

Available online @ www.iaraindia.com
 RESEARCH EXPLORER-A Blind Review & Refereed Quarterly International Journal
 ISSN: 2250-1940 (P) 2349-1647 (O)
 Impact Factor: 3.655 (CIF), 2.78 (IRJIF), 2.62 (NAAS)
 Volume V, Issue 22
 January - March 2019
 Formally UGC Approved Journal (63185), © Author

DECREASING NPA THROUGH DIGITILIZATION

P. GEETHA

Assistant Professors of Commerce
 V.H.N.SenthikumaraNadar College(Autonomous), Virudhunagar

Abstract

In India, the banking sector is over-burdened with the highly increasing issues around Non-Performing Assets (NPAs). These rising bad loans seem to be swallowing away huge profit margins of financial institutions. A major reason behind pushing borrowers in the NPA category could be identified as the stressed macroeconomic conditions. The foremost action required from banks, considering this tedious situation, is to manage the present loan book effectively and be more cautious in lending new loans.

Keywords: *Demonetization, Consumer Perception, Digital Payment, Digital Wallet.*

Introduction

In India, the banking sector is over-burdened with the highly increasing issues around Non-Performing Assets (NPAs). These rising bad loans seem to be swallowing away huge profit margins of financial institutions. A major reason behind pushing borrowers in the NPA category could be identified as the stressed macroeconomic conditions. The foremost action required from banks, considering this tedious situation, is to manage the present loan book effectively and be more cautious in lending new loans.

Causes for NPA

According to a survey by global research firm, Ernst and Young among Indian bankers, 87% said that NPAs occurred due to diversion of funds to unrelated business or fraud, while a further 64% attributed them to lapses in due diligence. Around 72% of the survey

respondents were of the view that the crisis is set to get worse.

Most of the bankers feel that the main problem is that banks can't monitor and check the finances of an enterprise thoroughly as they have no visibility into its operations. Although banks do ask for a number of documents to sanction a loan, they are found fumbling as far as real-time transactions of an enterprise are concerned, since they don't have access to its financial records or the feasibility of projections. The data that the banks have is not enough to authenticate claims, making them ill equipped to take decisions based on solid facts.

The 7 May 2015 RBI circular on "Framework for dealing with loan frauds" is supposed to bring banks in line with monetary discipline. According to the circular, banks now need to ensure strict monitoring of the finances of an enterprise both pre- and post-sanction. They will

have to fortify their internal processes to ensure the funds undergo due diligence. While the RBI and bankers are doing their best to resolve the issue, measures have to be in place to perceive report and alleviate such risks.

Preventing the Occurrence of NPA's

Banks must consider automating their entire processes to generate reports to be submitted to regulators, monitoring potential delinquencies and disbursing loans.

- Early Warning Systems to flag non-performing accounts can be utilised.
- Analysis of repayment capacity can be practised to offer flexible payment choices.
- The root cause analysis behind the occurrence of NPAs can be identified.
- Required changes in credit policy, product promotions etc. can be implemented.
- Complete case management (legal lawsuits) can be done from within the tool.

All this and more can be achieved through correct use of technology and automated systems. However, while choosing an automated NPA mitigation tool, a thorough check on its extendibility and scalability must be done in order to secure maximum outputs.

While technology will certainly not waive off NPAs in the financial institutions all at once, it can prove to be a crucial step in tracking and monitoring bad loans in the long run. This will enable maintaining an overall asset quality, having a sound credit policy and profitability.

How can technology ensure a fraud-free banking sector?

According to the Ernst and Young survey, 56 percent of Indian bankers felt that technology and data analytics should be leveraged to identify red flags and early warning signals. Moreover, 86% opined that there is need for a mechanism to identify hidden NPAs.

Therefore, banks need the technology to monitor enterprises continuously. This can be achieved through a two-pronged approach: ensuring transparency and implementing automation. Banks need to keep a tab on an enterprise's key financial transactions: invoices, inventory, account receivables, balance sheet, etc. Business resources cash, raw material, production capacity and the status of business commitments: orders, purchase orders, and payroll need monitoring as well.

If all this data is made available to the banks, they would be better placed to take informed decisions. Banks would be able predict when and how an enterprise might start losing traction and would be able to weed out willful defaulters.

For this to happen, banks should make it mandatory for any enterprise seeking loans to install Enterprise Resource Planning (ERP) software. The ERP can be connected to the banks' own system, helping the financial institution tap into the real-time transactional data of businesses. Information in the ERP could help a bank decide whether the company has been meeting its financial obligations on time. Evidence of monetary discipline might also encourage banks to offer loans at lower interest rates to SMEs, who are usually low on finances. Enterprises could also use the digital platform to apply for loans, which could be quick and hassle-free.

“Due to the comprehensive nature of data in the ERP, a more detailed picture of the customer financial health would be visible to the banks. The access to this information can be authorised by the SME in a controlled environment.

NPA Management Solution by Intelegain

Intelegain recently developed an NPA Management solution, which is a perfect tool in assisting banks and NBFC's to identify, investigate and take proactive actions to mitigate recovery risks. The NPA solution helps banks to manage the

large documentation and compliance part that comes with managing the NPAs. The solution is a web application for banks, its features include –

- Access Control, Dashboards based on roles
- Monitor, track, examine overdue loans from quick mortality indications
- Borrower Profiling – which consists of debt profiles, loan documentation, security documents, charge status and valuation details etc.
- Follow-up and track accounts based on diverse criteria and indicators
- Case management, Notices / Legal Status Management, Calendar and Reminders
- Assisting banks in initiating recovery process with workflow- like Sec 138 Criminal Suit, SARFAESI, DRT process etc.
- Bulk data upload, Reporting Module
- Associate Details and Performance Management
- Expenses Management
- Knowledge Management, Outlook Plug-in, Analytics, Litigation Management

The NPA pain for banks – How can automation help ease it?

The Indian banking sector is groaning under the weight of ever increasing provisioning levels that are eating away profit margins. This is even as the damp macroeconomic conditions push more companies and retail consumers into the NPA category as they are unable to service principal and interest payments on loans. While overall repayment capability of companies and individuals alike will improve gradually as the economy recovers, the prevailing high interest rates will automatically price out new loan applicants unable to bear the high debt burden. The biggest challenge before banks today is to monitor and manage the existing loan book more comprehensively and efficiently.

Banks closely monitor NPA levels. However, this is fraught with challenges.

Details on credit facilities/collateral granted to a customer often lie scattered across different banking systems. Hence, it becomes challenging to get a customer level view of NPAs. This is critical both from a compliance point of view as well as to ensure that banks don't continue to lend to "bad" customers or against "over leveraged" collateral. Calculating exact NPA levels and corresponding provisioning also introduces computational and integration challenges. Needless to say, tremendous manpower and resources are consumed in calculating & verifying this data, generating necessary reports for regulatory submissions and internal monitoring purposes.

From a technology standpoint, it really seems to make sense for banks to automate the entire process, from monitoring potential NPAs to submission of regulatory reports. Banks can create product specific early warning flags. For example, in case of a credit card holder, a sudden spike in total outstanding or a single large transaction can trigger a flagging. Banks can then work with the customer, understand if he/she is able to repay. If not, the customer can be offered flexible payments options and other facilities to ensure it doesn't change into a full blown NPA. Additionally, banks should also be in a position to analyse NPAs from multiple dimensions to understand the root cause for NPA origination. This in turn can provide crucial inputs to the credit policy, product design and sales processes of the bank. Needless to say, given the transaction volumes and diverse products, this will be possible only through smart use of technology.

While the smart use of technology is automating NPA management and monitoring will not really ease the NPA burden for banks, it will be the crucial first step in ensuring banks are empowered to monitor and manage their existing loan book better. It will also over a period of time provide valuable inputs to credit

policy which could effectively enhance asset quality

Process automation and analytics could bring down NPA woes

Digital technologies today are disrupting and repositioning the lives of every banker and customer. Digital platforms and digital interfaces are ubiquitous. Data and analytics is used for greater customer experience, driving revenues, engaging customers, increasing productivity and making on the go offers of new banking products and services. The power of technology, especially the open source ones, analytics tools like Hadoop, faster and easy to deploy artificial intelligence for operational excellence, use of lot and intuitive automation are driving the operating models of banks.

Banks have embarked, in ways small and big, on the digitisation bandwagon. However, investments and the learning have stayed limited to retail space. Corporate banking and risk management applications either have got a backseat or were late starters. A victim of late adoption of digital is the problem loans area, the biggest headache afflicting the Indian banking system. Robotic process automation (RPA) and data analytics could be used to improve the deficiencies of the banking sector and control the shenanigans of the borrowers. Established use cases from retail and consumer banking could be utilised without large investments and IT change.

Many banks today are working on early warning signals (EWS), which are essentially the deployment of big data and analytics technology for getting dashboards on defined issues. However, first level coordination and auctioning is largely manual. Use of RPA with EWS analytics can improve and fortify quick action on EWS. At the resolution stage, collaboration for security valuation, notification of common resolution and recovery strategy, etc, could be enhanced by using big data points like similar transactions, zone prices, purchase price

history, etc. With RPA and block chain, base lining and registry searches of prices could be highly transparent, data based, reliable and accessible. Suitable algorithms and analytic models shall easily decipher patterns of siphoning of funds from multiple points in the banking and financial system based on unique identifiers, big data, natural language processing and use of inexpensive technologies like geo-tagging and NFC. Cartelisation, often resorted to by borrowers to prevent banks recovering fair value of security, could be thwarted by using analytics.

Additionally, due to process enhancement and strong database automation, decision making is expected to be transparent with auditable and well documented transaction trails. These are expected to help reduce the fears of later accountability from the minds of the bankers, a major impediment in rebooting of the system. As observed in the consumer space, the confidence level of successful utilisation of analytic technology is very high in general. Given the general acceptance of data science and RPA at policy making, legislative and the operational levels, the ecosystem is conducive. A new horizon is waiting if we make a paradigm shift for proactive problem loan management using the advancement in technology.

Conclusion

In the worst ever financial crisis since 1991, bad loans in India grew to Rs 3,41,641 crore in September 2015, striking at the root of India's Rs 95 trillion banking sector. Total NPAs, as a percentage of the total loans, has grown from 2.11 per cent to 5.08 percent. Eight out of 10 banks featuring on the list are from the public sector. The banking system is veering on the verge of a crisis. Stocks of state-run banks are plummeting. Banking regulator RBI has fixed March 2017 as the deadline for banks to fix their balance sheets. The crisis is huge and there is no end in sight. However, technology wise solution may

reverse the situation and results in a tremendous reduction of bad debts.

References:

1. <https://www.sesameindia.com/blog/need-for-automation-to-manage-npa/>
2. <https://www.intelegain.com/india-npa-crises-and-how-technology-can-help/>
3. <https://www.firstpost.com/business/biztech/solving-indias-npa-crisis-the-technology-way-3728137.html>
4. <https://economictimes.indiatimes.com/industry/banking/finance/banking/process-automation-and-analytics-could-bring-down-npa-woes/articleshow/62045028.cms>
5. <https://www.firstpost.com/business/biztech/solving-indias-npa-crisis-the-technology-way-3728137.html>