NPA Management of District Central Co-operative Banks in India: An Overview

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ABSTRACT

District Central Co-operative banks play a important role in the upending and equitable economic development of India. DCCBs come through significantly growing rate of NPAs Management of NPA is burning issue now a day in banking sector. Banking business mainly depends upon acquiring and lending money. The most important operation of the banking business is recovery of lending money. Co-operative banks are stressed with mounting non-performing assets (NPA), which is one of the major determining factors of profitability and productivity. Hence, NPA management has become perilous job for co-operative banks. This paper deals with the influence of nonperforming assets over the profitability and productivity of the bank. NPA one of the determining factors of profitability and productivity. Hence, management of NPA develops, as a principal fact for the bank for upholding the financial efficiency.

Keyword: District Central Co-operative Banks, Non Performing Assets

INTRODUCTION:

Indian co-operative structure is one of the largest networks in the world with more than 200 million members. It has about 67% penetration in villages and fund 46% of the total rural credit. It also stands for 36% of the total distribution of rural fertilizers and 28% of rural fair price shops. A cooperative bank is an institution which is owned by its members. They are the culmination of efforts of people of common interests' problems and aspirations. They are democratic set-ups where the boards of members are democratically elected with each member entitled to one vote each. Co-operative banks are registered under the Cooperative Societies Act, 1912. They are regulated by the Reserve Bank of India under the Banking Regulation Act, 1949 and Banking Laws (Application to Co-operative Societies) Act, 1965.

As per RBI guidelines, the asset classification and provisioning is required to be done correctly. Cooperatives banks have played an important role in the socio –economic development of rural masses. A small beginning was made with the enactment of first Cooperative Credit Societies Act in 1904 and now the cooperative system has completed a century. At present, there are more than 5 lakhs cooperative societies which have deeply penetrated in the rural economy. The short term and long-term cooperative banking structure has met the demand for agriculture and allied agriculture credit needs of the farmers in India. The short-term cooperative banking structure consists of 32 State Cooperative Banks (SCBs) at the State level, 370 District Central Cooperative Bank (DCCB) at the District level, and 92789 Primary Agriculture Cooperative Societies/Banks (PACBs) at the village level. Here, the DCCBs being the middle tier between SCBs and PACBs, occupy a position of strategic importance.

REVIEW OF LITERATURE:

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) talked about Non-performing assets and asset quality, Kannan Committee (1998) opined about working capital and lending methods, Basel committee (1998 and revised in 2001) recommended capital adequacy norms and risk management measures. Kapoor Committee (1998) recommended for credit delivery system and credit guarantee and Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance and several other committees constituted by Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking.

Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets.

Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Gowthaman A. and Srinivasan T, (2010) in his article entitled, “Effective Funds Management by the Kumbakonam Central CooperativeBank” has presented the DCCBs are modal centers of financial institution in the cooperative sector in a district. They have to mobilize theexisting resources and utilize them in the most efficient and profitable manner. As a result of this situation, efficiency in fundsmanagement has along considerably and profitability of the DCCBs in Tamilnadu is found decreased. In this paper an attempt is made to analyzethe funds management of the bank for the period of 1998-99 to 2007-08

J. Nivethitha and G. Brindha(2014) in his research paper titled “Management of Non-Performing Assets in Virudhunagar District Central Co-Operative Bank-An Overview” concluded that a high level of NPAs recommend high probability of a large number of credit defaults that affect the profitability and net-worth of cooperative banks and also erode the value of the asset. Thus reduction of NPAs is necessary to speed up the growth and profitability of banks. The NPA problem is the result of monitoring over dues to various factors like weak monitoring, poor credit appraisal system, loan waiver scheme and mis-utilization of loan etc.

STATEMENT OF THE PROBLEM:

Non-performing assets are those which are not been yielding revenue for a long period of time. The bank will always face the problem of NPA because of poor recovery of advances granted by the bank and several other reasons like adopting a poor recovery strategies so when the loan is not recovered from the bank effectively and efficiently that balance amount will become the NPA to the bank it may create some huge problem to the bank's financial status. In order to evaluate the performance of District Central Co-operative Banks,it feels necessary to undertake the study regarding management of NPAs.

NEED OF THE STUDY:

The Indian banking sector has been facing serious problems of rising Non-Performing Assets(NPAs).NPAs have been eating the banking industries from within, since nationalization of banks in 1969. NPAs have choked off quantum of credit, restricting the recycling of funds and leads to asset-liability mismatches. It also affected profitability, liquidity and solvency position of the Indian Banking sector. The problem of Non-Performing Assets (NPAs) which is afflicting the banking sector throughout the world is also leaving its footprints on the Indian Banking sector. And in such a scenario, the Co-operative Banking Sector has also been affected. In order to have an objective assessment of the rising level of NPAs and its impact on the financial health of the bank in the challenging banking scenario, where survival of the fittest is the norm, it has become imperative to analyze and assess the impact of the NPAs on the Bank's health.

CLASSIFICATION OF ASSET

Non-Performing Assets (NPA):

An asset becomes non-performing when it ceases to generate income for the Bank. Earlier an asset was considered as Non –Performing Asset (NPA) based on the concept of 'Past Due'. However, with effect from March 31, 2001, the concept of 'Past Due' has been changed. Now from that date a Non-Performing Asset (NPA) is an advance, where:

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.
- The account remains 'out of order' for a period of more than 90 days, in respect of any type of working capital.

- The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
- Interest and/or installment of principle remain overdue for two harvest seasons but for a period not exceeding two half years in case of agricultural advances specified to be for that purpose. These advances are detailed herein below. For non-specified agricultural advances the identification of NPA is to be done on the same basis as non-agricultural advances.
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

OBJECTIVES OF THE STUDY:

The present study was undertaken with the following objectives:

1. To understand the meaning of NPAs and classification of asset as per RBI guidelines.
2. To understand the reasons that generate NPAs in District Central Co-operative Banks.
3. To understand the management of NPA in district central co-operative banks in India

NPAs in Co-operative Banks:

There are 33 State Co-operative Banks and 370 District Central Co-operative Banks in India under the Short Term Co-operative Credit Structure. The gross NPAs of State Cooperative Banks stood at Rs 52.7 Billion and that of District Central Cooperative Banks stood at Rs 208 billion as on 31 March 2015. In the Cooperative Banks, during 2014-15, with the exception of the central region, the NPA ratio of StCBs fell or remained stable across all regions in India with the decrease being the most pronounced in the north-eastern region. At the District level, there was an increase in NPAs of District Central Co-operative Banks (DCCBs) across all regions in India, except western and northern regions. The increase was marginal barring the central region. The central region, along with the southern region, also saw a fall in their recovery to demand ratio in 2014-15. The declining trend of recovery in the southern region continued (90.9 per cent in 2012-13, 81.3 per cent in 2013-14 and 75.9 per cent in 2014-15). Here it is pertinent to mention that the NPAs of the UP State Co-operative Bank have increased from Rs 415.08 crore as on 31.3.2006 to Rs 520.68 crore as on 31.3.2018. Hence, the trend is the same i.e. increase in NPAs, as is the situation in case of Cooperative Banks across India.

Management of NPAs in District Central Cooperative Banks in India:

The problem of tackling NPAs is twofold, viz., recovery of NPAs and avoidance of slippage of standard assets to NPAs. In this regard the following strategies have to be adopted by the DCCBs to tackle the problem of NPAs.

(i) Strengthening Pre-sanction Appraisal: At pre – disbursement stage, appraisal techniques of bank need to be sharpened. All technical, economic, commercial, organizational and financial aspects of the project need to be appraised realistically. A major cause for NPA is fixation of unrealistic repayment schedule. It may be fixed by taking into account the gestation or moratorium period, harvesting season, income generation, surplus available etc. if the repayment schedule is defective both with reference to quantum of installment and period of recovery assets have a tendency to become non-performing assets. Further DCCBs should set up an economic research wing at their Head office, which should provide a data on various types of farm and non-farm activities and rural industrious etc., required for proper appraisal of the loan

(ii) Post Sanction Supervision: At the post disbursement stage, bankers should ensure that the advance does not become NPA through proper follow up and supervision. They should also ensure both asset creation and asset utilization. Bankers can do either off-site surveillance or onsite inspection to detect whether the project is likely to become an NPA.

(iii) Special Mentions Accounts: The DCCBs were suggested to introduce a new assets category between standard and substandard for their own internal monitoring and follow-up. In line with international best practices but keeping in view the local requirements, assets may be transferred to this category once the earliest signs of sickness/irregularities are identified by the early alert system. Special mentioned accounts are not classified as NPAs. This would help the DCCBs to look at the problems right from the beginning.

(iv) Recovery Camps: The recovery caps should be organized frequently in rural areas. Government should ask the local revenue authorities to extend the full cooperation to the DCCB/PACBs in organizing such recovery camps.

(v) Recovery Cell: DCCBs should set up independent recovery and legal cell at their head office manned by well-qualified and competent law officers with adequate supporting staff for effective monitoring of recovery of accounts.

(vi) Incentives to the Honest Repayment: Incentives can be given to honest repayers to create a better climate for repayment. The possibility of honoring best loanees and best employees during cooperative weak celebrations can be chalked out.

(vii) Management information System: Proper steps should be taken to computerize all DCCBs and PACBs within the district connected to the State Cooperative Bank. It makes monitoring loan accounts more effective and efficient. DCCBs should create a database of their NPA portfolio on well- designed formats to provide meaningful inferences, which would help in evolving effective strategies as well as account specific action plan for preventing slippage of performing assets in to NPA.

(viii) Lok Adalats: Lok Adalats have gained importance over period of time as a forum to settle the disputes/settlements among the parties. Lok Adalats may prove to be advantageous for the banks because long pending cases could be immediately taken up for settlement. NABARD has issued guidelines to cooperative banks for compromise settlements of dues through Lok Adalats. For the recovery of commercial banks' loans, the Lok Adalats have proved a very good agency for quick justices and settlement of dues. So, DCCBs should approach Lok Adalats for settlement of their claims against the borrowers covering under the chronic NPAs.

(ix) Role of Government Agencies: Cooperatives Banks. 1904 0nwards, have been extending financial assistances to the various classes of the people under priority sector lending schemes including those belonging to weaker sections. The bulk of loan assistances provided by the banks under priority sector pertain to the programmes sponsored by the state Governments. As such, the Government Department /Organizations could play a vital role in creating right recovery climate, which in turn, facilitate DCCBs to reduce their NPAs. Government should not announce any waiving schemes or loan melas. This approach of the Government spoils the banking environment. Government should also introduce the Model Act in all states so as to ensure better support from the members.

(x) Creating Loyal Members: Members of the cooperatives are the owners and the users of the institutions. The financial health of PACBs depends on members loyal to the bank in the form of repaying the loan obligations within the due date. The mind-set of the members to wait for loan waivers and lethargy to reply the loan should be eradicated through effective member education programmes which may create loyal cooperators, which in turn will reduce the NPAs at gross root level.

(xi) Personal Touch with the Borrowers: The growth of NPAs consumes the precious time of the staff for preparing a large volume of turns and statements relating to substandard, doubtful and loss assets, preparing proposals for filling of suits, monitoring legal action, compromise and write off etc. so, DCCBs should take some measures to gain personal touch with the customers through effective customer relationship management.

Monitoring Non- Performing Assets:

For successful monitoring of NPAs, the district cooperative banks have to follow three-fold policy: Preventive, detective and Corrective.

(i) Preventive policy should invariably include the adequate expertise in the sector financed, full control over loan documents, control and audit of credit process effectively, frequent customer contacts, strictly avoidance of misuse of authority, control over excess drawings/overdrafts, periodical evaluation of securities, continuous vigil over the conduct of loan accounts, compliance of audit/inspection irregularities, effective system of identifying border-line NPAs etc.

(ii) Detective policy includes listening to the 'early warning signals' like persistent irregularity in the account, defaults in repayment obligations and frequent demands for adhoc limits from the parties and also identifying pressure on loan accounts, exceptionally increasing or decreasing turnover on current accounts, cash credit and overdrafts, delays in realization of bills receivables etc.

(iii) Corrective measures should necessarily include building strong recovery mechanism of course, having freedom work without any undue interference, proper communication of the facts, discussion/ negotiation with the defaulters and finally legal action as per guidelines in this connection.

CONCLUSION :

Apart from commercial banks the co-operative banks usually confront higher degree of risk in converting the loan assets into performing assets. Since, the cooperative banks are established in rural areas and where majority of clients are poor, the recovery management becomes a laborious task and it is proved from the study undertaken to assess the management of nonperforming assets in a co-operative. However, the problem of NPA's is likely to become chronic dues the external factors, which are generally beyond the reach of management. It is, therefore, suggested that, Cooperative Bank should take utmost possible care that the external environmental factors do not adversely affect its efforts of monitoring NPAs. High NPAs in the banks have devastating effects not only on the banks but also the economy as a whole the formulation of the good policy will be of no use unless it is implemented in true spirit. Overall, the study will help in understanding the concept and nuances associated with NPA and its impact upon the profitability including ameliorative measures, which would enable the banks to discharge its duty of custodians of public money while keeping the money in circulation, and provide a competitive edge over others in the struggle for survival and growth. The Bank would be able to develop and customize strategies depending upon the changing needs of time for efficient management of its credit portfolio, which would effectively manage fresh slippages leading to new NPAs and prevention of its occurrence.

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