CHAPTER EIGHT

SUMMARY AND CONCLUSION
Commercial banking in India though more than a century old, witnessed significant developments and rapid strides of progress only after nationalization. Indian banking as a matter of fact has undergone a metamorphosis in the very concept, percept and outlook since nationalization. Explosive growth coupled with functional diversification in consonance with the national objectives and priorities has been the hallmark of this phenomenal transformation. By any reckoning, the Indian banking system has given a good account of itself and eventually emerged as an effective instrument of socio-economic change.

The massive and speedy expansion and diversification of banking scenario has not been without its strains. One of the main areas of concern is the erosion of profitability. . The available data show that the profitability of PSBs after nationalization has declined even though the quantum of profit has increased. Main causes responsible for it are excessive branch expansion, unfavorable change in deposit mix, excessive emphasis on regulation of interest rates, statutory pre-emption like CRR and SLR, directed and priority sector landings, huge amount of overdue and rising NPAs, failure of businesses, provision of cross subsidies, inefficient management and the political interference.

In order to make the banking system sound and vibrant, the Narasimham Committee thoroughly reviewed the financial system and submitted the recommendations in two phases i.e. in the year 1991 and 1998. Main recommendations of the committee included reduction in CRR and SLR; reduction in directed credit program; deregulation of interest rates; structural reorganization of the banking structure; setting up of ARF; removal of dual control; autonomy to PSBs; introduction of income recognition, assets classification, provisioning and capital adequacy norms; strengthening of the bank balance sheet by capitalization and permission for public issue; introduction of new supervisory system; introduction of competition from both private and foreign banks; and the introduction of modern technology.

Due to the banking sector reforms initiated since 1992 in the country, the banks are facing new challenges. In the changing scenario, the banks are
under tremendous pressure to redefine their priorities in order to manage effectively these challenges for their survival and growth. There are many priorities but available resources and time are very limited. With the constraints of the means, the main goal of the banks to achieve sustained profit by adopting international standards of the banking practices can be achieved by proper prioritization of priorities. The most critical area in the improvement of the profitability of banks continues to be reduction of Non Performing Assets. Today the quality of loan assets is the most important factor for the basic viability of the banking system. The overdue advances of banks in India are mounting and in consequence the NPAs in their portfolio are on the rise, impinging on the bank’s viability. Avoidance of loan losses is one of the pre-occupations of management of banks. While complete elimination of such losses is not possible, bank management aims to keep the losses at a low level.

With the implementation of the process of reforms, the position of PSBs has changed drastically. It may include decrease in PSBs deposits from 87.17% in 1994 to 76.87% in 2003; decreasement in share of PSBs advances from 79.86% in 1994 to 72.07% in 2003. With the deregulation of entry norms, the number of foreign banks operating in India has increased from 23 in 1991 to 36 in 2003, while that of domestic private sector banks has increased from 24 to 30 in the same period. Although there is an upward trend in respect of volume of NPAs, but the percentage of total NPAs over total advances reduced from 16% in the year 1998 to 8.8% in 2003. Banking sector reforms had a positive impact on profitability of PSBs. The gross profit % to total assets of PSBs, which was 1.84% in the year 1992, rose to 2.31% in the year 2003. A major impact of the reform process of the Indian banking has been in terms of change in business strategy of the banks. At the time of introduction of banking sector reforms over 90% of the income of commercial banks in India was in form of interest. This percentage has gone down substantially to about 80% in recent years.

The most crucial factor that governs the performance of banks is asset classification and the resultant non-performing assets identified. The high level of NPAs dampens the performance of the banks. NPAs is a double-edged knife that tells on the banks profitability on the one hand, bank can not
recognize/ book income (interest) on NPA accounts and on the other, it is a drain on the banks profitability due to funding costs. To add to the woes, profit earned has to be diverted towards making loan loss provisions as per IRAC norms.

In lines of the recommendations of the Narasimham committee, the RBI issued certain guidelines regarding asset classification, income recognition, and provisioning, for treating a credit facility as non-performing asset commencing from the accounting year 1992-93. These guidelines were implemented in phases and revised time and again. There can be various factors responsible for making a loan asset non-performing, prominent of these are improper selection of borrower, lack of credit appraisal skill, delay in credit dispersion, lack of proper follow-up, fraudulent intention of borrower, improper choice of project/activity, market recession, and socio-political pressures i.e. through Govt. sponsored scheme.

The Indian banking industry is being threatened by the NPAs menace. There has been an unprecedented rise in the volume of NPAs. Gross NPAs, which were Rs. 45,653 crore in the year 1998, rose to Rs. 54,086 crore in the year 2003. But, at the same time encouraging factor regarding this is the percentage of gross NPA to gross advances, which is continuously coming down from 16 % in 1998 to 9.4% in the year 2003. In absolute terms net NPAs went on increasing from Rs. 21,232 crore in 1998 to Rs. 27,958 crore in 2002 but in 2003 it dropped to Rs. 24,963 crore. But Net NPAs as percentage to net advances decreased invariably from 8.2% in 1998 to 4.5% in 2003. The rising NPAs have adverse impact on the business mobilization, productivity, profitability and the effectiveness of various measures to reduce NPAs. The data related to NPAs clearly show that the position of public sector banks has considerably improved after introduction of reforms in banking sector. Gross NPAs in PSBs, which were 24.8% of gross advances in the year 1994, came down to 9.4% in the year 2003. Similarly Net NPAs of PSBs came down to 4.5% of net advances from 14.5% in 1994.

Though many authors in their articles/ papers have tried to analyse the problem of NPAs and to suggest some remedial measures, but their work is mainly
based on very limited data and confined to one or two aspects of NPAs. However, some authors like Sinha R.P., Taori K.S., Arora Usha and Rao Katuri Nagashwar described current scenario of NPAs and threw light on some of the factors, which contributed in making NPAs problem so critical in India and strongly believed that importance of effective management policy is paramount. Some authors like Sarda D.P, Taori K.S., Kannan K. and Rao C.Vithal discussed various measures like better selection of borrowers, more scientific appraisal and supervision in reducing NPAs. They were of the view that advances, which are not NPAs but are on the threshold, should be given special attention because they might turn into NPAs sooner or later. Naik S.V. and Arora Usha in their paper stated the effectiveness of various recovery measurers like BIFR, Rehabilitation, ARCs, and Recovery Tribunals. They observed that currently employed actions are not effective and suggested that in managing NPAs change in legal system for recovery of banks dues, speedy trail of suits filed cases and execution is the need of the hour. They were of the view that in the long run only better credit management in terms of appraisal and monitoring of loan assets can solve the NPAs problem and this will also enable banks in making the pre-eminent position in the globalized set up.

With the objective to evaluate the efficiency of PSBs to control and manage the NPAs and to suggest some measures for their prevention the researcher used both primary as well as secondary data. The analysis of primary data collected by conduct of survey on bank managers, credit/loan officers at regional/zonal offices of PSBs and the bank consultants revealed that:

- The branch managers & credit/loan officers of banks are aware of the volume of NPAs and the policy guidelines on NPAs issued by RBI from time to time.
- The awareness level of borrowers about the documents required by the bank is found unsatisfactory. The bank managers opinioned that they do not get required cooperation from borrowers, so, they normally feel difficulties in proper & timely classification of borowal accounts in different categories.
• Bank managers and bank consultants were of the view that failure of business due to any reason was the main factor responsible for making a loan NPAs while loan officer held faulty lending policy or appraisal system responsible for it. Time consuming and slow legal system for recovery of banks dues, frequent changes in govt. policies, fraudulent intention of borrowers were other main factors responsible for making a loan non-performing.

• Bank managers were of the view that valuation of security is the prime element, which should be kept in mind while sanctioning the loan, while credit officers and banking consultants considered potential of business to grow as the most important element for it. Balance sheet appraisal and goodwill of the borrower are also considered as important elements, which should be kept in mind while sanctioning loan.

• Bank managers, credit officers and banking consultants were unanimous in treating monitoring of standard assets as best remedy to reduce NPAs. Similarly a common view was expressed by them regarding adjudging 'compromise' as highly effective measures for recovery of dues.

• Main problems in management of NPAs, as observed during study are unawareness of the staff regarding policies and procedures of NPAs management, lack of information regarding willful defaulters which lead to poor selection of borrowers, appraisal and monitoring. Management of NPAs is not only possible through recovery of irregular account but also through better selection of borrower and more scientific appraisal and supervision.

• In view of most of the respondents bank regional offices and branches are well equipped to render better customer services and to manage non performing assets.

• A considerable number of branch managers and the loan officers have not got any training on recovery matters and in matters relating to management of non performing assets.
• A large number of branch managers were found involved in compromise & they also got success. But most of them did not organise any recovery camp.

• Most of the respondents were of the view that the time normally taken for court judgment is not considerable. They said that the role of ECGC and DICGC in recovery matters is not satisfactory.

The secondary data available on the topic clearly indicates that:

• Though the volume of Gross NPAs and Net NPAs in PSBs has increased in absolute terms, but their percentages to Gross Advances and Net advances have shown continuous declining trend over the period from 1993-94 to 2002-03.

• Similarly the Gross NPAs % to total assets and Net NPAs % to total assets have also shown a declining trend during the period from 1993-94 to 2002-03.

• A significant proportion (i.e. about 47%) of total NPAs of Public Sector banks belongs to Priority Sector Lendings. Though Non Priority Sector also has approx. 51% share in total NPAs of PSBs. This proportion in case of Public Sector is only 2.0% approx. in the year 2003.

• The volume of NPAs in Public Sector Banks (amount wise and as % to total advances) is high as compared to Indian private sector and foreign banks.

With a view to make present study more accurate and to make the findings more scientific the researcher tested eight null hypotheses. The test results of hypotheses revealed that:

• There is no significant difference in the opinion of branch managers, credit/loan officers at regional/zonal offices and bank consultants regarding effectiveness of various factors responsible for making a loan non-performing.
• By and large there is common consensus among branch managers, credit/loan officers at regional/zonal offices of banks and the bank consultants regarding elements, which are normally kept in mind while sanctioning loan.

• There exists common consensus among bank managers, credit loan officers at regional/zonal offices and banking consultants regarding effectiveness of various measures available to reduce NPAs.

• The opinion of branch managers, credit/loan officers at regional/zonal offices and the banks consultants regarding effectiveness of various recovery measures does not differ significantly.

• By and large there is significant improvement in the performance of PSBs regarding control over Gross and Net NPAs as percentage to Gross Advances, Net Advances and Total Assets in the post reforms (i.e. after 1998) period.

A reduction in the gross and net NPAs volume in the Indian financial system indicates a significant improvement in management of NPAs. This is on account of various resolutions/mechanisms introduced in the recent past. These may include introduction of Debt recovery tribunals, Lok Adalats, Compromise settlement schemes, Enactment of SRFAESI Act (The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act), Assets Reconstruction Companies and Corporate Debt Restructuring.

An analysis of the effectiveness of various measures available for recovery of NPAs reveals that though Govt. of India and the RBI is making all efforts to make the schemes more successful, but the performance of most of the measures is not very much encouraging.
The finding of SWOT analysis carried out by the researcher during study indicates that:

- Main strength of Public Sector Banks are wide coverage of its network, faith of the public, sufficient financial resources, use of electronic technology and better quality of services.

- Some prominent weaknesses of Public Sector Banks may includes lack understanding of the principle of credit, RBI guidelines regarding NPAs, technological changes yet to reach in all the branches, lack of continuity in Government policies, overburdened staff, slow legal framework and non-existence of adequate skilled staff.

- Some of the significant opportunities related to Public Sector Banks are area of new consumers/sectors / services increased capacity of expansion, diversification of services and improvement in technology.

- Main threats which Indian Public Sector Banks are facing include presence of tough competition, high volume of NPAs, shortage of skilled staff and poor infrastructure.

On the basis of findings of study and the SWOT analysis the researcher has tried to develop an action plan for managing and controlling non-performing assets in banks.

"Prevention is better than Cure". Based on this philosophy the banks are advised to took into various aspects of NPA problem and formulate comprehensive NPA Management policy.

The policy matters are broad guidelines for handling various issues of NPAs management. However, there may be many issues, which are branch or region specific. Depending upon the problem the banks/ branches may adopt various strategies for NPAs reduction. Here, a 'TWENTY-POINT ACTION PLAN' is been suggested for effective management of NPAs.
AT BRANCH LEVEL

1. Review all borrower accounts periodically by both on-site as well as off-site supervision.
2. Identify potential NPAs as well as NPAs.
3. Recover the critical due amounts in each and every potential NPA accounts by vigorous follow-up.
4. In case of genuine potential NPA accounts, rephase/reschedule the repayment and if necessary, provide additional credit facilities.
5. In case of NPAs accounts, study the problem of NPAs, accounts wise, age wise, sector wise, amount wise, etc. and send the necessary information to the controlling officers for their monitoring.
6. Segregate the NPAs accounts into fresh as well as chronic NPAs and select proper techniques for solving the problem of each NPAs and make branch level task force/committee.
7. In case of fresh NPAs, identify the critical past due/over due amounts in each case and recover the same by vigorous follow-up.
8. In case of genuine fresh NPAs, rephrase/reschedule the loan repayment and in case of need, provide additional facilities.
9. In case of chronic NPAs, explore simultaneously the possibilities of compromise as well as filing of suits and lodgement of claims with DICGC/ECGC where such cover is available.
10. In case of compromise settlement, make SWOT analysis of each proposal; find out the benchmark amount, as per the benchmark rating system of the bank; negotiate for the higher amount; submit proposal with the higher authorities for early decision; recover the settlement amount and do not protract any compromise proposal.
11. In case of unacceptable compromise cases, initiate immediately the legal proceedings, in consultation with the higher authorities/legal department and follow each and every case for its early decision.
12. In case of decree cases, file execution proceedings and recover the loan amount.
13. Where it is not possible to recover the NPA amount by usual methods, allot the cases to the specific staff that can recover, under any
incentive package of the bank. If there is no such chance, engage the private agencies for recovery as per the bank's policies.

14. In case of no compromise chance and legal action waived or case dismissed; submit the write-off proposals to the higher authorities and liquidate the amount.

**AT CONTROLLING OFFICE LEVELS**

15. Collect the necessary classified information on potential NPAs, fresh NPAs and chronic NPAs from the branches by adopting effective NPA-MIS.

16. Analyze and segregate the NPAs information branch wise, sector wise, age wise and amount wise. Accordingly, modify the loan recovery policy.

17. Identify the NPA prone branches, study their problems and prepare branch specific NPA recovery plans.

18. If required, create special recovery cells and task force with adequate skilled personnel.

19. Draw time bound action program, provide all necessary technical guidance, quick decision and infrastructure to the branches.

20. Monitor implementation of the action plan and take corrective steps wherever found necessary with sincerity, but not as a ritual.

It would be blessing in disguise in the sense that a lot of remedial steps have been initiated in the positive direction. However it is bitter to digest the truth that the number game of business houses and bankers should be rationalized to keep them away from slippery path of NPAs. Secondly RBI should come out with some concrete formula of for better monitoring the advances level of banks in the wider interest of our country. The present behavior of bankers to put more money in Government securities is welcome steps to regularize the investment and stop from becoming advances as NPA. However, here one thing in this regard is ignored and that is the prime role and function of banking business. It has been year's together banks and financial institutions are in the business of borrowing and lending the money business. It would be unjustified to borrow the fund and put them in bulk into the Government securities. There should be some
mechanism whereby the responsible officers, who can be encouraged and dare to deal in prime business of banking sector. Otherwise whole system may collapse in a short while. Show must go on and NPA should be considering as a part of their businesses.

In nutshell, the business of banker is to lend the money safely. This should not be construed as lenient approach towards willful defaulters. As such all-relevant mechanism must have rightly been geared up to punish the defaulter and help the genuine borrower; RBI may come out with some aggressive notes to overcome the bottlenecks of NPA. 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 upgradation of the asset quality.

SCOPE FOR FURTHER RESEARCH

This study was carried out with a number of limitations; even then the researcher has tried to cover all the aspects related to the problem under study. As there is hardly any comprehensive study, though some articles/papers are available on the topic, this study involved a lot of painstaking efforts. The researcher apologizes from core of his heart if the research work leaves something unwillingly or if it could not meet one's expectations.

The researcher is of the view that "No work is complete till you stop trying" so he feels that there is scope for further research, improvement and additional insight. Over time, as database expands, further studies may use other variables or study some micro aspects related to the problem.