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Management of Non-Performing Assets- Perception of Bank Officers

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Abstract

A healthy banking industry is a pre requisite for the development of any economy, but in the current economic scenario, the rise in Non Performing Assets (NPAs) of Indian Banks is an alarming Situation for India. The problem of NPAs is related to several internal and external factors confronting the borrowers. Bank officials are important functionaries involved in the operations of the bank, so it was felt that obtaining their opinion, pertaining to NPAs is useful and hence an attempt has been made to know their perception towards the management of NPAs. A survey was conducted with a structured questionnaire. Important causes and impacts of NPAs were studied and ranked. The bank officials considered diversion of fund,economic slowdown and wilful default as the most important causes and erosion of profits and increasing provisions as the two most important consequences of NPAs. Kendall's coefficient of concordance indicates that there is significant agreement among bank officials in the ranking of different causes and different items of impact of NPA. Further, Analysis of variance (ANOVA) analysis revealed that there is no significant relationship between cadre of bank officials and the causes and items of impact of NPA. The perception of bank officials and Chartered Accountants (CAs) towards other causes was also studied. Bank ownership, Aggressive lending for improving volume of business, Vagaries of monsoon particularly in case of agricultural advances and Waiver of loans by Government have contributed to NPAs are some of the other important causes of NPAs.Recovery measures like Proper sanction process, making borrowers accountable, close monitoring and supervision, maintaining rapport with borrowers, proper pre sanction and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI)Act prove to be more effective in reducing/containing NPAs.

Keywords: NPAs, Bank Officials, Causes, Impact, *Kendall's coefficient of concordance*

1. Introduction

The Indian banking sector accounts for a major portion of financial intermediation and a robust and thriving banking sector is the backbone of a fast emerging economy like India. The Non-Performing Assets (NPA) is an important prudential indicator to assess the financial health of the banking sector. Ever since the prudential norms of assets classification and provisioning have been aligned to international standards, banks in India began to confront challenges in improving the asset quality**.**In thefinancial stability report, the RBI noted that the gross non-performing assets (GNPA) ratio of the banking sector has already risen to 9.6% and Net NPA (NNPA) ratio of the banking system rose to 5.5% as on March 2017.Public sector banks continued to be the underperforming segment among scheduled commercial banks (SCBs), as their GNPA ratio showed a consistent rise since March 2013. NPAs in public sector bank loans to industries worsened to 22.3% as on March 31, 2017.Against this Back drop, it is felt there is need to study based on primary data, causes, and impact of NPAs and recovery measures in the Indian Banking Sector.

1.1 Concept of NPAs

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. An NPA is a loan or an advance where;

- interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- the account remains ‘out of order’ in respect of an Overdraft/Cash Credit (OD/CC),
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

1.2 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 realisability of the dues:

- **Substandard Assets***:*With effect from 31 March 2005, a substandard asset wouldbe one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

- **Doubtful Assets:**With effect from March 31, 2005, an asset would be classified asdoubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values - highly questionable and improbable.

- **Loss Assets**:A loss asset is one where loss has been identified by the bank or internalor external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

2. Review of literature

NPAs as an area of research has attracted the attention of lot many researchers and researches have been carried out from time to time in the arena of NPAs. Here below, we reviewed few studies.

Harpreet[4] (2006) in her thesis titled “Credit management and problem of NPAs in Public Sector Banks[4]” highlighted the problem of non-performing assets in public sector banks. Viewpoints of the managers regarding problem of NPAs have been studied by selecting 120 managers from various branches of public sector banks in Punjab. Perceptions of borrowers contributing to NPAs have also been studied by selecting 100 defaulters from public sector banks in Punjab. Author suggested that for effective handling of NPAs, there is an urgent need for creating proper awareness about the adverse impact of NPAs on profitability amongst bank staff, particularly the field functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

SanjeevGunjan[3] (2007) attempted to identify the critical factors, which are responsible for the loans to go bad in the Indian commercial banking system based on primary data collected from credit mangers of banks. The study revealed that the external factors have a higher influence compared to the internal factors. Economic downturn and willful default have been found to be most critical. Poor credit scoring skills of managers, absence of suitable administrative penalties and target completion have been found to have a significant influence amongst factors related with the loan appraisal mechanism. Seizure and disposal of collateral have been found to be the toughest challenges amongst the factors related with the loan monitoring and controlling mechanism. Loan managers' level of motivation, manpower, skills to appraise collateral, efforts to reduce costs, government and political intervention and soft budget constraints have been found to have a lower influence.

Anindita Chakraborty[2] (2012) attempted to find the employees' perception towards the NPA and according to them what were the probable causes of having bad loans. This paper described a self-assessment scale, and investigated its reliability and validity for measuring employees' perception towards NPAs. It has compared the perception of both the Public and Private sector employees towards NPAs and revealed that there was significant difference their opinions. The study also revealed that there were six prominent factors such as proclivity, endorsement, in expertise, inept, intrusion and deliberately which in the perception of employees are responsible towards NPAs. It is further observed that five out of six factors proclivity, endorsement, inept, intrusion, deliberately having significant difference between private and public sector banks perception. One factor i.e. in expertise had no significant difference between private and public sector banks. The study further concluded that manager's motivation level, manpower, skills to appraise collateral, efforts to reduce costs, government and political intervention and budget constraints should also be given priority while giving loans to the customers. If the banks take care of these factors they can able to reduce NPAs.

Muhammad Farhan,et al.[6] (2012) conducted study in Pakistan to highlight the economic factors of Non-Performing Loans (NPLs) via primary data collection from loan providing and approving authorities of Pakistani banking industry. According to the results Pakistani bankers perceive that Interest Rate, Energy Crisis, Unemployment, Inflation, and Exchange Rate has a significant positive relationship with the NPLs of Pakistani banking sector while Gross Domestic Product (GDP) growth has significant negative relationship with the NPLs of Pakistani banking sector. This study also discussed how good loans are turning into bad loans due to disaster in energy sector of Pakistan and how this energy crisis are badly affecting the banking sector of Pakistan.

Shenbagavalli, et al.[9] (2013) analysedthe impact and effect of NPAs of public sector banks and suggested the suitable strategies to control and manage NPAs based on primary data analysis. The risk matrix for NPAs explains that the cause for NPAs are the internal and external factors among which the wilful default by the borrower(external) and inefficient credit appraisal system(internal) are the key determinants. The findings of the study were to suggest the steps to minimize the credit risk and control the NPAs.

3. Methodology

This study was focused on the perception of Indian bankers and the convenient sample selected, comprising of 125 bank officials of different SCBs and of different experience groups, career levels and departments. The data was collected through a structured questionnaire. The reliability of the questionnaire was carried out by using a pilot test. Cronbach's alpha was used in assessing the reliability of tests and it was 0.73 which is above acceptable reliability. The collected data were presented and analyzed using the SPSS software package. Statistical tests like Chi Square ($\chi 2$ test),Kendall's coefficient of concordance, ANOVA analysis and F-test were used analyse the data and arrive at conclusions.

The following the hypothesis was formulated and tested.

H_1: There is no significant agreement among the Bank officials in the ranking of different causes of NPAs.
H_2: There is no significant difference between cadre of management and their perception toward the causes of NPAs performance.
H_3: There is no significant agreement among the Bank officials in the ranking of different impacts of NPAs.

4. Results and Discussion

The results are discussed in the forthcoming paragraphs

4.1 Respondents' Profile

Based on experience, the officials of the banks were divided into four groups. The officials of first group have the experience of less than 10 years, the second group has an experience of 10 to 20 years, the third group with experience between 20 and 30 years, and fourth group consists of officials with an experience of 30 years and above. Table 1 shows that 32% bank officials are in 1st group, 24% in 2nd group and 16% in 3rd group whereas there are 35% in the 4th group. Majority of respondents (68%) had worked with banks for more than 10 years.

Based on cadre, the officials of the banks were divided into four groups. The officials of the first group belong to Junior Management, second group consists of Middle Management, the third group consists of Senior Management and Top Management constitutes the fourth group. Top Management involves in framing policies and guides implementation. Senior Management guides and supervises execution of policies and monitoring of implementation of policies and execution in the field. Junior and Middle Management being at the operational level carry out the instructions of the Top and Senior management. All of them are involved either in lending, monitoring, inspection, or recovery. This shows that all respondents had enough knowledge of the lending, monitoring and recovery activities and NPAs.Majority of the respondents were in the Middle (40%) and Senior Management (28%), both the Junior and Top Management accounted for about 16% each (Table 2).

4.2 Perception on causes of NPAs by Bank Officials

The ranks and mean scores in respect of reasons identified for NPAs on the basis of importance attributed by bank officials are furnished in Table 3. It is observed from above table that the most ranked factor contributing to NPAs was diversion of funds i.e., allocation of funds by borrowers to businesses other than agreed one. The second significant factor was Economic slowdown, followed by wilful default and Lack of supervision and follow-up in that order. Government policies and Sluggish legal system were ranked as moderate.High rate of interest and Lending to priority sector wereranked low as reasons of NPAs. It may be concluded, therefore, that factors related to borrowers and E and Economic slowdown and factors internal to SCBswere major causes of NPAs.

The calculated Kendall's coefficient of concordance (W) was 0.310 and thus indicating a fair degree of agreement among bank officials in the ranking of different causes of NPAs. We found out the critical value through computation of x^2distribution values, with confidence of $1 - \alpha$, and $df = n - 1$. Comparing the $p < 0.00001$ with the significance level $\alpha = 0.05$, the hypothesis was rejected and accepted that there is significant agreement among the bank officials (respondents) in the ranking of different causes of NPAs(Table 4).

Management Cadre-wise Distribution of Causes for NPAs

It could be observed that all cadres of Bank officials except junior management have ranked diversion of funds as a major cause for NPAs; junior management has identified wilful default as a major cause. The opinions vary among the management groups in respect of other causes. However, they have uniformly ranked, the causes as low are lack of legal support, lending to priority and high rate of interest (Table 5).

Table 6 reveals the relationship between the cadre of the bank officials and causes of NPAs at 5% level of significance. In case of all the causes the p-value is greater than 0.05. So, we accept the hypothesis (H_2) that there is no significant agreement between the cadre of bank officials and their perception towards the causes of NPAs performance.

Perception of Bank Officials towards Other Causes of NPAs

Besides the causes for NPAs which were ranked by the bank officials, an attempt was made to know the perception of the respondents with regard to following causes. There were two possible responses namely YES (1) and NO (2) for the questions and χ^2test was computed to test the significance. The responses are furnished in Table (7)

Bank Ownership {Public Sector Banks (PSBs)/Private Sector Banks (PVSBs)/Foreign Banks (FBs)}Makes Any Impact on NPAs

Bikker[1], et al. (2006) analyzed the relationship between NPLs and ownership structure of commercial banks in Taiwan with a panel dataset covering the period 1996-1999. The study shows that banks with a higher government ownership recorded lower NPLs. As such bank officials were asked to offer their opinion. The results indicated that 70.40% of respondents agreed that bank ownership (PSBs/PVSBs/FBs) makes impact on NPAs and the relationship is significant as the x^2 value (20.81) is more than the critical value; hence it can be concluded that bank ownership has an impact on NPAs (Table7).

Size of the Banks (in Terms of Total Assets) Makes Any Impact on NPA

In their study of commercial banks in India, by use of panel regression analysis, **Ranjan and Dhal[7] (2003)** indicated that banks' size has significance on occurrence of NPLs. **Salas and Saurina[8] (2002)** indicated that bank size is among the factors that explained variations in NPLs for Spanish banks. **Vighneswara Swamy[10] (2012)**, who found that bank's size, as measured by the ratio of a bank's assets to the total assets of all PSBs has statistically significant negative impact, implying that larger the bank, lower the level of gross NPAs. Bank officials responded to this statement and 60.80% of respondents disagreed that size of the banks (in terms of total assets) makes any impact on NPAs, and the relationship is significant as the x^2 value (5.83) is more than critical value; hence it can be concluded that bank size has no impact on NPAs (Table 7).

Aggressive Lending for Improving Volume of Business

In a situation of liquidity overhang the enthusiasm of the banking system is to increase lending with compromise on asset quality, raising concern about adverse selection and potential danger of addition to the NPAs stock. Studies indicated that loan delinquencies are associated with rapid credit growth. **Keeton[5] (1999)** who used data from commercial banks in the United States (from 1982 to 1996) and a vector autoregression (VAR) model indicates this association between loan delinquencies and rapid credit growth. **Salas and Saurina[9] (2002**) who studied Spanish banks found that credit growth is associated with NPLs. Bank officials offered their opinion and the results indicated that 79.20% of respondents agreed that aggressive lending for improving volume of business is alsoresponsible for increase in NPAs and the relationship is significant as the χ^2 value (42.63) is more than critical value; and hence it can be concluded that aggressive lending for improving volume of business lead to increase in NPAs (Table 7).

Unhealthy Competition among Bankers

Banks in the eagerness and anxiety to increase the volume of business indulge in unhealthy competition leading to the creation of NPAs. Bank officials were asked to offer their opinion on this and their responses indicated that 64% of them agreed that unhealthy competition among bankers has had an adverse impact on NPAs and the relationship is significant as the χ^2value (9.80) is more than critical value; and hence it can be concluded that unhealthy competition among bankers has an adverse impact on NPAs (Table 7).

Over/Under Financing Responsible for NPAs

Whenever banks extend more than the required finance, borrowers divert the funds for other purposes. Whenever under-financing is done, projects get delayed and/borrowers raise the funds from the other sources at higher rate of interest, which reduces their repaying capacity. This leads to non-repayment of loans, resulting in NPAs. Response of the bank officials indicated that 56.80% of respondents agreed that over/under-financing is responsible for NPAs but the relationship is not significant as the χ^2 value (2.31) is less than the critical value (Table 7).

Not Having Maximum Banking Industry Exposure limits to Corporates

Though maximum exposure limits of banks to companies or a group are capped based on the bank's available capital base, there should be maximum banking industry exposure limits to corporates—a move that would curb risks in the banking sector at a time when bad loans are on the rise. Bank officials were asked to respond regarding this statement and the results indicated that 63.20% of them agreed that not having a maximum banking industry exposure limit has an adverse impact on NPAs. The relationship is significant as the χ^2value (8.71) is more than critical value; and hence it can be concluded that having maximum banking industry exposure limits to corporates curbs NPAs (Table 7).

Availability of Quality/Trained Staff to Manage Loan Portfolio is Generally Inadequate

With regards to internal factors leading to NPAs, the onus for containing the same rests with the banks themselves. This necessitates organizational restructuring, improvement in the managerial efficiency, skill upgradation for proper assessment of credit worthiness, and a change in the attitude of the banks towards legal action, which is traditionally viewed as a measure of the last resort. Generally, there is a perception that quality and trained staff are inadequate in banks. So, bank officials were asked to offer their opinion. The results indicated that 60% of respondents agreed that availability of quality and trained staff to manage loan portfolio is generally inadequate, which has an impact on NPAs. The relationship is significant as the χ^2value (5.00) is more than critical value; and hence it can be concluded that availability of quality and trained staff to manage loan portfolio improves asset quality (Table 7).

Compromised Integrity among Bankers Responsible for NPAs

Corruption, as a cause for NPA, is in the researcher's opinion, not a serious one. The number of officers who are not scrupulously honest will not be large in banks; in any case, banks are not monopolies in rendering service and customers will not tolerate corruption. However the respondents were asked to offer their opinion. The results indicated that 64% of respondents disagreed that compromised integrity among bankers responsible for NPAs. The relationship is significant as the χ^2value (9.80) is more than critical value; and hence it can be concluded that compromised integrity among bankers was not an important factor responsible for NPAs (Table 7).

Failure to Bring Owned Funds as Envisaged

Not bringing matching owned funds or internal accruals to complete the projects and realize the projected sales volume; unanticipated liquidity crisis owing to non-infusion of owned funds in time leading to non-realisation of projected income resulting in failure to honour repayment obligations. Though the bank officials responded that failure to bring owned funds have an adverse impact in completion of projects in few cases, 74.40% of respondents disagreed that failure to bring owned funds as envisaged, is major cause or NPAs and the relationship is significant as the χ^2 value (29.77) is more than critical value; and hence it can be concluded that failure to bring owned funds by promoters is not a major cause for NPAs (Table 7).

Time and Cost Overrun in Implementation of Project

Time and/or cost overruns at project implementation stage leading to liquidity strain and non-completion or delayed completion of projects results in scarcity of raw material and other resources for want of funds, ultimately turns accounts to NPAs. The results indicated that 60.80% ofrespondents agreed that time and/or cost overrun in implementation of project has an impact on NPAs, and the relationship is significant as the χ^2 value (5.83) is more than critical value. Hence, it can be concluded that time and/or cost overruns in implementation of projects lead to NPAs (Table7).

Lack of Managerial Skills in Promoters

Lack of entrepreneurship in executing the project as envisaged; and undertaking ambitious projects with the anxiety to garner the early bird advantage, or to prevent others from entering the competition may lead to failure of such projects, making the accounts NPAs. However, the results indicated that 62.40 % of respondents disagreed that lack of managerial skills in promoters as a major cause for NPAs and the relationship is significant as the χ^2 value (7.69) is more than the critical value; and hence, it can be concluded that lack of entrepreneurship skills is not a major cause of NPAs (Table7).

Weak Supply and Demand Scenario

Weak supply and demand scenario results in fluctuations in the commodity prices, which ultimately have impact on the repaying capacity of the borrowers and thereby have influence an effect on the quality of the loans. The results indicated that 76.00% of respondents agreed that weak supply-demand scenario has an impact on NPAs and the relationship is significant as the χ^2 value (33.80) is more than critical value; and hence, it can be concluded that weak supply and demand scenario has a significant impact on NPAs (Table 7).

Vagaries of Monsoon Particularly in Case of Agricultural Advances

India’s agricultural output depends on vagaries of the monsoon. Natural disasters like drought, floods, cyclone etc. and weak monsoon decrease the efficacy of India’s irrigation ecosystem and hit the agricultural output and farmers adversely. Crop failure and bad harvests cause change in economic conditions resulting in a drop in farm prices, infructuous investment and insufficient income leading to NPAs. The results indicated that 72.80% of respondents agreed that vagaries of monsoon particularly in case of agricultural advances have an impact on NPAs, and the relationship is significant as the χ^2 value (25.99) is more than critical value; and hence, it can be concluded that vagaries of monsoon have an impact on NPAs (Table7).

Waiver of Loans by Government have Contributed to NPAs

Whenever the agricultural sector is under extreme stress, selective debt waivers by the Government are justifiable, but waiving all the debts develops a bad culture of repayment ethics, and creates a strong expectation among farmers for more such debt waivers. The results indicated that 73.60% of respondents agreed that waiver of loans by Government have contributed to NPAs, and the relationship is significant as the χ^2 value (27.85) is more than critical value; and hence, it can be concluded that waiver of loans by Government has an adverse impact on the quality of assets (Table 7).

Perception on Impact of NPAs by Bank Officials

NPAs reflect the performance of banks and its failure creates adverse repercussions in the economy in general and banks' balance sheet and profitability, in particular. An attempt has been made to know the perception of the bank officials towards impact of NPAs on banks' balance sheet and profitability. Seven major items were identified, where NPAs can have impact on banks' books. The impact of NPAs as revealed by the respondents is furnished in (Table 8).

The mean score is very high in respect of impact of NPAs on Erosion of Profits and Increasing Provisions. The impact is fairly high in respect of Adverse Impact on Recycling of Funds and Decreasing Reserves and Surplus. They ranked the impact of NPAs resulting on increased investments as lowest. The Kendall's coefficient of concordance (W) was computed and the results are furnished in Table 9. The calculated W was 0.353 and thus indicating a fair degree of agreement among bank officials in the ranking of different impact of NPAs. The following hypothesis was formulated and tested.

We found out the critical value through computation of χ^2 distribution values, with confidence of $1 - \alpha$, and $df = n - 1$. Comparing the $p < 0.0001$ with the significance level $\alpha=0.05$, the null hypothesis ($\boldsymbol{H_3}$) was rejected and accepted that there is significant agreement among the bank officials in the ranking of different impact of NPAs.

Perception of Bank Officials of Impact of NPAs – Management Cadre-wise

Respondents of all the levels of management ranked all the reasons uniformly. Erosion of profits and increasing provisions ranked high on the impact of NPAs on the banks' books. The impact of increasing spread and increased investments on NPAs were ranked lowest (Table 10).

Perception of Bank Officials towards Usefulness of Recovery Measures/Suggestions to Contain NPAs and Their Level of Success in Implementation

Various measures were adopted by the banks for containing new NPAs and recovery of NPAs. Bank officials were asked to offer their opinion on the following measures adopted and the responses were analysed.

- NPAs can be contained by adopting proper pre-sanction procedure like Due Diligence, Proper Borrower Selection etc.
- Proper sanction process will reduce the deterioration in asset quality
- Close monitoring and supervision will have positive impact on NPA containment
- NPAs can be contained by maintaining continuous rapport/relationship with Borrower customers
- Corporate Governance in Corporates can help to improve the conduct of accounts with banks and bring down the NPAs.
- Borrowers to be made more accountable/responsible to contain the NPA problem

- Involvement of Auditors/Regulators/Representative bodies etc. would help to recover the bank dues in an effective manner
- Restructuring/Strategic Debt Restructuring (SDR)/Joint Lenders' Forum (JLF) Formation/CAP & Information to Central Repository of Information on Large Credits (CRILC) helps the Bank in containing NPAs Conducting recovery camps will be helpful in recovery of NPAs
- Invocation of SARFAESI Act helps accelerates recovery of NPAs
- Declaring as Wilful Defaulters, Non-cooperative Borrowers Help in Containing NPAs
- Publishing Defaulters' Names help in recovering NPAs

The results indicated that majority of respondents agreed that all the above recoverymeasures arehelpful in the reduction of NPAs and the relationship is significant as the χ^2 value is more than critical value in all cases(Table 11). Hence, it can be concluded that all these measures helpful in reduction of NPAs. However, measures like Proper sanction process, making borrowers accountable, close monitoring and supervision, maintaining rapport with borrowers'proper pre sanctionand SARFAESI ACT prove to be more effective in reducing /containing NPAs.

5. Conclusion

Reduction of NPAs and containing new NPAs is the major challenge Indian Commercial banks facing today. So, we attempted to ascertain the perception of CAs towards the NPAs and what the probable causes and consequences ofhaving NPAs according to them. A survey was conducted with a structured questionnaire. About 9 important causes responsible for NPAs were studied and ranked. The CAs considered diversion of funds, poor monitoring, lack of supervision and follow-up, and economic slowdown as the most important causes. It also observed that CAs perceived erosion of profits and increasing provisions as the two most important consequences of NPAs, out of seven items of impact studied. Kendall's coefficient of concordance (W) indicates that there is significant agreement among CAs in the ranking of different causes and different items of impact of NPA. Further, ANOVA analysis revealed that there is significant relationship between experience of CAs and some of the causes and items of impact of NPA.The perception of CAs towards other causes and impact of NPAs was also studied. Bank ownership, Aggressive lending, Unhealthy Competition, Time /cost overrun, Waiver of loans, Weak supply and demand scenario and Vagaries of monsoon are some of the other reasons of NPA and the respondents are also of the opinion that banks fail to reduce the rate of interest and developed aversion to lending as a result of NPAs. Further, it is observed that NPAs have adverse impact on liquidity, Shareholders' value and banks' credibility.

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***Table1**: Experience wise Distribution of Sample Bank Officials*

Experience (in years)	***Frequency***	***%ageto Total***
Up to 10	40	32
10-20	30	24
20- 30	20	16
>30	35	28
Grand Total	**125**	**100.00**

Source: Own computation

***Table 2**: Cadre wise Distribution of the Respondents – Bank Officials*

Cadre	***Frequency***	***%ageto Total***
Junior Management	20	16
Middle Management	50	40
Senior Management	35	28
Top Management	20	16
Grand Total	**125**	**100**

Source: Own computation

***Table 3**: Perception on Causes of NPAs by Bank Officials*

Causes for NPAs	***Mean***	***Rank***
Diversion of Funds	7.064	1
Economic Slowdown	6.448	2
Wilful Default	6.208	3
Poor Monitoring and Lack of Supervision and Follow-up	5.528	4
Government Policies	4.376	5

Sluggish Legal System	3.952	6
Deficiency in the credit appraisal standards	3.272	7
High Interest Rate	3.096	8
Lending to Priority Sector	2.808	9
Source: Own computation		

***Table4**: Kendall's Coefficient of Concordance – Test Statistics*	
N	125
Kendall's W	.30
Chi-Square	301.15
Df	8
Asymptotic (Asymp.) Significance (Sig.)	.00001
Source: Own computation	

***Table5**:Management Cadre-wise Distribution of Causes for NPAs*

Sr. No.	***Causes for NPAs***	***Overall***		***Junior Management***		***Middle Management***		***Senior Management***		***Top Management***	
		Mean	***Rank***	***Mean***	***Rank***	***Mean***	***Rank***	***Mean***	***Rank***	***Mean***	***Rank***
1	*Diversion of Funds*	7.064	1	6.95	2	7.24	1	6.83	1	7.15	1
2	*Wilful Default*	6.448	2	5.70	4	6.66	2	6.12	2	6.05	3
3	*Poor Monitoring and Lack of Supervision and Follow-up*	6.208	3	5.85	3	5.14	5	5.49	5	5.95	4
4	*Deficiency in the credit appraisal standards*	5.528	4	5.35	5	5.34	4	5.68	4	5.65	5
5	*Economic Slowdown*	4.376	5	7.50	1	6.22	3	5.91	3	6.90	2
6	*Government Policies*	3.952	6	4.35	6	4.32	6	4.51	6	4.30	6
7	*Sluggish Legal System*	3.272	7	3.95	7	4.18	7	3.74	7	3.75	7
8	*Lending to Priority Sector*	3.096	8	2.70	8	2.92	9	3.17	9	2.25	9
9	*High Interest Rate*	2.808	9	2.65	9	2.98	8	3.57	8	3.00	8

Source: Own computation

Table6: *Management Cadre-wise Distribution of Causes for NPAs-ANOVA*

		Sum of Squares	df	Mean Square	F	Sig.
High Rate of Interest	*Between Groups*	12.747	3	4.249	1.045	0.365
	Within Groups	492.101	121	4.067		
	Total	504.848	124			
Deficiency in the Credit Appraisal Standards	*Between Groups*	2.994	3	0.998	0.193	0.375
	Within Groups	624.206	121	5.159		
	Total	627.2	124			
Poor Monitoring and Lack of Supervision and Follow-up	*Between Groups*	13.746	3	4.582	1.093	0.355
	Within Groups	507.406	121	4.193		
	Total	521.152	124			
Diversion of Funds	*Between Groups*	3.897	3	1.299	0.339	0.797
	Within Groups	463.591	121	3.831		
	Total	467.488	124			
Wilful Default	*Between Groups*	18.336	3	6.112	1.232	0.301
	Within Groups	600.256	121	4.961		
	Total	618.592	124			
Economic Slowdown	*Between Groups*	38.789	3	12.93	2.287	0.082
	Within Groups	684.123	121	5.654		
	Total	722.912	124			
Lending to Priority Sector	*Between Groups*	11.511	3	3.837	0.852	0.468
	Within Groups	544.601	121	4.501		
	Total	556.112	124			
Sluggish Legal System	*Between Groups*	0.955	3	0.318	0.06	0.981
	Within Groups	640.373	121	5.292		
	Total	641.328	124			
Government Policies	*Between Groups*	4.946	3	1.649	0.346	0.792
	Within Groups	576.766	121	4.767		
	Total	581.712	124			

Source: Own computation

***Table 7**: Perception on other Causes for NPAs by BANK Officers*									
Sl. No.	***Causes***	***Yes***	***No***	***Total***	***% Yes***	***% No***	***Calculated χ^2***	***Critical χ^2***	***Remarks***
1	*Bank ownership (PSBs/PVSBs/FBs) makes any impact on NPAs*	88	37	125	70.4	29.6	20.81	3.84	Significant
2	*Size of the Banks (in terms of Total Assets) makes any impact on NPA*	71	54	125	56.8	43.2	2.31	3.84	Not significant
3	*Aggressive lending for improving volume of business*	99	26	125	79.2	20.8	42.63	3.84	Significant
4	*Unhealthy competition among bankers*	80	45	125	64	36	9.80	3.84	Significant
5	*Over/under financing, responsible for NPAs*	71	54	125	56.8	43.2	2.31	3.84	Not significant
6	*Not having maximum banking industry exposure limits to Corporates*	79	46	125	63.2	36.8	8.71	3.84	Significant
7	*Availability of staff to manage loan portfolio is generally inadequate*	75	50	125	60	40	5.00	3.84	Significant
8	*Compromised integrity among bankers responsible for NPAs*	45	80	125	36	64	9.80	3.84	Significant
9	*Failure to bring Owned funds as envisaged*	32	93	125	25.6	74.4	29.77	3.84	Significant
10	*Time and/Cost overrun in implementation of Project*	76	49	125	60.8	39.2	5.83	3.84	Significant
11	*Lack of Managerial Skills in Promoters*	47	78	125	37.6	62.4	7.69	3.84	Significant
12	*Weak supply demand scenario*	95	30	125	76	24	33.80	3.84	Significant
13	*Vagaries of monsoon particularly in case of agricultural advances*	91	34	125	72.8	27.2	25.99	3.84	Significant
14	*Waiver of loans by Government has contributed to NPAs*	92	33	125	73.6	26.4	27.85	3.84	Significant
Source: Own computation									

***Table 8**:Impact of NPAs on Bank's Performance*		
Impact of NPAs	***Mean***	***Rank***
Erosion of Profits	5.96	1
Increasing Provisions	5.23	2
Adverse Impact on Recycling of Funds	4.32	3
Decreasing Reserves and Surpluses	3.86	4
Increasing Intermediation Cost	3.30	5
Increasing Spread	3.10	6
Increasing Investments	2.20	7
Source: Own computation		

***Table 9**: Kendall's Coefficient of Concordance – Test Statistics*	
N	125
Kendall's W	0.353
Chi-Square	264.99
Df	6
Asymp. Sig.	.0001
Source: Own computation	

***Table 10**: Perception of Bank Officials of Impact of NPAs – Management Cadre-wise*

Sr. No.	**Impact of NPAs**	**Overall**		**Junior Management**		**Middle Management**		**Senior Management**		**Top Management**	
		Mean	**Rank**	**Mean**	**Rank**	**Mean**	**Rank**	**Mean**	**Rank**	**Mean**	**Rank**
1	*Erosion of Profits*	5.96	1	5.91	1	5.98	1	5.81	1	6.45	1
2	*Increasing Provisions*	5.23	2	5.50	2	4.74	2	5.57	2	5.75	2
3	*Adverse Impact on Recycling of Funds*	4.32	3	4.23	3	4.08	3	4.17	3	4.75	3
4	*Decreasing Reserves and Surpluses*	3.86	4	3.85	4	3.70	4	3.71	4	4.10	4
5	*Increasing Intermediation Cost*	3.30	5	3.00	5	3.68	5	3.49	5	2.90	6
6	*Increasing Spread*	3.10	6	2.64	6	3.54	6	2.70	6	2.35	5
7	*Increasing Investments*	2.20	7	2.40	7	2.20	7	2.47	7	1.70	7

Source: Own computation

***Table 11**: Perception of Bank Officials on Recovery measures*

Sl. No.	***Measure***	***Yes***	***No***	***Total***	***% Yes***	***% No***	***Calculated χ^2 value***	***Critical χ^2 value***	***Remarks***
1	*NPAs can be contained by adopting proper pre-sanction procedure like Due Diligence, Proper Borrower Selection etc.*	110	15	125	88	12	72.2	3.84	Significant
2	*Proper sanction process will reduce the deterioration in asset quality*	120	5	125	96	4	105.8	3.84	Significant
3	*Close monitoring and supervision will have positive impact on NPA containment*	115	10	125	92	8	88.2	3.84	Significant
4	*NPAs can be contained by maintaining continuous rapport/relationship with Borrower customers*	110	15	125	88	12	72.2	3.84	Significant
5	*Corporate Governance in Corporates can help to improve the conduct of accounts with banks and bring down the NPAs.*	102	23	125	81.6	18.4	49.93	3.84	Significant
6	*Borrowers to be made more accountable/responsible to contain the NPA problem.*	116	9	125	92.8	7.2	91.59	3.84	Significant
7	*Involvement of Auditors/Regulators/Representative bodies etc. would help to recover the bank dues in an effective manner.*	92	33	125	73.6	26.4	27.85	3.84	Significant
8	*Restructuring/SDR/JLF Formation/CAP & Information to CRILIC helps the Bank in containing NPAs*	95	30	125	76	24	33.8	3.84	Significant
9	*Conducting recovery camps will be helpful in recovery of NPAs*	90	35	125	72	28	24.2	3.84	Significant
10	*Invocation of SARFAESI Act helps accelerates recovery of NPAs*	105	20	125	84	16	57.8	3.84	Significant
11	*Declaring as Wilful Defaulters, Non-cooperative Borrowers Help in Containing NPAs*	75	50	125	60	40	5	3.84	Significant
12	*Publishing Defaulters' Names Help in Recovering NPAs*	102	23	125	81.6	18.4	49.93	3.84	Significant

Source: Own computation