MANAGEMENT OF NON-PERFORMING ASSETS OF COMMERCIAL BANKS : A CASE STUDY OF THE SOUTH INDIAN BANK LIMITED

By

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THESIS

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DECLARATION

I hereby declare that the thesis entitled "**MANAGEMENT OF NON-PERFORMING ASSETS OF COMMERCIAL BANKS : A CASE STUDY OF THE SOUTH INDIAN BANK LIMITED**" is a bonafide record of research work done by me during the course of research and the thesis has not previously formed the basis for the award to me of any degree, diploma, fellowship, associateship or other similar title, of any other University or Society.

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INTRODUCTION

CHAPTER I

INTRODCUTION

The financial sector plays a major role in the mobilisation and employment of savings in an economy. Financial institutions, instruments and market which constitute the financial system act as a conduit for the transfer of financial resources from net savers to net borrowers, i.e., from those who spend less than they earn to those who earn less than they spend. This process of financial intermediation supports increasing capital accumulation through the institutionalisation of savings and investments and as such, foster economic growth.

The functional transformation of the commercial banking system in India – the most important financial intermediary, is significantly characterised by unprecedented growth in lending, consistently accompanied by low recoveries. The recovery aspect of lending was neither considered strategic nor could find a place in the business policy of any bank upto the eighties. It was the growing blockage of huge funds in overdues and the poor recoveries that compelled bankers to consider recovery as a key performance.

1. 1 Significance of the Study

In the past, commercial banks used to take into their income account, the interest debited in all the borrowal accounts irrespective of the fact whether such borrowal accounts were healthy and the borrowers have been able to service the past instalments and interest. Such practice, apart from enabling the banks to account for interest income which may not be realised, also helps the bank to present a rosy picture about their profits and performance while publishing the annual results. The balance sheets of banks drawn upon the basis of such accounting practice were not very transparent and reflective of their actual financial health.

Hence in August 1991, the Government of India appointed a Committee – The Committee on Financial Sector Reform under the Chairmanship of M.Narasimham to examine all aspects relating to the structure, organisation, functions and procedures of the financial system and to suggest remedial measures to enhance its efficiency, productivity and profitability. The Committee which submitted its first Report in November 1991 made several far reaching proposals to remove the rigidities afflicting the financial system besides rejuvenating it. The RBI accepted the recommendation of the Committee with regard to the introduction of the norms of income recognition, assets classification and provisioning and advised the banks to implement the same in a phased manner beginning from 1st April, 1992. One of the most important recommendations of the Committee was to classify the assets of the banks into performing assets (PA) and non-performing assets (NPA) for which guidelines were put forward by the Committee.

Since then all banks have been making efforts to contain the NPA level and to reduce the drag on the profitability. Even as individual banks devised policies for containing of NPAs, the magnitude of the problem of slippage of standard advance to NPA category has become a cause of permanent concern. NPAs adversely affect the liquidity position of the banks and make them financially weak. Higher NPA ratio shakes the confidence of investors, depositors, lenders, etc., and make the supervisory authority strict and rigid in its attitude. If this trend is not checked, it would adversely affect the capacity of the banks to provide timely and adequate credit and thus hamper the economic development of the country.

1. 2 Objectives of the Study

The objectives of the study are :

i) To assess the volume and composition of Non-Performing Assets (NPAs) of the South Indian Bank Ltd.(SIB)

ii) To identify the major determinants of NPAs and

iii) To examine the existing institutional arrangements for reducing and recovering NPAs.

1. 3 The Organisation Under Study – The South Indian Bank Limited – A Profile

The South Indian Bank Limited was founded on 25th January 1929 by a group of like minded people at Thrissur, a major town in the erstwhile State of Cochin, to free the business community from the clutches of usurious money lenders and also provide to the society a safe and reliable repository of their savings at a time when the regulatory frame work covering the banks was weak and bank failures were not uncommon.

The Bank commenced its business as a private limited company with an equity of Rs. 22,000 contributed by 44 shareholders. When the bank finalised its accounts on 31-12-1929 it had one branch, three employees and a total business of Rs. 4.73 lakhs. The Bank was converted into a public limited company on 11-8-1939. The Bank's growth during its 18 years of pre-independent existence was steady and measured. During this period the Bank had to establish itself and gain the confidence of the community. It had successfully tideover the banking crisis of 1933 when the Travancore - Quilon National Bank failed. It not only emerged unscattered from the Kerala banking crisis of 1960 but also became stronger by taking within its fold 15 small private sector banks in 1964. Though in the initial years the Bank operated in and around Thrissur it could not continue its operations to Kerala for long. In 1941 the first branch of the Bank outside Kerala was opened.

Today the Bank is serving the community through its 361 branches and 54 extension counters spread over a wide area. The Bank's capital adequacy ratio stood at 10.4 per cent as on 31-03-1999 which is well above the benchmark of 8 per cent prescribed by the RBI. Above this, the Bank is taking steps to put in place an effective Asset – Liability Management (ALM) system in line with the guidelines issued by the RBI in February, 1999. In accordance with the guidelines of the RBI, the Bank's totally computerised branches and administrative office are Year 2000 (Y2K) compliant.

1.3.1 Management and Organisational structure

The management of the Bank is vested with Board of Directors which unless otherwise determined by the general body meeting consist of not more than nine members and not less than seven members. Every year by rotation one third of the Directors who have been in the office since their last election are liable to retire.

The Board of Directors appoint one among themselves as the Chairman of the Board of Directors and another as Deputy Chairman for a period not exceeding five years at a time. The Chairman presides over the meeting of the Board. Subject to superintendence, control and direction of the Board of Directors, the Chairman shall be entrusted with the management of the whole affairs of the company and shall be a wholesome employment of the company. The Chairman shall represent the Bank in all suits and other legal proceedings and shall have the power to engage the advocates, solicitors and other agents for and on behalf of the Bank and shall sign all plaint written statements and other documents and papers for and on behalf of the Bank. With the previously obtained sanction of the Board of Directors, the Chairman may delegate the powers conferred to him by the Article of Association or by the Directors to such other officer or officers of the Company jointly or severally as he thinks fit.

1.3.2 Performance of SIB Ltd.- Selected Indicators

The Bank during its seven decades of existence has made far reaching progress. This progress made by the Bank is assessed on the basis of selected indicators, viz., its liabilities and assets, branches, personnel strength and net profits which is depicted in Table 3.1.

Although the aggregate of the working fund of the Bank comprising of deposits, capital, reserves and surpluses, and other liabilities and provisions has been increasing in absolute terms over the period under consideration, the trend has not been so compared to the previous years in many years, when individual items are considered. A remarkable deviation from this increasing trend in working fund is seen in the borrowings of the Bank. The year 1996-97 shows a steep (-147.09 per cent) decline in the borrowings of the Bank which again got further reduced in 1997-98 (-39.69). A decline in the borrowings of the Bank is an indication of availability of funds with Bank. Due to adequacy of funds it might have not been necessary for the Bank to borrow from the RBI or other banks and hence the borrowings of the Bank stood at a very low level in 1996-97 and 1997-98.

The asset of the Bank in aggregate also show an increasing trend in general, although the growth rate has not been uniformly increasing. It is to be noted that when the borrowings of the Bank stood at the lowest in 1997-98 (Rs. 29.93 crores) the cash and balance with the RBI stood at the highest which further reinforces the

Table 1.1 Performance of SIB Ltd.- selected Indicators

1994-95 to 1998-99

Sl.No.	Particulars	1994-95	1995-96	1996-97	1997-98	1998-99
1.	Capital and liabilities					
	i) Deposits	1515.53	1723.88(12.09)	2096.59(17.77)	2738.27(23.43)	3122.56(12.31)
	ii) Capital	14.15	14.16 (0.07)	14.18 (0.14)	19.28 (26.45)	35.48 (45.66)
	iii) Reserves & surplus	51.07	64.35 (20.64)	67.48 (4.63)	93.33 (27.70)	128.01 (27.09)
	iv) Borrowings	75.85	103.31 (26.58)	41.81 (-147.09)	29.93 (-39.69)	107.54 (72.17)
	v) Other liabilities and provisions	79.35	149.40 (46.88)	147.65 (-1.18)	183.27 (19.44)	188.47 (2.76)
	Subtotal	1735.97	2055.10(15.53)	2367.72(13.20)	3064.08(22.73)	3582.08(14.46)
2.	Assets					
	i) Cash and balance with RBI	258.09	236.80 (-9.0)	226.62 (-4.49)	267.23 (15.20)	264.62 (-0.98)
	ii) Balance with banks and money at call and short notice	7.92	60.67 (86.95)	56.78 (-6.85)	199.17 (71.49)	304.74 (34.64)
	iii) Investments	667.71	631.96 (0-5.66)	832.27 (24.07)	1006.13(17.28)	1199.71(16.14)
	iv) Advances	742.77	1028.40(27.77)	1154.36(10.91)	1463.22(21.11)	1664.66(12.10)
	v) Fixed assets	9.46	24.02 (60.62)	24.59 (2.32)	24.14 (-1.86)	28.14 (14.21)
	vi) Other assets	50.03	73.25 (31.70)	82.03 (10.70)	101.22 (18.96)	120.20 (15.77)
	Subtotal	1735.97	2055.11(15.53)	2367.72(13.20)	3064.09(22.73)	3582.09(14.46)
3.	Branches (Numbers)	333	350 (4.86)	350 (-)	354 (1.13)	361 (1.94)
4.	Personnel (Numbers)	3813	3901 (2.26)	3841 (-1.56)	3770 (-1.88)	3785 (0.40)
5.	Net profit	14.80	4.62 (-220.35)	7.77 (40.54)	20.74 (62.54)	6.08(-241.12)

Source : Annual Report, 1994-95 to 1998-99

Note : Figures in parenthesis show growth index over the previous year.

availability of funds with the Bank. Investments show an increasing trend except during 1995-96 because the Bank as part of prudent accounting policy invested a much higher than the statutorily required amount in the government and other approved securities.

The net profit of the Bank shows wide variations during the reference period. It has drastically declined in 1998-99. One of the major reasons for this low profitability may be the high provisioning for NPAs.

From the above discussion it is concluded that though the Bank has been able to increase its deposits, advances, investments, reserves and surpluses, etc., the net profit which is the prime factor for survival is to be increased significantly for which management of NPAs is crucial.

1. 4 Scope and Limitations of the Study

The study is confined to Trichur Region where the Head Office of the SIB is situated. Out of the 57 branches of the Bank in the Trichur Region five branches were selected for the study. It was found that there was some variation in a few cases of secondary data, collected from various sources, in which case, data from the most reliable sources have been used.

1 . 5 Practical Utility

The present study which is an attempt to assess the volume and composition of NPAs of SIB reveals the state of affairs of the credit portfolio of the Bank. The schemes/sectors where the Bank has to pay more attention is revealed by the sector-wise analysis of NPAs. The identification of the reasons for NPAs enable the Bank to take corrective steps whereever necessary. The difficulties faced while dealing with the Bank and the operational problems of their venture are also revealed from their perceptions. Examination of the present institutional arrangements for reducing and recovering of NPAs help to identify the loopholes and to initiate better recovery mechanism in future. The inferences drawn will be useful not only to the SIB Ltd., but to the banking sector as a whole. All together it would be an addition to the existing knowledge of NPA management.

1. 6 Organisation of the Report

The Report is orgnaised in five chapters. The first chapter deals with objectives, significance of the study, a profile of the organisation under study, scope and limitations and practical utility. The second chapter looks into the review of literature relevant to the topic of study. The third chapter gives a detailed explanation about the concept of NPA and the methodology of the study. The fourth chapter deals with results and discussion and the last chapter with summary of findings and conclusion of the study.

Chapter – II

REVIEW OF LITERATURE

CHAPTER II

REVIEW OF LITERATURE

In the world of banking and finance nothing stands still. The biggest change is in the scope of the business of banking. But, the traditional function of banks, i.e., acting as financial intermediaries between savers and investors by accepting deposits of money from large number of customers and then on lending on those who wish to borrow still occupies utmost significance. The deposits are to be repaid on due dates or on demand depending on the nature of the deposits. Similarly, the money advanced should come back on due dates or demand depending on the nature of advance.

In the past, particularly before nationalisation of banks, there was not much problem to get back the funds lent as per the repayment schedules because banks primarily entertained well to do clients who were otherwise creditworthy. There were limited cases of small loans. Even in such cases the loans were fully secured. But the nationalisation of commercial banks has marked a new era of progress of credit supply to the small borrowers, and with the shift from security-oriented lending to the purpose- oriented lending and need based credit there is a general deterioration in the repayment habit of the borrowers.

Thus despite unparallel progress and performance of banks after nationalisation on account of pre–emption of reserves, directed credit and concessional lending, profit/profitability of banks have become a matter of concern. With the introduction of the concept of NPA which was brought about by the Banking Sector Reforms initiated in 1992, the subject matter has drawn imense interest of academicians and bankers.

The review of available literature on NPAs and related areas is organised under three sections.

2.1 Reasons for NPAs

2.2 Consequences of NPAs

2.3 Methods to overcome the problem of NPAs

2.1 Reasons for NPAs

Credit is a delicate matter and has to be handled with care, so that it comes back in the right time. But in real situation it is always practically impossible to get back whatever it lent, ultimately leading to mounting NPAs over the years. The causes for loan accounts to turn into an NPA account as identified by different authors are presented forth with.

Pandey (1983) has stated that inadequacy of prompt supervision and disbursement of credit without taking into consideration the repayment capacity of borrowers are the main reasons for overdues.

Mallya (1984) has pointed out that lack of proper follow-up to ensure the end use of the loan as also whether the activity is carried on as proposed; inability of the banks to cope up with the workload; lack of necessary infrastructure including the required manpower; and continued political interference as the reason for the low recovery of loan.

Having examined the repayment performance of borrowers Patil and Karkal (1985) concluded that the various factors relating to the structures, procedures, legislative provisions, accounting systems, administrative delay, general physiological atmosphere induced by socio-political environment, etc., contribute to and reinforce the default of repayment of loans.

According to Krishnakumari (1988), the common causes of overdues are numerous like inadequate income; natural calamities; death of livestock; inadequate supportive facilities; misutilisation / diversion of fund; delay in loan sanctioning and disbursement; defective lending policies, inadequate staff for proper supervision and follow up ; multiple financing of borrowers; lack of appropriate mix between credit and marketing; inaccessible villages for contacting the borrowers; lack of honesty, sincerity and motivation on the part of members of staff concerned with recovery work; financial indiscipline on the part of borrowers and lenders at different level and crisis in values in public life lending to permessiveness; and indiscipline among the local lenders instigating borrowers not to repay the loan.

Jain (1989)from his study on "Rural bank and rural Poor Problems and prospects" has attributed inadequay of income, unwillingness to repay, lack of recovery efforts, death of animals; illness of borrowers /family members, corrupt practices, non-availability of securities for obtaining subsequent loans and mode and source of repayment to be the reasons for non-repayment of loans.

The study on "Recovery of Agricultural Advances made by State Bank of India in Orissa" by Jagannath and Altaf (1992) revealed that the poor recovery performance in the State is due to various socio and agro-economic factors. Besides, the caste and illiteracy do have significant relation with repayment process.

Shanker (1993)has opined that the perennial problem of overdues is due to certain fundamental shortcomings in our legal system which is loaded against the bank.

The main factors pointed out by Toor (1993) behind the transformation of assets from performing to non-performing are inability to cope up with the voluminous work due to fast geographical expansion, quantitative target fixed for fast credit expansion; lack of close supervision, monitoring and follow-up; lack of awareness and basic education to borrowers , lack of adequate care while appraising the proposal in initial stage; dispute and difference over the health position of the borrowing units among the bankers and borrowers; non-viable units being financed by bank, delay in payment of supply bills by government organisations and large units; lack of quality consciousness and poor marketing method of the products; deliberate efforts by certain category of borrowers to declare their unit sick and weak to avail of pecuinary benefits; and government policies like incentives, concessions, loan waiver, extension and postponement of recovery.

Jagannath and Atlaf (1993) in their study "Priority Sector financing and their practical problems" have come to the conclusion that under the "Loan mela" the banks are under pressure to disburse loans to thousands of loan seekers and often to undeserving people which ultimately lead to recovery problem.

Jagannath and Atlaf (1993) have classified the factors responsible for the heavy incidence of overdues into internal and external factors, in their study "What ails to small business recovery". The internal factors are defective loaning policies, weak monitoring and supervision, apathy towards recovery, failure to link lending with development and to ensure proper use of loan, etc. Among the external factors are political interference, wilful defaulters, lack of legal and administrative support from state government in the matter of loan recovery.

Shanker (1993) has attributed advances against hypothecation of assets which can hardly be called a charge, law of limitation which restricts the legal enforceability of a debt to three years from date of its demand; absence of any bank machinery to probe into the debtors assets, get details and then file an execution petition; loan melas; and lack of professionalism in credit appraisal as the reasons for NPAs.

Dash (1996) has revealed that a number of follow-up visits by bank's staff have positive relation with recovery. Therefore, maintaining continuous laison with borrowers is imperative for good recovery performance.

Kalyan (1994) has expressed that credit management efforts of banks were so long following a known pattern and an indigenous concept of health code system could not give enough thrust to provide new direction to it. Irrational lending and socio-political pressure have compounded the problem leading to highly constrained situation where erosion of net worth of banks is taking place due to poor state of credit management alone.

Gogoi (1996) says that ability of a borrower to repay the loan is affected by lengthy loan procedures, general inflation, consequent increase in cost of living, and inadequate loan amount.

Reddy and Rao (1996) have found out that the performance of a bank in recovering its loan are influenced by defective loan policies and procedures, failure of bank to initiate prompt action for recovery, inadequate supervision, political influence, loan waiver scheme and interest rebates, and lack of active support from the state government.

In a case study of Co-operation in Andhra Pradesh by Reddy and Lakshminarayanan (1996) have observed that low income was the main reason for non-repayment of loans. Besides this the other factors being non-remunerative price for agricultural products, crop failures, political patronage and government's policy to write – off of the loan.

Veeresh (1996) has concluded that the anticipation of loan waiver scheme has become now a days the prime reason for default. This is due to the false statement made by the politicians among rural people in their election campaign with an intention to take an election advantage, ultimately lending to wilful defaulters.

A study conducted by Patel (1996) on "Recovery of agricultural advances with special reference to agro industries" has attributed the reasons for mounting over dues to factors internal to credit system which includes faulty lending and recovery procedures, borrowers inability to repay due to factors beyond their reach, and attitude of borrowers who never desired to repay their dues.

Pradeep and Jayati (1996) have observed that when public sector banks extended their geographical coverage, problems of consistently low profitability and efficiency became endemic to them.

Along with low profitability, public sector banks were afflicted with a high proportion of NPAs.

Low increase in income due to poor quality of assets, diversion of funds for unproductive purpose, inadequate loan amount, high family expenditure, lack of finance for working capital, diversion of loan to repay private loans, slackness in timely recovery by banks, and lack of supporting facilities and guidance are being pointed out by Balister et. al (1996) as the reasons for default.

Vijayakumar (1996) has pointed out that in rural lending one of the major problems being faced by the banks is mounting over dues. The problem has become more acute particularly after implementation of Agricultural Rural Debt Relief (ARDR) scheme which has vitiated the recovery climate.

Ram and Radhakrishna (1997) have observed that extremely high interest rates would affect the viability of the borrowers capacity to repay, which eventually would result in increasing NPAs. Therefore, to contain NPAs, the Prime Lending Rates (PLR) should be reduced.

A study conducted by Sobha (1997) on "NPAs of the Nedungadi Bank Ltd." has revealed that low marketability, low sales turnover of units financed, wilful defaulters, and diversion of funds as the major reasons for the accounts to become NPAs.

Singh (1997) has concluded that the psychological feeling regarding remission/waiver of loans either in the form of interest amount or principal amount among borrowers is the most important factor for recovery of loan.

Gaur (1997) opines that the unprecedented rise in credit to some extent has contributed towards mounting level of over dues of banks.

Chidambaram and Sankarasubramaniam (1999) have attributed death of animal; assets being sold away; less return from assets; income used for personal purpose; and wilful defaulters as the factors causing non-repayment of IRDP loan.

Lending not being linked to productive investment, recovery not linked to product sale; directed lending; defective loan policies; misutilisation of loan; ineffective bank supervision; bank's apathy towards loan recovery; lack of discipline on part of borrowers are the main reasons for large NPA according to Brinda (1998).

Sali (1998) from his study "An enquiry into the non-performing advances of PCARDB in Southern Kerala" has come to the conclusion that sudden increase in NPAs was due to loan waiver policy, inadequate income generated from project, illness of family members, diversion of income, conspicuous consumption, defective loaning policies and lack of access to consumption loan.

In a study conducted in Arunachal Pradesh,Das (1998) has come to the conclusion that the mounting over dues of the co-operative banks reflects its operational inefficiency and ineffective machinery for supervision over the utilization of loan by members.

Puthussery (1999) has identified the reasons for overdues as modification of subsidy system; wilful neglect; high family expenditure; low income; diversion of income; government policy of loan waiver; lack of marketing facilities; natural calamities; misutilisation of loan amount and project failure.

According to Phadnis (1999) lack of general apathy on the part of the members of the Managing Committee and Directors of

Central Co-operative Banks in recovery of loans give rise to wilful defaulters. In addition to this, lack of necessary support from state government for recovery of loans and defective lending policies pursued by the co-operatives.

As pointed out by Baiju and Gabriel (2000) high NPA in Indian Banks is because of the legal system which is sympathetic towards the borrowers and work against the bank interest. Despite most of the loans being backed by security, banks are unable to enforce their claims on the collateral when the loans turns non-performing and therefore, loan recoveries have been insignificant.

The causes of NPAs of banks may be internal to the organisation or external as identified by different authors. The important factors may be defective loaning policies and procedures, weak monitoring and follow-up supervision to ensure end use of loan, heavy work load of the bank staff, apathy towards recovery, failure to link lending with marketing, etc. Some of external factors are political interference, loan waiver policy of the government, wilful defaulters, loan melas and lack of legal and administration support from state government in the matter of loan recovery.

2. 2 Consequences of NPAs

Like the albatross hanging around the mariners neck, NPAs or sticky loans are threatening to strangle the country's financial system. Normal incidence of overdue/NPAs is not an intractable problem, but the progressive accumulation of overdues/NPAs threatens the banking system. The alarming consequences of increasing NPAs as pointed out by different authors are described in this section.

Muniraj (1987) has observed that with the increased supply of credit to farmers more money gets locked up in the form of overdues, as a result of which the financing agencies may lose their viability to receive finance from higher financing agencies.

Krishnakumari (1988) has opined that heavy overdues are deleterious to the working of the banking system. A high level of overdues at the apex level or state level erodes its own funds and adversly affects its reputation in the eyes of the public. Increasing overdues may compel the banks to meet its commitment payment out of its own fund.

Bhagavat (1993) says that as a result of poor recoveries, overdues are mounting year after year adding to NPAs of the banks.

Besides affecting recycling of funds, it leads to write-off, affecting the profitability of banks and dampening their enthusiasm in assisting the sector.

Gupta (1994) reiterated that NPAs have been a major factor affecting the profitability of Indian banks and hence the banks owned funds have to be strengthened by repeated infusion of additional capital by the government.

Tripathy (1995) observed that the major drag on bank's profitability is the existence of high level of NPAs. The urgent task before the banks now is to lessen the NPAs and bring down the so called 'dead weight'.

Pradeep and Jayati (1996) have observed that when public sector banks extended their geographical coverage, problems of consistently low profitability and efficiency became endemic to them. Along with low profitability, public sector banks were afflicted with a high proportion of NPAs. Lack of explicit provisioning norms under which banks have to set aside funds for tiding NPAs also camouflaged bad loan problems of banks.

Jaganath and Altaf (1993) from their study on "Priority sector financing in India and the recovery of bank advances" have observed that the increasing overdues in commercial banks restricts the smooth flow of credit. If the dues accumulate alarmingly then the health of banking system would be jeopardised and the recycling of funds, which is the key element in development of banking system, would be adversely affected.

Jaganathan (1996) has observed that although 100 per cent elimination of NPAs is not a reality, steps should be taken to reduce it. By reducing NPAs, bank's profitability can be increased and amount recovered can be utilised for recycling of funds to get higher return.

Ramachandra (1997) has opined that the NPA concept has been overplayed by the RBI so much that if there is a slightest doubt that the advance may become NPA, the banker refuse to lend or pass on the proposal to higher ups to avoid personal risk.

Jayanti and Balachandran (1997) have found out that with the introduction of prudential norms, banks are fully realising the impact of the non-payment risk associated with credit portfolio on the profit /profitability of the banks. The foremost concern of banks today is how best not only to reduce the share of non-performing advances to total advances but also the levels of NPAs. This is so because the NPAs not only reduce income levels of banks, but also make it impossible for them to quote finer prime lending rate (PLR).

Brinda and Ramappa (1998) have opined that because of high NPAs, banks are unable to sufficiently reduce interest rates on lending and this also prevents recycling of funds and reduces the availability of bank credit for alternative productive activities to improve earnings.

Shankariah and Bhagavan (1998) from their study "Recovery performance of Rayalaseema Grameena Bank (RGB)" have observed that recovery of loan advanced to the needy has a direct bearing on the economic survival, efficiency and prosperity of the bank. The inadequacy of or non-repayment of loan inhibits the ability of the RGB to recycle the fund and also the capacity of RGB to draw refinance from apex institutions.

According to Narasimham Committee Report (1998), the NPAs has been increasing to untenable levels, as a result of which there has been an all round deterioration in the efficiency and competitiveness of banks with serious consequences to the economy as a whole.

With a view to bring down their NPAs Madhavendra (1998) reiterated the Narasimham Committee recommendation to reduce the average level of net NPA for all banks below 5 per cent by year 2000 and 3 per cent by year 2002 cannot be achieved.

With the tightening of the norms by the RBI, some banks and development financial institutions (DFIs) have resorted to evergreening their loans by way of extending another loan to the client company with the help of which it can repay a part of the loan and/or interest or original loan as pointed by Rao (1999).

The consequences of mounting NPAs can be summed up as the problem of recycling of funds, difficulty in getting refinance from apex institutions, inability to reduce Prime lending rates and interest rates of banks, decreasing profitability of banks and thus jeiopardising the health of the banking system as a whole.

2. 3 Methods to Overcome the Problem of NPAs

The recovery of loans extended by the financing agencies should receive as much attention as the need for financing. The credit needs of the public continue to expand day-by-day and to meet the same banks should be able to recycle the funds from recoveries made.

However, in Indian context, where the banks and financial institutions carry high percentage of NPAs, the subject matter has received much attention from the people concerned. There is a school of thought advocating that cleaned up balance-sheet will have credibility in the capital market for raising additional equity. Hence, increase in overall earnings and massive slashing down of NPAs have become an urgent necessity for individual banks. With this in mind, various articles, studies, opinions and experiences are reviewed for identifying the ways and means to overcome or to reduce the extent of NPAs.

Jain (1970) has opined that the assessment of the repaying capacity at the time of loan application would further substantiate the lender's belief in the borrowers timely and prompt repayment of loans obtained for different purpose.

Udupa and Dinker (1988) from their study "Strategy for recovery of farm loans : An experience of Syndicate Bank" has found out that the problem of overdues can be tackled successfully by maintaining proper contact and rapport with the loanees and this will help in building mutual trust and confidence and encourages both banks and farmers to participate in a big way in future productive programmes.

According to Kurup (1990) the basic requirement to keep non-performing loans to the minimum are maintenance of close relationship between soundness of the assets of a bank and the growth of its liabilities (deposits), high importance for profits in the performance parameters of the banks, and professionalism of management.

A study conducted by Karunasagar and Kaveri (1992) on "Health Code System" (HCS) have concluded that HCS is a means and not an end by itself. It is a basic and handy tool for quantifying the perceived risk in assessing the quality of the individual advances and therefore, facilitates appropriate follow-up action. The success of HCS largely depends on the seriousness and sincerity of the management of the banks on the one hand and expertise developed at the grossroot level on the other.

Sinde (1992) has opined that growth in NPA need to be checked for which mere changes in policies, systems and procedures will not suffice. What is more important is to create seriousness among those concerned with NPAs. Banks and financial institutions may bring in more transparency in their accounts by properly classifying their advances and making adequate provisions. Effective handling of NPAs call for developing good leaders who can built up teams of motivated staff. In this regard education and training have a vital role to play.

Jagannath and Altaf (1993) have expressed that the Branch Manager and the field officers should share their experience with the members of the staff, thus imparting them training for recovery to their colleagues which would help recovery on war-footing basis. Besides, they have also empathized the need for organising recovery of banks dues.

Rao (1993) has suggested a two-fold task for reducing the percentage of non-performing assets in their asset portfolio. Firstly, reduction through recoveries, write-offs and compromise so that average yield on assets improve significantly. Secondly, to make vigorous efforts to contain the slippage in contaminated advances in the existing structure of their assets. Bhatt (1993) is also of the opinion that to avoid this slippage the banks must evolve a scheme of risk evaluation and set standard for accountability.

Madhavankutty (1993) is of the opinion that recovery camps should be arranged periodically with the participation and support from government departments, panchayats, local bodies and sponsoring agencies should educate the borrowers regarding necessity for prompt repayment and of the legal proceedings. A similar view is also expressed by Rao (1995) in the form of Recovery Mela at all bank branches in the country.

Kaveri (1993-94) has put forward that, in the light of mounting overdues, it is very essential to deal with recovery management on a war-footing by considering the current year as Recovery year and fixing target for each branch/controlling offices and for this task-force should be set up to plan and monitor recovery matters.

Parmar and Patel (1994) from their study on "Recovery of Priority Sector Advances by Commercial Banks" have concluded that besides making organised and well planned serious efforts to recover the loan arrears, the quality of lending must be improved and suitable system for realisation of dues should be made an in-built part of credit management.

Toor (1994) has opined that the problem of NPA can be tackled through preventive measures, i.e. by ensuring quality at a higher level for credit portfolio by toning up the system of credit investigation, appraisal and supervision.

As per the study by khatkar *et. al.* (1994) on "Trends in agricultural credit and overdues" the higher growth rate of overdues can be overcome by avoiding underfinancing and preventing political interference. Supervision and technical guidance should be provided to avoid diversion of funds.

Singh (1995) has recommended that with a view to achieving and continuing to maintain the desired level of Capital Adequacy Ratio on an ongoing basis, it would be imperative for the banks to tone up their operational efficiency and management of their assets and liabilities, leading to substantial reduction in NPAs and thus reducing the provisioning requirements.

Tripathi (1995) has suggested that to reduce the NPAs, banks have to do two things. One to step-up recovery, and two to prevent further accumulation of NPAs. Better recovery coupled with enhanced productivity will lift banks out of red and pave the way for healthy profitability.

George and Satheesh (1996) while studying the overdue pattern in PACS have observed that in order to curb the problem of overdues, the banks must place more emphasis on effective supervision on the end use of credit so that effective diversion or its misutilisation can be checked. Further, the success of any credit delivery depends on their proper recycling.

Singh (1996) has emphasized that with the introduction of income recognition and asset classification norms and provisioning requirements in respect of NPAs, it would be imperative for banks to take effective measures to reduce their NPAs to the minimum possible extent. Not only reduction in NPAs, even upgradation in the quality of such assets would help the bank to improve their bottomlines.

Mishra (1996) is of the view that method for discouraging wilful defaulters may be adopted by banks. The branches adopting such methods should be suitably recorded and only then the recovery problem of rural advances can be overcome. The efforts made for recovery by the staff at many places have not been recognised. As a result the tempo of recovery has come down.

Chaudhary (1996) has argued for creating an entry barrier to those promoters who are contributing to the creation of any NPA with a bank or financial institution. This will help promoters alert and push them to do everything possible to turn around an ailing venture rather than passing the risk of failure to banking system.

Veeresh (1996) has stressed the necessity for the banks to take some persuasion measures for ensuring better recovery performance and has recommended innovative schemes like Credit Cum Recovery Camp (CCRC), Annual Recovery Plan (ARP), Gold Curd System (GCS), Basket Approach (BA) and Bank Advances Recovery Board (BARB).

Sinha (1996) says that one cannot shy away from the factual position of NPAs. The need of the hour is to devise ways and means to drastically reduce them by affecting recoveries to the maximum possible extent and not merely by writing-off. It is time to reconsider the proposal mooted by Narsimham Committee to set up the much need Asset Reconstruction Fund which was earlier shelved by the government. Shankar (1996) is also of the same opinion.

The Narasimham Committee (1998) has recommended the setting up of an Asset Reconstruction Company (ARC) for banks with high NPA as an alternative to the Asset Reconstruction Fund (ARF). The Committee has said that all loan assets in the doubtful and loss categories should be identified and their realisable values determined. These assets could then be transferred to an ARC. Harbhajan (1996) has reiteriated the need for setting up of an ARC. He further says that unless the legal loopholes for the debt recovery are plugged a radical improvement of reduction of NPA is impossible.

Kaveri (1997) has observed that substantial reduction in NPAs is only partly due to actual recovery. The reduction in the percentage of NPAs has taken place due to write-off debts and expansion in total credit.

Tarapore (1997) has suggested that banks which are overburdened with NPAs may be categorised as "Narrow Bank" and these weak banks may be prohibited from making any fresh lending. Any incremental deposit can be diverted to riskless securities foreclosing the build-up of any NPAs.

Gaur (1997) from his study on "Recovery of Banks dues through government" have come to the conclusion that for improving recovery performance of rural credit institutions a greater commitment of the respective state government and expeditious disposal of suit filed cases is required.

The South Indian Bank Students Economic Forum (1997) has suggested that the banks in India since the introduction of the prudential accounting norms have launched a relentless war on NPAs and most of them have seen able to reduce it substantially through vigorous recovery drive.

According to Gupta (1997) the problem of NPAs can be studied and tackled from two fronts : remedial measures for managing current NPAs and maintenance of performing assets.

Ramachandra (1997) has emphasised the relevance of concentrating on Non Recoverable Assets (NRA), which would matter much in determining the quality of bank credit.

Taori (1998) has opined that to control NPA menace a two pronged approach, viz., preventive and curative would be necessary, the prime focus has to be placed on areas like budget for reduction of NPAs; strengthening credit management; follow-up of cases with Bank for Industrial and Financial Reconstruction (BIFR), Debt Recovery Tribunals (DRTs) and courts; emphasis on compromise; one-time settlement; write-offs; and changing strategies based on market studies.

As per the Narasimham Committee Report (1998), the reduction in the level of NPAs is only partly due to bank's efforts at recovery. The rest of the improvement has come about as a result of bank's writing-off loans. The committee has also pointed out that to improve recovery, the legal system need to be improved as DRTs have not been satisfactory in view of legal issues that have been raised and it calls for amendment of outdated laws.

Sudhakar (1998) has opined that, however good the credit dispensation process may be, total elimination of NPAs is not possible in banking business owing to externalities, but their incidence can be minimised. In a situation wherein banks are already saddled with a large quantum of NPAs launching a strategic initiative for reducing their quantum by taking recovery monitoring as a broad based movement through technological aid can bring about improvement.

In a review of the working of Regional Rural Banks it has been stated that the innovation of "Many Against One" (MAO) by the Bardhaman Gramin Bank has yielded good result in recovery of NPA accounts. In MAO, 'many' are the employees of the Bank including the Chairman and 'one' is the borrower who has defaulted in repayment of the loan to the Bank.

According to Pathrose (1998) effective management of NPA consists of bringing down the NPA to a certain level through concrete recovery drive; preventing accretion of fresh NPA through efficient management of loan portfolio and quality appraisal system;

turning of the assets (security) for reducing provision requirement, efficient and a transparent negotiated settlement system.

Sarda (1998) has remarked that for reducing NPAs each bank should have a 'Loan Recovery Policy' giving details of the strategies to be adopted for recovery of dues, period-wise targeted level of reduction in NPAs, norms for entering into compromise proposal involving sacrifice/waiver, factors to be taken into account before considering waivers, decision levels, reporting to higher authorities and monitoring of write off/waiver cases.

Bhashyam and Mohan (1999) are of the view that Public Sector Banks which are carrying a high quantum of historical baggage of NPAs would require broadening of the legal system which will facilitate the task of recovery of loss assets to this banks.

Shanta Raju (2000) has observed that publication of defaulters list will not solve the problem of mounting NPAs of banks. Instead the emphasis should be on recovery itself. There should be a system to make directors of the company who have taken loans from the banks, personally liable for the defaults and also the legal system should be reformed to improve recovery.

The need for government regulation for expediting the disposal of suit filed cases is over emphasised by many authors. This would bring a reduction in number and amount of wilful default. Steps like setting standard of accountability, proper assessment of repaying capacity at the time of loan application, maintenance of proper rapport with loanees, supervision and monitoring for proper end-use of loan amount are also to be given due considerations.

Chapter – III

MATERIALS AND METHODS

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MATERIALS AND METHODS

Over the years, various factors like vast expansion of unremunerative branch network, phenomenal increase in the volume of business, diversified activities undertaken, financing of the priority sector at comparatively unremunerative rate of interest, erosion in the role of banks as financial intermediaries, etc., have put tremendous pressure on the functioning of the banks. Gradual deterioration in the quality of advances as a result of the aforesaid pressure points has resulted in mounting overdues, NPAs, and declining trend in the profitability of the banks. With the mounting NPAs, profitability of banks is adversly affected in three ways, viz., the loss of interest and at times principal amount, provisioning made for NPAs from the income generated from performing assets, and banks spending considerable time and money to recover the same.

Coupled with the financial sectors reforms, increasing attention is paid to the management of NPAs in banks. This is evident from the policy guidelines issued by the RBI from time to time with regard to income recognition, asset classification, provisioning and recovery of NPAs. Hence clarification of the concept of NPA becomes essential before analysing the volume and composition of NPA. This chapter is divided into two parts, of which prime importance is given to the concept of NPA which is discussed in the first part and the second part deals with the methodology of the study.

3.1 Concept of NPA

The concept of NPAs, in Indian context, has been developed over the years. To elaborate, in the 70's NPAs were termed as hard-core and out of orders accounts, sticky accounts, overdue accounts, etc. But the methods of banks in identifying such NPAs were not uniform. Hence, in 1985, the banks were advised by the RBI to classify their assets under a uniform grading system in accordance with the financial health of the borrowing unit, and is known by the name Health Code System (HCS). The salient features of the HCS are as follows.

Health code No	Category of advances
1	Satisfactory
2	Irregular
3	Sick – viable/under nursing
4	Sick-non viable/sticky
5	Advances recalled
6	Suit-filed accounts
7	Decreed debts
8	Bad and doubtful debts

In the context of the HCS the advances coming under the HCS 5,6,7 and 8 were considered as NPAs. Besides, some of the assets classified under the H.C. 4 also formed part of NPA. But here again the practice followed in India was different from those of other countries with regard to classification of accounts and definition of NPAs. In 1991, the RBI accepted and implemented the recommendation of the Narasimham Committee which dealt with the income recognition, asset classification, provisioning, etc..

3.1.1 Clarification of terms

While dealing with NPAs, bank have to come across certain terms/concepts which are explained hereunder

Assets of a bank

The assets of bank are cash, balances with RBI, balances with banks, money at call and short notice, investments in government and other securities, advances (including loans and advances, bill purchased/discounted and other credit facilities), fixed assets and other assets. However, the concept of NPA is concerned with advances only.

Performing Assets

A performing asset is an advance or a borrowal account which generates income to the bank by way of interest and other charges.

Non Performing Assets

An NPA is an advance or a borrowal account which do not generate income for the bank. It is a zero-yield advance.

Past Due

An amount is considered past due when it remains outstanding for 30 days beyond the due date.

Out of order

An account shall be out of order if.

a) The balance outstanding remain continuously in excess of the sanctioned limit/drawing power

b) If there is no credit continuously for six months as on the date of balance sheet

c) Credit are not enough to cover the interest debited during the same period even if the balance outstanding in the account including the interest is within the limit sanctioned/drawing power.

Outstanding

The amount left with the borrowers for realisation on a particular date. Outstanding is estimated as total borrowing minus amount repaid.

Overdue

A part of the outstanding becomes overdue loan if not realised within a certain definite time limit. It is estimated as amount due for repayment minus amount actually repaid.

Gross Advances

Gross advances is the total advances provided by the bank. It is the aggregate advances, without any exclusions or deductions.

Net Advances

Net advances is derived from gross advances by deducting (i) balance in interest suspense account, i.e. interest due but not received; (ii) DICGC/ECGC claims received and kept in suspense account pending, adjustment (for final settlement); (iii) past payment received and kept in suspense account; and (iv) total provisions held.

Gross NPAs

Gross NPA is the total NPA of the bank. It is the aggregate NPAs, without any adjustment for deductions.

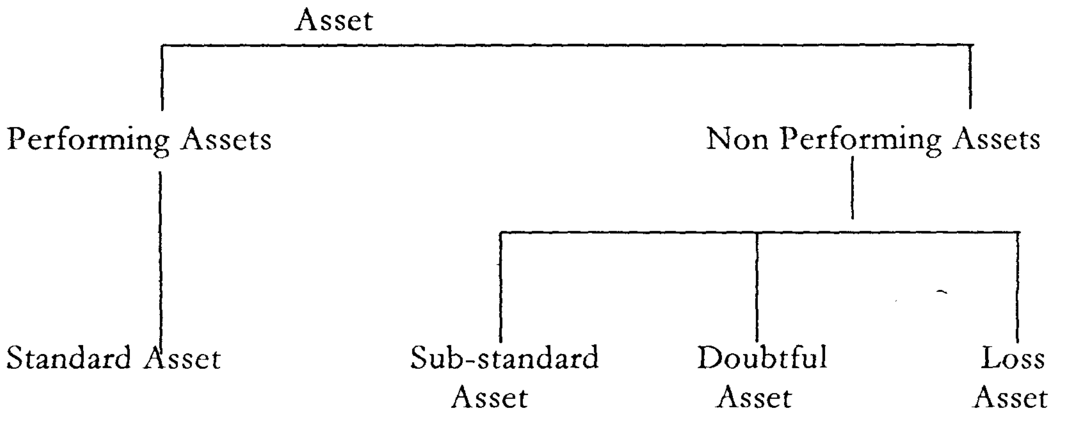
Net NPAs

This concept was introduced in 1996-97 (which according to the RBI is an internationally recognised concept) in place of gross NPAs followed by it earlier. The net NPA is derived from gross NPA by deducting (i) balance in interest suspense, account, i.e., interest due but not received, (ii) DICGC/ECGC claims received and kept in suspense account pending adjustment (for final settlement); (iii) past payment received and kept in suspense account, and (iv) total provision held.

3.1.2 Asset classification

The banks are now required to classify their assets on the basis of the health of loan assets and history of prompt repayment of instalments and interest as presented in Exhibit 3.1.

Exhibit 3.1 : Asset Classification



Standard Asset

A standard asset is one which is not NPA and which does not disclose any problems and does not carry anything more than the normal risk attached to the business. It is an asset which yield income for the bank.

Sub-Standard Asset

A sub-standard asset is an advance account which have been identified as NPA for a period not exceeding two years.

Doubtful Assets

A doubtful asset is an advance account which has been an NPA for more than two years.

Loss Assets

A loss asset is an NPA account where loss has been identified by the bank or internal / external auditor / RBI inspector or those NPA accounts where there is no realisable value for security or no security at all.

3.1.3 Basis for treating an account as NPA

The period after which an account becomes NPA depends upon the nature of borrowal account as shown in Exhibit 3.2

Exhibit 3.2. Basis for treating an account as NPA

Period	Term Loan	Bill purchased & Bill Discounted	Cash credit & Overdraft	Others
	The interest remain past due for a period of	The BP/BD remains overdue/ unpaid for a period of	The account remains out of order for a period of	Any amount remains past due for
As on 31-03-93	Four quarters	Four quarters	Four quarters	Four quarters
As on 31-03-94	Three quarters	Three quarters	Three quarters	Three quarters
As on 31-03-95	Two quarters	Two quarters	Two quarters	Two quarters

According to an RBI official, the Central Bank would bring down the period for recognising doubtful assets from 24 months to 18 months by March 31, 2001, and it is likely to bring down to 12 months in course of time.

3.1.4 Income Recognition

In accordance with the international practice, the income or NPAs can be recognised or taken into profits of the banks only when it is actually realised or remitted by the borrower. In other words, the interest debited in the NPA account can be booked as income only on actual basis and not on an "accrual basis". Therefore, the unrealised interest in NPA account is kept separately under "Interest Suspense Account" or "Interest on NPA account" until it is realised.

3.1.5 Provisioning

After classifying the assets, banks have been advised by the RBI to make provision against these assets. The basis for making provision is shown in Exhibit 3.3.

Exhibit 3.3. Provisioning for loans and advances

Type of Assets	Provision required
1. Standard Asset	No provision is required
2. Sub-standard Assets	10 per cent of total outstanding
3. Doubtful Assets	
a) NPA above 24 months but less than 36 months	20 per cent of secured portion of total outstanding and 100 per cent of unsecured portion
b) NPA for 36 months to 60 months (inclusive)	30 per cent of secured portion of total outstanding and 100 per cent of unsecured portion
c) NPA for above 60 months	50 per cent of secured portion of total outstanding and 100 per cent of unsecured portion.
4. Loss Assets	100 per cent of total outstanding

3.1.6 Clarification Regarding Norms

Certain clarification have been given by the RBI from time to time regarding the norms for income recognition, asset classification and provisioning. The present position regarding various clarification given by the Reserve Bank is as follows.

Net worth of borrower / guarantor or value of security – advances backed by government guarantees

Availability of security or net worth of borrower/guarantor should not be taken into account for the purpose of treating an advance as NPA. However, it has been assumed that the advances guaranteed by Government of India/State Government have zero risk. Therefore, credit facilities backed by government guarantees should not be treated as NPA even if they are past due. However, the above exemption given to government guaranteed advances classification as NPA is for the purpose of asset classification and provisioning norms only, and not for the purpose of income recognition.

Advances covered by ECGC / DICGC guarantee

In case of advance guaranteed by ECGC/DICGC, provision should be made only for the balance in excess of the amount guaranteed by these corporations. However, realisable value of the security, if any, held by the bank should be deducted from the outstanding balance before the ECGC/DICGC guarantee is off set.

Treatment of NPA: Borrower wise or facility wise

Classification of assets should be done borrower-wise and not facility-wise. Therefore, all facilities granted to a borrower should be treated as NPA and not a particular facility or part thereof which becomes irregular.

Advance secured against term deposits, National Saving Certificates, Surrender value of Life Insurance policies, etc..

Advances against term deposits, National saving Certificate eligible for surrender, Indira Vikas Patras, Kisan Vikas Patras and Life insurance policies have been exempted from provisioning requirements. Accordingly, banks need not treat such accounts as NPAs and make provisions in respect of such advances although interest thereon may not have been paid. Interest on such advances may also be taken to income account on the due dates provided adequate margin is available in the accounts. It may be noted that advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.

Agricultural advances

In respect of advances granted for agricultural purposes where interest/installment is "past due" for more than 2 quarters as on the date of balance sheet, the account should be treated as NPA. This is with effect from the year ending 31 March 1998.

Consortium advances

In respect of consortium advances, each member bank can classify the borrowal account as standard asset or NPA according to its own record of recovery and other aspect having a bearing on the recoverability of the advances as in case of multiple banking agreement.

Upgradation of assets

Classification of an asset should not be upgraded merely as a result of rescheduling/ rephasing/ compromise proposals. A borrowal account which is regularised by means of rescheduling /rephasing after commencement of production should remain in the same category for atleast two years of satisfactory performance before being upgraded. Immediate upgradation can be done when the accounts are regularised by actual remittance from borrower's own sources.

Interest Suspense Account

The amount held in interest suspense account should not be reckoned as part of provisions. However, amount lying in interest suspense account should be deducted from the relative advances and provisioning should be made on the balance after such deduction.

Reversal of unrealised interest

In respect of advances including bills purchased and discounted which have been classified as NPA for the first time during the current year, the interest accrued and credited to the income account in the previous years which has not been realised, should be reserved or provided for during the current year. This will be applicable to un-realised interest on government guaranteed accounts also.

Partial recoveries of NPAs

In respect of the interest partially recovered in NPAs, it has been clarified that banks may take to income account interest realised in NPAs provided it is ensured that the credits in the account towards interest are not out of fresh/additional credit facilities sanctioned to the borrower concerned.

Project financing – moratorium period

In the case of bank finance given for industrial projects or for agricultural plantations, etc., where moratorium is available for payment of interest, payment of interest become 'due' only after moratorium or gestation period is over. Therefore, such amounts of interest do not become past due and hence the advance does not become NPA, with reference to the date of debit of interest. In other words, interest can become past-due only on expiry of 30 days after due date for payment of interest, if uncollected. Similarly, in the case of housing loans or similar advances granted to staff members where interest is payable after recovery of principal interest is not considered as 'past due' from the first quarter onwards. Such loans/advance should be classified as NPA only when interest is not paid even on expiry of 30 days after due date for payment of interest.

Provisioning for advance with balance of less than Rs.25,000/-

The provisioning requirement for advances with balance of less than Rs. 25,000/- was raised from 5 per cent of the aggregate amount outstanding to 7.5 per cent for the year ended 31-03-95 and further to 10 per cent for the year ending 31-03-96. While arriving at the provisioning requirement in respect of such advances, value of security in any form including term deposits, National Savings Certificates, surrender value of life policies, etc., be deducted from the aggregate advance from this category. Similarly, amounts guaranteed by DICGC/ECGC should be deducted from the aggregate advances under this category. Banks which were in a position to make provision according to the asset classification norms were free to do so instead of an aggregate provisioning to the extent of 10 per cent of such advances. As per the instruction passed by the Reserve Bank in March 1996, from the accounting year 1996-97, it is mandatory for banks to classify such advances also into different categories, viz., Standard, sub-standard, doubtful, and loss assets and make appropriate provisions.

3.1.7 The Second Report of the Narasimham Committee with regard to Asset Quality, NPAs and Income recognition

The Government of India had constituted another High Level Committee under M. Narasimham to suggest further reforms for strengthening the foundations of the banking system, streamlining the procedures and detecting the structural changes in the system so as to quicken the pace of globalisation. Accordingly, the Committee submitted its report on the 'Banking Sector Reform' in April 1998. In consultation with the government of India, the RBI decided to implement some of the recommendations in stages over a period of time. The major recommendations regarding asset quality, and income recognition are discussed below :

i) An advance be classified as doubtful if it is in substandard category for 18 months.

ii) Advances covered by government guarantees which have turned sticky also should be treated as NPAs w.e.f. 01-04-2000. Besides, existing/old government guaranteed advances which would become NPA are to be fully provided for during the next four years from the year ending March 1999 to March 2000 with a minimum of 25per cent each year.

iii) Banks should make a general provision of a minimum of 0.25per cent on standard assets from the year ending 31-03-2000.

iv) Net NPA's of banks should be reduced below five per cent by 2000 and three per cent by 2002. For banks with international presence it should be three per cent and zero per cent respectively by these dates.

v) Banks with high NPA level to transfer doubtful and loss assets to Asset Reconstruction Company (ARC) which would issue to banks NPA swap bonds representing the realisable value of assets transferred.

vi) For the purpose of income recognition, the period should be reduced from six months to 90 days.

vii) Banks to disclose maturity pattern of assets and liabilities, movements in provision account and NPAs accounts.

3.1.8 Asset Reconstruction Company

Concerned about the rising level of NPAs or defaulted loan accounts of commercial banks, the Narasimham Committee (in its second Report) has recommended for the setting up of an Asset

Reconstruction Company (ARC) for banks with high NPA portfolios, as an alternative to the Asset Reconstruction Fund (ARF) which had earlier been recommended by the same Committee in its first Report.

This will help in bringing down the net NPAs level to five per cent by 2000-2001. But the fulfilment of this expectation very much depends upon the efficiency of ARCs in making recovery from NPAs accounts. The Committee suggested that after the ARC is set up, it would issue NPA swap bonds to the banks for the realisable value of assets transferred.

The company could be set up by one bank or a set of banks including private sector banks. But in case if the banks themselves decided to set up a company, it would need to be ensured that the staff required by it is made available by the banks concerned either on transfer or on a deputation basis so that the staff with institutional memory on NPA is available to the company, and there is also some rationalisation of staff in the banks which are sought to be transferred to the company. For speedy and effective recovery, the ARCs should be permitted to file suits in Debt Recovery Tribunals (DRTs).

In case if the attempt is to create ARC in the private sector, the Committee envisaged certain problems. For instance, there may not be many takers for the assets representing NPAs in the banks because most of them may not be backed by solid assets like land and building or, their market value is negligible.

To be really meaningful, the ARC should be set up by more than one bank in a particular geographical area and should have professional board with a RBI nominee on it. These ARCs should be set up on the line of DRTs.

As far as, the capital of the ARCs is concerned the banks which float an ARC is expected to provide the required capital. But a weak bank with low capital adequacy ratio will not be able to do it. But a group of banks with high NPAs may do it by promoting an ARC jointly. If this arrangement is not workable, the government may provide necessary funds by way of budgetary allocation.

Stamp duties are expected to be paid on sale of loan assets (NPAs). But this would be unbearable expenditure. Therefore, need for exempting these assets from the payment of stamp duties clearly exists. Accordingly, suitable amendments in the relevant laws are called for.

3.1.9 Feasible NPA level of banks for Capital Account Convertibility

The Committee on Capital Account Convertibility (CAC) headed by S.S. Tarapore prescribed that the gross NPAs of public sector banks (PSBs) should be brought down to five per cent of the total gross advances by 1999-2000.

The PSBs in India carry around Rs.45,563 crores of gross NPAs amounting to an average 16 per cent of their gross credit as against single digit proportion in most of the countries around the world. There is wide variation in the gross NPAs level of PSBs in India ranging from single digit level to as high as 40 per cent. The last few years' trend suggest that PSBs in India, may be able to bring down their gross NPAs to 10-12 per cent level by 2000 AD but not to five per cent as prescribed by CAC. The perspective level of five per cent NPA defy the market logic on one hand and ignores, on the other hand, the limitation of working in very slow and ineffective legal, social and political climate of recovery. While strong banks exhibit confidence of moving towards internationally competative levels of capital adequacy, profitability and adequate coverage of NPAs, the position of weak banks is precarious. The Committee has further suggested that the weak banks, i.e., banks burdened with high level of NPAs should be considered as "Narrow Bank" and these banks may be prohibited from making any fresh lending.

3.2 Methodology of the Study

The study has been conducted by using data collected from both primary and secondary sources. The first objective of the study, i.e., assessing the volume and composition of NPAs has been analysed by means of both primary and secondary data. The second and third objectives of identifying the determinants and examination of the instituional arrangement for reducing and recovering NPAs have been analysed by means of primary data alone. The main sources of secondary data were Annual Reports of SIB, Prospectus of Share Issue for SIB, RBI Bulletin, Economic and Political Weekly, Southern Economist, Business Line, The Hindu and the New Indian Express. The primary data have been collected from 150 NPA account holders of the SIB.

3.2.1 Sampling procedure

Five branches from Trichur Region, i.e., the Region in which the Head Office of the Bank is situated have been selected for the study.

Taking into consideration the scope, coverage and level of study and bearing in mind the limitations with respect to resource and time, the sample size was fixed at 150. Respondents were selected from both priority and non-priority sectors. Five sectors were selected, viz., agriculture (agri.), retail trade/small business (RT/SB), professional/ self-employment (P/SE), miscellaneous (Trade and General) (M(T/G)) and other non-priority (ONP). The first three constitute priority sector while the last two constitute non-priority sector. Thirty respondents each from the five sectors were selected randomly from the list of defaulters maintained by the Bank. Thus 90 respondents were from priority sector and 60 from non-priority sector.

Primary data were collected with the help of a pre-tested structured interview schedule from the sample respondents. Information regarding institutional arrangements for management and recovery of NPAs were collected from the staff and other officials of the SIB by using interview schedule.

3.2.2 Study Period

The primary data were collected during January 1999 to June 1999. The secondary data relates to period commencing from 1993-94 to 1997-98 for banks in India and from 1995-96 to 1998-99 for the SIB Ltd.

3.2.3 Method of analysis

Mostly bi-variate and multi-variate tables have been used for the analysis. Percentages, averages and indices have also been worked out. Scoring techniques have been applied for analysing the socio-economic and other characteristics of the respondents and for ranking the determinants of NPAs.

To find out the reasons behind defaulting, different variables such as loan amount applied for, loan amount sanctioned, margin, total investment, income from venture, mode of repayment, rate of interest, etc., were taken into consideration.

The information pertaining to institutional arrangements for reducing and recovering NPAs are mainly the responses of the staff and officers concerned of the Bank. Their responses are then discussed critically by relating them with the responses of the 150 respondents.

Chapter – IV

RESULTS AND DISCUSSION

CHAPTER – IV

RESULTS AND DISCUSSION

A major concern of the Indian banking industry currently is that it has to carry a high level of NPAs. The share of NPAs in the total bank credit is an important indicator of the banking health. Although the banks were able to bring down the percentage of NPAs to the total advances, it is more due to credit expansion and partly due to actual recovery. A considerable reduction in the percentage has taken place due to write-off and expansion in the total credit over the years. The present chapter which analyses the NPAs of commercial banks is divided into three broad sections dealing with the three objectives of the study.

4.1 Volume and composition of NPAs,

4.2 Determinants of NPAs, and

4.3 To examine the existing institutional arrangements for reducing and recovering of NPAs.

4.1 Volume and composition of NPAs

The volume and composition of NPAs of commercial banks is discussed at two levels as follows:

4.1.1 Volume and composition of NPAs of commercial banks in India

4.1.2 Volume and composition of NPAs of the Bank under study – South Indian Bank Limited (SIB)

4.1.1 Volume and composition of NPAs of commercial banks in India

The first part of this section analyses the volume of NPAs and second part the composition of NPAs.

The first part is analysed by means of secondary data, while the second part, with both secondary and primary data

4.1.1.1 Volume of NPAs of commercial banks in India.

The NPA ratio in aggregate at the country level is of interest in the first instance as a macro financial indicator. In Table 4.1. which analyses the volume of NPAs of the banks in India, the total commercial banks in the country is divided into five categories, viz., SBI and associates, other nationalised banks, old private sector banks, new private sector banks and foreign banks which again is grouped under three heads, viz., public sector banks (PSBs), private sector banks and foreign banks. The bank-wise net NPAs of the commercial banks in

India for the period 1995-96 to 1997-98 is given in Appendix I. The amount given in Table 4.1 and Appendix I relates to net NPAs.

Table 4.1 Volume of net NPAs of commercial banks in India – group wise : 1995-96 to 1997-98

(Rs. in crores)

Sl. No.	Banks group-wise	1996	1997	1998
1.	SBI and Associates	5362.02 (27.82)	6382.01 (28.55)	6577.80 (28.00)
2.	Other Nationalised Banks	12935.47 (67.11)	13902.72 (62.17)	14200.00 (60.40)
3.	Public Sector Banks (1+2)	18297.49 (94.93)	20284.73 (90.72)	20777.80 (88.40)
4.	Old Private Sector Banks	793.46 (4.11)	1245.28 (5.56)	1468.30 (6.25)
5.	New Private Sector Banks	-	161.41 (0.72)	632.91 (2.70)
6.	Total of Private Sector Banks (4+5)	793.46 (4.11)	1406.69 (6.28)	2101.21 (8.95)
7.	Foreign Banks	182.91 (0.96)	670.63 (3.00)	632.91 (2.65)
	Total (3+6+7)	19273.86 (100.00)	22362.04 (100.00)	23517.92 (100.00)

Source: i) Report on Trend & Progress of banking in India 1996-97, pp. 143-146
ii) FE–BRIS Survey 1998, The Financial Express, Nov. 1998,pp.12-13

Note : Figure in parenthesis indicate percentage share to total .

It is evident from Table 4.1. that of the total NPAs of the commercial banks in India nearly 90 per cent is contributed by PSBs, the rest being contributed by the private sector banks and foreign banks. The share of PSBs is high due to the alarming size of NPAs of nationalised banks (more than 60 per cent). One notable feature is that, while the share of PSBs is showing slight decrease, that of private sector banks is increasing over the reference period.

The PSBs as a group which constitute more than 80 per cent of the business of the banking system in India is burdened with very high net NPAs. This aspect gets compounded in view of the large branch network of PSBs and the objective of directed lending.

It is seen from Appendix I that volume-wise, SBI is the single largest contributor of NPAs of the commercial banks of the country. It contributes 73.13 per cent, 79.9 per cent and 67.44 per cent of the NPAs of the State Bank group, 21.43 per cent, 22.31 per cent and 18.87 per cent of the PSBs and 20.34 per cent, 22.30 per cent and 16.54 per cent of all banks in the country for the years 1995-96, 1996-97 and 1997-98, respectively.

It is worthwhile to mention in this context that the introduction of the concept of net NPAs by the RBI from the accounting year 1995-96 has made drastic decline in the level of NPAs to advances. Had the old concept of gross NPAs still been in vogue this might have touched a still higher figure.

The distribution of banks according to their net NPAs to net advances gives a better picture about the volume of NPAs of banks which is shown in Table 4.2. The banks are classified into three groups based on their rate of NPA, i.e., upto 10 per cent, above 10 and upto 20 per cent and above 20 per cent.

The poor performance of the PSBs as revealed by Table 4.1 is reinstated here. When the average of the four years is taken it is seen that majority of the PSBs fall in the category of 'above 20 per cent' followed by 'above 10 per cent upto 20 per cent'. The share of PSBs in the category of upto 10 per cent comes to only 22.27 per cent while 77.78 per cent of the category 'above 20 per cent' is contributed by them. It is to be noted that new private sector banks which are of recent origin are all in the first category of 'upto 10 per cent'. It is also noteworthy that there is considerable improvement in the performance of PSBs i.e., decrease in the category of 'above 20 per cent' from 10 banks in 1994-95 to one bank in 1997-98. But this is again brought about by a definitional change in NPAs from gross NPAs to net NPAs. Hence it is inferred that the private sector banks are doing the best with foreign banks not far behind while PSBs do not make any commendable change.

It is already evident from Table 4.1 and 4.2 that the PSBs have a large share in the NPAs of the country. Considering the total quantum of NPAs (Table 4.1) it is clear that nationalised banks are making the conditions of the PSBs so pathetic. For all the years, the share of SBI and associates was lesser than the share of nationalised banks. Appendix II reveals that compared to total assets, gross advances and net advances, the share of SBI is less than that of most of the banks in the SB group and that of nationalised banks. But Appendix I shows that SBI also has a remarkable share in the total NPAs of the country considering the volume of NPAs. It means that SBI's share of NPAs is higher because their net advances are also higher than other banks of SBI group. Hence an analysis of the share of net NPAs to net advances will be more meaningful in arriving at a conclusion as to whether the nationalised banks or the SBI are the culprit for such a high NPA for the country.

Table 4.2 Frequency distribution of net NPAs of banks in India: 1994-95 to 1997-98.

(No. of banks)

Bank group	Frequency distribution of NPA	1995	1996	1997	1998	Average of four years
Public Sector Banks	Upto 10 per cent	2 (100)	19 (23.75)	17 (20.24)	17 (20.99)	22.67
	Above 10 and upto 20 per cent	15 (100)	6 (60.00)	9 (69.23)	9 (47.37)	68.42
	Above 20 per cent	10 (100)	2 (100)	1 (33.33)	1 (33.33)	77.77
Old Private Sector Banks	Upto 10 per cent	NA	22 (27.5)	22 (26.19)	21 (25.93)	26.32
	Above 10 and upto 20 per cent	NA	3 (30.00)	3 (23.08)	4 (21.05)	17.54
	Above 20 per cent	NA	Nil	Nil	Nil	-
New Private Sector Banks	Upto 10 per cent	NA	9 (11.25)	9 (10.71)	9 (11.11)	10.93
	Above 10 and upto 20 per cent	NA	Nil	Nil	Nil	-
	Above 20 per cent	NA	NIL	Nil	Nil	-
Foreign Banks	Upto 10 per cent	NA	30 (37.5)	36 (42.0)	34 (41.97)	40.49
	Above 10 and upto 20 per cent	NA	1 (10.00)	1 (7.69)	6 (31.58)	14.04
	Above 20 per cent	NA	Nil	2 (66.67)	2 (66.67)	22.22
Total	Upto 10 per cent	2 (100)	80 (100)	84 (100)	81 (100)	-
	Above 10 and upto 20 per cent	15 (100)	10 (100)	13 (100)	19 (100)	-
	Above 20 per cent	10 (100)	2 (100)	3 (100)	3 (100)	-

Source: RBI Bulletin, July 1999, p.921

Note : Figure in parenthesis show percentage share to the total

Table 4.3 Share of net NPAs to net advances-Group-wise: 1995-96 to 1997-98.

(In percentage)

Sl.No.	Banks group-wise	1996	1997	1998
1.	SBI and Associates	6.88	7.70	NA
2.	Nationalised banks	10.14	10.07	NA
3.	Public Sector Banks (1+2)	8.90	9.18	8.20
4.	Old Private Sector Banks	4.51	5.99	6.46
5.	New Private Sector Banks	-	2.60	2.62
6.	Private Sector Banks (4+5)	4.51	5.30	4.52
7.	Foreign Banks	0.81	2.50	2.25

Source : Report on Trend and Progress of Banking in India : 1996-97,pp.143-146

Table 4.3 reveals that compared to the net advances, the share of NPAs for nationalised banks is very high, i.e., more than 10 per cent whereas it is only 6-8 per cent for SBI group during the reference period. Thus it is very clear that the nationalised banks which are contributing to such a high level of NPA for the country is making the situation of PSBs more vulnerable. When compared to their advances the NPAs of new private sector banks and foreign banks are meagre.

4.1.1.2 Volume of NPAs of weak banks

The Working Group on Restructuring of Weak PSBs under the chairmanship of V.S. Verma (Verma Committee) had identified three PSBs as weak banks. These banks are United Bank of India (UBI), United Commercial Bank (UCO Bank) and Indian Bank (IB). Besides these three banks the group had identified six more PSBs which have chance to slip into the category of weak banks. However, the analysis is meant only for these three banks already identified as weak banks. It is also important to note that though the criteria adopted by the Group to identify a bank as a weak bank are many, only the NPAs of the banks are taken into account for this analysis. The objective here is to identify whether these three banks already identified as weak banks have any notable contribution to the NPAs of the nationalised banks or to that of the PSBs. Since these three banks fall under the group of PSBs, their percentage of NPAs to NPAs of PSBs and PSBs other than SBI and associate banks is worked out.

It is evident from Table 4.4 that the amount locked in as NPAs for these three banks are very high when compared with that of other nationalised banks or PSBs. The Indian bank is in the worst position. More than one-fourth of the net advances of this Bank has become NPAs during 1997 and 1998. When compared with Appendix I

Table 4.4 Volume of NPAs of weak banks: 1995-96 to 1997-98

Particulars	IB			UCO			UBI		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
NPAs (Crores)	1879.84	1735.0	1854.83	649.72	753.09	610.21	516.15	639.99	781.30
Gross NPAs/Total Assets (%)	17.68	19.39	17.62	11.87	11.46	9.58	12.93	10.97	10.08
Net NPAs/Total assets (%)	10.58	10.19	9.71	4.19	4.61	3.79	6.11	4.45	3.28
Gross NPAs/gross advances (%)	34.15	39.12	38.96	24.54	28.35	24.04	38.00	36.20	33.50
Net NPAs/Net advances (%)	23.87	25.24	26.01	11.43	13.73	11.14	23.28	19.20	14.10
Percentage off NPAs of weak banks to NPAs of PSBs (%)	10.27	8.55	8.93	3.55	3.71	2.94	2.82	3.15	3.76
Percentage of NPAs of weak banks to NPAs of other nationalised banks(%)	14.53	12.47	13.06	5.02	5.42	4.29	3.99	4.60	5.50
Percentage of NPAs of weak bank to NPAs of banks in India (%)	9.75	7.75	7.80	3.37	3.36	2.59	2.68	2.86	3.32

Source : Report on Trend and Progress of Banking in India, 1997-98, pp.131-132

Note: (i) IB – Indian Bank

(ii) UCO – United Commercial Bank

(iii) UBI – United Bank of India

it is seen that the proportion of gross NPAs to total assets, net NPAs to total assets, gross NPAs to gross advances and net NPAs to net advances are the highest for Indian bank for all the three years. These three banks together constitute 16.64 per cent, 15.41 per cent and 15.63 per cent of the NPAs of the 27 PSBs, 23.54 per cent, 22.47 per cent and 22.85 per cent of that of 19 nationalised banks and 15.8 per cent, 13.97 per cent and 13.71 per cent of the 104 banks of the country in the years 1996,1997 and 1998 respectively. Hence it can be concluded that these three banks especially, the Indian Bank have a sizeable contribution to the NPAs of the nationalised banks, PSBs and to that of the commercial banking industry of the country.

4.1.1.3 Country-wise comparison of NPA

The position of the banks of India among that of some of the countries of the world, with respect to the level of NPAs can be understood from Table 4.5.

Inspite of the impressive progress in the reduction of the proportion of NPAs from 23.2 per cent in 1992-93 to 16.02 per cent in 1997-98, India compares unfavourably in the international arena. Data available in Table 4.5 in respect of NPA level of banking system of some countries reveal that it ranges from 10 per cent to 10.5 per cent during 1993-94, 0.9 per cent to 14.4 per cent during 1994-95 and 0.8 per cent to 12.3 per cent during 1995-96 as against 23.6 per cent, 19.5 per cent and 17.3 per cent respectively for Indian banks during these years.

Table 4.5 Country-wise NPA of banks : 1993-94 to 1995-96

Sl. No.	Country	NPAs of banks (as percentage of loan)		
		1994	1995	1996
1	India	23.6	19.5	17.3
2	Mexico	10.5	14.4	12.3
3	Malaysia	8.1	5.5	3.9
4	Taiwan	2.0	3.3	3.8
5	Japan	3.3	3.1	3.4
6	Hong Kong	3.4	2.8	2.7
7	USA	1.9	1.3	1.1
8	Korea	1.0	0.9	0.8
9	Venezula	NA	17.7	NA
10	Thailand	NA	7.6	NA
11	Brazil	NA	5.9	NA
12	Colombia	NA	2.5	NA
13	Chile	NA	1.0	NA
14	Argentina	NA	10.5	NA
15	Indonesia	NA	11.2	NA

Compiled from:(i) Journal of Banking Studies, Vol. XVII(8), August '98, p. 7.

(ii) Prajnan, Vol. XXVI(3) Oct-Dec '97, pp-343 (iii) Business Line, 23-11-99, p-9

But some features relating to the NPAs reporting/ evaluation practices in other countries vis-à-vis those in our country need also to be considered before reaching at any conclusion on the level of NPAs. In some countries, all or bulk of banks' provisions are general provisions, and identified losses are written off at an early stage. Banks in these countries carry very little NPAs in their balance sheets. The recovery measures are also expeditious in view of stringent bankruptcy and foreclosure laws. The concept of gross NPA and Net NPA is not in vogue in these countries. In India due to the time lag involved in the recovery process and the detailed safeguard/procedures involved before write off could be effected, banks even after making provisions for the advances considered irrecoverable, continue to hold such advances in their books which is termed as gross NPA together with the provisions. The provision adjusted NPAs in Indian banking segment, i.e., Net NPAs, constituted only 8.2 per cent of the net advances of the banks as on 31 March 1998 (Table 4.3) which no doubt are high by international standards but not so alarming as gross NPAs projected (Rs. 20777.80 crores or 16.0 per cent). The prudential norms for asset classification adopted by India and some other countries are given in Appendix III.

4.1.1.4 Volume of NPAs of Kerala based banks

After an analysis of the volume of NPAs of the commercial banks at all-India level and a comparison with NPAs of the banks of other countries in the preceding sections, this section is devoted for the analysis of the NPAs of the Kerala-based commercial banks. There are seven Kerala based commercial banks excluding Regional Rural Banks – one in the public sector, viz., State Bank of Travancore (SBT) and the other six in the old private sector banks category, viz., Nedungadi Bank (NB), Federal Bank (FB), South Indian Bank (SIB), Catholic Syrian Bank (CSB), Lord Krishna Bank(LKB) and Dhanalakshmi Bank(DLB). Table 4.6 depicts the volume of NPAs of these banks.

Among the Kerala based banks, the only public sector bank (SBT) is having the major share of the net NPAs. But the decrease in its share from 54.07 per cent in 1996 to 45.25 per cent in 1998 is an indication of the problem of mounting overdues for the private sector banks also, as years pass by. This is also evident from the fact that the net NPAs of all the Kerala based banks have been steadily increasing during all the three years, except in the case of Federal Bank in 1998 and Nedungadi Bank in the year 1997. The share of NPAs of SBT to that of SB group and PSBs although not very high is increasing steadily over the study period. The share of NPAs of six Kerala based private sector banks to that of all the private sector banks (35) of the country which is really a sizeable proportion is also increasing steadily. The share of NPAs of seven Kerala based banks to that of banks in India, although meagre, has also been steadily increasing. From this it can be inferred that the performance of the Kerala based commercial banks based on the yardstick of NPAs is coming down except for Federal Bank in the year 1998.

Coming to a comparison of the six Kerala based private sector banks, it is seen that Federal Bank has the largest share of the total NPAs of all the private sector banks in Kerala followed by SIB in 1996 and 1997 and CSB in 1998. CSB occupies the third position in 1996 and 1997 and SIB in 1998. But it is to be noted that the share of net NPAs to net advances is the lowest for Federal Bank in the year 1998.

Table 4.6 Volume of net NPAs of Kerala based banks

(Rs. in crores)

Sl. No	Banks	1996	1997	1998
	PUBLIC SECTOR BANK			
1	State Bank of Travancore	257.80 (7.38)	335.11 (8.82)	471.62 (12.21)
	PRIVATE SECTOR BANKS			
2	South Indian Bank	50.84 (4.94) **(23.22)**	67.18 (5.87) **(15.86)**	89.60 (6.16) **(15.71)**
3	Dhanalakshmi Bank	8.15 (1.82) **(3.73)**	27.15 (4.51) **(6.41)**	62.70 (11.01) **(10.99)**
4	Catholic Syrian Bank	42.73 (5.13) **(19.51)**	56.04 (5.87) **(13.23)**	112.62 (11.27) **(19.74)**
5	Lord Krishna Bank	9.65 (3.57) **(4.41)**	33.52 (8.53) **(7.92)**	54.84 (14.09) **(9.61)**
6	Federal Bank	87.88 (3.94) **(40.13)**	214.38 (7.16) **(50.63)**	205.06 (5.28) **(35.95)**
7	Nedungadi Bank	19.71 (7.76) **(9.00)**	25.19 (6.17) **(5.95)**	45.68 (9.41) **(8.00)**
8	Total of private sector (2 to 7)	218.96	423.46	570.50
9	Grand total (1+8)	476.76	758.57	1042.12
10	Share of NPAs of SBT to NPAs of Kerala based banks (%)	54.07	44.17	45.25
11	Share of NPAs of Kerala based private to NPAs of all Kerala based banks (%)	45.93	55.83	54.75
12	Share of NPAs of SBT to NPAs of SBI & Associates (%)	4.80	5.25	7.16
13	Share of NPAs of SBT to NPAs of PSBs (%)	1.40	1.65	2.26
14	Share of NPAs of Kerala based private sector banks to NPAs of all private sector banks (%)	27.59	30.10	32.45
15	Share of NPAs of Kerala based banks to NPAs of banks in India (%)	1.37	1.89	2.43

Source : Report on Trend & Progress of Banking in India: 1997-98, pp.131-134

Note : (i) Figures in simple parenthesis indicate percentage of net NPAs to net advances.

(ii) Figures in bold parenthesis indicate percentage of net NPA of individual bank to net NPA total of all Kerala based private sector banks

4.1.1.5 Composition of NPAs

An idea about the composition of NPAs is as important as that of the volume, for better management of NPAs. The composition of NPAs of PSBs in India is analysed sector-wise (Table 4.7) and asset-wise (Table 4.8) in this section.

Table 4.7 reveals that the rate of growth of NPAs of the Priority Sector (PS) has been lesser than the rate of growth of its advances in the year 1997 and 1998, while the rate of growth of NPAs of Non-Priority Sector (NPS) has been more than three times of that of its advances in the year 1997. But it should be noted that the PS is not performing that well when the percentage of sectoral NPAs to total NPAs is considered. While the percentage of PS advances to total advances is only around 30 per cent, the share of its NPAs to total NPAs is more than 46 per cent in all the years. The share of gross NPA to sectoral advances is nearly double for PS compared to that of NPS. But it is noteworthy that the percentage of PS NPAs to total NPA is showing a decreasing trend over the years, while that of NPS is increasing.

Table 4.7 Sector-wise NPAs of Public Sector Banks : 1995-96 to 1997-1998.

(Rs. in crores)

Sl. No	Particulars	1996		1997		1998	
		Priority Sector	Non Priority Sector	Priority Sector	Non Priority Sector	Priority Sector	Non Priority Sector
1.	Advances	69603	159622	79131 (12.03)	165083 (3.30)	91318 (13.34)	193653 (14.75)
2.	Gross NPAs	19106	20478	20776 (8.03)	22801 (10.18)	21184 (1.92)	24469 (6.18)
3.	Percentage of sectoral advance to total advances	30.37	69.63	32.40	67.60	32.04	67.96
4.	Percentage gross NPA to sectoral advances	27.45	12.82	26.25	13.81	23.20	12.63
5.	Percentage of sectoral gross NPA to total gross NPA	48.27	51.73	47.67	52.33	46.40	53.60

Source: (i) RBI Bulletin, July1998, p.921
(ii) EPW, Vol. XXXIV(39), Sept. 25 – Oct. 1, 1999

Note: Figure in parenthesis indicate growth index over the previous year

It can be generally inferred that NPS is doing slightly better than the PS because PS advances which are directed towards agriculture, small scale industries and small business enterprises are characterised by higher risks and lower return and can easily succumb to the vagaries of nature, change in policies, etc. As long as PS advances are fraught with inherent and business risks, default would continue and NPAs in these sectors may remain at a fairly high level more so because banks are committed to help these sectors by fulfilling PS benchmark of 40 per cent of net bank credit. The remark of the RBI, that higher NPAs in PS advances have pushed up overall proportion of NPAs of these banks by about 3 to 4 per cent is noteworthy in this context.

Asset-wise NPAs of PSBs

The composition of NPAs on the basis of loan asset classification presented in Table 4.8 gives a better picture about the quality of the loan assets of the PSBs. Since the banks make a separate classification for advances with balance of less than Rs. 25,000/- such a classification is also given in Table 4.8

Table 4.8 Loan asset classification of Public Sector Banks : 1992-93 to 1997-98

(Rs. in crores)

Sl. No.	Classification of assets	1993	1994	1995	1996	1997	1998
1	Standard Assets	1,39,087 (76.8)	1,24,580 (75.2)	1,58,967 (80.6)	1,89,660 (82.0)	2,00,637 (82.2)	2,39,318 (84.0)
2	Sub-standard Assets	12,552 (7.4)	12,163 (7.4)	7,758 (3.9)	9,299 (4.0)	12,471 (5.1)	14,463 (5.1)
3	Doubtful Assets	20,106 (11.9)	23,317 (14.1)	22,913 (11.6)	24,707 (10.7)	26,015 (10.6)	25,819 (9.1)
4	Loss Assets	3,930 (2.3)	4,073 (2.4)	3,732 (1.9)	4,351 (1.9)	5,090 (2.1)	5,371 (1.6)
5	Advance with balance less than Rs.25,000 included in NPAs	2,665 (1.6)	1,448 (0.9)	3,982 (2.0)	3,304 (1.4)	NA	NA
6	Total NPAs (2 to 5)	39,253 (23.2)	41,041 (24.8)	38,385 (19.4)	41,661 (18.0)	43,576 (17.8)	45,653 (16.0)
7	Total advances (1+6)	1,69,340 (100)	1,65,621 (100)	1,97,352 (100)	2,31,321 (100)	2,44,213 (100)	2,84,971 (100)

Source : (i) RBI Bulletin, July 1998,pp. 933
(ii) EPW, Vol. XXXIV(39), Sept.25-Oct.1, 1999, pp. 5463 - 5464

Note : Figure in parenthesis indicate percentage to total

The classification of NPAs into sub-standard assets, doubtful assets and loss assets establish that doubtful assets constitute the highest of the NPAs followed by sub-standard assets and loss assets in all the six years. The doubtful assets represent that category for which 100 per cent provision on unsecured portion and 20 to 50 per cent provision on secured portion has to be maintained by the banks. It is seen that the trend of the doubtful assets is the same as that of the total NPAs. Hence, doubtful assets is a category which needs special attention from the bankers' side for reducing the NPAs. For this the recovery performance of the banks will have to be improved for which sufficient freedom and change in rules and regulations for recovery from defaulters are essential.

4.1.2 Volume and composition of the NPAs of the Bank under study – The South Indian Bank Limited.

Today under the pretext of liberalization, privatization and globalization "survival of the fittest" has become the order of the day, and "profit" has emerged as the key factor to assess the viability of a bank/branch. Thus it has become imperative for a bank to take timely and corrective measures to reduce the ever-growing quantum of NPAs. In fact, it is the level of NPAs, which to a great extent, differentiates a good and a bad bank. An attempt is made in this section to analyze the

NPAs of SIB Ltd.-the organisation selected for the study with the help of both secondary and primary data.

4.1.2.1 Volume and Composition of the NPAs of the SIB Ltd – Secondary data analysis

The volume and composition of NPAs of SIB is analysed in this section by means of data collected from the published sources like Annual Reports, Prospectus of share issue and also from the Head Office of the Bank.

Table 4.9 given below depicts the volume of NPAs of the SIB Ltd. for the four year period 1995-96 to 1998-99.

It is observed from Table 4.9 that along with the increase in the assets and advances of the Bank, its NPAs have also been increasing steadily in all the four years. From 4.96 per cent in 1996 it has risen to 11 per cent in 1999, which is no where near the stipulation of the RBI to bring down the level of NPAs to five per cent by the year 2000. But when compared to the All-India figure of the old private sector banks to which category SIB belongs, this is not anyway high.

Table 4.9 Volume of NPAs of SIB Ltd. : 1995-96 to 1998-99.

(Rs. in crores)

Sl.No	Particulars	1996	1997	1998	1999
1	Total Assets	2040.41	2353.76 (13.35)	3050.83 (22.84)	3582.08 (14.83)
2	Gross Advances	1057.97	1186.49 (10.83)	1522.02 (22.04)	1768.95 (13.95)
3	Gross NPAs	89.21	110.12 (18.98)	156.09 (29.45)	296.51 (47.35)
4	Net Advances	1019.60	1135.99 (10.24)	1455.66 (21.96)	1664.66 (12.55)
5	Net NPAs	50.84	59.62 (14.72)	89.63 (33.48)	183.18 (51.06)
6	Gross NPAs/Total Assets (%)	4.34	4.65	5.09	8.27
7	Net NPAs/Total Assets (%)	2.47	2.52	2.93	5.11
8	Gross NPAs/ Gross Advances(%)	8.43	9.28	10.26	16.76
9	Net NPAs/Net Advances (%)	4.96 (4.51)	5.87 (5.99)	6.16 (6.46)	11.00 (NA)
10	Balance in interest suspense account	15.19	20.37 (25.42)	29.34 (30.57)	51.25 (42.75)
11	DICGC/ECGC claim received	8.80	8.51 (-3.40)	7.67 (-10.82)	9.85 (21.21)
12	Provisions held for NPAs	14.38	21.62 (33.48)	29.19 (25.93)	23.04 (-26.69)

Complied from: (i) Prospectus of share issue of SIB, 1996-97
(ii) Annual Report 1995-96 to 1998-99

Note : Figures in parenthesis show growth index over the previous year except in Sl. No. 9 which show old private sector banks' average.

In all the years, the growth rate of gross NPA and net NPA are higher than the growth rate of the total assets and advances. The alarming speed with which the gross and net NPAs is increasing, i.e., 47.35 per cent and 51.06 per cent respectively in 1999 is a red signal to the Bank to take urgent steps for better management of NPA including recovery management.

Due to the increase in NPAs, the balance in interest suspense account, i.e., the amount of interest due from defaulted accounts shows an increasing trend. The decrease in the DICGC/ECGC claim received by the Bank is an indication of the problem involved in the realisation of the defaulted amount.

Thus it can be inferred that because of higher growth rate of NPAs compared to advances and the assets, the ratio of NPAs to advances as well as that of assets have shown an increasing trend during the reference period. The increase in the NPAs results in an increase in the balance in interest suspense account and provisions held, as well. And if this increasing trend of higher NPAs goes on, then the Bank will have to keep on carrying higher balance in interest suspense accounts and provisions. The ultimate impact will be on the profit of the Bank as it cannot book the interest from the NPAs unless and until it is actually realised. On the other hand, from the profit it earns on the performing assets and other income, the Bank has to keep aside a portion of it by way of provisioning. So the Bank like olden days cannot book the interest income whether actually received or not and show a rosy picture while preparing the final accounts.

An analysis of the composition of NPAs of the SIB helps to identify the areas where special care has to be taken by the Bank for reducing and recovering NPAs, which is given in Table 4.10. The All-India figures of PSBs are also given in the Table to enable easy comparison. Since the figure of SIB do not have a separate class of NPA accounts with balance less than Rs. 25,000/- such a classification which is given separately for PSBs is not included in Table 4.8.

Even though there is an increase in both Performing Assets (PAs) and NPAs, the percentage of PAs to total advances is declining whereas that of NPAs is increasing over the years. If this trend is an indication for the future, then the percentage of PAs will come down while that of NPAs will go up and may ultimately become a threat to the viability of the Bank.

Table 4.10 Composition of NPAs of SIB Ltd. 1995-96 to 1998-99

(Rs. in crores)

Asset classification	Performing Assets	Non-Performing Assets				
	Standard Assets	Sub standard Assets	Doubtful Assets	Loss Assets	Total gross NPAs (2to4)	Total Advances (1+5)
Year	1	2	3	4	5	6
1995-96	968.76 (91.57)	63.45 (71.12) **(22.32)**	18.55 (20.80) **(59.30)**	7.21 (8.08) **(10.44)**	89.21 (8.43)	1057.97 (100.00)
1996-97	1076.37 (90.72)	65.02 (59.04) **(28.62)**	35.75 (32.46) **(50.70)**	9.35 (8.50) **(11.68)**	110.12 (9.28)	1186.46 (100.00)
1997-98	1365.93 (89.74)	84.95 (54.42) **(31.68)**	56.99 (36.51) **(56.56)**	14.15 (9.07) **(11.76)**	156.09 (10.26)	1522.02 (100.00)
1998-99	1472.44 (83.24)	201.84 (68.07) **(NA)**	73.10 (24.66) **(NA)**	21.57 (7.27) **(NA)**	296.51 (16.76)	1768.95 (100.00)

Source : Prospectus of share issue of SIB, 1996-97.
Note : (i) Figure in parenthesis in column 1 and 5 show their share to column 6
(ii)Figure in parenthesis in column 2,3 and 4 show their share to column 5
(iii) Figure in bold paranthesis show the all-India figure of PSBs

The sub-classification of NPAs into sub-standard assets (SSA), doubtful assets (DA) and loss assets (LA) shows that SSA constitute a major portion of the NPAs which includes loan accounts which have been in default for less than two years. This is in contrast to the All-India figure of PSBs (Table 4.8) where DA constitute the largest share.

It is also important for the Bank as far as possible, to make the NPA accounts regularised, more importantly the SSA, because any slippage below SSA will make the Bank keep higher provisions for NPAs. This will have a direct impact on the profit of the Bank, since the profit earned from PAs will have to be used for provisioning the NPAs. If the Bank makes earnest attempts, atleast some of the SSA can be converted into standard assets and thus reduce the NPA level.

Region-wise volume of NPAs of the Bank

After the analysis of the volume of NPAs at the Bank level in general, this section is devoted for the region-wise analysis of NPAs of SIB. The Bank's total area of operation is divided into eight regions, the latest addition being Delhi Region in the year 1999. The region-wise volume of advances, volume of NPAs, percentage of NPAs to net advances and the growth rate of advances and NPAs compared to previous years are depicted in Table 4.11

Table 4.11 Region-wise volume of advances and NPA of SIB : 1996-97 to 1998-99

(Rs.in crores)

Year	1997		1998		1999	
Region	Advances	NPAs	Advances	NPAs	Advances	NPAs
Trivandrum	109.33	12.81 (11.71)	139.89 **(21.84)**	14.57 **(12.07)** (10.41)	155.43 **(9.99)**	19.08 **(23.63)** (12.27)
Ernakulam	200.00	17.77 (8.88)	251.71 **(20.54)**	19.44 **(8.59)** (7.72)	250.60 **(-0.44)**	32.31 **(39.83)** (12.89)
Trichur	112.10	16.43 (14.67)	132.53 **(15.41)**	11.96 **(–37.29)** (9.02)	151.18 **(12.33)**	12.70 **(5.82)** (8.40)
Calicut	73.76	7.80 **(10.57)**	90.84 **(18.80)**	9.97 **(21.76)** (10.97)	110.09 **(17.48)**	13.22 **(24.58)** (12.00)
Chennai	189.50	20.32 (10.72)	274.63 **(30.99)**	38.21 **(46.84)** (13.91)	364.17 **(24.58)**	66.45 **(42.49)** (18.24)
Coimbatore	250.80	22.75 (9.06)	312.87 **(19.83)**	28.33 **(19.73)** (9.05)	373.75 **(16.28)**	61.57 **(53.93)** (16.47)
Mumbai	251.00	12.24 (4.87)	322.34 **(22.13)**	33.61 **(63.61)** (10.42)	284.42 **(-13.33)**	77.66 **(56.72)** (27.30)
Delhi	-	-	-	-	176.53	8.25 (4.67)
Total	1186.49	110.12 (9.28)	1524.61	156.09 (10.23)	1866.17	291.24 (15.63)

Source : SIB, Head Office

Note : (i) Figures in simple parenthesis show share of NPAs to advances

(ii) Figures in bold parenthesis indicate growth index over the previous year

It is seen that except for the year 1999, Mumbai Region has the highest advances. In the year 1999, Coimbatore Region tops the advances. From the largest advances and the lowest share of NPAs in 1997, the Mumbai Region has come down to the Region with the third largest advances and the highest share of NPAs to net advances in 1999. The growth index of NPAs for the Bank is the highest for Mumbai Region, i.e., 63.61 per cent in 1998 and 56.72 per cent in 1999 compared to the previous year. The NPAs of Mumbai Region has increased to such an extent that more than 27.0 per cent of their advances are in default in 1999. While the growth in NPAs to advances recorded 56.72 per cent growth, their advances declined by 13.33 per cent during the same year. These bring out the fact that the Mumbai Region is the main contributor to the NPAs of the Bank. It is also important to note that whereas outside Kerala regions are showing consistent increase in the quantum and share of NPAs (except for a slight decrease in share of NPAs in Coimbatore Region in 1998) in the case of inside Kerala Region, only Calicut Region has shown such a consistent increase.

It has also been revealed (Table 4.6) that SIB is the second largest contributor to the NPAs of the Kerala based private sector banks during 1997 and 1998 and the third largest in 1999. But there is not much difference in the rate of NPAs of SIB with that of old private sector banks of India as per Table 4.3. Hence it can be inferred that if the NPA of outside Kerala Region had not been so high, the NPA level of SIB might have been within the specifications of RBI. It is seen from Table 4.6 that Federal Bank has the largest share of NPAs in the total NPAs of the Kerala based private sector banks followed by SIB and CSB. These three Kerala based private sector banks have the largest number of branches outside Kerala. Hence it is a matter of concern whether it is the outside Kerala branches which are responsible for the high level of NPAs of Federal Bank and CSB.

It is also evident from Table 4.11 that among the regions in Kerala, Trichur Region, where the Head Office of the Bank is situated is having the lowest NPAs to net advances. It is also to be noted that Trichur is the only Region where NPAs level has consistently come down over the years under study. This points to the question whether this better performance of the Trichur Region is due to the earnest efforts taken by the management, to prevent the accounts from becoming NPAs and due to better recovery management, since the Region is having the advantage of the Head Office situated in it. If that is the reason, more efforts from the part of the management can definitely bring down the level of NPAs of the Bank.

Comparison of Regional Advances and Regional NPAs of the Bank

A comparison of regional advances to gross advances and regional NPAs to gross NPAs of the Bank is done in Table 4.12 to give a better idea about the contribution of the different regions to the total NPAs of the Bank.

The poor performance of the Mumbai Region is reinstated in Table 4.12. It is the only Region where there is consistent decrease in the share of its advances to gross advances and consistent increase in the share of its NPAs to gross NPAs of the Bank during the three year. Mumbai Region which was having 21.15 per cent of the total advances of the Bank in 1997 with a share of 11.11 per cent in the NPAs of the Bank has deteriorated in its performance with 15.24 per cent of the advances and 26.67 per cent of the NPAs in 1999.

Except for the Delhi Region which was started recently, the outside Kerala Regions together, viz., Mumbai, Chennai and Coimbatore are contributing to 50.23 per cent, 64.16 per cent and 70.62 per cent of the total NPA of the Bank during 1997, 1998 and 1999 respectively. It is to be noted that their advances are also high contributing to more than 50 per cent of the total advances of the Bank in all the three years. But their contribution to gross NPAs of the Bank

Table 4.12 Region-wise gross NPAs to gross advances

Year	1997		1998		1999	
Region	Percentage of regional advance to gross advance	Percentage of regional NPAs to gross NPAs	Percentage of regional advance to gross advance	Percentage of regional NPAs to gross NPAs	Percentage of regional advance to gross advance	Percentage of regional NPAs to gross NPAs
Trivandrum	9.21	11.64	9.18	9.34	8.33	6.55
Ernakulam	16.86	16.14	16.51	12.45	13.43	11.09
Trichur	9.45	14.92	8.69	7.67	8.10	4.36
Calicut	6.22	7.08	5.96	6.38	5.90	4.54
Chennai	15.97	18.45	18.00	24.48	19.51	22.82
Coimbatore	21.14	20.66	20.52	18.15	20.03	21.14
Mumbai	21.15	11.11	21.14	21.55	15.24	26.67
Delhi	-	-	-	-	9.46	2.83
Inside Kerala Region	41.74	49.78	40.34	35.82	45.22	29.37
Outside Kerala Region	58.26	50.22	59.66	64.18	54.78	70.63

Source : SIB, Head Office

have increased to 70.63 per cent while their share of gross advances have decreased to 54.76 per cent. Individually also, Chennai and Coimbatore Region have a major share in the gross NPAs of the Bank. Thus it can be inferred that not only the Mumbai Region, but also the other outside Kerala Regions, viz., Chennai and Coimbatore Regions have their role in increasing the level of NPAs of the Bank.

With regard to the inside Kerala Regions, it is observed that in the case of all the four Regions both advances and NPAs have decreased consistently over the years. Although decrease in NPAs is indeed a positive sign, the reduction in advances have to be viewed seriously, especially in the context of increasing NPAs and decreasing advances for the outside Kerala Regions. The improving performance of the Trichur Region is also reinstated here.

Ranking of the Regions of SIB

The ranking of the different Regions of the Bank using the criteria of absolute amount of NPAs and share of NPAs to advances is done in Table 4.13. Even though absolute amount of NPAs may not be a proper criteria since it does not take into account the volume of advances, the percentage of NPAs to advances is the accepted criteria of the RBI. The Delhi Region which is of recent origin is not considered for the ranking.

Table 4.13 Ranking of Regions of SIB Ltd.

(in percentage)

Year	1997		1998		1999	
Region	Absolute amount of NPAs	Percentage of NPAs to advance	Absolute amount of NPAs	Percentage of NPAs to advance	Absolute amount of NPAs	Percentage of NPAs to advance
Trivandrum	12.81 (3)	11.71 (6)	14.47 (3)	10.41 (4)	19.08 (3)	12.27 (3)
Ernakulam	17.77 (5)	8.88 (2)	19.44 (4)	7.72 (1)	32.31 (4)	12.89 (4)
Trichur	16.42 (4)	14.67 (7)	11.96 (2)	9.02 (2)	12.70 (1)	8.40 (1)
Calicut	7.80 (1)	10.57 (4)	9.97 (1)	10.97 (6)	13.22 (2)	12.00 (2)
Chennai	20.31 (6)	10.71 (5)	38.21 (7)	13.91 (7)	66.45 (6)	18.24 (6)
Coimbatore	22.74 (7)	9.06 (3)	28.33 (5)	9.05 (3)	61.57 (5)	16.47 (5)
Mumbai	12.33 (2)	4.87 (1)	33.61 (6)	10.42 (5)	77.66 (7)	27.30 (7)
Delhi	-	-	-	-	8.25 (-)	4.67 (-)

Source : SIB, Head Office

Note : Figures in parenthesis indicate rank

The improving performance of the Trichur Region and the deteriorating performance of the Mumbai and the other outside Kerala Regions are evident from Table 4.13. From the last position (7th) in 1997, the Trichur Region has reached the first position in 1999 while the Mumbai Region has come down to the last position in 1999 from the first position in 1997. Based on the widely accepted criteria of net NPA to net advances all the four Kerala Regions rank at the top of the list. Hence special efforts have to be taken by the Bank to reduce the NPA level of the outside Kerala branches without which the Bank cannot reduce its overall NPA level.

4.1.2.2 Volume and Composition of NPAs of SIB: Primary Data Analysis

In this section the analysis of the volume and composition of NPAs is done by means of primary data collected from 150 NPA account holders of the five branches from the 57 branches of the Trichur Region of the Bank. Thirty respondents each from, viz., agriculture, small business and retail trade, professionals and self-employed constituting priority sector (PS) and miscellaneous (trade and general) and other non-priority sectors constituting the non-priority sector (NPS) were selected from these five branches constituting a total sample size of 150. These respondents were also classified based on the type of facilities of advance, viz., cash credits and overdraft, crop loan, short-term loan, term loan and others. The data were collected by means of a pre-tested interview schedule (Appendix IV).

Before starting the analysis of NPAs, a brief picture about the socio-economic characteristics of the respondents is discussed which would enable to get an idea about the social and economic background of the defaulters.

i) Socio-Economic characteristics of the Respondents

For analysing the socio-economic characteristics of the respondents, ten variables were considered of which four variables each are in rupees and numbers, and two in years. Average value of the variables are given both sector-wise and facility-wise in Table 4.14.

Table 4.14 shows that the educational status of the respondents is very low. The minimum score is one representing illiterate and maximum score is seven for number 'one' represents illiterate and 'two' represents upto seven for educational status. Of the scores obtained in all categories comes to less than two which means that majority of the respondents are educationally backward. But the educational level is higher for NPS compared to PS.

Table 4.14. Socio Economic Characteristics of the Respondents

	Age (years)	Educational status (Nos.)	Family members (Nos.)	Earning members (Nos.)	Occupational income (Rs.)	Family income (Rs.)	Income from other assets(Rs.)	Family expenditure (Rs.)	Facilities at house (Nos.)	Dealing with SIB (years)
Agri.	40.5	1.05	5.1	1.45	3015.00	4067.50	1565.65	2510.00	5.05	5.75
RT/SB	43.25	0.83	4.5	1.8	4800.00	6340.00	500.00	2875.00	5.35	6.05
P/SE	45.85	1.05	4.95	1.7	3940.00	5035.00	950.00	2622.50	4.05	6.85
H(T/G)	40.2	1.15	5.15	1.7	5400.00	8185.00	1128.25	3887.50	5.12	5.35
ONP	40.6	1.35	5.3	1.5	6800.00	9200.00	1625.00	3975.00	5.87	4.9
PS	43.2	0.98	4.85	1.65	3918.33	5147.5	1005.22	2666.16	4.82	6.21
NPS	40.4	1.25	5.22	1.62	6700.00	8692.5	1376.63	3931.25	5.50	5.12
CC	43.18	1.4	6.0	1.54	7463.63	9045.65	2676.33	3875.00	5.6	5.18
OD	39.17	1.36	5.23	1.27	9636.36	12568.18	2123.33	4872.67	5.38	4.82
CL	43.5	0.92	4.68	1.51	2250.00	2887.0	-	2000.00	5.41	5.41
STL	45.02	0.71	4.63	1.60	2276.89	3996.71	643.06	2367.11	4.87	7.40
MTL	42.11	1.16	4.65	1.75	4411.53	4738.46	483.11	2826.00	5.57	6.00
TL	43.42	1.7	5.05	2.11	7357.14	11735.71	353.57	4428.57	4.57	5.71
Others	35.22	0.77	5.13	1.66	2655.55	3555.35	-	2655.55	4.46	4.32
Total	42.08	1.09	5.0	1.63	47.91	6565.5	1153.78	3174.00	5.09	5.78

Source : Survey Data

A notable feature is that the facilities at house are very high compared to their income. Out of the maximum score of seven, the average is 5.09. This supports the usually seen tendency of the people of Kerala to buy consumer durables and go for other facilities even beyond their means. It is also seen that most of them have been dealing with the SIB for more than five or six years.

Besides the socio-economic characteristics of the respondents, other general features of the respondents and loan accounts, viz., reasons for selection of the Bank, dealings with other banks, purpose of the credit facilities, details of security offered and mode of repayment are discussed here.

ii) Other characteristics of the respondents

When enquired about the reasons for selecting the SIB, majority of the respondents have opined that proximity of the Bank is the reason behind selection of the branch, the other reasons in order of rank being recommendation by relatives/friends and reputation/quality of service. The borrowers' inclination towards proximity/convenience is because of the fact that the borrowers perceived that the banks' service are almost same everywhere, and so avail the service from the one which is the nearest.

Regarding dealings with other banks, only 39 per cent of the respondents had accounts with other banks of which 38 per cent had deposit account, 41 per cent loan accounts and 21 per cent both deposit and loan accounts.

With respect to the purpose of loan, 43 per cent of the respondents had taken loan for working capital, 26 per cent for fixed capital requirement and 31 per cent for both. But it was noticed during the survey, that some of the respondents had deployed working capital credit in fixed capital which had adversely affected their repayment. Effective supervision from the part of Bank in the utilization of the loan amount can atleast reduce this tendency.

The security offered by the respondents comprised of movable property (46 per cent), both movable and immovable property (36 per cent), DPN/co-obligant (11 per cent) and immovable property (7 per cent). The security of co-obligant is comparatively an easy method of realising the loan in case of default from the banker's point of view compared to other securities. The RBI has also issued instructions in this regard, to take co-obligant as security as far as possible instead of mortage of land. If the Bank insists on this security, the recovery in the case of default can be improved. This assumes more significance in the context of the long procedural delay involved in the realisation of the other types of security offered by the borrowers.

The mode of repayment is monthly in majority of the cases (76 per cent) followed by running accounts (22 per cent) and quarterly (2 per cent). It is to be noted that many of the PS borrowers who had monthly repayment suggested for a facility of daily remittance. They went to the extent of suggesting that they will make prompt repayment if there is a system for the banker to make daily collection from the place of the business. Even though it may not be practical from the banker's side, it is evident that the frequency of the visits of the banker will definitely reduce the tendency of the accounts to become NPAs.

With regard to problems involved by the respondents in getting the loan sanctioned, the major issues identified are procedural delay in sanctioning the loan, lack of adequate security with the applicant, lack of interest on the part of the banker and inadequate assistance. But when the actual time gap between loan application and disbursement was considered, it was found that in the case of 50 per cent of the respondents, it took less than a month while for 24 per cent it took more than two months. The delay was found to be more in the case of Government Sponsored Schemes where the borrowers had to run between the Bank and the Block/Panchayat many times for getting the loan sanctioned.

After a discussion about the socio– economic characteristics of the borrowers and all the other features of their borrowing accounts, the next three sections are devoted for analysing the volume and composition of the NPAs of the 150 respondents selected for the study.

iii) Volume of NPAs of respondents : sector - wise

The sector – wise details about the quantum of loans and NPAs collected from 150 defaulters of the SIB are presented in Table 4.15. The first three categories, viz., agriculture, retail trade/small business and professionals/self employed contributing 90 respondents belong to the PS and the fourth and fifth category, viz., miscellaneous (Trade and General) and other non-priority loans belong to the NPS. The amount repaid is principal plus interest is as per the records of the borrowers.

Table 4.15 Volume of NPAs of respondents: Sector – wise

Sl. No.	Particulars / Sectors	Loan amount applied for (Rs.)	Loan amount sanctioned (Rs.)	Loan amount repaid (Rs.)	Amount to be paid (Rs.)	Share of loan amount sanctioned to loan amount applied for(%)	Share of loan amount repaid to loan amount sanctioned (%)	Share of amount to be paid to loan amount sanctioned (%)
1.	Agri	15,62,700 (15.42) **(52,090)**	13,97,700 (15.26) **(46,590)**	4,34,400 (12.36) **(14,480)**	11,39,550 (15.86) **(37,985)**	89.44	31.08	81.53
2.	RT/SB	7,47,300 (7.37) **(24,900)**	6,67,500 (7.29) **(22,250)**	2,29,950 (6.54) **(7,665)**	5,82,000 (8.1) **(19,400)**	89.36	34.44	87.19
3.	P/SE	15,68,200 (15.47) **(52,275)**	14,00,250 (15.28) **(46,675)**	7,34,850 (20.91) **(24,495)**	8,25,000 (11.48) **(27,500)**	89.29	52.47	58.92
4.	PS(1to3)	38,77,950 (38.25) **(43,088)**	34,65,450 (37.83) **(38,505)**	13,99,200 (39.81) **(15,547)**	25,46,550 (35.44) **(28,295)**	89.36	40.38	75.88
5	M(T/G)	17,94,750 (17.71) **(59,825)**	16,89,000 (18.44) **(56,300)**	6,60,900 (18.80) **(22,030)**	14,43,750 (20.09) **(48,125)**	94.11	39.13	85.48
6.	ONP	44,63,250 (44.03) **(1,85,775)**	40,07,025 (43.73) **(1,35,568)**	14,54,550 (41.39) **(48,485)**	31,95,000 (44.47) **(1,06,500)**	89.78	36.30	89.73
7.	NPS (5+6)	62,58,000 (61.74) **(1,04,90)**	56,96,025 (62.17) **(94,934)**	21,15,450 (60.19) **(59,500)**	46,38,750 (64.56) **(77,313)**	91.01	37.14	81.44
8.	Total (4+7)	1,01,35,950 (100) **(67,573)**	91,61,475 (100) **(61,077)**	3,5,14,650 (100) **(23,431)**	71,85,300 (100) **(47,902)**	90.39	38.36	78.43

Source: Survey Data

Note : (i) Figures in simple parenthesis indicate percentage to total

(ii)Figures in bold parenthesis indicate average amount

In all the cases, loan amount sanctioned is less than the loan amount applied for as is the general tendency of the bankers. NPS contributing to 40 per cent of the respondents are getting 62.17 per cent of the loan amount while 60 per cent of the respondents in PS gets only 37.83 per cent of the loan amount sanctioned. Of the total loan amount to be paid, major portion, i.e., 64.56 per cent is by NPS.

The PS is slightly better (40.38 per cent) than the NPS (37.14) with regard to repayment. The NPS with huge amount of loans have a very high share of the loan amount to be paid to loan amount sanctioned (81.44 per cent). Table 4.7 has already revealed that the rate of growth of the NPAs of the NPS of the PSBs has been more than three times of that of its advances. The huge share of loan amount to be paid to loan amount sanctioned in the case of NPS advance of SIB can be considered as an indication of the same tendency as in the case of PSBs.

iv) Volume of NPAs of sample respondents : Facility – wise.

Facility–wise volume of loans and NPAs are discussed in Table 4.16. The credit facitlities considered for the analysis are cash credit(CC) and overdraft(OD), crop loan(CL), short–term loan(STL), term loan(TL) and 'others' which include mainly government sponsored schemes.

Table 4.16 volume of NPAs of respondents: Facility–wise

(Amount in Rupees)

Sl. No.	Particulars / Credit Facilities	Loan amount applied for (Rs.)	Loan amount sanctioned (Rs.)	Loan amount repaid (Rs.)	Amount to be paid (Rs.)	Share of loan amount sanc-tioned to loan amount appl-ied for(%)	Share of loan amount rep-aid to loan amount sanc-tioned (%)	Share of amount to be paid to loan amount sanc-tioned (%)
1.	CC/OD	58,38,000 (57.60) **(1,76,909)**	54,36,000 (59.34) **(1,64,727)**	18,43,500 (52.45) **(55,864)**	44,24,250 (61.57) **(1,34,068)**	93.11	33.91	81.39
2.	CL	1,18,500 (1.16) **(13,167)**	93,750 (1.02) **(10,417)**	38,250 (1.09) **(4,250)**	73,500 (1.02) **(8,167)**	79.11	40.80	78.40
3.	STL	2,29,950 (2.27) **(7,143)**	1,96,950 (2.15) **(6,100)**	95,100 (2.71) **(2,261)**	1,90,800 (2.65) **(8,841)**	85.45	38.66	94.16
4.	TL	32,61,750 (32.18) **(54,163)**	27,83,250 (30.38) **(46,388)**	13,69,800 (38.97) **(22,830)**	19,31,250 (26.88) **(32,188)**	85.33	49.22	69.39
5	Others	6,87,750 (6.79) **(50,944)**	6,51,525 (7.11) **(48,261)**	1,68,000 (4.78) **(12,444)**	5,65,500 (7.87) **(41,889)**	94.70	25.79	86.80
6.	Total (1 to 5)	1,01,35,950 (100) **(67,573)**	91,61,475 (100) **(61,077)**	35,14,650 (100) **(23,431)**	71,85,300 (100) **(47,902)**	90.39	38.36	78.43

Source: Survey Data

Note : (i) Figures in simple parenthesis indicates percentage to total
(ii) Figures in bold parenthesis indicates average amount
(iii) CC/OD – Cash Credit/Overdraft
(iv) CL – Crop Loan
(v) STL – Short Term Loan
(vi) TL – Term Loan

The highest loan amount sanctioned is by CC/OD constituting mainly NPS borrowers and it has the largest share (66.58 per cent) of the total amount to be paid. The lowest repayment is in the 'other' category (25.79 per cent) i.e., in the case of government sponsored schemes. The term loan has the highest repayment to loan amount sanctioned (49.22 per cent) followed by crop loan (40.80 per cent) which has the hypothecation of the standing crop as the main security. The CC/OD which are generally given to NPS and large borrowers have a very high share of loan amount to be paid back (81.39 per cent) to loan amount sanctioned which support the findings of Table 4.7 and 4.15 that it is the borrowers of NPS who are responsible for the high level of NPAs.

v) Composition of NPAs of sample respondents

The composition of the NPAs of the respondents will enable to understand whether the NPAs of the Bank is in a recoverable stage or not. Hence, the asset-classification is given in Table 4.17. The doubtful assets are divided into three categories based on the provisions to be kept by the Bank as per the guidelines of the RBI.

Table 4.17 Composition of NPAs of respondents

(Amount in Rupees)

Sl. No.	Particulars / Asset Classification	Loan amount applied for (Rs.)	Loan amount sanctioned (Rs.)	Loan amount repaid (Rs.)	Amount to be paid (Rs.)	Share of loan amount sanc-tioned to loan amount applied for(%)	Share of loan amount repaid to amount sanctioned (%)	Share of amount to be paid to amount sanctioned (%)
1.	SSA	84,60,450 (83.47) **(1,02,551)**	76,81,950 (83.85) **(93,115)**	28,71,750 (81.72) **(34,809)**	61,03,500 (84.95) **(23,981)**	90.80	37.83	79.45
2.	DA 20	2,70,750 (2.67) **(18,050)**	2,24,250 (2.45) **(14,950)**	1,07,400 (3.06) **(7,160)**	1,68,750 (2.35) **(8,036)**	82.82	47.89	75.25
3.	DA 30	8,55,750 (8.44) **(40,750)**	7,85,250 (8.57) **(37,393)**	4,65,000 (13.23) **(22,143)**	3,84,000 (5.34) **(1,286)**	91.76	59.22	48.90
4.	DA 50	3,89,250 (3.84) **(51,900)**	3,34,500 (3.65) **(44,600)**	99,750 (1.13) **(5,300)**	3,58,500 (4.99) **(47,800)**	85.93	11.88	107.17
5	DA (2 to 4)	15,15,750 (14.95) **(36,900)**	13,44,000 (14.67) **(32,314)**	6,12,150 (17.42) **(14,403)**	9,11,250 (12.68) **(24,707)**	88.67	39.66	26.10
6.	LA	1,59,750 (1.58) **(6,656)**	1,35,525 (1.48) **(5,647)**	30,750 (0.87) **(1,262)**	1,70,500 (2.37) **(7,106)**	84.83	22.36	125.84
7.	Total (1+5+6)	1,01,35,950 (100) **(67,573)**	91,61,475 (100) **(61,077)**	3,5,14,650 (100) **(23,431)**	71,85,300 (100) **(47,902)**	90.39	38.36	78.43

Source: Survey Data

Note : (i) Figures in simple parenthesis indicate percentage to total
(ii)Figures in bold parenthesis indicate average amount
(iii)SSA – Sub-standard Asset
(iv)DA 20 – Doubtful Asset with 20 per cent provision
(v) DA 30 – Doubtful Asset with 30 per cent provision
(vi)DA 50 - Doubtful Asset with 50 per cent provision
(vii)DA - Doubtful Asset
(viii)LA – Loss Asset

It is seen that the SSAs contribute a major portion (84.99 per cent) of the NPAs. This is in line with the finding of Table 4.10 where SSAs contribute to more than 68 per cent of the NPAs of the Bank as a whole in 1998-99. An asset will be treated as SSA for two years after which it will be classified as DA. Recovery after two years is more or less difficult or impossible. But since nearly 85 per cent of the NPAs are in the category of SSA, there is very good chance for the Bank to recover a major portion of it, if proper management of NPAs is done.

The share of loan amount to be paid to loan amount sanctioned is highest for LA, which implies that the chance for recovery of such accounts is very less.

The analysis of the data on NPAs collected from the respondents has revealed that it is the borrowers in the NPS who are having a major share of the NPAs of the Bank. Facility – wise also CC/OD are having a very large share of the total loan outstanding. Hence, considerable reduction in NPAs of the Bank is possible only through reduction in the NPAs of the large NPS borrowers.

4.2 Determinants of NPAS

The recovery of the loan extended by the financing agency should receive as much attention as the need for financing. Except in times of natural catastrophes, the repayment of loan need not be delayed if the principles involved in financing are followed properly. Poor recovery performance impedes the progress of the financing institutions and it not only weakens the credit movement but also hampers economic development.

For better recovery performance it is important to identify the reasons/factors leading to non-repayment of loans. Hence, the determinants of NPAs as identified from the 150 defaulters of the SIB are discussed sector-wise in Table 4.18.

It is seen from Table 4.18 that low return/failure of the venture is the major reason behind an account becoming NPA. Compared to the NPS, the PS consisting of agri., RT/SB, P/SE contributes a higher percentage. From the survey it was clear that for 34 per cent of the respondents this has been the reason for non-repayment. For the success of any venture it is a pre-condition to have a clear idea about the marketability of the products, for which knowledge about others who are in the same field is necessary. From the survey it was seen that 23 per cent had no idea about such competition and this might have naturally led to less return and failure of the venture. Another reason leading to less return and failure of the venture might have been the increased cost of operation. Seventy nine per cent of the respondents claimed that the cost of operation increased much more than their anticipation, leading to less return/no-return. One of the major reasons for this might be the faulty method of project appraisal by the bank staff or the tendency to show inflated income by the borrowers so as to show that the activity is economically viable at the time of applying for the loan.

The second major determinant can be attributed to wilful defaulters. Their share is higher in the NPS compared to that of PS which reinstates the finding of Table 4.15 and Table 4.16. It was quite evident during the survey that there are many borrowers whose income generation is high enough to make repayment of the loan amount regularly but are deliberately not doing either because of the expectation that the Bank will write-off or the Bank can do nothing even if they do not repay. It is these group of people who should be identified and repayment effected for which drastic change in the legal procedures protecting the banker's interest is essential.

The next determinant of NPA is the misutilization/ diversion of loan including loan used for consumption purpose/contingencies at home like illness. This is highest in the case of agricultural loans and Miscellaneous (Trade/ General).

Insufficiency of loan amount urging the borrowers to knock at the doors of other agencies leading to dual repayment of loan is identified as a 0major determinant. In fact 17 per cent of the respondents have stated that the amount was insufficient for them. Personal savings and Borrowings from local money lenders and other agencies were the main sources adopted by the respondents for overcoming this deficiency. Borrowings from friends/ relatives were the last resort. The tendency of the borrowers in general is to promptly repay the loan from any other agency other than the Bank as these agencies are very strict in their recovery. There may not be sufficient funds left with the borrowers after making payment to such agencies who charge exhorbitant rate of interest and hence the banker is conveniently not repaid. The survey also revealed that 39 per cent of this type of borrowings has been fully repaid and 61 per cent partly repaid and is in course of repayment.

High rate of interest coupled with shorter period of loan leading to high instalment amount was pointed out as one of the reasons which prevented prompt repayment, mainly of the PS. It was found that of the total respondents, 26 per cent borrowed at an interest rate of upto 12.5 per cent, 18 per cent for 13-15 per cent and 39 per cent for 15.5 per cent and above. It is interesting to note that 17 per cent had no idea about the rate of interest that they were supposed to pay.

In the case of certain respondents, mainly M(T/G), agriculture and P/SE reinvestment of the income in the business without making repayment of loan resulted in the account becoming NPA.

Thus it is seen that major reasons for an account becoming NPA is the low return from the venture/failure of the venture, attitude of wilful defaulters, misutilisation/diversion of funds given and insufficiency of the loan amount from the Bank forcing the borrowers to approach local money lenders and other agencies. By a proper appraisal, follow-up, monitoring and recovery system the level of NPA can be reduced. Hence the last section of this chapter is earmarked for a discussion on the institutional arrangements for reducing and recovering NPAs.

Table 4.18 Determinants of NPAs

Reasons for default / Sectors	Less return/ failure of venture	Wilful defaulters	Misutilisation /Diversion of loans	Insufficient loan amount/ Loan from other sources	High rate of interest /high instalment amount	Ploughing back of returns	Total
Agri.	45.00	10.00	25.00	10.00	05.00	5.00	100.00
RT/SB	30.00	20.00	15.00	20.00	15.00	-	100.00
P/SE	40.00	20.00	15.00	15.00	05.00	5.00	100.00
M(T/G)	25.00	20.00	15.00	15.00	10.00	15.00	100.00
ONP	30.00	25.00	20.00	25.00	-	-	100.00
Total	170.00	95.00	90.00	85.00	35.00	25.00	500.00

Source : Survey Data

Note : (i) Agri. – Agriculture
(ii)RT/SB – Retail Trade/Small Business
(iii)P/SE – Professional/Self-employment
(iv) M(T/G) – Miscellaneous (Trade/General)
(v) ONP – Other Non Priority

4.3 To Examine the Institutional Arrangements for Reducing and Recovering NPAs

Basis of good lending is sound appraisal and assessment of capacity/intention to repay. Past record of good performance and integrity are no guarantee for future. Even a loan granted on the basis of sound appraisal may go bad if the borrower does not carry out his promises regarding performance. Hence, pre-sanction and post – sanction monitoring are the two sides of the coin and are both essential for timely repayment.

Identification of early warning signals and taking timely follow-up measures can prevent any advance from becoming NPA. This is easily said than done. Ongoing efforts have to be made by functionary at each level to show perceptible results. Every bank has its own follow-up and recovery mechanism. SIB is no exception to this. In order to examine the existing institutional arrangements to manage NPA, discussion were held with the staff and officials of the Bank with regard to their appraisal and follow-up mechanism and recovery management. Information were also collected from defaulters to get their response on actual practice of the Bank with regard to these variables. The first part of this section deals with the appraisal, follow-up and recovery management from the Bank's point of view and the second part from the defaulter's point of view.

4.3.1 Follow-up and Recovery Management practices of the Bank

Appraisal and follow-up are the two important jobs which every banker must perform with utmost care so that the amount given by way of loan does not get blocked up resulting in tightening of the credit pipe line.

Appraisal is a pre-sanction preparatory work which puts more emphasis on the economic and technical soundness of the venture and its earning potential than on the adequacy and liquidity of the security offered. The focus is on the venture to be financed and its anticipated profit out of expected income generation. Appraisal for financing a venture requires a detailed assessment of technical feasibility, managerial competence, commercial viability, financial viability and economic viability.

On the other hand follow-up is a post – sanction activity where a continuous monitoring to ensure whether the loan has been utilized for the purpose for which it is meant, whether the unit is running satisfactorily so that the bankers can immediately put himself on guard and necessary corrective measures can be taken at an early stage.

The follow-up and recovery management practices adopted by the Bank are discussed below

4.3.1.1 Unit visit

The most frequent method of follow-up adopted by the SIB is the unit visit and periodical inspection of the security given by borrower.

Unit visit and periodical inspection of securities by branches

Unit visit and periodical inspection of securities under hypothecation/pledge to the Bank play a vital role in effective crediting monitoring/ follow-up. The branch manager or any other staff thereby authorised are supposed to visit the unit once in every month. However, from the discussion held with the officials of the Bank, it is clear that practically it is not possible to meet each and every borrower because of the work load of the officials. Unit visit by branches is important especially from the following points.

i) Bank can satisfy that the unit is functioning well

ii) Bank can satisfy that there is adequate merchandise to cover the advance

iii) Bank can satisfy that the fixed assets for which the Bank have financed the unit are still in the custody of the parties and are in good working condition

iv) Bank can interact with the borrowers and find out whether they are experiencing any difficulties and if so, take remedial steps and ensure that the borrowers' grievances in conduct of account are reduced to the extent possible

v) Satisfy that the Bank's name board continues to be displayed in the unit premises, and its name is painted on the machinery vehicles hypothecated and

vi) Collect information about potential deposit/ advance customers in the locality.

The stock hypothecated must be verified by the manager or other officers periodically and keep record of such inspections. In addition to regular unit visit, all NPA and border line accounts are to be visited by manager frequently and followed-up. Ways and means for regularisation or settlement of such accounts are to be discussed and taken up with Regional Offices.

4.3.1.2 Unit visit by officials of Regional Offices

In order to have effective control and monitoring of large advances, especially those under border – line and NPA categories, Regional Office (RO) officials should involve actively in the credit monitoring portfolio. The guidelines now in force are as under :

i) Officials of Credit Monitoring Department (CMD) of RO to undertake visit of border-line and NPA accounts according to the following frequency.

a) Rs.10 lakhs to Rs. 25 lakhs	-	at least one a year
b) Above Rs.25 lakhs and up to 50 lakhs	-	at least twice a year
c) Above Rs.50 lakhs and up to 100 lakhs	-	at least thrice a year
d) Over Rs. 100 lakhs	-	at least once every quarter

ii) Industrial officers service can be utilised whenever warranted.

iii) Unit visit by RO officials is in addition to usual stock and unit inspection by branches.

iv) Branch Manager/officers of the branch concerned should accompany the RO Officials at the time of unit visit.

v) In respect of NPA and border line accounts, chances for regularisation and negotiated settlement to be discussed and followed-up.

vi) ROs to maintain proper records of inspection. Visit reports should be submitted by the inspecting officials to CMD of RO. Copy of the report to be forwarded to CMD at HO along with suggestion and action taken by the RO.

4.3.1.3 Notice to the borrower

The Bank have a policy to remind the borrowers through letter, telephone or personal contact about the state of affairs once irregularity has been identified, even before the account becomes NPA. The branch manager or any other staff concerned will inform the borrowers about the principal, interest or both principal and interest amount by any of the means as mentioned above and ask them to regularise the account.

If there is no positive response then the Bank will send unregistered notice to the defaulters for two or three times depending on response. Still after this, if there is no positive response, the Bank will send a registered notice to the parties concerned demanding payment of amount due to the Bank before taking legal proceedings. This will be followed by lawyer notice in case there is no response to the registered notice. The lawyer notice are issued as follows:-

i) In accounts, where credit facilities are sanctioned under branch managers' discretion, branches are allowed to issue lawyer notice to the parties without referring the RO/HO.

ii) In accounts where credit facilities are sanctioned by RO, branch will forward their recommendation in the format for issue of lawyer notice to the RO concerned for obtaining sanction for issuing lawyer notice. On receipt of the sanction, branches will arrange to issue lawyer notice through the local advocate.

iii) In accounts where credit facilities are sanctioned by the HO, branches will forward their recommendation in the format for issue of lawyer notice to the RO concerned who will in turn forward the same to Credit Control Department (CCD) (Credit Monitoring) for getting the sanction for issuing lawyer notice. On receipt of the sanction from CCD (Credit Monitoring) branches will arrange to issue lawyer notice to the parties through local advocate.

4.3.1.4 Loan Recovery Camps

Loan Recovery Camp arranged by the Revenue/Block authorities should be attended by the branch managers without fail and the details are to be furnished to RO/District co-ordinator for further action. Low recovery and misutilisation of loans are to be reported in BLBC/DIC/Task Force Committee meetings. The details may also be reported for action by authorities in BLRC/DCC/DIC with a copy to the Lead Bank. Wherever necessary, branches should also take initiative to organise credit camp exclusively for the Bank at regular intervals in consultation with Revenue/Block authorities/village Extension Officers as well as Panchayat members. In such cases, necessary notice clearly mentioning time, date and venue should be sent to all concerned.

4.3.1.5 Compromise/negotiated settlement

One of the means for recovery in NPA accounts is identified as compromise or negotiated settlement. RO should prompt the branch manager to meet the borrowers of NPA accounts for full settlements. In case the borrowers puts a condition for negotiated settlements, the Bank should not close the doors for that reason. Branches should immediately initiate steps to put up such proposal through RO in a format. Compromise proposal can be considered in the case of suit filed accounts also. In such cases due weightage should be given to present position of the suit. But such recommendations should be forwarded to Legal Department of HO through RO.

4.3.1.6 Revenue Recovery/ Filing Suit/ Waiver of Legal Action

If there are no chance of the loan getting repaid in the normal course, the Bank have to either initiate Revenue Recovery (RR) proceedings where there is provision or resort to legal measures. If details of property in the name of borrower are not available at the branch, discreet enquiries should be made to ascertain the position. In case there is any property, it is advisable to file suit for recovery of dues before the documents get time barred. Branches may also make arrangements to move the court for attachment before judgement.

If there is no property in the name of the borrower it may be advisable to initiate RR proceedings, in states where there is provision. Steps for RR should be taken as soon as the account becomes NPA if other efforts for recovery are not fruitful. Recalling the advances is a pre-condition for initiating RR. Branch Managers are authorised to initiate RR if other conditions are satisfied. However, if necessary amount is not recovered through RR, either suit to be filed or sanction for waiving legal action should be obtained from RO before the documents gets time barred.

RR meeting should invariably be attended by all branch managers and recovery should be closely followed up. A list of accounts in which RR is initiated should be furnished in duplicate to the authorities and got acknowledgement in the copy. For facilitating easy compilation of the details, a register with necessary columns may be maintained at branches.

Since RR proceedings are very effective in certain areas, branch managers are authorized to make a realistic assessment of the position and if chances of recovery are good, may opt for RR as the first step even in cases where there is property in the name of the loanee. Suit shall be filed later on, if required,
before documents get time barred, after withdrawing RR proceedings.

In states where there is no provision for RR and legal recoveries will be of no use in the absence of assets, branches should recommend for waiver of legal action after all measures for recovery are exhausted.

In all the cases recommendation for filling suit/waiver of legal action, should be submitted to RO at least six months before time bar of documents and the process should be completed well in time. Subsidy should be adjusted before filing suit. Branches are allowed to adjust subsidy subject to condition stipulated thereof.

Branches are advised to take up for write-off, all loan outstanding for five years or more without any sign of recovery. Suit filed accounts where the suit amount is below Rs.5000/- may also be taken up for write off, if there is absolutely no chance of recovery after obtaining the decree. But accounts in which DICGC claim is pending with the Corporation, need not be taken up for write off. Write off proposal coming under RO powers and above are to be forwarded separately to the RO. The reason for recommending write off should be clearly explained. Branches may maintain a register of accounts written-off as a source of reference while considering fresh applications.

Discretionary powers are allowed to the executives at ROs and at HO to waive appeals upto the following limits

Sanctioning Authority	**Amount of Sacrifice**
AGMs at RO	up to Rs.25,000/-
AGM(legal Dept.)	up to Rs.50,000/-
General Manager	up to Rs.75,000/-
Chairman	up to Rs.1,00,000/-

Filing of suit – Guidelines regarding verification of plaints

Branches should obtain RO/HO sanction for filing suit and such recommendation should be forwarded to the RO concerned. Assistant General Mangers(AGMs) of RO can now permit filling suit up to Rs.10 lakhs and if the amount exceeds the same, RO has to forward it to credit control Department (CCD), credit Monitoring, for sanction. Once Sanction is obtained, plaint has to be prepared, verified and signed. Branches are advised to take up such cases sufficiently early, so that enough time will be available for preparation of plaint, verification and filling of suit.

In case where renewal of documents is not contemplated on account of the accounts becoming irregular or being overdue for payment, in order to gain some time, "acknowledgement of debt" may be obtained and the matter may be pursued. Even though legally by taking acknowledgement of debt, limitation period of the documents will be extended by three years.

Necessary steps will have to be taken for recovery of all irregular and overdue advances in time and the "acknowledgement of debt" is taken only just to save limitation and also to gain some time to persuade the parties before filing suit and see whether recovery is possible without suit.

Every effort should be taken by branches to get dues settled out of court rather than resort to legal action. There are certain inherent risks in resorting to legal action. It will also involve unnecessary expenditure for legal formalities. Hence, only if persuasion, frequent contacts and pressure on borrowers fail to get the dues settled, legal action may be taken. Filing of suit may be done only as a last resort.

Verification of Plaints

In case where the amount involved in the suit is Rs.1 lakhs or less, the branch manager in charge of branches are now empowered to verify and sign plaints without referring to RO/HO. But in cases where the amount involved is more than Rs. 1 lakh the draft of the plaint is to be approved by RO/HO. Verification and approval of plaints are to be done by R.O. for suit amounts upto and including Rs.5 lakhs. If the amount involved is more than Rs. 5.lakhs preliminary verification is to be done by R.O and the same is to be forwarded to H.O. for approval. These instructions are also applicable to applications to be filed before Debt Recovery Tribunals.

1.3.1.7 Debt Recovery Tribunal

The DRT (Debt Recovery Tribunals) were set up under special Debt Recovery Tribunals to facilitate speedy recovery of banks dues. The DRT at Chennai is to have territorial jurisdiction over the states of Tamil Nadu, Kerala and Pondicherry. So as per the provisions of the Act, all the suits in respect of borrowal accounts where amount recoverable is RS.10 lakhs and above, emanating from the branches in Tamil Nadu, Kerala and Pondicherry will have to be filed before the said DRT at Chennai. Branches in other states where the DRT has come into force, to follow the same procedure.

In view of the above, if the suits are to be filed in respect of the borrowal accounts for recovery of the dues where the amount of claim is Rs.10 lakhs or above, branches will have to take specific instruction from HO, Legal Department before entrusting the suit matter's with advocates. As the suits coming within the preview of the

Act will have to be filed. With the DRT at Chennai, the decision for filing of suit will have to be taken sufficiently early, not less than six months prior to the time bar date. Branches will also see that the application (plaint) prepared by the advocate to e filed before the DRT is received at HO at least three months in advance to such time bar date, so that sufficient time will be available for finalising the application to be filed. Branches will have to make a special note in this matter also.

The above discussion on follow-up and recovery management is actually what the Bank is supposed to do rather than what the Bank is actually practicing. This discrepancy between theory and practice which is present in all fields is quite evident from the ensuring paragraphs which discusses the appraisal, follow-up and recovery management of the Bank as experienced by the defaulters of the Bank.

4.3.2 Appraisal, Follow-up and Recovery management – Defaulter's point of view

Prompt repayment can naturally be expected from laon account which have been sanctioned after proper appraisal and which are being continuously monitored by the Bank. A comparison and follow-up and recovery management from the Bank's point of view discussed in the foregoing paragraphs, with that of the opinion of the defaulters will enable to identify the gap. Table 4.19 gives the details of various aspects of appraisal before the loans are sanctioned.

On an average, in 71 per cent of cases the Bank has visited the premises of the proposed borrower before sanctioning the loan and the average number of visits work out to more than one in all the sectors. But the average number of visit of the borrowers to the Bank to get the loan sanctioned worked out to more than four. This may be attributed to the procedural delay which is inherent in Indian Banks which may be avoid by the banker as far as possible. On the other hand, the customer should also bring all the required documents and meet the eligibility criteria of the proposed loan for easy sanctioning of the loan. If the banker visits the proposed borrower without notice and assess the genuineness of his credit requirements, the tendency to borrow unscrupulously can be prevented. The banker will have to be more customer friendly so as to persuade them to be prompt in effecting repayment.

Table 4.19 Appraisal of loan sanctioned

Particulars / Sectors	Visit by banker before sanctioning the loan		Visit by borrowers to get the loan sanctioned	Visit by banker after sanctioning the loan		Explanation by banker regarding rate of interest, installment, repayment, etc (%)	Awareness of implication of documents signed by the borrower (%)	Awareness about the consequence of non-repayment of loan (%)	Advice by banker regarding the income generation /technical knowledge (%)	Submission of Project Report (%)	Training for the venture	
	(%)	Avg.	Avg.	(%)	Avg.						Of your own (%)	Friends (%)
Agri.	80.00	1.95	4.05	85.00	1.00	75.00	85.00	90.00	65.00	40.00	-	-
RT/SB	80.00	1.25	3.50	65.00	1.15	85.00	60.00	75.00	60.00	45.00	-	-
P/SE	60.00	1.71	4.05	60.00	1.50	75.00	75.00	75.00	50.00	45.00	70.00	-
M(T/G)	65.00	2.07	4.35	85.00	1.41	80.00	85.00	95.00	65.00	50.00	30.00	10.00
ONP	70.00	1.14	5.70	85.00	1.35	80.00	85.00	90.00	85.00	55.00	50.00	-
Total	71.00	1.56	4.33	76.00	1.28	81.00	78.00	85.00	65.00	47.00	93.75	6.25

Source : Survey Data

Note : (i) Agri. – Agriculture
(ii)RT/SB – Retail Trade/Small Business
(iii)P/SE – Professional/Self-employment
(iv) M(T/G) – Miscellaneous (Trade/General)
(v) ONP – Other Non Priority

The visit of the banker after sanctioning the loan works out to an average of more than one which is not satisfactory. Seventy six per cent of the respondents have been visited by the banker after sanctioning the loan. In majority of the cases, the bankers have explained to the borrowers the details regarding rate of interest, amount of instalment, repayment period, implications of documents signed by the borrowers and consequences of non-repayment. They have undergone training for the venture at their own initiative and not at the initiative of the banker, block or panchayat.

The visit of the banker to the place of business of the borrower must be more frequent, which would definitely improve their repayment. As and when any irregularity is noticed in the accounts of the borrowers, the banker may make it a matter of policy to visit the borrower and persuade him for repayment. The banker should not wait for 30 days to become the account 'past due' or 'out of order' or wait for the account to become NPA, to start its attempt to regularise the account. Surprise visits of the bankers will also reduce diversion of funds/misutilisation of loans. During the survey, it was generally felt that such a large number of accounts would not have turned non-performing, if the banker had visited them and enquired about their activities. Just disbursing the loan and not turning back will give enough freedom for diversion/misutilisation of funds and also for non-repayment even if there is sufficient income generation. Taking into account the constraints of the banker in this respect, a proper balance will have to be arrived at by the banker.

The follow-up of the loan sanctioned and the recovery management of the NPA of the Bank as experienced by the defaulters is depicted in Table 4.20

It is surprising to note from Table 4.20 that there are even defaulters who have stated that they have not got any notice from the Bank after they had stopped repayment(3 per cent). The general impression received is that the defaulters are not bothered much about the notice sent by the Bank, especially the wilful defaulters category who owe large amounts. The average number of notices served is more than three in all sectors. They may be responding only after getting three-four notices. Even if they go to the Bank many of them don't make any repayment. This is evident from the Table 4.20 that while nearly 89 per cent of those who got the notice visited the Bank, only 52.58 per cent made any payment. The average amount is only Rs.14790/- which is only 30.68 per cent of the average amount outstanding (Table 4.15).

Table 4.20 Follow-up and Recovery Management of loan sanctioned

Particulars / Sectors	Notice received from Bank		Visit of Bank after receiving notice		Banker visit after default		Asked for extension for repayment		Payment after notices	
	(%)	(Avg)	(%)	(Avg)	(%)	(Avg)	(%)	Agreed	(%)	(Avg. amount)
Agri.	100.00	3.35	90.00	1.27	55.00	1.27	35.00	28.57	40.00	24,456
RT/SB	95.00	3.05	94.76	1.55	45.00	1.55	50.00	30.00	45.00	4,706
P/SE	100.00	3.25	65.00	1.78	70.00	1.92	40.00	12.50	45.00	7,833
M(T/G)	90.00	3.20	100.00	2.10	75.00	1.79	70.00	21.43	60.00	11,167
ONP	100.00	3.20	95.00	1.95	45.00	2.10	40.00	50.00	65.00	23,631
Total	97.00	3.21	86.00	1.73	58.00	1.73	47.00	2.85	51.00	14,700

Source : Survey Data

Note : (i) Agri. – Agriculture
(ii)RT/SB – Retail Trade/Small Business
(iii)P/SE – Professional/Self-employment
(iv) M(T/G) – Miscellaneous (Trade/General)
(v) ONP – Other Non Priority

Even after default, only in the case of 58 per cent, the Bank have visited them. This is far from satisfactory. The average number of visits is less than two. Forty seven per cent of the total respondents asked for extension of period of loan of which the bank agreed to 27.66 per cent. It is to be remembered that mere extension of time without adequate supervision will only delay the recovery process. So, along with extension of time, adequate follow-up and monitoring should be done. If necessary, the banker will have to do the nursing of unit along with additional finance and then reschedule the loan. The banker will have to be strict initially while sanctioning loan and be lenient and liberal when the borrower is in actual difficulty and he is not a wilful defaulter.

It is always better to go for compromise and negotiation before recalling the amount. It is to be remembered that if the banker is not in a position to realise the amount within two years after becoming NPA, i.e., while the account is in sub-standard asset (SSA) category, the likelihood of realisation in future is meagre or nil. Since the legal system in India is unfavourable to the banker at present, recovery through suit filing should be the last resort of the banker. The wilful defaulters mainly consisting of the higher strata of the society can be caught only if the legal system in this respect is changed drastically and once this step is done, the NPA level of the country would reach the international standard without much delay. Otherwise the option for the Indian commercial banks to survive would be to reduce its loan portfolio and expand investment portfolio, thereby increasing its non – interest income.

Chapter – V

SUMMARY OF FINDINGS AND CONCLUSION

CHAPTER - V

SUMMARY AND CONCLUSIONS

Remedying any problem presupposes early and correct diagnosis. Certain problems are more acute that what meets the naked eyes, similar is the case with the problem of NPAs. Reduction of NPAs with speed and efficacy is very important for more reasons than one. This issue has to be addressed and solved with care and sophistication not only because it erodes the profit of the banking industry thereby questioning its very existence but also erodes the moral fabric of the society, the latter aspect being more lethal than the former. The more the borrowers default intentionally the more will be its sinsister effects. Even an honest borrower may tend to be relaxed or default. This vicious circle unless countered properly may ultimately bring the commerce and industry to a grinding halt. Hence, a study about NPAs of commercial banks with special reference to SIB Ltd., was taken up with following objectives.

1. To assess the volume and composition of NPAs of the Bank
2. To identify the major determinates of NPAs and
3. To examine the existing institutional arrangements for reducing and recovering NPAs.

The study was conducted using both primary and secondary data. Primary data were collected from 150 respondents selected from five branches of the Trichur Region. Secondary data were collected from the Head Office of the Bank and other published sources.

Mostly bi-variate and multi-variate tables have been used for the analysis. Percentages, averages and indices have also been worked out. Scoring techniques have also been used.

The major findings of the study are summarised below:

5.1 Volume and Composition of NPAs

Public sector Banks which constitute more than 80 per cent of the business of the banking system in India contributes nearly 90 per cent of the NPAs of the banking system in India.

Bank-wise, SBI has the single largest share of NPAs in absolute terms but the ratio of net NPAs to net advances are much lower than many of the PSBs, private sector banks and foreign banks.

The introduction of the concept of Net NPA as against gross NPA has brought down the level of NPAs of all commercial banks drastically.

Inspite of their improved performance, the PSBs are still the worst, when distributing the banks based on frequency distribution of NPAs. Private sector banks are the best with foreign banks closely behind them.

Share of net NPAs to net advances of PSBs were much higher than private sector banks and foreign banks. Again for PSBs, the share of nationalised banks were much higher than SBI group making the image of the PSBs very bad.

The three weak banks identified by Verma Committee, have a sizeable contribution to the NPAs of nationalised banks, PSBs and the total commercial banks in India as well. Of the three banks, Indian Bank is in the worst condition.

The share of NPAs of seven Kerala based banks to the NPAs of commercial banks in India is low but increasing over the years.

The share of NPAs of the lone Kerala based PSB, i.e., SBT is very high compared to the NPAs of all the Kerala based banks. Its share to SBI group and PSBs are low but is increasing over the years.

Although Federal Bank has largest share of the NPAs of all the Kerala based private sector banks, its share of net NPAs to net advances is the lowest in the year 1998.

Inspite of the impressive progress in the reduction of the proportion of NPAs from 23.2 per cent in 1992-93 to 16.02 per cent in 1997-98, India compares unfavourably in the international arena.

Growth rate of NPAs of Priority Sector (PS) is less than growth rate of its advances during 1997 and 1998 while for Non-Priority Sector (NPS) growth rate is less than growth rate of advances, only in 1998.

Considering the percentage of sectoral advances to total advances the share of sectoral NPAs to total NPAs is high though decreasing for PS.

Doubtful assets constitute the major portion of NPAs of PSBs during all the years but it shows a decreasing trend from 1995 onwards.

In all the four years, the assets, advances and NPAs of SIB have been increasing. It's NPAs rose from 5.0 per cent in 1996 to 11 per cent in 1999.

The growth rate of net NPAs and gross NPAs are higher than growth rate of total assets, net advances and gross advances in all the years for SIB. The alarming speed with which the gross and net NPAs increases is a signal for the Bank to take immediate remedial measures to arrest the level of NPAs.

With the increase in NPAs of the Bank, the balance in 'interest suspense account' shows an increasing trend and at the same time the DICGC/ECGC claim received by the Bank shows a decreasing trend.

The ratio of NPA to advances as well as that of assets of the Bank have shown an increasing trend during the reference period.

As income earned from performing assets are partly used for provisioning of NPAs, it is having a direct impact on the profit of the Bank.

The PAs and NPAs of SIB are increasing in absolute terms but the percentage of PAs to total assets is declining.

SSAs constitute a major portion (more than 50 per cent) of the NPAs of SIB which is in contrast to that of PSBs where DA is the highest. Hence, if earnest efforts are made to regularise the SSA, the NPA level of the Bank can be brought down considerably.

In general, the quantum of NPA of outside Kerala Region has been increasing over the years. Mumbai Region is the main contributor followed by Chennai Region and Coimbatore Region. For Mumbai Region, from the largest advances and lowest share of NPAs in 1997, it has come down to the Region with third largest advances and highest share of NPAs in 1999. The growth rate of NPAs is also the highest for Mumbai Region in 1998 (63.61 per cent) and 1999 (56.72 per cent). So if NPAs of outside Kerala Regions can be controlled the NPAs of the Bank can be curtailed.

Of the inside Kerala Region, only Calicut Region shows consistent increase in percentage of NPAs to advances whereas Trichur Region, is showing a decreasing trend. This poses the question whether the advantage of the Head Office situated in it has got anything to do with lower level of NPAs for Trichur Region.

When the Regions are ranked based on net NPAs to net advances, the inside Kerala Regions are performing much better than the outside Kerala Regions. All the four inside Kerala Regions rank at the top of the list. From the last position in 1997, the Trichur Region has reached the first position in 1999 while the Mumbai Region has come down to the last position in 1999 from the first position in 1997.

Special efforts may be taken by the SIB to reduce the NPA level of the outside Kerala branches.

Educational status of the NPA account holders from whom primary data have been collected is very low for all the sectors with an average score of less than two out of the maximum score of seven. It is slightly better in NPS compared to PS.

Facilities at house are very high which is not commensurate with their income revealing the very consumption pattern of the people of Kerala. It has an average score of 5.09 out of the maximum score of seven.

Most of the respondents have been dealing with the Bank for more than five to six years.

Proximity (54 per cent) is the main reason for selecting the Bank by most of the respondents. This is due to their perception that banks' service are almost same every where, so avail the service from the one which is the nearest.

Only 39 per cent of the respondents have accounts with other banks, of which 41 per cent have loan accounts, eight per cent deposit accounts and 21 per cent have both deposit and loan accounts.

Majority (43 per cent) of the respondents have taken loan for working capital requirements from SIB. This is followed by both working capital and fixed capital (31 per cent) and lastly for fixed capital requirement (26 per cent). But survey revealed that working capital credit are being used for fixed capital requirement which adversely affected their repayment. Proper supervision on utilisation of credit can reduce this tendency.

Major form (46 per cent) of security offered is by way of movable property while security of both movable and immovable property (36 per cent) is coming next. DPN/co-obligant (11 per cent) comes third while immovable property alone (7 per cent) comes last. To reduce the level of NPAs, security by way of DPN/co-obligant should be given due consideration since realising the loan amount in cases of default is easy.

Monthly repayment is the most common mode of repayment (76 per cent). Daily collection by the banker is suggested by the respondents of the priority sector. Even though daily collection may not be practical, the frequency of visits by banker can reduce the number of accounts becoming NPA.

Procedural delay is the main problem faced by the borrowers in getting the loan sanctioned. Other problems in the order of rank are inadequate security with the applicant, lack of interest of banker and inadequate amount of assistance.

In the case of 50 per cent of the respondents, the time taken to get the loan sanctioned is less than one month while for 24 per cent it took more than two months. The delay was found to be more in the case of Government sponsored schemes.

The percentage of loan amount sanctioned to loan amount applied for is high for all the sectors which reflects general tendency of the banker not to sanction the whole amount applied for.

NPS constituting 40 per cent of the respondents is getting 62.17 per cent of the loan amount sanctioned while PS constituting 60 per cent of the respondents is getting only 37.83 per cent of the loan amount sanctioned.

Of the total amount of loan to be paid, 64.50 per cent is by NPS. Again out of the total loan amount sanctioned for NPS, 81.44 per cent is to be paid. So NPS is mainly responsible for high NPAs of the Bank.

CC/OD which is generally given to NPS and large borrowers contributes 61.58 per cent of the total loan amount to be paid. It also has 81.39 per cent of the amount to be paid which again support the finding that NPS are mainly responsible for high NPAs.

Short term loan (94.16 per cent) has the highest amount of loan amount to be paid to loan amount sanctioned while term loan (49.22 per cent) has the highest repayment to loan amount sanctioned.

SSAs contribute a major portion (84.99 per cent) of the NPAs of the respondents. It is the same tendency as that of the Bank as a whole. Proper management of NPAs can realize a good portion of it and bring down the NPA level of the Bank.

LA (125.84 per cent) has the highest loan amount to be paid back to loan amount sanctioned, which implies that the chance of recovery of such accounts are very less.

5.2 Determinants of NPAs

Low return/failure of venture (34 per cent) is the most important reason for an account becoming NPA, especially in case of PS. Lack of knowledge about the competitors (29 per cent) and increase in cost of production (79 per cent) are the major reasons for this low return/failure of venture.

Wilful defaulters (19 per cent) who are deilberately not paying back the loan either because of the expectation that the Bank will write off or the feeling that the Bank can do nothing even if they do not repay, constitute the second most important reason and is more in NPS which reinstate the findings of Table 4.15 and 4.16. It is these group of people who may be identified and made to repay, for which drastic changes in the legal procedure protecting the bankers' interest is essential.

Misutilisation/Diversion of loan (18 per cent) for purposes not meant for which the loan is taken constitute the third important determinant of NPA. This is the highest in agricultural loan followed by Miscellaneous (Trade and General).

Insufficiency of loan amount (17 per cent) urging the borrowers to knock at the doors of other agencies leading to dual repayment of loan is the fourth important determinant. Survey revealed that personal savings and borrowings from local money lenders and other agencies were the main sources adopted by respondents for overcoming their deficiency. The tendency of borrowers in general is to promptly repay the loan from any other agency other than Bank.

High rate of interest/ high instalment amount (7 per cent) is also identified as a determinant which prevented prompt repayment, mainly of the PS. For 39 per cent of the respondents the rate of interest is 15.5 per cent and above. It is also found that 17 per cent of the respondents do not have any idea about the rate of interest they were supposed to pay.

In the case of five per cent of the respondents, mainly Miscellaneous (Trade and General), agriculture and professional/self – employment, reinvestment of the income in the business without making repayment of loan resulted in the account becoming NPA.

5.3 Instiutional Arrangement for Reducing and Recovering NPAs

On identifying an account as irregular the borrowers are reminded by letter, telephone or by personal contacts to regularise it. This is followed by ordinary notice, registered notice and finally lawyer's notice. Sending of the lawyer's notice depends on the sanctioning authority concerned.

The most frequent method of follow-up adopted by the SIB is the unit visit and periodical inspections of the security given by the borrower by both branch and Regional Office. The branch manager or any other staff authorised, have to visit the unit once in every month. However, from the discussions held with the officials of the Bank, it is clear that practically it is not possible to meet each and every borrower because of the workload of the officials. In addition, all NPA and border line accounts are to be visited and ways and means for regularisaation or settlement of such accounts are to be discussed and taken up with Regional Office.

Loan Recovery Camp may be attended by the branch manager without fail and details to be furnished to authority concerned.

One of the means for recovery in NPA accounts is identified as compromise/negotiable settlement. In case the borrower puts a condition for negotiated settlement, it should be given due consideration, and forward it to the Head Office through the Regional office. Compromise settlement can be considered for suit failed accounts, giving due weightage to the present position of the suit.

If there is no chance of the loan getting repaid in the normal course, the Bank either initiates Revenue Recovery (RR) proceeds or resort to legal measures. In case there is any property, it is advisable to file suit and if there is no property in the name of the borrower it may be advisable to initiate RR proceedings. Steps for RR should be taken up as soon as the account becomes NPA and if other efforts for recovery are not fruitful. Recalling advances is a pre-condition for initiating RR. If necessary amount is not realised through RR, either suit is to be filed or sanction for waiving legal action should be obtained from Regional Office.

All loans outstanding for five years or more without any chance of recovery should be taken up for write off. Suit filed accounts where the suit amount is below Rs.5000/- is also considered for the same after obtaining the decree. But accounts in which DICGC claim is pending with the Corporation is not taken up for write-off.

Verification and signing of plaint depends upon the amount involved in the suit. In cases where the amount recoverable is Rs.10 lakhs and above, the Bank will file suit in Debt Recovery Tribunals. Branches take specific instructions from the Head office for the same.

While examining the actual practice of the Bank, as revealed by the borrowers, it was seen that in the case of 71 per cent of the respondents the banker have visited their premises before sanctioning the loan with an average number of visit of more than one. Bankers' visit to the proposed borrower without notice and assessing the genuineness of his credit requirement can reduce the tendency of the borrower to borrow unscrupulously.

The average number of visits of borrowers to get loan sanctioned is more than four times which may be attributed to procedural delay which is inherent in Indian Banks which may be avoided by the banker as far as possible. The bankers will also have to be customer friendly to persuade them to repay promptly.

In the case of 76 per cent of the respondents, the banker has visited the premises of the borrower after sanctioning the loan with an average number of visits of more than one which is not satisfactory. As and when any irregularity is noticed in the accounts of the borrowers, the banker may make it a policy to visit the borrower and persuade him for repayment. During the survey it was felt that such a large number of accounts might not have turned non-performing, if the banker had visited them and enquired about their activities from time-to-time.

In majority of the cases, the bankers have explained to the borrowers the details regarding rate of interest, amount of instalment, repayment period, implications, of the documents signed by them while taking loan.

Borrowers who have undergone training for the venture is at their own initiative and not at the initiative of the banker, block or panchayat. It was found that only in the case of professional/self employed, Miscellaneous (Trade and General) and other non- priority sectors, that borrowers had gone for tranining.

Three per cent of the borrowers have not received any notice from the Bank after they have stopped repayment, while the remaining 97 per cent of the respondents have received notice with an average of more than three notices. The general impression received is that the defaulters are not bothered much about the notice sent by the Bank, especially the wilful defaulters category who owe large amounts.

Out of the respondents who received notice from the Bank, only 89.0 per cent have visited the Bank but payment was made by only 52.88 per cent of the respondents with an average amount of Rs.14,700/- which is only 30.68 per cent of the average amount outstanding.

Only in the case of 58 per cent of the respondents, the Bank has visited them after default with an average visit of less than two. This is far from satisfactory.

Forty seven per cent of respondents have asked for extension of repayment out which the Bank agreed to only 27.66 per cent. Mere extension of time without adequate supervision will only delay the recovery process. So along with extension of time and rescheduling of loans, adequate follow-up and monitiorng should be done. The banker should be strict initially at the time of sanctioning the loan and should be lenient when the customer is in actual difficulties.

5.4 Conclusion

Managing NPAs is one of the most significant and complex tasks which the Indian banks are facing. Deficiencies in monitoring, recovery and control of credit portfolio besides appraisal are the prime contributing factors for this alarming scene. NPAs do not yield any return while they do incur a cost ; they eat the earnings made elsewhere by way of provisions made, delay payments leading to opportunity losses, make recycling of funds impossible and make shareholders chary about their investment. In Indian scenario, NPS with generally large borrowers are mainly responsible for the high NPAs and the same is true for SIB also. Any attempt at arresting the growth of NPAs may, therefore, start with proper appraisal of loan applications, effective follow-up and monitoring of loan accounts and implementation of timely remedial measures. The SIB may take special care to reduce the NPAs of the outside Kerala Regions especially the Mumbai Region. If the level of NPA of the Other Regions can be brought down like in the case of Trichur Region, the Bank can definitely satisfy the RBI stipulation of three per cent by year 2002. The Indian legal system which is customer friendly at present should also be revamped thoroughly to make such a perceptible change in the reduction of NPAs. Otherwise, like any other the Indian commercial bank, the SIB may be also be forced to reduce its portfolio of loan and advances and shift to investment banking for its survival.

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APPENDICES

APPENDIX – I

Net NPAs of banks in India:1995-96 to 1997-98

Sl. No.	Name of the bank	Net NAPS (Rs. in Crores)		
		1995-96	1996-97	1997-98
	PUBLIC SECTOR BANK			
1.	State Bank of India	3,921.27	4,524.52	4436.31
2.	State Bank of Bickner & Jaipur	154.72	245.34	257.03
3.	State Bank of Hyderabad	385.06	460.98	489.94
4.	State Bank of Indore	140.76	180.77	204.19
5.	State Bank of Mysore	181.30	282.28	27.01
6.	State Bank of Patiala	218.10	222.81	283.45
7.	State Bank of Saurashtra	103.01	130.15	156.25
8.	State Bank of Travancore	257.80	335.11	471.62
	Total (1 to 8)	5,362.02	6382.01	6577.80
9.	Allahabad Bank	752.12	721.79	849.08
10.	Andhra Bank	86.00	116.79	94.14
11.	Bank of Baroda	1120.00	1477.96	1285.74
12.	Bank of India	1083.00	1189.00	1593.12
13.	Bank of Maharashtra	257.11	307.31	305.92
14.	Canara Bank	975.85	1342.73	1235.32
15.	Central Bank of India	1201.17	1267.00	1288.88
16.	Corporation Bank Ltd.	54.33	108.27	124.71

17.	Dena Bank	260.00	394.21	414.54
18.	Indian Bank	1879.84	1735.00	1854.83
19.	Indian Overseas bank	649.00	554.00	540.74
20.	Orient Bank of Commerce	171.00	276.46	280,85
21.	Punjab & Sind Bank	287.92	336.57	343.38
22.	Punjab National Bank	1589.50	1441.74	1503.02
23.	Syndicate Bank	452.76	439.24	399.89
24.	United Commercial Bank	649.72	753.09	610.21
25.	Union Bank of India	516.15	639.99	781.3
26	United Bank of India	662.00	566.80	453.78
27.	Vijaya Bank	288.00	234.80	240.61
	Total (9 to 27)	(12,935.47)	(13,902.72)	(14200.06)
	Total (1 to 27)	18297.49	20,284.73	20,777.86
	OLD PRIVATE SECTOR BANK			
28.	Bank of Madurai Ltd.	47.83	70.70	71.71
29.	Bank of Rajasthan Ltd.	59.92	132.12	126.66
30.	Bareilly Corporation Bank Ltd.	6.44	5.92	5.07
31.	Benaras State Bank Ltd.	26.92	22.04	40.99
32.	Bharat Overseas Bank Ltd.	6.57	16.72	22.80
33.	Catholic Syrian Bank Ltd.	42.73	56.04	112.62
34.	City Union Bank Ltd.	17.31	25.27	43.09
35.	Dhana Lakshmi Bank Ltd.	8.15	27.15	62.70
36.	Development Credit Bank Ltd.	22.00	36.30	38.12

37.	Federal Bank Ltd.	87.88	214.38	205.06
38.	Ganesh Bank of Kurundwad Ltd.	2.34	3.07	3.44
39.	Jammu & Kashmir Bank Ltd.	69.44	102.09	98.63
40.	Karnataka Bank Ltd.	28.08	45.16	55.03
41.	Karur Vyasa Bank Ltd.	7.10	11.35	21.42
42.	Lakshmi Vilas Bank Ltd.	10.81	28.37	45.64
43.	Lord Krishna Bank Ltd.	9.65	33.52	54.84
44.	Nainital Bank Ltd.	9.08	7.04	4.33
45.	Nedungadi Bank Ltd.	19.71	25.19	45.68
46.	Ratnakar Bank Ltd.	6.75	8.45	10.14
47.	Sangli Bank Ltd.	43.30	44.20	NA
48.	South Indian Bank Ltd.	50.84	67.18	89.60
49.	SBI Comm & Int. Bank Ltd.	14.14	9.04	18.95
50.	Tamil Nadu Mercantile Bank Ltd.	23.20	25.60	NA
51.	United Western Bank Ltd.	83.39	92.86	77.91
52.	Vysya Bank Ltd.	89.88	135.52	213.87
	Total (28 to 52)	793.46	1245.28	1468.3
	NEW PRIVATE SECTOR BANKS			
53.	Bank of Punjab Ltd.	-	4.98	5.91
54.	Centurian Bank Ltd.	-	Nil	3.46
55.	Global Trust Bank.	-	66.85	51.73

56.	HDFC Bank Ltd.	-	1.01	10.35
57.	ICICI Banking Corporation Ltd.	-	15.33	12.70
58.	IDBI Bank Ltd.	-	4.90	2.69
59.	Indusland Bank Ltd.	-	40.02	96.69
60.	Times Bank Ltd.	-	4.90	14.85
61.	UTI Bank Ltd.	-	23.42	91.14
	Total (53 to 61)	-	161.40	289.52
	Total (28 to 61)	793.46	1406.68	1757.82
	FOREIGN BANKS			
62.	Abu Dhabi Commercial Bank Ltd.	5.00	3.86	12.67
63.	ABN AMRO Bank Ltd.	0.47	4.83	6.47
64.	American Express Bank Ltd.	3.00	35.00	12.57
65.	ANZ Grindlays Bank	9.33	12.95	24.60
66.	Arab Bangladesh Bank		Nil	0
67.	Bank of America NT & SA	2.25	Nil	6.53
68.	Bank of Ceylone	Nil	1.55	7.79
69.	Bank of Tokyo- Mitbushi	19.90	189.77	55.31
70.	Bank of Nova Scotia	2.00	32.28	13.63
71.	Bank of Baharine &Kuwait	5.73	21.21	28.26
72.	Bank International Indonesia	-	Nil	0
73.	British Bank of Middle East	10.62	28.29	54.00

74.	Barclays Bank PLC	Nil	9.06	6.64
75.	Banque Indosuez	7.41	20.71	-
76.	Banque Nationale de Paris	Nil	Nil	0
77.	Citibank NA	2.64	25.00	26.69
78.	Chinatrust Commercial Bank	-	Nil	0
79.	Cho Hung Bank	-	Nil	0.65
80.	Chase Manhattan Bank	Nil	0.65	0
81.	Credit Lyonnais	Nil	2.21	12.74
82.	Commerz Bank	Nil	Nil	7.39
83.	Commercial Bank of Korea	-	Nil	
84.	Deutsche Bank	Nil	29.90	NA
85.	Development Bank of Singapore	Nil	2.79	6.32
86.	Dresdner Bank	Nil	Nil	18.56
87.	Fuji Bank	-	Nil	0
88.	Hongkong Bank & Sagnai Banking Corp.	10.80	69.60	55.01
89.	ING Bank	Nil	Nil	0
90.	Krung Thai Bank Public Co. Ltd.	-	Nil	0
91.	Mashreq Bank	4.46	50.82	31.29
92.	Oman International Bank SAOG	12.49	11.52	41.36
93.	Overseas Chinese Banking Corp.	-	Nil	0

94.	Sanwa Bank Ltd.	1.02	0.51	-
95.	Sakura Bank Ltd.	2.40	6.01	17.94
96.	Siam Commercial Bank	Nil	Nil	0
97.	Societe Generale	0.62	25.33	64.58
98.	Sonali Bank	Nil	Nil	
99.	State Bank of Mauratius	4.47	12.63	1.83
100	Standard Chartered Bank	66.68	74.80	75.01
101	Sumitra Bank	-	-	0
102	Toronto- Dominian Bank	-	-	0
103	Credit Agricole Indosuez	-	-	45.07
	Total (62 to 103)	182.91	670.63	632.91
Grand Total		**19273.86**	**22362.04**	**23511.92**

Source : (i) RBI Report on trend and progress of banking in India 1996–97 and 1997 – 98

(ii) BRIS Survey, Financial Express, November 1998.

APPENDIX - II

Share of NPAs to Total Assets and Advances of Banks in India

(in percentage)

Sl. No.	Name of the Bank	Gross NPA/Total Assets			Gross NPA/Gross Advances			Net NPA/Total Assets			Net NPA/Net Advances		
		96	97	98	96	97	98	96	97	98	96	97	98
	PUBLIC SECTOR BANKS												
1.	State Bank of India	07.31	07.01	06.38	15.96	16.02	14.14	02.71	02.89	02.50	06.61	07.30	06.07
2.	State Bank of Bikaner & Jaipur	5.14	5.59	5.43	12.45	13.83	11.73	2.35	3.01	3.14	6.11	7.96	7.13
3.	State Bank of Hyderabad	9.33	9.01	9.09	17.89	19.19	18.96	4.73	4.89	4.74	9.94	11.42	10.88
4.	State Bank of Indore	7.02	7.66	7.33	14.20	15.81	15.05	4.51	5.19	5.09	9.62	11.29	10.96
5.	State Bank of Mysore	6.94	8.57	9.19	14.54	16.92	17.47	3.82	5.18	5.23	8.59	10.96	1075
6.	State Bank of Patiala	4.79	5.25	5.34	11.49	11.32	11.88	2.62	2.57	3.00	6.60	5.88	7.04
7.	State Bank of Saurashtra	5.70	6.63	7.01	13.50	14.79	14.83	2.21	2.65	3.02	5.70	6.05	6.57
8.	State Bank of Travancore	6.47	7.53	9.97	11.74	14.49	20.06	3.88	4.30	5.53	7.38	8.82	12.21

9.	Allahabad Bank	10.10	9.89	9.63	23.98	23.93	23.18	6.06	5.48	5.67	16.00	14.84	15.09
10.	Andhra Bank	4.69	4.43	3.70	11.61	11.81	9.86	1.21	1.41	1.02	3.29	4.10	2.92
11.	Bank of Baroda	8.25	8.28	6.83	16.16	17.15	14.63	3.25	3.93	2.81	8.15	7.53	6.60
12.	Bank of India	7.36	6.00	5.76	14.49	11.78	11.55	3.27	3.13	3.39	7.00	6.93	7.34
13.	Bank of Maharashtra	8.90	8.55	6.65	21.87	20.67	17.39	3.30	3.51	2.97	9.39	9.66	8.59
14.	Canara Bank	8.51	9.32	8.31	17.93	20.26	18.69	3.14	3.77	2.93	7.45	9.32	7.52
15.	Central Bank of India	10.43	9.55	7.91	23.91	25.00	20.47	5.18	4.80	4.28	13.49	14.40	12.21
16.	Corporation Bank	3.65	3.87	3.05	9.67	9.92	7.60	0.79	1.32	1.12	2.26	3.62	2.93
17.	Dena Bank	6.56	6.94	6.32	14.70	15.10	13.73	3.15	4.06	3.58	7.30	9.38	8.28
18.	Indian Bank	17.68	19.39	17.62	34.15	39.12	38.96	10.58	10.19	9.71	23.87	25.24	26.01
19.	Indian Overseas Bank	11.17	7.35	5.86	22.59	15.80	13.38	3.59	3.09	2.53	8.57	7.64	6.26
20.	Orient Bank of Commerce	2.55	3.18	2.69	5.68	7.36	6.16	1.62	2.39	1.94	3.60	5.64	4.50
21.	Punjab & Sind Bank	13.23	14.35	11.50	27.70	30.71	26.79	3.98	4.43	3.82	10.34	12.04	10.84
22.	Punjab National Bank	8.00	6.92	6.15	18.74	16.31	14.50	5.05	4.11	3.84	12.70	10.38	9.57
23.	Syndicate Bank	8.43	7.38	6.09	20.97	19.32	15.31	2.91	2.51	2.06	8.39	7.53	5.78
24.	United Commercial Bank	11.87	11.46	9.58	24.54	28.35	24.04	4.19	4.61	3.79	11.43	13.73	11.14

25.	Union Bank of India	4.61	4.41	4.64	10.38	10.38	11.18	2.52	2.86	3.06	5.94	6.98	7.66
26.	United Bank of India	12.93	10.97	10.08	38.00	36.20	33.50	6.11	4.45	3.28	23.28	19.20	14.10
27.	Vijaya Bank	7.55	6.36	5.65	20.36	18.73	15.21	3.99	2.92	2.93	11.90	9.56	7.60
	OLD PRIVATE SECTOR BANKS												
28.	Bank of Madura Ltd.	4.29	5.25	4.64	8.49	10.64	11.60	2.34	2.91	2.36	4.80	6.20	5.70
29.	Bank of Rajasthan Ltd	2.92	5.72	8.49	6.29	12.07	17.14	1.93	3.88	4.11	4.40	8.82	9.14
30.	Bareilly Corporation Bank Ltd.	6.58	5.19	5.37	-	17.60	16.41	3.10	1.68	1.50	7.90	6.56	5.19
31.	Bharat Overseas Bank Ltd.	3.11	3.83	3.57	6.49	8.10	8.36	1.32	1.72	1.80	1.65	3.81	4.40
32.	City Union Bank Ltd.	3.81	4.63	5.75	6.94	8.50	11.03	1.98	2.72	3.78	4.49	5.30	7.54
33.	Development Credit bank Ltd.	4.74	3.88	3.01	9.95	7.92	6.98	2.41	2.60	2.17	5.24	5.93	5.02
34.	Ganesh Bank of Kurundwad Ltd.	6.40	6.01	5.46	12.56	10.90	10.14	3.94	3.74	3.19	7.62	10.75	6.18
35.	Karnataka Bank Ltd.	2.44	2.27	2.39	4.61	4.47	4.98	1.23	1.38	0.92	2.37	3.12	3.06

36.	Lord Krishna Bank Ltd.	2.52	6.46	11.23	4.34	11.36	21.15	2.08	4.70	7.71	3.57	8.53	14.09
37.	Nainital Bank Ltd.	7.02	4.89	3.63	21.03	17.42	15.47	4.03	2.43	1.26	13.20	9.48	5.99
38.	SBI Comm. & Int. Bank Ltd.	12.45	10.89	8.86	27.08	26.06	20.39	3.42	2.14	2.97	9.25	6.48	7.89
39.	Tamil Nadu Mercantile Bank Ltd.	3.66	3.93	4.70	7.23	7.76	10.42	1.62	1.67	2.29	3.33	3.45	5.37
40.	The Benaras State bank Ltd.	8.08	6.31	7.08	26.55	20.15	20.97	5.20	3.57	4.68	17.62	11.30	16.85
41.	The Catholic Syrian Bank Ltd.	4.96	6.13	8.72	8.91	10.56	16.86	2.78	3.31	5.14	5.13	5.87	11.27
42.	Dhanalakshmi Bank Ltd.	2.57	3.41	3.34	4.67	6.75	15.68	0.86	1.51	4.23	1.82	4.51	11.01
43.	The Federal Bank Ltd.	3.20	3.92	4.02	6.13	7.00	7.34	2.01	2.67	2.83	3.94	7.16	5.28
44.	The Jammu and Kashmir Bank Ltd.	5.10	0.05	0.04	12.07	12.14	9.45	0.21	0.02	0.02	5.09	6.03	4.57
45.	The Karur Vysya Bank Ltd.	0.91	1.52	1.87	1.67	3.06	4.04	0.46	0.58	0.82	0.86	1.20	1.87
46.	The Lakshmi Vilas Bank Ltd.	2.67	4.03	4.64	5.86	8.85	9.86	0.97	2.48	2.74	2.19	4.66	6.07
47.	The Nadungadi Bank Ltd.	4.91	4.88	6.50	9.96	8.88	12.30	3.75	3.84	4.97	7.76	6.17	9.41

48.	The Ratnakar Bank Ltd.	5.46	5.87	6.10	11.94	11.98	12.56	3.21	3.27	3.11	7.37	6.87	6.84
49.	The Sangli Bank Ltd.	12.19	12.83	7.76	22.76	27.83	23.52	4.79	4.34	4.80	10.26	11.28	9.43
50.	The South Indian Bank Ltd.	4.34	4.65	5.09	8.43	9.28	10.26	2.47	2.52	2.93	4.94	5.87	6.16
51.	The United Western Bank Ltd.	6.13	5.37	3.64	11.98	11.22	7.76	4.45	4.03	2.63	9.36	8.63	5.73
52.	The Vysya Bank Ltd.	2.53	3.59	6.30	4.71	7.96	15.07	1.71	2.19	3.28	3.54	5.17	8.45
	NEW PRIVATE SECTOR BANKS												
53.	Bank of Punjab Ltd.	Nil	0.60	0.57	Nil	4.98	1.69	Nil	0.47	0.38	Nil	1.59	1.14
54.	Centurian Bank Ltd.	Nil	Nil	0.13	Nil	Nil	0.24	Nil	Nil	0.10	Nil	Nil	0.19
55.	Global Trust Bank Ltd.	Nil	3.65	2.06	0.01	5.91	4.36	Nil	2.42	1.39	Nil	4.47	2.98
56.	HDFC Bank Ltd.	Nil	0.17	0.92	Nil	0.50	3.04	Nil	Nil	0.46	Nil	Nil	1.24
57.	ICICI Banking Corporation Ltd.	Nil	1.01	0.67	Nil	2.24	1.93	Nil	0.77	0.39	Nil	1.73	1.14
58.	IBBI Bank Ltd.	Nil	0.80	0.14	Nil	1.28	0.36	Nil	0.62	0.12	Nil	1.00	0.32
59.	Indusland Bank Ltd.	Nil	1.50	2.64	Nil	2.74	5.33	Nil	1.12	1.93	Nil	2.08	3.96

60.	Times Bank Ltd.	Nil	0.36	0.71	Nil	0.54	1.60	Nil	0.33	0.62	Nil	0.46	1.41
61.	UTI Bank Ltd.	Nil	1.63	3.67	2.68	4.33	7.15	Nil	1.25	2.84	Nil	3.66	5.63
	FOREIGN BANKS												
62.	Abu Dhabi Commercial Bank ltd.	2.76	1.95	3.89	6.10	3.59	8.41	1.67	0.82	2.26	3.78	1.71	5.94
63.	ABN AMRO Bank Ltd.	0.14	0.79	0.93	0.26	1.28	1.61	0.03	0.26	0.24	0.05	1.15	0.42
64.	American Bank Ltd.	0.83	2.59	1.18	1.89	5.97	3.51	0.10	1.38	0.19	0.23	3.26	1.21
65.	ANZ Grindlays Bank	1.90	1.85	NA	3.84	3.81	NA	0.12	0.14	NA	0.26	0.28	0.59
66.	Arab Bangladesh Bank	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
67.	Bank of America NT& SA	0.04	0.04	0.03	0.07	0.07	0.06	0.06	Nil	Nil	-0.11	Nil	0.17
68.	Bank of Ceylon	-	3.50	NA	Nil	5.74	NA	-	2.89	NA	Nil	4.78	8.88
69.	Bank of Tokyo-Mitushi	3.55	15.57	35.65	4.91	22.44	43.38	1.78	11.30	8.08	1.83	17.36	15.20
70.	Bank of Nova Scotia	1.99	8.97	6.95	2.58	12.82	10.68	0.50	4.91	1.68	1.00	7.46	2.80
71.	Bank of Bahrain & Kuwait	2.66	6.45	12.52	4.24	10.95	23.61	1.97	5.42	7.25	3.18	9.75	15.22

87.	Fuji Bank	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
88.	Hongkong Bank	1.75	3.07	3.19	4.17	7.65	7.91	0.21	1.20	0.75	0.51	1.79	1.99
89.	ING Bank	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
90.	Krung Thai Bank Public Co. Ltd.	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
91.	Mashreq Bank	1.05	16.55	17.73	1.97	27.42	31.28	0.76	12.97	8.76	1.44	22.30	22.49
92.	Oman International Bank SAOG	11.15	11.74	29.01	19.14	18.71	45.20	4.05	2.87	11.99	7.91	5.33	25.40
93.	Overseas Chinese Banking Corporation	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
94.	Sarwa Bank Ltd.	0.40	0.34	2.47	0.62	0.49	4.39	0.35	0.15	0.58	0.59	0.22	0.69
95.	Sakura Bank Ltd.	0.94	1.27	NA	1.54	1.94	NA	0.36	0.72	NA	0.59	1.10	3.61
96.	Siam Commercial Bank	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
97.	Societe Generale	0.42	3.50	9.10	0.80	6.10	18.09	0.05	2.56	7.34	0.10	4.82	14.24
98.	Sanali Bank	42.24	34.27	NA	5.97	1.83	NA	Nil	Nil	NA	Nil	Nil	0.03
99.	State Bank of Mauratius	5.95	17.19	1.30	11.36	36.01	2.46	5.37	13.56	Nil	10.35	33.00	1.79
100	Standard Chartered Bank	2.32	2.70	3.83	4.70	5.59	7.13	1.59	1.33	1.24	3.30	2.28	2.42
101	Toronto – Domanion Bank	-	-	Nil	-	-	Nil	-	-	Nil	-	-	Nil

72.	Bank of International Indonesia	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
73.	British Bank of Middle Cast	1.86	3.97	7.43	4.51	9.55	18.47	0.97	2.60	4.38	2.40	6.50	11.79
74.	Barclays Bank PLC	Nil	3.38	NA	Nil	7.77	NA	Nil	2.18	NA	Nil	5.10	9.30
75.	Barque Indosuez	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
76.	Banque Nationale de Paris	0.74	0.75	0.92	1.14	1.52	2.72	Nil	Nil	Nil	Nil	Nil	Nil
77.	Citybank NA	0.18	0.64	0.54	0.45	1.54	1.22	-0.03	0.26	0.25	-0.08	0.63	0.57
78.	Chinatrust Commercial Bank	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
79.	Cho Hung Bank	-	Nil	0.88	-	Nil	1.55	-	Nil	0.79	-	Nil	1.41
80.	Chase Manhattan Bank	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
81.	Credit Lyonnais	0.68	1.33	5.04	1.16	2.16	10.15	Nil	0.26	1.42	Nil	0.43	3.10
82.	Commerz Bank	Nil	Nil	3.76	Nil	Nil	8.04	Nil	Nil	1.65	Nil	Nil	3.88
83.	Commercial Bank of Korea	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil	-	Nil	Nil
84.	Deutsche Bank	0.03	1.34	NA	0.06	2.33	NA	Nil	1.02	NA	Nil	1.77	1.28
85.	Development Bank of Singapore	Nil	3.36	6.05	Nil	6.64	12.70	Nil	2.80	4.21	Nil	5.61	9.19
86.	Dresdner Bank	Nil	Nil	6.43	Nil	Nil	17.13	Nil	Nil	4.37	Nil	Nil	12.33

102	Flaril Bank	-	-	Nil	-	-	Nil	-	-	Nil	-	-	Nil
103	Credit Agricate Indosuz	0.75	4.63	11.39	2.18	15.63	31.95	0.52	1.81	4.58	1.51	6.75	16.44
104	Sumitimo Bank Ltd.	-	-	Nil	-	-	Nil	-	-	Nil	-	-	Nil

Source : (i) RBI Report on trend and progress of banking in India 1996–97 and 1997 – 98
(ii) BRIS Survey, Financial Express, November 1998.

APPENDIX – III

Prudential norms for asset classification adopted by India and some other countries

Country	Categories	Loans Classifications System	Provisioning requirements
Indonesia	Current	Installment Credit with no arrears, other credit in arrears less than 90 days, overdrafts less than 15 days.	0.5 per cent
	Sub- standard	Generally, loans with payments in arrears between three and six months.	10 per cent
	Doubtful	Non- performing loans that can be rescued and the value of collateral exceeds 75 per cent of the loan, or loans that cannot be rescued, but are fully collateralised.	50 per cent
	Loss	Doubtful loans that have not been serviced for 21 months; credit in process of bank ruptcy/liquidation.	100 per cent
			Loans must be written off 21 months after litigation, indicates the loans will not have to be repaid.

Korea	Current	Borrower's credit conditions (including collateral) are good and collectibility of interest and principal and certain.	0.5 per cent
	Special mention	Payments are past due for between three months and six months, but collection is certain.	1 per cent
	Sub- standard	Loans covered by collateral but borrower's credit conditions are deteriorating and payments are more than six months past due.	20 per cent
	Doubtful	Unsecured portion of the loans that are more than six months past due and losses are expected.	75 per cent
	Estimated loss	Unrecoverable amounts due net of collateral.	100 per cent
			Loans must be written off within six days of being declared uncoverable; Write-offs in excess of W300 million require Bank of Korea approval.

Malaysia			For loans less than RM 1 million
	Standard	More than a normal risk of loss due to adverse factors; past due for between 6 and 12 months.	0 per cent
	Doubtful	Collection in full is improbable and there is high risk of default; past due for between 12 and 24 months.	50 per cent of not (of collateral) outstanding value
	Bad	Uncollectible; past due for more than 24 months	100 per cent of net outstanding value Loans must be written off when bankruptcy hearings have finished and/or partial or full repayment is unlikely. A general provision of at least 1 per cent of total loans net of interest in suspense and specific provisions is also required
Philippines	Unclassified	Borrower has the apparent ability to satisfy obligations in full; no loss in collection is anticipated.	0 per cent of net(of collateral) exposure.

	Special mention	Potentially weak due, for example, to inadequate collateral, credit information of documentation		0 per cent		
	Sub standard	Loans that involve a substantial degree of risk of future loss.		25 per cent		
	Doubtful	Loans on which collections or liquidation in full is highly improbable, substantial losses are probable.		50 per cent		
	Loss	Uncollectible or worthless		100 per cent		
				Interest is not accrued on paste – due loans, which are loans or other credit not paid at the prescribed maturity date or, in the case of installment credit, in arrears by more than a prescribed amount depending upon the frequency of installments.		
Argentina		Consumer Loans	Commercial Loans	Liquid G'tee	Preferred G'tee	Withou t G'tee

	Normal	Less than 31 days overdue	No doubt exists	1 per cent	1 per cent	1 per cent
	Potential risk	31-89 days overdue	Performing, but sensitive to changes or more than 30 days overdue	1 per cent	3 per cent	5 per cent
	Problem	90 – 179 days overdue	Problems meeting obligations; or 80 – 179 days overdue	1 per cent	12 per cent	25 per cent
	High risk	180-365 days over due or subject to judicial proceedings for default	Highly unlikely to meet obligations; or more than 180 days overdue	1 per cent	25 per cent	50 per cent
	Irrecoverable	More than 365 days overdue	Obligations cannot be met; more than 365 days overdue	1 per cent	50 per cent	100 per cent
	Irrecoverable for technical decision	Bankruptcy liquidation insolvency	Bankruptcy/ liquidation/ insolvency	100 per cent	100 per cent	100 per cent

Chile (allowance period is 90 days in all the 3 type of advance)		Consumer	Mortgage	Commercial	Minimum initial provision (for NPAs) on consumer loan and mortgage loan (NPAs) is required to be made @ 60 % and 1 % respectively whereas the provisioning requirement on commercial loan is subjective
	A – current	Current	Current	Probability of default = 0%	
	B	1-30 days	1-179 days	Probability of default > 0%, < 5 %	
	B	3-59 days	> 179 days	Probability of default = >5 %, 40 %	
	C	60–119 days	NA	Probability of default = 40 %, < 80 %	
	D	>120 days	NA	Probability of default => 80 %, <100%	
Peru (allowance period is 30, 30 and 15 days respectively for the three types of advances)	A–Normal	Current	Current	Current with no doubts	Minimum initial provision @ 30 %, 1 % and 15% is required to be made on consumer loan, mortgage loan and commercial loan (NPAs) respectively.
	B–Potential Problems	10-29 days	32-89 days	Demonstrated deficiencies	
	C–Sub standard	30-59 days	90-119 days	60-119 days	
	D-Doubtful	60-120 days	120-365 days	120-364 days	
	E-Loss	>120 days	>365 days	>365 days	

India	Sub-standard	Loans that have been non-performing for up to two years, term loan on which the principal has not been reduced for more than one year, and all rescheduled debts.	10 per cent
	Doubtful	Loans that have been non-performing for two to three years and term loans on which the principal has not been reduced for more than two years.	100 per cent of unsecured assets; for secured assets; 20 per cent if doubtful for less than one year; 30 per cent if doubtful for one to three years, 50 per cent if doubtful for more than three years.
	Loss	All other assets deemed irrecoverable, where the loss has been identified by internal or external auditors or by the Reserve Bank of India inspectors, but where the amount has not been written off.	100 per cent.

APPENDIX – IV

KERALA AGRICULTURAL UNIVERSITY
COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT DEPARTMENT OF RURAL BANKING AND FINANCE MANAGEMENT RECOVERY PERFORMANCE OF CUSTOMERS OF SOUTH INDIAN BANK LTD.
(FOR ACADEMIC PURPOSE ONLY)

1. BASIC DATA OF THE RESPONDENT

1.1 Name and address of the respondent:

1.2.1 Age : Years 1.2.2 Religion:
1.3 Sex : Male/Female
1.4 Family particulars

Family members	Sex	Age	Educational status	Occupation	Occupational income	Assets	Income from assets

1.5 Monthly family expenditure : Rs.
1.6 Type of house : Tiled/ Thatched/ Concrete
Whether the house is : Owned/ Rented

1.7 Do you own any vehicle, if yes, specify the type of vehicle and its purpose.

1.8 Facilities at house : Water connection/ Well with motor/ Electricity/ Consumer durable, any other (specify)

2. DETAILS OF LOAN

2.1 For how many years/months you have been dealing with SIB?

2.2 What is the type of account(s)you have with SIB? (a)Deposit account (b)Loan account

2.3 Dou you have account(s) with any other banks? Yes/No. If yes, for how long you have been having and also specify the type of account(s)

2.4 Reasons for selecting the SIB branch (rank your preference if there is more than one reason)

- Proximity to your office/residence
- Relatives/friends working in the branch
- Recommended by friends/relatives
- Reputation of the branch
- Quality of the service
- Personal request of the staff of the branch
- Any other, specify

2.5 Date of application of loan :
2.6 Date of disbursement of loan :
2.7 Amount of loan applied for :
2.8 Amount of loan sanctioned :
2.9 Owners stake or margin :
2.10 Purpose of loan :
2.11 Total investment made in the scheme/unit :

2.12 Nature of credit facilities : Cash Credit/Overdraft/Production Loan/Crop Loan/Short Term Loan/Term Loan/Consumption Loan/Any other (specify)

2.13 What is the nature of credit facility
a. applied for :
b. sanctioned :

2.14 Details of security given to the banker :

a. Primary(specify)
b. Collateral(specify)
c. Hypothecation
d. Mortage
e. Co- obligant

2.15 Is there any subsidy element? Yes/No

If yes, Specify the amount sanctioned : Rs.
Amount you actually received : Rs.

2.16 Rate of interest :

2.17 Whether your venture is a government sponsored scheme? Yes/No. If yes, specify

2.18 Do you face any problem in getting the loan?
Yes/No.

If yes, Procedural delay/Lack of adequate security to hypothecate or pledge/Lack of bankers interest/Bribery/ Inadequate assistance/Interference of politicians/Any other, specify

2.19 At the time of starting your venture, did you know who were the existing competitors in the market? Yes/No

If yes, give details.

If no, why you did not enquire.

2.20 Have the cost of production increased since you started the venture? Yes/No
If yes, by how much?

2.21 Did anybody from the branch visited your proposed business premises/plot of house before sanctioning the loan? Yes/No
If yes, who and how many times?

2.22 For how many times you visited the Bank for getting the loan sanctioned?

2.23 Did the banker explained to you all the details regarding the loan like rate of interest, installment, repayment, etc. Yes/No

2.24 Were you aware of implications of the documents that you have signed while taking loan? Yes/No

2.25 Were you aware of the consequences of non-repayment of loan at the time of taking the loan? Yes/No

2.26 Did the banker educate you regarding the income that can be generated/give you any advise, technical or otherwise for your activity? Yes/No

2.27 Have you submitted any project report for your venture/scheme? Yes/No

If yes, who prepare it?
If prepared by someone other than you whether you were consulted at the time of preparation? Yes/No

2.28 Have the banker visited your business premises/ plot or land after sanctioning the loan? Yes/No If yes, who and how many times.

2.29 Whether the total amount of assistance received is sufficient for the scheme? Yes/No. If no, how did you manage? Personal savings/Borrowed from friends or relatives/ Loans from other agencies/ Borrowed from local moneylenders/Others, specify if borrowed from outside,

- When did you borrow
- Amount borrowed
- Rate of interest
- Period of loan
- Method of repayment

2.30 Whether this loan borrowed from outside has been repaid? Not at all/ Partly repaid/Fully repaired.
If partly or fully repaid, specify the source?
If partly repaid what is the amount outstanding?
If you have not repaid or partly repaid, specify the reason.

2.31 Asset created out of bank finance and owned fund/ or the purpose for which the bank finance and owned fund have been utilised.

Particulars	Amount

2.32 Did you get any training for the venture? Yes/No If yes, Of your own/ Arranged by block or panchayat/any other source, specify

If yes, give details about the training.

3. REPAYMENT

3.1 Was there any holiday period? Yes/No.

If yes, how long?

Do you actually require any holiday period? Yes/No

3.2 What is the mode of repayment? Monthly/Quarterly/ Half yearly/ Annually/ Running account

3.3 What is the amount of instalment?

3.4 Have you paid promptly all the instalments of the loan? Yes/No

If no, how many instalments and amounts you have paid so far?

3.5 When did you paid the last instalment?

3.6 Have you repaid the loan from the income generated out of the scheme? Yes/No

If no, specify the other source(s) of repayment?

3.7 What is the total amount of loan repaid?

3.8 What is the total amount of loan outstanding?

3.9 Have you ever been penalised? Yes/No

3.10 Is the amount and instalment prescribed suitable and convenient to you? Yes/No.

If no, what type of repayment schedule do you prefer?

EMI/Quarterly principal plus interest/Monthly diminishing balance/ Half yearly/ Any other, specify

3.11 Did you get any notice from the Bank regarding the defaulted amount? Yes/No

If yes, how many times?

Through unregistered post?

Through registered post?

3.12 Have you gone to the bank after the notice have been served? Yes/No.

If yes, how many times?

3.13 Have the banker come to you after default and how many times?

3.14 Have you asked for any extension of time schedule or rescheduling of loan to the banker? Yes/No.

If yes, whether the banker have yielded to your request? Yes/No.

MANAGEMENT OF NON-PERFORMING ASSETS OF COMMERCIAL BANKS : A CASE STUDY OF THE SOUTH INDIAN BANK LIMITED

By
SAMANTAJIT MAYENGBAM

ABSTRACT OF A THESIS

Submitted in partial fulfilment of the requirement for the degree of

Master of Science in Co-operation and Banking

(RURAL BANKING AND FINANCE MANAGEMENT)

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2000

ABSTRACT

The study entitled "**Management of Non – Performing Assets of Commercial Banks – A Case Study of The South Indian Bank Limited**" was conducted with the following objectives.

i) To assess the volume and composition of Non- Performing Assets (NPAs) of South Indian Bank Ltd.(SIB)

ii) To identify the major determinants of NPAs and

iii) To examine the existing institutional arrangements for reducing and recovering NPAs.

The study was confined to the Trichur Region of the Bank. Out of the 57 branches of the Region, five were selected for the study. The sample frame comprised of 150 respondents belonging to agriculture, retail trade/small business, professional/self employed, miscellaneous (trade/general) and other non – priority. The first three sectors constitute priority sector and the last two non – priority sector. Both primary and secondary data were used for the study. Primary data were collected by means of a pre-tested interview schedule from the 150 respondents whereas secondary data for the period 1994 – 1999 were collected/compiled from various published sources.

The study has revealed that the 27 Public Sector Banks (PSBS) as a group with nearly 90 per cent of the NPAs is the largest contributor of

the NPAs of the commercial banks of the country. The 19 nationalised banks contribute to more than 60 per cent of the total NPAs of the PSBs. The three nationalised banks which are identified as weak bank by Varma Committee, viz., Indian Bank, UCO Bank and United Bank of India contribute to 22.86 per cent of the total NPAs of the nationalised banks.

The NPA level of the commercial banks of India when compared to some of the developed countries are very high. The expeditious recovery measure due to stringent bankruptcy and foreclosure laws in other countries are the reasons behind this.

From the analysis of the NPAs of the seven Kerala based banks, it is seen that the only PSB, i.e., SBT have a very high share to the total NPAs of the Kerala based banks and out of the remaining six Kerala based private sector banks Federal Banks has the highest share. But the share of net NPA to net advance is the lowest for Federal Bank in 1998.

Non – priority sector have a much larger share of advances and gross NPAs when compared to the priority sector for PSBs. But the percentage of sectoral gross NPAs to sectoral gross advances is lower for non – priority sector in the case of PSBs.

For PSBs, Doubtful Assets constitute the major portion of the NPAs. This is in contrast to that of SIB where sub-standard assets constitute major portion of the NPAs.

Region wise analysis of the net advances and net NPAs of SIB reveals that the inside Kerala Regions are functioning better than the outside Kerala Regions. Mumbai Region is the highest contributor of the NPAs of the Bank. Chennai and Coimbatore Regions also have high share of NPAs to the total NPAs of the Bank. Therefore, if the NPAs of the outside Kerala Regions can be brought down than the NPA level of the Bank can be decreased drastically.

The major determinants of NPAs as identified from the study in order of priority are less return / failure of the venture, wilful defaulters, misutilisation/ diversion of loans, insufficient loan amount/ loan from other sources, high rate of interest/high instalment amount and ploughing back of return.

The frequency of visits of the bankers to the place of business of the borrowers can certainly bring down the number of accounts from becoming NPAs. Even in the existing NPA accounts of the Bank, a considerable amount can be realised through compromise/ negotiation/nursing, since a major portion of the NPAs of the Bank are in the sub-standard category. The present legal system in India is customer friendly and not banker friendly. A change in this is urgently required, along with earnest attempts from the bankers' side right from appraisal of loan application. The considerable reduction in the NPAs of the Trichur Region of the SIB may be attributed to the efforts of the Bank in this direction.