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Trends And Strategies In Non-Performing Assets Recovery In Commercial Banks

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Abstract
Non-Performing Assets (NPAs) have been a significant concern for commercial banks worldwide, impacting financial stability and economic growth. The literature on NPA recovery highlights various strategies and trends adopted by banks to manage and mitigate these assets. Undoubtfully banking and financial institutions play vital role in constructing the economy of the nation. More specifically, the banking sector in developing countries like India is playing a crucial role in shaping the economy. Indian Banking sector is performing extremely well post LPG era and introduction of the novel financial products have geared the exponential growth of this industry. It is inevitable that any fast growing sector has to experience its growth-related issues. The exponential growth of the Indian banking sector has paid its price for the same in the way to solve it the NPA. To address this issue, the present study has made an attempt to review the efforts taken by the banking authorities to address this issue and explore the best possible way to solve it. NPA is an issue which affects not only the banking sector but also to create obstacles in growth of the economy. "The money which is locked as NPA is not available for productive activities. It adversely affects the profit of the bank and as a result it increases the higher rate of their diligent credit customer." The key to NPA recovery lies in a mix of legal measures, digital interventions, structured settlements, and asset sales. Banks are focusing on preventive measures to reduce new NPAs while aggressively pursuing existing ones through structured legal and financial strategies.

Keywords: NPA, Banking, affects, efforts

Introduction
Banking Sector plays a pivotal role in the development of a country. It can be said that there is direct relationship between the development of banks and the development of economy in a country. But the present scenario of banking sector seems so absurd due to uncontrollable rising of NPAs. Even though various steps are taken by the authorities concerned to control the NPAs, still the accumulation of NPA is not been addressed yet properly. For a sound and stable financial system, healthy financial institutions are the primary requirements and the banks are part of the system on which the healthy financial system is depended. In the recent global economic crisis, financial health of banks was seriously affected especially in US and Europe. The LPG Policy adopted by almost every

nation in the world after 1991 have almost abolished or minimized the so called regulations for ease of doing business, and this phenomenon had some negative impact on the performance of the banking sector, which could be criticized as one of the reason for the accumulation of NPAs across the world.

Review of literature

Non-Performing Assets (NPAs) have emerged as a major challenge for the banking sector, primarily due to economic downturns, weak credit appraisal systems, and regulatory gaps (Kaur & Gupta, 2021). Their impact on the financial system is significant, as rising NPAs reduce profitability and increase provisioning requirements, thereby weakening banks' overall health (Basu, 2020). To address this, regulators and governments have implemented multiple interventions, including the Basel Accords, stricter loan classification norms, and the establishment of Asset Reconstruction Companies (ARCs) (Reddy, 2019). In India, the Insolvency and Bankruptcy Code (IBC) has become a critical tool for resolving stressed assets efficiently (Sharma & Singh, 2022). Further, technological innovations such as AI- driven early warning systems, digital platforms for recovery, automated monitoring, and predictive analytics have strengthened banks' capacity to manage credit risk and detect defaults at an early stage (Gupta & Verma, 2023; Choudhury et al., 2021).

In terms of recovery strategies, banks increasingly rely on ARCs to offload bad loans through securitization, thereby enhancing recovery and liquidity (Rai & Bhattacharya, 2020). Preventive approaches like stronger risk assessment models, forensic audits, and dynamic credit scoring have also gained importance in curbing the incidence of NPAs (Mehta & Saxena, 2018). Legal mechanisms such as debt recovery tribunals (DRTs) and the IBC framework have facilitated quicker resolutions of bad debts, while corporate debt restructuring (CDR) and one-time settlement (OTS) schemes provide alternative means for distressed borrowers to reorganize or settle dues (Kumar et al., 2019; Mishra & Das, 2021). Moreover, public-private partnerships (PPPs) in managing stressed assets are emerging as a collaborative pathway, wherein banks, private investors, and government-backed institutions work together to recover bad loans more effectively (Shankar & Iyer, 2022).

Research Gap

The literature suggests that an integrated approach, combining regulatory support, technology-driven solutions, and strategic recovery mechanisms, is essential for managing NPAs. Future research could explore the effectiveness of emerging fintech solutions and global best practices in NPA management.

Objectives of the study

- To examine the patterns, causes, and impact of non-performing assets in commercial banks over time.
- To assess various methods and strategies used by commercial banks for NPA recovery, including legal, regulatory, and managerial approaches.
- To study the role of central banks, government policies, and financial regulations in

managing and recovering NPAs.

- To explore key obstacles that banks face in recovering non-performing loans and suggest ways to overcome them.
- To propose improvements in banking policies, legal frameworks, and institutional mechanisms to enhance NPA recovery efficiency.

Hypothesis for the Study

Based on the study's objectives, the following hypotheses can be formulated:
H_1: There is no significant differences exist among the Gross NPA public sector, private sector and foreign banks.
H_2: There are no significant differences in the Gross NPA ratio of selected banks during the study period.
H3: Loan restructuring and settlements have a greater impact on NPA recovery compared to legal proceedings.
H4: The financial performance and profitability of commercial banks are directly influenced by their NPA management strategies.

Research Methodology

The present study is analytical in nature. The study is based on the both primary and secondary data and the data are collected for the period from 2009 to 2023. A stratified random sampling technique was adopted for this research.

Trends of Non-Performing Assets

Banking Sector plays a vital role in the development of the economy of any nation. But at present, it has been viewed that this is one among the sector which is under deep stress. The most calamitous problem facing commercial banks all over the world in recent time is spiraling non-performing assets which are badly affecting their viability and solvency and thus posing challenge to their ultimate survival (Shrivastav & Divya Nigam 2013).
The following trends in NPA recovery are as follows.

a. Increased Digital Intervention

- AI and Machine Learning are being used for predictive analytics to assess credit risk.
- Digital debt collection platforms automate follow-ups and negotiations.

b. Asset Reconstruction Companies (ARCs) & Bad Banks

- Governments and financial regulators encourage ARCs to buy NPAs and recover them.
- The introduction of "Bad Banks" to consolidate NPAs and restructure them

effectively.

c. Legal and Regulatory Reforms

- Strengthening of laws such as the Insolvency and Bankruptcy Code (IBC) and SARFAESI Act.
- Fast-tracking of cases in debt recovery tribunals (DRTs).

d. Increased Focus on One-Time Settlements (OTS)

- Banks are offering discounted settlements to recover dues quickly.
- Special schemes for MSMEs and small borrowers to avoid long legal battles.

e. Credit Risk Assessment and Early Warning Systems

- AI-driven tools to identify stressed assets before they turn into NPAs.
- Strengthening risk assessment at the loan origination stage.

Non-Performing Assets is one among the major problem of Indian Banking Sector and therefore this issue has been selected for analysis in this study. The rising NPAs in recent period can be attributed to the effects of the global recession coupled with internal factors like the slowdown in the domestic economy which had adversely affected the performance of corporate as well as small and medium enterprises leading to a negative impact on credit quality. To overcome this problem, the banking sector has not only initiated various measures but also introduced certain debt recovery and preventive management strategies to reduce the NPAs. The analysis of the effects of these strategies is the primary motive of this research work.

The RBI introduced health code system for commercial banks in 1985-86 and under this RBI advised the banks to recognize income only on realization basis instead of accrual basis of accounting system. By introducing of this code, RBI intended to help the banks to strengthen their financial health. But unfortunately, this system was not transparent and has created a uniform yardstick for measurement of the problem. After recognizing this issue, the RBI has introduced prudential regulations on the basis of Narshimham Committee recommendation with certain modification in a phased manner over a 3 year period beginning 1990 to 1993.

Asset Quality

An attempt has been made to study the Asset quality of various banks in the bank wise segment. Asset can be defined as the quality of loan portfolios of the banks (loans and advances being the majority of the assets of the banks). It is used to assess the credit risk of the portfolio. The risk involves non repayment of interest on loans and investments and principal repayment

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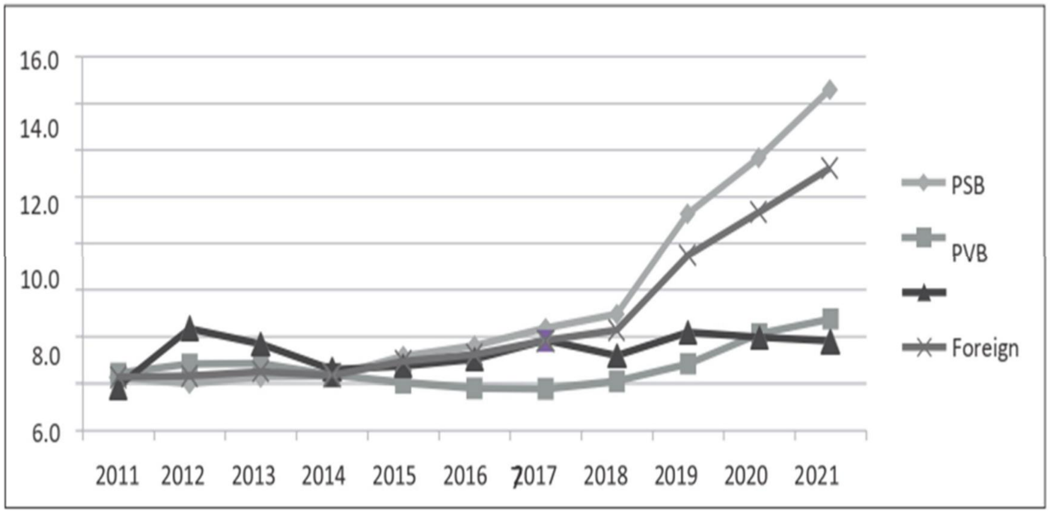
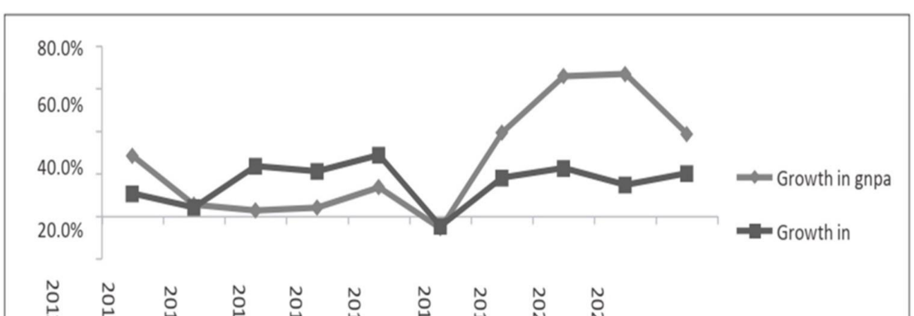
Figure 1: GNPAs ratio of banks in India in comparison to SCB



Source: dbie.rbi.org & Trends and Progress Reports

The above figure 1 shows the bank wise GNPA ratio over the period of11 years. Initially, the GNPA ratio was constant for Public Sector Banks whereas Private sector had high GNPA. The deterioration of asset quality worsened for foreign banks for the period2011-2014 (it rose to 4.3% in 2012) as foreign banks saw tremendous growth in GNPAs in 2012. Later it converged with other banks in 2014 when growth in GNPAs was negative and growth in advances was falling. Asset quality started deteriorating for Public Sector Banks which rose from 2.3% in 2014 when growth in GNPAs and Advances was almost constant to 4.7% in 2021 while advances were declining. The GNPAs spiked in 2019 at 93.9% when advances were continuously falling. The trend for private sector was different where growth in GNPAs was lower than the growth in advances till 2018. After 2018, growth in GNPAs was higher than the growthin Advances. Private Sector Bank took dip in the ratio and was minimum of all from2014 (2.4% in 2014) till 2020 (4.1% 2020) and then started increasing.

Figure 2: Growth in GNPAs and Advances of Private Sector Banks



Source: dbie.rbi.org & Trends and Progress Reports

In order to test Hypotheses 1 and 2 as stated earlier, One Way ANOVA testing was used. One way ANOVA testing is used to check whether there is any difference between the means of three or more independent groups.

- H1: There is no significant differences exist among the Gross NPA public sector, private sector and foreign banks.
- Ha1 (Alternate Hypothesis): There is significant differences exist among the Gross NPA public sector, private sector and foreign banks

Table 1: ANOVA test for Gross NPA in amount

Source o Variation	SS	df	MS	F	P-value*	F crit
Between Groups	3.82434E+11	2	2.46632E+11	8.4703 45309	0.0011 12	3.4167 2
Within Groups	8.63501E+11	30	29117104485			
Total	1.46509E+12	32				

Source: Computed from RBI website

Table 1 estimate that the observed probability value P is 0.001112 which is less than the required value is 0.05. Hence the null hypothesis is rejected and alternate hypothesis is accepted. Therefore, there is significant differences exist among the Gross NPA public sector, private sector and foreign banks

H2: There are no significant differences in the Gross NPA ratio of selected banks during the study period.

Ha2: Alternate Hypothesis: There are significant differences in the Gross NPA ratio of selected banks during the study period.

Table 2: ANOVA testing for Gross NPA/ Gross Advances

Source o fVariation	SS	Df	MS	F	P-value*	F crit
Between Groups	48.50642434	2	25.25371212	3.40780 6907	0.05565 9	3.0153 3
Within Groups	201.5069073	31	4.785230909			
Total	251.0608516	29				

Source: Computed from RBI website

Table 2 estimate that the observed probability value P is 0.055659 which is less than the required value is 0.05. Hence the null hypothesis is rejected and alternate hypothesis is accepted. Therefore, null hypothesis stands rejected and alternate hypothesis is accepted. Therefore, There are significant differences in the Gross NPA ratio of selected banks during the study period.

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Strategies to reduce NPAs

The strategies to reduce NPAs can be broadly classified into two i.e. Debt recovery Management Strategies and Preventive Management Strategies. This paper basically deals with the analysis of Debt recovery Management Strategies. Such Management Strategies includes those steps and measures which are taken by the RBI, Government and banking sector, after the NPAs take place. The strategies are quite helpful to recover that amount of money which is already blocked up in the name of NPA. The various management strategies under this category are explained below:

1. **Lok Adalats**: It is a system of alternative dispute resolution developed in India. The idea of introducing Lok Adalats was developed by Justice P.N. Bhagwati, a former Chief Justice of India. Lok Adalat is a non adversarial system, whereby mock courts (called Lok Adalats) are held by the State Authority, District Authority, Supreme Court Legal Services Committee, High Court Legal Services Committee, or Taluk Legal Services Committee.

2. **Debt Recovery Tribunal:** Debts Recovery Tribunal has been established in the year 1993 by the Central Government of India. The Government of India has established 33 Debts Recovery Tribunals, which are located across the country. Some cities have more than one Debts Recovery Tribunals. The main objective of DRT is to sue the defaulted borrowers after receiving the applications from banks and financial institutions to claim the amount of loan overdue, which have not yet been paid by the borrowers. These DRTs can consider the matters relating to recovery of NPAs of Rs. 10 lakhs and above. Initially the Debts Debt Recovery Tribunals were quite effective and helped the banks and financial institutions in recovering the large part of the nonperforming assets. But the growth of OATs was hold back later on as the OATs could not show their powerful efforts on making recoveries from large and powerful borrowers

3. **SARFAESI Act:** The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act were enacted in the year 2002. The purpose of this act was to achieve 3 dimensions benefits i.e. to regulate the securitization process, to reconstruct the financial assets and enforcement of security interest created in respect of financial assets. Such Act enables the secured creditors to recover their debt without the interference of the court or tribunal. If a borrower fails to repay the amount of loan within 60 days of notice from the date of notice by the secured creditor, the secured creditor is bestowed with certain powers under this act. The powers are to take the possession of the secured assets of the borrower, to take-over the management of the borrower's business including the right to transfer by way of lease, assignment or sale for realizing the secured assets, to appoint any person to manage the possessed secured assets, and to recover money from other secured creditor(s) who has possessed the asset from the borrower and from whom money is due to the borrower.

4. **Asset Reconstruction Company:** Asset Reconstruction Company is globally known as Asset Management Company. In India, the need of Asset Reconstruction Company was first raised by Narsimham Report. They suggested setting up a Central Asset Reconstruction Fund with money financed by Central Government, which would enable the banks to clean up the NPAs from their balance sheets. ARC has been set up to provide a focused approach to Non-Performing Loans resolution. There are various functions performed by an ARC like acquisition of financial assets, rescheduling of debts, change or take over the management, enforcement of security interest and settlement of dues payable by the borrower. Asset Reconstruction Company India Limited (ARCIL) is India's first and largest reconstruction company. It is sponsored by prominent banks and financial institutions like SBI, IOB, ICICI and PNB. ARCIL has its registered office at Mumbai, Maharashtra. It has acquired portfolio from more than 65 banks and financial institutions since inception. ARCIL also forayed into reconstruction of retail assets through its division 'ARMS' which is currently spread across 17 locations in India.

5. Corporate Debt Restructuring: It is a process where the debt of a company to the bank is to be restructured if the company is undergoing through any bonafide financial constraint or hardship.

6. One time Settlement Scheme: If the borrower could not repay the amount of loan that he had taken earlier and after the expiry of the specific period (90 days) the bank considered that loan as NPA, in that case the bank, after verifying the relevant circumstances, may provide an opportunity to the borrower to repay the whole amount of loan due as directed by the bank within a specified period. One time settlement scheme is applicable when the amount involved is less than 10 crores. The revised guidelines related to one time settlement covers all doubtful and loss assets of SME sector and sub-standard assets of sectors other than SME. These guidelines also take into consideration to those cases on which the banks have initiated action under SARFAESI Act, DRTs &BIFR. But the cases of fraud, misconduct and Willful defaulters do not come under the purview of such guidelines. The settlement amount is to be paid in one lump sum. If a borrower could not pay the amount in lump sum then he could pay the 25% of that amount within 30 days of intimation of sanction.

Strategies for NPA Recovery

a. Strengthening Recovery Mechanisms

- Dedicated NPA recovery teams for different segments (corporate, retail, SME).
- Collaboration with forensic audit firms to trace assets of willful defaulters.

b. Legal Recourse and Enforcement

- Fast-tracking cases through the Insolvency and Bankruptcy Code (IBC).
- Use of the SARFAESI Act to seize and auction defaulters' assets.

c. Selling NPAs to ARCs

- Banks sell NPAs at a discount to ARCs, which specialize in recoveries.
- Helps banks clean their balance sheets and focus on core business.

d. Corporate Debt Restructuring (CDR)

- Restructuring large corporate loans to make repayment easier.
- Interest rate reductions, extended repayment periods, or part waivers.

e. One-Time Settlements (OTS) and Negotiated Deals

- Banks prefer quick recoveries via settlements rather than prolonged litigation.
- Discounted payoffs for borrowers with genuine financial distress.

f. Name-and-Shame Strategy

- Public disclosure of **willful defaulters** to discourage default culture.
- Publishing names in newspapers and notifying credit bureaus.

g. Incentives for Recovery Officers

- Performance-based incentives for bank officials engaged in loan recoveries.
- Collaboration with professional recovery agencies.

The asset turning low in its quality is a result of many factors and which is affecting the borrower as well as the lender (banks). Majority of the Indian banks are Public Sector Banks (having 3/4thof the deposits) and they intended to do all the activities for the benefit of the people. Sometimes this is politicized to gain from elections. When these high amount loans turn bad by intentionally or willfully, depositors start losing their confidence about the bank and this affects the reputation of the banks leading to decline in the deposits. This leads to buildup for crisis.

Indian bond market is a part of the equity market and Indian equity market is holding only the fifth position in the Global market. Even now, the Indian bond market is in infant stage.
As a result banks are left with high risk projects particularly power, infrastructure, etc. During the earlier period of last decade, banks were involved in indiscriminate lending with less attention paid for the credit appraisal of the loans going with global sentiments. Initially, there was sharp increase in Gross NPA of banks with less growth in its advances. During the Later part of 2012, there were a contradiction in the movement of growth in Gross NPAs and Gross Advances. Gross NPAs spurt up and credit growth started falling. For Public Sector Bank in 2019, Gross NPA grewat 93% whereas credit grew at 4%.The asset quality among banks is varied and differs from each other. Foreign banks have decreasing trend in their growth in Gross NPA ratio. After 2018, Private Sector Banks have increasing trend in GrossNPAs ratio and Public Sector Bank had increasing trend in Gross NPA ratio

Conclusion

The recovery of Non-Performing Assets (NPAs) remains a critical challenge for commercial banks, requiring a dynamic approach that incorporates both traditional and innovative strategies. The trends in NPA recovery indicate a growing reliance on digital solutions, regulatory reforms, and asset reconstruction mechanisms to improve financial stability and operational efficiency.
Key strategies such as legal frameworks, one-time settlements, debt restructuring, and asset securitization have proven effective in reducing NPAs. Additionally, the adoption of Artificial Intelligence (AI), data analytics, and blockchain technology has enhanced risk assessment and recovery processes, making them more efficient and predictive.

Moving forward, a proactive approach that emphasizes early detection, improved credit risk management, and stronger collaboration with regulatory authorities will be essential in minimizing future NPAs. Commercial banks must continue refining their recovery mechanisms while maintaining a balanced approach between financial recovery and customer relationship management. By integrating technology, legal support, and effective governance, banks can strengthen their resilience and contribute to a more stable financial ecosystem.

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