

Management of Non-Performing Assets in Central Co-Operative Banks in Haryana: An Overview

***Dr. Harish Kumar**

Abstract

In India, the cooperative bank is an imperative component of the Indian financial system. It also plays a vital role today in rural finance. The activity of the cooperative bank in urban areas has also amplified dramatically in current years due to the shrill upsurge in the number of primary cooperative banks. Cooperative banks in India are registered under the cooperative companies Act. The Cooperative bank is also controlled by the RBI. They are governed by the Banking Act of 1949 and the Banking Companies Act (1965). Non-productive activities (NPAs) are a key concern of all banks in India. The NPAs replicate the performance of the banks. A great level of NPA suggests a high possibility of a huge number of credit defaults that disturb the profitability and equity of banks and also corrodes the value of the asset. The growing of the NPA implies the need for provisions that reduce general earnings and shareholder value. Today, unproductive activities are the subject of excessive concern for the banking sector and other non-bank financial institutions. A loan or lease that does not meet the declared principal amount and the interest payments is called unproductive assets. The NPA can be categorized as commercial credit with maturity of more than 90 days, and consumer loans past owing for more than 180 days, and the increase of the NPA is due to the delinquency of commercial lends, there are many exceptional cases that are managed by Indian banks and further financial institutions.

Literature Review

Bhatia, BS, Waraich, S. Gautam, V. (2013): This study was conducted in the District Central Cooperative Bank of Punjab, the study sought to analyse the impact of specific novel product lines on non-productive progress in cooperative banks and tendencies in the NPA against lending schemes. Finally, a comparative analysis was carried out between banking experts and components to find out the gaps and suggest measures to improve the management of the NPA.

Das, S. (2010): In this document, the author tried to analyse the parameters that are actually the causes for the NPA, and these are market failures, intentional violations, inadequate monitoring and supervision, lack of cooperation banks, lacking lawful agenda, lack of commercial expertise and distraction of funds.

Dutta. A (2014) : This document investigated the growth of NPA in public and private sector banks in India and analysed non-productive assets of commercial banks. For the purposes of the study, the data were collected from secondary sources, such as the report on the performance and performance of the banking sector in India, RBI, Currency and Finance Report, RBI Economic Surveys of India. This

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Objectives of the Study

- Study the management of the NPA of the Co-operative Bank Ltd. special highlighting on cooperative central banks in India.
- Understanding the provisions for customers prepared by the bank.
- Study on the classification of activates.
- Find out why the loan amount becomes an NPA.
- Study the practice for recurring loans.
- Study the strategy and procedures to decrease the NPA.

The Identification of Account as NPA

According to Narasihmham committee “An advance where a date of balance sheet on amount paid to the bank (Interest or instalment of the principal) is a part due for a period more than 90 days.”

Table 1 : Types of Loans and its Characters

Nature of Facility	Parameters
Term Loan	Interest and/or instalment of principal remain overdue beyond 90 days
Overdraft/Cash Credit	Remains, out of order “as indicated above
Bill Purchased/discounted	Remains overdue beyond 90 days
Crop Loans (short duration crops)	Instalment of principal or interest thereon remains overdue for 2 crop seasons
Crop Loans (Long duration Crops)	Instalment of principal or interest thereon remains overdue for 1 crop season
Securitization transactions	Amount of liquidity facility remains outstanding beyond 90 days
Derivative transactions	Overdue receivables representing positive mark-to-market value of a derivative contract which remains unpaid beyond 90 days from specified due date for payment
Securitisiation Transaction	Liquidity facility remains outstanding for more than 90 days,

Source: <http://www.iibf.org.in/documents/IRAC.pdf>

The identification of non-productive activities must be carried out at the balance sheet date. Therefore, the bank branch, which must classify the loan activities with a low default performance, should find out whether the overdraft or cash credit is being renewed “out of order” as at the balance sheet date. In that case, they should also find out if the account has been held out of service for more than 90 days to classify the account as an NPA as in the balance sheet data.

- Standard Assets
- Sub-standard Assets
- Doubtful Assets
- Loss Assets

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Standard Assets

Standard activities are activities that are not NPA and, as such, do not represent more than the normal risk associated with the activity.

Sub-standard Assets

Activities below the standard are those that are NPA for a period not exceeding 12 months. In these assets, the current value does not apply to the guarantor or the existing market value of the securities collected is not sufficient to certify that the retrieval of the bank's shares is combustible, in other words, the asset will have credit weaknesses that may put settlement endangered debt and are characterize by the various possibilities that the bank will remain a certain loss of incorrect deficiencies.

Doubtful Assets

An activity that is doubtful is activity 1, which remains a non-productive activity during the 12-month period. A loan categorized as doubtful presents all the weaknesses of leaving as the amount below the standard with the additional characteristics that the weak points impose or regulate the outstanding instalments in that quantity on the basis of known facts, values of highly questionable conditions and unlikely or these are assets that have remained as NPAs for more than two years since March 2001, assets should be categorized as uncertain if they remain below the average for 12 months.

Loss Assets

A loss making business is an assets that or in which the loss has been recognized by the bank or by internal or external auditors or by the RB inspection officials, But the amount has not been totally or partially cancelled, in other words, since the asset is measured as collectable and of such low value that it is the continuation, since the banking activity is not guaranteed though there may specific residual value or recovery.

Causes for Non-Performing Assets

A strong banking sector is vital for a thriving economy. Bankruptcy in the banking sector can have an adverse influence on supplementary sectors. The Indian banking system, which operated in a narrow economy, now faces the challenges of a wide economy. On the one hand, a sheltered environment certified that banks never required growing erudite treasury processes and assets management and accountability. On the other hand, a mixture of direct loans and social banking has demoted profitability and competitiveness to the background. The net outcome was an unsustainable NPA and, consequently, a higher actual cost of banking services. There are numerous causes why an account becomes an NPA.

- Internal Factors
- External Factors

Internal Factors

- Funds loaned for a specific determination but not used for this persistence.
- Project not accomplished on time
- Bad credit recovery

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- Excessive capacity created in non-economic costs
- The inability of the company to elevation capital through the issue of shares or other debt instruments of the capital markets.
- Trade failures
- Diversification of funds for expansion/modernization/creating new projects/ helps or promotes sisters' concerns.
- Voluntary non-compliance, deviation of funds, fraud, disputes, administrative disputes, embezzlement, etc.
- Shortcomings by banks, viz. in credit assessment, monitoring and follow-up, delay in the reimbursement of payments/branches by government agencies, etc.

External Factors

Slow Legalized System

- Long lawful links
- Changes that have taken place in labour laws
- Lack of sincere exertion
- Lack of raw materials, energy and further means
- Industrial depression
- Lack of raw materials, escalation of raw materials/ input prices, lack of energy, industrial recession, overcapacity, natural disasters such as floods, accidents.
- Bankruptcies, non-payment of taxes in other countries, depression in other countries, outsourcing problems, unfavorable exchange rates, etc.

Financial Position of Central Cooperative Banks

(Rs. in Crore)

Sr. No.	Particular	1966-1967	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (March)
I	Share Capital		297.59	330.92	374.40	416.33	488.67	590.53
II	Owned Fund	2.41	666.36	692.88	689.86	793.63	988.98	1160.22
III.	Deposits	4.77	4940.66	5364.95	5641.79	5729.01	5937.82	6898.96
IV	Borrowings	6.73	3389.11	4146.76	4611.68	5075.21	5563.66	5603.56
V	Loan Issued	8.81	6932.65	8619.99	9675.96	10293.26	11165.53	12345.03
VI	Loan O/S	14.58	6595.80	7561.64	8432.04	9099.14	9969.41	10808.91
VII	Profits	0.15	-20.80	-20.16	-8.58	19.15	-21.99	10.86
VIII	Recoveries %	78.66	70.81	73.74	74.32	72.75	73.34	72.63
IX	NPAs %	-	8.48	6.70	6.51	6.19	5.66	604.50
VII.	Working Capital	14.75	9695.99	11025.61	11714.60	12614.70	14324.09	15485.87

Source: Department of Co-operation, Government of Haryana

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The NPAs assets of central co-operative banks remained high. Poor recovery performance continues to be a growing area of concern in the case of cooperative credit structure. During 2016-16 both the short-term and long-term credit has witnessed a fall in the rate of recovery. NPAs being faced by the central co-operatives, NABARD has issued guidelines to co-operative banks on One-Time Settlement (OTS) scheme for NPAs on the lines of Reserve Bank's guidelines to commercial banks. The guidelines provide for a simplified non-discretionary and non-discriminatory mechanism for compromise settlement of NPAs of Rs.10 lakh and below for individual borrowers and Rs.10 crore and below in respect of institutions under all categories of loans and advances.

Suggestions

Non-productive assets are a drain on banks. Banks in India are adopting various policies to decrease unproductive activities in their banks and are also adopting various methodologies, thanks to which the additional addition to the NPA portfolio is reduced to a minimum. In the true sagacity of the word, if there is a recovery in capital and the commission/s payables for loans granted to banks are 100% received, the question of non-productive activities does not arise. Though, there is no ideal bank in which the NPA is zero. With the exception of the banks that have originated

Retrieval Camps

Bank personal are jointly directed to unpaid borrowers for repayment at a time and place suitable for both parties. These are more suitable for small loans. In general, borrowers who have used small loans will be more numerous in rural and semi-urban areas than in urban and municipal areas. As such, banks, instead of setting up retrieval camps in their branches, usually carry out retrieval camps in centres such as panchayat offices, court buildings, government buildings, etc. such recovery fields so that mortgagors discover it appropriate to go to the retrieval camps. In definite conditions, the bank branch manager and some branch officials go to each visit to the home of each borrower and recover the fees due in relation to the loans granted. This form of recovery field will be successful if a notice is sent in advance to the borrowers who mention the date of the recovery fields.

Preference of Claims

Banks must demand prompt and appropriate compensation from organizations such as deposit insurance and credit Guarantee Company called DICGC, an export credit guarantee called ECGC, a credit guarantee fund for small industries, companies insurance, etc. and invoke government guarantees or additional own assurances to recuperate the loan instalments and reduce non-productive activities.

Concession Schemes

The lines of commitment are adopted by the banks, where borrowers encounter some real difficulties and where normal retrieval is not possible. It implies some sacrifices on the portion of the banks on the principle of "a handmade bird is worth two in the bush". These proposals can be taken into account taking into account the history of the borrowed account, the available security, the net value, of the mortgagor/guarantor, the temporary value of the offer, etc.

Technical Write off

Generally banks elect to cancel small loans that have become bad and retrieval is not conceivable in those accounts under any conditions due to the particulars that the mortgagor could have expire, has no means to reimburse the loan at any cost and there may be large losses in property, etc. This is for

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the solitary determination of serving those accounts that do not work.

One Time Clearance Scheme

To decrease the absolute amount of impaired assets, the Indian government, together with the Reserve Bank of India, has periodically announced one-off settlement schemes in recent years. When mortgagors are active and when mortgagors are agriculturalists, small business owners, etc. and they discover it very hard to recompense off their debts for various reasons, such as poor health and fall in their businesses, however, they tend to pay their debts to banks, this type of practice is very valuable for borrowers and institutions of credit. Surely banks are capable to lose a certain share of their loan amount when they are carrying out one-off payment schemes.

Suit Filing

The filing of a complaint is taken as a last recourse when all other resources fail to recover non-productive resources. Banks can initiate recovery procedures with or without court intervention. To simplify the process, banks must be attentive and proactive at all stages of the process. That is, preparation of the complaint, notification of the convocation, written statements, application process, obtaining a copy of the decree, prayer for precautionary measures, execution of decrees, seizure of property, arrest of the accused, if necessary, etc.

Debt Recovery Tribunals

The law of the debt collection court was approved by the Indian Parliament in 1993 with the aim of providing banks and financial institutions with a rapid recovery of taxes in case where the loan amount is Rs. 10 lakhs and more. The time limit provided for by the law is not when the causes are eliminated due to inadequate infrastructure and the lack of recovery staff with the DRT. However, the DRT Act and the succeeding modification in 2000 provided a noticeable enhancement over the usual lawful medium.

Lok Adalats

It is a lawful medium for the accelerated settlement of loan instalments on the agreement reached between the bank and mortgagors interceded by Lok Adalat.

Securitisation Act

Securitization and financial assets and the execution of transferable securities SARFAESI 2000 act aims to allow secured creditors to yield proprietorship, manage and sell the securities without the interference of a court/tribunal. It also aims at the reconstruction of assets for securitization of society. However, loan with balance less than Rs. Loans without license of 1 lakh and loans against agricultural land guarantees are exempt from the scope of this law.

Up Gradation Assets

Once the accounts become NPA, bankers must take steps to update them by recuperating all the instalments. Generally a follow-up will ensure success.

Compromise Clearances

Where possible, in the case of chronic PNAs, banks may consider the probability of entering into agreements with the borrowers.

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Rescue Through Legal Remedy

Banks can submit complaints without delay against willing debtors. The banks can appeal against a civil case or the special recovery laws approved by different States or the law on the security and recovery of financial assets and security (SARFAESI) of 2002. The bank must check with legal cases.

Conclusion

NPA management is necessary over time. The NPA is a key factor to increase/decrease the Bank's net income. The NPA is having a straight influence on net income. The course open to the banker serves to certify that an asset does not become an NPA. If it does, it must take measures for early recovery, which will not affect the bank's profitability. Time is essential in the management of the NPA. The banking sector is the lifeblood of the Indian economy. The bank has three types of sectors, which provide funding to different sectors, namely the private sector, the public sector and the cooperative sector. The cooperative banking sector in India plays a vital role in the expansion of the rural economy, as does the banking structure and its services for the last man in society. The structure of the cooperative bank has developed very rapidly in India, but it is still late on many aspects, such as the ideal liquidity situation due to the NPA of customers and staff, the modernization of the banking structure, etc.

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