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Diffusion of Digital Technologies towards NPA Management

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Abstract

Digital technologies today are disrupting and repositioning the lives of every banker and customer. According to RBI data, on 31 August 2018, 48.3% of the loan book of some of the large Indian scheduled commercial banks (SCBs), taken together, consisted of corporate assets. The remaining 51.7% is spread between micro, small and medium enterprises (MSMEs), retail customers and others. This study has mainly focussed on the bankers' perspective of preventive measures using digital technologies to manage NPA.

This study is the nature of descriptive research design. Both primary and secondary data used for study purpose. Eighty bankers were responded for this study and research adopted snowball sampling technique to gather the data. Major finding of this study are: Majority of the bankers are strongly agreeing about 90.6 % that adoption of obsolete technology was the foremost reason for the failure of borrowers and it was ranked as first in the reason for insolvency of borrowers. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion. Majority of the bankers are strongly agreeing about 93.6 % that lack of effective NPA management was the foremost reason for the failure of bankers and it was ranked as first in the reason for NPA. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion. Majority of the bankers are strongly agreeing about 92.4 % that CIBIL score was the foremost technology used by the bankers as preventive measures to control NPA. Framing cohesive & conducive regulatory regime. RBI should be more liberal in IRAC norms when the economy is on downturn; particularly for those sectors; which are severely affected due to economy slump & political scam; such as coal based industries, infrastructure, textile, aviation, etc.

Keywords: CIBIL, Early Warning Signal, Non-performing assets

1. Introduction

Digital technologies today are disrupting and repositioning the lives of every banker and customer. The Non-Performing Assets (NPAs) problem is one of the foremost and the most alarming problems that have shaken the entire banking industry in India like an earthquake. Like any other business, success of banking is assessed based on profit and quality of asset it possesses. Even though bank serves social objective through its priority sector lending, mass branch networks and employment generation, maintaining asset quality and profitability is critical for banks survival and growth.

The high share of NPA in the credit portfolio of a bank particularly the public sector banks, has become a matter of grave concern for the mandarins of the financial system. The reasons are obvious: NPA do not yield any return while they incur a cost, they eat into earnings made elsewhere by way of demand for provisions for these NPAs. In the ultimate analysis, mounting NPAs can pose a great threat to the very fabric of the system of the country, as witnesses in some of the South-east Asian countries and hence prevention of NPAs has assumed a significant role. There are several measures have been taken by the RBI to take curative measures including preventive and corrective measures. This study has mainly focussed on the bankers' perspective of preventive measures using digital technologies to manage NPA (Siraj K.K 2012).

1.1. Statement of the problem

Deficiencies in surveillance and governance of credit portfolio, besides weak appraisals, have been identified as the prime contributory factors for the alarming situation. The process to arrest the growth of

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NPAs should, therefore, start with earnest evaluation of risks in the proposal, effective monitoring of loan accounts and initiation of timely remedial measures at the branch level. The niceties of risk evaluation and credit monitoring that can help a bank in arresting and annihilating NPAs are issues that need detailed deliberation. Developing deep into the problem, one draws the inference that the weak evaluation of the risks involved in loaning operations is one of the major factors responsible for NPAs. The inability of a borrower to discharge a repayment liability has two distinct facets: one, risk from externalities that are beyond the control of the borrowing unit and second, internal to the unit. The uncertainty makes management of NPAs a challenging task and that is where the ingenuity of the management of a bank is called for. Hence, any lending decision should always be preceded by a detailed risk analysis and the outcome should act as a guide for the credit decision (Dr. Jasbir Singh Deswal and Anand Singh, 2009).

According to RBI data, on 31 August 2018, 48.3% of the loan book of some of the large Indian scheduled commercial banks (SCBs), taken together, consisted of corporate assets. The remaining 51.7% is spread between micro, small and medium enterprises (MSMEs), retail customers and others. With this distribution of asset classes, the RBI estimates that the gross non-performing assets (GNPA) of SCBs can rise from 11.6% in March 2018 to 12.2% by March 2019. The major reasons for this is the inability of the banks to anticipate the incipient stress in accounts that are likely to default. Simultaneously, the RBI's regulations have been evolving from rule-based monitoring to an early warning identification approach over the last two decades. This study has mainly focussed on the bankers' perspective of preventive measures using digital technologies to manage NPA.

1.2. Objectives of the study

The following are the objectives used to find out the solution for the defined problem.

i. To know the diffusion of digital technologies towards NPA management
ii. To understand the process of disbursing loan in the digital era
iii. To analyse the bankers opinion about the usage of technologies to prevent NPA
iv. To offer valuable suggestions based on the findings

2. Literature review

Researcher has collected several reviews in order to identify and define the problem statement, formulation of objectives to achieve the solution to the problem, strengthening the research instruments, identify the statistical tools used to achieve the results, understanding the present scenario in banking industry for using digital technologies to prevent NPA, factors for determining NPA and process followed by the banker to disburse loan.

Chippa M.L (2008) has conducted a study and it reveals that the operations of commercial banks record the economic pulse of economy of almost all countries big or small, rich or poor, socialist or capitalist and they are faced with the problem of regional disparities in economic development.

Dr. Yuvaraj Reddy B (2013) his research paper reveals that economic development is primarily linked with financial institutions and commercial banks become prime movers of the economic development because of their unique function of credit creation.

3. Data analysis and discussions

Table 1. Bankers' opinion about the cause for insolvency of borrowers

Reason for insolvency of borrowers	Mean	Standard deviation	Mean ranking
Improper choice of project/activity	4.51	0.47	2
Adoption of obsolete technology	4.53	0.42	1
Promoters/ Management disputes	3.57	1.36	7
Inefficient management	3.89	0.94	6
Resource crunch	2.91	1.67	9
Strained labour relation	3.10	1.87	8
Diversion & siphoning of funds	4.30	0.56	4
Wilful defaulter	4.26	0.54	5
Fraudulent intention	4.50	0.42	3

It is inferred from the above table, majority of the bankers are strongly agreeing about 90.6 % that adoption of obsolete technology was the foremost reason for the failure of borrowers and it was ranked as first in the reason for insolvency of borrowers. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Second rank was assigned to improper choice of project based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 90.2 % of borrowers failed due to improper choice of project. Lowest standard deviation of 0.47 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Third rank was assigned to fraudulent intention to avail loan based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 90.0 % of borrowers failed due to fraudulent intention to avail loan. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Fourth rank was assigned to diversion of funds to their personal or non-productive reasons based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 86 % of borrowers failed due to diversion of funds to their personal or non-productive reasons. Lowest standard deviation of 0.56 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Fifth rank was assigned to wilful default even they have sufficient balance to meet out their obligations based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 85.2 % of borrowers failed due to their wilful default even they have sufficient balance to meet out their obligations. Lowest standard deviation of 0.54 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Sixth rank was assigned to inefficient management based on the agreeness of the bankers. Considerable portion of the bankers are agreeing that 77.8 % of borrowers failed due to inefficient management. Moderate standard deviation of 0.94 was observed in this variable. It shows that bankers' opinion tend to vary slightly.

Seventh rank was assigned to promoters/ management disputes based on the agreeness of the bankers. Considerable portion of the bankers are agreeing that 71.4 % of borrowers failed due to promoters/ management disputes. High standard deviation of 1.36 was observed in this variable. High level of variation observed among the bankers opinion.

Eighth rank was assigned to strained labour relations based on the agreeness of the bankers. Significant portion of the bankers are neither agree nor disagree that 62 % of borrowers failed due to strained labour relations. Highest standard deviation of 1.87 was observed in this variable. High level of variation observed among the Bankers.

Ninth rank was assigned to resource crunch based on the agreeness of the bankers. Significant portion of the bankers are neither agree nor disagree that 58.2 % of borrowers failed due to resource crisis. Highest standard deviation of 1.67 was observed in this variable. High level of variation observed among the Bankers.

4. Summary of Findings

Majority of the bankers are strongly agreeing about 90.6 % that adoption of obsolete technology was the foremost reason for the failure of borrowers and it was ranked as first in the reason for insolvency of borrowers. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Second rank was assigned to improper choice of project based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 90.2 % of borrowers failed due to improper choice of project. Lowest standard deviation of 0.47 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Third rank was assigned to fraudulent intention to avail loan based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 90.0 % of borrowers failed due to fraudulent intention to avail loan. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Majority of the bankers are strongly agreeing about 93.6 % that lack of effective NPA management was the foremost reason for the failure of bankers and it was ranked as first in the reason for NPA. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Second rank was assigned to lack of proper credit monitoring based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 87.2 % of bankers failed due to lack of proper credit monitoring. Lowest standard deviation of 0.55 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Third rank was assigned to lack of knowledge at the bank branches based on the agreeness of the bankers. Majority of the bankers are strongly agreeing that 84.4 % of bankers failed due to insufficient knowledge of the executives in the bank branches. Lowest standard deviation of 0.52 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion.

Majority of the bankers are strongly agreeing about 92.4 % that CIBIL score was the foremost technology used by the bankers as preventive measures to control NPA.

5. Suggestions of the study

Framing cohesive & conducive regulatory regime. RBI should be more liberal in IRAC norms when the economy is on downturn; particularly for those sectors; which are severely affected due to economy slump & political scam; such as coal based industries, infrastructure, textile, aviation, etc.

Improving loan repayment culture in the society by banning political loan waiver schemes & giving incentives for timely loan repayment

RBI itself has made it clear that it wants banks to automate data management and record keeping as much as possible and complete periodic regulatory reporting without intervening manually

6. Conclusion

According to RBI data, on 31 August 2018, 48.3% of the loan book of some of the large Indian scheduled commercial banks (SCBs), taken together, consisted of corporate assets. The remaining 51.7% is spread between micro, small and medium enterprises (MSMEs), retail customers and others. This study has mainly focussed on the bankers' perspective of preventive measures using digital technologies to manage NPA. Major findings of this study are : Majority of the bankers are strongly agreeing about 90.6 % that adoption of obsolete technology was the foremost reason for the failure of borrowers and it was ranked as first in the reason for insolvency of borrowers. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion. Majority of the bankers are strongly agreeing about 93.6 % that lack of effective NPA management was the foremost reason for the failure of bankers and it was ranked as first in the reason for NPA. Lowest standard deviation of 0.42 was observed in this variable. It shows that majority of the bankers are considering without much variation in their opinion. Majority of the bankers are strongly agreeing about 92.4 % that CIBIL score was the foremost technology used by the bankers as preventive measures to control NPA.

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