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Recovery Channels In Managing The Non Performing Assets Of Commercial Banks In India

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Abstract

The assets which do not generate any income for the banks are termed as Non –Performing Assets. Over the last few years mounting NPAs are witnessed by the Indian Banking Sector. Various channels are introduced by the Government and the Reserve Bank of India for the recovery of these NPAs. There is an impact on the profitability and the liquidity of the Banks due to these huge bad Assets. This paper evaluates the effectiveness of the recovery channels like Lok Adalats, DRTs and SARFAESI Act in the NPA recovery from 2013-14 to 2017-18.

Key words: Banks, NPA, Recovery channels.

Introduction

In any country for the development of its economy Banks play an important role. The Banks help for the growth and development of the needed sector by providing credit for them. Everything is fine as long as the loan amount is paid regularly on time. The problem arises when there is any default in the repayment. The Bank's efficiency is judged on the basis of their profitability and the quality of its assets. Until 1991 the quality of the assets was not of much importance. The Narasimham Committee in 1991 found that the Banks have become financially weak because of the huge amount of NPAs. When there is no income from the Assets they are called as Non Performing Assets. The profitability and the liquidity of the Banks are affected by the NPAs. When Prudential norms were introduced by The Reserve Bank of India in 1992-93 NPAs came out as the latest issue. Before the introduction of the Prudential norms an Asset will be considered as Non Performing if it remains unpaid for more than 180 days. As per the prudential norms 180 days was reduced to 90 days with effect from 31st march 2004. Instead of taking measures to recover NPAs Banks should try and stop this at the time of credit appraisal itself. For the sound health of the Banking business timely payment of the principal and interest amount is essential. A serious problem will be created if there is default in the payment. The problem of NPAs faced by the Public Sector Bank is big when compared to the Private Sector Banks.There are various channels of recovery designed by the RBI for the recovery of NPAs.

Review of Literature

1. Rajeshwari Krishnan (2002) focused on the problem of unmanageable NPAs which have become a threat to the financial sector. She has given a conclusion that SARFAESI Act not only helps in NPA management

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but also in securitization of Indian market. She further states that in order to bring in 'natural justice' this Act is still required to be sharpened.

2. Jayachandra and Vases (2003) in their study "Management of Non-Performing Assets in public sector banks" states that NPAs are one of the serious problem faced by the Indian Banking Industry. Reduction of NPAs is a must for improvement in the profitability of the banks and complying with the capital adequacy norms. Proper care must be taken for credit appraisal, supervision and follow up of advances to avoid NPAs in future. DRT's, ARC's, Lokadalats will play an important role in recovery of NPAs.
3. Kamashetty (2004) in the article "Recovery management: Securitization Act-A toothless tiger" states that in any banking activity risk always prevails and is inherent. The PSB's are having huge NPAs/Bad loans. The Government of India have introduced various measures to solve the problem of NPAs but still not successful in eradicating it. The SARFAESI act 2002 when introduced was seen as a great sign of relief to the NPA problem but it seems to have more weakness than strengths. There must be a clear explanation from the government regarding the handling of cases relating to this securitisation act by the DRT's
4. Khasnobis S. (2005) in the research "NPA- an emerging challenge in India" found that the large impaired assets which include industrial assets possess good restructuring potential. The small assets have to be put through a recovery process. The recovery process should be speeded up for the successful management of NPA.
5. John k and Philip Thomas (2006) in their study focused on the NPA recovery through DRTs. The study concluded that only a meagre amount is received through DRT and an elevated NPA in the Banking industry is a major challenge to the National economy. The existing recovery mechanism is inadequate and for the better management of NPA it has to be Streamlined.
6. Sundaraman. S (2008) has considered the factors responsible for the judgement delays in the cases of NPAs in DRT and DRATs. He suggested that for the unscrupulous disposal of the secured assets, the banks and other financial institutions should take some effective measures which will put some pressure on the borrowers concerned.

Research Methodology

Objectives of the Study

1. To understand about the Recovery channels for NPAs

2. To study the role of recovery channels such as Lok Adalats, DRTs and SARFAESI in the recovery of NPAs

Hypotheses of the Study

1. There is a significant difference between the number of cases referred in Lok Adalats, DRTs and SARFAESI Act.

2. There is a significant difference between these recovery channels in terms of recovery.

Tools used

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SPSS Anova is used for this study

Scope of the study

The competitiveness and the stability of the banks is affected by the increasing amount of NPA which is really alarming. The credit cycle of the Bank will be affected due to NPAs and as a result the economy of the country is also affected as the Bankers will not be willing to lend further. When there si a proper recovery channel it will motivate the bankers to lend as a result the profitability of the banks will also improve.The study will try to measure the importance of these channels in terms of recovery.

Sources of Data
Secondary data has been collected from RBI websites,journals and magazines.

Limitation of the study
The data which is used for the analysis of the study is only for the period from 2013-14 to 2017-18

Classification of Banking Assets
Banking Assets are classified as Standard Assets and Non Performing Assets. The Non Performing Assets are further classified as Sub Standard Assets, Doubtful Assets and Loss Assets.
Sub-standard Assets: Assets which remain as NPA for less than or equal to 12 months are called as Sub-standard Assets.
Doubtful Assets: Assets which remain in the Sub-standard category for 12 months are called as Doubtful Assets.
Loss Assets: When the Bank/RBI team identifies loss in the Assets which are not fully written off these are called as Loss Assets.
There is stress in the Banking sector and the Indian economy due to the constant deterioration in the Asset quality. There are many recovery tools for NPA which are as follows :

1. Lok Adalats
   It was formed under the Legal Service Authority Act 1987. The Idea was advocated by the former chief Justice of India Justice P.N. Bhagwati. The Assets which come under the category of "doubtful" and "loss" and loan amounts to the extent of Rs.5 lakhs are taken care by the Lok Adalats. This is highly effective in settling the disputes regarding small loans even though it is not a legal procedure. Suit filed cases and Non-Suit filed cases are dealt in Lok Adalats.

2. SARFAESI ACT 2002
   As per the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (Sarfaesi Act) 2002 Banks have the power in Issuing demand notice if there is a default of Rs. 1 lakh or more by the borrower and the guarantor. Within 60 days of receiving this notice the Borrower has to repay the amount and his assets cannot be disposed without getting the consent of the lender. There are three alternative methods provided by this Act for the recovery of NPAs i.e., Securitisation, Asset Reconstruction and Enforcement of Security without intervention of the Court.
3. DEBT RECOVERY TRIBUNALS
   For the recovery of NPAs more than Rupees 10 Lakhs there are special courts named as DRTs which were formed to solve the disputes between the borrowers and the lenders. The ordinary courts take a very long time in settling these disputes. Whereas the DRTs are very fast in settling the disputes and give the verdict. In the initial stages the DRTs performed really well but as more and more cases were referred their performance too have suffered.
4. COMPROMISE SETTLEMENT

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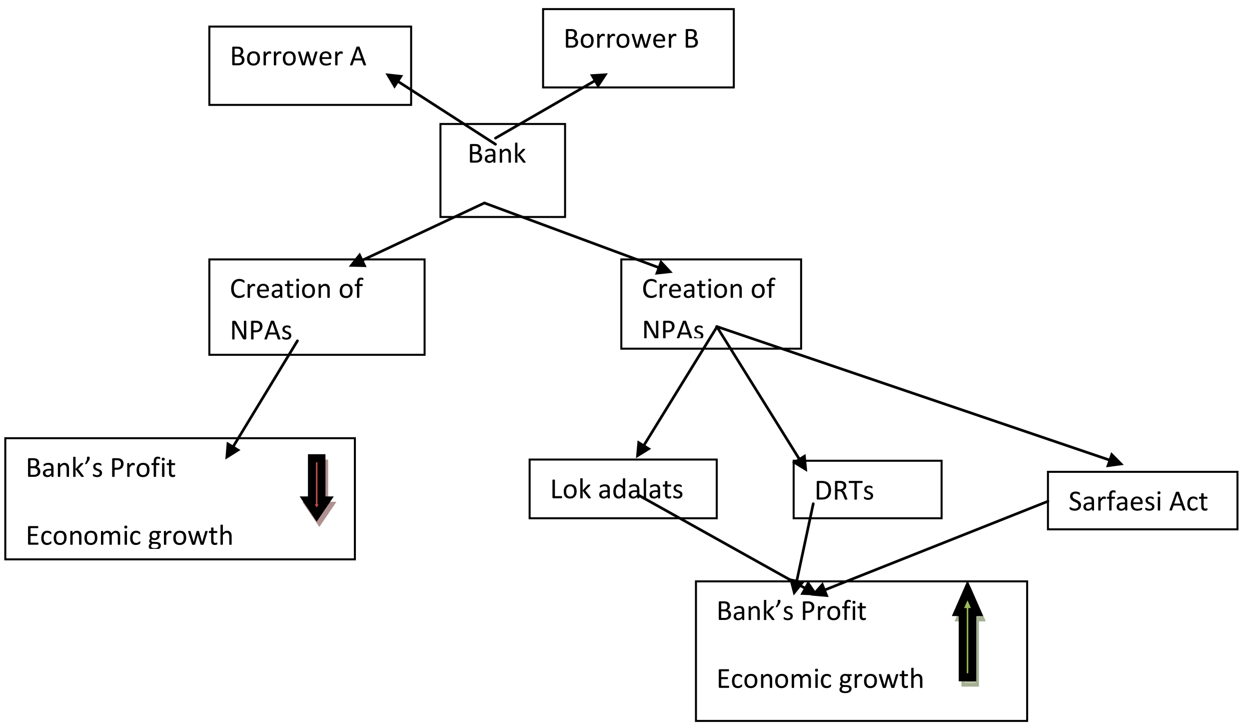
When the Banks compromise to accept a lower amount then the amount in default at a single time it is called as One Time Settlement or Compromise Settlement.It is a loss to the banks on a one time basis.

Importance Of Recovery Channels

In May 2016 the Indian Parliament passed "The insolvency and bankruptcy code,2016"(IBC) to surpass the laws which are already inexistence for bankruptcy and insolvency. After the implementation of the IBC and the amendment of the Sarfaesi Act the recovery of the Indian Banks have improved in 2017-18. In just two years there is a huge success by the IBC in the recovery rate of NPAs which is almost 49.6% according to the RBI data. When compared to the other recovery channels this is a higher rate of recovery.



The above figure gives a clear idea about the importance of Recovery channels. In case of Borrower A when he does not pay the loan amount there is a reduction in the profit of the Bank and the Economic growth. But in case of borrower B when the recovery process is handed over to the recovery channels there is an increase in the Bank's profit and the Economic growth.

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Analysis and Interpretation

TABLES

Table 1 Number of cases of NPAs referred.

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Year	Lok Adalats	DRTs	SARFAESI Act
2013-14	1,636,957	28,258	194,707
2014-15	2,958,313	22,004	175,355
2015-16	4,456,634	24,537	1,73,582
2016-17	3,555,678	32,418	1,99,352
2017-18	3,317,897	29,551	91,330

The analysis shows that the number of cases referred for recovery is more in Lok Adalats when compared to Drts and Sarfaesi Act

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	3.66E+13	3	1.22E+13	46.14107	0.0000000422	3.238872
Within Groups	4.23E+12	16	2.64E+11			
Total	4.08E+13	19				

There is a significant difference between the number of cases referred to various channels. Since the P value is less than 0.05 Null hypothesis is rejected.

Table 2 Amount involved and recovered through various channels (In Billion)

Year		Lok Adalats	DRTs	SARFAESI Act
2013-14	Amount Involved	232	553	953
	Amount Recovered	14	53	253
	Percentage	6	9.6	26.6
2014-15	Amount Involved	310	604	1568
	Amount Recovered	10	42	256
	Percentage	3.2	7	16.3
2015-16	Amount Involved	720	693	801
	Amount Recovered	32	64	132
	Percentage	4.4	9.2	16.5
2016-17	Amount Involved	361	1008	1414
	Amount Recovered	23	103	259
	Percentage	6.3	10.2	18.3
2017-18	Amount Involved	457	1333	1067
	Amount Recovered	18	72	265
	Percentage	8	5.2	24.8

A comparative analysis shows that the Percentage of amount recovered by the Sarfaesi Act are more when compared to the other Debt Recovery Channels over the past decade.

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ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	900.442	3	300.147 3	35.525 65	0.000000265	3.238872
Within Groups	135.18	16	8.44875			
Total	1035.622	19				

Results

The Results prove that there is a significant difference between the percentage of amount recovered through Lok Adalats, DRTs and SRFAESI ACT. Since the P value is less than 0.05 Null hypothesis is rejected.

Suggestions and Conclusion:

The Recovery channels which are established by RBI are not performing upto the mark. The laws framed by the government are of a decade old. Therefore new laws have to be framed as per the current requirement. The process of recovery should be simple and less time consuming. There must be a strict legal action against the willful defaulters. The Banks must be able to collect information about the borrowers at the time of credit appraisal itself. Appropriate measures must be taken by the banks in addition to the government and the RBI to reduce the problem of NPAs.

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