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"Management of Non-Performing Assets-A Study of select Public and Private sector Banks in India"

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Abstract

Non-Performing Assets (NPAs) have long remained one of the most critical structural challenges in the Indian banking sector. Historically, Public Sector Banks in India share a inconsistent legacy of bad loans due to large investments in infrastructure, core industries, and government-directed priority sector lending, whereas Private Sector Banks in India maintained small proportion of bad loans in their balance sheets. However, following aggressive policy interventions by Reserve Bank of India's Asset Quality Review (AQR) and the implementation of the Insolvency and Bankruptcy Code (IBC), which targeted recapitalization, the banking landscape has transformed extremely.

This article presents a comprehensive comparative analysis of NPA management, trends, operational efficiency, and recovery mechanisms across select public sector banks namely State Bank of India, Bank of Boroda, Punjab National Bank and private sector banks namely HDFC Bank, ICICI Bank, Axis Bank). The study evaluates the structural drivers of bad loans, institutional recovery, and strategic requirements for repeated financial stability.

Keywords: NPA management, SARFAESI Act, 2002, IBC,

Introduction

Non-Performing Assets remain the single largest challenge to financial institution. A loan asset becomes non-performing when principal or interest payments remain overdue for more than 90 days. Historically, Public Sector Banks suffered the of legacy bad loans due to massive exposure to core infrastructure and socio-economic developmental activities. On the other hand, Private Sector Banks maintained less rate of bad loans in their balance sheets through aggressive risk policy and tighter recovery schemes.

According to RBI prudential norms, asset classification reflects the degree of credit risk and financial distress associated with credit portfolios consists of

- Standard Asset is those Performing assets that carry normal business risk and show no signs of default.

- Sub-Standard Assets are those assets classified as NPAs for a period less than or equal to 12 months.

- Doubtful Assets are those assets that have remained in the sub-standard category for a period exceeding 12 months, making full recovery highly impossible based on current market valuations and borrower conditions.

- Loss Assets are those assets identified as unrecoverable by banks, where the loan stands as complete write-off as bad debts while remaining on the books for recovery efforts.

Institutional Debt Recovery Mechanisms

- **SARFAESI Act, 2002 (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act):** allows banks and financial institutions to auction residential or commercial properties (securing the debt) without court intervention after issuing a 60-day demand notice to a defaulting borrower.

- **Debt Recovery Tribunals (DRTs) & DRATs:** specialized judicial bodies established under the Recovery of Debts and Bankruptcy Act, 1993 for speedy adjudication and recovery of debts exceeding ₹20 lakh.

- **Lok Adalat's:** informal, negotiated settlement forums organized by banks to resolve small or medium NPA (Non-Performing Asset) disputes amicably.

- **One-Time Settlement (OTS) Schemes:** structured compromise schemes where banks allow defaulting borrowers to close a loan account by paying a lumpsum reduced amount.

- **Insolvency and Bankruptcy Code (IBC), 2016** provides a time-bound corporate insolvency resolution process (CIRP) for commercial and business defaults

Objectives of the Study

- To identify the major factors responsible for the accumulation of NPAs in banks.
- To compare the effectiveness of different NPA recovery and resolution strategies adopted by banks
- To assess the role of credit appraisal, monitoring systems, AI, data analytics, and early warning systems in reducing NPAs.

Research Methodology

The present study adopts a descriptive research design to examine "Management of Non-Performing Assets among Public and Private Sector Banks in Kalaburagi district". The Primary data was collected through questionnaire with bank officials comprising of Branch Managers, Recovery Officers, Credit Officers, and Loan Executives.

A total sample size of 234 respondents was selected, consisting of 156 respondents from Public Sector Banks and 78 respondents from Private Sector Banks. A random sampling technique was adopted to select respondents among Public Sector Banks namely, the State Bank of India (SBI), Bank of Baroda (BOB), and Punjab National Bank (PNB) and Private Sector Banks namely HDFC Bank, Axis Bank, and ICICI Bank.

Hypothesis:

H_0: There is no significant difference in the effectiveness of recovery strategies used by banks for NPA management.

H_1: There is a significant difference in the effectiveness of recovery strategies used by banks for NPA management.

Table 1:

Descriptive statistics of strategies adopted by banks in reducing NPAs

Strategies	Mean	Standard Deviation	N
Early Warning System (EWS)	3.88	1.076	234
Asset Reconstruction Transfer (ARC)	3.72	1.125	234
One Time Settlement (OTS)	4.01	1.195	234
Debt Recovery Tribunals (DRT)	3.79	1.099	234
SARFAESI Act 2002	4.06	1.060	234
Lok Adalat	3.95	1.143	234
Recovery of Debts and Bankruptcy (RDB) Act 1993	3.79	1.089	234

Source: *Primary Data (N=234)*

Table 1 presents the descriptive statistics relating to the strategies adopted by banks for reducing non-performing assets (NPAs). The findings indicate that all the selected strategies recorded relatively high mean values, suggesting that respondents considered these mechanisms important in NPA management and recovery.

Among the various strategies, the SARFAESI Act 2002 recorded the highest mean score (4.06), indicating that respondents perceived it as the most effective strategy for reducing NPAs. This was followed by One Time Settlement (OTS) with a mean value of 4.01 and Lok Adalat with a mean score of 3.95, reflecting their significant role in recovery and resolution processes.

The Early Warning System (EWS) also showed a relatively high mean score of 3.88, indicating the importance of proactive identification of stressed assets. Debt Recovery Tribunals (DRT) and Recovery of Debts and Bankruptcy (RDB) Act 1993 both recorded a mean score of 3.79, suggesting moderate effectiveness in managing NPAs. Asset Reconstruction Transfer (ARC) recorded the lowest mean value of 3.72, though it still indicates positive acceptance among respondents.

The standard deviation values ranged between 1.060 and 1.195, indicating moderate variability in respondents' opinions regarding the effectiveness of these strategies.

Table 2
Mauchly's Test of Sphericity

Within-subjects effect	Mauchly's W	Approx. χ^2	df	P	Greenhouse-Geisser ε	Huynh-Feldt ε
Strategy	.778	57.881	20	< .001	.925	.950

Note. The significant result indicates that sphericity was violated, so the Greenhouse-Geisser correction was applied.

Table 3
Repeated Measures ANOVA for Perceived Effectiveness of Recovery Strategies

Source	df	F	p	Partial η^2
Strategy (Greenhouse-Geisser)	5.548	3.248	.005	.014

Note. $N = 234$. Greenhouse-Geisser correction applied because sphericity was violated.

Table 4
Multivariate Test (Wilks' Lambda) for the Effect of Strategy

Effect	Wilks' Λ	F	Hypothesis df	Error df	p	Partial η^2
Strategy	.911	3.694	6	228	.002	.089

Findings, Suggestions and Conclusion

Findings

1. It was observed that all seven recovery strategies were rated favourably. Mean scores ranged from 3.72 to 4.06, so respondents consider every strategy fairly effective in reducing NPAs.
2. It was observed that SARFAESI Act 2002 was rated the most effective (M = 4.06, SD = 1.06). One Time Settlement (M = 4.01) and Lok Adalat (M = 3.95) followed, so enforcement without court intervention and negotiated settlement are the preferred routes.
3. It was found that Asset Reconstruction (ARC) was rated the least effective (M = 3.72, SD = 1.13). DRT and the RDB Act 1993 shared a mean of 3.79, and EWS stood in the middle (M = 3.88).
4. Further the ratings of OTS were the most varied (SD = 1.195), which suggests respondents disagree most about OTS. SARFAESI Act ratings were the most consistent (SD = 1.060).
5. The difference between strategies is statistically significant. Mauchly's test showed that sphericity was violated (χ^2 (20) = 57.88, $p < .001$), so the Greenhouse-Geisser correction was applied. The repeated measures ANOVA was significant, F (5.55, 1293.2) = 3.25, p = .005, partial $\eta^2 = .014$. The multivariate test agreed (Wilks' $\Lambda = 0.911$, p = .002). The null hypothesis is therefore rejected.

Suggestions

1. It was found that SARFAESI Act and OTS the first line of recovery. Since bankers rate them highest, banks can use them early for eligible accounts, supported by clear internal policies on timelines and approvals.
2. Review how ARC transfers are carried out. As ARC received the lowest rating, banks and regulators could look at pricing, transfer timelines and the transparency of the resolution process.
3. Speed up DRT and RDB Act proceedings. Their ratings are below the top group, so strengthening tribunal infrastructure, filling vacancies and limiting adjournments could improve outcomes. This is a policy suggestion for the legal system, not a finding of this study.
4. Banks should use Lok Adalat scheme to route smaller bad loans cases to clear them quickly and at low cost.
5. Strengthen Early Warning Systems as a prevention tool suggest improving regular monitoring of stressed assets.

Conclusion

This study highlights what really works when it comes to recovering non-performing assets. Survey findings show that the SARFAESI Act and One-Time Settlement schemes are seen as the most reliable recovery tools. The main takeaway is that relying on just one recovery channel isn't enough. Banks need a combined strategy

that connects default prevention, negotiated compromises, and formal legal action. Strengthening early warning indicators and speeding up recovery systems will help banks recover more funds and keep balance sheets healthy. While future research should compare these perceptions against actual recovery figures, these insights provide a realistic guide for bankers and policymakers aiming to improve asset quality.

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