NPAs Reduction Strategies for Commercial Banks in India

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Abstract
A healthy banking system is essential for any economy striving to achieve growth and remain stable in competitive global business environment. Indian banks are favorable on growth, asset quality and profitability; RBI and Government have made some notable changes in policies and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations of commercial banks. In terms of quality of assets and capital adequacy, these banks have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. PSBs need to strengthen institutional skill levels especially in sales and marketing, service operations, risk management and the overall organizational performance ethic & strengthen human capital.
Structural weaknesses such as a fragmented industry structure, restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labour laws, weak corporate governance and ineffective regulations beyond Scheduled Commercial Banks (SCBs), unless industry utilities and service bureaus. One of the major drawbacks of SCBs is its NPAs.
The best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). NPAs are one of the major concerns for banks in India. It reflects the performance of banks. Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the over all profitability of banks.
The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled.
This paper deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing and strategies for managing NPA in Indian banks.

Keywords
Banking System in India, Commercial Banks, PSB, SCB, NPS

I. Banking industry in India

The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, scheduled banks and non-scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its associate banks, regional rural banks and private sector banks (the old/ new domestic and foreign). These banks have over 67,000 branches spread across the country.

During the first phase of financial reforms, there was a nationalization of 14 major banks in 1969. This crucial step led to a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of their loan portfolio to sectors identified as "priority sectors". The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold.

After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSBs) found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. Eight new private sector banks are in operation. These banks due to their late start have access to state-of-the-art technology, which in turn helps them to save on manpower costs and provide better services. Since then the growth of the banking industry in India has been a continuous process [1].

As far as the present scenario is concerned the banking industry is in a transition phase. The Public Sector Banks, which are the foundation of the Indian Banking system account for more than 78 per cent of total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets, massive manpower and lack of modern technology [2].

Indusind bank was the first set up private bank in India.IDBI, ING Vyasa Bank, SBI Commercial and International Bank Ltd, Dhanalakshmi Bank Ltd, Karur Vysya Bank Ltd, Bank of Rajasthan Ltd are some Private Sector Banks. Public sector banks include Punjab national bank, Vijaya bank, UCO bank, oriental bank, Allahabad bank, Andhra bank. ANZ Grindlays Bank, ABN-AMRO Bank, American Express Bank Ltd, Citibank are some foreign banks operating in India.

II. Norms of NPAs in banking industry

A. BASEL I Norms:

The history of the Basel International codes and Standards (BIS) relating to minimum capital adequacy for banks goes back to the developed countries' initiative in 1988 to protect the Organization for Economic Cooperation and Development (OECD) banks from the financial crises common during the 1980s. Basel I norms, were set out in 1988 and accepted over the years by around 100 Central Banks across the globe under what came to be known as the Basel Accord. The original accord, now known as Basel-I, was quite simple and adopted a straight-forward `one size fits all approach' that does not distinguish between the differing risk profiles and risk management standards across banks. The Indian monetary authorities implemented the Basel II by 1999 [3].
The banks were to assess their assets and off-balance-sheet risks taken and incorporate them on their balance-sheet. Basel I norms prescribed a minimum capital adequacy ratio (CRAR) [1] of 8 % for Banks which were signatories to the Basel Accord.
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Basel I framework was confined to the prescription of only

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minimum capital requirements for banks, the Basel II framework expands this approach not only to
capture certain additional risks in the minimum capital ratio but also includes two additional areas, Supervisory Review Process and Market Discipline through increased disclosure. (4)
Thus emerged RBI guidelines on investments and operations risk, paving the way for adoption of what have come to be known as Basel II norms.

B. BASEL II Norms:

It is the second accord which focuses on operational risk along with market risk and credit risk. Basel II tries to ensure that the anomalies existed in Basel I are corrected. The process of implementing Basel II norms in India is being carried out in phases. Phase I has been carried out for foreign banks operating in India and Indian banks having operational presence outside India with effect from March 31,2008.
In phase II, all other scheduled commercial banks (except Local Area Banks and RRBs) will have to adhere to Basel II guidelines by March 31, 2009. With the deadline of March 31, 2009 for full implementation of Basel II norms fast approaching, banks are looking to maintain a cushion in their respective capital reserves. The minimum capital to risk-weighted asset ratio (CRAR) in India is placed at 9%, one percentage point above the Basel II requirement. All the banks have their Capital to Risk Weighted Assets Ratio (CRAR) above the stipulated requirement of Basel guidelines (8%) and RBI guidelines (9%). As per Basel II norms, Indian banks should maintain tier I capital of at least 6%.
The Government of India has emphasized that public sector banks should maintain CRAR of 12%. For this, it announced measures to re-capitalize most of the public sector banks, as these banks cannot dilute stake further, as the Government is required to maintain a stake of minimum 51% in these banks [5].

III. Gross NPA and Net NPA

Gross NPA is a advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account.

Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

The Reserve Bank of India states that, compared to other Asian countries and the US, the gross non-performing asset figures in India seem more alarming than the net NPA figure.
The problem of high gross NPAs is simply one of inheritance. Historically, Indian public sector banks have been poor on credit recovery, mainly because of very little legal provision governing foreclosure and bankruptcy, lengthy legal battles, sticky loans made to government public sector undertakings, loan waivers and priority sector lending.
Net NPAs are comparatively better on a global basis because of the stringent provisioning norms prescribed for banks in 1991 by Narasimham Committee.
In India, even on security taken against loans, provision has to be created. Further, Indian banks have to make a 100 per cent provision on the amount not covered by the realizable value of securities in case of "doubtful" advance, while in some countries, it is 75 per cent or just 50 per cent [6].
The ASSOCHAM Study titled “Solvency Analysis of the Indian Banking Sector”, reveals that on an average 24 per cent rise in net non performing assets (NPAs) have been registered by 25 public sector and commercial banks during the second quarter of the 2009 as against 2008 [7].
According to the RBI, "Reduction of NPAs in the Indian banking sector should be treated as a national priority item to make the system stronger, resilient and geared to meet the challenges of globalisation. It is necessary that a public debate is started soon on the problem of NPAs and their resolution."
Issues and Challenges for Banking Industry:

The Indian banking system witnessed a series of reforms over the past few years like the deregulation of interest rates, dilution of the government stake in public sector banks and the increased participation of private sector banks but Indian banks (both public and private) have not able to tap the domestic market also to compete in the global market place. New foreign banks are very enthusiastic to gain in the Indian market.

There are several challenges that Indian banks will have to face as they look to compete in a globalize environment. They are:

- Risk Management & Basel II
- Consolidation
- Overseas Expansion
- Technology
- Government Reforms
- Non Performing Assets (NPAs)
- Skilled Manpower
- Consumer Protection (8)

Non Performing Assets as a major issue and challenge for Banking Industry:
Non-performing Assets are threatening the stability and demolishing bank’s profitability through a loss of interest income, write-off of the principal loan amount itself. RBI issued guidelines in 1993 based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs be treated as a ‘national priority’ because the level of NPA act as an indicator showing the bankers credit risks and efficiency of allocation of resource [9].
The financial reforms in Indian bank industy have helped largely to clean NPA which was around Rs. 52,000 crores in the year 2004. The earning capacity and profitability of the bank are highly affected due to this NPA.

IV. Impact of NPAs on Banking Operations

The efficiency of a bank is not always reflected only by the size of its balance sheet but also the level of return on its assets. The NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits.

1. The NPAs have destructive impact on the return on assets in the following ways.
2. The interest income of banks reduced it is to be accounted only on receipt basis.
3. The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it limits the recycling funds.
4. The capital adequacy ratio is disturbed and cost of capital will go up.
5. The economic value addition (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital [10].

V. Causes responsible for increasing NPAs

The banking sector has been facing the serious problems of the rising NPAs. In fact PSBs are facing more problems than the private sector banks and foreign banks. The NPAs in PSBs are growing due to external as well as internal factors.

One of the main causes of NPAs in the banking sector is the Directed loans system under which commercial banks are required to supply 40% percentage of their credit to priority sectors.

Most significant sources of NPAs are directed loans supplied to the "micro sector" are problematic of recoveries especially when some of its units become sick or weak. PSBs 7 percent of net advances were directed to these units [11].

Poverty elevation programs like IRDP, RREP, SUME, SEPUP, JRY, PMRY etc., failed on various grounds in meeting their objectives. The huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections. Loans given by banks are their assets and as the repayments of several of the loans were poor, the quality of these assets was steadily deteriorating.

In India the scope for branch expansion in rural and semi-urban areas is vast and also necessary. Increasingly, NBFCs operating at such places are coming under regulatory pressure and are likely to abandon their intermediation role. These branches find priority sector financing as the main business available especially in rural/semi-urban centers. Operational restructuring of banks should ensure that NPAs in the priority sectors are reduced, but not priority sector lending. This will remain a priority for the survival of banks. Any decisions about insulating Indian banks from priority sector financing should not be reached until full-scale research is undertaken, taking into account several sources including records of credit guarantee schemes [12].

VI. Strategies for overcoming NPAs

Various steps have been taken by the government and RBI to recover and reduce NPAs. These strategies are necessary to control NPAs.

1. Preventive management and
2. Curative management

A. Preventive Management:

Preventive measures are to prevent the asset from becoming a non performing asset. Banks has to concentrate on the following to minimize the level of NPAs.

1. Early Warning Signals

The origin of the flourishing NPAs lies in the quality of managing credit assessment, risk management by the banks concerned. Banks should have adequate preventive measures, fixing pre-sanctioning appraisal responsibility and having an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing [13].

It is important in any early warning system, to be sensitive to signals of credit deterioration. A host of early warning signals are used by different banks for identification of potential NPAs. Most banks in India have laid down a series of operational, financial, transactional indicators that could serve to identify emerging problems in credit exposures at an early stage. Further, it is revealed that the indicators which may trigger early warning system depend not only on default in payment of installment and interest but also other factors such as deterioration in operating and financial performance of the borrower, weakening industry characteristics, regulatory changes, and general economic conditions. Early warning signals can be classified into five broad categories viz.

(a) Financial
(b) Operational
(c) Banking
(d) Management and
(e) External factors.

Financial related warning signals generally emanate from the borrowers' balance sheet, income expenditure statement, statement of cash flows, statement of receivables etc. Following common warning signals are captured by some of the banks having relatively developed EWS.

2. Financial warning signals

- Persistent irregularity in the account
- Default in repayment obligation
- Devolvement of LC/invocation of guarantees
- Deterioration in liquidity/working capital position
- Substantial increase in long term debts in relation to equity
- Declining sales
- Operating losses/net losses
- Rising sales and falling profits
- Disproportionate increase in overheads relative to sales
- Rising level of bad debt losses Operational warning signals
- Low activity level in plant
- Disorderly diversification/frequent changes in plan
- Nonpayment of wages/power bills
- Loss of critical customer/s
- Frequent labor problems
- Evidence of aged inventory/large level of inventory

3. Management related warning signals

- Lack of co-operation from key personnel
- Change in management, ownership, or key personnel
- Desire to take undue risks
- Family disputes
- Poor financial controls
- Fudging of financial statements
- Diversion of funds

4. Banking related signals

- Declining bank balances/declining operations in the account
- Opening of account with other bank
- Return of outward bills/dishonored cheques
- Sales transactions not routed through the account
- Frequent requests for loan
- Frequent delays in submitting stock statements, financial data, etc. Signals relating to external factors
- Economic recession
- Emergence of new competition
- Emergence of new technology
- Changes in government / regulatory policies
- Natural calamities

Know your client' profile (KYC): Most banks in India have a system of preparing `know your client' (KYC) profile/credit report. As a part of `KYC' system, visits are made on clients and their places of business/units. The frequency of such visits depends on the nature and needs of relationship. (14)

Credit Assessment and Risk Management Mechanism: Credit assessment and Risk management mechanism are ever lasting solution to the problem of NPAs. Managing credit risk is a much more forward-looking approach and is mainly concerned with managing the quality of credit portfolio before default takes place. The documentation of credit policy and credit audit immediately after the sanction is necessary to upgrade the quality of credit appraisal in banks. In a situation of liquidity overhang the enthusiasm of the banking system is to increase lending with compromise on asset quality, raising concern about adverse selection and potential danger of addition to the NPAs stock. It is necessary that the banking system is equipped with prudential norms to minimize if not completely avoid the problem of credit risk and develop an effective internal credit risk models for the purpose of credit risk management.

Organizational restructuring: With regard to internal factors leading to NPAs the onus for containing the same rest with the bank themselves. These will necessities organizational restructuring improvement in the managerial efficiency, skill up gradation for proper assessment of credit worthiness and a change in the attitude of the banks towards legal action, which is traditionally viewed as a measure of the last resort.

Reduce Dependence on Interest: The Indian banks are largely depending upon lending and investments. The banks in the developed countries do not depend upon this income whereas 86 percent of income of Indian banks is accounted from interest and the rest of the income is fee based. The banker can earn sufficient net margin by investing in safer securities though not at high rate of interest. It facilitates for limiting of high level of NPAs gradually. It is possible that average yield on loans and advances net default provisions and services costs do not exceed the average yield on safety securities because of the absence of risk and service cost. (15)

5. Watch-list/Special Mention Category

The grading of the bank's risk assets is an important internal control tool. It serves the need of the Management to identify and monitor potential risks of a loan asset. The purpose of identification of potential NPAs is to ensure that appropriate preventive / corrective steps could be initiated by the bank to protect against the loan asset becoming non-performing. Most of the banks have a system to put certain borrowable accounts under watch list or special mention category if performing advances operating under adverse business or economic conditions are exhibiting certain distress signals. These accounts generally exhibit weaknesses which are correctable but warrant banks' closer attention. The categorization of such accounts in watch list or special mention category provides early warning signals enabling Relationship Manager or Credit Officer to anticipate credit deterioration and take necessary preventive steps to avoid their slippage into non performing advances

6. Willful Defaulters

RBI has issued revised guidelines in respect of detection of willful default and diversion and siphoning of funds. As per these guidelines a willful default occurs when a borrower defaults in meeting its obligations to the lender when it has capacity to honor the obligations or when funds have been utilized for purposes other than those for which finance was granted. The list of willful defaulters is required to be submitted to SEBI and RBI to prevent their access to capital markets. Sharing of information of this nature helps banks in their due diligence exercise and helps in avoiding financing unscrupulous elements. RBI has advised lenders to initiate legal measures including criminal actions, wherever required, and undertake a proactive approach in change in management, where appropriate [16].

B. Curative Management

The curative measures are designed to maximize recoveries so that banks funds locked up in NPAs are released for recycling. The Central government and RBI have taken steps for controlling incidence of fresh NPAs and creating legal
and regulatory environment to facilitate the recovery of existing NPAs of banks. They are:

1. One Time Settlement Schemes

This scheme covers all sectors sub – standard assets, doubtful or loss assets as on 31st March 2000. All cases on which the banks have initiated action under the SRFAESI Act and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR are covered. However cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs. 10crores, the minimum amount that should be recovered should be 100% of the outstanding balance in the account.

2. Lok Adalats

Lok Adalat institutions help banks to settle disputes involving account in "doubtful" and "loss" category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals have been empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism has proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel is expected to pick up in the coming years [17].

3. Debt Recovery Tribunals (DRTs)

The Debt Recovery Tribunals have been established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. The Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.

The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the function of DRTs. Provision for placement of more than one recovery officer, power to attach defendant's property/assets before judgment, penal provision for disobedience of tribunal's order or for breach of any terms of order and appointment of receiver with power of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in the times to come. DRTs which have been set up by the Government to facilitate speedy recovery by banks/DFIs, have not been able make much impact on loan recovery due to variety of reasons like inadequate number, lack of infrastructure, under staffing and frequent adjournment of cases. It is essential that DRT mechanism is strengthened and vested with a proper enforcement mechanism to enforce their orders. Non observation of any order passed by the tribunal should amount to contempt of court, the DRT should have right to initiate contempt proceedings. The DRT should empowered to sell asset of the debtor companies and forward the proceed to the winding – up court for distribution among the lenders [18].

4. Securitization and SARFAESI Act

Securitization is a relatively new concept that is taking roots in India of late. It is still in its infancy with only a few market players. Securitization is considered an effective tool for improvement of capital adequacy. It is also seen as a tool for transferring the reinvestment risk, apart from credit risk helping the banks to maintain proper match between assets and liabilities. Securitization can also help in reducing the risk arising out of credit exposure norms and the imbalances of credit exposure, which can help in the maintenance of healthy assets. The SARFAESI Act intends to promote Securitization, pool together NPAs of banks to realize them and make enforcement of Security Interest Transfer.

The SARFAESI Act-2002 is seen as a booster, initially, for banks in tackling the menace of NPAs without having to approach the courts. With certain loopholes still remaining in the act, the experiences of banks were that the Act in its present form would not serve the envisaged objective of optimum recovery of NPAs, particularly with the hard-core NPA borrowers dragging the banks into endless litigation to delay the recovery process. The Supreme Court decision in regard to certain proviso of the SARFAESI Act also vindicated this view. This section deals with the features of Securitization and its resourcefulness in tackling NPAS and about the SARFAESI Act, its resourcefulness and limitations in tackling the NPA borrowers and the implication of the recent Supreme Court judgment.

With the steady sophistication of the Indian Financial Services Sector, the structured finance market is also growing significantly, of which Securitization occupies a prominent place. With Basel II norms imminently being implemented by 2008, banks are required to pool up huge capital to offset the credit risk and operational risk components. Securitization, therefore, is seen to be an effective and vibrant tool for capital formation for banks in future [19].

VII. Asset Reconstruction Company (ARC)

This empowerment encouraged the three major players in Indian banking system, namely, State Bank of India (SBI), ICICI Bank Limited (ICICI) and IDBI Bank Limited (IDBI) to come together to set-up the first ARC. Arcil was incorporated as a public limited company on February 11, 2002 and obtained its certificate of commencement of business on May 7, 2003. In pursuance of Section 3 of the Securitization Act 2002, it holds a certificate of registration dated August 29, 2003, issued by the Reserve Bank of India (RBI) and operates under powers conferred under the Securitization Act, 2002. Arcil is also a "financial institution" within the meaning of Section 2 (h) (ia) of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 (the "DRT Act").

Arcil is the first ARC in the country to commence business of resolution of non-performing assets (NPAs) upon acquisition from Indian banks and financial institutions. As the first ARC, Arcil has played a pioneering role in setting standards for the industry in India.

A> Unlocking capital for the banking system and the economy

The primary objective of Arcil is to expedite recovery of the amounts locked in NPAs of lenders and thereby recycling capital. Arcil thus, provides relief to the banking system by managing NPAs and help them concentrate on core banking activities thereby enhancing shareholders value.

B. Creating a vibrant market for distressed debt assets / securities in India offering a trading platform for Lenders

Arcil has made successful efforts in funneling investment from both from domestic and international players for funding these acquisitions of distressed assets, followed by showcasing them to prospective buyers. This has initiated creation of a secondary market of distressed assets in the country besides hastening their resolution. The efforts of Arcil would lead the country's distressed debt market to international standards.

C. To evolve and create significant capacity in the system for quicker resolution of NPAs by deploying the assets optimally

With a view to achieving high delivery capabilities for resolution, Arcil has put in place a structure aimed at outsourcing the various sub-functions of resolution to specialized agencies, wherever applicable under the provision of the Securitization Act, 2002. Arcil has also encourage, groomed and developed many such agencies to enhance its capacity in line with the growth of its activity [20].

VIII. Corporate Debt Restructuring (CDR)

Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring of the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporate that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

CDR system in the country will have a three-tier structure:
A. CDR Standing Forum
B. CDR Empowered Group
C. CDR Cell

A. CDR Standing Forum :

The CDR Standing Forum would be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions and banks should participate in the system in their own interest. CDR Standing Forum will be a self-empowered body, which will lay down policies and guidelines, guide and monitor the progress of corporate debt restructuring.

B. CDR Empowered Group:

The CDR Empowered Group would be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and pprove the restructuring package within a specified time frame of 90 days, or at best 180 days of reference to the Empowered Group.

C. CDR Cell

The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / lenders, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible, if so, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of lenders and if necessary, experts to be engaged from outside. If not found prima facie feasible, the lenders may start action for recovery of their dues.

IX. The Mechanism of the CDR

CDR will be a Non-statutory mechanism. CDR mechanism will be a voluntary system based on debtor-creditor agreement and inter-creditor agreement. The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts / syndication / consortium accounts with outstanding exposure of Rs.20 crore and above by banks and institutions. The CDR system will be applicable only to standard and sub-standard accounts. However, as an interim measure, permission for corporate debt restructuring will be made available by RBI on the basis of specific recommendation of CDR "Core-Group", if a minimum of 75 per cent (by value) of the lenders constituting banks and FIs consent for CDR, irrespective of differences in asset classification status in banks/ financial institutions. There would be no requirement of the account / company being sick NPA or being in default for a specified period before reference to the CDR Group.

This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent. In no case, the requests of any corporate indulging in willful default or misfeasance will be considered for restructuring under CDR [21].

X. Circulation of Information of Defaulters

The RBI has put in place a system for periodical circulation of details of willful defaulters of banks and financial institutions. The RBI also publishes a list of borrowers (with outstanding aggregate rupees one crore and above) against whom banks and financial institutions in recovery of funds have filed suits as on 31st March every year. It will serve as a caution list while considering a request for new or additional credit limits from defaulting borrowing units and also from the directors, proprietors and partners of these entities [22].

XI. Recovery Action against Large NPAs

Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the Debt Recovery Tribunals (DRTs) have been the most effective in terms of amount recovered. The amount recovered as percentage of amount involved was the highest under the DRTs, followed by SARFAESI Act. The RBI has directed the PSBs to examine all cases of willful default of Rs. One crore and above and file criminal cases against willful defaulters. The board of directors are requested to review NPAs accounts of one crore and above with special reference to fix staff accountability in individually.

The gross NPAs of the banks is gradually declined from Rs. 70861 crores in 2001 - 02 to Rs. 50552 crores in 2006 – 07, later the gross NPA are increased, it reached to Rs. 84747 crores in the year 2009-10. On the other hand the recovery percentage of NPA s increased, 17%by DRTs and 14.7% by SARFAESI Act from the year 2003-04 to 81% by DRTs and 33% by SARFAESI Act in 2008-09. Following the gross NPAs the recovery percentage decreased to 32% by DRTs and 30% by SARFAESI Act in the year 2009-10. The increase in level of NPAs and diminishing percentage of recoveries are due to Indian banks has largely followed a lagged cyclical pattern with regard to credit growth. This underlined the pro-cyclical behaviour of the banking system, wherein asset quality can get compromised during periods of high credit growth and this can result in the creation of nonperforming assets for banks in the later years [23].

XII. Credit Information Bureau

The institutionalization of information sharing arrangement is now possible through the newly formed Credit Information Bureau of India Limited (CIBIL) It was set up in January 2001, by SBI, HDFC, and two foreign technology partners. This will prevent those who take advantage of lack of system of information sharing amongst leading institutions to borrow large amount against same assets and property, which has in no measures contributed to the incremental of NPAs of banks. (24)

XIII. Conclusion

The problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. In a situation of liquidity overhang, the enthusiasm of the banking system to increase lending may compromise on asset quality, raising concern about their adverse selection and potential danger of addition to the stock of NPAs. It is necessary that the banking system is to be equipped with prudential norms to minimize if not completely to avoid the problem of NPAs. The onus for containing the factors leading to NPAs rests with banks themselves. This will necessitates organizational restructuring, improvement in the managerial efficiency and skill up gradation for proper assessment of credit worthiness. It is better to avoid NPAs at the nascent stage of credit consideration by putting in place of rigorous and appropriate credit appraisal mechanisms.

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