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Conclusions and Suggestions
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6.1 Introduction

In the absence of entry barrier or regulatory restrictions, Non Banking Financial Companies frantically grew and accessed the public deposit without any regulatory control. The deposit of NBFCs grew from Rs. 41.9 crore in 1971 to 53116.0 crore in 1997. This growth was the result of a combined effect of increase in the number of NBFCs and increase in the amount of deposits. The deposits amazed as above was invested in various assets especially that in motor vehicles by these asset financing NBFCs. Various tactics were adopted by these NBFCs and their agents for recovering the receivable outstanding from such assets. Both central government and RBI were concerned about the protection of depositors' interest and various committees were set up to frame a comprehensive regulation for the functioning of these NBFCs.

Meantime, non banking finance industry had a very big jolt in 1998 with the introduction of Prudential Norms by RBI based on reports of various committees. This arrested the mushroom growth of NBFCs and shook out large number of erring NBFCs because of the drastic change of a no regulation situation to an over regulation situation.

To cope up with the regulatory requirements, drastic recovery mechanisms were adopted by NBFCs which resulted in for the criticism against the recovery tactics adopted by financiers and their agents by various Courts and Media. Definitely there were problems and those were mainly related to managing their assets. Asset quality needs to be maintained as standard assets and this can possibly be done only by properly managing the receivables.
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From secondary data, it is seen that the number of deposit taking NBFCs declined from 784 in June 2002 to 376 in March 2008 and that of their deposits from Rs. 13571 crore in 1998 to Rs. 2042 crore in 2007. Probably this is in tune with regulators intention to take away NBFCs from their access to public deposit. Further, it is also seen that not only the quantum of deposit but also their ratio with respect to scheduled commercial bank is falling. It is interesting that the net NPA of NBFCs have drastically come down from 9.5 percent in 1998 to 0.4 percent in 2007 which is a good trend. However, it is worth to analyse the total outstanding arrears and write offs of each year to get a better picture.

From the analysis of consolidated financial results of NBFC-AFC-D published for the year 2005-06 and 2006-07, it is seen that following ratios have fallen, in comparison to total assets. Income from 12.2 to 12.0 percent and net profit has come down from 1.5 to 1.2 percent. The expenditure has gone up from 9.9 to 10.0 percent and operating expenditure from 2.5 to 2.6 percent. All these trend show that there is something alarming for NBFC-AFC-D which are on the vehicle financing and the definite solution is better management of receivables.

6.2 Receivable Issues

Identification of issues and problems in management of receivable in vehicle financing NBFC is the general objective of the present research. The specific objective of the study is examination of the existing credit appraisal criteria and mechanism, the practice of documentation, repaying habits of borrowers and collection policies and practices. The study also analyses the features and tries to identify the ways and means for better management of receivable.

Though general hypothesis of the study is that there exist issues and problems in the management of receivable in vehicle financing NBFCs, other presumptions are that the existing credit appraisal criteria and mechanism are
inadequate, the practice of documentation is improper, the quality of the repaying habits of the borrowers turn to be unfavourable, the collection policies and practices are inefficient in NBFCs.

The study is empirical as well as analytical in nature. Both quantitative and qualitative techniques are adopted at different stages of the study. The study used both primary and secondary sources for data. The sources of secondary data are various publications, Reports, Journals, Text Books, Statistics based on Economic Survey, RBI monthly and annual bulletins (1999 to 2007), Hand Book of Statistics on Indian Economy published by RBI, RBI web site (www.rbi.org.in) and RBI Trend and Analysis various issues from 1999 to 2007. Primary data are collected from three different sources namely, borrowers, dealer intermediaries and managers of NBFCs from the State of Kerala using multi-stage sampling technique. The size of the samples of borrowers, dealer-intermediaries and managers are 390, 60 and 30 respectively. Based on this seven categories of vehicle borrowed and on the type of vehicle i.e., new and used the borrowers are further sub sampled.

Characteristics wise analysis of the borrowers reveals that the highest percentage belong to the age group between 40 and 49 years, except in the case of two wheeler borrowers where the highest percentage is seen among the younger age group of below 30 years. About 90 percent of borrowers are males. The highest percentage of borrowers has income between Rs. 2 to 5 lakhs. The service profile of NBFCs indicates that 76.7 percent of them finance for both private and commercial categories of vehicle while 20 percent for commercial vehicles alone. The remaining 3.3 percent of NBFCs finance exclusively for private vehicles.
For better functioning of the NBFCs, the aspects of credit appraisal, documentation, borrower habits and collection policy of NBFC needs to assume greater importance. The document is to be reckoned with, in case of clarification or dispute and it assumes importance in effective receivable management. Credit appraisal ascertains the borrower quality and the selection of customer in the NBFCs. The ability of borrower in refunding the loan is verified by the financier to make sure of successful collection through the process of credit appraisal. Documentation involves of the terms and conditions of the transactions and the relationship between the financier and the borrower. For a better receivable management, both the parties have to understand the terms and conditions recorded in the agreement. Borrower habits are vital in discharging the obligation of refunding and are crucial for the smooth functioning of loan transactions. The collection policy is another important element which determines the very existence of the NBFCs. Implementation of the collection policy needs to be versatile enough to account for the lapses in the credit appraisal, documentation process and the negative repaying habits of borrowers.

6.3 Profile of Receivable Management in NBFC

Credit appraisal

In credit appraisal criteria, maximum importance is given to asset value, bank operations and track record. Asset of borrowers as well as guarantors are considered as the criteria of credit appraisal. The least considered is the criterion of expenses saved. In all other criteria, there is difference of opinion among borrowers, dealer-intermediaries and managers which questions the authenticity of the reported consideration of those criteria. All the respondents have common opinion on the submission of original record for the verification of asset of borrower and guarantor and family expenses. Their views differ in every other criterion. The maximum difference of opinion exists between borrower and intermediaries followed by borrower and NBFC.
The views of borrowers, intermediaries and financiers display wide variation regarding the negatives while granting credit to those borrowers from certain area, class and assets. Non consideration of negatives in financing is a major cause of increasing arrears. It is seen from the analysis that if the percentage of funding of new vehicle is greater than 80 percent, arrears are higher. This highlights the phenomenon that higher the funding, higher the arrear.

The study proves that a good percentage of borrowers are unaware about the rate of interest at which they are borrowing and it is also proved that arrears percentage of such borrowers are much higher in comparison to others who knew the rate of interest. It is proved that if the criteria of checking the past track records of borrowers at the time of credit appraisal are not considered, chances of increasing arrears of such borrowers are higher.

From the analysis, it is seen that if the criteria of verifying the details of past bank operations of borrowers at the time of credit appraisal is not considered, the chances of increasing arrears of such borrowers are much higher. Analysis also proves that if the social status of the borrowers at the time of credit appraisal is not considered chances of increasing arrears of such borrowers are higher.

All these irregularities in credit appraisal mechanism strongly support the hypothesis that existing credit appraisal criteria and mechanism are inadequate.

**Documentation**

The aspect of documentation covers information about collateral securities, documentation practice, effect of documentations on arrears, issuing of post dated cheque, place of initial payment and time of lien creation. It also incorporates the mode of repayment and the easiness in documentation. This
study shows that the borrowers who have given collateral security have higher percentage of arrears. It also indicates that the executions of documents are at the convenience of customers at their premises and the majority of them are not in the presence of NBFC managers.

Arrears seem to be higher for those borrowers who were not identified at the time of documentation. Borrowers to whom EMI calculations and arrears percentage are not explained seem to have higher percentage of arrears. Arrears, NPA and write off of those NBFC branches are higher where borrowers are not provided with a copy of agreement. Among the borrowers who issues PDCs, only 20.87 percent are aware of the content of the cheques and the others either submit blank cheques or written cheques without knowing its content.

It is also seen from the analysis that the least percentage of arrears are for those borrowers who have made the down payment at NBFC branch directly. The initial payment made through brokers often results in an increase in arrears due to their manipulations. In 64.81 percent cases of used vehicle finance, funding is released prior to creation of lien in the RC book of the vehicle.

Repayment through issuing of post dated cheques is not strictly implemented as it suits the needs of the borrowers. However, this increases the officials’ burden of the receivable management in NBFCs. The study also shows that when the borrowers are not properly identified, their arrears, NPA and write off are found to be higher. The gaps seen in documentation process strongly support the hypothesis that the current practice of documentation is improper.
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Borrower Habits

It is found that arrears are higher to the borrowers who do not appraise themselves of their paying capacity prior to taking the loan. It is seen that 15.13 percent of borrowers are unaware of the rate of interest at which they borrowed and their arrears are much higher in comparison to others. The study proves that 92.56 percent of vehicle finance transactions take place through flat mode of interest calculation.

Borrowers who issue blank PDCs ranges from 16.67 percent in LCV to 66.67 percent in two wheeler. Less than 50 percent of borrowers note down the contents of the cheque issued by them. Arrears are found to be greater for borrowers who fail to note down the contents of the PDCs issued by them. Further, the arrears of those borrowers who do not remit the first instalment in time are much higher than who remit it in time. This study points out that the borrowers who repay promptly constitute only 59.2 percent. The opinion of the NBFCs officials is that about 3 percent of borrowers borrow with the fraudulent intention of not refunding the loan.

It is seen from the study that about 30 percent of borrowers does not close their account within the tenure of their loan period. About 6 percent of borrowers do not close the loan account in the natural process of business. About same percentage of borrowers are found to preclose the loan transactions mainly because of having sufficient money or due to some disputes. It is found that about 26 percent of borrowers are unsatisfied with the dealings of NBFCs and even among the satisfied borrowers only 15 percent are interested in continuing business with NBFCs. It is also seen that a sizeable percentage of borrowers are aware of the recovery tactics of NBFCs, action on cheque bouncing, action on repossession of vehicles and criminal procedure on recovery related matters.
From the study, it is seen that about 50 percent of borrowers are making payment without any effort from NBFCs, 6.7 percent default the very first instalment and average cheque return is about 20 percent. Hardly 7 percent of them only contact financiers by making alternate arrangements and it is seen that even a sizeable percentage of cheques of alternate payment made are getting bounced. About 3 percent of borrowers does not pay even a single instalment and 12 percent does not pay even 25 percent of loan availed by them. This proves that there are problems in the repaying habits of borrowers and is supportive of the hypothesis that repaying habits of borrowers are not satisfactory.

Collection Policy
The study shows that only 5 percent of financiers are intimating borrowers prior to presentation of cheque, 20.26 once in a while and 74.74 does not even give any intimation. It is seen that non intimation of presentation of cheque increases number of cheques return and consequently increases the arrear level of NBFC. Further it is seen that there are sizable number of accounts where repayment schedules are not given to borrowers and it is proved that non receipt of repayment schedule by borrowers increases the arrears position of NBFC.

The study also shows that only about 31 percent of borrowers are getting acknowledgement for the PDCs issued by them when it is realised. This makes the borrowers ignorant about the clearance of their cheque until and unless they reconcile with their pass book. Thus the advantage of getting an indirect reminder for arranging funds for the subsequent payments is also lost by this lacuna in collection policy. The study also reveals that in about 25 percent cases action by financiers start only on subsequent month in case of cheque return. Percentage of assets surrendering out of chronic defaulting account is only 6
which puts constrain on NBFC to recover through repossession of assets. It is also found that support from police and court orders are obtained only for very rare cases for the repossession of vehicle. Steps taken prior to and after repossession are not found to be satisfactory. Criminal activities connected to repossession are also on a higher percentage.

Among the various modes of disposal of repossessed vehicle, sale of the vehicle at branch level seems to fetch the highest price of about 75 percent in comparison to market price on such vehicles. Auction by agent and sale by head office seems to fetch much lower prices. Even on the best mode of sale there is a loss of about 25 percent of price on repossessed vehicle. It is also found that there are various problems connected with the repossession of vehicle, the highest being quarrel in office (90 percent) followed by removal of extra fittings and false claim of money.

On the analysis of collection policy based on the opinion of NBFC, it is seen that collection incentives to employees have the highest impact on reducing the arrears followed by some concessional approach. Collection outsourcing, not sending repayment schedule, unnecessary sympathy of employees, false field report, too much of litigation through court, etc. have found to increase the arrears in NBFC. On the analysis of NPA position, it is seen that highest impact on increase in NPA is due to not sending of the repayment schedule followed by not sending letters or making phone calls and the unnecessary sympathy of employees to the borrowers.

From the study, it is seen that there is lacuna in implementation of collection policy. The highest among them is due to unnecessary sympathy by finance company officials followed by false asset verification report, lack of reminder
letters and phone calls, false field report and not handing over of repayment schedule. These disparities prove to have greater impact on recovery process which in turn increases the arrears in NBFCs. It also proves the hypothesis that the current collection policies and practices of NBFCs are insufficient.

Arrears
The least arrears are found to be among borrowers of small car (8.94 percent) and the highest arrear is seen in the two wheeler borrowers (16.68 percent). But the analysis between different categories of vehicle shows no significant difference in the arrear level. Similarly there is no significant difference in the arrears of new and used vehicle and in private and commercial vehicles. The district wise analysis shows that the highest arrear is in Trivandrum district followed by Calicut and Ernakulum. The overall arrear percentage is 12.55 percent.

From the respondents of NBFCs, it is seen that average loan outstanding per NBFC branch is Rs. 13.81 crore. Average arrears percentage according to NBFC branches prior to finalisation adjustment is seen to be 14.27 percent. This is very much in consonance with the opinion of borrowers on their arrears ie., 12.55 percent. It is seen that average NPA percent of NBFC branches are 8.25. This is seen to be prior to finalisation and provisioning and write off. This is not in tune with the reported NPA percentage of NBFCs in RBI Trend and Analysis meaning thereby that there are various adjustments taking place between the independent branch NPAs prior to finalisation, and in the overall NPA percentage of the company on the finalisation.

It is seen that average write off percentage per branch with respect to outstanding loans is 3.27 percent which is quite high. It is interesting to see that average collection per annum from write off amount is 50.83 percent. This
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suggests that in many cases, write off is done on the accounts where collection is possible by employing more efforts and time. It seems that gravity of write off percentage is nullified to certain extent by at least 50 percent collection out of it in the subsequent year and is helpful in maintaining the profitability and survival of NBFCs. It is also revealed that average vehicle repossessing per branch per year, money suits per branch per annum and Section 138 complaints (cases of cheque return) per branch per annum is about 45, 22 and 95 numbers respectively. Virtually, the above facts highlights on the need for improved receivable management mechanism to reduce arrears percentage and other related problems.

6.4 Determinants of Arrear

To get a comprehensive knowledge on the determinants of arrears, multiple regression analysis was done on total sample and separately for private/commercial, new/used and the seven categories of vehicles. The analysis shows that the capacity of the borrower, identification of borrower, information prior to cheque presentation and verification of social status have very high impact in reducing the arrears whereas issue of blank cheques, delayed payment and returning of cheques have impact on increasing the arrears. In case of private vehicle, it is seen that verification of asset value, earning of other members and EMI calculations have very high impact on reducing the arrears. Issuing of blank cheques, delay in payment of first instalment, more number of delayed payment, etc. have impact on increasing the arrears.

In case of commercial vehicle information prior to cheque presentation has the highest impact in the reducing of arrears followed by EMI calculations. Number of delayed payment has the impact on increasing the arrears. In case of new
vehicles, verification of asset value seems to have highest impact in reducing the arrears followed by EMI calculation. Issuing of blank cheques have the highest impact on rise in the arrears followed by delayed first instalment. In case of used vehicle, information prior to cheque presentation has highest impact in reducing the arrears.

Category of vehicle wise analysis shows that in the case of small car, other repayments verification have highest impact in reducing the arrears and increased number of delayed payment have the impact on increase in arrears. In case of premium cars, proper EMI calculation has the highest impact on reducing the arrears. For two wheeler borrowers, highest impact in reducing the arrears is the verification of asset of the guarantor followed by neighbourhood enquiry. Delayed first instalment followed by cheque bouncing has highest impact on increasing the arrears.

In case of three wheeler borrowers, verification of bank operations has the highest impact on reducing the arrears and in case of commercial vehicle highest impact on reducing the arrears is on verification of capacity of borrower to repay. In case of LCV, highest impact on reducing the arrear is seen on calculating the relationship of EMI to monthly income, but in case of HCV, the highest impact on reducing the arrears is on cheque bouncing followed by neighbourhood enquiry. It is quite interesting to see that other repayments have a positive impact on the increasing arrears probably due to the reason of increasing the burden when more borrowings are made.

6.5 Borrower Attraction to NBFC

Rate of interest is not the only factor in attracting customers to NBFC. Vehicle financing of NBFCs do not have a level playing ground and in fact, they are competing with their unequal counterpart- the banking companies. However,
there is good number of borrowers attracted to NBFCs and many of them even repeat business with NBFCs. To measure the aspects of attraction, the opinion of borrowers, intermediaries and officials on the attractions to NBFC is taken. The features included are speedy processing, customer service, personal relations, expertise in vehicle finance, flexibility, better marketing, dealer routes and banking procedure.

The maximum score of opinion on the aspects of borrower attraction to NBFC is expertise in vehicle finance followed by dealer routes and personal relations. The least scores are for better customer service followed by banking procedure and flexibility. The opinions of borrowers, intermediaries and officials are found to differ in the cases of personal relations, dealer routes and banking procedure. The score of borrowers in personal relations is higher indicating that borrowers pay more importance to personal relationships than intermediaries and officials. The score of intermediaries on dealer routes is higher indicating that they pay more importance to dealer routes than borrowers and officials. The score of NBFC officials on banking procedure is higher indicating that they pay more importance to banking procedure than borrowers and intermediaries.

On evaluation, it is seen that expertise in vehicle finance is the most attractive element of NBFCs from the point of view of borrowers. The borrowers give the second rank to the ability of speedy processing of loan transactions of NBFCs. Flexibility in the financing norms is the next important attraction of NBFCs. It is interesting to note that the customer service provided by the NBFCs is the least attracting element of its contact. The banking procedure and better marketing are found to be less attractive.

Speedy processing is found to attract the borrowers of middle aged group (between 30 and 39) with education of plus two level. Borrowers having plus two
education is less attractive to the speedy of processing compared to borrowers in other educational categories. In the case of occupation, agriculturists and businessmen are found to be less attractive to the speed of processing of NBFCs in comparison with borrowers of other occupation. As far as district is concerned, borrowers from Trivandrum and Erankulam are less attracted to the speed of processing of NBFCs compared to borrowers from Calicut. Among the three districts, borrowers of Trivandrum are least attracted to the speed of the processing of NBFCs. Borrowers approaching NBFC for loan for small car, two Wheeler and three Wheeler loans are found to be more attractive on speedy processing than borrowers who approach NBFC for other category of vehicle loans.

The quality of customer service of the NBFCs is least attracted by borrowers belonging to the income group between 5 and 10 lakh. The results also indicate that compared to the other category, borrowers of commercial car are less attractive. At the same time the borrowers reaching through broker channel has the highest attraction to customer service than those approaching NBFCs directly. Borrowers’ age, education, type vehicle and district do not have significant impact on the attraction of customer service of the NBFCs.

Analysis on attraction to personal relationship shows that borrowers with qualification of plus two are found to be attracted more to personal relationships of NBFCs. Business men and those with an income between 5 and 10 lakh are also found to be more attracted to personal relations in the NBFCs. Borrowers of Ernakulam district show significant attraction to personal relationship. It is also found that borrowers approaching NBFC for small car loan are found to be attracted more by personal relationships than borrowers who approach NBFC for other category of vehicle loan. Similarly, business men who approach NBFC for
vehicle loan are more attracted to them because of personal relationships in comparison to borrowers of other occupation. In district wise analysis, it seen that borrowers of Ernakulam district are less attracted to personal relationship of NBFCs compared to borrowers from Calicut and Trivandrum.

On the expertise of vehicle finance in NBFC, commercial car borrowers have the highest attraction compared to other category of vehicle borrowers. It is also seen from the analysis that small car borrowers are found to be significantly attracted to the aspect of expertise of NBFCs in vehicle financing. Borrowers having plus 2 qualification and borrowers of commercial car borrowers are more attracted to NBFC because of their expertise in vehicle financing.

An analysis of attracting aspect of flexibility points out that borrowers belonging to income group of 2 to 5 lakh are significantly attracted to the flexibility of procedure of NBFCs. The highest attraction is seen among the borrowers belonging to age group between 30 and 39. It is also seen that borrowers of small car are least attracted to the aspect of flexibility followed by commercial car, three wheeler and LCV. Borrower belonging to the income group between 2 and 5 lakh is highly attracted to NBFC because of their flexibility.

Considering the aspects of marketing of NBFCs, borrowers belonging to age group of less than 30 years are found to be more attracted to the marketing strategies of NBFCs. It is also found that borrowers with SSLC qualification and those approaching NBFCs through dealers are also found to be significantly attracted to the marketing tactics of NBFCs. Borrowers of premium cars, two wheelers and LCV have recorded significant attraction in this respect. Similarly income wise analysis shows that borrowers with income below 1 lakh, between 1 and 2 lakh and between 2 and 5 lakh have significant attraction to the better marketing. In case of occupation, it is seen that industrialists are highly attracted
to the aspect of better marketing whereas business men and drivers are less attracted to the same aspect. Vehicle wise analysis shows that borrowers of premium car are highly attracted to better marketing. This analysis also indicates that better marketing tactics of NBFCs are highly useful in attracting borrowers.

Taking the case of dealer routes, vehicle wise analysis shows that small car borrowers are significantly attracted to it. Age wise analysis shows that all the borrowers belonging to age groups less than 30, between 30 and 39 and between 40 and 49 years are significantly attracted to dealers routing. Borrowers arrived through channel of marketing executive are significantly attracted to the characteristic of dealer routes. It is also seen that small car borrowers who approach NBFC for loan are highly attracted to NBFC compared to all other category of vehicles because of dealer routing.

The borrowers belonging to the age group between 40 and 49 are attracted more to banking procedures. It is also found that borrowers of new vehicles with an income between 1 and 2 lakh are attracted to NBFC because they want to avoid tough procedures in banks. It is seen that borrowers directly coming to NBFCs are attracted to them because of the difficulty to pass through the evaluation process of banks. It is found that borrowers of LCV and premium car are attracted to NBFC due to difficult banking procedures. It further reveals that borrowers of SSLC and plus two qualifications are attracted to NBFC because of the difficult credit evaluation process in banks. All these indicate that the NBFC business thrives mainly because of the restrictions and difficulties involved in banking procedures related to loan.

From the attracting aspects, it is seen that borrowers with various profiles have different reasons for being drawn to NBFC. The study points out that NBFCs can take informed decisions as to borrowers’ profile, the aspect that tempts them
and the type of vehicle to which they are attracted. NBFCs do specialise in financing different category of vehicles and such finance companies can take decisions concerning the features necessary to draw the borrowers.

6.6 Borrower Suggestions to NBFC

Borrowers being the target market of NBFC, their specific suggestions to them are an inevitable prerequisite for its efficient functioning. In order to get the best suggestions for the development of NBFC and for better receivable management various suggestions of all the three respondents- borrower, intermediary and NBFC, were taken.

Most important suggestions of NBFC officials were on reduced percentage of funding, need to avoid mediators, proper follow up, better relationship and limiting the instalments to 10 per year compared to other two groups of respondents- intermediary and borrowers. Most important suggestions of borrowers compared to intermediaries and NBFCs were on reduced EMI, prompt payment rebate, interest calculation and reduced early closing load. Similarly, intermediaries had higher suggestions on structured payment, holidays on eventualities, supplementary loan to overcome problems, rescheduling EMI, permitting sale while retaining loan and avoidance of loading extra interest compared to the other respondents of NBFC and borrowers.

Suggestions from borrowers are ranked on its importance of the suggestion and it is seen that the most important suggestion given by borrowers is on mode of simple interest calculation followed by reduction in preclosing loan, holidays on eventualities, and on proper follow up. It is seen that strong suggestion has come from industrialists and employees on the aspect of reduced percentage of funding. Similarly commercial car borrowers also have greater suggestion on this aspect.
Borrowers of age group below 30, employed borrowers, borrowers of three wheelers and LCV and that of Ernakulam district are quite significant to the suggestion of reduced EMI. On the suggestion of avoiding mediators, borrowers below the age of 30, borrowers from Trivandrum district and borrowers coming through the channel of dealers have significance. They are highly in favour of avoiding mediators in NBFCs vehicle loan transactions.

On the suggestion of proper follow up, borrowers with qualification of SSLC, those accessed through the channel of marketing executive and dealers, borrowers of Ernakulam district and from the category of vehicle wise borrowers small car, two wheeler, three wheeler, commercial car and LCV have suggested for proper follow up to enable them to maintain repayment well within the time frame. Those who were in favour of the suggestion of maintaining better relationship between financier and client for the smooth and effective management of receivables in NBFCs are borrowers below 30’s, small car borrowers, and borrowers coming through the channel of marketing executives. This indicates that better relationship with their clients during the entire period of loan is necessary for NBFCs rather than meeting them when they defaults.

Those who have found to be interested in the suggestion of providing prompt payment rebate to motivate the borrowers for timely repayment are borrowers of two wheeler, commercial car, LCV, premium car, three wheeler and small car. It is seen that both the three wheeler and commercial car borrowers are the only most interested category on the suggestion of structured payment. The borrowers below the age of 30, borrowers who have and have not passed SSLC, new vehicle borrowers and borrowers of Trivandrum district are very much interested in the suggestion of holidays whenever they are confronted with eventualities.
Supplementary loan to overcome problems is an important suggestion from business men, professionals and borrowers below 1 lakh income. It is also seen that borrowers reaching through the channel of dealers and premium car borrowers prefer this suggestion. The most important among those who suggests the rescheduling of EMI is business men and NBFCs need to take care of this suggestion whenever they are confronted with problems. Borrowers below 1 lakh, between 1 and 2 lakh and between 2 and 5 lakh income groups suggests for the permission of sale of vehicle while retaining loan (assignment) whenever situation necessitates. NBFCs need to consider such suggestion in selective cases.

Suggestions have come from borrowers of two wheeler, small car, new car and borrowers below SSLC on avoidance of loading extra interest. They expect it whenever rescheduling, assignment or similar type of services is provided to the borrowers. It is seen that a variety of borrowers are suggestive and are interested in changing the mode of interest calculation from the current running flat rate to the more popular simple interest calculation. The borrowers of new vehicle, from income group of 2 to 5 lakh, those with plus two qualification, small car, premium car, two wheeler, three wheeler, commercial car and LCV suggests simple interest calculation. This suggestion shows that almost every borrower prefers simple interest in vehicle financing of NBFCs.

It is interesting to see that the only positive suggestion that came in favour of limiting the instalments to 10 per year was from new vehicle borrowers. Rest of the other significant categories of borrowers had only lesser suggestions. The suggestion of reducing of early closing load have come from professionals, borrowers of small car, two wheeler, three wheeler and commercial car. NBFCs are to take special note of the suggestion to reduce preclosing load as all the significant contributors positively supporting to this suggestion.
6.7 SUGGESTIONS BASED ON FINDINGS

The following are the suggestions emerged from the findings of the study for better receivable management in NBFCs with special reference to vehicle financing.

Interest rates at which finance availed are not fully clear to the borrowers. There is a practice of quoting low rate and then applying it in flat which amounts to a higher rate of interest than understood by the borrower. It is suggested there should be more transparency in dealing with the borrowers and the interest rate calculation. A sizeable percentage of borrowers prefer simple interest calculation in vehicle financing of NBFCs.

The mode of disposal of repossessed vehicle needs to be totally decentralised to branches for getting better price. The policy and procedure on sale of vehicle need to be as simple as possible, as more and more stringent procedures will delay sale and reduce accountability of employees, resulting in substantial loss in sale value. Branches need to be given full freedom with certain clear cut authority with proper accountability and loyalty.

A very high percentage of used vehicle lien creation is after release of finance. This creates tension among the NBFC officials because of the uphill task of getting the lien created thereafter. It is suggested that all NBFCs strictly adhere to the norm of creation of financier's lien in RC records prior to the release of payment.

Relationship between NBFCs and vehicle dealers seems to have jeopardised due to the increased competition and entry of comparatively less experienced banking companies into vehicle finance. There should be improved healthy relationship between dealers and NBFCs and better transparency in dealings.
like acceptance of down payment, delivery of correct variant of vehicle, providing proof of lien creation in RC and of course timely payment by NBFC for the benefit of both NBFCs and vehicle dealers.

It is suggested to discontinue the practice of temporary registration of vehicles even for those addressees whose permanent residence is outside the jurisdiction of initial registering authority. There can be straight away permanent registration in all cases and subsequent reporting to concerned RTOs. There need to be a lobbying by NBFC and vehicle dealers associations to make amendments in the provisions of the Motor Vehicle Act.

The proper understanding of EMI calculation at the time of documentation is found to substantially decrease the arrears and hence NBFCs have to improve in making aware of EMI calculation for their borrowers for reducing the arrears.

There should be more emphasis to the felt need of borrowers to record and keep the contents of the PDC issued by them for reference. Lack of the minimum of such inevitable information increases the arrears.

PDCs are collected in NBFCs (on many instances) with oral understanding that it will not be presented and borrower can make monthly remittances. Such understanding against credit norms, merely for sanctioning the proposal should be stopped. Discussion between borrower and financier should be in tune with the true spirit of credit norms and loan proposals.

The NBFCs assert cent percent existence of negatives in financing such as negative area, negative class and negative asset. But the prevalence of negatives is contradictory according to the dealer, intermediaries and the borrowers. So, the NBFCs should be prudent enough in fixing negatives and its implementation.
When few of the cheques are consecutively returned, NBFCs stop further cheque presentations without alternate arrangement for payment. This induces the chronic defaulting borrowers to have an easy ride over the financier. It is suggested that PDC presentation and action on cheque return may be stopped only after arriving at an alternate arrangement for recovery, which may include repossession of asset, termination of contract and other legal recourses.

Credit appraisal mechanism is seen as a dramatic exercise rather than extracting valuable information during the process of marketing, credit appraisal and documentation. It is suggested that vital information apart from routine credit appraisal should be gathered during the interaction with clients and that is to be utilised for the purpose of sanction as well as recovery.

The evaluation of borrowers' previous bank operations and ascertaining of their social status have significant bearing in reducing the arrears. Hence it is suggested that NBFCs need to take utmost care and proper evaluation on the aspects of banking operations as well as on the enquiry of social status as a measure for better receivable management.

Verification of copy of supporting papers with original is seen to be a futile exercise. If verification with original is found difficult, it is suggested that a self attested copy with verification by borrower may be taken. This will have greater legal validity than verification by NBFC officials themselves.

Prompt payment customers are encouraged to borrow more and more by NBFCs which converts them to defaulters due to their repayment burden as seen in the case of HCV. It is suggested that customers should be restricted from over borrowing and past track record need not be over emphasized until and unless their other repayment commitments are fully exhausted.
Chapter 6

It is suggested to limit the advance to 80 percentage of asset value in new vehicle finance as more problems are seen in higher funding accounts. At least 20 percent of stake is necessary even for those customers who have very high paying capacity.

The negative aspects which contributed to the increase in arrears are first instalment delay, number of cheques returned and number of delayed payments. NBFCs have to reduce the occurrence of above mentioned arrear increasing aspects.

Borrowers need to be made aware of the advantage and need for the timely payment of instalment (including that of first EMI) and written repayment schedule is to be issued to all borrowers at the right time as these factors can reduce the arrears substantially.

NBFC officials are to be specifically trained on initial field investigation and recovery works. A screened, trained, in-house team is far better than commission agents.

Verifying the credit rating through the data base of credit agencies like CIBIL and additional investigation on high value loans through private detective agencies shall also be useful for better appraisal of borrowers.

Recovery works by lawful means by NBFC officials should be tightened as arrears, NPA and write off increase due to the unnecessary sympathy and lapses from the part of NBFC officials.

Borrower intimation of the presentation of PDC held by NBFC is an inevitable prerequisite as it helps to reduce the arrears substantially. In an advanced technological era, NBFCs should use effective ways to intimate the borrowers on reducing the arrears.
Action taken on cheque return and first EMI delay is to be systematised as improper handling of these aspects lead to an increase in arrears.

Interest load on preclosing of vehicle loan accounts should be reduced by NBFCs as this is one of the most important suggestion of the borrower. If implemented, it shall increase the satisfaction of borrowers and in turn provide more chances for repeat business.

Another suggestion is to reduce the dependence on mediators for marketing, recovery and repossession of NBFCs to improve upon their recovery which in turn business, profitability and image. During the interaction with NBFC officials, it is seen that quality of their men are not up to a satisfactory level. It is suggested to build a cadre of NBFC services at least through a specialised organisation, jointly sponsored by NBFCs.

The weakness seen in collection policy which contributed to the increase in arrears and write offs is repossession and recovery through outsourcing mode. Similarly, the strength of collection policy which contributed to the decrease in arrears are availing police support as and when required, introduction of collection incentives and encouraging concessional settlements. NBFCs have to reduce the occurrence of write offs increasing aspects and strengthen the write off decreasing aspects of collection policy for reduction of write offs.

NBFCs need to strengthen their attracting aspects based on the suggestion by borrowers to improve their business on their core area. Special emphasis need to be given on attracting aspects like (i) expertise in vehicle finance, (ii) speedy processing, and (iii) flexibility. It is very pertinent to note that the above suggestions of attraction have the unanimity among all the three categories of respondents ie., borrowers, dealer intermediaries and NBFCs and hence NBFCs need to take special care on it.
Similarly the NBFC needs to take special care on implementing high ranked suggestions like simple interest calculation, preclosing load, holidays on eventuality, proper follow up, rescheduling in genuine cases and providing supplementary loan on problems.

From the ranking of arrears of various vehicles, it is seen that two wheelers have the highest arrears and small car the lowest. Based on this ranking, recovery tactics of NBFC need to be modified to handle different category of vehicle borrowers differently to bring down the arrears.

Lapses in implementation of collection policy like unnecessary sympathy, false field report, not rendering repayment schedule and lacuna in sending letters and phone calls are seen. It is suggested that the implementation of that part of the collection policy need to be tightened to decrease arrears, non performing assets and write offs.

It is seen from the study that more than 50 percent of bad debt write offs are recovered in the subsequent year. This shows that these write offs were premature to a certain extent. Probably this is done to merely project a lower NPA, to postpone the incidence of payment of corporate tax and also to project a glossy picture on arrears and NPA. If retained in the book of account, collection will be substantial in subsequent year because of vigorous efforts in reducing NPAs which reduce the bad debt write off as well as improve the profitability. The accountability and the recovery efforts of NBFC officials will be improved and strengthened and they will not wait for dumping the NPA in to the bad debt write off ditch. Until and unless this is implemented the profitability percentage of NBFC may continue to go down year after year as already seen in the reported consolidated figures of NBFC-AFC-D in RBI report on Trend and Analysis, 2006-07. It is suggested that NBFC auditors (Institute of Chartered Accountants of India), credit rating agencies and income tax authorities may recommend to RBI to amend the prudential norms, that there shall not be any excess write offs by NBFCs beyond the provisions of prudential norms.
6.8 Limitations

1. Problems related to high handedness of recovery men are not studied.

2. Arrears, NPAs and write offs are taken in percentage and not in actual rupee due to its confidentiality.

3. Even though the number of NBFCs and their deposits are available for the period from 1971 to 2007, the advances, arrears and NPAs figures are not available for the period from 1971 to 1997 for comparison.

6.9 Scope for Further Study

1. To study the effect of judicial pronouncements on the recovery/receivable management of NBFCs.

2. To study how far the wide media coverage on high handedness of recovery men affects the recovery and receivable management of NBFCs.

3. A sponsored study by associations of NBFCs may be conducted
   (i) to find as to how far the high attrition rate of employees badly hits the credit appraisal, documentation and implementation of collection policies and to what extent it contribute for the increase in arrears and problems for receivable management.
   (ii) to arrive at a standard and liberalised credit appraisal norm in the light of the prevailing competition in vehicle financing.
   (iii) to find reasons for low percentage of repeat business in NBFC even from the satisfied customers.