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Loan recovery strategy in Indian banks

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Abstract
The paper discusses the framework of loan recovery mechanism in Indian Banking Sector. 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. Paper envisages a 5-E Early Warning System for preemptive strategy and to prevent loan slippages and discusses all the available corrective measures and strategic tools in detail. Introduction involves discussion on non-performing loan buildup in Indian Banking sector and steep increase in provisions. The importance and need of loan recovery and recovery strategy is also discussed.

Keywords: Loan Recovery Strategy, Performance of recovery channels for loan recovery, non-performing assets

1. Introduction

The asset quality of Indian Banks has been under close regulatory and governmental monitoring in the recent past. The problem of deteriorating asset quality is not a recent phenomenon in Indian Banking Sector. The quantum and pace with which the asset quality has deteriorated has demanded not only a more vigilant watch over the rapidly deteriorating situation but calls for a serious breakthrough intervention from the regulator, government and other stakeholders to alleviate the rapid fall in the asset quality. The gross non-performing asset (GNPA) of scheduled commercial banks (SCBs) in the Indian Banking sector stands at 3.3 Lakh Crores at the end of financial year (FY) 2015. The quantum and pace of the increase can be understood from the fact that in 2010 the GNPA of SCBs was 81.8 Thousand Crores. The total GNPA of SCBs has increased four times over the period of five years. The CAGR for growth in GNPAs for the period 2010 to 2015 is 32%.

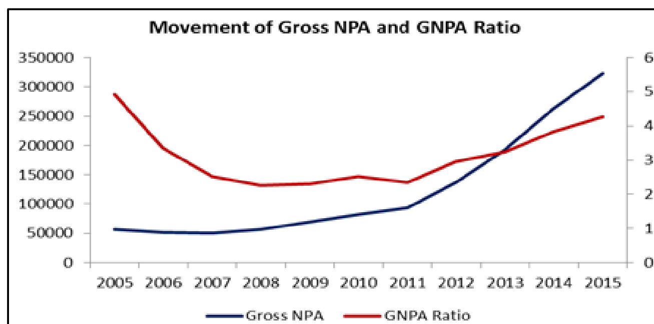
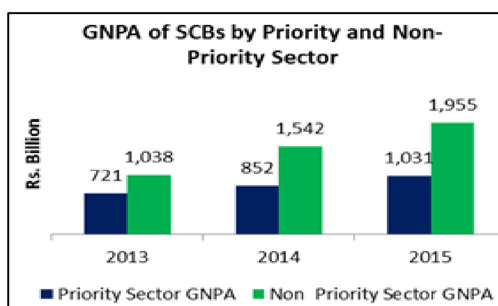


Fig 1: Trend in GNPA and GNPA Ratio of SCBs in India

Chart 01 represents the trend in the movement of gross non-performing assets and gross non-performing assets ratio for the period 2005 to 2015. The Gross NPA ratio for SCBs in India stands at 4.2% at the end of FY 2015. Compared to FY 2010 (GNPA Ratio at 2.5%) the ratio has almost doubled in FY 2015. The chart also represents the high pace with which the gross non-performing assets have increased in banking sector post FY 2010.



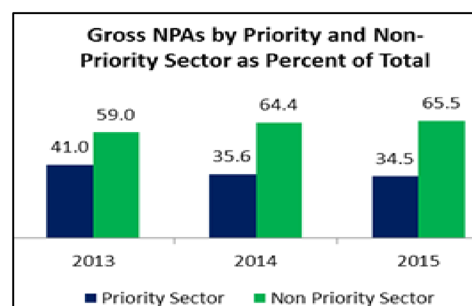


Fig 2: NPAs of SCBs by Priority and Non Priority Sector

The growth of GNPAs in Non-priority sector has outpaced the GNPAs in priority sector. Also the share of non-priority sector NPAs is substantially more than that of priority sector NPAs. Chart 02 represents the comparison of priority and non-priority NPAs in of SCBs in Indian Banking Sector from 2013 to 2015. The share of non-priority NPAs in total NPAs is increase during this period. At the end of financial year 2015 the share of non-priority NPAs in total NPAs is 65.5%.

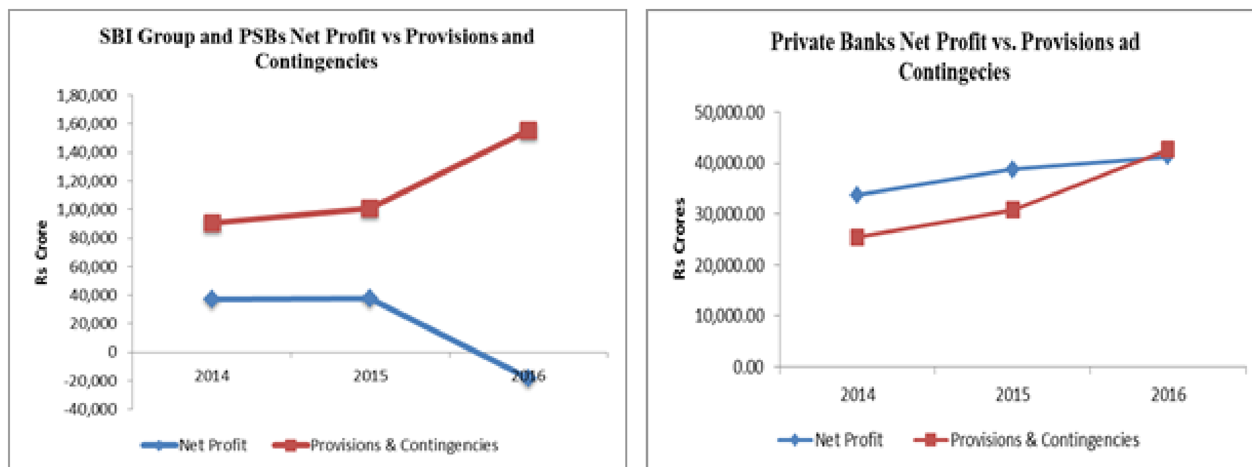


Fig 3: Comparison between Net Profit and Provisions of Private and Public Sector Banks in India

Non-performing assets impede the earnings of banks in twofold manner. The NPAs do not bear income for the banks, and secondly higher provisioning required for non-performing assets erode bank earnings further. Chart 03 represents the trend in movement of net profits vis-a-vis provisions and contingencies for Private Banks and Public Sector Banks (PSU Banks) (SBI Group, Nationalized Banks and IDBI Bank Ltd.). The chart represents how over the period of three financial years from 2013 to 2016 the net profits of PSU Banks has eroded and landed in the negative in FY 2016 while the total provisions and contingencies have increased at a rapid pace. The Private Banks also register a decrease in net profits while their provisions and contingencies have increased. However for private banks the pace of decrease in net profits and increase in provisions and contingencies is lower than the PSU banks.

The above data is illustrative of the condition that the impact on the profitability of PSU banks is more intense than Private Banks. If losses are booked by banks then their capital is eroded. If banks' capital is eroded their lending capacity is severely hampered. A hampered lending capacity is illustrative of lower economic growth as the credit will not flow to the productive economic sectors. The shot-fall of capital in banks where government is a majority shareholder has to be covered-up by infusing more equity capital into the banks from the exchequer. A higher burden on the exchequer would imply higher burden on the taxpayer.

If the banks continue to book losses and the NPA accretion continues to grow and the banks may find difficult to honor their commitments to the depositors. Additional big ticket defaults and fresh slippages in such a scenario may escalate a bank run and the financial contagion will soon take the entire banking sector into its grip-hold.

Therefore the need of the hour is to determine what must be done to solve the problem of NPAs and identify what could be done differently in future. The sheer amount of NPAs has been the foremost drag on the performance of Indian banks. Literature suggests that the focus of banks therefore must be on resolution and recovery of defaulted and sticky loans. The focus of this paper therefore is to present the various strategic tools available at the disposal of banks in India. The strategic tools are divided into legal strategic measures and non-statutory measures which are may be considered as strategic options to be considered and used voluntarily. The guidelines for application of such measures are nevertheless controlled and supervised by the regulator, the Reserve Bank of India in case of Indian Banking Sector.

2. Review of Literature

Literature suggests that the issue of solving NPA problem and identification of future course of action is a complex matter as discerned by Vishwanathan (2016) [1].

Literature suggests a dual-affects method for formulating, implementing and strategizing loan recovery measures and guidelines. Bhawani (2011) [2] suggests i) Preventive Management and ii) Curative Management as strategies for overcoming NPAs. Preventive actions or measures are to check the asset from slipping and becoming a non performing asset. These include Early Warning Signals (EWS). Author further categorizes EWS into the Financial Warning Signals, Management Related Warning Signals and Bank Related signals. The author also suggests keeping a close watch on developing external factors so as to predict early warning signals comprehensively. The curative measures are designed to maximize recoveries so that banks funds locked up in NPAs are released for recycling. These include creating and fostering a legal and regulatory environment to facilitate the recovery of existing NPAs of banks which include measure and strategic tools such as, One-Time Settlements (OTS), Lok Adalats, and Debt Recovery Tribunals, Securitization and SARFAESI Act, Special Mention Category Accounts (SMA), Restructuring of Loans, use of credit information agencies and declaring and dealing with Willful Defaults.

Gandhi (2015) [3] asserts that managing asset quality is always very important and becomes a prominent objective especially during a period of economic downturn. The author chalks out the basis of NPA management being a mix of Preventive Management by banks, Regulatory Measures, Rehabilitation

or Restructuring and Recovery or Exit. The Preventive management according to author lays emphasis on a) Measurement of risk through credit rating / scoring; b) Quantifying the risk through estimating expected loan losses and unexpected loan losses c) Risk pricing on a scientific basis; and d) Controlling the risk through effective Loan Review Mechanism and portfolio management.

Gandhi (2015) [3] also argues that despite proper credit appraisal and proper structuring of loans, slippages in the asset quality may not be unavoidable, especially when the economic cycles turn worse. Hence, he asserts that once a weak account is identified, banks need to consider various remedial actions. One of the remedial options is restructuring. For the revival of the viable entities as well as for the safety of the money lent by the banks, timely support through restructuring in genuine cases is called for. The objective of restructuring is to preserve the economic value of viable entities that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders.

Mohan (2002) [4] outlined various options available in the hands of the lenders in preventing culmination of credit risk in the form of loan default. The author suggested that the Credit Information Bureau (CIB) should help in improving credit decisions by providing institutional mechanism for sharing of credit information on borrowers and potential borrowers among banks and financial institutions. He further recaps about the Reserve Bank of India (RBI) guidelines for compromise settlements of NPAs of the small sector to provide a simplified, non-discretionary and non-discriminatory mechanism. He emphasizes that banks should work out processes for settlement procedures and expedite quick recovery of NPAs and in this regard The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 should help in cleansing the balance sheet of banks by facilitating foreclosure. The constitution of an Asset Reconstruction Company (ARC) is another channel to remove NPAs from the balance sheets of banks through the processes of securitisation of assets.

Chakrabarty (2013) [5] argues that all unviable accounts should be put under time-bound asset recovery drive, sale of assets to ARCs or under the SARFAESI Act, to protect the loss in economic value of the assets. Another option which needs to be explored in such cases is management/ownership restructuring and permitting banks to takeover units where promoters' equity is low or non-existent (and hence the promoters have little interest in rehabilitating the unit); running the unit through an intermediary or agent and then disposing off the unit when it is sufficiently rehabilitated.

Mundra (2014) [6] outlines the regulatory measures taken for effective NPA Management and to enable speedier and prompt recovery. Author submits that RBI has set out Guidelines on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy. Detailed Guidelines on formation of Joint Lenders' Forum (JLF), Corrective Action Plan (CAP), 'Refinancing of Project Loans', 'Sale of NPAs by Banks' and other regulatory measures were issued to banks, emphasizing inter-alia, the need to ensure that the banking system recognizes financial distress early, takes prompt steps to resolve it through rectification, restructuring or recovery thereby ensuring that interests of lenders and investors are protected by setting in motion a corrective action plan which incentivizes early identification of problem cases, timely restructuring of accounts considered to be viable, and taking prompt steps for recovery or sale of unviable accounts. At the same time, the guidelines provide for punitive actions on lenders in the form of accelerated provisioning norms if they fail to report the status of distressed accounts to Central Repository of Information on Large Credits (CRILC) or if JLFs are not convened within the stipulated timeframe etc.

3. Loan recovery strategy in Indian banking sector

The survey of literature has helped to determine the structure and framework of loan recovery mechanism in Indian Banking sector. Loan Recovery Strategies can be classified as Preemptive Strategies and Corrective Strategies. The preemptive strategies are based on ex-ante hints of weaknesses in a loan account. Based on the literature the paper discusses formulation of an Early Warning Signals Mechanism (Table 01) for curbing loan defaults and ex-ante NPA management. Current study envisages a 5-E EWS Framework as represented in Table 01. The guidelines for formulation of preemptive strategies and implementation are discussed further in the section. The corrective strategies are ex-post NPA management strategies. Once a loan account becomes sticky and weakness is aggravated the corrective actions are invoked. The corrective actions are broadly classified as Legal Strategic Measures, Regulatory Strategic Measures and Non-legal & Voluntary Strategic Tools.

Table 1: Loan Recovery Strategy

Preemptive Strategies	Corrective Strategies
Early Warning Signals (EWS) **The 5-E Framework** **1. Economic Warnings** Financial and economic distress signals **2. Enterprise Warnings** Operational Warnings **3. Executional Warnings** Managerial Warnings **4. Exchequer Warnings** Banking Signals	**1. Legal Measures and Strategic Tools** • Civil Remedies • Recovery through Debt Recovery Tribunals • SARFAESI Act 2002 • Lok Adalats • Asset Reconstruction Companies and Sale of NPAs. • Bankruptcy and Insolvency Code **2. Regulatory Measures and Strategic Tools** • Central Repository of Information on Large Credits (CRILC) • Special Mention Accounts (SMA) • Joint Lenders Forum (JLF) • 5/25 Mechanism • SDR (Strategic Debt Restructuring)

5. Extraneous Warnings External Warning Signals	• Corporate Debt Restructuring • S4A Mechanism • Penal action against willful defaulters and deliberate non-payment **3. Other non-legal measures** • One-time Settlement (OTS) • Recovery Camps

4. Preemptive Strategies: The Early Warning System (5-E Framework)

NPAs find their origin in the lacunae, loopholes and laxity in the credit risk assessment and credit appraisal and approval process by individual banks. Preemptive strategies are not the cure itself to the problem but they are deterrent to the problem. The preemptive measures adopted by banks must be more than just adequate and banks need to go that extra-mile to establish that the loans remain standard.

Table 2: Guidelines for Preemptive Strategy Formulation

Before Sanctioning	After Sanctioning
1. Resources at disposal for coercion-free comprehensive credit appraisal. 2. Establishing Accountability for Loan Sanction.	1. Adequate monitoring and supervision of funds disbursed 2. Establishing appropriate end-use of funds and intervention if end-use strays or pre-defined performance standards and milestones missed.

Table 02 represents the bifurcated context upon which the preemptive strategies may be developed by the banks. The preemptive strategies essentially are based on the Fayol's [7] administrative theory of management and the POSDCORB principle propagated by Gullick and Urwick [8] based on Fayol's theory.

Figure 1- Implementation of preemptive strategy

Pre-set Standards for Credit Appraisal → Credit Appraisal and Sanction assigned to unit which is fully equipped and capable → Adequate and Appropriate staff deployed → Unit directed towards utilizing the resources at disposal for comprehensive credit appraisal→

Credit approved, sanctioned and approved → Amount Disbursed→ Monitoring→Supervision→Control

Continuous monitoring and control is the crux of any preemptive strategy. Interventions in preemptive strategies are dependent on the subtle hints which the 5-E based early warning mechanism gives when deterioration in the servicing of debt is visible. The signals from the 5-E based early warning mechanism could be utilized to devise interventions based on the Management Theory of Problem Solving. The 5-E framework helps to identify the weakness in the loan accounts and possible slippages to non-servicing of debt.

The 5-E framework is a comprehensive and broad multi-channel identification system for identification of potential and building-up slippages.

1. Economic Warnings

Financial and economic distress signals

1. Missed payment of loan installment
2. Continuous irregularity
3. LC/BG invocation or devolvement
4. Constraint in working capital position
5. High Debt Equity Ratio
6. Erosion in topline and bottom-line
7. Negative EBITDA
8. Negative Net Profits
9. Negative Gross Profit Ratio despite higher sales
10. Higher levels of non-operating expenses ratio

2. Enterprise Warnings

Operational Warnings

1. Low Capacity Utilization
2. Missing payroll commitments
3. Missing fixed expenses commitments
4. Erosion in customer base
5. Labor Issues, Strikes
6. Changes in expansion plans
7. Selling fixed assets
8. Stock margins either very high or very low

3. Executional Warnings

Managerial Warnings

1. Evidence of fund diversification
2. Deteriorated bank customer relationship
3. Selling equity or changes in ownership structure
4. Frequent changes in key managerial positions
5. Unrelated and high risk diversification
6. Window Dressing of managerial reports
7. Disputes arising in management family

4. Exchequer Warnings

Banking Signals

1. Requests for undue increase in working capital limits
2. Requests for restructuring and extension in credit line
3. Delinquency in repayments
4. Operating accounts maintained with other banks
5. Reduced transactions in operating accounts
6. Delinquency in submission of statements
7. Payments to unrelated parties
8. High value money transfer to relatives/friends
9. Dis-honour of cheques

5. Extraneous Warnings

External Warning Signals

1. Economic slowdown and recession
2. Changes in technology
3. Policy changes
4. Entry of new/increased competition
5. Natural disaster
6. Sunset on industry
7. Regulatory changes
8. Changes in customer preferences
9. Man-made disaster

5. Corrective Strategies: Post Default Recovery Strategies
Corrective Strategies are the legal, regulatory and non-statutory tools available at the disposal of the banks for recovery of defaulted loan. The details of the various remedies available are presented below.\

1. Legal Measures and Strategic Tools
1. Civil Remedies
A very common albeit time consuming recovery medium available to banks and financial institutions is filing ordinary/simple money suit for recovering outstanding debt/amount or is to file a summary suit under Code of Civil Procedure 1908 (Order 37). The summary suits are comparatively disposed of faster than ordinary suits and is applicable on all suits for recovery of debt/money arising from written agreements and contracts. If once the suit is instituted and the summons under suit filed cases are issued the defendant has ten days to appear before the court, if failed to do the court may assume the plaintiff's allegations to be correct and true thus may accordingly award the plaintiff. If however the defendant makes an appearance before the court, the court may accept his/her defense only if the court is convinced that it is substantial to the case under consideration.

2. Recovery through Debt Recovery Tribunals
The Debt Recovery Tribunals (DRTs) are formed under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDDBFI Act 1993) to help the banks in the swift adjudication of cases related to recovery of loan defaults of and above Rs 10 lakh. Appeals against orders of Debts Recovery Tribunals (DRTs) may lie before the Debts Recovery Appellate Tribunals (DRATs). As on 31st March 2015, there are 33 DRTs and 5 DRATs in India.

3. SARFAESI Act 2002
SARFAESI stands for the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act-2002. This act enables banks and financial institution to sell residential or commercial properties to recover loans. As per Section 13(4) of SARFAESI Act the banks and financial institutions may take possession of (mortgaged security) from the defaulters without approaching the courts if the loan is categorized as a Non-Performing Asset. The bank may take possession of secured assets within sixty days of serving the SARFAESI notice to the defaulter under the assistance of (CJM) Chief Judicial Magistrate. An authorized officer of the bank may commence SARFAESI proceedings where the bank may demand remaining complete loan amount be refunded together with interest. The bank instead of regularizing the loan account demands entire amount is paid back as the bank advances are repayable on demand. Even if the debtor regularizes the account by paying the due amount the SARFAESI proceedings cannot be reversed and stopped. The Act is applicable to all (SCBs) Scheduled Commercial Banks. The Cooperative Banks are debarred by invoking SARFAESI Act under the Hon'ble Supreme Court's ruling.

4. Lok Adalats
Lok Adalats which are organized by Hon'ble civil courts verdicts compromise between two parties, bank and borrower in matters which may be pending before any other court of law up-to a ceiling of Rs 20 lakh. Debt Recovery Tribunals are also empowered to organize Lok Adalats and they may affect compromise on cases of defaulted recoveries.

5. Asset Reconstruction Companies (ARCs) and Sale of NPAs.
Asset reconstruction companies are formed under Sec 3 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. The primary objective of ARC is rapid disposal of bad assets owned by banks to clean up their balance sheets. ARCs act as a bad bank by segregating NPAs from the balance sheet of banks and enable banks to focus on usual and normal banking activities rather than routing their efforts and resources towards recovery. Banks dispose of their bad assets to ARCs; the ARCs recover a sum through attachment, liquidation and securitization.

6. Bankruptcy and Insolvency Code (BIC-2016)
The BIC -2016 is an Act to consolidate and amend the laws relating to re-organisation and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximisation of value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders including alteration in the order of priority of payment of Government dues and to establish an Insolvency and Bankruptcy Board of India, and for matters connected therewith or incidental thereto. The vision of BIC-2016 is to provide a lucid and amalgamated arrangement under a combined legal framework to deal with insolvency and bankruptcy in India which has long been due. The code provides a framework to either resolve distress in a company or to liquidate the company. The regulations for the liquidation process are part of the rules being notified by the Insolvency and Bankruptcy Board of India (IBBI) to implement the code. The National Company Law Tribunal (NCLT) is empowered by the Govt. of India to be the applicable adjudging authority to manage corporate insolvency cases under the BIC. The 94000 cases pending at BIFR (Board of Industrial and Financial Reconstruction) the end of November 2017 shall be transferred to the NCLT.

2. Regulatory Measures and Strategic Tools
1. Central Repository of Information on Large Credits (CRILC)
The RBI came up with the guidelines for individual financial institutions to highlight the status of stressed borrowers (based on their repayment status) and furnish the details to the RBI to be stored in a central database: CRILC. Participating institutions are required to submit quarterly reports on all the borrowers with an aggregate fund-based and non-fund based exposure of Rs 5 Crores or more under the CRILC guidelines. The guidelines also require institutions to segregate borrowers as Special Mention Accounts (SMA) of various levels to gauge their probability of going delinquent.

2. Special Mention Accounts (SMA)
Before a loan account turns into an NPA, banks are required to identify incipient stress in the account by creating a sub-asset category viz. 'Special Mention Accounts' (SMA) and banks would henceforth be required to have three sub-categories under the SMA category as given in the table below:

Table 1: Special Mention Accounts Categorization

SMA Subcategories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

3. Joint Lenders Forum (JLF)

Banks are advised that as soon as an account is reported by any of the lenders to CRILC as SMA-2, they should mandatorily form a committee to be called Joint Lenders' Forum (JLF) if the aggregate exposure (AE) [fund based and non-fund based taken together] of lenders in that account is Rs 1000 million and above. Lenders also have the option of forming a JLF even when the AE in an account is less than Rs.1000 million and/or when the account is reported as SMA-0 or SMA-1.As soon as an account is reported to CRILC as SMA-2, the lenders, should form a lenders' committee to be called Joint Lenders' Forum (JLF) under a convener and formulate a joint corrective action plan (CAP) for early resolution of the stress in the account. While the existing Consortium Arrangement for consortium accounts will serve as JLF and the Consortium Leader as convener, for accounts under Multiple Banking Arrangements (MBA), the lender with the highest exposure (fund-based plus non-fund based) will convene JLF at the earliest and facilitate exchange of credit information on the account. In case there are multiple consortium of lenders for a borrower (e.g. separate consortium for working capital and term loans), the lender with the highest exposure (fund-based and non-fund based) will convene the JLF. In case a sole-banking account is reported as SMA-2, the concerned lender will initiate the corrective action plan on a bilateral basis.

4. 5/25 Mechanism

As per the 5:25 flexible structuring scheme, the lenders are allowed to fix longer amortization period for loans to projects in the infrastructure and core industries sector, for say 25 years, based on the economic life or concession period of the project, with periodic refinancing, say every 5 years. The repayment at the end of each refinancing period would be structured as a bullet repayment, with the intent specified upfront that it will be refinanced and such bullet repayment shall be allowed to be considered in Asset Liability Management (ALM) of banks. The repayment may be taken up by the same lender / a set of new lenders / a combination of both / by issue of corporate bonds as a refinancing debt facility and such refinancing may repeat till the end of the amortization schedule. The scheme is applicable to term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs.500 Crores, in the infrastructure and core industries sector will qualify

5. SDR (Strategic Debt Restructuring)

SDR scheme is defined under the Framework for Revitalising Distressed Assets in the Economy (Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan) wherein change of management is envisaged as a part of restructuring of stressed assets. The general principle of restructuring should be that the shareholders bear the first loss rather than the debt holders. RBI having this principle in view and also to ensure more involvement of promoters, JLF/Corporate Debt Restructuring Cell (CDR) may consider the following options when a loan is restructured:

- Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
- Promoters infusing more equity into their companies;
- Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of company. This will enable a change in management control, should lenders favor it.

6. Corporate Debt Restructuring

The Corporate Debt Restructuring (CDR) Mechanism is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) and the principle of approvals by super-majority of 75% creditors (by value) which makes it binding on the remaining 25% to fall in line with the majority decision. The CDR Mechanism covers only multiple banking accounts, syndication/consortium accounts, where all banks and institutions together have an outstanding aggregate exposure of Rs.10 Crores and above. It covers all categories of assets in the books of member-creditors classified in terms of RBI's prudential asset classification standards. Even cases filed in Debt Recovery Tribunals/Bureau of Industrial and Financial Reconstruction/and other suit-filed cases are eligible for restructuring under CDR. The cases of restructuring of standard and sub-standard class of assets are covered in Category-I, while cases of doubtful assets are covered under Category-II.

7. S4A Mechanism

S4A stands for Scheme for Sustainable Structuring of Stressed Assets. Under S4A, banks can convert up to 50% of a company's loans into equity. The option of such a debt equity swap can be done if the lenders feel that the operations could be turned around after the restructuring. Any project which has commenced commercial operations and has an overall exposure of more than Rs. 500 Crores can avail this new scheme, provided the bankers are convinced that the project can service the debt in the longer run. This can be established by conducting feasibility studies for determining whether or not a turnaround is possible.

8. Penal action against willful defaulters and deliberate non-payment

In order to prevent the access to the capital markets by the willful defaulters, a copy of the list of willful defaulters (non-suit filed accounts) and list of willful defaulters (suit filed accounts) are forwarded to SEBI by RBI and Credit Information Bureau (India) Ltd. (CIBIL) respectively. Furthermore, willful defaulters may be debarred from accessing any credit line from any financial institution in future for floating new ventures for a period of 5 years from the date the name of the willful defaulter is published in the list of willful defaulters by the RBI. The lenders may initiate criminal proceedings/legal process against willful defaulters, wherever necessary. Change of management wherever plausible may be conceived by the lenders in cases of such defaults. No willful defaulter should be made to sit in boards of any companies.

3. Other non-legal measures

1. One-time Settlement (OTS)

A compromise is a dispute redressal and settlement mechanism reached upon by mutual consent and agreement. It is a negotiated settlement with certain benefits foregone and certain components of advantage sacrificed on part of all the parties to the dispute. It is a non-legal remedy for reduction of NPAs of the Bank. Negotiated compromise settlement is made to enhance the compromise amounts and make a win-win situation. Every Bank may devise their own recovery policy and making guidelines for a compromise settlement of dues in NPA account. In additional to this compromise settlement can be under special one-time settlement schemes of RBI OTS scheme for small and marginal farmers, RBI OTS 2005 for SME for Public Sector Banks etc. are formulated by Government / RBI from time to time aimed at specific target groups.

2. Recovery Camps

Banks personnel jointly approach the defaulting borrowers for repayment at a place and time convenient to both the parties. These are more suited to small loans. Normally the borrowers who had availed small loans will be more in number in rural and semi urban areas rather than urban and metro centers. As such, the banks instead of conducting the recovery camps at their branches, they usually conduct such recovery camps in centers like Panchayat board offices, court buildings government department buildings. Usually the manager in charge of the bank branches along with some branch officials go to each visit each house of the borrowers and recover the installments due in respect of loans availed by them. This type of recovery camp will be successful in case an advance notice is served on the borrowers mentioning the date of recovery camps.

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