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NON –PERFORMING ASSETS MANAGEMENT IN COMMERCIAL BANKS: REASONS, CONSEQUENCES & INITIATIVES

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Introduction:

The banking system in India being dominant segment of financial sector, accounts for a major portion of fund flow. They are the vehicles for monetary policy signals, credit channel and facilitator of payment system. Deepening and widening of the financial markets, growing disintermediation process, adoption of modern technology, rising customer expectation, innovative financial services and scheme supplement with suitable credit delivery mechanism and challenges for which banks would be required to their strategies. Banks are highly sensitive organizations open to public security and as such, they must continuously ensure their profitability, which is essential for their growth and viability as also for infusing public confident. The profitability is the most important indicator of overall financial performance. The level of efficiency, productivity and cost effectiveness is reflected through the bank's profit which can e considered as a composite index of the bank's performance in its various areas of operation. Therefore banks at the present juncture have to ensure a better balance between social banking and profitability and earned a fair return to justify their existence. Thus the importance of efficiency has assumed a critical significant for the viability of banks in the liberalized era

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particularly in the urban regions of the country. The success of banks to maintain a healthy profit growth not only depends on the hardening of interest rate owes its origin to reduction in operational expenses but also rests on improvement in their assets quality.

Non Performing Assets (NPAs) has emerged since over two decades as an alarming threat to the banking industry in our country sending distressing signals on the sustainability and insurability of the affected banks. The positive results of banking sector reforms by Government of India and RBI in terms of the two Narasimham Committee reports in these contemporary steps administered to solve this problem, concrete results are escaping. The severity of the problem is however acutely suffered by nationalized banks, followed by the SBI group and the all Indian Financial Institutions. The asset quality of banks, however, has improved in recent year and is reflected in the decline in their gross and non performing assets. NPAs of banks are an important criterion to assess the financial health of banking sector. It reflects the asset quality, credit risk and efficiency in the allocation of resources to productive sectors. Since the reform regime there have been various initiatives to contain growth of NPAs of banks to improve the asset quality of banking sector. The banks have envisaged the greatest renovation in their operation. The banks have stepped forward mainly in expansion of bank branches, mobilization of deposits and channelization of credit. Further the paradigm shift of attitude of financial institutions towards the short term financing has also changed the complexion of scheduled banks. The growing competition from internal and external constituents and sluggish growth in economy coupled with poor credit deposit ratio, the large volume of NPAs in the balance sheet and lack of automation and professionalization in operation have been flaring up the banking situation in the country. The question of NPA in banks is a cause of worry to all concerned. The management is seriously concerned about the growing NPA menace, which is taking its toll on efficiency and profitability. NPAs are serious strain on the profitability because the banks cannot book income on such accounts. Further they are required to charge the funding cost and provision requirement to their profits. High level of NPAs adversely affects the financing strength of banks and enforces the Government to recapitalize the weak banks from time to time. On the other hand the banks have failed to confirm to stringent international standard. Lending is one of the core activities of the banks. The process of lending is associated with large number of risks mainly credit risk. The concentration of banking management during present day is to keep losses arising out of credit risks at lowest levels. Banks are cautious in extending loans. The reason behind mounting NPAs is banks lending policies. It is rightly said that Banks lending policy is key driver of non-performing loans. The rising NPAs pose serious threat not only to banks profitability, liquidity and solvency but also the economic growth of the country. So the problem of NPA should be nipped in the bud. It is possible only if the check is placed in the very beginning. Eagle's eye should be kept on loan proposal, its usage should be properly monitored and followed up and vibrant policy should be famed. The prudential norms introduced provide not only transparency in financial position but also enables the banks to manage their assets more effectively. The efficiency of a bank is not reflected only by the size of its balance sheet but also the level of return on its assets. The NPA do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits. The non performing assets of banks and financial institutions has direct impact on the profitability, productivity and equity of banks and finally influence the outlook of the banks towards credit delivery and credit expansion.

In short, soaring level of NPAs in banks and FI are a cause of worry to the public as bank credit is the catalyst to the economic growth and any bottleneck in the smooth flow of credit is bound to create adverse effect on economic development due to mounting NPAs. The management is seriously concerned about the growing NPA menace, which is taking its tall on efficiency and profitability. NPAs are serious strain on the profitability because the banks cannot book income on such accounts. Further they are required to charge the funding cost and provision requirement on their profits. High level of NPAs adversely affects the financial strength of banks and enforces the Government to recapitalize the weak banks from time to time. On the other hand, the banks have failed to confirm to stringent international standards.

In the present scenario, NPAs have been the most vexing problem faced by banks. The Government of India and RBI have initiated various measures to control NPAs in the post reform years. But banks are yet to solve the dilemma. This needs to be remedied. Thus it is pertinent to examine measures and relevant guidelines taken by RBI and Government of India from time to time to arrest the occurrence of fresh NPAs.

Definition of NPAs:

To start with it is necessary to have a clear idea of what the NPAs are. For the strength and stability of the banking system, the assets of banks should yield positive returns. The assets which do not yield positive returns become NPAs. In other words, NPAs refer to loans and advances which do not yield any positive returns or contribute to the profits of banks. In a broader sense, NPAs include the unutilized cash balances, physical assets and the workforce. Holding some cash balances by banks is inevitable, but it should be kept at a minimum level. Here we are concerned with earnings on loans and advances and the other assets are not considered, though they are equally important. As there is no clear definition of NPAs in India, different banks were following different practices and overdue of banks were generally considered, as NPAs and it is only after the publication of the Narasimham Committee I report that a uniform definition came to be accepted. The Committee pointed out that in accordance with the international practice, “the NPA would be defined as an advance where, as on the balance sheet date-

a) In respect of the term loans, interest remains past due for a period of more than 90 days.
b) In respect of overdraft and cash credits, accounts remain out of order for a period of more that 90 days.
c) In respect of bills purchased and discounted the bills remains overdue and unpaid for a period of more than 90 days.
d) In respect of other accounts, any amount to be received remains past due for a period of more than 90 days”.

Table IV.14: Trends in Non-performing Assets - Bank Group-wise

(Amount in ` billion)

Item	Public sector banks	Nationalised banks*	SBI Group	Private sector banks	Old private sector banks	New private sector banks	Foreign banks	Scheduled commercial banks
1	2	3	4	5	6	7	8	9
Gross NPAs								
Closing balance for 2010-11	**746**	442	303	**182**	36	145	**50**	**979**
Opening balance for 2011-12	**746**	442	303	**182**	36	145	**50**	**979**
Addition during 2011-12	**928**	586	341	**98**	27	71	**45**	**1,071**
Recovered during 2011-12	**478**	325	152	**73**	20	52	**32**	**585**
Written off during 2011-12	**23**	13	10	**19**	1	18	-	**43**
Closing balance for 2011-12	**1,172**	690	482	**187**	42	145	**62**	**1,423**
Gross NPAs as per cent of Gross Advances**								
2010-11	**2.4**	**2.1**	**3.4**	**2.5**	**1.9**	**2.7**	**2.5**	**2.5**
2011-12	**3.3**	**2.8**	**4.6**	**2.1**	**1.8**	**2.2**	**2.6**	**3.1**
Net NPAs								
Closing balance for 2010-11	**360**	212	147	**44**	9	34	**12**	**417**
Closing balance for 2011-12	**591**	389	202	**44**	13	30	**14**	**649**
Net NPAs as per cent of Net Advances***								
2010-11	**1.2**	1.0	1.7	**0.6**	0.5	0.6	**0.6**	**1.1**
2011-12	**1.7**	1.6	2.0	**0.5**	0.6	0.5	**0.6**	**1.4**

Notes: 1. *: Includes IDBI Bank Ltd.
2. **: Calculated taking gross NPAs from annual accounts of respective banks and gross advances from off-site returns.
3. ***: Calculated taking net NPAs from annual accounts of respective banks and net advances from off-site returns.
4. -: Nil/negligible.

Source: Balance sheets of respective banks.

Classification of Assets:

Since 1992, a new system of classification has been followed according to which all advances are classified into four broad groups, namely, standard, sub-standard, and doubtful and loss. And the last three categories constitute NPAs.

1) Standard Assets: Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. If assets fails to be in category of standard asset that is amount due more than 90 days then it is NPA and NPAs are further need to classity in sub categories.
2) Sub standard Assets: Advance accounts which are NPA and continue as such for 18 months.
3) Doubtful Assets: Advance accounts which are NPA more than 18 month. These are three categories, doubtful up to 1 year, doubtful from 1 to 3 years and doubtful for more than 3 years.

4) Loss Assets: NPA accounts, where there is no realizable value of security or no security at all are identified by bank.

Table IV.18: Classification of Loan Assets - Bank Group-wise
(As at end-March)

(Amount in ` billion)

Sr. No.	Bank group	Year	Standard assets		Sub-standard assets		Doubtful assets		Loss assets	
			Amount	Per cent*	Amount	Per cent*	Amount	Per cent*	Amount	Per cent*
1	2	3	4	5	6	7	8	9	10	11
1	**Public sector banks**	**2011**	**32,718**	**97.8**	**350**	**1.0**	**332**	**1.0**	**65**	**0.2**
		2012	**38,255**	**97.0**	**623**	**1.6**	**490**	**1.2**	**60**	**0.2**
1.1	Nationalised banks**	2011	22,900	98.1	218	0.9	193	0.8	32	0.1
		2012	26,910	97.5	402	1.5	268	1.0	21	0.1
1.2	SBI Group	2011	9,818	97.0	132	1.3	139	1.4	33	0.3
		2012	11,345	95.9	221	1.9	222	1.9	39	0.3
2	**Private sector banks**	**2011**	**7,936**	**97.8**	**45**	**0.6**	**108**	**1.3**	**29**	**0.4**
		2012	**9,629**	**98.1**	**52**	**0.5**	**104**	**1.1**	**29**	**0.3**
2.1	Old private sector banks	2011	1,836	98.0	13	0.7	18	1.0	6	0.3
		2012	2,287	98.2	18	0.8	17	0.7	7	0.3
2.2	New private sector banks	2011	6,100	97.7	33	0.5	90	1.4	22	0.4
		2012	7,342	98.1	34	0.4	87	1.2	22	0.3
3	**Foreign banks**	**2011**	**1,943**	**97.5**	**19**	**0.9**	**21**	**1.1**	**11**	**0.5**
		2012	**2,284**	**97.3**	**21**	**0.9**	**22**	**0.9**	**20**	**0.8**
4.	**Scheduled commercial banks**	**2011**	**42,596**	**97.8**	**414**	**0.9**	**461**	**1.1**	**104**	**0.2**
		2012	**50,168**	**97.2**	**695**	**1.3**	**617**	**1.2**	**109**	**0.2**

Notes: 1. Constituent items may not add up to the total due to rounding off.
2. * : As per cent to gross advances.
3. **: Includes IDBI Bank Ltd.

Source: Off-site Returns.

Factors contributing NPA:

There are number of factors which contribute for the accumulation of NPAs in Banks and Financial institutions. They are as follow:

1) Legal framework

Banks had great difficulty in recovering the loans through legal process, because the legal system has remained as defaulter friendly. The legal environment has been hostile to banks. The recovery process of dues is longer when cases are referred to the BIFR. Because special provisions of the SICA, 1985(section 22) bar banks from taking action in such cases.

2) Liberalization

After the nationalization of banks, bank lending assumed populist overtones and loans were distributed ignoring the commercial principles and consequently the credit culture suffered a setback and borrowers started defaulting. Thus the popular approach to bank lending and erosion of credit culture resulted in accumulation of NPAs.

3) Faulty credit management practices

Defective appraisal of loan applications and inadequate attention to commercial and financial viability of projects and inadequate credit monitoring also let to poor performance and inadequate capacity to service loans on the part of the borrowers. Lack of professionalization in the work force, long time lag between sanctions and disbursements, unscientific repayment schedule and many others cause for the accumulation of NPAs.

4) Willful defaulters

Willful defaulters refer to those, who have no difficulty in servicing the loans start defaulting and these results in the erosion of normal banking discipline. On the other side the mis- utilization of loans by the borrowers, untimely communication to the borrowers regarding their due date, have also contributed to the total stock of NPAs.

5) Government policy

The Indian Banking is misused and become victim by the political actions. The faulty lending policies and compulsion from the Government to lend priority sector like Agriculture, SSI has affected the overall asset quality drastically because of non servicing of loan accounts by borrowers. The borrowers are mainly farmers and SSI owners whose financial conditions are generally bad. The funds of bank credit stacked in sick industries are the evidence of this malady.

Table IV.19: Sector-wise NPAs of Domestic Banks*

(Amount in ` billion)

Bank group	Priority sector		*Of which* Agriculture		Micro and Small Enterprises		Others		Non-Priority sector		*Of which* Public Sector		Total NPAs	
	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent
Public sector banks														
2011	**413**	**58.1**	**145**	**20.4**	**144**	**20.2**	**124**	**17.5**	**298**	**41.9**	**3**	**0.4**	**711**	**100.0**
2012	**562**	**50.0**	**227**	**20.1**	**178**	**15.9**	**157**	**14.0**	**563**	**50.0**	**32**	**2.9**	**1,125**	**100.0**
Nationalised banks**														
2011	257	59.9	92	21.5	105	24.4	60	14.0	172	40.1	3	0.6	430	100.0
2012	323	48.3	129	19.3	134	20.0	61	9.1	345	51.7	10	1.5	668	100.0
SBI group														
2011	156	55.3	53	18.7	39	13.9	64	22.7	126	44.7	-	0	281	100.0
2012	239	52.3	98	21.4	45	9.8	97	21.1	218	47.7	22	4.9	457	100.0
Private sector banks														
2011	**48**	**26.8**	**22**	**12.1**	**13**	**7.2**	**14**	**7.5**	**132**	**73.2**	**2**	**0.8**	**180**	**100.0**
2012	**51**	**27.9**	**22**	**11.8**	**17**	**9.4**	**12**	**6.7**	**132**	**72.1**	**0**	**0**	**183**	**100.0**
Old private sector banks														
2011	16	43.3	4	11.3	6	14.9	6	17.1	21	56.7	2	4.1	37	100.0
2012	18	42.9	6	13.4	7	16.8	5	12.8	24	57.1	0	0	42	100.0
New private sector banks														
2011	32	22.6	18	12.3	8	5.2	7	5.1	111	77.4	0	0	143	100.0
2012	33	23.4	16	11.3	10	7.1	7	4.9	108	76.6	0	0	141	100.0
All SCBs														
2011	**461**	**51.8**	**167**	**18.7**	**157**	**17.6**	**138**	**15.5**	**430**	**48.2**	**4**	**0.5**	**891**	**100.0**
2012	**613**	**46.9**	**248**	**19.0**	**195**	**14.9**	**169**	**13.0**	**695**	**53.1**	**32**	**2.5**	**1,308**	**100.0**

Notes: 1. * : Excluding foreign banks.
2. - : Nil/negligible
3. Amt. – Amount; Per cent – Per cent of total NPAs.
4. **- Includes IDBI Bank Ltd.

Source: Based on off-site returns (domestic) submitted by banks.

Consequences:

Accumulation of NPAs of banks bas many serious consequences. First NPAs affect the profits of banks as they do not yield positive returns and higher the NPAs lower the profits earned by banks. Second, NPAs impose strain on profits. Third, existence of large volume of NPAs reflects adversely on the financial strength of the banks and even the depositor's confidence in the banks will be eroded because of possible bank failure due to accumulation of NPAs. Fourth, in a situation of growing NPAs, banks become shy of extending advances and in this process all economic activities are likely to suffer. Fifth, when banks go on losing income because of NPAs, good borrowers have to bear higher cost to compensate for the loss caused by defaulters. Though this may not make up the entire loss, good borrowers can get loans at somewhat lower rates in the absence of high level of NPAs. Lastly, the entire banking system gets weakened as the very survival of banks would be threatened by the growing volume of NPAs therefore; efforts are needed to resolve this most intractable problem faced by banks.

Table IV.17: Trends in Provisions for Non-performing Assets – Bank Group-wise

(Amount in ` billion)

Item	Public sector banks	Nationalised banks*	SBI group	Private sector banks	Old private sector banks	New private sector banks	Foreign banks	Scheduled commercial banks
1	2	3	4	5	6	7	8	9
Provisions for NPAs								
As at end-March 2011	**366**	212	154	**135**	24	110	**38**	**540**
Add : Provisions made during the year	**381**	219	161	**56**	8	47	**34**	**472**
Less : Write-off, write- back of excess during the year	**190**	152	38	**51**	7	43	**23**	**264**
As at end-March 2012	**558**	279	278	**140**	25	114	**49**	**747**
Memo: Provisioning Coverage Ratio (Ratio of outstanding provisions to gross NPAs (per cent))								
End-March 2011	**49.0**	47.9	50.7	**74.0**	64.9	75.6	**75.0**	**55.1**
End-March 2012	**47.6**	40.4	57.7	**74.9**	61.0	78.6	**79.0**	**52.5**

Note: *: Includes IDBI Bank Ltd.
Source: Balance sheets of respective banks.

Initiatives for resolving the problem of NPAs:

The objective of reducing the volume of NPAs of banks has received great attention in recent years. In order to bring the problem of NPAs under control, some steps have been taken by the government/banks.

1) Compromise Settlement Schemes

This can be resorted to when there is no scope for rehabilitation and the legal position of the bank is weak. The execution of the suit may be doubtful. The main advantage of compromise settlement is that it reduces NPAs with minimum sacrifice and enables the bank to recycle funds. The bank tries to recover as much as possible by negotiation. Compromise should be wielded as a strategy and should not be sold as a product. The compromise is generally agreed at a LOK ADALAT. One important condition is this process is that both parties in dispute should agree for settlement. The central government, in consultation with Reserve Bank of India, decided to increase the monetary ceiling of cases to be referred to the Lok Adalats organized by civil courts. Accordingly, on August 3, 2004, the Reserve Bank of India enhanced the necessary ceiling of Rs. 5 lakhs.

2) Asset Reconstruction Company (ARC)

The Narasimham Committee on financial system (1991) has recommended for setting up of Asset Reconstruction Funds (ARF). The following concerns were expressed by the committee.
. It was felt that centralized all India fund will severely handicap in its recovery efforts by lack of widespread geographical reach which individual bank posses and.
. Given the large fiscal deficits, there will be a problem of financing the ARF.

Subsequently, the Narasimham committee on banking sector reforms has recommended for transfer of sticky assets of banks to the ARC. Thereafter the Varma committee on restructuring weak public sector banks has also viewed the separation of NPAs and its transfer thereafter to the ARF is an important element in a comprehensive restructuring strategy for weak banks. In recognition of the same ARC Bill was passed to regulate Securitization and Reconstruction of financial assets and enforcement of security interest. The ICICI BANK, State Bank of India and IDBI has promoted the country's first Asset Reconstruction Company. The company is specialized in recovery and liquidation of assets. The NPAs can be assigned to ARC by banks at a discounted price. The objective of ARC is floating of bonds and making necessary steps for recovery of NPAs from the borrowers directly. This enables a onetime clearing of balance sheet of banks by sticky loans.

3) Debt Recovery Tribunals (DRT)

In order to expedite speedy disposal of high value claims of banks Debt Recovery Tribunals were setup. The recovery of Debts due to Banks and Financial Institutions (Amendment) Act, was passed in March 2000 has helped in strengthening the functioning of DRTs. The provisions for placement of more than one recovery officer, power to attach dependents property before judgment, penal provision for disobedience of Tribunals order and appointment of receiver with powers of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in times to come.

4) Lok Adalats

Lok Adalat institutions help banks to settle disputes involving accounts in "doubtful" and "loss" category, with outstanding balance of Rs. 5 lakhs for compromise settlement under Lok Adalats. Debt Recovery tribunals have now been empowered to organize Lok Adalats to decide on case of NPAs of Rs. 10 lakhs and above.

5) Circulation of Information on Defaulters

The RBI has put in place a system for periodical circulation of details of willful defaults of borrowers of banks and financial institutions. This serves as a caution list while considering requests for new or additional credit limits from defaulting borrowing units and also from the directors/proprietors/partners of these entities. RBI also publishers a list of borrowers (with outstanding aggregating Rs. 1 crore and above) against whom suits have been filed by banks and FIS for recovery of their funds, as on 31 st March every year. However it will serve as negative basket of steps shutting off fresh loans to these defaulters.

6) Corporate Debt Restructuring (CDR)

Companies sometimes are found to be in financial troubles for factors beyond their control and also due to certain internal reasons. For the revival of such businesses, as well as, for the security of the funds lent by the banks and Financial Institutions, timely support through restructuring in genuine cases was required. With this view the mechanism introduced for reducing NPAs. Corporate sector accounts for a major portion of NPAs. Corporate entities affected by internal and external factors are given an opportunity outside BIFR and DRTs to improve their working by reducing the immediate debt burden through debt restructuring. CDR system was established with the objective to ensure timely and transparent restructuring of corporate debts of viable entities facing problems. In particular the system is aimed at preserving viable corporate/businesses that are impacted by certain internal and external factors, thus minimizing the losses to the creditors and other stakeholders. The system has addressed the problems due to the rise of NPAs. Although CDR has been effective, it largely takes care of the interest of bankers and ignores (to some extent) the interests of borrower's stakeholders. The secured lenders like banks and FI's through CDR merely, address the financial structure of the company by deferring the loan repayment and aligning interest rate payments to suit company's cash flows. The banks do not go for a one time large write-off loans in initial stages. The CDR system is applicable to standard and sub-standard assets. The system works through voluntary agreement between debtors and creditors and covers loans amounting to Rs 20 cores and above.

7) Credit Information Bureau

Institutionalization of information sharing arrangements through the newly formed Credit Information Bureau of India Ltd. (CIBIL) is now possible. RBI is considering the recommendations of the S.R.Iyer Group (Chairman of CIBIL) to operationalize the scheme of information dissemination on defaults to the financial system. The main recommendations of the Group include dissemination of information relating to suit-filed accounts regardless of the amount claimed in the suit or amount of credit granted by a credit institution as also such irregular accounts where the borrower has given consent for disclosure. This would prevent those who take advantage of lack of system of information sharing amongst lending institutions to borrow large amounts against same assets and property, which had in no small measure contributed to the incremental NPAs of banks.

8) SARFAESI ACT-2002

A very significant initiative undertaken for reducing the stock of NPAs is the passing of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Bill. As per Narasimham Committee II SARFAESI ordinance was promulgated in June 2002, which subsequently became an Act passed by the parliament. This act encourages prompt repayment of loans and strengthens the hands of the banks in recovering the loans.

This act has two very important provisions.

1) Securitization and Reconstruction of assets 2) Enforcement of security interest,

SARFAESI act provides for acquisition of security offered for the loan directly 60 days after serving notice on the defaulter and realize the value by selling away the security. All that is necessary is to issue notice to defaulter and wait for sixty days and if the dues are not settled, the ceased assets like land, plant and machinery etc pledged to obtain the loan will be directly taken over by the lender and sold in the market to realize the value or arrangements can be made for managing an organization that is taken over.

We all know the object of SARFAESI Act, 2002 and it is to assist the Banks in realization of their debt through proceeding against the "Secured Asset". There are people and professionals supporting SARFAESI Act, 2002 on the ground that in the absence of such a stringent legislation, it is very difficult to deal with the defaulters and they, in the course, become habitual defaulters. On the other hand, purely based on the experience and difficulties, there are people and professionals criticizing the SARFAESI Act, 2002 as it will enable the Banks to harass the borrowers and defeat the interests of the borrowers by harping on technicalities? There are so many judgments on various issues and provisions of SARFAESI Act, 2002 from time to time. Still, in my opinion, there tend to be complicated issues while dealing with a "secured asset" using the provisions of SARFAESI Act, 2002. The process of realization of debt using the provisions of SARFAESI Act, 2002 appears to be simple as follows:

1) Based on the guidelines issued by the Reserve Bank of India, the Bank can classify an Account as NPA and once the account of the borrower becomes NPA, THE Bank can proceed with taking action under the provisions of SARFAESI Act, 2002.
2) After classifying an account as NPA, THE Bank issues a notice under section 13(2) of the Act demanding the borrower to settle all the outstanding dues as mentioned in the notice.
3) The borrower can reply to the notice under section 13(2) of the Act and place his objections to the demand. The Bank should deal with the objections of the borrower and can send a reply.
4) Once the Bank completes the process of issuance of notice under section 13 (2) and dealing with the objections, the Bank can proceed with taking possession of the "secured asset" under section 13(4) of the Act.
5) As stated in the Act, the borrower can file an appeal challenging the notice issued under section 13(4) of the Act and the DRT can pass interim orders and can ask the Bank to proceed further.

6) If there is no restraint from the DRT, then, the Bank can further proceed with taking physical possession of the property and can proceed with auctioning the property in accordance with the provisions of the Act and the rules hereunder.
7) If the Bank could auction the property in accordance with the rules, the Bank will first realize the outstanding dues of the borrower and the remaining amount will be given to the borrower. If the amount realized through auction is not sufficient to meet the outstanding dues, then, the Bank proceeds further against the borrower.

Table IV.15: NPAs of SCBs Recovered through Various Channels

(Amount in ` billion)

Recovery channel	2010-11				2011-12			
	No. of cases referred	Amount involved	Amount recovered*	Col. (4) as % of Col. (3)	No. of cases referred	Amount involved	Amount recovered*	Col.(8) as % of Col.(7)
1	2	3	4	5	6	7	8	9
i) Lok Adalats	6,16,018	53	2	3.7	4,76,073	17	2	11.8
ii) DRTs	12,872	141	39	27.6	13,365	241	41	17.0
iii) SARFAESI Act	1,18,642#	306	116	37.9	1,40,991#	353	101	28.6
Total	**7,47,532**	**500**	**157**	**31.4**	**6,30,429**	**611**	**144**	**23.6**

Notes: 1. *: Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years.
2. #: Number of notices issued.

Conclusion:

The initiatives for tackling the problem of NPAs discussed above are no doubt extremely important. But these initiatives by themselves will not resolve the problem of NPAs. The problem needs a multi-pronged approach. Preventive measures are certainly more important than curative measures. Proper examination of the commercial viability of the projects, close monitoring of the projects financed, adoption of proper risk-rating system, sanction of large loans by a committee rather than an individual are some of the measures traditionally known to bankers, the importance of which needs a new emphasis. Banks should put in place proper loan review mechanism to pay adequate attention to end use of credit. There is special emphasis now on the adoption of modern risk management techniques and the banks should adopt them to avoid further increase in NPAs.

In conclusion, reducing the NPAs to a reasonable level remains a challenging job. Since all the major initiatives are of recent origin, it is too early to judge the efficacy of these initiatives. What one can expect from banks at this juncture is that they should effectively make use of the new legislative and other measures and lay greater emphasis on preventive measures to resolve the problem of non-performing assets.