International Journal of Innovations & Research Analysis (IJIRA)
ISSN :2583-0295, Impact Factor: 5.449, Volume 02, No. 02 (II), April- June, 2022, pp 137-142

IMPACT OF VARIOUS RECOVERY LEGISLATURES (INCLUDING SECURITIZATION ACT, 2002) ON RECOVERY OF NPA IN SELECTED PUBLIC BANKS

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ABSTRACT

Non-performing assets can be considered a wild creep in the banking sector, in vain the banks which try to cut it. It has thus long been a scary threat to the Indian banking industry. The Government of India and the Reserve Bank of India have tried to control and control the problem with the help of banking reforms recommended by the Narasimhan Committee II, but the side effects of this growing threat have neutralized it. Despite many improvements, steps directed at the solution and elimination of this problem have been taken, but the concrete results are still far away. The problem is so acute that almost all branches of commercial banks are facing it. In order to bring the management of NPAs at par with international best practices, the third and fourth aspects of management have been introduced with more important measures, although the criteria related to the first and second aspects have been gradually strengthened. Recovery of the NPA aspect of management is a remedial measure and it is accountable and focuses on recovery from NPA accounts. This remedial measure includes such Lok Adalats initiated by the Reserve Bank of India, Debt Recovery Tribunal (DRT), Debt Recovery Appellate Tribunal, Securitisation Act, 2002, National Company Law Tribunal etc. A review of the literature indicates that among all these measures the Securitization Act, 2002 is the most notable for clarifying the problem of NPAs. This was the first-time banks were empowered to understand long-term NPAs with increasingly result oriented instruments as the Act. But the level of NPAs has still not reached the standard level (2%). According to a comparative analysis of NPAs of PSBs and private sector banks, THE NPAs of PSBs are much higher than those of private sector banks. It is therefore imperative to evaluate the impact of various Recovery Acts on NPAs in PSBs with the help of statistical data on NPAs and bankers' perspectives.

Keywords: *Recovery, Enactments, Dynamic, Advances, Recovery, SARFAESI, Creditworthy.*

Introduction

The amendments to the Act and RBI guidelines in managing NPAs have been futile as all the NPA ratios have increased substantially. The introduction of these developments have boosted banks' ability to assess and manage their credit risk and there is many ways to rebuild bad loans, nor are they able to support activities to increase the quality of loans and assets are capable. The reason behind this could be that the RBI has tightened NPA disclosure norms after the 2009 recession and the ageing of the Act. All NPA ratios from NNPA to total assets have deteriorated as NPAs cannot be re-created with momentum as they piled up and the Act got outdated over time. So over time, amendments and guidelines should make this Act effective for today's obligation against the rising NPAs of banks to make this Act effective. Thus, the amendments to the Act and RBI's guidelines have had a negative impact on banks' NPAs and its management has not improved. The Act has not only given legal framework to recovery activities but also speeded up the recovery of NPAs of banks and opened the entry route for banks to start their overdue amount themselves. It has been extremely important in fulfilling the purpose of its existence.

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Securitization Act, 2002

Before 1993, the Companies Act, 1956, was the only option; Banks and financial institutions have to recover loans that used to take years to solve the problem of NPAs. In 1993, the FI Act was introduced to expedite the recovery of NPAs of banks and the NPA recovery process. But soon, a lot of cases piled up for resolution, and again, the recovery processes began to be delayed. Act to enable banks and financial institutions to improve recovery, manage liquidity problems, convert long-term assets into marketable securities, reduce NPAs, acquire and sell securities by adopting recovery methods for enforcement of powers. It has been empowered to bring in the difficulties of liquidity and asset-liability inequality. In 2002, the SARFAESI Act was enacted for the recovery of NPAs of the banking and FI sector. The Act was result oriented and, at the same time, provided superpower to banks and financial institutions to fight rising NPAs. The Act was conceptualised with the constitution of the Andhiyarjina Committee and Narasimhan Committee I and II by the Central Government to examine the need to reform the banking sector and to make changes in the legal system relating to these sectors. The councils proposed another act of securitization to authorise banks and financial institutions to take up secured assets and trade them without the intervention of courts. On June 21, 2002, following the panel's recommendations, the President announced "The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Armaments, 2002". A bill was introduced in the People's House to replace this armament with an Act, but parliament was not in session at that time, so it could not be passed. The President was aware that there was a need to take quick steps in the present circumstances to give a sustained effect to the provision of the said armament for recreation of financial assets, securitization, enforcement of security interests, etc. The President promulgated the SARFAESI Ordnance on 21 August 2002, in exercise of the power contemplated by the Indian Constitution. The SARFAESI Bill was introduced by an Act in Parliament to replace this ordnance. On December 17, 2002, the SARFAESI Bill, with the assent of the President, was passed by both houses of parliament. It appeared in the statute book as "Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002".

Significance of the Study

The study aims to explore the impact of the Act in select public sector banks with primary and secondary data and the results of the study will be beneficial in many ways to the Government of India, bankers and customers. The Government of India may refer to the study while making further amendments to the Act as the results of the study are based on the perception of the bankers with regard to the Act. In the study, the banker gives his views on the need for various aspects and challenges under the Act. Bankers can review the study for findings of procedural deficiencies while taking action under the Act. Customers whose account has been taken under the Act can take the help of the outcome of the study to pursue their case under the Act. Thus, the study reveals the importance of studying the impact of the Act with the Government of India, bankers, customers and academics.

Literature Review

Anjali Prava Mishra and Muna Sahu (2018) have analysed the financial performance of SBI and its affiliates and summarized the impact of NPAs on the profitability of SBI and its affiliates. The NPAs and net profit of SBI and its affiliates have increased and decreased respectively. It is thus learnt that the increase in net NPAs of SBI and its affiliates has had no significant impact on its net profit, net interest margin, return on equity, return on advance and return on investment.

Dr. Seema Shaukin (2017) has observed that there has been an increase in the recovery of NPAs but the profitability situation has not changed after the enactment of securitization at the State Bank of Patiala. It is observed that the level of gross NPAs and net NPAs of State Bank of Patiala has been significantly affected by the Securitization Act, 2002. After the enactment of the Act, the level of gross and net NPAs in the State Bank of Patiala decreased year after year.

Dr. Manas Chakravarty (2015) attempted a comprehensive analysis to study the role of ARCs and NPAs in the Indian banking sector. The study also explores the many complexities that hinder the smooth functioning of ARCs and attempts to explore the scenario of ARC in the Indian economy. It is thus concluded in this study that NPA can be effectively managed with ARC if it has regulatory powers as nodal solution agency coexisting with CDR mechanisms. The performance of these ARCs can be improved by taking less time to resolve and extract the recovery. Fear of being identified as a loser for recovery of bad loans forces bank officials not to sell this bad debt to ARC. It is believed that the work of the ARC should be reviewed to increase transparency with the help of an appropriate mechanism so that banks and financial institutions do not immediately sell assets to clear their balance sheets to support the ARCs' resolution efforts.

Munish Gupta and Dr. Rajni Saluja (2018) have stressed on studying bank-wise trend analysis of NPAs in PSBs during the pre-enactment and post-enactment period of the SARFAESI Act 2002. Analysis of PSB's study shows that the Indian bank which was ranked 10th after the enactment of the SARFAESI Act has secured the first position and reduced the average NPA ratio from 28.79% to 3.13%, thereby naming Indian banks as the "most valuable lender" in the PSBs under study. The Central Bank of India has been ranked 10th from 7th position as its average NPA ratio has come down to 5.97% from 17.62% after the enactment of the SARFAESI Act 2002. SBI, Central Bank, Punjab & Sind Bank and Punjab National Bank are effective in maintaining. Stability in ranking position compared to other banks.

Dr. Nagaraju Y and Karuna M (2014) tried to explore the causes of NPAs and their recovery mechanisms, which are followed by banks. The study tells the officers of selected bank branches about the effectiveness of the Act in reducing NPAs through the questionnaire methodology. The letter also sought to seek information about several provisions of the Act regarding reduction of NPAs for recovery in banks.

Nibedita Roy (2012) in her research paper "Securitization in the Indian Banking Industry – A Risk Management Tool" aims to examine the various aspects of the banking sector that are affected as a result of the application of the mechanism of securitization and its impacts on the Indian banking sector. She also obtained understanding of the impact of this advanced mechanism on the risk management aspects of organizations as well as on performance.

Objectives of the Study

The objectives of the study to evaluate the impact of various legislatures on recovery of NPA. The specific objectives are as follows:

- To explain the need of legislatures for NPAs Management.
- To make an analysis of perception of Banks toward role of NPA Management.
- To identify various challenges arising due to legislatures.
- To study the impact of legislatures on NPAs

Hypothesis for Study

H_{o1}:	There is no significant difference between before and after the enactment of the various recovery legislatures on different dimensions of NPAs.
H_{o2}:	There is a significant difference between before and after the enactment of the various recovery legislatures on different dimensions of NPAs.

Research Design

Based on the way there are objective perspectives, this study is exploratory because the potential of the study is very large. The present study also characterizes some features of descriptive research design. Depending on the methodology of the investigation perspective, both qualitative and quantitative approaches have been used before and after and as cross-sectional study designs to study the impact of different recovery laws on NPA and its management. The before and after study is based on secondary data, analysis of gross and net NPA values for advances and total assets to study the impact of the Act on NPAs of selected PSBs, and the study of the time period before enactment of SARFAESI Act and after that. The cross-sectional study design is based on primary data analyzing the perception responses of bankers to the act in NPA management.

Sample Size for the Present Study

As discussed so far, the data collection methods used under study is mixed methods and also include qualitative and quantitative. The secondary data for sample banks (SBI and PNB) have been collected from online publications and various websites of the Reserve Bank of India.

Data Collection

Primary data have been collected by giving a questionnaire to bankers of sample banks, which consists of four parts. The questionnaire is designed to collect information on various items to explore the need for the Act in NPA management. Respondents are asked to choose one of the options given. Similarly, the third part contains 13 items on bankers' perception of the act in NPA management. These items were also based on the same multiple choice. The last and fourth parts of the questionnaire have various questions on the derivative of challenges under the Act.

Data Analysis

For analysing secondary data, inferential statistical techniques have been used, which are shown as below:

- **Cronbach's Alpha Test**: This has been applied to test the reliability of the Questionnaire which is used to collect primary data for undertaking the study.
- **ANOVA Regression:** This modal of regression has been applied to find the impact of IDVs on DVs. IDVs taken under the study are in form of binary qualitative variables and DVs are in form of quantitative variables. The tests were conducted at a 95 percent confidence level (5 percent level of significance).

Result and Analysis

To analyse the effect of SARFAESI and other Acts the Net NPA and Gross NPA data have been analysed for period before and after introduction of above-mentioned legislature for the selected Banks.

Table 1: NPAs Ratios of SBI Bank

	SBI		PNB	
	Net NPA to Advances	**Gross NPA to Advances**	**Net NPA to Advances**	**Gross NPA to Advances**
1995-96	6.61	15.96	12.7	18.74
1996-97	7.3	16.02	10.38	16.31
1997-98	6.07	14.14	9.57	14.5
1998-99	7.18	15.56	8.96	14.12
1999-00	6.41	14.25	8.52	13.19
2000-01	6.03	12.93	6.69	11.71
2001-02	5.64	11.95	5.27	11.38
Introduction of The Securitization Act, 2002				
2003-04	3.45	7.75	0.98	9.35
2004-05	2.65	5.96	0.2	5.96
2005-06	1.88	3.6	0.28	4.1
2006-07	1.56	2.92	0.75	3.45
2007-08	1.8	3	0.6	2.7
2008-09	1.8	2.8	0.2	1.8
2009-10	1.72	3.09	0.53	1.72
2010-11	1.63	3.35	0.85	1.8
2011-12	1.82	4.57	1.52	2.97
2012-13	2.1	4.9	2.35	4.36
2013-14	2.57	5.09	2.85	5.41
2014-15	2.12	4.36	4.06	6.75
2015-16	3.81	6.71	8.61	13.54
2016-17	3.71	7.15	7.81	13.2
2017-18	5.73	11.55	11.24	19.97
2018-19	3.02	7.90	6.56	17.23
2019-20	2.23	6.15	5.78	14.21

Source: RBI website & Capitalineplus.com and Thesis on "Impact of Securitization on NPA" by Chandni Singh

To assess the enactment of the various recovery legislatures on different dimensions of Gross NPAs, ANOVA regression analysis was performed and is shown in the following table:

Table 2: ANNOVA Table for Gross NPA to Total Advances

ANOVA[a]						
Model		**SS**	**df**	**MS**	**F**	**Sig.**
1	Regression	**1611.597**	**1**	**1611.597**	**88.912**	**.000[b]**
	Residual	**1998.610**	**113**	**18.002**		
	Total	**3639.311**	**114**			

a. Dependent Variable: Gross NPA to Total Advances

b. Predictors: (Constant), The_Securitization_Act_2002=Before

Researchers Own Calculation using SPSS

This table implicit ANOVA statistics. The table demonstrates the various SS and the df related to each. MS has been calculated by dividing SS by the related df. F-ratio and the related significant estimate are a vital part of this table. For this information, F is 88.912, which is significant at $p < .001$. This outcome reveals to us that if Ho were true, then an F-ratio of this estimate would occur with a possibility of less than 0.1%. Along these lines, we might infer that our regression model outcomes are a considerably well prediction of Gross NPAs to Total Assets just by entering the one dummy variable than if we utilized the mean estimation of the dependent variable. In brief, The ANOVA tells us that the regression model overall predicts Gross NPAs to Total Assets significantly better. Hence enactment of the various recovery legislatures has improved the recovery position.

Table 3: ANNOVA Table for Net NPA to Total Advances

ANOVA[a]						
Model		**SS**	**df**	**MS**	**F**	**Sig.**
1	Regression	**491.124**	**1**	**491.124**	**99.541**	**.000[b]**
	Residual	**519.234**	**113**	**4.815**		
	Total	**982.23**	**114**			
a. Dependent Variable: Net NPA's_to_Advances						
b. Predictors: (Constant), The_Securitization_Act_2002=Before						

This table implicit ANOVA statistic. The table demonstrates the various SS and the df related to each. MS has been calculated by dividing SS by the related df. F-ratio and the related significant estimate are the vital part of this table. For this information, F is **99.541**, which is significant at $p < .001$. This outcome reveals to us that if Ho were true, then an F-ratio of this estimate would occur with a possibility of less than 0.1%. Along these lines, we might infer that our regression model outcomes are considerably well prediction of Net NPAs to Advances just by entering the one dummy variable than if we utilized the mean estimation of the dependent variable. In brief, The ANOVA tells us that the regression model overall predicts Hence enactment of the various recovery legislatures has improved the recovery position.

Conclusion

The high rate of recovery under the Act and the formation of ARCs have removed the NPA delays. But still, the constitutional framework for securitisation and reconstruction of bad loans is at an early stage in India as it is confined to specific organisations, especially banks and budgetary foundations, as it relates to bad loans of banks/financial institutions. A number of important provisions are needed to make it more effective and efficient in the recovery of the Act, there is undoubtedly advanced progress, and has earned praise and should be looked forward to. It can be trusted that in the coming years, an increasing number of negotiations under the Act can be integrated so that the market grows and achieves an induced phase, such as the UK or the US, as if this exercise will help in the development of the economy. As stated in this study, certain amendments and RBI guidelines have been introduced with regard to the Act, which are literally worded in the Act, but are adequate and effective as required in the current scenario of NPAs in the banking sector could not be proved. It is therefore the need of the hour that the Act should be adequately changed to accommodate market needs and adjusted for the increased amount of securitization and reconstruction of NPAs. So far, the Act has proven to be efficient in managing NPAs compared to other measures in the same sector, but the level of NPAs in Indian PSBs is still under threat. Many of the provisions of the Act to separate secured assets from borrowers are technical, not operational. Either way, if banks have acquired secured assets, it is difficult for banks to sell it to ARC and public by auction at a reasonable price. The Act thus lacks several important provisions to enhance the effectiveness of the Act for the banking sector as a whole.

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