

## Containing, Monitoring and Recovering Slippages: The Case of A Leading Cooperative Bank in Maharashtra.



### Management

KEYWORDS : Banking industry, Non-performing Assets (NPA), Cooperative banks, profitability, and recovery policy.

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### ABSTRACT

*Non-Performing Asset (NPA) is reckoned as one of the most concerned issues in the banking industry irrespective of its forms. The reason being is quite implied because an increase in the level of NPA directly affects the profitability, liquidity, management time and reputation of the bank. In order to address this segment of advances portfolio in a systematic manner it is imperative to be proactive in containing, monitoring and recovering. This is a case study that relates the recovery performance, based on the movement of Gross NPA from 2011-12 to 2013-14, of a leading cooperative bank in Maharashtra and the various issues and challenges facing by the bank in containing, monitoring and recovering the slippages.*

### 1. Background

In order to reflect a bank's actual financial health in its balance sheet the Reserve Bank of India has introduced, (as per the recommendations made by the Narshimam Committee) in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks.

As far as the prudential norms for income recognition is concerned banks are to follow the policy of income recognition on the basis of record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of well defined credit weaknesses and extent of dependence on collateral security for realisation of dues. The provisioning has to be made on the basis of the classification of assets into different categories.

The RBI guidelines provide that all assets classified as other than 'Standard' are to be termed as 'Non Performing Assets'. The slippage from 'Standard' to 'Non-Performing' has a double adverse impact. The first is that banks can't recognise income on such accounts. The second is that banks are required to make provisions on such accounts (depending upon the period elapsed since its classification as NPA and the security available) due to which the profitability of the banks decreases in proportion to provisions made for NPAs. This also affects the banks' liquidity (due to the decrease in the generation of surplus income) and goodwill.

In order to address this segment of advances portfolio in a systematic manner and provide clear guidelines to operational personnel it is imperative to be proactive in containing, monitoring and recovering.

### 2. About Rajarambapu Sahakari Bank Ltd.

Rajarambapu Sahakari Bank Ltd. is one of the leading cooperative banks with a network of 33 branches in the state of Maharashtra. In pursuit of socio-economic transformation the bank has been catering to the needs of farmers, artisans, craftsmen, and industries both large and small for the past 32 years.

As far as the recovery and settlement of NPA is concerned the bank has a separate recovery department headed by a Chief Manager (Recovery). Talking about the regulatory framework for sanctioning of loans and advances, the bank adheres to the provisions of Maharashtra State Cooperative Act & rules there under and RBI directives.

#### 2.1. Recovery Performance of the Rajarambapu Sahakari Bank Ltd. 2014-2015.

The accumulation of NPAs is really a major concern for the management of Rajarambapu Sahakari Bank Ltd. as it adversely affecting the profitability, liquidity and the long run growth and

stability of the bank. The major challenge for the management of this leading cooperative bank is containing the generation of fresh NPAs. The absence of an effective asset quality management framework to generate reliable and quality information with regard to asset quality segment wise making it quite complicated on the part of the board/management to arrive at a precise solution.

Table 2.1 delineates the movement of NPA of Rajarambapu Sahakari Bank Ltd. from 2011-12 to 2013-14. The performance of recovery of NPAs during the FY 2013-2014, though has substantially improved over the previous years the generation of fresh NPAs is the harsh reality on the part of the bank. This in turn reflects the failure of the Recovery Policy severely in containing the generation of fresh NPAs. Recovery of loss assets has direct bearing in the profitability of a bank and therefore should attach priority in monitoring and follow up actions but then it is equally important to fortify the additional generation of NPAs as minimum as possible. One of the main reasons for the high level of NPAs during the FY 2013-2014 is due to the slippages of accounts encountered by the bank from the big borrowers.

The recovery performance of RBSBL has also been judged on the ground of percentage of NPA in relation to Advances during the last three years as delineated in Table 2.2.

**Table 2.1 Movement of NPA of RBSBL from 2011-2012 to 2013-2014**

Rupees in Lakhs

Financial Year	Amount of NPAs as on the beginning of the year	Recoveries effected out of NPAs during the year	Additions to NPAs during the year	Amount of NPAs as on the end of the year
2011-2012	3021.13	558.49	71.44	2534.08
2012-2013	2534.08	493.23	241.41	2282.26
2013-2014	2282.26	743.28	1082.68*	2621.66

Source: Statement of Movement of NPAs during the past two financial years as on 31/03/2014, Rajarambapu Sahakari Bank Ltd. Peth.

**Table 2.2 Percentage of NPA in relation to Advances.**

Financial Year	Advances (Rs. in lakhs)	Non Performing Assets (Rs. in lakhs)	% of NPA to Advances
2011-2012	54969.43	2534.08	4.61
2012-2013	60295.93	2282.26	3.78

2013-2014	68837.75	2621.66	3.81
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Source: Calculated from the concerned figures collected from the Annual Reports of Rajarambapu Sahakari Bank Ltd.

Note for Table 2.2: As per the RBI circular on supervisory framework for cooperative banks, Nov 27, 2014, the Gross NPAs of the cooperative banks exceeding 10% of the advances or incremental gross NPAs of 3 % each during the last two consecutive years, whichever is earlier are required to furnish an action plan for recovery of NPAs and to undertake special drive to reduce the stock of NPAs and contain generation of fresh NPAs. This will be a self corrective action to be undertaken by the bank for early rectification of the irregularities/deficiencies.

**3: Overview of the recovery policy of the Rajarambapu Sahakari Bank Ltd. 2014-15 (RBSBL)**

**3.1. Objective of the recovery policy:**

- To strive for stability of the bank in today's competitive environment.
- To strictly adhere to the prudential norms for income recognition, asset classification and provisioning laid down by the Reserve Bank of India.
- To put in place an effective recovery policy to maintain the financial health of the assets.

**3.2. Reasons of overdue:**

Some of the common reasons for overdue have been cited below. An attempt has also been made to categorize the reasons under two different heads- Internal and External.

**A: Internal**

- Incomplete KYC of the borrowers.
- Inept and inadequate scrutiny of documents.
- Improper system of disbursement.
- Not performing any visit prior to sanction and disbursement of the loan.
- Not performing any visit after sanction and disbursement.
- Lack of communication with the borrower and grantor.

**B: External**

- Natural calamity
- Economic breakdown/crisis
- Political instability
- Government policies.
- Willful defaulter.
- Fake borrowers/grantors.
- Some common considerations for early detection of signs of distress:
- In case of cash credit, lapse in producing the monthly stock statement or income statement by the borrowers in time.
- Frequent request for overdraft by the borrowers.
- Non-repayment of short term loans.
- Bills purchased but not recovered.
- Lapse in the repayment of monthly installment.
- Frequent dishonour of cheques.
- Slow economic growth of the firm viz., reduction in sales.
- Non-registration of mortgage
- Non compliance of conditions while sanctioning.

**3.4. Recovery Method:**

**A. Tier I (Branch Level)**

Sl. No.	Duration of overdue	Action -1	Action-2
1	Within one month	First Notice to the borrower	
2	2 to 3 months	Second Notice to the borrower	

3	3 to 4 months	Third notice to the borrower Personal visit to the borrower	Notice to the grantor
4	4 to 5 months	Matter brings to the notice of Chief Manager of the Recovery Department, Head Office for necessary action.	

The Chief Manager of the recovery department discusses the matter with the concerned Branch Manager and make list of the overdue accounts priority wise.

**B. Tier II (Recovery Department, Head Office)**

Sl. No.	Duration of overdue	Action 1	Action 2
1	5 to 6 months	Discussion of the reasons behind overdue(s) with the Branch Manager	
2	After 6 months	Matter reported to the General Manager, Head Office with reasons of overdue(s).	

As reported by the Chief Manager (Recovery Department) the General Manager used to pay a hard look over the matter for further action. If required may call upon the Branch Manager for discussion(s)/clarification(s). The General Manager together with the Chief General Manager will prepare a report incorporating the recovery/restructuring/settlement strategies to be followed keeping in mind the reasons of overdue and the viability of the recovery. For instance:

- One time settlement (OTS): OTS policy for the sick and non-viable business.
- In certain genuine/deserving cases like temporary mismatch in funds flow, additional finance/loan is entertained to gear up the business.

**C. Tier III (Head Office)**

Sl. No.	Duration of overdue	Action -1	Action-2
1.	After 7 months	Will submit the report to the Managing Director of the bank for necessary action.	One copy of the report to the Recovery Department of the bank for necessary action.

**4: Issues and Challenges facing by RBSBL**

NPA is a universal phenomenon. Any bank whatever is the form is exposed to the risk of NPAs. But by being circumspect in its sourcing, sanctioning and post sanction processes it can minimize the risks. The issues that were observed in RBSBL (based on the review of the recovery policy and management practice of the recovery department of the bank) are if not fully then largely due to the lack of a proactive approach in preserving the quality of the assets. Some such issues that are identified during the review process are highlighted below:

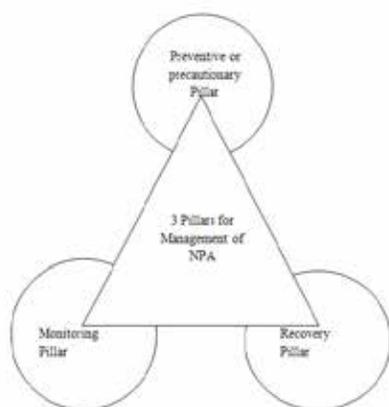
- Absence of an efficient system for recognizing the problem early.
- Lack of rigorous appraisal and assessment.
- More stress on the big-ticket borrowers.
- Lack of vigilant approach for sensitivity analysis of the assets at all times.
- Less effort towards identifying the potential weakness that needs close attention.
- Less effort towards obtaining updated information.
- Less effort towards identification of the root causes in case of assets which have already turned bad.
- Absence of proper study and analysis of the causative factors and then undertaking the correct long term sustainable remedial measures.

Keeping the need of an efficient approach to tackle the above issues in mind a three pillar framework has been proposed for better and efficient management of NPA as shown in Figure 4.1. The objective behind is to put in place a pro-active approach for timely and effective decision making in preserving the quality of the assets throughout.

**The preventing or the precautionary pillar:** The preventive pillar stands for constant scanning and assessing of the threat elements. The purpose is to come up with a threat report indicating the potential threat that needs close attention. Obtaining updated information and thorough study and analysis of the causative factors are the real inputs for early identification of the potential weakness/threat at individual account level as well as at segment level.

**The monitoring pillar:** The thrust of the monitoring pillar is for strategic actions in relation to the threats that deserve close attention and that can be resolved through timely remedial action.

**The recovery pillar:** The recovery pillar is to put in place an efficient recovery machinery to come up with strategies to recover, restructure and settlement.



4.1. Three Pillar Framework for Management of NPA

## 5. Conclusion

It is quite obvious that there cannot be one-formula-fits-all kind of solution across the board for all types of borrowers to diagnose the maladies and offer practical solutions to the bankers and borrowers. Nonetheless, a proactive approach to deal with the matter can overcome the management constraints to a great extent. The challenge is to put in place a system of early recognition with timely and adequate interventions for an effective approach in dealing with slippages of NPAs. Identification of weakness in the very beginning (i.e., when the account starts showing first signs of weakness regardless of the fact that it may not have become NPA) is imperative.

A proper system generated record segment wise viz. asset class, size of the asset, geographic location and industry wise etc. will undoubtedly augment its efforts in containing, monitoring and recovering the slippages.

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