MANAGEMENT OF NON PERFORMING ASSETS OF SCHEDULED COMMERCIAL BANKS: A STUDY IN BARAK VALLEY OF ASSAM

Abstract

HEDAYATULLAH CHOUDHURY

(Regn. No. 1542 of 11-09-2009)

DEPARTMENT OF MANAGEMENT
SCHOOL OF ECONOMICS, MANAGEMENT AND INFORMATION SCIENCES, NORTH-EASTERN HILL UNIVERSITY, TURA CAMPUS, TURA, MEGHALAYA

2012

Abstract

1. Introduction:

The Indian banking system has undergone noteworthy transformation following financial sector reforms, and at present it is passing through a crucial phase. It is adopting international best practices in the area of regulation and supervision with a view to strengthening the banking sector. With a view to create a strong, competitive and vibrant banking system, several measures were initiated in the beginning of early 1990s. The banking system witnessed reforms such as introducing prudential norms, allowing entry of new private sector banks and enhanced presence of foreign banks, permission to access the capital market, operational flexibility and functional autonomy to public sector banks, strengthening of corporate governance practices and disclosure standards. Banks have increasingly diversified into non-traditional activities, and as a result several conglomerates have emerged. Thus deregulation has opened up new avenues for banks to augment income; it has also exposed the sector to greater risk of NPAs. Hence, it is obvious that the opportunities and challenges in the banking sector have augmented as a result of banking sector reforms.

The awareness of the commercial banks to maintain a healthy profit growth not only depends on the hardening of interest rate owes its origin to reduction in operational expenses but also rests on improvement in their assets quality. Non-performing Asset has emerged since over a decade as an alarming threat to the banking industry in our country sending distressing signals on the sustainability and endurability of the affected banks. The positive results of banking sector reforms by the Government of India and RBI in terms of the two Narasimham committee reports in this contemporary period have been neutralized by the ill effects of this surging threat. Despite various correctional steps administered to solve this problem, concrete results are escaping. It is a sweeping and all pervasive virus confronted universally on banking and financial institutions. The severity of the problem is however acutely suffered by nationalized banks, followed by the SBI group, and the all India Financial Institutions.

The problem of NPA in Indian banking sector appears to have subsidized as gross and net NPA ratios are declining, but in quantitative terms there is no significant growth of NPAs made by the banks. The quantum of NPAs has increased notwithstanding the efforts of the banks to reduce them. Incidentally, the mounting NPAs of banks are to the tune of Rs. 51,541 crores in March, 2004 which has increased to Rs. 74,616 crores in March, 2011. Moreover, fresh accretion of NPA has experienced a higher amount than recovery from NPA account during 2010-11. The earning capacity and profitability of commercial banks has been adversely affected by the high quantum of NPAs. The spread as per cent of total assets usually considered as realistic measure of bank's efficiency declined from 2.4 per cent in 2007-08 to 2.0 per cent in 2010-11. Hence, the reduction of NPAs in banks is posing the biggest challenges in the Indian economy. It affects the liquidity, profitability and equity.

The effectiveness of various measures initiated by GoI and RBI is limited, and banks are still not able to tame the problem of NPAs. According to Reserve Bank of India, improved profitability and health of banks, underpinned by robust macroeconomic environment and upturn in interest rate cycle, has enabled banks to reduce the backlog of NPAs. Although asset quality of banks has improved in percentage terms over the years, commercial banks need to guard against any deterioration of credit quality, particularly in the wake of significant expansion of credit. As the economy poised to grow at a stupendous pace the banks have to play a much larger role in the coming years, this requires a robust framework to deal with NPAs. Hence, in the present cut-throat competition, it is a permanent task for the banks to manage their NPAs more efficiently so that they can change their character from NPAs to performing assets. It is in this context, an in-depth study is warranted to detect this emerging problem of the economy.

However, the entire study has been summarized into three heads-

- The Background.
- Major Findings.
- Proposed Suggestions and Strategies.

2. The Background:

The asset quality of banks has improved in recent year and is reflected in the decline in their gross and net NPAs. The gross NPAs of scheduled commercial banks in absolute term increased from Rs. 50,519 crores in March 2006 to Rs.89, 017 crores in March 2011. The net NPAs of SCBs in 2010-11 stood at Rs. 41,813 crores compared to Rs. 38,723 crores in 2009-10 and Rs. 17,435 crores in 1999-00. However, net NPA to net advances of SCBs declined from 6.8 per cent in March 2000 to 0.97 per cent in March 2011. This has been largely possible because of the huge provisioning that most of these banks could make as a result of growth in treasury income and, therefore profits. The priority sector added up a large proportion about 44.5 per cent (Rs.23,715) of total non-performing advances in March 2000 and swelled to 58.1 per cent (Rs.41,245) in March 2011. In the non-priority sector, the same has been reduced to 41.9 per cent (Rs.29,802) in March 2011 from 53.5 per cent (Rs.28,524) in March 2000. An extremely negligible fraction of NPAs are contributed by public sector throughout the period under consideration. Although the commercial banks in general have succeeded in reducing NPAs, or loans defaulted by borrowers, the private sector banks, the new generation private sector banks, especially, have witnessed an increase over the years. The gross NPAs of 26 private sector banks have increased from Rs 7,791 crores in 2005-06 to Rs 17,639 crores in 2009-10 and Rs. 18,240 crores in 2010-11.

The level of NPAs of the Indian banking system are now comparable to several advanced economies and significantly lower than several economies in the world. RBI rates reduction in NPAs is one of the major achievements of the Indian banking sector of recent times. But still the Indian banking sector is facing a serious problem of exploding amount of NPAs. The earning capacity of banks has been badly affected by the high level of NPAs. The NPAs of commercial banks has direct impact on the profitability, productivity, liquidity and equity of banks and finally influence the outlook of the banks towards credit delivery and credit expansion. The gravity of the situation may be revealed by the facts that return on assets (ROA),the most telling measure of banks performance, was 0.96 for PSBs as against 1.74 for foreign banks and 1.43 for private sector banks in March 2010-11. Further, net profit or spread ratio (the difference between interest earned and interest paid) usually considered as true measure of core operation of banking sector turned up trumps. The spread as percent of volume of business was 3.52 per cent for PSBs while the same for foreign banks was 5.0 per cent and for private sector banks was 4.0 per cent in 2010-11. The PSBs experienced a declining ratio of operating profits to total assets, which has been declined to 1.57 per cent in March 2011 from 2.44 per cent in March 2005. The same for foreign banks have been increased from 3.16 per cent to 4.51 per cent.

In short, soaring level of NPAs in banks and financial institutions are a cause of worry to the public as bank credit is the catalyst to the economic growth and any bottleneck in the smooth flow of credit is bound to create adverse effect on economic development due to mounting NPAs. The management is seriously concerned about the growing NPA menace, which is taking its toll on efficiency and profitability. NPAs are serious strain on the profitability because the banks cannot book income on such accounts. Further they are required to charge the funding cost and provision requirement to their profits. High level of NPAs adversely affects the financial strength of banks and enforces the government to recapitalize the weak banks from time to time.

In view of this most worrisome problem faced by commercial banks, the Govt. of India and Reserve Bank of India have initiated various measures for arresting the menace of NPAs. These measures includes prompt corrective action (PCA) mechanism, credit risk management models, compromise settlement methods, effective use of debt recovery tribunals (DRT's), Asset Reconstruction Companies (ARC) and recovery of debts, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SRFAESI) Act-2002, circulation of information on defaulters, Corporate Debt Restructuring (CDR), Lok Adalats, regular training programmes, recovery camps, spot visit etc. But banks are yet to solve the dilemma of large quantum of NPAs. Thus, it is pertinent to examine the asset quality of commercial banks in the present global competitive scenario. A study in respect of asset quality and management of NPAs of banks has therefore been undertaken in a backward region viz, Barak Valley comprised of three districts of Assam.

The study set the following specific objectives -

- To study the nature and growth of NPAs of SCBs operating in the study area.
- To study the interrelationship between the NPAs and earning capacity of banks over the years.
- To examine the reasons for assets becoming NPAs of SCBs in the area under study.
- To suggest strategies for better management of bank NPAs on the basis of the findings.

The following hypotheses have been formulated to meet these objectives-

- The mass social orientation of banks over the years led to insignificant increase in the volume of NPAs.
- There exists a significant relationship between NPA and profitability of banks over the years.

For the purpose of the study, we have considered the branches of SCBs operating in the study area. A cross-section analysis of NPAs of SCBs branches pertaining to 12 years i.e., 2000 to 2011 has been done. In some cases, data prior to this period is considered particularly for better comparison of variables. The relevant data have been collected from both primary and secondary sources. The sources of secondary data are financial statements compiled by the regional offices of the banks operating in the study area, lead bank statements, potential linked credit plan of NABARD, Directorate of economic and statistics, various reports, surveys. However, 40 per cent of the population ie, a total of 60 numbers of branches have been considered for collection of first hand data to assess the procedure adopted by banks to handle with NPA accounts. For this purpose, proportionate sampling method has been followed.

For the purpose of the study, the variables like provisions and contingencies, operating profit, net profit, capital adequacy ratio, advances outstanding, loans recovered etc has been considered. In order to assess the nature of unbridled virus of NPAs in banks, the variables are net and gross NPAs, total sub-standard, doubtful and loss assets, total write off amount during the year, total unrealized interest and amount recovered from bad loans. The variables to analyze loan portfolios of banks include; advances to agriculture, small industries, weaker section etc. The variables to study the NPAs and earning capacity includes gross NPA to advances, net NPA to advances, net NPA to total assets, operating profits to total assets, spread to assets, net profit to total assets. The general parameters considered for reasons of NPAs are: market failure, willful defaults, poor follow-up and supervision, non-cooperation from banks, poor legal framework, lack of entrepreneurial skills, and diversion of funds**.** The independent variables for identification of determinants of NPAs in banks are bank specific as well as macro economic factors. This includes priority sector lending, branch expansion, credit deposit ratio, capital adequacy ratio, NPA to total advances etc.

The statistical and financial techniques have been used to examine the NPA level of banks. In order to assess the inter relationship between the variables and their interdependency; pearson's correlation coefficient was used. The parametric tests viz, 't' test, has been conducted for analyzing the significance level correlations in appropriate places. The growth of NPAs along with its components has been tested with the help of compound annual growth rate (CAGR). In order to study the contribution of priority sector lending to NPAs of banks, NPAs of priority, non-priority and public sector has been considered. The correlation matrix analysis was employed to assess the relationship between total advances and total NPAs along with its components. A wide range of ratios has been used as performance indicator. The appropriate regression model has been fitted on the identified variables to study the determinants of NPAs in banks. The opinion of the respondents (branch manager) has been taken based on the rank of the reasons of NPAs from 1st to 6th with regard to the intensity of the parameters. A score of 5, 4,3,2,1 and 0 have been given to ranks 1st , 2nd, 3rd, 4th, 5th and 6th respectively. The frequencies of respondents ranking against each reason in each rank was calculated (by multiplying the corresponding score value) to obtain the total score values. The reason with highest score value is considered as more severe followed by reasons with decreasing order of score values.

The study has covered important aspects of the level of NPAs of SCBs and has displayed in eight chapters. The chapter one *Introductory,* being preparatory in nature presented just now sets forth the parameter of the entire study in both theoretical and problematic framework highlighted the objectives set and hypotheses framed, methodology adopted for collection of data and techniques used for analysis. Chapter two, *The Review of Literature,* is highlighted the review the related literature on asset quality and non performing assets of scheduled commercial banks both in India and abroad. The chapter-3, *Background of Commercial Banks in India,* presents an analysis of the growth and development of commercial banks on the basis of the selected parameters. It has covered an overview of emergence of commercial banks which would provide the background of the whole study. Conceived with the skeleton of the study, the fourth chapter, *Non-Performing Assets and Capital Adequacy Norms: An Outline* has highlighted the quality of assets, the calculation and accounting aspects of NPAs, capital adequacy of banks which covered prudential norms by commercial banks in respect of income recognition, assets classification etc in the context of financial reform. The *Non-Performing Assets of SCBs in Indian Context,* the content of the chapter fifth attempted to assess position of asset quality and trends of NPAs of commercial banks in the national scenario. Taking the queue from the earlier chapters, the chapter six, *Recovery Measures of Non-Performing Assets of Commercial Banks*, is an attempt to reiterate the measures and relevant guidelines taken by Reserve Bank of India and government of India from time to time to arrest unbridled virus of non-performing assets of commercial banks. The seventh chapter, *Management of Non-Performing Assets of SCBs: The Analysis of Data,* diagnosed the recovery practices of loans and the management of non-performing assets of commercial banks in the area under study in the context of national scenario. The final chapter eight, *Findings and Suggestions,* concluded the entire work, has presented a brief summary of main findings and has offered some workable suggestions for better management of NPAs of banks and thereby improvement of working of the commercial banks operating in the districts under study.

3. Major Findings:

Against the aforesaid background relating to NPAs of SCBs, the main findings of the study along-with verification of hypotheses of the study are summarized as follows-

1. The study area has remained far behind the national level in terms of deposits per branch. During the period 1999-2011, the deposit per office increased from Rs. 8.95 crores to Rs.39.4 crores while the same increased from Rs.14.50 crores to Rs.44.65 crores at the national level. On the other hand the advances per branch in the districts have also remained lower than that of the national level. The result of discrepancies reflected in the credit deposit (C/D) ratio. It slipped to 17.0 per cent in 2011, from 20.8 per cent in 1999 in the context of the national average which increased from

55.8 per cent in 1999 to 69.4 per cent in 2008 and further a noteworthy increase to 72.7 per cent in 2011. Hence, the commercial bank in the study area is attributed to poor credit absorption capacity along with lack of entrepreneurial zeal to undertake viable projects.

2. The bank's recovery position was very much poor in almost all the sectors viz, agriculture; small entrepreneurs and trade and services. The recovery of loans in agriculture and allied activities is relatively discouraging to other sectors in the three districts under consideration. The lower recovery indicates erosion of banks profitability and blocking up bank credit from developmental project of the area. The severity of the situation will be cleared when we found Rs. 231.1 lakhs (47.3 per cent) was realized against the total outstanding dues of Rs. 850.3 lakhs under agricultural sector in Karimganj district as on 31-03-11. While in Cachar district Rs. 426.3 lakhs (35.1 per cent) was realized against the total dues of Rs. 1305.9 lakhs in 31-03-11 and in Hailakandi district Rs. 270.3 lakhs (40.6 per cent) was realized against total dues of Rs. 1230.3 lakhs in 31.03.11.

3. Although loan recovery of small sector has been improved during March 1995 to March 2011, a huge amount of total demand has remained as overdue in the districts. The recovery rate for small sector has improved from 29.6 per cent to 55.2 per cent in Karimganj district, 16.9 per cent to 38.5 per cent in Cachar district and 46.3 per cent to 54.9 per cent during the same period. The reasons for poor recovery may be attributed to various other factors such as lack of supervision of end use of fund owing to lack of vehicle and paucity of staffs, defective processing of loan applications, political interference, communication gap between banker and customer etc. The loans sanctioning authority takes undue advantage from such people. As a result, the mounting overdues restricted the bank's lending capacity.

4. The profile of assets portfolio and the extent of NPAs of banks have improved during 2004-2011. The total NPAs of banks in absolute figure recorded at 3.75 times increase while 1.45 times increase at the national level during the same time span. This indicates that the study area could not maintain the national level NPAs reduction rate. The NPA as per cent of advances was 6.6 per cent in March 2004, reduced to 4.1 per cent in March 2011. The same have been much higher than the national level for the comparable years. The present level of reduction of NPAs as per cent of advances may be due to the definitional change introduced by the RBI in 1995-96 and shyness on the part of the banker while granting fresh loan.

5. The matrix analysis of correlation co-efficient of NPA components and advances found that with the increase in the advances, the quantum of NPA has increased at the same proportion. The positive correlation between advances and NPAs (0.98) is statistically significant at 5 per cent and 1 per cent level of significance. The 'r' value of advances with doubtful assets (0.95) and standard assets (0.98) is also significant while loss assets (0.50) are not statistically significant. This indicates that with the increase in advances, doubtful assets and sub standard assets increased but the increasing rate for loss assets is not followed by the rate of increase of advances.

6. The bank wise analysis of NPAs exposed that in absolute term NPAs of commercial banks have been increased in the area under study. It is also clear that throughout the period State Bank of India (SBI) and United Bank of India (UBI) holds maximum share of NPAs to total advances followed by Union Bank (UB) Punjab National Bank (PNB) Bank of Boroda (BB) Punjab and Sind Bank (P & S) Vijaya Bank (VB) Central Bank (CB) Allahabad Bank (AB) Central Bank of India (CBI) Indian Banks (IB) respectively where as the United Commercial Bank (UCo.), hold a very small percentage of NPA of total advances. The coefficient of variation (cv) analysis revealed that variation in respect of the volume of NPAs, State Bank of India (SBI) and United Bank of India (UBI) (cv = 43.76) are well placed (cv = 42.64) than that of other banks operating in the study area as others have attained higher volume of NPAs as fresh accretion over the years. The qualities of assets went down because the quality of advances in Indian public sector banks has deteriorated over the years due to aggressive lending policies undertaken by the banks.

7. The SCBs operating in the area under study has not been performing better in management of bank NPAs as they did not manage their NPAs within the level of 5 per cent of advances. It is found from frequency distribution of NPAs of banks that in March 2000, 4 out of 12 banks had NPA below 2-5 per cent of their advances and 8 had NPA above 5 per cent. The position during March 2000 to March 2011 was not impressive as most of the banks were placed in the group of NPAs with 5 per cent and above. The position is not satisfactory while compared to all India level. In March 2005, 7 out of 27 PSBs in respect of NPAs were placed within 2-5 per cent and 18 PSBs attained NPAs below 2 per cent level in the country. At the national level, 26 PSBs attained NPA below 2 per cent only in 2010-2011.

8. The analysis detected that volume of NPA per branch registered a higher growth (CAGR = 20.97) in contrast to the growth of advances per branch (CAGR = 7.98) and standard assets per branch (CAGR = 6.41) during 1998-2011. Further, volume of NPAs recorded a higher growth rate (CAGR = 20.70) than that of advances (CAGR=10.82) and standard assets (CAGR = 9.94). Thus, the higher growth of NPAs over the years revealed the inefficient profile of the asset portfolio of the banks which may be due to the failure on the part of the banker's for building up market based institutional devise and inappropriate managerial strategy.

9. The analysis relating to priority and non-priority sector NPAs found that the 'r 'value (0.985) between NPA per branch and priority sector advances per branch; and 'r 'value (0.959) between NPA per branch and non priority sector advances per branch, are statistically significant at 1 per cent and 5 per cent level of significance at their respective degree of freedom. This has indicated that with the increase of priority sector lending, there has been corresponding increase in the volume of NPAs. However, it cannot be argued that priority sector lending is the sole factor in enhancing the volume of NPAs in the area under study. The non-priority sector advances have also contributed to the large quantum of NPAs as the 'r' value between NPA per branch and non priority sector advances per branch is significant. Hence, the hypothesis "*Bank's exposure to the priority sector lending led to high level of NPA*" is found invalid. Both priority sector and non-priority sector lending are equally responsible for high quantum of NPAs of public sector commercial banks.

10. The regression analysis relating to factors affecting the NPAs of commercial banks in the study area found that independent variables viz.

priority sector lending, credit deposit ratio, capital adequacy ratio and NPA to advances are considered as perfect determinants of dependent variable ie, NPA of the study area. The influence of individual factors on NPAs has been tested with 't ' value on individual regression coefficients. The priority sector lending and capital adequacy ratio have found statistically significant which indicates that NPAs of commercial banks in the study area have been mounted due to bank exposure to priority sector lending and capital adequacy ratio. Hence, the hypotheses *"the mass social orientation of banks over the years led to insignificant increase in the volume of NPAs"* found to be partially correct as the priority sector lending like lending to agriculture, small entrepreneurs etc, is one of the significant determinants of NPAs. But it cannot be argued that the priority sector is the sole factor for increasing the volume of NPAs. The 't ' value and their respective significance level indicates that the credit deposit ratio and ratio of NPA to advances may not affect much in increasing the quantum of NPAs. This has bestowed with the message of inability or incapacity of banks to take risks and to absorb losses.

11. The study found that commercial banks in the districts mainly rely on loans and advances as source of income. Unfortunately, 4.9 per cent of the total advances become NPA in March 2010. As a result, the profitability of commercial banks under a great stress. Although it increased from Rs. 1445.6 lakhs in March 2000 to Rs. 2629.1 lakhs in March 2002, started to decline and reached to a minimum level of Rs. 343.2 lakhs in March 2010. The lower growth of profits of banks is due to the increase in establishment and operating expenses in the area under study.

12. The impact of NPAs on profitability of commercial banks is checked with correlation analysis between the growth of profit per branch and NPAs per branch for the period (2000-2010). The correlation coefficient found to be (– 0.789) is highly negative and statistically significant at both 5 per cent and 1 per cent level of significance. It indicates that NPA has some negative impact on bank's profits. Hence, the level of NPA adversely affects the profitability of commercial banks. In other words, it may be inferred that per branch increase in NPAs resulted a corresponding decrease in per branch profits. Therefore, our hypothesis *"There exists a significant relationship between NPA and profitability of banks over the years"* is found to be correct. That is the earning capacity and profitability of banks has been affected by the high level of NPAs.

13. In order to examine the reasons of NPAs of banks, six parameters each influencing the large quantum of NPAs is identified in consultation with bank officials**.** The opinion of 60 (sixty) number of branch managers from 149 branches were collected and analyzed. It is found that the major reason for large quantum of NPAs of banks is the willful defaulters. Usually they do not want to repay the loan amount received from the banks. They generally consumed the amount for domestic purposes instead of productive purposes. The market failure of the loanee is appeared in the second rank followed by poor follow-up and supervision of banker's side, lack of entrepreneurial skill, diversion of fund and legal framework.

14. The lack of responsibility among the bank officials is a dishonorable tendency in the study area. When the bank ignores its accountability and obligations as a lender to the borrowers and indulges in acts disregarding such principles it results indirectly later to withdraw on the bank itself, as the borrower-concern is unfavorably affected on account of bank's one-sided actions. This eventually leads to the failure of the project financed leaving idle assets.

15. The need for organizing an effective mechanism to gather and propagate credit information amongst the commercial banks was never felt or implemented. The ancient laws of secrecy of customer's information that was binding bankers in India, disabled banks to publish names of defaulters for common knowledge of the other banks in the system. Corrupt borrowers could easily indulge in availing credit from multiple institutions, or switching to other Institutions after defaulting the earlier ones, and still the affected banks were wholesomely remained uninformed of these facts.

16. The most serious issue before a banker is risk evaluation. The insufficient risk assessment and lack of monitoring is the foremost problem in the way of management of NPAs. There are many magnitudes of the problems which includes project appraisal in the absence of absolute requisite information, inadequate evaluation about the credit worthiness of the prospective clients etc. The unawareness of credit risk and overlooking operational irregularities lead to creation of future risk at post sanction stage.

17. There are number of factors accountable in growing the size of NPAs of commercial banks. A few outstanding reasons for assets becoming NPAs in the study area are mentioned as under :

- ❖ Poor credit appraisal system.
- ❖ Lack of vision/ foresightedness while sanctioning/ reviewing or enhancing credit limits.
- ❖ Lack of proper monitoring.
- ❖ Uncontrolled advances to achieve the budgetary targets.
- ❖ Lack of sincere corporate culture.
- ❖ Inadequate legal provisions on foreclosure and bankruptcy.
- ❖ Change in economic policies/environment at the macro level.
- ❖ Non transparent accounting policy and poor auditing practices.
- ❖ Lack of coordination between Banks and their customers.
- ❖ Directed / schematic lending to certain sectors.
- ❖ The failure on the part of the promoters to bring in their portion of equity from their own sources or public issue due to market turning lukewarm.
- ❖ Lack of commitment towards the work by the bank employees.
- ❖ Political involvement in the administration.

4. Proposed Suggestions and Strategies:

Having analyzed various lacunas of accumulation of large quantum of NPAs in the loan portfolio of banks, following suggestions and strategies are offered for controlling the virus of NPAs and for effective management of NPAs of SCBs.

1. The repayment ethics should be inculcated in the minds of the borrowers by voluntary use of different media ie, television, video films, All India radio and press. The incentives could be offered to the regular payers by financing again or providing bonus or disincentives for the willful defaulters in the form of public crime action or adverse publicity in the news papers.

2. The mounting overdues thwarted the banks' lending capacity in the area under study. The appropriate effort is need to taken to improve the recovery performance. The local leaders do not encourage the loanee to pay it back rather they give assurance for exemption of loan repayment. Consequently, loan is not recovered in future; it becomes difficult to pay it back due to accumulation of heavy amount. Therefore, an immediate action plan in the line of provisions made in the securitization Act. 2002 is necessary to expedite the recovery position.

3. The timely edifice of loan portfolio is essential for effective management of NPAs of commercial banks. Keeping in view the present stipulation of sensitive sector where the instability is escalating gradually, the banks should diversify its services into capital market, consultancy, credit card, housing finance and insurance sector etc.

4. In the wake of expansion regime of credit although the asset quality of banking system has enhanced considerably, banks need to protect against any deterioration of credit quality. The commercial banks need to have a broad system in which the process of risk monitoring is combined with proper risk assessment.

5. It has been observed that there is unexpected rise in fresh accretion of NPAs in some of the commercial banks in the study area. The pre-arrangements must be made to contain the fresh accretion. The surest way of containing NPA is to prevent their occurrences. The tenets of this prevention policy lies on-

- ❖ Proper risk management system in banks.
- ❖ Strong and effective credit monitoring.
- ❖ Open and co-operative working relation between banks and borrowers.

6. The judicial system needs to be revamped to facilitate quicker recovery of dues from the defaulters. It is essential to enforce the securitization Act with more stringent provisions to realize the securities and personal assets of the defaulters.

7. The internal governing factors of banks are accountable for current level of NPAs. The onus, therefore, rests with the banks themselves. The organizational structuring, improvement in managerial efficiency, up-gradation of skill for proper assessment of credit worthiness and a change in the banks attitude towards legal action need to be called for.

8. The macro level policy regulations relating to NPAs should be tailored. The prudential norms of income recognition, asset classification and provisioning must be at par with international standard. The system needs to be more clear and specific to various situation and environment under which banks operate.

9. The specific strategy of writing off loans may be adopted, particularly where the amounts of outstanding loans are small, the security available to the bankers is negligible and the expenses to be incurred might be more the amount likely to be recovered. These may reduce the volume of NPAs to a noticeable level without much loss to the banks.

10. The supervision and follow-up are two sides of the same coin. The regular monitoring makes the borrowers not to divest the funds for purposes other than the purpose for which the loan is sanctioned. Funds should not be sanctioned and released suddenly or immediately rather it required to be done step by step. A personal enquiry may be conducted over the borrowers whose accounts became NPA.

11. The commercial banks in the districts under study mainly rely on loans and advances as source of income. They need greater concentration to the non-interest income particularly on the income from consultancy etc. The cost consciousness among the banks needs to be developed in resource mobilization which should be guided by availability of opportunity for fund deployment in a profitable manner. This may be helpful for reducing the quantum NPAs of banks.

12. The credit management implies an ethical responsibility on the part of the lenders to the borrowers to secure their genuine and bonafide interests. Lenders are thus liable to the borrowers to practice clear and transparent policies, to extend need-based finance, to convey timely sanction, and further to effect in-time disbursements. The recovery should be based on pragmatically calculated anticipated cash flows of the borrower concern, while recovery of installments of term loans should be exclusively out of profits and surplus generated and not through recourse to the corpus of working capital of the borrowing concerns.

13. The amount of priority sector NPAs has not shown any sign of decline and requires government intervention to curb the misuse of lenient lending policies specific to this sector. The quality of lending and recovery in non-priority sector has been improving over the years. However, adequate control measures need to be taken to check uninhibited lending during years of high economic growth.

14. The NPA management cell can be constituted at Head Office and Branch Offices of commercial banks to monitor the cases and to look into the NPA portfolio of every bank branch. This will definitely be a step in the right direction for management of NPAs.

15. For the recovery of NPAs, banks should follow the following measures: a) Debt Recovery Tribunal should implement to recover the NPAs in all the banks; b) Banks should be very careful in considering settlement compromise proposals; c) Banks should try to introduce a system of internal audit of sanctioning of loans before disbursements.

16. The following are some other suggestions offered to deal effectively in reducing and managing the NPAs of banks.

- ❖ Third Basel Committee report on banking supervision should be completely implemented in regular practices of the bank.
- ❖ The IFRS accounting practices need to be adopted to have more transparent and effective accounting system.
- ❖ Introducing KYC norms effectively and client profile cards to have proper monitoring system.
- ❖ Banks should obey the RBI norms and provide facilities as per the norms, which are not being followed by the banks.
- ❖ The staff should be cooperative, friendly and must be capable of understanding the problems of customers so that the customers have a good impression about their bankers.

- ❖ Internet banking facility must be made available in all the banks.
- ❖ Prompt dealing with permanent customers and speedy transaction without harassing the customers.
- ❖ Each section of every bank should be computerized even in rural areas also.
- ❖ More ATM coverage should be provided for the convenience of the customers.
- ❖ The bank should bring out new schemes from time to time so that more people can be attracted. Even some gifts and prizes may be offered to the customers for their retention.
- ❖ 24 hours banking should be induced so as to facilitate the customers who may not have a free time in the daytime. It will help in facing the competition more effectively.
- ❖ The charges for saving account opening are high, so they should also be reduced.
- ❖ The bank should properly disclose the features of the product and services to the customers. Moreover door to door services can also be introduced by bank if they feel fit.
- ❖ The need of the customer should properly be understood so that customer feels satisfied. The relationship value should be maintained.
- ❖ The branch should promote cooperation and coordination among employees which help them in efficient working.

5. Conclusion:

The SCBs have envisaged the paramount improvement in their operation with the introduction of new concepts like income recognition, prudential accounting norms and capital adequacy ratio etc which placed them in a new platform. The banks have stepped forward mainly in expansion of bank branches, mobilization of deposits and channelization of credit. Further the paradigm shift of attitude of financial institutions towards the short term financing has also changed the complexion of SCBs. The undeniable fact remains that Indian banking has huge quantum of NPAs. The NPA reduction is necessary to improve the profitability of the banks and comply with capital adequacy norms. The quality appraisal, supervision and proper follow up undoubtedly will assist to solve the problem. In a situation where nature of clientele is bit complicated, the management must ensure that the right amount of credit is given to the right client. The judicial system need to be restored to have a smooth the progress of quick recovery of dues from defaulters. The pre credit and post credit appraisal should be done more objectively. The banking secrecy act must be amended to enable the publication of defaulter's names and willful default has to be treated as criminal offence. The mounting NPAs of banks deter their financial health in terms of profitability, liquidity and economics of scale of operation. The bank has to take timely action against degradation of performing assets. It is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. The SCBs should be well versed in proper selection of borrower/project and in analyzing the financial statements. The management of NPAs has been an immense task before the bankers because it challenges the banks resistance capacity. The occurrences of NPAs may not avoidable entirely but they can be managed effectively. The fresh incidence of NPAs should be avoided but not at the cost of fresh deployment of credit.

*****