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NPA: Recovery measures and role of Bankers

Chandan Mohanty
Ph.D Scholar, Department Of Business Administration
Sri Sri University, Cuttack, Odisha, India

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Abstract

Non-Performing Asset is an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset. At present banking industry is facing the toughest challenge i.e. to tackling NPAs. NPAs of Indian commercial banks are considered relatively high when compared to the international standards. Figure on NPA is an important parameter while analysis of financial performance of a bank done. NPA already crossed Rs 10.25 lakh crore as on 31 March 2018. It has grown by Rs 1.39 Lakh Crores. Comparing to December 2017 Quarter it has increased by 16% and this amount is 11.8% of the total Loan given by banking industry. There are many reasons for rising NPA in Indian Banking Industry. Showing soft corner to corporate giants by relaxing lending norms and ignoring financial status and credit rating is another big reason of rising NPA in Corporate and Institutional Lending. Diversification of funds to other business/fraud , changes in business/regulatory environment, lack of morale (Wilful defaulter), global crisis , slowdown in a specific industrial segment like Textile, aviation, mining, Infrastructure where large number of loans given PSBs , unplanned expansion of corporate houses, bad lending practice and natural reasons such as floods, droughts are major reasons of NPA in India. To tackle NPA Banks are using different mechanism such as Debt Recovery Tribunals (DRTs), Corporate Debt Restructuring (CDR), SRFAESI Act, 2002, Credit Information on Defaulters and Role of Credit Information Bureau of India Ltd (CIBIL), Asset Reconstruction Companies (ARCs), Lok Adalats and compromise settlement. Bankers play important role in NPA reduction. Due diligence, credit analysis, periodical inspection should be done properly to protect the account turning from NPA. No oral recommendation from the higher executives should be entertain while processing of Loans and advances. Credit Analysis must be depoliticized and no political pressure should be entertained. NPA is not a good sign and can result in crashing of banks as happened in the sub-prime crisis of 2008 in the USA.

Key word- Bankers,Corporate, Credit, NPA, Recovery.

Introduction

As per asset classification issued by Reserve Bank of India Non-Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset. NPA are endemic in any organization in which borrowing and lending activities are involved this phenomenon came into limelight during 1990's due to initiative of reforms in the banking sector. NPA not only adversely affect the efficiency, profitability, liquidity and overall performance of the banking sector but, also the economic development of the nation. The toughest challenge banking industry now facing is tackling NPAs. The NPAs of Indian commercial banks are considered relatively high when compared to the international standards. They not only adversely affect the liquidity, efficiency, profitability and overall

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performance of the banking sector but also the economic development of the nation. Banking system runs through good relations with public, industrialists, entrepreneurs and farmers. Hence role of Government is also important in policy making and other aspects. Non performance assets figure is an important parameter while analysis of financial performance of a bank done. The information on NPAs helps the commercial banking supervisors to monitor and discipline errant banks and help the investors to assess the true financial worth of banks. The prudential norms on assets classification and income recognition of the RBI have to be complied by all the commercial banks in order to present the real position of loan assets to match international standards. As a result several measures taken by the RBI and Government of India. NPAs of scheduled commercial banks have witnessed a secular decline with the initiation of norms of income recognition and asset classification.

Commercial banks are facing risk of default by the borrower while payment of either principal or interest. This risk is termed as credit risk and the accounts where payment of interest and repayment of principal are not forthcoming are treated as non performing assets. Existence of nonperforming assets is an integral part of banking system. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days overdue' norm for identification of NPAs, form the year ending March 31, 2004. Accordingly, with effect from March 31st 2004, a non-performing asset shall be a loan or an advance where; Technical definition by RBI on NPA is a loan or an advance where…

- Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

NPA now in Banks are increasing significantly and it's a matter of headache for Government and RBI. Gross NPA already crossed Rs 10.25 lakh crore as on 31 March 2018. It has grown by Rs 1.39 Lakh Crores. Comparing to December 2017 Quarter it has increased by 16% and this amount is 11.8% of the total Loan given by banking industry. The figure roughly translates to near 11% of all loans given are never paid back, resulting substantial loss not only to the banks but also to the economy .If we add restructured and unrecognised loans stressed assets would touch near about 17 to 20% of the total advance.

There are many reasons for rising NPA in Indian Banking Industry. While Indian Economy was in the boom phase during early 2000's, public sector banks lent extensively to corporate which started decreasing their efficiency after global economy slowdown and profit of these corporate affected .This over optimism is now costing heavy price to Indian Banks and Economy . Showing soft corner to corporate giants by relaxing lending norms and ignoring financial status and credit rating is another big reason of rising NPA in Corporate and Institutional Lending. Overconfidence on such borrowers and lack of due diligence, no independent analysis, and excessive trust are major drawbacks while processing such Loans which are turning overdue. Diversification of funds to other business/fraud , changes in business/regulatory environment, lack of morale (Wilful defaulter), global crisis , slowdown in a specific industrial segment like Textile, aviation, mining, Infrastructure where large number of loans given PSBs , unplanned expansion of corporate houses, bad lending practice and natural reasons such as floods, droughts are major reasons of NPA in India. Corruption and fraud with in Bank is also a big cause for rising NPA. Nirav Modi is a live example. Pressure to achieve higher target and pressure to sanction large amount of loans by higher level executives leads to do unscrupulous work by the Bankers. Political interference on sanctioning Loans is latter convert in to NPA. The roles of political leaders are a major hurdle for NPA. Political parties for their survival and growth are using banks as one of the channel for getting power. They are not bothering about the recovery of the assets.

Recovery Management of NPAs:

Major weapons used in India to tackle NPA are as follows:-

a). Debt Recovery Tribunals(DRTs): The Recovery of Debts due to Banks and Financial Institutions Act was passed in 1993, to provide for the establishment of tribunals, for expeditious adjudication and recovery of debts due to banks, and financial institutions. The amendments made in 2000 to the above Act and the rules framed there under have strengthened the functioning of DRTs. On the recommendation of RBI, Government has since set up a working group headed by the Additional Secretary (FS), Government of India to improve the functioning of DRTs to enables the borrower to make an application before the DRT, against the measures taken by the secured creditors, without depositing any portion of the money due; Provision for the DRT to dispose of the application as expeditiously as possible, within a period of 60 days from the date of the application; and enables any person aggrieved by any order made by DRT to file an appeal before the Debit Recovery Appellate Tribunal, after depositing with the Appellate Tribunal, forty percent, of the amount due from him, as claimed by the secured creditor or as determined by the DRT, whichever is less.

b). Corporate Debt Restructuring (CDR):

CDR is a non-statutory mechanism among the Banks and Financial institutions. This principally aims at restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceeding for the benefit of all concerned. The process includes all the standard and sub-standard accounts. The corporate would also continue to be eligible for fresh financing of funding requirements, by the lenders as per the respective, normal policy parameters and eligibility criteria. It shall make more corporate viable, especially when they are facing a temporary liquidity crunch or any other problems of a short term nature. This scheme started in 2001 but was fine-tuned in February 2003,

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based on the recommendations made by a working group. A recent review of the operation of the scheme, revealed that nearly, one-third of the units, assisted under the scheme improved their financial position

c). SRFAESI Act, 2002:

The Government has passed the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SRFAESI) Act 2002, in order to give teeth to the banks to precede against the "wilful defaulter", and an effect recoveries without the intervention of courts and tribunals. The Supreme Court in its judgment in April 2004, upheld the constitutional validity of the Act, and it has declared Section 17 (2) as unconstitutional as it violates Article 14 of the Constitution of India. The SRFAESI ACI Act was amended in 2004 in order to dissuade the borrower, from delaying the repayment of dues, to facilitate speedy recovery of debt of secured creditors.

d). Credit Information on Defaulters and Role of Credit Information Bureau of India Ltd (CIBIL) :

CIBIL was a mile stone in credit processing and analysis. Dissemination of credit information covering data supplied on suit-filed defaulters in the financial system is undertaken by CIBIL w.e.f., March 2003, and the data can be accessed on CIBIL's website. The RBI issued instructions, to banks and financial Institutions (FIs) in 2003, to obtain the consent of all their borrows for pooling of data for development of a comprehensive credit information system. CIBIL has become operational from June 2005. It covers registration, responsibilities of the bureau, rights and obligations of the credit institutions and safeguarding of privacy rights of borrowers. The Bill empowers CIBIL to collect information relating to all borrowers and confers upon the RBI the power to determine policy in relation to the functioning of credit information companies, and also giving directions to these companies. Availability of credit information enables banks to avoid lending by two or more institutions and better credit management schemes of wilful defaulters.

e). Asset Reconstruction Companies (ARCs):

An ARC is a special purpose limited liability company, which takes over non-performing loans of banks and FIs at a discounted rate, and manage and dispose such asset. The RBI gave license to 14 new ARCs recently after the amendment of the SARFAESI Act of 2002. These ARC's are made to convert value from NPA and doubtful Assets. Before this law, Bankers and Financial organisations could enforce their security interests only through courts, which was a time-consuming process.

e) **Lok Adalats**

Such initiative started in 2001 as per RBI guideline issued. But these are applicable to small Loans limit up to Rs 5 lacs . Lok Adalats are helpful in tackling recovery of small Loans and subsequently such case avoids legal system for finding solutions.

f) **Compromise Settlement – 2001**

Compromise Settlement meant for recovery of NPA for the advances below Rs. 10 Crores and it covers lawsuits with courts and DRTs and excludes wilful default and fraud.

Bankers Role in NPA reduction:

Bankers play important role in NPA reduction of Banks. Banker who has sanctioned Loan must be aware of the future of the particular account by doing through analysis. Few things a banker must take in to consideration before the account turning NPA i.e. Due diligence is a must for any Banker so that the loan may not turn NPA .He must be aware of any possibility of diversification of funds to

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unrelated business/fraud. It means supervision of account is must on regular basis. Bank must be on high alert of business loss of the customer due to changes in business environment or change in regulatory framework. Special tactics should be followed by Banks for wilful defaulters or such corporate. Mindset of borrowers changed those who have availed Loans under Govt schemes. Government must advise such borrower's that consequences of not being repay loan can be dangerous. Large corporate financial status must be analysed properly includes their balance sheet, credit rating, industry analysis and other important parameters. Specific emphasis and analysis must be given to government schemes under which Loans given without collateral. Public sector Banks are facing tough time mostly due to Loan given to Aviation, textile, mining, infrastructure sectors. Government must interfere in such cases to make policies flexible. Near about 70% of the loan provided to Industries and this part of the credit disbursement that creates larger NPA. Accounts like kingfisher, Nirav Modi have made impact on the economy directly as these are big loans which turned NPA. Bankers must away from bad lending practise in a transparent way of sanctioning loan. No oral recommendation from the higher executives should be entertain while processing of Loan. Credit Analysis must be depoliticized and no political pressure should be entertained.

Conclusion

Strengthening of the financial sector and improving the functioning of financial markets can be described as the core principles of financial sector reforms in India.RBI has achieved enormous progress in modifying the policy frame-work for reforms. The banking sector has shown improvements in profitability, efficiency and stability, however the fact remains that the social objectives before the banks are said to be side-tracked, while every emphasis has been on the financial strength, capital adequacy and profitability of banks. One of the major weaknesses of banking in India in the recent past is accumulation of NPAs which refer to the accumulation of problematic loans over a period of time. The profitability of banks depends on factors such as level of NPAs, cost of funds and subsidized lending etc. in the recent years NPA issue has been debated widely in the context of performance of banks. There is need to contain the growth in NPAs in order to improve the performance of banks. Asset quality which is reflects the soundness of financial institutions. Public sector banks should disburse their funds in quality assets to reduce NPA level. As the risk profile of banks lending is more diversifying, it is essential on the part of banks to pay adequate attention to quality of lending so that credit expansion could be on sustainable basis building upon higher profitability while ensuring financial stability. One thing need to be addressed on a serious note i.e. bad performance. Rise of NPA is not a good sign and can result in crashing of banks as happened in the sub-prime crisis of 2008 in the USA.

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