CHAPTER VIII

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Introduction

After the Nationalisation of commercial banks, the banking scene in India has undergone remarkable change in terms of scale, coverage and contents of its operation keeping in tune with the changes that have been taking place in the social, political and economic environments. Prior to the year 1969, the banking sector in India concentrated their business mainly in Metropolitan and urban centres. Banks extended their credit only to the big industries and big merchants.

After nationalisation, commercial banks have expanded the network of their branches very fast. The result is that each bank has now a network of branches almost all over the country. Banking system today provides the most essential input namely, finance for growth of various segments especially rural economy. Commercial banks which have traditionally specialised in offering comprehensive range of facilities to big trade and industry in urban areas have totally shifted their operations to rural areas by financing small and weaker sections of the society. Their role has become all pervasive in so far as the prime function of banking system in the economic development of the country is concerned. It can rightly be said that from a profit motive private owned and urban based sector, it has become a development oriented and socially oriented public sector banking industry.

In real terms, banking sector has made a lot of developmental activities in respect of branch expansion, deposit mobilisation and
extending credit to all sections of the society. The present study was undertaken with a view to highlight the recovery position of bank credit which has a direct impact on the profitability of the banking industry.

The major problems facing Indian banks today are poor performance of recovery of their loans from both industrial and agricultural borrowers resulting in mounting overdues and subsequent eroding of profit. In a sense, the two problems are interlinked. Because, locking up of funds for inordinately long period in such loans seriously hampers efficient turnover of credit which is primarily essential for larger production growth as well as for improving the earning capacity of banks. The Government of India and the Reserve Bank of India both are quite seized with the problem from the beginning and have been issuing policy directives/guidelines to banks and other financing institutions to effectively deal with the problem of mounting industrial and agricultural overdues.

The problem of industrial sickness in India has assumed serious proportion in recent years, as could be seen from the growing number of sick industrial units and the huge amount of credit extended to them. The amount of overdues in industrial sector is much more than the agricultural sector. This is due to early entry of commercial banks in financing this sector. For indepth study of the causes of sickness, one has to examine external and internal factors. Among external factors, industrial relations, international market, Government policies regarding industry etc. are pertinent. As we are discussing here banks' concern about sickness in industry, internal factors germane to banking
system need to be peeped into. Immediately after independence, we entered into planned growth era, wherein the role of industry became imminent. Apex financial institutions started providing term loans, while working capital was provided by the commercial banks. Banks followed the pattern of cash credit limit for industry in a similar manner as they were used to finance commerce and trade. Cash credit system has several pitfalls and there were hardly any set norms for financing working capital.

In case of small scale industries, the picture is quite different. Such units face different kinds of problems like change in Government policy, non-payment of dues, taxation, custom duties etc. which are external factors for sickness of such industries. Internal factors for sickness of such industries are lack of Managerial skill, financial discipline, obsolescence, industrial relations, poor marketing intelligence etc.

As far as overdues in the industrial sector is concerned, inspite of the fact that banks have developed enough expertise in financing this sector, it is mounting every year. This is mainly due to poor appraisal from technical, financial and marketing angle.

Causes for poor recovery of Industrial Advances

The most important factor which seriously affects the profitability of the banks, is the problem of recovery of advances and the mounting overdues.

The problems of recovery of loans and advances may be broadly grouped under demand and supply sides. While the demand side problems normally arise from the borrowers side, which call for immediate
attention to examine the nature of defaults and the reasons for irregular repayment on the part of the borrower. Supply side problems, on the other hand, could be traced out in the deficiencies observed in the process of lending and the recovery procedure adopted by the banking institution. It would therefore, be necessary to identify and assess the factors responsible for poor recovery of bank's industrial finance. The major factors adversely affecting the recovery performance of industrial finance revealed from the study undertaken are as under:

(a) Shortage/untimely receipt of working capital by industrial units and their heavy dependence on other sources of finance may be considered to be the important cause for poor recovery of banks industrial finance. It is found that banks do not give due credence to the working capital requirement of entrepreneurs and the amount sanctioned are much lower. Even lower amounts are disbursed after long delays.

(b) Lack of pre-sanction appraisal and post-sanction supervision/followup by the bank officials affects the recovery position of bank dues.

(c) Inadequate technical know-how, locational disadvantages, outdated production process, high cost of inputs, high break even point, uneconomic size of the projects, under-estimation of financial requirements, unduly large investment in fixed assets and overestimation of demand etc. are some of the important factors affecting the recovery of banks industrial credit.

(d) Infrastructural facilities like electricity, transport, marketing facilities for selling the finished products and such other inputs play significant role in providing adequate and regular income to the
borrower. But it is observed from the study undertaken that in some of the areas financing has been done where the said facilities are not sufficiently available for sustenance of industrial units. This leads to decrease in the earning capacity of the borrowers which ultimately affects his repayment capacity.

(e) Recovery position of banking institutions is also seriously affected due to wilful default of the borrowers. In case of some industrial units, it is noticed that some entrepreneurs have been striving to get their units declared as sick so that they may avail of the incentives under the pretext of revival of their units. In fact, these units might have surreptitiously diverted their funds for speculative purposes. Showing sickness of the units, suits them well and hence default in repayment of bank loans.

In case of some borrowers, it is observed that with the help of loans taken from banking institution, they repay the loan which was taken from the non-institutional sources. Sometimes the assets purchased with the help of bank loans are disposed off without the consent of or information to the bankers with an objective of getting easy money from the sale proceeds of these assets. In this way a little amount or in some cases, no amount is left with the borrowers to repay the bank loans.

Some of the borrows find that neither the banks nor the Government take any action on the defaulters and therefore even some of the borrowers, who are in a better position to repay the loans, are tempted to be indifferent for repayment of bank loans.
From the study it reveals that misutilisation of funds/wilful default on the part of the borrowers also contributed to poor recovery of industrial finance.

**Recommendations for improving recovery of industrial credit**

For improving the recovery position of industrial finances, the following recommendations are made:

1. While sanctioning loans for industrial activities, technical feasibility/economic and financial viability and managerial competence of the applicant should be carefully examined. In this regard, District Industries Centres (DIC) may be requested to sponsor only such proposals which are economically viable and technically feasible. The Managers of the DIC should be personally contacted and proposals forwarded by them may be discussed at length wherever necessary.

2. Adequate working capital should also be made available as per genuine needs of the borrowers.

   Adequate/suitable moratorium for gestation lags be given and instalments should be linked with surplus generation.

3. Financing of vehicles to Small Scale Industries (SSI) units wherever needed should also be considered on merit for enhancing the operative efficiency of the assisted units.

4. Incipient sickness should be detected well in time through the operations in the accounts. Inventory of stocks should be regularly and physically checked on monthly basis and stock statement report should be received, as stipulated at the time of sanctioning the loan.
(5) Nursing/rehabilitation programme should be initiated in time in case of potentially viable units.

(6) In case of chronic and wilful default all possible efforts be made to pressurise the borrowers. After exhausting all remedial measures of routine nature, bank should decide whether launching of court proceedings be undertaken for recovery of dues, or else, the bad and doubtful debt if irrecoverable should be written off by the bank. But before writing off the debts, banks should try to recover some part of the loans through compromise proposals.

In case of transport and other loans —

(a) Instalments should be fixed on the higher side in the beginning as the chances of breakdown/repair expenses in respect of vehicles are nil or minimum during the initial years.

(b) Concerned transport authority should be persuaded to issue permits to the transport operators only after getting "No Objection Certificate" from the financing bank. If the RTO does not co-operate, the matter should be taken up in the bank District Co-ordination Committee/State Level Bankers Committee Meetings.

(c) If the instalments are not being deposited by the transport borrowers for 9-10 months, immediate steps should be taken to pressurise the borrowers and proceeding against them should be initiated and the vehicle should be impounded after legal action. It is necessary because the rate of depreciation on the vehicle is quicker and faster and the vehicle starts losing its resale value if we wait for longer period.
Seasonality of operations should be kept in mind for scheduling the recovery of bank loans.

Problems in recovering of Agricultural Advances

While, on the one hand, credit deployment in agriculture has increased, the performance of banks in respect of recovery of these advances has not been encouraging. Growing overdues of agricultural credit have indeed emerged as one of the major areas of weakness of the banking system.

A number of factors which contributed to the high level of agricultural overdues have been identified in most of the bank branches covered by the study. These factors can be broadly classified into two groups namely, internal and external factors. The internal factors i.e. those for which the bank is responsible relate to the faulty system/procedures followed in regard to identification/selection of borrowers, deficiencies in the processing of loan applications, lending policies, disbursement procedure and supervision of end-use of credit. The external factors relate to wilful default, natural calamity, unfractuous investment etc., which are beyond the control of banks.

The study at Kamrup district shows that most of the people in the district live in rural areas and agriculture is their main occupation. Almost all types of agriculture have been practiced by the people living in the district. Kamrup district is endowed with different natural sources like hills, river, beels, ponds, swamps, lowlying area etc. Being a monsoon favoured region, it possesses moderate climate for all kharif and ravi crops.
It is seen that the banking sector in the district has developed with a good trend in respect of branch expansion, credit deployment, deposit mobilisation etc. If this trend maintains uniformity, bright prospect may operate in future and the economy of the district, as well as, the state will be improved. Many people living in the district are being benefited by taking loans from the banks operating in their service area under various schemes including Government sponsored schemes. But the recovery position of bank dues in the district is not at all satisfactory.

From the study it reveal that besides the factors responsible for poor recovery of loans in the district, as mentioned above, the following factors are also responsible:

(a) The loans sanctioned by the banks for productive purpose are being utilised for consumption purpose, thereby leaving with no fund to repay the bank dues.

(b) The rapid growth of population reduces the per capita land holding and consequently, the traditional practices of cultivations are found to be inadequate to meet the demand.

(c) The Governmental incentives namely, subsidy is found to be not properly distributed because many needy persons have been deprived of it.

(d) It is also observed from our study that the workers of this region are not up to the standard in composition to the workers in other parts of the country.

It is evident from this study that banking sector is a part and parcel in the economic development of the district. So far achieving the
desired level of economic development in the district proper recycling of bank funds is a must. For recycling of credit, the recovery position of bank dues must be satisfactory.

A few recommendations may be put forward for improving the recovery of agricultural overdues of banks.

(1) Modern Scientific Methods of cultivation must be intensively used to get optimum result.

(2) Pre-sanction appraisal should be done very carefully while granting term loans to borrowers in Agricultural sector. Technical feasibility and economic viability of each proposal should be carefully examined and working capital facility should also be granted as per genuine needs of the borrowers. Crop loans should be sanctioned as per norms and scale of finance.

(3) Repayment of instalments should be linked with harvesting/marketing of crops and two months grace period should be granted in each case.

(4) Payment periods should be sufficiently spread over keeping in view the income generating capacity of the borrowers.

(5) Recovery should be linked with marketing agencies and proper liaison be made with them at the time of sale/transfer of product.

(6) Demand notices should be issued to all borrowers well before the due dates and this should be followed by reminders, besides visiting them personally by branch officials. It would be worthwhile to issue notices in the language which will be easily followed by the borrower or guarantor as the case may be.

(7) Regular personal contacts should be made with the borrowers specially, at the time of due dates of repayment and in case of
default, some visits may be made at odd hours (morning/evening) so that the borrowers particularly wilful defaulters are contacted. The borrowers should be contacted at the very first default so that these unwanted practices/tendencies are nipped in the bud and not repeated in future.

(8) Special meetings with Grampradhan/Gram Sevak should be arranged for emphasising the importance of recovery and to achieve national objectives and social obligations.

(9) Recovery campaign should be organised at the time of harvesting and the marketing seasons of each crop by involving Government Machinery and local influential persons.

(10) Repayment should be rescheduled in deserving cases where the borrowers are unable to repay the bank's dues due to the reasons beyond their control such as floods or other natural calamities. Short term loans should be converted into medium-term loans and suitable rehabilitation finance may also be considered in addition to reschedulement of existing liabilities.

(11) In cases where chronic and wilful default is observed, Bakijai cases should be filed under state recovery Acts. District administration may be requested to align their recovery efforts especially where Bakijai cases have been filed.

While appraising a loan proposal emphasis be given on following aspects of the applicant.

**Credibility** : Credibility of an applicant may be judged on the basis of his reputation/trustworthiness/reliability etc. in the area.
Capacity: Capacity of an applicant may be examined collecting information on his experience/knowledge and skill/nature/managerial ability etc. to take up a project/activity. It is suggested to disburse loans for agricultural purposes in cash and obtain receipts of goods/assets purchased from the borrowers. In case of loans for tractor/power tillers, cheque/drafts favouring the suppliers of borrower's choice may be handed over to the borrower against proper receipt or sent to the suppliers directly if the borrower so desires.

Declining trends of profitability in banks
Increase in non-performing Assets (NPAS)

Declining profitability has been one of the major causes of concern for Indian banks in recent years. The growing socio-developmental responsibilities have put severe constraints on the profit earning capacity of commercial banks in India. The financial viability of the banking system is necessary since that alone can infuse confidence in the public without which the survival of the banks itself, would be in jeopardy. Many people have expressed their doubts about the future of banking industry. Of late, Government, Reserve Bank of India, Individual banks have realised that there is a need to check erosion in the profitability of banks. An attempt has been made to identify, the factors which have contributed for the declining profitability in the past years and the measures that could be taken for arresting the same.

From the study undertaken, it is clearly understood that among other factors such as increasing establishment costs, burden of providing finance to the priority sector at concessional rates of interest, competition among banks, poor customer service etc., the most
important factor for declining profitability in banks is the increasing
of non-performing assets (NPAs) due to non-recovery of credit extended
by banks. The most important measure to improve profits and
profitability in banks would be to increase recovery substantially and
bring about a significant reduction in non-performing assets (NPAs).

With the mounting of NPAs, profitability of banks is adversely
affected. To elaborate, the loss of interest and at times principal
amount are the most obvious losses. In addition, banks spend
considerable money and time to recover the same. The level of NPAs in
the Indian banking sector has reached an alarming proportion. In terms
of absolute amount, the aggregate NPAs for the public sector banks has
crossed ₹ 40,000 crore at present.

From the study undertaken, it is seen that among various factors
responsible for an account becoming NPA, the important factors are —
(1) Improper selection of borrowers and/or activities.
(2) Socio-political pressures for financing some people/activities.
(3) Lack of income generation due to natural calamities and other
uncertainties.
(4) Lack of proper follow-up by the banks and facture to take punitive
action against wilful defaulters.

**Strategies to be taken for reduction of NPAs**

Whatever be the factors that might have caused the emergence of
NPAs, their implications on the branch are certainly adverse in nature.
The important strategies that may be taken for reduction of NPAs are
summarised as under:
The first step to be taken at the branch level is to organise a staff meeting wherein the position of NPAs may be discussed. An attempt should be made to impress upon the staff regarding importance of recovery from the NPA accounts. In the meeting the branch manager in consultation with the credit officer/credit manager may form a recovery team. The members of the team are to be chosen carefully and skills for performing recovery function and aptitude for field visits are to be given adequate weightage. Attempt should be made to educate and motivate the recovery team adequately by quoting examples of those branches which succeeded in the recovery drive. In small branches, all the members of the staff may be involved in recovery and remain as members of the team. NPAs wherein the recovery is possible immediately and also the amount involved is large are to be taken up first. Similarly, cases wherein the documents are likely to be time barred or execution of decread cases is pending for a long time, they may be given the first preference.

Once the NPAs are properly classified and studied, each member of the team should be given a certain target for recovery. Recovery action is to be started with a reminder letter to be sent to the borrower. If there is no response, a second reminder is to be sent to the borrower. This sort of reminders will continue until the recovery is made. Care has to be taken to write the contents of the letter in such a way that the reader is adequately motivated to come to the branch for payment of the loan instalments.

All borrowers may not respond to the reminder and therefore it becomes essential to visit them personally. During the visit, the branch staff should enquire about their difficulties in payment of loan and
request them to co-operate with the branch even by making a small payment. In case of small borrowers, they may be advised to open a "recurring deposit account" or "pygmy deposit" or "daily deposit" account towards the payment of loan instalment. From the study, it is observed that every planned visit to a borrower's premises helps in recovery. Sometimes it may take more than one visit because of the non-availability of the borrower or it is going to take more time to convince the borrower to repay the bank dues.

Wherever the borrowers are not convinced by the branch staff during the visits, an attempt is to be made to bring pressure on them. Such pressure can be brought on them by the Regional Manager/Zonal Manager during their visit to the borrower's place/work place. Sometimes, pressure from friends and relatives, co-borrowers, social workers etc., on the defaulters, may also help in recovering bank dues. If it is necessary to pressurise borrowers with the help of a visit of a group of branch staff, it should also be tried out.

**Preventive measures to avoid NPA accounts**

For the prevention of accounts becoming NPAs, the appraisal officer of the bank, while appraising a proposal should:

(i) look for drawbacks which can be revealed from the financial statements, securities held vis-a-vis bank finance etc. In case of any dishonesty observed, the proposal should be rejected even if the proposal is sound in other respects.

(ii) not grant credit limits unless the primary source of repayment i.e. profits from the operations is adequate to take care of interest payment of principal loan amount.
(iii) look whether there are adequate additional securities such as immovable properties and financial assets to fall back in case there is likelihood of failure of primary source of repayment.

(iv) not sanction credit limit before the borrower's family background is properly investigated, such as — (a) size of the family, (b) number of dependents in the family, (c) earning members in the family, (d) details of family business/profession, if any, (e) standard of living, (f) how long they have been residing in the area etc.

It is essential to have continuous interactions with the key persons of the unit. The present system of "interview of a borrower", at the time of credit sanction, can be made more meaningful if it can be used to elicit necessary information about the managerial competence, professional background of an entrepreneur, planning, budgeting and control system, decision making system, development of staff etc. Credit officer/technical officers should assist the branch manager in seeking the above information and also performing to the viability of the project. It is suggested that banks should set up a "counselling cell" at Central office/Zonal office/Regional office level to offer the required counselling services to the entrepreneurs.

Recommendations for improving recovery of banks credit

Commercial banks have been taking various measures to improve recovery of loans and reduce the percentage of overdues. For improving recoveries, the Reserve Bank of India has advised banks that they may obtain the services of utilisation Reporters-cum-Recovery Facilitators on a contract basis for which they may be paid commission. Such
utilisation Reporter/Recovery Facilitator may cover a few villages and Panchayats. Wherever required, adequate gestation period or moratorium may be allowed in such a way that the commencement of recovery concides with accrual of incremental income from the project financed.

Besides various steps taken by banks as per policies/guidelines formulated by Reserve Bank of India, the following remedial measures are suggested for improving the recoveries of bank dues:

(1) Branch Managers should prepare a list of defaulters who need to be attended to on priority basis. Such list can be prepared taking into account the size of the amount of bank overdues on one hand and availability of securities for quick realisation, on the other hand. Through this list it would be possible to effect recovery in a limited time.

(2) During the visit to the borrower's premise/discussion with the borrower, it may be found that the borrower has genuine difficulties due to which he is defaulting on payment of interest and loan instalments. In that case, the branch manager may reschedule the loan instalments in such a way that unpaid bank dues will be paid in the way it suits the borrower's liquidity position. If the unit is sick, rehabilitation of the same may be initiated so that recovery can take place after some time. Thus, the branch manager may co-operate with the borrowers who are honest and hard-working. But in case of wilful defaulters, the branch manager should recall the advance first and then send a legal notice. In that case, the recovery will be made through the intervention of the court, which is time consuming. But there is no point in becoming lenient with
the wilful defaulters.

(3) Assistance from the development agencies such as Block Development officer (B.D.O), Revenue officer, Gram Panchayat etc., may also be sought for recovering the bank dues. In particular, when the revenue officer goes out for recovery of land revenue, the branch manager may accompany him for the recovery of bank dues. The very presence of the revenue officer makes a lot of influence in the matter of recovery since he enjoys very wide powers.

(4) In case of overdues from farmers, it is advisable to take the help of Revenue Authorities/Tahsildars to whom the list of defaulters should be given for follow-up. In respect of small industrial advances, necessary help from the District Industries Centre (DIC), Industrial Depts. etc. may be sought for.

(5) To keep a check on the activities of wilful defaulters and prevent them from diversion of bank funds, it is suggested that a list of such defaulters should be circulated among the banks. For this purpose, "Bankers' Club" in each town should be strengthened.

(6) Recovery-camps should be organised if there are recovery problems in a particular area. Before organising the same, sufficient spade work should be done by contacting the defaulters.

(7) In cases where the recovery is not forth coming due to unavoidable circumstances, it is suggested to take appropriate measures to rehabilitate such borrowers, who are not wilful defaulters. In such cases, compromise is the best measure of recovery. In this regard, operating staff should be trained on preparation of the compromise proposal. Further, adequate support should be given by the
controlling office to the branches. There should also be a written policy on compromise scheme. Even in the case of wilful defaulters, compromise can be considered provided their request is within the bank norms and feasible from the cost-benefit angle. In case of small loans, it will be better to get a large sum of money in one instalment rather than approaching the court for recovery of dues in instalments. It is also important to go in for compromise at the early stage when the borrower has certain assets, as after sometime even these assets may disappear.

(8) In respect of suit-filed cases, it is suggested to organise meetings with the local lawyers on a regular basis so that such cases can be followed-up effectively, as legal action as a strategy for recovery takes more time to settle the cases. Suits should be filed after satisfying that the chances of recovery of advances from borrowers or from the guarantors are remote through normal course and adequate securities are available for recovery through the intervention of the court. Further, execution of decree should be done on timely basis. The concerned officer has to prepare a chart indicating action expected in each suit-filed case in each month or so. There should be effective system of reporting from branches to the controlling office on how effectively suit-filed cases are followed up. It is also essential to establish proper rapport with the local authorities such as police administration, revenue office, voluntary organisation etc. for speedy execution of the decreed cases.

(9) Guarantors and Deposit Insurance and Credit Guarantee Corporation (DICGC) should be informed from time to time about the developments in the recovery matters. In case of accounts, particularly small
loan accounts where DICGC cover is available and there is no possibility of recovery in the accounts, transfer of such accounts to "Recalled Category" should be considered expediously so that if eligible, DICGC claim may be lodged at the earliest. No purpose will be served by keeping such accounts outside "Recalled Category" as interest income on NPA accounts cannot be taken to revenue unless it is realised in cash. The proportion of amount received from DICGC should be appropriated in the loan accounts and the balance amount should be written off. The recovery effort should continue even after the supplement of DICGC claims.

(10) For recovery of overdues, where the loan amount is rupees ten lacs or more, banks should file suit before the Debt Recovery Tribunals (DRT) which have been set up in various important cities in India in the year 1993.

In view of mounting overdues, it is very essential to deal with recovery matters on war-footing basis. Targets for recovery should be fixed for each branch/controlling office and arrangements should be made to achieve the targets. Each bank should set up "Task-Force" to plan and monitor the recovery matters. It is essential to involve all staff members in the recovery of bank loans. Arrangements should also be made to educate the borrowers in this regard.

It may be suggested from the study undertaken in the bank branches that recovery from NPAs is possible provided proper care is taken at the right time. With the careful approach, sincerity and involvement of employees/officers, recovery problem can be effectively solved. We may hope that lesson drawn from the experience of one bank
Miscellaneous Recommendations

Need for improving the quality of advances

Lending is the most important function of the bank as the income of the bank is generated out of the interest earned on advances, which forms the chunk of the bank's income. Thus, it is all the more important to improve the quality of advances to get better return. Under such circumstances, the bank has the imperative need not only to look for much profitable avenues for advances/investment, but also to continuously review and monitor the prevailing advances to ensure that they remain good and recoverable at any point of time. Further, stricter provisioning norms stipulated in the NPA guidelines require the banks to grade their advances according to its realisability or recoverability. Thus, qualitating of the advance is now a mandatory exercise for the banking industry. The worth of the branch/bank is presently judged on the basis of quality of advances it carries, as it is the base for profitability.

Suggestions for improving the quality of banks credit

For improving the standard or quality of advances, the entire process right from the sanctioning stage to be thoroughly streamlined. Though the pre-credit stage is purely an academic exercise based on certain assumptions envisaged in the project report etc., this gives the essential feedback to the bank on various aspects. At this stage proper credit survey should be done by banks for identifications of potential
areas, borrowers, viable scheme, market report of the loanees/beneficiaries etc. This sort of survey will enable the bank to identify profitable and healthy ventures as also selection of ideal loan mix to maximise the return.

Credit appraisal is the root of all the advances and the quality of appraisal should be of high standard taking all the factors into consideration, namely:

(a) Integrity and creditworthiness of the borrowers.
(b) Viability and technical feasibility of the proposal.
(c) Repayment programmes.

Credit appraisal should cover in detail the past, present and future events and activities. Permissive level of finance is to be arrived at justifying the assumptions taken in the proposal.

Post credit stage exercise is very vital as nature of the advance is known at this stage only. At this stage, proper monitoring/supervision measures should be followed without any laxity. Due to lacking of follow up and credit supervision, the quality of advances is bound to become bad over a period of time and at a point of time, the advances will turned into NPA. The following supervisory measures should be adopted by the bank in this regard.

(a) Compliance of all the terms and conditions, as stipulated in sanction letter, without fail.
(b) Obtaining stock statement regularly each month within the stipulated time.
(c) Timely review of borrowal accounts by competent authority of the bank for all accounts and in case of bigger accounts pending receipt
of financial statements, operation review for three months can be

done. But final review should be done within the period of three

months.

(d) Periodical visits to the units/projects of the borrowers should be
done to ensure the stocks held properly and in conformity with the

position advised to the bank by them.

Thus credit supervision is the most effective tool available to

the banks for improving the quality of advances.

Realisability of advances mainly depends on proper documentation,
as defective or incomplete documentation leads to advance becoming bad
and unrecoverable. There should not be any laxity on the part of the

bankers in obtaining all the necessary documents in terms of sanction.

In order to have a secured borrowal account, the banker should remember

the following points as regard to documentation.

(a) All the documents as applicable/prescribed have been obtained.

(b) Documents are complete in all respects.

(c) Mortgage formalities are completed without any defect.

(d) In case of limited companies, the bank's charge is to be registered

with the Register of Companies (ROC). Periodical search of the

record of ROC should be done to ensure that no fresh charge or

previous charge to any other bank/ Financial institution remain

unsatisfied.

(e) Yearly review of documents should be done.

(f) Confirmation and acknowledgement of debit balances at the end of

each half-year on a revenue stamp are obtained.
If proper documentation is done with constant monitoring/follow-up etc., there is less chance of an account becoming NPA. While visiting the borrowers in connection with monitoring/follow-up, the following points should be taken care of.

Branches working in the rural areas are getting one day in a week as non-public business working day (NPBWD). The said branches should have specific tour programme for the NPBWD of the entire month well in advance with details of name of villages, date and time of visit etc. Branch staff/officials should visit the villages preferably early in the morning.

It is often observed that defaulters shy away from the bankers. In this regard, bankers need to be conscious of the psychological state of the defaulters and try to win over them and impress upon them that the bank wants their development and not mere recovery of money, like a moneylender. Bankers should have a free and frank discussion with the defaulters, telling them how they are losing by delaying the loan repayment and obtain a realistic commitment from them. In this way, an improvement in the recovery position may be achieved.

However good the credit dispensation process may be, total elimination of NPAs is not possible in banking business owing to externalities but their incidence can be minimised. In a situation wherein banks are already saddled with a large quantum of NPAs, launching a strategic initiative for reducing their quantum by taking recovery monitoring as a broad-based movement can bring about substantial improvement. As the public sector banks undertake lending to different sectors of the economy and have geographical spread through
its branch network, the viability will depend on the profit generating capacities of its operations. Effective NPA reduction policies of banks must encompass the objectives of sound risk management credit administration and staff motivation. Therefore, NPA reduction as an organisational goal is important for the banks to survive in the global competition.