CHAPTER-VI

CONCLUSIONS AND SUGGESTIONS
Four ‘M’s namely money, material, machine and manpower are vital input-factors in any industry; of which the money input-factor is not only a key input but the utilization of other input-factors fully depend upon its availability with quality service. This money input-factor is called capital namely Credit. The healthy operational transaction in mobilizing funds and deploying funds is again depended upon a sound structure of banking with potent means and prudent management. The economic health of a nation, thus, influences by the performance level of the banking sector. Bank is a catalytic agent facilitating the achievement of socio-economic goals in general and quality life of the people in particular.

RESUME

In the past decades, the Indian banking system has witnessed the transformation from class banking to mass banking in seventies, the period of consolidation in eighties and the time of financial sector reforms in nineties. The macro-economic crisis faced by the country in 1991 paved the way for extensive financial sector reforms with focus of inclusive policy.

Reforms in banking sector focuses on promoting the efficiency and improving the effectiveness of banking sector in achieving its avowed results. The review of literature throws light on the working of banking sector in India, though some studies reflected on the effects of reforms but not much focus on the prudential norms. Hence, the author selected the present investigation, Non-performing Assets in Commercial Banks: An Empirical Analysis

The present study is focused on appraising the non-performing assets in commercial banks; for which the aspects of branch network, mobilization of deposits, deployment of credit, financing priority sector and spread-burden are examined for arriving at
shackle down of non-performing assets. The period covered in the study is 19 years from 1991-92 to 2009-10 is divided into (i) first phase of reform (1991-92 to 1997-98) and (ii) second phase of reform (1998-99 to 2009-10) so that accordingly analyses are drawn logically. Data compiled from the published reports of Reserve Bank of India Bulletins, IBA Bulletins, Currency and Finance, Trend and Progress of Banking and other published data in Journals and Internet. Data is presented in the form of tables. The simple averages, elasticity coefficient, CAMEL, spread-burden-margin are studied to infer the logical conclusions. Graphical presentation is also added for drawing conclusions in support of analysis inferred on the basis of data presented in tables.

FINDINGS

Branch Expansion: Branch expansion is a moderate in the first phase reforms period while consolidation is taken place in the second phase reforms for achieving the economic viability with geographical coverage. The advanced regions of southern, central and western put together got a lion share of 63 percent in 1991-92, which remain in force in 1997-98 and 2009-10. It implies the other regions remained the same position at three point periods of study. This unfailing the reveals the balanced regional development is yet achieve. Thus, it is clear that the reforms have affected the branch network towards economic viability with geographical coverage, still remain imbalances regionally.

Towards, the area-wise branch network, some rural branches which were weak in terms of finance and operational performance were closed down in reforms period for want of viability. Obviously, the trend is reverse in semi-urban and urban centers. In metropolitan areas, the growth of branch network is tremendously increased. Infact it is due to the warranted economic conditions of liberalization, privatization and
globalization. It can be seen clearly the effect of reforms on banking sector in the area of rural and other areas in spread of branch network with sound footing.

**Deposits:** Deposits, undoubtedly, visualize the efforts of the commercial banks with a great change in the scale of their mission by spread of banking habit and saving habit, not only among the class but along the mass as well. The commercial banks are very much close to capture, the one thousand billion mark deposits (Table 3.4). This is really praiseworthy and nearing to reap the fruits of the 'reforms'.

A phenomenal growth has registered in deposits of commercial banks and a period of 'high' performance is witnessed as the ratio of incremental branches is low coupled with tremendous progress in deposits mobilization. This is on two counts. These are (a) closing down of ineffective branches on the basis of economy unviability; and (b) making the existing branch network as much effective and strength as possible.

The per capita deposits of commercial banks is rose by ₹ 3532 in first phase reforms period and ₹ 32468 in the second phase reforms period. Adoption of commercial banks strategic change in scale and scope of their operations being buttressed by the spread of banking habit and the saving habit among the people enabled to capture a tremendous growth in deposit mobilization. Growth of deposit-mix is positive particularly in the second phase reforms period (Table 3.5). The disorganizing point on deposits mobilization is in terms of regionally. The northern region scored the lowest in both phases of reforms period. However, a little improvement is seen in the metropolitan centers, which is at the cost of rural, semi-urban and urban centers.

**Credit Deployment:** Enhancing production and generating employment opportunities are the active role of credit deployment if judiciously with quality services rendered. The supply of credit is responsive and flexible to the every changing need of the
sectors/ people which certainly insure the strategic approach being put fourth through Five Year Plans. Credit is an integral part of economic planning which is good only if the provision of credit is adequate without pushing down the economic operations. In simple, the commercial banks are to deploy credit but not distribute credit. In the study, it is found the credit deployment is laudable being noticed with elasticity of co-efficient (Table 3.8). Regional imbalance is prevailing in credit distribution by the commercial banks even after about two decades of reform periods elapsed (Table 3.9). The regional imbalances in the infrastructure of banking will certainly affect the non-performing assets.

The regulation of credit to priority sector is not full-filled in the beginning of the study period but at later it is fulfilled particularly during the second phase reforms period. The continuance of rural and urban dichotomy is clearly seen by the fact of reduction in credit-deposit ratio in rural areas compared to that of others (Table 3.12).

**Non-Performing Assets**: Non-performing asset which affects banks' profitability and their ability of recycling funds is the results of the environment consisting the economic, political, legal and cultural aspects combining with absence of sound operations and healthiness of banking, directed credit and alike. The traditional approach of measuring overdue i.e. bad loans is a major barrier in identifying the quality of performing asset. The financial and infrastructural assets appear in Balance Sheet while the manpower asset in invisible but being represented through staff costs in terms of accounting. No sound norm of recognition of income is being adopted thus unhealthy practice in accounting. As result of this, a health code came into operation with transparency, objectiveness and uniform yardstick as benchmark classifying assets.
Under the aegis of the Bank of International Settlement (BIS) under the Chairmanship of Peer Cook widely known as Basel Committee suggested prudential norms which again modified by the in-house committee of Reserve Bank of India and presented under four major heads which are as: (i) standard assets (conduct of satisfactory loan), (ii) sub-standard asset (remains non-performing for a period of two years), (iii) doubtful asset (remains in sub-standard category for 18 months) and (iv) loss asset (unrecoverable advance or loan). Income recognition of non-performing assets in commercial banks is also explained on the basis of (i) term loan, (ii) cash credit and overdraft, (iii) bills purchased and discounted and (iv) assets in others. A provision is also made to safeguard against sick accounts which arise in course of operations undertaken.

Most of commercial banks came out with bleeding Balance Sheet in the initial period of reform but later they proved for adjusting and adapting to the competitive environment and ready to face the challenges from intra-and-inter banks. A five point scale containing (i) capital adequacy (ii) asset quality, (iii) management evaluation, (iv) earning potential and (v) liquidity and control being abbreviated as CAMEL is adopted as an ‘ongoing process’ rather a periodical one.

All the commercial banks have fulfilled the capital adequacy norm of 8.00 percent up to 1999-00 and 9.00 percent later on except one and two public and private sector commercial banks in 1999-00 respectively; and two and one banks respectively in 2000-01 (Table 4.12). Of course, the Government of India had injected lot of funds as recapitalization (Table 4.3). Making good the assets of bank standard in the wake of transparency and disclosure measures, the commercial banks adopted the norm of merging and acquisition of weak banks with strong banks. Totally, 19 commercial banks had merged with 18 commercial banks (Table 4.5). Really, this trend is
strengthening the spectrum of banking sector for realizing attainable goals in the process of banking business and reflected in maxim that “Grow with good customers.” The Government of India has been extended helping hand in the form of financial assistance to the amount of loan write-off to the tune of Rs.6331 crore (Table 4.4). Recovery through Debt Recovery Tribunals is unsatisfactory (Table 4.14).

All the public and private sector commercial banks are, undoubtedly, suffering from mounting non-performing assets. A decline trend is observed in the ratio of gross non-performing assets to gross advances; and in the ratio of net non-performing assets to net advances in the advances in the public sector commercial banks. The same is not true in the case of private sector commercial banks. The share of sub-standard, doubtful and loss assets have decreased obviously in the case of public sector commercial banks both in terms of absolute and relative. In the case of private sector commercial banks, the trend is appreciable implying no increase relating non-performing assets and their classification provision. It means, the performance of the public sector commercial banks is better in lowering non-performing assets.

Fast geographical expansion of branch network in addition to the regulation caused a problem in efficient asset management particularly in priority sector financing. By studying the bank group-wise priority and non-priority non-performing assets, it is observed that the reason for cause of non-performing assets is not due to financing priority sector but unviability of many sub-sectors of the priority sector due to erratic nature of climate. It is inferred that the share of priority sector non-performing assets to gross non-performing assets of the public sector commercial banks is decreased. Obviously, this decrease is significantly higher than the proportion of priority sector advances decrease to total advances which is 30-32 percent. Absolute and
relativeness of non-performing assets have decreased in priority sector while it is increasing in the non-priority sector during the study period.

The public sector commercial banks have improved their business operations and reduced their non-performing assets as the number of banks in the category of above 10 percent of net non-performing assets to net advances of commercial banks (Table 4.9) have come down implies rose their number in the category of below 10 percent. It is a different picture in the case of private sector commercial banks; some have being merged with others.

The achieved performance in non-performing assets by the public sector commercial banks is very much close to the norm, which undoubtedly discloses the style of their functioning as business entity. Of course, fulfilling the social goal through means of regulation is the main attributable factor. However, the efforts of public sector commercial banks are being considered as praise worthy on account of their task in terms of profit goal and social goal.

The deposit elasticity is more effective during the second phase reforms period than the first phase reforms period implying mobilization of funds is more than deployment of funds. The source elasticity of funds is more than one particularly in the second phase of reforms of commercial banks implying average source of funds is more than marginal increase in uses of funds.

Profitability and productivity of both public sector and private sector commercial banks is worth considered particularly during the second phase reforms period. So far profit position is concern; the public sector banks could achieve higher income than expenditure besides performing the social goal. The same picture is also observed with reference to the private sector commercial banks.
Management of spread-burden-profit discloses how efficiency the banks in terms of profit. Both public sector and private sector commercial banks had a ratio of spread-burden-profit which is more than one. This indicates their managerial efficiency.

**SUGGESTIONS**

Branch of bank exists only after the assessment of its needs in a particular area. While assessing the need of a branch, a pragmatic approach with deterministic norm should be adopted. This approach should be economically feasible and commercially viable. Such policy will put the number of loss-making and operationally non-viable branches at minimal, so that capital erosion of a bank can be stopped. To be effective, the assessment should be done on basis of SWOT analysis which in turn should become a rationalistic decision. Such a screening will reduce a number of loss-making branches.

The proportion of non-performing assets in the priority sector to that of advances given to non-priority sector is more which caused in mounting up the overall non-performing assets of commercial banks as whole. Hence, the measures would require putting down the non-performing assets in priority and non-priority sectors; more vibrantly in the former.

To the loaning procedure which is cumbersome, expensive and delay; a built-in mechanism of drawing the amount should be employed. For this, the borrower must be evaluated initially adopting SWOT analysis and specify the limit to be borrowed. Whatever transactions (sale or purchase) occurred on asset/property on which the above criteria arrived should be informed to the bank. A number like PAN in income should be allotted for this purpose. This should ensure the borrower to borrow loan in right time so that can be utilized to the right purpose. Creation of confidence in the
mind of people by the goodwill of bank is the uppermost to attract deposits. Further, deposits of surplus income people who belong to the priority sector should be exempted from tax deducted at source on deposit interest income.

A deposit-link credit should be encouraged which safeguards the banks from non-performing assets.

The commercial banks with multi-facet services to the economic goal of the nation should need a direction towards the change for goodness of the society through undertaking a fair transaction towards 'save' the nation and 'secure' the services to the intended ones. The operational approach of the anon of 'save' and 'secure' is as: Take into consideration of capacity and credit worthiness of the borrower which are key canons while sanctioning loan, now, needs to add one more canon, 'character' of borrower in terms of payment of arrears to the Government (taxes) and the financial institutions (past loans); a 'no dues' must be compliance. Banks should adopt the social welfare programme which is implemented by the Government. Both these have a strong and serve effect on economic goal as well as social goal.

The product-mix of the commercial bank consists of deposits, credits and ancillary services. In ever-changing environment for deposits mobilization, a strategic scheme for the savings, should be initiated. The on-going search for different deposit schemes is needed in the light of ever-changing environment to increase the effectiveness in mobilizing the scattered savings of the people. For improving the commercial banks' operating profitability and maintaining operational viability and cardinal principle of financial management (i.e., credit-risk), a trade-off should govern the structure and size of the credit portfolio management. This should ensure the financial soundness of the bank also.
The efficiency and effectiveness of commercial banks should need to adopt an approach of manning the organization with business governance in different and diversified potential areas enforcing integration, co-ordination and co-operation towards the synergetic gains. Know-how and do-how should enforce by undertaking the activities for promotion of economy and curbing unlawful entrepreneurs which should peep in to future without confronting chaotic conditions.

An effective business transaction depends on the effective governing measures through a sound structure. A few governing measures of performing assets not turning into non-performing assets are highlighted below.

For effective measure of coordinating and closely monitoring credit through service area approach, the commercial banks should have face-to-face discussions between them and borrowers during “non-business public working day.” in a week. Follow the provision of quality of credit-portfolio. This will remain an ideal goal. Once, it is accepted that non-performing loans are bound to decrease under given nature of business. The pre-requisite to be dealt effectively lies in, as to how quickly a bank should identify the deterioration in repayment by the borrowers and impending default. Also develop in-built measures to check the potentiality of loans and advances turning into non-performing assets. No non-performing loans and advances would crop up, if followed a close and vigorous monitoring and follow up.

Monitoring and follow up, in fact, are a key strategy of ensuring quality loan. A few strategies are:

Improper pre-sanction appraisal, non-fallow up of basic principles of lending, inadequate supervision and follow-up and lack of inter-personal relationship between the banker and the borrowers are the major causes for turning banks assets into non-
performing ones. If care and caution are taken, the volume and extent of non-performing assets can be minimized to a large extent. The pragmatic efforts would be made to liquidate the liability in the shortest possible time through amicable settlement. Otherwise, apply the health code 5 as quickly as possible; and in no case the account should be kept under health code 2 and 4 for a long time. In increasing or reducing the proportion of bad debts, time is a key factor. If the commercial banks had taken timely note of serious irregularities, a sizeable reduction should be possible non-performing assets.

Persuasion is very effective tool of recovery of loan than coercive. Constant touch with the borrowers and continued follow-up through official correspondence or personal visits are effective in a majority of cases. It is the person behind the project that counts even much more than the paper works. Hence, keeping personal touch should keep non-performing assets at low level.

The effectiveness of filing suit depends upon two major factors whether the other mechanisms are properly used and whether there are adequate securities which can be realized in favor of bank. Filing a suit in a court of law should be the last resort. Once a suit is field, there should be a good administrative setup ensuring as quickly as the legal process without undue delay.

The commercial bank benefits if it is received loan amount due through compromise; it could be recycle at a rate of interest, besides saving legal costs. This type of settlements should avoid as much possible as, otherwise it may motivate a number of borrowers to commit defaults and create a situation for compromise.

The commercial banks should adopt the policy of social objectives i.e. family planning, friendly-ecology, etc., while considering the loan applications of people.
They should also finance micro-finance with discipline of regulation, right now the
recovery rate of loans taken under microfinance is high satisfactory. Further, the
commercial bank which is specialized in rendering service including credit to exports
should tie-up with Special Economic Zones so that adoption of an area approach will
exist.

As an industry, commercial banks should have Research and Development Cell like
manufacturing industry. Through Research and Development Cell, the commercial
banks conduct a specific survey in a specific area so that potentials can be identified
and then develop a programme for its adoption with banking services. This is an
inherited task of commercial banks as their loan portfolio is not simply distribution of
credit but deployment of credit implying rendering the supplementary need services to
a borrower from the stage of taking loan to the stage of repayment of taken loan.

Theft or stolen has been a phenomenon in banking sector in one area or elsewhere in
the country in which some big amount involved; for which the Government has been
issued measures alerting it. In view of this, a mobile banking should be adopted in
areas which are prone to theft or dacoit or stolen, etc. The commercial banks should
also need to adopt net banking service to those big entrepreneur-customers who in
their view considered as loyal and faithful towards banking progress in the sense of
patriotic spirit. This would provide the management of bank sufficient time to focus
attention on the programmes of rural sectors and rural people including microfinance
embracing that no economic resource is denied without banking service.

The rating system of CAMEL with regards to the performance of commercial banks is
graded on a five point scale thus: The commercial bank is (i) strong, if it is
fundamentally sound, (ii) modest if it is modest fundamentally sound, but many show
modest weaknesses, (iii) severe, if it has a combination of weaknesses to moderately
severe, (iv) marginal, if it has moderate volume of financial, operational and managerial weakness and (v) unsatisfactory, if it is rating is worst i.e. imminent danger of failure. This CAMEL rating system should be implemented and asked the commercial banks to conformity their financial statements accordingly. The Reserve Bank of India which is a premier should impose this rule on commercial bank. Last but not least is that both the banker and the borrower should repose confidence on each other as their fortunes depend upon in each other mutually aiding. The purposeful as well as eventful end-result of their transaction would accelerate in pace progress of economy.