Chapter IV

Conceptual and Theoretical Background (Basics) of NPAs and Preventive Measures of Government of India
4. Introduction

In this chapter, an attempt has been made giving detail description of conceptual and theoretical aspects of NPAs in India. Further, the preventive measures regulatory and legal measures initiated by the Government of India has been presented. For this purpose this chapter is divided into two sections.

In Section-I, conceptual and theoretical aspects of NPAs have been presented and Section-II regulatory and legal measures and their effect on recovery of NPAs have been presented.

SECTION-I

4.1 RISK

Risk is the potentiality that both the expected and unexpected events may have an adverse impact on the bank’s capital or earnings. The expected loss is to be borne by the borrower and hence is taken care by adequately pricing the products through risk premium and reserves created out of the earnings. It is the amount expected to be lost due to changes in credit quality resulting in default.

On the other hand, the unexpected loss on account of individual exposure and the whole portfolio is entirely is to be borne by the bank itself and hence is to be taken care by the capital.

Banks are confronted with various kinds of financial and non-financial risks viz., credit, market, interest rate, foreign exchange, liquidity, equity price, legal, regulatory, reputation, operational etc. These risks are highly interdependent and events that affect one area of risk can have ramifications for a range of other risk categories.

The future of banking rests on risk management dynamics. Only those banks that have efficient risk management system will survive in the market in the long run. The effective management of credit risk is a critical component of comprehensive risk management essential for long-term success of a banking institution.
Credit risk is the oldest and biggest risk that bank, by virtue of its very nature of business, inherits. This has, however, acquired a greater significance in the recent past for various reasons. Foremost among them is the wind of economic liberalization that is blowing across the globe. India is no exception to this swing towards market driven economy.

Competition from within and outside the country has intensified. This has resulted in multiplicity of risks both in number and volume resulting in volatile markets. A precursor to successful management of credit risk is a clear understanding about risks involved in lending, quantifications of risks within each item of the portfolio and reaching a conclusion as to the likely composite credit risk profile of a bank.

Credit Risk is the default by the borrower to repay money lent, and remains the most important risk to manage. The predominance of credit risk is even reflected in the composition of economic capital, which banks are required to keep aside for protection against various risks.

Quality borrowers (Tier-I borrowers) were able to access the capital market directly without going through the debt route. Hence, the credit route is now more open to lesser mortals (Tier-II borrowers).

With margin levels going down, banks are unable to absorb the level of loan losses. There has been very little effort to develop a method where risks could be identified and measured.

Loans and Advances, as assets of the bank, play an important part in gross earnings and net profits of banks. The share of advances in the total assets of the banks forms more than 60 percent and as such it is the backbone of banking structure.

Bank lending is very crucial for it make possible the financing of agricultural, industrial and commercial activities of the country. The strength and soundness of the banking system primarily depends upon health of the advances. In other words, improvement in assets quality is fundamental to strengthening working of banks and improving their financial viability.
4.3 NON-PERFORMING ASSETS

Banking businesses is mainly that of borrowing from the public and lending it to the needy persons and business at a premium. Lending of money involves a credit risk. When the loans and advances made by banks or financial institutions turnout as non-productive, non-rewarding and non-remunerative then they will become Non-Performing Assets (NPA).

Banks are exposed to credit risk, liquidity risk, interest risk, market risk, operational risk and management/ownership risk. It is the credit risk which stands out as the most dreaded one. Though often associated with lending, credit risk arises whenever a party enters into an obligation to make payment or deliver value to the bank. The nature and extent of credit risk, therefore, depend on the quality of loan assets and soundness of investments.

Since 2000, Indian Banking in its attempt to integrate itself with the global banking has been facing lots of hurdles in its way due to its inherent weaknesses, despite its high sounding claims and lofty achievements. In a developing country like India, banking is seen as an important instrument of development; however, with the strenuous NPAs, banks have become helpless burden on the economy.

Looking to the changing scenario at the world level, the problem becomes more ironical because Indian banking cannot afford to remain unresponsive to the global requirements. The banks are, however, aware of the grim situation and are trying their level best to reduce the NPAs ever since the regulatory authorities - Reserve Bank of India and the Government of India - are seriously chasing up the issue.

4.4 IDENTIFICATION OF NON PERFORMING ASSETS

Action for enforcement of security interest can be initiated only if the secured asset is classified as Non-Performing Asset. Non-Performing Asset means an asset or account of borrower, which has been classified by bank or financial institution as

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sub-standard, doubtful or loss asset, in accordance with the guidelines relating to assets classification issued by Reserve Bank of India.

4.4.1 "past due" concept

With a view to move towards internationally accepted norms for asset classification and income recognition, RBI has been “tightening” the definition of NPAs in a phased manner. Thus, from the norm of classifying only those assets as non-performing which are four quarters past due, which was applicable until 1993, RBI moved to the norm of three quarters past due in 1994 and then to two quarters (180 days) past due in 1995.

4.4.2 Dropping of “past due” concept

Due to the improvement in the payment and settlement system, recovery climate, up gradation of technology in the banking system etc, it was decided to dispense with “past due” concept, with effect from 31st March 2001. Accordingly as from that date, a Non - Performing Asset shall be an advance where

1. Interest and/or installment of principal remain overdue for a period of more than 180 days in respect of a term loan,
2. The account remains 'out of order' for a period of more than 180 days in respect of an overdraft/cash credit (OD/CC)
3. The bill remains overdue for a period of more than 180 days in case of bill purchased or discounted.
4. Interest and/or principal remains overdue for two harvest season but for a period not exceeding two half years in case of an advance granted for agricultural purpose, and
5. Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

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4.4.3 Ninety days overdue norm

Again, it was decided to adopt ‘90 days overdue’ norms for identification of NPAs. This change is done in order to move towards international best practices and to ensure greater transparency.

From the year ending 31st March 2004, a Non-Performing Asset shall be a loan or an advance where

1. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;
2. In respect of an Overdraft or Cash Credit advance, the account remains “out of order”, i.e. if the outstanding balance exceeds the sanctioned limit/ drawing power continuously for a period of 90 days, or if there are no credits continuously for 90 days as on the date of balance-sheet, or if the credits are not adequate to cover the interest due during the same period;
3. The bill remains overdue for a period of more than 90 days in case of bill purchased or discounted.
4. In respect of agricultural advances for short duration crops, where the installment of principal or interest remains overdue for 2 crop seasons;
5. In respect of agricultural advances for long duration crops, where the principal or interest remains overdue for one crop season.

4.4.4 Out of order

An account should be treated as out of order if the outstanding balance remains continuously in excess of sanctioned limit/drawing power. In case where the outstanding balance in the principal operating account is less than the sanctioned amount/drawing power, but there are no credits continuously for six months as on the date of balance sheet or credit are not enough to cover the interest debited during the same period, these account should be treated as ‘out of order’.

4.4.5 Overdue

Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on due date fixed by the bank.

Ibid.,
As a facilitating measure for smooth transition to 90 days norm, banks have been advised to move over to charging of interest at monthly rests, by 1st April 2002. However, the date of classification of an advance as NPA should not be changed on account of charging of interest at monthly rests. Banks should, therefore, continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from 1st April 2002 and 90 days from at the end of the quarter with effect from 31st March, 2004.

4.5 INCOME RECOGNITION NORMS

NPAs have turned out to be a major stumbling factor affecting the profitability of Indian banks. Before 1992, banks did not disclose the bad debts sustained by them and the provision made by them fearing that it may have an adverse impact. The banks used to take income even on NPAs on accrual basis. This helped them to disclose false profits.

Indian banks, for a long time, treated all the sticky loan assets as Non-performing Assets (NPAs). The accrual concept of accounting convention has also been followed without reckoning the amount actually realized.

The word “realized” is noteworthy, which is distinct from the word “reliability”. It means that if a loan given by a bank fails to fetch a return in the form of interest realized from the borrower, the Bank has no right to debit the borrower account with the interest chargeable following the accrual principle.

In that event, it then truly signifies that the asset is not performing i.e., not yielding any income to the bank. This is the essence of income recognition norms, based on the recommendation of the Narasimhan Committee on Financial sector reforms adopted by Indian banks.

An asset, which ceases to yield income for the bank, should be treated as NPA, and any income from loan assets should not be booked as income until it is actually recovered. So, banks, which charge interests to loan Accounts Park it in “Interest Not Collected Account” (INCA) until recovery, and on recovery, reverse it from INCA and credit interest account.
The Narasimham committee recommendations suggested that loans and advances in banks should be classified into performing and non-performing on the basis of the health of the loan assets and the record of adherence to repayment of installments and interest on due dates. The committee also recommended that the banks be allowed to book income by way of interest debited to an account only when it was found realizable within a given time frame.

The committee suggested that the banks should make provision for all NPAs on the basis of classification of such assets based on the age of irregularity, security cover available etc. The RBI accepted the recommendations of the committee with regard to introduction of norms for income recognition and asset classification and provisioning and advised the banks to implement the same in a phased manner beginning 1st April 1992.

The introduction of prudential norms to strengthen the banks financial position and enhance transparency is considered as a milestone measure in the financial sector reforms. These prudential norms, which relate to income recognition, asset classification, provisioning for bad and doubtful debt and capital adequacy serve three great purposes.

1. Income recognition norms reflect a true picture of the income and expenditure of the bank.
2. The asset classification and provisioning norms help in assessing the quality of the asset portfolio of the bank.
3. They also act as tool of financial discipline and compel banks to look at the quality of loans assets and the risk attached to the lending

4.6 FACTORS CONTRIBUTING TO NPAs IN INDIA

A close scrutiny of the various factors influencing the NPA level of banks in India would reveal certain concrete circumstances as given below.

- **Industrial sickness**

  Improper project handling, ineffective management, lack of adequate resources, lack of advance technology, day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.
• **Improper SWOT analysis**
  The improper strength, weakness, opportunity and threat analysis is another reason for rise in NPAs.

• **Poor credit appraisal system**
  Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank gives advances to those who are not able to repay it back.

• **Absence of regular industrial visit**
  The irregularities in spot visit also increases the NPAs. Absence of regular visit of bank officials to the customer point decreases the collection of interest and principals on the loan.

• **Re loaning process**
  Non remittance of recoveries to higher financing agencies and re loaning of the same have already affected the smooth operation of the credit cycle. Due to re loaning to the defaulters, the NPAs of Other Scheduled Commercial Banks are increasing day by day.

  An internal study conducted by RBI shows that in the order of prominence, the following factors contribute to NPAs.\(^5\)

4.6.1 **Internal Factors**

**Diversion of funds for**

- Expansion/diversification/modernization
- Taking up new projects
- Helping/promoting associate concerns time/cost overrun during the project implementation stage
- Business (product, marketing, etc.) failure
- Inefficiency in management
- Slackness in credit management and monitoring
- Inappropriate technology/technical problems
- Lack of co-ordination among lenders

4.6.2 External Factors

- Recession
- Input/power shortage
- Price escalation
- Exchange rate fluctuation
- Accidents and natural calamities, etc.
- Changes in Government policies in excise/ import duties, pollution control orders, etc.

4.7 PROBLEMS DUE TO NPA

The repercussions of the growing Non-Performing Assets of the banks in India can be summarized as presented below.

1. Owners do not receive a market return on their capital in the worst case, if the banks fail, owners lose their assets. In modern times, this may affect a broad pool of shareholders.

2. Depositors do not receive a market return on saving. In the worst case, if the bank fails, depositors lose their assets or uninsured balance.

3. Banks redistribute losses to other borrowers by charging higher interest rates, lower deposit rates and higher lending rates repress saving and financial market, which hamper economic growth.

4. Non-performing loans epitomize bad investment. They misallocate credit from good projects, which do not receive funding, to failed projects. Bad investment ends up in misallocation of capital, and by extension, labour and natural resources.

5. Non-performing asset may spill over the banking system and contract the money stock, which may lead to economic contraction. This spillover effect can channelize through liquidity or bank insolvency
   a) When many borrowers fail to pay interest, banks may experience liquidity shortage. This can jam payment across the country.
   b) Illiquidity constraints banks in paying depositors.
   c) Under capitalized banks exceeds the banks' capital base.
4.8 TYPES OF NPAS

The Non-Performing Assets are of two types: a, Gross NPAs and b, Net NPAs

4.8.1 Gross NPAs

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non-standard assets like as sub standard, doubtful, and loss assets.

4.8.2 Net NPAs

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant.

The following are deducted from gross NPA to arrive at net NPA.

a) Balance in Interest Suspense account, if applicable;
b) Deposit Insurance Guarantee Corporation / Export Credit Guarantee Corporation claim receive and pending adjustment;
c) Part payment received and kept in Suspense account;
d) Total provisions held excluding technical write off made at Head Office and provision of standard assets.

4.9. CLASSIFICATIONS OF NPAS

Banks are required to classify Non-Performing Assets further into the following three categories based on the period for which the asset has remained Non-Performing:

(1) Sub-standard Assets
(2) Doubtful Assets
(3) Loss Assets
4.9.1 Sub-standard Assets

With effect from 31st March 2005, a sub-standard asset would be one, which has remained NP A for a period less than or equal to 12 months. The following features are exhibited by sub-standard asset: the current net worth of the borrowers/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full; and the asset has well-defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

4.9.2 Doubtful Assets

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts conditions and values- highly questionable and improbable. With effect from 31st March 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

4.9.3 Loss Assets

A loss asset is one which is considered uncollectible and of such little value that its continuance as bankable asset is not warranted- although there may be some salvage or recovery value. Also, these assets would have been identified as ‘loss assets’ by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

4.10. PROVISIONING NORMS FOR NPAs

In conformity with prudential norms, provisions should be made on the Non-Performing Assets on the basis of classification of assets into prescribed categories. Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realization of the security and the erosion over time in value of security charged to the bank, the banks should make provision against sub-standard assets, doubtful assets and loss assets.
4.10.1 Provision for Sub-standard Assets

A general provision of 10% on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available.

4.10.2 Provision for Doubtful Assets

100 per cent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse and the realizable value is estimated on a realistic basis.

In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 20%-50% of the secured portion depending upon the period for which an asset has remained doubtful.

The provision requirement for doubtful assets can be summarized in the following table.

**TABLE - 4.1**

<table>
<thead>
<tr>
<th>Period for which the advance has been considered as doubtful</th>
<th>Provision requirement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to one year</td>
<td>20</td>
</tr>
<tr>
<td>One to three years</td>
<td>30</td>
</tr>
<tr>
<td>More than three years</td>
<td>60% with effect from 31(^{st}) March 2005</td>
</tr>
<tr>
<td>1. Outstanding stock of NPAs as on 31(^{st}) March, 2004.</td>
<td>75% effect from 31(^{st}) March 2006</td>
</tr>
<tr>
<td>2. Advances classified as ‘doubtful’ more than three years on or after 1(^{st}) April 2004.</td>
<td>100% with effect from 31(^{st}) March 2007</td>
</tr>
</tbody>
</table>

Additional provisioning consequent upon the change in the definition of doubtful assets effective from 31\(^{st}\)March 2003 has to be made in phases as under:

As on 31\(^{st}\)March 2003, 50% of the additional provisioning requirement on the assets which became doubtful on account of new norm of 18 months for transition from sub-standard asset to doubtful category.

As on 31\(^{st}\)March 2002, balance of the provisions not made during the previous year, in addition to the provisions needed, as on 31\(^{st}\)March.
Banks are permitted to phase the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful asset from 18 to 12 months over a four year period commencing from the year ending 31st March 2005, with a minimum of 20% each year.

4.10.3 Provision for Loss Assets

The entire assets should be written off. If the assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

To sum up, provisions are made for NPAs as per the extant guidelines prescribed by the regulatory authorities, subject to minimum provisions as prescribed below by the RBI:

Substandard Assets
i. A general provision of 10%
ii. Additional provision of 10% for exposures which are unsecured ab-initio (where realisable value of security is not more than 10 percent ab-initio)

Doubtful Assets
- Secured portion
  i. Upto one year - 20%
  ii. One to three years - 30%
  iii. More than three years - 100%
- Unsecured portion 100%

Loss Assets: 100%

In respect of foreign offices, provisions for non performing advances are made as per the local regulations or as per the norms of RBI, whichever is higher.

The sale of NPAs is accounted as per guidelines prescribed by the RBI, which requires provisions to be made for any deficit (where sale price is lower than the net book value), while surplus (where sale price is higher than the net book value) is ignored. Net book value is outstanding as reduced by specific provisions held and ECGC claims received.
For restructured/rescheduled assets, provisions are made in accordance with the guidelines issued by RBI, which requires that the present value of future interest due as per the original loan agreement, compared with the present value of the interest expected to be earned under the restructuring package, be provided in addition to provision for NPAs. The provision for interest sacrifice, arising out of the above, is reduced from advances.

In addition to the specific provision on NPAs, general provisions are also made for standard assets as per the extant guidelines prescribed by the RBI. The provisions on standard assets are not reckoned for arriving at net NPAs. These provisions are reflected in Schedule 5 of the balance sheet under the head “Other Liabilities & Provisions - Others.”

4.10.4 Floating Provisions

In accordance with the Reserve Bank of India guidelines, the bank has an approved policy for creation and utilization of floating provisions separately for advances, investments and general purpose. The quantum of floating provisions to be created would be assessed at the end of each financial year. The floating provisions would be utilized only for contingencies under extraordinary circumstances specified in the policy with prior permission of Reserve Bank of India.

4.10.4.1 Floating Provisions - Revised Norms

The broad features of revised guidelines issued in June 2006 in respect of utilization, accounting and disclosures of floating provisions are set out below:

1. The floating provisions should not be used for making specific provisions in respect of non-performing assets or for making regulatory provisions for standard assets but can be used only for contingencies under extraordinary circumstances, for making specific provisions in impaired accounts with prior permission of the Reserve Bank.

2. The board of directors of the bank may lay down a policy as to what circumstances would be considered extraordinary for making specific provisions in impaired accounts with prior permission of the Reserve Bank.
3. Bank’s board of directors should lay down approved policy regarding the level to which the floating provisions can be created.

4. Bank should hold floating provisions for advances and investments separately and the guidelines prescribed will be applicable to floating provisions held for both advances and investment portfolios.

5. Floating provisions cannot be reversed by credit to the profit and loss account.

6. Until utilization for contingencies, as stated above, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs or they can be treated as part of Tier II capital within the overall ceiling of 1.25 per cent of total risk-weighted assets.

7. Banks should make comprehensive disclosures on floating provisions in the notes on accounts to the balance sheet on
   a) opening balance in the floating provisions account;
   b) the quantum of floating provisions made in the accounting year;
   c) purpose and amount of drawdown made during the accounting year; and
   d) closing balance in the floating provisions account.

8. Specific provisions for advances at rates which are higher than the rates prescribed under existing regulations are not to be treated as floating provisions.

To review, in a developing country like India, banking is seen as an important instrument of development; however, with the strenuous NPAs, banks have become helpless burden on the economy. One of the main causes of NPAs in the banking sector is the directed loans system under which commercial banks are required to supply a prescribed percentage of their credit (40 percent) to priority sectors.

Banks are required to classify Non-Performing Assets further into the following three categories based on the period for which the asset has remained Non-Performing: Sub-standard Assets, Doubtful Assets and Loss Assets. In conformity with prudential norms, provisions should be made on the Non-Performing Assets on the basis of classification of assets into prescribed categories.
4.11. The RBI Guidelines on Fair Practices Code for Lenders applicable to SCBs/AIFIs (excluding RRBs and LABS)

According to the "fair practices code", which is at the core of the lender liability, the lenders must treat their borrowers fairly, and when they do not, they can be subject to litigation by the borrower for a variety of reasons, inter alia, two broad categories - breach of contract, breach of fiduciary duty, fraud and misrepresentation, negligent loan processing and administration. Consequent to the assurance by the Finance Minister, RBI during December 2002 has come out with broad guidelines for framing the Fair Practices Code with regard to lenders' liability “to be followed by commercial banks and financial institutions, emphasizing on transparency and proper assessment of borrowers' credit requirements”.

Banks are free to design and implement their own policies for recovery and write-off incorporating compromise and negotiated settlements with the approval of their Boards, particularly for old and unresolved cases falling under the NPA category. The policy framework suggested by RBI provides for setting up of an independent Settlement Advisory Committees headed by a retired Judge of the High Court to scrutinize and recommend compromise proposals. Specific guidelines were issued in May 1999 to PSBs for one time nondiscretionary and non-discriminatory settlement (OTS) of NPAs of small sector. The scheme was operative up to September 30, 2000. [Public sector banks recovered Rs.668 crore through compromise settlement under this scheme.]

The RBI has framed Guidelines and Directions to Securitization Companies and Reconstruction Companies relating to registration and other matters pertaining to their working viz., prudential norms relating to income recognition, classification of assets, provisioning, accounting standards, capital adequacy, measures for asset reconstruction, and deployment of funds and acquisition of financial assets. The Bank recognizes the fact that since the asset reconstruction activity mainly centers around non-performing loan assets, the whole process of asset reconstruction and matters related thereto has to be initiated with due diligence and care warranting the existence of a set of clear instructions

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which shall be complied with by all Securitization Companies or Reconstruction Companies so that the process of asset reconstruction proceeds on smooth and sound lines. In addition, there is a need for specific guidance to these companies on certain matters.

The RBI has put in place a system for periodical circulation of details of willful defaults of borrowers of banks and financial institutions. This serves as a caution list while considering requests for new or additional credit limits from defaulting borrowing units and also from the directors/proprietors/partners of these entities. RBI also publishes a list of borrowers (with outstanding aggregating Rs. 1 crore and above) against whom suits have been filed by banks and FIs for recovery of their funds, as on 31st March every year. It is our experience that these measures had not contributed to any perceptible recoveries from the defaulting entities. However, they serve as negative basket of steps shutting off fresh loans to these defaulters.

4.11.1. Recovery action against large NPAs

After a review of pendency in regard to NPAs by the Hon'ble Finance Minister, RBI had advised the public sector banks to examine all cases of willful default of Rs.1 crore and above and file suits in such cases, and file criminal cases in regard to willful defaults. Board of Directors are required to review NPA accounts of Rs.1 crore and above with special reference to fixing of staff accountability. The Bank is in the process of framing a set of standard guidelines in the matter of takeover of the management, sale or lease of whole or part of the business of the borrower. Securitization Companies and Reconstruction Companies are, therefore, advised to refrain from exercising the measures of takeover of management, sale or lease of the borrowers' business as provided for in Section 9 of the Act, until guidelines in this regard are notified by the Reserve Bank of India. As regards enforcement of security interest, Securitization Companies and Reconstruction Companies may follow the Security Interest (Enforcement) Rules, 2002 notified by the Government of India as also the relevant provisions in the Act.

The prudential norms on income recognition, asset classification and provisioning thereon, are implemented from the financial year 1992-93, as per the recommendation of the Committee on the Financial System (Narasimham Committee I). These norms have brought in quantification and objectivity into the assessment and provisioning for NPAs. We at the central bank constantly endeavour to ensure that our prescriptions in this regard are close to international norms. We are neither strict nor lax but just correct in tune with our needs and capabilities.

4.12 SARFESI Act 2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFESI) provides for the enforcement of security interests in movable (tangible or intangible, including accounts receivable) and immovable property without the intervention of court, by way of a simplistic, expeditious and a cost effective process. Where any borrower makes any default in repayment of secured debt or any installment thereof, and his account in respect of such debt has been classified by the secured creditor as non-performing asset, then, the secured creditor may call upon the borrower by way of a written legal notice to discharge in full, his liabilities within sixty days from the date of the notice failing which the secured creditor would be entitled to exercise all or any of the rights set out under SARFESI. The notice must contain details of debt and secured assets. Any bank or public financial institution or any other institution or non-banking financial company as specified by Central Government or International Finance Corporation or a consortium thereof can invoke the provisions of SARFESI relating to security of interest.

The SARFESI provides that where any borrower makes any default in repayment of secured debt or any installment thereof, and his account in respect of such debt has been classified by the secured creditor as non-performing asset, then, the secured creditor may call upon the borrower by way of a written legal notice to discharge in full, his liabilities within sixty days from the date of the notice failing which the secured creditor would be entitled to exercise all or any of the rights set out under SARFESI. The provisions of SARFESI relating to security of interest can be invoked by:

**Taking Possession of Assets:** On the expiry of sixty days if the debt is not fully paid by the borrower, the officer(s) so authorized can enter the premises where the secured asset is lying and take its possession. If there is resistance or there is likely to be resistance from the borrower and/or its agents in the taking over of the possession, such officer may write a request to the Chief Metropolitan Magistrate (CMM) or the District Magistrate (DM) in whose jurisdiction such secured asset is situate to take possession.

**Take Over of Management of Secured Assets:** Another option available under SARFESI is to take over the management of the secured assets. The manner and effect of takeover has been set out under SARFESI. While in possession of borrowers business, the secured asset can be sold simultaneously to recover the dues.

**Appointment of Manager for the Secured Assets:** The duties and responsibilities of the manager are not defined anywhere in SARFESI. However, it appears that the function of a manager would be confined to managing the asset and not to sell or transfer the asset. The manager would be a custodian of the assets and will otherwise have full control over the asset to the extent empowered. Manager can be assigned the responsibility to manage the asset but cannot be empowered to sell.

**Procedure in case of Take Over of Co-financed Assets:** In case of financial assets by more than one secured creditors or joint financing of a financial asset by secured creditors, no secured creditor shall be entitled to exercise any of the rights conferred on him unless exercise of such rights is agreed upon by the secured creditor representing not less than three fourth in value of the amount outstanding as on record date and such action shall be binding on all secured creditors.

**Appeal before Debt Recovery Tribunal:** Any person (including borrower) aggrieved by any of the measures taken by the secured creditor may prefer an appeal to the Debts Recovery Tribunal having jurisdiction in the matter within forty-five days from the date on which such measures had been taken. However, such appeal shall not be entertained by unless the borrower has deposited with the Debts Recovery Tribunal seventy-five per cent of the amount claimed in the notice. Any person aggrieved by any order by the Debts Recovery Tribunal under section 17 may prefer an appeal to an Appellate Tribunal.
4.12.1 Asset Reconstruction Companies (ARC)

The measures that a Securitization or Reconstruction Companies can take for the purpose of Asset Reconstruction are:

- Take-over of the management of the business of the borrower.
- Sale or lease of a part or whole of the business of the borrower.
- Reshedulelement of payment of debts payable by the borrower.
- Enforcement of security interest in accordance with the provisions of the Act.
- Settlement of the dues payable by the borrower.
- Taking possession of secured assets.

Additionally, such Company can perform the following functions:

- Acting as an agent for any bank or financial institution for the purpose of recovering their dues from the borrower on payment of such fees as may be mutually agreed.
- Acting as a Manager.
- Acting as a Receiver.

An ARC can acquire financial assets by issuing a debenture or bond or any other security in the nature of a debenture for consideration agreed and by incorporating such terms in the agreement; or entering into an agreement for the transfer of such financial assets to such company on such terms and conditions as may be agreed. The terms and conditions of acquisition can be negotiated and agreed between the parties. However, such terms and conditions would have to be in consonance with the guidelines framed and directions issued by Reserve Bank of India. The ARC shall be deemed to be the lender and all rights of lender shall vest in the ARC in relation to such financial assets. All contracts, deeds, bonds, agreements, power of attorney, grants of legal representation, permissions, approvals, consents or no objections and instruments relating to financial assets subsisting before the acquisition of financial assets by the
ARC shall have full force and be enforced as if they had been issued in favour of ARC or as the case maybe.

No suit, appeal or proceedings shall abate or be discontinued for the reasons of acquisition of financial assets by the ARC. However the appeal may be continued, prosecuted and enforced by or against the ARC. However, such company in respect of which an ARC carries out acquisition of assets can file no reference. Though no procedure, as such, has been laid down under SARFESI, a notice of acquisition may be sent to the Obligor (generally speaking, the borrower) or to any other concerned person (such as, co-lenders, statutory authorities etc.) and the Registering Authority in whose jurisdiction the asset is located. Such notice is not mandatory. The notice is not of proposed acquisition but of the acquisition already carried out. If any payment is received from the Obligor after acquisition, the same shall be in trust and be forwarded to ARC.

Disputes relating to non-payment of any amount due including interest arising amongst Bank, FIs, ARC and Qualified Institutional Buyer shall be settled by conciliation or arbitration as provided in the Indian Arbitration and Conciliation Act, 1996. The SARFESI has been enacted only a few months ago with its implementation having been stayed partly by the Supreme Court of India. Therefore, it is difficult to comment how effective its enforcement will be. The provisions of SARFESI appear to provide an efficient, inexpensive, transparent and predictable method for enforcing a security interest in property. It provides self-contained and comprehensive provisions for enforcement of security interest including its management and sale. The rules framed under SARFESI deal with procedure such as making of inventory, auction process etc. There is still a lot to be done as SARFESI is still in its infancy. SARFESI provides adequate safeguards to the debtor by court involvement though debtors allege a raw deal in this regard.

4.12.2 Corporate Debt Reconstruction (CDR) System

Not all customers who have defaulted repayment to the commercial banks and contributed of the burgeoning NPA of these banks are willful defaulters. Quite a few are described as "Sunset" industries. Others have become weak due to changes in external environment, due to delay in execution of the project, due to cost escalation or on account time-up needed to develop an optimum share for the product. These accounts are classified as "NPAs" no doubt, but these pertain to a different category, where hasty coercive action or forced recovery measures cannot be justified. Lenders have an obligation, to consider genuine difficulty of borrowers. If this principle is not accepted the purpose of bank financing industries and other sectors of economy loses the definition "development finance" and becomes reduced to mere money lending. Successful reconstruction of an ailing unit that has defaulted repayment and bringing it back to standard assets, is also a strategy for dealing with NPAs without causing pain to the defaulted borrower. The process is primarily rescheduling the debt portfolio of the borrowers among its creditors to help the borrowers in the revival of projects and continue operations through reductions in existing debt burden and establishment of new credit lines with implied assumption that the lender would prefer reduction in risk to optimization of returns. The objective of the CDR is to ensure a timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal and external factors, outside the purview of BIFR, DRT or other legal proceedings, for the benefit of all concerned.

Salient Features of the Scheme:

- Legal basis for the mechanism will be provided by ICA (Inter-Creditor Agreement).
- All participants in the CDR mechanism shall have to enter into a legally binding ICA with necessary enforcement and penal clauses.
- It would be a voluntary system based on debtor-creditor agreement and inter-creditor agreement,
- The scheme will not apply to accounts involving only one financial institution or one bank; instead, it will cover multiple banking
accounts/syndication/consortium accounts with outstanding exposure of Rs.20 crore and above by banks and institutions.

- The CDR system would only be applicable to standard and substandard accounts, with potential cases of NPAs getting a priority.

4.12.3. Effect of Corporate Debt Restructuring (CDR):

Banks and financial institutions have been gripped by a corporate debt restructuring (CDR) frenzy. Till 31st July, 2003, 45 CDR proposals worth Rs.44,204 crore had been cleared. The Rs.9,863-crore, Essar Oil CDR cleared in last July is, perhaps, the latest and biggest example. But one wonders as how will any of this help clean up India’s Rs.100,000-crore bad loan mess? The answer: not much, not now. Most of the restructuring done so far is for loans that are still reflected as 'standard' in banks’ books, i.e. loans that hadn't yet been classified as NPAs. The major parts of the loans which have been restructured so far under CDR are standard assets. Banks account for such restructured debts as standard assets though they are classified in a separate category from the other assets.

The surge in debt restructuring began in mid-2002 with the introduction of the corporate debt restructuring mechanism. Under this, in cases where consortium lending existed (this covers most large loans in India), if 75% of lenders by value agreed to a restructuring of debt, the plan could go ahead. Earlier, all lenders had to agree to the restructuring – even a small borrower with a couple of crore at stake. The idea behind this was to prevent fresh non-performing loans from emerging. These loans had been made at very high rates to firms in sectors like steel, which had seen a global downturn. Though Rs.8,000 crore worth of loans are still pending before the CDR cell (till latest data available), most of the big restructurings are over, at least for now. Most pending cases are smaller accounts, between Rs.150 crore and Rs.200 crore. The exceptions are cases like Haldia Petrochemicals, where around Rs.4,000 crore is at stake. As for the big one – Dabhol – the account is unlikely to come up for restructuring as its assets are up for sale.

However, the CDR wave is by no means over. The RBI allowed banks to put up even assets it had classified as 'doubtful' into the CDR. These are assets where the possibility of the bank recovering its dues are far less than 'substandard' assets. Banks and FIs have also agreed to help companies whose loans are classed as doubtful, if less
than 10% of the outstanding amounts are NPAs in the borrowers’ books. Cases under the Board for Industrial and Financial reconstruction (BIFR) are also likely to be discussed under the cell. This step alone would bring over Rs.9,000 crore of NPAs for restructuring.

4.13. Guidelines for Recovery of Dues relating to NPAs of Public Sector Banks

A review of compromise settlements of NPAs through Settlement Advisory Committees (SACs) made by us has revealed that the progress of recovery of NPAs through this mechanism has not been encouraging. The recovery position in respect of categories of borrowers other than small sector has also not been satisfactory. Banks have represented to us that on account of the relative inflexibility of the parameters given in the aforesaid guidelines, much progress could not be made in the recovery of NPAs. While banks should take effective measures to strengthen the credit appraisal and post-credit monitoring to arrest the incidence of fresh NPAs, a more realistic approach is needed to reduce the stock of existing and chronic NPAs in all categories. It has therefore, been decided to modify the guidelines, which will provide a simplified, non-discretionary and non-discriminatory mechanism for recovery of the stock of NPAs. All public sector banks should uniformly implement these guidelines, so that maximum realization of dues is achieved from the stock of NPAs within the stipulated time.

Thus, the revised guidelines will cover NPAs relating to all sectors including the small sector. The guidelines will not, however, cover cases of willful default, fraud and malfeasance. The banks should identify cases of willful default, fraud and malfeasance and initiate prompt action against them. Accordingly, in modification of guidelines set out in 27th May, 1999, revised guidelines for recovery of dues relating to NPAs of public sector banks in all sectors are given below:

4.13.1 Guidelines for Recovery of NPAs up to Rs.5.00 Crore

- The revised guidelines will cover all NPAs in all sectors irrespective of the nature of business, which have become doubtful or loss as on 31st March, 1997 with outstanding balance of Rs.5.00 Crore and below on the cutoff date.
- The guidelines will also cover NPAs classified as sub-standard as on 31st March, 1997, which have subsequently become doubtful or loss category.
- These guidelines will also cover cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR.
- Cases of willful default, fraud and malfeasance will not be covered.
- The revised guidelines will remain operative only up to 31st March, 2001.

Settlement Formula – Amount and off date:

- **NPAs classified as Doubtful or Loss as on 31st March, 1997:** The minimum amount that should be recovered under the revised guidelines in respect of compromise settlement of NPAs classified as **doubtful or loss** as on 31st March, 1997 would be 100% of the outstanding balance in the account as on the date of transfer to the protested bills account or the amount outstanding as on the date on which the account was categorized as doubtful NPAs, whichever happened earlier, as the case may be.

- **NPAs classified as Substandard as on 31st March, 1997 which became doubtful or loss subsequently:** The minimum amount that should be recovered in respect of NPAs classified as Substandard as on 31st March, 1997 which became doubtful or loss subsequently would be 100% of the outstanding balance in the account as on the date of transfer to the protested bills account or the amount as on the date on which the account was categorized as doubtful NPAs, whichever happened earlier, as the case may be, plus interest at existing Prime Lending Rate from 1st April, 1997 till the date of final payment.

Payment:

The amount of settlement arrived at in both the above cases, should preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement should be paid upfront and the balance amount of 75% should be recovered in installments within a period of one year together with interest at the existing Prime Lending Rate from the date of settlement up to the date of final payment.

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Sanctioning Authority:

The decision on the compromise settlement and consequent sanction of waiver or remission or write-off should be taken by the competent authority under the delegated powers.

Non-discretionary Treatment:

The banks should follow the above guidelines for compromise settlement of all NPAs covered under the revised scheme, without discrimination and a monthly report on the progress and details of settlements should be submitted by the concerned authority to the next higher authority and their Central Office. Banks should give notice by 31st August, 2000 to the eligible defaulting borrowers to avail of the opportunity for one time settlement of their outstanding dues in terms of these guidelines. Adequate publicity through various means to these guidelines must be ensured.

Reporting to the Board:

The banks should submit a report on the progress in the recovery of NPAs under the revised guidelines every quarter to the Board of Directors.

4.13.2 Guidelines for Recovery of NPAs over Rs. 5.00 Crore

- The CMDs should personally supervise the NPAs of Rs. 5.00 crore and above on case to case basis. A list of such NPAs should be prepared and all cases reviewed by CMD personally and the course of action decided in terms of rehabilitation/restructuring, one time settlement or filing of suits, by 31st August, 2000. The matter should be placed before the Board of Directors, finalizing the course of action by 30th September, 2000 in each such case.

- The Board of Directors may evolve policy guidelines regarding one time settlement of NPAs over Rs. 5.00 crore covering the computation formula, realizable amount, cutoff date and payment conditions with reference to factors of security and disposability, etc. as part of its loan recovery policy including setting up of Settlement Advisory Committee, staff accountability and other relevant aspects and decide individual cases in accordance with such policy. A copy of such policy should also be sent to us.

- Wherever a suit is required to be filed against the defaulters, who have not come up for one time settlement, or where restructuring is not feasible, suits must be
filed in all such cases by 31st October, 2000. Banks should follow up suit filed cases vigorously and effectively in the Courts to enable DRTs to decide the cases within 6 months as laid down in the DRT Act and realization of dues completed at the earliest. A quarterly report in regard to outstanding of above Rs.5.00 crore should also be sent to us.


Commercial Banks were never so serious in their efforts to ensure timely recovery and consequent reduction of NPAs as they are today. It is important to remember that recovery management, be of fresh loans or old loans, is central to NPA management. This management process needs to start at the loan initiating stage itself. Effective management of recovery and NPA comprise two pronged strategy.

- first relates to arresting of the defaults and creation of NPA thereof and
- the second is to handling of loan delinquencies.

The tenets of financial sector reforms were revolutionary which created a sense of urgency in the minds of staff of CBs and gave them a message that either they perform or perish. The prudential norms have forced the CBs to look into the asset quality. The recovery and NPA management strategies adopted by the CBs may be classified into two broad categories, viz.,

- Preventive and
- Corrective strategies.

While preventive methods are aimed at preventing the event of a default within the prescribed procedures, the corrective methods are aimed at ensuring recoveries once credit is due for payment.

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4.14.1 Preventive Methods

The preventive methods include-

- More careful and responsible scrutiny and appraisal. This includes timely sanction, realism in fixing repayment schedule and adequacy of credit with efficient delivery.
- Evolving a broad loan recovery policy and implementing through the cadres with adequate accountability and empowerment.
- Regular and effective follow up with borrowers and timely action on sensing the likely default.
- Title, value, etc. and additional security are to be investigated before the disbursement of loan.
- More detailed information about the borrowers is to be obtained in terms of his/her family background such as i) size of the family ii) number of dependents in the family iii) earning members in the family iv) standard of living v) length of residency in the area, etc.
- Reviewing the advances in time and taking appropriate immediate action.
- Sending demand notices in time.
- Contacting the borrower before the harvest or cash inflow.
- Proper supervision of the borrower account through personal visits and calling for periodical returns to get incipient signals of default.
- Efficient MIS system on the borrowers and on the branches.
- Credit rating of clientele.
- Developing an early warning system for identifying potential weakness in the accounts.
- Strict observance of time schedules.
- Timely extension of period of limitation through debt acknowledgement, partial payment, renewal of documents etc.
- Timely rephasing or rescheduling of loan in the event of natural calamities.

Public sector commercial banks in recent years have resorted to the preventive methods to ensure prompt recovery. These methods are seldom resorted to by the cooperative system because under the cooperative laws stringent legal actions could be ensured to
force a recovery. In case of Commercial Banks performing in rural areas, the preventive methods are not so much visible. This may be because they have a wider option to relocate or consolidate their rural branches or may be as a percentage the rural lending is small against their total loans and advances.

4.14.2 Corrective Methods

The corrective methods conventionally start with initiating legal action for recovery and followed by lodging insurance claims with DICGCI wherever possible and initiating coercive action against the borrower and the surety. However, corrective methods, in recent years, have become more innovative and participatory. The distinction between preventive and corrective methods has become blurred. Some corrective methods, as practiced mainly by CBs, are discussed here\textsuperscript{14}.

Sharing the Threat Perception:

The top management conducts seminars and meetings with the staff and conveys the crisis in which the commercial bank is in. It indicates that unless recoveries start coming the commercial bank would be closed. Periodical seminars involving small group of Branch Managers and other staff including the sub-staff are conducted to educate them about the impact of NPA accounts on the overall profitability of the branch and commercial bank and how it affects the very existence of the commercial bank.

Staff Motivation:

Some commercial Banks have dismantled the demotivated mindset of their staff by releasing staff benefits like conveyance allowance, housing loan, etc. and some have effected promotions. These measures have motivated the staff to perform better in every area and particularly the areas which hurt the bank the most, viz.,

- recovery of loans and
- management of NPAs.

In some banks the organizational development intervention (ODI) has motivated the staff to step up recovery efforts. Shields, trophies and appreciation certificates are awarded to

\textsuperscript{14}Bhabatosh Banerjee and Anish Kumar Das (2004): "Management of Non-Performing Advances in the Public Sector Banks in India", Journal of Banking, Information Technology and Management, January, New Delhi.
the staff and branches showing good recovery performances, in some cases transfer to
centres of choice are linked to recovery performance of the concerned staff. In some
banks, in each branch the NPA accounts are allotted to each staff right from the officer to
the messenger for personal follow-up and monitoring.

**Constitution of Special Recovery Cells and Related Measures:**

The special recovery cell in some CBs maintains rapport with Nodal Officers and
branches for effecting recoveries. For example in the case of CBs sponsored by
Syndicate Bank, the Head Office of CB identifies branches which constitute 50% of the
total NPA of the bank so that Head Office can have control over the recovery efforts
initiated at the selected high NPA branches through intensive monitoring\(^{15}\). In some
cases, top 100 NPA accounts of the bank pertaining to various branches are identified
and monitored directly from the Head Office in coordination with branches. Following
steps are taken.

- Executives of CBs visit selected 100 NPA parties and establish direct personal
  contact for ensuring recovery. The CBs arrange for customers’ meet especially of
  NPA clients at various important centres to discuss and address their problems.
- The CBs arrange periodical lawyers’ meet to review the status of suit filed cases.
- Pragmatic approach is followed for out of court settlement of loan accounts and
  bringing compromise proposals to logical end at the earliest.
- Identification of potential NPAs is done by the end of the first quarter of the
  financial year so that preventive measures could be initiated at the beginning.
- Staff mobility is ensured and the recovery staff is allowed to hire transport to suit
  their needs and no questions are asked.
- Staff is deputed to Sub Divisional Officer (SDO) or Tehsil courts to assist the
court staff for issuing notices to borrowers in case of overdue loans.
- Periodical recovery camps are held in villages in coordination with Government
  officials.
- The borrowers are constantly reminded about their over dues and notice to clear
  them is regularly sent.

• List of defaulters is displayed in the notice board of the branch without disclosing the account number, amount of loan, overdue, etc. The Idea is simply to draw attention of the defaulters to contact the Branch Manager. A copy of the list is also given to the counter clerk so that he/she can ask the defaulters whenever they come to the branch to transact to meet the Branch Manager.

Involvement of Government Agencies:

There are instances where RRBs are able to recover overdue loans by involving District Administration. Some of the methods adopted to involve government machinery are listed below:

• Revenue recovery notices are issued by the District Magistrate or Sub-Divisional Officer once a year advising barrowers to deposit the overdue amount in the commercial bank to avoid legal actions permitted under the law.

• The list of defaulters is given to the Revenue Authorities or Tehsildars in case of agriculture loans; in case of industrial loans the list is given to District Industries Centres for follow-up.

• Joint recovery teams are formed in which Tehsildars, Revenue Inspector, Patwari and commercial bank Staff jointly participate to expedite the execution of decrees.

• Help of Block Development Officer (BDO) is solicited in case of Government sponsored schemes. Joint inspections are carried out with BDO and incase of accounts where misutilisation of loans and subsidy amount is noticed, joint First Information Reports (FIRs) are lodged.

Extraordinary Methods:

Apart from what has been stated above some CBs have adopted certain extra-ordinary methods to ensure recovery and a few of such methods adopted by the CBs are narrated here.

• Announcing the names of the defaulters in market places through drum beating.

• Approaching influential borrowers who are defaulters, while important functions such as thread ceremony, marriage, etc. are going on in their houses. Cases have been reported where the branch staff has directly asked for repayment during
such functions and loans have been repaid because the borrowers (defaulters) tried to protect their self prestige in the presence of invited guests and relatives. But there are also instances where the branch staff has simply attended the marriage ceremony with gifts and repayments have followed. In some cases, the branch staff has paid money for the performance of last rites in the event of the death in the family of the borrower (defaulter) and repayments have followed.

- List of defaulters prepared and pasted at public places and the recovery van, a hired jeep, was flag marched with banner *Vasuli Dal* (recovery squad) by order of district administration. Bank records related to recovery were kept wrapped in red cloth to impress the public that Government officials are also involved in the recovery of bank dues.

- In some places the visit of a police constable to a particular person’s house is considered inauspicious and banks’ taking advantage of this aspect have served recovery notices through police constables and have put pressure to get the loans recovered.

The methods mentioned above have either tried to tarnish the social image or appeal to the morale of the borrower to repay the banks’ dues. While these methods have yielded fruitful results in some places it may be dangerous and risky to adopt such methods everywhere.

**Corrective Management for NPA Management:**

Under corrective management, each NPA has to be examined in totality and on the basis of various factors like past efforts, period of overdue, client profile, natural calamities etc. and suitable strategy is decided. Since the reasons or factors responsible for sliding a good loan into bad one vary for each loan account, it is necessary to adopt different strategies for different NPA accounts. Some corrective management strategies for reducing NPAs are:

- Recovery Strategies;
  - effect recovery compromises to improve recovery status of account,
  - partial write off
  - adjustment of collateral securities
  - pressure on guarantors
➢ special recovery drive
➢ help from revenue authorities
• Rephasement of loans or Rescheduling of demands;
• Rehabilitation of potentially viable units;
• Compromise with borrowers for final settlements;
• Calling up the advances and filing of civil suits;
• Approaching debt recovery tribunals;
• Settlement of claims with Deposit Insurance and Credit Guarantee Corporation of India; (DICGCI) and Export Credit Guarantee Corporation of India (ECGCI); and
• Write off the out standings.

To conclude that, it may be seen that whether it is preventive or corrective method, proper motivation and commitment of the bank staff, strict adherence to proper loan supervision and monitoring and a congenial relationship with Government machinery contribute to good recovery. But there may be cases where all or any of these methods fail and consequently the loans have to be finally written off. Moreover, the legal procedure in regard to recovery of bank dues is cumbersome, lengthy and time consuming and it is time to critically examine these laws for their efficacy.

4.14.3 Recovery through Legal Process

Experience has shown that legal support is critical to recovery management. The recovery of loans through crystallized collateral and other back-stopping is subject to a prolix process as the present legal system normally does not provide a fast and effective exit route. Discussion on recovery process through legal means amenable to public sector banks is presented in the following section¹⁶.

Legal System Administration:

The security obtained for a loan account has only one major objective that, in the event of default, the public sector banks should be able to recover the money through the security. It could be by sale of the security or through the compromise process as the borrower would not like to lose the security. The process of recovery through legal

process involves proper documentation of credit, issue of notices, filing and sustaining of suit in the court of law, obtaining the decree, issue advertisement in the newspapers on the intention of execution of decree, arrange for execution, make the sale, realize the proceeds and adjust the loan. In almost all the activities, the public sector banks need the services of professionals such as lawyers, court receivers, etc. The bank has to meet all these expenses and adjust or seek reimbursement once the decree is executed from out of sale proceeds as per decree.

But, in most cases the cost allowed is far less than the actual, inflicting high expenditure to the banks. It is seen that in case of public sector banks, the legal process is not only long drawn but also expensive. In the meantime, as per prudent accounting procedure, the money will remain in the books of accounts without earning any interest. Also making it imperative to make provisions as per directives. The following points are worth mentioning:

- The law does not allow sale as an automatic right of the creditor - except through a court process even in the case of mortgage,
- The procedure for seizure and foreclosure is involved and costly,
- In many cases, such as tribal’s, property alienation is not permitted,
- In case of small loans to poor, there is no asset available for attachments.

Thus, proper and effective legal process is very crucial in creating a repayment atmosphere. If it is proved that the legal process is time consuming and long, it would make the security ineffective.

Use of Collaterals and Collateral Substitute:

It is seen that the recovery process through legal system with or without collateral is equally costly and lengthy. The court fee is payable on the amount of default or on the amount to be recovered and not on the value of the security. Judiciary and Revenue machinery have been generally unable to help the public sector banks in recovery. The sheer volume of cases weighs them down even if the system has the intention. Except for the demonstrative effect, filing of summary or money suit for unsecured loans does not provide any tangible benefit for the public sector banks. The financial institutions observe that pursuing such suits to a logical end is not prudent as it involves higher administrative and risk costs for them. The expenses made on the court lie in the books of
accounts until their recovery is made by affecting the sale. This is a drain on the public sector bank’s resources and is often without any return for the public sector banks during the period. The public sector banks feel that the cost of executing the collateral is quite high for the public sector banks.

**Efficacy of Cooperative Law:**

Under State enactments, the Cooperative Banks and Credit Societies enjoy certain privileges like 'change' and priority over other creditors for recovery of dues from members. They also enjoy exemption from payment of stamp duty and registration charges for mortgaged land while availing agricultural loans (up to some financial ceiling) and the creation of mortgage by the borrower by simple declaration. In addition, the Cooperative Banks enjoy special facilities to expedite the process of recovery of their dues without recourse to civil courts. State Laws authorize some officials of the Government (Registrars of Cooperative Societies) to exercise the powers of a civil court to order attachment and sale of property of debtor to fulfill the repayment obligation to a cooperative society. The essence of these special facilities, usually referred to as summary procedure, is that the authorized officials are empowered to issue an order having the force of a decree of a civil court for payment of any sum due to the banks by sale of the property changed or mortgaged in favour of the bank. These powers have been granted to facilitate recovery of dues of cooperatives without having to resort to time consuming litigation in civil courts. The Recovery performance of the cooperatives is not improving despite the above special facilities showing the inept handling by government machinery. The cost, despite the easy procedure, is high as the high cost of the departmental officials for the semi judiciary process is met by these banks in addition to recovery officers of the bank. Further, the execution of awards through sale gets, most often, vitiated by external forces, as being the government agency, cutting the root of the efficacy of the special facilities supposedly given to cooperatives.

**Revenue Recovery Acts:**

An Expert Group headed by Shri R.K. Talwar in 1970 had recommended extension of similar facilities to commercial banks by appropriate State legislation. On the basis of the recommendations of the Talwar Committee, the State Governments (barring nine) have passed the Agricultural Credit Operations and Miscellaneous
Provisions (Banks) Act, the act empowers designated officials of Revenue Department to issue an order having a force of decree of a civil court for payments of any sum due to a bank by sale of the property charged or mortgaged in favour of the bank. This facilitates foreclosure of mortgage on land in bank's favour and brings the property for sale. Under the act a nominal fee and not the entire salary of the government official, is charged to the bank.

The recovery officers under the Act have helped in recovering small loans of the banks. The banks, in States like Uttar Pradesh, Karnataka, have taken proactive steps to fund the cost (salary of recovery officers and other incidental expenses) by making a collective contribution for their establishment and/or allowing a recovery fee of 5% to 10% of the recovered amount towards their maintenance. But the above system has not worked uniformly well in all the states. The state governments had found it difficult to spare officials possessing zeal for this type of work which is a prerequisite for a supporting machinery to work efficiently. Use of government official machinery helps in infusion of the threat perception amongst people, but the political interference becomes a part of it. Therefore, the lack of political will becomes a hindering factor in the process. It would perhaps be necessary to study the relative efficiency of the system across the country, so that improvements wherever possible, could be made.

Debt Recovery Tribunals:

Special Debt Recovery Tribunals (SDRTs) have been set up under the Recovery of Debts due to banks and Financial Institutions Act, 1993 for expeditious adjudication and recovery of debts. These courts now adjudicate banks' suits involving amount of Rs.10 lakh and above by transferring the cases pending with the civil courts. These loans are nominally secured with collaterals. Only six such tribunals are operative now. The number of such tribunals is inadequate resulting in large number of cases pending before them. They are not yet equipped with proper infrastructure and flexibility to function smoothly. For recovery of small loans and to ensure quick justice on settlement of dues, LokAdalats (People's Courts) have been set up in some States. These courts are headed by retired high court judges and two other members. These small courts are found to be of success in selected pockets. Efforts are continuing to popularize this arrangement. The judgment of these courts is found to lack the teeth of a civil court judgment for their enforceability. But these courts have provided good opportunity to narrow or bridge the
differences between the banker and the defaulter by creating a favourable environment for a settlement and also in formalizing such settlements.

Legal Changes Required:

From the above and the immensity of cases pending in the courts it is obvious that the recovery of commercial banks dues through the legal process has not been encouraging. With the introduction of the NPA norms and as the secured NPA loans are subject to lesser provisions than the unsecured NPA loans, it is essential to look into the effectiveness of security and legal process towards recovery. There is no doubt that the laws governing the collaterals need to be improved and the legal process expedited. It is perhaps essential to start many units of the Revenue Recovery (RR) procedures in each state. Increasing the efficiency of the RR courts, SDRTs and making the sale of a mortgaged or hypothecated asset possible without court intervention are some of the steps that need to be taken in this direction. As more and more financial institutions feel the pressure of NPAs such improvements are crucial to the success of urban/rural financial intermediation.

One of the most important causes hampering the recoveries of NPAs, among other things is a long-winded and ineffective legal recourse available to financial institutions in India. A legal framework that clearly defines the rights and liabilities of parties to contracts and provides for a speedy resolution of disputes is essential for efficient financial intermediation. It is true that existing legal framework is archaic, slow and outright non-productive as discussed above. It is also not in tune with the changing commercial practices and banking reforms. Some of the legal acts which were enacted in nineteenth century and therefore require immediate overhauling are Indian Contract Act 1872, Transfer of Property Act 1882 and Indian Stamp Act 1899. It is understood that RBI has already constituted committees for looking into the necessary amendments to various banking related Acts. Simultaneously, there is a committee which is looking into the amendments necessary in the plethora of Acts that affect the collateral and collateral efficiency.

4.15. Non-Performing Assets (NPAs)

While the capital adequacy of Indian banks remained robust, there were some emerging concerns with regard to the second important soundness indicator of banks of
Non-Performing Assets (NPAs). Asset quality of Indian banks had generally seen a steady improvement as evident from a declining level of gross and net NPA ratio since 1999. The gross NPA ratio of SCBs placed at 14.6 per cent at end-March 1999 had declined steadily to 2.25 per cent at end-March 2008. During the crisis year 2008-09, the gross NPA ratio remained unchanged for Indian banks. However, during 2009-10, the gross NPA ratio showed an increase to 2.39 per cent (Table-4.1). After netting out provisions, there was a rise in the net NPA ratio of SCBs from 1.05 per cent at end-March 2009 to 1.12 per cent at end-March 2010. It is noteworthy that the growth in NPAs of Indian banks has largely followed a lagged cyclical pattern with regard to credit growth.

The empirical analysis taking growth rates of gross advances and gross NPAs since June 2000 indicated that NPA growth follows credit growth with a lag of two years. The coefficients of credit growth were positive and statistically significant from the second lag onwards reflecting that credit growth fed into growth in NPAs in a lagged manner. This underlined the pro-cyclical behaviour of the banking system, wherein asset quality can get compromised during periods of high credit growth and this can result in the creation of nonperforming assets for banks in the later years. At the bank group level, the gross NPA ratio was the highest for foreign banks at end-March 2010 followed by private sector banks. On the other hand, it was the lowest for public sector banks. The increase in the gross NPA ratio between 2009 and 2010 could be seen across all bank groups except in the case of private sector banks. The increase in the gross NPA ratio during this period was perceptible for foreign banks as shown in Table-4.2.

Apart from the increase in NPA ratio, there was also deterioration in the distribution of NPAs of SCBs between 2009 and 2010. This was evident from an increase in the percentage of loss making and doubtful assets of SCBs, which represented the lower end of the NPA spectrum (Table 4.3). The shift in the distribution of NPAs in favour of doubtful and loss making assets was more prominent in the case of foreign and new private sector banks as compared to public sector banks. The sectoral distribution of NPAs showed a growing proportion of priority sector NPAs between 2009 and 2010 (Table-4.4).

## Table-4.2: Trends in Non-performing Assets - Bank Group-wise

(Rupees in Crore)

<table>
<thead>
<tr>
<th>Item</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross NPAs</strong></td>
<td>2008-09</td>
<td>2009-10</td>
</tr>
<tr>
<td>Closing balance for 2008-09</td>
<td>44,957</td>
<td>26,543</td>
</tr>
<tr>
<td>Opening balance for 2009-10</td>
<td>44,957</td>
<td>26,543</td>
</tr>
<tr>
<td>Addition during 2009-10</td>
<td>44,818</td>
<td>29,701</td>
</tr>
<tr>
<td>Recovered during 2009-10</td>
<td>26,946</td>
<td>18,966</td>
</tr>
<tr>
<td>Witten off during 2009-10</td>
<td>2,902</td>
<td>884</td>
</tr>
<tr>
<td>Closing balance for 2009-10</td>
<td>59,926</td>
<td>36,395</td>
</tr>
<tr>
<td><strong>Gross NPAs as per cent of Gross Advances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>1.97</td>
<td>1.73</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.19</td>
<td>1.95</td>
</tr>
<tr>
<td><strong>Net NPAs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance for 2008-09</td>
<td>21,155</td>
<td>10,286</td>
</tr>
<tr>
<td>Closing balance for 2009-10</td>
<td>29,644</td>
<td>16,813</td>
</tr>
<tr>
<td><strong>Net NPAs as per cent of Net Advances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>0.94</td>
<td>0.68</td>
</tr>
<tr>
<td>2009-10</td>
<td>1.10</td>
<td>0.91</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai.
Table-4.3: Classification of Loan Assets - Bank Group-wise (As at end-March) (Rupees in Crore)

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Year</th>
<th>Standard Assets</th>
<th>Sub-standard Assets</th>
<th>Doubtful Assets</th>
<th>Loss Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>Per cent</td>
<td>Amount</td>
<td>Per cent</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1. Public Sector Banks</td>
<td>2009</td>
<td>22,37,556</td>
<td>97.99</td>
<td>20,603</td>
<td>0.90</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>26,73,534</td>
<td>97.81</td>
<td>28,791</td>
<td>1.05</td>
</tr>
<tr>
<td>1.1 Nationalized Banks</td>
<td>2009</td>
<td>15,08,798</td>
<td>98.25</td>
<td>11,086</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>18,27,061</td>
<td>98.05</td>
<td>18,520</td>
<td>0.99</td>
</tr>
<tr>
<td>1.2 SBI Group</td>
<td>2009</td>
<td>7,28,758</td>
<td>97.44</td>
<td>9,517</td>
<td>1.27</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>8,46,473</td>
<td>97.30</td>
<td>10,271</td>
<td>1.18</td>
</tr>
<tr>
<td>2. Private Sector Banks</td>
<td>2009</td>
<td>5,68,093</td>
<td>97.10</td>
<td>10,592</td>
<td>1.81</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>6,26,472</td>
<td>97.27</td>
<td>8,842</td>
<td>1.37</td>
</tr>
<tr>
<td>2.1 Old Private Sector Banks</td>
<td>2009</td>
<td>1,27,280</td>
<td>97.64</td>
<td>1,334</td>
<td>1.02</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>1,52,745</td>
<td>97.69</td>
<td>1,395</td>
<td>0.89</td>
</tr>
<tr>
<td>2.2 New Private Sector Banks</td>
<td>2009</td>
<td>4,40,813</td>
<td>96.94</td>
<td>9,258</td>
<td>2.04</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>4,73,727</td>
<td>97.13</td>
<td>7,447</td>
<td>1.53</td>
</tr>
<tr>
<td>3. Foreign Banks</td>
<td>2009</td>
<td>1,62,422</td>
<td>95.70</td>
<td>5,874</td>
<td>3.46</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>1,60,311</td>
<td>95.74</td>
<td>4,929</td>
<td>2.94</td>
</tr>
<tr>
<td>SCBs</td>
<td>2009</td>
<td>29,68,070</td>
<td>97.69</td>
<td>37,069</td>
<td>1.22</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>34,60,318</td>
<td>97.61</td>
<td>42,561</td>
<td>1.20</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai.
### Table-4.4: Sector-wise NPAs of Domestic Banks (As at end-March)

(Amount in ` crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Priority Sector</th>
<th>Of which, Agriculture</th>
<th>Of which, SSIs</th>
<th>Of which, Others</th>
<th>Public Sector</th>
<th>Non-priority Sector</th>
<th>Total NPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amt.</td>
<td>%</td>
<td>Amt.</td>
<td>%</td>
<td>Amt.</td>
<td>%</td>
<td>Amt.</td>
</tr>
<tr>
<td>2009</td>
<td>24,318</td>
<td>55.2</td>
<td>5,708</td>
<td>13.0</td>
<td>6,984</td>
<td>15.9</td>
<td>11,626</td>
</tr>
<tr>
<td>2010</td>
<td>30,848</td>
<td>53.8</td>
<td>8,330</td>
<td>14.5</td>
<td>11,537</td>
<td>20.1</td>
<td>10,981</td>
</tr>
<tr>
<td>2009</td>
<td>15,871</td>
<td>60.6</td>
<td>3,707</td>
<td>14.2</td>
<td>4,958</td>
<td>18.9</td>
<td>7,206</td>
</tr>
<tr>
<td>2010</td>
<td>19,908</td>
<td>56.1</td>
<td>5,741</td>
<td>16.2</td>
<td>8,668</td>
<td>24.4</td>
<td>5,499</td>
</tr>
<tr>
<td>2009</td>
<td>8,447</td>
<td>47.3</td>
<td>2,001</td>
<td>11.2</td>
<td>2,026</td>
<td>11.3</td>
<td>4,420</td>
</tr>
<tr>
<td>2010</td>
<td>10,940</td>
<td>50.1</td>
<td>2,589</td>
<td>11.9</td>
<td>2,869</td>
<td>13.1</td>
<td>5,482</td>
</tr>
<tr>
<td>2009</td>
<td>3,641</td>
<td>21.6</td>
<td>1,441</td>
<td>8.5</td>
<td>666</td>
<td>3.9</td>
<td>1,533</td>
</tr>
<tr>
<td>2010</td>
<td>4,792</td>
<td>27.6</td>
<td>2,023</td>
<td>11.6</td>
<td>1,139</td>
<td>6.6</td>
<td>1,630</td>
</tr>
<tr>
<td>2009</td>
<td>1,234</td>
<td>40.2</td>
<td>263</td>
<td>8.6</td>
<td>303</td>
<td>9.9</td>
<td>667</td>
</tr>
<tr>
<td>2010</td>
<td>1,613</td>
<td>44.7</td>
<td>269</td>
<td>7.4</td>
<td>475</td>
<td>13.2</td>
<td>869</td>
</tr>
<tr>
<td>2009</td>
<td>2,407</td>
<td>17.4</td>
<td>1,178</td>
<td>8.5</td>
<td>363</td>
<td>2.6</td>
<td>866</td>
</tr>
<tr>
<td>2010</td>
<td>3,179</td>
<td>23.1</td>
<td>1,754</td>
<td>12.7</td>
<td>664</td>
<td>4.8</td>
<td>760</td>
</tr>
<tr>
<td>2009</td>
<td>27,958</td>
<td>45.9</td>
<td>7,149</td>
<td>11.7</td>
<td>7,650</td>
<td>12.6</td>
<td>13,159</td>
</tr>
<tr>
<td>2010</td>
<td>35,640</td>
<td>47.7</td>
<td>10,353</td>
<td>13.9</td>
<td>12,676</td>
<td>17.0</td>
<td>12,611</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai.
Priority sector NPAs, which constituted little over half of the total NPAs of domestic banks up to 2008, had shown a steep decline in 2009 attributable primarily to the Agricultural Debt Waiver and Debt Relief Scheme of 2008. Between 2009 and 2010, however, the share of priority sector NPAs in general, and small scale industries in particular, went up for domestic banks, partly a reflection of the impact of the financial crisis and the economic slowdown that had set in thereafter.

At end-March 2010, the percentage of priority sector NPAs in total NPAs was 53.8 per cent for public sector banks as against 27.6 per cent for private sector banks. The sectoral NPA ratio of banks also indicated a rise for priority and non-priority sectors between 2009 and 2010; the increase in NPA ratio for priority sector, however, was higher than that of the non-priority sector. It is noteworthy that weaker sections comprising, among others, small and marginal farmers, Scheduled Castes and Tribes (SC/STs) have shown a steady decline in the NPA ratio in the recent years. This trend corroborates the point that weaker sections are in fact not less creditworthy than other sections and strengthens the argument for furthering the process of financial inclusion.

At end-March 2010, the NPA ratio for weaker sections stood at 2.73 per cent for domestic banks, a little higher than the NPA ratio for non-priority sectors.

The NPA ratio for weaker sections for public sector banks was higher at 3.0 per cent than 0.5 per cent for private sector banks at end-March 2010. Among the various channels, the amount of NPAs recovered under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 formed over half of the total amount of NPAs recovered in 2009-10. The SARFAESI Act has, thus, been the most important means of recovery of NPAs. However, there has been a steady fall in the amount of NPAs recovered under SARFAESI Act as per cent of the total amount of NPAs involved under this channel in recent years, a trend which could also be seen between 2008-09 and 2009-10 (Table 4.5).

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18Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai.
Table-4.5: NPAs of SCBs Recovered through Various Channels

(Rupees in Crore)

<table>
<thead>
<tr>
<th>Recovery Channel</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of cases referred</td>
<td>Amount involved</td>
<td>Amount recovered</td>
<td>Col. (4) as % of Col. (3)</td>
</tr>
<tr>
<td>LokAdalats</td>
<td>5,48,308</td>
<td>4,023</td>
<td>96</td>
<td>2.4</td>
</tr>
<tr>
<td>Debt Recovery Tribunals</td>
<td>2,004</td>
<td>4,130</td>
<td>3,348</td>
<td>81.1</td>
</tr>
<tr>
<td>SARFAESI Act</td>
<td>61,760</td>
<td>12,067</td>
<td>3,982</td>
<td>33.0</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai.

At end-June 2010, there were 13 registered Securitization/Reconstruction Companies (SCs/RCs) in India. Of the total amount of assets securitized by these companies at end-June 2010, the largest amount was subscribed to by banks. However, there was a steady decline in the percentage share of banks in total value of securitized assets in the recent years, while the shares of both SCs/RCs and Qualified Institutional Buyers (QIBs) were on a rise (Table-4.6). This could partly be explained by trend of non-realization of Security Receipts (SRs) by SCs/RCs within the stipulated period of five years (extended to 8 years w.e.f. April 21, 2010) from the time of acquisition of the financial asset. This trend possibly led to waning of interest of commercial banks in subscribing to SRs of SCs/RCs. As the non-realized SRs remained on the books of SCs/RCs, their share continued to show a rise, while the share of commercial banks posted a decline.
Table 4.6: Financial Assets Securitized by SCs/RCs

<table>
<thead>
<tr>
<th>Item</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Book Value of assets acquired</td>
<td>51,542</td>
<td>62,217</td>
</tr>
<tr>
<td>2. Security Receipts issued</td>
<td>12,801</td>
<td>14,050</td>
</tr>
<tr>
<td>3. Security Receipts subscribed by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Banks</td>
<td>9,570</td>
<td>10,314</td>
</tr>
<tr>
<td>(b) SCs/RCs</td>
<td>2,544</td>
<td>2,940</td>
</tr>
<tr>
<td>(c) FII</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(d) Others (Qualified Institutional Buyers)</td>
<td>687</td>
<td>797</td>
</tr>
<tr>
<td>4. Amount of Security Receipts completely redeemed</td>
<td>2,792</td>
<td>4,556</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai

The rise in NPAs was reflected in increased amount of provisioning by banks in 2009-10. The amount of NPA provisioning of SCBs grew by 22.4 per cent during this year. Given the concern about providing adequate cushion for unexpected losses, in October 2009, the Reserve Bank advised SCBs about ensuring their provisioning (comprising specific provisions against NPAs and floating provisions) to NPA ratio was not less than 70 per cent. SCBs were asked to meet the provisioning norm not later than September 2010. Between 2009 and 2010, the coverage ratio of provisions to NPAs of SCBs declined from 52.1 per cent to 51.5 per cent. The decline in coverage ratio could be seen mainly in the case of nationalized banks (Table 4.7).
Table 4.7: Trends in Provisions for Non-performing Assets – Bank Group-wise

(Rupees in Crore)

<table>
<thead>
<tr>
<th>Item</th>
<th>Public Sector Banks</th>
<th>Nationalized Banks</th>
<th>SBI Group</th>
<th>Private Sector Banks</th>
<th>Old Private Sector Banks</th>
<th>New Private Sector Banks</th>
<th>Foreign Banks</th>
<th>SCBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Provisions for NPAs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at end-March 2009</td>
<td>22,658</td>
<td>15,171</td>
<td>7,487</td>
<td>9,391</td>
<td>1,826</td>
<td>7,564</td>
<td>3,448</td>
<td>35,498</td>
</tr>
<tr>
<td>Add : Provisions made during the year</td>
<td>18,037</td>
<td>11,518</td>
<td>6,519</td>
<td>10,393</td>
<td>1,246</td>
<td>9,147</td>
<td>3,576</td>
<td>35,498</td>
</tr>
<tr>
<td>Less : Write-off, write-back of excess during the year</td>
<td>12,293</td>
<td>8,881</td>
<td>3,411</td>
<td>8,782</td>
<td>852</td>
<td>7,929</td>
<td>2,810</td>
<td>23,886</td>
</tr>
<tr>
<td>As at end-March 2010</td>
<td>28,402</td>
<td>17,808</td>
<td>10,594</td>
<td>11,002</td>
<td>2,220</td>
<td>8,782</td>
<td>4,214</td>
<td>43,619</td>
</tr>
<tr>
<td>Memo:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross NPAs</td>
<td>59,926</td>
<td>36,395</td>
<td>23,532</td>
<td>17,639</td>
<td>3,622</td>
<td>14,017</td>
<td>7,180</td>
<td>84,747</td>
</tr>
<tr>
<td>Ratio of outstanding provisions to gross NPAs (per cent)</td>
<td>50.5</td>
<td>57.2</td>
<td>40.8</td>
<td>55.7</td>
<td>59.4</td>
<td>54.9</td>
<td>53.8</td>
<td>52.1</td>
</tr>
<tr>
<td>End-March 2009</td>
<td>47.4</td>
<td>48.9</td>
<td>45.0</td>
<td>62.4</td>
<td>61.3</td>
<td>62.7</td>
<td>58.7</td>
<td>51.5</td>
</tr>
<tr>
<td>End-March 2010</td>
<td>47.4</td>
<td>48.9</td>
<td>45.0</td>
<td>62.4</td>
<td>61.3</td>
<td>62.7</td>
<td>58.7</td>
<td>51.5</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2009-10, RBI, Mumbai.
The ratio declined substantially by about 8 percentage points for nationalized banks between 2009 and 2010. As against this decline, the ratio increased by about 7 percentage points for private sector banks and also by about 5 percentage points for foreign banks - the bank group showing the highest NPA ratio at end-March 2010.