CHAPTER-VI
FINDINGS AND CONCLUSIONS
CHAPTER-VI
FINDINGS AND CONCLUSIONS

1. Awareness:
There is good awareness among all the respondents about the importance, impact, guidelines issued by the bank RBI in connection with Non Performing Assets and the capital adequacy norms. This is because the concept was first introduced way back in the year 1992-93. Initially, the bank staff had difficulty in understanding the concept, particularly classification of each account and making provisions. The staff initially committed few mistakes also. However, now the system is well established through guidelines, circulars, monitoring and actual experience. Therefore, there is no issue of lack of awareness or understanding as of today.

The assets classification and provisioning in respect of 10 accounts randomly selected from each branch was found to be accurate as per norms laid down in this regard.

2. Objective of NPA Management:
The objectives of NPA Management and the strategy for recovery at branch level focuses on the reduction of non-performing assets to the targeted level is the main objective and the recovery is one of the ways to reduce it along with write off, compromise, restructuring etc.

3. Nil NPA Branch:
According to bank officials it is not possible to avoid the NPAs totally as banks are taking calculated risk in extending credit knowing fully well that there are chances of accounts going bad for various reasons. The banks take due care in selecting the right type of borrower and due care is taken to assess the project and post disbursement follow up. In spite of this, the chances of account becoming NPA cannot be ruled out, as the reasons for account going bad may be internal or external. They may be some times beyond the control of the borrower. The borrowers may become victims of natural calamities. Considering all these aspects, Zero NPA position in banks is not possible. The banks cannot avoid taking risk as the profit depends on the amount of risk they take.
4. Recovery Experience:

The experience of recovery was different for each branch and the officials interviewed. It also differs with the composition of advances. However, the officials were unanimous that proper strategy and sincere efforts always brings good results. Only minority percentage had bad experience of recovery there sincere efforts did not bring any results.

5. Guidelines on NPA Management:

Banks have issued elaborate guidelines on recovery of non-performing assets to the branches. The important ones are:

- Proper identification of borrower, careful scrutiny and appraisal of the proposals.
- Exploring possibility of sanction of loan for developmental purpose along with working capital needs & consumption.
- Review of accounts periodically, considering additional finance if necessary and or re-phasing/rescheduling of account in case of natural calamities/reasons beyond the control of borrower.
- Realistic repayment schedule aligning with income stream.
- Seeking assistance of Government officials, NGOs, Developmental agencies, influential personalities in the villages for recovery.
- Arranging recovery camps during the period of harvesting and marketing of crops.

6. Reasons for Good/Bad Recovery:

The reasons for good or bad recovery, according to bank officials, are as under:

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Good</th>
<th>Bad</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Proper identification &amp; integrity of borrower</td>
<td>Domestic/Personal problems/natural calamities/reasons beyond control of borrower</td>
</tr>
<tr>
<td>2</td>
<td>Close follow up &amp; monitoring</td>
<td>Failure in business/activity</td>
</tr>
<tr>
<td>3</td>
<td>Tie up for recovery/linkage with marketing/</td>
<td>Wrong appraisal/ scrutiny</td>
</tr>
<tr>
<td>4</td>
<td>Credit appraisal/scrutiny of proposal</td>
<td>Lack of monitoring/follow up/no contact</td>
</tr>
</tbody>
</table>
5. Success in business/good profit
6. Timely & Adequate finance/proper utilization
7. Rehabilitation/rephrasing in case of problems

<table>
<thead>
<tr>
<th>Success in business/good profit</th>
<th>Inadequate finance/timely assistance or help in case of difficulties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely &amp; Adequate finance/proper utilization</td>
<td>Bad intention on the part of borrower</td>
</tr>
<tr>
<td>Rehabilitation/rephrasing in case of problems</td>
<td>Diversion of funds</td>
</tr>
</tbody>
</table>

The good or bad recovery may be due to any one or more reasons given above

7. Reasons for High NPAs:

In the present study it was observed that the high NPA is due to personal problems of the borrowers, inadequate staff at the branch for recovery and loan waiver of loans by government are the main reasons followed by no tie up arrangement for recovery, over financing under personal loans, diversion of funds or improper scrutiny of projects. Efforts were made to find out the reasons for high NPAs.

Regular follow up of accounts is the most important followed by proper identification of borrowers 16.7 %, proper scrutiny of the proposals, and 8.3% timely and adequate credit, following the stipulations of disbursement 8.3%.

8. Manpower for NPA Management:

The present study finds that the man power at the branches for recovery is not adequate it is two or less than two per branch. Moreover the staff for recovery is used for other branch work also. This naturally affects the recovery performance.

9. Concept of Carrying Cost:

There is no awareness about the concept of carrying cost at branch level and it is not practiced in management of NPAs.

10. Write Off of Loans:

Write off is one of the ways of reducing NPAs and it is followed by the branches for achieving the targeted level. The provision and losses are absorbed by head office. As a result the efforts for recovery are slackened to some extent.

11. Waiver of Loans by Government:

The loan waiver scheme implemented by government through banks has benefited the farmers faced with the problems beyond their control. However, as a side effect, it has given wrong message to certain people, which have
affected the recovery adversely. Moreover, the benefit in some cases has gone to undeserving people. Further, it has dampened the spirit of lending.

12. Government Programme:

The recovery under the Government Sponsored programmes, such as SGSY, PMRY, and SJSRY etc which are implemented for the benefit of rural/urban poor was not good. The implementation of these schemes needs improvement. The officials were not very happy about the schemes. Proper identification of borrowers, supply of quality assets, adequate training, forward/backward linkages, follow up for recovery etc are the areas which needs attention while implementation.

13. Suggestions for Improving Recovery Performance:

Following suggestions were given by the respondents for improving recovery performance. Adequate and Suitable manpower should be given for recovery:

All the powers & authority regarding NPA Management should be given to the branch. Although it is a good suggestion, the controlling office had different view. According to controlling office the branch manager may or may not be able to shoulder the responsibility as the branch manager may not have the benefit of expertise/experience at his level, which is required for exercising such authority.

14. Improvement in Recovery Act:

Many State Governments have very effective recovery act such as M., P. State Recovery Act which is very effective and useful for bank bankers. The State Government gives target for recovery to official of revenue department and simultaneously gives incentive for recovery also. This issue was discussed in the state level forum about the improvement in state recovery act. The modifications to the act are still awaited. The act in the present form is not very effective.

15. Recovery Action:

The branches under study had no cases where they had to approach DRT or initiate action under Securitization Act as the minimum amount to be recovered in such cases should be Rs. 10 lakhs and above. The officials are well aware of the benefits of Lok Adalat but had no occasion to present the cases in
the forum. The officials were not aware whether lok Adalats were held in the
district.

16. Filing Civil Suits:

As regards filing civil suits for recovery, these cases take time to settle
as they are treated as like any other litigation and do not get any priority.
Further, proving documents by oral evidence is also cumbersome and times
consuming as the officers who have obtained the documents are to be called
from their place of present posting. The security obtained is also deteriorated
due lapse of time. Additionally, the branch has to take permission to file suit,
engage lawyer and spend the money to obtain and execute decree. Filing civil
suit is therefore the last resort.

17. Recovery Camps:

The recovery camps are organized by the revenue officials for recovery
under government programmes in the district. Such camps were arranged in the
block where the branches under study are located. However, the Branches under
study did not have opportunity to participate in such camps.

18. Discussions in DLCC/BLCC:

These forums discuss the recovery position in the district, particularly
under Priority Sectors and Government Programmes. However, the discussions
are of general nature with suggestions to improve recovery.

19. Awareness among the Customers:

There was no awareness among the customers about the concept of NPA
and its impact on the bank. Majority of the customers/borrowers could not give
specific reasons for non-repayment indicating there-by-there intention not to
repay. Some of the customers stated their personal problems for non-payment of
banks dues, while other reasons given include bad quality of assets, natural
calamities and problem of receivables. The customers were aware of the effect
of overdues on bank in terms of decreasing profit and loss of business.

20. Suggestions by Customers:

a) The customers/borrowers suggested that the customers training and
awareness are the most effective way to improve recovery. According to some
of them rephrasing repayment schedule in selected cases will improve recovery.
Other suggestions include:
b) Proper identification of borrower and the purpose of loan, careful scrutiny of the project, repayment capacity, close follow up and monitoring.

c) Government assistance and help in case of genuine defaulters.

d) Understanding borrower’s problems by the bank officials.

e) Priority to those borrowers who have repaid their loans promptly.

f) Concession in interest for prompt repayment.

21. Communication with Bank about Problems Faced:

More than half of the customers do not communicate their problems to the bank. However, those who approached the bank with their problems/difficulties got solution to their problem or relief in repayment.

Part-B

1. Carrying Cost:

When an advance becomes non-performing the bank loses interest income. Apart from this the bank has to make provision in the balance sheet for such accounts at stipulated rate. Further, the bank continues to incur cost for raising the funds blocked in non-performing assets. The sum total of all these expenses is called as holding cost or carrying cost. The detailed account of the concept is given in the earlier chapter.

2. Significance of Carrying Cost:

The carrying cost differs from bank to bank and branch to branch within the bank as each unit is independent and raises funds for lending to various activities or business ventures depending upon the potential in the area. Further the carrying cost is different for different sectors such as agriculture, Small Scale Industry, service sectors or commercial credit as rates of interest, return on assets or provisioning norms are different for these sectors. For this reason it is necessary to understand the concept and the system of micro analysis as it has direct bearing on the strategy for NPA management, priorities for recovery, compromise or write of depending on the situation. The findings in respect of the three branches under study are given below: -
3 General Observations:

- The carrying cost increases as per the category of NPAs i.e. Sub-Standard, Doubtful etc. The carrying cost is highest in case of loss assets followed by doubtful and sub-standard assets.
- Similarly, with the aging of NPAs (as the NPA becomes old) the cost increases. The carrying cost goes on increasing year after year.
- The carrying cost differs from branch to branch according to the composition of business and the operating cost. In the study, the carrying cost is highest in case of urban branch followed by semi urban & rural branch respectively.

4. Actual & Notional Loss:

   The carrying cost is the real cost of maintaining the NPAs in the books. This is true for any independent unit. However, in case of branch banking the loss of income due to CRR/SLR or provision for dividend and capital adequacy is taken care of and accounted for by the Head Office of the bank. As a result for all practical purpose the loss due to NPA accounts is considered as the loss due to provision required and loss of interest income. The real loss (termed as Notional loss as it is not worked out or shown in the books) as worked out by the researcher is as under:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year/Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>1243914</td>
<td>1715861</td>
<td>993100</td>
<td>1309634</td>
<td>1672785</td>
<td>2383894</td>
<td>39.74</td>
<td>31.87</td>
<td>42.42</td>
</tr>
<tr>
<td>2004-05</td>
<td>1803811</td>
<td>2429238</td>
<td>1306400</td>
<td>1536381</td>
<td>1818444</td>
<td>2299798</td>
<td>34.57</td>
<td>17.67</td>
<td>26.47</td>
</tr>
<tr>
<td>2005-06</td>
<td>1431356</td>
<td>2044896</td>
<td>1473400</td>
<td>1807121</td>
<td>1838857</td>
<td>2335215</td>
<td>42.65</td>
<td>22.64</td>
<td>26.99</td>
</tr>
<tr>
<td>2006-07</td>
<td>2668635</td>
<td>3417382</td>
<td>1293900</td>
<td>1687177</td>
<td>2291255</td>
<td>2612405</td>
<td>28.05</td>
<td>30.39</td>
<td>14.01</td>
</tr>
<tr>
<td>2007-08</td>
<td>1741436</td>
<td>2504798</td>
<td>897900</td>
<td>1297114</td>
<td>2140873</td>
<td>2914440</td>
<td>43.83</td>
<td>44.46</td>
<td>36.13</td>
</tr>
</tbody>
</table>

The notional loss is substantially more than the actual loss shown by the branches.

5. Branch-wise/Sector-wise Carrying Cost:

- At Rural branch the carrying cost of Agriculture Advances is more than that of other sectors i.e. Other Priority Sector and SSI Advances.
- At Semi- Urban branch the carrying cost of Other Priority Sector advances is more than average carrying cost of the branch followed by Agriculture and SSI advances.
• At Urban branch the carrying cost Agriculture is more than average cost followed by SSI and Other Priority Sector Advances.

### 6. Awareness at Branch Level:

The concept of carrying cost is not well understood by the staff working at grass root level that is directly responsible for recovery of NPAs. This has clearly come out in the study. As regards using it for reducing it, no branch has such study carried out.

### 7. Application of Concept in NPA Management:

Management of non-performing assets is not limited to recovery of dues. It involves careful planning, understanding the reasons for default, problems/faced by individual borrower and then deciding appropriate course of action for recovery. This naturally requires dedicated and trained staff at branch totally involved in the process and used exclusively for management of NPAs.

Carrying cost is one of the tools for analysis of non-performing assets at the branch, which helps deciding priorities for recovery, and future plans for credit expansion. The concept of carrying cost is not well understood by the officials working at grass root level who are primarily responsible for recovery of NPAs. This has clearly come out in the study. Similarly no branch is using the concept for improving recovery. Similarly, there is no practice of calculating carrying cost at branch level.

The concept, its significance and implementation for improving recovery performance was discussed with all the field level staff, officials at Zonal office and the senior bankers in the district. The responses given by them are given below:

#### I. Creating Awareness & Involvement of Staff:

• The carrying cost is an indicator which points out exactly how much loss the branch is making due to non-performing assets and the future losses, if the NPAs are not recovered. It is therefore necessary to create awareness amongst the field level functionaries about the concept and the methodology to calculate the same. The true picture of the losses due to NPAs will make the staff more responsible. Simultaneously, this will bring more involvement of staff, focused attention, more seriousness and urgency in the recovery efforts at the branch.
II. Branch Specific Recovery Plan:
- The sector-wise carrying cost indicates the sectors which are contributing more to the losses and which are the sectors giving more income. Further, sector-wise/scheme-wise analysis can pin-point the schemes or areas within the sector, which are responsible for mounting NPAs. Based on this analysis the branches can prepare branch specific strategy for recovery along with the list of accounts which are to be taken up on priority.

III. Future Credit Expansions:
- The detail carrying cost exercise can also be used for deciding the future strategy for credit expansion. The branches while entertaining credit business avoids sectors, schemes or areas where the past experience is not satisfactory. Simultaneously they can take up credit expansion in the areas or schemes where the incidence of NPAs is low. Such cautious efforts will reduce the NPAs.

IV. Effective Use for Compromise Settlement:
- Compromise settlement is one of the methods to reduce the NPAs. However, it is very difficult to decide the exact amount of settlement where the bank is not put to unnecessary loss. Moreover, the branch needs approval of higher authorities for compromise settlement. It is also very difficult to decide the ideal time for compromise settlement. The branch will be in a better position to decide if the exact carrying cost, the loss the branch is incurring and the compromise offer is known. This calculation of carrying cost would also help in convincing the higher authorities.

V. Effective Use for Write off and Legal Action:
- The branches take unduly long time to decide taking decision regarding write off although the recovery efforts have failed. The detailed exercise of carrying cost will help them in listing out the accounts which should be written off considering the carrying cost incurred. This would also help them in convincing higher authorities the basis for third recommendations. The same principle can be made applicable for taking legal action for recovery as all legal actions involve cost and time.
VI. Increasing Profitability:

The details such as cost of funds, interest income on advances etc, which are required for working out carrying cost, will give an idea as to how the profit can be increased if the efforts for recovery fail. The strategy based on micro analysis of carrying cost, could be -

- Increasing low cost deposits and high yielding advances.
- Deciding action to be taken in each NPA account before it goes to doubtful or loss category.
- Restricting credit to those activities which are frequently appearing in NPA category.
- Expediting compromise /write off based on carrying cost.

Conclusion:

The Non-Performing assets are the outcome of credit activity of the bank, which is their most important function to earn profit. The credit is associated with risk and therefore the bank cannot totally avoid non-performing assets. However, strict compliance of lending norms, steady growth of credit spread over different segments and activities, careful planning, monitoring and follow up banks can control the advances turning in to non performing advances. Even in case of NPAs, recovery or reduction is possible by adopting various strategies.

Although, elaborate guidelines on management of non-performing assets have been prescribed, it is necessary to keep in mind that application of these guidelines may or may not bring the desired results. For this it is necessary to devise branch specific strategy based on the analysis of non-performing assets and then focusing on recovery by adopting different methods.

Management of non-performing assets is not limited to recovery of dues. It involves careful planning, understanding the reasons for default, problems/faced by individual borrower and then deciding appropriate course of action for recovery. This naturally requires dedicated and trained staff at branch totally involved in the process and used exclusively for management of NPAs.

Carrying cost is one of the tools for analysis of non-performing assets at the branch, which helps deciding priorities for recovery, and future plans for credit expansion. Although, at controlling offices the significance of the concept
is well understood it is not percolated down to field level staff. It is therefore
necessary to create awareness among the ground level staff about the concept
and application of it for appropriate and focused strategy at branch level to
improve branch profitability.

**Testing of Hypotheses:**
(Statistical tools has been not used in testing hypothesis)

**Hypotheses-1**
NPAs are inevitable in the business of lending.

During the course of study 100% respondents opined that the banks give
credit to earn profit and the business of lending is associated with risk. The
credit given may go bad or become NPAs due to host of reasons; some of which
can be controllable but not all. The Non-Performing are therefore inevitable in
the business. Thus the hypotheses no 1 is proved (Chapter-V-A)

**Hypotheses-2&3**

The bank has to incur carrying cost on NPAs. & the holding cost of
NPA increases with the age of NPAs.

**Concept of Carrying Cost-**

The researcher had detailed discussions with the senior officers at
controlling offices of banks and also gone through the literature available on the
concept of carrying cost.

It is commonly understood that advance becomes NPA the bank has to forgo
interest and make provision for bad debts. However, carrying is something more
than the interest loss. It includes:

  xi. Cost of deposit
  xii. Year wise Provisions
  xiii. Requirement of CRR/SLR
  xiv. Earning on CRR/SLR
  xv. Dividend paid
  xvi. Capital Adequacy ratio

The concept of carrying cost and the system of calculating carrying cost of
carrying cost is given in Chapter IV:

Based on the data collected from the branches and the actual working of
carrying cost for NPAs at the branches as given in tables 5.46 to 5.60 it is
proved that the banks have to incur carrying cost which is more than the loss of
interest and provisioning requirement. Further it differs from branch to branch and even sector to sector. The working also shows that the carrying cost increases with the age of NPAs indicating the significance of prompt recovery efforts. The hypothesis no 2&3 is therefore proved.

However, 66 % respondents were not aware of the concept and rest 33 % had vague idea. As regards using the concept while deciding the strategy for recovery or priorities at branch level 100% respondents said that they are not using it.

The concept of carrying cost is very important as it gives an idea as to how much the bank is loosing over and above the interest income provisioning requirements. It also indicates the areas of priorities for recovery, compromise, write off etc.

**Hypotheses-4**

The carrying cost can be reduced by taking timely action for recovery, write off and negotiated settlement.

The detailed branch-wise sector-wise carrying cost worked out indicates that the carrying cost differs not only from branch to branch but it differs from sector to sector. It is also proved that the carrying cost increases with the age of NPAs.

The study further reveals that the carrying cost is an indicator which points out exactly how much losses the branch is incurring due to non-performing assets and the future losses if specific focused efforts are not initiated.

As regards reducing carrying cost the study based on data analysis, discussion with the respondents reveals that the carrying cost can be reduced and increase profitability by taking following steps -

- Understanding the significance of concept of carrying cost at branch level and its effect on profitability.
- Calculating carrying cost sector wise/year wise, finding out the sectors/schemes responsible for high cost and devising branch wise strategy and identifying accounts for recovery on priority basis.
- Based on the branch level analysis of carrying cost deciding the strategy for credit expansion restricting the credit flow to those sectors/schemes
which are responsible for higher cost; simultaneously increasing flow to those schemes where the experience is good.

- The exact carrying cost at branch level will expedite the compromise/negotiated settlements and also prompt action by indicating the most favourable amount and the time for compromise settlement.
- The details of carrying cost would also help in taking decision regarding write off, legal action etc.
- While calculating carrying cost, details such as cost of funds, yield on advances etc are required. These details can give an idea as to how the profit can be increased in case the recovery efforts fail. The branch can increase efforts towards reducing cost of deposits, increasing high yielding advances, lending funds to head office, controlling credit expansion etc. the hypotheses no 4 is therefore proved.