

Role of Sarfaesi Act in NPA Resolution : An Analytical Study

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Abstract

Banking sector plays a pivotal role in the development of an economy. The development role it Undertakes Determine the pace of development of the economy. In recent times the Banks have become very cautious extending loans, the reason being mounting non performing assets. NPA plays a very crucial role in assessing the performance of Banking institutions and has become an approach to analyze the Profitability of private and public sector banks. Net Worth and Profitability is also declining due to hike in the problem of npa in banking sector. This paper mainly focuses on recovery of NPA by Scheduled Commercial Banks through SARFAESI act, 2002 and also Analyses trend of NPA in SCBs.

Keywords: Performing Assets, Recovery, SARFAESI Act , Profitability, Scheduled Commercial Banks.

Introduction

Public sector banks themselves must handle their non - performing assets (NPAs) by strengthening their recovery departments to minimize the role of Borrowers and their cohorts masquerading as experts who drive undue benefits from a wellintentioned scheme. The Securitization and Reconstruction of financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) was born out of the Narasimham Committee– II recommendations after some modifications. The ever–growing Non Performing Assets, a fine euphemism coined to describe the bad loans, prompted the passing of the Recoveries of Debts due to Banks and Financial Institutions Act, 1993 where by a special Debt Recovery Tribunal (DRT) was set up for the recovery of NPA. However this could not speed up the recovery on one hand and on the other the strict civil law requirements rendered almost futile the attachment and foreclosure of the assets given as security for the loan. Further, the balance sheets of the banks and financial institutions were turning red due to heavy mandatory provisions for NPAs.

Realizing that every fifth borrowers is a defaulter, the Government was under pressure to make adequate provisions for the recovery of loans and also to foreclose the security. The Securitization Act, 2002 aims to achieve these twin objectives besides providing for a broad legal framework for asset securitization and asset reconstruction.

Conceptual framework of NPA

An asset, including a leased asset becomes non -performing when it ceases to generate income for the bank. NPA was defined as a credit facility in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue norm for identification of NPAs from the year ending March 31, 2004. Accordingly with effect from March 31, 2004 , a non performing asset shall be a loan or an advance where ;

1. Interest and /or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.
2. The account remains 'out of order' for a period of more than 90 days in respect of an overdraft / cash credit (OD / CC)
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest and /or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.



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Categories of NPAs

Banks are required to classify non performing assets further into the following three categories based on the period for which the asset has remained non performing and the reliability of dues.

Sub-standard Assets :With effect from 31 March, 2005 a sub-standard asset would be one which has remained NPA for a period less than or equal to 12 months.

Doubtful Assets :With effect from March 31 , 2005 an asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months.

Loss Assets : A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

Review of literature

Shardha andJain (2016) studied the process and effect of SARFAESI Act, 2002 and its impact in recovering the non – performing assets in Public Sector banks in India. They found that recoveries of NPAs are made easier by the amendment of SARFAESI Act, 2002.

Banana and Chepuri (2016) find that performance of SARFAESI Act, 2002 is more superior to the other recovery channels throughout the study.

Swain et al (2017) study it is inferred that among different mechanisms made by the government. SARFAESI Act, 2002 is the most effective reform measure in the Indian banking industry for NPA recovery.

Objectives of the study

Main objective of this study is analysis of role of SARFAESI Act in NPA settlement.

Methodology

The present study is based on secondary data . The required data were collected fromRBI reports of different years. RBI's Report on Trend and Progress of Banking in India for various years, websites have been referred during the study. It also highlights trends of NPA in Scheduled Commercial Banks during the period of 10 years i.e. from 2011 to 2020. Several research journal including research paper and articles have been also used by the researchers.

Analysis of Data and Findings

Gross and Net NPA

Table 1

NPAs of Scheduled Commercial Banks (Amount in ₹ crore)

Year	Gross NPA	Net NPA	Gross NPAs as percent of Gross Advances
2011	97900	41800	2.4
2012	142900	65200	2.9
2013	194000	98600	3.2
2014	263000	142600	3.8
2015	322900	175800	4.3
2016	611600	349800	7.5
2017	790200	433000	9.3
2018	1039700	520700	11.2
2019	936474	355068	9.1
2020	899803	289531	8.2

Source : RBI's Report on Trend and Progress of Banking in India

Above table shows increasing trend of Gross NPA and Net NPA in Scheduled Commercial Banks (SCBs) from 2011 to 2018. In 2011 Gross NPA in SCBs ₹

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97900, then showing increasing trend in 2018 it was ₹ 1039700. But after 2018 in Gross NPA and Net NPA both are declining. In 2020 Gross NPAs of SCBs are ₹ 899803 and Net NPA is ₹ 289531. Same trend also seen in Gross NPAs as percent of Gross Advances. It also showing increasing trend till 2018. In 2020 it is 8.2 percent.

Recovery of NPA

Reserve Bank of India and Government continuously effort to increase level of recovery of NPA. So many provisions and act made by them. SARFAESI Act, 2002 is one of them.

Table – 2
Recovery of NPAs by SCBs through SARFAESI Act
(Amount in ₹ crore)

Year	No. of Cases referred	Amount involved	Amount recovered	Percent of Amount recovered to Amount involved
2011	118642	30604	11561	37.78
2012	140991	35300	10100	28.61
2013	190537	68100	18500	27.17
2014	194707	95300	25300	27.00
2015	166804	146306	23434	16.02
2016	173582	80100	13200	16.5
2017	199352	141400	25900	18.3
2018	91330	81879	26380	32.2
2019	235437	258642	38905	15.0
2020	105523	196582	52563	26.7

Source : RBI 's Report on Trend and Progress of Banking in India

All over study and analysis of above table we find that. of cases referred under SARFAESI Act is continuously fluctuate with increasing trend. In 2011 under SARFAESI Act no. of cases referred 118642. Maximum no. of cases referred under SARFAESI Act in 2019 during study period. It also found that Percent of amount recovered to amount involved fluctuate trend in study. It ratio was maximum level in 2011 and minimum level in 2015.

Conclusion

NPA are draining the capital of banks and weakening their financial strength. It is also as a political and a financial issue. The banks and financial institutions should be more proactive to adopt a pragmatic and structured non performing assets management policy where prevention of NPA receives priority. SARFAESI Act is playing a important role in NPA settlement, but it is necessary to do more efforts.

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