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BANK AUTHORITIES PERCEPTION TOWARDS CAUSES AND REASONS FOR MOUNTING NPAS

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Abstract

The study work with twin objectives of measuring the perception of bank authorities towards primary reasons for NPAs occurrence and to identify the measures for prevention measures to be taken in restricting NPA and timely recovery of loans. The present study is both qualitative and quantity in nature. A well-structured questionnaire was prepared to identify bankers' perception towards NPAs prevention, recovery and management mechanisms. The study adopted cluster Sampling Procedure (Probability) for defining the entire population of banks those have head office both in India and at Coimbatore city and further the researcher has adopted convenience sampling techniques for collection of primary data. The study findings revealed that 80 per cent (mean score of 5.60) of the bank employees' opined that due to the increase of Non-Performing Assets they have cash flow restrictions and they required plenty of time and efforts for handling and managing NPA and it was ranked in the first position. Further, study observed that majority i.e., 76.40 per cent (mean score of 3.82) of the bank officers' have opined that the primary reason for the NPA was the officials negligent on pre-enquiry before sanctioning the loan and it was ranked in the first place. The study suggest that the PSBs to practice well-planned training programmes for its employees. PSBs should offer required training to their staff on credit management. As well, trained professionals are expected to be the exports in their chosen field i.e., credit management. PSBs should train their employees about the credit recovery skills, as in today's competitive business environment, these skills should be extended among the staff members for timely recovery of loan, as practiced in private sector banks.

Keywords: *NPAs Management, Public Sector Banks, Credit Management.*

Introduction

NPA is one of the major concerns for banking system anywhere around the globe and Indian Banking system is not an exception to this universal phenomenon. Public Sector Banks (PSBs) are struggling with high non- performing assets (NPAs) brought about by unfettered lending to high capital intensive industries. The NPA problems of PSBs Banks in 2015 are similar to the NPA problems faced by the PSBs banks in the 1990's when the government had to bail out many banks to prevent them from collapsing under the strain of NPA's. The striking similarity is that the sectors that contributed to the NPA problems of banks in the 1990's are almost the same leading to the question, will banks never learn or will crony capitalism ever go away?. Moreover, Indian banking system asset quality has seen rapid deterioration since 2010-11 with gross non-performing advances and net non-performing advances for the banking system trending sharply upwards.

Important Reasons of NPA's

Some of the reasons for emergence of the NPA typical to Indian Banks include- faulty institutional environment reflected in its economic, political, legal and social environment. Other reasons include use of bank as an instrument of public policy, incompatibility of banks interest with certain policy instruments as well as change in the economic system.

Defaulter Friendly Legal System: The legal system of our does not favour early recovery of dues. According to the report, the Indian Legal system is supposed to be sympathetic towards borrowers to the extent of working against banks interest, specifically their tendency to write off small advances if their recovery was not possible. Accordingly, banks also believe that writing off such loans would help them clean up the Balance-Sheet and bring about greater transparency.

Use of Banks as an Instrument of Public Policy: Lending under schemes like Loan Melas, sectors like mini steel, mini paper, sugar and cotton spinning cooperatives are examples of the use of PSB's as an instrument of public policy which has contributed to the accumulation of NPA's.

Use of Certain Policy Instruments - Cutting Across Interest of Banks: Lack of decisiveness with regard to getting rid of bad loans through, one time settlement due to fear of investigating agencies like CBI have gradually worsened the NPA situation of banks. The process of revival of sick industries has over a period of time resulted in the corporate houses resorting to blackmailing the lenders with the threat of seeking protection under the Sick Industrial Companies (Special Provisions) Act, which has become a safe haven for companies that want to put off a flexible solution like closure and prefer to survive on public money.

Intentional Misuse of Settlement Policy of RBI: A policy of settlement of loans with the borrowers initiated by the RBI involves an element of concession granted to the defaulters. This resulted in even the smaller and less influential borrowers refusing to pay off their loan and the tendency to misuse the settlement policy of RBI has increased over the years.

Euphoria Generated with Liberalization: Huge investments with great market prospect, which were initiated to realize the dream of globalization were not successful. Large Corporate houses delayed their repayments, thereby contributing indirectly to NPA of SSI.

Economic Slowdown: General Economic Slump and sometimes doldrums in specific sectors makes pre-determined amount of repayments an up bill task.

Absence of Structured Monitoring Mechanisms: Ineffective, Inadequate and Incompetent supervision owing to shortage of qualified manpower as well as absence of structured monitoring mechanisms. Subsequently the concept of centralized as well as specialized loan advancing hub came into being leading to marginal improvement.

Lack of Entrepreneurship: Lack of Entrepreneurship and knowledge on the part of the borrowers about proper use of funds coupled with absence of proper guidance by the lending institution.

Improper Discharge of Responsibilities: Occasional connivance between the borrower and loan granting authority further supplemented by improper discharge of responsibilities by lawyer in respect of security of title of properties , values in respect of proper valuation of the mortgaged assets and even auditors by being very casual and mechanical in their approach.

Delay in Disbursements: Delay in Disbursements of loan of various phases in project implementation throwing the same off track, thereby increasing project implementation cost.

Casual Monitoring: Comfort of some of the lending authorities in collateral securities which does not enthuse them to have proper monitoring of the end use of the loan.

Lack of Proper Payment Culture: Lack of proper payment culture mainly in priority sector advances where there are numerous instances of loan waiver by the political establishment of the day. The borrowers expect their loan to be waived off and the bank also do not feel the necessity to follow a particular segment of advances vigorously with the hope that one day or other they would have the advances reimbursed by the government.

Improper Networking: Lack of improper networking among the banks where one particular bank is not aware of the default history of a particular borrower with other banks.

Wilful Default in Payments: Willful default in payment of loan taking advantage of ineffective relevant legislation and slow pace of legislation process. However with the introduction of SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act 2002 which empowers the banks and financial institutions to auction the mortgaged assets to recover their NPA without the intervention of courts, the scenario has become a little better.

RBI officials are quite right in flagging the risks to public sector banks from monitoring bad loans. Gross NPA's of the banks have doubled as a percentage of their advances over the last 3 years. At over 4%, this no is twice that of private banks. Worse PSB's don't fully reflect the real magnitude of the problem. Restructured Assets make up another 8% of PSB portfolios. With banks making adequate provisions against these, the loan write offs, if they eventually turn bad, will make a significant dent on profits, draining them of precious capital.

A big worry is the ease with which large corporate houses / borrowers accounting for 90per cent of restructured loans are able to negotiate more lenient terms or haircuts from PSB's. Many of them blithely pass on the consequences of over borrowing or bad business decisions to banks – what economic theory refers to as the moral hazard problem. This could also lead to even good borrowers to seek a restructuring citing the slowdown as an alibi. Concentration of loans to a few corporate groups suggests poor risk management. Example is of a reputed Private Airlines in India which shows that PSB's often take a soft approach, instead of identifying risks at early stage, filing recovery proceedings and quickly reprocessing assets, they delay the denouncement as assets rapidly lose value.

Statement of Problem

NPA is a virus affecting banking sector as it affected liquidity and profitability, in addition it posed a threat on quality of asset and even the survival of banks itself. A mounting level of NPA's in the banking sector could severely affect the economy in many ways. If NPA's are not properly managed, it could cause financial and economic degradation. Non-performing assets is also detrimental to the performance of the Indian banks. In the present scenario, NPAs are at the core of financial problem of the banks in India. Though, concrete efforts have been made to improve recovery performance by RBI, they have not succeeded in reduction of mounting NPA margins. The main reasons of increasing NPAs were the target-oriented approach, where, maintaining the Asset quality of banks was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. This target oriented approaches of PSBs deteriorated the qualitative aspect of lending by banks and willful defaults by the borrowers, ineffective supervision of loan accounts, lack of technical and managerial expertise on the part of bankers. Motivated by the above theoretical this study aims to analyse bank authorities perception towards causes and reasons for mounting NPAs.

Objectives of the Study

- To measure the perception of bank authorities towards primary reasons for NPAs occurrence
- To identify the measures for prevention measures to be taken in restricting NPA and timely recovery of loans.

Research Methodology

The present study is both qualitative and quantity in nature. A well-structured questionnaire was prepared to identify bankers' perception towards NPAs prevention, recovery and management mechanisms. The study adopted cluster Sampling Procedure (Probability) for defining the entire population of banks those have head office both in India and at Coimbatore city and further the researcher has adopted convenience sampling techniques for collection of primary data. In Coimbatore city there are 88 bank branches belonged to SBI and its six Associates and 304 banks branches belonged to the Nationalized banks groups. In total there are 392 public sector bank branches, currently functioning in the city. Out of these 392 Public sector banks operating in Coimbatore region, only few banks have large number of branches i.e., State Bank of India (65), Indian Overseas Bank (54), Indian Banks (45) and Canara Bank (43). These four banks were considered as the sample population.

From the selected four public sector banks, a sample of 15 per cent of branches were selected, that is summed to 31 bank branches. Well-structured questionnaires were distributed to 93 bank officials i.e., three samples from each bank category for collection of data i.e., bankers perception on reasons for occurrence of NPA, their perception towards NPAs prevention, recovery and management mechanisms. Since, higher grade bank officials were very busy in their day to day banking operations, approaching them and data collection was very much a daunting job. Thus, the study applied convenience sampling technique in this stage of data collection. At the end of the data collection, it was observed that six questionnaires were found incomplete, these six questionnaires were deducted from actual samples and the study contained only 87 sample respondents.

Results and Discussion

Table 1 Bank Officers' Level of Perception on Effects of NPA on Banks & Financial Institutions

Factors	Sum	Mean	Rank
Continuous draining of profit	398	4.57	7
Negative impact of goodwill	437	5.02	6
Adverse growth of equity value	458	5.26	5
Restricted cash flow by bank due to provision of fund created against NPA	487	5.60	1
Liquidity	485	5.57	3
Time and efforts management in handling and managing NPA	487	5.60	1
Credit Loss	468	5.38	4

Source: Primary Data

The above table described the bank officers' level of the perception on effects of NPA on banks and financial institutions. Most of the bank employees' opine that due to the increase of Non-Performing Assets they have cash flow restrictions and they required plenty of time and efforts for handling and managing NPA and it was ranked in the first position with the mean score of 5.60. Similarly the respondents' have said that they have faced problems like low liquidity, credit loss and adverse growth of equity value due to the increasing Non-Performing Assets of the bank. These factors were ranked in the third, fourth and fifth positions with an average score of 5.57, 5.38 and 5.26, respectively. Further it was observed that the bank officers' have said that they got negative impact of goodwill and there was a continuous draining of profit due to the NPAs holdings of the bank.

From the above discussion it was observed that, the most i.e., 80 per cent (mean score of 5.60) of the bank employees' opined that due to the increase of Non-Performing Assets they have cash flow restrictions and they requiredplenty of time and efforts for handling and managing NPA and it was ranked in the first position.

Table 2 Bank Officers' Level of Perception on Primary Reasons that Leads to Higher NPA

Reasons	Sum	Mean	Rank
Default of a loan intentionally	314	3.61	3
Frequent shuffle of Government policies leads to NPA	307	3.53	4
Customer has taken the loan for non – performance of business / purpose	305	3.51	5
Most of the loan sanctioned for agricultural purposes	317	3.64	2
Bank officials Negligent on pre-enquiry by the bank for sanctioning the loan to a customer	332	3.82	1

Source: Primary Data

From the above empirical data analysis it was clearly observed that, majority of the bank officers' have opined that the primary reason for the NPAis the officials negligent on pre-enquiry before sanctioning the loan and it was ranked in the first place with the mean score of 3.82. Further the bank employees' have stated that cancellation of agricultural loans, default procedures of the loan, frequent shuffle of government policies and non-repayment of loans by the customers due to non-performance of business / purpose were the major reasons for higher NPA. These variables were placed in the second, third, fourth and fifth positions with the mean score of 3.64, 3.61, 3.53 and 3.51, respectively.

Hence it was clearly identified that majority i.e., 76.40 per cent (mean score of 3.82) of the bank officers' have opined that the primary reason for the NPAwas the officials negligent on pre-enquiry before sanctioning the loan and it was ranked in the first place.

Findings and Implications

The elaborate study findings revealed that 80 per cent (mean score of 5.60) of the bank employees' opined that due to the increase of Non-Performing Assets they have cash flow restrictions and they required plenty of time and efforts for handling and managing NPA and it was ranked in the first position. Further, study observed that majority i.e., 76.40 per cent (mean score of 3.82) of the bank officers' have opined that the primary reason for the NPA was the officials negligent on pre-enquiry before sanctioning the loan and it was ranked in the first place.

Measures to be taken for Preventions of NPAs

Human beings are the most important part in banking sectors, which play a very active role in reduction of NPAs and help in timely recovery of loans from the bankers. PSBs were suggested to practice well-planned training programmes for its employees. The basic approach should also be to include creating effective and efficient human resources to successfully implement the plans and programmes, systems and procedures to arrest the deteriorating trend in the management of NPA accounts. PSBs should realise the fact that Credit management is an investment and not a cost. Hence, PSBs should offer required training to their staff on credit management. As well, trained professionals are expected to be the exports in their chosen field i.e., credit management. PSBs should train their employees about the credit recovery skills, as in today's competitive business environment, these skills should be extended among the staff members for timely recovery of loan, as practiced in private sector banks.

Moreover, the study observed that nearly 76.40 per cent of the bank officials (3.82 on mean score of five) were negligence in pre-enquiring the loan borrowers profile before sanctioning the loan. Thus, it was suggested to them to: (i) Take proper loan scrutiny techniques before sanctioning loan, as stated above the bankers could write an agreement or MOU (Memorandum of Understanding) with local bodies, agricultural universities, ministries, Industrial Development Agencies, Federation of Indian Chamber of Commerce (FICC) and MSMEs development ministry to supply required data about the small borrowers, so that they could identify right need and socio-economic status of borrowers before advancing loans to them. (ii) In the age of modernisation and IT (Information Technology) revolution the bankers could arrange for tie-up with the above mentioned agencies, for electronic scrutiny of the loan borrowers, to avoid future occurrence of bad debts. (iii) As far as India, is concerned, none of the small borrowers either in agriculture, industries, traders and transport sectors would like to voluntary default of credit repayments, but their industrial sickness forces them to practice of defaulting in credit repayments. Thus, it is primary role of PSBs the social bankers to understand the industrial status of the industries at the same time the genius of the borrowers before lending loans. (iv) The study observed that PSBs, as proactive measures, which have reduced lending to agriculture, industries and transport sectors during the study period 2001-02 to 2013-14, in total and across regions (Rural, Semi-Urban, Urban and Metropolitan cities). The value existence of agriculture, industries and transport sectors is very essential for the economic development, thus, the bankers could be avoided in lending to these sectors. So, again it is suggested to them to adopt effective borrower assessment techniques in order to reduce the raising NPAs, loan outstanding and timely recovery of credits. This could be possible by:extending need based finance only to the genuine clients, proper selection of the borrower and financing only in viable schemes and it is necessary to fix repayment schedule for the term of loan according to the income generating capacity of industrial unit(s).

Conclusion

The study concluded by stating that NPAs failure resulted in instability and financial fragile banking performances and it may lead to crisis in the event of market illiquidity and/or bank contagion. Thus, effective NPAs management practices are need of the time. NPAs generate a vicious cycle of effects on the sustainability and growth of the banking system, and if not managed properly could lead to bank failures.

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