

LOAN RECOVERY PRACTICES IN DELHI NCR: A COMPARATIVE ASSESSMENT OF BANKING SECTORS

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ABSTRACT

The effectiveness of loan recovery practices is critical to the financial stability of banking institutions. This study assesses the loan recovery strategies of different banking sectors in Delhi NCR, comparing public sector banks (PSBs), private sector banks (PvSBs), and non-banking financial companies (NBFCs). The research explores factors influencing loan recovery, regulatory frameworks, and the impact of non-performing assets (NPAs) on financial institutions. The study utilizes primary data from bank officials and borrowers and secondary data from banking reports and regulatory bodies. Findings reveal significant variations in recovery mechanisms across banking sectors, highlighting the role of technology, legal frameworks, and customer engagement in effective loan recovery.

KEYWORDS: *Loan Recovery, Non-Performing Assets (NPAs), Public Sector Banks (PSBs), Private Sector Banks (PvSBs), Non-Banking Financial Companies (NBFCs).*

I. INTRODUCTION

The financial stability of banking institutions depends significantly on their ability to recover loans efficiently. Loan recovery is a critical process that determines the sustainability of financial institutions by reducing the burden of non-performing assets (NPAs). In India, particularly in the Delhi NCR region, which is a major financial and commercial hub, the challenges of loan recovery are immense due to the growing number of borrowers, economic fluctuations, and regulatory complexities. Banks and non-banking financial companies (NBFCs) in this region employ various recovery mechanisms to mitigate financial risks and ensure the efficient circulation of credit. The increasing number of defaulters, coupled with the ever-evolving regulatory landscape, has made it essential to analyze and compare the loan

recovery practices of different banking sectors. While public sector banks (PSBs) often rely on traditional legal frameworks for recovery, private sector banks (PvSBs) tend to adopt aggressive and technology-driven strategies, and NBFCs focus on flexibility and personalized customer engagement. This study aims to explore the comparative effectiveness of these strategies, highlighting their strengths, weaknesses, and overall impact on financial institutions and borrowers in Delhi NCR.

Public sector banks in India have historically played a dominant role in the banking landscape, providing credit facilities to a vast segment of the population, including small businesses, agriculture, and large industries. However, due to their extensive lending practices, they have often struggled with high levels of NPAs. The government and the Reserve Bank of India (RBI) have introduced several legal and regulatory measures such as the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, Debt Recovery Tribunals (DRTs), and the Insolvency and Bankruptcy Code (IBC) to strengthen loan recovery. Despite these efforts, loan recovery in public banks remains sluggish due to bureaucratic delays, legal hurdles, and political influences. On the other hand, private sector banks, driven by efficiency and profitability, employ advanced credit risk assessment tools, artificial intelligence, and aggressive collection techniques to minimize defaults. Their proactive approach often results in higher recovery rates compared to their public counterparts. However, private banks sometimes face criticism for their stringent recovery practices, which may lead to customer dissatisfaction and reputational risks.

Non-banking financial companies (NBFCs) have emerged as a strong alternative to traditional banks, particularly in retail lending and microfinance. These institutions offer more flexible repayment structures, tailored recovery plans, and personalized engagement with borrowers. Unlike banks, NBFCs have limited access to legal recovery mechanisms like SARFAESI, making them rely heavily on negotiation-based settlements and fintech-driven monitoring. The rapid digitalization of financial services has enabled NBFCs to track repayment patterns and implement predictive analytics for better risk management. However, their dependence on market conditions and investor confidence makes them vulnerable to economic downturns, affecting their loan recovery performance.

Given these varying strategies, it becomes essential to assess the comparative effectiveness of loan recovery practices across different banking sectors in Delhi NCR. This study aims to evaluate the efficiency of legal frameworks, digital recovery tools, and customer engagement

strategies used by banks and NBFCs. By identifying best practices and key challenges, the research seeks to provide valuable insights for policymakers, financial institutions, and borrowers, contributing to a more robust and efficient banking system. A well-functioning loan recovery system not only strengthens the financial health of institutions but also ensures sustainable credit growth, fostering economic stability in the region.

II. COMPARATIVE ANALYSIS OF LOAN RECOVERY PRACTICES

Public Sector Banks (PSBs)

- **Key Strategies:** Debt restructuring, settlement schemes, and legal action under SARFAESI Act.
- **Challenges:** High NPAs, bureaucratic delays, reliance on traditional recovery models.
- **Effectiveness:** Moderate due to slow legal processes and higher exposure to defaulting corporate clients.

Private Sector Banks (PvSBs)

- **Key Strategies:** AI-based borrower tracking, aggressive follow-ups, and one-time settlement (OTS) schemes.
- **Challenges:** Stringent recovery tactics may lead to reputational risks and customer dissatisfaction.
- **Effectiveness:** High due to digital intervention, faster legal recourse, and strict credit assessment.

Non-Banking Financial Companies (NBFCs)

- **Key Strategies:** Flexible repayment structures, personalized recovery plans, use of fintech solutions.
- **Challenges:** Regulatory oversight and market volatility affecting cash flows.
- **Effectiveness:** High in retail lending, but limited legal avenues compared to banks.

III. REGULATORY FRAMEWORK AND LEGAL MECHANISMS

Effective loan recovery in India is governed by various regulatory frameworks and legal mechanisms designed to minimize non-performing assets (NPAs) and ensure financial stability. In Delhi NCR, banks and non-banking financial companies (NBFCs) adhere to these regulations to streamline loan recovery processes and mitigate financial risks. The key regulatory frameworks and legal mechanisms include:

1. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

- Allows banks and financial institutions to recover dues from defaulting borrowers without court intervention.
- Empowers lenders to seize and auction collateral assets to recover outstanding loans.
- Applicable mainly to secured loans, ensuring quicker recovery of bad debts.

2. Debt Recovery Tribunals (DRTs), 1993

- Established under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993.
- Provides a judicial mechanism for banks and financial institutions to recover debts above ₹20 lakh.
- Ensures expedited resolution of loan disputes compared to traditional courts.

3. Insolvency and Bankruptcy Code (IBC), 2016

- Introduced to provide a time-bound process for resolving insolvency cases.
- Allows banks and creditors to initiate insolvency proceedings against defaulting companies.
- Prioritizes financial creditors in the liquidation hierarchy, ensuring better recovery rates.

4. Lok Adalats

- Alternative dispute resolution mechanism for loan settlements.
- Encourages out-of-court settlements, reducing legal costs and time.
- Suitable for small-ticket loans and disputed cases.

5. RBI Guidelines on Loan Recovery

- Mandates fair practices for loan recovery, preventing aggressive recovery tactics.
- Emphasizes ethical recovery methods, ensuring borrower rights are protected.
- Encourages digital tracking and monitoring of NPAs for proactive recovery.

These regulatory frameworks and legal mechanisms play a crucial role in ensuring efficient loan recovery in Delhi NCR, enhancing financial stability and reducing bad debt burdens.

IV. CONCLUSION

Loan recovery strategies in Delhi NCR vary significantly across banking sectors. While private banks and NBFCs employ technology-driven solutions, public sector banks still depend on legal frameworks. A hybrid approach incorporating legal efficiency, AI-based borrower monitoring, and flexible repayment structures can improve loan recovery rates across all sectors. Policymakers should streamline legal recovery mechanisms and promote digital lending tools for better credit risk management.

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