PROLOGUE

Like in any developing country, in India too, commercial banking has been hub of the financial system and has played a pivotal role in economic development. Apart from performing key functions of providing liquidity and payment services to the real sector and managing bulk of the financial intermediation process, the banking sector has contributed to the process of economic development by serving as a major source of credit to all sections of the economy, be it household, industry, Government or the weaker section of society.

In the five decades since independence, banking in India has evolved through four distinct phases e.g. foundation, expansion, consolidation and reforms. The foundation phase witnessed the development of necessary legislative framework for facilitating reorganization and consolidation of banking system, for meeting the requirements of the Indian economy. In the expansion phase, a determined effort was made to reach banking to the masses and accordingly branch network of the banks was widened just to ensure credit flow towards preferred sectors. The consolidation phase was an attempt to remove the weakness of the Indian banking system. During this period series of policy initiatives were taken. Main among them were improving housekeeping, customer services, credit management, staff productivity and profitability of banks.

The macro economic crisis faced by the country in 1991 coupled with close monitoring and control rendered the financial system completely dependent and inefficient so much so that by the year 1991 the situation was ripe for drastic reforms. Recognizing the looming danger to the system, the Government appointed a High Level Committee on the financial system under the chairmanship of Mr. M. Narasimham to examine all aspects relating to structure, organization, functions and procedures of the financial system. Following the recommendations of the committee, important initiatives with regard to reforms of the banking system were taken. Important among them have been introduction of new accounting and prudential norms relating to income recognition, asset classification, provisioning and capital adequacy. Some other important measures are deregulation of interest rates, strengthening of the balance sheet of banks by
capitalization and permission for public issue, introduction of new supervisory system, introduction of competition both from private and foreign banks, modern technology and computerization. Since the introduction of banking reforms there has been noticeable improvement in the various aspects like profitability, deposit mobilization, credit deployment, capital adequacy, competition and NPAs management.

In the era of increasing competition, due to liberalization and globalization of the banking sector in India, apart from retaining its market share, by adopting aggressive marketing strategies, banks are required to maintain quality of assets financed, because large number of non-performing Assets (NPAs) has serious implications on bank profitability. The Indian banking industry, because of unprecedented rise in the volume of unproductive advances is threatened by the NPA menace. The data related to NPAs clearly show that the position of Public Sector Banks (PSBs) was so critical that the Gross NPAs% to Gross Advances of PSBs stood at 24.8% in the year 1993-94. However, the situation improved significantly in later years due to adoption of various NPAs reduction strategies.

With this background a study on Management of NPAs in Public Sector Banks in India was conducted. Initially in the first phase a detailed review of literature was carried out and the guidelines issued by the Reserve Bank of India regarding NPAs were examined. In the second phase an effort was made to examine volume, dimension and composition of NPAs in PSBs in India and also to identify the causes and effects of NPAs. In the third phase, with a view to understand various aspects related to the management of NPAs, a survey was conducted on branch managers, credit/loan officers at regional/zonal offices of PSBs and the banking consultants through self constructed questionnaires. In addition to survey, financial statements of various PSBs and the reports of various specialised agencies were also analyzed.

The analysis and findings of the study show clearly that the main problems in the management of NPAs are unawareness of staff about policies and procedures, lack of information regarding willful defaulters, poor selection of
borrowers, and poor appraisal and monitoring. Among various factors responsible for making a loan NPA, important are failure of business, faculty lending policy, time-consuming legal system, frequent changes in Govt. policies and the fraudulent intention of borrowers.

The study also throws light on various measures and their effectiveness in controlling and managing NPAs. These include Debt Recovery Tribunals, Lok Adalats, Compromise Settlement Scheme, Enactment of SRFAESI Act, Establishment of Assets Reconstruction Companies and Corporate Debt Restructuring.

In the last and final phase researcher has made attempt to carry out a SWOT Analysis based on the study of various aspects related to NPAs in Public Sector Banks and to develop an Action Plan for the management of NPAs in Indian Public Sector Banks. The study concludes that for effective management of NPAs, there is an urgent need to properly gear up the Indian financial system and to come out with some aggressive notes to overcome the bottlenecks of NPAs.