Role of recovery channels in managing Non-Performing Assets in Scheduled Commercial Banks

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Abstract: The issue of Non- Performing Assets (NPA), the root cause of the recent global financial crisis has been drawing the attention of the policy makers and academician's. The Indian banking system has undergone significant transformation following financial sector reforms. It is adopting international best practices with a vision to strengthen the banking sector. The Indian banking sector has been facing serious problems of raising Non - Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks. Several prudential and provisioning norms have been introduced, and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health of the banks. In the background of these developments, this study strives to examine the state of affair of the recovery channels managing Non- performing Assets (NPAs) of the public sector banks in India. The study is based on the secondary data retrieved from Report on Trend and Progress of Banking in India. The study observed that the scheduled commercial banks have achieved a greater penetration in managing Non-Performing Assets.

Key Words: Non - Performing Assets, Profitability, Scheduled Commercial banks, Recovery Channels.

INTRODUCTION:

The assets of the banks which don't perform (that is – don't bring any return) are called Non Performing Assets (NPA) or bad loans. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan. According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset.

ASSET QUALITY REVIEW:

The central bank has been pushing lenders to review the classification of loans given by them as part of an Asset Quality Review (AQR). The resultant sharp surge in provisions for bad debts has eroded profitability, especially at state-owned banks, in recent quarters. The gross bad loans of public sector banks increased to 9.6 per cent as of March 2016, from about 6 per cent a year earlier, RBI data showed.

There was an almost 80 per cent jump in gross bad loans in 2015-16, according to the report. Gross bad loans of Indian banks widened to 7.6 per cent from 5.1 per cent in September and from 4.6 per cent in March 2015. In 2004, gross bad loans in the Indian banking sector touched 7.8 per cent, while the ratio was 11.1 per cent in 2002. "The stress in the banking sector, which mirrors the stress in the corporate sector, has to be dealt with in order to revive credit growth,"

The rise in gross NPA is mainly because of the AQR, RBI said in the report. The AQR conducted by the banking regulator found several restructured advances, which were standard in the banks' books that needed to be reclassified as non-performing. Since a large proportion of standard restructured advances slipped into the NPA category, the overall stressed assets ratio increased marginally to 11.5 per cent from 11.3 per cent in September. RBI said subsequent to the AQR, gross NPAs rose 79.7 per cent year-on-year in March 2016.

Under the Recovery of Debts to Banks and Financial Institutions Act 1993, Debt Recovery Tribunals (DRTs) were set up for recovery of loans of banks and financial institutions. This led to speedy recovery of loans in about 1 year's time as against the average time of 5 to 7 years required in civil suits. While initially the DRTs performed well, their progress suffered as they got overburdened with the huge volume of cases referred to them.

To speed up the process of recovery from NPAs, The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act was enacted in 2002 for regulation of securitization and reconstruction of financial assets and enforcement of security interest by secured creditors. The SARFAESI Act empowers Banks / Financial Institutions to recover their non-performing assets without the intervention of the Court. The Act provides three alternative methods for recovery of non-performing assets, namely: –

- Securitisation
- Asset Reconstruction
- Enforcement of Security without intervention of the court

Secured creditors are given the power to take possession of the securities in the event of default and sell such securities for the purpose of recovery of the loan. The Act provides for enforcement of Security interest by a secured creditor without intervention of the court, in cases of default in repayment of installments and non-compliance with the notice period of 60 days after the declaration of the loan as a non-performing asset.

REVIEW OF LITERATURE:

Kumar (2013) in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non - performing Assets (NPAs) have become a trouble and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non - performing assets (NPAs). Kaur K. and Singh B. (2011) in their study on Non - performing assets of public and private sector banks (a comparative study) studied that NPAs are considered as an important parameter to judge the performance and financial health of banks. Siraj. K.K and Prof. (Dr). P. Sudarsanan Pillai, in their study, A Study on the Performance of Non-Performing Assets (NPAs) of Indian Banking during Post Millennium Period, found that NPA still remains a major concern for banks in India.

OBJECTIVES OF THE STUDY:

- To study the status of Non Performing Assets of Indian Scheduled Commercial Banks in India.
- To know the recovery of NPAs through various channels.

LIMITATION OF THE STUDY:

The important limitations are as follows:

- The study of non - performing assets of SCBs is limited from 2007-2008 to the end of the financial period 2014 - 2015.
- The entire NPA data is collected from Reserve Bank of India publications.

SOURCES OF DATA:

The data collected is mainly secondary in nature. The sources of data for this article is include the literature published by Indian Banks and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

METHODOLOGY OF STUDY:

For our study, we have considered Non Performing Assets in Scheduled Commercial Banks which includes public sector banks, private sector banks and foreign banks which are listed in the Second Schedule of the

Reserve Bank of India Act, 1934. The study is based on secondary data. RBI Report on Trend and Progress of Banking in India for various years, websites and a book on banking has been referred during the study. Population banking industry is taken for the study, where aggregate data related to NPA for Public sector Banks, Private Sector Banks and Foreign Banks is used. Time - Period of the Paper eight year's aggregate data from 2008 to 2016 is used for the study.

RECOVERY CHANNELS:

Some measures are designed to maximize the NPAs recoveries in Indian banking. The Central government and RBI have taken steps for controlling incidence of fresh NPAs and creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. They are:

1. One Time Settlement Schemes

This scheme covers all sectors sub – standard assets, doubtful or loss assets as on 31st March 2000. All cases on which the banks have initiated action under the SRFAESI Act and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR are covered. However cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs. 10crores, the minimum amount that should be recovered should be 100% of the outstanding balance in the account.

2. Lok Adalats

Lok Adalat institutions help banks to settle disputes involving account in "doubtful" and "loss" category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism has proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel is expected to pick up in the coming years.

3. Debt Recovery Tribunals (DRTs)

The Debt Recovery Tribunals have been established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. The Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.

4. Securitization and SARFAESI Act

Securitization is a relatively new concept that is taking roots in India of late. Securitization is considered an effective tool for improvement of capital adequacy. Securitization can also help in reducing the risk arising out of credit exposure norms and the imbalances of credit exposure, which can help in the maintenance of healthy assets. The SARFAESI Act intends to promote Securitization, pool together NPAs of banks to realize them and make enforcement of Security Interest Transfer. The SARFAESI Act - 2002 is seen as a booster, initially, for banks in tackling the menace of NPAs without having to approach the courts.

Table 1: Showing NPAs recovered by SCBs through Lok Adalats (in Billions)

Item	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. of cases referred	1,86,535	5,48,308	7,78,833	6,16,018	8,40,691	16,36,957	9,131,199
Amount involved	21.42	40.23	72.35	52.54	66	232	887
Amount recovered	176	96	112	151	4	14	43
% of amount recovered	8.2	2.4	1.55	2.87	6.1	6.2	4.8

Source: Different annual reports of RBI

The above table is showing NPAs of commercial banks recovered through Lok Adalats during the study period of 2008 to 2015. From the analysis of the table, it is clear that the number of cases referred to Lok Adalats for the recovery of NPAs of commercial banks has increased largely in 2013-14 as compared to 2009-10. However, if we look at the amount recovered by Lok Adalats during the study period, it shows a wave movement and then it shows improvement from 2010 to 2014, but it is much less than the other recovery channels. Due to its inefficiency in recovering, the amount involved in NPAs, the commercial banks resorting to others means of recovery.

Table 2: Showing NPAs recovered by SCBs through DRTs (in Billions)

Item	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. of cases referred	2004	6019	12872	13,365	13408	28258	171113
Amount involved	4130	9797	14092	24,1	310	553	3789
Amount recovered	3348	3133	3930	41	44	53	531
% of amount recovered	81.1	32.00	27.89	17	14.1	9.5	14

Source: Different annual reports of RBI

Table 2 is showing NPAs of commercial banks recovered through DRTs during the study period of 2008 to 2015. From the analysis of the table, it is clear that the number of cases for the recovery of NPAs referred to DRTs is increasing throughout the study period and also the amount involved in these cases. DRTs shows their efficiency in 2008-09 where it recovers 81.1% of the total amount involved in NPAs and in later years also the amount recovered by DRTs is quite significant. This is the basic reason why the commercial banks are approaching DRTs for the recovery of their NPAs as compared to Lok Adalats in which the percentage of recovered amount of NPAs is very low.

Table 3: Showing NPAs recovered by SCBs through SARFAESI Act (in billion)

Item	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. of cases referred	61,760	78,366	1,18,642	1,40,991	1,90,537	1,94,707	1241086
Amount involved	12067	14249	30604	35300	681	953	4705
Amount recovered	3982	4269	11561	10100	185	253	1152
% of amount recovered	33.0	30.0	37.78	28.6	27.1	26.6	24.5

Source: Different annual reports of RBI

Table 3 is showing NPAs of commercial banks recovered through SARFAESI Act during the study period of 2008 to 2015. From the analysis of the table, it is clear that the number of cases referred to SARFAESI Act and the amount of NPAs involved is increased largely during the study period. This is done because of the efficiency of SARFAESI Act in recovering these NPAs of commercial banks. From the table it is clear that the SARFAESI Act is able to recover 24.58% of the amount of NPAs of the cases referred to it in the year 2014-15. In 2008 recovery percentage was quite higher 33.0% this act has emerged as a blessing in disguise for the commercial banks as now they are using this act largely in recovering their NPAs in order to increase their profitability.

CONCLUSION:

The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that extent of NPA is comparatively very high in public sectors banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The study reveals that the performance of SARFAESI Act is more superior than the other recovery channels throughout the study except in the 2008-09. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem.. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

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