

NPA Management in New Generation Co-operative Banks : A Case study of BZRC Mahila Sahakari Bank Ltd, Belgaum

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Abstract

The introduction of NPA norms in banks in India in 1991-92 resulted in great changes in the banking field. NPA norms considered to be major highlights of banking reforms have resulted in more stringent policies to be adopted by all banks while sanctioning and recovery of loans. However NPAs are still mounting and eroding the profits and financial strength of banks. The present study was initiated to study how the new generation co-operative banks, which commenced their business after the introduction of NPA norms, managed their NPAs. BZRC Mahila Bank Ltd, an ideal institution under the co-operative set-up which started its operations in the year 1996, when the NPA norms were already applicable to all the co-operative banks was chosen for the study. The study relates to 5 years NPA position of the bank from 2008 to 2012. The study is based on the secondary data provided by the annual reports of the bank and NPA statements provided by the bank. Primary data is also collected by oral discussions with the Bank CEO. It is evident from the study that the Bank has made continuous efforts to keep the NPAs under control and to a maximum extent it has succeeded.

Introduction

The introduction of NPA norms in the banks in India in the year 1991-92 as a result of the recommendations of the Narasimham Committee Report resulted in great changes in the banking field. NPA norms are considered to be the major highlights of the banking reforms which took place after the introduction of LPG in the Indian Economy. The banks earlier to these reforms and NPA norms treated the interest accrued as income without bothering about the receipt of such interest in cash. They conveniently adopted the double entry system of bookkeeping and credited the loan accounts with interest due (whether it is received from the borrower or not). This actually led to increase in the loan balances on the one hand and false profit on the other. Both were dangerous and could prove fatal to the banks.

With this background, the Government of India accepted some international standards for the Indian financial sector and banking sector. As a result, NPA concept came to be introduced for the first time in all the commercial banks. Later on it was introduced to co-operative banks also. Though the size of the co-operative banks is comparatively very small with a small area of operation and limited number of branches, their role in the economy which is inhabited by poor rural mass cannot be underestimated. They play a significant role in the economy by catering to the needs of common people in India. The Government of India and RBI thought that it would be proper to elevate these small banks from their original get up to transform into a new era co-operative banks, competitive and confident enough to face the problems and competition, yet survive to benefit lakhs of small agriculturists, sole traders, salaried

people, housewives etc. If they have to play a significant role in the society, they need to adept to the changing circumstances and changing needs of the hour. Hence the NPA norms are equally applicable to all the co-operative banks at par with commercial banks.

The NPA norms which are also popularly known as Prudential norms specifically include the following: Income recognition, Asset classification and Provisioning.

If at all the interest is actually received in cash, it can be taken into account as income otherwise it cannot be recognized as income, only on the basis of accrual. If the installment/interest or both are not received for more than 90 days, the loan account has to be classified into different categories such as sub-standard, doubtful, bad and loss assets as per RBI guidelines. According to the status of the asset, the NPA provision has to be made by charging it to Profit & Loss Account. All this exercise leads to decrease in profits, low rating of the banks' assets and an alarm to take measures for recovery.

This has resulted into more stringent policies by all the banks while sanctioning the loans, for recovery of the loan installments along with interest, OTS schemes etc. All the banks make continuous and endless efforts to recover the loan installments in time. Special recovery personnel are appointed for the purpose. Still it has been a cause of concern to most of the banks. NPAs are mounting and eroding the profits and financial strength of the banks.

The present study was initiated because there was a quest as to how the new generation co-operative banks, which commenced their business after the introduction of NPA norms, managed their NPAs. Were they well equipped with the trained staff having clear idea about NPA guidelines issued by the Reserve Bank of India? Was it easy for them to come out of the orbit of the influence of their powerful – most of the times – politically powerful directors, while sanctioning the loans? Were they able to follow strictly the guidelines on exposure norms? How these banks are managing their NPA accounts? Are they different from their old and seasoned counterparts in the industry in managing the overdue accounts and controlling them? Have they become successful in managing their NPA accounts efficiently and maintain the NPAs at a lower level? To get answers to these and many other questions, BZRC Mahila Bank Ltd was an ideal institution under the co-operative set-up which started its operations in the year 1996, when the NPA norms were already applicable to all the co-operative banks.

Research Methodology

Sources of Data

The primary data is collected from the General Manager (CEO) of the bank through interview and oral discussion and the secondary data is collected through Bank's published annual reports, audited income statements, balance sheets for a period of 5 years starting from 31-03-2008 to 31-03-2012, RBI circulars and bulletins. The other sources of secondary data are books, periodicals and websites.

For the purpose of analysis, the overall NPA position of the Bank, NPA position as per status of the loan accounts and security-wise NPA position are taken into consideration which will throw light on the risk involved in each category of loan accounts.

Review of Literature

A review of literature available on the subject reveals that both empirical and non-empirical studies

have already dealt with the problem of NPAs and their impact on the performance of banks from the angle of profitability, liquidity, equity. A brief review of these studies is presented here.

A study done by Maji.S G and Dey Soma (2003) showed that it is a paramount task for the banks to manage their NPAs more efficiently so that they can change their character from NPAs to performing assets. This study makes an attempt to analyse the loan amount-wise, age-wise, head-wise and sector-wise classification of NPAs and to identify the factors responsible for the growth of NPAs of the Khatra People's Co-operative Bank Ltd., UCB, in the district of Bankura in West Bengal. Rajendran. K. (2004) in his article "Non-performing assets" concluded that increasing NPA exercises a major impact on the DCCBs. DCCBs shall have to educate their employees on NPA and its effect on the bank. Change in NPA norms and credit monitoring and recovery mechanism should be strengthened.

Lakshmanan.C. and Dharmendran.A. (2007) in their article said that the problem of Non-Performing Assets (NPAs) is less in the Chennai Central Co-operative Bank as compared to the other CCBs in Tamil Nadu. They also focused on the impact of NPAs on the Net Profit, Investment, Legal Expenses and Spread of the bank. The study concludes that the effective management of NPAs is essential to strengthen the financial position of the bank.

Ramu. N. (2008) in his article concluded that the NPAs of sample banks chosen for study is within manageable level, but the Thirumangalam Cooperative Urban Bank Ltd (TCUB) has to face severe recovery problems. As per CAMELS rating model the highest weightage (i.e. 25 per cent) is given to asset quality component by RBI. The solution to the problem of NPAs lies in strengthening the credit management in banks. Over a period by removing the present deficiencies observed in the standards of credit appraisal, monitoring and improving the overall lending policies of the banks. The process of NPA management does not start after filing a suit, but starts from identification of a right borrower.

The studies already done on the subject have not analysed the efforts done by new generation co-operative banks and the genuine problems faced by the officials in NPA management. With this background, the present study is an attempt to find out the root causes of loans becoming sub-standard and fall further into doubtful, bad and loss asset category and to offer simple and feasible solutions which may be typically applicable to the new co-operative banks.

The BZRC Mahila Sahakari Bank Ltd, Belgaum

Belgaum Zilla Rani Channamma Mahila Sahakari Bank Niyamit, Belgaum was registered as a Mahila Bank having only ladies as its regular members, all lady directors and more than 90% of the employees being ladies. Mrs Asha P. Kore is the chairman of the bank since its inception. There are 13 lady directors out of which one director is a Chartered Accountant. The bank has 3908 regular members and a share capital of Rs 211.55 lakhs as on 31-03-2012. It has made spectacular growth in deposits and loans. It has also judiciously managed its SLR and surplus funds by investing into Government securities and other investments. A snapshot of the growth of the Bank over the last 10 years is depicted in Table No 1.

The bank has continuously secured 'A' grade in the audit conducted by Co-operative department. There is continuous growth in the deposits, loans and working capital. There was a sharp fall in the profits in the year 2004-05 due to heavy provisions to be made for erosion in the prices of Government securities. But the bank recovered from the plight and thereafter continuously improved its profit position.

NPA Position of the Bank

For the study of bank's NPA position, a period of 5 years starting from 31-03-2008 to 31-03-2012 is taken. The bank has been successful in maintaining the NPA loans at an average of 2.7% of the total outstanding loans. Table No 2 shows the NPA position of the bank. It is evident from Table No 2 that the bank has managed its credit portfolio and maintained the gross NPA level much below. It has become successful in reducing the gross NPA percentage from 3.0% to 2.0% in the years 2011 and 2012. It speaks about the efficiency of the bank in managing its NPA loans as well as standard loans.

Classification of NPA as per the Status

The NPA accounts are classified into Sub-standard, Doubtful and Loss assets. If the installment and interest remain overdue continuously, the sub-standard assets have to be shifted into the category of Doubtful assets. Under Doubtful category there are 3 sub-categories as D1 (Doubtful 1), D2 (Doubtful 2) and D3 (Doubtful 3). It means, as the loans slip into the next category, the possibility of their recovery becomes remote and the quality of these assets goes on eroding. Thus it is not just the total NPA percentage that matters but the composition of NPA accounts that really matters. Table No 3 gives us the idea about the status of bank's NPA accounts.

From Table No 3 we can see that the total number of NPA accounts have come down from 169 in the year 2008 to 105 in the year 2012. Of course taking into account that there will be fresh NPA accounts every year and existing NPA accounts slipping into next worst category, the management of NPA accounts is remarkably excellent, because both the number and percentage of NPA accounts in D3 category have reduced. In the year 2008, the number was 32 and the percentage to total NPA loans was 17.7%. After increasing to 42 in number, it has come down to 31. The percentage of D3 has increased to 21.1% in 2011, but has reduced to 14.4% in 2012 which is a good sign and clearly shows that the bank has been successful in recovering some very bad loans, because they have not fallen into next category. The decrease in D1 and D2 can be analysed as either recovery or falling into the next worst category. But the increase in sub-standard from 34.3% in 2008 to 61.8% in 2012 shows that more number of fresh accounts are becoming NPA and utmost care must be taken at this stage because once an account is classified as NPA, it cannot be brought back to the status of standard asset easily. The Bank must take all necessary steps to prevent the accounts from becoming sub-standard.

It is encouraging to know that the number of unsecured NPA accounts has reduced continuously from 127 to 79 within a period of 5 years under study. The percentage of unsecured NPA advances has also come down from 39.4% in 2008 to 27.9% in 2012. (Table No 4). Secured NPA loans have reduced in number from 48 to 26 in 5 years but the percentage to total NPA has increased from 60.6% to 72.1%. The bank must check rigorously that the securities offered for the loans are easily marketable and whether any collateral security is there to support the loan. Otherwise the bank should insist the borrower to give some additional liquid securities like insurance policies, NSCs etc so that the bank can fall upon such securities eventually.

The General Manager (CEO) of the bank said that they are strictly following the RBI guidelines while sanctioning the loans. The exposure norms are stringently followed to avoid NPAs later. The bank has formulated teams to visit borrowers and recover dues. The Gross NPA for the year ended 31-03-2013 is 1.3% of the total advances i.e. Rs 58 lakhs for a total loan portfolio of Rs 45 crores according to the unaudited Balance Sheet of the Bank. This shows that there is further improvement in the NPA

management of the bank. Following steps are taken to manage the loan accounts in general and the NPA accounts in particular.

- 1) The employees are sent for training whenever they are arranged by institutions like state co-operative federation, College of Agricultural Banking run by RBI, etc.
- 2) RBI guidelines for sanctioning loans are followed rigorously. All possible precautions are taken at the time of sanctioning loans. The present income of the prospective borrower is given more weightage than the security.
- 3) Directors are well educated in the field of banking and credit, hence they never exercise unnecessary influence over the manager for loan sanctioning which is otherwise a common feature in almost all co-operative banks.
- 4) Regular reminders will be sent to borrowers on a routine bases.
- 5) Bank makes effective use of Securitisation Act for recovery of mortgage loans.
- 6) Bank will seize the vehicles and other movable securities to recover the loans. Cheque bouncing cases are promptly lodged.
- 7) The bank is progressively discouraging unsecured loans. Only the salaried people are sanctioned surety loans after taking post dated cheques or standing instructions.

As per the General Manager the problems faced by the bank are as follows

- 1) The funds generated by co-operative banks are very meager due to which they have to face several problems. Technology improvement is a big challenge without which the banks cannot survive.
- 2) The bank cannot attract well qualified personnel due to their small means. Even the bank cannot afford to give intense training to the existing staff in the areas of credit management and NPA management.
- 3) Training facilities to the employees of co-operative banks though improving are not sufficient to cope up with the modern requirements of banking industry.
- 4) Since it is a Mahila bank, loans are to be given primarily to lady members of the bank. But the basic problem is that many ladies do not have their own income and properties in their own name to offer as security which poses the biggest problem for the BZRC mahila bank.
- 5) There are some chronic NPA accounts which are a cause of concern
- 6) As far as unsecured loans are concerned, their number accounts for 80% of the total NPA loan accounts but amount wise they are 28% of the total NPA accounts. Hence most of the time and effort is to be devoted towards big number of small accounts. Hence, the bank is encouraging other kinds of secured loans like gold loans, loans against Life insurance policies, FDs etc.
- 7) Competing with big nationalized and private banks is another challenge the bank is facing. Canvassing good and quality loans becomes very difficult due to the attractive terms and conditions offered by the big banks. The bank is trying its level best to make its loans quite attractive to the borrowers so that standard borrowers will get the loan facility.

Findings

Running a mahila bank in itself is a big challenge to anybody due to its inherent limitations. But the new generation BZRC mahila bank has been trying its best to cope up with the present day requirements and survive in the competitive world which has to be recognized and appreciated.

The researcher has arrived at the following conclusions after studying the NPA position of the bank for five years.

- 1) The bank is managing its credit portfolio and the NPA accounts efficiently as a result of which it has managed to maintain the NPA level continuously below 3% and at a continuously decreasing level.
- 2) Considering the growth of the loans from Rs 1668.45 crores in 2008 to Rs 3663.71 crores in the year 2012 which is 119.6%, the growth in NPA is very less, from Rs 50.23 lakhs it has increased to Rs 74.38 lakhs which is 48.1% of the NPA loans of the base year which is a good sign.
- 3) The number as well as percentage of NPA accounts in D1, D2 and D3 categories has shown a declining trend which is again a sign of efficient NPA management, because it shows that the bank has made enough efforts to prevent the loans from slipping into the next worst category.
- 4) Over a period of 5 years both the secured and unsecured NPA loans have reduced in number which explains the efforts made by the bank to recover such loans. From 127, the unsecured loans have come down to 79 where as the secured loans have reduced from 42 to 26 in number. The percentage of unsecured NPA loans to total NPAs has come down from 39.4% to 27.9% where as the secured NPA loans have increased from 60.6% to 72.1% which shows that the bank is safe as far as the securities offered are concerned.
- 5) The overall NPA management of the bank is satisfactory because the bank is a new generation bank started after the introduction of NPA norms by the Reserve Bank of India and it has clearly understood the consequences of NPA accounts on the financial position of the bank, the profitability and general rating of the bank in the eyes of the public as well as in the co-operative banking industry.

Suggestions

However to further improve its NPA management following suggestions are made by the researcher.

- 1) Bank should train the staff rigorously in the field of credit management so that they can together build up a quality portfolio of loans which will prevent NPAs at the very beginning. Bank should also encourage the employees by announcing incentives, increments and other kinds of benefits for the efficient employees who put in their efforts in recovery.
- 2) The bank can arrange recovery melas, converse with the defaulters and understand their genuine problems and find solutions for them.
- 3) The bank should try to get rid of its chronic NPA accounts through the means of OTS, making effective use of Securitisation Act, sale of securities to recover the amount, pressurizing the guarantors etc.

- 4) Bank should also avoid extending loans without margin or very low margin just to compete with other banks.
- 5) Sharing of credit information is becoming more and more important from the bankers point of view. Hence the bank should build up data base of all the borrowers and readily share it with other bankers and get help from other banks at the time of loan appraisal.
- 6) The bank should try to attract people towards secured loans and discourage unsecured loans. Loans on policy assignments pledge of gold and NSCs will be risk free. Hence the bank should educate the borrowers to take loan on such securities and it can make such loans more attractive by lowering the interest rate on such secured loans.
- 7) Taking the defaulters into confidence and listening to their genuine problems in repayment of installment and interest may also help the bank in a qualitative way. If required, rescheduling the repayment will also help both the borrower and the bank in proper recovery.

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Table 1. Growth of the Bank in the last 10 years (Rs in Lakhs)

Year	No. of members	Share Capital	Reserve Fund & other reserves	Deposits	Loans Outstanding	Working Capital	Net Profit
2002-03	3820	52.14	98.71	827.64	461.74	962.86	35.82
2003-04	4161	60.94	137.90	1059.56	497.97	1231.54	40.39
2004-05	4370	70.26	198.31	1303.35	678.80	1531.18	4.10
2005-06	4537	77.51	224.61	1548.63	827.10	1808.04	14.64
2006-07	4807	97.81	255.46	2571.38	1459.10	2872.63	20.76
2007-08	4835	107.38	282.06	2946.30	1668.45	3275.22	38.19
2008-09	4865	122.23	324.73	3986.96	1929.80	4365.59	51.61
2009-10	4870	138.73	382.86	4335.48	2210.48	4837.16	58.62
2010-11	4934	169.67	446.30	4455.77	2878.82	4982.61	63.96
2011-12	5202	211.55	527.27	6318.93	3663.71	6952.30	121.03

Table 2. Overall position of NPA of the Bank (Rs in Lakhs)

As on	Total Loans	Gross NPA	% of Gross NPA
31-03-2008	1668.45	50.23	3.0%
31-03-2009	1932.48	62.70	3.2%
31-03-2010	2209.47	68.33	3.1%
31-03-2011	2878.83	58.04	2.0%
31-03-2012	3663.71	74.38	2.0%

Table 3. Classification of NPA accounts as per status (Rs in Lakhs)

As on	Sub Std.		Doubtful D1		Doubtful D2		Doubtful D3		Loss Assets		Total	
	No.	Rs.	No.	Rs.	No.	Rs.	No.	Rs.	No.	Rs.	No.	Rs.
31-03-2008	63	17.33 (34.3)	33	11.42 (22.7)	41	12.70 (25.3)	32	8.88 (17.7)	-	-	169	50.23 (100)
31-03-2009	63	28.65 (45.7)	21	5.24 (8.4)	25	16.01 (25.5)	41	12.80 (20.4)	-	-	150	62.70 (100)
31-03-2010	58	24.66 (36.1)	27	14.69 (21.5)	24	16.71 (24.5)	41	12.27 (17.9)	-	-	150	68.33 (100)
31-03-2011	26	24.57 (42.3)	22	8.15 (14.0)	27	13.10 (22.6)	42	12.22 (21.1)	-	-	117	58.04 (100)
31-03-2012	34	45.98 (61.8)	13	3.89 (5.2)	27	13.83 (18.6)	31	10.68 (14.4)	-	-	105	74.38 (100)

(Figures in the brackets indicate the percentages to total NPA)

Table No 4. Classification of NPA accounts as Secured and Unsecured loans (Rs in Lakhs)

Year	Unsecured NPA loans			Secured NPA loans			Total NPA loans		
	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
31-03-2008	127	19.77	39.4	42	30.46	60.6	169	50.23	100
31-03-2009	110	21.29	34.0	40	41.41	66.0	150	62.70	100
31-03-2010	108	26.33	38.5	42	42.00	61.5	150	68.33	100
31-03-2011	90	21.20	36.5	27	36.84	63.5	117	58.04	100
31-03-2012	79	20.78	27.9	26	53.60	72.1	105	74.38	100