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### AN ANALYTICAL STUDY OF VARIOUS CHANNEL USED TO RECOVER NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR: WITH SPECIAL REFERENCE TO SCHEDULED COMMERCIAL BANKS

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#### ABSTRACT

The bank's NPA has been steadily increasing over the last two decades and that day is not far when the Indian financial system will crash and hit by defaulters. NPA analysis is vital for measuring the performance of any bank and removing it in the Banking sector is not a piece of cake. A loan given to a fund seeker is considered assets for a bank because those assets enable banks to earn income in the form of interest. Lots of recovery mechanisms are used to prevent fraud and control NPA in banking operations since independence such as OTSS, SARFAESI ACT, DRTs, DRTs, and CDR. Which channel serves the best effort for the banking sector to recover the loss? To find out the keystone, the researcher has selected twenty-one Public sector banks, twenty-one Public sector bank and Forty-four foreign banks to eliminate unnecessary movement of defaulter's fraud case from one jurisdiction to another. For this purpose, the Researcher has used to ANOVA-F test and came to find that there are no mean differences among the three variable Lok Adalat, DRTs and SARFAESI Act and there is no significant difference in cost-effectiveness and operation among three variables. The research study revealed that the highest fraud occurs in India is in Advance, it leads that RBI and Govt. need to ecstastically conscious of approach for sanction of borrower's loan profile.

**Keyword:** Scheduled Commercial Banks, NPA, Banking System, Standard Assets, Substandard Assets, Loss Assets, Fraud Control.

## Objectives

The main objective of the research study is to evaluate the performance of various channels deployed to recover NPA amount from the defaulters.

- To identify approach is well efficient to recover the defaulter outstanding amount.
- To find out the area of Highest NPA in SCBs.

## Brief Background of DRTs, DRATs and SARFAESI ACT 2002

The borrower keeps paying interest and principal amount to the bank on time, it is called standard assets. But if the borrower deficient to pay the installment for 90 days from the date of payment, then the bank assets turn into NPA hence those bank's assets that cease to earning capacity are considered as NPA. A guideline has been issued for all commercial banks excluding Regional Rural Banks to divide NPA into four broad categories such as S.A., S.S.A., D.A., and L.A., Sometimes the loan is given without a thorough genuine investigation and repayment capacity of the borrower. Loan officers grant the huge amount of loan to fund seeker without collateral security under the pressure of state-level political parties. Lack of Conscience effort of bank officers is also the reason behind increasing in NPA. Thus, all due amounts of the bank will be posted under the head of loan for post-shipment, Export, and Import Finance, Rehabilitation scheme sanctioned by BIFR, bills purchase and discounted, leasing property, overdraft, against National Saving Certificates, against Term deposit, PACS. The bank should initiate efficacious system to terminate the propensity to fend the recognizance of high-value accounts of NPAs. The world's first concept of the "Asset securitization" initiative was launched by the United States in the 1970s. assets securitizations mean when the bank allows the loan to the borrowers, at the same time the bank will acquire mortgage paper as collateral. Bank will grade all mortgage paper such as AAA, AA, and BBB, thus a mortgage paper which is classified under AAA are highly secured loan, are converted into bonds for the purpose of selling in open market. in such a manner, the bank will generate additional funds by selling the marketable bonds. The entire process is called Assets Securitization. It is said that the consequences of the economic crisis in 2008 are the result of bad mortgages against bonds.

The company was given power under Section 137 of the companies act 1956 to recover the money got stuck in the loan. The company can file a petition in civil court to recover its outstanding advance. Due to lots of pending cases, the decision of the filled case in civil court took more than five-year. Therefore Govt. Passed new resolution and decided to incorporate the new act "SARFAESI ACT 2002" that empowers the bank to recover the money from the lender, assets reconstruction without the intervention of the court. Keeping in the line with increasing NPA in India, RDDBFI Act was enacted in 1993 and later thirty-three DRTs and six DRATs were establish across India to furnish the platform from where banks and any financial institution's filed application against borrowers to eliminate delay in recovery and complain redressal. Nowadays banks used discrete approaches for recoveries of the bad loans such as a one-time settlement scheme, DRTs, DRATs, Corporate Debt Restructuring, SARFAESI ACT 2002, Lok Adalat, ARC.

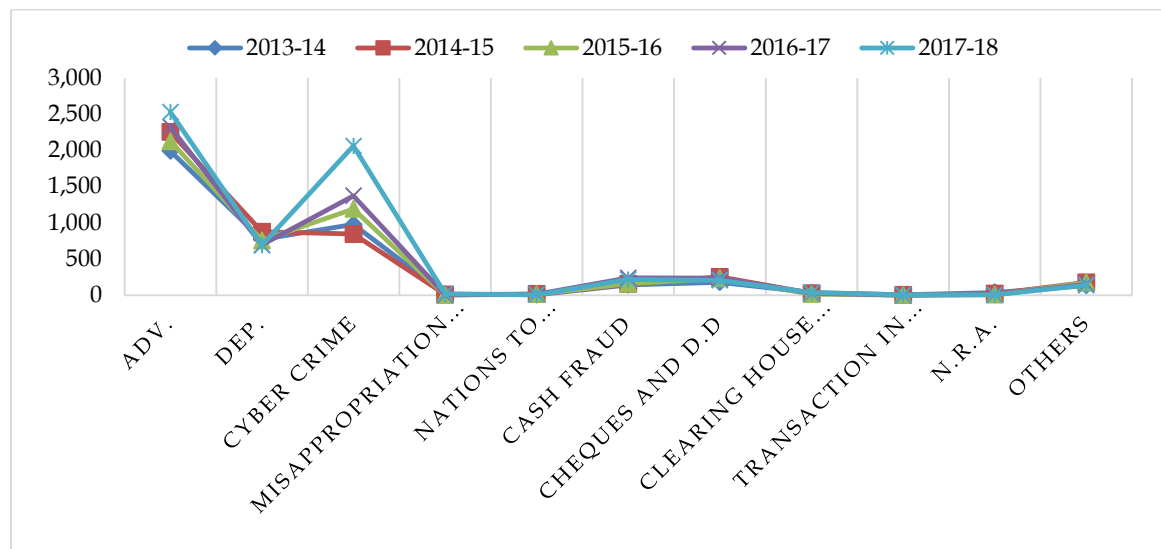
## Research Methodology:

The present research study is purely depending upon the secondary data which is collected from the official website of the reserve bank of India. The researcher has used various charts for trend analysis and plots to identify data normality tests. The researcher has also used ANOVA-F Test to get the result of the mean difference.

Table No.1 Error and fraudulence in SCBs operations.

Field of Operation	2013-2014		2014-2015		2015-2016		2016-2017		2017-2018	
	No. of Case of Error and Fraudulence	Amt. (in Million)	No. of Case of Error and Fraudulence	Amt. (in Million)	No. of Case of Error and Fraudulence	Amt. (in Million)	No. of Case of Error and Fraudulence	Amt. (in Million)	No. of Case of Error and Fraudulence	Amt. (in Million)
Adv.	1,990	84,121	2,251	171,222	2,125	173,681	2,322	205,614	2,526	225,590
Dep.	773	3,315	876	4,369	757	8,087	695	9,027	691	4,567
Cyber Crime	978	545	845	517	1,191	402	1,372	423	2,059	1,096
misappropriation in off balance sheet	15	10,885	10	6,994	4	1,324	5	633	20	162,877
Nations to International exchange transactions	9	1,439	16	8,987	17	508	16	22,010	9	14,258
Cash Fraud	145	237	153	431	160	220	239	365	218	403
Cheques and D.D	180	188	254	261	234	250	235	404	207	341
Clearing House Transaction	36	237	29	68	17	866	27	57	37	56
Transaction in Inter branch	7	5	4	3	4	101	1	4	6	12
N.R.A.	38	96	22	76	8	88	11	34	6	55
Others	135	641	179	1,623	176	1,460	153	768	138	2,421
Total	4,306	101,708	4,639	194,551	4,693	186,988	5,076	239,339	5,917	411,677
Source: RBI (The figures may reflect in such case of fraud disposed off by various Indian Jurisdiction Court)										

**Chart No. 1 Trend Analysis of No. of error and fraudulence involving in various banking operation for the period of 2013-14 to 2017-18**



**Chart No. 2 Total Amount of Error and Fraudulence of SCBs for the period of 2013-14 to 2017-2018**

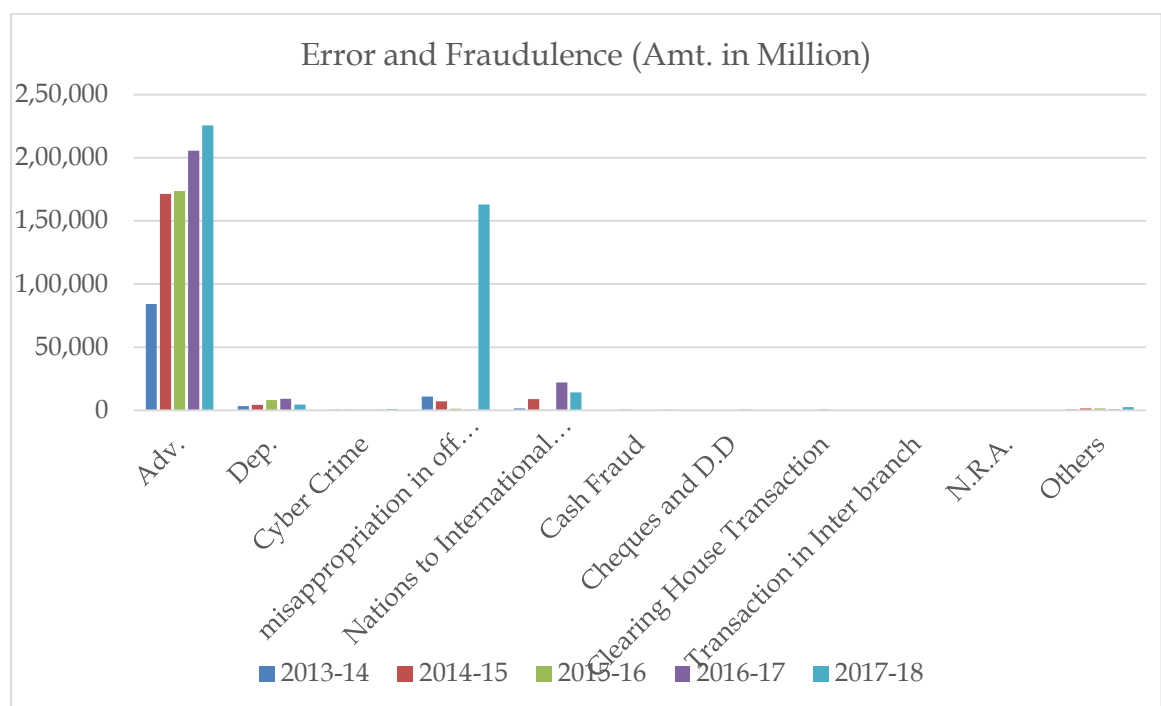


Table No. 1 shows that the controversial fraud in advance is highest among any other operation, and it is constantly rising from 84,121 million to 2,25,590 million during the last five years. Table no.1 also reveals there are several operations of fraudulence increases such as fraud in deposit from 3,315 million to 4,567 million, Cybercrime, cash fraud, cheque & D.D. fraud gradually reached double, off-balance-sheet fraud also increasing from 10,885 million to 1,62,877 million during the study period, it also reveals that fraud in international transactions have increased tenfold during the period 2013-14 to 2017-18. It is noted that the RBI policy is succeeding only to reduce Non-Resident Account fraud during the study period.

Table No. 2 Total Amt. involved in NPA and Recovered through various channel

Year	Sr. No.	NPA Recovery Tools	Lok Adalats (in million) (in %)	DRTs (in million) (in %)	SARFAESI Act-2002 (in million) (in %)	Total (in million) (in %)
2013-14	1	Total Amt. involved in NPA (in %)	6501 (100%)	29760 (100%)	62992.5 (100%)	99253.5
	2	Amt. recovered through Different Mechanism (in %)	394 (6.06%)	4224 (14.19%)	17112.5 (27.16%)	21730.5
2014-15	1	Total Amt. involved in NPA (in %)	22852 (100%)	53088 (100%)	88152.5 (100%)	164092.5
	2	Amt. recovered through Different Mechanism (in %)	1379 (6.03%)	5088 (9.58%)	23402.5 (26.54%)	29869.5
2015-16	1	Total Amt. involved in NPA (in %)	30535 (100%)	57984 (100%)	145040 (100%)	233559
	2	Amt. recovered through Different Mechanism (in %)	985 (3.23%)	4032 (6.95%)	23680 (16.32%)	28697
2016-17	1	Total Amt. involved in NPA (in %)	70920 (100%)	66528 (100%)	74092.5 (100%)	211540.5
	2	Amt. recovered through Different Mechanism (in %)	3152 (4.44%)	6144 (9.23%)	12210 (16.48%)	21506
2017-18	1	Total Amt. involved in NPA (in %)	104200.2 (100%)	64405.44 (100%)	104617.5 (100%)	273223.1
	2	Amt. recovered through Different Mechanism (in %)	3745.955 (3.59%)	15737.28 (2.44%)	7176.15 (6.86%)	26659.39

Source: Self compiled from – RBI website

**Table no. 3 Analysis of Data Independence**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Lok Adalat	5	4.6700	1.32991	.59475	3.0187	6.3213	3.23	6.06
DRTs	5	8.4780	4.27782	1.91310	3.1664	13.7896	2.44	14.19
SARFAESI ACT	5	18.6720	8.42336	3.76704	8.2130	29.1310	6.86	27.16
Total	15	10.6067	7.96515	2.05659	6.1957	15.0176	2.44	27.16

Before applying the ANOVA test in the research study, the researcher should be sure that data of all three groups Lok Adalat, DRTs and SARFAESI ACT should independent of each other. Table no. 3 reveals that the nominal difference was seen among three different variables. The Mean value of the SARFAESI ACT is 18.67. The mean value of DRTs and Lok Adalat is 8.47, 4.67 Respectively. At first glance, it seems that SARFAESI ACT is the best option for the recovery channel for NPA in compare to Lok Adalat and DRTs, nevertheless research requires to prove it in the ANOVA test.

**Table no. 4 Tests of Normality**

Recovery Tools	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Recovery Amt. Lok Adalat	.247	5	.200*	.862	5	.236
DRTs	.198	5	.200*	.974	5	.901
SARFAESI ACT	.225	5	.200*	.897	5	.396

a. Lilliefors Significance Correction of variable

\*. It indicates lower bound and upper bound of true significance.

The first assumption of the ANOVA-F Test is data should be normally distributed. For this purpose, the researcher has used the Kolmogorov-Smirnov test and Shapiro-wilk tested to get a clear picture and precise result. As we know, the significance value should be more than 0.05, if not, the ANOVA-F test can not apply to this data. Table no. 4 exhibits the significance value of Lok Adalat is 0.236 which is more than 0.05 as well as the significant value of DRTs and SARFAESI ACT is greater than 0.05. Shapiro-Wilk test proves that the dataset of three different groups Lok Adalat, DRTs and SARFAESI ACT are normally distributed.

### Statistical Hypothesis

H<sub>0</sub>:  $\mu_1 = \mu_2 = \mu_3$  (The means of Lok Adalat, DRTs and SARFAESI ACT are equal)

H<sub>A</sub>:  $\mu_1 \neq \mu_2 \neq \mu_3$  (At least one means different among the rest of means)

### Finding of Significance value of ANOVA-F test

(Explanatory Variable: Channel of NPA Recovery; Response Variable: Recovery of Total Amt.)  
In our Research paper, the Degree of Freedom (df1) between the group is (3-1) 2 and another Degree of freedom (df2) is (15-3) 12. Hence critical value of F (2,12) is 3.88 in corresponding to significance value  $\alpha = 5\%$ .

Table no. 5 ANOVA Test

Variable	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	524.124	2	262.062	8.637	.005
Within Groups	364.085	12	30.340		
Total	888.210	14			

The significance value is 0.005 which is lower than 0.05. It means there is a significant difference among Lok Adalat, DRTs and SARFAESI ACT 2002. Therefore we conclude that there is no significant difference in the recoveries of NPA among Lok Adalat, DRTs and SARFAESI ACT 2002,  $F(\text{observed Value}) = 8.637 > F(\text{Critical Value}) 3.88$ , thus null hypothesis is rejected.

#### Interpretation and Suggestions:

It is not feasible to eliminate NPA or to be a zero level NPA bank in the current banking system. Even Indian Govt. and RBI has so far failed to come to grip with neutral NPA. The researcher has two possible explanations come to mind and it is proved in the above test that RBI needs to remove a loophole in the SARFAESI ACT and DRTs and resurrect an old law. First of all, the alarming days of NPA should be sixty days. Banks have to arrange the internal system in such a way that bank officers can easily identify the defaulters and take immediate action toward the acquisition of financial assets and sell the pledged assets using govt. e-tender platform after taking prior approval from the tribunal court or higher authority. From the above table no.1 and ANOVA, it proves that the maximum fraudulence committed to taking advance by defaulters. ANOVA Table serves that there is no significant difference in the escalating of recovery process among DRTs, Lok Adalat and SARFAESI ACT. Recently Govt. has distasteful to accept that our Indian banking system has no computed to keep safe money of common men. NPA address the fault lines in the Indian banking system. It is very debatable to prove which tools are more useful and error-free. Bank manager needs to meticulous attention to borrowers' detail while sanctioning of loan and they have to think out of the box to keep the bank safe.

#### Abbreviation:

DRTs : Debt Recovery Tribunals

DRATs: Debt Recovery Appellate Tribunals

BP : Bills Purchased

BD: Bills Discounted

LRD : Loan Repayable on Demand

SCBs : Scheduled Commercial Banks

Adv. : Advance

Dps : Deposit

N.R.A. : Non-Resident account

CDR: Corporate Debt Restructuring

ARC: Asset Reconstruction Company

OTSS : One Time Settlement Scheme

LA : Lok Adalat

SARFAESI Act 2002 : The Securitisation and Reconstruction of Financial Assets & Enforcement of Security Interest Act, 2002



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