MARKETING TREND AND DEVELOPMENT IN RECOVERY MANAGEMENT- ASSET STATUS OF COMMERCIAL BANKS

S.Kumariselvi
Lecturer in Commerce, MS University College, Nagampatty, Tuticorin-628718

Abstract

The commercial banks serve as the king pin of the financial system of the country. They render many valuable services. Commercial banks advance credit for purchase of durable consumer items like Vehicles, T.V., refrigerator etc., which are out of reach for some consumers due to their limited paying capacity. In this way, banks help in creating demand for such consumer goods. Commercial banks provide credit facilities to rural people by opening branches in t he backward areas. The funds collected in developed regions may be channelised for investments in the under developed regions of the country. In this way, they bring about more balanced regional development. Marketing is a total system of business activities designed to plan, price, promote and distribute wanted and satisfying products to target markets to achieve organisational objectives. Marketing strategies of banking sector revealed that banks can base their marketing strategies on various parameters which are broadly in terms of 7Ps of marketing viz., Product, Place, Price, Promotion, People, Physical Evidence and Processes. Marketing strategy is the firm's product -market choice which is guided by the environmental necessities and firm's objectives and capabilities. The present study focuses on marketing trend and development in recovery management with special reference to asset status of commercial banks. And study based on both Primary and Secondary sources of data collection.

Keywords*: Financial System of the Country, Durable Consumer, Target Markets to Achieve Organisational Objectives, Environmental Necessities and Business Activities.*

Introduction

For a sound economy, a strong banking system is necessary for every country. In India, commercial banks are playing vital role in economic development as well as performance of the banking sector. Growth of the scheduled commercial banks is possible only when an effective credit management system and practice. In Indian context, the lending policy and credit policy have crucial influence on non performing loan (P.K.Reddy, 2002.). Now days, managing nonperformance, asset (NPA) is an important one for profitability concern. NPAs cause many problems and hurdle for the accelerating operational function of Indian commercial banks. It affects recycling of creditand credit creation apart from this, profitability as well. (Meenakshi Rajeev and H.P.Mahesh, 2010). The progress o the bank is dependent on NPAs and it is evident that NPA is a major threat to Indian banks. (Laveena and Meenakshi Malhotra, 2014).

Status of Non Performing Assets in Indian Banks

Management of asset quality has emerged as one of the major challenges facing banks today. High level of NPAs not only affects core performance area of the banking system, but also raises corporate governance issues. The problem of NPAs in the Indian banking system is one of the foremost and the most formidable problems that had impacted the entire banking system. Higher NPA ratio trembles the confidence of investors, depositors, lenders, etc. It is also causes poor recycling of funds, which in turn will have a deleterious effect on the deployment of credit. The non-recovery of loans affects not only fuirther availablity of credit, but also the financial soundness of the banks.

The NPA seriously impace on the profitability as banks stop to earn income on one hand and attract higher provisioning compared to standard assets on the other hand. The increased NPAs put pressure on recycling of funds and reduces thye ability of banks for lending more and thus results in lesser interest income.Banks may tend to lower the interest rates on deposits on one hand and likely to levy higher rates on advances to sustain NIM. As per Basel norms, banks are required to maintain adequate capital on risk-weighted assets on an ongoing basis. Every increase in NPA level adds to risk weighted assets which warrant the banks to shore up their capital base further. The capital has a price tag ranging from 12% to 18% since it is a scarce resource.

Normally, shareholders are interested to enhance value of their investments through higher dividends and market capitalization which is possible only when the bank posts significant profits through improved business. The increased NPA level is likely to have an adverse impace on the bank business as well as profitability, thereby the shareholders do not receive a market return on their capital. The banks whose Net NPA level is 5% & above are required to take prior permission from RBI to declare dividend and also stipulate cap ondivident payout. The credibility the most import thing for the banking system is also affected greatly due to higher level NPAs because it shakes the confidence of the general public. In a nutshell, the high incidence of NPA has cascading impact on all important finanicial ratios of the banks viz., Net Interest Margin, Return on Assets, Profitability, Divident Payout, Provision coverage ratio, Credit contraction etc., which may likely to erode the value of all stakeholders including Shareholders, Depositors, Borrowers, Employees and public at large.

The following table presents in the Non Performing Asset Status of Indian Scheduled commercial Banks for the period 2010-11 to 2013-14.

	Year/Banks	SBIand Associates	Nationalised Banks	Private Banks	Foreign Banks	Total
2010-11	Advance (Rs.)	902837.50	2176966.70	732309.70	199321.30	4011435.20
	NPA(Rs.)	28140.00	42907.40	17972.00	5064.80	94084.20
	% NPA to advance	3.12	1.97	2.45	2.54	2.52
	% of NPA to total	29.91	45.60	19.10	5.38	100
2011-12	Advance(Rs.)	1047015.10	2503374.10	880445.40	234709.80	4665544.40
	NPA(Rs.)	45694.10	66795.10	18314.50	6292.30	137096.00
	% NPA to advance	4.36	2.67	2.08	2.68	2.95
	% of NPA to total	33.33	48.72	13.36	4.59	100
2012-13	Advances(Rs.)	1418882.70	3141285.90	1159142.70	268967.50	5988278.80
	NPA(Rs.)	62778.50	101683.10	20761.90	7970.20	193193.70
	% NPA to advance	4.42	3.24	1.79	2.96	3.0
	% NPA to total	32.49	52.63	10.75	4.12	100
2013-14	Advances(Rs.)	1608737.6	3607182.10	1360252.80	299575.50	6875748.00
	NPA(Rs.)	79816.50	147447.40	24183.50	11567.80	263015.20
	% NPA to advance	4.96	4.09	1.78	3.86	3.67
	% NPA to total	30.35	56.06	9.19	4.39	100

Source: Department of Banking Supervision, RBI.

It is clear from the above table that the NPA of Indian Commercial Banks shows an increasing trend during the period from 2010-11 to 3013-14. The NPA increased from Rs.94084.20 crores to Rs.263015.20 crores, accounting for a growth of 279 per cent. It means the increase is more two and half times duridng the four years of analysis. The average percentage of NPA to advances also experienced an increased from 2.52 per cent to 3.67 per cent during the same period. This indicates the mounting trend of NPA in the Indian Commercial banking system.

Further, the analysis with regard to the place of various segment of the Indian commercial banks indicates very high NPA's presense among SBI and its Associates and also Nationalised banks. While the percentage of NPA to advances increased from 3.12 per cent to 4.96 per cent in case of SBI and the Associates, which is very alarming, the Nationalised bank's NPA to advances raised from 1.97 per cent to 4.09 per cent, between 2010-11 and 2013-14. Similar is the case with regard to foreign banks in India. However, the Indian Private Sector banks shows a positive trend with good recovery of NPA as the percentage of NPA to Advances reduced from 2.45 per cent to 1.78 per cent. This is a very significant reduction. It indicates that the recovery of management of NPA of Indian private sector banks is far better than other players in the commercial banking space in India. While the quantum of NPA of SBI and Associates and also nationalised banks put together account of over 80 per cent and the remaining is shared by private and foreign banks. It brings the fact that the private banks and foreign banks are better in their credit risk management in comparison to SBI and Associates and also nationalised banks.

Recovery Management in Indian Banks

The Debts Recovery Tribunal has been constituted Under section 3 of the Recovery of Debts Due to Banks and Financial Institutions Act,1993. The original aim of the Debts Recovery Tribunal was to receive claim applictions from Banks and Financial Institutions against their defaulting borrowers. For this the Debts Recover Tribunal (Procedure) Rules 1993 was also drafted. While initially the Debts Recovery Tribunals did perform well and helped the Banks and Financial Institutions recover substantially large parts of their non performing assets, or their bad debts as they are commonly known, but their progress was stunned when it came to large and powerful borrowers. These borrowers were able to stall the progress in the Debts Recovery Tribunals on various grounds, primarily on the ground that their claims against the lenders were pending in the civil courts, and if the Debts Recovery Tribunal adjudicated the matter and auction off their properties irreparable damage would occur to them. And similiarly, the introduction of Lok Adalats added a new chapter to the justice dispensation system of this country and succeeded in providing a supplementary forum to the victims for a satisfactory settlement of their disputes. Both the DRT and Lok Adalats didn't perform up to the expectation.

In order to remove the shortcoming of these recovery ,mechanisms, a new act was passed based on the recommendations of the And hyarujina Committee. The Securitization and Reconstruction of Financial Assests and Enforcement of Security Interest (SARFAESI) Act, 2002, was passed on December 17,2002. The act provides enforcement of the security factor without recourse to civil suits. This act was passed with the aim of enabling banks and financial institutions to realize long-term assets, manage the problem of liquidity, reduce asset liability mismatches and improve recovery by taking possession of securities, selling them and reducing NPAs.

The provision of SARFAESI relating to security of interest can be invoked by:

Any banks Public financial institution under section 4A of companies' act of 1995.

Any institution or specified by central government under sub clause (ii) of clause (h) of section 2 of the recovery of debt due to banks and financial institutions act of 1993.

Any other institution or non-banking financial company as specified by the central government; or

The international finance corporation or consortium thereof.

Formation of Asset Reconstruction Companies(ARC)/Securitization Companies (SC) under SARFARSI, Act.2002

Chapter II of SARFESI provides for the setting up of reconstruction and securitization companies for securitization i.e. acquisition of financial asset from its owner, where by raising funds by such securitization or reconstruction company from qualified institutional buyers by the issue of security receipts representing an undivided interest in such financial assets or otherwise. SARFESI deals with the registration of these companies, their pre-quested qualifications etc. The role of these companies in the recovery of NPA are;

- Takeover of the management of the business of the borrower.
- Sale of lease of a part or whole of the business of the borrower.
- Rescheduling of payment of debts payable by the borrower.
- Enforcement of security interest in accordance with the provision of the act.
- Settlement of the dues payable by the borrower.
- Taking possess in of secured assets.

Additionally, such companies can perform the following functions:

- Acting as an agent for any banks or financial institutions for the purpose of recovering their dues from the borrower on payment of such fees as may be mutual agreed.
- Acting as Managers.
- Acting as Receivers.

The following table presents the recovery of NPA by the Indian Banks through various channels for the year 2012-13 and 2013-14.

Table No.2 Recovery of NPA Through Various Channels

Year	No.	Recovery Channel	Lok Adalats	% to total	DRTs	% to total	SARFAESI Act	% to total	Total
2012-13	1	No.of cases referred	8406910	80.48	134080	1.28	1905370	18.24	10446360
	2	Amount recovered	660	6.24	3100	29.33	6810	64.43	10,570
	3	Amount recovered	40	1.72	440	18.88	1850	79.40	2,330
	4	% of recovery	6.06		14.19		27.17		22.04
2013-14	1	No.of cases referred	16369570	88.01	282580	1.52	1947070	10.47	18599220
	2	Amount involved	2320	13.40	5530	31.95	9460	54.65	17370
	3	Amount recovered	140	4.50	530	17.04	2440	78.46	3110
	4	% of recovery	6.03		9.58		25.79		17.97
Notes: 1. Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years. 2. DRTs: Debt Recovery Tribunals									

Source: RBI. Statistical Tables Relating to Banks in India, 2013-14.

It is seen from the above table that the number of cases referred through the Lok Adalats channel is very high in comparison to the SARFASI Act and DRT route. While about 80 percent of the cases are filled through Lok Adalats, 18.24 per cent of the cases are referred under SARFASI Act. Only a few cases have gone to the Debt Recovery Tribunal (DRT). But the amount involved in contrast the number of cases. While a major part of the money involved that about 64.43 per cent using SARFASI Act that is accounting for only 18.24 per cent of cases, a very small portion of the total NPA that is Rs.660 crores (6.24%) concerning 80.48 per cent of the cases referred in case of 2012-13. Which means, through more number of cases are referred under Lok Adalats(80.48%), the amount involved is very low (6.24%) and in case of SARFASI Act, through the number of cases in less in comparison to the Lok Adalat, the quantum of money involvement is very high.

This indicates a fact that the banks prefer SARFASI Act channel in case of large NPA accounts and prefers the Lok Adalats in case of small NPA accounts. Similar is the case for the year 2013-14 also. The DRT channel is moderate in comparison as the amount involved is about 29.33 per cent against other channels during 2012-13. The percentage of recovery in case of SARFASI Act is also very high when compared with other channels with 27.17 per cent and 25.79 per cent for the year 2012-13 and 2013-14 while comparing with the amount involved in the cases.

Measures taken to Deal with NPA

- The RBI made prudential norms as conveyed by the Basel accord of 1988, applicable to Indian banks. These include standards relating to capital adequacy, income recognition, asset classification and provisioning for non-performing assets.
- Banks were permitted to seek **infusions of fresh equity** from the public with the government retaining a 51% share of equity capital in case of Public Sector Banks. Hence, a number of PSBs entered the market and raised tier-I-and tier-II capital accordingly.
- In order to expedite credit and investment decisions by banks and financial institutions, and curb the accretion of fresh NPAs, the Credit Information Breau of India Limited (CIBIL) was set up by State Bank of India in association with HDFC in August, 2000.
- Since the year 1998, the RBI has been making a serious effort towards evolving a suitable and comprehensive model for risk-management by the banks and to integrate this new discipline in the working systems of banks. It also advised bans on a parallel scheme for carrying out internal audit based on risk perception.
- Computerization and Core Banking Solutions provides for data-accuracy and operational efficiency and results in a better management information services (MIS).
- Banks are free to design and implement their own policies for recovery and negotiated settlements with the approval of their boards, particularly for old and unsolved cases falling under the NPA.
- Various legal reforms have been undertaken by the government to improve the legal framework such as.
- Lok Adalats
- Establish Debt Recovery Tribunals under Recovery of Debt Due to Banks and Financial Institutions Act, 1993.
- Set up National Company Law Tribunals under the Companies (Second Amendment) Act, 2002 (yet to became operational)
- Abolished BIFR and AAIFR by repealing Sick Industrial Companies (Special Provisions Act, 1985.
- Amend Code of Civil Procedure to expedite and simplify proceedings in Civil Courts.
- Corporate Debt Restructuring Scheme (Framed by RBI)

Conclusion

The management of nonperforming asset is a difficult task for every bank in the banking industry, particularly when the industry is faced borrowers by the borrowers with a tendency to default. Growing competition and business targets, improper processing of loan proposals, poor monitoring, and willful defaults are the some of the important causes for accounts becoming NPAs. One cannot ignore the fact that a part of the reduction in NPAs is due to the writing off of bad loans by the banks. The Indian banks should take care to ensure that they give loans to credit worthy customers and ensure the recovery of loans and advances. It is also important that the Banks use the various legal options available for them effectively by proceeding against the defaulters especially the big ticket borrowers that is Corporate having huge defaults, in the interest of the bank as well as the national economy.

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