANKS

Like any other organization, public sector banks also have strengths as well as weaknesses. Strengths and weakness can be compared to two different sides of a coin. On one side there are strengths, helping and growing business of PSBs, on the other hand there are many weaknesses creating obstacles in performance. Weaknesses are inherent limitations or constraints, which create problem for the organization. Some of the prominent weaknesses of PSBs are:

- One of the major weaknesses of PSBs is lack understanding of the principles of credit, and RBI guidelines regarding NPAs. This is the main cause of high level of NPAs in Indian PSBs.

- Due to vast network of PSBs, technological changes yet to reach in all the branches. Banks, therefore will have to evolve a strategic vision that builds over the present technology base. Use of technology in management information system, reporting and other related functions is of immense importance now.

- Excessive Government interference and Lack of continuity in Government policies is another dominant weakness of PSBs. Economic policy may include Govt. directed investment, credit allocation, non-viable branch expansion, change in CRR and SLR ratio, Govt. / administrative interference in credit decision making like organizing ‘loan Melas’ and finally loan waiver schemes. All these factors affect efficiency and productively of banks adversely.

- The other major weakness of PSBs is overburdened staff. Due to VRS Scheme, retired employees are not replaced with new ones. Further, due to increase in technicalities of modern competitive banking, bank staff feels overburdened and gets comparatively less time for important jobs like, appraisal of credit proposals, monitoring of loans, follow-ups of problem loans and other related activities.
• Another prominent weakness of PSBs is **time consuming and slow legal system**. Suits filed for recovery of NPAs passes through long and time consuming process and thus effecting adversely banks resources. However, some steps are being taken in the right direction.

• **Non-existence of adequate skilled staff** forms another weakness in PSBs. In modern competitive banking; importance of credit and NPAs management skill is of paramount importance. These skills include; credit skills like understanding of principles of credit, monitoring the loan portfolio, risk assessment and management techniques; financial skills; negotiation skills; legal skills; accounting skills; and importantly IT skills. These skills can be developed through proper training and orientation.

**OPPERTUNITES**

An opportunity provides favorable environment to an organization, which enable it to consolidate and strengthen its position. The success of an organization depends on 'how it uses its strengths keeping opportunities in mind'. Some of the significant opportunities related to PSBs are:

• **Due to Liberalization, Globalization and Privatization, area of new consumers/sectors / services increased** manifolds. This has provided PSBs an opportunity to capture the new market by adopting aggressive marketing strategies and improving costumer services.

• Another opportunity for PSBs is **capacity of expansion**. Though PSBs have wide network of branches in the country but still there is scope for expansion within the country and abroad.

• From the traditional way of lending, PSBs are now heading towards providing new schemes for meeting needs of the new costumers and thus improving their share in advances. However, still there
exists scope for diversification of services in Public Sector Banks.

- Another opportunity for PSBs is in improvement in technology. Though, efforts have been made in recent years to connect majority of branches with electronic banking, but due to wide network of branches still much more is required to be done.

THREATS

A threat is an unfavorable condition in the organizational environment, which adversely affects the productivity, performance and efficiency of the organization. Some of the critical threats of Indian Public Sector Banks are:

- The main threat to the PSBs has been presence of tough competition from private banks and foreign banks. Due to financial sector reforms these banks were allowed for business in India. These banks have gradually captured significant share of total deposits and advances of scheduled commercial banks through aggressive marketing strategies and better customer services.

- Other main threat faced by the public sector banks is high volume of NPAs. Tightening of RBI guidelines regarding overdue period, Govt. directed loan schemes, poor legal framework, and poor appraisal and monitoring have significantly contributed in high volume of NPAs in PSBs.

- The other major threat faced by PSBs is shortage of skilled staff to counter modern banking requirements. The scenario of modern banking is changing rapidly and it requires specialized skills, which are not of adequate level in PSBs.

- Last but not the least threat of PSBs is poor infrastructure in comparison with foreign and private sector banks. The infrastructure with sound facilities enables a bank to maintain the pace with contemporary changes. Today, PSBs need to develop their technological base and to upgrade the quality
of services and also to add new dimensions to the existing banking products available in the market for maintaining leading position in the market.

DEVELOPMENT OF AN ACTION PLAN

Credit as well as NPA management policies plays very vital roles in effective NPA management. Defective Credit Policy is a precursor to creation of NPAs and also to non-reduction of NPAs in banks. Both Credit Policy and NPA management Policy are co-related just like two sides of a coin. No one policy can be formulated without recourse to other; rather there should be one policy encompassing both aspects. It may be termed as Credit Dispensation & Recovery Management Policy.

Almost all the banks, on the instructions of Reserve Bank of India formulate credit as well as Recovery Management Policy. In general, these policies are nothing but simply carbon copies of guidelines issued by RBI from time to time. RBI guidelines are indicative for formulation of progressive policy and act as benchmarks for formulation of appropriate policy by the banks. So, the banks should take proper care so that RBI guidelines are not violated.

It is observed that the policy document designed by almost all the banks are neither pro-active nor pre-active, rather these are re-active in nature. In the era of LPG (Liberalization, Privatization & Globalization) the Policy should be visionary, progressive & pre-active. It should create dynamism & conducive atmosphere in the field level for achieving its objectives. In this context each bank should formulate a suitable Credit Dispensation & Recovery Management Policy depending upon the size & complexity of the existing credit business, risk, philosophy, market perception and the existing level of NPAs & capital.

While designing a credit dispensation and recovery management policy, a bank should keep in mind the clear-cut objectives of the policy. These objectives may be short-tem and long-term, like sustained growth in credit
with minimum level of NPAs. The policy should have flexibility for fine-tuning with the overall Govt./RBI policy as well as the environmental changes.

In view of the elements worked out from SWOT analysis and the need for comprehensive Credit and Recovery Management Policy in banks, the researcher conducted an exercise to formulate an Action Plan for the management of NPAs. Main aspects covered in this plan are:

**PROPER APPRAISAL OF CREDIT**

Maintaining loan quality during growth has always been a challenge to lenders. It is said that most bad loans are made in good times. In this sense, proper appraisal of credit plays an important and stabilizing role in credit dispensation. There are some prime elements, which should be kept in mind while appraising loan application. These may be valuation of security, potential of business to grow, balance sheet appraisal, goodwill of the borrower, guarantee offered, Government policies etc.

Observing that there were administrative lapses in the processing of applications and in monitoring of accounts in a large number of cases reported as frauds, the researcher has prepared an illustrative list of suggestions to improve the system for minimizing the incidence of frauds in the advances portfolio. It includes:

- Lending banks should obtain a certificate from the borrowers on a quarterly basis furnishing details of accounts opened with other banks.
- Banks may consider setting up of independent cells for valuation, to be managed by technical personnel with the right expertise.
- Immediate action should be taken where the malafide/ gross negligence by dealing officials are noticed. Wherever there is a prima-facie case against the dealing officials, appropriate action in terms of the Central Vigilance Cell (CVC) guidelines for their inclusion in the list of officers with doubtful integrity should be initiated in consultation with the Central Bureau of Investigation.
• Banks should evolve a process of check listing to enable them to take note of any deficiency while releasing funds to the borrowers or monitoring their end-use.
• Banks should build up a cadre of officials with proper educational background and training to take care of at least large projects.
• In the case of project finance, disbursements should be made only after the promoter/borrower brings in his stipulated contribution.

TIMELY DELIVERY OF CREDIT

Timely delivery of credit is essential as the borrower can utilize the funds for the intended purpose in a cost-effective manner, which will in turn increase his cash flow and the repaying capacity. Delay in credit delivery, due to prolong evaluation process and frustrating the borrower with continuous requests for more information may contribute for the loan turning bad.

CREDIT MONITORING AND SUPERVISION

It would be observed from the table 6.13 of chapter six of the thesis that bank managers, credit and loan officers and banking consultants considered 'absence of effective monitoring and supervision of bank accounts' as prominent factor responsible for making a loan account non-performing. Constant follow-up of credit is essential for maintaining a healthy loan portfolio. Small loans should be supervised through personal contacts by periodical visits to units and calling for financial information. For this purpose banks may have Relationship Manager/ Credit officer. The Relationship Manager/ Credit officer is an official who is expected to have complete knowledge of borrower, his business, his future plans, etc. The Relationship Manager has to keep in constant touch with the borrower and report all developments impacting the Borrowal account. As a part of this contact he is also expected to conduct scrutiny and activity inspections.

Banks should have a system of preparing "know your client" (KYC) profile/credit report. As a part of ‘KYC’ system, visits are made on clients and their places of business/units. The frequency of such visits depends on the nature and need of relationship. In respect of large advances, supervision of
credit can be exercised through the medium of Monthly Select Operational Data (MSOD) statements. For borrowers of Rs.10 lakh and below, taking clue from the structured statements of MSOD, the branches may devise their own important data to be called for and obtain the same on a quarterly basis for necessary supervision.

**EARLY IDENTIFICATION OF PROBLEM CREDIT**

Like a linesman in the football team, the passing officials who pass various cheques/instruments as on going basis are the first linesmen in the early detection process of any advance turning bad. In branches where field officers are the passing officials, the position of monitoring will be easier. The other identifiers may be the Managers of the Division/Branch Managers, internal inspecting teams and external auditors. "Past due "status is not the first but the last warning signal of potential trouble.

It is important in any early warning system to be sensitive to signals of credit deterioration. A boost of early warning signals can be used by different banks for identification of potential NPAs. The researcher during the study has identified some important operational, financial and transactional indicators that may help the banks in identifying emerging problems in credit exposures at an early stage. The indicator which may trigger early warning system depend not only on default in payment of installment and interest but also on other factors such as deterioration in operating and financial performance of the borrower, weakening industry characteristics, regulatory changes, general economic conditions etc.

Early warning signals can be classified into five broad categories viz. (a) financial (b) operational (c) banking (d) management and (e) external signals.

**FINANCIAL WARNING SIGNALS**

Financial warning signals normally generate from the borrowers balance sheet, income expenditure statement, statement of cash flows, statement of receivables etc. These are:

- Persistent irregularity in the account.
• Default in repayment obligation.
• Development of LC/invocation of guarantees.
• Deterioration in liquidity/ working capital position.
• Substantial increase in long terms debts in relation to equity.
• Declining sales.
• Operating losses/ net losses.
• Rising sales and falling profits.
• Disproportionate increase in overheads relative to sales.
• Rising level of bad debt / losses.

OPERATIONAL WARNING SIGNALS
• Low activity level in plant.
• Disorderly diversification / frequent changes in plan.
• Non-payment of wages/ power bills.
• Loss of critical customer/s.
• Frequent labor problems.
• Evidence of aged inventory/ large level of inventory.

MANAGEMENT RELATED WARNING SIGNALS
• Lack of co-operation from key personnel.
• Change in management, ownership, or key personnel.
• Desire to take undue risks.
• Family disputes.
• Poor financial controls.
• Fudging of financial statements.
• Diversion of funds.

BANKING RELATED SIGNALS
• Declining bank balances/declining operations in the account.
• Opening of account with other bank.
• Return of outward bills/ dishonored cheques.
• Sales transactions not routed through the account.
• Frequent requests for loan.
• Frequent delays in submitting stock statements, financial data etc.
SIGNALS RELATING TO EXTERNAL FACTORS

- Economic recession.
- Emergence of new competition.
- Emergence of new technology.
- Changes in Government/ regulatory policies.
- Natural calamities.

PREPARATION OF WATCH LIST (SPECIAL MENTION CATEGORY)

The grading of the bank's risk assets is an important internal control tool. It serves the need of the management to identify and monitor potential risks of a loan asset. The purpose of identification of potential NPAs is to enable bank to initiate appropriate preventive/ corrective steps to protect it against the loan asset becoming non-performing. Banks should have a system to put certain borrowal accounts under watch list or special mention category if performing advances operating under adverse business or economic conditions. These accounts generally exhibit weaknesses, which are correctable but warrant banks closer attention. The categorization of such accounts in watch list or special mention category provides early warning signals enabling Relationship Manager or Credit Officer to anticipate credit deterioration and take necessary preventive steps to avoid their slippage into non-performing advances.

CONDUCT OF SPECIAL INVESTIGATIVE AUDIT

In cases where the banks suspect diversion of funds, mismanagement, genuineness of promoters intent, etc. it is recommended that a special investigative audit of all financial/ business transactions and books of accounts of the borrower company be carried out in order to determine the real factors which contributed to the sickness. It would be useful to appoint a consultant as early as possible to examine these aspects. Special investigative audit should be conducted in two phases covering aspects as detailed below:

Phase 1
- Analysis of the historical financial statements of the company for past three to four years.
• Analysis of major heads of income and expenditure based on financial performance of comparable companies in the industry to identify significant variances and seek explanations for the same from the company management.
• Analysis to assess current financial position of major assets and liabilities covering position, details of review of all outstanding term liabilities including overdue repayments made and interest paid.
• A review of the working capital facilities availed by the company, amounts outstanding, drawing power and amount of irregularity.
• A review of the loans and advances, inventories, receivables and payables, especially involving group companies based on top level ageing analysis.
• Benchmarking of capital expenditure and working capital of the company with the industry norms to identify variances and seek explanations for the same from the management.
• Review of the transactions entered into by the company with the promoters, their associates, closely related entities etc. for reasonableness and propriety thereof. The review would be based on the list of transactions provided by the management of the company.

Phase II
Conduct a detailed review of the areas of concern identified in Phase I.

REHABILITATION / RESTRUCTURING OF LOAN
In some cases, accounts may become non-performing because of default in loan repayment, which is due to circumstances beyond control of the borrower like, natural calamities such as flood, drought, earthquake, pest and diseases, and unforeseen circumstances like market recession, riots and political disturbance etc. In such cases NPAs accounts may be upgraded to standard category by Rephasement / Reschedulement of loan installments and / or rehabilitating fresh loaning to the affected borrowers on case-to-case analysis.
EFFECTIVE MONITORING OF RESTRUCTURED LOANS

Unless proper monitoring of restructured accounts is carried out, there is every possibility of the loans slipping into Non-Performing Assets category again. It is recommended therefore that restructured accounts with credit exposure above a certain amount be monitored by an independent monitoring agency. This is to ensure that:

- The restructuring package approved by lenders is implemented in a timely manner,
- The cash is managed in accordance with the agreed terms of the restructuring agreements; and
- Deviations in financial performance of the borrower are identified and reported in a timely manner to the borrowers for effective control.

An important tool in monitoring is development of Trust and Retention Mechanism (TRA). Trust and Retention Mechanism is implemented by lenders in any company to ensure proper monitoring and utilization of cash flows of that company. Under this mechanism cash inflows of the company are collected into a single account, called Trust and Retention Account, which is held in trust by either lender or the company on behalf of all the stakeholders.

The cash collection in the Trust and Retention Account there after is utilized in a manner and priority as agreed by various stakeholders of the company. Various sub-TRA accounts (buckets) can be created for each of the items specified in the priority document. It is a general practice to provide highest priority to the operational expenditure requirement of the company. This is then followed by interest and other charges payable to working capital providers of the company, followed by interest payments for the term lenders and repayment of term loans. Priorities can again be assigned to interest and principal payments to various categories of lenders.
Funds from one-bucket moves to the subsequent bucket only if requirement of funds for the first bucket is completely met and more funds are available after fulfilling the requirements of operational expenditure, interest payment and principal repayment. The available funds can be utilized for dividend payments for preference shares. Any fund, if left are surplus available to the company, which can be utilized by the company in a manner it deems fit.

NEGOTIATED COMPROMISE SETTLEMENT

Banks should consider entering into negotiated settlements in such NPAs cases where restructuring option is not feasible. It is recommended that a transparent procedure be put in place to ensure effectiveness of compromise settlements entered into by banks with borrowers. Chapter six of thesis indicates clearly that in the opinion of bank managers, credit and loan officers and banking consultants ‘compromise’ is the ‘highly effective measure’ for recovery of NPAs. The bank can save the manpower, time and expenses involved in the legal process and can recycle the fund received through compromise settlement.

In compromise case the Benefit Sacrifice Analysis should be done to ascertain usefulness of compromise. When a compromise is arrived at, certain amount of sacrifice in the form of write off and/or waiver of uncharged interest would be inevitable. However, depending on the case, bank should try to sacrifice minimum possible amount. Compromise should be used as a strategy and not sold as a product. However, compromise can be marketed as a product prudently in cases where the asset backup is questionable and prospects for recovery out of the borrower’s own means are remote.

LEGAL ACTION

Legal action must be initiated only when bank is convinced and have reached the conclusion that compromise, rehabilitation or any other restructuring alternative is not possible. Banks may take recourse to criminal proceedings along with civil suits where misleading information has been furnished by the borrower. Also in the case of valueless guarantees and diversion of funds banks should initiate criminal proceedings. However, there are various
bottlenecks in the judiciary process. So in order to improve recovery of non-performing assets through legal systems banks should adopt systematic approaches. Some of the aspects involve in this approach may be:

- Banks should strengthen their Recovery/Legal departments with competent persons to handle all sorts of legal matters in relation to recovery of loans. The Banks should have a clear-cut legal policy.
- Banks should have panel of committed advocates for tackling bank cases professionally.
- Banks should take quick decisions for initiating legal actions against NPA borrowers.
- Banks should evaluate each case on its merit whether it is justified to initiate legal action.
- Once the decision is taken, all relevant papers should be handed over to legal/Recovery Department in the first instance itself.
- Legal departments should thoroughly examine whether all documents are in order in all respects such as execution, stamping, filling up, attestation, etc.
- The documents should not become time barred.
- Securities must be properly charged to the bank.
- Registration of charge in case of limited companies must be properly done.
- Latest residential as well as business address of the borrowers and guarantors should be furnished.
- A list of attachable properties and their value should be prepared & furnished.
- In case of deceased borrowers, legal heirs should be ascertained & furnished.
- All loan records or correspondence on which banks want to rely must properly be scrutinized & deficiency, if any, be observed and rectified.
- A list of possible witnesses should be prepared & they should be kept ready for their presence in Court, if required.
- If mortgage of property is available as security, the bank should apply for interim order seeking attachment of mortgaged property.
• The bank should apply for an interim order against the borrowers to debar them from transferring, alienating or otherwise dealing with or disposing of any property belonging to them without prior permission of the Tribunal/ Court.
• In case where securities are missing, the banks may initiate criminal proceedings.
• A notice of demand to the borrowers and guarantors should be issued before commencing legal action.
• Suit should file in the Court of competent jurisdiction.
• Prayer for sale of securities & costs should be made.
• The bank representatives should attend positively all the court proceedings and assist the lawyer in all respects.
• At quarterly intervals, all suits filed cases should be reviewed at the appropriate levels & necessary corrective measures should be taken.
• After obtaining decrees, banks should file immediately execution proceeding which is very important for recovery of the bank loans.
• Wherever necessary, the banks may take the assistance of the private agents for realization of decertal amounts.

The RBI/ Government of India have been facilitating the banks to take steps for arresting the incidence of NPAs and also have been creating legal and regulatory environment for faster recovery process. Considering the growth of recoveries made by Lok Adalats, debt recovery tribunals in the past years, banks should make efforts to settle the problem loans on these forums.

TACKLING WILFUL DEFAULT

Two approaches are necessary in this regard. First to prevent willful default in future and secondly to initiate steps to discourage willful default. To prevent willful default, comprehensive and discrete enquires, should be made before disbursing loans to borrowers. Banks should devise a system of maintaining names of borrowers who do not have good reputation. RBI has introduced a system for periodical circulation of details of willful defaulters of banks and financial institutions. This serves as a caution list while considering requests for new or additional credit limits from defaulting borrowing units.
In present time when willful default has gained social acceptability, the bank can initiate steps for devising schemes for giving recognition to good borrowers in various meetings or functions organized by the branches. Further the problems of good borrowers can be studied and their credit needs immediately should be met. By doing so, a culture of prompt repayment may develop and simultaneously willful default would be discouraged.

**SPECIAL INCENTIVE PACKAGES**

In most banks the 'award staff' employees are not being involved in the credit delivery process. Due to high volume of NPAs, many banks now sought their co-operation in recovery of NPAs. Generally, the managers and officers are posted in the branches for a temporary period; say 3 to 5 years, whereas the award staff employees are posted relatively permanent in the branches. Moreover, the award staff employees are mostly local and they know well about the borrowers of the bank. They are in better position to deal with the NPAs borrowers effectively. By asking them to do so, they will not be motivated to participate in the recovery process, because they have not been involved in the credit delivery process. In this context, the banks should involve them in the credit delivery process by adopting committee approach in credit dispensation. Further, the banks can introduce progressive incentive packages in order to boost up the zeal and enthusiasm among all sections of the employees for effective recovery of NPAs.

**ESTABLISHMENT OF SPECIAL WORKOUT UNITS**

Banks are currently maintaining Stressed Assets Management Groups (SMAG) in head offices. Some banks have also setup dedicated Rehabilitation and Recovery branches to handle complicated and complex assets. These special outfits have been focusing total attention in tackling the NPAs and have achieved reasonable success. To improve the efficiency of these outfits, the skills, knowledge, practical experience and negotiating skills of each Credit Officer should match with the level of complexity or difficulty of the various borrowers being managed. Desirable skills can be developed through proper training. Regular training needs to be imparted to staff at
appropriate levels on an ongoing basis. The objective of the training is to keep abreast of:

- Ongoing and proposed regulatory changes and their implications on the bank's efforts for Non-Performing Assets management/recovery.
- International experience in NPA management. Various tools/techniques used for NPA recovery and their appropriateness in the Indian environment.

In general following aspects/areas (category wise) should be covered in the training program to be conducted for bank's staff at appropriate levels:

**ORIENTATION**
- NPA problem in India and characteristics of Indian NPAs and their management till date.
- Characteristics and management of NPA portfolio of the bank.

**ACCOUNT MONITORING**
- The objectives of this module should be to discuss techniques/tools used internationally for monitoring of a potential NPA case to prevent slippage into the NPA category and approach used to maximize recovery by identifying suitable option in advance.

**REGULATORY FRAMEWORK**
- Securitisation Act, Asset Acquisition Rules, working of ARCs, National Company Law Tribunal (NCLT) and their interrelationship.
- Impact of regulatory changes on NPA management/recovery.
- Other regulatory provisions relating to Take-over code; Mergers, Conversion of loans into equity instruments.
- Rights available to the lenders under loan documents, etc.

**RESOLUTION FRAMEWORK**
- Option Analysis to understand the various options available for recovery and decision on the best suitable option to maximize recovery. Options available could be restructuring, security enforcement, ARC (Asset Reconstruction Company), recovery through DRT, high court, etc.
• Factors affecting restructuring decision such as security position, viability of underlying business, industry scenario, etc.
• Detailed understanding of the various compromise settlement schemes and Corporate Debt Reconstructing (CDR) mechanism and an understanding of effective tools for monitoring of restructured cases.

IT Skills
• Ability to design, implement and maintain an appropriate IT system
• Ability to support use of the IT system

In nutshell, while many steps have been taken in the recent past in bringing changes to the legal environment to facilitate effective management of NPAs, a lot is still desired. Practical issues and legal hurdles in implementation of several rights conferred by law (e.g. enforcement under SRFAESI Act) to the lenders have reduced the efficiency of these laws. It is recommended that legal hurdles must be cleared on a priority basis to improve recovery of NPAs under the legal route. In addition, the guidelines on takeover of management/business of borrowers need to be issued as expeditiously as possible.

To sum up, though significant progress has been made in NPA management, much still needs to be done in areas such as credit risk management, identification and correction of NPA problem in a time bound manner. The banks should introduce some of the practices followed internationally for NPA resolution, which may be relevant in the Indian conditions. The Government and RBI should also come out with policies, which results in improving legal framework and providing banks' freedom to handle the management of NPAs effectively. The recommendations made in the foregoing if implemented, should go a long way in bringing about an effective improvement in the handling of Non-Performing Assets and consequent up gradation of the asset quality.