

The Performance of Economic Sectors and Their Growing Non-Performing Assets in India

Abhishek Kumar, Deepika Sharma, Anubhav Singh



Abstract: *The Indian banking system of an economy is of foremost importance for its financial and economic development. It forms the core of the financial sector and plays a critical role in transmitting monetary policy impulses to the entire economic system. Hence the stability of banking sector is of paramount importance for the development of an economy. Non-performing assets (NPAs) or loans are growing issue in commercial banks especially in Indian Public sector banks which are facing huge losses due to accumulated NPAs over the past twenty year. As 90% of the total NPA is held with public sector banks, it is essential to focus on the procedure of giving loans by them and proper verification of collateral and other reliability to repay the loan. The extensive lending by the banks to companies during the boom phase of the economy (e.g. 2008-09) without proper documentation (relaxed) leads to such rising NPA levels. This paper focuses on the accumulation of NPAs and its implications on sectors' economic performance. It also specifically emphasizes the efficacy of SARFAESI Act, DRT tribunals, IBC (Insolvency Bankruptcy Code 2016) as mitigation of NPAs. The problem of double trust dilemma in the context of NPAs has been introduced is a case of investor and innovator.*

Keywords- Credit Risk, Gross NPA, Net NPA, Public sector and Private sector bank.

I. INTRODUCTION:

The NPAs affects the banking system liquidity and solvency position which leads to a decrease in operational efficiency. The concept of non-performing asset came into existence when the Reserve Bank of India introduced a critical analysis for a comprehensive and uniform credit and monitoring by way of the Health Code System in commercial banks in 1985-86. It provided information regarding the health of individual advances during this period. All Commercial banks were advised by RBI to introduce health classification indicating the quality of individual advances in eight categories. They are of: Satisfactoryⁱ, Irregularⁱⁱ, Sick-viableⁱⁱⁱ, Sick-non-viable/Sticky^{iv}, Advances-recalled^v, Suit-file-accounts^{vi}, Decreed debts^{vii}, Bad and doubtful accounts^{viii}. NPAs were officially defined in March 1993 and the specified period (by the end of March 31st) was reduced in a phased manner as: 1993-four quarters (past due), 1994-three quarters (past due), 1995-two quarters (past due), 2001-past due concept abolished, and 2004- 90 days overdue norm adopted. The NPAs were further classified into Substandard^{ix}, Doubtful^x, and Loss assets^{xi}.

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The NPAs occurs because of: **Wrong** extrapolation of work performance^{xii}, over-optimism¹, High-interest rate and high leverage ratio of company², lack of supervision³, lack of responsibility and professionalism⁴, lack of necessary job skills⁵, and, favoritism⁶.

¹During the 2006-2008, a lot of bad loan were given due to over optimism. That time UPA government policies were in support of new businesses and country's GDP growth was around 6-8% which is very high growth in comparison to developed countries. Most of the projects were highly leveraged which is not a good condition to promote business. But when the global financial crisis hit the market our economy crumbled in pieces. Slow growth of the economy leads to large NPAs. A study by Muthami (2016) done in commercial bank in Kenya which suggested that growth of NPAs is negatively correlated with GDP growth. Positive GDP growth can be statistical causality of decreasing NPAs but it does not guaranteed that increasing GDP growth is actual cause of decrease in NPAs.

²Due to easy access of loan most of the companies started to rely on debt financing instead of equity based financing which increased the leverage ratio of the company.

When economy hit by high inflation rate which essentially lead to high nominal interest rate. Shareholders start losing their interest in project because they have to pay more in terms of debt that they are actually earning.

³There are greater chances that some projects already turned into "zombie project" but still are receiving continuous fund while some project can sustain in market but their loans are already converted in NPAs and bankers are not ready supply money for further operations which leads to loss of interest in project.

¹The account in which all terms and conditions are complying with and safety of advances are not in doubt.

²The account where safety of advances is not suspected, though there may be occasional irregularities.

³Advances to units which are sick but viable under nursing or revival programs are undertaken.

⁴Advances where irregularities continue to persist and there are no immediate prospects of regularization.

⁵Advances where the recalled repayment is highly doubtful and nursing is not considered worthwhile, includes accounts where decision has been taken to recall the advances.

⁶Accounts where legal action or recovery proceedings have been initiated.

⁷Accounts for which decrees have been obtained.

⁸The accounts in which the recoverability is in doubtful due to shortfall in the value of the securities and inability / unwillingness of the borrower to repay the banks' dues partly or wholly.

⁹Assets which has remained non-performing for a period less than or equal to 12 months.

¹⁰Assets which has remained in the substandard category for a period of 12 months.

¹¹Loss asset is considered uncollectible and of such little value that its continuation as a bankable asset is not warranted, although there may be some salvage or recovery value.

Constant supervision of projects are needed to make right decision in terms of further financing of project which constantly had been ignored by responsible authority and this is still the main reason of NPAs creation.

⁴In public banks are its own employee who feel so liberal that they don't even think it's their responsibility to check full transaction history of their acquaintances.



II. LITERATURE REVIEW

There are many published articles available in the area of non-performing assets and a large number of researchers have studied the issue of NPA in Indian banking industry. A review of the relevant literature has been described. **Kumar (2013)** in his study on “A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues are challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs). **Selvarajan&Vadivalagan (2013)** in A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs) find that the growth of Indian Bank’s lending to Priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAs in the early years of the decade. **Singh (2013)** in his paper entitled Recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPA’s lies in the system of credit risk management by the Indians banks. Mostly Banks are required to have adequate preventive measures in fixing pre- sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing. **S. Gupta (2012)** in her study had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before credit facility and credit rating agencies should regularly evaluate the financial condition of the clients. **Rai (2012)** in her study on Study on performance of NPAs of Indian commercial banks find out that corporate borrowers even after defaulting continuously never had the

The desire to show off their power in banking system to them leads to irrational exuberance and they are ready to write any amount in cheque without further ado. This kind of situations are unavoidable in Public sector banks because their government provided jobs are highly secured and threat to lose it is very low and constant financial support from the government.

⁵Choosing bank employees in public sectors bank is so trivial and unauthentic that their employees don’t even have a good knowledge of financial market and the government policies and no one care to analysis their performance because CEOs of the banks also feel the same threat. A very late recognition of NPAs certainly intensified problem over the years. Due to insecurity to lose job and reputation as CEOs they delayed in process of recognizing NPAs on time. This is also mentioned in Dr.RaghuramRajan report, (2018) that the personnel’s in bank lack supervisory skills in terms of processing information provided by banks and relating them with current market and government should call back such employees instead of painting rosy picture of good working system and everything is followed regularly.

⁶ Innate human nature to favor people who have social power and somehow benefit us in future if we try to maintain good relations with them. .

This accumulates all reason in one as bank personal ignore such defaulters for longer period and when investigative authority catch them they have already grown as fat loan.

fear of bank taking action to recover their dues.A case study of commercial banks in Kenya by **Muthami(2016)**that supports *growth in NPAs is negatively correlated with increasing growth of the GDP of an economy. The paper attempts to map this fact with the correlation between the performance of the sector and increasing NPAs in these sectors. It also includes the effectiveness of different recovery methods adopted by banks, and the increasing importance of corporate governance and obligation maintain transparency in financial statements of companies which surely help lenders to decide which method to choose for recovery of the load. It also talks about the efficiency of regulatory bodies and institutions established in India especially RBI policies like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision.*

III. METHODS AND ANALYSIS

Public Sector Banks lending program can be divided broadly into three. They are: Priority Sector and Non-priority sector. Priority sector⁷ lending program was started by Reserve bank of India in 1972 to ensure specified portion of bank (40%) lending to some of the vulnerable sectors of the economy which may not be much profitable for banks but in long-term contributes to the overall development of the country. Non-priority sector lending covers all the remaining sectors other than priority sector lending. PSBs also lend money to Public sector industries⁸. We presume that the priority sector and public sector loans would come under the concept of distributive justice. It is because that these sectors are not economically profitable for banks but extend credit services for overall growth and development of our nation. Similarly, the concept of economic efficiency could be related to non-priority sector lending which covers a major part of the loan amount and considered to be highly profitable for banks. The priority and non-sector priority sectors’ Non-performance assets (NPAs) can be explained with the help of following graph 1.

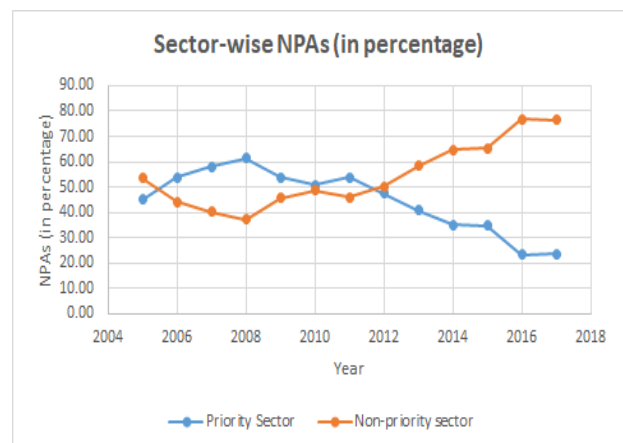


Figure 1: Sector-wise NPAs (2004-2018)

Source: Indiastat.com

⁷ Priority sector lending include Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy etc.

⁸ Lending is the credit borrowed by government when expenditures for the government activities in public sector exceeds the revenue.

The Figure1 indicates that the share of non-priority sector NPAs was increasing since the crisis period of 2008. The industrial sectors like Infrastructure, Power, Coal, Textiles constitute to the major portion of NPAs in non-priority sectors. This has motivated us to calculate the Non-performing asset (NPA) ratio⁹. Higher ratio reflects the rising bad quality of loans.

NPA ratio = Net non-performing assets / Loans given

The Net/ Gross NPAs of Public Sector banks can be explained with the help of following Figures 2 (a) and (b).

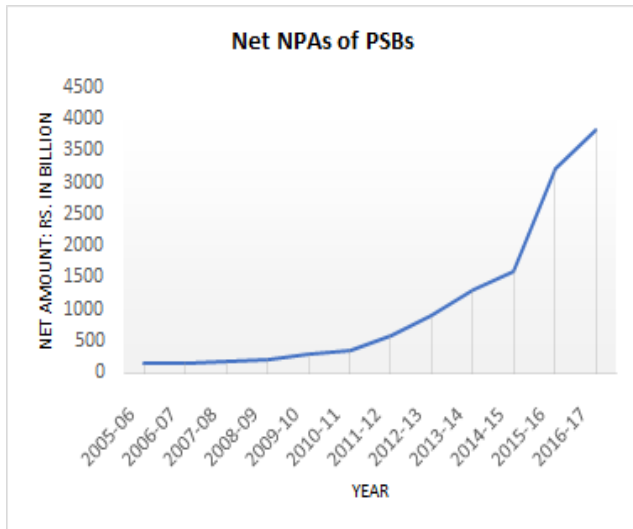


Figure 2(a)

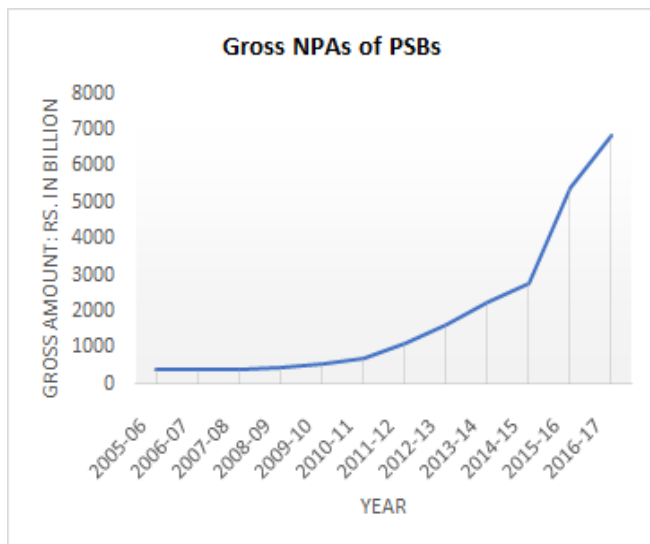


Figure 2(b)

Source: RBI

The graphs in Figure 2 (a) and (b) that the Net/ Gross NPAs of the scheduled commercial bank and the public sector banks have significantly increased from 2005-06 to 2016-17. Moreover, the gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks increased from 9.6 percent to 10.2 percent between March 2017 and September 2017 (Economic Survey, 2017-18).

⁹The net NPA to loans (advances) ratio is used as a measure of the overall quality of the bank's loan book. An NPA are those assets for which interest is overdue for more than 90 days (or 3 months). Net NPAs are calculated by reducing cumulative balance of provisions outstanding at a period end from gross NPAs.

IV. RECOVERY OF NPAS:

Figure 4 gives an idea about the recovery statistics of NPAs. It shows that the average recovery ratio of Indian banks was 26.4% during 2015-17, with 41% recovery by private sector banks (PVBs) and 25.1% by public sector banks (PSBs). The recovery of NPAs has decreased in recent years, but recovery in private sector banks has been higher than public sector banks since 2013. Also, the contribution of IBC has been highest after its launch in 2016 compared to other insolvency resolution institutions.

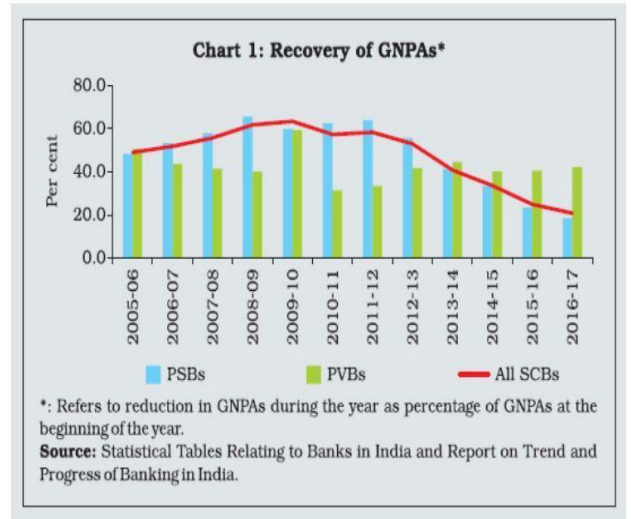


Figure 5(a)

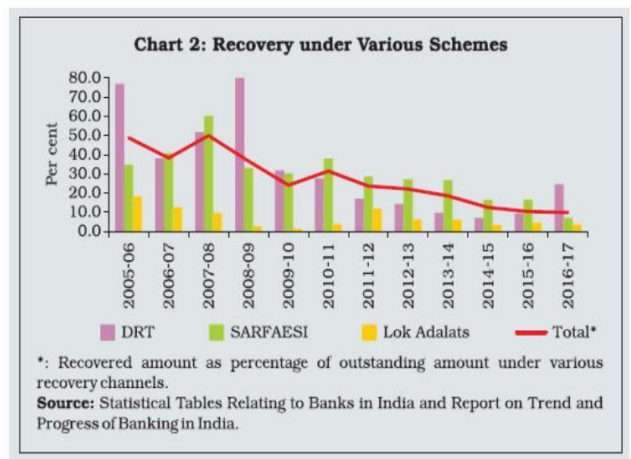


Figure 5(b)

Source: Statistical Tables Relating to Banks in India and Report on Trend and Progress of Banking in India The GoI and RBI from time to time have formulated policies and established institutions to mitigate NPAs. The overall policies can be mapped with the help of following Chart 1.

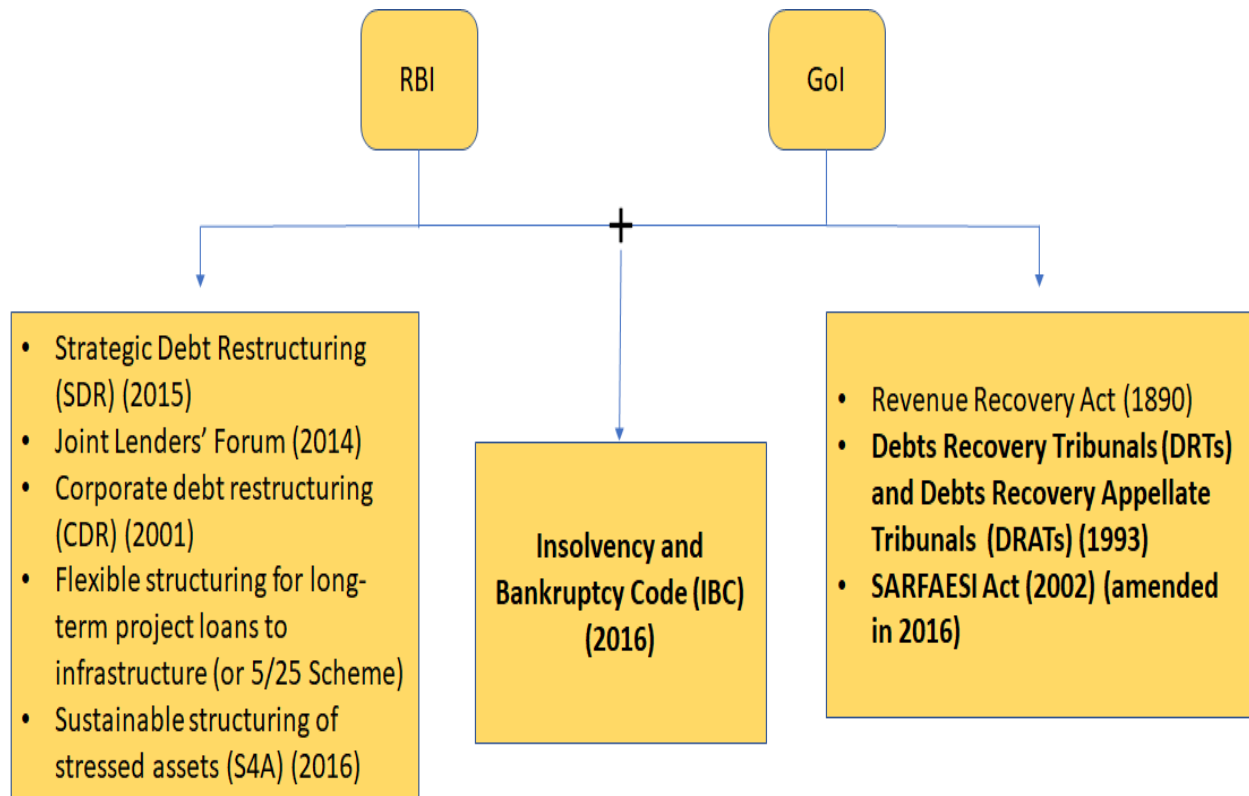


Chart 1

Chart 1 reveals the GoI and the lender of the last resort enhanced efforts on NPA policies and their amendments in the year 2016. We examine the efficacy of Debts Recovery Tribunals (DRTs), SARFAESI Act, 2002 and Insolvency and Bankruptcy Code (IBC), 2016 on the reduction of NPAs in India.

1. Debts Recovery Tribunals (DRTs)

Debt Recovery Tribunals (DRTs) were established to provide support in the debt recovery to the banks and other financial institutions from their customers. After the **Recovery of Debts due to Bank and Financial Institution Act (RDDBFI) 1993**, DRTs and DRATs (came in existence under this act. Debts Recovery Appellate Tribunal is the higher court to the DRT where one can appeal against the orders passed by DRTs. DRTs can look the cases where the disputed loan is above Rs 10 lakhs. As of now, there are 38 DRTs and 5 DRATs operating in India.

One major advantage of DRTs over the ordinary court is that DRTs can manage a large number of cases without any significant delay in the initial phase. There are several other unique features of Debts Recovery Tribunals (DRTs) all of them aimed to accelerate the process. After the SARFAESI Act, any person can knock the door of Debts Recovery Tribunal (DRT). Prior to this SARFAESI Act, only Banks were allowed to approach DRTs.

If we look into the **structure**, there are two Recovery Officers for each DRT. Moreover, there is Presiding Officer of the Tribunal who allocate the work among Recovery Officers of DRT. The Recovery Officer of DRT can pass judicial orders, for this, it is not necessary for Recovery Officer to be a judicial officer. One can appeal against the orders passed by Recovery Officer before Presiding Officer of DRT. The efficacy of DRT can be explained with the help of following graph 3 (a) and (b).

No. of cases disposed off and No. of cases pending

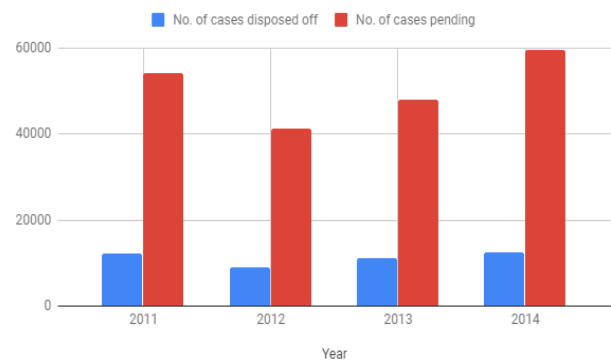


Figure 3(a)

Amount Disposed (Rs cr) and Amount pending (Rs cr)

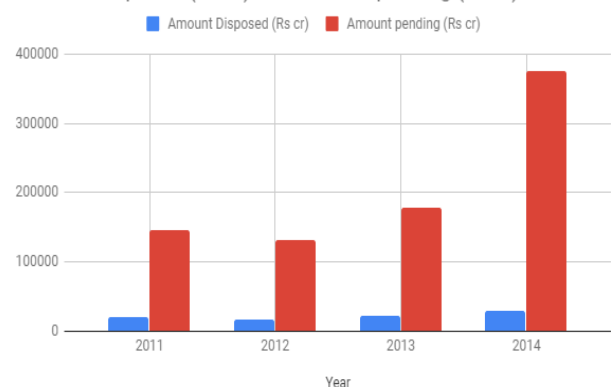


Figure 3(b)

Indicators of DRT Data Source: Department of Financial Services

Figure 3 (a) and (b) reveals that the no. of pending cases had gone up from 47,933 in 2013 to 59,645 in 2014 which worth Rs. 1.78 trillion and Rs. 3.74 trillion respectively. DRT clears cases at an average of 11,000 to 12,000 cases per year. This indicates that it would take around 5 years to clear the backlog, even if they stop taking new cases.

Issues related to DRTs:

1. While the number of cases is increasing, the no. of DRTs are still less for fast results.
2. There is a long delay in Settling the disputes.
3. DRTs were unable to tackle cases of large borrowers.
4. Appointment of officials in DRTs was not regular.

To rejuvenate DRTs, the GoI has made many efforts. A major amendment to **RDDBI Act 1993** has been made in 2016. There are some of the highlights of the amendment:

1. Time limit of procedures (such as filling of written statements, passing of orders and appeals) has been reduced.
2. Change of retirement age of Presiding Officers of DRTs from 62 yrs. to 65 yrs.
3. Change of retirement age of Chairpersons of Appellate Tribunals (DRATs) from 65 yrs. to 67 yrs.
4. Bank can appeal in DRT which have jurisdiction over the area of debt pending Branch.
5. Cost of delay in recovering timeline has been increased.
6. The borrowers have to deposit at least 25% of outstanding amount with DRAT under DRT Act.

2. SARFAESI Act, 2002

The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (also known as the SARFAESI Act) is an Indian law, born out of the Narasimham Committee-II recommendations after some modifications. Under this act, banks and other financial institutions are allowed to auction residential or commercial properties of the borrowers that were used as collateral for taking loans and sell it without the permission of courts. In this manner, the banks and financial institutions could

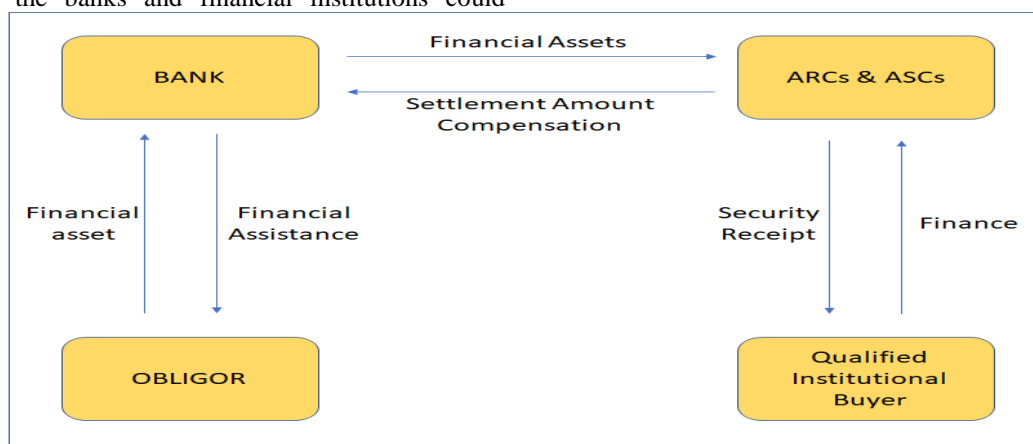
realize long-term assets. This helps in managing problems of liquidity and asset-liability mismatches. Recovery is done by exercising powers to take possession of securitization and sell them to Asset Reconstruction Companies (ARCs) and hence reduce NPAs. The following two main methods were used in this act for recovering the NPAs are:

1. Securitization: It is a process of issuing the marketable securities with the help of pool of existing assets such as auto/ home loans. The asset is sold in the market after converting it to security. Funds may be raised from the securitization company from only the QIB (Qualified Institutional Buyers) by stating how they will acquire financial assets.

2. Asset Reconstruction: Asset Reconstruction Company (ARC) and Asset Securitization Company (ASC) facilitates the bank or financial institution by acquiring their rights or interest to realize the given financial assistance. The way in which is ARC (Asset Reconstruction Company) works is that it takes over the banks NPA for fixed cost which is less than the amount of NPA in the banks and then the NPA is transferred to the ARC along with any security promised while taking a loan. The ARC will now issue security receipts for a fixed interest rate and will raise money. The money raised in this manner can be invested in the financial institutions. Lawfully, the ARC will start to sell the security agreed earlier in the market. The process may take several years. The company expenses might not meet the issue of security receipts during this time. Once all the asset has been sold by clearing the litigations, the company will take back the security receipts which were issued earlier at an agreed price.

Profit of ARC = Sale Price of security + Interest on investment - Purchase cost of NPA - Interest on security receipts - Expenses.

The profits for the ARC provide incentives for the company to reduce NPAs in the above



Steps in Securitisation and Asset Reconstruction

Chart 2

The Performance of Economic Sectors and Their Growing Non-Performing Assets in India

The SARFAESI Act has contributed a lot in reforming the Indian banking sector despite unavoidable litigation. As soon as the Act came into effect, the non-performing loans reduced significantly from 14.0% (1999-2000) to 9.4% (2002-03) and later to 4.40% in 2014. In terms of recovery of loans, the SARFAESI Act and DRT do not have larger variations as can be seen from figure 3. The SARFAESI Act helped banks to recover Rs 18,500 crore¹⁰, and it has been more effective than the Debt Recovery Tribunals and mediations by LokAdalat.

Indian Banks Association (IBA) has been working towards bringing NPA cases for settlement through LokAdalats. There are certain advantages for banks and financial institutions in using LokAdalat Forum as there is no court fee involved. If no settlement is arrived at after the proceedings, then parties can continue with the court proceedings. Cases involving an amount upto Rs. Five lacs maybe referred to LokAdalats. The scheme involves both suit filed and non-suit filed NPA accounts in order to have an impact on NPA problem. The LokAdalats solve the cases on the spot.

Table 1

Analysis and Interpretation		
No. of cases of NPAs referred		
Year	No. of cases referred_DRT	No. of cases referred_SARFAESI Act_2002
2008-09	2004	616760
2009-10	6019	78366
2010-11	12872	118642
2011-12	13365	630429
2012-13	13408	190537
2013-14	28258	194707
<i>Source: International Journal of Applied Engineering Research ISSN 0973-4562 Volume 11, Number 7 (2016) pp 5218-5224</i>		

Performance of SARFAESI Act, 2002:

Limitations the SARFAESI Act in providing Distributive Justice:

Despite being so useful in recovering the NPAs, the problems faced by the borrowers and guarantors due to the banks is not solved. The social status of the borrowers and the guarantors are affected by the provisions of the SARFAESI Act. As an example, the publication of the notices to the borrower downgrade the social status and also discourage the for taking further financial assistance from the banks.

Problems in society due to the Act :

1. Publishing defaulter's name hurts his/her reputation
2. Uneducated people suffer due to unawareness in the provisions of the Act

3. Any unscrutinized decision taken by a bank may lead to irreparable loss to borrowers
4. Fear of taking away of one's property is really disturbing in daily life
5. Auction of property (e.g., residential property) is an emotional trauma to borrowers
6. The Act overthrew the hope of defaulted borrowers to get any immediate legal remedy through the court
7. Ultimately, defaulters are unable to get the same position in the society that they previously had.
8. Despite Right to Property not being a constitutional right, the Supreme Court of India seems to lean towards the borrower in this Act. In Karnataka State Financial Corporation Vs. N.Narasimham (2008 (5) SCC 176), the SC gave the following judgement:

"Right to property, although no longer a fundamental right, is still a constitutional right. It is also human right. In the absence of any provision either expressly or by necessary implication, depriving a person therefrom, the Court shall not construe a provision leaning in favour of such deprivation."

A few Observations in the SARFAESI Act in providing Distributive Justice:

1. There should be a distinction between the provisions of this act for the wilful defaulters and the casual defaulters. The law should be of harsh nature toward the wilful defaulters as opposed to what it is actually equal for both of them. In this way, the money recovered from them in time bound manner can help the casual defaulters to
2. delay the repayment of the loan and give some more time to stabilize financially.
3. The strictness of the Act should be based upon the income of the borrower. For example, the time taken to transfer the financial asset to the ARC should depend upon the income of the borrower. In this way, the asset reconstructed from the borrower whose income is high will compensate for the time delayed for the borrower whose income is low.
4. The Act should have provided with an institution that builds up and encourages trust between the lender (banks or financial institutions) and the borrower instead of focusing on ARCs so that there is no need for third party (ARCs and ASCs) intervention. This will reduce the huge transaction costs incurred in the process of construction of Non-Performing Asset to Performing Asset.
3. Insolvency and Bankruptcy Code (IBC), 2016 To tackle the problem of rising NPAs, Government of India has come up with two strategies: Insolvency and Bankruptcy Code (IBC), 2016 and the recapitalization of public sector banks. These two strategies are aimed to improve the debtor-creditor relationship by safeguarding their rights. The unique characteristic of IBC is that it combines all the laws related to insolvency and bankruptcy by creating a single law for all these cases. The IBC covers individuals, companies, partnership firms, limited liability partnerships, and others. The IBC aims to work in a time bound manner, i.e., to complete the insolvency resolution process within a fixed time frame (180 days which can be further be extended by another 90 days in some special cases) by employing IPs (Insolvency professionals).

¹⁰According to RBI's report on Trend and Progress of Banking in India.

The institutional framework of IBC consists of four segments: insolvency professionals (IPs); information utilities (IUs); NCLT (National Company Law Tribunal) and DRT (Debt Recovery Tribunal); and the IBBI (Insolvency and Bankruptcy Board of India). IPs guide the companies in insolvency resolution, liquidation and bankruptcy proceedings. IUs are appointed to collect and authenticate financial data from the companies. The cases of insolvency of corporate personals are then heard in NCLT, while DRT is a forum for individuals and partnership firms. IBBI is a regulatory body that monitors the smooth functioning of IPs and IUs.

Unique Nature of the IBC

We need an insolvency framework that eases the resolution process by minimizing time and cost required for liquidation. This code will also protect the interests of small investors.

This code puts a strict time deadline of 180 days on the implementation of the resolution plan, stressed assets must be reported to NCLT under IBC within 15 days. This framework also monitors one-day defaults.

The Efficacy of the IBC:

After its launch in May 2016, the number of corporates undergoing resolution at the end of the quarter has increased from 36 after the first quarter to 151 after the third quarter in 2017 as shown by Table 2 published by Insolvency and Bankruptcy Board of India (IBBI). By the end of March 2018, a total of 525 corporates were undergoing the insolvency resolution. Initiation of corporate Insolvency Transactions has also increased with the relatively more CIRPs initiated by operational creditors, however, CIRPs filed by financial operators show increasing trend.

Table 2

Quarter	No. of Corporates undergoing Resolution at the beginning of the Quarter	Admitted	Closure by			No. of Corporates undergoing Resolution at the end of the Quarter
			Appeal/ Review	Approval of Resolution Plan	Commencement of Liquidation	
Jan-Mar, 2017	0	37	1			36
Apr-Jun, 2017	36	128	8			156
July-Sep, 2017	156	228	13	2	8	361
Oct-Dec, 2017	361	141	33	8	24	437
Jan-Mar, 2018	437	167	12	12	55	525
Total	NA	701	67	22	87	525

Source: IBBI, Quarterly Newsletter Jan-Mar, 2018

Table 3

Quarter	No. of Resolutions Processes Initiated by			Total
	Financial Creditor	Operational Creditor	Corporate Debtor	
Jan-Mar, 2017	8	7	22	37
Apr-Jun, 2017	36	58	34	128
July-Sep, 2017	91	97	40	228
Oct-Dec, 2017	61	67	13	141
Jan-Mar, 2018	66	81	20	167
Total	262	310	129	701

Source: IBBI, Quarterly Newsletter Jan-Mar, 2018

Resolving Double Trust Dilemma in the Context of NPAs

For any business venture to be successful, there must be a healthy relationship between Innovator and Investor. Here the Innovator is the one who has an idea for innovation but not the capital to invest in it, and the Investor is the one who has the capital to invest but not the idea for innovation. So for the mutual benefit, the innovator and the investor must trust each other, so that they don't get wary about stealing each other's idea or capital. This dilemma whether to trust each other or not - a problem of uniting ideas and capital is called "Double Trust Dilemma of Innovation" (DTD) first proposed by Dr. Robert Cooter.

In the context of NPAs, we will discuss only about Private Finance i.e. Financing through Banks. Bank finance is the most common form of financing for an innovator if s/he is from a poor family background (Hence no possibility of relational finance) and has an idea for an innovation that needs a considerable amount of investment. Here the innovator is the Borrower of a loan, the investor is the Lender (Banks) of the loan, and the innovation can be a Project or some Business venture. Since there is an interaction between strangers, it is impossible to trust each other through word-of-mouth.

Hence **Contract Enforcement** plays a crucial role in **bolstering the trust between the lender and the borrower**.

One of the main cause of rising NPAs is the unfairness carried out by the borrower and the lender which leads to the breach of contract. Here the trust is weakened, and hence DTD gets enhanced, the dilemma of the borrower whether to approach the bank again for loans and the dilemma of the lender whether to give loans to the borrower. Now let's look into the unfair behaviors from the borrower and the lender that leads to the breach of contract and hence NPAs.

The following might be unfair behaviors from the bank's side that leads to weakening of the trust between the parties and hence NPAs :

1. **Imposition of Standard form contract (SFC):** By imposing standard form contract the bank has an unfair advantage of setting terms and conditions favorable to it, thus putting the borrower in a very disadvantageous position. Through SFC's the bank may set **high-Interest rate so as** to attain maximum profits, or may set **smalltime period** (it's usually 90 days) to pay back the loans. Also, SFC is an incompletely specified contract, which creates information asymmetry between the parties. These conditions would definitely create a dilemma in the borrower whether to accept the contract or not. But to finance her/his project s/he is forcibly led to accept it and if s/he fails to pay the interest and principle within the stipulated amount of time it results in NPAs.
2. **Corruption:** According to 2017 Corruption Perception Index, India ranks 81 out of 180 countries. And sure the banks are also not out of this social disease. Corruption may usually take place when the borrower's collateral is not strong enough to get her/his desired loan. So to provide the loan the bank may receive a bribe from the borrower. After the loan is invested in a project and if the project fails to perform, there's no sufficient collateral for the borrower to repay the interest and principal, and hence this activity of bribe leads to NPAs.
3. **Undue interference to the Borrower:** If the loan is not paid by the borrower within the stipulated time mentioned in the standard form contract, the banks start to exert undue pressure to pay back the loans. This interference by the banks would create an unnecessary fear (of paying back the loans) and deviates the borrower from concentrating on her/his project. This lowers the performance of the project and thus leading to NPAs.

The following might be unfair and irrational behaviors from Borrower's side leading to the breach of contract and hence NPAs

1. **Information Asymmetry:** When the borrower approaches the bank for a loan, s/he fails to provide information of the entire economic history of her/his past business ventures, their family's financial condition and the collateral which they possess. They also hide all the necessary information to be provided fearing they won't receive loans from the banks. If the project fails to perform, then banks would not be able to recover the loans due to insufficient information received regarding the past business and hence leading to NPAs.
2. **Overconfidence Barrier:** Overconfidence barrier is a psychological phenomenon in which individuals believe they are completely accurate in their judgements. This may occur effect borrower who would have had success in

her/his past ventures and hence would tempt to enter into more risky ventures. When the banks fail to assess the riskiness of the project, and if the project fails due to the high risk involved in it, it leads to NPAs.

3. **Dishonesty:** Due to the greediness of expanding business and earning profits, the borrower may become dishonest and may try all possible immoral means to get a loan from the bank. The borrower may produce fake documents of collateral, fake documents of the performance of their previous ventures and may also offer bribe according to their desired amount of loan. Finally, if the venture fails, then this behaviour can be cited as one of the main reasons for the NPAs.

So it's evident that some of the irrational behaviors by both the borrower and the banks ameliorates DTD and hence leading to rising NPAs. Following is a theoretical model which can be implemented to alleviate DTD and hence reducing the chances of NPAs:

V. THE MODEL

As soon as the innovator gets an idea of a project, he must do a thorough research on the feasibility of the project, i.e. s/he must think on following questions: Whether it would be suited for the Indian market or not? Whether the past innovators of the project had succeeded in repaying the loans or not? Do I have the necessary collateral if my project fails? Even if the answer to any one of the above question is a "no", the innovator must immediately drop the idea of pursuing the project and think of something else. After analysing the data for all of the above questions, if the innovator is sure of the feasibility (irrespective of some disadvantages) of the project s/he may approach the bank for a loan. Now the innovator assumes a role of a borrower. Now while requesting for a loan, the borrower must be completely honest with the bank and state all the information regarding her/his upcoming project i.e. the risks it possess, both the advantages and the disadvantages for the society, the expected return from the project and a realistic timeline of repaying the loan without leading to NPAs. S/he must also present all the original documents regarding collateral, past projects, family's financial condition, etc. that the bank demands. Now the borrower being completely honest with the bank, now it's the turn of the bank to be completely honest with the borrower. The bank has to completely cross-verify all the information provided by the borrower. Even if there's a small mismatch between what's being stated and what's the reality, the loan shouldn't be sanctioned. If that's not the case the bank should proceed with the **Contract Enforcement - The most important activity to alleviate DTD by establishing trust between strangers, the borrower, and the bank**. But this contract instead of being a Standard form contract must be a **Fully-Specified Contract**, i.e. no information asymmetry where **the remedy for breach must be liquidated damage remedy** whose amount the parties designate during the formation of a contract for the injured party to collect as compensation upon a specific breach. The loan shouldn't be sanctioned until the contract is made favourable for both the borrower and the bank. The contract must clearly mention the **risk allocation strategy if at all NPAs occur**.

For example, if the borrower has defaulted around 8cr (Eight Crore) Rupees due to some unforeseen circumstances, instead of suing the borrower for the breach the bank should work along with the borrower recovering at least some percentage (say 40%) of the NPAs. This way of risk allocation must be clearly specified in the fully specified contract. So now the contract is set, a regulatory body must be hired by the bank to watch the performance of the project. This body must provide a timely report to the bank about its performance. If at any time the bank feels there is a possibility of NPAs, it must send a warning to the borrower explaining the seriousness of the situation. If the project still doesn't perform, then the bank should stop providing loan to the borrower and apply the risk allocation strategy according to the contract and retrieve the interest and the principal. Thus this model can be used in reduction of NPAs that will lead to a boost in the Indian economy.

VI. CONCLUSION

The Non-Performing Assets have always created a big problem for the banks in India since post liberalization. It is just not only problem for the banks but for the economy too in the longer term. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that extent of NPA is comparatively very high in public sector banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all. The paper briefly went into the working and provision of SARFAESI Act in deriving method like setup of ARCs and ASCs in reducing NPAs. SARFAESI had been very effective in recovering NPAs if we compare it with DRTs and reduction by Lok Adalats. Nevertheless, SARFAESI Act had some social limitation. Some key observation about the distributive justice are made in this paper. The model proposed in this paper to alleviate Double Trust Dilemma can be used to analyse what went wrong during the transaction between Lender and Borrower and how it could have been prevented.

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For example, a person has a company in one industry which is performing very well and he wants to expand his business in some other sector. Generally bank sees borrower's performance in his current business and overall performance of the sector in which he wants an expansion. There are greater chance that borrower will not do as good in new business which can be due to lack of experience and lack of inside information which can lead to loss of interest.