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NPA a double-edged sword for banks, says CMD of Indian Overseas Bank

Q & A

MA Are 'big tickets' advances the cause of NPAs?
Not necessarily. If we consider the amount involved as these Big Ticket Advances are with Loan outstanding of Rs. 1 Crore and above, even a few accounts slipping into NPA category will have have an impact on NPA level of the Bank. In terms of number of accounts Big Ticket NPA is less than 1% .

Slippages have been taking place in all sectors in small and big accounts. While the amount involved is more in the big ticket accounts, the number of accounts that slip to NPA in small value accounts is very much higher, though the total amount involved is lower in these accounts.

MA If yes, what are the remedial measures?
Banks are closely following up these accounts for recovery by resorting to SARFAESI action, filing suits, declaring the borrowers as willful defaulters and also filing cases with CBI in case of fraud. The top 50 NPA accounts of the bank are personally monitored by CMD, EDs and GMs / Credit Verticals. In genuine and eligible cases, where the borrower requires hand holding, we are restructuring the advances / referring the cases to CDR, to help the borrowers to come out of their problems/mismatch in cash flows.

The top 30 accounts of the banks are being individually reviewed by the Ministry at regular intervals. The weekly recovery information is also being sent to the Ministry for their information. A Board level Committee has also been formed where the top 50 accounts of the bank are reviewed individually by the Government Nominee Director through Video Conference.

MA Why do accounts slip to NPA?
Accounts slip to NPA due to various reasons. The present economic downturn has affected the business sector to a very great extent. Besides, the economic scenario, delay in realization of receivables, devolvement of LCs, delay in implementation of infrastructure projects due to delays in getting Government Approvals have been the major factors for accounts slipping to NPA.

MA What role concurrent auditors / internal inspectors can play in NPA management?
Concurrent Auditors / Internal Inspectors have a major role to play in NPA management. Identification of issues / problems in the early stages at the time of releasing the advance or immediately after the release will enable the branch to rectify / solve the issues in the early stages and thus prevent slippages. Auditors / Inspectors should also be involved / made responsible for rectification of deficiencies.

MA What, according to you, is the involvement of your staff (clerical, managers, top management)?
Business decisions at times do go wrong. There are Accountability Policies formulated by banks. All cases will be investigated by the Banks and in case deliberate malafide intentions are proved suitable actions will be initiated against the concerned in line with the Policy of the Bank.

MA What is the composition of NPA in your bank?

	% to Domestic NPA
a) Agriculture	15.49%
b) Industry	55.14%
c) Services	23.78%
d) Personal	5.59%

MA How does NPA affect the banking sector as well as the Indian economy?
NPA is a double edged sword for the Banks. Not only the asset stops

earning for the Bank, but also has to be provided for in the books of the Bank as per extant guidelines. It undermines the capital accruals and thereby restricts the lending capacity of the Banks (Banks have to maintain Capital in relation to RWA as per Basel Norms). High NPA causes Slowdown in the economy and higher cost of funds. High level of NPA is the root cause of the global financial crisis and the world is still trying to recover from the after effects of the crisis. The banking system has shown moderate rise in instability due to increase in NPA. In fact, the global economic crisis that began in 2008-09 was triggered by the financial crisis in the banking sector with increase in NPA. Many Banks failed. NPA, therefore, affects the stability of the banking sector and leads to reduced profits on account of increased provisions, which has a detrimental impact on the profitability of the banks. Higher NPAs have also led to reduced credit as it causes poor recycling of funds and erosion of profits in banks.

An efficient banking system is a prerequisite for economic growth. Increased NPA level leads to sluggish growth in the economy. High NPAs lower the bank's credit rating and credibility and also its ability to raise fresh capital. Banks are to maintain reasonable Capital Adequacy Ratio (CAR) to keep the problem within limits and to maintain the stability of not only the Banking System but the economy as a whole.

MA What are the concerns of RBI relating to NPA management?

RBI has been highly concerned of the growing NPA and the resultant instability in the Banking System. Though the Central Bank has spoken with concern on the rising NPAs, RBI Chief had pointed out that the situation is not alarming. RBI has, however, instructed all Banks to improve NPA management for improved recovery and reduction in NPA levels.

MA What percentage of NPAs is recovered through One Time Settlement, Restructuring of advances, court cases?

a) Percentage of NPA recovered through One Time Settlement - 0.39%
b) Percentage of NPA recovered through Court Cases - 1.10%

MA How does the government monitor the NPA management by banks?

The top 30 accounts of the banks are being individually reviewed by the Ministry at regular intervals. The weekly recovery information is also being sent to the Ministry for their information. A Board level Committee has also been formed where the top 50 accounts of the bank are reviewed individually by the Government Nominee Director.

MA How much of the Restructured Assets can go bad?

GNPAs Ratio and Restructured Standard Advances Ratio (PSBs) in %

S. No.	PSBs	March 2011	March 2012	June 2012	Sept 2012	Dec 2012	March 2013
I	GNPA Ratio	2.32	3.17	3.57	4.02	4.18	3.78
II	Restructured Standard Advances Ratio	4.24	5.74	6.67	7.34	7.41	7.07
III	**TOTAL: GNPA Ratio and Restructured Standard Advances**	**6.56**	**8.91**	**10.24**	**11.36**	**11.59**	**10.85**

- The Infrastructure sector (Road and power), textiles, Iron and Steel sector have lions share in banks' restructuring book.
- In the case of Rs. 2,72,000 crores of loans before CDR cell by September 2013, around a sixth is loans to infrastructure sectors like roads, power and another fifth is to the steel sector.
- Several projects are held up when the government's policy changes or the government does not put in its own share of capital due to fiscal restraints. Mining laws and environment clearance, litigations, power cuts etc are the other factors which affect the recovery performance in Restructured advances.
- It is expected that one fifth of all recast loans are likely to go bad this year, as compared to 15% till last year.
- As regards our Bank, The percentage slippage from Restructured portfolio was around 4-5% and it is below the level in peer banks. During the current year the slippage from Restructured accounts in our bank will be around 6-7%.

MA Is there any role of Cost & Management Accountants in helping the banking sector to check this problem? Please suggest how CMAs can offer their expertise in this area.

The Cost Accountant can play a major role in helping the banking sector to check the problem faced by them with regard to effective NPA management.

1. Pre Sanction Level

- Professional advice on proper appraisal of the advance. –TEV study - Overall Industry level performance.
- Specific Industry Study.
- Market Report, checking expertise and integrity of the borrower.
- If it is a new unit – issues relating to Break Even level, assessing contribution per unit – buy or manufacturing decisions.
- If it is an existing unit – issues relating to capacity utilisation/ cost control measures taken by the unit and profitability of various divisions/centres.
- Cost effectiveness/ profitability of future plans of unit for expanding its business/diversification of its business.

2. Post Sanction Level

- Monitoring of the advance
- End use of Bank funds/periodical progress report of projects
- Regular unit visits - movement of stocks, checking of obsolete stocks and cycle period of the production – from raw material to end product – industry analysis/comparison.
- Verifying the Book debts/assessing quality of Book Debts and details of long standing debtors- the reasons therefor and measures to be taken for recovery.

3. Monitoring of the stressed accounts

- The reasons for slippage of the account into NPA – deficiency in appraisal and monitoring of the account, historical study of accounts turning into NPA, portfolio analysis/stress testing.
- Effectiveness of monitoring the account through various statements like ERI, Watch category accounts and Special watch category accounts – help the bank to take remedial measures either for reviving the unit or for timely exit.
- Training of operating level staff in detecting incipient sickness/ understanding alert signals.