

# Overhang of NPA problem in Banks in India and SAARC Countries : A Survey Based Approach

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## Abstract

Management of Non Performing Advances (NPAs) is a recurring issue for bankers; given the macroeconomic conditions prevailing in the country from almost a decade; with low recovery from NPAs aggravating this issue. The objective of this study is to bring out the causes of NPAs in Banks in India and neighboring countries, through a survey based approach. The survey data was collected through a questionnaire administered to persons from credit and recovery departments of the banks in India and abroad. For the purpose of collecting primary data on above issues, two questionnaires were designed, one for domestic banks and another for banks in other countries. The analysis is based on 218 responses from Indian bankers and sixty one responses from banks in neighboring SAARC countries. The analysis shows that in case of both India and SAARC countries; diversion of funds/wilful default by promoters is the major factor causing NPAs.

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**JEL Code :** G21, G31, G32

**Keywords :** Credit Risk; Loan Quality; SCB; NPAs; Recovery Rate; Capital Adequacy Ratio; Basel Accord; SAARC; India

## I Introduction

LENDING IS THE principal business for banks. Over the years, lending operations have become increasingly competitive and closely linked to the country's economic conditions. Given the macroeconomic conditions prevailing in India for several years; management of Non Performing Advances (NPAs) is a recurring issue for Indian banks; and the low recovery from NPAs has worsened the situation. Rather than a full blown banking system crisis as experienced internationally; post the sub-prime crises, banks in India are experiencing periods of banking system instability, in terms of mounting NPAs and declining recovery, low profitability and declining bank's capital adequacy. Recently, economists Arvind Subramanian and

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Default by borrowers is a problem not only in India but also in some of the SAARC countries. Better monitoring and controls to prevent diversion of funds would help banks control the NPA issue. Apart from this, the results of this study would be very relevant to banks and regulators.

### 5.1 Limitation of Research

This research is based on a primary survey of bankers during the period Jan 2019 to January 2020. A longer time period would provide additional useful information on NPAs. The international respondents surveyed are smaller in number, a larger sample size could be used in future studies. The study uses simple tools of analysis which is a limitations of the study. It is important to mention here that a larger representation from Nepal with respect to SAARC countries is a major limitation of this study.

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**Annexure I  
Questionnaire on**

**Determinants of NPAs and Recovery in Banks in India: A Survey**

Name of the respondent

Department

Designation

**Organization: Tick the Appropriate One (Write the Name of your Bank)**

- Public Sector Bank
- Old Private Sector Bank
- New Private Sector Bank
- Foreign Bank

1. The Indian Banking Sector is reeling under pressure from growing NPAs. Please indicate, the relative importance of the following factors, which cause NPAs in your bank (on a scale of 1 to 6, where 1 = no impact of the factor; 2 = very low impact; and 6 = very high impact)

Serial No.	Issue	1	2	3	4	5	6
<b>Internal Factors</b>							
1	Deficiencies in Credit Appraisal						
2	Excessive Dependence on collaterals / Lending on asset based rather than cash flow based evaluation						
3	Non-identification of early warning signals/ Deficiency in Post Sanction Monitoring						
<b>External Factors</b>							
4	Sanctioning loans to non-viable projects under-Influence of the Big Promoter - Political Pressure						
5	Changes In market factors such as - Input prices and cost escalation- Lack of demand- Change in Technology-Competition						
6	Changes in regulatory environment such as- licenses and sector-specific policies- Delays in project approvals, land sanctions etc						
7	Diversion of funds/Wilful Default by Promoters						
8	Any Other, Please Specify						

2. From the Question 1, kindly write the factors which resulted in non-performance of the "Ten Largest Accounts" of your Bank (Mention with the account name, if possible).
3. RBI and the Government of India have taken several initiatives to resolve the NPA issue. To what extent do you believe that these measures would be/have been effective in resolving the NPA issue.  
Very much \_\_\_\_\_ Some what \_\_\_\_\_ Not at all \_\_\_\_\_
4. What was the rate of recovery (Recovery as a percentage of Gross NPAs (amount)) of your bank prior to implementation of IBC, 2016 and RBI circular on Resolution of Stressed Assets (February , 2018)? Kindly tick the appropriate range from below:
  - i. Less than 10 percent
  - ii. Between 11-20 percent
  - iii. Between 21-30 percent
  - iv. Between 30 - 40 percent
5. What is the rate of recovery post implementation of Insolvency and Bankruptcy code 2016? Kindly tick the appropriate range from below:
  - i. Less than 10 percent
  - ii. Between 11-20 percent
  - iii. Between 21-30 percent
  - iv. Between 30 - 40 percent

Source : Self Formulated

**Annexure II**  
**Questionnaire on**  
**International Determinants of NPAs and Recovery: A Survey**

Name of the respondent \_\_\_\_\_

Name of Country \_\_\_\_\_

Name of Organization/Bank \_\_\_\_\_

Department \_\_\_\_\_

Designation \_\_\_\_\_

1. Please indicate, the relative importance of the following factors, which cause NPAs in your bank (on a scale of 1 to 6, where 1 = no impact of the factor; 2 = very low impact; and 6 = very high impact)

Serial No.	Issue	1	2	3	4	5	6
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**Internal Factors**

- |   |   |  |  |  |  |  |  |
|---|---|--|--|--|--|--|--|
| 1 | Deficiencies in Credit Appraisal  |  |  |  |  |  |  |
| 2 | Excessive Dependence on collaterals / Lending on asset based rather than cash flow based evaluation |  |  |  |  |  |  |
| 3 | Non-identification of early warning signals/ Deficiency in Post Sanction Monitoring                 |  |  |  |  |  |  |

**External Factors**

- |   |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|
| 4 | Sanctioning loans to non-viable projects under-Influence of the Influential Borrower- Political Pressure                           |  |  |  |  |  |  |
| 5 | Changes In market factors such as -Input prices and cost escalation- Lack of demand-Change in Technology-Competition               |  |  |  |  |  |  |
| 6 | Changes in regulatory environment such as- licenses and sector-specific policies- Delays in project approvals, land sanctions etc. |  |  |  |  |  |  |
| 7 | Diversion of funds/Wilful Default by Borrower  |  |  |  |  |  |  |
| 8 | Any Other, Please Specify _____  |  |  |  |  |  |  |
2. The Central Bank of your country and the Government may be taking several initiatives to resolve the NPAs. To what extent do you believe that these measures have been effective? (Tick the Appropriate answer)
- I. Very much \_\_\_\_\_
- II. Some what \_\_\_\_\_
- III. Not at all \_\_\_\_\_
- IV. No involvement of Central Bank/Government in effecting recovery \_\_\_\_\_
3. What is the rate of recovery (Recovery as a percentage of Gross NPAs (amount)) of your bank? Kindly tick the appropriate range from below:
- I. Less than 10 percent
- II. Between 11-20 percent
- III. Between 21-30 percent
- IV. Between 31 - 40 percent
- V. Above 40%
4. Do you have an Insolvency/ Bankruptcy code in your country to resolve NPA problem?
- A. Yes
- B. No
- C. Uncertain
5. If Yes, how effective is the Insolvency Law/Code in resolving NPAs in your country?
- i. Very much \_\_\_\_\_
- ii. Some what \_\_\_\_\_
- iii. Not at all \_\_\_\_\_

Source : Self Formulated