



Credit Recovery Methods of Scheduled Commercial Banks in India

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Abstract:

At Present, recovery is risk of credit on banks. It is also known as credit risk. A bank credit risk has two distinct faces, 'quality of risk' and 'quantity of risk'. It is observed that the recovery is carried out in the selected banks by adopting following ways General Mechanism All banks operated general mechanism of recovery of NPA, means all primary measures to persuade the defaulting borrowers to repay their over dues like writing letters and sending representatives of the banks to the borrowers for personal visits. Legal Mechanism In case of legal mechanism it is observed that all the selected banks operated this mechanism to the maximum extent involving Debt Recovery Tribunals (DRT), Lok Adalat, Securitization Act, and Compromises (OTS), Write off, Up-gradation and Cash recovery. The present study focus on different measures taken by the selected banks in India, with an objective of commonly used recovery methods in public sector banks and private sector banks and hypothesis is framed to know difference between commonly used recovery methods in public sector banks and private sector banks.

Keywords: NPA, Legal Mechanism, DRT, Lok Adalat, OTS.

I. INTRODUCTION

Generally if the loan account is an overdue account, that is, when the borrower has committed default in repayment of loan amount with interest as per the dates specified in the loan agreement, then the banks have power to take the necessary steps against the borrower, which will result in the recovery of NPAs amount.

Risk Management Approach: The vast credit portfolio can be segregated into smaller groups such that priority attention can be focused on these, leading to initiation of result oriented steps. A credit manager while scanning the extent of risk attached to an asset looks at the period of time for which the asset is NPA.

Willful Defaulters: Commercial Banks are required to report instances of willful default to RBI periodically RBI shall publish the same in their website. As per RBI guidelines, willful default is defined as follows: - "A willful default would be deemed to have occurred if any of the following events is noted."The unit has defaulted in meeting its payment repayment obligations to the lender even when it has the capacity to honor the said obligations.

Compromise Settlements: A compromise is a settlement of disputes reached by mutual consent. It is a negotiated settlement with sacrifice components on all the parties to the dispute. It is a non-legal remedy for reduction of NPAs of the Bank. Negotiated compromise settlement is made to maximize the compromise amounts. Each Bank has to devise their own Recovery policy facilitating compromise settlement of dues in NPA account.

Write Off: Write off is resorted to in the borrower accounts when the Bank has exhausted all possible avenues of recovery and there are no more chances for affecting the recovery. Write off is of two kinds. Prudential write off and regular write off.

Legal Measures:

Debt Recovery Tribunal: One of the problems faced by banks is the low rate of loan recoveries. This has a bearing on the accounting standards as well as on current operations of banks. It is in this context the 'Recovery of Debts' due to

Banks and Financial Institutions Bill, 1993' was passed in August 17, 1993 that facilities establishments of Debt Recovery Tribunals for expeditions adjudications and recovery of debt due to any bank or financial institutions.

Corporate Debt Restructuring:Corporate Debt Restructuring mechanism has been institutionalized in 2001 to provide a timely and transparent system for restructuring of the corporate debts of Rs.20 core and above with the bank and financial institutions. RBI has issued revised guidelines in February 2003 with respect to the CDR mechanism. Corporate borrowers with borrowing from the banking system of Rs. 20 crores and above under multiple banking arrangement are eligible under the CDR mechanism. As of March 31, 2003, 60 cases worth Rs.44, 369 corers had been referred to the CDR, of which 29 cases worth Rs. 29,167 corers have been approved for restructuring.

Credit Information Bureau: Institutionalization of information sharing arrangement through the newly formed Credit Information Bureau of India Ltd., (CIBIL) is under way; RBI is considering the recommendations of the SRI year group to operationalise the scheme of information dissemination on defaults to the financial system.

Lok Adalat: For simpler, quicker and cost effective disposal of cases, banks are approaching the system Lok Adalats are organized under Legal Services Authority Act, 1987 by the state and or district and taluka Legal Services Committee. Branches should consult Local Legal Services Committee and IBA chapter, if necessary for organizing Lok Adalats. Lok Adalat is a process of administering justice without resorting to courts. The award of Lok Adalat has the effect of a decree of a civil court and binding on the parties to the dispute. No appeal can be either of the parties. The maximum claim amount that can be dealt by Lok Adalat is Rs. 20lakh.

SARFAESI Act 2002: Securitization and Reconstruction of financial Asset and Enforcement of Security tool in the hands of the dues there by reducing NPAs.

The Act has three segments –a) Securitization and Asset Reconstruction Companies

b) Central Registry c) Enforcement of Security Interest

Asset Reconstruction Company: The Securitization and Reconstruction of financial Assets and Enforcement of Security Act 2002 provides sale of financial assets by financial institutions to Securitization Company/ Reconstruction Company.

II. REVIEW OF LITERATURE

Ashwini Puri (2004) studied the factors for successful resolution of NPA in Asian markets which include Assets Management Company (AMC), enforcement of creditor's rights with minimum intervention of courts and foreign ownership of AMC. Salman Ali Sheik (2004) focused on current situation of NPL's, desired situation and strategies to reach the desired situation. Cesar I.Villanueva (2004) studied the strategies to over-come N.P.A'S in Philippines. S.D. Naik (2003) opined that RBI feels that the banks have been neglecting their primary function of credit creation in favour of "narrow banking" for short-term gains. While this could be appropriate in times of easy liquidity, the macroeconomic performance of the banking system in the long term would hinge on its ability to fund industrial and other enterprises. The present article studies NPA's sector-wise and makes a comparison between public sector banks, old private sector banks, new private sector banks. Finally the article attempts to understand the relationship between NPA's and its recovery performance.

III. RESEARCH METHODOLOGY

Research is a systematic way to know the problem in the study area and obtaining the facts and figures hidden in the research problem. This process can be done through research

methodology. Research methodology is a way to systematically study to the problem. It may be understood as a science of studying how research is done scientifically; the study is on Credit Recovery Methods of Scheduled Commercial Banks in India

OBJECTIVES

1. To observe most commonly used recovery methods in selected banks.
2. To suggest for better improvement in recovery performance of selected banks

HYPOTHESIS

H₀1: There is no significant difference between the Recovery Methods of public sector banks and private sector banks.

IV. ANALYSIS OF RECOVERY OF NPAS

Scheduled commercial Banks in India have been making all efforts to reduce their non-performing assets through various legal channels like resolutions through Lok Adalats, Debt Recovery Tribunals (DRTs) and invocation of SARFAESI. However, the amount recovered by all SCBs during 2015-16 reduced to `227.68 billion as against `307.92 billion during the previous year (Table 1.1). PSBs, which are burdened with a high proportion of the banking sector's NPAs, could recover only `197.57 billion as against `278.49 billion during the previous year (Table 1.2). The deceleration in recovery was mainly due to a reduction in recovery through the SARFAESI channel by 52 per cent from `256 billion in 2014-15 to `131.79 billion in 2015- 16. On the other hand, recovery through Lok Adalats and DRTs increased.

Table .1.1. SCBs' NPAs recovered through various channels
(Amount in ` billion)

Channel of Recovery	2014-15 (Revised)			2015-16		
	No. of cases Referred	Amount involved	Amount Recovered*	No. of cases Referred	Amount involved	Amount Recovered *
Lok Adalats	29,58,313	309.79	9.84	44,56,634	720.33	32.24
DRTs	22,004	603.71	42.08	24,537	693.41	63.665
SARFAESI	1,75,355	1,567.78	256.00	1,73,582	801.00	131.79
Total	31,55,672	2,481.28	307.92	46,54,753	2214.74	227.68

Note: * refers to the amount recovered during the given year, which could be with reference to cases referred during the given year and those referred during earlier years.

Source: RBI Supervisory Returns.

Table.1.2. PSBs' NPAs recovered through various channels 2014-15 (Revised) 2015-16
(Amount in ` billion)

Channel of Recovery	2014-15 (Revised)			2015-16		
	No. of cases Referred	Amount involved	Amount Recovered*	No. of cases Referred	Amount involved	Amount Recovered *
Lok Adalats	25,96,351	270.20	9.31	42,44,800	690.17	31.34
DRTs	18,397	532.03	34.84	19,133	574.39	55.90
SARFAESI	1,66,804	1,463.06	234.34	1,59,147	650.08	110.33
Total	27,81,552	2,265.29	278.49	44,23,080	1914.64	197.57

Note: * refers to the amount recovered during the given year, which could be with reference to cases referred during the given year and those referred during earlier years.

Source: RBI Supervisory Returns.

At present November 2017, according to experts, most banks are seeking all-cash deals or those with higher cash component in case of a sale to ARCs. This is because from the beginning

of this fiscal, if a bank invests in more than 50% of security receipts created against the sale of its own stressed assets, it has to set aside more money as provision. From 2018-19, this

threshold of 50% will be reduced to 10%. Given the thin capital level of ARCs, and their greater focus on turnaround of accounts, including those under NCLT, most NPA sale deals are stuck under the 15:85 rules. Here, ARCs pay 15% of the net asset value as upfront cash and issue security receipts to cover the rest of the amount.

Analysis of Legal Mechanism: Here attempt is made to analyze legal mechanism of individual banks covered in the study and results obtained there from. This analysis comprises recovery made through Debt Recovery Tribunals (DRT), Lok Adalats, Securitization Act, Compromise and Settlement (OTS), Write off, Up-gradation and Cash Recovery.

Table.1.3. Recovery methods applied in sample Banks

Kind of Channels	2012-13			2013-14		
	No. of cases Referred	Amt. involves.	Amt. Recover.	No. of cases Referred	Amt. Involve.	Amt. Recover.
OTS/ Compromise	132581 (36.58)	1332 (4.48)	880 (4.27)	10262 (3.18)	772 (4.36)	608 (6.77)
Lok Adalats	185395 (51.16)	801 (2.70)	113 (0.55)	268090 (82.98)	2144 (12.11)	265 (2.95)
DRT's	4744 (1.31)	14317 (48.25)	2688 (13.06)	3534 (1.09)	6273 (35.43)	4735 (52.78)
SARFAESI ACT	39288 (10.84)	13224 (44.56)	2391 (11.62)	41180 (12.75)	8517 (48.10)	3363 (37.48)
ARC	368 (0.10)	0	14506 (70.49)	0	0	0
Total	362376 (100)	29674 (100)	20578 (100)	323066 (100)	17706 (100)	8971 (100)

Source: various reports of RBI during the years 2012-14.

Note: figures in parentheses are percentage of their total

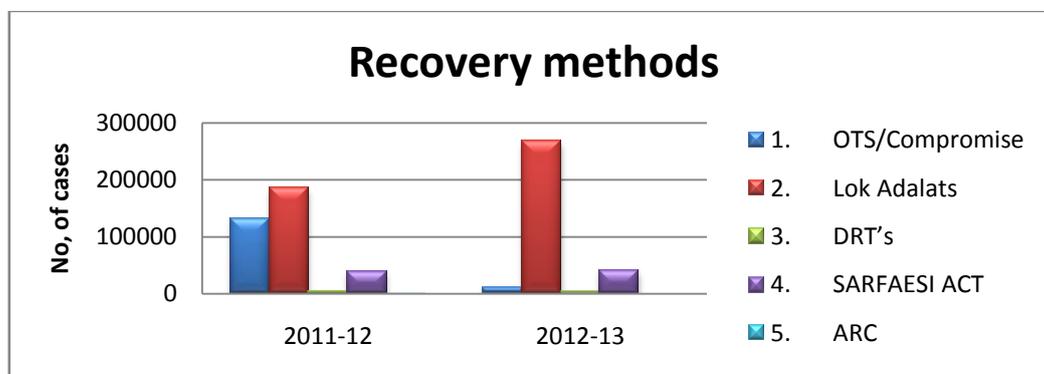
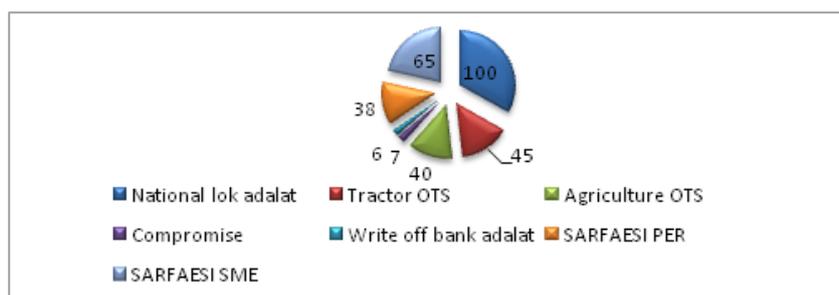


Figure.1. Recovery methods applied in the SCBs

Table.1.4: Recovery methods in SBI Chittoor District for the period 2013-14

	No. of case settled		Amount in Cr.		Cash recovered	
National Lok Adalats	2137	(91.40)	7.01	(27.0)	1.45	(16)
Tractor OTS	45	(1.925)	1.28	(4.91)	1.09	(12.03)
Agriculture OTS	40	(1.71)	0.43	(1.65)	0.43	(4.75)
Compromise	7	(0.30)	0.67	(2.57)	6	(66.23)
Write off bank Adalats	6	(0.26)	0.09	(0.35)	0.09	(0.99)
SARFAESI PER	38	(1.63)	1.16	(4.45)		
SARFAESI SME	65	(2.78)	4.32	(16.6)		
Write off SME			1.21	(4.65)		
Write off Agriculture			7.18	(27.6)		
Write off PER			2.68	(10.3)		
Total	99.59	(100)	36.42	(100)	9.06	(100)

Source: SBI Regional Office, Chittoor District



Source: various reports of ICICI

Figure .1.2. Recovery methods in SBI Chittoor District 2013-14

Table 1.4 shows NPAs Recovered by Sample Banks through various recovery channels used by the Sample Commercial Banks explains for the three years are showing Lok Adalats are

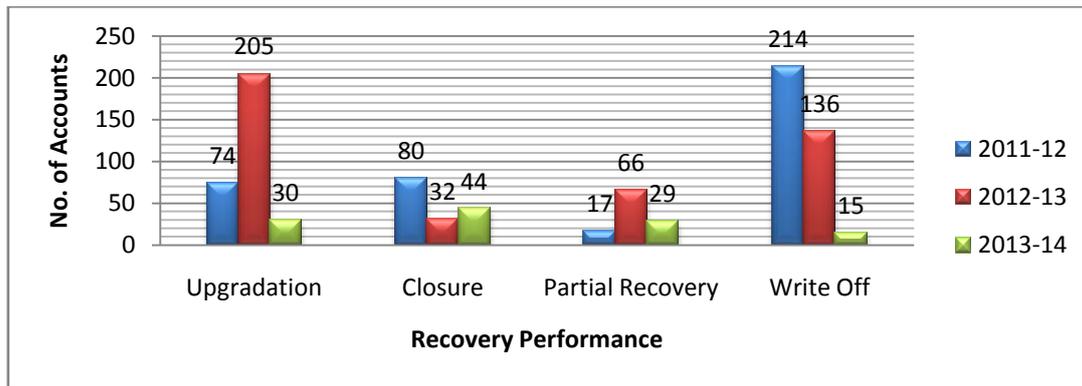
most used method of recovery followed by one time settlement (OTS), SARFAESI Act and DRT's

Table.1.5. Recovery Performance of ICICI in Chittoor District

(Rs. Lakhs)

Details	2011-12		2012-13		2013-14	
	A/Cs	Amount	A/Cs	Amount	A/Cs	Amount
Up gradation	74 (19.22)	454 (44.77)	205 (46.69)	194 (34.04)	30 (25.42)	3 (2.24)
Closure	80 (20.78)	320 (31.55)	32 (7.28)	23 (4.04)	44 (37.29)	83 (61.94)
Partial Recovery	17 (4.42)	114 (11.24)	66 (15.03)	289 (50.7)	29 (24.57)	25 (18.66)
Write Off	214 (55.58)	126 (12.42)	136 (30.98)	64 (11.23)	15 (12.71)	23 (17.16)
Total	385	1014	439	570	118	134

Source: various reports of ICICI



Source: various reports of ICICI

Figure.1.3 Recovery performances of sample banks

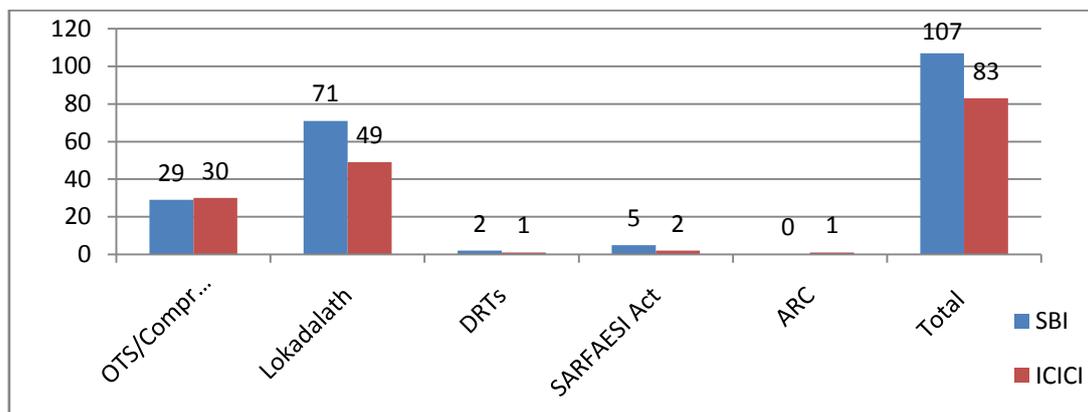
Table 1.6: Recovery methods commonly used in banker's perception

Recovery Methods	SBI	ICICI	Total	%
OTS/Compromise Scheme	29	30	59	31.05
Lok Adalats	71	49	120	63.15
DRTs	2	1	3	1.58
SARFAESI Act	5	2	7	3.68
ARC	0	1	1	0.54
Total	107	83	190	100

Source: Data collected through questionnaire

The above table 1.6 explains about most commonly used recovery methods of sample banks where the Lok Adalats are most commonly used recovery methods by both the public and private sector banks then followed by OTS and SARFAESI

Act and DRTs. Very negligible cases of ARC are there in the study area commercial banks and overall commercial banks most commonly used recovery methods.



Source: Data collected through questionnaire

Figure.1.4: Recovery methods commonly used in Banker's Perception

The equation for the correlation coefficient is

$$\text{Correl}(X, Y) = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}}$$

Where x and y are the sample means AVERAGE (array1) and AVERAGE (array2). Correlation coefficient of the two data sets above is 0.99167657. Hence there is correlation between recovery methods of public sector banks and private sector banks in the study area. Hypothesis formulated and tested It is proposed that 'there are no significant differences between recovery methods of public sector banks and recover methods of private sector banks in select commercial banks'. The calculated value of Chi -Square Value (X2) is 3.7066 and the Table value is 2.815 at 5 per cent level of significance for 3 degrees of freedom. The calculated value is much greater than Table value. Thus, the null hypothesis is rejected.

V. SUGGESTIONS TO IMPROVE RECOVERY PERFORMANCE OF BANKS

Following suggestions were given by the respondents for improving recovery performance. Adequate and Suitable manpower should be given for recovery: All the powers & authority regarding NPA Management should be given to the branch. Although it is a good suggestion, the controlling office had different view. According to controlling office the branch manager may or may not be able to shoulder the responsibility as the branch manager may not have the benefit of expertise /experience at his level, which is required for exercising such authority.

1. Improvement in Recovery Act: Many State Governments have very effective recovery act such as M., P. State Recovery Act which is very effective and useful for bank bankers. The State Government gives target for recovery to official of revenue department and simultaneously gives incentive for recovery also. This issue was discussed in the state level forum about the improvement in state recovery act. The modifications to the act are still awaited. The act in the present form is not very effective.

2. Recovery Action: The branches under study had no cases where they had to approach DRT or initiate action under Securitization Act as the minimum amount to be recovered in such cases should be Rs. 10 lakhs and above. The officials are well aware of the benefits of Lok Adalat but had no occasion to present the cases in the forum. The officials were not aware whether lok Adalats were held in the district.

3. Filing Civil Suits: As regards filing civil suits for recovery, these cases take time to settle as they are treated as like any other litigation and do not get any priority. Further, proving documents by oral evidence is also cumbersome and times consuming as the officers who have obtained the documents are to be called from their place of present posting. The security obtained is also deteriorated due lapse of time. Additionally, the branch has to take permission to file suit, engage lawyer and spend the money to obtain and execute decree. Filing civil suit is therefore the last resort.

4. Recovery Camps: The recovery camps are organized by the revenue officials for recovery under government programs in the district. Such camps were arranged in the block where the branches under study are located. However, the Branches under study did not have opportunity to participate in such camps.

5. Discussions in DLCC/BLCC: These forums discuss the recovery position in the district, particularly under Priority Sectors and Government Programs. However, the discussions

are of general nature with suggestions to improve recovery. 6. Awareness among the Customers: There was no awareness among the customers about the concept of NPA and its impact on the bank. Majority of the customers/borrowers could not give specific reasons for non-repayment indicating there-by- intention not to repay. Some of the customers stated their personal problems for non-payment of banks dues, while other reasons given include bad quality of assets, natural calamities and problem of receivables. The customers were aware of the effect of overdue on bank in terms of decreasing profit and loss of business.

7. Suggestions by Customers:

- The customers/borrowers suggested that the customers training and awareness are the most effective way to improve recovery. According to some of them rephrasing repayment schedule in selected cases will improve recovery.
- Proper identification of borrower and the purpose of loan, careful scrutiny of the project, repayment capacity, close follow up and monitoring.
- Government assistance and help in case of genuine defaulters.
- Understanding borrower's problems by the bank officials.
- Priority to those borrowers who have repaid their loans promptly.
- Concession in interest for prompt repayment.

8. Communication with Bank about Problems Faced:

More than half of the customers do not communicate their problems to the bank. However, those who approached the bank with their problems/difficulties got solution to their problem or relief in repayment.

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