

Management of NPA in the Commercial Banks in Odisha: An Empirical Analysis

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Abstract- Higher level of NPA forced the banks to charge higher PLR and PLR related interest rates. This will attract high-risk borrowers which, in turn, may result in higher level of non-performing advances in future. Large borrowers are found to be the principal defaulters. Mismanagement or diversion of fund is also one of the main cause of NPA. The position of Orissa which was at the bottom of major states in June, 1969 rose up to 11th position in June, 1982. States like Bihar, Assam, Uttarpradesh and even West Bengal which were ahead of Orissa in 1969 came down to lower positions in bank population ratio, in June 1982. The study is based on primary data. The data has been analyzed by percentage method. The tool used to collect data from the bank officials was a structured questionnaire. Responses obtained from the 50 Bank Managers/ Senior officers.

I. INTRODUCTION

The Indian banking system, endowed with a large network of branches and wide range of financial instruments, has achieved considerable progress in the next two decades after Nationalization. The concept of banking had undergone a dynamic change in keeping with the need to achieve rapid socio-economic progress. As against the traditional banking theory, a shift in the approach to lending from security-orientation to purpose-orientation also became a predominant concept during the period. Despite the overall progress made by the financial system, poor capital base, inefficient organizational structure, declining profitability and very high and ever-growing **non-performing assets (NPA)** had become the major stumbling blocks in the banking sector during the **post-nationalization** decades. It was against this background that the Financial Sector Reforms became inevitable and were initiated in India.

Expansion of banking facilities in Orissa had not made any progress before nationalization of 14 major commercial banks in 1969. It was only after nationalization the commercial banks started to establish their branch in Orissa. The number of branches of commercial banks including those of SBI was 187 in 1971 which increased to 824 in 1980. The bank deposit increased from Rs. 6.4 crores in 1960 to Rs.99 crores by the end of 1974 and Rs. 358 crores by the end of 1980.

II. LITERATURE REVIEW

Sarda (1998) in an article on the strategies for reducing Non-Performing Assets states that guidelines issued by the Reserve Banks non income recognition, asset classification and provisioning norms compelled banks in India not only to show the true financial picture in the balance sheet but also to take

corrective steps for improving their loan portfolio. With the adoption of these guidelines banks are fully vigilant about the quality of their assets and several steps are being taken by them to reduce NPA.

On **lok adalat** as an effective forum for reducing NPA, Rao(1999) remarks that lok adalats have gained prominence over a period of time as a forum through which the disputes/statements among the parties are settled through an expeditious compromise settlement by adopting principles of justice, equity, fair play and other legal principles.

Baslas and Bansal (2001) in their study on banking sector reforms found that the level of NPA is a contentious issue and a vital parameter in the analysis of the financial health of banking industry. Public sector banks account for a higher level of NPA as they hold a higher share in lending, but contrary to general perception, the ratio of gross NPA to total advances and total assets has come down.

B. Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with use of technology and professional management has gained a reasonable position in the banking industry.

It has also been viewed that banks lending policy could have crucial influence on non-performing loans (Reddy, 2004). He critically examined various issues relating to terms of credit of Indian banks.

III. OBJECTIVES

- i) To study Bankers opinion on causes of NPA.
- ii) To analyze the steps to be taken to control NPA.
- iii) To examine the norms of the bank for loan processing.
- iv) To study bankers views on recovery of dues.

IV. METHODOLOGY

The study is based on the primary data. The data has been analyzed using percentage method. The study is related to commercial banks in Orissa, state covering six leading banks such as SBI, Bank of India, Punjab National Bank, ICICI Bank, Andhra Bank and Bank of India. The tool used to collect data

from the bank officials was a structured questionnaire. Responses obtained from the 50 Bank Managers/ Senior officers.

3.1 Bankers' Views on NPA

Table 3.1: Bankers' Opinion on Cause of NPA

Causes of of NPA	N	%
Lack of Persuasion	38	76
Lack of Monitoring	41	82
Willful Defaulters	43	86
No Risk Assessment	39	78
Mismanagement of Fund by borrower	48	96
Delay in Legal Proceedings	41	82

N-Number

Data presented in Table 3.1 above reveals that as high as 96% of Bank Managers find the most important cause of NPA is the mismanagement or diversion of funds sanctioned to borrowers for specific projects. In other words, borrowers become defaulters in regular repayment of loan as they do not manage the money properly, thereby make their projects sick; and hence NPA at Banks grow.

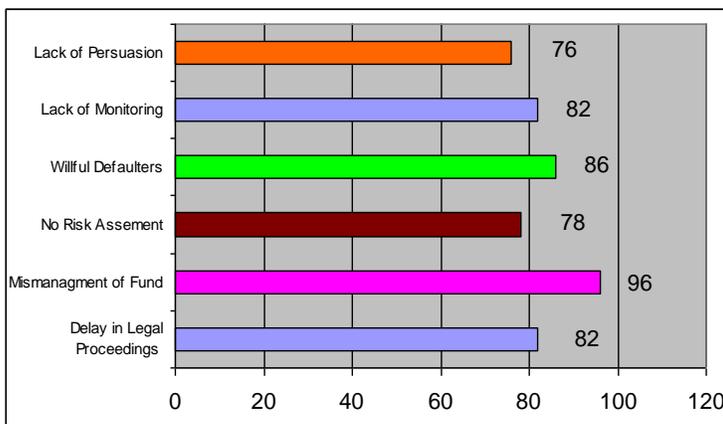
In complementing to this cause a high significant proportion of 86% of Bankers subscribed to the view that "willful defaulters" are the cause for NPA.

Bankers in large proportions blamed their own system and that of the legal system. As high as 76% of respondents pointed out that Bankers usually do not persuade the borrowers to make regular repayments. Once a loan is given or taken both ends are relaxed. Neither the borrower is pressurized or persuaded to pay the installments on schedule time; nor the Banker take any immediate measures. However, bank officers feel strongly that persuasion is an important tool to improve upon repayment, and reduction of NPA.

The borrower feels more relaxed if s/he is not persuaded for defaulting repayment. Similarly, 86% of Bank Officers agreed that monitoring system in the Banks is not up to the mark. Surprisingly 78% of respondents pointed out that the "Risk Assessment" aspect is highly neglected by the Banks.

The above findings with regard to "Causes of NPA" are illustrated in Figure 3.1.

Fig.3.1 Banker's View on Causes of NPA



The next question to the bank officers was to know their views on steps taken by them for recovery of NPA. As would be seen from the table below, 72% of respondents revealed that Banks should take caution and care during the loan processing stage in order to avoid NPA later. Similarly, the Recovery Cell need to be strengthened, said as high as 86% of the respondents, to reduce the NPA ratio. A significant 74% bank officers were of the opinion that if the Performing Assets are monitored meticulously, the NPA position would be improved. Vigorous follow-up is necessary at the Branch Level, commented 78% respondents.

It was the opinion of as high as 92% of Bank Officers to go for out-of-court settlement than taking legal actions against defaulters, as the matter takes a long time and NPA grows further than getting resolved.

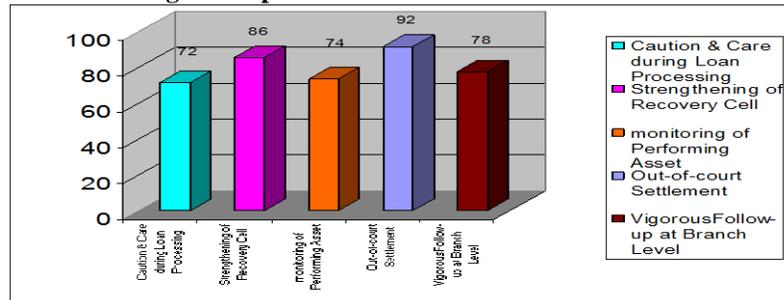
Table 3.2: Steps to be taken by Banks to Control NPA

Steps to be taken	N	%
Caution & Care during Loan Processing	36	72
Strengthening of Recovery Cell	43	86
Monitoring of Performing Asset	37	74
Out-of-Court Settlement	46	92
Vigorous Follow-up at Branch Level	39	78

N-Number

The above findings, with regard to steps to be taken for managing NPA properly, are illustrated in Figure 3.2 below.

Fig.3.2 Steps to be taken to control NPA



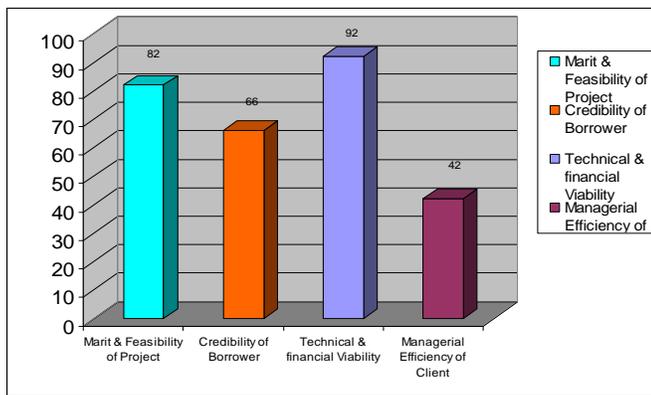
Nearly three-quarter of the bank officers have indicated here before that caution and care need to be taken while processing loan applications in order to avoid possible NPA in future. In this context the respondents were asked to indicate their views about the norms of the bank for loan processing. Their response has been summarized in the Table 3.3, and illustrated in Figure 3.3.

Table 3.3: Norms of the Bank for Loan Processing

Norms	N	%
Merit & Feasibility of Project	41	82
Credibility of Borrower	33	66
Technical & Financial Viability	46	92
Managerial Efficiency of Client	21	42

N-Number

Fig. 3.3: Norms of Loan Processing



A closer look at Table 3.3 and the corresponding Figure 3.3 would reveal that almost all bankers (92%) give stress on technical and financial viability aspects of the loan proposal need to be evaluated properly. Unless this is done, the project will not make profit; hence the entrepreneurs will become defaulters. Similarly, 82% bankers point out that the merit of the project is more important than the credibility of the borrower (66%) or the managerial efficacy of the borrower (42%).

Since the bank officers seemed to be more concerned about the control of NPA at the loan processing stage, it was pertinent ascertain whether bankers/banks have ever made any evaluation of the possible causes of NPA. As would be seen from the following Table 3.4, 66% informed that there was no evaluation done in the past.

Table 3.4: Evaluation of the Causes of NPA

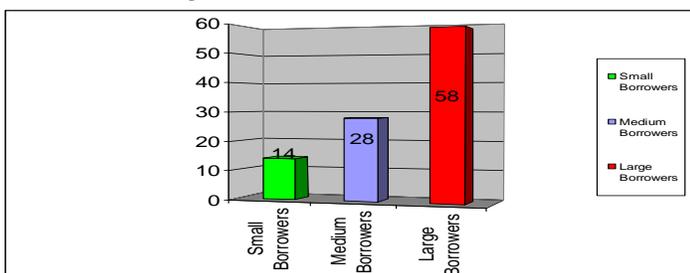
Evaluation	N	%
YES	17	34
NO	33	66

In respect of “who are the main defaulters” the study gathered the following information (Table 3.4). It was observed that there are few defaulters in “small borrower” segment (14%) and “medium borrower” segment (28%). In the “large borrower” segment there is large number of defaulters (58%). This position is illustrated in Figure 3.3.

Table 3.4: Main Defaulters of the Bank

Defaulters	N	%
Small Borrowers	7	14
Medium Borrowers	14	28
Large Borrowers	29	58

Fig. 3.3 Main Defaulters of the Bank



It is generally believed that there are many borrowers who are willful defaulters. In spite of the fact that their projects run successfully and profitably, they do not repay loans regularly. Whenever there is pressure from the bank, they avoid paying installments, and take undue advantage of the slackness in the system. The opinion of the bankers in this regard is presented below. As would be observed from Table 3.5, as high as 82% of the bank officers subscribe to such view.

Table 3.5: Opinion of Bankers on Willful Defaulters

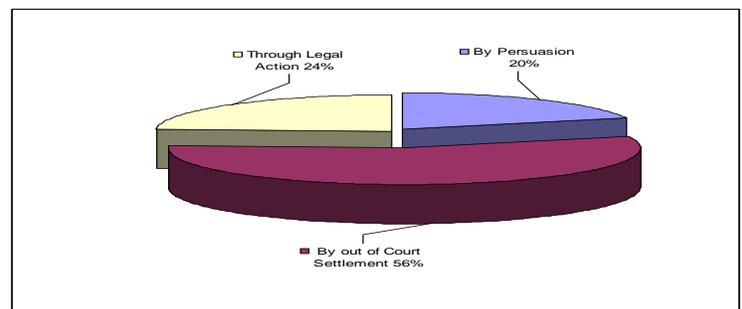
Willful Defaulters	N	%
YES	41	82
NO	9	18

How do bankers handle proper recovery of loans? Opinion of bankers, summarized in Table 3.6, indicate that there are three effective ways. Only 20% of respondents point to soft ways like **persuasion**; 56% feel that **out-of-court settlement** is the best method to recover loan dues, while only 24% favour **legal action**. The findings reveal that a significant majority are in favour of out-of-court settlement than finding a solution in the court for a simple reason that they find the legal system is largely ineffective in solving the NPA problem as it takes years and years to find a settlement. On the other hand, only a few bank officers find persuasion as an effective mechanism. Figure 3.4 display their opinion.

Table 3.6: Opinion on Recovery of Dues

Recovery of Dues	N	%
By Persuasion	10	20
By Out of Court Settlement	28	56
Through Legal Action	12	24

Fig.3.4: Preferred Means of Recovery



The study also found that most Bankers (82%) feel that the Law of the country is a stumbling block to recover NPA. When legal actions are taken against willful defaulters, it takes very long time. At the same time defaulters develop complacency and feel more relaxed; and many of them win the case at the end.

Table 3.7: Bankers' Views of Law as a Stumbling block

Law as a Stumbling block	N	%
YES	41	82
NO	9	18

The issue of NPA is also further complicated by political pressure on the banks to sanction loans to undeserving borrowers, having non-viable projects. As would be seen from the following table, as significant as 76% bank officers have subscribed to this view.

Table 3.8: Bankers' Views on Political Patronage

Political Patronage as a cause for NPA	N	%
YES	38	76
NO	12	24

A lot of policy-related problems have been found in public sector banks. For Example, the government of India had given a massive waiver of Rs. 15,000 Crores under the Prime Minister-ship of Mr. V. P. Singh, for rural debt during 1989-90. This was not a unique incident in India and left a negative impression on the payer of the loan. Poverty elevation programs like IRDP, RREP, SEPUP, JRY, PMRY, etc., failed on various grounds in meeting their objectives. The huge amount of loans, granted under these schemes, were totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of some sections of target beneficiaries. Loans given by banks are their assets and as the repayment of loans were poor. The quality of these assets were steadily deteriorating. Credit allocation became '*Lon Melas*', loan proposal evaluations were slack and as a result repayments were very poor. Majority of Bank officers (58%), however, did not agree fully to government policies contributing to growth of NPA (Table 3.9); rather it is the inefficiency of the banking system in the management of NPA.

Table 3.9: Government Policies responsible for NPA

Govt. Policies responsible	N	%
YES	21	42
NO	29	58

The Indian banking sector is no more facing a serious problem of NPA. The extent of NPA during recent years is comparatively lower in public sectors banks. A few banks have achieved near zero GNPA ratios; a large number of public sector banks are having GNPA ratio of 1% to 2%.

To improve the efficiency and profitability, various steps have been taken by government as well as the banks themselves to reduce the NPA. It is highly impossible to have zero percentage NPA; but banks are trying to reduce NPA status to near zero, and it may be feasible in next few years.

V. FINDINGS:

- i) On the demand side mismanagement or diversion of funds, willful default and flaw in the legal system accounts for NPA.
- ii) 92% of Bank officer's prefer out of court settlement than taking legal actions against defaulters, as the matter takes a long time and NPA grows further than getting resolved.
- iii) Solutions for checking NPA lie in caution and care during loan processing, strengthening of recovery efforts, monitoring of performing assets, out of court settlement etc. 21.92% of banks stress on proper assessment of technical & financial viability of project before granting loans for the same.
- iv) Large borrowers are found to be the principal defaulters.
- v) The percentage of willful defaulters was found to be 82%.

VI. CONCLUSION

To tackle the growing problem of NPA the views and suggestions of the branch managers should be given due importance while framing the credit policy of a bank. Another major hurdle in the way of efficient functioning of banks has been the sluggish legal system of our country. It was therefore, the opinion of as high as 92% of Bank Officers to go for out-of-court settlement than taking legal actions against defaulters, as the matter takes a long time and NPA grows further than getting resolved. Banks should take little more care in assessing the creditworthiness of the borrowers and taking measures for checking mismanagement of funds by them.

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- [8] Table B7: Bank-wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks-2010.
- [9] Table B7: Bank-wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks-2011.
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