
Recovery Performance and Non-Performing Assets of Regional Rural Banks in North East India

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Abstract:

The given study has focused on the recovery position of RRBs in the six regions of the country and put care to see frequency distribution of states recovery position in percentage basis. In the study it is also tried to see the magnitude of NPAs of RRBs and public sector banks in the country for various years. At the same time given research paper has also diagnosed asset classification of RRBs in the north-east and all India level along with overall recovery of bank advances. The entire study side by side provides a comparative picture of RRBs functioning in the various regions of the country besides associating with the all India level figures.

Key Words- RRBs, Recovery, Asset Classification, NPA, Public Sector Bank, North-East Region(NER).

Introduction: Regional Rural Banks (RRBs) have come up to grow the rural economy of India by providing banking services to the rural masses. In 1975 new systems of financial institution in the country was set up to provide the adequate means of financial service to the poor people particularly residing in the rural areas of the country. It was thought that the new institution would feel the pulse of local problems and would be able to direct its business in the growth of backward areas with new outlook and also nourishes its own success. On 2nd October 1975 five RRBs were established whose number has increased to as high as 196 in 2003-04 and at present there are 81 numbers of RRBs operating in the country as a whole.

Review of Literature:

Some of the important past study done on credit, recovery performance and NPAs of RRBs in the country and the North-East level in particular are as follows:

Tarapore (1994) observed that there is a reasonable spread between cost of raising fund and the return of development of funds. He suggested that rural financial agencies like RRBs should not hesitate to finance large projects in rural areas strictly on commercial basis. Rangarajan (1996) in a study on the role of rural credit highlighted that the drive of Indian public policy towards rural credit to ensure that sufficient and timely credit at reasonable rates of interest. The study suggested that credit should be made available to a large segment of rural population to the possible extent. Pati (2005) in his study of Subansiri Gaonlia Bank in the Lakhimpur district of Assam suggested that credit appraisal should be properly taken care of to avoid incidence of NPA. In each branch at least one trained staff should be recruited. In this regard, the branches should go for rating the borrowers on a scientific basis rather than sanctioning loan on the need basis of the borrower. Further he suggested the bank can go for securitization of its loan assets and can transfer some of its bad loans to the Asset Reconstruction Company (ARC). Singh and Singh (2009) in their paper examined the recovery performance of Manipur Rural Bank. The study observed that the repayment of loans mainly depends on proper utilization of the loan amount, supply of quality assets, generation of sufficient income from schemes, availability of infrastructural and marketing facilities, willingness to repay, continuous supervision and follow-up visits etc.

Ghosh and Ghosh (2011) established that NPA is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. Various banks from different categories together provide advances to different sectors like agriculture, Small Scale Industries, priority sector, public sector and others. These advances require pre-sanctioning appraisal and post-disbursement control to contain increasing NPAs in the Indian banking sector. The reduction of NPA is necessary to improve profitability of banks and comply with the capital adequacy norms as per the Basel Accord.

No special study has been done to know the recovery performance and the analysis of non-performing assets of RRBs in the North-East. Thus the given study attempts to know the recovery performance and the analytical evaluation on non-performing assets of RRBs of the North-East and RRBs in the country in general. In the study data referred is till 2010 as collected from the various available sources at current situation.

Recovery Performance of RRBs:

From table-1 it is revealed that the recovery performance of RRB was estimated at 80.03 per cent, as on 30 June 2010, as compared to 77.85 per cent as on 30 June 2008. It is also observed that the North-East Region has remained lower in terms of recovery percentage throughout the period under consideration. The RRBs have emerged as a strong intermediary for financial inclusion in rural areas by opening a large number of "No Frills" accounts and financing under General Credit Cards (GCC). RRB as a group in the northern and southern region registered a recovery performance above the national average throughout the entire period. Table -1 presents the region-wise recovery position of RRBs in India.

Table-1
Recovery Positions of RRBs As on March

(in Percentage)

Region	2004	2005	2008	2009	2010
1. North-Eastern	59.2	65.8	65.51	72.47	74.82
2. Eastern	68.8	71.5	68.10	74.58	73.10
3. Northern	85.9	88.3	85.01	85.69	88.70
4. Central	77.4	78.1	76.24	75.45	75.01
5. Western	74.9	75.5	77.85	76.64	77.36
6. Southern	80.0	82.8	81.51	82.83	81.40
All India	77.7	79.8	77.85	80.09	80.03

Source: NABARD Annual Report, Various Issues

Table- 2 shows frequency distribution of states according to the levels of recovery of RRBs. A recovery of above 80 per cent was achieved by 39 RRBs in the country, while 37 RRB had recovery levels ranging above 60 per cent but less than 80 per cent. Six RRB had recovery more than 40 per cent but below 60 per cent. None of the RRBs is having recovery of less than 40 per cent.

Table-2
Frequency Distribution of States According to Levels of
Recovery of RRBs (As on 30 June, 2010)

Recovery percentage	Number of RRBs	States
Less than 40	0	Nil
Between 40 and 60	6	Bihar (1), Madhya Pradesh (1), Manipur (1), Odisha (1), Jharkhand (1), Karnataka (1)
Between 60 and 80	37	Andhra Pradesh (3), Arunachal Pradesh (1), Assam (1), Bihar (2), Chhattisgarh (2), Gujarat (1), Jammu & Kashmir (1), Jharkhand (1), Karnataka (2), Madhya Pradesh (5), Maharashtra (2), Meghalaya (1), Nagaland (1), Orissa (3), Tripura (1), Uttar Pradesh (7), West Bengal (3)
More than 80	39	Andhra Pradesh (2), Assam (1), Bihar (1), Chhattisgarh (1), Gujarat (2), Haryana (2), Himachal Pradesh (2), Jammu & Kashmir (1), Karnataka (3), Kerala (2), Madhya Pradesh (2), Maharashtra (1), Mizoram (1), Orissa (1), Pondicherry (1), Punjab (3), Rajasthan (6), Tamil Nadu (2), Uttar Pradesh (3), Uttarakhand (2)

(Figures in parentheses against each state indicate number of RRBs)

Source: NABARD Annual Report, 2010-11

Magnitude of NPAs in RRBs:

The Indian banking system had acquired a large quantum of NPAs, which can be termed as legacy NPAs. The high level of NPA of the Indian financial sector reflects country's poor bankruptcy laws. The gross NPAs of scheduled commercial banks in absolute term reduced from Rs. 60,841 crores in March 2000 to Rs. 50,486 crores in March 2007 and thereafter started to increase and reached to 89, 017 crores in March 2011 (RBI, 2010-11). This has been largely possible because of the huge provisioning that most of these banks could make as a result of growth in treasury income and, therefore profits. The gross NPAs of RRBs in absolute term reduced from Rs. 3067 crores in 2001-02 to Rs. 3084 crores in 2009- 2010. It has been observed that the percentage of net NPAs to total advances of RRBs declined from 11.13 per cent in March 2001-02 to 3.19 per cent in 2007-08 and further to 1.80 per cent in 2009-10 (NABARD). The gross NPAs as per cent of total advances also declined to 3.72 per cent from 16.46 per cent during the same period. This significant reduction of NPAs may be due to the definitional changes of NPAs and appropriate strategy for controlling the fresh accretion of NPAs. The table -3 presents the gross and net NPAs of RRBs and PSBs in India.

Table-3
Gross and Net NPA of RRBs vs PSBs

Year	Regional Rural Bank		Public Sector Banks	
	Gross NPA to advances	Net NPA to advances	Gross NPA to advances	Net NPA to advances
2001-02	16.46	11.13	11.1	5.8
2002-03	14.44	9.51	9.4	4.5
2003-04	12.63	8.51	7.8	3.0
2004-05	8.53	4.84	5.4	2.1
2005-06	7.28	3.92	3.7	1.3
2006-07	6.55	3.46	2.7	1.1
2007-08	6.04	3.19	2.8	0.8
2008-09	4.13	1.98	3.1	0.7
2009-10	3.72	1.80	2.19	1.09

Source: 1. RRB Monitoring, Key Statistics of RRBs 2009-10 and Annual Report of NABARD, Various Issues

1. Trend and progress of Banking in India, Various Issues

It is revealed that though NPAs maintaining a declining trend across all segments of banking sector, RRBs position are inferior as compared to PSBs. The reasons of decline of NPAs to total advances may be attributed to change in the composition of assets in favour of investment in government and other approved securities and the banks unwillingness or inability to assume higher exposure to small and medium enterprises and farm sector.

Asset Classification of RRBs:

The table-4 exhibits the asset classification of RRBs in the North-East and all India level. It is observed that in all India level the total amount of loan outstanding of the RRBs in March, 2010 was Rs.82,81,910.28 lakhs.

Table-4
Asset Classification of RRBs in North-East and All India, March 2010

(Amount Rs. in Lakhs)

Banks	Total Loan	Standard Asset	Non-Performing Assets (NPA)				Total Assets
			Sub-standard Asset	Doubtful Asset	Loss Assets	Total NPA	
1. Arunachal Pradesh Rural Bank	4211.85	3492.41 (82.92)	328.27 (7.79)	243.31 (5.78)	147.86 (3.51)	719.44 (17.08)	4211.85
2. Assam GraminVikas Bank	16182.328	15074.024 (93.15)	3013.10 (1.86)	8069.94 (4.99)	0.00 (-)	11083.04 (6.85)	16182.328
3. LangpiDehangi Rural Bank	13422.04	12812.11 (95.46)	348.54 (2.60)	258.59 (1.93)	2.80 (0.02)	609.93 (4.54)	13422.04
4. Manipur Rural Bank	3080.76	1562.77 (50.73)	359.60 (11.67)	1156.51 (37.54)	1.88 (0.06)	1517.99 (49.27)	3080.76
5. Meghalaya Rural Bank	16048.69	14995.51 (93.44)	295.03 (1.84)	607.32 (3.78)	150.83 (0.94)	1053.18 (6.56)	16048.69
6. Mizoram Rural Bank	23452.67	21783.07 (92.88)	1208.93 (5.15)	415.17 (1.77)	45.50 (0.19)	1669.6 (7.12)	23452.67
7. Nagaland Rural Bank	871.62	729.39 (83.68)	69.85 (8.01)	72.38 (8.30)	0.00 (-)	142.23 (16.32)	871.62
8. Tripura Rural Bank	79964.76	77083.43 (96.40)	443.53 (0.55)	2400.80 (3.0)	37.0 (0.05)	2881.33 (3.60)	79964.76
All India RRBs	8281910.28	7973428.85 (96.28)	118175.44 (1.43)	171322.48 (2.07)	18983.51 (0.23)	308481.43 (3.72)	8281910.28
All RRBs in NE Region	302875.67	283198.93 (93.50)	6066.85 (2.0)	13224.02 (4.37)	385.87 (0.13)	19676.74 (6.50)	302875.67

(Figures in brackets indicate percentage to total loans and advances)

Source: RRB Monitoring, Key Statistics of RRBs 2009-10 and Annual Report of NABARD, Various Issues

Similarly it is also revealed that the NPA as per cent of advances of RRBs in NER was 6.50 per cent in March 2010 while the corresponding figure for RRBs of the country as a whole was 3.72 per cent. The foregoing analysis aptly demonstrates that the malady of high level of NPAs eroding the profitability of banks is not confined to RRBs alone, but it is severely present in the RRBs of NER also. The RBI in this respect proposed prompt corrective action (PCA) mechanism for arresting the menace of NPAs. On the other hand, RBI has introduced various measures like credit risk management models, Compromise Settlement methods, effective use of debt recovery tribunals (DRT's), Asset Reconstruction Companies (ARC) and Recovery of Debts, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SRFAESI) Act-2002, Circulation of information on defaulters, Corporate Debt Restructuring (CDR), lok Adalats and so on. With a view to provide an additional option and developing a healthy secondary market for NPAs, the guideline relating to sale/ purchase of NPAs were issued in July 2005 covering the procedure for purchase/ sale of NPAs by banks valuation aspects, prudential norms. The guideline were partly modified in May 2007 whereby it was stipulated that at least 10 per cent of the estimated cash flows should be realized in the first year and at least 5 per cent in each half year thereafter subject to full recovery within three years.

Findings:

Some of the important findings of the study are-

1. It is found that in 2010 northern region RRBs have the highest recovery position of

88.70 per cent while the eastern region RRBs have the lowest position of 73.10 per cent of recovery in the country. In the same year recovery position for the RRBs in the country as a whole is 80.03 per cent.

2. As on June, 2010 it is observed that out of 82 RRBs in the country, 39 RRBs have recovery percentage of more than 80 per cent while another 37 RRBs have recovery percentage between 60 to 80 per cent and remaining 6 RRBs have recovery percentage of 40 to 60 per cent.

3. Over the years of study as observed from table-3 it is found that NPA to advances of the RRBs in the country is continuously in declining trend. In 2001-02 the net NPA to advances was 11.13 per cent which sharply declined to 1.80 per cent in 2009-10.

4. It is also found that in terms of NPA to advances the performance of the public sector banks in the country is better than the performance of RRBs as a whole. In 2001-02 the net NPA to advances of the RRBs in the country was 11.13 per cent which declined to 1.80 per cent in 2009-10. On the other hand the net NPA of public sector banks in the country in 2001-02 was 5.8 per cent which declined to 1.09 per cent in 2009-10 per cent. It indicates that public sector banks are doing better than RRBs in managing the non-performing assets.

5. It is found that in March, 2010 Tripura Rural Bank has the NPA of 3.60 per cent which is the lowest in the North-Eastern Region and is better than the RRBs in the country as a whole of 3.72 per cent. During the same period the NPA of RRBs as a whole of the North-Eastern Region was 6.50 per cent. It indicates that RRBs in the North-Eastern Region in average are performing low in managing the NPA than the RRBs in national average.

Conclusion:

For the better sustainability of RRBs in the country and mainly in the north-east RRBs must have to improve its recovery of loans and advances by better managing the non-performing assets. They must need to learn from their parent banks and other public sector banks in regard to the rational management of non-performing assets. RRBs function more in backward regions as compared to other public sector banks and thus need to understand their own business viability and formulates products which are more suitable to the region in which they are operating. RRBs need healthier management of its non-performing assets with more rational and indigenous policies besides its legal ways of NPA management. RRBs necessitate to design in a better structure in all the states to provide effective solution for financial products to rural based population and to bring inclusive growth and development in the country. Better management of co-operative banks and RRBs in the country as whole is the only effective solution to develop the India's rural economy.

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