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# Non-Performing Assets (NPAs) In Banks : Causes, Stress and Remedies \*

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## **Abstract**

With the liberalization of economy, the banking industry is facing enormous challenges in the open financial market, probably it is also giving rise to non-performing assets (NPAs) in banks. The concept of bank nationalization was misutilised by a certain group of people in the name of liberalization, having directly contributing to swelling NPAs. The origin of the problem of NPAs also lies in the quality of credit risk management of banks. The increasing NPAs have a direct impact on banks profitability, causing concern and building up stress on management and the employees.

In this paper, an attempt has been made to focus on the potential factors / causes of NPAs, stress and their remedies by suggesting certain strategic approaches to provide an optimal level of stress environment to help in maintaining a balance in their different domains of work life.

## **1. Introduction**

The swelling Non-Performing Assets (NPAs) is a burning issue causing concern and stress to every commercial bank, particularly public sector banks, irrespective of their size and sector. Each bank has been passing through this difficult phase to a certain extent. In the name of liberalization of economy, Bank nationalization was mis-utilized by a certain group of people who made to distribute money in the name of loans in loan melas to favoured interest groups, directly contributing to banks' huge NPAs, which were subsequently written off (Business World, July 2005). Default in payments of loans is an issue, which affects the economy by increasing the non-performing assets of banks and financial institutions. The origin of NPAs problem also lies in the quality of credit risk management of banks; they are the results of their past action. This is a drag on the entire banking system in India and is mainly the legacy of social control over the banks (India Infoline, Dec; 2005).

As per records of All India Bank Employees' Association, the total NPAs in banks and financial

institutions as on 31st Mar; 2004 was nearly Rs. 1,00,000 crores of which a whopping Rs. 70,000 crores of corporate loans had been written off. Out of the total operating profits of Rs. 40,000 crores posted by public sector banks, nearly Rs. 14,000 crores had been utilized for provision of bad debts. It is, therefore, being demanded that the reduction of NPAs be made from real cash recoveries and not by writing them off. (Banking Bureau, 2005).

## **Non-performing Assets : A concept**

An asset is classified as non-performing asset (NPA), if the borrower does not pay dues in the form of principal and interest for a period of 90 days. The period of 90 days for a default status to be given to the borrower has come with effect from Mar; 2004, earlier it was 180 days. If any advance or credit

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facilities granted by bank to a borrower becomes non-performing, then the bank will have to treat all the advances / credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status.

The bank advances are either Standard Assets or Non-Performing Assets (NPAs). The NPAs are further classified into Sub-Standard, Doubtful and Loss Assets depending upon the period of non-performing and the provisions made thereof. The Reserve Bank of India has laid down the provisioning requirements which are mandatory to be complied with by all the banks.

#### **Factors contributing to NPAs causing Stress :**

As stress is caused to bankers mainly due to increasing NPAs, we need to focus on the following potential factors contributing to NPAs so as to make the concerns little more cautious and vigilant while attending the credit portfolio.

- 1) Canvassing of bad borrowal accounts and Poor appraisal of credit proposals, may be with or without vested interest
- 2) Sanctioning authority succumbing to external pressures.
- 3) Delay and inadequate sanction of funds and their disbursement whereby borrowing units starving of funds when in need.
- 4) Working capital funds sometimes used by the borrowers to acquire fixed assets, thereby disturbing the working capital cycle of business.
- 5) Slackness on the part of staff, failing to detect and prevent diversion of funds after sanction.
- 6) Lack of willingness and expertise to monitor accounts in post sanction stage.
- 7) Siphoning of funds through mis-appropriation.
- 8) Failure and ineffectiveness of top management to check it in time.
- 9) Recession-price escalation, change in Govt. policies, power shortage etc. and
- 10) Absence of strict enforcement of laws for wilful defaulters.

Apart from taking care of above factors, the NPAs can also be prevented by implementing the measures like fixing of an appropriate staff

accountability for poor pre-sanction appraisal and ineffective post-disbursement supervision by the banks management, without any malafide intention.

#### **Stress of NPAs :**

The rising level of NPAs is the cause of great concern for the management of banks. The banks whose NPAs level is higher, are more under stress. The Reserve Bank of India, time to time issues the guidelines to the banks to bring down the level of net NPAs to Zero or at least to the bare minimum. There are few banks whose NPAs level is zero and their great concern is to ensure that they are able to maintain it, and there are no fresh slippages of bad accounts in future. The executives at all levels are allotted the targets for recoveries and arresting the fresh slippages according to their grades and they are taken to task if the targets allotted, are not achieved. This has built up a tremendous amount of pressure on them, particularly on the Branch Managers who are the direct functionaries in the field. Till a couple of years back, due to the extreme pressures on them from all sides like from their head office, regional office, different types of audits / auditors, local govt. bodies / offices, day-to-day customers, daily mails & telephone calls, problems of their own employees, sometimes to comply with the requirements of other branches etc. particularly during the time of *quarterly financial closings*, it used to be a common saying in the banking circle that, *the moment you join the banking service, your life is reduced by 10 years*. However, now the days have changed, the people's midset is changing because of hyper competitive environment all around and they started believing that multi-tasking is the way of life and you have to go along.

Researchers argue that stress is not always bad for individuals. It is an inevitable element of human life, which may have a positive or negative impact on one's life. It depends on, how one takes the pressure of work. Whereas high amounts of stress lead to hypertension, too little of it leads to indifference or loss of interest in the job. An optimal level of stress is always necessary to keep one going and energise people in organizations. One should try to see the stress as something one can cope with rather than something that empowers one. Our goal is therefore, not to eliminate the stress but to learn, how to manage and use it to help the individuals. (Indian Mgmt. Jan;05).

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## **Stress Management Strategies :**

In the process of learning as to how to manage stress and use it to help the employees of banks, the banks need to evolve certain Stress Management strategies to provide an optional level of stress environment to help employees in maintaining a balance in their different domains of work life and to achieve this, the following FIVE Approaches are suggested.

### **(1) Total Participation Approach :**

It is very important for the banks management to make this fact realized industry which is curable, but only when all categories of employees come together at one common platform forgetting their differences and fight it out tooth and nail. The workmen staff and their unions should stop blaming the managers and officers for increasing NPAs. This attitude is neither in their interest nor in the larger interest of the banks. The defaulting borrowers will continue to take the advantage of their differences and will remain as defaulters. They have to understand the reality, the reality of survival of everyone of them, which would be at stake if banks fail to bring down the net NPAs at desirable level and arrest fresh slippages. Workmen employees should therefore, take pledge with all sincerity and willingness to share the responsibilities of recovering the banks dues not voluntarily but as their bounden duty without expecting any monetary benefits from banks. The banks are already burdened with the pressure of mounting bad debts, their such expectations will add to it further. This approach of employees with total participation will lessen the stress of NPAs from one single community of officers and the recovery results would be absolutely fantastic.

### **(2) Periodical Discussion Approach :**

This is a well-experimented fact of life that if you discuss and share your problem with others, its gravity will be reduced and you will feel relaxed. Banks therefore, should make it as their corporate policy that periodically at the end of every fortnight, at every level, whether it is an administrative office or an operational branch office, the various aspects of NPAs as a routine will be discussed and a fresh Fortnightly Strategy for every defaulting borrowers based on banks

past experience and the borrowers' financial & social conditions, will be formulated to effect the recovery. This periodical discussion approach strategy will not only lessen their worries and stress but also prove to be fruitful in succeeding in the efforts of their recoveries.

### **(3) Periodical Exercise Approach :**

As the bankers job is monotonous by nature, the banks should run a fully equipped Stress Management Centres (SMCs) paralled to their local Staff Training Centres, introducing some unique physical and mental exercises as their weekly Stress Management Programmes, making it mandatory for their every employee. And like any other training details, such details with an attendance certificate be included in the annual performance appraisal system of the employees. This will not only psychologically but also scientifically strengthen them to face the stresses around and try out the suggested mechanisms to reduce the stresses to the optimal level.

### **(4) Customer Partnering Approach :**

Working more closely with high social strata customers of the locality perferably retired Government servants, taking them into confidence and utilizing their rich professional experience of coping with the stress. This will help the Branch Managers and other employees of the banks in overcoming the stress and adding value to their efforts in recovering the banks dues.

### **(5) Legislative Framework Approach :**

The RBI and the Government of India having already undertaken certain legal measures like establishment of Debt Recovery Tribunals (DRTs), Lok Adalats, BIFR, etc; they have introduced Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the establishment of Asset Reconstruction Company, to provide an impetus to banks recovery efforts. However, introduction of more such measures by the Government and RBI particularly for fraudulent borrowers and wilful defaulters with more strong enactment of laws such as life-term imprisonment and death penalty depending upon the situation as a lesson for others, will repose the confidence of banks in their regulators which may comfort the management and

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reduce the employees level of stress, resulting into better NPAs management.

### Conclusions :

We can not deny the fact that public sector banks despite implementing the VRS in the year 2001, still continue to be overstaffed mainly by workmen in certain pockets since they didn't opt for it and there has been no proper redeployment of them. The public sector banks have their natural strength of branch network which is an asset they had always possessed. They are waking up to the ground realities of challenges facing in the banking market place. It is now very clear to them that survival is possible only if they are ready to adapt, and they are showing that readiness. They have started utilizing these two assets, available staff and wide network of branches in effecting the NPA recoveries, however, they still need to utilize them more aggressively so as to gain more desirable results and reduce the stress of NPAs.

Till recent past, corporate borrowers even after defaulting continuously never had any real fear of banks taking any action to recover their dues despite the fact that their assets were hypothecated to them. This was because there was no strong legal Act framed to safeguard the interest of banks. However, with the introduction of Securitization Act, 2002, banks can now issue notices to their defaulters to repay their dues or else make defaulters face hard and tough actions under the Act. This enables banks to get rid of sticky loans thereby improving their bottom-lines and reducing the stress. Also, the passing of the Securitization Act, 2002 came as a bonanza for investors in banking sector stock market that in turn resulted into an improvement in their share prices. (India Infoline, Dec; 2005)

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