Account and Financial Management Journal

Monitoring :- A Perfect Solution For Checking NPA

Ashok Kumar

Staff Training Centre, Union Bank Of India Vibhuti Khand, Gomti Nagar, Lucknow-226010

Mob-09415452499, Email:- Ashokkumar.Prasad@Unionbankofindia.Com

INTRODUCTION:-

Banking is growing in complexity with passage of time. Especially from last few quarters the asset quality deterioration becomes major concern for all banks which further leads to intolerable stress due to high regulatory provisioning. So relevance of better Credit Monitoring is felt deeply in the current scenario, where in banks are focussing on measures to check ever increasing delinquencies in time. So effective monitoring of credit portfolio has become the life line for bankers and having great importance.

Actually Credit Monitoring is not getting the deserving and required attention, either due to ignorance or due to negligence. Over a period this has become a serious issue in the banking industry.

Though there are so many factors influencing the asset quality, but internal credit monitoring and precautions along with robust credit appraisal can go a long way in preventing Slippages.

These circumstances leads me to take the initiatives or challenge to relook the existing measures which are used for controlling or containing the health of assets quality .If there are any problem in applying them, devise new measure and also suggest some new relevant processes or strategy for further enhancement of our monitoring tools

IMPORTANCE OF MONITORING:

In commercial Bank , Management of credit portfolio has three branches i.e. credit appraisal, credit monitoring and credit recovery. The main purpose of all the three branches has to ensure the asset quality of a bank. Like the other two branches, credit monitoring has a greater role in ensuring the asset quality. In fact without monitoring, asset quality will remain vulnerable with burgeoning stressed asset portfolio.

Although there is no definite definition for the term Credit Monitoring, but in dictionary literary meaning of the word monitoring is- Maintaining Regular Surveillance.

So credit monitoring can be defined as a supervision of a loan account, on an ongoing basis, keeping a continuous vigil / watch over the functioning of borrower's unit, to confirm that the account conform to the various assumptions made at the time of sanction or last renewal.

THIS DEFINITION HAS THREE POINTS.

First --- Credit Monitoring is a supervision of loan accounts..

Second -- This supervision is to be on a continuous basis &

Third --- The purpose of this continuous watch is to confirm that the borrowal

unit is conforming to the various assumption made at the time of sanction.

Every bank strives to ensure that non-performing assets in their loan book is as

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

minimum as possible. We clearly know that higher the NPA, less shall be the interest income , more shall be the blocked funds causing less recycling of funds and due to this more regulatory provisioning. Every successive Financial Result of almost all public sector bank, are showing a cumulative negative impact on the profit of the bank. So a rigorous credit appraisal and methodical monitoring is the answer for these problems.

A fit and proper monitoring system helps in controlling of the credit portfolio and its smooth administration . Credit monitoring helps the banker,

i) To ensure the end use of funds
ii) To evaluate the borrowal unit's performance vis-à-vis to initiate timely corrective steps.
iii) To ensure the quality of assets.

So credit monitoring aims protecting the interest of the bank by checking funds diversion and ensuring the quality of assets by halting slippage. Avoiding the slippage is important , as otherwise ,efforts made to reduce the NPA shall not be fruitful. If we saw the statistics of movement of NPAs of banks it shows the more slippage to NPA taking place than the recovery of the bad loans.

FUNCTION OF CREDIT MONITORING:-

Ensuring the quality of loan assets is precondition for the credit monitoring. For this , every bank strive to minimise the level of delinquencies . In this process ,the monitoring department has different functions which are part of both onside supervision and offsite surveillance. The credit monitoring department frames the monitoring policy of the bank which is as listed below:--

i) **Credit Supervision :-** Once the credit facilities are sanctioned by the credit department, credit monitoring starts its duties like supervising the compliance of sanction stipulations, examining the pre disbursement credit audit, and obtaining and scrutinizing various monitoring returns to take timely steps to ensure the quality.

ii) **Scrutiny Of Returns And Reports :-** It's purpose is to monitors the credit portfolio through various controlling returns.

iii) **Scrutiny Of Audit Reports :-** Follow up for rectification of audit irregularities through scrutiny of various audit reports including the stock and receivables audit.

iv) **Arresting Slippages:-**Credit Monitoring Department observes the performance of the borrowal unit and migration of the accounts to the SMA0, SMA1, SMA2 categories so as to take proactive steps to prevent the slippages.

v) **Catching Warning Signals and remedial Actions:-** Credit monitoring department supervises the auto tracking of loans and takes timely action. The crux of the monitoring exercise is to catch the warning signals. Some of warning signals could be non-payment of the interest, non repayment of the instalments, non submission of stock statement , non compliance of important sanction condition etc

vi) **Restructured Accounts:-** Monitoring of restructured accounts involves–No overdues During Specified period, it is a very delicate task.

vii) **Central Repository of large Credit:-**The credit monitoring department provide credit information to CRILIC as per instructions of regulator Reserve bank of India.

So eternal vigilance is the price for effective monitoring. Monitoring is a continuous process and not a one time affair.

DIFFERENT MONITORING TOOLS:- For avoiding further slippages ,there are so many monitoring tools present in banking system. But unfortunately these tools are not used by our

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

branches in true spirit. So there is a need of re exploring the existing tools like, for what purpose these tools are there and what are actually happening in the branches. It will improve our Monitoring, resulting in drastic stoppage of further slippage of loan A/Cs in NPA category.

STOCK STATEMENT

A stock statement is a valuable return submitted by borrower periodically confirming that these stock are hypothecated to the bank and are free from all types of encumbrance. Both manufacturing as well as trading units have to submit stock statement. This is very popular return received by bank from the borrower.

Once the stock statement received by the bank it has to be scrutinized.

We have to checks

i) The date
ii) The address of the firm
iii) The address of the godown as mentioned in bank record & insurance record
iv) Format properly filled
v) Stock should be related to business for which the credit facilities are sanctioned
vi) Paid up stock to be properly mention in the statement
vii) Value of stock is as per laid down practice
viii) Stock should be adequately insured
ix) At last for arriving the final stock position for dividing DP following items are excluded
a) Obsolete stocks
b) Damaged stocks
c) Returned stocks
d) Other dead inventory
e) Goods purchased on credit
f) Stocks received for job work.

Actual treatment in branches :-

i) Though best tools for monitoring, stock statements are not taken with deserving seriousness.
ii) Often this statements are not submitted by the borrower on time. Sometimes after many reminder three or four month statements has submitted collectively by the borrower.
iii) Some of our BMs and officers who has to scrutinise this statement, do not scrutinise properly either due to ignorance or lack of knowledge or taking it casually.
iv) Some of our BMs and officer don't explain its importance or seriousness during sanction of loan proposal.
v) Sometimes we have missed to give information about penal interest due to late / no submission.

Suggestions for improvement:-

i) Bankers have to discuss about the submission of stock statement with the borrower during sanction seriously without fail.
ii) Scrutiny of stock statement is done seriously and regularly.
iii) Give training to borrower if needed.
iv) Provide training to credit officer / newly appointed BMs.
v) If there is any warning signal, starts remedial action
vi) Stock statement format should be modified.

BOOK DEBT STATEMENT

Book Debt Statement is one of the important statement submitted by the borrower should ensure the following

i) It should be as an a particular date.
ii) It should be duly signed, sealed by the authorised person.
iii) Age of the debt mentioned clearly.
iv) We should check whether any debt is mention which is other than sanctioned business activity exclude it.
v) We should check the book debt statement are verified and certified by the CAs.
vi) We should exclude

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

a) Bad / doubtful debts.
b) Old debts (beyond 90 days)
c) Debt all ready realised
d) Debt assigned to factoring or to which bill finance has been given.

Actual treatment in branches :-

i) Once again this statement is not submitted on time .
ii) The book debt is not mentioned with proper age wise breakup.
iii) We are casually instructed the borrower to submit the book debt.
iv) Sometimes debt to sister concern are mentioned .
v) Book debt not related to original activity are mentioned.

Suggestions for improvement:-

a) We have to discuss about the submission of book debt statement with the borrower during sanction, seriously without fail.
b) We may tell them for penal interest due to non submission / late submission of statement.
c) Scrutiny of book debt Statement must be done with utmost care by BM or Credit in charge.
d) Provide training to our field functionaries and borrower also if needed.
e) Locate any warning signal and take immediate remedial action.

MONTHLY SELECT OPERATIONAL DATA (MSOD)

In some bank there is a provision of submitting monthly selective operational data . Monthly select operational data is to be submitted by borrowers enjoying aggregate working capital credit limit of Rs 10.00 lakh and above or amt fixed by concerning bank. MSOD statement gives key performance figures of a unit on a monthly basis . These figures of a unit on a monthly basis include sales, stock, receivables, short term borrowings and gross profit. These data give an idea about the performance of a unit and bankers can compare the performance with the annual projections accepted at the time of sanction or renewal of the working capital. Through MSOD of two consecutive month be can see the movement of stock, movement of short term sources and short term uses. By this we can judge ,is there any internal or external diversion of fund. Timely submission and scrutiny of MSOD shall help in understanding warning signals and take corrective steps.

So MSOD statement is very very useful tool of credit monitoring for the bankers.

Actual treatment in branches :-

After discussion with BMs and credit officer, It is clear that submission of MSOD is very very poor. So one of the important tool of monitoring has not giving required result.

Non submission of MSOD is due to following reasons:-

i) It may be due to poor MIS system in the borrower's unit.
ii) It may not be submitted because of non achievement of the target.
iii) Unit does not want to report this irregularity on this juncture.
iv) Banker's ignorance or casual approach for demanding the submission of MSOD
v) It may be casual approach of borrower in submitting it.

Suggestions for improvement:-

a) Periodicity may be changed monthly to quarterly .
b) Make a part of term and condition of sanction.
c) Training to borrower how to submit this statement.
d) Training to bankers for its scrutiny.
e) Penal interest provision to be made on non submission.

INSPECTION OF SECURITIES

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

All banks stipulate a condition in the sanction advice that “the bank shall have the right to examine at all times during the currency of advance the company’s books of account and to have the assets changed to the bank(whether it is prime or collateral) inspected at the periodical intervals either through its own officer or outside agencies.

Inspection is an important part of monitoring. It is very very effective monitoring tool and has to be used properly. Securities can be primary or collateral. The important items to be inspected are:-

Fixed Assets: Land & Building, Plant & Machinery, Vehicles.

Current Assets: Inventories under hypothecation or under pledge, Book debt and receivables.

Important points to be kept in mind during inspection of different types of securities.

a) Is it an agricultural land or industrial or residential land ?
b) Is the property owned or lease hold ?
c) Examine the extent of the land, location details like survey no , Khata no, boundary...
d) Is it a land locked plot?
e) Is there a free accessibility to the land?
f) Ownership of the land to be verified..
g) Chain of the document of title to be ascertain.
h) Types of construction of the building , whether it is a as per approved plan from local body or not.
i) Confirm that bank’s name board is prominently displayed in the building / factory and business premises.
j) Whether project implementation is as per implementation schedule or not.
k) The machinery installed is of the same quality and specifications as per the invoice projection given at the time of sanction.
l) Whether Godown is suitable for the goods stored in.
m) Arrangements for protection from natural calamities.
n) Capacity of the godown vis-à-vis the declared stock.
o) How the stock are stored ? e.g. in Tin, in bags, in drum etc
p) Whether there is adequate moving space in between the rows to facilitate easy verification of stocks.
q) Is there any stocks lying with outside agencies entrusted for job works.
r) Detail of paid or unpaid stock.
s) Movement of stock and goods lying with shipping agency.
t) Any change in the line of business.
u) Whether book debt, stock register ,sales register, purchased register, dispatch register, receivable register, insurance register, invoice register, latest tax paid register... are maintained.

Actual treatment in branches :-

i) Some branches prepare factory visit / inspection report casually, not in proper manner with required seriousness.
ii) Due to lack of knowledge, they just visit the factory as a formality.
iii) Sometimes they don’t enquire about several irregularities notices during visit.
iv) our field functionaries, visited the factory with stock statement. Book debt statement which are very necessary for confirmation and checking of stock.
v) Several times bank’s name board are not displayed in godown / factory.

Suggestions for improvement:-

i. Before carrying out the inspection, sufficient home work is to be done by the inspecting officials, going through the borrower’s file, account operation, latest stock statement etc.
ii. Banks undertake the inspection to ensure that the money lent is being used only for

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

the intended purpose and not diverted to unrelated activities.

iii. Never deviate from the laid down systems and procedures.

iv. Familiarity does not leads relaxation.

v. While inspecting stock you have to do " STOCK" . Means See, Touch, Observe, Calculate & Know about the stock.

vi. Always visit the factory with recent stock statement & book debt statement.

vii. Bank's name board to be displayed invariably at factory, godown or business premises.

viii. Books and record are to be verified during inspections. Must check the different register like debtor register, creditor register, stock register, dispatch register etc.

ix. In case of P & M, you must see that the machinery is in working condition or not.

x. Is any machine are missing or replaced ?

xi. Is the capacity utilization of the machinery is in line with the projection ?

xii. See pollution control arrangement and the obtaining of necessary licenses if needed.

xiii. See the insurance validity of prime & collateral security.

QUARTERLY PERFORMANCE REPORT (QPR)

This return was recommended by the Tandon Committee (1974) and later endorsed by Chore Committee (1979).All borrower enjoying fund based working capital limit of Rs 1 Cr and above from the banking system are required to provide the information in the prescribed form as a part of financial discipline and monitoring of the working capital limits.

Though not found comfortable and familiar with field bankers, this effective monitoring tool is applicable to traders & merchant exporters apart from manufacturers with aggregate limits of Rs 1 Cr and above.

This statement needs to be submitted within 4 weeks from close of each quarter by the borrower . This also includes a half yearly operating fund flow statement.

QPR as an effective tool throws light on performance in terms of production, quarterly net sales (both domestic & exports) in comparison of actual in the reporting quarter vis-à-vis the annual plan projections.

Now through this statement we have come to know

a) Do the quarterly actual production both in quantity & value with regard to annual estimates reflect favourable trends in performance.

b) Do the financial pattern of current assets in proportions of bank borrowings, sundry creditors , OCL & NWC realistic and justifiable.

c) Do the figures of gross sales ,net sales ,cost of goods sold, overhead expenses, interest, depreciation, operating profit, other non-operating income/ expenses are in line with their annual projection.

d) Does the pattern of Current assets & liabilities holdings justify the net working capital and current ratio ?

e) Is the QPR submitted within 4 weeks from close of the relevant quarter ?

f) Is there any healthy surplus from long term sources over long term uses ?

g) Does the changing pattern of Current liabilities justify the needs ?

h) Is the basis of valuation of current assets / liabilities consistent with the same adopted for statutory balance sheets ?

i) Is there any abnormal variation in any parameter needing further explanation ?

This statements is submitted with fund flow statement and the points to be examined in the fund flow statements are

a) How is the end use of funds ?

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

b) How is the working capital management ?
c) Whether short term funds are used for long term purposes ?
d) Whether long term sources are sufficient to sustain the provision of sufficient NWC and deployment of the long term funds ?
e) Whether capital investment has been supported by long term funds ?
f) Whether any signs of internal / external diversion, siphoning of funds ?
g) Has any fixed asset been purchased with short term funds ?
h) Whether any fall in the debtors-creditors ratio observed ?

Actual treatment in branches :-

Scrutiny of QPR data became essential for effective credit administration.

QPR is to be submitted by party in case of WC limit 1 Cr & above. But actual situation are as follow:-

a) This is found that it is not submitted on time. Due to late submission , the very purpose of QPR submission is failed.
b) Monitoring or specially early warning signal is not traced on time.
c) After repeated reminder this report is submitted casually.
d) Due to shortage of staff the scrutiny is not done properly in some of the branches.
e) It is submitted just for the sake of submission.
f) It is submitted for avoiding penal interest.
g) No quality data is available for proper scrutiny.
h) Due to late submission some branches failed to trace or check the diversion of fund either internal or external.
i) Two or three quarter statement submitted at a time.
j) Sometimes only QPR is submitted, half yearly operating statement and fund flow statement are missing.

Suggestions for improvement:-

a) Timely submission of QPR is very very essential for monitoring of big account.
b) It must be mentioned in terms & conditions
c) Not only mentioned in terms & condition, but also through discussion on it with borrower during sanction of loan account.
d) Highlight penal interest provision with borrower.
e) Give quality time for its scrutiny by our monitoring officer not take it as a formality or only for file purpose.
f) One copy may be demanded by RO monitoring officer from branch.
g) Abnormal variation in fund flow statement must be discussed with borrower.
h) Half yearly fund flow to be submitted without fail and on time.

RECOMMENDATIONS

- Bankers have to discuss seriously about the timely submission of stock statement & Book debt statement with the customer during sanction.
- There should be a training to borrower or their staff who are maintaining the record of the business activity on monthly basis ,it may be with regular customer meet. In this training programme we have seriously discuss about the consequences of late submission of stock statement, book debt statement ,MSOD, QPR and other financial report. We may discuss about the benefit of good operation in a/c and other facilities in this training programme.
- We have give much emphasis on timely submission of all statement.
- Regular workshop to our branch persons who are dealing with monitoring or credit at branch level about processing, due diligence & scrutiny of all statement submitted by borrowal unit.

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91

- We have to circulate a live case study to all branches of the region related to near by branches about monitoring lapses & after remedial measure or monitoring efforts due to that we have able to maintain good asset quality.
- For stock inspection we have to do "STOCK" Means See, Touch, Observe, Calculate & Know about the stock.
- Before carrying out the inspection, sufficient home work is to be done by the inspecting officials, going through the borrower's file, account operation, latest stock statement etc.
- Be serious about the inspection, familiarity does not leads relaxation.
- Bank's name board must be displayed invariably at factory, godown or business premises.
- We have seriously discuss the borrower about timely submission of different report.
- Give quality time for its scrutiny and if any warning signal appear take immediate remedial action.

CONCLUSION:

So by acting on the above mention suggestions we can keep the quality of asset performing. We can also give some Incentive to staff or branch, not necessarily in monitory term but it may be in the form of some felicitation and other rewards who show or perform excellent monitoring in keeping the quality of asset performing.

Volume 1 Issue 2 2016
DOI: 10.1234.67/afmj.1008
AFMJ 2016, 1, 84-91