Pre-COVID & Post-COVID Implications
Of NPA's (Non-Performing Assets) on Co-Operative Banks.

By

Panchakshari B Mathapati

55th PGDCBM Batch

Under the Guidance of

Prof. S Y Deshpande

Dr.Anshu Singh

August, 2021 to January, 2022

CENTRE FOR COOPERATIVE MANAGEMENT

VAIKUNTH MEHTA

NATIONAL INSTITUTE OF COOPERATIVE MANAGEMENT

PUNE 07

Acknowledgement

I would like to take this opportunity to convey my special thanks to all those who supported me in taking this course of P.G.Dip.in.Co-Op Business Management.

I would not be a student here if the Hon: President of The Hubli Urban Co-operative Bank Ltd, Shri. Vikram R Sirur had not proposed to give me this opportunity. Also, if the Board of Directors of The Hubli Urban Co-op Bank Ltd had not decided to give me the opportunity for this course, I would not have had this opportunity. Therefore, I would like to thank the Hon:President Shri. Vikram R Sirur and the Board of Directors of The Hubli Urban Co-operative Bank Ltd.Hubli.,

From the day I joined this course to the completion of it, I would like to express my heartfelt thanks to all the lecturers who have mastered various subjects and displayed excellent lecture skills.

The Faculty members were always anxious to explain things to us.

I will not be able to forget the support I received from my family members & my Bank team during the course of study.

I am fortunate to have the opportunity to attend a course at the Vaikunth Mehta National Institute of Cooperative Management Pune. I would like to take this opportunity to thank the Founder and current Vice Chancellor of the Vaikunth Mehta National Institute of Cooperative Management and the Director, governing body and the course coordinator Prof. S Y Deshpande of the Vaikunth Mehta National Institute of Cooperative Management. Pune.

Panchakshari B Mathapati

The Hubli Urban Co-operative Bank Ltd,

Hubli. Karnataka.

Table of contents

Chapter 01

Introduction & Background:

Impact of COVID-19 on repayment pattern of Co-Op Bank borrowers. –

The COVID-19 pandemic has introduced to a serious loss of human life and provides an unprecedented challenge to general public health, food systems, and the world of work. The economic and social disruption caused by the pandemic is enormous and affected the social & economic living conditions of the Indian population.

The adverse impact of the pandemic is one of the first of its kind in history. The magnitude of impact has been very vast not sparing any aspect of human existence be it education, services, agriculture, finance, trade and commerce, manufacturing, travel and social relationships to name a few.

The aggregate effects of a host of adverse conditions spinning out of the disease are:

- Livelihoods problem
- Discrimination between haves and have-nots
- Unemployment
- Financial inequalities,
- Exclusion from economic growth,

The lock down all over the world had its Impacts on education and sports and games as social distancing may have to be maintained for a long time to come – until a vaccine and/ or a medicine was invented. Adverse impact on the psychology of children and youth because of reduced social contact and interactions in schools and playgrounds in terms of expanding the knowledge horizons or competitiveness respectively needs no amplification.

Impact on business -

All the economic activities had been closed down. Generation of income and consequently the purchasing power of citizens had dwindled with each day of lockdowns. Further the agricultural produce, even in case of good harvests, found it difficult to move to processing plants and from there to consumers; other kinds of industries face spiraling stocks of work in progress, cost of inventory of raw materials as well as finished goods, closed hospitality industry, services sector suffering from demand erosion, travel ban on both passenger traffic and goods traffic excepting for essentials in the case of latter category, closure of international borders by many countries restricting movement of any kind, several countries locking down the borders of individual provinces to curtail/ prevent spread of virus and many such developments which have come to stay for an uncertain period of time contribute to decline in trade and commerce.

The consequences are not difficult to assess. To name a few:

- Increase in debts
- Need for fresh infusion of funds to revive and to run
- Cost of funds for working capital and incremental investment requirements
- Labour migration and consequent limitation on immediate availability for re-starting the business
- Uncertainty in realization of dues from customers.
- Difficulty in raising fresh and additional credit facilities from banks and other financial institutions in the face of uncertainty in economic growth and markets.
- Spoiled stocks and problems of insurance claims.
- Loss of customer base
- Erosion in suppliers' trust.
- Cash flows contraction and mismatches
- Difficulty in increasing / maintaining support for innovation and invention as basic needs have to be prioritized.

- Travel industry will take one of the hardest hits with unpaid leases, penalties, parking and berthing charges, consequences of delay in revival of travelling and idle capacities etc.
- Hospitality industry also takes a hard hit from the present restrictions on movement of people and social distancing requirements, and upon reopening the issues arising out of lack of customer confidence in general or fear of the unknown.

The global COVID-19 pandemic and ensuing lockdown in India has impacted the income of the public with cash flow drying up for households and businesses, we have witnessed an increase in the demand for new credit, primarily in the form of unsecured loans. While all banks and other lending institutions have announced various measures, including loan moratorium and new COVID-19 loan products. Many of the enterprises faced the existential threat. Informal economy workers are particularly vulnerable because the majority lack social protection and access to quality health care and have lost access to productive assets. Without the means to earn an income during lockdowns, many were unable to feed themselves and their families. For most, no income means no food, or, at best, less food and less nutritious food.

The pandemic had been affecting the entire food system and has laid bare its fragility. Border closures, trade restrictions, and confinement measures have been preventing farmers from accessing markets, including for buying inputs and selling their produce, and agricultural workers from harvesting crops, thus disrupting domestic and international food supply chains and reducing access to healthy, safe and diverse diets.

The pandemic has caused loss of jobs and placed their livelihoods at risk. As breadwinners lost jobs, fell ill, and many lost their lives, the food security and nutrition of those in low-income areas, particularly the most marginalized populations, which include small-scale business, street vendors & self-employed people are the hardest hit.

During the pandemic due to the above explained worst situation most of the people were unable to repay their loan liabilities timely thus increasing the NPA's.

The presence of NPA has had an adverse effect on the cooperative banks in India. It was in the early nineties these non-performing assets emerged in the financial domains of India because by that time a significant number of loan assets involving uncertainty with respect to ultimate collection had piled up, plaguing the cooperative banking industry. The NPA reflects natural wastes in any economy are the bad debts and non-recovered loans of the cooperative banks. The NPA can be divided into the following three Broad groups:

1. Sub-standard- it would be those which exhibits problems and would include assets classified as non-performing for a period not exceeding twelve months.

2. Doubtful- these assets are those which include assets classified as non-performing and would also include loans in respect of which instruments are overdue for a period exceeding eighteen months.

3. Loss- these assets are those accounts where the loss has been identified but the amount of loss has not been written off.

In order to reduce NPAs, RBI has banned loans to directors and their family members and also directed these banks to step up their statutory liquidity ratio (SLR) investments in government securities. Though RBI asked banks to adhere to 90-day NPA norms. RBI has also admitted that few banks have been classified as Grade IV. This means the financial condition of these banks has worsened to such an extent that they require imposition of directives, amalgamation, reconstruction and liquidation etc.

Chapter 02

2.1 Need & Significance of the Study:

Assess the situation arising out of pandemic like unexpected situations / conditions.

Co-operative banks are a group of financial institutions organized under the provisions of the co-operative society's act of the states. These banks are essentially co-operative credit societies organized by members to meet their short term and medium term financial requirements. A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically enterprise. Mutual co-operation leads to co-operatives. Co-operatives banks are constituted on co-operative principles of voluntary association, self-help and mutual aid, one share one vote and non-discrimination and equality of members. Co-operative Banks in India are registered under the Co-operative Societies Act 1904. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965. The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks were traditionally centered on communities; localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

Insufficient financial compensation for work, indebtedness and economic unrest lead to the formation of certain associations by people who believed in self-help and mutual help as a solution to their limited means. People with small means joined hands to form democratic organizations based on equality. Different types of such organisations catering to the subjective needs of different sections of population emerged and developed over the years that followed.

The emergence, growth, interaction and comparative performance of these different co-operatives are a result of the constant revision and defined needs of the respective sectors in relation to the people concerned.

Thus, the cooperatives have been formed on the basic principles of self-help and mutual help, democracy, equality, social responsibility, governance, proximity and transparency.

The features of cooperative business model are:

a) These organizations have been formed to primarily help small persons, who would not otherwise mobilize finances for meeting their needs be it for agriculture, business or otherwise.
b) Even if such small persons accessed finance from entities other than cooperatives, such money would be at high costs and often not viable to borrow.
c) Cooperative banks mobilize small deposits; provide finance normally to micro, small and medium enterprises, artisans, agriculture- small and marginal farmers to a large extent and etc.
d) These organizations operate in small areas and utilize resources mobilized locally for the benefit of their members of the local geography. Hence, they contribute to the development of the local economies.
e) They are owned and managed by members, who will have small per capita share holding.
f) Each share holder has a right to only one vote irrespective of the number of shares held. On the contrary, in joint stock companies, number of votes is equal to the number of shares held by the investors and, therefore, the voice of small investor may not be heard. Cooperatives support persons of small means.
g) In cooperative organization, the owner member and the customer are normally same, thus, creating wealth for the members.

h) The most significant feature is their demonstrated resilience in facing the financial vagaries over a period of more than a century.

2.2 Objectives of the Study:

1. Reasons for increase in NPA.
2. Steps & Measures to overcome impact of unprecedented situations on Co-Op Banks NPA.

The objectives of the study comprise to ascertain the causes of NPA, to know the position of NPA over the years, to determine the problems involved in managing NPA and to examine the prospect of NPA management.

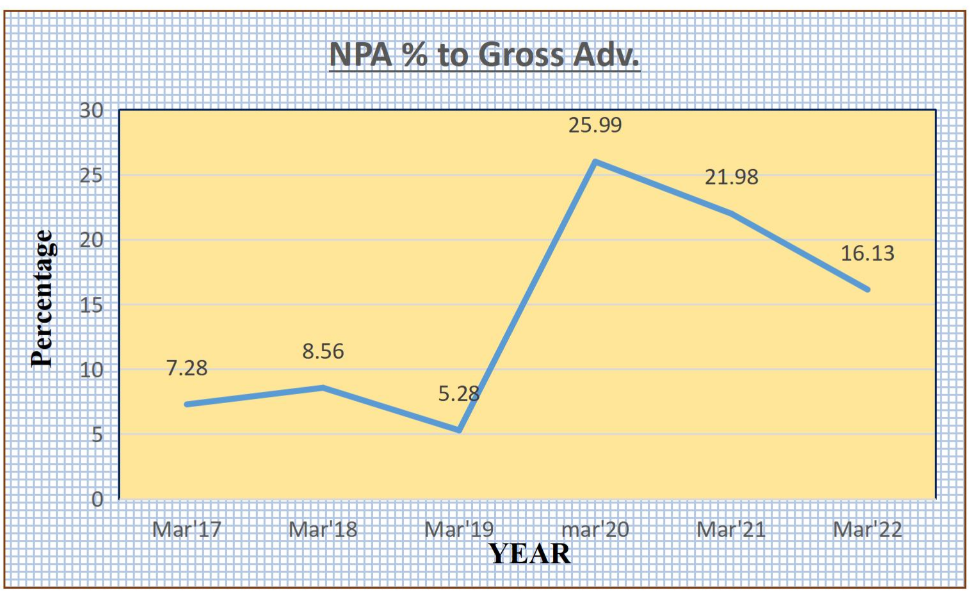
2.3 Research Design:

Descriptive

The research methodology had the following approach: - a detailed study of the existing position of the Hubli Urban Co-Op Bank Ltd. The collected data from the bank is classified, tabulated & represented in a graphical manner to understand the impact of NPA due to COVID-19 Pandemic (post COVID on the bank).

(Rs.in crores)

Details	Mar'17	Mar'18	Mar'19	Mar'20	Mar'21	Mar'22
Gross Adv.	97.93	116.82	131.67	146.66	154.21	154.50
Gross NPA's	7.12	10.00	6.96	38.12	33.89	24.92
NPA % to Gross Adv.	7.28	8.56	5.28	25.99	21.98	16.13



Chapter 03

3.1 Scope of the Study:

1st Apr 2016 to to 31st Mar 2022 an analysis of recoveries effected shows the deteriorations of the asset quality and the subsequent revival, which is an indirect impact of repayment of loan by the borrowers to the bank.This was due to the impact of loss of income during the pandemic

Of Covid-19.The study shows how the disturbed loan repayment schedules which resulted in Increase of Non Performing Assets (NPA) of the Banks.

3.2 Probable Outcome of the Study:

Steps & Measures to handle Pandemic type of Situations in future.

1. Deferment of payment of loan installments in pandemic like situations.

2. Restructuring of loan accounts post pandemic.

3. Rescheduling of loan repayments, i.,e enhancement of residual repayment period & reduction of installment amounts to that proportion.

4. Grant/sanction of Adhoc Additional loan limits for immediate working capital requirements.

5. To inculcate the habit of regular monthly repayment of loan installments instead of quarterly repayments/seasonal repayments by the borrowers (To educate the co-operative member borrowers – the importance of regular loan repayments resulting in reduction of burden of debt).

6. Restrict/Minimize the diversion of loaned funds i.,e utilize the borrowed funds towards the borrowed purpose there by resulting in earning returns out of investment of borrowed funds.

Chapter 04

Proposed Action Plan:

Analysis of data, Comparison of NPA as on 31^{st} Mar 2019, 31^{st} Mar 2020, 31^{st} Mar 2021 Pre-COVID & Post-COVID.

10 decisions taken by RBI to counter the corona virus impact on economy

The Reserve Bank of India asked all lending institutions to allow six months' moratorium on loan repayments in order to infuse liquidity into the system amidst COVID-19 crisis. RBI governor in a press conference said these are extraordinary circumstances, and unprecedented measures are required to support the economy as all the economic activities have come to a halt.

1. Repo Rate - RBI announced that it was cutting the Repo rate by 75 bps, or 0.75% to 4.4. the Repo rate was earlier 5.15; last being cut in October 2019.

2. Reverse Repo- The regulator also announced that it would cut the reverse repo rate by 90 bps, or 0.90%. on a daily average, banks had been parking Rs 3 lakh crore with the RBI. The current reverse repo rate was 4 %.

3. Loan Moratorium - In a massive relief for the middle class, the RBI Governor also announced that lenders could give a moratorium of 6 months on term loans, outstanding as on 1 march, 2020. This is applicable to all commercial banks

including regional, rural, small finance, co-op bank, all India financial institutions and NBFCs including housing finance and microfinance.

4. CRR- The RBI also announced that the cash reserve ratio would be reduced by 100 bps, or 1%, to 3%. This would be applicable from March 20, and would inject Rs.137,000 crore.

5. LTRO -Targeted long term repo operations (TLTRO 2.0) for an aggregate amount of Rs 50,000 crores to begin with to be invested in investment grade bonds, commercial papers, and Non-convertible debentures of NBFC's with atleast 50% of the total amount availed going to small and mid-sized NBFC's and MFI's. Such investment will be classified as held to maturity (HTM) even in excess of total investment permitted to be included in the HTM Portfolio. Exposurers under this facility will also not be reckoned under the large exposure frame work.

6. Ease of working Capital financing- Lenders were allowed lending to recalculate drawing power by reducing margins and / or by reassessing the working capital cycle for the borrowers. The RBI also specified that such a move would not result in asset classification downgrade.

7. Working capital interest -A three months' interest moratorium shall also be permitted to all lending institutions.

8. Deferment capital interest- The net stable funding ratio, which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding was postponed to October 1, 2020. The NSFR was earlier supposed to be implemented by April 1, 2020.

9. MSF- Marginal standing facility has also been increased to 3 % of SLR, available till June 30,2020. This measure should provide comfort to the banking system by allowing it to avail an additional 137000 crore of liquidity under the LAF window in times of stress at the reduced said the RBI.

10. Fresh Liquidity - The impact of all the announcements shall inject almost 3.2% of GDP, the Governor said in his brief . The RBI also added that since February 2020 it had injected Rs 2.8 lakh crore of liquidity,

Strategy of coop banks and cooperatives to contain the Virus spread

1. Cooperative Banks

The banks have to reiterate their relevance to their stakeholders in times of need. The worst hit pandemic, without a doubt, warrants such trust building efforts. Relevance to stakeholders is a broad expression encompassing a host of actions on the part of institutions.

a) Helping in continuity of operations by customers: The customers have to be educated on the facilities extended by the Governments and the Central Banks to face the financial adversities arising out of the current situation. Customers have to be helped in assessing their revised needs and suggest the most appropriate solutions and products – both new loans and modification of existing facilities for sustaining the business. Banks should help the customers in managing their cash flows and reduce credit risk.

b) Re-engineering Processes: The above steps have to be backed by a well oiled mechanism of quick response Business Continuity Team in the bank- a centralized response centre with pre agreed processes either existing or reengineered to suit the current requirements. All these measures have to be supported by a well designed Information system to enable the persons concerned to have a real time appraisal of situations to take informed and quick decisions.

Needless to say that it implies the need to reassess the existing business processes and systems, their response speed, scalability and so on. Re-engineering of processes should aim at releasing the staff from functions of routine nature to take care of more important customers with regards to the risk associated with business segments in which they are operating and the volume of business that the bank has with them.

Subject to the extant laws of the country, digital documentation can be also planned and executed for new loans and new facilities.

Cooperative banks have to reduce the need for customers to reach the brick and mortar branches of banks by providing digitalized operation facilities. Reducing physical contact through use of technology is a solution in itself for containment of the disease spread.

c) Credit Monitoring: However, monitoring the quality of credit on a continuous basis is the norm which cannot be ignored. Monitoring of accounts through a robust technology enabled mechanism supported by analytics for risk assessment shall be a part of bank's regular activity. Besides, on- line monitoring of primary securities especially in the case working capital arrangements has to be ingrained into the overall SOP. Such arrangements reduce physical visits to the client's premises while giving the comfort of regular/periodical updates on the situation on site.

Customer accounts have to be classified into high risk, moderate risk and low risk categories basing on their previous behavior with the bank, emerging sectoral risks and advantages, the developmental and financial policy announcements by the governments and the Central Banks of the nations concerned. The information flow thus prioritized shall enable early identification of stress in accounts. Remedial measures in terms of business advice to the client; review of facilities granted can be initiated in time to avoid any possible deterioration of the asset.

d) The overall strategy is one of sustaining the banks' business while helping the customers continue their businesses following social distancing, minimizing human interaction simultaneously through extensive use of technology.

Conclusion

A cooperative, like any other form of business organization can be successful only if it stays relevant to its stake-holders in all hues and shades of economic journey. Such successful journey is the result of continuous research, re-engineering and reforming its products and services, improving efficiency in delivery and its operations, fair pricing of its products and services. The underlying need to recapitalize itself to be on a financially sound footing cannot be overlooked.

Any form of business, be it a proprietary concern, partnership concern or joint stock company functions in the same environment as a cooperative enterprise and consequently all business forms will get the same opportunities or encounter more or less similar obstacles or sudden external shocks like the challenges thrown up by the current COVID 19.

It is the resilience of the organization to overcome the most unexpected kind of business shocks that determines the success of such entity. The success is also a result of various factors working in harmony with the external and influencing factors. The business entity has to constantly endeavor to meet the customer expectations of innovation in products and services; efficiency in delivery, maintaining the organization’s financial stability, continuous re-search of the customer needs, re-engineering of internal processes and reforming itself to be contemporary at all times.