

A PROJECT REPORT

ON

**“IMPACT OF NPA ACCOUNT AND PAYMENT COLLECTION PROCESS: IN PRIVATE  
SECTOR FINANCIAL INSTITUTE IN INDIA”**

Submitted to



**Delhi School of Management, DTU**

In partial fulfilment of the requirement of the award for the degree of  
Executive Master of Business Administration

Under the guidance of

Faculty Guide

**Prof. Meha Joshi**

Submitted by:

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EMBA Semester IV

## **STUDENT DECLARATION**

I, Joysmith Bhattacharjee (Roll No- 2K17/EMBA/521), hereby declare that the report for comprehensive project entitled “IMPACT OF NPA ACCOUNT AND PAYMENT COLLECTION PROCESS: IN PRIVATE SECTOR FINANCIAL INSTITUTE IN INDIA” Is a result of my own work and my indebtedness to other work publications, references, if any, have been duly acknowledged.

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Date:

## **Acknowledgement**

I hereby express my profound sense of reverence of gratitude to my supervisor **Prof. Meha Joshi, Delhi School of Management, Delhi Technological University** who has guided me through thick and thin. Without his valuable guidance, incessant help calm endurance, constructive criticism and constant encouragement the completion of this major project would have been impossible, the congenial discussion with her made me confident and gave enough independence in performing the experiment which enabled in me a higher efficiency to complete the work.

**Joysmith Bhattacharjee**  
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**Executive MBA**

## Certificate



This is to certify that the project entitled “IMPACT OF NPA ACCOUNT AND PAYMENT COLLECTION PROCESS: IN PRIVATE SECTOR FINANCIAL INSTITUTE IN INDIA” submitted by **Joysmith Bhattacharjee (Roll No- 2K17/EMBA/521)** in the fulfilment of the requirements for the reward of Executive MBA, Delhi School of Management, DTU is an authentic record of the candidate’s own work carried out by him under my guidance. The information and data enclosed in this thesis is original and has not been submitted elsewhere for honouring of any other degree.

Date:

**Prof. Meha Joshi**  
Project Supervisor  
Delhi School of Management, DTU

## **PREFACE**

The financial institutes are very wide area of market. I have tried to cover how NPA accounts impact of on Profitability and how should financial organization should collect. Data has taken from 4 private financial institute in India.

I have tried to fulfil all the requirements to prepare this report, suggestions from the project mentor, colleagues, etc.

It gives us immense pleasure to present this project report. It will help management students to acquire knowledge about impact of Non Performing Accounts and how to collect the payment to reduce the NPA and smooth collection on private sector financial institute.

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## Objectives of doing the Project

As present a lot financial institutes are facing regarding this and facing loss. How to resolve this NPA accounts and should collect the payments properly.

## What is a Financial Institution - FI?

A financial institution engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers. Virtually everyone living in a developed economy has an on-going or at least periodic need for the services of financial institutions.

## Types of Financial Institutions:

Financial institutions offer a wide range of products and services for individual and commercial clients. The specific services offered vary widely between different types of financial institutions.



A commercial bank is a type of financial institution that accepts deposits; offers checking account services; makes business, personal, and mortgage loans; and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking, as opposed to an investment bank. Banks and similar business entities, such as thrifts or credit unions, offer the most commonly recognized and frequently used financial services: checking and savings accounts, home mortgages, and other types of loans for retail and commercial customers. Banks also act as payment agents via credit cards, wire transfers, and currency exchange.

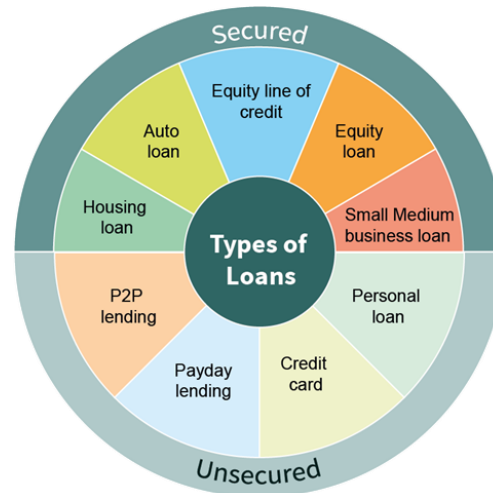
Investment banks specialize in providing services designed to facilitate business operations, such as capital expenditure financing and equity offerings, including initial public offerings (IPOs). They also commonly offer brokerage services for investors, act as market makers for trading exchanges, and manage mergers, acquisitions, and other corporate restructurings.

Among the most familiar non-bank financial institutions are insurance companies. Providing insurance, whether for individuals or corporations, is one of the oldest financial services. Protection of assets and protection against financial risk, secured through insurance products, is an essential service that facilitates individual and corporate investments that fuel economic growth.

Investment companies and brokerages, such as mutual fund and exchange-traded fund (ETF) provider Fidelity Investments, specialize in providing investment services that include wealth management and financial advisory services. They also provide access to investment products that may range from stocks and bonds all the way to lesser-known alternative investments, such as hedge funds and private equity investments.

There's also the rise of online-only banks that maintain no physical branches, and non-bank financial firms that provide niche financial services such as personal loans, money transfers, and specific investments.

## Types of Loans



## What is NPA'S?

A customer after taking a loan not paying amount more than 180 days. When the customer is not paying amount more than 90 days then it becomes defaulter account.

The threat of NPA was being surveyed and summarized by RBI and Government of India from a remote perception looking at a bird's-eye-view on the banking industry as a whole delinked from the rest of the economy. RBI looks at the banking industry's average on a macro basis, consolidating and tabulating the data submitted by different institutions. It has collected extensive statistics about NPA in different financial sectors like commercial banks, financial institutions, urban cooperatives, NBFC etc. But still it is a distant view of one outside the system and not the felt view of a suffering participant. Individual banks inherit different cultures and they finance diverse sectors of the economy that do not possess identical attributes. There are distinct diversities as among the 29 public sector banks themselves, between different geographical regions and between different types of customers using bank credit. There are three weak nationalized banks that have been identified. But there are also correspondingly two better performing banks like Corporation and OBC. There are also banks that have successfully contained NPA and brought it to single digit like Syndicate (Gross NPA 7.87%) and Andhra (Gross NPA 6.13%). The scenario is not so simple to be generalized for the industry as a whole to prescribe a readymade package of a common solution for all banks and for all times.



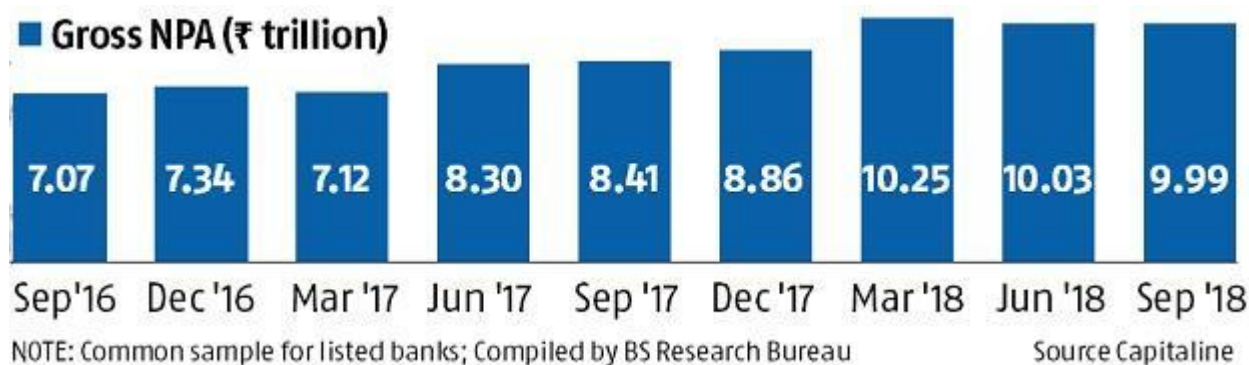
**NPA accounts amount details:**

As per RBI in India financial year 2017-2018 NPA 16.93% and in 2018-2019 financial year it is 16.63%.

As per RBI few banks NPA details:

Sr. No.	Bank Name	Gross NPA ratio (%)	Operating profit (Amounts in crore Rs.)	Provisioning done (Amounts in crore Rs.)	Net profit (amounts with a minus sign are losses) (Amounts in crore Rs.)
1	Allahabad Bank	16.0	3,438	8,113	-4,674
2	Andhra Bank	17.1	5,361	8,774	-3,413
3	Bank of Baroda	12.3	12,006	14,437	-2,432
4	Bank of India	16.6	7,139	13,183	-6,044
5	Bank of Maharashtra	19.5	2,191	3,337	-1,146
6	Canara Bank	11.8	9,548	13,770	-4,222
7	Central Bank of India	21.5	2,733	7,838	-5,105
8	Corporation Bank	17.4	3,950	8,004	-4,054
9	Dena Bank	22.0	1,171	3,094	-1,923
10	IDBI Bank Limited	28.0	7,905	16,142	-8,238
11	Indian Bank	7.4	5,001	3,742	1,259
12	Indian Overseas Bank	25.3	3,629	9,929	-6,299
13	Oriental Bank of Commerce	17.6	3,703	9,575	-5,872
14	Punjab & Sind Bank	11.2	1,145	1,889	-744
15	Punjab National Bank	18.4	10,294	22,577	-12,283
16	State Bank of India	10.9	59,511	66,058	-6,547
17	Syndicate Bank	11.5	3,864	7,087	-3,223
18	UCO Bank	24.6	1,334	5,771	-4,436
19	Union Bank of India	15.7	7,540	12,787	-5,247
20	United Bank of India	24.1	1,025	2,479	-1,454
21	Vijaya Bank	6.3	3,098	2,371	727

Sources: \* RBI (global operations, provisional data for Mar-2018)



### Some of the other reasons NPA's were:

- 1) Customer is unsatisfied for cross selling
- 2) Due to technical issue payment not deducting from customer's account.
- 3) Customer willingly not paying the amount.
- 4) Customer has skipped.
- 5) Customer has closed his / her business.
- 6) Customer has died.
- 7) Customer is in financial issue.

### Collection Process

#### 1. Allocation Strategy

Allocation strategy is to be decided by the State Collection Manager which will depend on the stage of delinquency of the account. As an indicative guideline, one should avoid “Cradle to Grave”/ consecutive bucket allocations to the same agency except in circumstances like:-

- a) Locations where the collection volumes are low with count of LAN < 250 accounts.
- b) Location specific collections.
- c) Geographical strengths.

Allocation for all delinquent accounts is to be done through IC4 for live branches and manual worksheet allocation to be done for closed and city – exit branches and this is to be uploaded in Collections System. Manual allocation has to come to the central team after 3 working days from EMI date of the month post which any change in allocation will not be considered.

However following accounts would be excluded from the allocation:

- Low ENR
- Legal Proceedings initiated
- Customer escalations
- Centrally Represented and cleared
- Vehicles Repossessed

Any changes to the above list of exclusions would be notified and approval sought from Collection Head.

## **2. Tele Calling**

Tele calling is the first step in contacting the customer and collecting the overdue instalment. It should be conducted to ensure the following.

- Inform the customer about his PD/ECS/DDM presentation.
- Inform the customer about his cheque bounce / overdue status.
- Inform the customer about the representation of the PDC/ECS/DDM.
- Understand the reason for bounce and in case of service related issue forward the same to the related department officer. This is a good tool to identify early customer complaints.
- Customer awareness on different modes of payment – Online, Network outlets, Branch Walk in and Pick up.
- Updating of trails in IC4 basis from customer.
- Generate Pickups.

Tele-calling is a tool to address the collection / reminder action to a large volume of customer base. This is typically a cost efficient tool. Tele-calling typically is done in early buckets, however depending on the strategies from time to time it can be used for mid bucket or even write off accounts calling too.

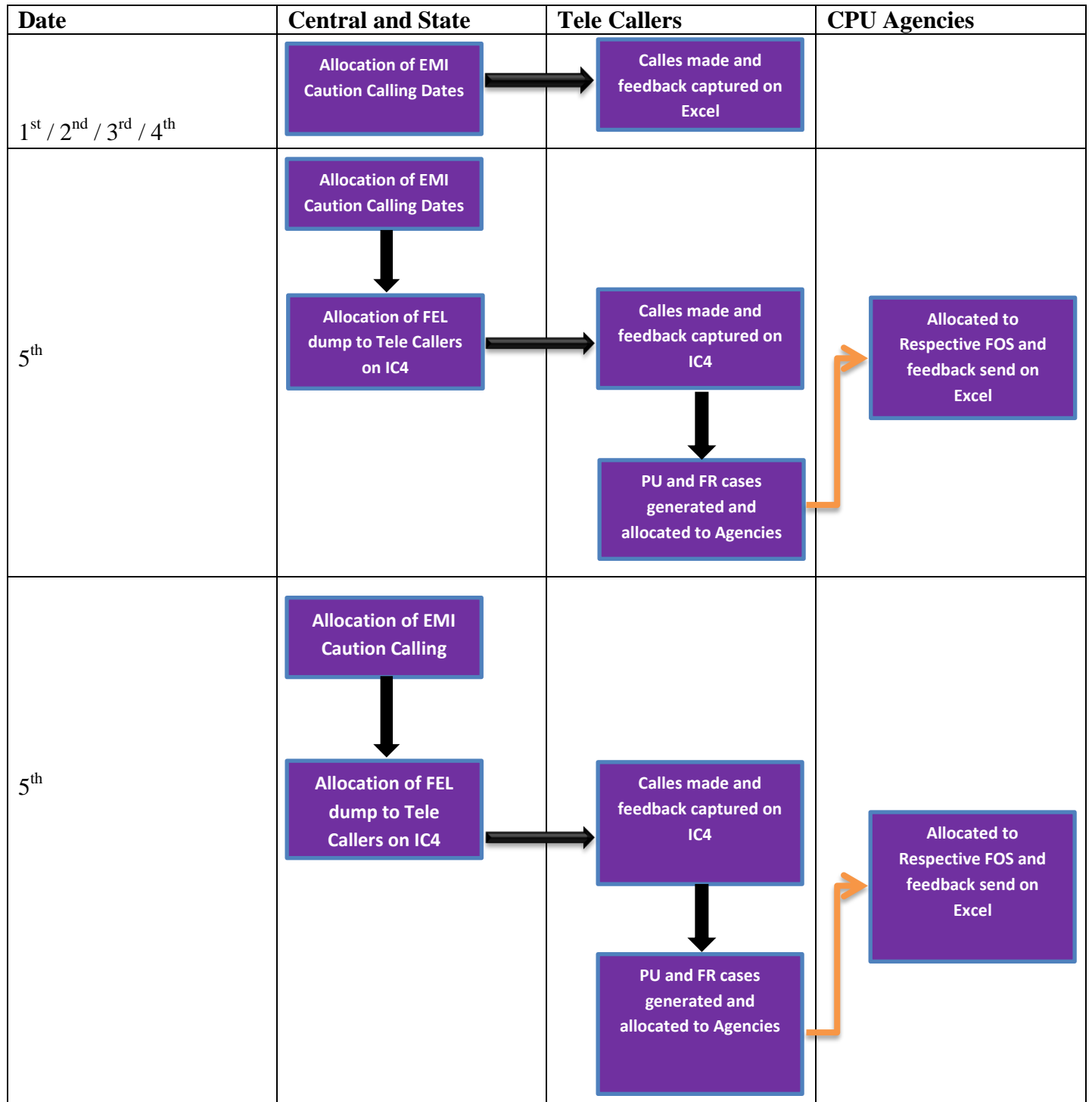
### **2.1 Tele-Calling Referral Process**

Tele-calling cases can be referred by the tele-callers for follow up through field visit. This can arise out of the following scenarios:

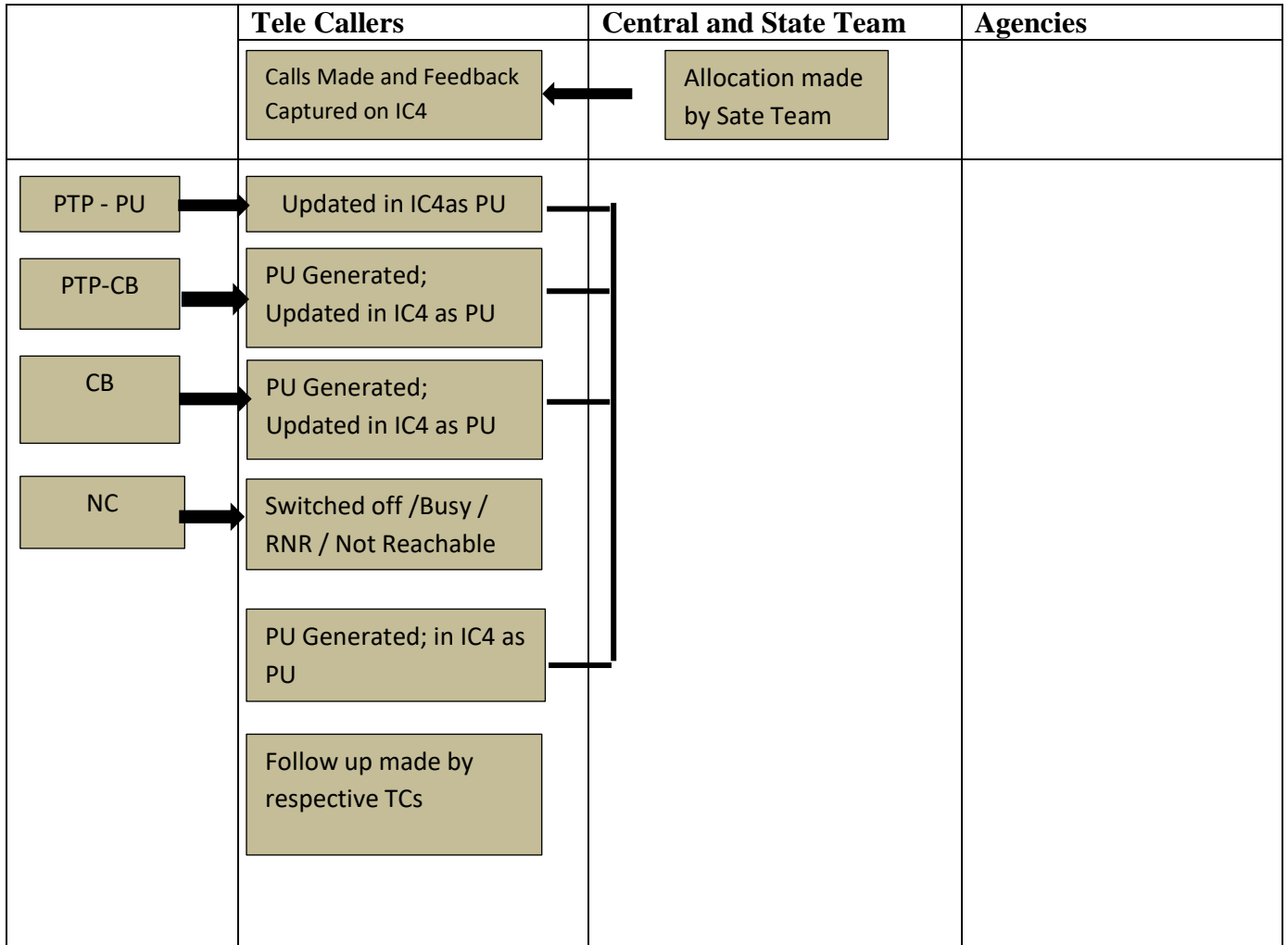
- Non Contactable
- RTP cases
- Failed PTPs

Referral criteria depends on the portfolio strategy as implemented from time to time.

## Collection Allocation Process



**PU Process**



## 6. Skip Process Flow

### Objective:

Any retails collection portfolio will have an issue of skip customers in the portfolio. It is very important for any organization to identify and apply effective strategies to maximize collection from this portfolio

### Identification of Skip customers:

This is a multi-fold exercise where in possible efforts are made to trace the customer before and after marking it as skip:

- Agency / In-house would mark case as Skip if a customer is non-contactable. Customer would be marked as Skip if the customer is not contactable and not traceable in Residence and Office / Shop / House.
- Case would be allocated to another agency – in-house resource next month and field visit would be done Residence and Office / Shop. If the customer again not contactable and not traceable, this would become normal account.

Agencies handling skip cases have to follow the below check list:

- Visits to residence and shop / office.
- Check for reference and guarantors, if any
- Digital Media Usage
- In case of 3<sup>rd</sup> party established, verify the identity. Ensure that the following specifications match
  - ✓ Name
  - ✓ Address
  - ✓ DOB
  - ✓ Work Place
- 3<sup>rd</sup> party cannot be pushed for payments, but only for where-about of the skip customer.
- Usage of Bureau data / watch-list before assigning for skip tracing – only where the new address are not found then to be allocated to different agency

	Making of Skip	Residence	Office
1	Visit	✓	✓
2	<b>Family Available</b>		
	Yes	Not Skip	-
	No	Skip	-
3	<b>Neighbourhood feedback on customer / family availability</b>		
	Yes	Not Skip	-
	No	Skip	-

The Agency Manager / In-house resources can go through the loan documents including the below for skip customers:

- Agreement Copy
- Trade References
- Study of the Credit Assessment Memo (CAM)
- Personal Discussion (PD)

### **Agency Skip Referral Process:**

Agencies marked as skip would be allocated to different agencies after one month to trace the customer. The below check list to be followed for skip tracing:

- Visits to Residence and Office / shop.
- Check for references and guarantors, if any
- Digital Media usage
- In case of 3<sup>rd</sup> party established, verify the identity. Ensure that the following specifications match
  - ✓ Name
  - ✓ Address
  - ✓ DOB
  - ✓ Work Place
- 3<sup>rd</sup> party cannot be pushed for payments, but only for where-about of the skip customer.
- Usage of Bureau data / watch-list before assigning for skip tracing – only where the new address are not found.

### **Skip Tracing**

Skip case customer's data would be supported with visit, Bureau data and Digital media. Once the customer is contactable or traced, it would be marked as Skip-T (Skip-Traced)

### **Strategy and MIS:**

Monthly tracking of SKIP accounts would be done by collection strategy team.

- Monthly MI will be shared with collection team of SKIP marked during the month and previously marked SKIP cases with ageing.
- Central team will track and publish the change in allocation from one agency / in-house to another agency / in-house for skip cases.
- MI will be published central for the cases flowing from skip to skip-C or SKIP-T on a monthly basis.

## **7. Partial Payments**

The in-house collector / Agency Collector can accept the partial amount but must follow up until the full delinquent amount and past due charges are fully cleared. The account would show delinquent till such point in time. Separate collection receipts need to be issued to the customer each time a payment is collected.

In case of LAP Retail and SME loan the Partial payment Process is as below:

### **Key Factors:**

1. Acceptable mode for making part payments should be cheque or demand draft only. Cash payments are recommended to be accepted.
2. Continue usage of collection receipts for introducing payments in IC4.
3. Use of CMS cheque pick up facilities in locations where CMS tie-up is present and operational; and seek support of Collection resources if CMS facility is not operational.
4. Branch Customer Service Officers (CSO) will be responsible for handling these customer requests till closure. Locations without CSO will have to be catered by FICCL Contact centre along with BU Managers / Location Managers.
5. Facility of part Pre-payment to be extended only towards regular Non-delinquent accounts. Delinquent customers seeking this facility should be directed to Collections.

## **8. Identification of Non-Starters**

Non-starter loans are typically loans account where the customer's account delinquent from the first repayment month. Non-starter MIS gets published from the central team on a monthly basis.

## **9. Cheque Bounce Charges (CBC) - Fees Collections**

The primary purpose for collecting cheque bouncing charges is to compensate the organization for the expenses related to presentation of cheques as well as to deter the borrower from bouncing his cheques.

## **10. Late Payment Charges (LPC) – Fees Collections**

The primary purpose of collecting Past Due / Delinquency charges is to compensate the organization for delinquency follow up expenses. When asking for the payment on a past due account, collectors should always state the late payment charges that are to be paid. They need to collect these charges as per schedule charges at the time of receiving past due payments.

## **11. Accelerated Write Of Policy:**

This process defines the conditions and process towards early write off of a loan. The document defines the minimum conditions required to be met for a loan to be eligible for an early write off as well as the process and departments involved.

As per the guidelines issued by Reserve Bank of India in its prudential norms a “Loss Asset” means:

- a. An asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; and



- b. An asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or due to any fraudulent act or omission on the part of the borrower;

**Treatment of Fraud incidence for assets backed by collateral**

- a. Fraud incidence impact to be classified as Recoverable or Non- Recoverable
- b. Non-Recoverable assets – Delinquency of over 90 days or skip cases due to fraud.
- c. Among the non-recoverable assets as defined above – cases with deficiency in collateral documentation or impaired collateral adversely affecting potential value of the security will be fully written-off.
- d. Among the non-recoverable assets as defined above – cases with no deficiency in collateral documentation but due to incidence of fraud event, there is potential threat of non-recoverability, net outstanding amount after considering the forced sale value of the collateral will be written off.

**Policy recommendation:**

Event	Proposed for personal Loan, Used Cars and Two Wheelers	Proposed for LAP Retail, SME, and Commercial Vehicles
Death Cases	<p>In the event of death of the borrower, the outstanding amount irrespective of the bucket will be taken as write off.</p> <p>Death cases where the case has a financials co-borrower will not be written off; the same will be certified by Central Risk before approving it for early write off.</p>	<p>In the event of death borrower not outstanding amount after considering forced sale value of collateral will be written off. There should not be any deficiency in the collateral documentation.</p> <p>Death cases where liability can be transferred to other family members or legal heirs having servicing capacity, case to be reviewed by Central Risk team before approving it for early write off.</p>
Fraud Cases	<p>Once the loan is identified as customer initiated fraud, the outstanding irrespective of the bucket will be taken as written off.</p>	<p>Once the loan is identified as customer initiated fraud, net outstanding amount after considering forced sale value of collateral will be written off. There should not be any deficiency in the collateral documentation.</p>

**Given below is the process to be followed by the risk and fraud team to identify death and fraud cases:**

<b>Accelerated Write Off Fraud Cases</b>				
<b>No</b>	<b>Activity</b>	<b>Description</b>	<b>Responsibility</b>	<b>Response Time</b>
1.1	Investigation	Cases to be investigated will be highlighted to Fraud Risk Unit by the respective department.	Business / Collections / Credit / Risk etc.	As on when basis
1.2	Investigation Findings	Decision to be arrived basis the case findings whether the involvement is established.	Fraud Risk Unit	As on when basis
1.3	Decision	If the involvement is not established than the report should be published to respective department. If the involvement is established than further action on that case.	Fraud Risk Unit	As on when basis
1.4	RBI Reporting	Case where the amount involved is greater than INR 0.1 is reported to Reserve Bank of India.	Fraud Risk Unit	As on when basis
1.5	Write / Off	Irrespective of the amount involved all the confirmed fraud cases (In Monthly Sheet) are highlighted to Risk Analytics Team for Accelerated Write / Off, depending on the products.	Fraud Risk Unit	Monthly
1.6	Write / Off	All the fraud cases will be written off within a month by central risk team, depending on the product as mentioned	Central Risk	Monthly
1.7	Sign- Off	Sign – off will be taken on the monthly sheet provided to central risk / fraud team.	Fraud Risk Unit and Central Risk	Monthly

<b>Provisioning Death Customer</b>				
<b>No</b>	<b>Activity</b>	<b>Description</b>	<b>Responsibility</b>	<b>Response Time</b>
1.1	Initiation of the case	Cases will be highlighted by the respective unit to Fraud Risk Team that a particular customer has expired.	Business / Collections / Credit / Risk etc.	As on when basis
1.2	Death Certificate Confirmation	Respective unit will share and confirm the “Death Certificate” of the customer.	Respective Unit	As on when basis
1.3	Verification of Death Certificate	Death certificate will be verified and report will be published.	Fraud Risk Unit	As on when basis
1.4	Provisioning	Respective unit will highlight all the cases to central risk team on a monthly basis.	Respective Unit	As on when basis
1.5	Provisioning	Write-off to happen for all such cases, depending on the product as mentioned.	Central Risk	Monthly
1.6	Sign-Off	Sign-off will be taken on the monthly sheet provided to central risk.	Fraud Risk Unit and Central Risk	Monthly

## 11. Foreclosure Process

The below mentioned is the End to End foreclosure process for customers visiting the branch for foreclosures. The process is applicable for all Personal Loan, Two Wheeler Loan and LAP Retail loan customers who are in 0 DPD in non-city exit branches.

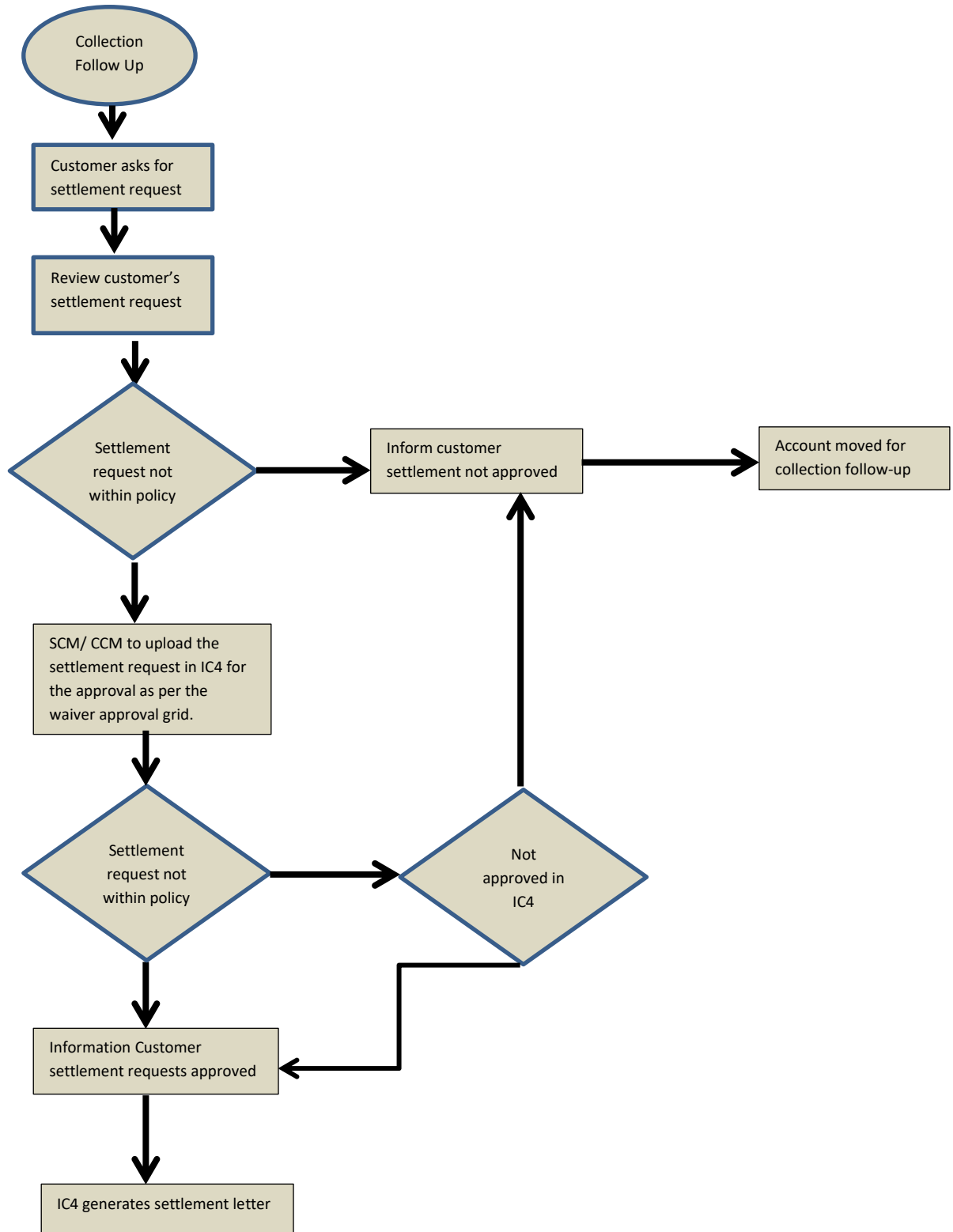
1. Customers visiting the branch for foreclosure are requested to call the Customer Contact Centre (By any Branch staff that the customer interacts with) to place their request and obtain a request number.
2. Contact centre attempts to save the customer through Negotiation or Top-up Offer. Based on final discussion with the customer, the case is either tagged as a “Save “or “No Save”.
3. Each morning Contact Centre sends a daily India dump of all such customers in a excel sheet to all Branch teams including collections teams. The same is simultaneously uploaded in Dimension and Business Unit Manager to ensure that the list reaches to Collection Team same day.
4. If the customers are unable to visit the branch and request for pick-up of the amount, then collection of that amount may be arranged.
5. If the customers raise any service issues / Interest Rate issues, the same needs to be referred to the Business Unit managers and he needs to handle the complaints.
6. The next day morning, the Follow-up agent (based out of contact centre) calls all the BU Mangers / **Collection team** (to whom cases have been sent in previous morning and requests for status of the case, which is then updated on Dimension basis feedback received.
7. In case of records marked as “Save through Top-up” the feedback agent will call the Business Unit Manager for status on the case.
8. Throughout the next day, feedback on any pending cases is collected and a daily MIS is sent across to the central team on the pendency status of the cases.
9. The following are the status updates that the collections team will be required to provide on the cases approved for closure, Feedback will need to be shared with the contact centre agent who will call to confirm the status of the case.
  - Customer has postponed closure

- Case is close in the system
- Customer not agreeing with foreclosure amount
- Customer is not contactable
- Closure transaction is in process
- Customer now not interested in foreclosure / unable to foreclose

## 12. Settlement

- All the settlement requests are placed in the system or on mail (mail circulation to be treated as an exception).
- The collection unit proposes the same and gets the approval as per the Settlement Waiver grid matrix.

### Settlement Process Flow Chart



## **Repossession and Collateral Management**

### **Background**

In order to have a strong back-end mechanism to support the asset momentum and growth of the consumer loan portfolio, it is imperative that there is a very strong and robust collections and repossession infrastructure. This infrastructure by design outlines a stronger control mechanism within the overall outsourced management framework in the organization.

This policy also keeps in mind the following –

- Adherence to contractual agreements
- Adequacy and conformity to standard / codes, process and procedures
- An opportunity to improve risk management functionality
- Accuracy of information provided to FICCL

Instances that impair the business reputation or proposition should translate to suspension or termination of the outsourced arrangement.

### **Asset Repossession policy**

Repossession should be initiated on all cases that are > 60 days past due for Commercial Vehicle and Used car and > 45 days past due for two wheelers. It is advisable to hand over all such cases to repossession agencies. In case of any difficulty, we can adhere to section 9 / 17 or Receiver order depending on the prudence of the case. The typical exclusions would be:

- ✓ Principal outstanding less than INR. 40,000/- in car loans INR 15,000/- in Two Wheelers and INR 75,000/- in the case of commercial vehicles.
- ✓ Insurance claim cases.
- ✓ Documented service issues.
- ✓ Known cheque clearing issues.
- ✓ Commercial vehicles carrying livestock, perishable goods, petrol or compressed gas.
- ✓ Negotiating with customer / third party for payment
- ✓ If any customer complaint received
- ✓ Not viable to do repossession in terms of cost
- ✓ Initiated settlement request
- ✓ Legal is initiated

Early repossessions (< 60 days – commercial vehicle and car / <45 days – Two-wheeler) may be carried out provided the following conditions are met:

- Customer is non-starter
- There is market input that the customer intends exchanging our collateral in lieu of some financial obligation to third party
- Customer had given false information to get his loan approved
- The asset is not with the original; borrower and (maybe ) delinquent
- Asset can be repossessed if we find the customer is deliberately not completing his PDD

- If there is market info that customer is involved in frequent activities or is planning to shift his address

Repossession is done through an external associate who has an agreement with us.

The repossession kit that is handed over to the agency would necessarily include the following:

- Authorization letter to the agency (On company letter head – pre-printed format)
- Surrender letter to be signed by the person from whom the possession of the vehicle is being taken wherever possible
- A letter to the local police station – pre-repossession intimation (2 copies on company letter head – pre-printed) wherever possible. It is recommended through that wherever the physical intimation is not possible Regd. Post / UPC to be sent to the concerned police station informing about the repossession.
- A letter to the local police station – post-repossession intimation (2 copies on company letter head – pre-printed) wherever possible. It recommended through that wherever the physical information is not possible Regd. Post / UPC to be sent to the concerned police station informing about the repossession.
- Inventory list.
- Copy of loan recall notice through Registered post / speed Post.

**A sample of letters and formats:**

The branch collection unit or hub unit must ensure that the asset is safety deposited in financial institute custody/ approved godown and all the relevant papers are kept in the customer file. It is recommended that the agency carrying out repossessions and the one keeping custody of the stock are separate ones.

The collection agency unit has to ensure that all repossessions are done peacefully and that proper documentation as per requirements is fully completed in all aspects. The kit with completed documents mentioned below must be returned to the financial institution as per TAT by the repossession agency. The include:

- Police reports both prior and after the repossession wherever possible. (However, in a collateral surrender case, the collection unit need not send the pre-sale intimation to the customer, Police intimation both before and after the repossession are also not required but it is mandatory to have the customer signature on the surrender letter and inventory report ) (Customer signature on surrender letter and inventory list if possible, with customer co-operation.)
- Inventory letter must be recorded in all aspects.

Any personal belongings of the owner (in the vehicle) are to be returned prior to the repossession wherever possible and details of the same to be documented on the inventory sheet. In case the vehicle is carrying livestock and any perishable items, the same should not be repossessed unless the stock of perishable goods and livestock is not offloaded with customer’s consent.

The repossession register needs to be updated at the branch level every month in the Collections system.

A presale notice needs to be sent to the customer within 10 working days from the date form the date of repossession. In cases where the insurance of Pre-sale exceeds 10 days.

## Responsibilities Matrix

State Collection Manager / Branch Collection In-charge should be maintain a tracker for insurance of Pre-sale notice for each case and will be responsible for raising the approval request for delay in issuance of Pre-sale notice for > 10 Days and <= 20 Days from the date of repossession to regional / State Collection Manager.

Delegation Approved – Commercial Vehicle Credit and Collections is

Sr. No	Categories
1	Empanelment of Vendor
2	Release of asset post partial payment of instalment.
3	Parking of asset in an un-empanelled yard.
4	Repossession done through un-empanelled vendor.
5	Pre-sale notice sent > 20 days from the repossession date.
6	Issuance of LRN for cases < 60 days for CV and CAR; <45 days for TW
7	Sale of asset where in quotes lowers than 2 are available.
8	Asset Repossessed prior to non- issuance of LRN
9	Valuation done at location due to geo-limit issues and delay of > 10 days getting valuation.

The notice give borrower 7 (seven) days' time to clear the all outstanding in order to take the possession of the vehicle. In case the borrower is unable / unwilling to do so, the asset sale process should commence. The outstanding mentioned in the notice would be the summation of principal outstanding, interest due, cheque bounce charges, late payment penalty, repossession charges and any other incidental legal charges.

In exceptional circumstances, the pre-sale notice to the borrower may be of a lesser time of minimum 3 days. This has to be in agreement by the respective Regional / State Collection Manger. These circumstances (illustrative not exhaustive through) could be:

- ✓ Customer threatens to get a legal stay preventing the sale of the collateral.
- ✓ Customers who are known to be litigants.
- ✓ Customers who have been identified as being close to or having family members who are lawyers and / or process political connections.

The asset will be returned to the customer only if h pays up the total amount due to FICCL including repossession charged and foreclosures the account.



## **Collateral custody process**

All repossessed vehicles must be sent immediately to the empanelled parking yard (and not later than 24 hours after repossession whenever possible. This could vary only in cases of spoke locations where the assets have to be sent within 72 hours after repossession of these locations.

In case of repossessed vehicle could not get parked at the empanelled parking yard, can be parked in un-empanelled parking yard with due approvals.

The go-down arrangement is a part of the normal vendor agreement and the empanelment of such arrangement needs to have an approval from Head of Collections.

The go-down needs to have the following arrangements.

- ✓ Adequacy of space
- ✓ Security
- ✓ Insurance
- ✓ Accessible

The following persons have to be discouraged (on a best-effort basis) from having a strong facility of repossessed assets

- Repossession Collection Agency
- Any person having any professional relationship with the concerned industry.
- Existing Sales associate of the organization.

The collateral custody involves:

- ✓ Monitoring custody of repossessed vehicles
- ✓ Monitoring external agency custodial performance
- ✓ Releasing vehicles to borrowers and dealers

The go-down custodian should ensure:

- All items in the inventory including the damage report, fuel status, tyre numbers etc. are accurately noted on inventory. Through it is advisable that the inventory sheet to be notarized.
- The time and the date of vehicle deposit to be documented on the go-down register.
- The actual date and time of vehicle deposit is to be documented on the go-down register.
- Must also counter-sign on the inventory sheet

All releases from the go-down must only be on the basis of written release order signed by the authorized officer of the organization.

The respective collection unit needs to take an insurance cover for the go-down on the basis of a rolling stock of inventory. The cover should guard the normal perils and should necessarily include protection against earthquake also. The cost of the insurance would be reimbursed by the organization to the go-down owner.

### **Self of Repossessed Assets**

Actions taken to liquidate the collateral from a defaulter must be reasonable in manner and should uphold the interest of all relevant parties to transaction. The guidelines to govern this process are given below:

- All vehicles are inventory where pre-sale notice has expired and any surrendered vehicle will be eligible for sale.

No financial organization's employee or their family members may purchase repossessed vehicles sold by the financial institute to recover outstanding dues. This will also cover empanelled collection agencies, verification agencies, valuers and sourcing DSA (Direct Selling Agents) / dealers of their associate entities.

- It is recommended that a minimum of 2 quotes must be obtained from the dealers / brokers for the sale of any asset.
- Repossessed vehicles sale MIS is been maintained centrally.
- The sale of the asset needs to be approved as per the delegation matrix set from time to time, either on e-mail / memo or through the workflow system.
- The complete repossession file needs to be maintained by the local collection unit and should be available for review.

### **Release of Collateral on Instalments**

There may be situations wherein the collections unit may be required to release a repossessed vehicle without payment, which gives rise to a situation where the vehicle is released on payment of instalments. Guidelines in this section are meant to assist the State Managers and Cluster Collection Mangers in making decisions about release of such vehicles.

Generally, the unit should release vehicles on instalments only if:

- ✓ The realizable value of the vehicle is much below the principal outstanding on the loan.
- ✓ The repossession leads to an unsavoury incident and there is a potential of a "below-up".
- ✓ The customer's past with the organization is good and the recent default is due to a temporary problem (example, the customer was travelling, sickness, etc.)
- ✓ Any impeding service issue.

The asset will be returned to the customer only if he pays up the total amount due to financial organization. However in exceptional cases where customer is genuinely suffering financial issues then asset can be released with best possible collectable amount including repossession charged post approvals as per the matrix.

In all cases of release on instalments, the unit needs to ensure that the customer is made current in all cases wherever possible. The cheque bounce charges and late payment penalty which has accrued on his account also have to be paid or waived off as per delegated matrix.

### **Insurance Coverage**

To ensure that the assets (Two wheeler / commercial vehicle / Car) which are repossessed and parked at our different go-downs are covered with the risk of fire and burglary through insurance coverage.

At any time of time worth of inventory are parked and it is imperative that we cover the same to cover the financial loss:

### **Current Process**

Every year in the Jan insurance is being renewed and data of all the empanelled parking yard details are provided to the insurance company through team. Any asset reposed during the year if parked at a different/new yard., and then the same is shared with insurance company for additional coverage on monthly basis.

### **Risk**

Asset repossessed are sometime parked in the un-empanelled parking yard due to logistics reason and through all efforts are taken to park only in those yards which are normally used by other financiers and hence have security etc. in place.

Due to un-empanelled yard there are chances that the asset is not fully insured for theft / fire etc as yard.

## **Tolerance Unit**

### **Top Unit**

In order to have a strong back-end mechanism to support the asset momentum and growth of the consumer loan portfolio, it is imperative that there is a very strong and robust collection and repossession infrastructure. In order to have a streamlined process with respect to the repossession and Collateral Management, the following have been categorized as a Critical and Non-critical required documents:

**All the documents related to repossession (Authority letter, LRN, quotes, etc.) are maintained centrally.**

### **Critical**

- **Authority Letter / Allocation of the LAN to the Repossession Agent for doing repossession** – Loan Account has not to be allocated to the repossession agency for doing repossession supported by authority later.
- **LRN (Loan Recall Notice)** – Loan Recall Notice needs to be sent through UCP/Registered post / speed post to the customer and should from a part of the repossession kit.
- **Pre and Post intimation to Police Station** – A letter to the local police station – pre and post repossession intimation (on FICCL letter head – pre-printed) wherever possible (by physical handover / registered post / UCP)
- **Inventory Sheet** – Inventory sheet to be maintained for every repossessed vehicle either by the collector or by the parking end.
- **Pre and Post sale notice** – After repossession prior to sale of asset, Pre Sale notice to be sent to the customer from the location and after the sale of repossessed vehicle Post Sale notice to be sent to the customer from the Central unit.
- **Quote from Broker** – It is recommended that a minimum of 2quotes must be obtained from the dealers / brokers for the sale of any asset.
- **Approval for sale of Asset** – The sale of the asset needs to be approved as per the delegation matrix set from time to time, either on email/ memo or through the workflow system.

## **Non –Critical**

- **Release Letter to the Parking yard** – Acknowledgement copy of the release Letter to the parking needs to a part of the repossession kit for releasing the vehicle.
- **Acknowledgment Letter from the Buyer** – For all sold assets acknowledgement letter from the buyer should from as a part of the repossession kit.

### **The Tolerance levels set by the Unit for the above high risk points as below:**

<b>Sr. No</b>	<b>Documents</b>	<b>Tolerance</b>
1	Authority letter / Allocation of the LAN to the Repossession Agent for doing repossession.	Loan account has to be allocated to the repossession agency for doing repossession or to be supported by repossession.
2	LRN ( Loan Recall Notice)	- Nil or basis approval
3	Pre and post intimation	- Nil or basis approval
4	Inventory Sheet	- Nil or basis approval

### **Sale / Release of Repossessed Vehicles**

<b>Sr. No</b>	<b>Documents</b>	<b>Tolerance</b>
<u>1</u>	Pre and Post sale notice	Before sale of the asset – Pre Sale notice to be sent and after sale notice to be sent to the customer - NIL
<u>2</u>	Quote from Broker	Minimum 2 quote from the broker sale of asset – NIL or basis approval.
<u>3</u>	Approval for sale of the asset	As per delegated approval authority - NIL

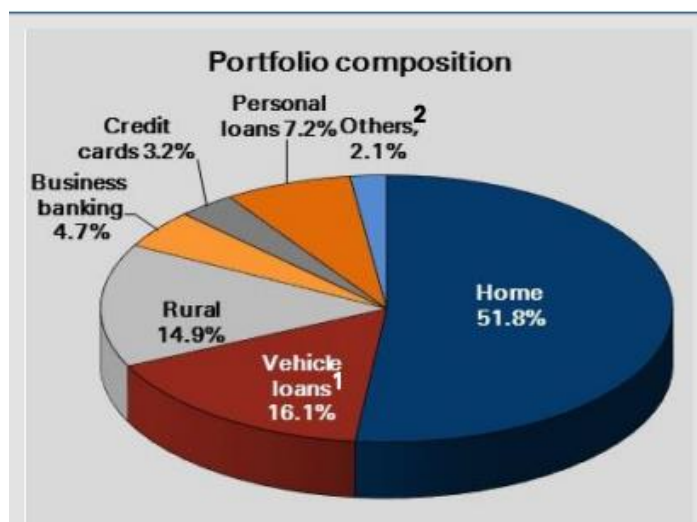
## Market Survey Questionnaires and answers and results:

Market survey was done on 4 financial institutes in Delhi – NCR. Due to some restrictions and security purpose not able to share their name.

### 1) Which type's loan do you provide?

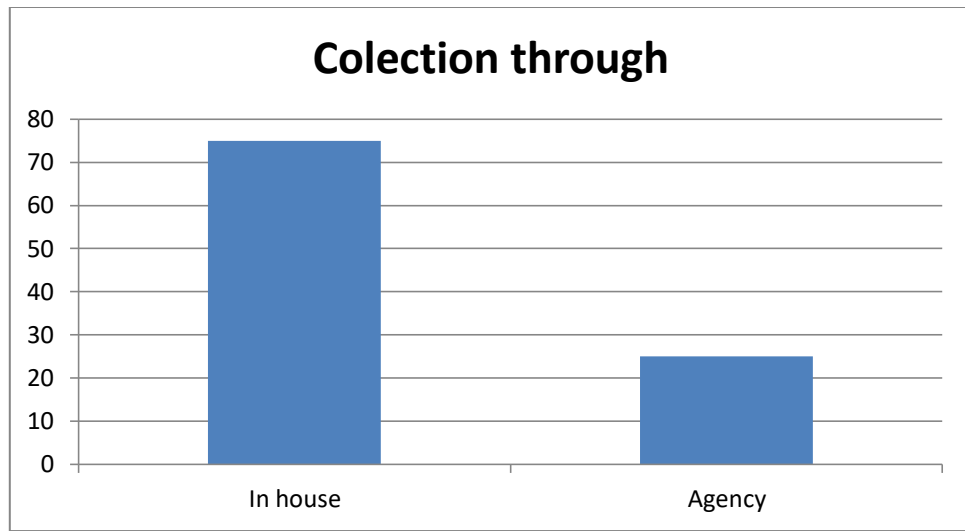
Financial institutes provides various types of loan these are there average present is mentioned below

- a) Business Loan
- b) Credit Card
- c) Personal Loan
- d) House Loan



### 2) Does the financial organization do Collection job by their in house team or agency?

It has seen most of the organizations they prefer do job agencies.



### 3) Why do go for in-house / agency collection?

For in-house

- 1) Proper monitoring
- 2) Proper controlling

For agency

- 3) To cost cutting
- 4) All day working.

### 4) Payment bouncing reasons?

- a) I-sufficient balance.
- b) Technical error.
- c) Bank account closed.
- d) If via cheque then signature mismatch.

### 5) Why customers they don't pay the amount:

- a) Customer is unsatisfied for cross selling
- b) Due to technical issue payment not deducting from customer's account.
- c) Customer willingly not paying the amount.
- d) Customer has skipped.
- e) Customer has closed his / her business.
- f) Customer has died.
- g) Customer is in financial issue.

### **Suggestion after the research:**

After doing this market survey and research the conclusion is to get proper payment smoothly any financial organization should go through below process to avoid their financial loss.

- a) Proper verification of the customer.
- b) Get customer's payment details through CIBIL Credit Information Bureau (India) Limited score.
- c) Resolve customer's all issues and query properly on time.
- d) Financial institutes should take 5-6 security cheques.
- e) If customer's payment has bounced then then from the first day should start follow-up with customer.
- f) Must do granter for the loan. If customer is not paying the amount then financial institute should do follow-up with the guarantor for the payments.
- g) Send payment reminder on customer's registered mail-id and mobile number.
- h) Take customer's alternative contact number. Weather it may be any family member or friends. If customer's mobile number is switch of or not reachable. Then should contact in other available contact number.
- i) Update in CIBIL report that customer is defaulter. Also share the data with customer which will be good impact. Because in future customer may take loan from any other financial institutes.
- j) In the time higher ticket amount loan financial institute should do insurance of the loan. Because if the customer has died then the financial will get rest of amount from the insurance organization.
- k) If customer is not paying the amount then should sent LRN (Loan Recall Notice) at customer's registered mail-id and postal address.
- l) Financial institutes should keep EMI (Equated Monthly Instalment) date in starting dates of the month. If due to any reason payment has bounced then collection team will get more time to follow-up with the customer and get the payments.
- m) Financial Institute should keep multiple mode payment to get the EMI easily. It may be cash, NACH (National Automated Clearing House), ACH stands for Automated Clearing House, NEFT (National Electronic Funds Transfer) etc.



- n) If customer is not able to make pay the amount or it's NPA account then Financial Institutes should do settlement of the pending loan amount. If require to waiver entire Interest amount organization then they should do that. If they get at least total Principal amount there will be no loss for the financial institutes.
- o) If customer's cheque has bounced then should a case file on 138 law.
- p) If require legal action organization then should do that also do settlement.

## **RESEARCH METHODOLOGY**

➤ **RESEARCH DESIGN :**

Research Design of our report is Descriptive and Analytical Research.

➤ **Main source of the data :**

Reports have taken from Financial Institutes.

➤ **DATA COLLECTION METHOD:**

Data has collected as per financial institutes report

➤ **Sample taken from:**

Communicated with 4 financial institutes.

➤ **Other Sources:**

Instruments of data collections are.

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