Chapter I

CHAPTER I

INTRODUCTION

1.1 Introduction

Banking system is the backbone of Indian economy. Since the liberalisation of the Indian economy in 1991, the bank credit market in India has drastically changed as the result of domestic financial market reforms and changes in international regulations. It imperatively resulted in the growth of retail banking services. Retail banking in which banking institutions executes transactions directly with customers' with typical products like savings and transaction accounts; mortgages; personal loans; debit and credit cards. The retail banking, a part of the modern banking service, has undergone incredible changes primarily to keep pace with fast fluctuating global business over the years. The retail banking industry has always been important in India, especially after the nationalisation of banks with the objective of reaching the masses and offering the common man, large corporates, small and medium scale business enterprises the basic banking services and loans.

Until the early 1990s, there were several restrictions for granting of personal loans. All the conditions and restrictions were gradually removed by the RBI (Reserve Bank of India) i.e., in the early 1990s. Since 1991, economic liberalisation, the banks were granted freedom to decide the quantum of retail loans they can lend, its rate of interest, banks decision on minimum security margin requirement, repayment period of the loan and other related conditions. These reductions had a positive impact on the progress of personal loans in India (Lokare, 2014). Further, it was observed that between the years 1996-97 and 2001-02 the demand for corporate credit slowed down in India. As a result, banks started looking for alternate possibilities of lending. Banks also noticed retail loans from the angle of diversification of their loan portfolio, as the balance sheets of many scheduled commercial banks were seriously impaired due to bad debts resulting from corporate credit defaults, especially before the 1991 reforms. Moreover, the banks experienced a reduction in their profitability margin between 2002-03 and 2004-05 as a result of a reduction in their treasury income. These again turn the banks focus towards retail lending. From the banker's point of view, the average size of retail loans is very small and loans are broadly distributed for a huge number of customers. Therefore, the average risk associated with the retail loans is also much lower in comparison to the large size corporate loans. Moreover, the banks enjoyed adequate collateral security guarantees in the case of mortgage loans especially home and auto loans. It is also easier for banks to regulate the rational auction value of housing loans than of assessing the inventory and plant and equipment cost in case of corporate lending. Besides, risk-adjusted return on retail loans is normally significantly higher than the company loans. Hence, the banks expanded their retail loan portfolio in a bigger way (Ramasundaram and Aiswarya, 2011).

During the period 1992-93 to 2005-06, retail loans grew at an average annual growth rate of 28.4 per cent against 19.5 per cent growth of overall bank credit during this period (Misra,2009). Since 2005, retail loans offered by scheduled commercial banks experienced a drastic growth as the demand for bank credit from corporates and industry continues to remain sluggish. Within the retail loan segment, it is especially unsecured lending, i.e., personal loans and credit cards, which are over taking inclusive bank credit growth. According to RBI (Reserve Bank of India) report 2015, personal loans increased by 16.5 per cent in the year 2015 compared with an increase of 15.2 per cent in the year 2014 (Business Standard Report, 2015). The growth of retail loans over the years depicts that there is a high potential for the retail loan market in India for banking sectors. Though, the trend in retail lending of scheduled commercial banks operating in India has been increasing over the years, it is an undeniable fact that retail NPAs are increasing in parallel with the growth in credit limit (Rebello, 2015)**.**

Over the past one decade, retail loan segment on an average accounted for 17 per cent of total NPAs (Non-Performing Assets), which is higher than the retail loans lending share against the total gross advances i.e.,15 per cent (as per RBI report, 2012-13). Among the retail loan segment, the share of personal loans is the maximum (7.2 per cent), monitored by housing loans (5.5 per cent), credit card loans (2.2 per cent) and auto loans (1.9 per cent). In short, the banks share in total gross advances were depicted as public sector banks, on an average, account for more than three-fourth on an average of total share NPAs (over 76 per cent), followed by new private sector banks (around 13 per cent), old private sector banks (around 6 per cent) in total 19 per cent and foreign banks (over 5 per cent). However, the share pattern in NPAs is distinct when viewed separately in the pre (1998-2007) and post-crisis period i.e., the period after 2008, October (Lokare, 2014). In the post-crisis period the share of public sector banks in total NPAs has declined (around 73 per cent), as associated with the pre-crisis period (around 76 per cent). Similarly, the old private sector banks account for fewer NPAs during the post-crisis period (with a share of around 4 per cent), compared with the pre-crisis period (around 6 per cent). However, the share of new private sector banks and foreign banks has raised, especially in the post-crisis period from over a 16 to 10 per cent and from over 13 to 5 per cent, respectively (Lokare, 2014).

The existence of a vivid pattern of NPAs rate in various bank group categories based on their ownership pattern over the years has motivated the researcher to conduct this study. The research work aims to analyse retail loan lending and recovery status among banks in India for a period of 14 years from 2001-02 to 2014-15.

1.2 Significance of the Study

Retail lending by banks in India gathered momentum following financial sector reforms in the 1990s. Most of the banking credit focus towards agriculture, industry, and commerce. The key role of bank lending was to support the supply of finance to Government of India and big corporates. To ensure that bank lending does not pass for finance consumption, the financial policy makers, and RBI had drafted several restrictions on retail credit limits on the total amount of housing loan and loans to individuals. Before, the announcement of financial liberalisation of the Indian economy in 1998, the scheduled commercial banks operating in India could lend only a stated percentage of their over-all lending to individuals for non-productive purposes. There was regulator imposed with strict norms for a rate of interest, security margin stipulation and maximum repayment period. These restrictions were gradually relaxed after 1991s financial liberalisation, which paved the way for increased retail loans offered by the Indian bankers.

1.3 Conceptual Framework

In an economic cycle, financial institutions tend to over-stretch their lending portfolio during economic booms which tend to retrench the same during economic depressions. It has been claimed that an increase in credit growth is associated with the deterioration in asset quality, because when banks increase its expands in their lending, they tend to lower their credit standards. This behaviour transformed the banks themselves into greater slippages in asset quality at matured stages of the credit cycle (Rajan**,** 2005) and it resulted in an increase in NPAs (Non-Performing Assets). As far as India is considered, NPAs in the retail loan segment have declined eventually, but their share in total NPAs remains high (Lokare,2014). The deteriorating asset quality is not only an issue linked to public sector banks, but the private sector banks also face problems in term of recovery of loan lent by them (Rebello, 2015). From the detailed discussion made above, it can be understood that there are certain causative factors that generally influences the rise in NPAs. Sahoo (2015) in his study states that the causative factors that influences rising NPAs in the banks are three 'B's i.e. Business Environment, Borrower, and Banker. The first 'B' is related to the business environment refers to the economy, regulatory regime, legal system and political climate in which banks are operating. It also included the legal and political systems under which the bank operates. The second 'B' is related to the choice of the customer category by the bankers, credit promotion techniques and its management by bankers. The third 'B' is more focused on the bankers' skill in credit management, credit monitoring and reducing NPAs.

Drawing evidence from the above discussion the following parameters are considered for analysis of data for the effective conduct of this study:

- Total advances lent by the scheduled commercial banks in India.
- Total number of personal loan takers from scheduled commercial banks in India
- Value of total personal loan lending by scheduled commercial banks in India
- Category-wise credit (Consumer Durable loan, Housing loan and Rest of the Personal loan) lending by scheduled commercial banks in India
- Proportion of total retail credit to total advances
- Proportion of outstanding to total retail credit and category-wise segmentation of retail loan outstanding
- Proportion of recovery to total retail credit and category-wise segmentation of retail loan outstanding
- Movement of NPA of the scheduled commercial banks in India

1.4 Statement of the Problem

Loan recovery is one of the most important elements of retail banking practices. Effective retail loan recovery decides the success of bank's business. Monitoring and follow-up of all assets for servicing zero NPA status is a must for retail bankers as the retail loan is well spread out with a large number of customers. From bankers point of view, proper monitoring of retail advances helps them to maintain a healthy assets quality. Retail loan recovery process is well defined in banks with step by step approach for following up the accounts in different stages of recovery. Recovery policies are adopted by banks in a professional way for an effective recovery of dues and over dues and NPAs that may creep due to genuine defaults and willful defaults.

Retail loans offered by the scheduled commercial banks in India witnessed a growth of over 40 per cent in 2004-05 and this loan portfolio of the scheduled commercial banks in India continued to grow at around 20 per cent during 2014-15, which was recorded at 17.4 per cent in 2012-13 valued at Rs.10,095 billion. During the years 2004-05 and 2005-06, there is an increase in credit growth and the complete levels of gross NPLs declined significantly. But, in the next subsequent years, there was the deceleration in the total credit growth of banks. It could be evidenced by the fact that the deceleration in NPAs in retail loan segment has been even sharper rose to 9.3 per cent during 2008-012 from 2.5 per cent in 2001-07 (Lokare, 2014).

In a slowing economy, it is natural to assume that NPAs will increase (Chakrabarty, 2013). However, it has been observed that the primary cause for rising NPAs was not the global slowdown but deficiencies in the credit and recovery mechanism practices of both public and private sector banks. Mr.K.C.Chakrabarty also highlighted certain other causes for the rise in NPAs of banks are the procedure followed in extending and monitoring credit by banks, where there is a substantial change in the approach of public and private sector banks. Based on the knowledge gained on the past growth in retail loan lending and its recovery practices of various categories of banks, this study aims to analyse retail loan lending and recovery status among banks in India for a period of 14 years from 2001-02 to 2014-15.

1.5 Scope of the Study

This study aimed to analyse retail loan lending and recovery status among banks in India for a period of 14 years from 2001-02 to 2014-15. The study is expected to help the bankers, investors, government and the research scholars at large to understand the trend in retail loan lending, its recovery, and outstanding status, contribution of retail loan to total advances of banks and the proportionate distribution of retail loan recovery to the total loan recovery by the scheduled commercial banks functioning in India.

1.6 Objectives of the Study

This study aims to analyse the credit lending and its recovery cycle of scheduled commercial banks operating in India.

- To study the retail loan lending pattern of Scheduled Commercial Banks operating in India.
- To assess the share of various retail loan lending pattern of Scheduled Commercial Banks operating in India to the total advances of the bank.
- To evaluate the retail loan outstanding status of Scheduled Commercial Banks operating in India.
- To measure the quantum of retail loan recovered by the Scheduled Commercial Banks operating in India.
- To identify the competitive status of the bank groups in retail loan lending and in recovery.

1.7 Hypotheses of the Study

To draw empirical justification to the objectives of the study following null & alternate hypotheses are framed:

- H_{01}: There exists no uniformity in the growth of retail loan lending trend among various categories of Commercial Banks operating in India.

  H_{11}: There exists uniformity in the growth of retail loan lending trend among various categories of Commercial Banks operating in India.

- H_{02}: Public sector banks exhibits no higher efficiency in retail loan lending under various categories (Housing, Consumers Durable and Other Personal Loans) in comparison to the private sector and foreign banks.

  H_{12}: Public sector banks exhibits higher efficiency in retail loan lending under various categories (Housing, Consumers Durable and Other Personal Loans) in comparison to the private sector and foreign banks.

- H_{03}:Public sector banks do not have the higher retail loan outstanding in comparison to the private sector and foreign banks.

  H_{13}:Public sector banks have the higher retail loan outstanding in comparison to the private sector and foreign banks.

- H_{04}:Private sector and foreign banks does not exhibit higher efficiency in retail loan recovery in comparison to public sector banks.

  H_{14}:Private sector and foreign banks exhibit higher efficiency in retail loan recovery in comparison to public sector banks.

- H_{05}: Public sector banks are not observed to be least efficient in reduction of its retail credit NPAs in comparison to the private sector and foreign banks.

  H_{15}: Public sector banks are observed to be least efficient in reduction of its retail credit NPAs in comparison to the private sector and foreign banks.

1.8 Research Methodology

The current study is quantitative in nature. Thus, the present study is deemed to be both explorative and diagnostic in nature. The study is primarily based on the secondary data. In the first stage of the study, desk research was carried to collect, review and draw a clear empirical understanding of previous research works and their discussion on commercial banks performances and their status on retail loan lending and its recovery. In the second stage, secondary data for diagnostic analysis were collected from RBI published data base for 14 years 2001-02 to 2014-15. The banks for the data analysis were classified as SBI & its Associates, Nationalized Banks, Domestic Private Sector Banks, and Foreign Banks.

Variables considered for the study are:

- Total advances lent by the scheduled commercial banks in India.
- Total number personal loan takers from scheduled commercial banks in India
- Value of total personal loan lending by scheduled commercial banks in India
- Category-wise credit (Consumer Durable loan, Housing loan and Rest of the Personal loan) lending by scheduled commercial banks in India
- Proportion of total retail credit to total advances
- Proportion of outstanding to total retail credit
- Proportion of recovery to total retail credit
- Movement of NPA of the scheduled commercial banks in India

An elaborate discussion on the research methodology of the study is made in Chapter IV.

1.9 Chapter Scheme

The current thesis is organized into six chapters:

Chapter I: The first chapter deals with Introduction. This includes Introduction, Significance of the study, Statement of the problem, Conceptual framework of the study, Scope of the study, Objectives of the study, Hypotheses of the study, Research methodology and Chapter scheme.

Chapter II: The second chapter covered a brief description of the available review of the literature on retail loan lending and recovery status among banks in India.

Chapter III: The third chapter deals with retail loan lending and recovery practices among banks in India with the theoretical discussion on the study issues.

Chapter IV: The fourth chapter deals with the Research Methodology on a lending pattern, recovery and outstanding status of banks adopted for data analysis and interpretations.

Chapter V: The fifth chapter draws a detailed data Analysis and Interpretation of data collected from RBI.

Chapter VI: The sixth chapter presented the summary of Findings, Suggestions to improvise the retail loan lending and recovery efficiency of commercial banks, Conclusion, Limitations of the Study and Scope for further study.