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A STUDY ON LOAN RECOVERY STRATEGIES OF SELECT BANKS IN INDIA

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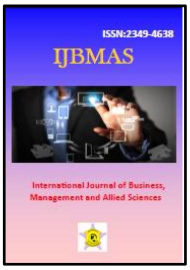

ABSTRACT

In this paper loan recovery strategy of selected banks had been analyzed. The importance of loan recovery had been described in this paper. Secondary data had been used for this study and out of four banks selected for this study two are public sector banks and remaining two are private sector banks. The bad debts recovery strategy have been compared and found that all the banks are using recovery agencies for communicating with defaulters.

Keywords: Loan recovery, bad debts, recovery agents, bank loans, banking industry.

Introduction

The banks collect bad debts from borrowers through loan recovery policies. Banks select recovery agencies from empanelled list. The recovery agencies train recovery agents for collecting bad debts from customers. In this research paper the loan recovery strategies of four selected banks are analyzed. Loan recovery is very important because is one of the factor for analyzing performance of banks. A bank with low bad debts or with effective recovery management attracts the stakeholders from various dimensions.

Recently major public sector banks like SBI and Punjab National Bank have faced issues with bad debts however they have initiated effective loan recovery strategies. The technology had also positively influenced in loan recovery process like using smart phones for constantly communicating with the customer. The modern collection processes aim to address the entire loan collection process at its core issues by bringing automation and digitization to the fore and streamlining the process . The borrowers are continuously informed about their repayment schedule so that they pay the equated monthly installments at the right time.

Bad loans are a drag on bank resources, on the one hand, they don't earn any interest, and on the other, precious resources are locked up . Banks are encouraging staff, retired persons and private agencies for smooth recovery of bad loans. Some banks also offer one time settlements and other discounts for encouraging borrowers to make repayment very quickly. The defaulters are approaching courts for delaying repayment process.

Literature Review

From the customers perspective service failures were found to be of varying importance and different service recovery strategies more effective for particular failures; further, customers with long relationships or high deposits with their banks were more demanding with respect to service recovery . There satisfaction of customers towards recovery strategies is not influenced by demographic profile. Customers want empathic listening and fixing problem to be adopted by banks while making recovery .

Private sector banks implement various promotional strategies than public sector banks. Now it is time for public sector banks with private sector banks in all the dimensions like advertisement and loan recovery strategies . According to Varela-Neira et al (2010) bank recovery strategies offset the negative effect of negative emotions on customer satisfaction and that a compensation strategy is more efficient if offered quickly. Older customer give more importance to the emotional dimensions of the service and, consequently, to process failures.

When compared with private sector banks the penetration of public sector banks among the weaker sections is high . The asset quality of public and private sector banks had increased in the last few years. Dhar (2013) had conducted in depth interviews with customers of bank to know their perception towards loan recovery strategy. Loan recovery strategy in Indian banks is essentially bifurcated into preemptive strategy to prevent the accretion in non-performing loans and corrective strategy to recover the defaulted loans through legal, regulatory and non-legal measures .

Visaria (2009) stated that loan recovery for microfinance tribunals' debts in India. The lower interest rates also motivate constant borrowers to repay the loan. India has 2.3 percent of the global non performing loans which is approximately $30 billion. According to Bhaumik and Piesse (2008) had explained that allocation of assets between risk-free government securities and risky credit is affected by past allocation patterns, stock exchange listing (for private banks), risk averseness of banks, regulations regarding treatment of NPA, and ability of banks to recover doubtful credit. It is also evident that banks deal with changing levels of systematic risk by altering the ratio of securitized to non-securitized credit.

The relationship between bank's nonperforming loans and corporate leverage had been explained by Ghosh (2005). The leverage ratio can serve as a useful signpost of asset quality and second, the analysis points to the need to improve the collection of data from the corporate sector. Krishnan and Kozhikode (2015) had stated that source of insecurity, using data on the illegal loan recovery practices employed by commercial banks in India between 2005 and 2009. High-status banks were found to be particularly likely to engage in illegal recovery practices.

Research Objectives

1. To know loan recovery strategies of ICICI Bank, HDFC Bank, SBI Bank and Canara Bank.
2. To compare the loan recovery strategies between the banks.
3. To compare strategies of selected public sector and private sector banks.

Research Methodology

The recovery strategies of four selected banks are accessed from websites of ICIC Bank, HDFC Bank, SBI Bank and Cananra Bank. This study is based on secondary data and it is procured from journals, books and electronic sources. The debt management policy of all the selected four banks had been reviewed for this study. The recovery policies are companies between the banks and between public and private sector banks.

About recovery polices of selected banks

1. ICICI Bank

According to ICICI policy on collection of dues and possession of security the customer would be initially contacted either at home or any specified convenient to customer. The recovery agent would his identity at the first instance. The customer is contacted between 07.00 hours to 19.00 hours. ICICI bank had adopted Fair Practices Code for Lenders, Outsourcing of Financial Services, Code of Bank's Commitment and Recovery Agents. One week notice will be served to borrowers for repossession of property .

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2. HDFC Bank

HDFC Bank explains the repayment policy through equated monthly installments (EMIs) and encourages the borrowers to visit and explain in case of genuine financial difficulty. The identity of recovery agent will be provided to borrower at the first instance. The policy of HDFC is to contact the borrower between 07.00 hours to 19.00 hours but in specific cases up to 2100 hours if borrower is busy during 07.00 hours to 19.00 hours. HDFC Bank mandates recovery agents to follow code of conduct while communicating with borrowers .

3. SBI Bank

SBI selects recovery agency from empanelled list and it provides guidelines for recovery agents. The borrowers are given identity information by recovery agents and they are contacted between 08.00 hours to 20.00 hours. SBI recovery agents give important to dignity and privacy of the borrowers. Every conversation with the borrower is documented and all the communication is made in simple language. Recovery agents should not accept any gift or bribe from the borrowers and they should encourage borrowers to deposit the cash and recoveries in bank directly.

4. Canara Bank

Canara Bank recovery policy is built on courtesy, fair treatment and persuasion for protecting the dignity and privacy of customers. Canara Bank provides guidelines to recovery agents and initially borrowers will be given an opportunity to make repayment schedule. The identity of recovery agents is provided to borrowers at first instance. The customers will be contacted between 07.00 hours to 19.00 hours. The valuation of property is made according to law and in most transparent manner .

Discussion

All the selected banks are using recovery agencies for collection of dues from the borrowers. When dealing with defaulters the banks are giving more importance to fix repayment schedule by adding interest. It is also understood from recovery polices of selected banks that they are encouraging borrowers to fix repayment schedule rather than repossession of properties of clients. The borrowers of all the banks are given an opportunity to explain genuine reason for defaulting of loans.

There is no significant difference among the loan recovery strategies of four banks. All the banks are giving importance for dignity and privacy of defaulters. Each bank is giving one week time for repossession of property and borrower can take back the property after paying recovery amount. The borrowers are contacted only during day time and they are not disturbed in late hours. Each of the banks provides notice in advance before repossession of the property. There is also no significant difference in recovery policy between public sector and private sector banks.

In future banks can gain competitive advantage if they are successful in bad debts recovery by convincing the customers. The reduction in bad debts increases the current assets in a given financial year. The banking sector is the backbone for economic development of a country. In a big country like India banking sector plays a vital role and recently some bad debts had negative impact on image of various banks. Therefore it is time for banks to implement effective loan recovery strategy and increase the image of banking sector.

Conclusion

Loan recovery is an important task for banks to sustain in the business. Borrowers' dignity and privacy are given importance at the initial stage of recovery process. After reviewing the recovery strategies of selected banks it is found that they are not giving importance for repossession. When genuine reasons are shown for nonpayment of loans then flexible repayment methods are explained to borrowers. The recovery agents are given training so that they can communicate and convince with borrowers for repayment of loan. Loan recovery helps in reduction of nonperforming loans (NPLs) and non performing assets (NPAs) thereby improving cash flow in banks. Overall economy is also positively influenced by effective loan recovery strategies of various banks. The similarity of loan recovery strategies is to a greater extent because the objective of loan recovery is to motivate borrowers to repay rather than repossessing the properties. Both public sector and private sector banks are depending on third party organizations or exclusive recovery agencies through trained recovery agents.

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