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An Empirical Examination of Measures taken by State Bank of India for the Management of Non-performing Assets (NPAs)

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Abstract

In practically every sector of the Indian economy, including agriculture, industries of all types and sizes, trade, employment, and infrastructure, banks and financial institutions have made a substantial contribution. The rising trends in deposits and credits talk loudly about how well Indian banks are doing. The non-performing assets (NPAs) in banks' and financial institutions' credit portfolios, however, have developed into a pain during the past few years. In addition to harming the banks' and financial institutions' productivity and profitability, NPAs have also damaged India's banking industry's reputation and the social mores that underpin it. The current situation of NPAs is caused by a variety of causes. The goal of the current study was to determine what causes NPAs in the Indian banking industry. 54 bank branches from 21 public sector banks have been included in the study to help with this goal. The observation was made that banks were not simply correcting (Recovery, Replacement, and Rehabilitation), but also on appropriate preventative actions. choosing a borrower, funding only workable plans, getting the right sanctions, preventing overdrawing, and assuring, Various degrees of cautionary steps (filing a lawsuit and enforcing primary securities) and extreme actions (ensuring proper end usage) for minimising and regulating the threat posed by NPAs.

KEYWORDS: Financial Institution, Banking, Measures, Financing, Borrowers, NPAs

1. INTRODUCTION:

Spiralling non-performing assets are the direst issue that commercial banks around the world are currently dealing with (NPAs). They are having an impact on their solvency and viability. As non-recovery of loan instalments and interest on the loan portfolio contradicts the effectiveness of the credit dispensation process, NPAs have a negative impact on the lending activities of banks. The profitability of banks is also harmed by loan non-recoveries. Additionally, banks with high levels of NPAs must hold additional capital in the form of own funds, as well as set up reserves and provisions to protect against loan losses. Thus, NPAs affect commercial banks' bottom lines from two angles: first, interest applied to such assets is not considered because it should only be considered upon realisation; second, banks must set aside money for NPAs from the income they receive from performing assets. When NPAs are consistently high, banks and other financial institutions become unstable and eventually fail. Investor trust in the financial sector is shaken as a result, both domestically and internationally.

Therefore, controlling problematic loans and maintaining their number as low as possible is crucial and urgent for banks. A loan portfolio's loan quality is indicated by an NPA level of more than 5%. In order to maintain the net earnings necessary for their survival and expansion, banks should work to keep NPAs far below the threshold of ten percent in the face of increasing competition and narrowing spreads. The recognition of income and non-performing assets has become essential to a bank's success under the new RBI monitoring framework. It would be important to understand the notion of NPAs and look at the variables that contribute to the creation of NPAs in the loan portfolio of banks before talking about how to manage loans in commercial banks.

2. MEASURES TO REDUCE NPAs:

Rephasing the Loan: The payback plan for a term loan must be determined in accordance with the unit's ability to generate income. In collaboration with the borrowers, it may be possible to rephase the loan instalment if the repayment plan is not set up correctly or a unit is unable to make the anticipated profit. Rephasing a loan instalment should only be done when it is anticipated that it would receive payment following the rephasing.

Rehabilitation of Potentially Viable Units - Where potential viability exists and management is trustworthy, it may be supported. Even after a year, if the rehabilitation programme is going well, it might not be essential to decide for further facilities.

Compromise Proposal: A compromise is when the borrower agrees to pay the banker a specific sum in exchange for making a concession. Banks are approving a huge number of compromise proposals to lower their NPAs and recycle funds rather than using legal channels.

Filing Civil Lawsuits or Legal Action for Recovery - It is preferable to recall the advances at an early stage rather than waiting a long time when banks do not accept a compromise plan. Borrowers may be sued in civil court.

Debt Recovery Tribunals - The Narasimham Committee recommended that the government establish debt recovery tribunals (DRTs). The number of cases that the DRTs resolved for banks in the public and private sectors as on March 31, 2002, were 13520 involving recovery of Rs. 2,864 crores.

Assets Recovery Branches - A few banks have established Assets Recovery Branches in strategic locations to handle problematic and shady loans. Such assets will be given to these recovery branches, which are staffed by specially trained individuals with the appropriate recovery experience.

Revenue Recovery Act - The Talwar Committee had suggested a streamlined process for recovering commercial banks' past-due debts financed by State Government-sponsored programmes. Most of the big States have embraced these recommendations. However, the recovery results have not been promising.

Staff Development - A bank's ability to succeed depends on its employees' abilities to carry out specific tasks. The credit officer and the associated clerk must receive effective training for the improvements to be implemented successfully. They will train the other staff members and avoid failures and keep the bank away from committing mistakes.

Staff Incentives for Recovery - In order to retain profitability, banks are required to keep their NPAs at a low level. Banks ought to endeavour to recover from severe NPAs. The only way to do this is through staff. With the incentives offered, employees will work assiduously and take a special interest in recovering the debt in accordance with their higher authority.

Identification of the Borrower - Normally, the credit department consults with the manager before processing a loan application and disbursing a loan. It will be preferable to introduce the borrower to the entire staff before disbursing any loan to anyone and explain his activity and the amount of loan given to him.

Credit Investigation: Banks might greatly reduce the likelihood that defaulters from one bank will switch to another in the same region by implementing better management information systems and credit investigation. Additionally, once a compromise is called for, it must be made quickly and effectively, and it must be transparent.

Debt Recovery Tribunal (DRT) for recovery: Loans that are over Rs 10 lakhs in value and those have turned into NPAs due to prudential standards will be brought to the Debt Recovery Tribunal (DRT) for recovery.

Many cases are still outstanding with DRTs since they are unable to rapidly resolve the cases. DRTs will be given specific authority to release the security of NPA accounts and realise advances in order to prevent delays in the process.

3. OBJECTIVES OF THE STUDY:

- To examine the various measures taken by state bank of India to manage the NPAs.

4. RESEARCH METHODOLOGY OF THE STUDY:

The present study was undertaken to examine the factors responsible for NPAs in Indian banking sector. To attain this objective, 50 bank branches of state bank of India have been included in the study. The respondents' banks covered are situated in Kalaburagi Districts. The investigation is made for both primary and secondary data. The primary data from the strategic level management executives of the banks were availed through personally administered well designed questionnaire. The views of the respondents to various aspects of the study have been dealt with from all the 50 branch offices at the different levels. The opinions expressed by respondents have been shown at local, regional and zonal levels for inter level comparison in respect of various aspects of the questionnaire for the study.

5. DATA ANALYSIS:

The results survey data are presented in tables 1 to 11 along with Chi- square test outcome. Tables 1 to 11, prepared for preventive, corrective and drastic measures to check NPAs, have shown the acceptance of the null hypothesis for χ 2 values. It implies that all the measures are independent of the levels of bank operations.

Table 1: proper borrower selection

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	0	6	78	84	0.93	2.93	0.26	8.87
Regional	0	3	42	45	0.93	2.93	0.25	8.53
Zonal	0	3	30	33	0.91	2.91	0.29	9.97
Total	**0**	**12**	**150**	**162**	**0.93**	**2.93**	**0.26**	**8.87**

Source: Field Survey **χ 2=0.06(df: 2)**

Therefore, it can be said that all these steps are closely followed by banks, regardless of the scale of their operations. In conclusion, it can be said that banks have used a variety of preventive, corrective, and drastic measures in varying degrees, combining the words "always" and " Occasionally " The section on managing non-performing assets (NPAs) offered some insights regarding how banks are following RBI guidelines at various levels, opinions regarding the fairness of the 90-day rule, the use of various preventive, corrective, and drastic measures, methods for reducing NPAs, and the use of OTS, DRT, and Securitization Act and machinery to deal with NPAs. It also covered various steps that banks have taken to combat the NPA threat.

Table 2: Financing Viable Schemes

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	0	21	63	84	0.75	2.75	0.43	15.64
Regional	0	3	42	45	0.93	2.93	0.25	8.53
Zonal	0	3	30	33	0.91	2.91	0.29	9.97
Total	**0**	**27**	**135**	**162**	**0.83**	**2.83**	**0.37**	**13.07**

Source: Field Survey **χ 2=2.93(df: 2)**

Table 3: Holding of Camps for Recovery

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	0	36	48	84	0.57	2.57	0.49	19.07
Regional	3	18	24	45	0.47	2.47	0.62	25.10
Zonal	0	6	27	33	0.82	2.82	0.39	13.83
Total	**3**	**60**	**99**	**162**	**0.59**	**2.59**	**0.53**	**20.46**

Source: Field Survey **χ 2=4.97(df:4)**

Table 4: Proper Sanctions

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	0	9	75	84	0.89	2.89	0.31	10.73
Regional	0	6	39	45	0.87	2.87	0.34	11.85
Zonal	0	3	30	33	0.91	2.91	0.29	9.97
Total	**3**	**18**	**144**	**162**	**0.89**	**2.89**	**0.31**	**10.73**

Source: Field Survey **χ 2=0.12(df:2)**

Table 5: Avoiding Over-drawing

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	6	15	63	84	0.68	2.68	0.60	22.39
Regional	0	21	24	45	0.53	2.53	0.50	19.76
Zonal	0	9	24	33	0.73	2.73	0.45	16.48
Total	**6**	**45**	**144**	**162**	**0.65**	**2.65**	**0.55**	**20.75**

Source: Field Survey **χ 2=5.48(df:4)**

Table 6: Ensure Correct End-Use

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	6	12	66	84	0.71	2.71	0.59	21.77
Regional	0	12	30	45	0.67	2.67	0.47	17.60
Zonal	3	15	27	33	0.73	2.73	0.62	22.71
Total	**9**	**30**	**123**	**162**	**0.70**	**2.70**	**0.57**	**21.11**

Source: Field Survey **χ 2=4.03(df:4)**

Table 7: Recovery

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	0	12	72	84	0.86	2.86	0.35	12.24
Regional	0	12	33	45	0.73	2.73	0.44	16.12
Zonal	0	15	18	33	0.55	2.55	0.50	19.61
Total	**0**	**39**	**123**	**162**	**0.76**	**2.76**	**0.43**	**15.58**

Source: Field Survey **χ 2=4.27(df:2)**

Table 8: Rephasement

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	3	66	15	84	0.14	2.14	0.44	20.56
Regional	0	39	6	45	0.13	2.13	0.34	15.96
Zonal	0	21	12	33	0.36	2.36	0.48	20.34
Total	**3**	**126**	**33**	**162**	**0.19**	**2.19**	**0.43**	**19.63**

Source: Field Survey χ 2=3.20(df:4)

Table 9: Rehabilitation

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	9	57	18	84	0.11	2.11	0.56	26.54
Regional	0	39	6	45	0.13	2.13	0.34	15.96
Zonal	0	21	12	33	0.36	2.36	0.48	20.34
Total	**9**	**117**	**36**	**162**	**0.17**	**2.17**	**0.50**	**23.04**

Source: Field Survey χ 2=4.94(df:4)

Table 10: Filling a Suit

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	3	63	18	84	0.18	2.18	0.60	21.56
Regional	0	30	15	45	0.33	2.33	0.47	20.17
Zonal	3	24	6	33	0.09	2.09	0.51	24.40
Total	**6**	**117**	**39**	**162**	**0.20**	**2.20**	**0.49**	**22.27**

Source: Field Survey χ 2=2.29(df:4)

Table 11: Enforcement of Primary Securities

N=162

Level	Frequencies				Summary			
	Never	Occasionally	Always	Total	WAS	Avg.	SD	CV
Local	9	51	24	84	0.18	2.18	0.60	27.52
Regional	3	24	18	45	0.33	2.33	0.60	25.75
Zonal	3	15	15	33	0.36	2.36	0.64	27.12
Total	**15**	**90**	**57**	**162**	**0.26**	**2.26**	**0.61**	**26.99**

Source: Field Survey χ 2=1.30(df:4)

6. CONCLUSION

A virus that affects the financial industry is NPA. It has an impact on the banks' profitability, liquidity, and solvency. Numerous NPAs are brought on by inadequate monitoring and control. The whole banking industry is concerned about NPA management. Therefore, a strong monitoring and control system will undoubtedly limit NPAs. Additionally, banks have set up equipment to manage NPAs under various names, including Asset Recovery Branches, Settlement Advisory Committees, Recovery Cells, NPA Management Departments, NPA Cells, and Credit Investigation & Information Agencies. Additionally, it was noted that banks were not only implementing corrective (Recovery, Rephasement, and Rehabilitation) actions, but also relying on proactive ones (proper borrower selection, funding of only feasible schemes, appropriate penalty, preventing overdrawing, and proper end use) for lowering and controlling the threat of NPAs, severe steps (filing of suit and enforcement of principal securities) in varied degrees.

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