

Impact of The Securitization Act, 2002 on Non-Performing Assets of Selected Public Sector Banks: A Quantitative Approach

Chandni Singh^{a1}, Dr. Monty Kanodia^{a2}

^{a1}JRF Research Scholar, Department of Management, IIS (Deemed to be) University, Jaipur.

^{a2}Sr. Assistant Professor, Department of accounting & taxation, IIS (Deemed to be) University, Jaipur.

Abstract

The study aimed to analyze the Impact of ‘The Securitization Act, 2002’ on NPAs of selected PSBs to highlight before and after the impact of the Act on NPAs of selected Public Sector Banks. To attain the objectives of the study, the descriptive research design is adopted which is based on the data of the financial statement of five public sector banks and by using independent samples t-test for NPAs of time duration from 1995 to 2019. The study found that only SBI bank has utilized the Act effectively in managing NPAs and 2003 to 2010 is the time duration in which Act is most effective in managing the NPAs of Public Sector Banks.

Keywords: The Securitization Act, 2002, Non-performing assets, Public Sector Banks.

1. Introduction

Asset quality is the most vital tool to evaluate the performance and overall working of banks. The level of standard Assets gets increased with the reduction in asset quality. The primary function of commercial banks is intermediation processes. The effective functioning of a bank is reflected by the level of return on its investments and the size of its balance sheet. The Banks don't earn any income from these NPAs and although they are bound to make arrangements for provisions for NPAs from their current profits. The banking industry is facing NPAs as a significant problem and hurdle in front of them (Zahoor Ahmed & Jagadeeshwaran.M., 2013). The increasing level of NPAs negatively affects the earning capacity and profitability of banks, and the reduction of NPAs of banks is being emerged as the biggest challenge of the Indian economy (JaynalUd-din Ahmed, 2011). The amount of NPAs of public sector banks are comparatively very high in as compared to private sector banks and accounted for 78% of total NPAs. The government of India has taken various steps to condense the NPAs, but still, much effort to be thru to restraint increasing NPAs issue. The levels of NPAs of Indian banks are still high when they are compared to the NPAs levels of foreign banks (Satpal, 2014 and Bhavani Prasad & Veera, 2011). “The banks in India have occupied a back seat in controlling its NPAs in the global prospect. Hence, it is high time for the banking sector in India to organize its resources successfully without disturbing the quality of its assets” (Banu and Santhiyavalli, 2016). With the help of various remedial steps introduced by ‘the Government of India’, NPAs have been concentrated to significant levels (Ganesan. D. and Santhanakrishnan. R., 2013). New useful tool like “the SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests) Act” has provided a different way to banks in their scuffle counter to NPAs (Chakrabarti, 2004).

The securitization Act, 2002 has proved to be a milestone for the recovery of NPAs in Indian Banks since its inception (Ajay Jain & Chandra Shaardha, 2014). The SARFAESI Act, 2002, holds the promise of reformulating the contours of asset management and of rectifying the imbalance between borrowers and lenders in India, a direct consequence of which has been the colossal accumulation of NPAs. The loopholes and inequalities in the Act need to be ironed out through appropriate legislative measures (YNagaraju & Karuna M, 2014). When compared the various mechanisms to recover NPAs, Lok Adalat has not shown considerable success in the recovery of NPA. On the contrary, DRT's and the SARFAESI act has shown considerable performance in the recovery of NPAs (Samir, Deepa & N. S Rana., 2010). The SARFAESI Act,

2002, has made recoveries of NPAs easier and shown a new way for the Bank's individuals to recuperate their unsettled amounts, which are classified as NPAs in the balance sheet (Anupam Panigrahi & Suman Kalyan Chaudhury, 2017). Through the Pre-enactment period, the level of gross and net NPAs ratio of PSBs is, averagely, showing an increasing tendency. On the contrary, during the post-enactment period, which shows the effectiveness of the Act to curb NPAs (Munish Gupta & Naresh Malhotra, 2017).

2. Research Methods and Hypothesis

Based on the mode of objectives inquiry perspective, this study is exploratory and Quantitative. Before-and-after designs are applied for studying the effect of 'the Securitization Act, 2002' on NPAs and is based on secondary data, in which Gross and Net NPAs values to Advances and Total Assets were analyzed to study the impact of the Act on NPAs of selected PSBs and stretch for the study is from 1995-96 to 2017-19. Judgment sampling technique is applied for obtaining Sample Banks from PSBs, based on their net worth as on March 31 2016, for collecting Secondary Data to study the impact of the Act on Banks' NPAs.

The central Null hypothesis is framed, which is further form three sub-hypotheses, as:

$H_0 \rightarrow X_a = X_b$: There is no significant difference between mean values of NPAs of Banks before and after the enactment of The Securitization Act, 2002.

The time duration of the study is segregated into 4 blocks of financial years, from 1995-2002 (before enactment) is 1st block and three blocks of financial years (after enactment) 2003-2019, 2003-2010 and 2010-2019 are 2nd, 3rd and 4th blocks of years respectively to test sub hypotheses. The time duration 2003 to 2019 is divided based on the application of guidelines for securitization Act, 2002, and after that, two amendments were made for this time duration.

To test these hypotheses independent samples t-test was conducted to compare the statistically significant effect of the enactment of 'The Securitization Act, 2002' on NPAs levels of banks for two before and after blocks of financial years, specifically by taking deviation variables of Gross NPAs and Net NPAs before and after enactment of the Act. The impact has been measured in the context of Advances as well as Total Assets of the banks.

3. Inferential analysis

$H_{01} \rightarrow X_1 = X_2$: There is no significant difference between mean values of NPAs of Banks before (1995-2002) and after (2003-2019) enactment of The Securitization Act, 2002.

Looking at the **Group Statistics**, table 1 revealed that the enforcement of The Act on logical technique to classify the performing assets in the banking has resulted in considerable levels of slippages. And means of Net and Gross NPAs to Advances and total Asset ratios show a reduction for after enactment phase 2003-2019 as compared to before enactment phase 1995-2002 for all the studied Banks. It means that the Bank is successful in effecting recovery in NPAs account regularly and the Bank's ability to assess the credit risk has enhanced with the help of the Securitization Act, 2002.

Table. 1

Independent Samples t-Test (df =21)						
(1995 to 2002-2003 to 2019)	Mean Difference	Pooled Std. Div.	Std. Error Difference	t	Sig. (2-tailed)	Cohen d
State Bank of India						
NNPAs to Advances	3.877	1.008	0.457	8.489	.000*	3.8
GNPAs to Advances	9.108	2.212	1.002	9.087	.000*	4.1
NNPAs to Total Assets	0.994	0.564	0.255	3.889	.001*	1.8
GNPAs to Total Assets	3.000	1.244	0.564	5.322	.000*	2.4
Bank of Baroda						
NNPAs to Advances	4.981	1.696	0.769	6.479	.000*	3.0
GNPAs to Advances	9.652	3.743	1.696	5.690	.000*	2.6
NNPAs to Total Assets	1.932	0.919	0.417	4.638	.000*	2.1
GNPAs to Total Assets	4.135	2.055	0.931	4.439	.000*	2.0
Punjab National Bank						
NNPAs to Advances	5.783	3.257	1.476	3.918	.001*	1.8
GNPAs to Advances	7.140	5.099	2.310	3.090	.006*	1.4
NNPAs to Total Assets	1.825	1.801	0.816	2.235	.036**	1.0
GNPAs to Total Assets	2.137	2.866	1.299	1.646	.115	NA
Canara Bank						
NNPAs to Advances	3.680	2.166	0.981	3.750	.001*	1.7
GNPAs to Advances	9.576	4.529	2.052	4.666	.000*	2.1
NNPAs to Total Assets	1.029	1.204	0.546	1.886	.073***	0.9
GNPAs to Total Assets	3.780	2.423	1.098	3.442	.002*	1.6
Bank of India						
NNPAs to Advances	4.046	2.342	1.061	3.812	.001*	1.7
GNPAs to Advances	5.101	5.078	2.301	2.217	.038**	1.0
NNPAs to Total Assets	1.584	1.276	0.579	2.734	.012**	1.2
GNPAs to Total Assets	2.119	2.780	1.260	1.682	.107	NA

*, **, *** “The mean difference is statistically significant at the 1%, 5%, and 10% level”.

The null hypothesis is failed to accept for all cases except Gross NPAs to Total assets of PNB and BOI. Hence, there is significant evidence that after the introduction of the securitization Act, 2002, the asset quality of the Bank increased due to the decrease in the level of Net NPAs and Gross NPAs to Advances and Total Assets. The effect size measured for PNB, Canara Bank & BOI are large as d is above 0.8 While effect size for SBI & BOI is huge as d is near 2 or above 2.

$H_{02} \rightarrow X_1 = X_3$: There is no significant difference between mean values of NPAs of Banks before (1995-2002) and after (2003-2010) enactment of The Securitization Act, 2002.

Table. 2

Independent Samples t-Test (df =12)						
(1995 to 2002-2003 to 2019)	Mean Difference	Pooled Std. Div.	Std. Error Difference	<i>t</i>	Sig. (2-tailed)	Cohen <i>d</i>
State Bank of India						
NNPAs to Advances	4.340	0.648	0.347	12.523	.000*	6.7
GNPAs to Advances	10.241	1.755	0.938	10.915	.000*	5.9
NNPAs to Total Assets	1.406	0.247	0.132	10.626	.000*	5.7
GNPAs to Total Assets	3.936	0.830	0.444	8.869	.000*	4.8
Bank of Baroda						
NNPAs to Advances	5.769	1.311	0.701	8.233	.000*	4.4
GNPAs to Advances	10.934	2.732	1.460	7.487	.000*	4.0
NNPAs to Total Assets	2.474	0.553	0.296	8.366	.000*	4.5
GNPAs to Total Assets	5.070	1.193	0.638	7.948	.000*	4.2
Punjab National Bank						
NNPAs to Advances	8.364	1.728	0.923	9.058	.000*	4.9
GNPAs to Advances	10.124	2.656	1.419	7.132	.000*	3.8
NNPAs to Total Assets	3.383	0.594	0.318	10.650	.000*	5.7
GNPAs to Total Assets	4.077	1.046	0.559	7.295	.000*	3.9
Canara Bank						
NNPAs to Advances	5.080	1.440	0.770	6.601	.000*	3.5
GNPAs to Advances	11.456	4.459	2.384	4.806	.000*	2.6
NNPAs to Total Assets	1.899	0.540	0.288	6.582	.000*	3.5
GNPAs to Total Assets	4.974	2.083	1.114	4.467	.001*	2.4
Bank of India						

NPAs to Advances	5.567	1.265	0.676	8.236	.001*	4.4
GNPAs to Advances	8.064	1.989	1.063	7.589	.000*	4.0
NPAs to Total Assets	2.450	0.595	0.318	7.703	.000*	4.1
GNPAs to Total Assets	3.811	0.992	0.530	7.187	.000*	3.8

* "The mean difference is statistically significant at the 1% level".

The null hypothesis cannot be accepted for all cases of the studied banks. Hence, there is significant evidence that after the introduction of the securitization Act, 2002, and the asset quality of the Bank increased due to the decrease in the level of Gross NPAs and Net NPAs to Total Assets and Total Advances. The effect size for studied all Banks is huge as d is above 2.0.

$H_{03} \rightarrow X_1 = X_4$: There is no significant difference between mean values of NPAs of Banks before (1995-2002) and after (2010-2019) enactment of The Securitization Act, 2002.

Table. 3

Independent Samples t-Test (df =14)						
(1995 to 2002-2003 to 2019)	Mean Difference	Pooled Std. Div.	Std. Error Difference	t	Sig. (2-tailed)	Cohen d
State Bank of India						
NPAs to Advances	3.517	1.065	0.537	6.553	.000*	3.3
GNPAs to Advances	8.226	2.145	1.081	7.610	.000*	3.8
NPAs to Total Assets	0.673	0.564	0.284	2.369	.033**	1.2
GNPAs to Total Assets	2.273	1.186	0.597	3.804	.002*	1.9
Bank of Baroda						
NPAs to Advances	4.368	1.606	0.809	5.396	.000*	2.7
GNPAs to Advances	8.655	3.771	1.900	4.554	.000*	2.3
NPAs to Total Assets	1.510	0.904	0.456	3.315	.005*	1.7
GNPAs to Total Assets	3.408	2.148	1.082	3.149	.007*	1.6
Punjab National Bank						
NPAs to Advances	3.776	3.155	1.590	2.375	.032**	1.2
GNPAs to Advances	4.820	5.283	2.662	1.810	.092***	0.9
NPAs to Total Assets	0.613	1.642	0.828	0.740	.471	NA
GNPAs to Total Assets	0.629	2.894	1.459	0.431	.673	NA
Canara Bank						

NNPAs to Advances	2.592	2.249	1.133	2.287	.038**	1.2
GNPAs to Advances	8.115	5.112	2.576	3.150	.007*	1.6
NNPAs to Total Assets	0.352	1.208	0.609	0.579	.572	NA
GNPAs to Total Assets	2.851	2.684	1.353	2.108	.054***	1.0
Bank of India						
NNPAs to Advances	2.863	2.251	1.134	2.524	.024**	1.2
GNPAs to Advances	2.796	5.355	2.699	1.036	.318	NA
NNPAs to Total Assets	0.910	1.230	0.620	1.468	.164	NA
GNPAs to Total Assets	0.803	2.897	1.460	0.550	.591	NA

*, **, *** “The mean difference is statistically significant at the 1%, 5%, and 10% level”.

The null hypothesis cannot be accepted for all cases except Gross NPAs to Advances of BOI, Net NPAs to Total Assets of PNB, Canara Bank & BOI, and Gross NPAs to Total assets of PNB & BOI. Hence, there is significant evidence that after the introduction of the securitization Act, 2002, and the asset quality of the Bank increased due to the decrease in the level of Gross NPAs and Net NPAs to Total Assets and Total Advances in some cases. The effect size measured for Net & Gross NPAs to Advances of SBI & BOB is huge as d is above 2.0 While effect size for others is large as d is above 0.8.

4. Findings & Conclusions

The securitization Act, 2002 has proved to be a milestone for the recovery of NPAs in Indian Banks since its inception. Since 2002-03 when this Act came into force, the progress of reducing NPAs under this Act had been significant, it was estimated as an overall reduction in NPAs to total advances to 9.4 % from 14.0 % in 1999-2000 to 4.40% in 2014 (Mrs. Chandra Shaardha and Dr. Ajay Jain, 2016). The drive of the study was to study the bearing of ‘the Securitization Act, 2002’ on NPAs of selected public sector banks. Pre-post study of these banks with the help of t-tests shows that SBI & BOB are the most and BOI is least affected for first independent samples, for second independent samples SBI is most, and Canara Bank is least affected, and SBI is most, and PNB, Canara Bank, BOI are least affected for the third independent samples while others are on average. As the results of all hypotheses are compared based on effect size, it can be concluded that the Act has negatively affected the NPAs for time duration 2003 to 2010 and showed a significant decrease in NPAs levels while the time duration 2010 to 2019 proved to moderate in managing NPAs levels. Thus, aging of the Act has a neutralized effect on NPAs because of the emersion of loopholes in the processing of the Act. The government needs to take initiation in introducing a more effective remedy to gauze the up-surging levels of NPAs in public Banks by framing strict rules in the recovery channels.

When Net NPAs compared to the Gross NPAs draw our attention to the long resting amount of interest lying in the suspense account and portions of DICGC /ECGC claims received and are pending for adjustments and provisions held, which reveals that they comprise the significant portion cumulating the Gross NPAs in Advances. Recovery staffs needs to be sufficiently and effectively proficient to recuperate the unsettled amounts systematically and validly before it gets contained within the ‘NPAs category’ by scrutinizing customer’s frameworks and assets, proper follow-up, good affinity, proper credentials, and cataloguing of assets, etc.

References

1. Tariq Zafar, Dr.Maqbool, A., & Khalid, (2013). Non- performing Assets and its Impact on Indian Public Sector Banks. *International Journal of Marketing, Financial Services & Management Research*, 3(2) 68-98. Retrieved from <http://www.ijarcsms.com/docs/paper/volume2/issue1/V2I1-0015.pdf> on January 7, 2019.
2. Zahoor Ahmed & Jagadeeshwaran.M., 2013 Zahoor Ahmed and Prof. Jagadeeshwaran.M. (2013) "Comparative Study on NPA Management of Nationalised Banks", *International Journal of Marketing, Financial Services & Management Research*, Vol.2.No.8.pp66-78.
3. JaynalUd-din Ahmed. (2011) "Management of Non-Performing Assets of Commercial Banks: The Evidence from Indian Banking Sector", *International Journal of Financial Management*, 1 (3).
4. Satpal, 2014 A Comparative Study of Non Performing Assets in Public and Private Sector Banks in the New Age of Technology. *International Journal of Current Engineering and Technology*, 4(4), 2468-2475.
5. Bhavani Prasad. G. and Veena, V.D. (2011) "NPAs in Indian Banking Sector- Trends and Issues", *Journal of Banking Financial Services and Insurance Research*, 1(9) Pp 67-84.
6. Prof. Ganesan. D. and Prof. Santhanakrishnan R. (2013) "Non-Performing Assets: A Study of State Bank of India", *Asia Pacific Journal of Research*, 1(8) 81-88
7. Ajay Jain & Chandra Shaardha, 2014 The Impact of SARFAESI Act 2002 in recovering the Non Performance Assets in Public Sector Banks: A study on Recovery in SBI, CBI, CB, BOB and PNB (2008 to 2014). *International Journal of Applied Engineering Research*, 7 (11) 5218-5224
8. Y Nagaraju & Karuna M, (2014) "A Study on Management of NPAs And Impact of Securitization Act, 2002 on Reduction of NPAs in Banks", *International Journal of Research in Commerce & Management*, 9(5) 25-29.
9. Samir, Deepa & N. S Rana., (2010). "Non-Performing Assets (NPAs) impede performance of Public Sector Banks", *The Journal of Master School of Management*, 7(2) 22-31.
10. Anupam Panigrahi & Suman Kalyan Chaudhury, (2017). The Impact of SARFAESI Act 2002 In Reducing Non-Performing Assets of Indian Scheduled Commercial Banks. "*Asia Pacific Journal of Research*", 8(10) 119-126.
11. Munish Gupta & Naresh Malhotra, 2017 A Comparative Study of Non-Performing Assets in Scheduled Commercial Banks during Pre SARFAESI Period and Post SARFAESI Period. "*International Journal of Business Management & Research*", 2(7) 78-90.
12. www.capilaline.com
13. <https://sbi.co.in>
14. <https://www.bankofbaroda.in>
15. <https://www.pnbindia.in>
16. <https://www.canarabank.in>
17. <https://www.bankofindia.co.in>
18. <https://dbie.rbi.org.in>