



IMPACT OF SECURITIZATION ACT, 2002 ON NPAS IN PUBLIC SECTOR BANKS : A CRITICAL ANALYSIS

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ABSTRACT

At present scenario of the Indian economy the Banks' NPAs are the biggest problem to resolve for continuous growth of Banks as well strengthness of Indian economy. And this problem is acute particularly among public sector banks (PSBs). To fight with the rising and prevailing NPAs RBI took many Preventive and curative measures like Asset Reconstruction Companies (ARCs), Debt Recovery Tribunals (DRTs), Securitization Act, Compromise Settlement Schemes, etc.. Securitization Act, 2002 is one of the curative measures for management of NPAs initiated by RBI on June, 2002. For the first time Banks were equipped with sharp result oriented tool for realizing long term NPAs. This present paper attempts to evaluate the impact of enactment of Securitization Act, 2002 on NPAs in PSBs. the present study represents exploratory research design in nature and , before-and-after study design is used for quantitative approach which is based on analysis of NPAs values. The population addressed under the present study consists of all public sector banks operating in India. The secondary data for the study has been sourced from RBI publications & bulletins, reports & website, Bank's annual reports, statistical tables, publications & website, News papers, Journals, Report on trend and progress of banking in India etc.

Keywords: Non-performing assets, Curative measures, PSBs, Securitization Act, NPAs.



INTRODUCTION

Recently commercial Banks of world are facing the problem of spiralling NPAs which are affecting their viability and solvency and posing challenge to their ultimate survival. NPAs not only affect lending functioning but profitability of the Banks. Besides Banks have to have more owned funds as capital to create reserves and provisions for providing cushion for the loan losses.

Non-performing Assets (NPAs)

Non Performing Asset (NPA) is a loan or advance for which the principle or interest payment remained overdue for a period of 90 days.

Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets. **Substandard** assets which has remained NPA for a period less than or equal to 12 months. **Doubtful Assets** which has remained in the substandard category for a period of more than 12 months. **Loss assets** where the dues are considered uncollectable or only marginally collectible.

Types of NPAs:

- **Gross NPAs**

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines. It reflects the quality of the loan made by banks.

$$\text{Gross NPAs Ratio} = \text{Gross NPAs} / \text{Gross Advances}$$

- **Net NPAs**

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. It shows the actual burden of banks.

$$\text{Net NPAs Ratio} = \text{Net NPAs} / \text{Net Advances}$$



The solvency crisis of financial systems, such as the American Saving and Loan crisis in the 1980s, the Nordic banking crisis at the beginning of 1990s and more recently, the banking sector problems in Japan and Turkey and of late subprime crisis in the USA have, in large measure, been a consequence of accumulation of problem loans overtime.

Persistently high level of NPAs in loan portfolio of banks makes them fragile, leading ultimately to their failure. This will shake confidence both of domestic and global investors in the banking system which will have multiplier effect, bringing disaster in the economy.

Thus, managing bad loans and keeping them at the lowest possible level has become a keyword for the banking industry in recent years which is critical for banks. The world class banks do not have NPAs of over 2% of the total portfolio and NPA level of over 5% is indicator of poor quality of loan portfolio. With growing competition and shrinking spreads, banks should strive to keep NPAs much below the level of 10% to make net earning necessary for their survival and growth. Thus, the most critical condition for bringing about an improvement in the profitability of banks is reduction in level of NPAs. In fact, it is pre-condition for the stability of the financial system.

REVIEW OF LITERATURE

1. **Dr. Sudesh and Archana Makker (2015)** examined the Impact of Securitization Act 2002 on Recovery of NPAs in Public Sector Banks and found NPAs improved after enactment of act and with the help of enforcement of security interest delayed in recovery of loan are removed. Also Securitization Act is important in reducing regulatory capital requirement for Bank and increases the return on asset ratios of Banks.

2. **Makkar and Dr. Sudesh (2013)** found that Securitization Act has significant impact on level of gross NPAs and Net NPAs of state bank



of India. After the introduction of the SARFAESI Act 2002 the level of Gross and Net NPAs decreased and net profit increased year by year in state bank of India. Objective of the study was to evaluate the effectiveness of the enactment of Securitization act 2002 on the NPAs of state bank of India.

3. **Suman Chakraborty and Sabat Kumar Digal (2012)** discussed present scenario, potential and future of the securitization in India and explained process, growth of and reason for securitization in India. They found that Securitization has emerged as one of the most effective means of capital creation. Securitization is another venue for FIs to demonstrate their competitiveness and to broaden their markets. It has been a tremendous boon for banks/ FIs which are beleaguered by excess illiquid and NPAs.

4. **Siraj K. K. and Dr. P. Sudarsanan Pillai (2012)** evaluated trends in management of NPAs with focus on three measures- SARFAESI Act, DRT & Lok Adalats and relationship between various measures & sector wise NPAs. They found that Among Priority sector NPA recovery using SARFAESI Act showed positive & significant correlation with NPAs and Growth rate of major recovery measures increased at a faster rate than NPA.

5. **Seema Mahlawat and Sumanjeet (2010)** in their study outlined that the enactment securitization Act 2002, Indian banks and financial institutions had been scrutinizing some of their distressed assets. The recovery and workout process was managed by the Assets Reconstruction Company (ARC) set up under the SARFAESI Act 2002. The Act had paved the way of several out-of-court settlements. The act confers power on secured creditors to take possession and sell assets kept as security if a default is committed by the borrower in repaying secured debt. Prior to 2002 there was no provision for facilitating securitization of financial assets and the power to take



possession of securitized assets and selling them off. SARFAESI Act 2002 has been positive and has helped the Indian banking sector reduce, to an extent, the problem of NPA assets.

OBJECTIVES OF STUDY

The objective of the study to evaluate the effectiveness of the enactment of Securitization act, 2002 on NPAs management is :

- 1) To study the **pre and post impact** of enactment of securitization Act in NPAs management in Public Sector Banks.

HYPOTHESIS OF STUDY

Let: Mean value of NPAs before period is x_1 ;

Mean value of NPAs after period is x_2 ;

1. $H_0 \rightarrow x_1 = x_2$: There is no significant difference between **mean values of NPAs of PSBs before and after enactment of securitization act.**

$H_1 \rightarrow x_1 \neq x_2$: There is significant difference between **mean values of NPAs of PSBs before and after enactment of securitization act.**

2. $H_0 \rightarrow x_1 = x_2$: There is no significant difference between **mean values of NPAs of PSBs before and after periods after enactment of securitization act.**

$H_1 \rightarrow x_1 \neq x_2$: There is significant difference between **mean values of NPAs of PSBs before and after periods after enactment of securitization act.**

RESEARCH METHODOLOGY

Research methodology is a way to solve the research problem systematically, while designing the research work the following methodology will be adopted.

➤ Type of study



On basis of mode of objectives perspective this study is exploratory in nature. Before-and-after study design is used for quantitative approach and Before-and-after study will be based on analysis of NPAs values. Time period for the study is from 1996-97 to 2014-15.

➤ Data Collection Instruments

Secondary data Source and technique:

- ✓ RBI publications, reports & website;
- ✓ Banks annual reports, publications & website selected in sample;
- ✓ News papers;
- ✓ Journals etc.

Data Analysis Tool :

The statistical tools which have been employed in this study are presented as follows:

- ✓ Mean or average value
- ✓ Standard deviation
- ✓ t-test

➤ Sampling Design

The sample addressed under the present study consists of public sector banks operating in India.

LIMITATIONS OF STUDY

The study is limited to public sector banks, which are selected on basis of higher NPAs of this sector. The time duration for quantitative approach is 1996-97 to 2014-15 for the study and for quantitative approach it is defined earlier.



ANALYSIS AND INTERPRETATION

Ratios of Public Sector Banks before Securitization Act, 2002

(A. From year 1996-97 to 2001-02)

Year/ Ratio	Gross NPAs to Total Assets	Net NPAs to Total Assets	Gross NPAs to Total Advances	Net NPAs to Total Advances
1996-97	7.8	3.6	17.8	8.3
1997-98	7.0	3.3	16.0	7.5
1998-99	6.7	3.1	15.9	7.4
1999-00	6.0	2.9	14.0	6.9
2000-01	5.3	2.7	12.4	6.3
2001-02	4.9	2.4	11.1	5.5
Mean	6.3	3	14.5	7

Ratios of Public Sector Banks after Securitization Act, 2002

(B. From year 2003-04 to 2008-09)

Year/ Ratio	Gross NPAs to Total Assets	Net NPAs to Total Assets	Gross NPAs to Total Advances	Net NPAs to Total Advances
2003-04	3.5	1.3	7.8	2.9
2004-05	2.7	1.0	5.5	1.9
2005-06	2.1	0.7	3.6	1.3



2006-07	1.6	0.6	2.7	1.0
2007-08	1.3	0.6	2.2	1.0
2008-09	1.2	0.6	2.0	0.9
Mean	2	0.8	4	1.5

Ratios of Public Sector Banks after Securitization Act, 2002
 (C. From year 2009-10 to 2014-15)

Year/ Ratio	Gross NPAs to Total Assets	Net NPAs to Total Assets	Gross NPAs to Total Advances	Net NPAs to Total Advances
2009-10	1.3	0.7	2.2	1.1
2010-11	1.4	0.7	2.4	1.2
2011-12	2.0	1.0	3.3	1.7
2012-13	2.4	1.3	3.6	2.0
2013-14	2.9	1.6	4.4	2.5
2014-15	3.2	1.8	5.0	2.8
Mean	2.2	1.2	3.5	1.9



1. To test the significant difference between Means of years 1996-2002 and 2003-09

S.No.	Variables	Mean		t-values	Increase or decrease in mean value
		Before	After		
		1996-2002	2003-2009		
1.	Gross NPAs to Total Assets	6.3	2	10.5400	-68.25 %
2.	Net NPAs to Total Assets	3	.8	10.4068	-73.33 %
3.	Gross NPAs to Total Advances	14.5	4	7.6109	-72.41 %
4.	Net NPAs to Total Advances	7	1.5	11.000	-78.57 %

It is clear that all averages during post period were lesser than that of pre period. In the above table null hypotheses are rejected. Hence, there is a significant evidence that securitization Act has decreased the level of Gross NPAs to Total Assets, Net NPAs to total Assets, Gross NPAs to Total Advances and Net NPAs to Total Advances.

2. To test the significant difference between Means of years 1996-2002 and 2009-15

S.No.	Variables	Mean		t-values	Increase or decrease in mean value
		Before	After		
		1996-2002	2009-2015		
1.	Gross NPAs to Total Assets	6.3	2.2	7.4437	-65.07 %



2.	Net NPAs to Total Assets	3	1.2	6.9850	-60.00
3.	Gross NPAs to Total Advances	14.5	3.5	9.8610	-75.86
4.	Net NPAs to Total Advances	7	1.9	10.6900	-72.85

It is clear that all averages during post period were lesser than that of pre period. In the above table null hypotheses are rejected. Hence, there is a significant evidence that securitization Act has decreased the level of Gross NPAs to Total Assets, Net NPAs to total Assets, Gross NPAs to Total Advances and Net NPAs to Total Advances.

3. To test the significant difference between Means of years 2003-2009 and 2009-15

S.No.	Variables	Mean		t-values	Increase/decrease in mean
		Before 2003-2009	After 2009-2015		
1.	Gross NPAs to Total Assets	2	2.2	-0.4071	10.00%
2.	Net NPAs to Total Assets	.8	1.2	-1.7945	50.00%
3.	Gross NPAs to Total Advances	4	3.5	0.4857	-12.50%
4.	Net NPAs to Total Advances	1.5	1.9	0.0917	26.67%

It is clear that all averages of PSBs during post period were greater than that of pre period except for Gross NPAs to Total Advances. In the above table null hypotheses are rejected. Hence, there is a



significant evidence that securitization Act has no positive impact on the level of Gross NPAs to Total Assets, Net NPAs to total Assets, Gross NPAs to Total Advances and Net NPAs to Total Advances.

CONCLUSION

The present study analyzed the NPAs of Public Sector Banks of India during pre- Securitization Act and post-Securitization Act periods. The above analysis showed the performance of PSBs in period. The results showed that null hypothesis is rejected in all comparison cases related to pre and post Act period expect post Act period ratios. It means there are significant differences in mean value of pre period and Post period. Net NPAs to Total Advance ratio have very decreasing trend. The result of study concluded that Securitization Act has significant impact on level of gross NPAs and Net NPAs of Public Sector Banks. After the introduction of the SARFAESI Act 2002 the level of Gross and Net NPAs decreased.