CHAPTER 9

Critical Factors for NPA Recovery

9.1 Background

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Chapter 9

Critical Factors For NPA Recovery

9.1 Background

A number of studies were taken up by scholars and banks to get an insight into the complexities of recovery management. Some of those studies attempted to identify critical factors adversely or favourably affecting the recovery performance of banks. However, there has been no unanimity among researchers on the factors which most directly and effectively influence the loan recoveries and different studies have laid different emphasis on different recovery factors (Parmer, 1995). Hence this research study has felt the need for examining the following question:

What are the critical factors adversely or favourably affecting the recovery performance of banks?

The rest of the chapter is organized as follows: Section 9.2 highlights the findings of previous studies on factors affecting NPA recovery, Section 9.3 describes the methodology used in the study for addressing the relevant research question. Section 9.4 presents the analysis and findings. Section 9.5 concludes.

9.2 Critical Factors for NPA Recovery – Findings of Previous Studies

The banks themselves and a few researchers have studied some of the aspects of factors relating to NPA recovery. Some of the important aspects of their findings are briefed below.

- Mentality of the people to default willfully has been identified as a major factor affecting the recovery process (RBI, 1999). Willful defaults may arise on account of the typical mentality of the people in a particular area, which destroys the will and initiative to repay. Such a mentality is further nursed by interference of the self-centered politicians (Patel & Kaveri, 1998).
• Active government support can favourably affect the recovery performance (Parmer, 1995) specially in the case of government sponsored schemes. Support of district administration and government agencies is essential for successful implementation of various lending schemes of banks.

• An external factor which adversely affected the recovery climate was the announcement by the government on write-offs of the debts of borrowers under the Agricultural and Rural Debt Recovery Scheme (ARDR). This created an effect of a shock being felt by the commercial banking sector and the honest borrowers on the other (Patel & Kaveri, 1998).

• Local bodies like local revenue authorities have got commanding relation over the local agricultural borrowers. They can easily arrange the borrowers' presence at the village panchayat office to save the time and energy of recovery officials to locate or identify the borrowers during recovery camps. In rural areas, the government officials, office bearers of the village panchayat, marketing and processing units have also got influencing relation over the borrowers (Parmer, 1995).

• Private Recovery Agents (UCO Bank, 2004) helps in speeding up of recovery in NPAs specially in case of small and scattered NPAs and also in the accounts held in the Shadow Register.

• Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) could be an effective vehicle for accelerating reduction of NPAs. For example, enforcement of security interest under SARFAESI Act, were issued to 6836 defaulters and consequently a large number of borrowers came forward for resolution of their impaired accounts.

• Compromise has also been identified as an effective measure of NPA recovery (Kaveri, 1994).

• Delay in disposal of cases in DRTs hinders the NPA recovery process (Chakravarty, 2005). The present legal system is unable to cope with the mammoth task ahead. considering the ever increasing number of suits and the limited infrastructure available at DRTs/ courts.
• Deficiencies in the legal system is a concern for banks. Over Rs. 30,000 crore of NPAs are locked up in suit filed accounts. There will be very little that an ARF/ARC can do in recovering from suit filed accounts due to the deficiencies (Reddy, 2002).

• To add, recovery through legal procedure is quite time consuming. The defendants are known to make use of the system to prolong the proceedings by seeking adjournment on flimsy grounds (Murty, 2001). In some cases there were cases where the suits were pending for 15 to 20 years (RBI, 1999).

9.3 Methodology

These previous studies together have identified ten factors. The preliminary discussion with the bank officials indicated that there could be many more factors influencing the recovery process. So instead of asking the bank officials to express their opinion on these ten factors, the study designed an open-ended question so that they come out with the factors which they are really experiencing in their day to day bank operations.

Thus, the critical factors adversely or favourably affecting recovery performance has been identified from the opinions of the branch managers and officials responsible for recovery through two open-ended questions (refer to questionnaire in Appendix 3.3). The respondents were asked to identify/list two sets of factors-1) factors favourably affecting recovery and 2) factors adversely affecting recovery. The number of respondents is fifty-two. For each of the identified factors (in both the sets), the percentage of respondents favouring the factor has been calculated.

9.4 Analysis And Findings

The responses of the 52 respondents regarding recovery factors is summarised in Table 9. The figures in the table indicate the percentage of respondents who have identified the factors as favourable or unfavourable for process of recovery.

9.4.1 Factors adversely affecting the recovery performance of banks

Wilful defaults which is the major reason for the occurrence of NPA is also hindering the recovery of NPA to a great extent. The willful defaulters as indicated by the
Table 9: Adverse and Favourable Factors Affecting Recovery Performance of Banks

<table>
<thead>
<tr>
<th>Factors adversely affecting recovery performance</th>
<th>53%</th>
<th>42%</th>
<th>21%</th>
<th>13%</th>
<th>11%</th>
<th>10%</th>
<th>8%</th>
<th>6%</th>
<th>4%</th>
<th>4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Wilful defaulters</td>
<td>53%</td>
<td>a. Personal contact/ regular visits/ constant follow-up</td>
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<td>b. Non-cooperation of borrowers</td>
<td>53%</td>
<td>b. Compromise/ OTS/ Recovery Camps</td>
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<td>c. Business failure/ Weak financial condition</td>
<td>42%</td>
<td>c. Legal measures</td>
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<td>d. Difficulty in execution of decree</td>
<td>21%</td>
<td>d. Understanding borrower problems, counseling them on rehabilitation and restructuring</td>
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<td>e. Slow judicial process</td>
<td>13%</td>
<td>e. Recovery agents</td>
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<td>f. General mind-set of the borrowers</td>
<td>11%</td>
<td>f. Government support</td>
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<td>g. Non-availability of ready market for selling off seized/ hypothecated assets</td>
<td>10%</td>
<td>g. Securitisation notice</td>
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<td>h. Government policy favouring defaulters</td>
<td>8%</td>
<td>h. Public notices</td>
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<td>i. Non-cooperation from government departments</td>
<td>6%</td>
<td>i. Faster judicial procedures</td>
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<td>j. Inadequate manpower for recovery</td>
<td>4%</td>
<td>j. Involvement of local bodies</td>
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<td>k. Frequent transfers of recovery officers</td>
<td>4%</td>
<td>k. Follow-up with guarantors</td>
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respondents make all excuses to avoid the payment of dues. As per the views of the bank officials, some of the NPA accounts could have been turned around and recovered had the bank received full-cooperation from the borrowers. Majority of the respondents have recognized non-cooperation of borrower and willful defaulters as single largest factors affecting adversely the recovery process. It has been found that 53% of the respondents have stated willful defaults and non-cooperation of the borrowers as major factors adversely affecting recovery performance.

Many respondents have admitted that business failure, whose occurrence is very frequent in the North Eastern Region is also hindering the recovery process. As stated, many borrowers are first generation entrepreneurs with little financial support/income from other businesses. In most cases, business failure leads to bankruptcy and poor recovery even if borrower extends full cooperation. 42% of the respondents indicated business failure/weak financial condition of borrowers as a factor adversely affecting the recovery performance of banks.

Majority of respondents does not feel slow judicial process as a factor hindering the recovery of NPAs but many feels that the difficulty in execution of decrees is really hindering the recovery. In many cases, courts are giving favourable verdict though the verdict comes after a long time. But due to stay orders or external problems, verdicts cannot be exercised to recover the dues. Further non-availability of a ready market for selling off seized assets is also a hindering factor. Unlike many places in India, readymade market is not available if assets are industrial goods. This is due to poor industrialization in the region. The survey revealed that 21% of respondents agreed to difficulty in execution of decrees as a hindering factor; 13% regarded slow judicial procedures and 10% regarded non-availability of ready market for asset disposal as factors adversely affecting recovery of dues.

In contrast to our common belief, most of the bank managers do not feel inadequate manpower as hindering factor. Only 4% respondents have felt inadequate manpower as a hindering factor. By the same token, most of the respondents do not consider frequent transfer of recovery officer as major hindering factor though they feel that non-transfer could have facilitated the recovery process. The percentage of respondents is only 4% in case of this factor.

Help from government departments is necessary for speedy recovery of NPA but that itself (lack of it) is not a sole factor hindering the recovery process. Only 6% of the
respondents feel that non-cooperation from government departments is a factor adversely affecting the recovery performance.

The general mindset of the borrowers in the case of schematic advances is also hindering recovery of loans which are more or less government sponsored. Because of political reasons most of the borrowers consider the loan as government assistance and do not utilise the money for the purpose for which the loans have been granted.

9.4.2 Factors facilitating the recovery performance

The respondents identified 11 factors as facilitating factors with variant degree of importance. Without any exception all the respondents consider personal contact/ regular visits/ constant follow-up as the single most important factor facilitating the recovery of NPA. Constant follow-up leads to compromise and settlement of outstanding dues for mutual advantage. As a result of it, compromise leads to largest recovery of NPAs. This finds support from the findings of chapter 6 of this thesis. The average recovery percentage for the compromised cases (57%) is higher than the average recovery percentage (17%) in cases of other measures including legal action and securitisation. The findings of question 3 in chapter 6 further support this. Personal visits / contacts has been found to be most effective as a follow-up measure followed by meetings arranged with senior bank officials.

Legal measures is also considered to be the next single largest factor facilitating the recovery process. Though most of the respondents do not consider legal process as a fast mechanism, legal measures is the last resort in the effort to recover NPAs. Only 5.6% of the respondent feels that fast judicial process is helping the recovery process.

Another soft measure that really facilitates the recovery process is understanding borrower problems and counseling them on rehabilitation for mutual benefit. 35.5% of the respondents considered this as a factor favourable to recovery. In fact, many banks are using this strategy as the initial follow-up for NPA recovery. The role of personal contacts for the success of this measure need not be overemphasized.

Further, as mentioned in section 9.2, compromise/ OTS/ recovery camps is facilitating the recovery process to a great extent. As many as 60% respondents have considered this as highly favourable to the recovery process.

Few respondents have also considered engagement of recovery agents as facilitating factor from their experience of engaging recovery agents. 33% of the respondents have identified this factor as a favourable one.
Some respondents feel that govt. support is necessary for recovery of loans. This is specially true in the case of govt. sponsored schemes. The percentage of respondents in this case is 24.5%.

Securitisation notice served on the borrowers has been found to be effective in bringing the borrowers for compromise. This is true for willful defaulters or those who are not cooperating with the bank officials for recovery of unit or politically motivated. In this case we find the percentage as 13%.

Public notices also help to some extent as many defaulters do not want to get further exposed because of non-payment of dues. 7.5% of the respondents have considered this as a favourable factor.

In few cases (3.8% of respondents) involvement of local bodies also help in recovering dues. This is especially true in case of rural finance where local institutions are directly or indirectly involved. Only few feel follow up with the guarantors facilitates the recovery process. We observe the same percentage as in the case of involvement of local bodies.

9.5 Conclusion

Through the open-ended question the study identified 22 factors out of which 11 factors are adversely affecting the recovery process and another 11 factors are facilitating the recovery process. Interestingly all the factors identified in the previous studies (section 9.2) are also indicated by the respondents. Some of the prominent adverse factors which were not fingered explicitly in the previous studies are business failure/weak financial conditions and no-cooperation of borrowers. Similarly some of the prominent favourable recovery factors which are not explicit in the previous studies are personal contact and regular visits and understanding of borrowers' problems, counseling them on rehabilitation and restructuring. Strengthening the last two factors in their NPA recovery effort, banks can speed up the recovery process as well as increase the recovery amount.