



**NON PERFORMING ADVANCES: A STUDY OF DISTRICT CENTRAL
COOPERATIVE BANKS OF PUNJAB**

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ABSTRACT

An efficient banking system is an essential need of a healthy economy. The role of credit in starting, giving pace and sustaining the process of economic development has been recognized as a sine-qua-non. Although nationalized banks are spreading their operations in rural areas, cooperative banking remains the best answer for catering to the needs of small borrowers. All expert committees have recognized the important role played by the cooperatives in rural credit delivery system. However, one area of neglect in the cooperative banks is the poor loan portfolio leading to increasing quantity of non performing advances which ultimately affect the financial stability of the cooperative banks. Keeping in view the above scenario, a need was felt to undertake an in-depth study on the cooperative banks to examine and evaluate the perceptions of the bank management about NPAs and the practical relevance of NPA norms. The analysis of a sample of 100 bank officials from 10 district central cooperative banks of Punjab has highlighted very important facts regarding the causes and effects of NPAs and impact of NPA norms on the financial, legal and operational aspects of the selected DCCBs. The bank officials considered ineffective supervision, wilful defaults, political interference and inadequate loans as the main factors responsible for NPAs. Implementation of NPA norms compelled the bank officials to adopt a professional and pro-active approach. Bank officials were found to be well aware of the negative impact of NPAs on the profitability, productivity, performance and image of the banks. They were of the view that NPAs norms have had a positive effect on the recovery climate, operational efficiency, legal framework and head office support but these have also resulted in a tremendous increase in paper work of the banks. Majority of bank officials cited proper selection of loan proposals and credit monitoring as positive NPA avoidance measures.

Index Terms: NPAs, Co-operative Banks, Wilful Defaults, Inadequate Returns

INTRODUCTION

The growth of central cooperative banks has been in line with the banking sector in all broad aspects such as business volume, outreach and efficient utilization of resources, especially after diversification in their loan portfolios. Unfortunately, this enhanced business of Cooperative Banks got associated with the corresponding increase in non performing advances (NPAs). NPAs have given a big jerk to many cooperative banks by adversely affecting their capital base and financial viability. The Maclegan Committee, which is the dawn in the annals of cooperative movement in India has stated, “when funds are kept rotating, any loaning function of the bank can gear up successfully and serve the very useful purpose”. Large NPAs result in credit deficit and indicate adverse investment climate. Bank credit is a mechanism for economic growth of the country and the increased NPAs block the smooth flow of credit, resulting in adverse consequences for the economy.

NPA NORMS

The economic and financial sector reforms in India were initiated in 1991 as a process of integrating our economic system with international system and for globalisation of our financial markets. As the banking sector is an important segment of the economy, the Prudential Norms of income recognition, asset classification and provisioning recommended by ‘The Committee on Financial System 1991’ focused primarily on this sector.

Though the cooperative banks operate at the district level and the state level, the prudential regulations have been extended to them with a view to emphasizing the need for them to function on sound lines at par with other banking institutions. The financial sector reforms were introduced in State and Central Cooperative Banks from 1996-97 and in the State Cooperative Agricultural and Rural Developments Banks from 1997-98 so as to allow various agencies sufficient time to carry out the reforms process and adjust to the changes likely to be brought about in the organizational and functional aspects of these institutions. Banks can treat an amount in respect of term loans, overdrafts, cash credits and other types of advances as ‘past due’ when it has not been paid on the due date. To ensure transparency and to move towards international best practices, the delinquency norm for recognition of loans as non performing advances has been tightened by RBI from 180 to 90 days with effect from March 31, 2004.

OBJECTIVES OF THE STUDY

Though a number of studies have been conducted on NPA management in commercial banks, the cooperative banks are by and large ignored by such studies. As advances constitute a major proportion of total assets in cooperative banks, the present study has been confined only to study of non performing advances (NPAs) in the selected DCCBs of Punjab. The present study has been undertaken with the following objectives:

1. To examine and evaluate the opinions of bank management regarding the causes of NPAs and
2. To analyse the relevance and adequacy of NPA norms in managing the alarming proportion of NPAs in district central cooperative banks of Punjab.

I) RESEARCH METHODOLOGY

Due to resource and time constraints as well as easy accessibility and convenience of the researcher, the study has been confined to the state of Punjab only. Punjab has 19 district central cooperative banks. Averages were calculated for NPAs and advances outstanding for a period of five years.

1.1 Population and Sample: The banks selected with high NPAs were: DCCB Gurdaspur, DCCB Amritsar, DCCB Tarn Taran, DCCB Mansa and DCCB Ludhiana. The banks selected with low NPAs were: DCCB Ferozepur, DCCB Muktsar, DCCB Bathinda, DCCB Nawan Shahar and DCCB Jalandhar. Therefore, our sample consists of 10 banks.

Criteria for Selection of Bank Officials: To ensure the quality of data, quota sampling was applied for selecting 100 bank officials at the rate of 10 officers from each of the selected DCCBs. 54 per cent of the respondents belonged to the age group of 46-55 years while the lowest proportion of the responding officials i.e. 10 per cent was in the age group of 26-35 years. Highest proportion i.e. 37 per cent of the respondents were working as Branch Managers followed by 20 per cent as District Managers, 12 per cent as Senior Managers and 10 per cent as Assistant Managers. 7 per cent of the respondents were working as clerks, 5 per cent each working as Accountants and District Managers and 2 per cent each working as Recovery Officers and Incharge, Statistical Office. 68 per cent of the bank officials were graduates, followed by 31 per cent having postgraduate level of education. Only one per cent of them were matriculates. 47 per cent of the bank officials were having an experience of 20 to 30 years, followed by 23 per cent with 30 to 40 years of experience.

1.2 Data and Sources of Data

For accomplishing the objectives of this study, both the primary and secondary data were analysed.

Primary Data

For the analysis of the demographic features and the perceptions of the bank officials about NPA norms, primary data was collected from sample bank officers through the following instruments of data collection:

Questionnaire: After scanning the literature on NPAs as well as preliminary discussions with certain bank officials, a survey schedule i.e., questionnaire was prepared and tested on few officials and later revised in the light of experience gained (**Annexure**).

Observation: Some information was gathered through personal observation and interaction with the officials of the selected DCCBs. Frequent visits and interviews with leading officials of the chosen banks were very instrumental in enhancing the knowledge of the concept of NPAs and in facilitating the completion of this study.

Collection of Data from the Bank Officials: Before the data was collected, an attempt was made to develop a rapport with the subjects by explaining the objectives of the study and clearing any apprehensions about the consequences of their volunteering the required information. Each of the selected officials was personally interviewed with the help of a pre-tested survey schedule and rating scale for the purpose of obtaining the required information.

1.3 Theoretical Framework

Castelino (2006) observed that increase in NPAs was a major problem in the 1990s. Since then, banks have learned to deal with the problem of NPAs, resulting in decline in the gross NPAs. **Varughese and Thomas** (2006) stressed that NPAs are the most generally used parameter for assessing the financial health of the banking system. Since the introduction of the prudential norms in 1992-93, NPAs of the Indian banks have reduced drastically. **Venugopal** (2006) emphasized that banks should aim at improvement in asset quality through proper monitoring of credit, verification of assets, ensuring adequate security or collateral backing and effective follow up of the end use of credit, as asset quality is the step towards sustainable NPA Management. **Campbell** (2007) observed that the establishment of internal control systems in accordance with Basel is essential to ensure the minimisation of non performing loans (NPLs) but this can be achieved only after an effective system of NPA Norms is in operation. **Nilakantha** (2008) opined that loan waivers to small farmers were announced by the finance minister keeping an eye on the approaching elections, without considering the possible consequences of such waivers on rural credit institutions, especially cooperative banks. The cultivators who had already repaid their loans felt cheated and were reluctant to repay their fresh loans and those who had benefited realized that such write-offs would occur in future also and thus were relaxed about repayments, resulting in an extensive increase in defaults. **Kaur Kamalpreet, Singh Balraj** (2011) observed that a high level of NPAs implies high instances of credit defaults that affect the profitability and capital base of banks. The Indian banking sector is facing a serious problem of NPAs. The extent of NPAs is comparatively higher in public sectors banks. **Singh** (2013) pointed out that most of the time, lending by banks may compromise on asset quality, resulting in potential danger of enhanced NPAs. It is necessary that the banks should adopt prudential norms in true spirit to minimize, if not completely to avoid the problem of NPAs. The study done by **Ganesan and Santhanakrishnan** (2013) pointed out that the recovery of loans is the base of a sound financial position of a bank and to enhance the productivity of banks, the NPAs should be decreased and controlled. **Satyanarayan** (2016) observed that abnormal state of NPAs indicate that there are increased defaults that influence the proficiency and total networth of banks. **Vikram K. and Gayatri G.** (2018) pointed out that the best yardstick for the assessing the soundness of the banking sector is its level of Non Performing Resources (NPAs) and this is a problem not only of Indian Banks but of banks all over the world. **Varuna Aggarwala and Nidhi Aggarwala** (2019) highlighted that the growth rate of NPAs is low in private sector banks as compared to Nationalised banks as well as SBI and its associates which was due to inefficient handling of loans in these banks.

The review of studies conducted by different committees and researchers unfurled various aspects relating to NPAs like:

- 1) The problem of NPAs is not only affecting the banks but also the whole economy.
- 2) Large scale NPAs, when ignored, cause continued economic and financial deterioration in the assets and capital base of banks.
- 3) Banks should aim at gradual improvement in asset quality through proper evaluation and monitoring of credit.
- 4) A sound internal control system should be developed to check mismanagement of various loan schemes.
- 5) Focus of the banks should be on project based lending rather than security based lending i.e. the reliability and feasibility of the project should be the prime considerations while granting loans.
- 6) NPAs norms have had a positive effect on recovery climate, operational efficiency, legal framework and head office support and on the other hand, these have resulted in a tremendous increase in paper work of the banks.

Despite certain attempts made to study different aspects of NPAs, there remained certain pertinent gaps. Some of these gaps revolve around questions like:

- 1) Are the NPA norms relevant and adequate in managing the alarming proportion of NPAs in district central cooperative banks of Punjab.
- 2) What is the impact of NPA Norms on different aspects of the functioning of Banks?
- 3) What are the opinions of bank management regarding the causes of NPAs?
- 4) What measures can be taken to prevent or control NPAs?

In view of the above partially explored questions by certain scattered attempts made by some of the studies, a need was felt to undertake an indepth study which could examine and evaluate the perceptions of the bank officials and borrowers about this significant concept.

1.4 Statistical Tools

To ascertain the perceptions of the bank officers about NPA norms, a Five Point Likert Scale was used namely: Agreed to a great extent, Agreed to a moderate extent, Agreed to some extent, Do not know and Not at all with weightage of 5, 4, 3, 2 and 1 respectively. This scale was used to identify the causes of NPAs, effects of NPAs, prevention of NPAs and effects of poor management of NPAs on the selected banks. To ascertain the accuracy of ranking given to various factors responsible for NPAs and the preventive measures suggested, discussions were also held with the responding bank officials. Apart from simple statistical tools, weighted average and ANOVA (Analysis of Variance) were used for the analysis of data.

II RESULTS AND DISCUSSION

2.1 CAUSES OF NPAs

In this study, an attempt has been made to analyse the awareness of Bank Officials about NPA Norms and also to identify the factors responsible for NPAs

2.1.1) CONCEPTUAL AWARENESS ABOUT NPA NORMS

There are three main concepts in the recommendations of the Committee on Financial System (1991) i.e. Narasimham Committee regarding norms for non performing advances. These concepts include Income Recognition, Asset Classification and Provisioning Rules. Table 1 reveals that majority i.e. 66 per cent of the respondents were fully aware of the concepts of NPA norms while the remaining 34 per cent were partially aware of these concepts. None was found to be unaware of the concepts. The partial awareness needs to be checked and it should be converted into full awareness of the concepts so that the NPA norms can be implemented in true spirit.

Table 1: Conceptual Awareness of Bank Officials about NPA Norms

Level of Awareness	Fully Aware	Partially Aware	Unaware
%age	66	34	0.00

2.1.2) LOAN AREAS HIGHLY PRONE TO NPAs

There are different types of loan areas with varied levels of risk. The opinions of the responding bank officials in this regard are shown in table 2. On the basis of their experiences, three-fourth of the respondents opined that non farm sector loans were highly prone to NPAs, followed by 59 per cent of respondents who thought that consumer durable loans had the highest chances of becoming non performing. 54 per cent of respondents considered cash credit limits to traders to be more risky. The lowest proportion i.e. 16 per cent of the bank officials were of the view that crop loans and other loans (personal, housing loan etc.) were highly prone to NPAs followed by 22 per cent who considered revolving cash credit limits to farmers and 28 per cent who were of the opinion that vehicle loans had considerable chances of becoming non performing. Thus, according to the opinion of the bank officials, the recovery efforts should be focused on non-farm sector loans, consumer durable loans and cash credit limits to traders.

Table 2: Loan Areas Highly Prone to NPAs

Loan Areas	Crop Loans	Revolving Cash Credit Limits to Farmers	Consumer Durable Loans	Cash Credit Limits to Traders	Non Farm Sector Loans	Vehicle Loans	Other Loans
%age	16.00	22.00	59.00	54.00	75.00	28.00	16.00

The feedback of the bank officials is fully supported by the results derived from the analysis of the actual status of NPAs in the selected DCCBs under study, thereby indicating satisfactory level of awareness among the selected bank officials. In the selected banks having high NPAs, on an average, the highest proportion of NPAs out of loans outstanding i.e. 36.68 per cent was found in non farm sector loans, followed by 27.33 per cent in consumer durable loans. NPAs as a percentage of loans outstanding were the lowest in crop loans at 4.48 per cent followed by 8.88 per cent in revolving cash credit limits to farmers (Published Accounts of various DCCBs of Punjab).

2.1.3) CAUSES OF NPAs

The bank officials were asked to assign the extent of their agreement over different causes of NPAs. Mean extent of agreement was worked out by taking average of the scores and per cent mean agreement was worked out of 5, the maximum score. The results are presented in table 3.

- a) Wilful Defaults:** Highest extent of agreement of 81.05 percent over wilful defaults indicates that majority of defaults occurred not because of inability of the borrowers to repay due to circumstances beyond their control but due to the lack of will and initiative of the defaulters to repay. These observations are supported by the verdicts of the studies conducted by Das Debabrata (2001) and Yeole (2004) who observed that one of the main reasons for non-repayment or less repayment of loans was the unwillingness of the borrowers to repay rather than their inability to pay and that wilful defaults were responsible for the pathetic state of Indian banking system.
- b) Inadequate Returns:** The mean extent of agreement on inadequate returns was 78.95 per cent. The bank managers opined that the fall in income generation, whether on account of external causes like natural calamities or Government policies or due to internal factors like mismanagement or the cumulative effect of various factors taken together constrains the ability of the borrowers to repay the loan, resulting in NPAs. Verma and Bhagavan (2000) and Das Debabrata (2001) made an attempt in their studies to examine the repayment behaviour of loanees and the main reasons for non-repayment or less repayment of loans identified by them were business going sick and low earnings from the projects financed.

c) Ineffective Management and Supervision: Another aspect that raises inefficiencies in cooperative banks is the lack of professional management and involvement of family in the running of banks. Absence of supervision over utilization of loans results in misutilization of loans and consequently excessive NPAs. The extent of agreement over ineffective management and supervision for sanctioning and recovering the debt was found to be 78.42 per cent. Yeole (2004) pointed out that internal factors like managerial deficiencies, poor credit appraisal and improper SWOT Analysis were responsible for excessive NPAs. Bhatt (2007) observed that inability to judge the importance of transparency and accountability in the operations of the banking system resulted in an increasing burden of non performing advances (NPAs). **Varuna Aggarwala and Nidhi Agarwala** (2019) highlighted that the growth rate of NPAs is low in private sector banks as compared to Nationalised banks as well as SBI and its associates which was due to inefficient handling of loans in these banks.

d) Misutilization of Loans: The respondents have indicated misutilization of funds as an important factor contributing to the high incidence of NPAs with an extent of agreement of 78.16 per cent. Nevertheless, if bank's monitoring and post follow up is strong, then it can immediately sight the diversion and mismanagement of funds. Reddy (1993), Verma and Bhagavan (2000), Das Debabrata (2001) and Castelino (2006) found relending, diversion and misutilization of loans as the major factors responsible for wilful defaults in the cooperative banks.

e) Political Interference: 77.63 per cent agreement was found over political interference in the form of pressure for not recovering the loans, to be responsible for non performing advances in the cooperative banks. The bank officials were of the opinion that if the project selected for finance is technically non-feasible and economically non-viable or the person going to handle the project is skill-wise not competent, the account becomes non performing. Such loans are advanced mainly due to pressures put by government agencies and politicians on the bankers, leading to NPAs. A number of studies have been conducted for investigating this factor. Reddy (1993), Pathania and Singh (1998), Verma and Bhagavan (2000) and Yeole (2004) concluded that dismal performance of cooperative banks was due to excessive political interference and the after effects of loan waiver scheme of the government, resulting in an alarming proportion of NPAs. **Nilakantha** (2008) opined that loan waivers to small farmers are announced by the finance minister keeping an eye on the approaching elections, without considering the possible consequences of such waivers on rural credit institutions, especially cooperative banks.

f) Redemption of Past Debts: There was an agreement of 74.21 per cent among bank officials that credit was utilized for redemption of past debts, thereby resulting in NPAs. Joshi (1979) and Reddy (1993) examined the pattern of repayment of short-term and medium-term loans and one of the major factors influencing the non-repayment of loans, as reported by them, was settlement of old debts.

g) Socio Economic Conditions: There was an agreement of upto 70.79 per cent over socio economic conditions of borrowers being responsible for non-payment of debts. These findings are adequately supported by the findings of the existing studies. Sivaprakasam (1996) observed that the size of

holdings of the defaulters, their caste, amount of borrowings, educational status, age, sex, religion, community and size of landholding had a direct bearing on the repayment of dues. Kumar and Singh (2000) and Sachdeva and Singh (2001) indicated that low repayment capacity, cropping intensity, consumption expenditure and income from dairy farming etc. significantly influenced the repayment performance of the borrowers.

- h) Inadequate Backward and Forward Linkages:** There was 60.00 per cent agreement over lack of adequate forward and backward linkages resulting in non-receipt of remunerative prices for produce, which caused bad repayment performance. The existing literature makes available sufficient evidence regarding the impact of this factor on the repayment performance of the borrowers. Datey Study Team (1974) observed that absence of linking of credit with marketing led to lesser income, resulting in higher incidence of NPAs. They suggested linking of credit with marketing of crops as an essential ingredient in supervision and follow up action. Major non-wilful causes, according to Kumar and Singh (2000) and Verma and Bhagavan (2000) were low market prices for the produce due to lack of linkages and insufficient income resulting in mounting NPAs.
- i) Natural Calamities:** An extent of agreement of 61.84 per cent was observed over natural calamities as a factor responsible for NPAs. These findings get adequate support from existing studies. Verma and Bhagavan (2000), Das Deabrata (2001) and Yeole (2004) stressed that the failure of crops and natural calamities were the major factors responsible for high incidence of defaults. Noronha (2006) has outlined the causes and impact of NPAs and according to his observations, adverse agro climatic conditions and floods were the factors contributing to excessive NPAs.
- j) Defective Lending Policies:** The extent of agreement over defective lending policies was 61.84 per cent as the bank officials opined that even a properly selected activity, though economically viable, would suffer from non-availability of adequate and timely finance. If adequate finance is not available, the borrowers have to compromise with the quality of inputs and services or restrict the scope of operations and under these circumstances, an account becomes non performing. Noronha (2006) concluded that in many cases defaults occurred because of inadequate amount of loans to generate surplus income and delay in disbursement of loans. Singh (2013) pointed out that most of the time, lending by banks may compromise on asset quality, resulting in potential danger of enhanced NPAs.
- k) Other Causes:** Among other causes responsible for NPAs, the bank officials agreed upto 67.11 per cent over improper infrastructure facilities like computers for maintaining upto date accounts of borrowers and 68.16 per cent over non-wilful defaults (i.e. the defaulters who are willing but unable to repay). The lowest extent of agreement of 56.05 per cent was found over exorbitant rates of interest as the cause of NPAs. An agreement of 72.37 per cent over inadequate field staff for recoveries indicates the vital contribution of this factor to NPAs.

The critical difference (CD) of 0.49 indicates that the differences between the extent of agreement among bank officials over different causes of NPAs are significant. Highest mean extent of agreement i.e. 4.05(81.05%) is found over wilful defaults as a

factor responsible for alarmingly high NPAs while lowest extent of agreement (56.05%) is witnessed over the contribution of exorbitant rates of interest to NPAs. The satisfaction level over ineffective management and supervision, inadequate returns, political interference, misutilization/diversion of loans, inadequate recovery staff, socio economic conditions and redemption of past debts is equally important i.e. statistically at par.

Table 3: Extent of Agreement among Bank Officials over Different Causes of NPAs

Causes of NPAs	Extent of Agreement		
	Mean	S.D.	% Mean
Ineffective Management & Supervision	3.92	0.96	78.42
Inadequate Returns	3.95	0.80	78.95
Natural Calamities	3.09	1.12	61.84
Political Interference	3.88	1.07	77.63
Socio Economic Conditions	3.54	0.92	70.79
Misutilization/Diversion of Loans	3.91	1.12	78.16
Defective Lending Policy	3.09	1.22	61.84
Inadequate Backward & Forward Linkages	3.00	1.20	60.00
Redemption of Past Debts	3.71	0.78	74.21
Wilful Defaults	4.05	0.76	81.05
Non Wilful Defaults	3.41	1.13	68.18
Inadequate Recovery Staff	3.62	1.20	72.37
Exorbitant Rates of Interest	2.80	1.23	56.05
Improper Infrastructure Facilities	3.36	1.19	67.11
F-ratio	6.94***		
C.D.	0.49		

***Significant at 1%

2.2 EFFECT OF NPA NORMS

In this part of the study, an attempt has been made to identify the effect of NPAs, steps taken by bank officials to prevent NPAs and the poor management of NPAs on banks.

2.2.1) EFFECT OF NPA NORMS

The surveyed bank officials were asked to give their opinion regarding the effect of NPA norms on different aspects of functioning of the bank. The mean and mean per cent extent of agreement among bank officials are shown in table 4. Highest extent of agreement i.e. 83.95 per cent was found over increased accountability of bank staff towards advancement of quality loans with the implementation of NPA norms. Second major change because of NPA norms, as per the views of the respondents was felt in the recovery climate of the DCCBs. Mean score of agreement over improvement in the recovery performance was found to be 83.16 per cent. So far as the increase in paper work is concerned, there was 69.74 per cent agreement among bank officials that NPA norms have adverse effects on procedural formalities. They were of the view that paper work has increased after the implementation of NPA norms. The bank officials agreed upto 73.95 per cent over the effect of NPA norms on legal framework. They were of the opinion that the legal process has been intensified and proved fruitful in the form of compromise proposals and reference of default cases to Register of Cooperative Societies. As much as 79.74 per cent agreement was found among bank officials over the effect of NPA norms on head office support in the form of timely help, infrastructure facilities for branches, proper conveyance facilities for field visits etc.

Table 4: Extent of Agreement among Bank Officials over Effects of NPA Norms

Effects of NPAs	Extent of Agreement		
	Mean	S.D.	% Mean
Improvement in Recovery Performance	4.16	0.94	83.16
Increase in Accountability of Bank Staff	4.20	0.86	83.95
Increase in Paper Work	3.49	1.26	69.74
Intensification & Fruitfulness of Legal Process	3.70	1.06	73.95
Support of Head Office	3.99	0.97	79.74
F-ratio	5.98***		
C.D.	0.43		

***Significant at 1%

The F-ratio indicates a significant difference between the extent of agreement among bank officials over the effects of NPA norms ranging between 3.49(69.74%) on increase in paper work to 4.20(83.95%) on increase in accountability of bank staff. The level of agreement on factors like improvement in recovery performance, increase in accountability of bank staff and support of head office is statistically at par. **Thus on one hand, NPAs norms have had a positive effect on recovery climate, operational efficiency, legal framework and head office support and on the other hand, these have resulted in a tremendous increase in paper work of the banks.**

2.2.2) PREVENTION OF NPAs

The questionnaire also brought out various perspectives in NPAs reduction. The policy issues affecting NPA reductions were also discussed with the bank officials. Their opinions (on the basis of the questionnaire) as extent of agreement over different factors are shown in table 5. The bank officials agreed upto 91.32 per cent over the factor that there should be proper selection of loan proposals and borrowers. As high as 85.26 per cent agreement was found over pre sanction project appraisals to prevent NPAs while an agreement of 81.58 per cent was arrived at over simplification of procedural formalities. There was an agreement of 83.95 per cent over timely disbursement of adequate loans in order to prevent NPAs and 81.32 per cent agreement over less time lag between sanction and disbursement of loans. It was agreed upto 87.89 per cent that there should be a post sanction monitoring of loans while annual review of policies was agreed upon upto 82.63 per cent. The bank officials considered post sanction monitoring as most important because a strong follow up puts mental pressure on the borrowers to return the cooperative debt on priority basis vis-à-vis other liabilities.

The F-Ratio indicates highest extent of agreement of 4.57(91.32%) among the bank officials on the first factor i.e. proper selection of loan proposals and borrowers while lowest satisfaction level i.e. 4.07 (81.32%) is seen over less time lag between sanction and disbursement of loans. The non-significant value of F-ratio indicates that the extent of agreement among the bank officials on different measures suggested by them to prevent NPAs is equally important i.e. statistically at par.

Table 5:**Extent of Agreement among Bank Officials over Different Factors for Prevention of NPAs**

Factors	Extent of Agreement		
	Mean	SD	% Mean
Proper Selection of Loan Proposals & Borrowers	4.57	0.70	91.32
Pre Sanction Project Appraisals	4.26	0.74	85.26
Simple Procedural Formalities	4.08	0.84	81.58
Timely & Adequate Loans	4.20	0.86	83.95
Less Time Lag Between Sanction & Disbursement of Loans	4.07	0.87	81.32
Post Sanction Monitoring	4.39	0.73	87.89
Annual Review	4.13	1.02	82.63
F-ratio	1.64		
C.D.	NS*		

***NS: Non-Significant**

There is sufficient evidence in the existing studies to support these findings. The Maclegan Committee recommended that loans should be granted by the cooperative banks mainly for productive purposes and there should be a careful scrutiny of applications before advancing loans and proper vigilance after the loans are disbursed to ensure timely repayment of loans. Das Debabrata (2001) suggested that banks should be more careful while selecting beneficiaries. The bank should take post sanction follow up measures to ensure proper utilization of loans and recovery cum awareness campaigns should be conducted to expedite the recovery process. Bhattacharyya (2008) concluded that most of the cooperatives were dying with a huge burden of non performing assets and to overcome this alarming situation created by NPAs, the management should have the will, incentive and initiative to tap local funds for promoting local production or deposit mobilization to overcome the alarming situation created by NPAs.

2.2.3) EFFECT OF POOR MANAGEMENT OF NPAs ON BANKS

The views of the responding bank officials in terms of mean and mean per cent agreement on the adverse effects of poor management of NPAs on banks are displayed in table 6. It was agreed upto 81.84 per cent by the respondents that the poor management of NPAs in the banks has adversely affected the image of the concerned branch amongst other banks while it was agreed upto 70.53 per cent that public image of the branch had been tarnished by its unsatisfactory performance. The adverse effect of poor performance on career performance of bank officials was agreed upon upto 77.11 per cent. The selected bank officials expressed an agreement of 80.00 per cent on the effect of unsatisfactory management of NPAs on the eligibility of the cooperative banks for financial help from NABARD and RBI and 78.68 per cent on the stay in relations of the bank with head office and others.

Table 6:
Extent of Agreement over Adverse Effects of Poor Management of NPAs on Banks

Adverse Effects	Extent of Agreement		
	Mean	SD	% Mean
Image of the Branch amongst Other Banks	4.09	1.18	81.84
Public Image of the Branch	3.53	1.09	70.53
Career Performance of Bank Officials	3.86	1.23	77.11
Financial Help from NABARD & RBI	4.00	1.13	80.00
Relations with Head Office and Others	3.93	1.31	78.68
F-ratio	1.28		
C.D.	NS*		

***NS: Non-Significant**

The F-Ratio indicates that the extent of agreement among the bank officials on adverse effects of poor management of NPAs in the banks ranged between 4.09 (81.84%) over the adverse effect on the image of the branch amongst other branches and 3.53 (70.53%) on public image of the branch. The non-significant value of F-ratio indicates that the extent of agreement among the bank officials over adverse effects of unsatisfactory performance of banks due to NPAs is statistically at par.

III) SYNTHESIS OF FINDINGS AND SUGGESTIVE FRAMEWORK

Almost all the selected DCCBs are suffering from burgeoning amount of NPAs especially, in non farm sector loans. In the opinion of the selected bank officials, the main factor responsible for NPAs was wilful defaults i.e. able but not willing to pay followed by inadequacy of loans, ineffective management and supervision, utilization of loans for unproductive purposes, political support, redemption of past debts, inadequate infrastructure facilities and field staff for recoveries and poor socio economic conditions. Majority of respondents were of the view that NPA norms had a positive effect on the recovery climate, operational efficiency, legal framework and head office support. On the other hand, these norms have resulted in tremendous increase in the paper work of the banks. Regarding the prevention of NPAs, the respondents stated emphatically that there should be proper selection of loan proposals and borrowers. Some of them agreed upon the simplification of the procedural formalities, timely disbursement of adequate loans, post sanction monitoring and less time lag between sanction and disbursement of loans. Highest proportion of selected bank officials agreed that the poor recovery position of the concerned banks has adversely affected the image of the bank among other banks and also in the public. It also adversely affects the career performance of the bank officials. The eligibility of the bank for the financial help from RBI and NABARD also gets affected by NPAs. The respondents were of the view that alarmingly high NPAs in majority of DCCBs should be monitored by a special recovery cell of the bank formed for such specific purpose. A sound internal control system should be developed to check mismanagement of various loan schemes. Focus of the banks should be on project based lending rather than security based lending i.e. the reliability and feasibility of the project should be the prime considerations while granting loans. Loan appraisal procedure should be made objective and specific expertise of appraising loan cases should be developed. This will help only genuine and potentially good loan proposals to get through. To cope with the increasing needs of Management Information System (MIS), the branches of the DCCBs should be computerized and net worked. State/ RCS control should be reduced i.e. managers of the DCCBs should be given operational freedom in conducting their affairs. The cooperative sector, clamouring for freedom from the archaic law, the Government and the politicians, is yet to be liberated and given freedom to compete with the commercial banks. Politically motivated loan waivers should be avoided to improve the recovery climate in the DCCBs of Punjab. Last but not the least, DCCBs may think about outsourcing their recoveries.

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ANNEXURE

OPINION SURVEY OF BANK OFFICIALS REGARDING NON PERFORMING ADVANCES A REQUEST

Dear Sir/Madam

I am a Lecturer in Commerce in Kanya Maha Vidyalaya, Jalandhar conducting a research on "Management of Non performing Advances - A Study of District Central Cooperative Banks of Punjab". I shall be highly obliged if you kindly provide the required information by ticking the relevant options. The study is a unique attempt and will help in improving the recovery performance of the District Central Cooperative Banks.

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BACKGROUND INFORMATION

Name of Bank: _____

Location of the Bank: Rural ___ Urban ___ Semi Rural ___ Semi Urban ___

Age: _____ Sex: Male _____ Female _____

Martial Status: Married _____ Unmarried _____

Education:

Academic: _____ Professional: _____(relating specifically to Bank)

Present Job Status _____ Length of Service _____

I) AWARENESS ABOUT THE NPA NORMS

a) Are you aware about the NPA norms launched since 1991-92?

Fully Aware _____ Partially Aware _____ Unaware _____

b) Are you conceptually aware about the recommendations of the Narasimham Committee regarding the NPA Norms i.e. Income Recognition, Asset Classification and Provisioning Rules?

Fully Aware _____ Partially Aware _____ Unaware _____

c) Have you got any idea about the percentage of NPAs in relation to total loans outstanding of your bank? If yes, kindly specify the percentage.

Yes _____ No _____ Percentage _____

d) In your opinion, which of the following loan areas are more prone to NPAs?

- Crop Loans _____
 - Revolving Cash Credit Limits to Farmers [RCCL (F)] _____
 - Non Farm Sector Loans (NFS) _____
 - Cash Credit Limits to Traders [CCL (T)] _____
 - Consumer Durable Loans _____
 - Vehicle Loans _____
 - Other Loans _____
- (including Personal Loan, Housing Loan, Education Loan etc.)

e) Kindly specify the main reasons responsible for the NPAs in above stated loan scheme and in case your branch is suffering from excessive NPAs, what steps have been taken to curtail/ reduce the mounting NPAs.

II) CAUSES OF NPAs

In your opinion, what are the factors responsible for an account becoming NPA?

S.No.	Factors	Agreed to a great extent	Agreed to a moderate extent	Agreed to some extent	Don't know	Not at all
1.	Ineffective Management and Supervision					
2.	Inadequate Returns					
3.	Natural Calamities					
4.	Political Interference					
5.	Socio-Economic Conditions					
6.	Misutilisation/Diversion of Loans					
7.	Defective Lending Policy i.e. Inadequate and Untimely Loans					
8.	Absence of Adequate Backward and Forward Linkages					
9.	Redemption of Past Debts					
10.	Wilful Defaults i.e. able but not willing to pay					
11.	Non Wilful Defaults i.e. willing but unable to pay					
12.	Inadequate Recoveries Staff					
13.	Exorbitant Rates of Interest					
14.	Improper Infrastructure Facilities					

III) EFFECT OF NPA NORMS

(To what extent the following factors are affected by the NPA norms)

S.No.	Factors	Agreed to a great extent	Agreed to a moderate extent	Agreed to some extent	Don't know	Not at all
1.	Effect on recovery climate i.e. whether these norms have improved the recovery performance of the borrowers					
2.	Effect on operational efficiency of the banks i.e. increased accountability of bank employees for the NPAs in the loan accounts sanctioned by them					
3.	Effect on procedural formalities i.e. whether the paper work has increased after the implementation of NPA norms					
4.	Effect on legal framework i.e. whether the legal process (in the form of compromise proposals and reference of default cases to Registrar of Cooperative Societies) has been intensified and proved fruitful					
5.	Effect on Head Office support i.e. whether timely help, infrastructure facilities for branches, proper conveyance facilities for field visits etc. are available					

IV) PREVENTION OF NPAs

In your opinion, which of the following factors are more important to making loan accounts less non performing?

S.No.	Factors	Agreed to a great extent	Agreed to a moderate extent	Agreed to some extent	Don't know	Not at all
1.	Proper Selection of Loan Proposals and Borrowers					
2.	Pre Sanction Project Appraisal					
3.	Documentation i.e. simple procedural formalities					
4.	Timely and Adequate Loans					
5.	Less Time Lag between Sanction and Disbursement of Loans					
6.	Post Sanction Monitoring					
7.	Annual Review					

V) In your opinion, does the unsatisfactory performance of your bank due to NPAs have an adverse effect on the following aspects?

S.No.	Factors	Agreed to a great extent	Agreed to a moderate extent	Agreed to some extent	Don't know	Not at all
1.	Image of your branch amongst other banks					
2.	Public image of your branch					
3.	Your career performance					
4.	Financial help from NABARD & RBI					
5.	Stay in relations with Head Office and others					
6.	Any other					

VI) ADEQUACY OF NPA NORMS FOR THE EFFECTIVE MANAGEMENT OF NPAs

Are the NPA norms adequate for the effective management of NPAs? Kindly give your suggestions for improving the recovery climate of the DCCBs, which are suffering from mounting NPAs.

Sabina Batra
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Jalandhar