ROLE OF RECOVERY CHANNELS IN MANAGING NON-PERFORMING ASSETS IN SCHEDULED COMMERCIAL BANK

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Abstract: nowadays we are all watching, NPAs has become a major problem in the Indian banking industry and this problem is increasing day by day in the banking industry and the Indian banking industry has been struggling with a lot of Non-performing Assets over the years. The quantum of stressed advances was increased in scheduled commercial banks due to which the trend towards NPAs recovery remains sluggish. According to the RBI annual report on the trend and progress of banking system in India, the annual recovery rate of NPAs of SCBs has been continuously decreasing from previous years, and the current recovery channel i.e. DRTs, Lok Adalat, SARFAESI Act 2002, has been an important contributor to all three channels of reducing their rate of NPAs recovery. This research paper attempts to find out the effectiveness of the three channels and analyze the effectiveness of the recovery channels based on the amount of NPAs received during 6 years from 2013-14 to 2018-19 and the analysis of variance (ANOVA) test has been used to understand the significant difference in the trend of the three recovery channels. And it has been tried to see which channel has made the most recovery out of the three recovery stages.

Key words: profitability, Debt Recovery Tribunal, Lok Adalat, SARFAESI Act (2002) Non-performing assets,

1. INTRODUCTION:

A well- developed and organized financial system is required to run an economy in a strong and orderly manner. And an important part of the financial system is the bank. The main function of the bank is to keep the deposits of the people with them and to provide loans and advances to the people. After accepting the deposit amount by the bank, it is not possible to sit down and do nothing, but banks perform a variety of tasks, such as banks lending money to manage their operation on other operating expenses and deposits. The difference between lending and deposits by banks is known as spread. Hence borrowers have to repay their loan amount with interest. If the loan given by banks is recovered on time, then it is fine for the bank. If this loan is not returned on time then it becomes a headache for banks. This gives rise to the concept of NPAs when the borrowers do not return the loan as per the contract. NPA is an asset that stops generating income for banks and it directly affect the profitability and

liquidity of the bank. This problem of NPAs is continuously increasing in banks. Banks have to compile their employee to retrieve and recover NPAs. In doing so the cost of the banks increases and the efficiency of the employees is affected. For example, if a person gets cancer, it affects his whole body movements, similarly NPAs affects the activities of the entire banking system and if the problem in the banking system is to be overcome, then its credit evaluation system should be improved. Timely payment of interest and principal money is necessary for the banking business to run well and smoothly. If interest and principal are not refunded on time then it would become a serious problem. This problem badly affects the bank's credit cycle. All banks are facing the problem of NPAs, but the impact of NPAs in the public sector is very high and banks have the legal right to recover loans. But due to slowing down of the legal system, many times debt is not recovered, and banks have to recover loans under the instructions given by low. Presently the following are the three legal options to recover NPAs, which is the Lok Adalat, DRTs, SARFAESI Act 2002, these three channels have contributed a lot to recover the NPAs but the SARFAESI Act has contributed most. These recovery channels provide their full contribution and option for the banks to recover the loan. These recovery channels include the right to reclaim it without the intervention of the court and to recover debt by various measures by ensuring and empowering creditor their rights. In today's era, there is a defined mechanism with banks and financial institutions to deal with NPAs but before 1993, cases had to be filed against the defaulters. Which used to become a long way for banks to recover NPAs, in which cases continued for year, so that the loan that banks had to recover took a lot of time in the judicial process. Therefore, in order to maintained international standards well and recover loans from borrowers quickly, 33 Debt Recovery Tribunals and five debt recovery appellate tribunals were constituted by the government of India 1993 all over the country under Debt Recovery Tribunal.

1.1 RECOVERY CHANNELS:

1.Lok Adalat: the Lok Adalat was formed in 1987 under the legal services authorization act by which bank are assured of recovery loans through tribunal through court settlements and where disputes/cases pending in the court of law or at a pre-litigation stage are settled under Legal Services. The Indian Banks" Association (IBA) has been issuing guidelines to member institutions for taking up of cases for settlement with Lok Adalats. The ceiling on the amount of coverage under Lok Adalats would be Rs.10 lakh and above. This scheme includes both suits filed and non suit filed accounts in the doubtful and loss category. Work is done at various levels by Lok Adalat. For example, at the high court, district level, and Taluk level Taluk level and conducted at the equal interval which given below.

1) Mega Lok Adalats at the District Court Centers - At least once in every month.
2) Regular Weekly Lok Adalats at all Court Centers Every week subject to the convenience of the DLSA/TLSCs.

3) National Lok Adalat - To be conducted bi –monthly on Second Saturdays and other days as directed by the National Legal Services Authority (NALSA).

2. Debt Recovery Tribunal (DRT): to pass a comprehensive order that the DRTs are fully supported and when to contribute to recover the loan. DRT wants to be known as RDDFI Act (Recovery of Debt Due to bank and financial institution act). The main objective of enforcement under the banks and Financial Institutions RDDFI act 1993 is to facilitate the speedy and realization of assets and expediting the proceeding of the act and avoid delay in proceedings. It shall reduce the legal proceedings for less than year helps reduce. An amount of 10 laces is included in it, the Tribunal has a recovery officer. However, DRT cannot hear claims of damages or deficiency of services or breach of contract or criminal negligence on the part of the lenders. Thus, the DRT followed the efficient legal procedure emphasizing speedy disposal of the cases and fast implementation of the final order. As on March 2018, there are 38 DRT's and 5 DRAT's functioning in India. Initially DRT performed well but due to more cases its processing process slowed down.

3. SARFAESI Act:

The SARFAESI Act was constituted in December 2002 to expedite the process of recovery of NPAs. Committee on Banking Sector reforms (Narasimha Committee Report II) Restructuring of Weak Public sector Banks (Verma Committee) is based on. The main objective of implementing this act was to prevent banks and financial institution from continuously increasing non-performing assets and recovering loan from defaulters. The Act empowers banks and financial institution to recover loans without the intervention of the court. The provisions of the Act enable the banks and financial institutions to realize long-term assets, manage problems of liquidity and asset liability disparities and to improve recovery by exercising powers to take possession of securities, sell them and reduce non-performing assets by adopting measures for recovery or reconstruction. The Act provides three alternative methods for recovery of non-performing assets, viz;

- Securitization
- Asset Reconstruction
- Enforcement of Security without intervention of the court

Securitization: the process of issuing market securities is represented. Such as is supported by a bridge of current assets such as photos or home loans and is sold to convert assets into security at various qualifications and it is sold after the assets are

converted to marketable security. In this, a securitization company or a reconstruction company can raise funds from (QIB) Qualified institutional Buyer) by making various schemes to acquire financial assets.

Asset Reconstruction: the SARFAESI Act has given birth to assets reconstruction companies. This is done by the proper management of the business of deliverance, or by the provision of the sale of part or all of the business according to the payment of debt due by the deliverance enforcement. There are some points in it.

- Proper Management of the borrower business
- Change of management in the business.
- Take Over.
- Sale or lease.
- Restructuring the business of the borrower.
- Rescheduling of the repayments of debts payable by the borrower.
- Possession of Secured assets.
- RBI permitted ARCs to convert the debt / outstanding loans of borrowers in to "Equities" as a functional process of restructurings the loan amount of NPAs.
- Shareholding shall not exceed 26% of the post converted Debt Equity as a reconstruction.

Enforcement of intervention Security without of the court: The Act provides notwithstanding anything contained in the Registration Act 1908, for the enforcement of Security Interest without Court Intervention. 1) any security receipt issued by SC / ARC, under sec 7 of the Act, and not creating, declaring, assigning, any right, or title or interest to property except in so far as it entitles the holder of the registered instrument, or 2) any transfer of security receipts, shall not require compulsory registration. At present, there are 19 ARCs in India. But collectively, their capital base is also insufficient to tackle the countries nearly 8 lakh crore NPAs.

2. REVIEW OF LITERATURE:

Jasbir Singh (2013) in his study entitled, "Recovery of NPAs in Indian Commercial Banks" has analyzed the recovery of NPAs through OTS, Lok Adalat, DRT and SARFAESI Act. The study discussed about the agriculture debt waiver and debt relief scheme and the recovery of agriculture advances under the study period. It concluded that, on the whole the performance of the Debt Recovery channels was not found satisfactorily during the period of 2004 to 2011.

Sulagna Das, Abhijit Dutta (2014) had undertaken study on NPAs in public sector banks in India. Researcher used secondary data of net non-performing assets of 26 public sector banks for the period of six years (2008 to 2013). The main aim of the study was to evaluate any mean variation of selected banks. Study also stressed upon causes of NPAs and its impact on banking operations. The study resulted that that there was no significant difference between the means of NPA of the banks at 5% level of significance. Hence they concluded that in the recent years, banks had similar NPAs irrespective of their operations and management policies.

Divya Jain, Ravindra Kumar Saini (2015) in their study entitled, "Non-Performing Assets Recovery Channel: An Assessment of Securitization Act, 2002," examined the impact of SARFAESI Act in the recovery of NPA, and also studied about the trend of NPAs recovery under SARFAESI Act. The study found that there is a significant difference in the rate of recovery between 2007-08 and 2012-13. The rate of recovery under SARFAESI Act had declined during the study period; and the study concluded that the performance of SARFAESI Act is not remarkable.

Vivek Rajbahadur Singh (2016) in "A Study of Non-performing Assets of Commercial Banks and it's recovery in India" aimed to understand the impact of NPA on banks, their recovery channels and suggested some ideas to avoid NPAs in future. The source for the study was secondary data collected from published data of Indian Bank, RBI, various magazines, Journals and books related to banking scenario. The study showed that there was increase in NPA and decrease in profit. The recovery measures for this problem as per the author were the RBI should revise the credit appraisal and monitoring policies.

Swain et al (2017) study it is inferred 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.

Anupam Panigrah, Suman Kalyan Chaudhary (2017), in their study entitled, "The Impact of SARFAESI Act 2002 in reducing Non-Performing Assets of Indian Scheduled Commercial Banks" analyzed the impact on Net NPA to their advances, the changes in the Net NPA before and after the enactment of SARFAESI Act which was analyzed with the help of one paired t-test. It concluded that the introduction of SARFAESI Act has notably reduced the NPA level of the Banks in India.

Khoslaand Kumar (2017) found that The Indian banks were confronting more than Rs. 90,000 crores NPAs issue and were running under loss of benefit. The common laws of the nation were excessively awkward, making it impossible to way to deal with recoup the awful credits

Sharma (2018) emphasizes the role of the banking sector as an instrument of economic growth and development. The paper discusses how banks are burdened due to growing NPAs especially in case of public sector banks. The author states a number of preventive measures that would curtail the level of NPAs. Viable regulatory standards and timely implementation of them could pave the way for a strong financial sector in India.

3. Objective of study:
   1) To know the recovery of NPA through the various channels such as Lok Adalat, DRT and SARFACI Act.

4. Research methodology:

The present study analyzed the recovery of NPAs through Lok Adalat, DRT and SARFAESI Act for the 6 year from 2014 to 2019. The study is based on the secondary data relating to the recovery of NPAs through various recovery channels in Indian Banks from the publication of RBI, information bulletins and Journal. One way ANOVA percentage analysis, trend analysis were the statistical tool used for the analysis of the data, graphical representation is also used for better comprehensions and presentation.

5. Data Analysis and Interpretation

The analysis of the recovery of NPAs by All Scheduled Commercial Banks through three recovery channels viz., Lok Adalats, Debt Recovery Tribunals and SARFAESI Act 2002 is made in the following pages.

5.1 Lok Adalats

NPAs recovered by All Scheduled Commercial Banks through Lok Adalats during 2014-19 were presented in Table.1

Table 1 Showing NPAs recovered by SCBs through Lok Adalat (Amount in Crore)

Item	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Number of Cases Referred	1636957	2958313	4456634	3555678	3317897	4080947
Amount Involved	23205	30979	72033	361	457	53506
Amount Recovered	1440	984	3224	23	18	2816

% of Amount recovered to Total amount	6.2%	3.17%	4.4%	6.3%	4.0%	5.3%

Source: https://m.rbi.org.in

Table is showing NPAs of commercial banks recovered through Lok Adalats during the study period of 2014 to 2019. From the analysis of table, it is clear that the number cases referred to Lok Adalat for the recovery of NPAs of commercial bank in 2013-2014 is has highly increased as compared to 2019. However, if we look at the amount recovered by Lok Adalat during the study period, the table shows that in 2014-15 declines the amount at 3.17%, and then table shows improvement from 2015 to 2017, and then 2017-18 these amount decline and 2018-19 its shows improvement, but it is much less than other recovery channel. The Lok Adalat are only recovery 2816 crore out of 53506 crore mean only 5.3% of the total amount involved in NPAs of the commercial bank.

5.2 DRT

Table 2 Showing NPAs recovered by SCBs through DRT (Amount in crore)

Item	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Number of Cases Referred	28258	22004	24537	32418	29551	52175
Amount Involved	55318	60371	69341	1008	1333	306499
Amount Recovered	5261	4208	6365	103	72	10574
% of Amount recovered to Total amount	9.5%	6.9%	5.2%	10.2%	5.4%	3.5%

Source: https://m.rbi.org.in

Table is showing NPAs of commercial banks recovered through DRTs during the study period of 2014-2019. From the analysis of the table, it is clear that the number of case for the recovery of NPAs referred to DRTs is increasing in 2013 -2014 at 9.5%, and then table shows that in 2014 to 2016 continually decline the amount and 2016-17 the table shows improvement and then also

declines this amount. These the basic reason when the commercial banks are approaching DRTs for the recovery of their NPAs as compared to Lok Adalat in which the percentage of recovered amount of NPA is very low. Though we can say that there is a slight decrease in the percentage of amount recovered by DRTs of the NPA in commercial banks.

5.3 SARFAESI Act 2002

Table 3 Showing NPAs recovered by SCBs through SARFAESI Act (Amount in Crore)

Item	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Number of Cases Referred	194707	175355	173582	199352	91330	248312
Amount Involved	95251	156778	80100	1414	81879	289073
Amount Recovered	25329	25600	13179	259	26380	41876
% of Amount recovered to Total amount	26.5%	16.3%	16.4%	18.3%	32.2%	14.5%

Source: https://m.rbi.org.in

Table is showing NPAs of commercial bank recovered through SARFAESI Act during the study period of 2014 to 2019. From the analysis of the table, it shows the amount of NPAs involved is increased largely during the study period. This is done because of the efficiency of SARFACI Act in recovering these NPAs of commercial banks, the table shows that 2013-2104 recovering percentage is 26.5% and 2018-19 this recovering percentage is 14.5%. this act has emerged as a blessing I disguise for the commercial bank as now they are using this act largely in recovering their NPAs in order to increase their profitability. SARFASI Act recovery percentage is higher as compared to Lok Adalat and DRTs. It is good tool of NPAs recovery.
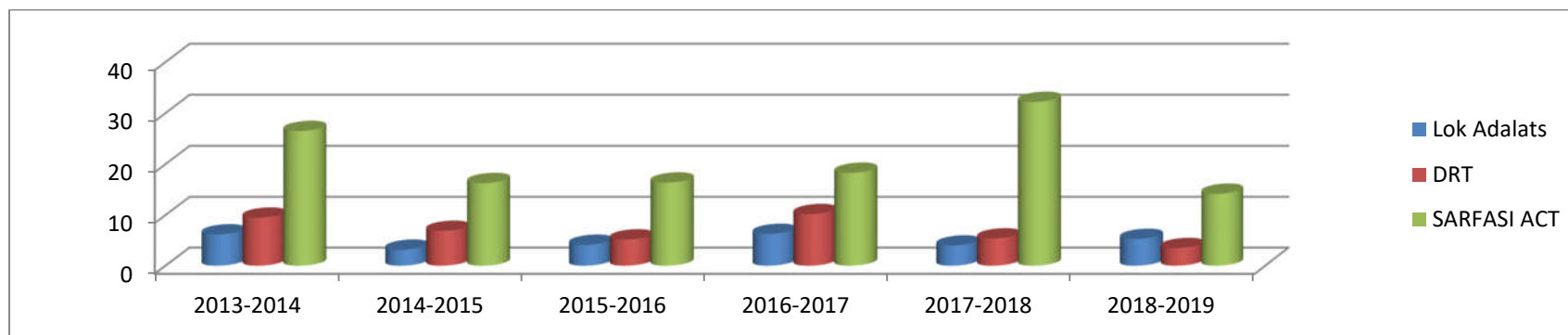
6. HYPOTHESIS:

H0: there is no significant difference in the percentage of recovery through various channels.

H1: there is significant difference in the percentage of recovery through various channels

Table 4 Comparative statement of NPA recovery by various recovery channels

Year	Lok Adalat	DRT	SARFAESI ACT
2013-2014	6.2	9.5	26.5
2014-2015	3.17	6.9	16.3
2015-2016	4.14	5.2	16.4
2016-2017	6.3	10.2	18.3
2017-2018	4.0	5.4	32.2
2018-2019	5.3	3.5	14.2

Chart1: NPA recovery by various channels

Table 5: ANOVA Test:

source of variance	df	ss	mss	f	p
between (groups)	2	891.20	445.6	22.7	3.6832
within (error)	15	294.17	19.61		
Total	17	1185.37			

This is the table that shows the output of the ANOVA analysis and whether it is statistically significant difference between the percentages of recovery through various channels, Lok Adalat, DRT and SARFASI Act 2002. The obtain F value is greater than table value at 5% level of percentage which is 3.6823, so we can say that there is significant difference in term of percentage of recover through various channel, Lok Adalat, DRT and SARFASI Act 2002, since p < 0.5, it means null hypothesis is rejected and H1 is accepted.

7.Finding:

- Number of cases of referred to Lok Adalat was 1636957 in 2013-14 and reached to 4080947 in 2018-19.
- Number of cases of referred to DRT was 28258 in 2013-14 and reached to 52175 in 2018-19.
- Number of cases of referred to SARFASI Act was 194707 in 2013-14 and reached to 248312 in 2018-19.
- Rs 8505, crores of NPA of SCBs recovered through Lok Adalat during 2014 to 2019.
- Rs 26583 crores of NPA of SCBs recovered through Lok Adalat during 2014 to 2019.
- Rs 132623 crores of NPA of SCBs recovered through Lok Adalat during 2014 to 2019.
- Willful defaulter, Ineffective recovery and defective lending are the major reason which responsible for the growing economy.
- Of the three channels the maximum amount was recovered by the SARFASI Act which percentage recovered amount was 26.5% I 2013-14 and 2018-19 is 14.5%.

8. Conclusion:

The growing NPAs has become a challenge for the country, it is a big problem not only for the bank but also for the entire economy. Because the money that is lent by Indian banks is very much dependent on the income from interest and if they stop this income then where will they be able to grow, Banks should constantly check the account which have the potential to increase NPAs. Statistical analysis shows us clearly that there is a significant difference between the loans amounts recovered through various channels. It shows that the speed at which the existing equipment was to be recovered is still lacking somewhere. This study shows the extent of NPA recovered by various channels when we look at the NPA recovery initiatives in public sector banks. It clearly shows the number of cases related to various recovery channels. It has been observed in the study that DRT and Lok Adalat are not large in recovering the amount in NPA. Disputes that are pending in the Lok Adalats in a court of low or at the stage of pre-litigation are handled well. The amount of NPA collected by the SARFASI Act is more than DRT and Lok Adalat. The study found that the SARFASI Act is better recovery channel then the other two recovery channels and study also showed

that there is a significant difference in recovery by different recovery channels. The management of the bank should try to accelerate the recovery of NPAs, because NPA destroys the profitability of bank which is not at all good for the economy and development of the country as the development of the economy on the efficient development of banks depends on. Therefore very serious efforts are required to deal with problem of NPAs.

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