ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2020; 6(3): 205-207
www.allresearchjournal.com
Received: 25-01-2020
Accepted: 27-02-2020

Dr. Ashish Khandelwal
Associate Professor, Department of Management Studies, the IIS University Rajasthan, India

Rumjhum Choudhary
Research Scholar, the IIS University, Jaipur, Rajasthan, India

Correspondence Author:
Dr. Ashish Khandelwal
Associate Professor, Department of Management Studies the IIS University Rajasthan, India

Control measures of non-performing assets (NPA) in Indian banking system: A comprehensive study

Dr. Ashish Khandelwal and Rumjhum Choudhary

Abstract
The problem of losses and lower profitability of Non-Performing Assets (NPA) and liability mismatch in banks and the financial sector depend on how various risks are managed in their business. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanisms. It is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. This study tries to understand the effectiveness of existing measures in handling existing NPAs and the effectiveness of measures in controlling the incidence of new NPAs.

Keywords: Banking, NPA, NPA classification, recovery methods

Introduction
Bankers are the custodians and distributors of the liquid capital of the country. The banks are commercial organization and the main business of banking is to collect the deposits from the public and lead it to the individuals, business concerns, institution etc. The lending business is associated with risk. One of the risks in lending is the possibility of account becoming non-performing assets. Non- performing assets do not earn interest income and repayment of loan to bank does not take place according to the repayment schedule affecting income of the bank and their by profitability.
The non-performing assets do not generate interest but at the same time require bank to make provision for such non- performing assets out of their current profit.
The term non-performing assets figured in the Indian banking sector after introduction of financial sector reform in 1992. The Prudential norms on income recognition assets classification and provisioning there are implemented from the financial year 1992-93 as per the recommendation of the committee on financial system (Narasiham Committee). These norms have brought in qualification and objectivity into the assessment and provisioning for NPAs. Reserve Bank of India constantly India endeavors to ensure the prescription in this regard is close to international norms.
The efficiency of a bank is not always reflected only by the size of kids balance but by the level of return on its assets. NPAs do not generator interest income for the bank but at the same time banks are required to make provision for search and page from their current outputs.

NPS have on adverse effect on the return on essay aids in several ways
1. They erode current profile provisioning requirement.
2. They result introduced income.
3. They require higher provisioning requirement affecting profit and equation to capital fund and capacity to describe good quality.
4. They limit recycling of funds set in asset liability mismatch.
5. The bank as per the directives of RBI classified their credit portfolio and make provisions to the quality of the assets.

Classification of non-performing assets
Which are as followings

1. **Standard:** Bank receives the principal and interest repayment, systematically from the borrower. Another important aspect is that the arrears of the principal as well as the interest does not surpass more than 90 days on the closing of the FY (Financial Year). An asset which is generating regular income to the bank called standard assets.
2. **Sub-Standard:** An asset which is overdue for a period of more than 90 days but less than 12 months are called Sub-Standard
3. **Doubtful:** A doubtful asset is one which has remained as a NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently-known facts, conditions and values – highly questionable and improbable.
4. **Loss:** Assets which are doubtful and considered as non-recoverable by bank, internal or external auditor or central bank inspectors called loss.

Review of Literature

Naveenan, Levi, Merlyn (2019) [1] Effectiveness of NPA Control Measures in Managing Loan Assets in Banks. To study the concept of Non- Performing Assets and its relevance in the banking sector. To study the effectiveness of measures for minimizing the incidence of new NPAs. To study the effectiveness of strategies for minimizing accumulated old NPAs. The present study is mainly based on Secondary data. The data is taken from the Ph.D. Thesis titled "A Study on Handling Non-Performing Assets with special reference to Public Sector Banks in Kanyakumari District".

Naveenan (2016) [5] To study the warning signals that may help the bankers in controlling NPA. To know the effectiveness of warning signals in helping the bankers in controlling NPA. The present study is mainly based on Primary data. Respondents are mainly bank managers of public sector banks from all India. The tool used for collecting data is personal interview. The tool used for collecting data is structured telephonic interview schedule. NPAs are considered as a great problem of Indian Banking Sector. NPA will adversely affect the profitability of banks if it is not properly or effectively managed.

Shaardha and Jain (2016) [3] studied the process and effect of SARFASEI act 2002 and its impact in recovering the Non-Performing Assets in public Sector Banks in India found that recoveries in NPAs are made easier by the amendment of SARFASEI act 2002.

Sengupta and Bhardhan (2017) debated that regulatory forbearance does not enable resolution and can actually degrade the banking crisis by providing incentives to the banks to defer NPA recognition and delay action. Restructuring of a loan should be the commercial decision of a bank and should not automatically qualify for regulatory concessions in terms of deferment of recognition of NPAs. Swain *et al*. (2017) study it is concluded that among different mechanisms made by the government, SARFAESI Act-2002 is the most effective reform measure in the Indian banking industry for NPA recovery.

Naveenan R V *et al*. (2018) [2], has conducted a study to understand the major factors contributing to NPA. He in his study has categorized the factors into internal components and external components. Among the internal components contributing to NPA, Lack of monitoring pre and post sanction of loan, unsecured loans, improper selection of borrowers, and improper appraisal of assets are the major contributors. Among the external components contributing to NPA, Mis-utilization of the fund, Wilful default due to liberal government policy, Political interference and labour unrest, Selection of unsuitable and Unviable scheme are the major contributors.

Objectives of the paper

1. To present the Basic understanding of Non – Performing Assets.
2. To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in Banks.
3. To reveals the tools and techniques of NPA management.

Scope of the study

The study has the following scope:

1. The study could suggest measures for the banks to avoid future NPAs & to reduce existing NPAs.
2. The study may help the government in creating & implementing new strategies to control NPAs.
3. The study will help to select appropriate techniques suited to manage the NPAs and develop a time bound action plan to check the growth of NPAs.
4. The present study is concerned with NPA of Indian Banks in general.

Research methodology

Secondary data is collected from the Annual Report published by various Commercial Banks, RBI Bulletin, Research Articles published in national and international journals, References books, various libraries, Government and NGOs Websites, etc.

Tools and techniques for NPA recovery

For recovery of NPA there are different tools are available. The important purpose of these tools are to recover the loan amount from borrower. These tools can be use according to Loan amount.

1. **Lok Adalats 2001:** Lok Adalats is a mechanism to settle matters relating to recovery of dues, out of court. These are convened by Debt Recovery Tribunals / Debt Recovery Appellate Tribunals. Lok Adalats have no judicial powers. It is a mutual forum for the bank and the borrower to meet and arrive at a mutual settlement. Once the settlement is signed by both the parties, the same is placed before the court. The court would then pass a suitable decrees / orders as per the terms of settlement. Such decrees cannot be challenged in the next higher courts. At present, accounts in doubtful and loss category with outstanding above Rs. 5.00 lacs can be referred to Lok adalat. Lok Adalats Proved to be quite effective for speedy justice and recovery of small loans
2. **Debt Recovery Tribunals (DRT 1993):** Under the Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993 banks approach the Debts Recovery Tribunal (DRT) whereas, under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 borrowers, guarantors, and other any other

person aggrieved by any action of the bank can approach the Debts Recovery Tribunal (DRT). Debts Recovery Tribunal is located across the country. Some cities have more than one Debts Recovery Tribunals. New Delhi, Chennai, Kolkata and Mumbai have three Debts Recovery Tribunals. Ahmadabad and Chandigarh have two Debts Recovery Tribunal (DRT) each. One Debts Recovery Tribunal has been constituted at Allahabad, Aurangabad, Bangalore, Coimbatore, Cuttack, Ernakulum, Guwahati, Hyderabad, Jabalpur, Jaipur, Lucknow, Madurai, Nagpur, Patna, Pune, Vishakhapatnam and Ranchi.

3. **Sarfaesi ACT, 2002:** The full form of SARFAESI Act as we know is Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Banks utilize this act as an effective tool for bad loans (NPA) recovery. It is possible where non-performing assets are backed by securities charged to the Bank by way of hypothecation or mortgage or assignment. SARFAESI is effective only for secured loans where bank can enforce the underlying security e.g. hypothecation, pledge and mortgages.
4. **Asset recovery construction industry limited (Arcil):** The word asset reconstruction company is a typical used in India. Globally the equivalent phrase used is "asset management companies". The word "asset reconstruction" in India were used in Narsimham I report where it was envisaged for the setting up of a central Asset Reconstruction Fund with money contributed by the Central Government, which was to be used by banks to shore up their balance sheets to clean up their non-performing loans. ARC has been set up to provide a focused approach to Non-Performing Loans resolution issue by:-
   a. Isolating Non Performing Loans (NPLs) from the Financial System (FS),
   b. Freeing the financial system to focus on their core activities and
   c. Facilitating development of market for distressed assets.

5. Corporate Debt Restructuring (CDR 2005): Corporate debt restructuring is the reorganization of a company's outstanding obligations, often achieved by reducing the burden of the debts on the company by decreasing the rates paid and increasing the time the company has to pay the obligation back.

6. Credit Information Bureau – 2000: A good information system is required to prevent loan falling into bad hands and therefore prevention of NPAs. It helps banks by maintaining and sharing data of individual defaulters and wilful defaulters.

7. Joint Lenders Forum – 2014: It was created by the inclusion of all PSBs whose loans have become stressed. It is present so as to avoid loan to same individual or company from different banks. It is formulated to prevent the instances where one person takes a loan from one bank to give a loan of the other bank.

8. Bad Banks – 2017: Economic survey 16-17, also talks about the formation of a bad bank which will take all the stressed loans and it will tackle it according to flexible rules and mechanism. It will ease the balance sheet of PSBs giving them the space to fund new projects and continue the funding of development projects.

Conclusion

The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

References

1. Dr. Naveenan RV, Sriyank Levi, Sarah Merlyn. Effectiveness of NPA Control Measures in Managing Loan Assets in Banks. SCHOLEDGE International Journal of Business Policy & Governance, 2019, 06(7). ISSN 2394-3351,
2. Naveenan R, Kumar BR, Lakshmi BV. Non-Performing Assets in Public Sector Banks: A Cause Analysis. American Finance & Banking Review. 2018; 2(2):14-19.
3. Shaardha C, Jain A. The impact of SARFASEI act 2002in recovering the Nonperforming Assets in public sector banks: A study on Recovery in SBI, CBI, CB, BOB and PNB (2008-2014), International journal of Applied Engineering Research. 2016; 11(7):5218-5224.
4. Khosla R, Kumar V. Implementation and Impact of SARFASEI act 2000, International Education and Research Journal. 2017; 3(5):244-247.
5. Naveenan RV. Warning Signals - A Tool to Control NPA in Banks, International Journal of Advance Research in Computer Science and Management Studies. 2016; 4(7):280-288.