CHAPTER VIII

FINDINGS AND SUGGESTIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1 Major Findings of the Study</td>
<td>210</td>
</tr>
<tr>
<td>8.2 Suggestions</td>
<td>218</td>
</tr>
<tr>
<td>8.3 Conclusions</td>
<td>222</td>
</tr>
</tbody>
</table>
The present study has been carried out to study the NPA problem of selected branches of State Bank of India in the districts of Barak Valley of Assam for a period of fourteen years (1996-2009). With this purpose in mind, we have categorically compiled data on various aspects on NPAs. The collected data have been tabulated and analyzed with statistical tools (wherever applicable) in order to find out the trends, the reasons for incidence of NPA, the existing NPA management policy etc. The present chapter highlights the major findings of the study and in view of the findings some suggestions have been put forwarded.

8.1 Major Findings of The Study

The main findings of the study are pointed out as below:

→ The total advances of all PSB, SBI and its Associates (here in after called as SBIG), SBI operating in India and SBI operating in Region IV have been increasing over the years. The trend equations show that the regression coefficients of the growth of outstanding advances of public sector banks are increasing over the years. The estimated compound annual growth rates of total advances show that SBI has registered highest growth in terms of advances (18.2%) and SBI Region IV has registered lowest (12.6%) among others during the study period.

→ The trend equations show that the regression coefficient of growth of total NPAs in absolute value of PSB and SBIG are negative and that of SBI and SBI Region IV are positive which imply that gross NPAs in absolute value has been declining in case of PSB and SBIG and the
same has been increasing in case of SBI and SBI Region IV. The relative share of SBI in the gross NPAs of PSB and SBIG has also been increased from 19.8% and 62.3% in 1996 to 34.5% and 84.9% in 2009 respectively. This implies that SBI has not made any significant progress in containing NPAs in absolute value. This validates the findings of Krishnan [2004]; Kaveri [2002]; Karunakaran et al. [2008].

The trend equations reveal that gross NPAs to gross advances ratios of PSB, SBIG and SBI including SBI operating in Region IV have been declining over the years. The trend equations depict that the regression coefficient of declining rate of NPA ratios of SBI, Region IV is highest (2.456t) among other which implies that the bank has registered highest declining rate of NPA in Region IV. It may be noted that in all the above cases the value of $R^2$ is more than 0.9 which implies that more than 90% of variation in NPA ratios is explained with the help of time only.

Analysis of net NPAs to net advances ratio evident that the ratios of all the bank group under study are negative which implies the ratios of net NPAs to net advances have been declining over the tenure of 14 years. SBI Region IV have registered highest decline rate with CAGR -21.8% and AAGR -13.6% among other during the study period. This is further reinforced by highest negative regression coefficient of 1.9587t. Due to the stringent provisioning norms, banks are now required to set aside a big chunk of their profit as precautionary measures to meet losses arising because of loan write off. This has led to gradual decrease in the net NPAs to net advances ratios of the banks.
The relative share of advances of SBI in the total advances of PSB has been increased from 22.4% in 1996 to 24.1% in 2009. However, the relative share of gross NPA of SBI in total NPA of PSB has been increased from 19.8% in 1996 to 34.5% in 2009. This indicates that the bank has made any significant progress neither in advances generation nor in maintaining its assets quality during the study period.

The relative share of gross advances of SBI Region IV in the total advances of SBI operating in India was 0.05% in 1996 which has been increased to 0.13% in 2009. Whereas the relative share of gross NPAs of SBI Region IV in the total NPAs of SBI operating in India was 0.11% in 1996, increased to 0.12% in 2009. That indicates that SBI operating in Region IV has made an impressive progress both in terms of generating advances and managing NPAs.

The trend equations of the growth of priority sector NPAs and that of non-priority sector NPAs, show that the regression coefficients of the growth of non-priority sector NPAs of the banks group under study are much higher than that of the growth of priority sector NPAs. This implies that non-priority sector NPAs are declining at much higher rate than that of priority sector NPAs, contradicts the findings of Reddy et.al.

The trend equations show that the regression coefficients of the growth of NPAs in agriculture (-141.64t) and SSI sector (-203t) are negative; implies that over the years NPAs in these two segment of priority sector have been declining whereas the regression coefficient of the growth of ‘others’ sector (203.65t) NPAs is positive; implies
NPAs in this segment of priority sector have been increasing. This indicates that the patterns of priority sector NPAs have been shifting from Agriculture and SSI sector to ‘Other’ sector.

The estimated total loss of NPAs due to maintenance cost and opportunity cost of NPAs has increased to its peak of Rs.2671 crores in 2009 which is about 30% of the existing net profit of Rs. 9121 crores.

In order to see the effect on NPAs on net-worth of SBI, it is found that the estimated share of net NPAs to the net-worth of the bank was as high as 71.8% in 1996, gradually reduced to 16.5% in 2009. If net NPAs are knocked out from the total net-worth of State Bank of India, the net-worth would stand reduced to about 83.5% of the existing net-worth in 2009.

The trend equation shows that the regression co-efficient of growth rate of advances of all the selected branches are positive which imply that the advances of the branches have been increasing over the years. Karimganj branch has registered highest growth rate of advances among other selected branches with highest regression coefficient (583.24t) of growth rate of advances. The contribution of Karimganj Branch (12.53%) in total advances of SBI Region IV is also found highest.

The trend equation shows that the regression coefficient of the growth of gross NPAs of the selected branches are found positive barring Narsingpur branch and Karimganj branch which imply that the total NPAs of Karimganj branch and Narsingpur branch have been
The study finds that the share of standard assets to total advances of all the branches have gone up over the period. The regression coefficients of growth rate of standard assets of the selected branches are found positive which indicate that over the year the bank’s branches operating in Barak Valley could able to improve the quality of its assets. The regression coefficient of growth of standard assets is found highest for Karimganj Branch (585.13t) and lowest for Narsingpur branch (141.83t).

The trend analysis of sub-standard assets of selective branches shows that the regression coefficients of the growth of sub-standard assets of selected branches are positive. This indicates that the slippage rate of performing assets into non-performing category of the branches is increasing over the years. The estimated regression coefficient is highest for New Silchar branch (16.089t) and lowest for Karimganj branch (1.256t).

It is evident that the proportion of doubtful assets is decreasing sharply during the study period, indicating that this chronic portion of non-performing assets (almost 40%) of the selected branches is declining over the years.

Analysis of sectoral composition of NPAs reveals that the share of priority sector NPAs to total NPAs (in terms of percentage) of the selected branches has been declining. However, trend equations depict that in 3 branches viz., Silchar Bazar branch, Karimganj branch and
Hailakandi branch, the regression coefficients of the growth rate of priority sector NPAs are negative and in other 3 branches viz., New Silchar branch, Narsingpur branch and Badarpur branch, the regression coefficients are found positive.

The least square trend equations show that the regression coefficients of the growth of non-priority sector NPAs of all the selected branches are positive which indicate that the contribution of non-priority sector NPAs to total NPAs of the selected branches is increasing over the years. Hence, we may conclude that the pattern of incidence of NPA is changing from priority sector to non-priority sector.

The chi-square analysis reveals that although the pattern of incidence of NPA is changing from priority sector to non-priority sector, still priority sector has a significant influence on the NPAs of State Bank of India in the region. The calculated value of chi-square (1563.94) is higher than the critical value (9.210) from the chi-square table at 1% significance level.

The study depicts that negative relationship exists between the amount of default and income of the defaulter. The linear regression equation shows that if income of defaulter is increased by 1 unit, on average, default amount is decreased by 2.88 times. This is further reinforced by the negative coefficient correlation (-0.662) between default amount and income of the defaulter. Further, the coefficient of determination ($R^2$) indicates that 44 per cent of the variation in default amount is explained by variation in average monthly income of the defaulters.
The study also finds that a positive relationship exists between the education level of borrowers with the default amount. This has been further reinforced by the positive coefficient correlation of 0.708 indicates that there is a strong positive association between default amount and education level of the borrowers. The value of $R^2$ is 0.501 which explains about 50 per cent variation in default amount is explained by the variation in education level of the defaulters.

The study also reveals that age is directly and income is inversely related to the default amount. The impact of income level of borrowers is negative as indicated by the value of regression coefficient ‘-2.916’ whereas the impact of age is rather positive as indicated by the positive regression coefficient of 328.152. The model explains 46 percent variation in dependent variable by any change in explanatory variables, since the coefficient of multiple determination ($R^2$) is 0.464. However, ‘age’ of defaulters as an independent variable has no influence on the dependent variable ‘default amount’.

Among the general causes, the following factors have been identified as the main reasons for NPAs in the region:

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>RANKED BY DEFAULTERS</th>
<th>RANKED BY BANKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Follow Up</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Project Failure</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Willful Default/ Inadequate Credit financing</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Poor Legal Framework</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Natural Calamities</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Low Income Generation</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Diversion of Fund</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>High Rate of Interest</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>
The ranking of the factors reveals that both bankers and the defaulters feel that lax in proper monitoring of the credit account is the prime reason for occurring NPAs. The lending interest rate is the least important factor among all. However, the factor “natural calamities” is ranked first by the priority sector defaulters.

The study also reveals that the branches of SBI in the region are facing the problem not of ineffective management policies but of ineffective implementation. The following are the most important reasons which require urgent attention:

- Lax in monitoring of advances.
- Pre-Sanction Appraisal of the project proposal.
- Complex credit files do not receive the attention it needed.
- Delayed reaction on early warning signals.
- Lazy and Reluctant attitude of bankers.
- Bank officials are not motivated due to lack of incentive system, maximum work load and shortage of staff.

In an attempt to assess how the different recovery measures adopted by the bank are successful in recovery of dues, the study reveals that bankers are highly satisfied with the performance of SARFAESI Act followed by DRT and Compromise Settlement. However, the performance of BAKIJAII is found worst among others. The performance of OTS and Lok Adalat is also not very impressive.
8.2 **Suggestions**

Based on the findings above, the following suggestions may be put forwarded:

1. **Zero tolerance of Lax in Supervision** – Effective and regular follow up of the accounts has no alternative. Proper supervision of accounts can solve many of the problems associated with the incidence of NPA. Monitoring of the end use of the funds is required to ascertain any embezzlement or diversion of funds. This process can be undertaken every quarter so that any account is slipping into NPA category can properly be accounted for.

2. **Combining traditional wisdom with modern statistical tools:**
   The bank’s branch must have the objective of financing of the most viable and profitable project (and avoid such projects which are un-bankable) and identify borrower who is efficient in utilizing the bank’s money. However, that may not be possible if there is any pressure from politician and/or bureaucrats. While sanctioning of a loan instead of emphasizing on security pledged, selection of a loan proposal must be done based on project appraisal. The scrutiny must be done for all sorts of loan irrespective of size. For screening of a project, statistical tools like Altman Z score model may be used. Value-at-risk analysis and Markov chain analysis may be employed to assess quality of the assets.
3. **Proper Analysis of Periodical Documents** - Under ordinary circumstances, an asset does not slip into NPA category all of a sudden. Sufficient warning signals emanate from the account indicating the impending deterioration in the quality of asset. One of the most significant causes for asset slippage is absence of liquidity with the borrowers. This can be gauged from the analysis periodical documents, thus prompt and early measures can be taken.

4. **Identification of the Potential NPAs** - In addition to the identification of the NPAs, branches should also identify potentially non-performing loan accounts. The potential NPAs would be accounts which throw up negative signals indicative of the advances turning into NPAs. The purpose of the identification of potential NPAs is to ensure initiation of appropriate preventive steps to protect against the assets becoming non-performing. After identification it will be necessary to review and implement a plan of action in regard to NPAs. It should be noted that system of classification of accounts as potential NPAs is in addition to and not in substitution of the asset classification.

5. **Performance Measurement** - The greatest barrier to improve the condition of NPAs in any bank is to recognize that a credit is in trouble and may slip into non-performing category, that too early. The bank may prepare a plan branch-wise for each staff emphasized on the reduction of slippage rate. The bank may adopt a performance measurement matrix based on parameters reflecting the efforts for containing NPA of the branch. A pattern of the matrix is shown in Annex 1.1. This matrix may be used for
performance budgeting, performance appraisal and performance based incentives.

6. **Healthy Bankers-Customers Relationship** – A healthy banker-customer relationship can be a panacea for many problems including reduction of NPAs. Many instances are reported about the improper attitude of bankers towards the customers, which is against the corporate ethics. Proper respect to the valued customers of the bank certainly will create a congenial environment for settling of a sick account.

7. **Monetary Incentive based on Performance** – To work in an economically backward region with poor connectivity, bank staff need some sort of monetary incentive to meet the expectations from them. The Committee on Financial Sector Plan for North Eastern Region also felt the same and advised to implement cash incentive for all public sector bank staff working in the region.

   In view of the above we suggest that State bank of India may also introduce a special scheme of performance based cash incentive for staff working in the region. The criteria for giving such incentive may be based on Performance Matrix.

7. **Data Mining:** Data mining allows extracting diamonds of knowledge from the historical data, and predicting outcomes of future situations. It helps optimize business decisions, increase the value of each customer and communication, and improve customer satisfaction. For better identification of borrowers, data mining may be act as a great tool. Information sharing among the bankers
about the credit history of the borrower, bankers-customer relationship, entrepreneurial skill etc. certainly will help bankers to deal with willful default.

8. **NGOs and Student’s Group** - The services of NGOs and students' self-support union (of educated unemployed graduates/post graduates) may be engaged on commission basis by banks in order to gather information about the potential borrower and/or for recovery default amount. These facilitators can handle all aspects of sourcing clients, marketing the bank’s products, reducing slippage rate into non-performing category and helping recovery. The bank may employ the facilitator to assist their standard as well as sub-standard borrowers to enhance their entrepreneurial skill.

9. **Compromise Settlement** – Compromise settlement is an option when the bank and the borrower are willing to negotiate and settle an account where there are gains to both parties. The bank gains in terms of immediate availability of cash which can be recycled and this helps in improvement of return on assets. This is a win-win approach of recovery dues.

While the primary survey reveals majority of respondents willing to settle their account through negotiation, bank’s branches should try to recover as much as possible through negotiation. However, the bank should have clear and systematic line of approach for negotiation.

10. **Disclosure in Newspaper/Cable Channel** – People are social element and they love to be socially recognized. The bank may use
the 'fear of social de-recognition' as a tool by publishing the list of
doubtful defaulters in local newspapers specifying that legal action
may be initiated against the defaulters; in order to stop the slippage
into loss category. However, the branch will have full discretion to
disclose the name depending on the banker-customer relationship.
This certainly will help bankers to reduce the slippage rate and
recovery process.

11. Auditors are one of the most important factors in the
management of NPAs of the banks. They may play a very catalytic
role in activating the early warning signals of slippage of
performing assets into non-performing. Advances constitute the
assets of banks and audit of the same demands greater efficiency
and understanding of the system. Although every bank has got its
own rules and regulations for granting advances for its
constituents, their core generalities remain same everywhere.

The situation calls for urgent attention of the bank auditors
concerned along with bank officials. The unit inspection technique
is an effective tool that an auditor can safely resort to in the
scenario.

8.3 Conclusion

In a public sector bank, due to its ownership pattern, it is hard to
nullify the effect of NPAs in any way and there is also no quick,
readymade or one shot solution to solve the problem. To reduce the share
of non-performing advances, an all round review of various aspects of
banks are the need of the hour. Banks should draw their own set of strategies for arresting the level of NPAs. A strong internal control system must be administered considering the various factors such as the volume, volatility, fraud and error. Improvement in enforcement environment is vital for the bank to improve its dealing with bad loans.

State Bank of India has made a significant progress in many aspects, like deposit mobilization, advances, operating profits, profit per employee, technological upgradation. The bank has also taken up a series of initiatives in the last couple of years especially to improve the quality of its assets and also to contain fresh accruals of non-performing assets (NPAs). Many things have been achieved but a lot to perform. Continuous quest for skill up-gradation at all levels; development of vision, mission (keeping regional requirement in mind); commitment etc. are some of the aspects which require urgent attention. Banks’ which are pro-active, respond quickly to the changing needs of the customer and give adequate attention to the changing scenario, alone can survive successfully, perform well and prosper.

Edward F. Gee, in his book titled “Classics in Commercial Bank Lending” says

“Never loss control of a credit – Always keep in the driver seat. More often the control is lost during the course of the ride through a failure to action while you still had the power to do so. Try never to give up through blind faith, carelessness or negligence full control of the wheel.”
Maintaining asset quality of the branch, bank’s officials need to be in driver seat always, never lose a control and give up through blind faith. As a ground operating functionary, branch officials have to keep constant watch over the non-performing assets at the branch. They have not only to supervise and ensure that the assets remain performing but also see that once they become non-performing, effective measures are initiated to get full recovery and where this is not possible, prompt action is to be initiated to get rid off the NPAs from the Branch books.
## Annex 1.1

### PERFORMANCE MATRIX FOR NPA MANAGEMENT AT BRANCH LEVEL

<table>
<thead>
<tr>
<th>GOALS</th>
<th>MATRIX</th>
<th>MONITORING OFFICIALS</th>
<th>TARGETS</th>
<th>RATING OF PERFORMANCE</th>
<th>REWARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Pre sanction supervision</td>
<td>Number of times visited borrower place</td>
<td>Chief Manager</td>
<td>2</td>
<td>Excellent= Above target Satisfactory = target achieved Dissatisfactory= Below Target</td>
<td></td>
</tr>
<tr>
<td>Improve Processing Time for Loan</td>
<td>Days taken for process the file</td>
<td>Chief Manager</td>
<td>7 days to 15 days</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td>Proper Project Appraisal</td>
<td>Factors taken for appraising the project</td>
<td>Credit Officer</td>
<td>Market Oriented</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td>Strengthening Post sanction supervision</td>
<td>Follow up of accounts</td>
<td>Credit Officer</td>
<td>Self set target of branch</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Visit borrower places</td>
<td>Credit Officer</td>
<td>Self set target of branch</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td>Work on Early Warning Signals</td>
<td>Analysis of Periodical Documents submitted by borrowers</td>
<td>Chief Manager/ Credit Officer</td>
<td>On going process</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Action taken on results of the analysis</td>
<td>Chief Manager/ Credit Officer</td>
<td>On going process</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td>Reduction of Slippage Rate of NPA</td>
<td>Number of Accounts with Amount</td>
<td>Chief Manager/ NPA officer</td>
<td>Self set target of branch</td>
<td>Same as above</td>
<td></td>
</tr>
</tbody>
</table>