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An Overview of Measures to Recover NPA with Reference to 4R Strategy

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Abstract

Commercial banks are lifeline of economy .providing credit facility being major function of banks and return oof investments NPA is biggest challenge for banks. An asset becomes non-performing when it ceases to generate income for the bank. In India, a Non-Performing Asset (NPA) is broadly defined as one with interest or principal repayment installment unpaid for more than 90 days Prior to 1993, banks had to take recourse to the long legal route against defaulting borrowers, beginning with the filing of claims in the courts. There after to tackle NPA Banks are using different mechanism such as Debt Recovery Tribunals (DRTs), Corporate Debt Restructuring (CDR), SARFAESI Act, 2002, Credit Information on Defaulters and Role of Credit Information Bureau of India Ltd (CIBIL), Asset Reconstruction Companies (ARCs), Lok Adalats and compromise settlement. A lot of time is spent in the judicial process by banks recovery on their loans. Recently government of India put forward 4R strategy to speed up NPA recovery. This paper attempts to study impact of measures of on NPA with reference to 4 R strategy

Index words: Non Performing Assets,4 R strategy SARFAEIS Act,Asset Recovery

1. INTRODUCTION

According to the Reserve Bank of India (RBI), the gross non-performing assets in Indian banks, specifically in public sector banks, are valued at around Rs 400,000 crores which represents 90% of the total NPA in India, with private sector banks accounting for the remainder. An asset becomes non-performing when it ceases to generate income for the bank. In India, a Non-Performing Asset (NPA) is broadly defined as one with interest or principal repayment installment unpaid for more than 90 days prior to 1993; banks had to take recourse to the long legal route against defaulting borrowers, beginning with the filing of claims in the courts. A lot of time was therefore spent in the judicial process before banks could have any chance of recovery on their loans. On average, a civil suit decision took anywhere between 5 to 7 years. Under the Recovery of Debts to Banks and Financial Institutions Act 1993, Debt Recovery Tribunals (DRTs) were set up for recovery of loans of banks and financial institutions. This led to speedy recovery of loans in about 1 year's time as against the average time of 5 to 7 years required in civil suits. While initially the DRTs performed well, their progress suffered as they got overburdened with the huge volume of cases referred to them.To speed up the process of recovery from NPAs, The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI) Act was enacted in 2002 for regulation of securitization and reconstruction of financial assets and enforcement of security interest by secured creditors. The SARFAESI Act empowers Banks / Financial Institutions to recover their non-performing assets without the intervention of the Court. Government of India came up with 4 r strategy for NPA recovery.

2. OBJECTIVES OF THE STUDY

To study the concept of Non Performing Asset

To analyses methods of NPA recovery

To identify the impact of measures in NPA

3. RESEARCH METHODOLOGY

The study mainly includes literature review from various articles published in journals. The other secondary data sources include reports of the respective banks and other relative information published on the banks and other internet sites

4 NON PERFORMING ASSETS

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time. An asset is tagged as non performing when it ceases to generate income for the lender.NPAs are loans and advances where the borrower has stopped making interest or principal repayments for over 90 days.

*4.*1 Classification of Non Performing Asset (NPA*)*

Banks are required to classify NPAs into the following 3 categories based on how long do they remain non-performing.

4.1.1Substandard Assets – If an account remains as NPA for a period less than or equal to 12 months

4.1.2Doubtful Assets – An asset would be classified as doubtful if it has remained in the substandard category for 12 months.

4.1.3Loss Asset – A loss Asset is one where loss has been identified by the bank’s internal or external auditors or upon an RBI inspection.

4.2 NPA Indian Scenario

Banks with high level of NPAs effectively have lesser funds to advance , which means lesser funds on which they can potentially earn interest income. It leads to high level of provisioning where banks are required to keep aside a portion of their operating profit as provisions.This will impact capital adequacy ratio, Increased pressure on interest margin and Reduce competitive position

Figure 1: Gross NPAs (% of total loans)

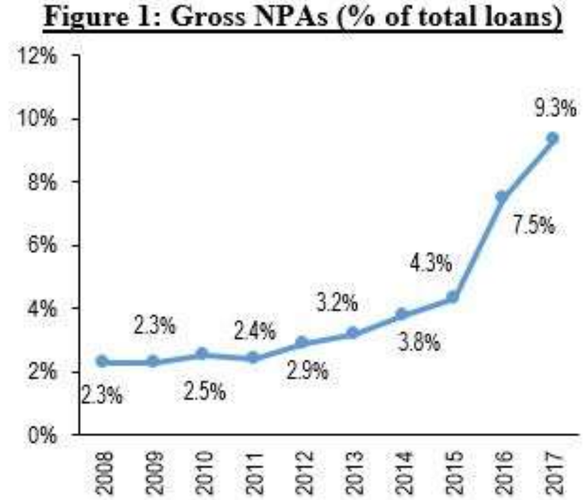


Figure 2: Return on Assets (%)

Source: Reserve Bank of India; PRS.

The above figure gives an overview on growth of NPA from 2008 to 2017 and its impact on return on asset. As of March 31, 2018, data total volume of gross NPAs in the economy is at Rs 10.35 lakh crore. About 85% of these NPAs are from loans and advances of public sector banks. For instance, NPAs in the State Bank of India are worth Rs 2.23 lakh crore.

In the last few years, gross NPAs of banks (as a percentage of total loans) have increased from 2.3% of total loans in 2008 to 9.3% in 2017 . This indicates that an increasing proportion of a bank's assets have ceased to generate income for the bank, lowering the bank's profitability and its ability to grant further credit. Increasing NPAs require a bank to make higher provisions for losses in their books. The banks set aside more funds to pay for anticipated future losses; and this, along with several structural issues, leads to low profitability. Profitability of a bank is measured by its Return on Assets, which is the ratio of the bank's net profits to its net assets. Banks have witnessed a decline in their profitability in the last few years , making them vulnerable to adverse economic shocks and consequently putting consumer deposits at risk.

4.3 Reasons for NPA

Some of the factors leading to the increased occurrence of NPAs are external, such as decreases in global commodity prices leading to slower exports. Some are more intrinsic to the Indian banking sector.

A lot of the loans currently classified as NPAs originated in the mid-2000s, at a time when the economy was booming and business outlook was very positive. Large corporations were granted loans for projects based on extrapolation of their recent growth and performance. With loans being available more easily than before, corporations grew highly leveraged, implying that most financing was through external borrowings rather than internal promoter equity. But as economic growth stagnated following the global financial crisis of 2008, the repayment capability of these corporations decreased. This contributed to what is now known as India's Twin Balance Sheet problem, where both the banking sector (that gives loans) and the corporate sector (that takes and has to repay these loans) have come under financial stress.

When the project for which the loan was taken started underperforming, borrowers lost their capability of paying back the bank. The banks at this time took to the practice of 'evergreening', where fresh loans were given to some promoters to enable them to pay off their interest. This effectively pushed the recognition of these loans as non-performing to a later date, but did not address the root causes of their unprofitability.

Further, recently there have also been frauds of high magnitude that have contributed to rising NPAs. Although the size of frauds relative to the total volume of NPAs is relatively small, these frauds have been increasing, and there have been no instances of high profile fraudsters being penalised.

4 NPA recovery tools

4.41. Lok adalats

Lok Adalats deal with NPAs that fall under 'doubtful' or 'loss' categories and cover small loan amounts till ₹ 5 lakhs. As per the RBI guidelines (2001), both suit filed and non-suit filed cases can be dealt in Lok Adalats. Though it is not a legal procedure, it is highly effective in settling disputes for small loans.

4.4.2. Sarfaesi act, 2002

The SARFAESI Act empowers the lending bank to issue demand notice to the borrower along with his/her guarantors for defaults of ₹ 1 lakh or above.. It enables banks to recover NPAs through alternatives such as Asset Reconstruction, Enforcement of Security and Securitisation without the intervention of court.

4.4.3.Debt Recovery Tribunals

Debt Recovery Tribunals are special courts that solely focus on NPA recovery of more than ₹ 10 lakhs. DRTs were set up to speed up the disputes between lenders and borrowers as compared to ordinary courts, which would otherwise take several years to give the verdict.

4.4.4.Compromise Settlement

Compromise Settlement or the One-time Settlement Schemes are instances where the borrowers agree to pay the due loan amounts to the banks or other financial institutions. It is observed as a loss to banks in the form of write off/waiver of dues partially, on a one-time basis.

4.45. Credit Information Bureau

Credit Information Bureau is the latest tool for NPA recovery where third-party agencies help banks with information about customers to understand their financial conditions, repayment capacity, will to repay and more such factors. These agencies keep a track of defaulters and even the accounts that are prone to becoming delinquent, and share these reports/data with the banks to enable them in making better lending decision

5 RECENT MEASURES FOR THE RECOVERY OF NPA

5.1 4 Rs Strategy Of Recognition, Resolution, Re capitalization And Reforms,

The Economic Survey 2015-2016 tabled in the parliament highlighted that one of the most critical short-term challenges confronting the Indian economy is the twin balance sheet problem of banks and corporate.

The twin balance sheet challenge is the major impediment to private investment and a full-fledged economic recovery. To address the challenges, Economic Survey recommends these four **R's: Recognition, Recapitalization, Resolution, and Reform**.

Banks must value their assets as far as possible close to true value (recognition) as the RBI has been emphasizing; once they do so, their capital position must be safeguarded via infusions of equity (re-capitalisation) as the banks have been demand ..

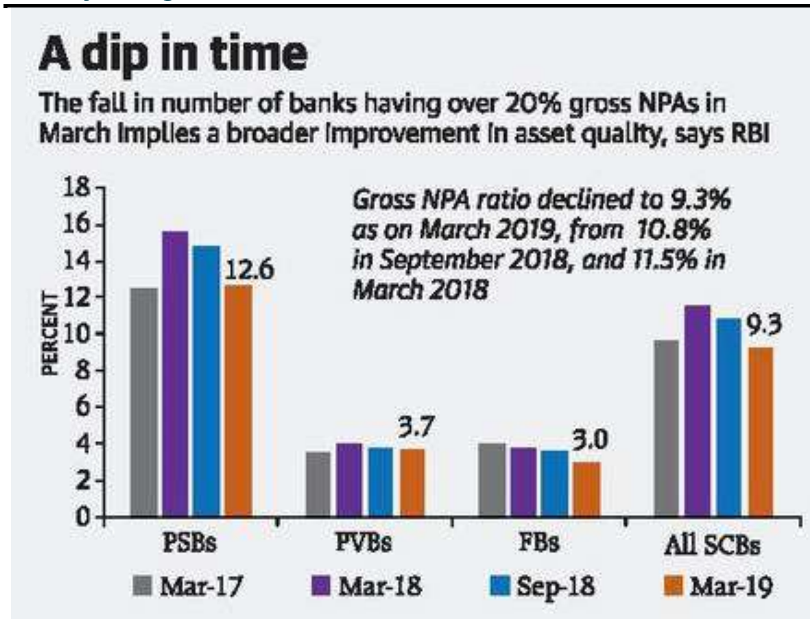
The underlying stressed assets in the corporate sector must be sold or rehabilitated (resolution) as the government has been desiring, and future incentives for the Private Sector and corporates must be set-right (reform) to avoid a repetition of the problem, added the Survey.

5.2 Impact of 4 R Strategy

Due to the Central Government’s 4R’s strategy of Recognition, Resolution, Recapitalisation and Reforms, NPAs have since declined by Rs. 1,06,032 crore to Rs. 7,89,569 crore as on 31.3.2019

As per Reserve Bank of India (RBI)’s data on global operations, aggregate gross advances of Scheduled Commercial Banks (SCBs) increased from Rs. 25,03,431 crore as on 31.3.2008 to Rs. 68,75,748 crore as on 31.3.2014.

. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of Non-Performing Assets (NPAs). As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of SCBs, as per RBI data on global operations, rose from Rs. 3,23,464 crore as on 31.3.2015, to Rs. 10,36,187 crore as on 31.3.2018, and as a result of Government’s 4R’s strategy of recognition, resolution, recapitalisation and reforms, have since declined by Rs. 1,02,562 crore to Rs. 9,33,625 crore as on 31.3.2019



From above figure it is analyzed that Gross non-performing assets in the banking system have declined from Yr 2017 to 2019. growth is picking up, the Reserve Bank of India (RBI) said in the half yearly Financial Stability report.". Gross NPA ratio declined to 9.3% as on March 2019. It was 10.8% in September 2018 and 11.5% in March 2018

5.3 Steps taken under 4R strategy to reduce NPA

Government has implemented a comprehensive 4R's strategy, consisting of recognition of NPAs transparently, resolution and recovery of value from stressed accounts, recapitalising of Public Sector Banks (PSBs), and reforms in PSBs and the wider financial ecosystem for a responsible and clean system.

- Change in credit culture has been effected, with the Insolvency and Bankruptcy Code (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring wilful defaulters from the resolution process and debarring them from raising funds from the market.
- SARFAESI Act has been amended to make it more effective, with provision for three months' imprisonment in case the borrower does not provide asset details, and for the lender to get possession of mortgaged property within 30 day
- Suits for recovery of dues are also filed by banks before DRTs. Six new DRTs have been established to expedite recovery.

5.5.3 Key reforms in Public Sector Banks

- Board-approved Loan Policies of PSBs now mandate tying up necessary clearances/approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing.
- Use of third-party data sources for comprehensive due diligence across data sources has been instituted, thus mitigating risk on account of misrepresentation and fraud.
- Monitoring has been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs. 250 crore.
- To ensure timely and better realisation in one-time settlements (OTSs), online end-to-end OTS platforms have been set up.

Enabled by the above steps, as per RBI data on global operations, the NPAs of SCBs, after reaching a peak of Rs. 10,36,187 crore as on 31.3.2018, have declined by Rs. 1,02,562 crore to Rs. 9,33,625 crore as on 31.3.2019 (provisional data for the financial year ending March 2019), and SCBs have effected record recovery of Rs. 4,01,424 crore over the last four financial years, including record recovery of Rs. 1,56,746 crore during 2018-19 (provisional data).

6 CONCLUSION

Numerous far reaching changes have been made in the Indian Banking Sector since 1991. The Indian banks were confronting more than Rs. 90,000 crores NPAs issue and were running under loss of benefit. The common laws of the nation were excessively awkward, making it impossible to way to deal with recoup the awful credits. The banks were seen attempting to lessen their NPA s level to keep up the dependability and benefit. Obligation Recovery Tribunals(DRTs) were set up for recuperation of advances of banks and organizations. development of the various Act and strategies has been a touchstone in the rundown of the changes in the Indian saving money division.4 R strategy has definitely helped the banking sector to breathe easy . From 2017 NPA has reduced due to various measures taken by RBI .Researcher would like to conclude with a note in the article in The Hindu " NPA- present perfect , but future tense"

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