LEGAL / OPERATIONAL PROBLEMS OF BANKS / FINANCIAL INSTITUTIONS WITH REFERENCE TO NON PERFORMING ASSETS (NPA'S).

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Abstract:-

Banking is an important segment in Indian Financial System that helps in the nation's economic development. There was a huge challenge which Indian Banking Sector faced which was management of nonperforming Assets (NPA's). all the Bad Debts of the Banks and Financial Institutions resulted in blockage of huge amounts causing unhealthy economic imbalances in the functioning of Banks & Financial Institutions which resulted in enactment of "The Recovery of Debts due to Banks & Financial Instructions Act, 1993" . There by establishing debts recovery tribunals (DRT's) & Debts Recovery Appellate Tribunals (DRAT's). The object was to simplify court proceedings so that adjudication process is simple & can be fast. As the result is not coming as quickly as expected SARFAESI ACT, 2002 is enacted, giving similar rights to the books as can be seen in SFC Act, and the powers given to the lender banks directly sell the assets of defaulted borrowers. An effort is made to review the effectiveness of SARFAESI Act, DRT's Lok Adalats, and ARC's from legal/ operational angle is resolving NPA's of Indian Banks /FIs.

Introduction:-

The Banking Sector plays an important role in the growth of economy. Initially banks used to approach Civil Courts for recovery of loans. Due to trial process the matters are getting delayed in obtaining decree and further filing of Execution Petition (EP) to proceed for auction and sell the assets. The establishment of DRT's given some quick results than Civil Courts but could not help in reducing
NPA's as expected. To overcome NPA problems / recoveries the banks have flowed several instruments such as Corporate Debt Restructuring (2001), SARFAESI Act (2002) and Asset reconstruction Companies (ARCs). The banks have also followed other legal measures such as Lok Adalats, one time settlement. Besides several methods followed by the banks as per RBI Guidelines in enactment of several Acts supra, the SARFAESI Act empowers Banks/

Financial Institutions to recover NPA's without the intervention of the Court. However the borrower is also allowed to approach DRT's through securitization appeals in case the banks have not followed the law framed under SARFASEI Act.

Objectives of the Study:-

1) To Study the effectiveness of NPA's Level & its recovery by various legal measures followed before and after enactment of SARFASEI Act (2002) in Indian Public Sector Banks.

2) To Study PSB's Performance Prior to and after the enactment of SARFASEI Act.

3) To Study the trends of NPA's Sector Wise Prior to and after the enactment of SARFASEI Act.

4) To conduct a study of some Indian Banks to review the effectiveness and functioning of SARFASEI Act, DRT's Lok Adalats, ARC's in recovering dues from the borrowers.

Hypothesis:

For SARFAESI Act: Ho: It has no legal and operational issues. H1: It has legal and operational issues. For DRT: Ho: It has no legal and operational issues. H1: It has legal and operational issues. For Lok Adalat: Ho: It has no legal and operational issues. H1: It has legal and operational issues. For ARC: Ho: It has no legal and operational issues. H1: It has legal and operational issues.

Research Methodology:-

The Study includes literature review from various articles published in Journals. The Secondary data sources include reports of the respective banks & other relative information published on the Banks & other Internet Sites.

Literature Review:

Aurora, Usha (2000) named "NPA Management in the Indian Environment" The study suggests that the Indian Banks must achieve the level of international standards in NPA Management. In the long run, only better credit management in terms of appraising and monitoring of loan assets can only solve the problem of NPAs in Indian banks. By doing these Indian Banks can maintain the pre-eminent position in the global set up.

Rao, Prabhakara (2004) in his study entitled "Indian Banking 2010" indicates that several experiments such as BIFR/SICA, LOKADALATS, DRTS, OTS, SARFAESI etc. have been made to curb NPA's in Indian banking industry. But, nothing did a miracle in controlling NPA. There is a need of adopting international standards for curbing NPAs in Indian banking industry.

Bhagwati, Jaimini (2011) reviewed that the worries about global financial market have been increasing because in US the bankers have postulated Tier-I capital requirement should be raised to 9% of risk weighted assets. This will lead to reduction in lending. Assessment for China conducted by World Bank and IMF indicates that there has been increasing in the vulnerabilities in the financial sector. Credit rating agencies in India have downgraded the SBI and have put it in the negative list because of mounting NPAs. From the analysis it is concluded that private sector banks performed better than PSBs in terms of recovery of loans and advances.

J. Rama Devi and Dr. B. Ramachandra Reddy (2014) Measures to Curb NPAs in Public Sector Banks To analyze the classification of loan assets in Public Sector Banks and to examine the causes and remedial measures to arrest NPAs in Public Sector Banks In their study they highlighted that the amount of standard assets showed an increasing trend during the stated period. In the initial year 2004, the ratio of standard assets to total advances stood at 92.2 percent. It increased to 96.4 percent in 2013. Total advances of Public Sector Banks is increased from Rs. 6,976 crore in 2004 to Rs.39,428 crore in 2012.The Net NPAs as a per centage of Net Asset ratios was 1.3 per cent in 2004 and same increased to 2.0 per cent in 2013. They concluded that a large number of compromise proposals were being approved by banks with a view to reducing the NPAs and recycling the funds instead of resorting to expensive recovery proceedings spread over a long period.

Data Analysis: The analytical part of this research employed facts or information is already available, and analyzed them to make a critical evaluation of the subject. Basically, the analytical part utilized the statistical inputs and verified the research hypotheses put forward in the study. In addition to this, the results of secondary data analysis are verified to provide an insight into "why" such trends are observed. In order to achieve the stated objectives; this research utilized both primary data and secondary data.

Sampling Methods: In the proposed study, Judgment sampling, Multi-stage sampling and Convenience sampling methods are used. Judgment Sampling: (Selection of 5 public sector banks on the basis of the data that 75% of the total NPAs are covered by these banks.); Multistage Sampling: (Selection of Divisions, Selection of Districts, Selection of Banks and Selection of Managers.); Convenience Sampling: Used for selection of bank branches from the districts.

Table -- Problem of NPAs (Region wise)

Options	Number/ % of respondents	Regions				Total
		L.B. Nagar	Serilingampally	Secunderabad	Kukatpally	
Yes	No. of respondents	50	50	50	500	200
	% of respondents within Regions	100%	100%	100%	100%	100%
No	No. of respondents	0	0	0	0	0
	% of respondents within Regions	0%	0%	0%	%0	0%

Personally compiled through SPSS

The result of the table exhibited that 100% of the respondents say that Banks of all the regions are facing the problem of NPAs. Therefore, in Hyderabad all the Banks are facing the problem of NPAs. Tables reflecting the type of loan contribute maximum in NPAs (Bank wise and Regionϖ wise)

Table – **Analysis of Speedy recovery through SARFAESI Act 2002 ANOVA Table**

		Sum of Squares	df	Mean Square	F	Sig.
Bank wise	Between Groups	7.080	4	1.770	2.595*	.038
	Within Groups	133.000	195	.682		
	Total	140.080	199			
Region wise	Between Groups	6.840	3	2.280	3.354*	.020
	Within Groups	133.240	196	.680		
	Total	140.080	199			

Personally compiled through SPSS
*Note: * significant at 5 percent.*

Table reveals the analysis of speeding in recovery of the NPAs with the help of Securitization Act 2002 bank wise and region wise. According to the result of the ANOVA table f-value in both the cases is significant at 5 percent so, null hypothesis is rejected thereby concluding that there is significant difference between the mean values of all the selected Banks and regions regarding ratings given for speeding of loan recovery.

Table- Analysis of Speedy recovery through Lok Adalats

		Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Bank wise	Between Groups	7.230	4	1.808	2.270	.063
	Within Groups	155.250	195	.796		
	Total	162.480	199			
Region wise	Between Groups	4.360	3	1.453	1.802	.148
	Within Groups	158.120	196	.807		
	Total	162.480	199			

Personally compiled through SPSS
*Note: * significant at 5 percent.*

The result of the table reveals the speed in recovery of the NPAs with the help of lok adalats bank wise and region wise. ANOVA table highlighted that there is insignificant difference at 5 percent in both the cases so, null hypothesis is accepted which concluding that there is no difference between the mean values of all the banks and regions regarding rating for speeding of loan recovery of the Banks by Lok adalats. Mostly respondents give 2 rating to lok adalats. Table reflecting the success of Securitization Act 2002 in the recovery of NPAs (Bank and Region wise)

Table- Analysis of NPA recovery with selling to ARCs

	ANOVA	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Bank wise	Between Groups	1.820	4	.455	2.187	.072
	Within Groups	40.575	195	.208		
	Total	42.395	199			
Region wise	Between Groups	3.415	3	1.138	5.724*	.001
	Within Groups	38.980	196	.199		
	Total	42.395	199			

Personally compiled through SPSS
*Note: * significant at 5 percent.*

The above table showed the analysis of improvement in the recovery of NPAs with selling to ARCs. According the bank wise ANOVA table the f-value i.e. 2.187 is insignificant at 5 percent thereby concluding that no difference between the mean values of all the selected banks regarding recovery of the NPAs increased by selling NPAs to Asset Reconstruction Company. The result of the table concluded that in all the selected banks respondents says yes that setting up of Asset Reconstruction Companies under Act is effective in recovery of the NPAs. In case of region wise ANOVA table highlighted that the f-value i.e.5.724 is significant at 5 percent which concluding that the difference between the mean values of all the regions regarding recovery of the NPAs increased by selling NPAs to Asset Reconstruction Company. Table representing the impact of the Act on the financial position (Bank and Region wise)

Conclusion:

The result of the study found that recovery through direct route under Securitization Act 2002 is better and efficacious than the recovery through court. For better and quick results Securitization Act should be chosen the mortgaged properties which can be easily auctioned. Need of ARCs in case of time taking recoveries. Similarly, in case of unsecured small loans Lok Adalats preferable. DRTs and Civil Courts for want of decrees in the cases recovery not possible under Securitization Act. Adopting such methods gives good results and quick reduction of NPAs. The results of the study shall be used by banks and regulatory authorities

for better results. On the whole this research might help banks improve recovery process thereby reducing Non Performing Assets.

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