RECEIVABLE MANAGEMENT IN NON BANKING FINANCE COMPANIES WITH SPECIAL REFERENCE TO VEHICLE FINANCING

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By

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DECLARATION

I declare that this thesis entitled '*Receivable Management in Non Banking Finance Companies with Special Reference to Vehicle Financing'* is an authentic record of research work done by me under the supervision of Prof. Dr. K. George Varghese, Professor and Former Director, School of Management Studies Cochin University of Science and Technology, Cochin. I further declare that this has not previously formed the basis for the award of nay Degree, Diploma, Associateship, Fellowship or other similar title or recognition.

Cochin- 22
30 July 2008

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CERTIFICATE

This is to certify that this thesis entitled '*Receivable Management in Non Banking Finance Companies with Special Reference to Vehicle Financing*' is a bonafide record of research work carried out by **Mr. Harikrishnan K.,** Research Scholar, School of Management Studies, Cochin University of Science and Technology, Cochin, under my guidance and supervision and that no part thereof has been submitted for any other degree.

Cochin- 22
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Prof. Dr. K. George Varghese

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Introduction

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Introduction

The Supreme Court of India banned high handedness of goondas in recovery of vehicle loans through a judicial pronouncement on 2007. The Court adjudicated that the modus–operandi employed by financial institutions for realization of their loan amount and for recovering possession of the vehicle against which loans were given is extra legal and by no stretch of imagination can they be permitted to employ muscle men. Taking a serious view of banks and financial institutions engaging musclemen to recover loans the Supreme Court of India observed that they cannot engage 'Goondas' to harass people (Economic Times, 22nd September 2007).

RBI also issues draft guidelines on loan recovery agents to reduce high handedness of the financiers and their agents. The central bank has come out with the guidelines following the growing criticism against bank and financiers for their adopted recovery method (Economic Times, 3rd December 2007). The gravity of the problem is evident from the widespread discussions and debates in media, academy, class room, industry, judiciary and credit rating agency on the high handiness of the recovery agents of finance companies.

Narayanan, K (2007) asserted that it is pain full to note that despite the Supreme Court judgment that financiers cannot use force to recover overdue loans, many banks are adopting the same tactics, often turning a blind eye to strong-arm tactics by hired agents, though the agreement between banks and recovery agents clearly states that the agents should not use force to recover the dues. Harassments by loan recovery agents are also discussed by prominent reporters like Vaidyanathan (2005), Shah (2006), Vageesh (2006).

The media seems to have been taken over by reports about the high handedness and illegal behaviour of recovery agents trying to recover money on behalf of their banking clients. Apart from humiliation in front of colleagues and family members some defaulting loan consumers have faced physical threats and intimidation as well. Reports of consumers being driven to suicides and medical problems (like heart attacks) being caused due to the threatening and menacing behaviour of the recovery agents and the principal banks running of cover disclaiming any responsibility for the action of the recovery agents acting on their behalf.

Wide spread appearance of news of high handedness of recovery agents is badly affecting the recovery mechanism of vehicle finances. Non Banking Financial Companies (NBFCs) are sharing a major part of vehicle financing activities in our country and thus the above criticisms are likely to affect badly the collection mechanism of NBFCs even from among moderately paying borrowers.

The Reserve Bank of India's (RBI) draft guide lines on recovery agents as well as the Fair Practice Code preceded the Apex Court observation. The purpose and force behind issuing such circulars are definitely based on various observations of our High Courts and The Supreme Court on various cases and complaints before it.

It is true that there is much tyranny and oppression on the part of financiers and recovery agents. But there are umpteen number of incidents that the defaulting borrowers are trying to take shelter under the above guidelines or court orders to evade paying the dues. It has come to a situation that whenever a financier or their agents approach a defaulter, they start pointing out the orders and judgments and postpone their repayments.

Above incidents were cited because of its inter-relationship with the topic of the study 'receivable management in non banking finance companies with special reference to vehicle financing'. Further discussion is on the evolution of NBFCs and the receivable aspects of business and its management in general.

1.1 Evolution of NBFCs

Initially NBFCs started out as support companies for industrial houses. Their purpose was to act as a fixed deposit collection front and at best, work out leasing deals for the clients of these industrial houses. Soon the need for NBFCs to assume a larger role as financial intermediaries involved in efficient allocation of monetary resources started to surface. Their product and service profile changed with the addition of new products like Hire Purchase and Leasing (Ravichandran, 1999) especially on funding of motor vehicles. The demand for vehicle finance was substantial as banking industries were no way interested in financing of the vehicle and they had no knowhow or expertise for it. The situation was that there were no entry barriers or restrictions to the growth of NBFCs and because of the vehicle finance advantages NBFCs grew frantically. Simultaneously deposits of NBFCs also increased and the main reasons for the growth of deposits with NBFCs were the greater customer orientation and higher rate of interest offered by them as compared to banks. Both Government of India and RBI were concerned about the frantic growth of NBFCs in terms of their numbers and in terms of deposits held by these companies. In recognition of the fact NBFCs are the integral part of the money market, from time to time various study groups have been appointed by Government of India and RBI for examining the role and the regulatory framework of NBFCs. Banking companies were also reluctant and unwilling to go in for vehicle finance except that they were to compulsorily lend under priority sector for driver/owner driven vehicle under self employment schemes. NBFCs have thrived on their business till about mid 90s by when banking companies and other financiers knowing the taste of it entered the vehicle finance. Thereafter competition to NBFC vehicle financing was substantial especially from multinational banks and new generation banks. Competition was substantial especially in terms of reduced interest rate in banking companies their cost of fund being much lower.

Non banking finance industry had a very big jolt in 1998 with the RBI's introduction of prudential norms on 2nd January 1998 based on recommendations of various committees. There was a shake out for large number of erring NBFCS and the mushroom growth of NBFCS were totally arrested thereafter. "A no-regulation situation till then to an over-regulation situation." Of course, all these were for the protection of the depositors and since then the number of deposit accepting NBFCs have drastically come down.

Since 1998 banking companies were involved in competition in vehicle finance and NBFC faced many problems. From the developments, it is felt necessary to have a detailed study on the receivable management of the NBFCs to protect and sustain them.

1.1.1 Gearing up of Vehicle Finance

A quarter century back, in India, we had a situation that there were no borrowers who owned a private car and now we are in a situation that there may not be any private car owner who is not a borrower- 'a no loan situation to a full loan situation'- in a short span of 25 years. Probably the situation has been created by the unprecedented growth of NBFCs apart from various other factors. In fact banking companies have been made known 'the good taste of the vehicle finance' by the NBFCs and the ultimate beneficiaries are citizens of India, public at large who access the vehicle finance at a very low competitive interest rate.

With these developments, the competition in NBFCs has substantially increased and because of which they are compelled to scale down the credit appraisal mechanism and speed up the documentation process. When the credit appraisal mechanism is scaled down and documentation process is speeded up naturally quality of customers are bound to be weak. The ultimate answer for the survival of the NBFCs was to tighten the collection policy and strengthen the receivable management mechanism. At this stage, it is a matter of fact to be analysed whether the recovery mechanism of the NBFCs are badly hit due to the scaling down of the credit appraisal mechanism or due to the documentation problems or or due to the repaying habits of borrower or due to the inadequate collection policies.

1.2 Evolution of Non Banking Financiers - World Scenario

In olden days finance companies were set up to provide credit to household or firms usually to purchase appliances or equipments. The first known example in the United States of America was a retailer providing instalment credit to its customers in a New York furniture company of Copper Wait and Sons which began this practice in 1807. However instalment credit really took off with the beginning of mass marketing of automobile from about 1915. Automobile companies set up specialised subsidiaries called finance companies to provide instalment credit to car buyers and finance the inventories of dealers and suppliers. Globally, finance companies have competed successfully with the banks when they chose automobile loans.

1.2.1 Regulation in Few Select Countries of Non Banking Financiers

The countries selected include U.K., U.S.A, Australia, Germany, Malaysia, Hong Kong, Singapore, Bangladesh and Pakistan. These countries are selected because of special features of NBFIs in these countries in order to concretise the use of regulation of NBFCs in India.

1. The U.K. has a well diversified financial system. NBFIs are regulated by a separate legislation and the SRO (Self Regulatory Organisations) concept has been well received by U.K.
2. In U.S.A., NBFIs are governed by the depository institutions Deregulation and Monitory Control Act of 1980 (DIDMCA).
3. In Australia, NBFIs are regulated by the act which operates concurrently with state and territory laws and many NBFIs were converted into banks in recent years.
4. In Germany, a different set of regulations is laid down for each category of NBFIs
5. In Malaysia, a wide variety of institutions are operating in an environment of macroeconomic stability.
6. In Hong Kong, a single set of regulations governs both banks as well as deposits taking institutions.
7. In Singapore, finance companies operate along the same line as commercial bank except that they cannot operate current account.
8. In Bangladesh, NBFCs represent one of the most important part of the financial system. However NBFCs are new in the financial system as compared to banking finance institution.
9. In Pakistan, over the last many years the non banking financial sector has carved out a place in the financial market. The regulatory environment strengthened with increased comprehensive prudential regulations.

Thus, regulatory framework for governing NBFCs in each of the countries has special features and has relevance one way or other to the Indian situation.

1.3 Evolution of Non Banking Financiers in India

Initially in India, Non Banking Financial Intermediaries (NBFI) started out as support companies for industrial houses. By 1970s and 80s many finance companies expanded their activities beyond their area of expertise. One of the important reasons was their desire for diversification. In India, marked growth in non financial sector was noticed in the last two decades of the 20th century. The NBFCs as a group has succeeded in broadening the range of financial services rendered to the public during that period. The most important activities of NBFCs in India was the acceptance of deposits from the public ie, the liability part of it and of course investing this money by financing on vehicles either in the form of Higher Purchase or Leasing.

1.3.1 Concept of NBFC in India

NBFC is a business entity incorporated under the Companies Act, 1956 and registered with Reserve Bank of India. NBFC's regulator is the Central Bank of the country, ie., the Reserve Bank of India (RBI) and it is compulsory that all NBFCs should be registered with RBI except few like insurance companies, stock broking companies, mutual fund managers, housing finance companies, etc who have separate regulators. RBI is vested with powers to regulate the NBFCs by the RBI Act, 1934 which was comprehensively amended in 1997. NBFCs devote their resources in providing financial services of various descriptions which are distinct from the normal role of banking.

1.3.2 Major Differences between Banks and NBFCs

NBFCs are doing business akin to that of banks, however there are few differences.

(a) NBFCs cannot accept demand deposits.

(b) NBFCs are not part of the payment and settlement system and as such cannot issue cheques to its customers.

(c) Deposit insurance facility of Deposit Insurance Credit Guarantee Corporation (DICGC) is not available for NBFC deposits unlike banks.

1.3.3 RBI Definition of NBFC

NBFC has been defined under clause (I) paragraph 2 (1) of Non Banking Financial Companies (Reserve Bank) Directions, 1977 as "any Hire Purchase Finance, Investment, Loan or Mutual Benefit Financial Company and an Equipment Leasing Company (but does not include an insurance company or a stock exchange or stock broking company)."

1.3.4 Types of NBFCs

According to the above definitions, the NBFCs comprise the business organizations carrying on the following types of activities.

(a) Hire Purchase Finance Company

(b) Equipment Leasing Company

(c) Loan Company

(d) Investment Company

(e) Mutual Benefit Finance Company

Each of the above kinds of companies has been further defined under different clauses of paragraph 2 (1) of the said RBI Directions 1977 as reproduced below.

(a) Hire Purchase Finance Company

"Hire purchase Finance Company" means any company which is a financial institution carrying on as its principal business Hire Purchase transactions or the financing of such transactions.

(b) Equipment Leasing Company

"Equipment Leasing Company" means any company which is a financial institution carrying on as its principal business the activity of leasing of equipment or the financial of such activity.

(c) Investment Company

"Investment Company" means any company which is a financial institution carrying on as its principal business the acquisition of securities

(d) Loan Company

"Loan Company" means any company which is a financial institution carrying on as its principal business, the providing of finance, whether by making loans or advances or otherwise for any activity other than its own but does not include an Equipment Leasing Company or a Hire Purchase Finance Company.

(e) Mutual Benefit Financial Company

"Mutual Benefit Company" means any company which is a financial institution and which is notified by the Central Government under the Section 620A of the Companies Act 1956.

It is worthwhile to note that Mutual benefit Companies are also known as "Nidhi Companies" (these companies being functioning for mutual benefit) and these companies are directly controlled by Company Law Board and Central Government under various provisions of Companies Act. Much of the guidelines applicable to other NBFCs are not applicable to such Nidhi companies/Mutual benefit companies.

In November 2006, RBI has brought Hire Purchase Finance Companies and Equipment Leasing Finance Companies into single category named, 'Asset Finance Companies', as both the types of companies are concentrating on Asset Financing and some of the NBFC associations have represented for the change in classifications. Except for renaming these two classes into one single category ie. 'Asset Financing Companies' all other regulations and stipulations remain unchanged.

Subsequent to this, broad RBI classification of NBFCs is as follows.

1. Asset Financing Company
2. Loan Company
3. Investment Company

1.3.5 Meaning of NBFCs

The meaning of NBFCs is to be understood in the wider perspective as they render financial services not only to the members of society but also to the business community, catering their needs for funds. NBFCs render both fund based and non fund based services. For fund based services they expect return on capital employed and for non fund based services they get remunerated in the form of fees. Both types of services offered by NBFCs are generally recognized as financial services. These services have grown so much in importance particularly to commercial houses that even banks have started rendering these services to their corporate clients to finance their business needs.

It is difficult to trace the origin of NBFCs activities or the financial services rendered by them, but it is stated in economic literature that Europe is the mother land of these services which developed as kith and kin to merchant banking services.

Today the services rendered by the NBFCs are extremely dynamic and challenging to meet the diverse needs of corporate enterprises. They are grossly involved in the development and promotion of commerce and industry at home and across the borders.

1.4 Types of Services Offered

(i) Consulting Services

Consulting services in the area of finance cover capital restructuring and financial engineering, project identification, project finance, raising capital from the capital market, banks, financial institutions and other related sources. These are all fee based activities. The number of services rendered under this head given above is only illustrative as it goes on changing and multiplying with the pace of changes taking place in the domestic and international financial markets.

(ii) Fund Based Services

Fund based services prominently aims at providing in physical terms, to the needy individuals, firms and corporate entities directly or indirectly. Under direct finance provided by NBFCs the mode of finance includes working capital finance, bridge finance, bill discounting, leasing and hire purchase finance, instalment credit and other short term finance based on or using the money market instrument like commercial paper certificate of deposits etc. For providing fund based finance a NBFC has to build a strong fund base with equity and loan capital raised from owner's resources and through borrowed capital.

1.4.1 Nature of Services of NBFCs

The services provided by NBFCs are similar to those provided by banks. NBFCs provide opportunities to savers of funds to deploy them to earn handsome return thereon and meet the requirements of investable funds of different sectors of the business community. Their activities therefore do affect the monetary and credit objects of the policies of the Central Banks as well as the Central Government. Besides the NBFCs are currently engaged in number of financial activities like equipment leasing, hire purchase, instalment credit, suppliers' credit, buyers credit, besides mobilization of deposits from the public and the deployment of such deposits into productive investable channels.

Thus NBFCs play important role in the economy of a country and industry in mobilization of resources to cater to the needs of growing economy and meet the economic aspiration of the society.

1.5 Receivables and its Management

When a loan is granted the financier has to receive the money back along with its prefixed interest in a specified period of time. Receivable management encompasses the collection and processing activities of the above mentioned money.

Proper management of receivables calls for designing of appropriate collection policy of the firm. Collection policy refers to the procedures adopted by a firm to collect payments due on past accounts. The basic objective while formulating the collection policy is to ensure the earliest possible payments on receivables without any customer loss through ill will. Prompt collection of accounts tends to reduce investment required to carry receivables and the costs associated with it and the percentage of bad debt is very likely to decrease.

A firm with long due accounts will be exposed to greater amount of risk of non payment. It is also possible that customers who have not cleared the payment long due may be hesitant to place further orders on the firm or taking further advances.

Accounts receivable are funds owned to the firm as a result of refund not collected. Accounts receivable arise naturally from the conduct of the firm's business, essentially every sales or loan, the firm/financier makes, that is on credit, gives rise to an accounts receivables. Managers must decide to whom, and under conditions, the firm should extent credit/loan. The management of accounts receivables includes the various collection procedures for customers who do not pay promptly.

Receivable management has become one of the most crucial activities in any kind of business organization, needless to talk about financial institutions especially in the post liberalisation era. Financing/Borrowing has become an inevitable part of business for increased sales and the competition can be sustained only when good profit can be earned. With the liberalised economy, new industrial policy and new trade policy, competition is heavy as entry barriers are removed. So credit policy of any institution is an important aspect in their business growth.

Today the industry is poised with the greatest problem of increased inventory and huge receivable outstanding. The real area where control can be established is the receivable, provided proper credit policy and the management of receivables is done. As in the case of any other industry, NBFCs too are facing the problem of receivable management but in a greater magnitude. If receivables are piled up the NBFCs will not be able to reinvest their funds as well as non performing assets and bad debt write offs will increase, which will affect the profitability.

In Indian financial market, the most easily available commodity of finance is in the form of hire purchase, leasing and instalment loans mainly on motor vehicles. This easy availability of finance is the order of the day and the competition is on increase. When there is more competition, credit appraisal mechanism is likely to be diluted and leads to an increase in receivable problem in NBFCs. With the rise in problems there is an increase in the non performing assets and bad debt write offs and this hits profitability.

For a NBFC to be an asset financing company, it should satisfy many conditions as per RBI directions. Most important among them are:

(a) Registration with RBI

(b) Fulfilling prudential norms of RBI and

(c) Should have a minimum of investment grade rating. Then only they can have access to public deposits.

If the problems on receivables are mounting, the rating agency shall downgrade the rating which may in turn lose the status of deposit accepting. Existing deposits themselves may have to be refunded within a reasonable time. With no access to fresh deposits and mounting demand of refunding existing deposits, such NBFCs may have to stop lending. Asset and liability shall mismatch and there may be a liquidity crunch. Naturally fresh advances will have to be stopped. When it is so, the existing customers may be lost and the employees' morale will be badly affected. There are all possibilities of a run on the deposit portfolio of the NBFCs. All these will lead to a situation that existing standard assets shall become substandard and substandard assets shall become ugly or bad assets. Collection of receivable shall become a great problem and the situation may lead the NBFC to resort to the extreme steps of winding up or dissolution. Hence unlike other organisations, management of receivables in NBFCs is very critical especially in an age faced with poor repaying practices of borrowers. Hence, it is necessity to have a detailed study on receivables of NBFCs.

1.6 Selection of the Topic

The topic of the research receivable management in NBFCs has emerged due to the need and the growing importance of better management of the receivables especially in the background of competition and on the introduction of prudential norms by RBI. It is also clear that profit of NBFCs mainly depends on the management of receivables. Honouring the payment obligation by the borrower depends on various factors mainly his intention and capacity. But it is also coupled with the quality of product or service provided. Business success or failure and the utilisation of funds borrowed properly matters in fulfilling the repayment obligation of a loan. Hence, it can be said that a host of activities and factors are involved in repayment obligation. This speaks for the importance of the receivables in the entire gamut of commercial activities. *This is the reason to select the topic "Management of Receivables" as topic of the study.* The receivable management study is done in NBFCs segment due to the growing importance of NBFCs in our country.

Managing the receivables appears as one of the most important activity in NBFC and hence the topic of study has greater relevance. This study on Receivables Management shall be on the Asset Financing Companies which have access to public deposits. The main assets on which the asset financing companies concentrate are vehicles. Hence the topic of the study is chosen as 'receivable management in non banking finance companies with special reference to vehicle financing'.

1.6.1 Statement of the Problem

NBFCs that carry out vehicle financing have to compete with their banking counterparts and other financial institutions in a market which is not a level playing ground. They have to battle with the institutions whose cost of funds is much lower than theirs. This means, that the quality of NBFC customers is likely to be lower than that of banks. Because of that they have to hunt vigorously for customers using various marketing tactics and add-on services. In such a situation, NBFC may fund low grade customers and hence their quality of assets and position of receivables will be weak. This necessitates the need for a better collection policy in NBFCs.

Financiers operating on a thinner margin will have reduced profitability for their organisation. Reducing expenditure and increasing the volume resolves the problem to some extent. Rise in volume and fall in expenditure leads to rise in recovery problems. When there are more recovery problems, write off is required and thus leads to fall in profitability. Apart from that the credit rating and classification of NBFCs is also affected. This results in reduction in deposit acceptance based on the regulations of RBI. Financiers do have resource constrain and many of them depend on their access to public deposits. Due to receivable problems, access to public deposit is likely to be denied or the quantum of deposit held. This necessitates refunding of deposits which ultimately lead to stoppage of lending due to resource crunch. Once lending is stopped, customers will be lost one by one and the morale of employees will also go down. With this, the collection of existing portfolio itself become difficult and can lead to change in situation in business or even winding up of the company.

1.6.2 Significance of the Study

There are manufacturing and trading organisations which can manage without credit sales because of its product advantage, pricing policies and monopolistic conditions and whereby situation of least receivable problems. In the case of NBFC-AFC, the basic business is fund based activity like vehicle financing. Reduced lending activity suggests a drop in business. Hence the financiers should have a targeted lending.

There is a limit in cutting the cost as the organisation can grow healthy by retaining their employees and maintaining quality infrastructural support. Then the area left out for cost reduction is better management of receivables. Better receivable management is necessary for a NBFC for its survival. For example, if the receivable is not managed well, collection cost will go rise, provisioning requirement will increase and bad debt write off is necessicitiated. Naturally profitability lowers, apart from various cascading effects discussed in earlier paragraphs.

With this background, there is a need to come out these vicious problems of NBFCs and towards that the following objectives are selected.

1.7 General Objective

General objective of the study is to identify the major issues and problems in managing the receivable in respect of vehicle financing of NBFCs.

1.7.1 Specific Objectives

1. To examine the existing credit appraisal criteria and mechanism
2. To examine the current practices of documentation
3. To study the repaying habits of borrowers
4. To evaluate the current collection policies and practices
5. To identify the ways and means for better management of receivables.

1.7.2 Hypothesis

The general hypothesis of the study is that there exist issues and problems in the management of receivable in respect of vehicle financing of NBFC. The specific hypotheses of the study are as given below.

1. Existing credit appraisal criteria and mechanism are inadequate
2. Current practice of documentation is improper
3. Repaying habits of borrowers are not satisfactory
4. Current collection policies and practices are inefficient.

1.8 Methodology

The study is empirical and analytical in nature. Both quantitative and qualitative techniques are adopted at different stages of study. The study is carried out by collecting data from NBFCs and from their channel partners ie, the borrowers of NBFCs and the intermediaries who are the dealers of the vehicle.

1.8.1 Data Source

The study makes use of both primary and secondary sources of data. The sources of secondary data are various publications, Reports, Journals, Text Books, Statistics based on Economic Survey, RBI monthly and annual bulletins (1999 to 2007), Hand Book of Statistics on Indian Economy published by RBI, RBI web site (www.rbi.org.in) and RBI Trend and Analysis various issues from 1999 to 2007

For the purpose of this study, the number of NBFCs and their deposits are taken for the period from 1971 to 2007 from various reported sources. However, the advances, arrears and NPAs figures are not available for the period from 1971 to 1997 due to the then existed reporting pattern. Hence the study of the secondary data for the period from 1971 to 1997 is limited to the existence of number of NBFCs, their deposits and its growth.

1.9 Sampling

The universe of the study is the vehicle financing NBFCs operating in Kerala. Three districts are selected to get a wider representation of Kerala ie., northern district of Calicut, central district of Ernakulam and southern district of Trivandrum for the purpose of study. All the three categories of samples from these districts are selected in equal number for getting a good representation.

1.10 Primary Data

Primary data is collected from three different sources of Borrowers, Intermediaries and NBFCs. Borrowers consist of 390 members who took loan for vehicles from various NBFCs in Kerala. Intermediary comprises of 60 dealers selling almost all kinds of vehicles both new and used, and NBFCs consists of 30 numbers, operating in various parts of Kerala, all randomly selected.

1.10.1 Borrowers

The category of vehicles borrowed determines borrowers. When borrowers have taken loan on more than one vehicle, the data is collected based on the vehicle for the oldest running account. When classified based on the industry standard, there are seven categories of vehicle as shown below.

Utility	→	Private			Commercial			
Category	→	Small Car	Premium Car	Two Wheeler	Three Wheeler	Comm. Car	LCV	HCV
Type	New							
	Used							

Both new and used vehicles are taken into consideration in each category for collection of data as these show different characteristics. As used two wheelers are not considered (leading NBFCs are not financing on used two wheelers), the total category come to 13 ie, seven new and six used vehicle.

Data from this category is collected by quota sampling of 10 samples per category of vehicles ie, a total of 130 (13x10) samples. ie, from all the three selected districts to form a total of 390 samples (130 x 3).

For collections of these data, two week days were randomly chosen to fulfil the quota of 10 samples in each category. Data were collected from the borrowers who had visited the NBFC branches for various purposes on these two days, until the quota is completed.

1.10.2 Intermediaries

20 samples each were selected at random from each of the selected three districts from about 95 operating vehicle dealers ie, 20 x 3 = 60 samples.

1.10.3 NBFCs

10 samples each were selected at random from each of the three selected districts from about 25 vehicle financing NBFCs operating in Kerala.

Total samples 10 x 3 = 30

1.10.4 Data Gathering Instruments

Primary data was collected through extensive field surveys conducted using three different structured interview schedules for survey among borrowers, intermediaries and NBFC respondents. Data collection extended for the period from April 2007 to February 2008 and information collected was based on the figures as on 31st March 2007

1.10.5 Data Management and Analysis

Both primary and secondary data are processed using the Statistical Package for Social Science (SPSS). The main statistical tools used are (1) descriptive statistics (2) Chi-square test, student's t-test, Z-test (3) correlation (4) One way Analysis of Variance (ANOVA) and (5) Multiple Regression analysis.

1.10.6 Pilot Study and Preparation of Questionnaire

All the three set of interview schedules were prepared in consultation with experts from NBFCs, Intermediary (vehicle dealers), borrowers and academicians. The interview schedule for borrowers was field tested with 30 samples. In all, there were 54 number of interview schedules for borrowers, 30 for intermediaries and 74 for NBFCs. This has been reduced to 46 for borrowers, 21 for intermediaries and 54 for NBFCs. The result of reliability test was 0.72 and validity test was 0.64 and the interview schedule was put into data collection operation after satisfying the parameters in the pilot study.

1.10 Analysis Plan

Analysis is divided into two parts as follows:

(a) Issues in Receivable Management

(b) Ways and Means for Better Receivable Management

The first part of 'issues in receivable management' is further divided based on the objectives of the study which are on:

(a) Issues in Documentation

(b) Issues in Credit Appraisal

(c) Issues in Borrower Habits

(d) Issues in Collection Policy

The second part of analysis of 'ways and means for better management' is divided into two:

(a) Attracting Aspects of NBFCs

(b) Respondents' Suggestion to NBFC

1.11 Scheme of the Study

The first chapter is the introduction of the study and methodology. The second chapter presents related literature. The third chapter presents the development of NBFCs and their present status. The discussions of the results of primary data are organized in two subsequent chapters. Chapter four, deals with the issues in receivables management of NBFCs, Fifth chapter deals with ways and means for better management of receivables in NBFCs. The last chapter is the conclusion which deals with suggestions and the scope of further study.

Chapter 2

Review of Literature

Chapter 2

Review of Literature

2.1 Introduction

The perfect financial storm now churning its way around the world has even the best finance companies in its grip. Dominion Finance Holdings rocked the market by announcing it was running out of cash and had stopped repaying deposit investors as their investments fell due. The listed property financier, which operates two arms- Dominion Finance Group and North South finance- has proposed a moratorium to give it breathing space to realise loans in an orderly fashion and provide 9020 secured investors the best chance of recovering the $276 million they owe. That announcement was followed by Timaru-based Mascot Finance, which said that it had posted a $7.5 million loss for the year 2008, but was confident of reversing the position during the next 12 months. Both these companies had been considered by analysts to be among the most likely to weather the storm because of sound management, good lending practices and years of experience that goes back several economic cycles. The best companies in the sector can cope up with the strong headwinds created by the international financial crisis, which are now hit from three sides. The credit crunch and slowing property market mean property developers are struggling to sell projects and repay or refinance loans. At the same time, investors reinvest their money and almost no new money comes in.

KPMG's head of banking and finance, Mr. Godfrey Boyce says that in the case of Dominion Finance, a moratorium is probably the preferable option. "It is a group of companies that we probably wouldn't have expected to have got caught up in this. But it really is getting into the better quality end now, in terms of the lower reinvestment rates impacting most of the players in the sector. "If a company can continue to operate and collect its assets in an orderly fashion, it seems a sensible approach to take." The key issue for the sector is the collapse of investor confidence, which has resulted in only about a third reinvesting their money. "Generally what we have seen in the sector is loans are getting repaid, but it is taking longer because the developments have slowed and the market for selling the property into has slowed." Mr. Boyce says the April 2008 collapse of Wellington-based Lombard Finance and Investments marked the beginning of the latest wave of failures. "We are just not sure how big the wash is in terms of how many other people get caught up. One would have to say that there will be two or three more yet in this round. We have seen some big provisioning."

Uncertain times and the global credit crunch is making finance to fund acquisitions hard to come by "The bigger, stronger finance companies seem to have been happy to let others fail, and they get the bigger market share as a result", Mr. Boyce says. "There is absolutely no doubt that poor or mediocre companies might be better to be thinking about closing down, paying everybody off, and going to bed."

The situation in Indian NBFCs is similar or worse as we have seen the failure of many NBFCs mainly due to erroneous lending, receivable problems and regulatory restrictions, especially in post 1997-98 era. To highlight the problem, some of the head lines appeared in the media during that period is reproduced below:

"Manipal group to shut down NBFC arms – Restructuring plans for repayment of deposits" The Manipal group plans to exit non banking finance business by shutting down its three subsidiaries – Maha Rashtra Apex Corporation Ltd

(MRAC), Canara Nidhi Ltd. (CNL) and Manipal Home Finance Ltd. (MHFL). The group has requested the Karnataka High Court to approve its proposed restructuring plans for all the three entities, according to the Vice chairman, MRAC, Mr. Y.V. Pai. "We suffered under a negative U-turn in RBI policies towards NBFCs in 1997," Mr. Pai said. The three companies currently manage public deposits of Rs. 313 crore with a depositor base of 1,75,000.

For MRAC, the restructuring package proposes that interest on all deposits and bonds to be waived with effect from April 1, 2001. Deposits/bonds of Rs. 5000 and less will be repaid in full within 90 days from the 'effective date' or before 31 March, 2003, whichever is later. Effective date means the date on which the order of the high court sanctioning the scheme is filed with the office of the registrar. However, deposits of Rs. 5,000 and above would be returned in three parts: 20 percent of the amount due on 1 April 2001 will be paid in four equal quarterly instalments commencing with the calendar quarter after 90 days from the effective date, 15 percent will be compensated by issue of equity shares of group company Kurlon Ltd. at a value of Rs. 80 per share and the balance 65 percent would be offset by issue of asset recovery bonds. Mattress manufacturer, Kurlon will be listed on the regional stock exchanges of Bangalore and Mangalore, following the issue of equity shares. It is to be noted that both the bourses hardly report any trading, following the ban on short sales and imposition of T+3 regime. The asset recovery bonds will be issued by Maha Rashtra Asset Management Company Ltd. Any amount recovered in excess of the face value of the asset recovery bonds will be distributed as premium on redemption.

For depositors in Canara Nidhi, interest rates on all deposits will be waived with effect from April 1, 2002. Deposits ranging below Rs. 5,000 will be repaid in full within 90 days from the effective date or before March 31, 2003, whichever is later. While deposits above Rs. 5,000 up to Rs. 10,000 will be repaid in one or more instalments after 1 April 2003 but before 31 March 2004, deposits above Rs. 10,000 will be repaid in one or more instalments from 1 April 2003, but before March 2004, deposits of above Rs. 10,000 will be repaid in one or more instalments from 1 April 2003. This was the aftermath of 1997 regulations and the prudential norms issued for NBFC on second January 1998 by RBI. The story doesn't end there, failure of many of the then leading NBFCs like Mercantile Credit Corporation Ltd. (1997), Integrated Finance Company Limited (2006), etc. are examples of failure of NBFCs and the race goes on.

2.2 Receivables

When University of Rhode Island, USA was faced with the problem of managing receivables, has come out with a receivable management procedure which has great relevance on study of receivable management in NBFCs. The relevant and most important portions are as follows.

I. Guidelines

1. Billing

Prompt billing for the reimbursement of expenses is the single most important factor in managing receivables.

2. Collection of receivables

The Office of Grant and Contract Accounting is primarily responsible for the collection of research receivables. Receivables not collected through standard routine follow up may be referred for collection after approval by the university controller.

3. Ageing analysis

Adequate information concerning the age of outstanding receivables is vital for the proper management, control and reserves for bad debts.

4. Provision for bad debts

In order to properly reflect realized revenues in the university's books, bad debts must also be recognized.

II. Collection

The prompt collection of these receivable is important because they represent substantial amounts of money, therefore, a definite sequence of collection efforts must be followed. Billing records should be checked for accuracy before the outlined collection process begins.

III. Collection Agencies

Before an account (other than federal or state) is referred to a collection agency, a determination should first be made as to whether the amount to be collected exceeds 1000 US dollars and no response has been received by the legal counsel. The office of grant and contract accounting shall submit the account to a collection agency after receiving approval by the university controller (University of Rhode Island, 2005).

University of Rhode Island seems to be quite elaborate and systematic as far as a university is concerned. For the purpose of an NBFC recovery, even though, these procedures are not sufficient enough, it can serve as a good guide line for arriving at a standard recovery procedure.

2.2.1 Accounts Receivable Management Policy

The study by Mian and Smith Jr., (1992) focuses on both cross-sectional explanations of policy-choice determinants, as well as incentives to establish captives. Size, concentration and credit standing of the firm's traded debt and commercial paper are each important in explaining the use of factoring, accounts receivable secured debt, captive finance subsidiaries, and general corporate credit. Evidence on captive finance subsidiaries, and general corporate credit demonstrates that captive formation allows more flexible financial contracting. However, there is no evidence that captive formation expropriates bondholder wealth.

In NBFCs, factoring by and large are not at all resorted. However, securitization mechanism is resorted in many NBFCs both with and without recourse, for the purposes of increasing the liquidity as well as to get rid of the collection constrains on chronically defaulting accounts.

Accounts receivable (A/R) assets are among the largest and most liquid holdings on the books of most companies. A properly managed A/R portfolio helps expedite cash flow and supports corporate cash requirements. The ultimate goal of A/R management is to increase working capital. The A/R function consists of three principal operations: remittance processing, credit management, and collections. Remittance processing involves payment methods and automated processing. Credit management includes communication of credit policies, credit checks and approvals, and credit maintenance. And collections involve monitoring collection techniques and technology and supervising and motivating internal and external collections agents. Customer service plays a key role in each of these processes. In fact, timely collection of receivable depends a great deal on customer satisfaction, turning it into an effective gauge of the importance A/R places on customer service.

2.2.2 Monitoring Accounts Receivable using Variance Analysis

The study of Gallinger and Ifflander (1986) explains the credit analyst, how to use an accounting-based variance model to evaluate accounts receivable against budget. Dollar variances between actual and budgeted receivable balances are segregated into a collection experience variance, a sales effect variance, and a joint effect variance. The sales effect variance is further segregated into a sales pattern variance and a sales quantity variance. Knowledge of the contribution of each of these variances to the total variance between actual and budget balances provides insights about accounts receivable that traditional measures, such as day sales outstanding and aging schedules, are unable to reveal.

In every industry, every part of the country and every instance, West Asset Management is responding to the needs of business with innovative recovery solutions that deliver results. As one of the nation's leading receivables management companies, West Asset Management offers a full suite of solutions that are designed to improve operational efficiencies and customer retention, and at the same time reduce expenses and dramatically recover more receivables.

A pioneering application of a Markov chain to forecast account receivable flows employed an unusual (the oldest balance) method of aging accounts and an assumption that the resulting transition matrix was stable. Forecasting steady state results was the primary focus of the application. The present research uses a commonly found (partial balance) method of aging, an assumption of dynamic changes in the transition matrix, and does not focus on steady state results (Winters, 1960; Corcoran, 1978).

Effective management of accounts receivable requires a written procedure manual, so that the patients, the office staff and the doctors understand everyone's duties and responsibilities. This plan will increase in-house collections (Gross and Romanick, 2008).

An increase in the level of accounts receivables in a firm increases both net working capital and the costs of holding and managing accounts receivables. Both of these decrease the value of the firm, but a liberal policy in accounts receivable coupled with portfolio management approach could increase the value. Efforts to assign ways to manage these risks were also undertaken; among them, special attention was paid to adapting assumptions from value of liquidity theory as well as gauging the potential effect on the firm value (Michalski, 2003).

2.2.3 Automated Receivables Management System

An automated receivable management system provides a self service collection environment using an electronic network, such as the internet or a PCS, a medium for communication and transaction execution. Comprehensive collection services are provided in a fully automated fashion, including account decision, treatment specification, communication channel specification, and communication to the customer and method for payment/response from the customer using the electronic channel. The electronic network operates as a fully automated electronic receivables environment, providing a medium for notification, receiving funds and customer responses, while allowing the creation of a test and control environment for experimentation on a customer level. Using results from existing polices or strategies, the system matches account performance with account history in order to determine the optimal new strategy for interacting with the respective accounts. This process not only determines the optimal strategy, but can automatically apply the strategy to the accounts that meets the appropriate criteria. This forms an environment to test new strategies and incorporate new learning in a new strategy creating without human intervention (Campbell, *et al.,* 2006.).

Such fully automated receivable management system is yet to be established in NBFC. Within Indian conditions, partial automation and partial outsourcing through recovery agents are being developed for receivable management in some of the new generation NBFCs. Others continue with the traditional manual recovery method with the support of computer systems.

When a sale is made, an organization receives money. Accounts receivable management encompasses the collection and processing activities of the aforesaid money (Ohio State University, 2008).

Due to the downturn of economy, the bad debt of banks is increasing straightly in these few years. Receivable management becomes an important issue of bank in order to improve full range of business operations. So, the role of receivable management becomes more and more important in this competitive business world (Li and Ling, 2004).

Among the thornier issues that corporate credit and collections professionals face is dispute prevention and resolution. All of which mean delays that can inflate the receivable outstanding (Cummings, 2005).

From the better receivable management angle, the most important aspect for better and timely collection is transparency in dealing and that is more important in NBFC transactions.

In a web cast, the speaker discusses the benefits of automating the account receivable process. The speaker talks about credit management and revenue management in the financial value chain and explains the easy accessibility to market place through financial management. He also induces that the automated account receivable process helps in better managing the receivables.

The range of organizations that leverage the defaulted debt market is growing. The Chief financial officers who want to boost their company's liquidity may be sitting on a potential gold mine in the form of defaulted receivables.

The role of Accounts Receivable departments, and finance as a whole, is rapidly transforming in today's enterprise. Formerly thought of as a purely administrative role, A/R functions extending from credit and collections to cash management are now being viewed as a strategic cornerstone that can deliver unprecedented competitive advantage and greater profitability for leading corporations. The paper depicts a survey the findings of which points out key challenges that confront today in A/R departments.

2.3 Recovery

Recovering the outstanding dues is one of the most important element of working capital management and that can be achieved through better receivable management only.

NASE Member Russell Siegel, an attorney in Fullerton, Calif., says his biggest client insists on being billed only quarterly. Then the client takes another 60 days or more to pay. That habit makes it tough for Siegel, who specializes in workers' compensation cases, to pay his own bills. But he's afraid that vigorous efforts to collect will just drive the client away.

It's human to feel angry, even betrayed, when a customer doesn't pay, but don't bring those feelings into the collection effort. Gillispie said that he is never rude with anyone, but he is firm. If one come across as hard-nosed, one won't get the money. So play 'up' music on the way to work on the days you have to make collection calls. One has to come across as helping them, as working together to solve this problem.

If the first approach doesn't work, she tries another. One note that she attaches to invoices reads "Good morning. Your account just had a birthday- it's 30 days old." Another offer several choices with a box beside each that the customer checks off (Gillispie, 2006). It is true that the soft way of recovering is necessary for the success of receivable management.

2.3.1 Debt Recovery

This refers to the news item "IBA to enforce fair practice code for debt recovery" (Business Line, 2007). There should definitely be a moral code of conduct for debt recovery but it should not sound as if it is soft on willful defaulters. As it is, the repayment culture is not very good in India. The laws are also heavily loaded in favour of the defaulters. There are very few borrowers who pay up on their own.

Many expect the lenders, especially institutional lenders, to call and tell them that their repayments are due. But the local lenders still use the pressure tactics to recover their dues and they are certainly more successful. The borrowers fear them and are prompt in repaying their dues first.

Mr. Newtown owed two car loan payments and the company repossessed his car. He thought the company had to notify him before that could happen.

The loan company doesn't have to notify the borrower before repossessing the vehicle. Once the borrower defaults on a loan agreement, the loan company can take action. Companies don't give advance notice because some people try to hide the vehicle. One need to contact the loan company right away to find out if he can work something out to pay the money owed and get the car back. If he takes no action, the company can sell the vehicle and hold him responsible for the remaining balance. Plus, the repossession company, which is hired by the loan company, will charge a daily storage fee that can add up quickly (The Bucks County Office of Consumer Protection, 2008).

Level of accounts receivables in a firm increases net working capital and costs of holding and managing accounts receivables. Both of them decrease value of the firm but liberal policy in accounts receivables with portfolio management approach could increase it (Michalski, 2007).

Statistics show that assets of over Rs. 4 lakh crore, offered as securities against bank loans have been attached by courts, and are getting destroyed and to nobody's advantage. This is a problem that needs the urgent attention of the Reserve Bank of India, the Board for Industrial and Financial Reconstruction (BIFR), the debt recovery tribunals (DRTs), judges of civil courts adjudicating bank suits, the various State Government panels studying the problems of sick units and the proposed Assets Reconstruction Company (Joy, 2002).

Many mortgage lenders expected a sub prime meltdown, but not one that came so fast and strong reveals a CNN article as of May 23, 2007. Now they say it's hitting harder and faster than expected– even to those who predicted the crisis in the first place (Kayser, 2007). If the receivable are not better managed similar situation at least for few NBFCs in our country is not too far.

Most people don't realize exactly how important a good credit score is these days. Everyone needs a good credit score. It's critical. The credit score is the single largest component, bank and other lending institutions look at when extending credit. The ability to borrow and use other people's money is absolutely essential. Less than 1 percent of the U.S. population could sustain the lifestyle they live without borrowing money (Shah, 2007).

Even among Indians, habits of borrowing for anything and everything increases day by day. Financiers need to have liberal lending due to competition, but they should have a tighter collection mechanism.

All the Asian countries had weak legal mechanism for asset disposal. This factor prevented early resolution of the problem. This occurs in India too. The defaulters' fear of legal action is coming down whereby receivable problems are on to increase (Viswanathan, 2002).

2.3.2 Effectiveness of ARCs

Concerns have been raised about the relevance of ARC in India. A significant percentage of the NPAs of the PSB's are in the priority sector. Loans in rural areas are difficult to collect and banks and NBFCs by virtue of their sheer reach are better placed to recover these loans (Viswanathan, 2002).

Lok Adalats and Debt Recovery Tribunals are other effective mechanism to handle this task. ARCs should focus on the larger borrowers. Further, there is a need for private sector and foreign participation in the ARC. Private parties will look to active resolution of the problem like NBFCs and not merely regard it as a book transaction. Moving NPAs to an ARC cannot solve the problem. In China, potential investors are still worried about the risks of non enforcement of ownership rights of the assets they purchase from the ARCs. Actions and measures have to be taken to build investor confidence.

ARCs services are not available to NBFCs. Rather NBFCs are better at managing receivables due to the expertise available to them.

2.3.3 Securitisation

This has been used extensively in China, Japan and Korea and has attracted international participants due to lower liquidity risks. The Resolution Trust Corporation has helped develop the securitization market in Asia and has taken over around $ 460 billion as bad assets from over 750 failed banks. Its highly standardized product appeals to a broad investor base. Securitization in India is still in a nascent stage but has potential in areas like mortgage backed securitization. Securitization route can help NBFCs also to increase liquidity and to reduce the "Bad debt" problems. But if resorted to, can weaken the internal strength of recovery. Probably it is more suitable for those financiers who are totally depending on "out servicing for recovering this out standing"

To test a long known fact that it's the unwillingness to pay, not the inability that is responsible for poor recovery/non recovery of loans. There is huge narration, description but no systematic incretization of this incidence. Empirically, it is seen that the probability of willingness to repay the loans varies inversely with the level of income and the size of land in the rural India (Meta V. 2005).

2.3.4 Online Debt Collection

Past due accounts receivables pose a constant problem in many business. Sometimes the time and effort to get paid will exceed that needed to make the business function efficiently. This makes an efficient system of contacting the past due accounts. There are basically four stages of debt recovery that are employed by business.

The various incidents involving recovery agents also attracted the attention of the regulators. In February 2007, the Supreme Court of India expressed concern that the banks were not adhering to the rules framed by the Reserve Bank of India (RBI) and the Indian Banks Association (IBA). RBI's guidelines stated that recovery agents could not resort to "harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations."

2.4 Defaults

It is now not just the customers, but even the dealers of two wheelers will come under scrutiny of loan defaults, as many banks pull out of financing the segment in many parts of the country. According to two wheeler companies and banks, one of the reasons for high defaults has been dealers' negligence to ensure registration of vehicles. Manufacturers would be required to put pressure on the dealers to ensure registration of vehicles. Unlike in the metros and other smaller cities where dealers are required to register the vehicles, in many of the interior regions dealers sell the vehicles which later don't get registered. This makes it difficult for the banks to retrieve the vehicle even if there are defaults (Vyas, 2008).

IONIA- Independent Bank Corporation saw provisions for loan losses eat into its earnings for the first quarter, continuing a trend that has troubled other banks in the region. The Ionia based company reported profits of 3,00,000 US dollar for the quarter, one cent per share, compared with profits of 4.2 million US dollar or 18 cents per share, in last year's first quarter. The bank's 3.2 million US dollar increase in its provision for loan losses was the biggest factor dragging down the results during the three months from January to March 2007. Its total provision was 11.3 million US dollar at the end of the quarter compared to 8.1 million US dollar at the end of the first quarter of 2007 (Knape, 2008).

Regarding the bulk of the troubled loan tied to residential developments the bank said, "Our elevated level of non performing loans is closely aligned with a general slowing in the residential housing market, and the effect of this slowing has had on borrowers, including several residential real estate developers, who became past due on their loans in recent quarters." "The rise in non performing commercial loans during the first three months of 2008 was disappointing. However, nearly all of these loans were already in watch credit and therefore had been identified as a potential problem" (Knape, 2008).

The above article highlights the need for better management of the receivables failing which non performing assets will rise and the loan losses will eat into the profits of financier.

The Mortgage Bankers Association has reportedly estimated aggregate housing loan default at around 5 percent of the total in the last quarter of 2006, and defaults on high-risk sub-prime loans are as high as 14.5 percent. With a rise in so-called 'delinquency rates', foreclosed homes are now coming onto the market for sale, threatening a situation of excess supply that could turn decelerating house price inflation into a deflation or decline in prices. The prospect of such a turn is strong given the estimates by firms such as Lehman Brothers that mortgage defaults could total anywhere between $225 billion and $300 billion during 2007 and 2008 (Chandrasekhar and Ghosh, 2007).

Debt collection is one of the top five fastest growing industries and that speaks of the importance of receivable management both in finance companies and non finance companies.

2.4.1 Bonanza for Defaulters

There have been reports that the banking industry is planning to bring out a package by which defaulters can repay the loans they had taken through a one time settlement. The reports say the repayment amount could be as low as 50 percent of the principal. This plan, if implemented, can be disastrous. There are cases of the borrowers deliberately bringing their businesses to sickness so that concessions attached to nursing arrangements can be demanded, while regular borrowings are costlier (Subramanyan, 2002).

2.4.2 No Recovery, No Fee Service

There are various commercial collection agencies internationally and they substantially advertise with various captions like 'No recovery, No fee service' etc. There are various recovery agencies available internationally. Dependence on such agencies may only weaken the internal recovery strength of any organization. NBFCs for their managing receivables need to be stronger with tailor-made solution in managing these receivables.

2.5 Credit Policy

The single most important contribution that a credit department can make to the success of a company is to have a credit policy that is tailored to the needs of the company, and to so effectively implement that policy as to ensure the achievements of its stated goals. Unless the credit manager grows at a rate faster than his Company, the Company will not benefit from the level of management skills essential for the protection of receivable balances (Bond, 1993).

In any credit department there may be occasional mistakes or errors in judgement. This will occur regardless of how diligently the manager or the supervisor monitors the work of associates, but good management skill will minimize the magnitude and frequency of those mistakes. When a mistake does occur, it can be identified as a growth step rather than an act of carelessness or incompetence. Every mistake has a price tag, but the tag on one that can be identified as a growth step and can be prorated over and absorbed into an impressive number of positives (Vanhome, 1996).

The size of a company or business is irrelevant to the indisputable fact that a written credit policy is a necessity for any business especially that for a finance company. Whether credit decision will be made by an experienced professional, by less experienced professional or by an entrepreneur, has obvious relevance as it relates to expectations for the quality of results (Khan, 2004).

2.5.1 Marketing Men's View of Credit

Most critics of the credit policy of an organization are normally their own marketing team. It is always good to have healthy criticism from once own marketing men. It is very good in a sense that it will always help the credit policy framers to have self corrective mechanism on the credit policies. But it is highly necessary that marketing men are convinced about their own credit policy at least in their consciousness even though they criticize among the credit team. It is always necessary to understand the credit policies of industry peers and make changes on credit policy from time to time. One need not copy or follow the credit policy of a competitor or a successful company and can have their own version or changes as required, suiting or acceptable to the stake holders. Careless formation of a credit policy may not be good enough to penetrate and sustain in the market. As mentioned earlier credit policies should invariably have a bearing on the quality of the product, services provided and its price or interest.

Higher the interest, poorer the quality of service, and rigid a credit policy may not suite any financial organization to achieve their target of business and sustain in the financial market.

The primary incentive for putting up the credit department on a solid foundation is the 'profitability' of the organization. When the credit department puts varying amounts of the company assets at risk, the degree of risk depends largely on the knowledge and experience, especially the professional knowledge and experience of the credit manager and his knowledge of the accounts and experience with conditions of the industry (Bond, 1993). When an account or customer is new, the degree of risk hinges not only on the customers' references, but also on the level of experience the credit manager and team bring to the evaluation process. The credit manager must be qualified and experienced to evaluate the information and data received from the borrowers and their bank references (past track record) if any available, and weigh the quality of available financial statements and other credit information. The field investigation reports are also gathered. The manager must also be qualified or capable enough to evaluate the reports from reporting agencies such as Dun and Bradstreet, the national association of credit management as far as global scenario is concerned. Of course even in India there are agencies like CIBIL available with sufficient legislative support, who supplies the track record of borrowers, of various financial products.

2.5.2 Credit Policy Variation

There is a wide range of variation in the credit policies of various nationalized banks itself and that speaks for adaptation of proper credit policy, especially when we have banking companies with different organizational culture (even though the regulator RBI and the regulation for all banks are common). Let us merely look at the organizational culture of foreign banks, state banks, other nationalized banks, new generation private sector banks, Old private sector banks, Regional Rural Bank, etc. All of them are operating in the same financial markets of the country. However, each has varying credit policies and investment pattern and assets are also chosen which suits them. Many remain with in their typical specialization area and niche market.

2.5.3 Credit Policies

It is pertinent to mention that even among NBFCs it is difficult to adopt common credit policies or norms. Each has to choose its assets specialization, and niche market and serve in its own typical style for its survival. Unlike in trading and manufacturing, branding labelling and product differentiation is quite difficult as the end purpose is 'Rupee'. However, financier and banks are from time immemorial trying to differentiate their product and continue to capture the market in their own way. All these speak for the importance for framing a credit policy which suits their own conditions, rather than merely banking up on the policies of competitors. Of course one cannot deviate much from the industry practices.

2.5.4 Types of Credit Policies

Three basic types are (1) Restrictive Credit Policy (2) Moderate Credit Policy (3) Liberal Credit Policy (Bond, 1993).

Restrictive Credit Policy

This is a credit policy of a company that has no plan to grow at a rate that is more than minimal. The company is unwilling to undertake risks that are more than minor to do business with customers whose paying habits almost never vary.

Moderate Credit Policy

The moderate credit policy mixes good accounts with average accounts. It is a more conventional mix of credit risks than the conservative or liberal approaches to credit.

Liberal Credit Policy

This is the most dangerous of the three credit policies. A liberal credit policy is a high risk policy. Risks are higher, the loss of receivables can be heavy and there can be real danger to financier's survival.

2.5.5 Credit Procedure

Credit policy is to be differentiated from credit procedure. Credit procedure is the tool and the process required in evaluating the borrower. Good credit procedure eliminates many of the elements that can lead to costly mistake.

The size of a company or a business is irrevalent to the indisputable fact that a written policy is necessary for any business and especially that in the financing business (William *et al.*, 1978).

Credit decisions must be consistent with the guidelines incorporated in to the company's credit policy. If changes in business or economic conditions make it obvious that the credit policy is very restrictive, the written credit policy should be changed to reflect the changes in the acceptable parameters. Some flexibility must be infused into every credit policy or plan.

The three basic credit policies as we have seen are restrictive, moderate and liberal. Each type of policies involves a different mix of ingredients, a some what different business philosophy, different goals and different financial needs or a combination of the three policies; ie, Some thing from one, a few things from another, and one or two guidelines from the third. A credit policy tailored for a company from one or more of the basic categories of policies are acceptable (Brain, 1995).

2.5.6 Assessment of Credit Risk

Proper assessment of credit risk is important as it helps in establishing credit limits. In assessing credit risks, two type of error occurs.

Type 1 error ie, a good customer is misclassified as a poor credit risk.

Type II error ie, a bad customer is misclassified as a good credit risk.

Both the errors are, as it results that Type I error bounds to loss of profit or sale of good to customers who are denied credit. Type II error results in bad debt losses on credit sales made to risky customers.

2.5.7 Collection Effort

Collection programme or collection procedure of an NBFC is mainly aimed at timely collection of receivable However, it should be remembered that collection effort is also a major variable in the credit policy of a finance company. A strict collection procedure tends to decrease the advances. But it is a universal phenomenon that if the collection period is reduced bad debt will also decrease. However, it will increase the collection expenses and this will lead to a decrease in advance. A relaxed collection programme on the other hand will increase sale, will also increase the receivable outstanding and bad debt percentage. So there need to be a trade off between strict and relaxed collection polices.

2.5.8 The Formulation of Credit Policy Models

This study undertakes to apply the statistical technique of sequential decision process to a specific range of problems of (trade) credit management. In particular, the study examines two problems: first, credit extension policy on a specific request or account; and second, construction of indices measuring the effectiveness of such a policy. The end goal is to establish a control system which has heretofore resisted analytical solution. Since management exercises its discretion primarily during the credit-extension phase, and since subsequent phases of credit policy are closely related to this particular phase, attention is focused on this aspect of credit policy. However, the analysis does not ignore other important aspects of credit policy, such as bad-debt level, length of the credit period, collection activities, and level of lost sales. The above situation is then reversed: indices in terms of bad-debt level, receivable level, etc., measure the impact of credit extension procedures on the subsequent phases of credit policy. The strength of the suggested approach lies in the logical relationship between the operating decision rules, that meaningfully take into account past experience, and the control indices. Thus it helps management in framing the optimal credit policy. The limitations of the study, such as the implied assumption of linearity of cost data and the neglect of cash discount policy or an integrated investment scheme, do not detract from the operational usefulness of the suggested approach (Mehta, 1968).

2.5.9 Credit Culture

One may need to go for loans to gather adequate funds to buy a vehicle of his choice. But sometimes his financial circumstances deceive and fail to pay the loan amount back in time. The lender keeps on causing nightmares and credit score also gets damaged. In such cases refinancing is the ultimate option and refinance auto loans with bad credit are the perfect tolls in this respect (Muallakinakala, 2008).

One may not run at a constant speed on the economic turf. Sometimes financial situation turns in such a shape that suddenly fall into a trap of emergencies. One need quick funds to settle those emergencies but you fail to arrange adequate amount of money. In such situations one need not wonder in the market with the loan applications. Rather you just need to relax and go for the auto title loan (Marwarne, 2008).

2.5.10 Credit Evaluation Models

The CAMEL Model

Most analysis and credit rating agencies go by the CAMEL model when it comes to evaluating NBFCs. The acronym: C stands for capital adequacy, A stands for asset quality and asset profile in the context of evaluating NPAs, M for management quality of the NBFCs, E stand for earnings (spreads) and L for liquidity. As for how good the spreads are, can be assessed using the ratio of operating costs to total assets ratio. Higher the operating cost, lower the spread.

CAMEL apart, asset-liability management (ALM) is also a vital indicator of an NBFC's fundamental strength. ALM analysis can throw up mismatches in an NBFC's balance sheet.

Not everyone is using the CAMEL model. For instance, RBI is using conventional ratios to track NBFCs and the regulator does not have any specific format for evaluating NBFCs. It is left to the discretion of the RBI inspectors to use a particular ratio while examining an NBFC.

Thanks to the fact that margins of NBFCs are under constant pressure and it is important to understand how NBFCs source their funds. The very survival of NBFCs depends on effective sourcing of funds. The yardstick with they are measured shows the extent to which NBFC has been able to leverage its assets, to obtain bank finance and their exposure to the banking system.

Assessing NPAs is necessary to gauge the strength of an NBFC. So, it is prudent to use the accounts receivable to business volume ratio to know how good the receivables are, how good are the NBFC's recovery systems and whether the NBFC has excellent account receivable management in place.

The net NPA ratio which expresses NPA net of provisions to total advances net of provisions too is important in understanding the soundness of accounts receivable management of the company. This ratio can tell an NBFC's top management whether debt restructuring is needed.

Almost without exception, all business entities carry some type of receivables and loans on the face of the balance sheet. Ordinary operations give rise to finance lease receivables; trade receivables; receivables due from customers under construction contracts; financial instruments with positive fair values and short term loans.

Credit allows customer to obtain goods or services in return for a promise to pay in the future. Today credit shopping is a way of life for many people. One will need to make several decisions on how they will advance credit to their customers. It is important to properly evaluate before granting credit.

CREDIT Information Bureau (India) Ltd. (CIBIL) now has a database of 8 million records of the credit history of individual consumers taken from various banks, financial institutions and non banking finance companies. The database is expected to touch 10 million records by November 2004.

Financial institutions, housing finance companies, and banks, which subscribe to the service, can query CIBIL about the credit history of these borrowers on the payment of nominal fee (Vageesh, 2004). Proper utilization of such data base can find some answers for the credit evaluation in NBFCs.

2.5.11 Intermediaries and Monetary Theory

The Gurley-Shaw interpretation of the effects of financial intermediaries and their implications for monetary theory and policy rests upon certain basic theoretical innovations of the authors. It seems desirable to have some explicit discussion of the ideas in question. Unless they are correct, the major Gurley-Shaw argument and its important and widely discussed policy conclusions would seem to be untenable. On the other hand, if these ideas are valid, they call for wholesale revision of thinking about monetary theory and economic stabilization.

The Gurley-Shaw innovations discussed below are not valid and, therefore, that the authors' argument cannot be accepted. It is impossible here to summarize or to comment on all matters dealt with in the articles in question. This paper limits itself to discussion of certain theoretical innovations that seem to the present writer to be of fundamental importance and to play an essential role in the Gurley-Shaw argument. The main issues can be summarized in two questions: (1) Do commercial banks differ from financial intermediaries in their ability to create credit in any sense that is significant from the point of view of financial control over the economy? (2) Are the concepts of "direct debt" and "indirect debt" useful tools for analyzing financial developments and an appropriate basis for formulating government financial policies to combat instability? Are commercial banks unique in their ability to create credit? Gurley and Shaw explicity propose a departure from the usual way of looking at the role of banks in the economy. There is deviation from conventional doctrine regarding the banking system as one among many financial intermediaries, sharing with the others the functions of indirect finance. Take exception to the view that banks stand apart in their ability to create loanable funds out of hand, while other intermediaries in contrast are busy with the modest brokerage function of transmitting loanable funds that are somehow generated elsewhere" This difference of view, whatever one may decide is its exact nature, would seem to have policy implications.

The present day bankers have the dilemma to lend or not because of their receivable management problem (Chowdhary, 2005).

With recent RBI regulations paving the way for the sale of bad loans, banks seem set to offload their heavy burden of NPAs, and make some hot cash in the process.

The much-maligned non performing assets (NPAs) of Indian banks are poised for a major makeover with the RBI paving the way for the sale of bad loans between banking and non banking financial institutions (Krishnan, 2005).

2.6 NBFCs

So long as the performance of NBFCs is within the guidelines laid down by the RBI and their capital adequacy and lending operations are in order, no purpose is served by a ceiling on lending by banks to NBFCs. Indeed, this would amount to subverting priority lending (Venkitaramanan, 2006).

Finance theorists have argued that banks have a comparative advantage over public debt holders and other suppliers of debt both in gathering information about and in monitoring corporate borrowers. Although underwriters of public debt issues and private placements have access to inside information when executing specific transactions, commercial bankers have ongoing relationships with their corporate borrowers that have often been built up over years. Perhaps more important, banks are also often in a better position and have stronger incentives than a dispersed collection of bondholders to keep tabs on what the borrower do after receiving the capital (Datta, Datta, Patel, 2007).

Bank relationship matters in public debt offerings. This is applicable in case of NBFCs also. As the authors interpret their findings, a banking relationship not only helps to 'certify' the value of corporate borrowers to their stockholders, but also provides other lenders with valuable 'cross-monitoring' benefits that are reflected in lower borrowing costs.

2.6.1 NBFCs- Creditable but Unrecognized Role

In a large country like India with substantial service sector activity, it is important that the role played by NBFCs in credit provision is recognized. They have an extensive network and credibility among their constituents, both borrowers and lenders. In fact, for the unorganized sector they are the source of finance. But they are being given the short-shrift (Vaidyanathan, 2005). Bank financing of trade (non food credit plus food credit) totaled Rs. 72,057 crore in 2003 or about 40 percent of the credit absorbed by the sector (RBI Annual Report 2004). In other words, more than 60 percent of the financial requirement of the non corporate sector in trade is met by NBFCs. This again is an under estimation as a substantial amount of the food credit by banks goes to government organizations such as the Food Corporation of India.

Remember that the truck financing activity is the most innovative and efficient symbol of the NBFC sector. Second-hand truck financing has created a fascinating backbone for the transport industry by focusing on the small man and this has been one of the major contributions of the NBFC sector to the economy. One can, therefore, say that the role of NBFCs in the credit delivery system in both manufacturing and service is significant per se compared to the commercial banks also (Vaidyanathan, 2005).

2.6.2 Are NBFCs being Hounded Out?

A microfinance institution or even a non governmental organization can borrow money through the ECB (external commercial borrowing) route, but not NBFCs, which have been doing just micro credit for the last half century (Ramesh, 2005).

The RBI guidelines restricting deposit-taking by NBFCs are 'irrational' and said that the "RBI should appreciate what would have happened if one of the public sector banks, with a weak bottom line and high NPAs, had been prohibited from receiving fresh deposits, which is what was done to the NBFCs..." (Venkitaramanan, 2008).

2.6.3 Financial Body gets Board

The Ministry of finance and Development planning has appointed a six-member board of directors for the newly formed Non Bank Financial Institutions Regulatory Authority.

The regulatory authority was formed after Parliament passed the Non Bank Financial Institutions Regulatory Bill in December 2006 to regulate non bank financial institutions including micro lenders.

Since the non bank financial sector is a fast evolving environment, it demands a regulatory body that is flexible, independent and robust to respond to supervisory and financial sector stability challenges. Even though the Non Bank Financial Institution Regulatory Act will be regulating the non bank financial institutions, it is said that the Ministry of Finance and Development planning may also issue policy directives to the regulatory authority (Tumelo, 2008).

The classification of NBFCs has been changed over a period of time. The functioning of different categories of NBFCs are not governed by the homogeneous factors. Therefore financial implication can differ for different group of companies. The financial performance of 10 leasing companies has been examined by Saggar (1995) at disaggregate level and compared with other groups of NBFCs for a period of 1985-90. Moreover, a study by Harihar (1998) throws light on the performance of all NBFCs taken together in terms of cost of debut, operating margin, net profit margin, return on net worth, asset turn over ratio etc. The study by Saggar does not reflect the overall performance of NBFCs as it is based on selected 10 companies. The study by Harihar reveals the aggregate performance of NBFCs which does not throw light on the financial performance of different groups of NBFCs. In the light of these limitations, the study of Kantawala (2001) attempts to examine the financial performance of different groups of NBFCs separately. The study attempted to examine the relative financial performance of different groups of NBFCs for the period 1985-86 to 1994-95 in terms of profitability, leverage and liquidity. The reasons of selecting this period for the purpose of study were (a) During this period the number of NBFCs has flourished by leaps and bounds. (b) The absolute amount of deposits with NBFCs have gone up from 4956.6 crore to Rs. 85495. 1 crore (increase is almost 17 times). (c) The share of deposits with reporting NBFCs have gone up over a period of time from 4.78 percent to 16.49 percent (The share is as a percentage of total deposits of Reporting NBFCs Non financial Companies and scheduled commercial banks) (RBI Bulletin, 1997). It also attempts to find out the groups for which majority of the ratios are same (Kantawala, 2001).

On the basis of the study, it was concluded that there exists a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs. When two categories were examined against each other, then the more number of ratios were not statistically different from each other in majority of the cases except where TS+IH are compared with leasing. When all categories are taken together, null hypothesis is accepted for only three ratios indicating thereby that there does not exist a significant difference in only three ratios. From this it follows that the ratios for all categories of NBFCs are generally different from each other. The analysis of variance along with the details about average ratios may become a useful guide to companies to decide about diversification or continuation in the same line of business considering over all profitability within the regulatory framework. In short, different categories of NBFCs behave differently (Kantawala, 2001).

2.7 Regulation of the Activities of NBFCs in Selected Countries

Diversification of the financial sector has been one of the central features of economic growth in several countries. Central feature of the evolution of the financial system has been the emergence of non banking financial institution outside the traditional banking system, including finance companies, leasing companies, merchant banks and trust investment companies. While the willingness of these companies to engage in varied forms of financial intermedia hitherto unavailable to the banking system, has provided the countries with valuable flexibility in financing. Their complex range of activities has opened up challenges for policymakers and regulators to integrate the functioning within the overall framework of the financial system. The regulatory framework for NBFCs in different economies is discussed below (Reserve Bank of India; Asian Development Bank, 1994; Faruqi, 1993; Luckett, Schulze and Wong, 1994).

The system of regulation of NBFIs in a few countries has been studied with a view to drawing lessons from their experiences. The countries include the United Kingdom (U.K.), the United States of America (U.S.A.), Australia, Malaysia, West Germany, Hong Kong and Singapore. The U.K. has a well diversified financial system. NBFIs are regulated by a separate legislation and the SRO concept has been well received in the U.K. as in U.S.A., NBFIs provide varied range of services and their deposits are also insured as in the U.K. In Australia, the NBFIs are regulated by an act which operates concurrently with State and Territory laws. Many NBFIs have converted themselves into banks in recent years. In West Germany, a different set of regulation is laid down for each category of NBFIs. In Malaysia, a wide variety of institutions are operating in an environment of macro-economic stability. In Hong Kong, a single set of regulations governs both banks as well as deposit taking institutions. In Singapore, finance companies operate along the same line as commercial banks except that they cannot operate current accounts. Thus regulatory framework for governing NBFIs in each of the countries has certain special features and has relevance one way or the other to the Indian situation; a study of the same would enable one to understand their characteristics and draw lessons for NBFIs in India.

Australia: The registered NBFCs in Australia were regulated by the Reserve Bank of Australia till June 1992 (under the Financial Services Act, 1974). However, since 1992, the work of regulating and supervising building society and credit unions, which constitute the major segment of the non banking financial institution, had been delegated to the Australian Financial Institutions Commission (AFIC), with the RBA retaining the power to focus exclusively on supervision. In 1992, these building societies and credit unions were brought under the jurisdiction of a principal statutory law.

France: The French banking system consists of a large number of credit institutions which may be authorized as banks, mutual or co-operative banks, savings and prudential institutions, municipal credit banks, specialized finance institutions and financial companies- all of whom are governed by the French Banking Act of 1984. Under the Act, credit institutions need an authorization from the French banking system before beginning their operations.

Hong Kong: Hong Kong maintains a three-tier system of deposit-accepting institutions, *viz.,* licensed banks, rest licensed banks (RLBs) and deposit-taking companies (DTCs). They are collectively known as authorized institutions (AIs) and are subject to the supervision of the Hong Kong Monetary Authority (HKMA). The Banking Ordinance of 1986 constitutes the legal basis for the HKMAs powers to regulate and supervise AIs. Licensed banks alone are permitted to conduct the full range of retail and wholesale banking business.

Indonesia: Insurance companies comprise the largest non bank intermediary in Indonesia. The relatively important insurance companies grew substantially in the decade of the eighties. However, almost half of the assets of the insurance industry are held by five government-owned social insurance companies which primarily provide pension health insurance and workers compensation for the employees of government agencies. As part of the deregulated measures announced in the late 1980s, insurance premiums have been de-regulated and since 1988, these have been left to market forces. Prudential regulatory requirements for life insurance, casualty insurance and re-insurance and restrictions on their investment portfolios were established in the 1990s.

Malaysia: The banking system in Malaysia comprises of three different types of institutions, viz, commercial banks, finance companies and merchant banks. They are licensed and governed under the Banking and Financial Institution Act, 1989 (BAFIA). Only a public company holding a valid license granted by the Minister of Finance on the recommendations of Bank Negara Malaysia (BNM) is allowed to carry on banking, finance company or merchant banking business.

Pakistan: For the last many years, the non bank financial sector has carved out a place for itself in Pakistan's financial market, even though a large portion of financial assets continue to be managed by commercial banks. Prior to December 2002, leasing companies, investment banks, house finance companies, brokerage houses and others largely operated in their respective niches, while the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan (SECP) shared regulatory responsibilities within the non bank financial sector.

Singapore: Finance companies in Singapore are governed by the Finance Companies Act, which are administered by the Monetary Authority of Singapore (MAS). In accordance with the Act, only those finance companies which have been granted licenses are permitted to transact financing business. Except as provided in the Act, a finance company is not permitted to carry on any kind of business other than financing activities. They are also not permitted to account any deposit which is repayable on demand, by cheque, draft or order drawn by a depositor on the finance company. The Finance Companies Act was revised in 1994. The amended Act, *inter alia,* stipulated minimum capital requirements of US$ 50 million, capital ratio not less than 12 percent, maintenance of a reserve fund and transfer prescribed amount to that fund out of the net profits of each year.

Thailand: Non bank savings institutions consist of various units, which include, among others, finance companies credit foncier companies and life insurance companies. The finance companies in Thailand are regulated under the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, 1979, which was subsequently amended in 1985. Newly developed prudential control measures relating to capital adequacy ratio, liquidity ratio, single lending limits, portfolio investment limits, and disclosure requirements are covered under the Act and are designed to follow international best practices.

United Kingdom: The two major enactments which regulate deposit taking and investment business in the UK are the Financial Services Act, 1986 and the Banking Act, 1987. The prime objective of the Banking Act is the protection of depositors' interests. The Financial Services Act, on the other hand, regulates the investment business. Over and above these, there are statutes which regulate the activities of specific categories of companies, such as the Building Societies Act, the Friendly Societies Act, the Insurance Companies Act, the Loan Societies Act and the Credit Unions Act.

United States of America: All financial institutions which do not accept demand deposits and/or do not offer commercial loans are classified as NBFIs. NBFIs include insurance companies, investment banks and brokerage firms, real estate companies, finance companies, mutual funds, pension funds, savings and loan associations, mutual saving banks and credit unions. All these institutions are classified into five categories, viz., Deposit- type NBFIs, Contractual-type NBFIs, Investment-type NBFIs, Financial Companies and others. In recent years, the distinction between different classes of financial institutions has become increasingly blurred in the USA. The non banking financial intermediaries are governed by the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA).

Germany: Non bank financial institutions are governed by special/supplementary laws in Germany. The enactment regulating these institutions are the Mortgage Bank Law and Investment Companies Law, Stock Exchange Law, Securities Deposit Law, the Cheque Law and the Bill of Exchange Law. These regulations apply to all institutions including building societies, postal giro offices and postal savings banks which are not subjected to the KWG (Banking Act applicable to commercial banks).

The aforesaid discussion suggests that the regulation of NBFCs in different economies has evolved over a period of time, depending on the country's political-economy and socio-economic considerations. As the consolidation of the NBFC segment in India gathers momentum, there is the need for the regulatory framework to be tailored to meet the needs evolved in situation as evidenced in these countries.

2.8 Global Experiences

After a hike in the price of fuel was announced in Malaysia, banks have come up with a variety of creative auto loan solutions which will help consumers survive the price rises. This speaks of the necessity of rescheduling in vehicle financing in India especially by NBFCs who are better known for tailor-made solution for borrowers.

2.8.1 Financial Intermediaries

Financial intermediaries play a vital role in building economies. It is found that the sources and the uses of funds are not one and the same in different economies world wide. This process is also so complexly structured that while individual contributions comprise the major source of funds to the market, the utilization of funds is done by different sectors in the economy. Capital formation comprising of saving and Investment holds the key to this process (ICFAI University, 2007).

2.8.2 Embedding Trust and Transparency in American Business

In the growing and dynamic economy of 19th century America, businesses sold vast quantities of goods to one another, mostly on credit. It explains how business men resolved the problems of whom to trust regarding credit and to what extent. In the process, a business system based largely on information circulating through personal networks became dependent on more formalized methods and institutions, First to appear in the 1830s was the credit reporting agency, whose pioneers included the abolitionist Lewis Tappan, and businessmen John Bradstreet and Robert G. Dun (whose firm merged in 1933 to form Dun and Bradstreet). Later, groups of business creditors formed interchanges and bureaus to share information on their customers' payment records. In 1896, the National Association of Credit Men (later to become the National Association of Credit Management) was established, any by 1920, credit men had established both a national credit information clearinghouse and a bureau for American exporters (Olegario, 2006).

An article in the Daily Sentinel reveals terroristic threat that occurred on 2300 block of Cotton Street an employee of a loan company attempted to collect on a loan at someone's home and was threatened with a knife. The employee did not wish to file charges. The problems that financiers encounter in collecting their dues are quite clear from the above article.

A woman was found with multiple stab wounds on her back near the police college in Cheras, the suspect has been apprehended- all because he defaulted on his vehicle loan payments. The taxi driver from Kuala Kangsar was handed over to the police after car repossessors saw bloodstains in his taxi (Shi-lan, 2008). Similar incidents are quite common on the vehicle repossession in India too.

2.8.3 Customer Loan Defaulter in Turkey Double Last Year

The economic slow down in Turkey has negatively affected interest rates on vehicle and home loans, doubling the number of people who have defaulted on loans in 2007 compared to the previous year, according to a statement from Deputy Prime Minister Nazım Ekren (Ankara, 2008).

Lenders have a duty to help borrowers who get into difficulties. "The Financial Services Authority has a rule that says all customers must be treated fairly and borrowers in difficulty must be dealt with sympathetically" (Robson, 2008). The article speaks about the importance of customer care and customer education. In India, RBI has already initiated steps.

Though, that even if assets are repossessed it does not necessarily mean that problems are over, the costs of any arrears and the repossession are still once responsibility. If the property is sold for less than the total debt the lender will still look at to repay what's outstanding. Unfortunately, giving up the property may not be the end of troubles.

2.8.4 Biggest rise in Home Repossession Threats since 1991

The number of people threatened with repossession after failing to keep up mortgage payments has risen by 16 percent over the past year in another sign of the crisis in the property market (Hopkins, 2008). This is true in India also.

The general rule of thumb is that the shortest loan term, the more likely the borrower and the bank will be able to successfully complete the terms of the loan. Part of the reason for tightening credit going forward is for trying to ensure that those future loans will stay on the books as positive loans (McClatchy, 2008).

In India, there are similar situations. 60 month tenure and for a vehicle loan is too longer period especially vehicle changes are fast taking pace may be percentage of funding has to come down.

Securitization of receivables usually involves the sale of cash flows generated by a company's existing pool of assets, "future flow" transactions are backed by income to be derived in the future by an operating company. The route of securitization is adopted even in India by some NBFCs.

Accounts receivables are the part of the working capital. It provides the detailed information on accounts receivables as receivables reflect money, goods, or services which have been earned but not received.

2.8.5 Monitoring by Financial Intermediaries: Banks vs. Non banks

Recent empirical evidence indicates that capital markers respond positively to debt-financing announcements in the form of loan agreements. Non bank firms, prompted largely by technological and telecommunications advances, have also entered the commercial lending market in recent years. It is found evidence that borrowing firms experience positive abnormal returns upon announcing conclusions of loan agreements with non bank firms. Evidence suggests that non banks have replicated some of the unique attributes formerly enjoyed only by banks (Preece, Mullineaux, 1994).

So many people are in way to deep when it comes to debt but they are unaware of it. It is constantly surprised at the way people tell that they have everything under their control. Yet, they don't have enough money to pay the bills without juggling things around. Or they can't buy groceries. Or they may start saving for retirement tomorrow, not realizing that tomorrows add up to too late (Lukac, 2007).

2.8.6 Lessons from the US Sub-prime Lending Crisis

All eyes are directed at the housing market afflicted with a meltdown in its sub-prime mortgage segment. With housing asset values having driven the US economy which, in turn, serves as locomotive for the rest of the world, fears are that this American disease could trigger a global epidemic of slowdown. The assumption is that the original problem is quintessentially American. If it is not, argue Chandrasekhar and Ghosh, the US experience can have lessons for countries such as India (Chandrasekhar, Ghosh, 2007). There is a lot to learn from the lessons of sub prime crisis of US, as the vehicle finance is heading heavily towards sub prime borrowers especially due to the competition. If the recovery guidelines of RBI for Banks and NBFCs are implemented in its letter and spirit there could be a crisis for vehicle financiers especially for NBFCs in short term.

Since 1994, the Kaulkin report has been the authoritative report for the collection industry and many have referred to it as the 'industry bible' (Legrady, 2005).

It is commonly agreed that accounts receivable (AR) can be a source of financial difficulty for firms when they are not efficiently managed and are underperforming. Experience across multiple industries shows that effective management of AR and overall financial performance of firms are positively correlated. The problem of reducing outstanding receivables through improvements in the collections strategy, was discussed especially to demonstrate how supervised learning can be used to build models for predicting the payment outcomes of newly-created invoices, thus enabling customized collection actions tailored for each invoice or customer (Zeng, *et al.*, 2007).

Accounts receivable is the net monetary value realized by an organization through sales. The parameters affecting accounts receivable management include level of sales, terms of sales, and quality of customer. This is important in case of NBFC financing also.

Australia has become a refuge for a new endangered species: the high-flying banker. Bankers facing lay-offs in Europe and the US are looking increasingly at Australia's drum-tight market (Leforte, 2008).

2.8.7 Competitive Environment of Western Banking

Across Western countries there are striking variations in the configurations of financial systems. In some countries, such as the U.S. and U.K., financial markets have been very important for the allocation of resources. In others, such as most Continental European countries, banks have played a more prominent role and financial markets are less developed. In many countries, banks do not hold major equity stakes in industrial companies, while in others, notably Germany, banks are among the largest shareholders. These differences have a long history and could be purely coincidental, but more likely depend on each country's evolution of industrial structure. The varying extent of government involvement could also explain some of these differences. This is particularly true in the U.S. where rigid regulatory structures have fragmented its banking system.

Stability and competitiveness are very likely to be conflicting rather than complementary objectives, thus presenting regulators with a difficult trade-off. In the popular view, restrictions on competition would improve banks' profitability, reduce failure rates and hence safeguard stability (Demsetz, Saidenberg and Strahan, 1996).

The traditional regulatory approach to Western banking implicitly guaranteed stability by reducing competitiveness. The competitive reality of today makes this approach no longer viable. Banking is in flux. It is thus important that one (re)examines the issues of competitiveness and stability. Given the distortions associated with intrusive direct and indirect forms of regulation, it is important to design a banking structure and regulatory framework that make the operations of financial institutions minimally dependent on regulation and supervision.

2.9 Vehicle Finance

Getting an automobile loan is quite easy now-a-days. Organized and institutional auto finance has come of age and companies are aggressively marketing auto loans schemes by offering innovative and tempting offers to the customers. Most of the lending institutions finance up to 90 percent of the cost of the car, depending on the model of the car and the repayment period. Margin Money scheme, Advance equated monthly instalment scheme, Security deposit scheme, Hire Purchase scheme.

Increasing number of borrowers with bad credit records are resorting to taking out loans with exorbitantly high interest against the value of their cars, according to debt counseling charities (Qureshi, 2008).

The practice, known as 'logbook lending', involves specialist companies lending up to 50 percent (sometimes more) of the trade value of the car in return for crippling levels of interest, often in excess of 340 percent.

The borrower signs a credit agreement and a 'bill of sale' which temporarily transfers ownership of the vehicle to the lender- and gives them the right to take possession of it should the borrower fall behind with payments. The company also retains all original documents pertaining to the vehicle, including the insurance certificate, MOT certificate and the V5 registration document, which holds details about the car's owner (Qureshi, 2008).

Having a new car is one of the biggest achievements that most people can have. Purchasing a new car involves high expenditure as in financing education or buying a home.

Car financing companies vary on the interest rates they offer to customers. A customer with a good credit history does not have to pay a high interest rate compared to a person with bad credit history. And if one really want to secure car financing with low interest rates, one should try looking for an online car financing company. By applying for loan online, one save the company time and money, thus the savings from the cost of doing business are passed on to customers (Stith, 2007).

2.9.1 Two wheeler Loans Go Scarce

Banks hesitate to lend for purchase of two wheelers. Such lending has been in decline for more than 15 percent over the past year, said officials from banks which are active in this segment (Kannan, *et al.,* 2008). According to them, high rate of delinquency among customers and the recent norms on appointment of recovery agents have forced banks to go slow on it" Centurion Bank, which is a major player, has reduced lending for two-wheelers by almost 50 percent during 2007-08 (Singh, 2008).

Two wheeler Sales Dip

Two wheeler manufactures have already started feeling the heat. According to Mr. H.S. Goindi Senior Vice-President, TVS Motor, there is a 15 percent dip in sales on account of the tightening of credit norms alone (Kannan, *et al.,* 2008).

Due to recovery problems on two wheeler advances, many banks and NBFCs have stopped financing two wheelers. This may follow suit for some category of vehicles, if the vehicle dealers and manufacturers are not supportive enough to financiers.

2.9.2 Will Truck Finance give Banks the Mileage?

Traditionally the backyard of non banking finance companies, the commercial vehicle lending business has a few new entrants- a few private and foreign banks namely HDFC Bank, ICICI Bank and Citibank through Citi-Corp, the NBFC arm of the Citi group (Mohandas and Vageesh, 2002).

Banks can definitely offer lower rates, thanks to their low cost of funds plus the whole gamut of banking services to fleet operators. But do banks have the required expertise to survive in this rugged terrain? On lending to fleet operators owning less than six vehicles, banks can fulfil their priority sector lending requirements. Banks, however, insist that they are in this segment with a business proposition in mind. Yet, there are words of caution from those familiar with this business. "Car financing may be something that banks are familiar with, but truck financing is a different ballgame altogether", says Mr. P.S. Balasubramaniam, Managing Director, Investment Trust of India Ltd. Repayments may not be the easiest to extract in this business. Income of fleet operators tends to be erratic at times, since it is dependent on another business. Repair and maintenance work of the vehicles may also lead to diversion of money, explains Mr. Balasubramaniam. The new entrants in the business may have to deal with fleet owners who may not have a bank account, leave alone a balance sheet!

However, NBFCs do not deny being affected by the competition. Banks do lack the reach that NBFCs thrive on, especially in remote areas. Conceding that banks have a competitive advantage of cheaper funds, Mr. V. George, Managing Director, India Cements Capital and Finance, adds that this may be neutralized by their higher administrative and salary costs as well as the faster lending and recovery mechanism of NBFCs. This is how the NBFCs are surviving in the midst of heavy competition from banking companies.

2.9.3 Those Who Do Not Follow up on Time

What really bothers is bad follow up. Communication is very important in any business, particularly in finance. One can lose out on opportunities and business if communication with the buyers is suffering due to emails not having been answered on time. Timing is everything in business and communication is a major part of that. Orders are lost because someone didn't follow up with the buyer. The entire business of not answering emails on time is nothing but sheer callousness (Chawla, 2004). The author is highlighting the importance of good follow up and communication. Follow up and proper communication is very important in managing receivables in NBFCs.

2.9.4 Used Car Loans Important Financial Products

In today's competitive loan environment used car loans are much easier to find than they have been. In the auto industry, it is generally easier to find good car loans for new cars as the lender is less concerned about uncertainty as to the car's history. Loan brokers have made it easy for car buyers because of their ability to quickly access loan products from their large collection of provider relationships. Car buyers have the ability to go to a motor loan specialist web site, enter basic information about their needs, and receive car loan quotes based on their needs (Rix, 2008). Used car loans are available at reasonable rates in today's market. Thanks to generally low interest rates in most loan markets. Lenders realizing that the borrowers have more access to loans now than ever before, feel pressured to offer more competitive rates to compete for loan business.

2.9.5 Recovery Agents Learn to Behave, Courtesy SC

"Hello, good morning, sir! This is 'Nitin' calling on behalf of Bank. Can I please get some time later today with you to discuss your overdue car loan, sir?" Don't pinch if one get such a call early in the day after having missed a couple of instalments of car loan. The caller may well be one of the 'recovery agents' who has undergone a 100-hour training meant to transform him from burly, uncivilised rowdy into a soft-spoken gentleman! (Athavale, 2008).

"These boys with education hardly up to SSC level knew just one thing - recover money by hook or by crook from defaulters," says Prakash Patki, general manager of Genesis Academy of Banking and Finance, which is among the 25 institutions, and the only one in Pune, accredited nationally by the Indian Institute of Banking and Finance (IIBF).

They are paid on the basis of the money they manage to get back; as a result, they don't care about the method they use to twist the defaulter's arm.

The high handed means of these agents, who have the tacit support of the banks that employ them, had led to serious incidents, including a defaulter committing suicide, Patki says, explaining the immediate background in which the supreme court directed the Reserve Bank of India to define norms for the training of recovery agents of banks, financial institutions and non banking finance companies.

2.10 NBFC Deposits

Regulation is forcing debt investors to depend more and more on the government, banks and mutual funds. The proposed phase-out of NBFC deposits will only exacerbate the situation. Declining liquidity would, however, counteract these measures and could offer a better deal for investors (Krishnamurthy, 2004).

RBI is aiming to keep NBFCs out side the purview of access to public deposits. Apart from the authors commend it is likely to corpus various other problems
(1) Increase in black money as certain investors are sure to be diverted to unauthorised money lending both for investment and loan
(2) More and more NBFCs will choose the bond route as already happening.

2.10.1 RBI Modifies Deposit Norms for NBFCs- Companies with NOF of Rs. 200 lakh ought to freeze their deposits
The RBI has asked NBFCs with net owned funds of less than Rs.200 lakh to freeze their deposits at current levels.

In a notification, the apex bank has also directed asset finance companies (AFCs), having a minimum investment grade credit rating and CRAR (capital-to-risk assets ratio) of 12 percent, to bring down public deposits to a level that is 1.5 times their NOF. In the case of other NBFCs, the RBI wants them to bring their public deposits to a level equal to their NOF by March 31, 2009 (The Hindu, 2008).

2.10.1 RBI Bars Sahara India Financial from Accepting Public Deposits

Sahara India Financial Corporation (SIFCL), the largest deposit-taking non banking finance company in the country, has been barred by the Reserve Bank of India from accepting public deposits with immediate effect (Business Line, 2008).

SIFCL, the country's largest residuary NBFC, got a reprieve on Thursday after it managed to get a stay on the ban imposed on it by the Reserve Bank of India (Seetharaman, 2008).

The government of Uttar Pradesh (UP) wrote to the Reserve Bank of India (RBI) on June 4, seeking explanation as to what was being done to protect the interests of investors of Sahara group's para-banking company, SIFCL (Shivakumar, 2008).

In a temporary relief for SIFCL, the Supreme Court asked the RBI to give a fresh hearing to the company, while keeping in abeyance the RBI's June 4 order that refrained the Sahara arm from accepting fresh deposits from the public (The Telegraph, 2008).

In a climb down, the Reserve Bank of India has revoked the bank on Sahara India Financial Corporation, the residuary non banking finance company (RNBC), saying it can now accept deposits that mature on or before June 30, 2011 (Seetharaman and Rebello, 2008).

With this liberalized direction of RBI the 'Sahara' may amaze deposit, with them hereafter with the maturity by June 2011. Instead of giving blanket permission RBI should have suggested for a staggered maturity (for fresh deposit collection) at least from end of 2008 onwards. Now what is going to happen is a financial crunch for Sahara in June 2011.

2.11 Regulatory Framework

Banks may no longer be able to resort to strong-arm techniques for loan recovery. The draft guidelines issued by the Reserve Bank of India suggest that banks should use the forum of Lok Adalat for the recovery of personal loans, credit card loans or housing loans of less than Rs.10 lakh. Recently, some banks have been in the spotlight for alleged harassment of their customers by recovery agents. In order to have a legal recourse for recovery of loans, Indian Banks' Association had earlier suggested having special fast track courts on the lines of Lok Adalat. The IBA has set up a working group in order to study the various possibilities for loan recovery. Countries such as the UK and the US have special fast track courts, which deal with cases pertaining to recovery and repossession. Unlikely we do not have such an arrangement.

Banks should not sell their NPAs at a price lower than the net present value arrived in a manner mentioned by the Reserve Bank of India, said a notification from the apex bank. Such provisions are naturally to be extended to NBFCs also.

Recovery of bank loan has become speeder and easier after the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, according to the Chairperson Debts Recovery Appellate Tribunal, Southern Region. Justice K. Ganaprakasam
Sadly in spite of big hue and cry by NBFCs and their associations for extending the act to them, no move to that direction has taken place. This may be due to the lesser degree of regulatory control over NBFCs by RBI in comparison to banks, as well almost every NBFC in the country is in private sector and they have no direct rule in discharging the sovereign function of the country.

2.11.1 Recovery Agents: Guidelines may Open a Pandora's Box:-

And it may impinge on the autonomy of banks or inhibit their efforts

Repayment and recovery are not the two sides of the same coin. Repayment is voluntary and done in stipulated time. Recovery is needed when there is no repayment. Recovery always implies an element of coercion and pressure. The million dollar question is where to draw a line between the acceptable and avoidable! Informing the borrowers of the details of the recovery agents (RAs) is certainly desirable to avoid unauthorised and unscrupulous persons entering the arena or adopting any unsavoury methods for recovery. It would help eliminate possible impersonation and frauds too. It can be made mandatory. Recovery targets and incentives can't be altogether avoided. The success rate in any recovery effort is in a way linked to subtle pressure and offer of a carrot, particularly in case of outside agents. The terms and conditions of the contract are best left to the banks. What however needs to be emphasized is adherence to the rule of law and avoidance of intimidation and questionable methods, rather than prescribe a straight jacket document (Murty, 2007).

Banks and NBFC may have to make a provision for recording the calls made by recovery agents to customers and vice versa, according to the second draft guidelines on recovery agents issued by the RBI. Banks may also have to place an updated list of recovery agents on their Web site and conduct periodical verification of the antecedents of employees of recovery agents, which may include verification through police. While the revised guidelines may allow banks to continue recovery proceedings if the borrower continuously makes frivolous or vexatious complaints, they can also utilize the services of a credit counsellor if the case of a particular borrower deserves sympathetic consideration, said the draft guidelines (Business Line, 2008). Banks may be permitted to tie up with the Indian Institute of Banking and Finance and other training colleges to that every recovery agent passes the examination conducted by IIBF in a year. Similar arrangements are necessary for NBFCs.

2.11.2 Frauds- Future Approach towards Monitoring of Frauds in NBFCs

Incidence of frauds in NBFCs is a matter of concern. While the primary responsibility for preventing frauds lies with NBFCs themselves, a reporting system for frauds is prescribed by RBI and this is to be adopted by them as and when need arises. It is possible that frauds are, at times, detected in NBFCs long after their perpetration. NBFCs should, therefore, ensure that a reporting system is in place so that frauds are reported without any delay. NBFCs should fix staff accountability irrespective of delays in reporting of fraud cases to the Reserve Bank.

NBFCs should follow the following guidelines for reporting of frauds such as unauthorized credit facilities extended by the NBFC for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities.

(a) In dealing with cases of fraud/embezzlement, NBFCs should not merely be actuated by the necessity of recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished.

(b) Therefore, as a general rule, the following cases should invariably be referred to the State Police.

   (i) Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of NBFC staff/officers.

(ii) Cases of fraud committed by NBFC employees, when it involves NBFC funds exceeding Rs. 10,000.

It is true that fraud too takes place in NBFCs with and without the connivance of NBFC officials. Moral code of ethics and conduct is essential for NBFC employees to reduce frauds if not totally preventing it.

Banks should adopt legal path for all sorts of debt recovery and should be more transparent in terms of distributing loans, said the RBI. The RBI has received several complaints from public against using muscle power and rude behaviour used by recovery agents (Ahmed, 2007).

2.12 Non Performing Assets (NPA)

Non performing asset means an asset or an account of borrower, which has been classified by a bank or financial institution as substandard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by RBI. RBI has different set of regulatory frame work both for banking and non banking financial institutions. Prudential norms issued for non banking finance companies by RBI also deals with the norms for their NPA. NPA is derived out of non payment of interest or principal by borrowers which are overdue for certain period. Provisioning and write offs are part of prudential norms as notified on 2nd January 1998 and immediate amendment on 31 January 1998 (on the hue and cry of the NBFCs and their associations) and subsequent amendments thereafter.

Prudential Norms

Pursuant to the recommendations of the Narasimham Committee and Shah Committee for the first time the RBI had prescribed with effect from 1st April 1993 prudential norms for all types of financial companies with net owned funds on Rs. 50 lakh and above which had to be compulsory registered with. Further, in public interest to regulate the credit system to the advantage of the country, in exercise of powers conferred by Section 45 J(a) of the amended RBI Act, 1934, in 1997, RBI issued directions with effect from 2nd January 1998 (Notification No. DFC.115/DG(SPT) 198 dt. January 2, 1998). The prudential norms described related to (1) income recognition (2) accounting standards (3) asset classification (4) provisioning for loan and advances (bad and doubtful assets) norms for NPA (5) capital adequacy ratio (6) concentration of credit and investments, etc.

Economic wealth is perhaps being frittered away without any attempt to find out whether it can be reactivated to generate returns. The concept of non performing assets has become the scourge of quite a few banks and NBFCs which are trying out various methods to deal with the problem. But what are the factors that have made assets non performing? Was the financing done on time in keeping with the performance projections assumed and accepted for the purpose of funding? If not, non accrual of income at the expected time creates a certain cost not earlier envisaged in the funding pattern. This often has snowball effect. Was the financing done to the required level, or was part-funding released in tune with the available sanctioning powers of the authority concerned? It would then be futile to expect 'X' level of performance, which would pre-suppose 'Y' level of funding, when only a percentage of 'Y' was made available. Was the funding given as per requirements of the venture? For example, under-financing of capital expenditure could result in working capital being diverted for capital expenditure-financial indiscipline, no doubt, but where should the blame lie? (Radhakrishnan, 2006).

Diversion of funds do happen in vehicle finance in NBFCs by delivery of low variance of vehicles with the connivance of dealers or mediators.

This results in overfunding and ultimately ending up in receivable problems. Before extreme steps are initiated for recovery of dues, has a viability exercise been carried out to assess the potential of the unit in difficulty to turn around? Is there any certification or confirmation in a bank that the exercise mentioned in the previous point has been carried out in respect of each of the accounts put under recovery proceedings, and the non viability established? Such a certification is as important as that relating to whether the listing out of the NPAs has been properly done to include all such accounts, and needs to be examined at all levels and by all connected agencies, whether inside the bank, auditors (statutory/concurrent/ internal), regulators, with as much keenness as the classification of NPAs (Radhakrishnan, 2006).

Even while bank managements claim to have initiated stringent measures to reduce the NPA level, the unions contend that the real and full extent of NPAs were being masqueraded by various methods. Every bank makes huge provision for NPAs in the form of allowing concessions, interest waiver, compromise settlement, corporate debt restructuring, etc. This exercise results in lowering the NPA, and not in actual recovery. If serious steps are taken to recover the dues, there would be no dearth of capital in banks. It is seen that even the employees unions are concerned about the state off affairs of recovery and write offs.

2.12.1 Recovery Ratings of NPAs

Recovery rating is a process of assessing the extent and possibility of recovery from a defaulted asset or NPA. Distressed or non performing asses can now have a better market with the credit rating agencies offering to rate such assets.

The rating agency will assign the rating on the basis of the possibility and extent of recovery from a defaulted or non performing asset through its recovery rating mechanism (Kannan, 2007).

2.13 High Handedness of Recovery Men

At the time of entering into a banking transaction, customers, generally worry about a few matters, mostly are:

1. Misuse of customer information and records
2. Unnecessary harassment by recovery agents

A genuine customer need not worry about these matters as the Reserve Bank of India, Indian Banking Association and courts have explicitly provided some guidelines in these matters.

In case of any grievance, the customer can approach any regulatory body for resolution of grievance. RBI has specifically provided that all banks/NBFC will be held responsible not only for their own actions but also the actions of their agents ie., DMAs (distributed multi-agent system) or franchisee or agent with any other name. So these guidelines apply to bank/NBFC and their agents (Shah, 2006).

2.13.1 Debt Collection through Agency

Bank/NBFC can outsource debt collection work by appointing an agency. It shall ensure that all recovery agents must carry a letter in the name of an individual or an agency authorizing them to undertake debut collection work. Preferably, a person employed in such agency shall be issued an identity card that is to be carried at the time of debt collection work. Hence, customer can check authorization letter and identify card to verify authority of person to deal in the matter (Shah, 2006).

All written communications sent by agency should contain name and contact details of concerned officer. Agent shall contact customer within 7.00 am to 7.00 pm only and interact in civil manner. Calls and visits for debt collection are to be avoided when the customer is in the grip of a tragic occurrence. Bank or its agent shall not resort to any kind of threat or harassment to anyone for debt collection. Word 'anyone' includes customer, his family members, friends, colleagues or referee. Bank or its agent shall not pass any false or misleading information with intention to humiliate anyone publicly (Shah, 2006).

Article explains the rights of the borrowers of banking and non banking finance companies. The question of collection agency itself crop up only when borrowers are chronic defaulters. There are some NBFCs who are totally out sourcing the collection mechanism, without handling themselves at least the soft part of the work at initial stages. This is where the pinch is more for the casual defaulters, where agencies do not have soft mechanism or there is no responsibility to maintain good relationships. Slow process of judiciary in our country and the so called social responsibility attitude of judiciary towards defaulters are the major reasons for the oppressive measures adopted for the recovery by the financiers.

2.13.2 Recovery by Force

It is heartening to note that the RBI, in its mid-term review of monetary policy (2007), has indicated that it would not take a very strong view and even stringent action if bank's agents use force to recover loan overdues. A private sector bank is running ads featuring a prominent film hero staging it will treat the customers with respect and that it has mandated that agents follow the code of conduct.

But the ground reality is that nobody can control the agents who, in their greed to earn hefty commissions, often use all methods, including force, to recover the dues. Dr. Reddy (RBI, Governor) has put it very nicely while replying to a question by a reporter whether he would consider a ban on recovery agents: "We are hoping that our threat would work" I hope, the RBI will take its intent to the logical conclusion and severely reprimand the top officials of any banks that indulge in such practices, apart from any other stringent action (Narayanan, 2007).

2.13.3 Arm of the Law is Stronger than Muscle Power

Many people do not borrow money from banks and financial institutions for genuine purpose. For example, some take loan on the pretext of investing in agriculture. But the money is spent for some unproductive purpose. Loans are at times spent even for luxuries. This makes repayment more difficult. Loans are given to undeserving people. Banks and financial institutions then try to recover the amount, sometimes resorting to harassment. This is natural because it is a question of their very existence. They cannot just forgo the amount. But tyrannical means have to be avoided. For that, loans should be paid in instalments after verifying that the amount given as first instalment is spent for the purpose for which it is given. If the investment is for a genuine purpose, the bank can be sure that the borrower will repay the amount. If there is real loss due to unforeseen reasons, the government should intervene and write off the amount in genuine cases (Paily, 2007).

2.13.4 A Chronicle of Excesses by Loan Recovery Agents in India

More than a dozen recovery agents, riding on bikes forced Someshwari Prasad, a famous lawyer to stop his car. Prasad was held at gunpoint, slapped and made to pay up. The only reason Prasad was mistreated because he was yet to pay the last instalment of his loan, which was a sum of Rs. 6500.

Vikas Porwal a resident of Ujjain who had taken a loan for a Toyota Qualis and defaulted on two repayments was abducted and held hostage at a bank premises by recovery agents. Later police raided the bank and charged the recovery agents with abduction.

Jitendra Singh a resident of Eldeco Colony, was traveling in his financed Santro car when he was intercepted by four motorcycle born recovery agents and asked him to part with the car keys. According to police they fired in the air and also looted some cash from Jitendra. These agents forcibly took a cheque and an amount of Rs. 5500 from him. Ashish, Jitendra's brother who was also traveling with him, raised the alarm and police came to their rescue. The agents were nabbed and a case of abduction was filed against them.

Harinder Singh, a senior citizen who resides in Chandigarh was threatened by recovery agents who were having a fictitious arrest warrant against his name. They used it to collect a payment of Rs. 14,300 for a default, which Harinder claimed that he had never committed. The bank later vindicated Harinder's stand and stated that no money was due and hence no demand for the money ought to have been made. However, when asked about how the bank's recovery agents were able to file legal proceedings for recovery, every concerned official skirted the responsibility. Harinder was surprised on how it was possible that some persons might have obtained the customer's name, credit card number, phone number, the amount allegedly due and falsely represented to be a police officer and a lawyer, respectively, and benefited the bank by using the threat of arrest details, without the connivance of bank officials.

Dheeraj Jain who had taken a two-wheeler loan, got an overdue payment notice from his bank, which gave him seven days to deposit the amount of Rs.1,889.

But just after two days four recovery agents stopped him near Mori Gate bus terminal and snatched his vehicle. It was later sold by the bank. When confronted in courts, the bank maintained that it used 'legal' means to repossess the vehicle but the court found it otherwise. The bank was asked to refund Rs 32,205 as the cost of the vehicle since the bank had sold it. A compensation of Rs 20,000 and Rs 1000 as the cost of litigation to Dheeraj was also slapped on the bank (Aggarwal, 2007).

In a bizarre incident of auto loan recovery turning into a personal vendetta, a bunch of former Bajaj Auto Finance Ltd beat up the cousin of a Dapodi resident who took a Rs 60,000 loan some 30 months ago. The reason being that 24-year-old Aniket Hazare had intervened a month ago when the recovery agents - then working with the auto finance company - had made a forceful entry in to the Hazare residence to recover the dues from cousin Tushar Hazare (Ananthapadmanabhan, 2008).

Situation in NBFCs vehicle finance recovery take place more or less in similar fashion. Only difference is that the recovery works in NBFCs are mainly handled by their own men because of which much of the problems are sorted out then and there except those that relating to some criminal activities connected to repossessing or hard core problems.

2.13.5 Stop using Muscle Power for Loan Recovery

Using hired goondas to recover loan amount is nothing but a clear-cut criminal activity and the Supreme Court has to compel banks and NBFCs to stop using muscle power for loan recovery.

In a recent case, Delhi State Consumer Dispute Redressal Commission has fined ICICI, India's largest private bank, a worth of Rs. 55 lakh for using muscle power to recover the loan amount from the defaulter. The consumer commission has criticised the bank for hiring the 'goondas', who had beaten the defaulter's friend unknowingly without trying to recognise the actual person. The Commission has also issued a notice to the Chief Executive Officer of the bank asking explanation for using muscle power to recover the loan, going against the direction of the Supreme Court, about the rules and regulation regarding loan recovery.

While imposing the fine of Rs. 55 lakh to the Bank, Justice J. D. Kapoor said, "We hold ICICI Bank guilty of the grossest kind of deficiency in service and unfair trade practice in breach of terms of contract of hire-purchase/loan agreement by seizing the vehicle illegally." (NI Wire, 2007).

2.13.6 Supreme Court Speaks for Bank Customers

India's legal system can work very slowly with the massive backlog of cases that it has. Due to this backlog and the time it could take to get a case heard, people resort to their own form of justice or get frustrated waiting for a resolution to the cases. In the case of a bank that has given a loan to a person and the person is delinquent about repaying the loan, the proper procedure is to institute a complaint and follows the proper legal procedure for recovering the loan. This would take a lot of time, and hence banks use the services of goons, loan recovery agents who use force, etc (Ashish, 2008).

2.14 Malaise of Indian Financial System: The Need for Reforms

The financial sector, world wide is faced with adjustment problems of facing up to rapid changes in the environment. The Indian financial system cannot be immune to this universal phenomenon.

More importantly, the overall policy thrust was on ensuring that financial intermediaries fully met the credit demands for "productive purposes" and, therefore, the felt need of the borrower gained primacy over the viability of the financial intermediary and the safety and security of the saver was put at a discount. What was most disconcerting was the fact that borrowers defaulted on loans without inviting any adverse action. Lest this sound like a denigration of the Indian system but this was a world-wide phenomenon. In the context of the increasing fragility of the financial system, globally, there emerged in the eighties the now famous Basle prudential norms.

It is recognized that recovery of NPAs is not an easy task and the sheer attrition of time results in an accretion to NPAs as loans are down-graded on the asset classification ladder. There is a general perception, reinforced by the global rating agencies, that actual NPAs are higher than indicated by the numbers and there is at least anecdotal evidence of ever greening (Tarapore, 2000).

2.14.1 Financial Performance and Diversification Strategy of Indian Business Groups

During periods of low competition in the Indian economy (1987-91), profitability and net profit margins were negatively related to degree of product diversification. During 1991-95, a period of high growth rates for business groups post-liberalization, it was found that profitability, net profit margins and sales turnover were negatively related to a group's product scope. In 1995-99, a period of high competition from industrial deregulation, we found that growth and sales turnover of business groups were negatively related to their diversification levels. The results in the later periods also seem to be influenced by the capital market's preference for focused business groups. So, the differences among the performance indicators across sub-periods apparently exhibit the influence of diverse competitive factors and economic characteristics prevailing during the three sub periods (Kakani, 2002).

NBFCs are popular because of their added advantage over banking institutions in terms of high customer orientation, lower transaction costs, quick decision-making, easy registrations, lesser regulations and higher flexibility. Flexibility in their structure also allows NBFCs to un-bundle services provided by banks and market the components on a competitive basis. These distinctive features armed with economic liberalization contributed to great proliferation of NBFCs activities in India (Nisar and Aziz, 2004).

New generation NBFCs are trying to capture through allied financial services- a departure from their traditional asset financing (vehicle financing) as competition kills the existing players. New players are trying to establish through different routes.

In early March 2007, Reliance Capital surprised the market with an announcement that it was entering the microfinance segment– it said it would lend to microfinance institutions (MFIs) that would then advance money to self-help groups and poor people at the grassroots level. On the face of it, this initiative wasn't novel, except that it came from a NBFC in a segment that most banks are still reluctant to enter.

2.14.2 New Kids on the Block

Several large business houses are entering the NBFC segment. Apart from the more traditional loans business, the following emerging segments attract NBFCs.

Insurance: In June 2000, RBI allowed NBFCs to enter the insurance business.

Credit Cards: In July 2004, the apex bank allowed NBFCs to launch their own credit cards, either on their own or in association with another NBFC or scheduled commercial bank.

Distribution of Mutual Funds Products: During 2006-07, RBI permitted NBFCs to distribute mutual funds products as agents of MFs.

Money Changing and Money Transfer: In 2002, RBI included the money changing and money transfer business in the list of businesses that NBFCs could carry on.

According to Gagan Banga (CEO, Indiabulls Financial Services, 2008) their business model is independent of whether they get a banking license.

They have already seen momentum in building up their financial services business" (Pankaj Razdan, 2008, Deputy CEO, Aditya Birla Financial Services)

Their (NBFC's) larger presence in semi-urban and rural areas gives them an edge over private sector banks" (Atul Pande, 2008, MD, Cholamandalam DBS Finance).

NBFCs are now looking at the financial services business in a much more holistic manner" (Praveen Kadle, 2008, CEO, Tata Capital).

Now the latest hot news in June 2008 is that "Magma Shrachi to finance vehicle market" Vehicle industry shall witness a new financier in the coming few month. One of the biggest non banking finance companies, Magma Shrachi Ltd. is in talks with various auto companies for their vehicle finances. Magma Shrachi is eyeing a bigger market share of the vehicle finance market in India. It has already signed tie-ups with General Motors, Hyundai and Mahindra. It already has a tie-up with Suzuki to finance their 2,40,000 cars annually.

Magma Shrachi is one of the biggest growing financial companies in India. It currently has 161 branches across the country and 3974 employees. It had been able to show 20 percent growth in its commercial vehicle segment in the past year in spite of considerable show down in the sales of new trucks. It now aims to achieve penetration in the non traditional urban market to boost its passenger car financing volumes (Satish, 2008).

The article highlights on the increasing competition in non banking finance companies, especially in vehicle financing. On the one hand, competition in vehicle financing will continue to increase because of the market dynamics and on the other, restrictions on the recovery method and procedures will also increase because of the intervention of RBI as well as various courts from time to time. All these clearly spells that there is no easy cake walk solution to the problems of NBFCs.

Chapter 3

Role of NBFCs in the Financial System, its Present Scenario and Receivable Management

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Role of NBFCs in the Financial System, its Present Scenario and Receivable Management

The financial system of India comprises various institutions engaged in the financial market of the country's economy. These institutions include all India level financial institutions like IFCI, IDBI, NABARD, SIDBI, NHB and others. The investment institutions including UTI, LIC, GIC and State level financial institutions like SFC, SIDCO, etc. and the Commercial Banks, Co-operative banks, Mutual funds, the new generation private sector insurance companies both in Life insurance and General insurance and the Non Banking Financial Institutions, Chit funds, Housing finance companies, etc. form part of financial system of the country. In addition to the above, there are various intermediaries operating in the Capital and money market which also form an integral part of the financial system. Thus the financial system is closely interwoven with various financial subsystems in which Non Banking Finance Companies do play important role and have a significant position.

3.1 Instalment Credit

In olden days, finance companies were set up to provide credit to house holds or firms, usually to finance the purchase of appliances or equipment. The first known example is in the United States, of a retailer providing instalment credit to its customers was the New York furniture company of Cowperwait and Sons, which began this practice in 1807 (Khan, 1997). The practice soon spread throughout the furniture business. It was later taken up by the manufacturers of the major household appliances like sewing machines and pianos of the nineteenth century (Singer began offering instalment credit in 1850).

However, instalment credit really took off only with the beginning of the mass marketing of automobile from 1915 (Khan, 1977). Automobile companies set up specialized subsidiaries called finance companies to provide instalment credit to car buyers and to finance the inventories of dealers and suppliers. The automobile companies were soon followed by retailers and manufacturers of consumer durables and producer durables. The ideas spread from the United States to many other countries.

Globally, finance companies have competed successfully with banks when they have chosen automobile loans and equipment leasing. Finance companies were better at this than banks (Khan, 1997). They were often subsidiaries of manufacturers of equipments or vehicles which gave them informational advantage. Even if they were not associated with manufacturers, specialisation has allowed them to acquire a great deal of experience. In 1970, 80s and early 90s, many finance companies expanded their activities beyond their area of expertise. One of the important reasons was their desire for diversification.

3.2 Evolution of the Growth of NBFCs

NBFCs and unincorporated bodies have been competing and complementing the services of commercial banks since yester-years all over the world. While, the financial system in a country generally develops through a process of gradual evolution, it has been observed that there is a stage in the evolutionary process wherein the growth of NBFCs is more pronounced than other components of the financial system. Further, they take different forms and sizes depending upon the needs of their clients. Thus, in the United States of America, the growth of NBFCs were more pronounced during the first three decades of the 20th century and two of the top five commercial lenders were NBFCs and three of the four top providers of consortium finance are non bank firms (Pahwa and Pahwa, 1998). In India, such marked growth in the non bank financial sector was noticed during the last two decades of the 20th century. The NBFIs, as a group, have succeeded in broadening the range of financial services rendered to the public during that period.

Initially intended to cater to the needs of the savers and investors, NBFCs later on developed into institutions that can provide services similar to those of banks. In India, several factors have contributed to the growth of NBFCs. They provided tailor-made services to their clients. Comprehensive regulation of the banking system and absence of relatively lower degree of regulation over NBFCs has been one of the main reasons for the unprecedented growth momentum of the latter (Shekhar and Shekhar, 1998). Further, their higher level of customer orientation in as much as lesser pre and post sanction requirements, simplicity and speed of their services has attracted customers to these companies. The monetary and credit policy followed by the country has left a section of the borrowers outside the purview of the commercial banks and NBFCs catered to the needs of this section. Further, the marginally higher rates of interest on deposits offered by the NBFCs have also attracted towards them a large number of small savers.

In many countries, NBFCs have been able to serve the household, farm and small enterprise sectors on a sustained basis. However, regulation of their activities was found unwarranted since their operations were limited and they were not in a position to create money, like the commercial banks. It was Gurley and Shaw (1960), for the first time, established that the NBFCs compete with the monetary system and there is a need to regulate them. Of late, the vast size of these institutions, both in terms of number of units and depositors, has made it impossible to ignore them.

3.3 Recognition for the growth of NBFCs

There was thus a growing realization among the monetary authorities that there was the need to link financial institutions to the formal financial system with a view to ensuring a competitive environment. It had also been revealed that economic development and growth of NBFCs are positively correlated (Vasanth Desai, 2001). In this regard, the World Development Report (1989) has observed that banks in developing countries hold a bigger share of all financial assets (48 percent) than they do in industrialised countries (37 percent). In contrast, non bank intermediaries and contractual savings institutions (ie., life insurance and pension funds) hold a much larger share of financial assets in high income countries than they do in developing ones (Pahwa and Pahwa, 1998).

As the demand for financial services grow, countries need to encourage the development of NBFCs and securities markets in order to broaden the range of services and to stimulate competition and efficiency. Some countries have already made considerable progress towards more diversified financial system. Among developing countries, Brazil, India, Jordan, Korea and Malaysia are having a large non bank financial sector.

3.4 Financial Services Industry in India

Indian financial sector consists of three major entities (Ravichandran, 1999):

(a) Development Banking Institutions

(b) Banking Institutions

(c) Non Banking Financial Intermediaries: A major component of NBIs is Non Banking Financial Companies.

Thus Non Banking Financial Companies are an important part of the financial system in their role as financial intermediaries. There are considerable similarities between commercial banks and Non Banking Financial Companies. Both offer many common services and are competing with each other in certain segments. The distinction between banks and NBFCs is fast blurring. The chief distinction that still remains is that banks perform the function of liquidity creation whereas NBFCs do not.

In a way, it can be said that NBFCs are doing business akin to that of banks and the other differences between banks and NBFCs are as follows (www.rbi.org.in).

a) NBFCs cannot accept Demand Deposits.
b) NBFCs are not part of the payment and settlement system and as such cannot issue cheques to its customers.
c) Deposit insurance facility of Deposit Insurance Credit Guarantee Corporation (DICGC) is not available for NBFC deposits like in case of banks.

3.5 Evolution of NBFCs in India

Initially NBFCs started out as support companies for industrial houses. Their purpose was to act as a fixed deposit collection front and at best, work out leasing deals for the clients of these industrial houses. Soon the need for NBFCs to assume a larger role as financial intermediaries involved in efficient allocation of monetary resources started to surface. Their product and service profile changed with the addition of new products like hire purchase and leasing (Ravichandran, 1999).

With the introduction of economic reforms and abolition of the Controller of Capital Issues regime and the allowing of free pricing of public offers, there was a boom in the financial services sector (Ravichandran, 1999). As more companies needed to tap the capital market, NBFCs also entered into merchant banking. Investment banking was the next logical step. Merchant banking involves a wide range of activities most of which are non fund based. Merchant banking is generally international in nature, and financial services and advice are generally offered for a fee. Thus, NBFCs branched out from fund-based activities to fee-based activities.

The situation was that with the huge demand and the low entry barriers, many could start and own financial service companies during that period. Finance could be accessed from capital markets without any need for an established track record. Thus, it was possible for many fly-by-night companies to just advertise for and start accepting deposits, without being subjected to any kind of appraisal.

These companies got their business from corporates which did not have market standing and could not access funds from banks. Despite the high cost of funds, they preferred borrowing from NBFCs because only few questions were asked, service was speedy and there was great flexibility in structuring the repayments. Thus, NBFCs could command high premiums and grew at a frantic pace. The total number of NBFCs in India, as of 1998 was estimated to be around 45000 and in order to get high returns, a riskier portfolio of assets were maintained by them, which increased the depositors' risk in the long run (Ravichandran, 1999). Moreover, the low ratio between paid up capital and deposits and the lack of deposit insurance made it even riskier proposition.

The fact that NBFCs have also grown along with banks and financial institutions, reflect the preference of some investors who prefer to make a more risky investment in NBFCs with higher return expectation.

3.6 Factors Leading to NBFC Proliferation

The factors leading to NBFC proliferation can be broadly classified into asset-side and liability-side factors. The liability-side factors deal with the depositors who lend money to the NBFCs while the asset-side factors concern the consumers to whom the NBFCs lend money.

The asset-side factors include the provision of tailor-made services to clients, a high level of customer-orientation, simplicity and speed of transactions. Combined with these factors are the low degree of control and regulation and fewer pre and post sanction requirements resulting in less hassle for the customer. All these factors contributed to the faster momentum of growth for NBFCs (Ravichandran, 1999).

On the liability-side, the higher rates of interest offered by NBFCs resulted in some flow from the banking sector to NBFCs. This included small savers who were attracted by rates of return that were above average. To the extent that the high interest rates offered by NBFCs resulted in transfer of funds from dormant currency holdings to NBFC deposits, thus NBFCs have played a major role in increasing the degree of financialisation of savings through widening of the resource base (Ravichandran, 1999).

3.7 Activities of NBFCs

Activities of NBFCs can be classified into two main categories (Verma, 1997):

1. Fund based activities
2. Fee based activities (Consulting services)

We shall be concentrating our study on the fund based activities of NBFCs as the relevance of receivable is applicable to fund based activities, that is asset based financing.

In India, the last decade of the 20th century has witnessed a phenomenal increase in the number of NBFCs. The number of such companies which stood at 7063 in 1981, increased to 37880 by 1994 (Khanna Committee Report, 1996). Simultaneously deposits with NBFCs have increased despite the fact that there are quite a few advantages attached to interest-earning bank deposits, such as, the deposit insurance cover, cheque facilities for saving bank deposits and tax concessions in respect of interest earned (Repealed Section 80L of the Income Tax Act, 1961). The main reasons for growth of deposits with NBFCs were the greater customer orientation and higher rate of interest offered by them as compared to banks. A depositor is primarily concerned with liquidity, safety and yield on deposits. As far as liquidity is concerned, term deposits with banks and deposits with the NBFCs are more or less at par. As regards safety, there does not seem to be sufficient awareness of the risks a depositor runs in placing his funds with NBFCs whose activities are not sufficiently regulated or supervised. Investment decision by a depositor is largely guided by the yield on his investment. This is more so under conditions of high inflationary pressures. In order to maintain real value of his savings, a depositor might be willing to place his funds with some risk. Further, the NBFCs were in a position to pay higher interest to their depositors, since many of them were able to deploy their resources in segments where there are credit gaps at rates higher than those charged by banks (Verma, 1997).

With this background, during 1980s, NBFCs had high growth especially when there were no regulatory restrictions and entry barriers. Any one who desired of owning a finance company could do so. During that period, they could incorporate a company with Registrar of Companies with out knowing about it by RBI or even didn't have to report to them. This scenario has resulted in the mushroom growth of NBFCs. Both Government and RBI were concerned about this frantic growth of NBFCs at that time especially with regard to safeguarding the interest of depositors.

Many of the developed and developing countries did not permit NBFCs to access public deposits, however in India it was permitted as well it did not have proper regulatory controls. All these resulted in the need for NBFC regulations.

3.8 Need for NBFC Regulation and Appointment of Various Committees

NBFCs have been operating for quite a long time. However, an attempt to regulate them started only in the sixties. Regulation of these institutions were found necessary for the following three reasons, viz.,

(i) ensuring efficacy of credit and monetary policy

(ii) safeguarding depositors' interest, and

(iii) ensuring healthy growth of NBFCs.

In recognition of the fact that NBFCs are an integral part of the money market and for the efficient working of the financial system all parts of the system needed to be integrated and regulated. It is against this background that from time to time various study groups have been appointed by the Government of India and RBI for examining the role and regulatory framework of NBFCs.

Both Government of India and RBI were concerned with the frantic growth of NBFCs in terms of their number and in terms of growth of deposits held by these companies. During that time, there was hardly any regulatory framework other than that of the Non Banking Financial Companies (Reserve Bank Directions, 1977). These directions proved to be insufficient in regulating the functioning of the NBFCs and many committees were set up to suggest ways and means to improve the regulatory framework. The recommendations of various committees reveal that all of them recognized the importance of the role of NBFCs and emphasize the need for a well established and healthy non banking financial sector. The regulatory system needs to be under constant review in view of the dynamic changes that are taking place in financial services sector so as to ensure a healthy growth of the non banking financial sector.

In January 1997, an Ordinance was issued by the Government of India effecting comprehensive changes in the provisions of the RBI Act, 1934. This was subsequently replaced by the Reserve Bank of India (Amendment) Act in March 1997 The salient features of the amended provisions, based on the recommendations of the Shah Committee, pertains to the entry point norm of Rs.25 lakh as minimum Net Owned Fund (NOF), (which was subsequently raised to Rs.2 crore by the Reserve Bank), compulsory registration with the Bank, maintenance of certain percentage of liquid assets in the form of unencumbered approved securities, creation of reserve fund and transfer thereto every year an amount not less than 20 percent of net profit, determination of policy and issuing of directions by the Bank on prudential norms, prohibition of NBFCs from accepting deposits and filing of winding-up petitions for violation of directions. The Company Law Board was empowered to direct a defaulting NBFC to repay any deposits. Stringent penal provisions were also included empowering the Reserve Bank to impose, *inter alia,* pecuniary penalty for violation of the provisions of RBI Act.

The situation till the end of 1997 was that the eligible companies (Registered, rated and complying with the prudential norms) were given freedom to determine their own rate of interest on deposits, accept unrestricted/increased amount of deposits and to maintain lower level of liquid assets. Some of the companies were holding deposit even more than 10 times of their Net Owned Funds as well as many of the NBFCs have increased their deposit rate even up to 20 percent during 1996 and 1997 (Verma, 1997). It was at this point of time that the RBI has come out with stringent norms, ie., the Non Banking Financial Companies Prudential Norms (Reserve Bank Directions 1998 by Notification no. DFC 115/DG(SPT) 198 dated January 2,1998).

3.9 Post 1998 Developments and Regulatory Frameworks

The RBI announced a host of stringent regulatory measures on 2nd January 1998. They are related to restrictions on acceptance of deposits from the public, categorization of NBFCs, classification norms for Hire purchase and Leasing companies, compulsory credit rating for a company to accept public deposits, imposition of ceiling on rate of interest on deposits and directions to statutory auditors. These measures created a lot of confusion, fear and despair not only to the NBFCs but also to the depositors of NBFCs. This resulted in the public outcry and representation by various associations of industry to both Government of India and RBI. Almost all financial publications, economists, eminent personalities from within and outside the industry and associations of NBFCs have commented on it in various articles.

From the pre 1998 deregulation on deposit acceptance both in terms of quantum and rate of interest- the January 1998 prudential norms and subsequent developments totally changed the position of NBFC from a no regulation to an over regulation situation. Major emphasis was to arrest the mushroom growth of number of NBFCs and the quantum of public deposit accepted by them. The access to public deposits by NBFCs has been linked to adherence of prudential norms and it has been made compulsory the registration of NBFCs. Access to public deposits has almost been restricted to Asset Finance Companies which were earlier known as Hire purchase Finance Companies and Equipment Leasing Finance Companies. These two groups of companies has been renamed and regrouped into a single one, ie., Asset Finance Companies (NBFC-AFC-D) [D for Deposit taking and ND for Non Deposit taking] by retaining all other regulatory norms and conditions (RBI, 2006).

3.9.1 Deposit Acceptance

Most important conditions among others to be fulfilled to have public deposit by an NBFC is as follows:

1. Certificate of Registration (Since 8 July 1997 it is mandatory that all NBFCs should be registered with RBI and should have a Certificate of Registration)

2. Adherence to the prudential norms
3. Should have a minimum of Investment grade rating from an approved rating agency.

RBI has also linked the quantum of access to public deposits to Net Owned Funds of the company and maximum limited to that of four times of NOF and subject to fulfilment of various conditions and on maintaining a CRAR of 12 percent for NBFC-AFC-D.

A NBFC maintaining required NOF/CRAR and complying with the prudential norms can accept public deposits as follows:

Table 3.1: Deposit Acceptance Limit by NBFCs

Category of NBFC	Ceiling on Public Deposits
EL/HP Companies maintaining CRAR of 15 percent without credit rating	1.5 times of NOF or Rs 10 crore whichever is less
EL/HP Companies with CRAR of 12 percent and having minimum investment grade credit rating	4 times of NOF
LC/IC with CRAR of 15 percent and having minimum investment grade credit rating	1.5 times of NOF

Source http://www.rbi.org.in
*This has further been amended by RBI in June 2008

For Loan and Investment companies access to public deposits has been limited to 1.5 percent of the NOF provided that they have a minimum of investment grade rating and a CRAR of 15 percent. Table 3.1 shows the type of NBFCs which can have access to public deposits and certain condition to be fulfilled for the acceptance of such deposits.

From 2nd January 1998, whole of the regulatory emphasis has shifted to asset side of the Balance sheet of the NBFCs with the primary aim of protecting the interest of the depositors. It is also seen that to have access to public deposits NBFCs should have credit rating assigned by one of the recognized rating agencies. Rating is assigned by the rating companies mainly by assessing the quality of assets ie., by evaluating the capacity to repay the deposit of NBFCs. Non Performing Assets, Asset-Liability Management and various other factors are analysed by rating agencies before assigning the rating. From this it is very clear that to survive in the asset financing business NBFCs need to concentrate on this asset quickly. Asset quality can be improved by vigorous screening at the time of granting loan, which is not practical on NBFCs both because of heavy competition as well as their increased rate of interest. So the answer is properly managing the receivables.

Due to the nature of business and their activities, some of the non banking finance companies are kept outside the purview of the RBI regulation and registration. Many of such companies are not permitted to have access to public deposits and are regulated by some other statutory authorities like, IRDA, SEBI, NHB and others.

Types of NBFCs which are regulated by RBI are as follows.

1. Asset Finance Companies (HP and Lease)
2. Investment Companies
3. Loan Companies and
4. RNBFCs.

Residuary Non Banking Finance Company (RNBFC) is a class of NBFC which is a Finance Company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Leasing/Hire purchase (Asset Financing), Loan Companies. These companies are required to maintain investments as per the directions of RBI (mainly in government securities) in addition to liquid assets. The functioning of these companies is different from those of other NBFCs in terms of method of deposit and requirement of deployment of depositors' funds. (Hence we shall not include RNBFC within the purview of our studies of Receivable Management as it is not likely to have receivable issues, investments mainly being in guilt-edged funds). The latest news on RNBFC is on the baring of deposit acceptance of Sahara India Financial Corporation Ltd. by RBI, its stay by Supreme Court and subsequent modification of order by RBI (Business Line, 2008).

The loan companies and investment companies do not have access to public deposit (except that if they hold a minimum of investment grade credit rating and have CRAR of 15 percent, they can accept deposit to the extent of 1.5 times of NOF) and in the light of the above we shall also exclude Loan companies and Investment companies from the purview of our studies.

To have a greater control on large NBFCs which are not deposit accepting companies, mainly operating either as investment companies or loan companies and have an asset base of Rs. 100 crore or above are classified as systematically important NBFCs. NBFC-ND-SI denoting non deposit taking systematically important non banking finance companies. Such companies are also required to provide additional information to RBI in comparison to those loan and investment companies whose asset base is less than 100 crores (www.rbi.org.in).

It is clear from the RBI guidelines, registration norms and permission for public deposit acceptance, the most important among NBFCs are the Hire Purchase

Finance Companies and Equipment Leasing Companies which have been reclassified as Asset Finance Companies. Accordingly our study on Receivable management is extended to Asset Financing Companies that too specifically on vehicle financing company. Before going into the details of the analysis on subsequent two chapters, we shall see certain trend and analyse them with respect to pre 1997-98 and post 1997-98 developments (prior to compulsory registration from 8th July 1997 and after introduction of prudential norms on 2nd January 1998). These companies are named/classified as NBFC-AFC-D denoting Non Banking Finance Companies which are on Asset financing as well Deposit accepting companies.

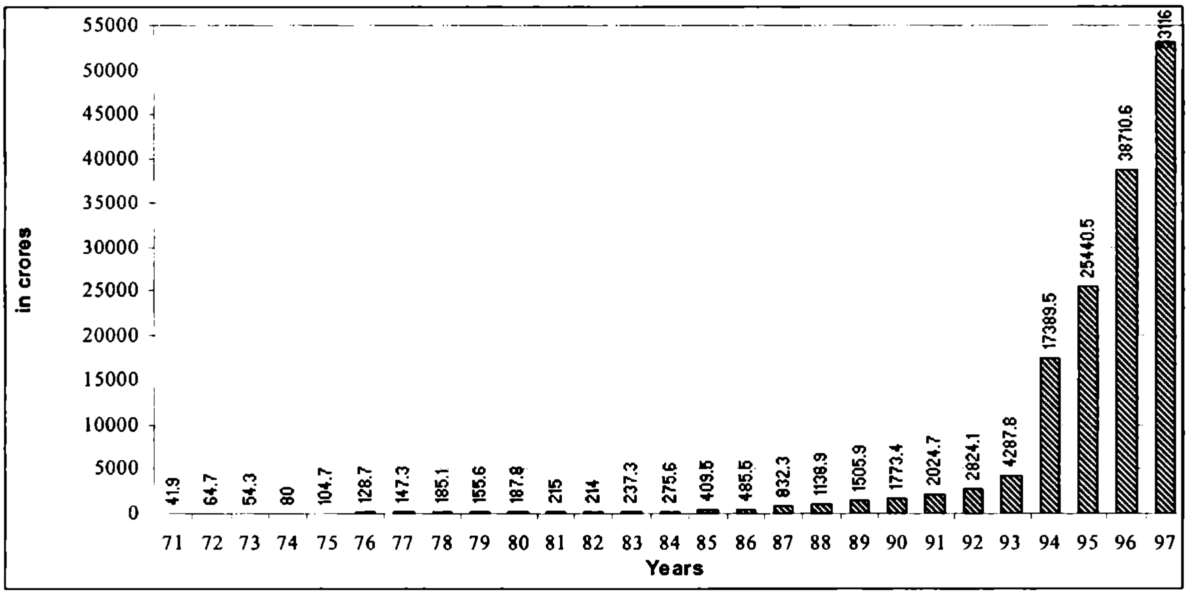
Secondary data are collected from various sources especially that from RBI Trend and Analysis of various years. Its analytical reports are as follows:

3.10 Introduction to the State of Affairs of NBFC

The number of NBFCs and their deposits are taken for the period from 1971 to 2007 from various reported sources. However, the advances, arrears and NPAs figures are not available for the period from 1971 to 1997 due to the then existed reporting pattern. Hence the analysis of the trend for the period from 1971 to 1997 is limited to the existence of number of NBFCs, their deposits and its growth.

Figure 3.1 and table 3.2 shows the growth of deposit of NBFCs from 1971 to 1997 ie., from a meager 41.9 crore in 1971 to 53116.0 crore in 1997 This was the period where there was no entry barrier or regulatory restrictions for the growth of NBFCs. NBFCs frantically grew without any control and were having access to public deposit without any regulatory control. This mushroom growth in number of NBFCs and deposit held by them has caught the attention of both Government of India and RBI.

Fig. 3.1 Aggregate Deposits of NBFCs from 1971 to 1997



Data source: Handbook of Statistics on Indian Economy, Reserve Bank of India. 1999

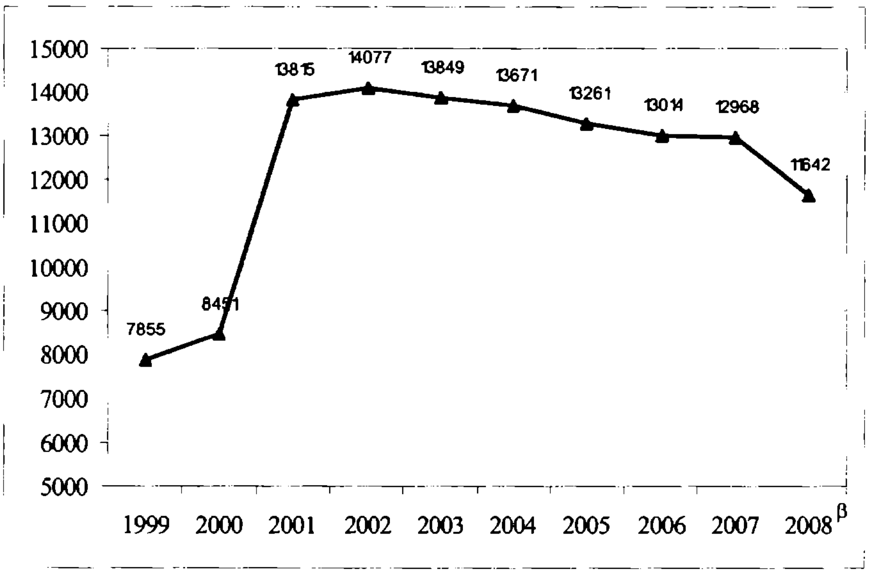
Table 3.2 Aggregate Deposits of NBFCs from 1971 to 1997

Year	Deposit	Year	Deposit
1971	41.90	1985	409.50
72	64.70	86	485.50
73	54.30	87	832.30
74	80.00	88	1136.90
75	104.70	89	1505.90
76	128.70	90	1773.40
77	147.30	91	2024.70
78	185.10	92	2824.10
79	155.60	93	4287.80
80	187.80	94	17389.50
81	215.00	95	25440.50
82	214.00	96	38710.60
83	237.30	1997	53116.00
1984	275.60		

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India. 1999

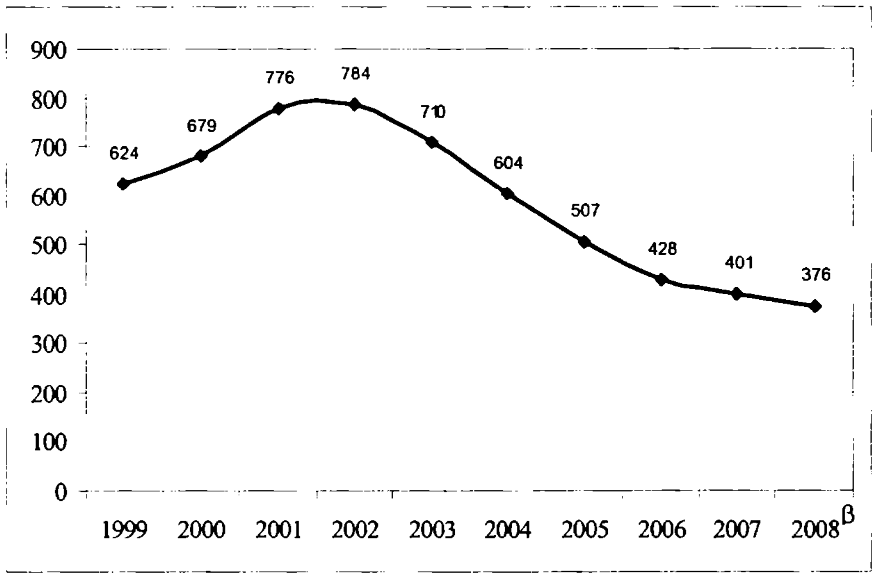
Figure 3.2 shows the total number of NBFCs registered with RBI including that of deposit taking NBFCs declined from 14077 in June 2002 to 11642 in March 2008. Similarly, figure 3.3 shows the number of deposit taking NBFCs declined from 784 in June 2002 to 376 in March 2008. This decline was mainly due to the exit of many NBFCs from deposit taking activity as well as exit of many of the NBFC from non financing activities to mere non banking activities. The trend also shows that the regulatory restrictions mainly that of prudential norms, the entry barriers like compulsory registration, minimum requirement of Rs. 2 crore net owned fund, etc. has resulted in this decline. The trend also shows that total number of NBFCs is continuing to fall and it is to be seen as to what extend the fall of NBFC shall negatively contribute to the financial system and economy of the country.

Fig. 3.2 Number of NBFC Deposit Taking and Total NBFC/10 from 1999 to 2008*



* Report on Trend and Progress of Banking in India, Various Issues, 2001-02 to 2006-07, RBI
β Business Line 18.4.2008

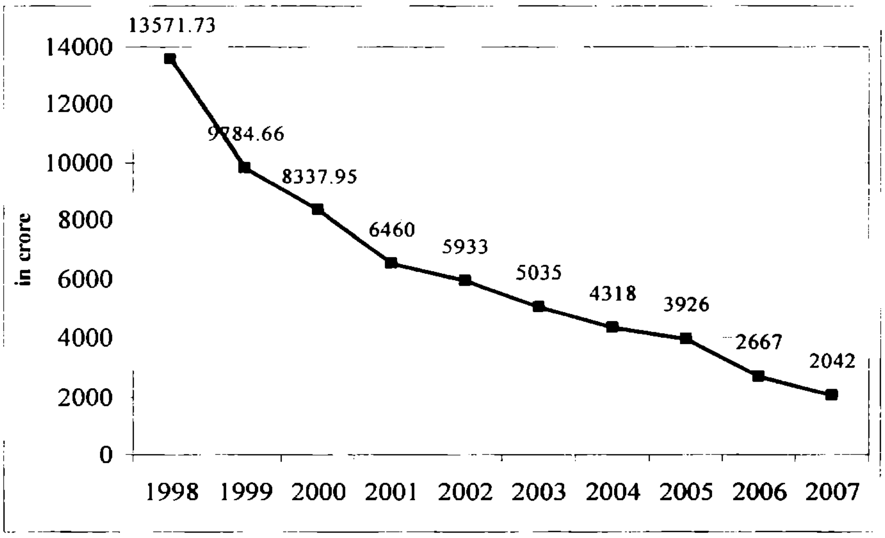
Fig. 3.3 Number of Deposit Taking NBFCs from 1999 to 2008



* Report on Trend and Progress of Banking in India, Various Issues, 2001-02 to 2006-07, RBI
β Business Line 18.4.2008

Figure 3.4 shows the deposit held by deposit taking NBFC from 1998 to 2007 and had a drastic fall from 13571 in 1998 to 2042 in 2007. An annual fall of 27.9 percent in 1999 and 23.43 percent in 2007. This is due to both fall in number of deposit taking companies as well as due to the quantum of deposit held by such companies. From the trend it is seen that both number of deposits taking NBFCs as well as the deposit held by them are falling year after year. Probably the regulators intention is to take away the NBFCs from their access to public deposit as happening in many of the foreign countries (An article appeared in Business Line dated 18.4.2008 entitled "only banks may be permitted to accept public deposits" amply speaks in favour of above trend. The said article was based on the comment made by Shri. V. Leeladhar, Deputy Governor of RBI on 17th April 2008 at Mumbai " It is time to think of allowing only banks to accept public deposits...... If it comes true, how far NBFC can discharge their role of retail financing and contribute to the national economy is a subject of discussion and debate in both academic and industry circle. Another interesting article by Krishnamurthy (2004) elaborates on the point and highlights on the problems, if NBFCs are phased out of deposit acceptance).

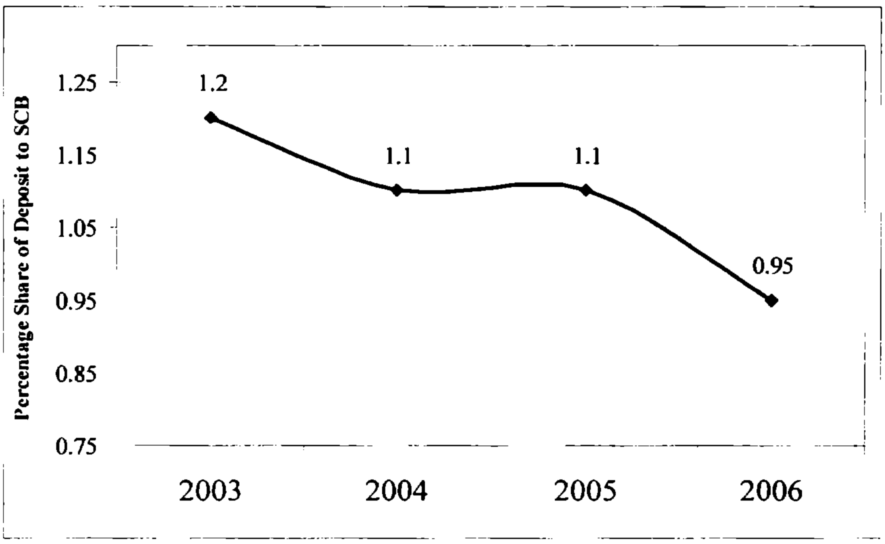
Fig. 3.4 Deposits Held by NBFCs (AFC-D)



Source: Report on Trend and Progress of Banking in India, Various Issues, 2001-02 to 2006-07, RBI

Figure 3.5 shows the share of public deposits in NBFCs to that of scheduled commercial banks in percentage terms for the period 2003 to 2007. This indicates that not only the quantum of deposit but also their ratio with respect to scheduled commercial bank is falling. The share of deposit held by NBFCs was 3.1 percent in 1980-81 and 10.6 percent in 1995-96 with that of scheduled commercial banks which fell drastically in 2002-03 to 1.5 percent and 0.95 percent in 2006-07

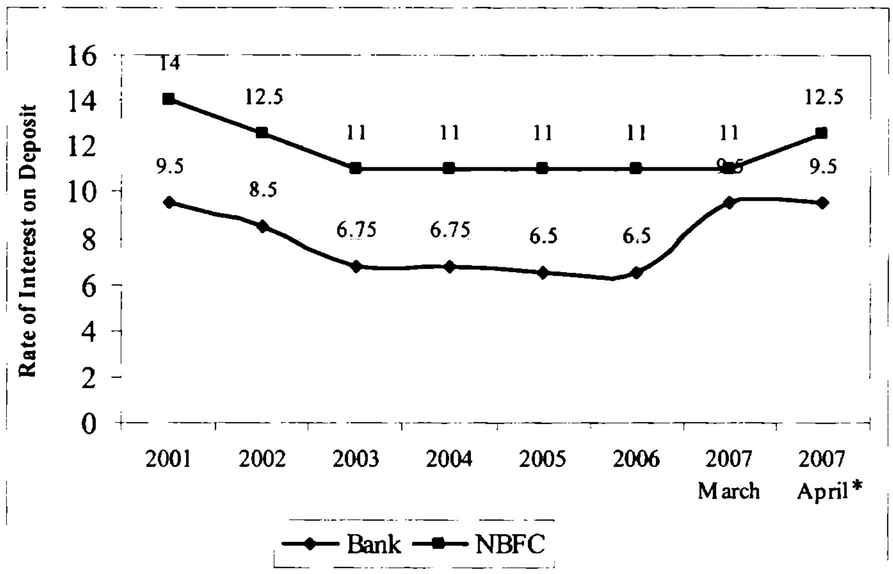
Fig. 3.5 Share of Public Deposit in NBFCs to that of SCB



Source: Report on Trend and Progress of Banking in India, 2006-07; RBI

Figure 3.6 also shows the spread in deposit interest rate of banks and NBFCs and its comparisons. It could be seen that in 2007 the spread has come down below 2 percent and the narrowing down on the interest rate between banking and non banking finance companies shall further reduce the total deposit held by NBFC as well reduce their share of deposits in comparison to scheduled commercial banks. Reasons for narrowing down the spread are the regulatory restrictions and more than that the market compulsions [banking deposit interest rates are not regulated (no upper ceiling as of now) whereas NBFC deposit rates are regulated by RBI]. The situation is that virtually NBFCs are not in a position to offer the RBI permitted upper ceiling rate of 12.5 percent on their deposits due to their increasing cost of funds and market compulsions and now many NBFCs are operating far below the upper ceiling.

Fig. 3.6 Spread in Deposit Interest Rates of Banks and NBFCs



Source: Report on Trend and Progress of Banking in India, 2006-07; RBI
** Source: http://www.rbi.org.in*

3.11 Non Performing Assets of NBFCs

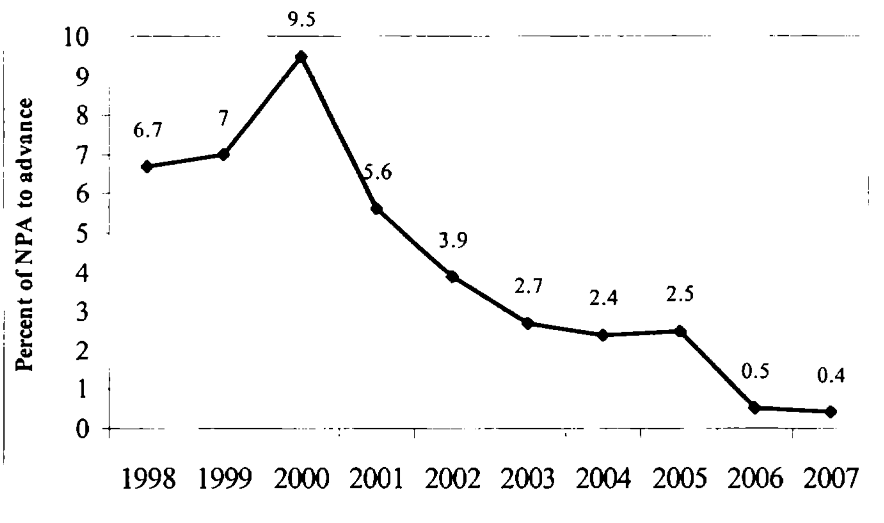
The reported figures on NPAs for the period from March 1998 to March 2007 show a very glossy picture. The highest net NPA seen is in the year 2000 and thereafter it has fallen substantially. This indicates that efforts of NBFCs were in bringing down the NPA, which is an important component of total arrears. The provisioning and write off norms spelled in the prudential norms were based on the number of instalments in default in the NPA category. As NPAs are derived out of the total arrears, there need to be more concentration on managing the entire receivables as NPAs alone cannot be just like that controlled, if arrears/receivables are not well managed from the time of granting the loan.

Table 3.3 Percentage of NPAs of NBFC-AFC-D both Gross and Net with respect to Total Outstanding

As at End of Period	Gross NPAs	Net NPAs
March 1998	11.4	6.7
March 1999	10.2	7
March 2000	9.9	9.5
March 2001	11.5	5.6
March 2002	10.6	3.9
March 2003	8.8	2.7
March 2004	8.2	2.4
March 2005	5.7	2.5
March 2006	3.6	0.5
March 2007	1.9	0.4

Source: Report on Trend and Progress of Banking in India, Various Issues, RBI

Fig. 3.7 Gross and Net NPA



Source: Report on Trend and Progress of Banking in India, Various Issues, RBI

Table 3.3 shows the non performing assets of the deposit accepting NBFCs. Figure 3.7 represents both gross and net NPA and it is interesting that net NPA of such NBFCs have drastically come down to 9.5 percent in 1998 to 0.4 percent in 2007 of net assets outstanding. Reduction in NPA is highly essential for the stable health of asset financing NBFCs and that has happened here. It is a matter of concern whether the fall in number of NBFCs is a contributor to the fall in NPA or vice-versa. It is also a factor to be analysed whether the entire system is concentrating on reduction of NPA to get better rating, to project a better picture to the regulator RBI, rating agencies and all other stake holders, by accounting juggleries, higher percentage of write offs and concessional settlement, rescheduling and many more of such tactics. It is also worth to analyse the total outstanding arrears and write offs of each year to get a better picture from the receivable position of the NBFCs (Such figures are not available even in the RBI Trend and Analysis).

Table 3.4 represents the financial performance of NBFC-D as at the end of March 2006 and 2007 and its comparison.

*Table 3.4 Financial Performance of NBFC-D (Amount in Rs. Crore)

Indicator		As at End- March		Percentage Variation	
		2006	2007 P	2005-06	2006-07
A.	**Income** (i+ii)	**4,599**	**5,770**	**-0.1**	**25.4**
	(i) Fund based	4,453 (96.8)	5,635 (97.7)	5.3	26.6
	(ii) Fee based	147 (3.2)	134 (2.3)	-61.2	-8.3
B.	**Expenditure** (i+ii+iii)	**3,753**	**4,816**	**13**	**28.3**
	(i) Financial	2,144 (57.1)	2,787 (57.9)	0.3	30
	of which: Interest payment	541	540	–	-0.2
	(ii) Operating	945 (25.2)	1,257 (26.1)	31.6	33.1
	(iii) Others	664 (17.7)	772 (16.0)		16.2
C.	**Tax Provisions**	**291**	**388**	**-17.6**	**33.3**
D.	**Operating Profit (PBT)**	**847**	**954**	**-52.1**	**12.7**
E.	**Net Profit (PAT)**	**556**	**566**	**-73.4**	**1.8**
F.	**Total Assets**	**37,828**	**47,999**	**-1.2**	**26.9**
G.	**Financial Ratios**[@]				
	i) Income	12.2	12.0		
	ii) Fund income	11.8	11.7		
	iii) Fee income	0.4	0.3		
	iv) Expenditure	9.9	10.0		
	v) Financial expenditure	5.7	5.8		
	vi) Operating expenditure	2.5	2.6		
	vii) Tax provision	0.8	0.8		
	viii) Net profit	1.5	1.2		
H.	**Cost to Income Ratio**	**81.6**	**83.5**		

[@] As percentage to total assets; P- Provisional

Note : Figures in brackets are percentages in respective totals

* Report on Trend and Progress of Banking in India, Various Issues, RBI

From the above statistics, it is evident that number of NBFCs especially NBFC (AFC-D) and their deposit are coming down on an alarming rate. Item G financial ratios show a true comparison on the performance of the years 2005-06 and 2006-07. It is already seen that deposits held by this category of NBFCs are falling down year after year. In spite of that, total asset of the NBFC-D has increased in the year 2007 ie., due to the increased borrowing by NBFCs- a deviation from the deposit acceptance. It could further be seen that as a percentage of total asset following ratios have fallen. Income has fallen from 12.2 percent to 12.0 percent; fund income from 11.8 percent to 11.7 percent; net profit has come down from 1.5 percent to 1.2 percent. Similarly, it is seen that expenditure has gone up from 9.9 percent to 10.0 percent; financial expenditure from 5.7 percent to 5.8 percent and operating expenditure from 2.5 percent to 2.6 percent. While income as a percentage of asset declined marginally, expenditure (including provisions) as percentage of asset increased marginally, resulting in a decline in the net profit to asset ratio. This also indicates that provisioning and write off have substantially increased in NBFCs with an aim to bring down the non performing assets. Bringing down the NPA by higher write off and provisioning shows a healthy picture on financial indicators of the company but clearly bringing down the net profit. This indicates the necessity for the importance and need for better management of receivables in NBFCs whereby write off, provisioning, total arrears and non performing assets can be reduced with an increased profit of margin. This will also result in increase in net profit as a percentage to total asset, whereby there could be healthy growth for the segment of financial institutions.

Chapter 4

Issues in Receivables Management in NBFCs

Chapter IV

Issues in Receivables Management in NBFCs

4.1 Introduction

Receivable are the assets which are created as a result of the sale of goods or services or granting of loan facilities in the ordinary course of business. These are known as 'accounts receivables or trade receivable'. A firm therefore carries receivable for its customers for some period, which depends upon the requirements of the customers at one end and the credit sanctioning capacity and policy of the firm or the financier on the other.

When a loan is granted the financier has to receive the money back along with its prefixed interest within stipulated time. Receivable management encompasses the collection and processing activity of the above said money. The role of account receivable department and finance as a whole is rapidly transforming in today's enterprises especially in financial organizations. Formerly thought of as a purely administrative role, receivable functions extending from credit and collections to cash management are now being viewed as a strategic corner stone that can deliver unprecedented competitive advantage and greater profitability for leading organizations (Bond, 1993).

Receivable management has become one of the crucial activities in any kind of organization, needless to talk about financial institutions especially in the post liberalizations era. Financing/borrowing have become an inevitable part of business to sustain the competition to gain profit. Every financial organization experiences difficulty regarding bad debt expenses. No matter how carefully the firm screen customers for credit worthiness, some bad credit risk will slip through. Further more, if a firm could make its credit standard so severe that there is no bad debt loss, it would then be making a mistake in turning way some potentially good customers (Bond, 1993). Since some credit granting decisions turn out to be mistakes, every firm must plan to collect late accounts. The accounts receivable aging schedule is one technique the NBFC may use in determining when to proceed with collection of past due instalments (Bond, 1993).

A major portion of the monthly financing sources or sources of funds has to come from the monthly collection, and proper asset liability management is possible in NBFCs only when receivable management is handled well. Delayed payment increases arrears and beyond a level it becomes impossible for NFBCs borrowers to service such accounts. By and large lending in NBFCs is a micro level financing, with large volume of accounts. Hence monitoring these accounts and making sure of collections are very critical for the stable health of NBFCs. Virtually there is no breathing time or holidays available both for borrowers and NBFCs. Majority of NBFC borrowers are borrowing for the purchase of commercial vehicles and they are managing on hand to mouth operational basis. If a borrower is defaulting once, it is very difficult for him to make up and hence it is important that NBFCs make sure that not even a single instalment is defaulted by their borrowers.

With the liberalised economy, new industrial policy and new trade policy competition is heavy as entry barriers does not exist. Due to this NBFCs are poised with the greatest problem of increased inventory and huge receivable out standing. NBFCs face the problem of receivable management comparatively in a greater magnitude. Though NBFCs were the only specialists in vehicle financing till a decade ago, they have to now compete with many new generation banks. The number of NBFCs itself has substantially increased during 80s and 90s mainly prior to amendment of RBI Act, 1934 in 1997. The early mushroom growth of NBFCs and the entry of banking companies into vehicle finance have led to the competition among themselves and with banking companies.

The extent and severity of competition is of greater magnitude, as almost all banking companies are involved in vehicle finance. Most of the vehicle purchasers/borrowers have a deal with bank and the banks are snatching away the vehicle borrowers at a reduced rate of interest. Banks are in a position to give vehicle loans as an extension of credit facilities already enjoyed by their customers. Many banks have extended vehicle finance facility to their customers as an 'Add-on services' which results in severity of competition to NBFCs by many folds.

Vehicle finance is a specialized job, no doubt experts of which are NBFCs because of their specialized arms of receivable management. There are problems in handling the receivables of vehicle financing, and the banking companies are not hardened and tempered enough to handle it. Because of this phenomenon many of the banks are retiring hurt from vehicle financing with huge recovery problems. Here the market dynamics is such that in spite of the retirement of many, more and more new entrants continue to retain the competitive environment in the market of vehicle finance. Due to these kinds of dynamics the competition in vehicle finance especially that of rate war is continuing as an ever lasting threat to the regular vehicle financing by NBFCs. In order to survive and be competitive NBFCs should have their own survival tactics as they are in no position to compete with banks by reduced rate of interest.

4.2 Profile of the Sample

Table 4.1 shows the percentage of distribution of various categories of vehicle borrowers according to age, sex, education, occupation and annual family income. The maximum percentage of borrowers is found to be in the age group 40-49. The percentage of borrowers of HCV, premium car, small car, commercial car, three wheeler and LCV are 68.33, 58.33, 51.67, 50.00, 46.67, and 41.67 respectively. However in the case of two wheelers, the highest number of borrowers (46.67 percent) is youngsters below the age of 30 years. The lowest percentage of borrowers for three wheelers, premium cars, HCVs, small cars and LCVs are found to be in the age group of above 60. In two wheeler sector, the least percentage of borrowers (3.33) are in the age group between 50 and 59 and in the case of commercial cars the corresponding percentage is 11.67 and the borrowers are found to be below the age of 30. No two wheeler and commercial car borrower is seen above the age of 60.

Among all categories of vehicle borrowers, males dominate, and are more than 90 percent except in the case of two wheelers where female representation increased to reduce the percentage of males to 86.67.

As far as education of the borrowers is concerned, the highest percentage of three wheeler borrowers (28.33 percent) are below SSLC and its lowest percentage (1.67) is among post graduates. In two wheelers and LCV, the highest percentage of borrowers is plus two qualified. In the case of small car, commercial car and HCV the highest percentages of borrowers are graduates. While in premium cars, the highest percentage of 36.67 is among post graduates. The highest percentage of three wheeler (53.33 percent) and commercial car (36.67 percent) borrowers are drivers while small car (45.0 percent) and two wheeler (43.33 percent) borrowers are employees. The highest

Table 4.1 Percentage Distribution of Borrowers by Selected Characteristics and Vehicle Finance

		Small car	Premium car	Two wheeler	Three wheeler	Comm. Car	LCV	HCV
Age (yrs)	< 30	1.67	8.33	46.67	6.67	11.67	8.33	1.67
	30-39	15.00	15.00	20.00	31.67	16.67	26.67	8.33
	40-49	51.67	58.33	30.00	46.67	50.00	41.67	68.33
	50-59	28.33	16.67	3.33	13.33	21.67	20.00	20.00
	≥ 60	3.33	1.67		1.67		3.33	1.67
Sex	Male	**90.00**	**91.67**	**86.67**	**96.67**	**100.00**	**100.00**	**98.33**
	Female	10.00	8.33	13.33	3.33			1.67
Education	Below SSLC	8.33	1.67	16.67	28.33	10.00	13.33	11.67
	SSLC	3.33	10.00	13.33	26.67	21.67	21.67	16.67
	Plus Two	20.00		30.00	13.33	15.00	26.67	5.00
	Diploma	18.33	20.00	13.33	11.67	16.67	13.33	16.67
	Graduation	31.67	31.67	16.67	18.33	30.00	20.00	38.33
	Post graduation	18.33	36.67	10.00	1.67	6.67	5.00	11.67
Occupation	Agriculture	11.67	5.00	10.00	10.00	3.33	8.33	8.33
	Industry	8.33	18.33		5.00	3.33	15.00	21.67
	Business	20.00	30.00	10.00	21.67	18.33	35.00	28.33
	Professional	13.33	35.00	3.33	1.67		1.67	
	Employee	45.00	11.67	43.33	8.33	15.00	16.67	3.33
	Driver	1.67		33.33	53.33	36.67	23.33	8.33
	Transp. operators					16.67		30.00
Annual family income (Rs)	> 50000	1.67		6.67	6.67			
	50000 – 1 lakh	1.67		53.33	43.33	1.67	13.33	1.67
	1 - 2 lakh	15.00		23.33	20.00	15.00	41.67	5.00
	2 - 5 lakh	80.00	48.33	13.33	30.00	78.33	41.67	90.00
	5 - 10 lakh	1.67	3.33			5.00	3.33	1.67
	10 - 20 lakh		35.00	3.33				
	≥ 20 lakh		13.33					1.67

number of premium car borrowers is professional (35.0 percent) and that of LCV (35.0 percent) and HCV (30.0 percent) are business men and transport operators respectively.

Ninety percent borrowers of HCV, 80.0 percent of small car, 78.33 percent of commercial car, 48.33 percent of premium car and 41.67 percent of LCV belong to the income group between 2 to 5 lakh rupees per annum. The highest percent of two wheelers borrowers (53.33 percent) and that of three wheelers borrowers (43.33 percent) are found to have income between 50,000 and 1 lakh rupees. In the case of LCV the highest percentage of 41.67 is in the income group of rupees (1 to 2 lakh). It is to be noted that the highest percentage of borrowers belong to the income group between 2 to 5 lakh and there is no borrower for premium cars below that income group.

Table 4.2 presents the percentage distribution of borrowers by selected characteristics and district. In all the three districts highest percentage of borrowers falls in the age group between 40 and 49 years, and highest percentage of borrowers are graduates. Occupation wise distribution shows that in Ernakulam and Calicut districts, the highest percent is business men while in Trivandrum the highest percentage is found to be drivers immediately followed by business men. The distribution of borrowers by their family income shows that in all the three districts the highest percentage is in the income group between 2 and 5 lakh. It is also seen that there is no significant difference between the districts of Calicut, Ernakulam and Trivandrum on profile wise analysis.

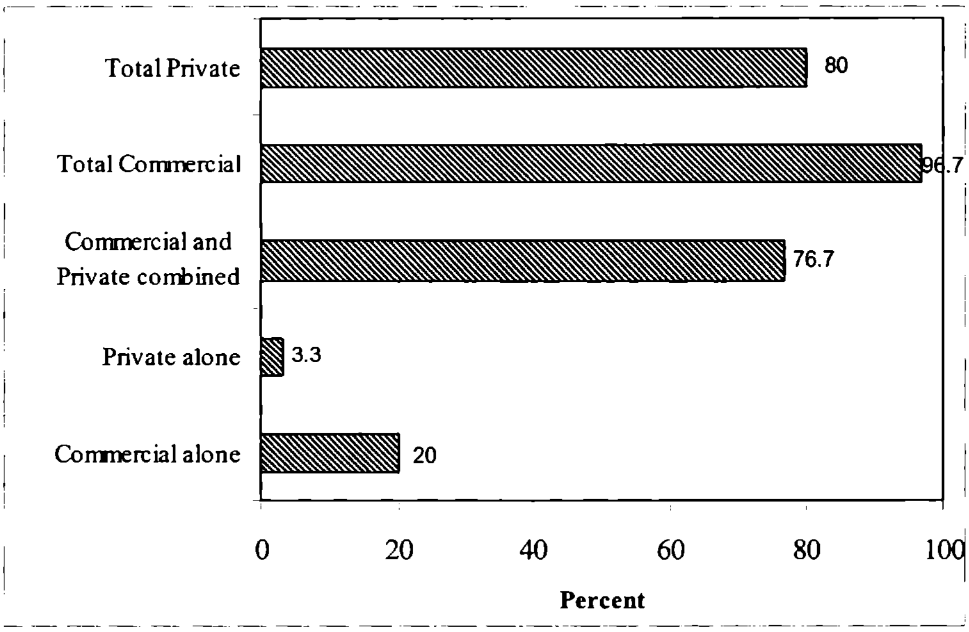
Table 4.2 Percentage Distribution of Borrowers by Selected Characteristics and District

		Calicut	Ernakulam	Trivandrum
Age (yrs)	< 30	10.00	7.69	10.77
	30-39	17.69	21.54	17.69
	40-49	50.00	51.54	51.54
	50-59	20.00	19.23	16.92
	≥ 60	2.31		3.08
Sex	Male	**96.15**	**96.92**	**93.08**
	Female	3.85	3.08	6.92
Education	Below SSLC	12.31	13.85	11.54
	SSLC	13.08	19.23	16.92
	Plus Two	14.62	13.85	15.38
	Diploma	22.31	10.00	15.38
	Graduation	23.08	27.69	31.54
	Post graduation	14.62	15.38	9.23
Occupation	Agriculture	7.69	6.92	9.23
	Industry	13.08	10.77	9.23
	Business	23.85	26.92	**22.31**
	Professional	8.46	6.92	9.23
	Employee	17.69	20.77	17.69
	Driver	21.54	19.23	23.85
	Transp. operators	7.69	6.92	6.92
Annual family income (Rs)	> 50000	2.31	0.77	2.31
	50000 -1 lakh	10.77	14.62	15.38
	1 - 2 lakh	13.85	20.00	16.15
	2 - 5 lakh	61.54	54.62	56.92
	5 - 10 lakh	3.08	1.54	2.31
	10 - 20 lakh	6.92	6.15	3.85
	≥ 20 lakh	1.54	2.31	3.08

4.2.1 Financing Profile of NBFCs

Financing profile comprises of details of 'type of vehicle' financed (new or used), 'utility of vehicle' financed (commercial or private) and various 'categories of vehicle' from two wheeler to HCV (based on industry practices). The percentage distribution of financing by NBFCs on utility of vehicles ie., private and commercial are as displayed in figure 4.1.

Fig. 4.1. Percentage Distribution of NBFC by Utility of Vehicle Finance



From the fig. 4.1, it is seen that 76.7 percent of NBFCs' finance, both private and commercial category of vehicles, 20 percent finance commercial vehicles only and 3.3 percent finance private vehicles only. This shows that a total of 96.7 percent (76.7+20.0) of NBFCs are involved in commercial vehicles financing activities while 80.0 (76.7+3.3) percent of NBFCs are occupied in private vehicle financing.

From the analysis, it revealed that the average age of used vehicle financed is 8.24 years with a standard deviation of 3.74 years. The age is spread over to a lower limit of two years to an upper limit of 20 years.

Objective wise Analysis

Credit appraisal, documentation, borrower habits and collection policy are the four aspects of the study. Through credit appraisal, borrower quality is ascertained and it results in customer selection. The documentation contains the terms and conditions of transaction and relationship between the financier and borrower. Borrower habits are very important in discharging the obligation of refunding and it is very vital for smooth sailing through the loan transactions. Collection policy is the most vital element in NBFC functioning. In the days of deteriorating repaying habits of borrower, implementation of the collection policy in its letter and spirit should be practiced to take care of the lapses crept through during the process of documentation and credit appraisal.

4.3 Credit Appraisal

This section examines the existing credit appraisal practice of NBFCs. Evaluating the credit policies of borrowers is very important for any financial institution. This study is utilized to find the quality of credit appraisal mechanism of NBFCs and its practical implementation. Often major parameters examined include repaying capacity, asset backing, past track records, bank operations, cheque return, social status, etc. as a norm by NBFCs and its adherence. Due to competition, targeted lending, and different roles played by vehicle dealers and mediators, chances of errors in evaluation are more. Even though there is no fool proof mechanism, a lot depends on the credit appraisal and is analyzed in-depth through this section to find the lacunas as well as to understand how the receivable problems creep in, at the sanctioning stage of a vehicle loan. While discussing on framing policy on credit appraisal, it is quite pertinent and relevant to refer the study made by Mehta (1968) on the formulation of credit policy models and study made by William *et al.*, (1978) on the necessity of credit policy irrespective of the size and business of the company.

4.3.1 Quality of Credit Appraisal

Credit norms of NBFC and determining the quality of credit appraisal by them is very important to be analysed in any financial transaction and that process is carried out in a detailed manner in this section. Twenty one criteria are fixed for evaluating this process in consultation with industry experts.

This question is put to all the three category of respondents namely borrower, intermediary and NBFCs and their views considered. It is also evaluated how much criteria are considered according to each respondents in all the three categories. Similarly the information is collected from borrowers, NBFCs and intermediaries as to what type of document is to be submitted by the borrower ie, copy or original. This is done to understand the veracity of the documents submitted by examining whether photocopy have been attested with original at least by company officials as there are chances of submission of forged photo copies. Submission of copy will have only negative effects if the documents are forged because the borrowers are aware that they can take the NBFC for a ride, as the material information provided are false. An analysis of the implementation of credit norms will give a clear picture on the quality of barrowers and the quality of advance port folio handled.

As far as percentage of asset value financed is concerned, all the three category of respondents are of the opinion that funding percentage needs to be evaluated. Test of significance indicates that all the three categories have similar views.

Similarly expenses saved, asset of borrower, asset of guarantor, track record of bank operations and social status have similar opinion by the respondents of borrower, intermediary and NBFC. Among these credit appraisal criteria, asset value is highly regarded followed by bank operations and track record. Asset of borrowers and guarantors is also highly considered criteria. The least considered criterion is expenses saved. In all other criteria, there is difference of opinion between borrower, intermediary and NBFC (Table 4.3).

Table 4.3 Percentage Distribution of Borrowers, Intermediaries and NBFCs who are Following Criteria for Credit Appraisal and Test of Significance

Criteria	Borr.	Inter.	NBFC	Borr. x Inter.		Borr. x NBFC		Inter. x NBFC	
				Z	Sig.	Z	Sig.	Z	Sig.
Asset value	96.7	100.0	100.0	1.435	0.153	1.016	0.312		
Income from asset	57.4	51.7	83.3	0.840	0.407	2.782	0.005	2.921	0.003
Expenses saved	21.0	25.0	30.0	0.697	0.490	1.150	0.254	0.506	0.617
Asset of borrower	78.2	76.7	90.0	0.268	0.795	1.530	0.129	1.523	0.129
Asset of guarantor	63.8	68.3	73.3	0.676	0.503	1.047	0.298	0.488	0.631
Capacity of borrower	96.2	90.0	100.0	2.104	0.036	1.094	0.322	1.793	0.073
Additional income	37.2	41.7	66.7	0.667	0.509	3.187	0.001	2.236	0.026
Other earning memb.	28.2	45.0	43.3	2.632	0.009	1.755	0.080	0.150	0.889
Encumbrances	77.7	61.7	66.7	2.689	0.007	1.381	0.168	0.464	0.646
Family expenses	53.8	25.0	6.7	4.160	0.000	4.980	0.000	2.095	0.037
Net worth to advance	74.4	65.0	86.7	1.522	0.129	1.505	0.134	2.163	0.031
Track record	82.3	88.3	86.7	1.160	0.250	0.607	0.549	0.228	0.826
Bank operations	87.2	90.0	90.0	0.616	0.542	0.448	0.660	0.000	1.000
Other repayments	77.4	88.3	80.0	1.926	0.055	0.325	0.749	1.060	0.289
Cheque bouncing	79.0	90.0	83.3	2.005	0.046	0.568	0.575	0.910	0.363
Neighbour enquiry	84.9	50.0	66.7	6.313	0.000	2.593	0.010	1.500	0.134
Social status	49.5	40.0	60.0	1.369	0.174	1.110	0.271	1.793	0.073
EMI to monthly income	68.7	81.7	73.3	2.046	0.041	0.527	0.603	0.913	0.363
Remittance from child	22.6	33.3	63.3	1.818	0.070	4.938	0.000	2.707	0.007
Unsolicited income	53.1	35.0	56.7	2.607	0.009	0.380	0.711	1.962	0.050
Identity	100.0	46.7	90.0	14.964	0.000	6.267	0.000	3.975	0.000

Table 4.4: Percentage Distribution of Borrowers, Intermediaries and NBFCs who are Submitting Original Document for Credit Appraisal with Test of Significance

Criteria	Borr.	Inter.	NBFC	Borr. x Inter.		Borr. x NBFC		Inter. x NBFC	
				Z	Sig.	Z	Sig.	Z	Sig.
Asset value	56.76	71.19	69.23	2.109	0.036	1.330	0.184	0.192	0.849
Income from asset	21.88	11.11	0.00	1.390	0.165	2.610	0.009	1.720	0.085
Expenses saved	25.61	0.00	0.00	2.214	0.027	1.731	0.084		
Asset of borrower	32.46	26.67	30.43	0.787	0.435	0.216	0.834	0.345	0.734
Asset of guarantor	19.28	17.07	16.67	0.334	0.741	0.299	0.772	0.040	0.968
Capacity of borrower	41.18	20.75	7.69	2.883	0.004	3.624	0.000	1.561	0.119
Additional income	51.03	9.09	13.33	3.894	0.000	3.169	0.002	0.452	0.653
Other earning members	30.91	0.00	8.33	3.332	0.000	1.705	0.089	1.520	0.129
Encumbrances	39.60	8.33	0.00	3.736	0.000	3.550	0.000	1.327	0.187
Family expenses	17.62	0.00	0.00	1.779	0.076	0.653	0.516		
Net worth to advance	29.76	2.94	6.67	3.560	0.000	2.516	0.012	0.716	0.478
Track record	44.55	13.73	15.79	4.240	0.000	2.854	0.004	0.245	0.810
Bank operations	54.12	39.62	35.00	1.981	0.048	1.915	0.056	0.404	0.689
Other repayments	45.70	19.23	5.56	3.604	0.000	3.826	0.000	1.557	0.121
Cheque bouncing	47.73	15.38	0.00	4.430	0.000	4.622	0.000	2.073	0.038
Neighbour enquiry	17.82	3.70	0.00	1.988	0.048	2.070	0.039	0.870	0.390
Social status	30.05	0.00	0.00	3.137	0.002	2.731	0.006		
EMI to monthly income	31.34	17.78	7.69	1.919	0.056	2.337	0.020	1.112	0.267
Remittance from child	45.45	0.00	12.50	3.800	0.000	2.663	0.008	1.632	0.103
Unsolicited income	16.91	0.00	22.22	2.048	0.041	0.556	0.582	2.276	0.023
Identity	76.36	93.10	92.00	2.048	0.041	1.878	0.061	0.155	0.881

From the table 4.4, it can be seen that borrower, intermediary and NBFC has similar opinions on submitting original records for verification on asset of borrower, guarantor and family expenses. In all other criteria, there is difference of opinion among borrowers, intermediaries and NBFCs. The maximum difference of opinion exists among borrowers and intermediaries followed by borrowers and NBFCs. The difference of opinion between intermediaries and NBFCs are only on the criteria of cheque bouncing and unsolicited income. Among the criteria, where there is no difference of opinion, asset of borrower is the most considered criteria followed by asset of guarantor by verifying through original records. In rest of the criteria, authenticity of opinion is doubted on verifying the criteria with original records. During the interactive session, it is seen that NBFC officials are merely certifying as 'verified with original' even without seeing it.

4.3.2 Percentage of Advance of Asset Value

In an asset based financing hundred percent of the asset value is not financed and usually only 75 to 80 percentage is done. Due to competition and increased borrowing habits, financiers increase the percentage of funding to sustain vehicle financing.

Table 4.5 Test of Significance of Advance Availed by Borrowers with Various Categories of Vehicle

	New vehicle				Used vehicle			
	Mean of Percent of Advance	**SD**	**F**	**Sig.**	**Mean of Percent of Advance**	**SD**	**F**	**Sig.**
Small car	**79.39**	8.55	12.976	0.000	**63.83**	17.47	2.382	0.040
Premium car	**84.72**	10.40			**67.43**	6.86		
Two wheeler	**84.17**	7.20			-			
Three wheeler	**77.17**	5.73			**67.10**	5.95		
Comm. car	**83.53**	7.12			**67.80**	5.02		
LCV	**80.73**	3.89			**71.17**	7.39		
HCV	**93.07**	9.67			**64.63**	6.65		
Private	82.69	9.08	0.559	0.456	65.60	13.36	1.913	0.168
Commercial	83.63	9.05			67.68	6.66		
Total	83.21	9.05			67.01	9.37		

The mean percentage of loan received for new vehicle is 83.21 and that of used vehicle is 67.01. The variation of percentage of loan received by type of vehicles show that there is a significant difference in the mean as the F value of one way ANOVA test is 12.976 with a significance level of 0.000. In the case of used vehicle, the mean percentage of loan received varies significantly among various category of vehicle (F = 2.382 with a significance level of 0.040). The maximum percentage is in LCV (71.17) and the minimum is in small car (63.83). From the analysis, it is inferred that NBFC do vary the percentage of funding based on category of vehicles as well as among its type ie., new and used (Table 4.5).

Table 4.6 Test of Significance of Advance Percentage of Funding to Borrowers of New Vehicles with Arrears Position

Funding Percentage	N	Mean of Percent of Arrears	SD	t	Sig.
≤ 80	100	9.65	14.14	1.990	0.047
> 80	115	**13.65**	15.01		

As an industry practice (to have reasonable stake in the asset of the borrowers), funding percentage on new vehicles are limited within 80 percent for the comforts of the financier. Hence funding percentage are divided into two ie., less than or equal to 80 and greater than 80 for the purpose of analysis. From the analysis, it is seen that if the percentage of funding is greater than 80 arrears are higher in comparison to lower percentage and that has significance according to the t-test. This indicates the phenomenon that higher the funding, higher the arrear and suggests that there is error in credit appraisal by giving increased funding in certain cases (Table 4.6).

4.3.3 Norm of Upper Age Limit

In any contract or agreement age of the parties are very important and minimum requirement is that the parties are to be adult and sane. In loan transactions usually financiers stipulate an additional condition of upper age limit.

As far as the norm of upper age limit is concerned, 70.0 percent of NBFCs fix it as to be 60 years and 16.67 percent as 65 years. According to intermediaries, 48.33 percent consider 60 as the upper age limit while 25 percent as 65.

Table 4.7: Percentage Distribution of the Borrowers by Age and Vehicle Finance

	Age Groups				
	<30	30-39	40-49	50-59	≥ 60
Small car	1.67	15.00	51.67	28.33	3.33
Premium car	8.33	15.00	58.33	16.67	1.67
Two wheeler	46.67	20.00	30.00	3.33	
Three wheeler	6.67	31.67	46.67	13.33	1.67
Comm. cars	11.67	16.67	50.00	21.67	
LCV	8.33	26.67	41.67	20.00	3.33
HCV	1.67	8.33	68.33	20.00	1.67
Total	9.49	18.97	51.03	18.72	1.79

On evaluating the response of borrowers it is seen that 46.67 percent of two wheeler borrowers are below the age of 30 and in other categories the highest percentage is in the age group between 40 and 49 (Table 4.7).

4.3.4 Knowledge of Interest on Loan

In vehicle financing, financiers and intermediary (dealer) canvasses the business by quoting the EMI rather than by interest percentage. Due to the over dependence on EMI many of the borrowers are unaware of the rate of interest on the borrowing.

Fig. 4.2 Graphical Representation of Knowledge of Interest Rate of Borrower

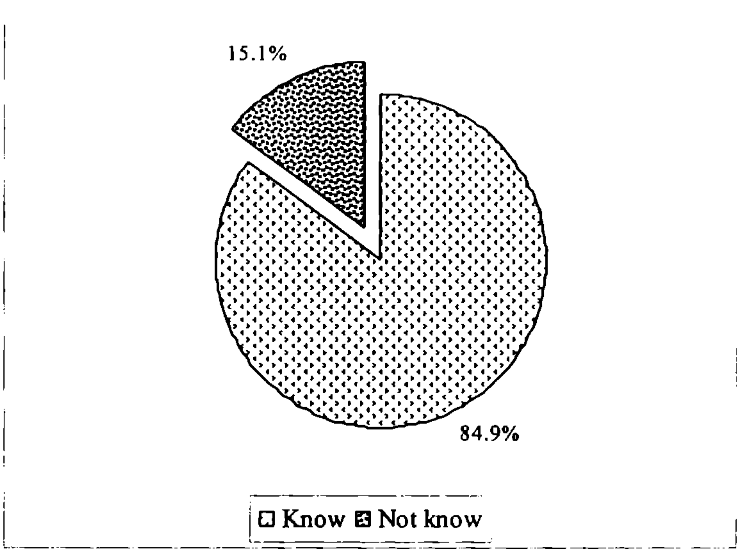


Figure 4.2 indicates that 15.13 percent of borrowers do not know the rate of interest at which they have borrowed their vehicle. This indicates that a good percentage of borrowers are unconcerned about the interest rate they pay. The borrowers' ignorance of the rate of interest indicates that they are uncommitted to timely repayment and these borrowers can add problem to the recovery work.

Table 4.8 Test of Significance of Awareness of Interest Rate of Borrower with Arrears

Rate of Interest	N	Mean of Percent of Arrear	SD	t	Sig.
Not Known	59	**24.09**	21.80	5.366	0.000
Known	331	10.49	17.16		

Table 4.8 shows that arrear percentage of borrowers who do not know the rate of interest of the finance they availed, is higher (24.09) and have significant difference with that of borrowers who have known the rate of interest.

4.3.5 Negatives in Financing

NBFCs usually have a policy of not advancing customers belong to certain area, certain class of customers and certain assets based on the problems attached to the area, class and asset.

Table 4.9 Percentage Distribution of Borrowers, Intermediaries and NBFCs

	Borrower	Intermediary	NBFCs
Area	43.59	65.00	100
Class	53.21	58.33	100
Asset	21.03	38.33	100

Table 4.9 show that 100 percent of NBFCs are of the view that they are implementing these negatives. However, intermediary is of the opinion that 65.00, 58.33, 38.33 percentage respectively only are implementing these negatives by NBFCs. There is a wide variation seen on the opinion of borrowers- area 43.59 percent, class 53.21 and asset 21.03 percent regarding the implementation of this negatives.

4.3.6 Track Records

NBFCs have the policy of tracking the behaviour of borrowers with regard to the repayments on their earlier borrowings with their bankers or any other financiers. Records of repayments are taken to verify and evaluate to make sure a decision on granting vehicle finance. Verification of past track records if found good reflects the financial disciple of borrowers and the same is an accepted international phenomenon in credit granting.

Table 4.10 Test of Significance of Verifying Past Track Records with Arrears of Borrowers

	N	Mean of Percent of Arrears	SD	F	Sig.
Not verified	69	**16.24**	18.13	2.868	0.049
Verified with original	143	13.46	18.43		
Copy only	178	10.39	18.65		
Total	390	12.55	18.56		

From the table 4.10, it is seen that if the criteria of checking the past track record of borrowers at the time of credit appraisal is not considered, the chances of increasing the arrears of such borrowers are much higher. From the ANOVA table, it is seen that the verification of this criteria has significance. It is also seen that arrears are higher (16.24) where the aspect of past track record is not verified.

4.3.7 Past Bank Account Operating Records

Getting the copy of bank passbook/pass-sheet for referring the financial transactions of the borrower is an important way of credit appraisal. This has some resemblance to that of track records as seen in section 4.3.6 above.

Table 4.11 Test of Significance of Verifying Details of Past Bank Operations with Arrears of Borrowers

	N	Mean of Percent of Arrears	SD	F	Sig.
Not verified	50	**17.91**	16.52	2.952	0.048
Verified with original	184	12.36	17.25		
Copy only	156	11.05	18.86		
Total	390	12.55	18.56		

From the table 4.11, it is seen that if the criteria of verifying details of past bank operations of borrowers at the time of credit appraisal is not considered, the chances of increasing the arrears of such borrowers are much higher From the

ANOVA test it is seen that verification of this criteria have significance. It is also seen that arrears are higher for those whose previous bank operations was not verified (17.91) compared to those where the aspect was verified.

4.3.8 Verification of Social Status

Social status is one of the most important attributes of assessing an individual. This is true in case of NBFC vehicle financing.

Table 4.12 Test of Significance of Verifying Social Status with Arrears of Borrowers

	N	Mean of Percent of Arrears	SD	F	Sig.
Not verified	197	15.90	20.20	6.718	0.001
Verified with original	58	8.63	13.50		
Copy only	135	9.34	17.09		
Total	390	12.55	18.56		

From the table 4.12, it is seen that if the social status of borrowers at the time of credit appraisal is not considered chances of increasing arrears of such borrowers are high. From the ANOVA test it is seen that verification of this criteria have high significance and arrears in such cases are much lower compared to those whose social status criteria was not verified.

4.3.9 Determinants of Arrears

A detailed study of the dynamics of arrears is a subject of interest among scholars and professionals who are concerned with the management of receivable going on in NBFCs. Total arrears include the non performing assets with an arrear of six instalments and above. Multiple Regression Analysis is used to study the variation of arrears by taking it as a continuous numerical dependent variable.

Since the major four objectives of the study are credit appraisal, documentation, borrower habits and collection policy, it is useful to study the impact of the variation of arrears based on each objective. This is analysed in the subsequent sections relating to the objective of the study from credit appraisal to collection policy.

4.3.10 Determinants from Credit Appraisal

From the objective of the credit appraisal, percentage of asset value, income from asset, expenses saved on acquiring the vehicle, asset of borrower, asset of guarantor, capacity of borrower, additional income, other earning members in the family, other encumbrances, family expenses, net worth of borrower to advance amount, past track record, banking operations, other repayments, cheque bouncing on earlier occasions, neighbourhood enquiry, social status, EMI to monthly income, remittances from children, other unsolicited income and verifying identity for credit appraisal are important variables identified which influence the credit appraisal of NBFCs. All these 21 variables are dummy variables. Multiple Regression analysis was carried out with Backward Selection method with these independent variables and the results are presented in table 4.13.

The R square value of the first regression model is found to be 0.076 which means that 7.6 percent of the variation in the arrear is determined by the 21 variables related to credit appraisal. The final regression model consists of 3 independent variables viz, asset of borrower, banking operations and social status with R square of 0.055. This means that 5.5 percent of the variation in the outstanding arrears is determined by the credit appraisal criteria through these 3 independent variables.

Table 4.13 Multiple Regression Analysis of Credit Appraisal with Arrears

	First Step		Last Step	
	B	Sig.	B	Sig.
(Constant)	25.678	0.001	15.554	0.000
Asset value	-4.433	0.418		
Income from asset	1.006	0.680		
Expense saved	0.156	0.955		
Asset of borrower	12.303	0.016	6.479	0.007
Asset of guarantor	0.901	0.774		
Capacity of borrower	-3.078	0.541		
Additional income	2.647	0.208		
Other earning members	-2.007	0.371		
Encumbrances	-3.110	0.229		
Family expenses	-0.733	0.746		
Net worth to advance	-1.743	0.537		
Track record	-3.127	0.404		
Bank operations	-5.217	0.181	-5.006	0.089
Other repayments	0.577	0.879		
Check bouncing	1.647	0.678		
Neighbourhood enquiry	-1.203	0.665		
Social status	-6.587	0.004	-7.494	0.000
EMI to monthly income	0.603	0.809		
Remittance from children	0.357	0.885		
Unsolicited income	0.408	0.844		
Identity	-5.074	0.280		
R Square	**0.076**		**0.055**	

The beta coefficient of the asset of the borrower is found to be positive and the beta coefficient of other two independent variables of bank operations and social status are found to be negative. From the result, it can be said that when asset of borrower is considered as a credit appraisal criteria, arrears seem to be higher by 6.479 percent as compared to those whose asset was not considered. From the result it, is evident that consideration of the assets of the borrowers is not an appropriate measure to check the arrears. From the study of Meta (2005), it is proved to be a long known fact that it is the unwillingness to pay and not the inability that is responsible for poor recovery or non recovery of loans. In that study empirically it is seen that the probability of willingness to repay loan varies inversely with the level of the income.

Verification of previous bank operations is another important variable found to be significant in the credit appraisal criteria. It is found that beta coefficient of the dummy variable of banking operations is 5.06 percent. It means that on credit appraisal, if previous bank operations are verified arrears decreases by 5.06 percent as compared to those, whose previous bank operations were not considered. Similarly the social status is also found to have a significant impact on the level of arrears. It is found that when the criteria of social status is considered, arrears are found to be 7.4 percent less than those whose social status was not considered. In general, it can be seen that there exists a lacuna in credit appraisal criteria which is seen through these 3 independent variables having 5.5 percent of determinants to arrears.

The entire analysis of the sections on credit appraisal, ie., from 4.3.1 to 4.3.10 and its results indicate that there exists problem in credit appraisal and proves the hypothesis that existing credit appraisal criteria and mechanism are inadequate.

4.4 Documentation

Easy documentation is the attracting element of NBFC business. The term indicates that the documentation part is simple and easy and not cumbersome as in the case of banking or other transactions. Least requirements of collateral security, service at the doorstep of the customer and minimum supporting paper requirements are the essence of easy documentation.

4.4.1 Documentation Practice

Documentation practice encompasses certain fundamental steps. The important steps of documentation practice taken for analysis are preprinted agreement, identification of borrower and guarantor, explanation of interest calculation, reading out the terms of agreement, execution of document, and handing over the copy of agreement.

Table 4.14 Test of Significance of Borrowers, Intermediaries and NBFCs who Exercise the Selected Steps while Documentation

	Borr. (B)	Inter. (I)	NBFC (N)	B x I		B x N		I x N	
				Z	Sig.	Z	Sig.	Z	Sig.
Step-a	99.74	100.00	100.00	0.393	0.697	0.278	0.783		
Step-b	85.90	88.33	80.00	0.510	0.617	0.883	0.379	1.060	0.289
Step-c	84.62	75.00	73.33	1.861	0.063	1.617	0.107	0.171	0.865
Step-d	53.08	10.00	6.67	6.221	0.000	4.899	0.000	0.524	0.603
Step-e	35.90	8.33	30.00	4.253	0.000	0.651	0.516	2.673	0.008
Step-f	53.33	71.03	78.33	2.033	0.042	2.44	0.015	1.174	0.242
Step-g	10.77	1.67	13.33	2.233	0.026	0.433	0.667	2.278	0.023

Steps (a) Pre printed agreement, (b) Identifications of borrower and guarantee (c) Explaining the interest and EMI. (d) Reading out the terms of agreement, (e) borrowers sis nature in NBFC office (f) signature in the presence of NBFC manager, (g) do NBFC give a copy of the agreement

From table 4.14, it can be seen that the percentage of positive responses are higher in the first three steps of documentation. As far as these three steps are concerned, there is no significant difference between types of respondents (> 0.05). In other steps of documentation, there exists obvious difference in the response of the three types of sample (0.05). Not reading the contents of the agreement and not handing over the copy of agreement to a sizeable number of borrowers are serious laps on the part of NBFCs which are apparent from step d and g.

From above table, it can also be seen that the percentage of customers going to NBFC and executing the document according to borrower, intermediary and NBFC are 35.90, 8.33 and 30.00 respectively. This result indicates that documentation in NBFCs is at the convenience of customers. This table further reveals that percentage of documentation done in the presence of NBFC managers according to borrower, intermediaries and NBFCs are 53.33, 71.03 and 78.33 respectively. This means that even according to NBFC the remaining 21.67 percentage documentation is not taking place in the presence of NBFC managers.

Table 4.15 Test of Significance of NBFC Opinion on Identifying the Borrowers and its Impact on Arrears, NPA and Write Offs

Recovery Position	Identifying on Documentation	N	Mean	SD	t	Sig.
Arrears	Yes	22	12.00	5.37	3.576	0.001
	No	5	23.40	10.36		
NPAs	Yes	22	6.33	8.14	2.719	0.012
	No	5	19.20	14.94		
Annual write off	Yes	21	3.03	4.42	0.277	0.784
	No	5	3.60	1.92		

Table 4.15 shows that arrears, NPA and write off of those NBFC branches are higher where borrowers are not properly identified on documentation. On the opinion of NBFCs it is seen from the t-test that arrears and NPAs are quite significant in this aspect. It is further seen that wherever customers are not identified, arrears are as high as 23.4 percent compared to borrowers who have been identified (12.0 percent). Similarly the NPA of those who were not identified is as high as (19.2 percent) as compared to those identified (6.33).

4.4.2 Effect of Documentations on Arrears

To understand the problems of documentation, test of significance of certain parameters with that of arrears are analysed as follows.

Table 4.16 Test of Significance of Borrower Opinion with Arrears on Identifying Borrower and Guarantor at the Time of Documentation

Identify	N	Mean of Percent of Arrears	SD	T	Sig.
Yes	335	11.76	18.03	2.069	0.039
No	55	**17.33**	21.07		

Table 4.16 shows that a difference in arrears of those borrowers and guarantors who were not identified at the time of documentation. Arrears seem to be higher for those borrowers who were not identified ie., 17.33 percent and t-test shows a significant difference.

Table 4.17 Test of Significance of Borrowers Opinion with Arrears on Explaining Interest and EMI Calculations while Documenting

Explaining	N	Mean of Percent of Arrears	SD	t	Sig.
Yes	330	10.52	16.96	5.243	0.000
No	60	**23.73**	22.75		

Table 4.17 shows a significant difference in arrears of those borrowers who were not explained the interest and EMI calculations at the time of documentation. Arrears are higher for those borrowers who were not explained of interest calculation (23.73 percent) in comparison to those who were identified (10.3 percent). Test of significance shows (t value) a significant difference between two methods.

4.4.3 Collateral Securities

Collateral security means that an additional security provided apart from basic asset as a guarantee for repayment of loan. In banking usually collateral security is taken for normal loan transactions as additional security. In the asset based financing of NBFCs the practice of taking/providing collateral security is very rare due to industry practice and competitions.

Study on collateral security taken by financiers according to borrowers is found to be only 5.87 percent. Figure 4.3 shows the percentage distribution of borrowers who provided collateral securities for vehicle finance. It is seen from figure that more than 9 percent of borrowers have given collateral security for new HCV, new LCV, new small car and for both new and used three wheelers. Similarly 6.7 percent of collateral is seen in used HCV and new and used small cars.

Fig. 4.3 Percentage Distribution of Borrowers Providing Collateral Securities by Vehicle Financed

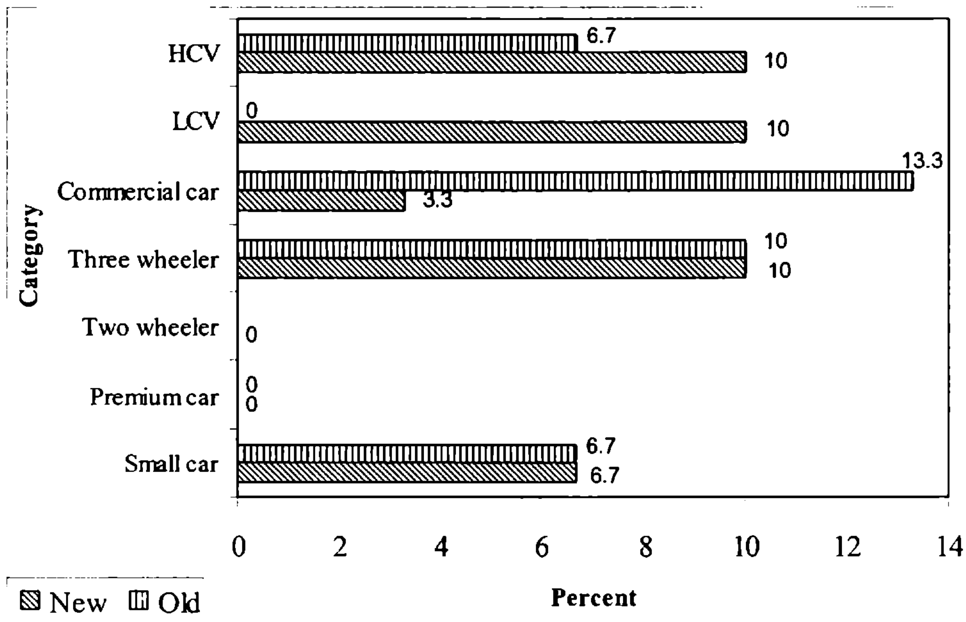


Fig. 4.4 Percentage Distribution of Intermediaries by Their Assessment about Percentage of Borrowers Providing Collateral Securities

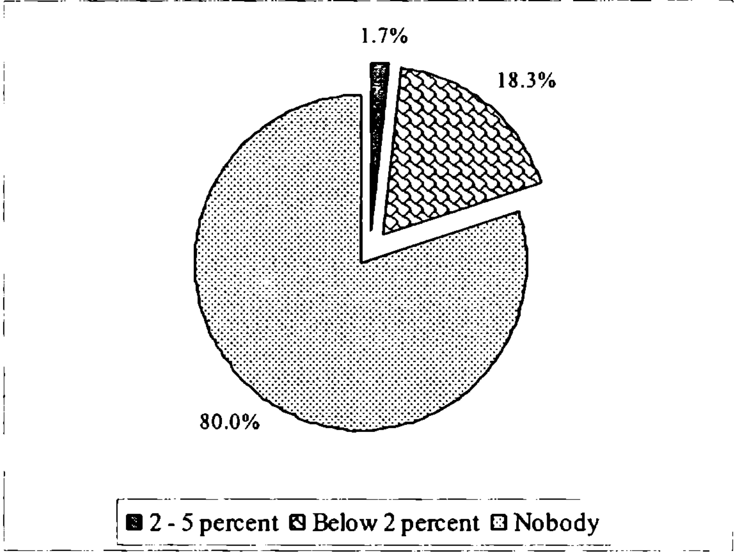


Fig. 4.4 shows that 80 percent of the intermediaries reported that NBFC borrowers does not give collateral security and 18.30 percent stated that only below 2 percent gives the collateral security. The remaining 1.7 percent stated that collateral given by NBFC borrowers are between 2 to 5 percent. From the above results it can be inferred that vehicle loan transaction in non banking finance industry takes place with hardly any collateral security unlike in banking. The statistical estimation of collateral providers according to the response of intermediary is found to be 0.204 percent. During the interview with borrowers, intermediaries and NBFCs it is seen that collateral security is taken from financially very weak borrowers, who are otherwise not eligible to get loan.

Table 4.18 Test of Significance on Submission of Collateral Security by Borrowers to their Arrears

	N	Mean of Percent of Arrears	SD	t	Sig.
Collateral given	23	22.94	25.88	2.791	0.006
Collateral not given	367	11.90	17.85		

From the table 4.18, it is seen that borrowers who have given collateral security have higher percentage of arrears (22.94) compared to those who have not given security. In vehicle financing as an industry practice due to competition, for some of the borrowers with weak credit rating collateral security is required to get loan. However, the analysis proves that if the customers are weak their arrears percentage will go on increasing even if collateral is provided. This proves that there is some lacuna in documentation in accommodating weak customers.

4.4.4 Issuing of Post Dated Cheque (PDC)

Financiers especially NBFC, have the policy of getting the PDC from borrowers to fulfil the obligation of repayment in the form of EMI. This is to avoid monthly follow up of collection as well to make sure that the payments are reaching in time, especially when bouncing of cheques for want of funds is a criminal offence in terms of S138 of negotiable instruments Act, 1881.

There are borrowers who are very prudent in issuing such PDCs by filling it fully and noting its details in its counterfoil. Percentage of borrower who does not take note of the contents of cheques are substantial and their arrears are also higher.

Table 4.19 Percentage Distribution and Unweighted Average of Borrower, Intermediary and NBFC regarding Issue of PDCs

	Borr.	Inter.	NBFC	Unweighted Average
Issue of filled PDC	62.05	53.55	48.67	**54.76**
Noting of PDC details	45.45	43.72	25.20	**38.12**
Details of PDC held to actual	28.20	23.41	12.26	**20.87**

Table 4.19 shows that an unweighted average of 20.87 borrowers only knows the contents of the PDC issued (unweighted average is taken to give equal weightage to all the three category of respondents namely borrowers, intermediary and NBFC rather than giving weightage to mere numbers). Holding of PDC from more than 50 percent of borrowers seems to be not serving the purpose of better recovery as the percentage of borrowers knowing the details of it is only 20.87. Further, interaction with the borrowers reveals that hardly less than 5 percent of them only have issued full PDC that too in some cases that of multi banks. In many cases, they are not aware of the number of PDCs issued, the bank account, the number of security cheques and number of cheques given for presentation. It is also seen that there are oral understanding between borrower and NBFC officials that such PDCs collected will not be presented and they can make monthly remittances to branches at convenience. Further from the interaction, it is understood that cheque presentation is withheld when more cheques are consecutively returned, even without arriving at any alternate arrangement of payment.

4.4.5 Initial Payment

Initial payment is the customer's share of investment on the asset to be purchased. The term initial payment and down payment are interchangeably used in the industry. In asset based financing cent percent of the asset value is never funded and the borrowers are required to invest their share to have a stake of the borrower and to reduce the EMI amount.

Table 4.20 Percentage Distribution and Unweighted Average of Borrower, Intermediary and NBFC regarding Place of Initial Payment

Down Payment made	Borr.	Inter.	NBFC	Unweighted Average
At NBFC branch	41.54	19.99	30.40	**30.64**
With NBFC staff	12.56	6.66	7.50	**8.91**
With vehicle dealer	28.21	53.36	41.60	**41.06**
With dealer executive	8.72	13.33	15.07	**12.37**
With broker/mediator	8.97	6.66	5.43	**7.02**

Table 4.20 shows that initial payment made by the borrowers at NBFC branches is 30.64 percent only based on the unweighted average taken on all the 3 categories of respondents. High percentage of remittance of initial payment with dealers (41.06) and dealer executives (12.37) reveals that there could probably be manipulations on the amount received by the dealers and their executives. There are instances that with the increased problems, NBFCs resort to the ultimate step of not financing for certain category of vehicles as happened in the case of two wheeler. Manufactures and dealers started knowing the heat of it and they are behind NBFCs to have tie up arrangements for reviving the two wheeler sales. The report of Harpreet Singh (2008) that Centurion Bank (now HDFC Bank) has reduced lending on two wheeler by 50 percent and report of Kannan *et al.* (2008) that there is a dip in the sale of two wheeler by 15 percent on account of tightening credit norms substantiate that dealers were indifferent in supporting financiers. Even though the collection of initial payment at dealer has become the order of the day at least there need to be a greater transparency between borrower, financier and dealer. NBFCs need to be a vigilant guard as their funds are on stake.

To test the impact of remittance of initial payment at various channels, test of significance is made with that of arrears and are as follows.

Table 4.21 Test of Significance with Arrears of Borrowers who Remitted Initial Payment at Various Places

Places of Initial Payment	N	Mean of Percent of Arrears	SD	F	Sig.
At NBFC branch	162	10.41	17.19	4.143	0.003
With NBFC staff	49	11.25	18.18		
With vehicle dealer	110	12.08	17.86		
With dealer executive	34	14.36	19.58		
With broker/mediator	35	23.98	22.74		
Total	390	12.55	18.56		

Table 4.21 shows that highest percent of arrear is for those borrowers who made the down payment through brokers (23.98 percent) and have high significance. It is also seen from the analysis that lowest percentage of arrears is for those borrowers who have made the down payment at NBFC branch directly. The One way ANOVA shows a significant difference in the arrears of borrowers who paid down payment through various channels. The sequence is very interesting that the lowest arrear is at NBFC branch followed by NBFC staff, vehicle dealer, dealer executive and highest with broker/mediator ie., 23.98 percent.

4.4.6 Lien Creation

Lien creation in this context of study means the creation of financiers charge in the vehicle registration certificate and in the records of RTO where ever finance is granted. It is to make sure of financiers charge in the vehicle as well as to restrict transfer of ownership without the consent of the borrower. In the case of new vehicles, dealers make sure of this, at the time of delivery of vehicle. In case of used vehicle this is to be created by a separate endorsement prior to release of loan.

Table 4.22 Percentage Distribution and Unweighted Average of Borrower, Intermediary and NBFC regarding when Lien on Used Vehicles Created

	Borr.	Inter.	NBFC	Unweighted Average
Before release of loan	28.33	19.98	46.27	**31.53**
After release of loan	71.11	73.36	49.97	**64.81**
No lien at all RC with borrower	0.00	3.33	1.40	**1.58**
No lien at all RC with financier	0.56	3.33	2.37	**2.09**

Table 4.22 shows at what stage lien is created in the RC book of the used vehicle financed. It could be seen that only in 31.53 percent (unweighted average), RC lien is created prior to the release of loan where as in 64.81 percent of cases the lien is created after release of loan. This is a risky situation as there is no documentary support for the finance released and chances of inability to create the lien are very high. From the interaction with NBFC managers, it is noted that they always continue to remain in tension due to this major defect in documentation.

4.4.7 Mode of Repayment

At the time of availing finance, the borrowers have to choose the mode of repayment from the available options with NBFC. This is to make sure of the regular payment and to have definiteness on it.

Table 4.23 Percentage Distribution and Unweighted Average of Borrower, Intermediary and NBFC regarding Repayment Mode

	Borr.	Inter.	NBFC	Unweighted Average
Post dated cheque	71.54	87.30	39.29	**66.04**
Regular payment by cheque	3.85	1.59	19.64	**8.36**
Regular payment by cash at counter	19.74	4.76	32.14	**18.88**
Payment through other branches	4.62	1.59	7.14	**4.45**
Cash collection at your premises	0.26	4.76	1.79	**2.27**

Table 4.23 shows the mode of repayment of borrower to NBFCs. The highest percentage of repayment is by PDC (unweighted average of 66.04). Rest of 33.96 percent of borrowers are left without collection of PDC with the understanding for regular monthly payment by cheque (8.36 percent), payment by cash at branches (18.88 percent), payment through other branches (4.45 percent) and collection at borrowers' premises (2.27 percent).

4.4.8 Determinants from Documentation

From the objective of the documentation, agreement format, identification of customer, EMI calculation explanation, reading terms, execution place, nature of execution and document copy to the borrower are important variables that are identified which influence the documentation process of NBFCs. All these seven variables are dummy variable. Multiple Regression analysis was carried out with Backward Selection method with these independent variables and the results are presented in table 4.24.

Table 4.24 Multiple Regression Analysis of Documentation with Arrears

	First Step		Last Step	
	B	**Sig.**	**B**	**Sig.**
(Constant)	24.015	0.198	23.898	0.000
Agreement format	-1.787	0.923		
Identification	0.689	0.817		
EMI calculation	-13.658	0.000	-13.383	0.000
Reading terms	0.936	0.636		
Execution place	-0.528	0.786		
Nature of execution	1.884	0.359		
Document copy to borrower	-3.121	0.303		
R Square	**0.072**		**0.067**	

The R square value of the first regression model is found to be 0.072 which means that 7.2 percent of the variation in the arrear is determined by the 7 variables related to documentation. The final regression model consists of only one independent variable with R square of 0.067. This indicates that as far as documentation is concerned, the only independent variable EMI calculation affects the variation of arrears. The beta coefficient of EMI is found to be 13.383 which means that arrears of those who are made aware of EMI calculation are 13.383 percent less, compared to those who were not made aware of calculation. From the above result, it can be inferred that there exits a lacuna in documentation especially in imparting knowledge about EMI calculation to borrowers. From these results, it can be seen that there exists problems in documentation practices of NBFCs.

The analysis of the sections on documentation, ie., from 4.4.1 to 4.4.8 and its results indicate that there exists problem in documentation and proves the hypothesis that current practice of documentation is improper.

4.5 Borrower Habits

Repaying habit and repaying capacity are two different arms of a borrower without these no borrower can effectively build his reputation and honour the commitments with his financiers. However, the repaying habit is quite different from that of repaying capacity. Both repaying habit and repaying capacity are complementary to each other. Merely having paying capacity without repaying intentions does not serve much purpose except when the recovery has to be made forcefully through court of law or with help of muscle men.

Similarly having good repaying habit without repaying capacity alone does not serve the full purpose. Both the extreme situations are not good, like having good habits with no resource to pay or having sufficient resource but no intention to repay at all. The best proposition is combination of both. But the availability of borrowers with a better combination has become a rare phenomenon.

To certain extent repaying capacity can be judged from various credit appraisal mechanism and analysis of financial statement and forecasting. Similarly, repaying habits can be judged from past track records which reveal their repayment habits based on earlier loans. However, there is a difficulty in evaluating the repayment habits of first time borrowers. In such cases neighbourhood enquiry is an appropriate method.

Another important factor is that there are several variables interdependent and interconnected in both the repaying habits and capacity. The paying habits of borrower may deteriorate slowly due to the business conditions, family atmosphere, family expenses, extravagance, business success/failure, unexpected losses, calamities, failure on receipt of his own dues, non fulfilment of commitment by his channel partners and a host of other factors. When paying capacity decreases, paying habits find to deteriorate. Similarly the improvement of paying capacity leads to an improvement of paying habits of the borrower. However, various studies show that the influence of paying capacity over paying habit is lesser where as the influence of paying habits increases with the increase of paying habits. In another way, it can also be seen that a person with strict financial discipline and good paying habits may keep up his commitment honoured in spite of his lesser capacity. Rather it could be said that with the better repaying habits the capacity to repay could be moulded positively or even in case of failure with a better paying habit the borrower will somehow settle the issue even at the cost of disposal of the asset under finance or even disposal of assets or investment. No doubt the best proposition is a combination of both and the success lies in the capacity of the financier judging it. Meta (2005) in his study, it is dealt that a long known fact that the unwillingness to pay and not the inability that is responsible for the recovery/non recovery of the loans.

4.5.1 Borrower Prudence

A borrower needs to be prudent enough while taking a decision on loan. This is true in this age of competition in lending, where financiers are hunting for the borrowers. Borrower prudence has different dimension based on their capacity and habits for repayment.

4.5.2 Borrower Self Assessment of Paying Capacity

Borrower needs to assess himself of the monthly EMI servicing capacity as the loan taken is for a longer period like 60 months. Until and unless a self evaluation is made on the paying capacity, one won't be able to fulfil the monthly commitments for such a long period.

Table 4.25 chi square analysis shows that there is a significant difference in the opinion of various categories of borrowers on their self assessment of their paying capacity with chi square value of 29.94 with a significance level of 0.000. This indicates that self assessment of paying capacity of borrowers varies between different categories of borrowers. It is found that the maximum self evaluation is done by commercial car borrowers (96.67 percent) followed by small car borrowers (95.0 percent) and least assessment is done by three wheeler borrowers (68.33 percent) followed by two wheeler borrowers (80.0 percent). Type and utility wise analysis does not show any variation in the self assessment of paying capacity as significant level is greater than 0.05.

Table 4.25 Test of Significance of Self Assessment of Paying Capacity of various Category of Vehicle Borrowers

		Yes	No	Chi square	Sig.
Vehicle	Small car	95.00	5.00	29.94	0.000
	Premium car	81.67	18.33		
	Two wheeler	80.00	20.00		
	Three wheeler	68.33	31.67		
	Comm. car	96.67	3.33		
	LCV	83.33	16.67		
	HCV	93.33	6.67		
Type	New	88.10	11.90	1.814	0.178
	Used	83.33	16.67		
Utility	Private	86.67	13.33	0.119	0.730
	Commercial	85.42	14.58		

It is seen from table 4.26 that according to NBFC 49.67 percent of borrowers alone are calculative of capacity to pay the EMI whereas 50.33 percent are not. According to intermediaries, 55.42 percent of borrowers are calculative of their capacity to repay EMI and 44.58 percent are not. However, a greater percentage of 85.90 percent borrowers are of the view that they are calculative of their capacity to repay the EMI and 14.10 percent are not calculative. Even this low percentage of 14.10 has a very great significance over the arrear problems of NBFCs as repayment will be difficult on such borrowing if the borrower has not applied his mind towards their repaying capacity. Analysis also shows that there is a significant difference between borrower and intermediary (Sig. level 0.000) and between borrower and NBFC (Sig. level 0.000). It is seen that there is no significant difference between intermediary and NBFC.

Table 4.26 Test of Significance of Self Assessment on Paying Capacity by Borrower, Intermediary and NBFC

	Borr. (B)	Inter. (I)	NBFC (N)	B x I		B x N		I x N	
				Z	Sig.	Z	Sig.	Z	Sig.
Yes	85.90	55.42	49.67	5.701	0.000	5.128	0.000	0.516	0.610
No	14.10	44.58	50.33						

Table 4.27 Test of Significance of Borrower Habits of Being Calculative with Arrears

Calculative of Paying Capacity	Mean of Percent of Arrears	SD	N	t	Sig.
Yes	10.69	17.79	335	5.015	0.000
No	**23.86**	19.31	55		

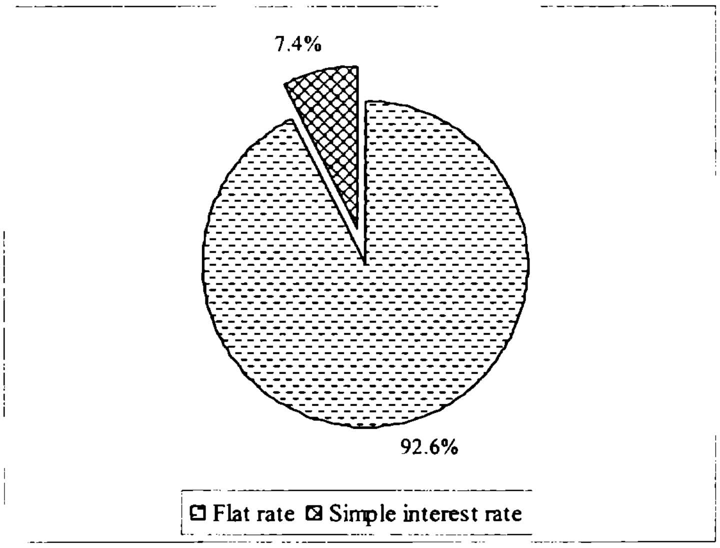
Table 4.27 shows that arrear percentage of borrowers who are not calculative of their paying capacity (prior to taking the loan), is higher (23.68 percent) and have significance, in comparison to those who were calculative (10.69 percent). Analysis shows that those who have evaluated their paying capacity has less arrears compared to those who were not calculative.

4.5.3 Mode of Interest Calculation

Vehicle finance is traditionally handled either through Hire Purchase or Lease transaction and the repayment is either hire rental or lease rental. Financiers do arrive at the hire rental or lease rental by adding certain interest to the amount advanced by flat rate of calculation. The other popular mode of interest calculation used in loan transactions by banks is simple rate of interest, or interest on diminishing balance. To distinguish which mode has been applied in a particular transaction, the term mode of interest calculation is used.

Figure 4.5 shows that in NBFC vehicle financing, 92.56 percent of transaction is with flat mode of interest calculation while only 7.44 percent uses simple interest mode.

Fig. 4.5 Graphical Representation of Mode of Interest Calculation



4.5.4 Nature of PDC

Financiers collect the post dated cheques in advance for servicing the monthly instalments. Some are blank and others properly filled. One needs to care for the cheques issued as it is the mandate to the banks to make payment to the drawee.

Table 4.28 Test of Significance of Borrowers on Issue of Blank Cheques with Various Categories of Vehicle

		Yes	No	Chi square	Sig.
Vehicle	Small car	**40.00**	60.00	24.217	0.000
	Premium car	**35.00**	65.00		
	Two wheeler	**66.67**	33.33		
	Three wheeler	**41.67**	58.33		
	Comm. car	**45.00**	55.00		
	LCV	**16.67**	83.33		
	HCV	**35.00**	65.00		
Type	New	33.81	66.19	3.311	0.069
	Used	42.78	57.22		
Utility	Private	43.33	56.67	3.001	0.083
	Commercial	34.58	65.42		
Total		37.95	62.05		

Table 4.28 shows that percentage of borrowers issuing blank PDC ranges from 16.67 percent in LCV to 66.67 percent in two wheeler. The chi-square analysis shows that there exists significant difference among various categories of vehicle borrowers (Chi square value 24.217 with significance level of 0.000) whereas there is no significant difference in case of analysis of type and utility.

4.5.5 Contents of the Cheques in Counterfoil

It is very important to have the contents of the cheques issued in the counter foil of the cheque books especially when more cheques are issued to financiers in the form of PDC. It will also help the drawer to arrange funds from time to time so as to enable the bank to pass the cheques.

Table 4.29 Test of Significance of Noting the Contents by Borrower, Intermediary and NBFC with Various Categories of Vehicle

		Yes	No	Chi square	Sig.
Vehicle	Small car	**52.78**	47.22	55.997	**0.000**
	Premium car	**33.33**	66.67		
	Two wheeler	**20.00**	80.00		
	Three wheeler	**11.43**	88.57		
	Comm. cars	**39.39**	60.61		
	LCV	**86.00**	14.00		
	HCV	**41.03**	58.97		
Type	New	41.73	58.27	1.831	0.176
	Used	50.49	49.51		
Utility	Private	40.00	60.00	1.572	0.210
	Commercial	48.41	51.59		
Total		**45.45**	54.55		

Table 4.29 shows a detailed picture of noting the contents in the counter foil by various categories of customers. It is interesting to see that the highest percentage of borrowers noting the contents of PDC is in LCV ie., 86.0 percent

and lowest in the three wheeler 11.43 percent. However the average percentage of borrowers noting down the contents of cheque issued are less than 50 percent. During the process of data collection, it is seen that the tendency of NBFC officials is to get a few PDCs some how and does not insist that the borrower should sensibly issue it. The chi square analysis shows that there is significant difference in the opinion of various categories of vehicle borrowers (Chi square value 55.997; Sig. level 0.000). The type and utility wise analysis show no significant variation.

Table 4.30 Test of Significance of Noting Down the Contents of PDC Issued with Arrears

Noting the contents of PDC	Mean of Percent of Arrears	SD	N	t	Sig.
Yes	7.94	17.03	110	3.924	0.000
No	**17.43**	19.90	132		

Table 4.30 shows that arrears percentage of borrowers who are not noting the contents of the PDC issued is higher (17.43) and have significant difference with those customers who have noted it down according to t-test.

4.5.6 Payment of First Instalment

First instalment payment is viewed as an important yardstick for measuring the performance of repayment during the entire tenure of the loan. Payment of first instalment in time indicates the timely start of repayment. Habits of borrowers are more reflected in timely servicing of first instalments rather than in his capacity to pay.

Table 4.31 Test of Significance of First Instalment Payment Delay with Various Categories of Vehicle Borrowers

		Yes	No	Chi square	Sig.
Vehicle	Small car	**23.33**	76.67	13.449	0.036
	Premium car	**20.00**	80.00		
	Two wheeler	**36.67**	63.33		
	Three wheeler	**36.67**	63.33		
	Comm. car	**13.33**	86.67		
	LCV	**18.33**	81.67		
	HCV	**26.67**	73.33		
Type	New	22.38	77.62	0.737	0.391
	Used	26.11	73.89		
Utility	Private	24.67	75.33	0.042	0.837

Table 4.31 shows a low percent of commercial car borrower ie., 13.33 percent and a high percentage of 36.67 percent of two and three wheeler customers have failed to pay first instalments in time. The chi square analysis reveals that there is significant difference on payment of first instalment delay among various categories of vehicle borrowers (chi square value of 13.449 with significant level of 0.036).

Table 4.32 Test of Significance of Failing to Pay the First Instalment in Time with Arrears

Failure to Pay First Instalment in Time	Mean of Percent of Arrear	SD	N	t	Sig.
Yes	**23.56**	26.67	94	6.974	0.000
No	9.05	13.38	296		

Table 4.32 shows that arrears percentage of borrowers who failed to pay the first instalment in time, is higher (23.56) and have significant difference with those borrowers who have not failed to pay first EMI.

4.5.7 Promptness in Repayment

Hundred percent promptness in repayment of instalment is the most ideal situation, ie., best for the borrowers than the financiers. Assessing the percentage of promptness in customers' payment is a good measure in understanding the health of receivables.

From the study it is seen that mean percentage of promptly paying customers are 59.20 percent with SD of 16.52 according to the NBFC officials. This points out that the rest 40.80 percent of customers are not paying their instalments promptly.

4.5.8 Fraud in Borrowing

Globally, certain percentage of fraud takes place in almost all kinds of activity and that is true with financial transaction of NBFCs in India. There are customers who borrow with the sole idea of not refunding the loan or with the idea of defrauding. It is necessary to eliminate this category from the portfolio of every institution. However, it is very difficult for total eliminations, as it is a costly process and may drive away good and prudent customers.

The study shows that fraud in NBFC borrowings takes place to an extent of 3.09 percent with a SD of 2.01. During the interaction with respondents, it is seen that there are vehicles which have been temporarily registered but permanent registration is not obtained even after many months and the arrears on such accounts are very high. The report of Vyas (2008) clarifies the position that in such cases it becomes difficult for the financiers to retrieve the vehicle even if there are defaults. It is also understood that criminal and illegal activities, transportation of counter banned goods, robbery, theft, etc. do take place by using such unregistered vehicles.

4.5.9 Observance of Payment Schedule

It is seen that prompt payment is the most ideal situation in any kind of loan transaction. But it does not happen with all kind of borrowers. Next important step in measuring the health of the account is to track, as to how far the payment schedule is maintained within the month.

Within the month:- If the due dates are slipped, then the next best option is to fulfil the commitment with in the same month of due. All financiers do track this and it is in the best interest of the borrower, because if slippage to the next month is allowed, he has to arrange for double payment in the subsequent month. Avoiding slippage will also keep the tempo of borrower to remain financially disciplined and to be in the good books of the finance company.

Within the period:- A tenure is fixed for any loan at the time of granting it. It is the endeavour of the borrower to close the loan with in the loan period. For example, if a loan is taken to be paid in 60 monthly instalments the borrower should get it closed within that period, even if there were upward or downward swings.

Table 4.33 Mean values of prompt/within the month/within the period payments according to NBFC

	Mean of Percent	**SD**
Prompt payment	**59.20**	16.52
Payment within month	**65.77**	18.34
Closes within period	**70.03**	19.28

From the table 4.33, it is seen that 59.20 percent of borrowers are very prompt in repaying, 65.77 pays within the same month and 70.03 closes within the loan period. The requirement being 100 percent at least in the third stage that is clearing within loan period there need to be dramatic improvement.

Table 4.34 Correlation between Prompt, Within Period and Month Payments

		Prompt Payment	Payment within Month	Closes within Period
Prompt payment	Pearson Correlation	1.000	**0.712**	**0.517**
	Sig. (2-tailed)		**0.000**	**0.003**
	N	30	**30**	**30**
Payment within month	Pearson Correlation	0.712	1.000	**0.698**
	Sig. (2-tailed)	0.000		**0.000**
	N	30	30	**30**
Closes within period	Pearson Correlation	0.517	0.698	1.000
	Sig. (2-tailed)	0.003	0.000	
	N	30	30	30

The opinion of the NBFCs on the relationship between prompt payment, payment within month and closing within period are subjected to correlation analysis (Table 4.34). Pearson correlation coefficient indicates that three attributes have high positive correlation. It suggests that as prompt payment increases payment within month and closing within the period increases.

4.5.10 Overrun Period

Overrun period refers to extra time taken in closing the account beyond the tenure fixed for repayment of loan. If the period has over run, it shall be the endeavour of the borrowers and financier to see that, at the earliest opportunity the accounts get closed.

Table 4.35 shows the various periods within which respondents are closing the accounts, who have not done so within the period of loan (29.97 percent). Table indicates that 6.93 percent of borrowers do not close the account in the usual course of business.

Table 4.35: Mean Values of Period within which the Borrowers Close the Account according to NBFC

	Mean of percent	SD
Closed within period	70.03	19.28
Not closed	29.97	10.43
3 months	47.67	16.01
6 months	22.83	7.15
12 months	12.27	6.12
24 months	6.57	5.22
Above 24 months	3.73	2.35
Does not close	6.93	3.16

4.5.11 Preclosing and its Reasons

Some of the borrowers close their accounts very early or anywhere within the loan period prior to completion of tenure for various reasons. It is necessary for NBFCs to evaluate and understand reasons for such pre closers for the healthy growth and higher profitability of organizations. There are various reasons for the preclosing and this has been ranked.

Table 4.36: Ranks given by NBFC Officials on the Reasons for Foreclosing of Accounts

	Rank
For sale of vehicle	1
When additional cash comes in	2
To borrow at lower interest	6
To borrow higher amount	5
To come out of dispute with others like guarantor, partner, etc.	3
To get rid of finance headache	4

The purpose of foreclosing reasons of borrowers given by NBFC officials are ranked from 1 to 6, rank no. 1 having the highest weightage and no. 6 the least. From the table 4.36, it could be seen that major reason for preclosing the vehicles is for sale of vehicle followed by flow of additional cash. Borrowing at a lower interest followed by borrowing higher amount is regarded as least purpose.

The study shows that an average of 7.63 with a SD of 4.69 borrowers precloses the accounts for various reasons listed.

4.5.12 Satisfaction and Complaints

Customers express satisfaction as well as complaints at various levels in a loan transaction. There need to have an increased number of satisfied customers, for repeat business as well for referring more customers by word of mouth.

Table 4.37 Mean value of opinion of NBFC officials on closing the loan

	Mean	SD
Satisfied	54.57	22.49
Complaints	24.23	12.09
Repeat business	24.77	21.51

Table 4.37 based on the response of the NBFC officials shows that 54.57 customers are satisfied customers. 24.23 percent customers complained while closing the account and repeat business customers are 24.77.

From table 4.38, it is seen that 74.36 percent of borrower expresses satisfaction and the rest are dissatisfied. From further responses on repeat business it is seen that 15.38 percent are interested, while 1.79 percent are not, and 57.18 percent do not know about it. Only 15.90 percent are willing to avail business out of the 74.36 percent satisfied customers. The Pearson chi square analysis shows that there is significant difference (chi square 126.824; Sig. level 0.000) among the opinion of borrowers on the satisfaction and on availing repeat business.

Table 4.38 Mean Value of Satisfaction Level of Customers according to Borrowers

	Will you take repeat business			
	Yes	No	Don't Know	Total
Dissatisfied	0.51	11.79	13.33	25.64
Satisfied	**15.38**	1.79	57.18	**74.36**
Total	15.90	13.59	70.51	100.00
Pearson Chi Square	**Value**	**df**	**Sig.**	
	126.824	2	0.000	

4.5.13 Repeat Customers

Repeat customers are those customers, who avail further facilities from the same finance company. This is the main source of business for the survival of any organization, which does not incur any marketing cost.

Table 4.39 Test of Significance of Repeat Business by NBFC and Borrowers

Repeat Business	N	Mean of Percent	t	Sig.
NBFC	30	24.77	1.021	0.308
Borrowers	62	15.90		

It is seen from the table 4.39 that according to NBFC and borrowers mean percentage of 24.77 and 15.90 respectively of existing borrowers only are interested in repeat business. As far as opinion of repeat business are concerned, NBFCs and borrowers have same opinion as the significance level of t-test is greater than 0.05.

4.5.14 Reaction of Guarantors

Guarantors are those, on whom, the financiers shall reckon at, in case of the basic borrowers failure to discharge his obligation. The reaction of the guarantors while contacting by the financiers on a given problem is very important. The guarantor's action on such occasions in rescuing the borrower in fulfilling the terms of agreement is very important.

In the table 4.40, the reaction of guarantors given by NBFC officials are ranked from 1 to 6, rank no. 1 having the highest percentage and no. 6 the lowest. From the table, it could be seen that major response of guarantor is by pleading that he was only a witness.

Table 4.40 Ranking given by NBFC Officials on the Reaction of Guarantors

	Rank
Pleads unaware	5
Pleads witness only	1
Agrees to persuade	3
Pays himself	6
No reaction at all	2
Reacts and warns	4

4.5.15 Market Knowledge on Recovery Tactics

In the vehicle financing industry, various tactics are used for the recovery and borrowers' knowledge about it is represented in this section.

From the table 4.41, it is seen that more than 95.13 percent of the borrowers are aware that if instalments are defaulted, it is likely that financiers will repossess the asset. Similarly, 77.44 percent of borrowers are aware that because of recovery pressures from the NBFC, defaulting customers do surrender the vehicle. 72.31 percent of the customers are also aware that hired goondas services are availed by NBFC in recovering/ repossessing the vehicle. It is also seen that 52.82 percent are aware that criminal activities take place while recovering/repossessing vehicles by NBFC and their recovery agents.

Table 4.41 Percentage Distribution of Market Knowledge of Borrowers on Repossessing, Surrender and Criminal Activity

	Repossessing	Surrender	Goondas	Criminal activity
Yes	95.13	77.44	72.31	52.82
No	4.87	22.56	27.69	47 18

4.5.16 Criminal Activities

During the process of repossession of vehicle certain criminal activities takes place especially when resistance is offered by borrower and force is used by the repossessing team.

Table 4.42 Percentage Distribution of Criminal Activities on Repossession according to NBFC

	Frequency	Percent
No	5	16.67
Some times	19	63.33
Always	6	20

According to NBFC respondents, in table 4.42, twenty percent are of the view that some kind of criminal activities takes place during the pendancy of repossession. 63.33 percent are of the view that criminal activities takes place once a while and 16.67 percent are only of the view that no criminal activity takes place at all. This shows that very high percentage of 83.33 NBFC officials are facing some kind of criminal activity on repossession of vehicle.

4.5.17 Borrower Behaviour

Borrowers have different patterns of behaviour on refunding their loan mainly based on their socioeconomic characteristics, repaying capacity and repaying habits.

From the table 4.43, it is seen that only 52.07 percent of borrowers are making repayments without the collection effort of financiers. From the table it is further seen that 6.70 percent of borrowers default the very first instalment. Average cheque return is 19.97 percent and out of that, only 6.90 percent contact financiers. This indicates that 93.10 percent of cheque return customers does not even bother to say sorry to the financiers. Out of the 6.90 percent contacting financiers on cheque return, 41.03 arrange alternate payment or consent for representation. Table further shows that even out of that, 76.83 percent of cheques only are honoured. It is also seen from the table that 2.98 percent of borrowers does not pay even a single instalment and 11.98 percent does not pay even 25 percent of loan during the normal course of business.

Table 4.43 **Mean Values of General Repayment Habits of Borrower according to NBFC**

	Mean of Percent	SD
Payment without collection efforts	**52.07**	22.17
Default on first instalment	6.70	6.80
Cheque returns	19.97	8.72
Contact on cheque return	6.90	5.47
Consent for representation	41.03	29.88
Honouring represented cheque	76.83	23.54
Do not pay even single instalment	**2.98**	7.26
Do not pay even 25 percent of loan	11.98	8.05

4.5.18 Determinants from Borrower Habits

From the objective of the borrower habits, instalment status, first instalment delay, number of cheques returned, number of delayed payments, issuing of blank cheques and self calculation of paying capacity are important variables identified which have a bearing on the borrower habits. Instalment status, number of cheques returned and number of delayed payments is taken as continuous variables and other three variables are taken as dummy variables. Multiple regression analysis was carried out with backward selection method with these independent variables and the results are presented in table 4.44.

Table 4.44 Multiple Regression Analysis of Borrower Habits with Arrears

	First Step		Last Step	
	B	**Sig.**	**B**	**Sig.**
(Constant)	-0.227	0.956	1.960	0.552
Instalment status	-0.091	0.008	-0.095	0.005
First instalment delay	3.241	0.066	3.143	0.074
No. of cheques returned	0.440	0.006	0.454	0.004
No. of delayed payments	1.590	0.000	1.583	0.000
Issuing of blank cheques	1.244	0.389		
Calculation of capacity to pay	4.306	0.037	4.412	0.032
R Square	**0.476**		**0.475**	

The R square value of the first regression model is found to be 0.476 which means that 47.6 percent of the variation in the arrears is determined by the six variables related to borrower habits. The final regression model consists of five independent variables (except that of issuing of blank cheques) with R square of 0.475. This means that 47.5 percent of the variation in the outstanding arrears is determined by the criteria of borrower habits criteria through these five independent variables.

The beta coefficient of the calculation of capacity to pay, first instalment delay, number of delayed payments and number of cheques returned are found to be positive and the instalment status is found to be negative. From the result, it can be said that when the borrower calculates his capacity to repay as a credit appraisal criteria arrear seems to be higher by 4.412 percent. From the result, it is evident that consideration of calculation of capacity to pay is not an appropriate measure to check the arrears. This is probably because borrowers even after calculating his capacity to repay to be poor, pretends that he has the capacity and hence instead of this the criterion of past track record is to be considered while giving loans to vehicle borrowers of NBFC.

It is seen that when the first instalment is delayed, arrear is increased by 3.143 percent and on each delayed payment and on each cheque returned, arrear is increased by 1.583 percent and 0.454 percent respectively. In general, it can be seen that there exists a problem with the repayment habits of the borrower and when the habits are bad, arrears seem to rise. All these results show that there are problems in the repaying habits of borrowers.

The entire analysis of the sections on borrower habits, ie., from 4.5.2 to 4.5.18 and its results indicate that there exists problem in borrower habits and proves the hypothesis that repaying habits of borrowers are not satisfactory.

4.6 Collection Policy

Every organization in business should have a good collection policy. Collection policy refers to the procedure adopted for recovering the dues of the firm, occurred either due to the credit sale or financing activities. In any financial organization especially in NBFCs there has to be an elaborate written collection policy. This has to have some relationship with their credit policy. Based on the quality, strength and ways of implementation of credit policy and its procedure, collection policy can be varied. Similarly, based on the strength of collection policy credit policy also need to be moulded. If there is a strict collection policy and implemented firmly in a NBFC, it could survive well with a moderate credit policy. But a very strict credit policy is not good for the healthy growth of NBFCs as they have to compete with their banking counterparts. So NBFCs survival is based on its collection policy and strict recovery mechanism. Whatever may be the collection policy, NBFCs receivable management success lie in its proper implementation and that is how it is different from banking.

4.6.1 Information Prior to Cheque Presentation

Instruments for repayment of instalments are collected in advance as PDCs by NBFCs. As a curtsy and to make arrangements of payment by borrowers it is required to intimate regarding presentation of such cheques. This has been referred to as information prior to presentation.

Table 4.45 Percentage Distribution and Unweighted Average of Borrower and NBFC regarding Information prior to Cheque Presentation

	Borrower	**NBFC**	**Unweighted average**
No	79.49	70.00	74.74
Sometimes	20.51	20.00	20.26
Always	0.00	10.00	5.00

Table 4.45 shows an analysis of intimation to borrowers regarding the presentation of PDC held. From the data collected from both borrowers and NBFC it is seen that 74.74 percent (unweighted average) agree that no intimation is given prior to the presentation of (at least for the first) cheque. Respondents are of the view that 20.26 percent of financiers intimate it sometimes and only 5 percent intimate always.

4.6.2 Intimation of Repayment Schedule

Intimation of repayment schedule to borrowers is an unavoidable accomplishment for better recovery position. Table 4.46 presents the percentage distribution of borrowers, intermediaries and NBFCs regarding intimation of repayment schedule to borrowers by Test of Significance.

Table 4.46 Test Significance of Borrowers, Intermediaries and NBFCs regarding Intimation of Repayment Schedule to Borrowers

Borr.	Inter.	NBFC	Borr. x Inter.		Borr. x NBFC		Inter. x NBFC	
			Z	Sig.	Z	Sig.	Z	Sig.
70.51	63.33	80.00	1.125	0.263	1.106	0.271	1.610	0.107

From the result, it can be seen that the extent of coverage of intimation of repayment schedule is highest for NBFC (80.0 percent) followed by borrowers (70.51 percent). According to intermediaries, the extent of coverage is only 63.33 percent. Since the significance value of the Z test statistics are greater than 0.05, it can be inferred that there is no significant difference in the opinion among the responses of borrowers, intermediaries and NBFCs in those aspects.

4.6.3 Monthly Receipts for PDCs

As a practice, NBFCs collects monthly cheques in advance in the form of PDCs at the time of granting the loan. Each month one of such cheques are presented to be realized and accounted. Borrowers are entitled for an acknowledgement when their cheques are realized. This has been mentioned as monthly receipts for PDCs.

Fig. 4.6 Graphical representation of monthly receipts for PDCs issued

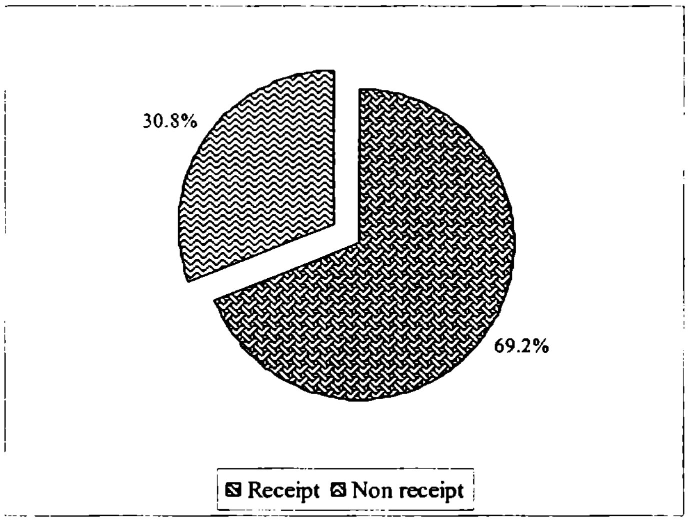
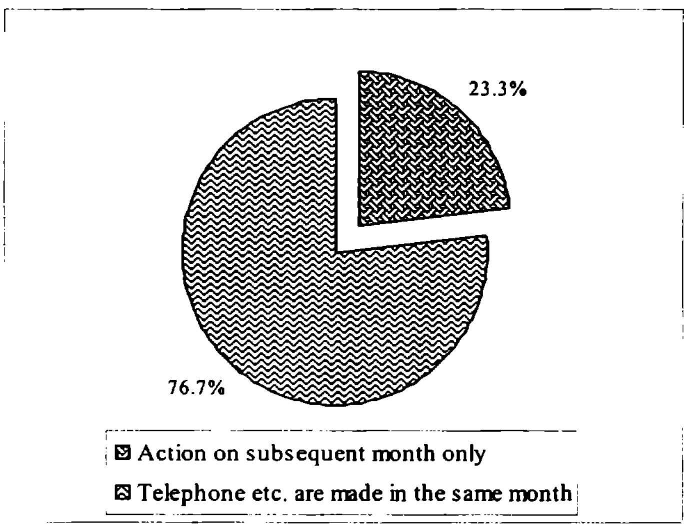


Figure 4.6 represents the monthly receipts of acknowledgement by borrowers as 30.77 percent and 69.23 percent are not getting any monthly acknowledgement.

4.6.4 Action on First EMI Default

Action is necessary on the first EMI default itself. Simple, polite but sharp and accurate action is necessary at this stage even if the default has taken place due to the financier's mistake or what so ever reason it may be.

Fig.4.7 Graphical representation of action taken on the first EMI default



It is seen from the figure 4.7 that in 23.33 percent cases action of first EMI default starts in subsequent months only. During the interaction with various respondents of NBFC officials, weakness is seen in their recovery works, in their field investigation and in implementation of collection policy.

4.6.5 Repossession of Asset

The meaning of the word repossession is "getting back the possession" This means that financiers take back the asset which is under their ownership whenever default in payment increases.

It is seen from the table 4.47 that 96.7 percent of NBFCs do resort to repossessing of vehicle in case of chronic defaults. 20 percent of them through own staffs and 76.7 by outsourcing.

4.6.6 Surrender of Vehicle

Repossessing of assets is costly as the involvement of more number of men is required for it. It creates tension for both financier and borrower. To avoid the dare consequences, financiers have a practice of suggesting the borrowers to surrender the vehicle. There are some borrowers who willingly surrender the vehicle to financiers and such cases have been referred as surrender of vehicles.

Table 4.47 Comparison on Repossessing and on its Modes (own staff/ outsourcing)

Do You Repossess	How Do You Repossess			Total
	Using Own Staff	By Outsourcing	NA	
Yes	6 (20.0%)	23 (76.7%)		29 (96.7%)
No			1 (3.3%)	1 (3.3%)
Total	6 (20.0%)	23 (76.7%)	1 (3.3%)	30 (100%)

The study shows that only 5.93 percent of defaulting borrowers (whose vehicles need to be repossessed) surrender the vehicle.

4.6.7 Support from Police and Court Orders

There are various issues in repossessing the assets by finances. Hired men create even criminal incidents while repossessing assets. There are instances heading to death, suicide and even murder, connected to repossessing of the asset. To be safe it is better to take police support in repossessing the assets.

Often it is better and legal to get orders from the court to take repossession of vehicle. This helps to reduce criminal activities connected with repossession.

Table 4.48 Percentage Distribution of Support Received from Court and Police on Repossessing Vehicle

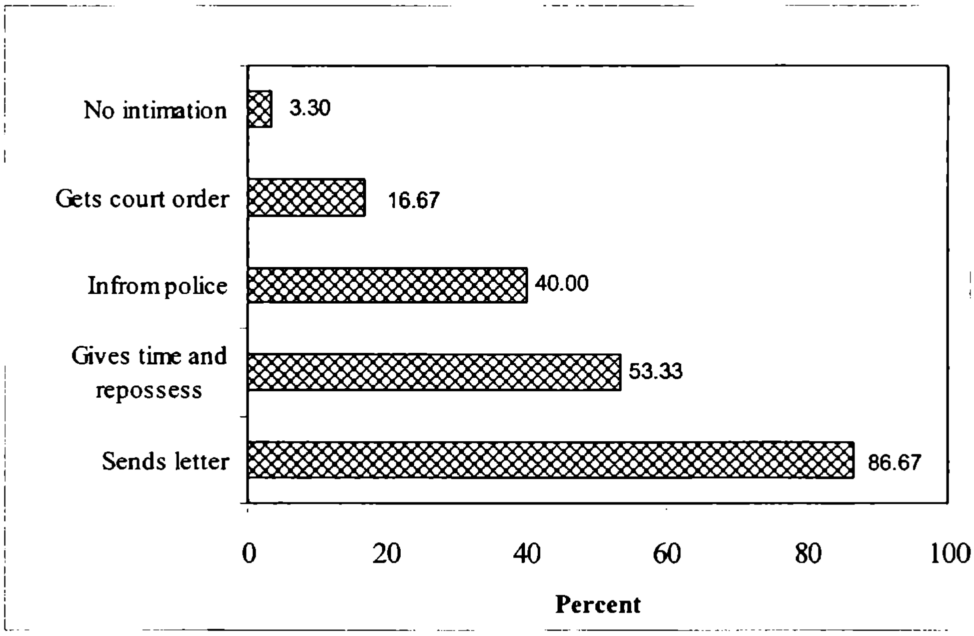
		Using Own Staff	By Outsourcing	NA	Total
Support from police	Not at all		50.00	3.33	53.33
	Sometimes	6.67	23.33		30.00
	Always	13.33	3.33		16.67
Court order	Not at all	3.33	56.67	3.33	63.33
	Sometimes	10.00	20.00		30.00
	Always	6.67			6.67
Total		20.00	76.67	3.33	100

It is seen from the table 4.48 that 50 percent of NBFCs do not take police support while repossessing and all such cases are outsourced mode of repossessing. Thirty percent of NBFCs takes police assistance once a while and only 16.67 percent NBFCs takes police support always while repossessing the vehicle. Similarly, court orders are not obtained by 63.33 percent of NBFCs in repossessing and 30.0 percent of NBFCs, court order is taken only once a while. It could be seen from the table that only 6.67 percent NBFCs are taking court orders always to repossess the vehicle.

4.6.8 Steps taken Before and After Repossession

There are certain conditions to be fulfilled both prior and after repossession of assets by financiers.

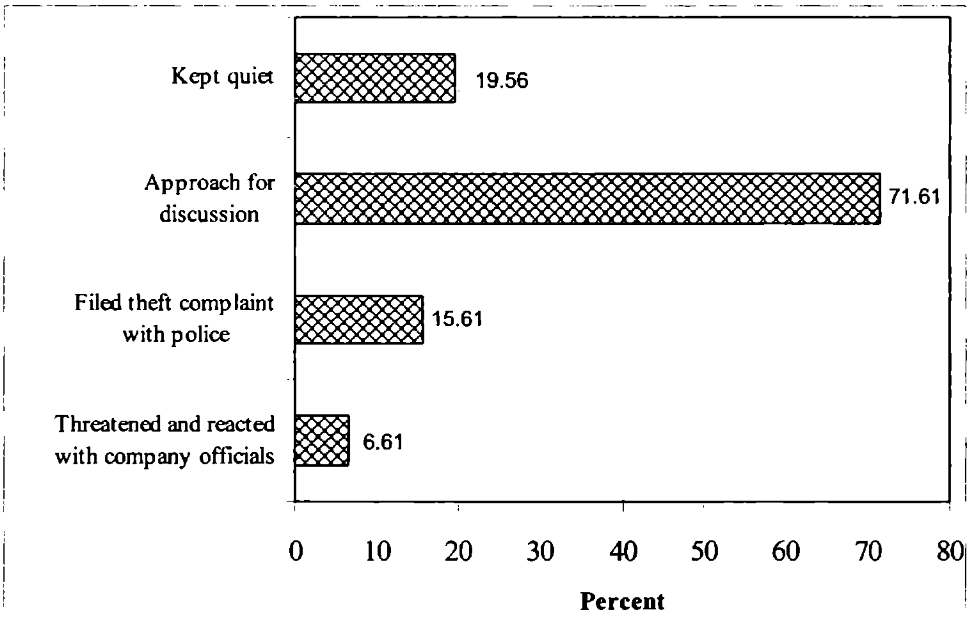
Fig. 4.8 Mean values of steps taken before repossessing by NBFC



It is seen from the fig. 4.8 that no intimation was given in 3.33 percent cases prior to repossession while in 53.33 percent cases ample time was given to borrowers but within that time frame itself vehicle was repossessed by the tactics of the financier.

NBFCs do take some steps after repossessing the vehicle mostly to fulfil legal formalities. It is seen from the Fig. 4.9 that in 10 percent of repossession, no inventory is prepared and this creates problem when complaints are received from borrowers like missing of accessories.

Fig. 4.9 Mean Values of Steps taken After Repossession by NBFC



4.6.9 Criminal Activities on Repossession

On repossession of vehicles certain criminal activities do take place especially when a higher percentage of recovery is done by recovery agents without police support and court order.

Table 4.49 Percentage distribution of criminal activities on repossession according to NBFC

	Frequency	Percent
No	5	16.67
Some times	19	63.33
Always	6	20.00

From the table 4.49, it is seen that according to 63.33 percent of NBFCs, criminal activities takes place sometimes on repossession and according to 20 percent of NBFCs, on repossession criminal activities do take place always.

4.6.10 Disposal of Vehicle and Sale Price

Table 4.50 Average Price Received on Various Mode of Disposal of Vehicle according to NBFC

	Mean	F	Sig.
Sealed quotation	65.00	2.053	0.107
Auction by office	76.67		
Auction by agent	53.00		
Negotiate and sale by office	72.89		
Auction by head office	65.00		
Quotation- negotiate and sale	75.00		

Various modes are resorted by NBFCs for disposal of vehicle. From the One way ANOVA test carried out, it is seen that there is no significant difference between various modes of sale adopted by NBFCs (Table 4.50). The highest price received on NBFCs sale (76.67 percent; in comparison to market price) is on vehicle sold by auction by office followed by quotation negotiate and sale (75.0 percent). It is also seen that in case of sale through auction by agents least price is received (53.0 percent). From the above, it is revealed that auction by sale is better mode to get a higher percentage of price.

4.6.11 Problems in Repossession

There are various problems in repossessing due to the reasons discussed in earlier sections.

From the Table 4.51, it seen that 89.3 percent of borrowers whose vehicle repossessed quarrels in NBFC office followed by 55.67 percent complaints that extra fittings are removed. A deeper look in to the problems of repossession shows that 7.67 percent of hired recovery men collects money from borrowers in the pretext of doing some favour to them either in the form of not repossessing or in the form of promises to release the vehicle at the earliest. In 11.33 percent cases hired men even quarrels with NBFC men on various issues in repossession for their charges and other related problems.

Table 4.51. Problems in Repossession according to NBFC

	Mean
Hired men quarrels	11.33
Collects money	7.67
Extra fittings removes	55.67
Misuses the vehicle	27.33
False police complaints	23.70
False claim of material/money	51.67
Quarrels in NBFC	89.30

4.6.12 Lacunas in Implementation of Recovery Policy

There are written policies on recovery procedure in every NBFC. But it may not be possible for them to put 100 percentage of it into practice in its letter and spirit.

Table 4.52 Mean of Percentage of Lacunas in Implementation of Recovery Policy according to NBFC

	Mean
Letter and phone call not made	**37.33**
Repayment schedule not send	**22.67**
False field report	32.70
False asset verification report	42.33
Unnecessary sympathy	**76.67**

From the table 4.52, it is seen that while implementing the collection policies, 76.67 percent of NBFC employees shows unnecessary sympathy to defaulting borrowers. 32.70 percent of field visit reports are false and 42.33 percent of physical asset verification reports are also not true. Table reveals that there are heavy lapses (22.67 percent) in sending repayment schedule to borrowers and mistakes of not making timely phone call and sending letters to defaulting borrowers to the extent of 37.33 percent. While highlighting the mistakes on implementation of collection policy, it is worthwhile to mention the study by Vanhome (1996) where he has concluded that "every mistake has a price tag, but the tag on one that can be identified as a growth step and can be prorated over and absorbed into an impressive number of positives."

4.6.13 Determinants from Collection Policy

As far as the collection policy of NBFC is concerned, borrowers are not competent to give valued information. However, two independent variables, information prior to cheque presentation and intimating repayment schedule are taken from the borrower's side. Multiple regression analysis of these two dummy variables with arrear is presented in table 4.53.

Table 4.53 Multiple Regression Analysis of Collection Policy with Arrears

	First Step		Last Step	
	B	Sig.	B	Sig.
(Constant)	10.710	0.000	12.548	0.000
Information prior to cheque presentation	-3.641	0.123		
Intimating repayment schedule	2.011	0.340		
R Square	**0.007**		**0.000**	

From the results, it can be seen that only 0.70 percent of the variation in the arrear is determined by these two variables. These results show that these variables have no significant impact on the arrears position.

4.6.14 Arrears, NPA and Write Off of NBFC: An Analysis on Collection Policy

In order to get a clear picture of the collection policy of NBFCs, 14 independent variables were selected from the NBFC officials and a multiple regression analysis with backward selection method was conducted with the arrears, NPA and write off position of NBFC branches. The results of the same are presented in Table 4.54, 4.55 and 4.56.

Table 4.54 Multiple Regression Analysis on Various Elements on Collection Policy with Arrears of NBFC

	First Step		Last Step	
	B	**Sig.**	**B**	**Sig.**
(Constant)	-9.148	0.686	-12.327	0.102
Cash collection in field	9.581	0.257		
Collection incentive	-9.857	0.007	-8.598	0.003
Collection outsourcing	4.716	0.151	5.404	0.042
Inform. prior to cheque present.	3.101	0.371		
Repossessing assets	-7.282	0.468		
Repossession mode	3.120	0.532		
Police support	0.047	0.990		
Court order	4.091	0.296	6.119	0.029
Concession	-9.791	0.048	-5.803	0.063
Letter/phone not made	1.266	0.675		
Repayment schedule not sent	5.257	0.060	5.005	0.002
False field report	5.786	0.077	3.711	0.009
False asset verification report	-3.305	0.459		
Unnecessary sympathy	5.502	0.087	3.884	0.003
R Square	**0.668**		**0.593**	

From the result, it can be seen that the percentage of determination of 14 independent variables are 66.8 percent, 45.2 percent and 83.9 percent for arrears, NPA and write offs respectively. In the case of arrears, 7 variables are found to be significantly affected by the arrears position of NBFC with R square of 0.593. Among them, collection outsourcing, court order, repayment scheduled not sent, false field verification report and unnecessary sympathy are found to increase the arrears level while collection incentive and concession for borrowers for settlement are found to decrease the arrears. Borrowers habits of defaulting for the sake of getting concession even then they have capacity to pay is also proved by this analysis that when concession is offered arrears are decreasing. The report by Subramanyan (2002) regarding the borrowers deliberately bringing their business to sickness for availing concession under the banner 'bonanza for defaulters' is worth mentioning.

Table 4.55 Multiple Regression Analysis on Various Elements on Collection Policy with NPA of NBFC

	First Step		Last Step	
	B	**Sig.**	**B**	**Sig.**
(Constant)	-27.471	0.494	-15.391	0.182
Cash collection in field	3.487	0.811		
Collection incentive	3.121	0.586		
Collection outsourcing	-5.539	0.329		
Inform. prior to cheque present.	-0.376	0.950		
Repossessing assets	-3.319	0.850		
Repossession mode	-4.832	0.583		
Police support	6.933	0.298		
Court order	-3.088	0.650		
Concession	-1.659	0.839		
Letter/phone not made	5.340	0.322	1.415	0.044
R schedule not sent	9.489	0.054	5.694	0.010
False field report	5.128	0.355		
False asset verification report	-5.322	0.499		
Unnecessary sympathy	4.891	0.371	0.952	0.056
R Square	**0.452**		**0.240**	

On the analysis of NPA (table 4.55), three variables are found to have significant impact on the level of NPA of NBFCs with R square of 0.240. Letters and phone calls not made, repayment schedule not sent and unnecessary sympathy are the significant independent variables which have positive impact on NPA.

In the case of write off of NBFCs (Table 4.56), 5 independent variables are found to have significant impact with R square value of 0.703 on the amount written off. Collection incentive, repossession mode, police support, concessional settlement and false field report are significantly affecting independent variable with percentage determination of 70.3.

Table 4.56 Multiple Regression Analysis on Various Elements on Collection Policy with Write Offs of NBFC

	First Step		Last Step	
	B	Sig.	B	Sig.
(Constant)	48.168	0.000	39.094	0.000
Cash collection in field	2.943	0.351		
Collection incentive	-2.884	0.029	-2.597	0.024
Collection outsourcing	1.378	0.257		
Inform. prior to cheque present.	1.800	0.175		
Repossessing assets	-0.182	0.961		
Repossession mode	2.815	0.146	5.505	0.000
Police support	-2.386	0.102	-2.204	0.038
Court order	1.368	0.351		
Concession	-4.517	0.018	-3.393	0.012
Letter/phone not made	-2.386	0.048		
R schedule not sent	-2.159	0.042		
False field report	-1.923	0.114		
False asset verification report	-5.144	0.007	-7.123	0.000
Unnecessary sympathy	-1.596	0.178		
R Square	**0.839**		**0.703**	

Among the independent variables, repossession mode have a positive beta coefficient which means that when the repossessing is outsourced, write off will increase. This is due to the reason of high handedness of outsourced recovery men where repossessing cost and legal battle costs go higher. This is supported by the view of Patki (2008) that the recovery boys have very low education and know only one thing- recover money by hook or crook from defaulters. In such cases, even the sale value of the vehicle will be the least and sale is possible only after all the legal battles. By the time the condition of the vehicle must have gone from bad to worse. It is also seen that false asset verification report found to decrease the quantum of write off. This is probably due to the fact that the false verification report given by recovery men are merely due to their laziness on that occasion and has nothing to contribute towards the problem of recovery. On subsequent occasions, much more conscious efforts must have been taken by them so that the recovery position is improved. False asset verification report does not mean that assets are not there and probably due to the reason that the vehicle must have gone for trip and the condition of the vehicle is good which results in reduction of write off in such cases. In all other independent variables beta coefficient is negative which means that when there is collection incentive, write offs comes down. Similarly when the support of police is taken in NBFC write off comes down. When concessions are given, write off falls. From these results, it can be seen that there exists a lacuna in the collection policy.

The analysis of the sections on collection policy, ie., from 4.6.1 to 4.6.12, 4.6.14 and its results indicate that there exists problem in collection policy and proves the hypothesis that the current collection policies and practices are inefficient.

4.7 Recovery

The study is on the receivable management of vehicle financing NBFCs, who funds substantially for the purchase of vehicle. The loan granted is to be refunded in the form of instalment and are to be paid for a fixed tenure in Equated Monthly Instalments (EMI).

The strength of NBFC lies in its ability to recover the outstanding even from weak customers. They have a separate recovery department which is quite different from that of their credit department and consistent recovery efforts are their hallmark. A NBFC employee's commitment in recovering the outstanding is much higher than that of an employee in bank or any other financial institution, and that has revealed during the interaction with NBFC officials.

In NBFC recovery, till last moment, the officials try their best in amicably getting the recovery issues settled with their clients. NBFCs are also interested in avoiding problems of any kind as they want to maintain their reputation and want these partially defaulting borrowers as repeat customers.

Some of the new generation financiers totally depend on their recovery through outsourced muscle men. They are also in a position to make higher pay out to outsourced agencies because of their increased margin and lower cost of funds. NBFC rely on their own internal strength in recovering and with that they encash upon their business through a liberalised lending policy to their niche market.

Repossessing the assets is one of the most valuable rights of financiers when instalments are chronically defaulted. In the asset based financing (especially vehicle finance), the financiers mainly depend on this tool for better recovery.

The right of repossession by the owner/financier in Higher Purchase and Leasing (vehicle finance) has been well established by various High Courts and Supreme Court and some of the important decisions related to it are cited as follows (i) Shibi Francis vs. State of Kerala, 2007 (3) KLT 923; (ii) Bahulayan vs. State of Kerala, 2007 (4) KLT 402; (iii) ICICI vs. Prakash Kaur, 2007 (4) SCC 39.

Till a decade ago, vehicle finance transaction was mainly taking place under Leasing or Hire Purchase arrangement. Under leasing the financier is the actual owner and in case of Hire Purchase the financier is the *'dejure'* or deemed owner. The term right to repossess itself has come from the fact that the financier is the owner both in case of Hire Purchase and Leasing.

Due to the opening up of economy and non existence of entry barrier, the competition in the vehicle finance increased and many players even other than NBFCs have entered into the field of vehicle finance. This was due to the better asset quality, resale value and easy traceability of vehicles.

Further on the introduction of lease tax, sale tax on Hire Purchase and the introduction of service tax on Hire Purchase made it a costly affair both for the financier and borrower to handle the finance under the title of Hire Purchase and Lease. This resulted in many of the financiers making a paradigm shift from Hire Purchase and Lease to hypothecation arrangements even in vehicle finance. Based on the representation from the NBFC associations RBI has permitted the vehicles under loan arrangement also to be included for classification for Hire purchase/Lease (asset finance companies), provided the vehicle has been registered with road transport authority and financier's lien is created in the registration records. This resulted in many of the vehicle financiers adopting hypothecation/loan mode for vehicle financing. They continued to repossess the asset even on hypothecation arrangements by incorporating certain clauses in the agreement executed by the parties. It is pertinent to note that Hire Purchase Act, 1972 deals with many provisions relating to repossession of assets. Unluckily, the provision of this Act is not given effect by a notification by Government of India even after the elapse of long 35 years of its legislation.

4.7.1 Recovery Position

NBFCs need to monitor the recovery position on the asset financed by them as an ongoing process. There are different methods adopted by NBFCs in monitoring the recovery position. Arrear includes all those instalments past due more than 30 days or all those instalments which are not paid within the same month of its due. Six instalments and above pending arrears are categorised as non performing assets in case of loan transactions, and 12 instalments and above in case of Hire Purchase and Lease transactions. Details about classification of assets and non performing assets are as specified by RBI in its Prudential Norms for NBFCs (Statutory Guide for NBFC, Taxmann, 2007).

Non performing assets have greater impact on health and profitability of NBFCs as there are various stipulations with regard to the provisioning and write off norms. From the prudential norms and NPA norms, it is very clear that managing receivables in NBFCs is quite important for the healthy survival of NBFCs. Moreover, public deposit acceptance is also linked to (1) obtaining the certificate of registration (2) the prudential norms and (3) having minimum of investment grade rating.

If the rating is down graded, the NBFC is expected to refund the deposit to the admissible acceptance level or even total refund as the case may be within the 3 years. On a deeper insight into the receivable management, it could be seen that if the default positions are high, the provisioning percentage increases. This also necessitates the compulsory write-offs which erodes into the profitability of the organization. Increased percentage of non performing assets will lead to higher provisioning and higher bad debt write-offs. It is also likely that with higher NPA the rating can be down-graded which affects the quantum of public deposit acceptance. All these requirements highlight the importance for better receivable management in NBFCs. Their survival itself depends on better receivable position and its management.

In view of the provisioning norms, NBFCs need to classify the assets and monitor the collection mechanism to reduce the provisioning and write off. The asset classification and provisioning norms are made, in order to make sure that the assets which are not at all performing should not be carried forward in the books of account. If such assets are carried forward in the books of accounts it shall become a drain on the company's performance on later dates. This provisioning norm compels the NBFCs to follow a conservative accounting policy which shall be a healthy one in the long run.

There are also restrictions on rescheduling of assets, to take them out of the non performing category. If at all rescheduled, the assets shall continue to remain as non performing, subject to certain conditions.

Greater importance is given by NBFCs when the very first instalment is defaulted (non starters) which has been analysed in previous sections. NBFCs do monitor the arrears with respect to the number of instalments in default especially the first, second and third arrears, with the intention of not allowing them to fall into the higher default category. Similarly the payment of the 4th and 5th instalments are specially monitored and cared to make sure that it does not fall into 6th ie., NPA in case of loan transaction. Further, it is also monitored in cases of NPA when the last payment was made. If it is not within past one or two months, more stringent recovery measures are taken even to the extent of repossessing, filing complaint as per section 138 of Negotiable Instrument Act 1881, filing of money suits or arbitration etc. as the case may be. Different mechanisms, tactics and procedures are adopted by NBFCs from time to time to make sure that no stone is unturned in the process of recovery work.

4.7.2 Receivable Profile

It is necessary to monitor the payment or non payment of instalments regularly. It should be noted that when the last instalment was paid and it is more important to monitor and evaluate the amount paid, the total amount, total instalments and the number defaulted. This will give an indication of the health of repayment of the instalments of an account. Even if few instalments are defaulted, and if the loan has run for a considerable period, and if there are remittances consecutively in the last few months that could probably be deemed to be growing as a healthy account.

In table 4.57, arrears percentage is arrived from number of instalments run and paid by borrower respondents. It could be seen that the lowest mean percentage of arrear is for small car (8.94) followed by LCV (11.55) and that of the highest mean percentage is for two wheeler (16.68) followed by three wheeler (14.57). However, the difference in percentage of arrears is not statistically significant on category wise analysis as the significance level of ANOVA test is greater than 0.05. Similarly in type, utility and district also there is no significant difference. The report of Kannan *et al.* (2008) is supportive of the finding of highest arrear for two wheeler. According to them high rate of delinquency among the two wheeler customers have forced financiers to go slow and such lending has been a decline over the past one year.

Table 4.57 Test of Significance of Default of Borrowers by Category, Type and Utility of vehicle

		N	Mean	SD	Test Value	Sig.
Category	Small car	60	8.94	16.51	0.776 (F)	0.589
	Premium car	60	12.46	18.41		
	Two wheeler	30	16.68	23.86		
	Three wheeler	60	14.57	18.15		
	Comm. car	60	12.80	18.39		
	LCV	60	11.55	21.46		
	HCV	60	12.91	14.97		
Type	New	210	11.92	16.36	-0.721 (t)	0.471
	Used	180	13.28	20.85		
Utility	Private	150	11.90	19.01	-0.547 (t)	0.585
	Commercial	240	12.95	18.30		
District	Calicut	130	13.43	18.25	0.928 (F)	0.396
	Ernakulam	130	10.74	15.37		
	Trivandrum	130	13.48	21.55		
Total		390	12.55	18.56		

4.7.3 Gravity of Problems

The gravity of problems deals with the awareness and knowledge of borrowers about what is happening in the vehicle finance and non banking finance industry with regard to repossessing, surrendering, response to goondas, criminal activities, etc.

Table 4.58 Percentage Distribution of Knowledge of Borrowers on Action taken by their Known Men on Repossession of their Vehicle

	Repossessing	Surrender	Response to Goondas	Criminal Activities
Yes	95.13	77.44	72.31	52.82
No	4.87	22.56	27.69	47 18

Table 4.58 shows that 95.13 percent of borrowers are aware that vehicle repossessing do take place in NBFC if the instalments are heavily defaulted where as 4.87 percent are not aware of it. 77.44 percent of borrowers are aware that some of the defaulters do surrender their vehicles to avoid repossessing, because of the fear of it or due to other reasons. Similarly, 72.31 percent are aware that goondas or external agents are involved in repossessing of vehicles in NBFCs. 52.82 percent of borrowers are aware that criminal activity does take place in the recovery process of NBFCs.

4.7.4 Knowledge of Borrowers

It is very common that if the defaults are higher on vehicle loan, the financier do repossess the vehicle. Naturally there are certain reactions bound to be shown by borrowers and the nature of their action are analysed in this section. Opinion of borrowers is taken in the form of multiple choice in percentage terms.

Table 4.59 Reaction of Borrower on Repossession

	Percent
1 Kept quiet	19.56
2 Approach for settlement	71.69
3 Filed theft compliant with police	15.61
4 Threatened and reacted with company officials	6.61

From the table 4.59, it is seen that 19.56 percent of borrowers keep quiet and 71.69 percent borrowers approach for settlement. 6.61 percent even threatens of dare consequences, to finance company officials and a greater percentage than that ie, 15.61 percent would file complaint of theft with the police. This table indicates that a sizeable percentage of borrowers (19.56) are just keeping quiet even when their vehicle is being repossessed which shows the unconcerned attitude of borrowers on settlement even after the repossession of the vehicle.

This table also indicates that borrowers are aware of what is happening in the vehicle finance industry.

4.7.5 Cheque Bouncing

It is a common phenomenon that cheques do bounce especially for want of funds and the action taken by both borrowers and financiers are analysed in this section.

Table 4.60 Opinion of NBFC on Action on Cheque Return by Borrower

	Percent
I didn't know	5.66
Kept quiet	50.94
Inform the financier and took time	20.75
Arranged alternate payment	22.64

From table 4.60, it is seen that 5.66 percent of borrowers whose cheques returned are even unaware of their cheque return. It is shocking to see that 50.9 percent of borrowers whose cheques are returned just keep quiet according to the financiers themselves. 20.75 percent of them just take time and only 22.64 percent are arranging alternate payments.

Table 4.61 Action on Cheque Return by NBFC according to Borrowers

	Percent
1 Ask to pay through telephone	66.92
2 Send notice	39.35
3 Visit by representatives	33.44
4 Threatening by phone	2.75
5 Cheque case	3.14
6 Personal threat	2.36

Borrowers' opinion on financier's action on cheque bouncing is taken in the form of multiple choices and the same has been analysed in table 4.61. From the table, it is seen that in 66.92 percent cases, financiers telephone to borrowers on cheque return and only in 39.35 cases, written notices are given. Representatives of financiers visit borrowers in 33.44 percent cases to collect the dues and in 2.75 percent cases borrowers are being threatened by financiers about the consequences.

4.7.6 Advance, Arrears and NPA Position

By the terms, advance, arrear and NPA position, it is meant that the position per branch of NBFC with regard to various parameters of receivables including outstanding advances.

Table 4.62 Mean Values of Advance, Arrears and NPA Position, etc. per Branch according to NBFC

	N	Average of percentage	SD
Rs. in crore/branch	30	13.81	14.79
Arrears percentage	30	14.27	7.44
NPA percentage	30	8.25	10.20
Write off percentage	30	3.27	4.02
Collection on write off in percentage	30	50.83	16.25
No. of Repossess/branch/annum	30	44.87	25.77
No. of money suits/branch/annum	30	22.20	17.24
No. of 138 complaint/branch/annum	30	94.40	82.61

From the table 4.62, according to NBFC respondents, it shows that the mean value of vehicle loan outstanding per branch of NBFCs is Rs. 13.81 crore with SD of 14.79. The average arrear per branch is 14.27 percent of total outstanding loans. This is very much in consonance with the delinquency rates of high risk sub prime loans, arrears of which is as high as 14.50 percent as reported by Chandrasekhar and Ghosh (2007) in their study on sub prime lending. This also indicates the delinquency rate in NBFC vehicle financing is similar to that of sub prime lending in USA.

From the table, it is seen that the average NPA percentage of NBFC branches is 8.25 and their annual average write off of 3.27 percent of outstanding. It is interesting to see that 50.83 percent of write off is collected in the subsequent year which reduces virtually the annual write off to half ie., 1.635 percent, which itself is a substantial sum. It is also seen that on an average outstanding advance of 13.81 crores, the number of repossessions, the number of money suits and the number of 138 complaints per branch per annum are 44.87, 22.20, 94.40 percent respectively.

At the time of collection of data through interview schedule from the respondent NBFCs, it has been noticed that the above figures represent the actual percentage per branch throughout the year in a NBFC and these figures are without considering concessions given to borrowers, provisioning, write off, other adjustments and accounting juggleries. 8.25 percent of NPA at branch level and 0.4 percent NPA as reported in RBI Trend and Analysis 2006-07 has very wide variation. This is mainly because of the branch figures being raw without any adjustments and the reported figures are based on finalisation. However, this wide variation is in tune with the study of Tarapore (2000) on the general perception that actual NPA are higher than indicated by the numbers and there is at least anecdotal evidence of ever greening.

4.7.7 Asset Quality Ranking Based on Arrears

Due to the quality of assets, its utility and age, the arrears position of different categories of vehicles varies. Opinion of NBFC officials were taken to understand the position for ascertaining the quality of the asset from the perspective of their arrears position.

Table 4.63 Rank of Recovery Position of Various Category of Vehicle at NBFCs

Sl. No.		Category	Rank
1	Private	Small car New	12
2		Small car Used	13
3		Premium car New	11
4		Premium car Used	10
5		Two wheeler New	1
6	Commercial	Three wheeler New	2
7		Three wheeler Used	5
8		Commercial car New	6
9		Commercial car Used	9
10		LCV New	3
11		LCV Used	4
12		HCV New	8
13		HCV Used	7

In the table 4.63, the ranking of quality of asset, based on arrears position is shown. The asset which ranked one has the maximum arrears problem and the asset which ranked lowest ie., 13 (small car used) has least arrears. It is seen from the table that used small cars has the lowest ranking of arrears followed by new small cars and the highest ranking of arrears is on new two wheelers followed by new three wheelers.

Table 4.64 Test of Significance of Category, Type, Utility of Vehicle and its Combinations at NBFC's with Arrears Position based on Ranking by NBFC Respondents

		Mean	SD	Test Value	Sig.
Category	Small car New	8.70	3.18	17.000 (F)	0.000
	Small car Used	9.70	3.18		
	Premium car New	8.57	2.97		
	Premium car Used	7.87	3.28		
	Two wheeler New	2.82	2.74		
	Three wheeler New	4.05	3.14		
	Three wheeler Used	5.07	2.89		
	Commercial car New	5.09	2.37		
	Commercial car Used	6.28	3.68		
	LCV New	4.23	2.88		
	LCV Used	4.67	3.56		
	HCV New	5.33	2.11		
	HCV Used	5.13	3.05		
Type	New	6.18	1.12	3.286 (t)	0.000
	Used	7.86	1.38		
Utility	Private	8.47	1.78	3.907 (t)	0.000
	Commercial	6.05	1.16		
Private New vs. Used	Private New	7.40	2.15	0.869 (t)	0.426
	Private Used	8.22	3.09		
Commercial New vs. Used	Commercial New	5.16	1.37	2.423 (t)	0.024
	Commercial Used	6.77	2.02		
New	Private	7.40	2.15	3.370 (t)	0.000
	Commercial	5.16	1.37		
Used	Private	8.22	3.09	1.424 (t)	0.209
	Commercial	6.77	2.02		

In the table 4.64, test of significance is carried to find out the significant level of ranking of arrears position among various categories, type, utility and other combinations. Mean value of arrears position of all the variables are taken and the highest arrear is indicated by lowest mean value and the least arrear is indicated by highest mean value.

From the ANOVA test on the category of vehicles, it is seen that there is significant difference among the category of vehicles on their arrears position (Sig. 0.000). It is seen from the table that the maximum arrears problem is for new two wheelers followed by new three wheelers and the least arrears problem is for used small car followed by new small car.

On the type wise analysis, t-test is carried out and it is interesting to see that there is significant difference in arrears position among new and used vehicles (Sig. 0.000). It is seen that used vehicles have lesser arrears compared to new vehicles (Sig. 0.000). Utility wise analysis ie., private and commercial, shows significant difference in arrears position (Sig. 0.000). Commercial vehicle has more arrears compared to private vehicles. An analysis done among new and used private vehicles shows no significant difference in its arrears position. However, in case of new and used commercial vehicle there is a significant difference (Sig. 0.024). It is seen that used commercial vehicles has lesser arrears than new commercial vehicles. On the analysis among new private and commercial vehicles, there is significant difference in arrears position (Sig. 0.000). New commercial vehicles have higher arrear than new private vehicles. An analysis among used private and commercial vehicles shows no significant difference.

4.8 Importance of Arrears

The objective of the study and analysis of this chapter point outs that arrear is the most important element to assess the success of receivable management and the success of NBFC business itself. Zero arrear situation is impossible even though the same is ideal one. The efforts of the receivable management system should be to minimise the arrears. Another danger associated with increase in arrears is that beyond six instalments, the asset becomes non performing and thereafter provisioning and write off are required, based on the length of defaulting period. Therefore the most critical factor in NBFC receivable management is its **ARREARS**.

4.8.1 Regression Analysis of Arrears with Independent Variables

In order to get a comprehensive knowledge about the determinants of arrears, from the four major areas of functions of NBFC- credit appraisal, documentation, borrower habits and collection policy, all the variables used in the regression analysis (Tables 4.13, 4.24, 4.44, 4.53) independently for each function have been put together along with another independent variable 'tenure' (Tenure means the period of loan in months). This constitutes 37 (36+1) independent variables, out of which the following (four)- tenure, instalment status, number of cheques returned and number of delayed payments are continuous variables and the remainder 33 are dummy variables. The result of the same is given in table 4.65

Table 4.65 Multiple Regression Analysis of Independent Variables to Arrears (First Step)

		B	Sig.
	(Constant)	33.972	0.057
1	Tenure	-0.196	0.005
2	Instalment status	-0.151	0.000
3	First instalment delay	1.975	0.280
4	Number of cheques returned	0.625	0.000
5	Inform. prior to cheque present.	-3.317	0.092
6	Number delayed payment	1.486	0.000
7	Agreement format	-5.165	0.719
8	Identification	2.044	0.384
9	EMI calculation	-6.876	0.007
10	Reading terms	2.160	0.208
11	Execution place	-0.979	0.526
12	Nature of execution	1.375	0.450
13	Document copy to borrower	-0.003	0.999
14	Asset value	-3.456	0.415
15	Income from asset	-1.762	0.343
16	Expense saved	-0.425	0.839
17	Asset of borrower	4.707	0.214
18	Asset of guarantor	-2.522	0.284
19	Capacity of borrower	-4.447	0.243
20	Additional income	1.358	0.389
21	Other earning members	-0.019	0.991
22	Encumbrances	-2.044	0.289
23	Family expenses	1.783	0.311
24	Net worth for advance	-1.271	0.556
25	Track record	-0.298	0.916
26	Bank operations	-1.558	0.601
27	Other repayments	-1.709	0.549
28	Check bouncing	2.322	0.430
29	Neighbourhood enquiry	0.408	0.845
30	Social status	-3.549	0.041
31	EMI to monthly income	0.064	0.973
32	Remittance from children	-1.565	0.411
33	Unsolicited income	0.611	0.695
34	Identity	-1.118	0.748
35	Issuing of blank cheques	2.266	0.168
36	Calculation of capacity to pay	1.873	0.446
37	Intimating repayment schedule	-0.477	0.803
R Square		**0.535**	

The R square of the initial multiple regression model is found to be 0.535 indicating that 53.5 percentage of the variation in arrear is determined by these selected independent variables.

Table 4.66 Multiple Regression Analysis of Independent Variables to Arrears (Last Step)

No		B	Sig.
	(Constant)	29.530	0.000
1	Tenure	-0.212	0.001
2	Instalment status	-0.150	0.000
3	No. of cheques returned	0.645	0.000
4	Inform. prior to cheque present.	-3.450	0.046
5	No. of delayed payments	1.531	0.000
6	Identification	-6.673	0.002
7	Reading terms	2.608	0.090
8	Capacity of borrower	-6.085	0.075
9	Social status	-4.325	0.002
10	Issuing of blank cheques	2.513	0.085
	R Square	**0.519**	

The R square of the final regression model is found to be 0.519 which means that about 52 percent of variation in the level of arrear is determined by 10 independent variables. From the result, it can be seen that the number of cheques returned, number of delayed payment, reading terms and issuing blank cheques are positively related to the result of arrears of borrowers of NBFC. The results also shows that tenure, instalment status, information prior to cheque presentation identification capacity of borrower and social status have negative impact on arrear which means that as tenure increases by one month arrear is found to decrease by 0.212 percent. Similarly, as instalment status is increased by one month arrear found to be decreased by 0.150 percent. If information prior to cheque presentation is given, arrear is decreased by 0.345 percent. If the borrowers are well identified prior to the grant of loan, arrears are found to be decreased by 6.673 percent. Similarly, if the capacity of the borrower and social status of the borrower are verified, arrear can be decreasing by 6.085 and 4.325 percent respectively. Identification of borrower is found to be the most relevant independent variable which reduces the level of arrear as in the case of borrower capacity followed by their social status.

4.8.2 Utility of Vehicles: Private and Commercial

Finance and road transportation industry has broadly classified vehicles into two, based on their usage and permit issued by RTA ie., private and commercial. To get a clear knowledge about the underlying mechanism of the dynamics of the level of arrears among private and commercial vehicle borrowers in NBFCs, Multiple Regression with Backward Selection method was conducted with arrears as dependent variable and selected variables as independent variables separately for private and commercial vehicles.

Table 4.67 Multiple Regression Analysis of Independent Variables to Arrears of Utility (Private/Commercial) Vehicle (First Step)

	Variables	Utility of Vehicle			
		Private		Commercial	
		B	Sig.	B	Sig.
	(Constant)	28.672	0.164	28.756	0.091
1	Tenure	-0.247	0.034	-0.153	0.139
2	Instalment status	-0.154	0.013	-0.165	0.002
3	First inst. Delay	6.822	0.020	0.280	0.913
4	Number of checks returned	-0.035	0.883	0.836	0.001
5	Inform. prior to check present.	1.856	0.483	-6.286	0.038
6	Number delayed payment	1.840	0.000	1.258	0.000
7	Agreement format	-4.154	0.754		
8	Identification	2.101	0.556	2.218	0.514
9	EMI calculation	-7.100	0.119	-5.890	0.077
10	Reading terms	1.160	0.669	2.192	0.407
11	Execution place	-4.874	0.043	-0.306	0.888
12	Nature of execution	0.570	0.829	2.301	0.437
13	Document copy to borrower	0.069	0.986	0.322	0.922
14	Asset value	-9.892	0.027	6.110	0.584
15	Income from asset	-2.412	0.488	-4.021	0.212
16	Expense saved	0.194	0.944	3.038	0.450
17	Asset of borrower	2.300	0.649	3.837	0.520
18	Asset of guarantor	-2.936	0.403	0.603	0.861
19	Capacity of borrower	-3.128	0.559	-2.871	0.616
20	Additional income	1.414	0.554	1.921	0.399
21	Other earning members	-4.701	0.062	1.767	0.451
22	Encumbrances	1.972	0.479	-4.459	0.105
23	Family expenses	2.211	0.400	0.746	0.766
24	Net worth to advance	4.671	0.096	-4.948	0.169
25	Track record	-1.533	0.649	1.120	0.820
26	Bank operations	2.881	0.456	-2.154	0.655
27	Other repayments	-1.770	0.603	-4.944	0.369
28	Check bouncing	1.278	0.747	4.670	0.378
29	Neighbour enquiry	2.557	0.312	-3.149	0.428
30	Social status	-5.666	0.036	-2.375	0.331
31	EMI to monthly income	2.768	0.312	-1.451	0.617
32	Remittance from children	-1.079	0.715	-2.996	0.246
33	Unsolicited income	-1.100	0.635	0.352	0.880
34	Identity	-3.140	0.478	-0.601	0.912
35	Issuing of blank cheques	6.679	0.006	-0.699	0.766
36	Calculation of capacity to pay	-2.728	0.537	3.765	0.306
37	Intimating repayment schedule	2.280	0.371	-1.372	0.645
	R Square	**0.741**		**0.480**	

The R square of private vehicle is found to be 0.741 and that of commercial vehicle is 0.480. The result of the final regression model of the private vehicle is presented in the table 4.68 and that of commercial vehicle in table 4.69.

Table 4.68 Final regression model of private vehicles

	B	Sig.
(Constant)	24.051	0.003
Tenure	-0.157	0.061
Instalment status	-0.149	0.004
First instalment delay	6.735	0.007
No. of delayed payments	1.787	0.000
EMI calculation	-5.666	0.043
Execution place	-4.130	0.038
Asset value	-8.851	0.019
Other earning members	-3.468	0.098
Social status	-3.953	0.035
Issuing blank cheques	6.928	0.000
R Square	**0.709**	

The R square of the final regression model in case of private vehicle is found to be 0.709. It means that about 70 percent of the variation of arrear level lying in borrowers of private vehicle is determined by 10 independent variables. First instalment delay, number of delayed payment and issuing of blank cheques have positive regression coefficients. Issue of blank cheques is found to be the most important independent variable which augments the level of arrear, followed by variable representing first instalment delay. Tenure, instalment status, EMI calculation, execution place, other earning members and social status have negative regression coefficient. From the result, it is seen that consideration of asset value and explanation of EMI calculation have profound impact in arrears of the private vehicle borrowers of NBFC.

Table 4.69. Final regression model of commercial vehicles

	B	Sig.
(Constant)	36.097	0.000
Tenure	-0.212	0.013
Instalment status	-0.151	0.001
No. of cheques returned	0.749	0.001
Inform. prior to cheque present.	-6.860	0.007
No. of delayed payments	1.367	0.000
EMI calculation	-6.304	0.020
Income from asset	-5.743	0.027
Encumbrances	-4.835	0.038
R Square	**0.441**	

From the table 4.69, it can be seen that R square of the final regression model of the commercial vehicle is 0.441, which shows that 44.1 percent of the variation in the arrear level of commercial vehicle is determined by 8 independent variables. Among the independent variables tenure, instalment status, information prior to cheque presentation, EMI calculation, income from asset and encumbrances have negative regression coefficient, while number of delayed payment followed by number of cheques returned have positive regression coefficients. From the result, it can be seen that number of delayed payment (Reg.Coeff. 1.367) is the most important variables which increases the level of arrears. At the same time providing information prior to cheque presentation, EMI calculation and income from asset substantially reduces the level of arrears of commercial vehicle borrowers of NBFC.

4.8.3 Type of Vehicles: New and Used

As an industry practice, vehicles are divided into two types ie., new and used.

Table 4.70 Multiple Regression Analysis of Independent Variables to Arrears of Type (New/Used) Vehicle (First Step)

	Variables	Type of Vehicle			
		New		Used	
		B	Sig.	B	Sig.
	(Constant)	36.214	0.032	45.173	0.030
1	Tenure	-0.017	0.858	-0.450	0.042
2	Instalment status	-0.033	0.447	-0.331	0.000
3	First inst. Delay	3.800	0.056	-1.418	0.664
4	Number of checks returned	0.636	0.000	0.821	0.015
5	Information prior to check presentation	-1.417	0.458	-16.347	0.003
6	Number delayed payment	1.217	0.000	1.440	0.000
7	Agreement format	-13.788	0.249		
8	Identification	1.845	0.414	1.654	0.775
9	EMI calculation	-7.355	0.006	-9.368	0.064
10	Reading terms	0.522	0.803	4.306	0.225
11	Execution place	-1.152	0.527	2.872	0.325
12	Nature of execution	-0.336	0.865	7.198	0.083
13	Document copy to borrower	-4.551	0.102	6.527	0.121
14	Asset value	-8.506	0.142	-0.531	0.936
15	Income from asset	1.646	0.391	-7.304	0.057
16	Expense saved	-0.276	0.909	-1.872	0.617
17	Asset of borrower	6.775	0.073	-1.795	0.817
18	Asset of guarantor	-4.674	0.037	-1.898	0.743
19	Capacity of borrower	-1.755	0.640	-12.933	0.111
20	Additional income	0.807	0.674	4.011	0.172
21	Other earning members	-1.311	0.515	-1.129	0.709
22	Encumbrances	-3.471	0.066	3.002	0.496
23	Family expenses	1.160	0.601	6.390	0.043
24	Net worth to advance	-4.656	0.051	3.186	0.439
25	Track record	-1.568	0.546	-2.890	0.701
26	Bank operations	-1.784	0.530	8.959	0.245
27	Other repayments	-1.418	0.581	-1.023	0.904
28	Check bouncing	4.708	0.088	-10.401	0.163
29	Neighbour enquiry	-1.589	0.442	0.812	0.857
30	Social status	0.676	0.721	-5.613	0.074
31	EMI to monthly income	-0.554	0.770	-2.777	0.491
32	Remittance from children	-0.933	0.666	-2.614	0.439
33	Unsolicited income	0.949	0.586	0.896	0.746
34	Identity	-2.995	0.396	5.288	0.439
35	Issuing of blank cheques	2.930	0.132	0.490	0.870
36	Calculation of capacity to pay	2.755	0.327	1.141	0.817
37	Intimating repayment schedule	-3.592	0.060	6.640	0.141
	R Square	**0.679**		**0.567**	

The initial regression model of the level of arrears of new and used vehicle, borrowers of NBFCs are presented in table 4.70. The table shows that R square of new vehicle borrowers is 0.679 and that of used vehicle borrowers is 0.567. The final regression model of the new vehicle borrowers is represented in table 4.71.

Table 4.71 Final regression model of new vehicles

	B	Sig.
(Constant)	19.167	0.002
First instalment delay	3.640	0.053
Number of cheques returned	0.687	0.000
Number of delayed payments	1.248	0.000
EMI calculation	-7.408	0.001
Asset value	-10.725	0.045
Asset of guarantor	-3.829	0.009
Encumbrances	-3.300	0.034
Issuing blank cheques	3.791	0.019
Intimating repayment schedule	-2.642	0.089
R square	**0.642**	

From the table, it can be seen that 64.2 percent of the variation in the arrears level of new vehicle borrowers of NBFC is arrived by 9 independent variables. Among this 9 independent variables, first instalment delay, number of cheques returned, number of delayed payments and issuing of blank cheques have positive regression coefficient while EMI calculation, asset value, asset of guarantor, encumbrances and intimating repayment schedule have negative regression coefficient. The table shows that consideration of asset value (Reg.Coeff. -10.725) is the most important variable which reduces the level of arrears of new vehicle borrowers of NBFC followed by the independent variable of EMI calculation (Reg.Coeff. -7.408). Issuing of blank cheques (Reg.Coeff. 3.790) and first instalment delay (Reg.Coeff. 3.640) are seem to increase the level of arrear of new vehicle borrowers of NBFCs.

Table 4.72 Final Regression Model of Used Vehicles

	B	Sig.
(Constant)	43.915	0.001
Tenure	-0.324	0.098
Instalment status	-0.278	0.000
No. of cheques returned	0.648	0.025
Inform. prior to cheque present.	-14.135	0.003
No. of delayed payments	1.651	0.000
Nature of execution	5.920	0.064
Income from asset	-6.728	0.011
Capacity of borrower	-13.654	0.051
Family expenses	5.900	0.031
Cheque bouncing	-6.504	0.094
Social status	-4.848	0.088
Intimating repayment schedule	6.728	0.056
R Square	**0.528**	

In case of used vehicle borrowers, 12 independent variables are found to have significant impact on the level of arrears with R square of 0.528. Among the independent variables, tenure, instalment status, information prior to cheque presentation, income from asset, capacity of borrower, cheque bouncing and social status have negative regression coefficients and number of cheques returned, number of delayed payments, intimating repayment schedule, nature of execution and family expenses have positive regression coefficients. Information prior to cheque presentation (Reg.Coeff. 14.135) and capacity of borrowers (Reg.Coeff. -13.654) are the most important variables which reduce the level of arrears of used vehicle borrowers of NBFCs. Income from asset is also found to reduce the level of arrears to great extent (Reg.Coeff. -6.728). Intimating repayment schedule, nature of execution and family expenses are found to increase level of arrears of borrowers of NBFCs.

4.8.4 Categories of Vehicle

Based on industry practice, vehicles are categorised broadly into small cars, premium cars, two wheelers, three wheelers, commercial cars, LCV and HCV.

Table 4.73 Multiple Regression Analysis of Independent Variables of All Categories of Vehicle to Arrears (First Step)

Variables	Small Car		Premium Car		Two Wheeler		Three Wheeler		Comm. Car		LCV		HCV	
	B	Sig.	B	Sig.	B	Sig.	B	Sig.	B	Sig.	B	Sig.	B	Sig.
Constant	-75.519	0.322	32.091	0.510	-222.154	0.024	-0.262	0.994	45.798	0.440	231.746	0.001	31.466	0.227
Tenure	0.352	0.473	-0.254	0.363	2.936	0.022	0.633	0.178	-0.259	0.312	-1.400	0.001	-0.125	0.535
Instal. status	-0.068	0.755	-0.279	0.039	0.505	0.040	0.120	0.470	-0.100	0.388	-0.546	0.000	-0.175	0.062
First inst. delay	9.685	0.413	8.519	0.086	43.005	0.021	-6.262	0.294	2.989	0.518	-26.541	0.002	0.703	0.874
No. of chq. retnd.	-0.844	0.486	1.487	0.030	-3.153	0.026	-0.294	0.679	-0.695	0.154	4.587	0.000	2.098	0.014
Inform. prior to chq.	-0.552	0.967	0.532	0.931	-7.865	0.124	-14.681	0.045	3.124	0.756	-14.059	0.037	1.535	0.850
No. delayed paymt	2.430	0.037	0.317	0.665			1.589	0.003	2.222	0.000	0.831	0.094	-0.339	0.660
Agreement format	11.664	0.722												
Identification	-4.396	0.769	22.316	0.129	8.828	0.203	-0.549	0.931	0.295	0.983	-3.448	0.790	-3.830	0.541
EMI calculation	3.121	0.889	-24.728	0.033	4.991	0.324	-1.320	0.842	-17.038	0.024	6.481	0.714	-2.299	0.746
Reading terms	3.775	0.766	9.880	0.262	-32.240	0.025	7.423	0.273	-13.010	0.078	14.773	0.183	1.272	0.827
Execution place	-8.368	0.397	1.208	0.818	-14.601	0.047	-0.230	0.973	13.727	0.003	-5.809	0.375	-1.406	0.709
Nature of execution	-9.408	0.391	1.960	0.707	17.339	0.040	8.013	0.236	6.297	0.338	7.100	0.511	3.706	0.505
Docu. copy	-4.142	0.744	5.840	0.469	23.122	0.049	5.048	0.521	-20.768	0.050	-7.137	0.261	-4.899	0.504
Asset value	-12.673	0.324	-19.447	0.128	-5.205	0.321	3.173	0.858						
Income from asset	-3.820	0.823	3.264	0.659	-22.155	0.057	4.969	0.500	-17.320	0.122	-14.284	0.229	-3.238	0.667
Expense saved	3.859	0.731	-0.004	0.999	43.322	0.024	-11.033	0.300	3.795	0.424			-19.624	0.211
Asset of borrower	2.968	0.857	-19.274	0.228	39.834	0.022	-1.379	0.904	-21.036	0.193			2.127	0.783
Asset of guarantor	-6.033	0.754	-6.193	0.425	-56.670	0.035	-1.082	0.859	2.056	0.771	-3.602	0.745	9.287	0.312
Capacity	31.340	0.349			20.688	0.031	4.593	0.697	-41.476	0.001			6.275	0.448
Additional income	1.695	0.859	6.223	0.310	-32.443	0.037	5.440	0.431	1.344	0.749	3.497	0.545	-1.219	0.807
Other earning mem.	-1.259	0.867	-4.057	0.341	5.142	0.310	2.935	0.698	6.203	0.137	3.772	0.531	1.704	0.789
Encumbrances	2.589	0.782	7.723	0.380			-9.563	0.084	-13.123	0.011	-28.126	0.264	3.594	0.493
Family expenses	6.733	0.426	2.781	0.542	-5.474	0.196	-5.843	0.399	-6.505	0.392	-7.629	0.364	0.771	0.865
Net worth to EMI	6.447	0.447	2.944	0.541			0.326	0.964	68.189	0.019			-10.446	0.083
Track record	-7.521	0.679	-0.525	0.964			-8.910	0.262	8.902	0.659			4.958	0.621
Bank operations	11.195	0.582	3.976	0.706			-12.028	0.079					-1.298	0.876
Other repayments	-11.477	0.491	-2.944	0.692	6.878	0.209	6.201	0.582	-19.651	0.020			14.963	0.379
Check bouncing	1.805	0.901	-1.681	0.841	39.506	0.026	-1.148	0.901	7.821	0.320			-16.890	0.183
Neighbour enquiry	7.628	0.354	-1.628	0.747	-37.014	0.027	-3.945	0.671	18.111	0.093	-6.095	0.694	-13.438	0.071
Social status	-3.677	0.705	-6.720	0.224			-5.558	0.334	-2.709	0.549	5.426	0.628	0.629	0.864
EMI to income	4.765	0.664	-0.878	0.899	5.641	0.202	-8.974	0.170	-11.354	0.026	-48.620	0.087	-5.790	0.521
Remittance	3.648	0.720	3.686	0.511			-8.241	0.391	-4.517	0.204	-6.967	0.232	-0.847	0.876
Unsolicited income	-0.514	0.943	-6.034	0.202	-15.560	0.049	0.577	0.944	2.452	0.611	-9.935	0.076	-0.878	0.819
Identity	-0.511	0.964	22.701	0.137	-24.119	0.032	2.265	0.834			-16.608	0.113	-2.105	0.761
Blank cheques	9.087	0.295	-1.592	0.760	38.432	0.035	0.971	0.885	-10.220	0.036	13.975	0.151	4.106	0.305
Calculation	5.577	0.809	12.375	0.372	29.259	0.050	-6.343	0.532	9.819	0.510	-28.483	0.116	-0.227	0.979
Repayment schedule	3.790	0.702	-2.135	0.688	-0.966		-2.634	0.582	10.225	0.142	0.760		-2.728	0.709
R square	**0.624**		**0.895**	-	**0.874**		**0.845**		**0.885**		**0.787**		**0.840**	-

Table 4.73 represents the initial regression model of various categories of vehicle borrowers. Small car (0.624), premium car (0.895), two wheeler (0.874), three wheeler (0.845), commercial car (0.885), LCV (0.787) and HCV (0.840). The final regression model of each category is present in subsequent tables 4.74 to 4.80.

Table 4.74 Final Regression Model of Small Cars

	B	Sig.
(Constant)	6.224	0.037
Number of delayed payments	1.793	0.000
Other repayments	-7.372	0.037
R Square	**0.392**	

Table 4.74 represents the final regression model of small car borrowers. The table shows that number of delayed payments and other repayments are the only two significant variables which determine the level of arrears of small car borrowers with R square of 0.392. Number of delayed payments found to increase arrears (Reg.Coeff. 1.793) while other repayments (Reg.Coeff. -7.372) substantially decrease the arrears.

Table 4.75 Final Regression Model of Premium Cars

	B	Sig.
(Constant)	62.954	0.000
Tenure	-0.410	0.001
Instalment status	-0.218	0.001
First instalment delay	10.355	0.002
No. of cheques returned	1.602	0.000
Identification	14.956	0.001
EMI calculation	-26.826	0.000
Reading terms	8.960	0.025
Asset value	-14.227	0.040
Other earning members	-7.032	0.008
Social status	-9.814	0.000
R Square	**0.846**	

In case of premium car borrowers (table 4.75), 10 independent variables are found to have significant impact on the level of arrears of premium car borrowers of NBFC. Knowledge about EMI calculation (Reg.Coeff. -26.826) and consideration of asset value (Reg.Coeff. -14.227) are found to decrease arrears level to a great extent on premium car borrowers of NBFCs. Similarly, social status (Reg.Coeff. -9.814) and presence of other earning members (Reg.Coeff. -7.032) also reduces arrears.

Table 4.76 Final Regression Model of Two Wheelers

	B	**Sig.**
(Constant)	-225.624	0.026
Tenure	2.956	0.001
Instalment status	0.498	0.010
First instalment delay	43.765	-0.059
Inform. prior to cheque presentation	-8.104	0.036
Reading terms	-32.048	-0.044
Income from asset	-23.340	-0.015
Asset of guarantor	-56.857	0.026
Additional income	-33.319	-0.037
Cheque bouncing	40.323	0.001
Neighbour enquiry	-37.232	0.052
Unsolicited income	-15.436	0.014
Identity	-23.985	0.067
R square	**0.756**	

In the case of two wheeler borrowers (Table 4.76), 12 independent variables are found to have significant impact on the level of arrears. Tenure, instalment status, first instalment delay and cheque bouncing have positive impact. Information prior to cheque presentation, reading terms, income from asset, asset of guarantor, additional income, neighbourhood enquiry, unsolicited income and identity have negative impact on arrears of two wheeler borrowers of NBFC. Asset of the guarantor, additional income, neighbourhood enquiry, unsolicited income and identity are found to reduce arrears to a great extent. At the same time, first instalment delay, cheque bouncing and longer tenure are found to increase the arrears to a great extent. The study of McClatchy (2008) is in consonance with this finding that longer the period higher the arrear meaning thereby indicating that shorter the loan, the more likelihood of successful completion of arrears.

Table 4.77 Final Regression Model of Three Wheeler

	B	Sig.
(Constant)	-0.151	0.985
Tenure	0.362	0.079
First instalment delay	-8.108	0.012
Inform. prior to cheque present.	-8.782	0.006
No. of delayed payments	2.246	0.000
Nature of execution	6.615	0.043
Encumbrances	-8.914	0.002
Bank operations	-13.531	0.002
Other repayments	6.891	0.064
R Square	**0.749**	

In the case of three wheeler borrowers (Table 4.77), 8 independent variables are found to have significant impact on the level of arrears. Tenure (Reg.Coeff. 0.362), number of delayed payments (Reg.Coeff. 2.246), nature of execution (Reg.Coeff. 6.615) and other repayments (Reg.Coeff. 6.891) have positive impact and first instalment delay (Reg.Coeff. -8.108), information prior to cheque presentation (Reg.Coeff. -8.782), encumbrances (Reg.Coeff. -8.914) and bank operations (Reg.Coeff. -13.531) have negative impact on arrears of three wheeler borrowers of NBFC. Information prior to cheque presentation and first instalment delay reduce arrears to great extent. At the same time, other repayment and nature of execution increases the arrears level of three wheeler vehicle borrowers of NBFC.

Table 4.78 Final Regression Model of Commercial Cars

	B	Sig.
(Constant)	67.219	0.002
No. of cheques returned	-0.648	0.072
No. of delayed payment	2.207	0.000
EMI calculation	-20.368	0.000
Reading terms	-10.499	0.009
Execution place	12.486	0.000
Nature of execution	8.709	0.069
Document copy to borrower	-18.697	0.021
Income from asset	-20.027	0.014
Asset of borrower	-17.194	0.051
Capacity of borrower	-46.521	0.000
Encumbrances	-8.163	0.017
Net worth to advance	46.894	0.002
Other repayments	-16.865	0.004
Cheque bouncing	11.663	0.060
Neigbourhood enquiry	12.711	0.044
EMI to monthly income	-8.472	0.021
Remittance from children	-5.494	0.056
Issuing of blank cheques	-12.136	0.002
Intimating repayment schedule	10.726	0.029
R Square	**0.860**	

The final multiple regression of commercial car borrower is presented in table 4.78. 19 variables are found to have significant impact on arrears level of commercial car borrowers of NBFCs. Capacity of borrower (Reg.Coeff. -46.521) is the most important variable which reduces the level of arrears of commercial car borrowers of NBFC. Knowledge of EMI (Reg.Coeff. -20.368) and income from asset (Reg.Coeff. -20.027) also have profound impact in reducing the arrears. At the same time net worth to advance (Reg.Coeff. 46.894) is the most important variable which increases the level of arrears. This indicates that as far as the commercial cars are concerned, their net worth has nothing much to do for payment of instalments. Alternatively, paying/earning capacity has more relevance.

Table 4.79 Final Regression Model of LCV

	B	Sig.
(Constant)	164.157	0.000
Tenure	-0.934	0.001
Instalment status	-0.572	0.000
1st instalment delay	-18.044	0.004
No. of cheques returned	5.435	0.000
Inform. prior to cheque presentation	-9.482	0.075
Reading terms	16.129	0.048
Execution place	-13.553	0.006
Document copy to borrower	-9.400	0.056
EMI to monthly income	-66.952	0.000
Unsolicited income	-8.783	0.066
Intimating repayment schedule	-18.864	0.029
R Square	**0.676**	

From table 4.79, it can be seen that 11 variables are found to have significant impact on the arrears level of LCV borrowers of NBFC. EMI to monthly income (Reg.Coeff. -66.952) is the most important variable which reduces the arrears level of LCV borrowers. Reading terms is found to be the important variable which augments the arrear level of NBFC. The probable reason could be that the borrower tries to surpass the terms and conditions using his knowledge and take it as an advantage to default.

Table 4.80 Final Regression Model of HCV

	B	Sig.
(Constant)	27.399	0.000
Instalment status	-0.102	0.037
No. of cheques returned	1.812	0.000
Income from asset	-8.302	0.023
Asset of guarantor	9.108	0.039
Net worth to advance	-10.432	0.001
Other repayment	16.987	0.059
Cheque bouncing	-14.315	0.072
Neigbourhood enquiry	-13.372	0.001
R Square	**0.780**	

In the case of HCV (table 4.80) 8 variables are found to influence the arrears level. Instalment status (Reg.Coeff. -0.102), income from asset (Reg.Coeff. 8.302), net worth to advance (Reg.Coeff. -10.432), cheque bouncing (Reg.Coeff. -14.315) and neighbourhood enquiry (Reg.Coeff. -13.372) are found to reduce the arrears level. The probable reason for reduction in arrears after cheque bouncing is that HCVs are always on a very long trip of 1 to 2 weeks and it is only on their return that they remit the payments. Probably by this time, the cheques must have returned. At the same time, other repayments seem to increase the arrear level of HCV. The probable reason for the same is over-borrowing by the borrower on the strength of previous loan repayments. This burdens him more.

4.9 Conclusion

Credit appraisal, documentation, repaying habits of borrower and proper implementation of collection policies are the important features in proper management of vehicle finance in NBFC. The impact of these variables was examined and arrears of borrowers were estimated from their response on number of instalments run and number of instalments paid. Arrears of NBFCs were obtained based on the position of respective branches. These were ranked to find out which of the borrowers- borrowers based on type of vehicle and borrowers based on socio-economic background- had higher arrears.

Based on the experience of the analysis, 37 independent variables were taken to find the impact of '**arrear**' (the dependent variable), the sensitive indicator of the receivable management. Regression analysis was done with these independent variables and arrived at various conclusions. Analysis shows the positively correlated and negatively correlated attributes on the sensitive indicator of arrears on each regression analysis. These findings can be used for both academic and industrial purposes.

Chapter 5

Ways and Means for Better Management

Chapter 5

Ways and Means for Better Management

5.1 Introduction

The most important aim of the study is to find out the problems of NBFCs especially that for managing the receivables. As seen in earlier discussions, the cost of the funds of NBFCs is very high compared to banks and there are limitations in finding the solutions for the same. When the cost of funds is high there will be rise in the lending rate. However, NBFCs have learned to operate with thinner margin to a great extent. Despite having higher lending rates, they succeed in attracting the borrowers to them. Respondent borrowers' opinion as to why they turned to NBFCs for vehicle loan even after knowing that their rates are higher is taken into consideration. These are definitely through some other attracting factors which have been analysed herein.

5.2 Borrower Perception on NBFC

Borrower perception of NBFC can be said to be the understanding of the borrowers at large about the functioning of NBFCs. Under usual circumstances the customer will have a perception about the firm, entity or individual with which he deals. This perception may turn out to be right or wrong or vary during the course of his dealing. A perception is important in service industry as it has to pass through many behavioural aspects during the process of both providing and availing the customer service. This is more or less same in case of financial dealing. Almost all customers of NBFC have a perception about it, even when they are aware about the competition in interest rate. NBFC tries to attract customers based on certain systems, procedures and style of operations. They are aware that the rate of interest is an important factor for attracting customers but also are aware that it is not the only factor. They try to prevail upon through other factors and build good customer perception, of course within the infrastructural setup.

5.2.1 Attracting Aspects of NBFC

Vehicle financing of NBFCs do not have a level playing ground. In fact they are competing with their unequal counterpart- the banking companies. Almost every competitor is there, from the big daddy, State Bank of India to Multi National banks, new generation banks and others. There is also competition from the peer NBFCs. Cost of fund of NBFCs is much higher in comparison with the above competitors and hence it is not practical for NBFC to compete through an interest rate war.

Each and every NBFCs is trying to serve their niche market with their own style to attract customers. This varies from the category of asset being financed to type of borrowers being serviced. During this study, it is analysed and found the factors which are most important for different category of vehicle borrowers for better attraction.

The following are included under the attracting aspects of NBFC. The included aspects are speedy processing, customer service, personal relations, expert in vehicle finance, flexibility, better marketing, dealer routes and banking procedure.

In order to measure the opinion of borrowers, intermediaries and officials on attractions to NBFC a score is assigned to each aspect with a maximum of four and a minimum of one.

Table 5.1 Test of Significance between Opinion of Borrowers, Intermediaries and Officials of NBFC on Borrower Attraction to NBFCs

Aspects	Sample	N	Mean	SD	F	Sig.
Speedy processing	Borr.	338	2.43	1.06	1.094	0.336
	Inter.	46	2.48	1.03		
	NBFC	25	2.12	1.13		
	Total	**409**	**2.42**	**1.06**		
Customer service	Borr.	85	2.18	1.06	2.494	0.088
	Inter.	16	1.56	0.73		
	NBFC	4	2.00	0.82		
	Total	**105**	**2.08**	**1.03**		
Personal relations	Borr.	121	2.60	1.09	3.389	0.037
	Inter.	5	1.60	1.34		
	NBFC	7	1.86	0.69		
	Total	**133**	**2.52**	**1.11**		
Expert in vehicle finance	Borr.	254	2.87	1.02	1.594	0.205
	Inter.	44	2.59	1.17		
	NBFC	21	2.67	1.20		
	Total	**319**	**2.82**	**1.06**		
Flexibility	Borr.	142	2.43	1.07	1.472	0.233
	Inter.	12	1.92	1.16		
	NBFC	9	2.67	1.41		
	Total	**163**	**2.40**	**1.10**		
Better marketing	Borr.	183	2.56	1.13	2.321	0.100
	Inter.	35	2.20	0.99		
	NBFC	11	2.09	0.94		
	Total	**229**	**2.48**	**1.11**		
Dealers routes	Borr.	174	2.46	1.13	5.898	0.003
	Inter.	39	3.13	1.06		
	NBFC	19	2.47	1.02		
	Total	**232**	**2.57**	**1.13**		
Banking procedure	Borr.	236	2.22	1.19	8.480	0.000
	Inter.	38	2.61	1.00		
	NBFC	20	3.25	0.91		
	Total	**294**	**2.34**	**1.18**		

From Table 5.1, it is seen that the maximum score of opinion on the aspects of borrower attraction to NBFC is expert in vehicle finance (2.82) followed by dealers routes (2.57) and personal relations (2.52). The least scores are for better customer (2.08) followed by banking procedure (2.34) and flexibility (2.40). The opinions of borrowers, intermediaries and officials are found to differ in the cases of personal relations, dealer routes and banking procedure. In all these aspects the significance level of one way ANOVA is less than 0.05.

The score of borrowers in personal relations is higher indicating that borrowers pay more importance to personal relationships than intermediaries and officials. The score of intermediaries on dealer routes is higher indicating that they pay more importance to dealer routes than borrowers and officials. The score of NBFC officials on banking procedure is higher indicating that they pay more importance to banking procedure than borrowers and intermediaries.

Borrower being the target market of NBFC their specific attraction to NBFC is an inevitable prerequisite for the efficient functioning of NBFCs. So, in order to study the preference of borrowers on the element of attraction the scores are converted in to ranks and the result is presented in Table 5.2. It is seen that 'expert in vehicle finance' is the most attractive element of NBFCs from the point of view of borrowers. The borrowers give the second rank to the ability of 'speedy processing' of loan transactions of NBFCs. 'Flexibility' in the financing norms is the third important attraction of NBFCs. Dealers used to route the vehicle buyers for availing finance from NBFCs which has been termed as dealer routes. 'Dealer routes' is the forth attracting element of borrowers.

It is interesting to note that the customer service provided by the NBFCs is the least attracting element of its contact. The banking procedure and better marketing also found to be less attractive.

Table 5.2 Ranking of Reasons for Attraction to NBFC

Sl. No	Elements of Attraction	Rank
1	Speedy processing	2
2	Customer service	8
3	Personal relations	5
4	Experts in vehicle financing	1
5	Flexibility	3
6	Better marketing	6
7	Dealer routes	4
8	Banking procedure	7

In order to find out the dynamics of attraction of different characteristics of borrowers, one way ANOVA was computed for each characteristic such as speedy processing, customer service, personal relations, expert in vehicle finance, flexibility, better marketing, dealer routes and banking procedure. The result of one way ANOVA is presented in Table 5.3 (Due to the bigger size of the table and the difficulty in presenting the result in a single page, the significant level of F alone is given in the table).

Table 5.3 Test of Significance of Attraction of Borrowers to NBFC

Characteristics		Attracting Elements							
		1	2	3	4	5	6	7	8
Total		**6.26**	**5.53**	**6.10**	**6.70**	**6.18**	**6.04**	**6.10**	**5.68**
Age (yrs)	< 30	6.34	5.38	5.58	6.40	5.92	6.36	6.14	5.56
	30-39	6.07	5.53	5.97	6.77	6.48	5.59	6.37	5.62
	40-49	6.30	5.56	6.21	6.77	6.15	5.95	6.17	5.77
	≥ 50	6.30	5.52	6.39	6.64	6.03	6.43	5.68	5.54
	Sig. of F	0.54	0.99	0.27	0.46	0.41	**0.03**	0.13	0.69
Education	Below SSLC	6.24	5.19	6.43	6.56	5.86	5.92	6.35	6.13
	SSLC	6.28	5.45	5.90	6.78	6.04	6.33	5.89	5.77
	Plus Two	6.04	5.92	5.86	6.40	6.19	5.60	6.17	6.20
	Diploma	6.28	5.70	6.20	7.12	6.07	6.23	6.00	5.53
	Graduation	6.30	5.58	6.08	6.71	6.33	5.88	6.04	5.49
	Post graduation	6.38	5.29	6.21	6.68	6.56	6.33	6.32	5.19
	Sig. of F	0.79	0.73	0.80	0.19	0.59	0.24	0.74	**0.01**
Occupation	Agricltr./estate owner	5.85	5.75	6.75	6.58	6.36	6.38	6.39	6.04
	Industrialist	5.87	5.93	6.00	6.96	6.71	6.82	5.77	5.46
	Businessman	6.24	5.35	6.29	6.83	5.98	5.58	6.10	5.86
	Professional	6.42	5.40	6.33	6.38	6.50	6.38	6.24	4.92
	Employee	6.49	6.08	6.07	6.53	5.94	5.86	6.24	5.69
	Driver	6.26	5.13	6.00	6.75	6.33	5.83	6.00	5.78
	Others	6.45	4.78	5.58	6.65	6.00	6.17	6.06	5.54
	Sig. of F	0.09	0.11	0.76	0.57	0.41	**0.01**	0.83	0.08
Income	< 1 lakh	6.58	5.43	6.58	6.61	6.24	5.78	5.91	6.13
	1-2 lakh	6.33	5.09	5.87	6.63	5.83	5.74	6.26	5.93
	2-5 lakh	6.22	5.81	6.11	6.74	6.34	6.13	6.13	5.59
	5-10 lakh	6.00	3.67	5.67	6.43	5.67	6.25	5.25	5.67
	≥ 10 lakh	5.90	5.33	5.75	6.85	6.00	6.32	6.20	5.15
	Sig. of F	0.11	**0.03**	0.37	0.86	0.26	0.45	0.59	0.06
Type	New	6.32	5.64	6.06	6.67	6.01	5.95	6.12	5.78
	Old	6.19	5.36	6.14	6.74	6.29	6.17	6.08	5.58
	Sig. of F	0.31	0.29	0.74	0.62	0.18	0.27	0.86	0.23
Channel	NBFC	6.24	6.15	5.97	6.91	6.00	5.98	6.15	5.41
	Markt. execu.	6.05	5.43	6.07	6.68	6.24	6.07	5.61	5.91
	Dealer	6.34	5.70	6.24	6.62	5.98	5.84	6.24	5.75
	Broker + others	6.37	4.93	6.04	6.65	6.55	6.37	6.15	5.57
	Sig. of F	0.27	**0.02**	0.85	0.53	0.20	0.29	0.14	0.20
District	Calicut	6.51	5.33	6.44	6.81	6.04	5.98	6.08	5.56
	Ernakulam	6.17	5.62	5.73	6.65	6.25	6.05	6.18	5.82
	Trivandrum	6.10	5.69	6.09	6.66	6.23	6.11	6.05	5.64
	Sig. of F	**0.02**	0.48	**0.05**	0.64	0.67	0.87	0.86	0.43
Vehicle	Small car	6.68	6.21	6.86	6.24	5.71	6.11	6.74	5.70
	Premium car	6.11	5.92	6.00	6.64	6.67	6.58	6.32	5.02
	Two wheeler	6.83	5.43	5.89	6.27	6.27	5.45	5.70	5.33
	Three wheeler	6.64	5.44	6.29	6.86	6.10	5.90	6.11	5.95
	Comm. car	5.90	4.64	5.79	7.17	5.94	5.89	5.64	5.57
	LCV	5.98	5.12	5.75	6.60	6.05	5.38	6.27	6.31
	HCV	5.96	5.58	6.13	6.82	6.83	6.52	5.94	5.74
	Sig. of F	**0.00**	**0.03**	0.16	**0.01**	**0.05**	**0.01**	0.07	**0.00**

From the table 5.3, it can be seen that total score of the most preferred attracting element ie, expert in vehicle financing is 6.7 out of the maximum score of 8. The total mean score of attraction for the least preferred element (customer service) is 5.53 out of the mean score of 8. The table 5.3 represents the mean score of attracting elements by the characteristics of borrowers in a matrix form, with a significance level of F of each category for the said 8 attractions. From the table, it is seen that the significance level of one way ANOVA is found to be lesser than 0.05 for 6 attractions when the sample is categorized according to the category of vehicles.

District wise categorization exhibits a variation of response in two attractions, 'speedy processing' and 'personal relations'. Age, education, occupation, income and channel depict variation of score in one each category. Categorization of borrower by type (New/Old) does not show any variation in the attracting aspects.

From the result, it is seen that the maximum diversity of attraction (6) is induced by the various category of vehicles. But this may not the case in real life situation. In order to get a combined effect of the characteristics of the borrower on the element of attraction, Multiple Regression analysis was carried out.

A detailed analysis on the impact of the selected characteristics of the borrower on the attracting aspects of NBFC, Multiple Regression was carried out with Backward Selection method. The score of borrower opinion on the aspects of attractions to NBFC is selected as a continuous dependent variable. Age, education, occupation, income, type of vehicle, utility of vehicle, channel of finance, districts and category of vehicle are taken as independent variables. All independent variables are taken as dummy variables in different categories.

Multiple Regression with Backward Selection method is applied for each of the 8 attracting aspects and all are analysed and interpreted in detail from section 5.2.1.1 to 5.2.1.8. Corresponding tables of analysis are from Table 5.4 to 5.11.

5.2.1.1 Speedy Processing

'Speedy processing' is the success of the NBFC trade. They try to process the proposal and sanction the loan with least time delay and they are specialist in that direction. Almost every loan is committed at the time of enquiry in such a way, that the borrower is given no time to compare the terms or to go to another financier. There are customers who could not afford delayed delivery of the vehicle and similarly the dealers are also in a hurry to get financier involved to make sure of their sales. Overall, speedy processing seems to be the market requirement in vehicle finance and NBFCs are trying to encash on it.

The results of first and last steps of Multiple Regression analysis on speedy processing is represented in Table 5.4 with corresponding R square value. The R square of first regression model is 0.187 which means that 18.7 percent of variation in score of speedy processing is determined by selected characteristics of the borrower. After eliminating 21 dummy variables the final regression model is obtained. That regression model contains 9 significant independent variables with R square of 0.152 which means that 15.2 percent of variability on mean score of 'speedy processing' is determined by these 9 variables.

Table 5.4 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Speedy Processing with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	6.520	0.000	6.459	0.000
Age (yrs)	< 30	-0.221	0.414		
	30–39	-0.399	0.056	-0.298	0.050
	40-49	-0.073	0.662		
	≥ 50*				
Education	Below SSLC	-0.285	0.331		
	SSLC	-0.055	0.836		
	Plus 2	-0.559	0.036	-0.457	0.008
	Diploma	-0.142	0.566		
	Graduate	-0.156	0.476		
	Post graduate*				
Occupation	Agriculture	-1.145	0.001	-0.644	0.006
	Industry	-0.967	0.002	-0.471	0.017
	Business	-0.476	0.073		
	Professional	-0.547	0.133		
	Employed	-0.605	0.040		
	Driver	-0.611	0.041		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.768	0.053		
	1-2 lakh	0.672	0.066		
	2-5 lakh	0.510	0.115		
	5-10 lakh	0.183	0.664		
	≥ 10 lakh*				
Type	New	0.043	0.766		
	Old*				
Channel	NBFC	-0.050	0.799		
	Markt. Execu.	-0.159	0.389		
	Dealers	-0.071	0.693		
	Broker*				
District	Trivandrum	-0.447	0.003	-0.411	0.005
	Ernakulam	-0.404	0.008	-0.364	0.013
	Calicut*				
Vehicle	Small car	0.916	0.000	0.706	0.000
	Premium car	0.562	0.059		
	Two wheeler	1.064	0.002	0.893	0.000
	Three wheeler	0.808	0.003	0.683	0.000
	Comm. car	-0.023	0.920		
	LCV	0.260	0.302		
	HCV*				
	R Square	**0.187**		**0.152**	

* Comparison parameter

In case of age, the middle aged group of 30 to 39 (0.050), in education plus two (0.008) and in occupation agriculture (0.006) and industry (0.017) are found to be significant to the attracting aspect of 'speedy processing'. In the case of income, type and channel no variable, is found to be significant. District is the other variable having significant impact on the mean score of speedy processing. In case of vehicle, small car, two wheeler and three wheeler are found to be significant (all 0.000). From the table, it can be seen that the regression coefficient of borrowers in the age group of 30 to 39 is minimum (-0.298). Rest of the categories of age are not significant. So the result indicates that compared to other category of borrowers, borrowers in the age group of 30-39 is less attractive by a score of 0.298. Similarly, borrowers having plus two qualification is less attractive (Reg.Coeff. 0.457) compared to borrowers in other educational categories. In the case of occupation, agriculturists and businessmen are found to be less attractive to the speedy processing of NBFCs in comparison with borrowers of other occupation (Reg.Coeff. -0.644 and -0.471 respectively). Agriculturist is found to be less attractive as compared to industrialist. As far as district is concerned, borrowers from Trivandrum and Ernakulam, are less attracted by the speedy processing of NBFCs compared to borrowers from Calicut.

Borrowers approaching NBFC for loan for small car, two wheeler and three wheeler are found to be more attractive on speedy processing than borrowers who approach NBFC for loan for other category of vehicles. Among the 3 significant categories, borrowers of two wheeler are greatly attracted to the speedy processing of NBFCs compared to borrowers of small cars and three wheelers.

5.2.1.2 Customer Service

"Better customer service' is an important element in building business relationship and that is more important in financial services industries. Customers are attracted to financiers for various reasons especially when the competition is more. As far as NBFC's business is concerned it mainly thrives on with better customer service.

The results of first and last steps of Multiple Regression analysis on customer service is represented in Table 5.5. The R square value of first regression model is 0.408 which means that 40.8 percent of variation in customer service is determined by selected characteristics of borrower. After eliminating 20 dummy variables the final regression model is obtained. That regression model contains 10 significant independent variables with an R square of 0.310 which means that 31.0 percent of variability on mean score of customer service is determined by these 10 variables.

In case of income, all the four groups of respondent from 1 lakh to 10 lakh is found to be significant. Highest significance is from the income group of 5 to 10 lakh (Reg.Coeff. 2.577) followed by 2 to 5 lakh and below 1 lakh. The lowest attraction is from 1 to 2 lakh income borrowers (Reg.Coeff. 1.527). In case of channel, all the three channels of, direct to NBFC, 'marketing executive' and 'dealers' are found to be significant whereas in the case of vehicle wise analysis, borrowers of premium car and commercial car are found to be significant. In case of age, education, type of vehicle and district there is no variable found to be significant. Occupation is the other variable having significant impact on the mean score of customer service.

Table 5.5 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Customer Service with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	0.065	0.000	2.389	0.000
Age (yrs)	< 30	0.759	0.245		
	30–39	0.508	0.230		
	40-49	0.276	0.367		
	≥ 50*				
Education	Below SSLC	0.406	0.480		
	SSLC	0.575	0.283		
	Plus 2	0.716	0.200		
	Diploma	0.597	0.237		
	Graduate	0.280	0.537		
	Post graduate*				
Occupation	Agriculture	1.261	0.078		
	Industry	0.956	0.154		
	Business	0.549	0.345		
	Professional	1.046	0.247		
	Employed	1.311	0.033	0.614	0.033
	Driver	0.599	0.355		
	Transp. operator*				
Income (Rs)	< 1 lakh	3.116	0.005	2.420	0.005
	1-2 lakh	2.389	0.023	1.527	0.066
	2-5 lakh	3.068	0.001	2.436	0.002
	5-10 lakh	3.195	0.006	2.577	0.009
	≥ 10 lakh*				
Type	New	0.385	0.227		
	Old*				
Channel	NBFC	1.511	0.000	1.494	0.000
	Markt. Execu.	0.759	0.055	0.748	0.037
	Dealers	0.952	0.009	1.151	0.000
	Broker*				
District	Trivandrum	0.463	0.162		
	Ernakulam	0.236	0.438		
	Calicut*				
Vehicle	Small car	0.143	0.758		
	Premium car	1.270	0.037	0.975	0.043
	Two wheeler	-0.936	0.258		
	Three wheeler	-0.245	0.646		
	Comm. car	-0.785	0.104	0.995	0.006
	LCV	-0.479	0.363		
	HCV*				
	R Square	**0.408**		**0.310**	

* Comparison parameter

From the table, it can be seen that regression coefficient of commercial car borrowers is minimum (-0.995) and in case of premium car borrowers it is 0.975. All other categories of vehicle borrowers are not significant. So the results indicate that comparing to the other category of borrowers, commercial car is less attractive by a score of Reg. Coeff. -0.995. It is also seen that premium car borrowers are highly attracted (Reg. Coeff. 0.975) towards 'customer service' In the case of channel wise analysis, it is seen that highest attraction to 'customer service' is of those borrowers coming through NBFC followed by dealers (Reg.Coeff. 1.151) and marketing executive (Reg.Coeff. 0.748) in comparison to the borrowers coming through broker channel. In case of occupation wise analysis, it is seen that employees have attraction to customer service in comparison to borrowers of other occupation which is positively correlated (Reg.Coeff. 0.614) and have significant difference.

In the case of age, education, type and district there is no variable found to be significant. It can also be inferred from the analysis that better customer service can attract borrowers from the category of vehicles ie, premium cars, employed borrowers and borrowers from all group of income upto 10 lakh and borrowers coming through the channel of NBFC marketing executive and dealers.

5.2.1.3 Personal Relations

In any business, personal relationship is an important factor. Customers used to approach for business to known business houses especially where one have some personal relationship. NBFC men are known for building better relationship with their customer in order to attract them.

Table 5.6 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Personal Relations with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	5.931	0.005	6.016	0.000
Age (yrs)	< 30	-0.558	0.318		
	30–39	-0.170	0.712		
	40-49	-0.129	0.752		
	≥ 50*				
Education	Below SSLC	0.003	0.995		
	SSLC	-0.387	0.510		
	Plus 2	-0.663	0.214	-0.537	0.073
	Diploma	-0.002	0.997		
	Graduate	-0.292	0.550		
	Post graduate*				
Occupation	Agriculture	1.048	0.295		
	Industry	0.265	0.700		
	Business	0.759	0.189	0.478	0.081
	Professional	0.318	0.689		
	Employed	0.396	0.546		
	Driver	0.378	0.524		
	Transp. operator*				
Income (Rs)	< 1 lakh	1.205	0.121		
	1-2 lakh	0.477	0.511		
	2-5 lakh	0.285	0.651		
	5-10 lakh	-0.356	0.720	0.657	0.039
	≥ 10 lakh*				
Type	New	-0.223	0.503		
	Old*				
Channel	NBFC	0.224	0.611		
	Markt. Execu.	0.265	0.533		
	Dealers	0.473	0.242		
	Broker*				
District	Trivandrum	-0.291	0.390		
	Ernakulam	-0.894	0.009	-0.665	0.009
	Calicut*				
Vehicle	Small car	0.699	0.237	1.106	0.001
	Premium car	0.090	0.892		
	Two wheeler	-0.567	0.437		
	Three wheeler	-0.332	0.576		
	Comm. car	-0.205	0.687		
	LCV	-0.379	0.517		
	HCV*				
	R Square	**0.199**		**0.136**	

* Comparison parameter

The results of first and last steps of Multiple Regression analysis on personal relationship is represented in Table 5.6 with corresponding R square value. The R square value of first regression model is 0.199 which means that 19.9 percent of variation in customer service is determined by selected characteristics of borrower. After eliminating 25 dummy variables the final regression model is obtained. That regression model contains 5 significant independent variables with an R square of 0.136 which indicates that 13.6 percent of variability on mean score of personal relationship is determined by these 5 significant independent variables.

In case of education, borrowers with the qualification of plus 2 are found to be significant (0.073). Taking the case of occupation, business men are found to be significant, whereas in case of borrowers those with 5 to 10 lakh income are found to be significant (0.039). Similarly on the district wise analysis, borrowers of Ernakulam district are found to be significantly (0.009) attracted by personal relationship. On category based vehicle analysis, it is seen that small car borrowers have significance on personal relationships (0.001). In case of age, type and channel there is no variable found to be significant. According to the table highest attraction of borrowers seen towards the aspect of personal relationship is from small car borrowers (Reg.Coeff. 1.106) followed by business men (Reg.Coeff. 0.478). From the analysis, it could be seen that borrowers approaching NBFC for small car loans are found to be more attracted by personal relationships than borrowers who approach NBFC for loan for other category of vehicles. Similarly business men who approach NBFC for vehicle borrowing are more attracted to them because of personal relationships (Reg.Coeff. 0.478) in comparison to borrowers of other occupation. In district wise analysis, it could be seen that borrowers of Ernakulam district are less attracted by the personal relationship of NBFCs compared to borrowers from Calicut and Trivandrum (Reg.Coeff. -0.665).

5.2.1.4 Experts in Vehicle Finance

'Expert in vehicle financing' is another area through which competition is encountered. NBFCs do provide expertise in vehicle finance for their customers not in terms of finance alone but also in terms of other add-on service related to vehicle registration, obtaining a permit and on other similar matters. They are in need of more customers and the customers can avail themselves of their other services.

The results of first and last steps of Multiple Regression analysis on expert in vehicle finance is represented in Table 5.7 The R square value of first regression model is 0.130 which indicates that 13.0 percent of variation in expert in vehicle finance is determined by selected characteristics of borrower. After eliminating 27 dummy variables the final regression model is obtained. That regression model contains 3 significant independent variables with an R square of 0.057 which indicates that 5.7 percent of variability on mean score of expert in vehicle finance is determined by these 3 significant independent variables.

In case of vehicle category, commercial car borrowers are found to be significant (0.008). From the table, it can be seen that commercial car borrowers have highest regression coefficient (0.513) on the aspect of 'expert in vehicle financing' and they are greatly attracted to the NBFC in comparison to other category of vehicle borrowers through that aspect. It is also seen from the table that small car borrowers are also found to be significant on the aspect of 'expert in vehicle financing' in the same category. But small car borrowers are found to be less attractive to the expert in vehicle financing aspect of NBFC in comparison with other category of vehicle borrowers (Reg.Coeff. -0.415). In an analysis based on education, it is seen from the table that borrowers of plus two qualification are significant (0.062) on the aspect of expert in vehicle finance.

Table 5.7 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Experts in Vehicle Finance with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	7.041	0.006	6.724	0.000
Age (yrs)	< 30	-0.151	0.645		
	30–39	0.272	0.271		
	40-49	0.235	0.260		
	≥ 50*				
Education	Below SSLC	-0.575	0.118		
	SSLC	-0.262	0.426		
	Plus 2	-0.527	0.115	-0.367	0.062
	Diploma	0.160	0.630		
	Graduate	-0.166	0.549		
	Post graduate*				
Occupation	Agriculture	0.405	0.341		
	Industry	0.533	0.170		
	Business	0.528	0.126		
	Professional	0.072	0.877		
	Employed	0.319	0.392		
	Driver	-0.415	0.263		
	Transp. operator*				
Income (Rs)	< 1 lakh	-0.408	0.457		
	1-2 lakh	-0.249	0.625		
	2-5 lakh	-0.387	0.405		
	5-10 lakh	0.276	0.574		
	≥ 10 lakh*				
Type	New	0.018	0.923		
	Old*				
Channel	NBFC	0.114	0.636		
	Markt. Execu.	0.041	0.859		
	Dealers	-0.174	0.449		
	Broker*				
District	Trivandrum	-0.210	0.269		
	Ernakulam	-0.223	0.229		
	Calicut*				
Vehicle	Small car	-0.605	0.071	-0.415	0.062
	Premium car	-0.648	0.146		
	Two wheeler	-0.276	0.530		
	Three wheeler	0.050	0.885		
	Comm. car	0.398	0.172	0.513	0.008
	LCV	-0.287	0.365		
	HCV*				
	R Square	**0.130**		**0.057**	

* Comparison parameter

It is seen from the table that in case of age, occupation, income, type, channel and district wise analysis on the aspect of 'expert in vehicle finance' no variable is found to be significant. In the case of education, borrowers with plus two qualification is found to be less attracted to the 'expert in vehicle financing' in comparison with borrowers of other qualifications (Reg.Coeff. -0.367). It is also clear from the analysis that commercial car borrowers are attracted to NBFC because of their expertise in vehicle financing.

5.2.1.5 Flexibility

In this modern age of competition, rigidity in policies is not acceptable to customers. More flexibility provides better advantage. Each one is expecting a tailor made solution for their needs which is available in NBFCs at least in their core area of business. They try to be flexible, as practicable as possible and many customers are attracted by it.

The results of first and last steps of Multiple Regression analysis on 'flexibility' is represented in Table 5.8. The R square value of first regression model is 0.215 which indicates that 21.5 percent of variation in flexibility is determined by selected characteristics of borrower. After eliminating 24 dummy variables the final regression model is obtained. That regression model contains 6 significant independent variables with an R square of 0.120 which indicates that 12.0 percent of variability on mean score of flexibility is determined by these 6 significant independent variables.

Table 5.8 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Flexibility with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	5.819	0.000	6.330	0.000
Age (yrs)	< 30	-0.140	0.777		
	30–39	0.502	0.159	0.555	0.029
	40-49	0.098	0.726		
	≥ 50*				
Education	Below SSLC	-0.635	0.218		
	SSLC	-0.566	0.246		
	Plus 2	-0.224	0.626		
	Diploma	-0.170	0.707		
	Graduate	-0.057	0.892		
	Post graduate*				
Occupation	Agriculture	1.096	0.090		
	Industry	0.627	0.294		
	Business	0.186	0.703		
	Professional	0.644	0.376		
	Employed	0.359	0.503		
	Driver	0.792	0.134		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.610	0.383		
	1-2 lakh	0.431	0.505		
	2-5 lakh	0.889	0.134	0.450	0.033
	5-10 lakh	0.923	0.313		
	≥ 10 lakh*				
Type	New	-0.062	0.813		
	Old*				
Channel	NBFC	-0.185	0.576		
	Markt. Execu.	-0.089	0.790		
	Dealers	-0.397	0.235		
	Broker*				
District	Trivandrum	0.138	0.597		
	Ernakulam	0.315	0.284		
	Calicut*				
Vehicle	Small car	-1.107	0.021	-0.942	0.004
	Premium car	-0.106	0.840		
	Two wheeler	-0.204	0.746		
	Three wheeler	-0.746	0.116	-0.644	0.054
	Comm. car	-0.967	0.014	-0.883	0.002
	LCV	-0.809	0.065	-0.599	0.031
	HCV*				
	R Square	0.215		0.120	

* Comparison parameter

From the table, it is found that borrowers of income group of 2 to 5 lakh are significant on the attracting aspect of 'flexibility' (0.033). It can also be seen that the highest attraction to NBFC on the aspect of 'flexibility' is seen from the borrowers of age group of 30 to 39 (Reg.Coeff. 0.555) followed by the income group of 2 to 5 lakh annual family income, in comparison to all other income groups (Reg.Coeff. 0.045). It is also seen that on category of vehicle wise analysis borrowers of small car (0.004), three wheeler (0.054), commercial car (0.002) and LCV (0.031) borrowers are significant. The table reveals that small car borrowers are less attracted to the aspect of flexibility (Reg.Coeff. -0.942) followed by commercial car (-0.883), three wheeler (-0.644) and LCV (-0.599).

In case of education, occupation, type, channel and district there is no variable found to be significant on the attracting aspect of 'flexibility' It is clear from the analysis that borrowers of the income group of 2 to 5 lakh is highly attracted to NBFC because of their flexibility. It is also seen from the analysis of the profile of borrower that the maximum of NBFC borrowers except for two wheelers are from the income group of 2 to 5 lakh, which highlights the need for taking care of the flexibility aspect of NBFCs. Study by Nisar and Aziz (2004) is in supportive of the suggestion on the highlights of 'flexibility' in NBFC which finds that flexibility in their structure allows NBFCs to unbundle services provided by banks and market the components on competitive basis.

5.2.1.6 Better Marketing

There are various marketing tricks in each and every industry to suite their policies, products and prices. As there is heavy competition in the industry better marketing talents are necessary and can definitely attract customers with competitive edge. NBFC marketing men provides finance at the door step of the customers. Marketing talents ought to be better in NBFCs for their survival.

Table 5.9 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Better Marketing with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	6.314	0.002	5.302	0.000
Age (yrs)	< 30	0.528	0.215	0.947	0.007
	30–39	-0.630	0.067		
	40-49	-0.541	0.036		
	≥ 50*				
Education	Below SSLC	-0.267	0.582		
	SSLC	0.430	0.309	0.663	0.012
	Plus 2	-0.052	0.905		
	Diploma	0.003	0.994		
	Graduate	-0.354	0.322		
	Post graduate*				
Occupation	Agriculture	0.108	0.837		
	Industry	0.461	0.346	0.571	0.061
	Business	-0.579	0.198	-0.671	0.010
	Professional	0.209	0.725		
	Employed	-0.022	0.964		
	Driver	-0.482	0.319	-0.531	0.072
	Transp. operator*				
Income (Rs)	< 1 lakh	1.061	0.100	0.910	0.088
	1-2 lakh	1.056	0.080	0.946	0.073
	2-5 lakh	1.011	0.059	0.949	0.032
	5-10 lakh	-0.162	0.801		
	≥ 10 lakh*				
Type	New	0.188	0.439		
	Old*				
Channel	NBFC	-0.564	0.077		
	Markt. Execu.	-0.301	0.316		
	Dealers	-0.615	0.035	-0.340	0.091
	Broker*				
District	Trivandrum	0.127	0.606		
	Ernakulam	0.171	0.473		
	Calicut*				
Vehicle	Small car	-0.490	0.218		
	Premium car	0.515	0.318	1.014	0.011
	Two wheeler	-1.475	0.008	-0.928	0.019
	Three wheeler	-0.526	0.245		
	Comm. car	-0.593	0.103		
	LCV	-1.304	0.003	-0.799	0.014
	HCV*				
	R Square	**0.233**		**0.183**	

* Comparison parameter

The results of first and last steps of Multiple Regression analysis on better marketing is represented in Table 5.9. The R square value of first regression model is 0.233 which shows that 23.3 percent of variation in better marketing is determined by selected characteristics of borrower. After eliminating 18 dummy variables the final regression model is obtained. That regression model contains 12 significant independent variables with an R square of 0.183 which shows that 18.3 percent of variability on mean score of better marketing is determined by these 12 significant independent variables.

On age wise analysis, less than 30 years of age group was found to be significant (0.007) and in education, borrowers with SSLC qualification are found to be significant (0.012). Similarly, on channel wise analysis borrowers coming through dealers are found to be significantly attracted (0.091). In case of type and district wise analysis there is no variable found to be significant. On vehicle category wise analysis premium cars (0.011), two wheeler (0.019) and LCV (0.014) borrowers have significance. Similarly on income wise analysis below 1 lakh income borrowers (0.088), borrowers with income with 1-2 lakh (0.073) and 2-5 lakh (0.032) have significance. In case of occupation, industrialist (0.061), businessmen (0.010) and drivers (0.072) have significance to the attracting aspect of better marketing. In case of occupation it is seen that industrialist are highly attracted (Reg.Coeff. 0.571) to the aspect of better marketing whereas business men and drivers are less attracted (Reg.Coeff. -0.671 and -0.531 respectively) to the same aspect. In case of vehicle wise analysis, it is seen that premium car borrowers are highly attracted to better marketing with a regression coefficient of 1.014 whereas two wheeler (Reg. Coeff. -0.928) followed by LCV (Reg. Coeff. -0.799) are less attracted to the aspect of better marketing.

This analysis also indicates that better marketing tactics of NBFCs are highly useful in attracting borrowers of NBFC. Sequence of attraction as seen in the analysis are as follows premium car (1.014), 2 to 5 lakh income borrowers (0.949), below 30 age borrowers (0.947), 1 to 2 lakh income borrowers (0.946), below 1 lakh income borrowers (0.910), borrowers with qualification of SSLC (0.663) and industrialist (0.571).

5.2.1.7 Dealer Routes

Due to the availability of more and more brands and variants of vehicles there is a heavy competition in the vehicle industry. Competition exists between brand to brand and even between dealers of the same brand. Because of this there is lot of advertisement and marketing juggleries which attracts customers to dealers. Exchange offers, free on insurance, road tax, extra fitting, cash discounts, etc. attract the borrowers to dealers. Dealers have developed a marketing strategy of arranging finance for those who are buying vehicles. For speedy disposal of customers, dealers started routing them to NBFCs and even to banks of their choice and comfort. Many NBFCs have made tie-up arrangement with the dealer and they started getting business through that route. Tie-up arrangements are developed to such an extent that it is done for the mutual benefit or even for a commission to be paid by NBFC to dealer. This has been referred to as 'dealer routes'.

Table 5.10 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Dealer Routes with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	5.764	0.000	5.662	0.000
Age (yrs)	< 30	0.973	0.031	0.602	0.090
	30–39	0.776	0.023	0.700	0.022
	40-49	0.457	0.090	0.480	0.057
	≥ 50*				
Education	Below SSLC	0.237	0.635		
	SSLC	-0.259	0.557		
	Plus 2	-0.182	0.689		
	Diploma	-0.205	0.623		
	Graduate	-0.393	0.292		
	Post graduate*				
Occupation	Agriculture	0.175	0.742		
	Industry	-0.616	0.216		
	Business	-0.283	0.524		
	Professional	-0.459	0.441		
	Employed	-0.056	0.906		
	Driver	-0.240	0.623		
	Transp. operator*				
Income (Rs)	< 1 lakh	-0.176	0.782		
	1-2 lakh	0.271	0.653		
	2-5 lakh	0.172	0.744		
	5-10 lakh	-0.757	0.302		
	≥ 10 lakh*				
Type	New	0.238	0.398		
	Old*				
Channel	NBFC	0.077	0.821		
	Markt. Execu.	-0.678	0.057	-0.619	0.017
	Dealers	0.001	0.998		
	Broker*				
District	Trivandrum	0.013	0.958		
	Ernakulam	-0.016	0.950		
	Calicut*				
Vehicle	Small car	0.806	0.067	0.919	0.002
	Premium car	0.538	0.225		
	Two wheeler	-0.562	0.284		
	Three wheeler	-0.008	0.985		
	Comm. car	-0.449	0.247		
	LCV	0.349	0.403		
	HCV*				
	R Square	**0.179**		**0.092**	

* Comparison parameter

The results of first and last steps of Multiple Regression analysis on 'dealer routes' are represented in Table 5.10. The R square value of first regression model is 0.179 which shows that 17.90 percent of variation in dealer routes is determined by selected characteristics of borrower. After eliminating 25 dummy variables the final regression model is obtained. That regression model contains 5 significant independent variables with an R square of 0.092 which shows that 9.20 percent of variability on mean score of dealer routes is determined by these 5 significant independent variables.

In case of vehicle wise analysis, small car borrowers are found to be significant to the aspect of 'dealer routes' Age wise analysis show that all the three age group of borrowers- those less than 30, between 30 and 39 and between 40 and 49 are found to be significant with values of 0.090, 0.022 and 0.057 respectively. In case of channel wise analysis, borrowers coming through marketing executive channel are significant to the characteristic of dealer routes (0.017). However, they are less attractive (Reg.Coeff. -0.619) as compared to borrowers coming through other channel of borrowers. In the case of education, occupation, income, type and district wise analysis, there is no significant variable. From the analysis, it is also seen that small car borrowers approaching NBFC for loan is highly attracted (Reg.Coeff. 0.919) to NBFC in comparison to all other category of vehicles, in the attracting aspect of 'dealer routes'. Borrowers coming through the channel of marketing executive of NBFC are less attracted (Reg.Coeff. 0.619) to NBFC on the aspect of 'dealer routes' in comparison to borrowers coming through other channels. It is also seen from the analysis that borrowers of age group of 30 to 39 (Reg.Coeff. 0.700), below the age of 30 (0.602) and in the age group of 40 to 49 (0.480) are highly attracted to the aspect of dealer routes along with the small car borrowers.

5.2.1.8 Banking Procedure

Lending norms in banking industry is tougher than that of NBFCs. Usually screening or credit evaluating mechanisms are more strict and many of the vehicle borrowers may not be in a position to withstand or successfully pass through such tests. Number of visits required and time taken to process a loan paper in banks are more. Many may not even like to undergo strict screening processes and prefer to take finance from NBFCs because of their simplified procedures. This has been referred to as 'banking procedures'.

The results of first and last steps of Multiple Regression analysis on banking procedure is represented in Table 5.11. The R square value of first regression model is 0.166 and shows that 16.6 percent of variation in, banking procedures is determined by selected characteristics of the borrower. After eliminating 22 dummy variables the final regression model is obtained. That regression model contains 8 significant independent variables with R square of 0.125, showing that 12.5 percent of variability on mean score of 'banking procedure' is determined by these 8 significant independent variables.

In the case of occupation and district wise analysis, it is seen that there is no significant variable. Borrowers of age group between 40 and 49 are found to be significant (0.055) to the aspect of 'banking procedure'. Income wise analysis reveals that 1 to 2 lakh income borrowers are found to be significant (0.022) to the 'banking procedure' aspect. Similarly, the new vehicle borrowers (0.043) are also significant. Channel wise analysis shows that borrowers coming through NBFC are significantly attracted to this aspect (0.086). Education wise analysis shows that those below SSLC (0.032) and plus two (0.014) are significant. Similarly, in case of vehicle wise analysis LCV (0.001) and premium car (0.005) borrowers are found to be significant on the aspect of 'banking procedures' are tough.

Table 5.11 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Banking Procedure with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	4.971	0.000	5.353	0.000
Age (yrs)	< 30	0.088	0.810		
	30–39	-0.049	0.859		
	40-49	0.262	0.231	0.310	0.055
	≥ 50*				
Education	Below SSLC	0.754	0.061	0.529	0.032
	SSLC	0.332	0.369		
	Plus 2	0.853	0.026	0.618	0.014
	Diploma	0.355	0.280		
	Graduate	0.164	0.584		
	Post graduate*				
Occupation	Agriculture	0.289	0.513		
	Industry	-0.000	0.999		
	Business	0.283	0.427		
	Professional	-0.160	0.749		
	Employed	0.315	0.434		
	Driver	-0.039	0.922		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.191	0.728		
	1-2 lakh	-0.570	0.258	-0.550	0.022
	2-5 lakh	-0.057	0.895		
	5-10 lakh	-0.607	0.264		
	≥ 10 lakh*				
Type	New	0.405	0.041	-0.327	0.043
	Old*				
Channel	NBFC	-0.267	0.300	-0.338	0.086
	Markt. Execu.	0.140	0.577		
	Dealers	0.160	0.513		
	Broker*				
District	Trivandrum	-0.073	0.724		
	Ernakulam	0.160	0.446		
	Calicut*				
Vehicle	Small car	-0.135	0.687		
	Premium car	-0.491	0.188	-0.627	0.005
	Two wheeler	-0.884	0.084		
	Three wheeler	0.111	0.779		
	Comm. Car	-0.123	0.675		
	LCV	0.642	0.065	0.795	0.001
	HCV*				
	R Square	0.166		0.125	

* Comparison parameter

Further, it is seen that among two significant categories of vehicle borrowers, LCV borrowers are positively attracted (Reg.Coeff. 0.795) and premium car borrowers are less attracted (Reg.Coeff. -0.627) in comparison to other category of vehicle borrowers. This means that LCV borrowers are much attracted to NBFC because of the tough 'banking procedures'. It also shows that strictness in banking procedure is not at all a concern for premium car borrowers. On education wise analysis, it is seen that among the two significant categories of borrowers plus two and below SSLC are greatly attracted to NBFC because of toughness in 'banking procedure' (Reg.Coeff. 0.618 and 0.529 respectively). From the analysis it is clear that age wise (40-49) borrowers are attracted to NBFC because of the procedures being tough in banks.

5.2.2 Borrower Suggestions to NBFC

At the time of collecting data, suggestions were taken from all the three categories of respondents which according to them are suitable for the healthy development of the industry. Such suggestions taken from borrowers are referred to as 'borrower suggestions'. These suggestions are related to percentage of funding, reduced EMI, avoiding mediators, proper follow up, better relationship with clients, prompt payment rebate, structured payment, holiday on eventualities, supplementary loan to overcome problems, rescheduling the EMI, permitting sale of vehicle (assignment), avoid loading extra interest, mode of interest calculation to be diminishing, number of instalments to be limited to 10 in a year, and on reduction on preclosing load.

In order to measure the opinion of borrowers, intermediaries and officials on attractions to NBFC a score is assigned to each aspect with a maximum of four and a minimum of one.

Table 5.12 Test of Significance between Opinion of Borrowers, Intermediaries and Officials of NBFC on their Suggestion for Better Management

		N	Mean	SD	F	Sig.
Reducing percentage of funding	Borr.	78	2.18	1.08	2.866	0.062
	inter.	20	2.75	1.07		
	NBFC	6	2.83	1.33		
	Total	104	2.33	1.11		
Reduced EMI	Borr.	1	4.00	-	1.563	0.338
	Inter.	0	-	-		
	NBFC	3	2.33	1.15		
	Total	4	2.75	1.26		
Avoid mediators	Borr.	31	1.94	1.09	0.364	0.698
	Inter.	1	1.00	.		
	NBFC	4	2.00	1.15		
	Total	36	1.92	1.08		
Proper follow up	Borr.	190	2.12	1.10	3.217	0.042
	Inter.	45	2.16	1.13		
	NBFC	19	2.79	1.08		
	Total	254	2.17	1.11		
Better relationship	Borr.	74	2.09	0.95	0.487	0.616
	Inter.	9	1.78	1.09		
	NBFC	6	2.17	0.41		
	Total	89	2.07	0.94		
Prompt payment rebate	Borr.	129	2.03	0.95	0.003	0.997
	Inter.	2	2.00	1.41		
	NBFC	5	2.00	1.41		
	Total	136	2.03	0.97		
Structured payment	Borr.	9	2.33	1.22	0.244	0.787
	Inter.	3	3.00	1.73		
	NBFC	2	2.50	2.12		
	Total	14	2.50	1.34		
Holidays on eventualities	Borr.	126	2.30	1.08	2.736	0.067
	Inter.	44	2.75	1.16		
	NBFC	17	2.35	1.06		
	Total	187	2.41	1.11		
Supplementary loan to overcome problems	Borr.	64	1.66	0.78	1.772	0.178
	Inter.	1	3.00	.		
	NBFC	4	2.00	0.82		
	Total	69	1.70	0.79		
Rescheduling of EMI	Borr.	92	1.97	0.90	2.470	0.089
	Inter.	27	2.41	0.84		
	NBFC	14	2.07	1.07		
	Total	133	2.07	0.91		
Permitting sale by retaining loan	Borr.	62	1.71	0.88	0.367	0.694
	Inter.	13	1.77	0.73		
	NBFC	5	1.40	0.55		
	Total	80	1.70	0.83		
Avoidance of loading extra interest	Borr.	20	2.80	1.20	0.067	0.935
	Inter.	1	3.00	.		
	NBFC	2	2.50	2.12		
	Total	23	2.78	1.20		
Interest calculation (diminishing balance mode)	Borr.	300	3.55	0.80	7.969	0.000
	Inter.	41	3.02	1.17		
	NBFC	22	3.18	1.01		
	Total	363	3.47	0.88		
Limiting the instalment to 10 per year	Borr.	117	2.45	1.03	0.658	0.520
	Inter.	11	2.09	0.70		
	NBFC	2	2.50	0.71		
	Total	130	2.42	1.00		
Reducing of early closing load	Borr.	263	2.76	0.86	0.761	0.468
	Inter.	22	2.55	1.06		
	NBFC	9	2.56	1.24		
	Total	294	2.73	0.89		

From Table 5.12, it is seen that the maximum score of opinion on the aspects of borrower suggestion to NBFC is in interest calculation mode (3.47) followed by percentage of funding (2.83) and avoid loading extra interest (2.78). The least scores are for permitting sale by 'retaining loan' (1.70) and supplementary loan to overcome problems (1.70) followed by avoid mediators (1.92).

The opinion of borrowers, intermediaries and NBFC officials are found to differ in the cases of proper follow up and interest calculation mode. In both these aspects, the significance level of one way ANOVA is less than 0.05.

From the point of view of NBFC official respondents, 'percentage of funding', 'avoid mediators', 'proper follow up', 'better relationship' and 'limiting the instalments to 10 per year' have higher suggestion in comparison to other two group of respondents of intermediary and borrowers. Borrowers have higher suggestion for 'reduced EMI', 'prompt payment rebate', 'interest calculation' and 'early closing load to be reduced' in comparison to intermediary and NBFC. Similarly, intermediaries have higher suggestion on 'structured payment', 'holidays on eventualities', 'supplementary loan to overcome problems', 'rescheduling of EMI', 'permitting sale by retaining loan' and 'avoid loading extra interest' in comparison to the other respondents of NBFC and borrowers.

The suggestion of NBFCs in 'proper follow up' is the highest indicating that NBFCs give more importance to proper follow up than intermediaries and borrowers. The suggestion of borrowers on 'interest calculation mode' is the highest indicating that they give more importance to interest calculation than intermediaries and NBFC officials. The suggestions of intermediaries on 'structured payment', 'supplementary loan to overcome problems' and 'avoid loading extra interest' are the highest indicating that they give highest preference to those suggestions.

Borrower being the target market of NBFC, their specific suggestions to NBFC is an inevitable prerequisite for their efficient functioning. Due to this, in order to study the preference of borrower's suggestion, the scores are converted into ranks and the result is presented in the table 5.13. It is seen from the table that interest calculation on 'simple interest' mode is the most important suggestion from the point of view of borrowers. Borrowers have given the second rank for 'reducing the preclosing load'. 'Giving holidays' on eventualities of borrower is the third important suggestion given by borrowers. 'Proper follow up' by NBFC for recovering the dues are the forth important suggestion. It is pertinent to note that lower EMI is the least important suggestion given by borrowers and the requirement of structured payment is found to be less important after the suggestion of lesser EMI.

Table 5.13 Ranking of Suggestions for Improvement of NBFC Receivables and Business given by Borrowers

No.	Elements of Suggestions	Rank
E-1	Lesser fund	10
E-2	Lesser EMI	15
E-3	Avoid mediator	13
E-4	Proper follow up	4
E-5	Better relationship	9
E-6	Prompt payment rebate	8
E-7	Structured payment	14
E-8	Holidays on eventualities	3
E-9	Supplementary loan on problems	7
E-10	Reschedule in genuine case	6
E-11	Assignment	11
E-12	Avoidance of loading on rescheduling	12
E-13	Interest calculation (simple interest mode)	1
E-14	Limiting instalments to 10 per year	5
E-15	Reducing of preclosing load	2

In order to find the dynamics of suggestion of different characteristics of borrowers one way ANOVA was computed. To accommodate the suggestions into single sheet, suggestions were categorised into 2 for the purpose of ANOVA test, ie, elements of 'funding related suggestion' and elements of 'service related suggestions'. The numbers shown in the brackets after the suggestions are the numbers assigned in the interview schedule. These numbers in brackets are also assigned in the ANOVA test, of 'elements of funding related suggestions' and 'elements of service related suggestions'. That is the reason for not having continuous numbers in the ANOVA table 5.14 and 5.15.

Funding related suggestions are 8 in numbers out of the total suggestions of 15. Those suggestions are:

1. Reduced percentage of funding (E-1)
2. Reduced EMI (E-2)
3. Structured payment (E-7)
4. Supplementary loan to overcome problems (E-9)
5. Rescheduling of EMI (E-10)
6. Avoidance of loading extra interest (E-12)
7. Interest calculation (simple interest mode) (E-13)
8. Reducing of early closing load (E-15)

The remainders are service related suggestions which are 7 in number and are as follows:

1. Avoid mediators (E-3)
2. Proper follow up (E-4)
3. Better relationship with client (E-5)
4. Prompt payment rebate (E-6)
5. Giving holidays on eventualities (E-8)
6. Permitting sale of the vehicle (E-11)
7. Limiting the instalments to 10 per year (E-14)

The result of one way ANOVA test relating to funding related suggestion is presented in table 5.2.1.3 (Because of the bigger size of the table and impracticability of presenting the results in a single page, the significance level of F alone is given in the table).

Table 5.14 Mean Score of Funding Related Suggestions of Borrowers to NBFC

		Elements of Funding Related Suggestions							
		E-1	E-2	E-7	E-9	E-10	E-12	E-13	E-15
	Total	**6.22**	**9.56**	**7.63**	**5.89**	**5.39**	**6.66**	**2.22**	**3.71**
Age (yrs)	< 30	5.93	8.17	8.77	5.93	5.90	7.14	1.69	3.32
	30-39	6.31	9.48	7.00	5.93	5.54	6.56	1.85	3.66
	40-49	6.02	9.49	7.88	5.74	5.32	6.74	2.40	3.77
	≥ 50	6.71	10.25	6.93	6.13	5.24	6.34	2.35	3.75
	Sig. of F	0.60	0.20	0.16	0.72	0.60	0.74	0.11	0.87
Education	Below SSLC	6.36	9.38	8.20	5.71	4.75	5.86	2.85	3.37
	SSLC	6.06	10.16	7.67	6.38	5.76	7.09	2.53	4.14
	Plus Two	6.05	10.23	8.71	5.76	6.22	6.65	1.57	3.60
	Diploma	5.81	10.42	7.56	6.06	6.00	6.89	2.03	3.50
	Graduation	6.57	8.92	7.90	6.02	4.90	6.38	2.30	3.71
	Post graduation	6.11	9.10	6.00	5.17	4.70	7.53	2.02	3.87
	Sig. of F	0.88	0.14	0.13	0.23	0.00	0.29	0.05	0.73
Occupation	Agriculture	6.35	10.20	8.00	5.90	4.85	6.67	2.72	3.81
	Industry	5.54	9.46	6.71	6.38	5.57	7.35	2.54	4.05
	Business	6.81	9.94	7.62	5.84	4.95	6.44	2.16	4.14
	Professional	5.95	9.20	7.56	5.05	5.31	7.71	2.00	3.00
	Employee	5.49	8.00	7.18	6.21	5.45	5.96	1.83	3.31
	Driver	6.34	9.73	7.90	5.71	5.84	6.85	2.31	3.43
	Others	6.81	9.90	8.25	6.27	5.60	6.43	2.33	4.17
	Sig. of F	0.37	0.19	0.93	0.37	0.28	0.42	0.52	0.23
Income (Rs)	< 1 lakh	6.46	9.73	7.50	5.18	5.22	5.43	2.50	3.57
	1-2 lakh	5.93	9.27	8.22	6.07	5.84	6.81	2.34	3.50
	2-5 lakh	6.46	9.58	7.61	5.99	5.35	6.73	2.13	3.84
	5-10 lakh	5.50	8.00	5.00	5.88	5.33	7.00	2.33	4.67
	≥ 10 lakh	2.90	-	7.55	6.18	4.87	7.00	2.10	3.07
	Sig. of F	0.01	0.82	0.83	0.24	0.50	0.35	0.82	0.44
Type	New	6.61	9.67	7.58	5.63	5.24	5.94	2.08	3.44
	Old	5.54	9.14	7.67	6.09	5.54	7.21	2.37	3.99
	Sig. of F	0.01	0.31	0.88	0.09	0.25	0.00	0.19	0.05
Channel	NBFC	6.13	9.79	8.56	6.04	5.25	6.84	2.72	4.08
	Markt. execu.	5.47	9.38	7.53	6.28	5.38	6.78	2.22	3.49
	Dealer	6.70	9.56	7.18	5.25	5.28	6.29	2.06	3.53
	Broker + others	6.12	9.42	7.73	6.15	5.73	6.96	1.99	3.87
	Sig. of F	0.24	0.93	0.38	0.02	0.59	0.59	0.11	0.42
District	Calicut	6.27	9.48	7.54	5.89	5.35	6.65	2.36	3.70
	Ernakulam	6.38	8.90	7.40	6.04	5.69	6.68	2.23	3.62
	Trivandrum	6.04	9.95	8.04	5.75	5.15	6.64	2.06	3.81
	Sig. of F	0.81	0.18	0.66	0.67	0.22	1.00	0.53	0.86
Vehicle	Small car	5.57	9.06	7.50	5.48	5.10	5.67	1.98	2.87
	Premium car	5.84	7.25	7.73	6.03	4.97	7.05	1.84	3.96
	Two wheeler	7.25	6.75	.	5.09	6.00	4.00	1.71	2.00
	Three wheeler	7.17	9.86	7.62	5.12	5.13	6.59	2.35	3.59
	Comm. car	3.60	7.00	7.29	5.94	5.28	6.50	1.76	3.31
	LCV	6.37	10.67	8.08	6.80	5.63	7.16	2.24	4.56
	HCV	6.44	9.54	7.89	5.94	5.81	6.86	3.30	4.62
	Sig. of F	0.02	0.00	0.97	0.01	0.40	0.08	0.00	0.00

From the table 5.14, it can be seen that the total score of the most preferred suggestion ie, reduced EMI (E2) is 9.56 out of the maximum score of 15. The total mean score of suggestion for the least preferred element [interest calculation diminishing balance mode (E13)] is 2.22 out of the mean score of 15. This table represents the mean score of elements of funding related suggestions by the characteristics of borrowers in a matrix form, with a significance level of F of each category for the said 8 funding related suggestions. From the table, it is seen that the significance level of ANOVA is found to be lesser than 0.05 for 6 suggestions when the sample is categorised according to the category of vehicle. Type wise categorisation exhibits a variation in response in 3 suggestions (reduced percentage of funding, avoid loading extra interest and early closing load to be reduced). Education wise variation of score is in two categories (rescheduling of EMI and interest calculation (simple interest), income and channel depict variation of score is in one each category (reduced percentage of funding, supplementary loan to over come problems) respectively. Categorisation of borrower by age, occupation and district wise does not show any variation in the suggestions.

The ANOVA test made on the elements of service related suggestions are presented in the table 5.15.

Table 5.15 Mean Score of Service Related Suggestions of Borrowers to NBFC

		Elements of Service Related Suggestions						
		E-3	E-4	E-5	E-6	E-8	E-11	E-14
	Total	**7.02**	**4.71**	**6.19**	**5.95**	**4.53**	**6.24**	**5.11**
Age (yrs)	< 30	6.88	4.59	5.35	4.52	3.83	7.18	5.14
	30-39	6.65	4.49	5.91	5.64	4.54	6.62	5.73
	40-49	7.24	4.73	6.26	6.28	4.66	5.88	5.00
	≥ 50	6.91	4.92	6.58	6.25	4.43	6.25	4.90
	Sig. of F	0.74	0.76	0.21	0.07	0.56	0.02	0.51
Education	Below SSLC	7.44	4.68	6.49	5.45	3.91	6.29	5.16
	SSLC	6.52	4.09	5.83	6.65	4.00	6.44	5.28
	Plus Two	7.00	4.50	6.10	4.93	5.35	6.69	5.06
	Diploma	6.88	4.98	6.37	5.91	4.88	6.16	5.08
	Graduation	7.36	4.99	6.20	6.53	4.49	5.89	5.01
	Post graduation	6.64	4.76	6.28	5.70	4.66	5.94	5.14
	Sig. of F	0.75	0.31	0.88	0.16	0.07	0.50	1.00
Occupation	Agriculture	6.36	4.21	6.04	5.95	4.10	6.50	4.87
	Industry	7.38	4.12	6.00	6.77	4.27	6.57	5.64
	Business	7.24	5.15	6.64	6.31	4.46	6.47	5.10
	Professional	6.71	5.56	6.29	6.29	5.27	5.65	4.94
	Employee	6.52	4.41	5.80	4.84	4.83	5.96	4.59
	Driver	6.80	4.64	5.96	5.60	4.64	6.18	5.18
	Others	8.62	4.67	6.52	6.82	4.05	6.35	5.38
	Sig. of F	0.27	0.09	0.59	0.18	0.63	0.69	0.85
Income (Rs)	< 1 lakh	6.61	5.09	6.61	6.95	4.17	5.25	3.88
	1-2 lakh	7.08	4.05	5.57	5.71	4.50	6.87	5.75
	2-5 lakh	7.26	4.94	6.48	6.05	4.62	6.20	5.29
	5-10 lakh	5.00	2.57	5.38	4.86	4.00	8.33	7.00
	≥ 10 lakh	6.27	4.13	4.95	4.00	5.29	6.21	4.94
	Sig. of F	0.49	0.01	0.02	0.04	0.69	0.00	0.03
Type	New	7.07	4.68	6.01	6.81	4.20	5.93	4.63
	Old	6.93	4.74	6.45	5.08	4.82	6.53	5.65
	Sig. of F	0.74	0.83	0.16	0.00	0.04	0.03	0.01
Channel	NBFC	6.87	5.21	6.98	6.38	4.46	5.83	5.54
	Markt. execu.	6.66	4.07	5.58	5.13	4.37	6.74	5.28
	Dealer	7.32	4.52	6.02	6.35	4.57	6.48	5.17
	Broker + others	6.89	5.27	6.44	5.89	4.68	5.76	4.49
	Sig. of F	0.64	0.00	0.01	0.13	0.90	0.03	0.26
District	Calicut	6.45	4.99	6.06	6.13	4.85	6.18	4.72
	Ernakulam	6.95	4.25	5.60	5.21	4.78	6.51	5.60
	Trivandrum	7.61	4.91	6.84	6.44	4.04	6.00	4.92
	Sig. of F	0.05	0.04	0.00	0.06	0.04	0.31	0.10
Vehicle	Small car	6.61	4.38	5.74	6.50	4.88	5.63	4.60
	Premium car	7.16	5.22	6.64	5.05	5.00	5.61	5.05
	Two wheeler	4.94	3.92	5.09	4.42	5.31	5.35	3.00
	Three wheeler	7.64	4.96	6.29	6.67	3.63	5.76	4.95
	Comm. car	6.38	4.34	5.97	3.88	4.67	6.63	5.32
	LCV	7.48	4.44	6.19	5.94	4.55	7.57	5.60
	HCV	8.10	5.19	6.65	8.70	4.24	6.18	5.75
	Sig. of F	0.00	0.10	0.20	0.00	0.16	0.00	0.05

From the table 5.15, it can be seen that the total score of the most preferred element of service related suggestion is 'avoid mediators' (E3) is 7.02 out of the maximum score of 15. The total mean score of service related suggestion for the least preferred element giving holidays on eventualities (E8) is 4.53 out of 15. This table represents the mean score of suggesting elements by the characteristics of borrowers in a matrix form with a significance level of F on each category for the said 7 service related suggestions. From the table, it is seen that the significance level of the ANOVA is found to be lesser than 0.05 for 5 suggestions when the sample is categorised according to income of borrowers.

It can also be seen that significance level of ANOVA is found to be less than 0.05 for 4 suggestions each when the sample is categorised, according to the type of vehicle, according to the district, and according to category of vehicles. Channel wise categorisation exhibits a variation of response in 3 suggestions and age wise categorisation exhibits variation of score in one category only. Categorisation of borrower by education and occupation does not show any variation in service related suggestions.

From the results, it is seen that the maximum diversity, of fund related suggestion is induced by the various categories of vehicle borrowers and maximum diversity of service related suggestions is induced by borrowers of various income group followed by various category of vehicle borrowers, type of vehicle borrowers, and borrowers from various districts. But this may not be the case in real life situation. In order to get a combined effect of characteristics of the borrower on the element of suggestions, Multiple Regression analysis was carried out (on this analysis, suggestions of fund related and service related are merged as originally placed in the interview schedule and as ranked in table

5.13). To get a detailed analysis on the impact of the selected characteristics of the borrower on the suggestions to NBFCs, Multiple Regression analysis was carried with Backward Selection method. The score of borrower opinion on the aspect of suggestions to NBFC is selected as continues dependent variable. Age, education, occupation, income, type of vehicle, utility of vehicle, channel of finance, districts and category of vehicle are taken as independent variables. All independent variables are taken as dummy variables in different categories.

Multiple Regression with Backward Selection method is applied for each of the 15 suggestions and all are analysed and interpreted in detail in section 5.2.2.1 to 5.2.2.15. Corresponding tables of analysis are also in table 5.16 to 5.30.

5.2.2.1 Reduced Percentage of Funding

Many borrowers have indicated their preference for lower percentage of advance for them as well as for healthy growth of the industry. Many have preferred a lower and some others a higher percentage of funding based on their justifications and needs.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on reduced percentage of funding is represented in Table 5.16. The R square value of first regression model is 0.239 which shows that 23.9 percent of variation in score of reduced percentage of funding is determined by selected characteristics of borrower. On eliminating 22 dummy variables the final regression model is obtained. That regression model contains 8 significant independent variables with an R square of 0.178 which indicates that 17.8 percent of variability on mean score of reduced percentage of funding is determined by these 8 significant independent variables.

Table 5.16 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Reduced Percentage of Funding with Selected Characteristics

Characteristics		**First Step**		**Last Step**	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	3.042	0.000	5.316	0.000
Age (yrs)	< 30	1.857	0.079		
	30–39	1.214	0.099		
	40-49	0.817	0.131		
	≥ 50*				
Education	Below SSLC	1.331	0.170		
	SSLC	1.321	0.138		
	Plus 2	1.303	0.159		
	Diploma	1.109	0.159		
	Graduate	0.867	0.234		
	Post graduate*				
Occupation	Agriculture	1.192	0.299		
	Industry	2.296	0.016	1.037	0.085
	Business	1.080	0.220		
	Professional	2.010	0.078		
	Employed	1.724	0.095	0.930	0.091
	Driver	0.412	0.727		
	Transp. operator*				
Income (Rs)	< 1 lakh	-0.659	0.544		
	1-2 lakh	-2.168	0.039	-1.537	0.029
	2-5 lakh	-2.858	0.001	-2.344	0.000
	5-10 lakh	-0.858	0.709		
	≥ 10 lakh*				
Type	New	-1.611	0.005	-1.413	0.001
	Old*				
Channel	NBFC	0.320	0.621		
	Markt. execu.	0.473	0.490		
	Dealers	-0.123	0.840		
	Broker*				
District	Trivandrum	0.434	0.387		
	Ernakulam	0.474	0.418		
	Calicut*				
Vehicle	Small car	0.430	0.587		
	Premium car	-0.993	0.234		
	Two wheeler	-2.419	0.032	-1.862	0.026
	Three wheeler	-2.060	0.015	-1.858	0.002
	Comm. car	3.913	0.001	3.229	0.001
	LCV	-0.239	0.780		
	HCV*				
	R Square	**0.239**		**0.178**	

* Comparison parameter

In case of occupation, industrialist (0.085) and employed (0.091) have significance to the suggestions of percentage of funding. From the analysis it is seen that borrowers of income group between 1 and 2 lakh (0.029) and between 2 and 5 lakh (0.000) are significant to the suggestion of 'percentage of funding' New vehicle borrowers are also significant (0.001) to the suggestion. On the analysis of vehicle wise borrowers' suggestions on the percentage of funding it is seen that two wheeler (0.026), three wheeler (0.002) and commercial car (0.000) have significant difference.

Considering age, education, channel and district no variable is found to be significant. Income wise analysis shows that both 1 to 2 lakh (Reg.Coeff. -1.537) and 2 to 5 lakh (-2.344) income group borrowers are less suggestive to the percentage of funding than other income groups. Similarly, new vehicle borrowers (Reg.Coeff. -1.413) have lesser suggestion on percentage of funding. From the analysis, it is clear that two wheeler (Reg.Coeff. -1.862) and three wheeler (Reg.Coeff. -1.853) borrowers have lesser suggestion than other category of vehicle borrowers showing that they are interested in higher funding. Among the three significant categories of vehicle wise borrowers, it is seen that commercial car (Reg.Coeff. 3.229) borrowers have highly suggestive for percentage of funding compared to other category of vehicle borrowers. It is also seen that among two significant categories of occupation- industrialists and employed have greater suggestion (Reg.Coeff. 1.037 and 0.930 respectively) on percentage of funding. From the analysis, it is inferred that commercial car borrowers, industrialists and employed have very positive suggestions on reduced percentage of funding.

5.2.2.2 Reduced EMI

Reduced percentage of funding, EMI and tenure of loan has a relationship and customer's views were taken in this regard. Some have suggested for lower EMI for the healthy growth of the industry as well for the comfort of the borrowers.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on reduced EMI is represented in Table 5.17. The R square value of first regression model is 0.341 which means that 34.1 percent of variation in score of reduced EMI is established by selected characteristics of borrower. Twenty five dummy variables are eliminated to reach the final regression model. That regression model contains 5 significant independent variables with an R square of 0.217 which shows that 21.7 percent of variability on mean score of reduced EMI is determined by these 5 significant independent variables.

It is seen from the table that on the suggestion of 'reduced EMI' borrowers of age group of below 30 (0.053), employed borrowers (0.013), borrowers of three wheelers (0.021) and LCV (0.001) and borrowers of Ernakulam district (0.071) are significant. In case of education, income, type and channel related to borrowers there is no variable found to be significant. Taking the case of occupation, employees are greatly suggestive on reduced EMI (Reg.Coeff. 1.484) and followed by Ernakulam district (Reg.Coeff. 0.897). Both the significant vehicle borrowers of three wheeler (Reg.Coeff. -1.087) and LCV (Reg.Coeff. -1.680) have lesser suggestions on the reduced EMI in comparison to other category of vehicle borrowers. Analysis reveals that borrowers below the age group of 30 (Reg.Coeff. 1.636) are more interested for the reduced EMI. It is interesting to note that borrowers below the age of 30, employed borrowers, and borrowers of Ernakulam district have very strong suggestion on the reduced EMI.

Table 5.17 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Reduced EMI with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	-1.358	0.000	-0.376	0.000
Age (yrs)	< 30	1.742	0.196	1.636	0.053
	30–39	-0.173	0.838		
	40-49	0.104	0.873		
	≥ 50*				
Education	Below SSLC	1.287	0.242		
	SSLC	0.488	0.641		
	Plus 2	0.618	0.570		
	Diploma	-0.210	0.833		
	Graduate	1.215	0.171		
	Post graduate*				
Occupation	Agriculture	0.177	0.896		
	Industry	1.391	0.170		
	Business	1.290	0.217		
	Professional	0.446	0.765		
	Employed	2.251	0.061	1.484	0.013
	Driver	1.634	0.228		
	Transp. operator*				
Income (Rs)	< 1 lakh	-0.828	0.493		
	1-2 lakh	-1.063	0.462		
	2-5 lakh	-0.391	0.766		
	5-10 lakh	0.305	0.911		
	≥ 10 lakh*				
Type	New	-0.556	0.418		
	Old*				
Channel	NBFC	-0.523	0.503		
	Markt. execu.	0.968	0.334		
	Dealers	0.370	0.637		
	Broker*				
District	Trivandrum	-0.175	0.730		
	Ernakulam	1.003	0.202	0.897	0.071
	Calicut*				
Vehicle	Small car	0.076	0.931		
	Premium car	0.628	0.714		
	Two wheeler	1.153	0.434		
	Three wheeler	-1.288	0.146	-1.087	0.021
	Comm. car	1.326	0.566		
	LCV	-1.667	0.054	-1.680	0.001
	HCV*				
	R Square	**0.341**		**0.217**	

* Comparison parameter

5.2.2.3 Avoid Mediators

A mediator or broker is considered essential in a commercial activity especially in vehicle finance. Suggestions are taken with regard to the necessity of mediators in vehicle finance industry.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on 'avoid mediators' is represented in Table 5.18. The R square value of first regression model is 0.263 which shows that 26.3 percent of variation in score of 'avoid mediators' is determined by selected characteristics of borrower. On eliminating 23 dummy variables the final regression model is obtained. That regression model contains 7 significant independent variables with R square of 0.205 which means that 20.5 percent of variability on mean score of 'avoid mediators' is determined by these 7 significant independent variables.

On the age wise analysis, borrowers below the age group of 30 (0.017) and on income wise analysis, borrowers below the income of 1 lakh are found to be significant (0.003). Similarly, in the characteristic of channel, borrowers coming through dealers are found to be significant (0.056) and borrowers of Trivandrum district are significant regarding the suggestion of avoiding mediators (0.029). On the analysis of vehicle wise borrowers, it is seen that 3 categories of vehicle borrowers- small car (0.043), two wheeler (0.000) and commercial car (0.065) show significant difference in their suggestions. No variable has been found to be significant on the analysis of education, occupation and type of vehicle wise borrowers.

Table 5.18 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Avoid Mediators with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	2.629	0.000	2.091	0.000
Age (yrs)	< 30	1.607	0.093	1.754	0.017
	30–39	-0.494	0.475		
	40-49	-0.187	0.745		
	≥ 50*				
Education	Below SSLC	1.101	0.289		
	SSLC	-0.368	0.679		
	Plus 2	0.445	0.623		
	Diploma	0.304	0.716		
	Graduate	0.417	0.567		
	Post graduate*	-1.644	0.187		
Occupation	Agriculture				
	Industry	-0.760	0.474		
	Business	-0.936	0.322		
	Professional	-1.147	0.357		
	Employed	-0.879	0.409		
	Driver	-0.808	0.458		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.930	0.454	-4.351	0.003
	1-2 lakh	1.322	0.268		
	2-5 lakh	0.964	0.344		
	5-10 lakh	-3.818	0.030		
	≥ 10 lakh*				
Type	New	0.618	0.249		
	Old*				
Channel	NBFC	-0.348	0.646		
	Markt. execu.	-0.102	0.889		
	Dealers	0.483	0.491	0.760	0.056
	Broker*				
District	Trivandrum	1.047	0.042	0.894	0.029
	Ernakulam	0.537	0.365		
	Calicut*				
Vehicle	Small car	-0.917	0.262	-1.070	0.043
	Premium car	0.628	0.544		
	Two wheeler	-3.606	0.002	-3.359	0.000
	Three wheeler	-0.072	0.940		
	Comm. car	-1.127	0.178	-1.082	0.069
	LCV	-0.287	0.750		
	HCV*				
	R Square	**0.263**		**0.205**	

* Comparison parameter

It is seen from the analysis that all the three categories of vehicle borrowers who appeared to be significant provides less suggestions ie., two wheeler (Reg.Coeff. -3.359), commercial car (Reg.Coeff. -1.082) and small car (Reg.Coeff. -1.070) in comparison to other category of vehicle borrowers. Similarly, borrowers below the income of 1 lakh have lesser suggestion (Reg.Coeff. -4.351) compared to borrowers of other income groups. Highest positive suggestion on 'avoiding mediators' is seen in borrowers below the age of 30 (Reg.Coeff. 1.754) followed by borrowers from Trivandrum district (Reg.Coeff. 0.894) and borrowers coming through the channel of dealers (Reg.Coeff. 0.760).

This regression analysis suggests that borrowers of age group below 30, borrowers from Trivandurm district and borrowers coming through channel of dealers are respectively highly in favour of the suggestion of avoiding mediators.

5.2.2.4 Proper Follow up

It is necessary to have proper follow up of borrowers regarding timely refund of interest and principal advanced. Once this is done, recovery position improves and it is one of the major tools in better management of receivables.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on 'proper follow up' is shown in table 5.19. The R square value of first regression model is 0.186 which suggests that 18.6 percent of variation in score of proper follow up is arrived by selected characteristics of borrower. After deleting 16 dummy variables the final regression model is obtained. That regression model contains 14 significant independent variables with R square of 0.166 which suggests that 16.6 percent of variability on mean score of proper follow up is determined by these 14 significant independent variables.

Table 5.19 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Proper Follow up with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	5.391	0.000	4.812	0.000
Age (yrs)	< 30	0.147	0.795		
	30–39	0.428	0.312		
	40-49	0.294	0.385		
	≥ 50*				
Education	Below SSLC	-0.054	0.928		
	SSLC	0.636	0.245	0.737	0.037
	Plus 2	0.079	0.885		
	Diploma	-0.306	0.535		
	Graduate	-0.071	0.875		
	Post graduate*				
Occupation	Agriculture	-0.016	0.981		
	Industry	0.275	0.658		
	Business	-1.066	0.055	-0.939	0.002
	Professional	-1.397	0.062	-1.266	0.007
	Employed	-0.646	0.289		
	Driver	-0.321	0.609		
	Transp. operator*				
Income (Rs)	< 1 lakh	-3.338	0.000	-2.967	0.000
	1-2 lakh	-1.811	0.004	-1.422	0.007
	2-5 lakh	-2.063	0.000	-1.626	0.000
	5-10 lakh	-0.266	0.753		
	≥ 10 lakh*				
Type	New	-0.438	0.147		
	Old*				
Channel	NBFC	-0.101	0.803		
	Markt. execu.	0.700	0.078	0.795	0.016
	Dealers	0.542	0.144	0.544	0.057
	Broker*				
District	Trivandrum	0.269	0.388		
	Ernakulam	0.737	0.017	0.639	0.015
	Calicut*				
Vehicle	Small car	1.209	0.016	1.071	0.006
	Premium car	-0.383	0.496		
	Two wheeler	2.051	0.005	1.710	0.004
	Three wheeler	0.793	0.146	0.839	0.070
	Comm. car	0.896	0.059	0.853	0.040
	LCV	0.981	0.063	0.928	0.038
	HCV*				
	R Square	**0.186**		**0.166**	

* Comparison parameter

Considering education, borrowers who have qualified SSLC are significant (0.037) and in the case of district, borrowers of Ernakulam district are also in favour of 'proper follow up' suggestion and are significant (0.015). Occupation wise analysis shows that business men (0.002) and professionals (0.007) are significant and similarly on channel wise analysis borrowers coming through marketing executive (0.016) and dealers (0.057) are also significant to the suggestion. On income wise analysis, it is seen that borrowers below 1 lakh income (0.000), borrowers with 1 to 2 lakh income (0.007) and 2 to 5 lakh income (0.000) are found to be significant. Among the borrowers of various categories of vehicle it is seen that small car borrowers, two wheeler borrowers, commercial car borrowers and LCV borrowers are significant to the suggestion of proper follow up. It is also seen that age wise and type wise borrowers have no variable as significant. Occupation wise analysis shows that both borrowers of professional (Reg.Coeff. -1.266) and business men (-0.939) are less attractive to the suggestion of proper follow up. Similarly, it is seen that among the 3 significant categories of borrowers, all of them have less attraction to the suggestion of proper follow up.

On the other hand, on channel wise analysis both the significant borrowers coming through marketing executive (Reg.Coeff. 0.795) and dealer (Reg.Coeff. 0.544) are very positive to the suggestion of proper follow up. Similarly, borrowers of Ernakulam district (Reg.Coeff 0.639) are also positive to the suggestion of proper follow up. Further, it is seen in the analysis that among the 5 significant categories of vehicle wise borrowers all the 5 are positive to the suggestion of proper follow up in comparison to premium cars and HCV. Regression coefficients of these are 1.710 for two wheeler, 1.071 for small car, 0.928 for LCV, 0.853 for commercial car and 0.839 for three wheeler.

Table indicates that borrowers who qualified SSLC, borrowers accessed through the channel of marketing executive and dealers, borrowers of Ernakulam district and borrowers of small car, two wheeler, three wheeler, commercial car and LCV are very much interested and are in need of proper follow up in order to maintain their repayment schedule effectively.

5.2.2.5 Better Relationship with Client

Usually in the finance industry, once the loan is granted, borrower is further contacted or thought about only when he defaults the payment. It is suggested that if a better relationship is maintained with borrower after the grant of loan, it is easy to get the payment prioritized as borrowers have many other commitments. Apart from that, the borrower is made known that he cannot give a ride just like that over the financier. Better relationship should be a better professional relationship and does not mean over socialisation.

The results of Multiple Regression analysis of borrowers' suggestion on 'better relationship with client' is represented in Table 5.20. The first regression model shows R square of 0.182. On eliminating 23 dummy variables the final regression model is obtained. That model contains 7 significant independent variables with R square of 0.118 meaning thereby 11.8 percent of variability on mean score of better relationship with client is arrived by these 7 significant independent variables.

Table 5.20 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Better Relationship with Client with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	2.338	0.000	14.301	0.000
Age (yrs)	< 30	1.492	0.034	1.089	0.046
	30–39	0.562	0.254		
	40-49	0.563	0.159		
	≥ 50*				
Education	Below SSLC	-0.348	0.614		
	SSLC	0.631	0.324		
	Plus 2	0.040	0.951		
	Diploma	0.371	0.546		
	Graduate	0.512	0.335		
	Post graduate*				
Occupation	Agriculture	0.649	0.417		
	Industry	0.604	0.402		
	Business	-0.158	0.812		
	Professional	0.362	0.697		
	Employed	0.217	0.770		
	Driver	1.003	0.208		
	Transp. operator*				
Income (Rs)	< 1 lakh	-2.137	0.009	-1.038	0.024
	1-2 lakh	-0.397	0.606		
	2-5 lakh	-1.115	0.097	-1.045	0.002
	5-10 lakh	1.162	0.265		
	≥ 10 lakh*				
Type	New	-0.134	0.708		
	Old*				
Channel	NBFC	-0.547	0.264	-0.712	0.060
	Markt. execu.	0.775	0.101	0.620	0.077
	Dealers	0.177	0.699		
	Broker*				
District	Trivandrum	-0.797	0.027	-1.001	0.001
	Ernakulam	0.466	0.217		
	Calicut*				
Vehicle	Small car	0.927	0.120	0.710	0.092
	Premium car	-0.637	0.319		
	Two wheeler	0.930	0.250		
	Three wheeler	0.331	0.599		
	Comm. car	0.391	0.519		
	LCV	0.046	0.936		
	HCV*				
	R Square	0.182		0.118	

* Comparison parameter

Taking the case of age, those of lower than 30 are found to be significant (0.046) and in case of borrowers of vehicle wise analysis small car borrowers are found to be significant (0.092). It is also seen that borrowers from Trivandrum district are significant (0.001) regarding their suggestions of better relationship with client. Income wise analysis shows that borrowers below 1 lakh (0.024) and in income group of 2 to 5 lakh (0.002) are found to be significant. Analysis of channel wise borrowers shows that borrowers directly reaching NBFC and those reaching through the channel of marketing executives are found to be significant. There is no variable found to be significant in case of education, occupation and type of vehicle analysis.

From the income wise analysis, it is seen that both the significant category of borrowers of below 1 lakh (Reg.Coeff. -1.038) and 2-5 lakh (Reg.Coeff. -1.045) have less suggestion to the better relationship in comparison to their reference group. Trivandrum district borrowers (Reg.Coeff. -1.001) are less interested in comparison to other district borrowers to this suggestion. Among the two significant categories of channel wise borrowers, marketing executives (Reg.Coeff. 0.620) emphasis for better relationship with client suggestion. Borrowers directly reaching NBFCs (Reg.Coeff. -0.712) have lesser suggestion in comparison to borrowers coming through other channels. Among the vehicle wise borrowers small car borrowers (Reg.Coeff. 0.710) have great suggestion on 'better relationship' with client compared to other category of vehicle borrowers. Borrowers below the age group of 30 (Reg.Coeff. 1.089) are also highly interested on better relationship. The study by Datta *et al.*, 2007, is in supportive of the finding of maintaining a better relationship with clients for the development of business , even though the study was on a different context.

This indicates that certain parameters of customers do give greater importance for maintaining better relationship between financier and client for the smooth and effective management of receivables in NBFC. Most important among them are borrowers below 30's, small car borrowers, and borrowers coming through the channel of marketing executives.

5.2.2.6 Prompt Payment Rebate

Every one is interested for a discount or rebate in their commercial dealings especially in this age of discounts, offers and gifts. If an incentive is offered by prompt payment of instalment that may tempt the borrowers to keep up their commitments. This variable has also been included as a suggestion for the healthy growth of the industry.

The results of the Multiple Regression analysis of borrowers' suggestion on 'prompt payment rebate' is shown in table 5.21. The R square value of first regression model is 0.357 which means that 35.7 percent of variation in score of prompt payment rebate is determined by selected characteristics of the borrower. On eliminating 19 dummy variables the final regression model is obtained, which contains 11 significant independent variables with R square of 0.310. This shows that 31.0 percent of variability on mean score of prompt payment rebate is established by these 11 significant independent variables.

Ernakulam district (0.029) and new vehicle borrowers (0.000) are found to be significant along with borrowers of the three income groups of less than 1 lakh (0.000), 1 to 2 lakh (0.034) and 2 to 5 lakh (0.003). Analysis of vehicle wise borrowers reveals that all the 6 variables of small cars, premium car, two wheeler, three wheeler, commercial car and LCV are significant regarding the suggestion of prompt payment rebate. Age, education, occupation and channel wise analysis have no significance to the suggestion. All the three significant categories of income wise borrowers ie, below 1 lakh, between 1 and 2 lakh and 2 and 5 lakh have less suggestion with a regression coefficient of -3.749, -1.800 and -2.145 respectively in comparison to other income group of borrowers.

Table 5.21 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Prompt Payment Rebate with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	1.842	0.000	3.186	0.000
Age (yrs)	< 30	0.924	0.239		
	30–39	0.706	0.258		
	40-49	0.105	0.839		
	≥ 50*				
Education	Below SSLC	1.217	0.186		
	SSLC	-0.504	0.557		
	Plus 2	0.853	0.309		
	Diploma	0.071	0.928		
	Graduate	0.112	0.873		
	Post graduate*				
Occupation	Agriculture	0.003	0.997		
	Industry	-0.357	0.719		
	Business	-0.603	0.507		
	Professional	-1.180	0.336		
	Employed	0.364	0.710		
	Driver	-0.430	0.659		
	Transp. operator*				
Income (Rs)	< 1 lakh	-3.214	0.002	-3.749	0.000
	1-2 lakh	-1.378	0.164	-1.800	0.034
	2-5 lakh	-1.356	0.128	-2.145	0.003
	5-10 lakh	1.544	0.211		
	≥ 10 lakh*				
Type	New	-1.744	0.000	-1.969	0.000
	Old*				
Channel	NBFC	0.018	0.976		
	Markt. execu.	0.833	0.155		
	Dealers	0.505	0.385		
	Broker*				
District	Trivandrum	-0.054	0.909		
	Ernakulam	0.933	0.052	0.874	0.029
	Calicut*				
Vehicle	Small car	1.933	0.019	2.257	0.002
	Premium car	3.103	0.001	2.464	0.001
	Two wheeler	4.812	0.000	5.710	0.000
	Three wheeler	2.410	0.003	2.341	0.002
	Comm. car	4.293	0.000	4.446	0.000
	LCV	2.353	0.002	2.473	0.000
	HCV*				
	R Square	**0.357**		**0.310**	

* Comparison parameter

Interestingly, all the 6 significant categories of vehicle wise borrowers are highly interested on the opinion of providing prompt payment rebate to motivate the borrowers for timely repayment. Regression coefficients of these borrowers' suggestions are- two wheeler 5.710, commercial car 4.446, LCV 2.473, premium car 2.464, three wheeler 2.341 and for small car 2.257.

5.2.2.7 Structured Payment

In certain cases, the payment of instalment is structured in such a way that during the first one-third period, EMI amount is higher and on the last one-third period lower. This is termed as structured payment. The principle behind this concept is to extract maximum output from the assets during its healthy days ie, when it remains comparatively new and productive. Another advantage, especially in the case of commercial vehicle is that there is better performance, less maintenance expense, road worthiness and earning capacity during the early periods of loan. Some of the borrowers prefer this kind of structured payment and consider it as healthier than the usual method of repaying in equal monthly instalments. This also has an advantage of increasing the borrowers' stake in the assets during the early period of the loan itself, whereby reducing the recovery problems in such accounts.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on structured payment is represented in Table 5.22. The R square value of first regression model is 0.404 which means that 40.4 percent of variation in score of structured payment is determined by selected characteristics of borrower. On eliminating 19 dummy variables the final regression model is obtained and that contains 11 significant independent variables with R square of 0.326 which shows that 32.6 percent of variability on mean score of structured payment is determined by these 11 significant independent variables.

Table 5.22 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Structured Payment with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	6.687	0.453	3.941	0.000
Age (yrs)	< 30	-2.192	0.062	-1.821	0.022
	30–39	-0.252	0.823		
	40-49	-2.077	0.037	-1.497	0.014
	≥ 50*				
Education	Below SSLC	-4.568	0.016	-3.621	0.013
	SSLC	-3.839	0.010	-3.200	0.003
	Plus 2	-5.491	0.000	-4.412	0.000
	Diploma	-3.379	0.012	-2.692	0.006
	Graduate	-2.481	0.035	-2.402	0.007
	Post graduate*				
Occupation	Agriculture	0.110	0.952		
	Industry	1.003	0.542		
	Business	0.988	0.450	1.052	0.100
	Professional	-0.604	0.753		
	Employed	0.713	0.625		
	Driver	-0.000	1.000		
	Transp. operator*				
Income (Rs)	< 1 lakh	-2.066	0.458		
	1-2 lakh	-1.524	0.525		
	2-5 lakh	-2.037	0.371		
	5-10 lakh	0.484	0.784		
	≥ 10 lakh*				
Type	New	-0.493	0.673		
	Old*				
Channel	NBFC	-1.277	0.233	-1.714	0.016
	Markt. execu.	0.717	0.515		
	Dealers	0.270	0.790		
	Broker*				
District	Trivandrum	-0.344	0.688		
	Ernakulam	-0.495	0.551		
	Calicut*				
Vehicle	Small car	0.198	0.906		
	Premium car	-2.200	0.291		
	Three wheeler	1.410	0.412	1.490	0.097
	Comm. car	2.774	0.045	2.507	0.001
	LCV	0.731	0.653		
	HCV*				
	R Square	**0.404**		**0.326**	

* Comparison parameter

Considering occupation, business men and in case of channel direct to NBFC are found be significant on suggestions regarding structured payment. Age wise analysis of borrowers shows that borrowers of age below 30 (0.022) and borrowers in the age group of 40 to 49 (0.014) are found to be significant. From the table, it is seen that both three wheeler and commercial car borrowers also have significance to the suggestion. Education wise analysis of borrowers reveals that all the five categories are found to be significant on the suggestion of structured payment compared to post graduates. Income wise and district wise analysis of borrowers shows no significant variation. In vehicle wise analysis, both significant borrowers ie, of commercial car (Reg.Coeff. 2.507) and three wheelers (Reg.Coeff. 1.490) are more supportive to the suggestions on structured payment. They are followed by businessmen (Reg.Coeff. 1.052) in occupation wise analysis.

It is seen that borrowers who directly approach NBFCs (Reg.Coeff. -1.714) are less suggestive on the structured payment compared to borrowers from other channel. Those below the age of 30 and between 40 and 49 are found to be less suggestive than other borrowers regarding structured payment. It is interesting to see that all the five significant categories of borrowers' analysed education wise have less suggestion on structured payment in comparison to reference group.

5.2.2.8 Holidays on Eventualities

It is common for all of us that some kind of unprecedented eventualities happen in our life especially when we borrow for managing some of our affairs. It may be in the form of sickness or calamities or vehicle accidents. If a vehicle is met with an accident, it needs to be garaged for repair. Additional cost of repair, unattendence of daily routine, breakdown of business activities and various other problems peep in during this period. It is very difficult for a hand to mouth vehicle operator to pay the EMI during this time. Either he has to make additional borrowings or sell some of his assets which adds constraints to the borrowers. Rather than piling up arrears and penal interest, the borrowers expect some holidays before repayment. Many opt for such holidays and the financier shall become the real partner of business on such occasions. It is also likely to increase loyalty of the borrower to the financier.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on holidays on eventualities is displayed in table 5.23. The R square value of first regression model is 0.161 which means that 16.1 percent of variation in score of holidays on eventualities is determined by selected characteristics of borrower. After eliminating 23 dummy variables the final regression model is obtained and that model contains 7 significant independent variables with an R square of 0.110 which means that 11.0 percent of variability on mean score of holidays on eventualities is determined by these 7 significant independent variables.

The study shows that those below 30 are significant on the suggestion of holidays on eventualities. Similarly borrowers who are drivers in occupation wise analysis, those settled in Trivandrum in district wise analysis and those of two wheelers in vehicle wise analysis are found to be significant on the suggestion of holidays on eventualities. Borrowers who have passed SSLC and those below SSLC are found to be significant on the suggestion. Taking the case of income and channel of borrowers, no variable is found to be significant.

Table 5.23 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Holidays on Eventualities with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	4.130	0.000	3.664	0.000
Age (yrs)	< 30	1.502	0.036	1.389	0.018
	30–39	0.394	0.460		
	40-49	0.047	0.907		
	≥ 50*				
Education	Below SSLC	0.567	0.443	1.240	0.007
	SSLC	0.364	0.589	1.003	0.011
	Plus 2	-0.939	0.173		
	Diploma	-0.363	0.591		
	Graduate	-0.429	0.463		
	Post graduate*				
Occupation	Agriculture	-0.093	0.910		
	Industry	-0.028	0.969		
	Business	-0.179	0.790		
	Professional	-0.757	0.453		
	Employed	-0.145	0.843		
	Driver	-1.239	0.104	-0.649	0.080
	Transp. operator*				
Income (Rs)	< 1 lakh	0.801	0.316		
	1-2 lakh	0.565	0.483		
	2-5 lakh	0.297	0.690		
	5-10 lakh	1.001	0.475		
	≥ 10 lakh*				
Type	New	0.783	0.033	0.713	0.017
	Old*				
Channel	NBFC	0.094	0.836		
	Markt. execu.	0.356	0.440		
	Dealers	-0.305	0.513		
	Broker*				
District	Trivandrum	0.695	0.062	0.706	0.018
	Ernakulam	0.035	0.927		
	Calicut*				
Vehicle	Small car	-0.750	0.242		
	Premium car	-0.451	0.479		
	Two wheeler	-2.074	0.026	-1.685	0.014
	Three wheeler	0.533	0.444		
	Comm. car	-0.310	0.589		
	LCV	-0.503	0.389		
	HCV*				
	R Square	**0.161**		**0.110**	

* Comparison parameter

It is interesting to see that on the significant category on occupation ie, borrowers who are drivers are less suggestive in comparison to other borrowers. Similarly, borrowers of two wheelers are the only category in vehicle wise analysis found to be significant and less suggestive compared to other types of borrowers of vehicle. It is worthy to see that rest of the 5 significant borrowers are contributive to the suggestion of providing holidays on eventualities to the borrower. In Turkey, the financial services authority has a rule that borrowers in difficult must be dealt sympathetically (Robson, 2008).

5.2.2.9 Supplementary Loan to Overcome Problems

When eventualities as explained in above section take places, it is a blow to those borrowers who have monthly commitments of payment of instalments. He is compelled to make additional borrowings to overcome the situation. It is also difficult to locate new financiers for funding during this process. If the NBFCs can provide supplementary loan to strengthen the vehicle borrowers then it shall be a boon for them to come out of the difficulties rather than taking financial help from unorganized sectors or third parties at a heavy cost.

The results of Multiple Regression analysis of borrowers' suggestion on 'supplementary loan to overcome problems' are displayed in Table 5.24. The R square value of first regression model is 0.172 which spells that 17.2 percent of variation in score of supplementary loan to overcome problems is determined by selected characteristics of borrower. Twenty four dummy variables are eliminated to reach the final regression model. That regression model contains 6 significant independent variables with R square of 0.131 which means that 13.1 percent of variability on mean score of supplementary loan to overcome problems is determined by these 6 significant independent variables.

Table 5.24 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Supplementary Loan to Overcome Problems with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	2.649	0.000	2.859	0.000
Age (yrs)	< 30	-0.192	0.718		
	30–39	0.056	0.903		
	40-49	0.229	0.525		
	≥ 50*				
Education	Below SSLC	-1.000	0.116		
	SSLC	-1.456	0.014		
	Plus 2	-0.861	0.146		
	Diploma	-0.781	0.170		
	Graduate	-0.978	0.059		
	Post graduate*				
Occupation	Agriculture	0.321	0.648		
	Industry	-0.002	0.998		
	Business	0.614	0.282	0.501	0.097
	Professional	0.965	0.251	1.382	0.016
	Employed	0.017	0.980		
	Driver	0.389	0.543		
	Transp. operator*				
Income (Rs)	< 1 lakh	1.324	0.087	1.047	0.005
	1-2 lakh	0.766	0.298		
	2-5 lakh	0.562	0.398		
	5-10 lakh	0.622	0.464		
	≥ 10 lakh*				
Type	New	0.088	0.791		
	Old*				
Channel	NBFC	0.291	0.461		
	Markt. execu.	0.163	0.690		
	Dealers	0.761	0.050	0.650	0.024
	Broker*				
District	Trivandrum	0.101	0.765		
	Ernakulam	-0.183	0.590		
	Calicut*				
Vehicle	Small car	0.150	0.806		
	Premium car	-0.459	0.444	0.776	0.068
	Two wheeler	0.478	0.567		
	Three wheeler	0.483	0.383		
	Comm. car	-0.030	0.951		
	LCV	-0.955	0.069	-1.109	0.001
	HCV*				
	R Square	**0.172**		**0.131**	

* Comparison parameter

From the table, it is seen that only 6 category of borrowers are found to be significant on the suggestion of 'supplementary loan to overcome problems'. They are business men and professionals when analysed occupation wise and income wise analysis shows that borrowers of below 1 lakh are significant (0.005). Considering channel wise borrowers, borrowers reaching through dealers have significance which is 0.024. It is seen that premium car and LCV borrowers are also significant while analysing vehicle wise and their significance are 0.068 and 0.001 respectively. Age, education, type of vehicle and district wise analysis shows that there is no significant variation among category of borrowers. For LCV, on vehicle wise analysis have lesser suggestion on supplementary loan, whereas borrowers of premium cars contributed strongly to the suggestion on supplementary loan. In an occupation wise analysis, the two significant categories of borrowers comprising of business men and professional contributed to the suggestions of supplementary loan. The necessity of supplementary loan is seen to be inevitable to customers for their need for quick funds to settle certain emergencies. This results are in consonance with the study by Marwane (2008) related to not running at a constant speed on economic turf.

5.2.2.10 Rescheduling of EMI

For various reasons, borrowers default payments of instalments. When few instalments are piled up it is very difficult for them to clear-up arrears at a stretched or even in instalments. With the increase in arrears, additional burden of penal interest comes. Most of the time, the disposal of assets is considered as the solution. If the borrower is sincere, and the reasons for the default is genuine, it will be a relief to the borrower if rescheduled.

Table 5.25 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Rescheduling of EMI with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	4.070	0.000	4.186	0.000
Age (yrs)	< 30	-0.592	0.315		
	30–39	-0.387	0.379		
	40-49	-0.123	0.728		
	≥ 50*				
Education	Below SSLC	-0.095	0.885		
	SSLC	-1.217	0.042	-0.937	0.006
	Plus 2	-1.660	0.007	-1.460	0.000
	Diploma	-1.437	0.009	-1.213	0.001
	Graduate	-0.316	0.545		
	Post graduate*				
Occupation	Agriculture	0.242	0.736		
	Industry	-0.104	0.872		
	Business	0.484	0.383	0.675	0.021
	Professional	-0.552	0.503		
	Employed	-0.290	0.639		
	Driver	-0.514	0.400		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.557	0.450		
	1-2 lakh	-0.298	0.665		
	2-5 lakh	-0.286	0.643		
	5-10 lakh	-1.663	0.179		
	≥ 10 lakh*				
Type	New	0.041	0.898		
	Old*				
Channel	NBFC	0.403	0.323		
	Markt. execu.	0.434	0.286		
	Dealers	0.519	0.198		
	Broker*				
District	Trivandrum	-0.092	0.779		
	Ernakulam	-0.627	0.065	-0.488	0.069
	Calicut*				
Vehicle	Small car	1.142	0.043		
	Premium car	0.909	0.104		
	Two wheeler	-0.162	0.861		
	Three wheeler	0.786	0.184		
	Comm. car	0.898	0.065		
	LCV	0.550	0.285		
	HCV*				
	R Square	**0.168**		**0.107**	

* Comparison parameter

The results of Multiple Regression analysis of borrowers' suggestion 'on rescheduling of EM'I is represented in Table 5.25. The R square value of first regression model is 0.168 meaning thereby that 16.8 percent of variation in the score of rescheduling of EMI is determined by selected characteristics of the borrower. On elimination of 25 dummy variables the final regression model is reached. That regression model contains five significant independent variables with 'R square of 0.107 which shows that 10.7 percent of variability on mean score of rescheduling of EMI is arrived by these five significant independent variables.

From the table, it is seen that only 5 categories of borrowers are found to be significant on the suggestion of rescheduling of EMI. Considering them education wise they are those with qualification of SSLC, plus two and diploma and they have significance of 0.006, 0.000 and 0.001 respectively. In case of occupation wise analysis, businessmen are significant (0.021) and in case of district, Ernakulam has significance which is 0.069. Age, income, type, channel and vehicle wise analysis shows no significant variation. District wise analysis reveals that Ernakulam district has less suggestion to the 'rescheduling of EMI' compared to other districts (Reg.Coeff. -0.488). Education wise analysis shows that all the three significant category of borrowers have less suggestion on rescheduling of EMI, coefficient of which are -0.937 -1.460 and -1.213 for SSLC, plus two and diploma respectively. The only significant category in occupation wise analysis is business men and is highly suggestive to the rescheduling of EMI (Reg.Coeff. 0.675).

5.2.2.11 Permitting the Sale by Retaining the Loan (Assignment)

Many a times, after purchasing the vehicle the borrower may realise that either he is not in need of the vehicle or not in a position to maintain it. It may not be practicable for him to close the loan at that stage. Customers, in such of the situations, try to sell their vehicle with the permission of financier while retaining the loan. If this is not done, the vehicle is likely to be sold without the consent of the financier and without changing the ownership in the RC book and RTO records. Even if the new buyer gives an undertaking to the seller to clear off the liabilities of the financier, that may not happen as he has no commitment to the financier. If the loan is assigned to the new buyer and the RC ownership is transferred to his name while retaining the financier's lien on executing proper documents, the borrower will have a commitment to the financier which is legally binding. Assignment shall be a good tool at such situations. Transparency among the seller, buyer and financier is highly essential for the success of such assignment and prompt payment thereafter. If properly handled, it shall be a win-win situation for all three parties.

The results of Multiple Regression analysis of borrowers' suggestion on 'permitting the sale by retaining the loan' is displayed in table 5.26 with corresponding R square value. The R square value of first regression model is 0.273, indicating that 27.3 percent of variation in score of 'permitting the sale by retaining the loan' is arrived by selected characteristics of borrower. Eighteen dummy variables are eliminated to reach the final regression model. That regression model contains 12 significant independent variables with an R square of 0.248. This shows that 24.8 percent of variability on mean score of permitting the sale by retaining the loan is determined by these 12 significant independent variables.

Table 5.26 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Permitting the Sale by Retaining the Loan (assignment) with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	2.337	0.000	2.440	0.000
Age (yrs)	< 30	-1.431	0.009	-1.423	0.001
	30–39	-0.521	0.225	-0.586	0.072
	40-49	0.144	0.687		
	≥ 50*				
Education	Below SSLC	-0.490	0.440		
	SSLC	-0.491	0.400		
	Plus 2	-0.653	0.258		
	Diploma	-0.107	0.846		
	Graduate	0.029	0.954		
	Post graduate*				
Occupation	Agriculture	0.102	0.895		
	Industry	-0.144	0.828		
	Business	0.121	0.838		
	Professional	0.083	0.920		
	Employed	0.161	0.802		
	Driver	0.506	0.438		
	Transp. operator*				
Income (Rs)	< 1 lakh	1.899	0.007	2.285	0.000
	1-2 lakh	0.975	0.129	1.310	0.018
	2-5 lakh	0.764	0.188	1.097	0.021
	5-10 lakh	-0.806	0.369		
	≥ 10 lakh*				
Type	New	0.829	0.011	-0.933	0.001
	Old*				
Channel	NBFC	0.311	0.446		
	Markt. execu.	-0.407	0.289	-0.531	0.093
	Dealers	-0.968	0.012	-1.111	0.000
	Broker*				
District	Trivandrum	0.226	0.497		
	Ernakulam	-0.481	0.136	-0.572	0.030
	Calicut*				
Vehicle	Small car	0.768	0.167		
	Premium car	0.820	0.139	0.695	0.079
	Two wheeler	0.635	0.402		
	Three wheeler	0.048	0.931		
	Comm. car	-0.527	0.283	-0.752	0.048
	LCV	-1.441	0.004	-1.796	0.000
	HCV*				
	R Square	**0.273**		**0.248**	

* Comparison parameter

From the table, it is seen that 12 categories of borrowers are found to be significant on the suggestion of 'permitting the sale by retaining the loan'. Education and occupation wise analysis shows no significant variation. Following characteristics of borrowers have lesser suggestion on the said parameters like age below 30, age between 30 and 39, and on type wise new, channel wise marketing executive and dealers and district wise Ernakulam. There are three significant categories of borrowers on vehicle wise analysis that is of premium car, commercial car and LCV. Interestingly the premium car borrowers positively contribute to the suggestion whereas commercial car and LCV borrowers make contributions less to the suggestion of assignment compared to other category of vehicle borrowers.

From the table, it is seen that three significant categories of borrowers those within the income below 1 lakh, between 1 and 2 lakh, between 2 and 5 lakh contribute greatly to the suggestion of permitting the sale of vehicle by retaining the loan which have a regression coefficient of 2.285, 1.310 and 1.097 respectively.

5.2.2.12 Avoidance of Loading Extra Interest

While giving holidays and rescheduling EMI, financiers have a tendency of loading extra interest on supplementary loan, rescheduling EMI and on assignment to others. This is one of the reason why the borrowers do not inform the financiers about the true picture. Financiers even try to charge the rate of interest of used vehicle at each stage which is much higher. If the financier continue to charge the normal interest, at each stage the above activity will be more appreciable and that has been mentioned here in as avoidance of loading extra interest.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on avoidance of loading extra interest is represented in table 5.27 The R square value of first regression model is 0.237 which shows that 23.7 percent of variation in score of 'avoidance of loading extra interest' is arrived by selected characteristics of borrower. After eliminating 26 dummy variables the final regression model is obtained. That regression model contains 4 significant independent variables with an R square of 0.139 which indicates that 13.9 percent of variability on mean score of avoidance of loading extra interest is determined by these four significant independent variables.

From the table, it is seen that only four categories of borrowers are found to be significant on suggestion of avoidance of loading extra interest. In case of age, occupation, income, channel and district wise analysis there is no significant variation. It is also interesting to see that all the four significant characteristics are positive on the suggestion of avoidance of loading extra interest. These are on vehicle wise analysis, two wheeler and small car, type wise new and education wise below the qualification of SSLC. The new vehicle borrowers are significant to the suggestion of 'avoidance of loading extra interest' and are also positive. On education wise analysis, significance is seen only with those below SSLC borrowers who support the suggestion of avoidance of extra interest.

Table 5.27 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Avoidance of Loading Extra Interest with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	**Sig.**	**Coeff.**	**Sig.**
	(Constant)	1.855	0.000	1.528	0.000
Age (yrs)	< 30	-1.309	0.132		
	30–39	-0.578	0.425		
	40-49	-0.996	0.082		
	≥ 50*				
Education	Below SSLC	1.516	0.140	0.989	0.055
	SSLC	-0.129	0.896		
	Plus 2	0.513	0.616		
	Diploma	0.211	0.811		
	Graduate	0.562	0.492		
	Post graduate*				
Occupation	Agriculture	-1.174	0.309		
	Industry	-0.765	0.413		
	Business	0.136	0.869		
	Professional	-1.989	0.162		
	Employed	0.111	0.905		
	Driver	-0.359	0.672		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.106	0.924		
	1-2 lakh	-0.198	0.843		
	2-5 lakh	0.158	0.862		
	5-10 lakh	-2.002	0.183		
	≥ 10 lakh*				
Type	New	1.132	0.033	1.135	0.003
	Old*				
Channel	NBFC	-0.243	0.724		
	Markt. execu.	-0.205	0.761		
	Dealers	0.320	0.662		
	Broker*				
District	Trivandrum	-0.108	0.827		
	Ernakulam	-0.073	0.885		
	Calicut*				
Vehicle	Small car	1.417	0.154	1.249	0.063
	Premium car	0.752	0.434		
	Two wheeler	2.661	0.084	2.138	0.040
	Three wheeler	0.680	0.474		
	Comm. car	0.641	0.385		
	LCV	0.356	0.676		
	HCV*				
	R Square	**0.237**		**0.139**	

* Comparison parameter

5.2.2.13 Interest Calculation on Simple Interest Mode

In the vehicle finance, as an industry practice, interest calculation is done on a flat rate. This is an easy form of arriving EMI and for understanding the calculations. But, it also has a defect that the interest is charged for the entire period of loan for the full amount irrespective of the fact that part of principal is paid off every month. As interest rates for NBFC vehicle finance is higher than the usual bank rate, borrowers have a perception that flat rates are complicated and more costly. Of course, it is costly at the time of preclosing, not due to flat rate calculation but for the non allowance of full rebate for the early closing or the interest reduction for the left out period. There are different perceptions of flat rate and diminishing rate calculations.

The results of Multiple Regression analysis of borrowers' suggestion on Interest calculation (simple interest) is displayed in table 5.28. The R square value of first regression model is 0.161 which indicates that 16.1 percent of variation in score of Interest calculation is determined by selected characteristics of borrower. On eliminating 20 dummy variables the final regression model is arrived. That regression model contains 10 significant independent variables with R square of 0.115 which means that 11.5 percent of variability on mean score of Interest calculation is determined by these 10 significant independent variables.

Table 5.28 Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Interest Calculation (Diminishing Balance Mode) with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	5.253	0.000	4.952	0.000
Age (yrs)	< 30	0.335	0.483		
	30–39	0.504	0.159		
	40-49	-0.084	0.766		
	≥ 50*				
Education	Below SSLC	-0.311	0.565		
	SSLC	-0.256	0.593		
	Plus 2	0.763	0.132	0.828	0.009
	Diploma	0.213	0.633		
	Graduate	-0.288	0.483		
	Post graduate*				
Occupation	Agriculture	-0.499	0.409		
	Industry	-0.711	0.177		
	Business	-0.406	0.384		
	Professional	-0.819	0.202		
	Employed	-0.068	0.896		
	Driver	-0.513	0.323		
	Transp. operator*				
Income (Rs)	< 1 lakh	-0.448	0.443		
	1-2 lakh	0.073	0.891		
	2-5 lakh	0.823	0.084	0.704	0.007
	5-10 lakh	0.926	0.186		
	≥ 10 lakh*				
Type	New	0.515	0.049	0.452	0.046
	Old*				
Channel	NBFC	-0.807	0.018	-0.593	0.025
	Markt. execu.	-0.454	0.181		
	Dealers	-0.132	0.677		
	Broker*				
District	Trivandrum	0.445	0.093		
	Ernakulam	0.292	0.280		
	Calicut*				
Vehicle	Small car	1.161	0.008	1.221	0.001
	Premium car	1.802	0.000	1.763	0.000
	Two wheeler	1.469	0.022	1.561	0.004
	Three wheeler	1.394	0.003	1.230	0.003
	Comm. car	1.460	0.000	1.577	0.000
	LCV	1.290	0.003	1.207	0.002
	HCV*				
	R Square	0.161		0.115	

* Comparison parameter

From the table, it is seen that 10 categories of borrowers are found to be significant on suggestion of interest calculation. Age, occupation and district wise analysis show no significant variation. It is seen that on channel wise analysis borrowers approaching NBFCs directly are significant to the suggestion and they are the only less contributors to the suggestion on interest calculation (Reg.Coeff. -0.593). New vehicle borrower, with an income limit of 2 to 5 lakh income borrower, and borrowers who have qualified plus two are significant to the suggestion and are positive with high regression coefficients. In the category of vehicle wise analysis, all the 6 categories of vehicle borrowers are significant to the suggestion as well as they are positive with high regression coefficient.

5.2.2.14 Limiting the Instalments to 10 per year

Usually vehicle loans are taken for a period of 5 years or even beyond. Repayments are by monthly equated instalments without any holiday at any of the intervening stages. During this period of 60 months there is likelihood that the earning or refunding capacity of borrowers is disturbed at least once a while, even for the most financially disciplined borrowers. On such occasions the borrower has to arrange funds from alternate sources for repayment or otherwise default the instalments. There are suggestions to limit the monthly instalments by 10 per year against 12 months, to get a breather for the borrowers in off seasons or similar situations.

Table 5.29: Multiple Regression Analysis by Backward Selection Method of Borrower Opinion on Limiting the Instalments to 10 per year with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	5.098	0.006	4.801	0.000
Age (yrs)	< 30	-1.273	0.136		
	30–39	-1.548	0.019	-1.089	0.027
	40-49	-0.336	0.503		
	≥ 50*				
Education	Below SSLC	-0.057	0.950		
	SSLC	0.092	0.910		
	Plus 2	0.494	0.581		
	Diploma	0.443	0.568		
	Graduate	0.319	0.639		
	Post graduate*				
Occupation	Agriculture	-0.045	0.961		
	Industry	-0.278	0.732		
	Business	0.261	0.727		
	Professional	0.424	0.711		
	Employed	0.491	0.579		
	Driver	-0.448	0.609		
	Transp. operator*				
Income (Rs)	< 1 lakh	0.023	0.982		
	1-2 lakh	-1.529	0.120	-1.541	0.011
	2-5 lakh	-1.053	0.210	-1.095	0.018
	5-10 lakh	-2.859	0.060	-2.547	0.055
	≥ 10 lakh*				
Type	New	1.033	0.020	0.957	0.010
	Old*				
Channel	NBFC	-1.147	0.045		
	Markt. execu.	-0.802	0.172		
	Dealers	-0.884	0.103		
	Broker*				
District	Trivandrum	-0.194	0.683		
	Ernakulam	-0.769	0.095	-0.775	0.036
	Calicut*				
Vehicle	Small car	0.732	0.309		
	Premium car	0.515	0.511		
	Two wheeler	2.060	0.063		
	Three wheeler	0.679	0.363		
	Comm. car	0.764	0.239		
	LCV	0.005	0.995		
	HCV*				
	R Square	**0.165**		**0.096**	

* Comparison parameter

The results of Multiple Regression analysis of borrowers' suggestion on limiting the instalments to 10 per year is represented in table 5.29. The R square value of first regression model is 0.165 meaning thereby that 16.5 percent of variations in score of limiting the instalments to 10 per year is determined by selected characteristics of borrower. After eliminating 24 dummy variables the final regression model is arrived. That regression model contains 6 significant independent variables with R square of 0.096 which means that 9.6 percent of variability on mean score of limiting the instalments to 10 per year is determined by these 6 significant independent variables.

From the table, it is seen that six categories of borrowers are found to be significant on suggestion of limiting the instalments. Education, occupation, channel and category of vehicle wise analysis show no significant variation. It is found that on type of vehicle wise analysis new vehicle borrowers are significant to the suggestion and they are the only positive contributor to the suggestion of limiting the instalments (Reg.coeff. 0.957; Sig. 0.010). In case of age wise analysis, borrowers of age group between 30 and 39 are found to be significant to the suggestion and made lesser contributions to the suggestion in comparison to the other age group of borrowers (Reg.coeff. -1.089; Sig. 0.027). Similar is the situation in the district wise analysis and the borrowers of Ernakulam are found to be significant and contributed less to the suggestion compared to the borrowers of other district with their regression coefficient of -0.775 and significance level of 0.036. Income wise analysis show that borrowers of all the 3 income groups between 1 and 2 lakh, 2 and 5 lakh and 5 and 10 lakh are significant to the suggestion and contributed less to the suggestion of limiting the number of instalments to 10 compared to the other income group of borrowers.

5.2.2.15 Reducing of Early Closing Load

There is a practice for the financiers to load the borrowers with extra burden particularly when they are preclosing the loan. This is easily done because of the flat rate of calculation as borrowers may not understand the rebate calculation concepts. Due to this, respondents have suggested on the need to reduce the preclosing interest load.

The results of first and last steps of Multiple Regression analysis of borrowers' suggestion on Reducing of early closing load is represented in table 5.30. The R square value of first regression model is 0.120 which means that 12.0 percent of variation in score of reducing of early closing load is determined by selected characteristics of borrower. After eliminating 25 dummy variables the final regression model is obtained. That regression model contains 5 significant independent variables with an R square of 0.086 which means that 8.6 percent of variability on mean score of reducing of early closing the load is determined by these 5 significant independent variables.

From the table, it is seen that 5 categories of borrowers are found to be significant on suggestion of reducing of early closing load. Taking the case of age, education, income, type, channel and district there is no significant variation. It is interesting to see that on occupation wise analysis borrowers of professionals is found to be significant and they are also found to be positive to the suggestion (Reg.coeff. 1.070; Sig.level 0.032).

Table 5.30 Coefficient of Multiple Regression by Backward Selection Method of Borrower Opinion on Reducing of Early Closing Load with Selected Characteristics

Characteristics		First Step		Last Step	
		Coeff.	Sig.	Coeff.	Sig.
	(Constant)	3.989	0.000	4.479	0.000
Age (yrs)	<30	-0.261	0.692		
	30–39	-0.172	0.717		
	40-49	-0.068	0.856		
	≥ 50*				
Education	Below SSLC	0.745	0.285		
	SSLC	0.203	0.748		
	Plus 2	0.471	0.463		
	Diploma	0.726	0.203		
	Graduate	0.623	0.230		
	Post graduate*				
Occupation	Agriculture	0.062	0.936		
	Industry	0.210	0.762		
	Business	-0.157	0.802		
	Professional	1.154	0.178	1.070	0.032
	Employed	0.325	0.637		
	Driver	0.765	0.265		
	Transp. operator*				
Income (Rs)	< 1 lakh	-1.383	0.068		
	1-2 lakh	-0.396	0.578		
	2-5 lakh	-0.526	0.396		
	5-10 lakh	-0.335	0.719		
	≥ 10 lakh*				
Type	New	0.423	0.207		
	Old*				
Channel	NBFC	0.028	0.951		
	Markt. execu.	0.510	0.241		
	Dealers	0.130	0.753		
	Broker*				
District	Trivandrum	-0.112	0.749		
	Ernakulam	0.168	0.628		
	Calicut*				
Vehicle	Small car	1.565	0.006	1.512	0.000
	Premium car	0.213	0.735		
	Two wheeler	2.530	0.003	2.474	0.000
	Three wheeler	1.022	0.093	0.912	0.024
	Comm. car	1.117	0.033	1.211	0.003
	LCV	0.070	0.904		
	HCV*				
	R Square	**0.120**		**0.086**	

* Comparison parameter

From the analysis, it is seen that small car borrowers, two wheeler borrowers, three wheeler borrowers and commercial car borrowers from the category of vehicle are found to be significant with a significance level of 0.000, 0.000, 0.024 and 0.003 respectively. It is worth noting that all the 4 significant borrowers from this category are positive to the suggestion of reducing of early closing load with regression coefficient of 1.152, 2.474, 0.912 and 1.211 respectively.

5.5 Conclusion

Analysis of this chapter concentrated on the attracting aspects of borrowers to NBFC as well as the suggestions from respondents for the better management of receivables of NBFC. In the attracting aspect, preference of respondents was taken as to how they were attracted to avail loan from NBFC in spite of their higher interest rate compared to banks. Similarly, suggestions were taken from them on the better management of the NBFCs including the receivable management in vehicle finance based on the long experience some of the borrowers had. Opinion of two other categories of respondents- the dealer intermediaries and NBFC officials were also taken to test the reliability of these opinions. Very interesting findings have come out of the regression analysis made on both these aspects. Different types of borrowers- classified according to the vehicles and their socio-economic status- had different reasons and suggestions and that are arrived through. This could be useful both for academic and for industry purposes.

Chapter 6

Conclusions and Suggestions

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6.1 Introduction

In the absence of entry barrier or regulatory restrictions, Non Banking Financial Companies frantically grew and accessed the public deposit without any regulatory control. The deposit of NBFCs grew from Rs. 41.9 crore in 1971 to 53116.0 crore in 1997. This growth was the result of a combined effect of increase in the number of NBFCs and increase in the amount of deposits. The deposits amazed as above was invested in various assets especially that in motor vehicles by these asset financing NBFCs. Various tactics were adopted by these NBFCs and their agents for recovering the receivable outstanding from such assets. Both central government and RBI were concerned about the protection of depositors' interest and various committees were set up to frame a comprehensive regulation for the functioning of these NBFCs.

Meantime, non banking finance industry had a very big jolt in 1998 with the introduction of Prudential Norms by RBI based on reports of various committees. This arrested the mushroom growth of NBFCs and shaked out large number of erring NBFCs because of the drastic change of a no regulation situation to an over regulation situation.

To cope up with the regulatory requirements, drastic recovery mechanisms were adopted by NBFCs which resulted in for the criticism against the recovery tactics adopted by financiers and their agents by various Courts and Media. Definitely there were problems and those were mainly related to managing their assets. Asset quality needs to be maintained as standard assets and this can possibly be done only by properly managing the receivables.

From secondary data, it is seen that the number of deposit taking NBFCs declined from 784 in June 2002 to 376 in March 2008 and that of their deposits from Rs. 13571 crore in 1998 to Rs. 2042 crore in 2007. Probably this is in tune with regulators intention to take away NBFCs from their access to public deposit. Further, it is also seen that not only the quantum of deposit but also their ratio with respect to scheduled commercial bank is falling. It is interesting that the net NPA of NBFCs have drastically come down from 9.5 percent in 1998 to 0.4 percent in 2007 which is a good trend. However, it is worth to analyse the total outstanding arrears and write offs of each year to get a better picture.

From the analysis of consolidated financial results of NBFC-AFC-D published for the year 2005-06 and 2006-07, it is seen that following ratios have fallen, in comparison to total assets. Income from 12.2 to 12.0 percent and net profit has come down from 1.5 to 1.2 percent. The expenditure has gone up from 9.9 to 10.0 percent and operating expenditure from 2.5 to 2.6 percent. All these trend show that there is something alarming for NBFC-AFC-D which are on the vehicle financing and the definite solution is better management of receivables.

6.2 Receivable Issues

Identification of issues and problems in management of receivable in vehicle financing NBFC is the general objective of the present research. The specific objective of the study is examination of the existing credit appraisal criteria and mechanism, the practice of documentation, repaying habits of borrowers and collection policies and practices. The study also analyses the features and tries to identify the ways and means for better management of receivable.

Though general hypothesis of the study is that there exist issues and problems in the management of receivable in vehicle financing NBFCs, other presumptions are that the existing credit appraisal criteria and mechanism are inadequate, the practice of documentation is improper, the quality of the repaying habits of the borrowers turn to be unfavourable, the collection policies and practices are inefficient in NBFCs.

The study is empirical as well as analytical in nature. Both quantitative and qualitative techniques are adopted at different stages of the study. The study used both primary and secondary sources for data. The sources of secondary data are various publications, Reports, Journals, Text Books, Statistics based on Economic Survey, RBI monthly and annual bulletins (1999 to 2007), Hand Book of Statistics on Indian Economy published by RBI, RBI web site (www.rbi.org.in) and RBI Trend and Analysis various issues from 1999 to 2007 Primary data are collected from three different sources namely, borrowers, dealer intermediaries and managers of NBFCs from the State of Kerala using multi-stage sampling technique. The size of the samples of borrowers, dealer-intermediaries and managers are 390, 60 and 30 respectively. Based on this seven categories of vehicle borrowed and on the type of vehicle ie., new and used the borrowers are further sub sampled.

Characteristics wise analysis of the borrowers reveals that the highest percentage belong to the age group between 40 and 49 years, except in the case of two wheeler borrowers where the highest percentage is seen among the younger age group of below 30 years. About 90 percent of borrowers are males. The highest percentage of borrowers has income between Rs. 2 to 5 lakhs. The service profile of NBFCs indicates that 76.7 percent of them finance for both private and commercial categories of vehicle while 20 percent for commercial vehicles alone. The remaining 3.3 percent of NBFCs finance exclusively for private vehicles.

For better functioning of the NBFCs, the aspects of credit appraisal, documentation, borrower habits and collection policy of NBFC needs to assume greater importance. The document is to be reckoned with, in case of clarification or dispute and it assumes importance in effective receivable management. Credit appraisal ascertains the borrower quality and the selection of customer in the NBFCs. The ability of borrower in refunding the loan is verified by the financier to make sure of successful collection through the process of credit appraisal. Documentation involves of the terms and conditions of the transactions and the relationship between the financier and the borrower. For a better receivable management, both the parties have to understand the terms and conditions recorded in the agreement. Borrower habits are vital in discharging the obligation of refunding and are crucial for the smooth functioning of loan transactions. The collection policy is another important element which determines the very existence of the NBFCs. Implementation of the collection policy needs to be versatile enough to account for the lapses in the credit appraisal, documentation process and the negative repaying habits of borrowers.

6.3 Profile of Receivable Management in NBFC

Credit appraisal

In credit appraisal criteria, maximum importance is given to asset value, bank operations and track record. Asset of borrowers as well as guarantors are considered as the criteria of credit appraisal. The least considered is the criterion of expenses saved. In all other criteria, there is difference of opinion among borrowers, dealer-intermediaries and managers which questions the authenticity of the reported consideration of those criteria. All the respondents have common opinion on the submission of original record for the verification of asset of borrower and guarantor and family expenses. Their views differ in every other criterion. The maximum difference of opinion exists between borrower and intermediaries followed by borrower and NBFC.

The views of borrowers, intermediaries and financiers display wide variation regarding the negatives while granting credit to those borrowers from certain area, class and assets. Non consideration of negatives in financing is a major cause of increasing arrears. It is seen from the analysis that if the percentage of funding of new vehicle is greater than 80 percent, arrears are higher. This highlights the phenomenon that higher the funding, higher the arrear.

The study proves that a good percentage of borrowers are unaware about the rate of interest at which they are borrowing and it is also proved that arrears percentage of such borrowers are much higher in comparison to others who knew the rate of interest. It is proved that if the criteria of checking the past track records of borrowers at the time of credit appraisal are not considered, chances of increasing arrears of such borrowers are higher.

From the analysis, it is seen that if the criteria of verifying the details of past bank operations of borrowers at the time of credit appraisal is not considered, the chances of increasing arrears of such borrowers are much higher. Analysis also proves that if the social status of the borrowers at the time of credit appraisal is not considered chances of increasing arrears of such borrowers are higher.

All these irregularities in credit appraisal mechanism strongly support the hypothesis that existing credit appraisal criteria and mechanism are inadequate.

Documentation

The aspect of documentation covers information about collateral securities, documentation practice, effect of documentations on arrears, issuing of post dated cheque, place of initial payment and time of lien creation. It also incorporates the mode of repayment and the easiness in documentation. This study shows that the borrowers who have given collateral security have higher percentage of arrears. It also indicates that the executions of documents are at the convenience of customers at their premises and the majority of them are not in the presence of NBFC managers.

Arrears seem to be higher for those borrowers who were not identified at the time of documentation. Borrowers to whom EMI calculations and arrears percentage are not explained seem to have higher percentage of arrears. Arrears, NPA and write off of those NBFC branches are higher where borrowers are not provided with a copy of agreement. Among the borrowers who issues PDCs, only 20.87 percent are aware of the content of the cheques and the others either submit blank cheques or written cheques without knowing its content.

It is also seen from the analysis that the least percentage of arrears are for those borrowers who have made the down payment at NBFC branch directly. The initial payment made through brokers often results in an increase in arrears due to their manipulations. In 64.81 percent cases of used vehicle finance, funding is released prior to creation of lien in the RC book of the vehicle.

Repayment through issuing of post dated cheques is not strictly implemented as it suits the needs of the borrowers. However, this increases the officials' burden of the receivable management in NBFCs. The study also shows that when the borrowers are not properly identified, their arrears, NPA and write off are found to be higher. The gaps seen in documentation process strongly support the hypothesis that the current practice of documentation is improper.

Borrower Habits

It is found that arrears are higher to the borrowers who do not appraise themselves of their paying capacity prior to taking the loan. It is seen that 15.13 percent of borrowers are unaware of the rate of interest at which they borrowed and their arrears are much higher in comparison to others. The study proves that 92.56 percent of vehicle finance transactions take place through flat mode of interest calculation.

Borrowers who issue blank PDCs ranges from 16.67 percent in LCV to 66.67 percent in two wheeler. Less than 50 percent of borrowers note down the contents of the cheque issued by them. Arrears are found to be greater for borrowers who fail to note down the contents of the PDCs issued by them. Further, the arrears of those borrowers who do not remit the first instalment in time are much higher than who remit it in time. This study points out that the borrowers who repay promptly constitute only 59.2 percent. The opinion of the NBFCs officials is that about 3 percent of borrowers borrow with the fraudulent intention of not refunding the loan.

It is seen from the study that about 30 percent of borrowers does not close their account within the tenure of their loan period. About 6 percent of borrowers do not close the loan account in the natural process of business. About same percentage of borrowers are found to preclose the loan transactions mainly because of having sufficient money or due to some disputes. It is found that about 26 percent of borrowers are unsatisfied with the dealings of NBFCs and even among the satisfied borrowers only 15 percent are interested in continuing business with NBFCs. It is also seen that a sizeable percentage of borrowers are aware of the recovery tactics of NBFCs, action on cheque bouncing, action on repossession of vehicles and criminal procedure on recovery related matters.

From the study, it is seen that about 50 percent of borrowers are making payment without any effort from NBFCs, 6.7 percent default the very first instalment and average cheque return is about 20 percent. Hardly 7 percent of them only contact financiers by making alternate arrangements and it is seen that even a sizeable percentage of cheques of alternate payment made are getting bounced. About 3 percent of borrowers does not pay even a single instalment and 12 percent does not pay even 25 percent of loan availed by them. This proves that there are problems in the repaying habits of borrowers and is supportive of the hypothesis that repaying habits of borrowers are not satisfactory.

Collection Policy

The study shows that only 5 percent of financiers are intimating borrowers prior to presentation of cheque, 20.26 once in a while and 74.74 does not even give any intimation. It is seen that non intimation of presentation of cheque increases number of cheques return and consequently increases the arrear level of NBFC. Further it is seen that there are sizable number of accounts where repayment schedules are not given to borrowers and it is proved that non receipt of repayment schedule by borrowers increases the arrears position of NBFC.

The study also shows that only about 31 percent of borrowers are getting acknowledgement for the PDCs issued by them when it is realised. This makes the borrowers ignorant about the clearance of their cheque until and unless they reconcile with their pass book. Thus the advantage of getting an indirect reminder for arranging funds for the subsequent payments is also lost by this lacuna in collection policy. The study also reveals that in about 25 percent cases action by financiers start only on subsequent month in case of cheque return. Percentage of assets surrendering out of chronic defaulting account is only 6 which puts constrain on NBFC to recover through repossession of assets. It is also found that support from police and court orders are obtained only for very rare cases for the repossession of vehicle. Steps taken prior to and after repossession are not found to be satisfactory. Criminal activities connected to repossession are also on a higher percentage.

Among the various modes of disposal of repossessed vehicle, sale of the vehicle at branch level seems to fetch the highest price of about 75 percent in comparison to market price on such vehicles. Auction by agent and sale by head office seems to fetch much lower prices. Even on the best mode of sale there is a loss of about 25 percent of price on repossessed vehicle. It is also found that there are various problems connected with the repossession of vehicle, the highest being quarrel in office (90 percent) followed by removal of extra fittings and false claim of money.

On the analysis of collection policy based on the opinion of NBFC, it is seen that collection incentives to employees have the highest impact on reducing the arrears followed by some concessional approach. Collection outsourcing, not sending repayment schedule, unnecessary sympathy of employees, false field report, too much of litigation through court, etc. have found to increase the arrears in NBFC. On the analysis of NPA position, it is seen that highest impact on increase in NPA is due to not sending of the repayment schedule followed by not sending letters or making phone calls and the unnecessary sympathy of employees to the borrowers.

From the study, it is seen that there is lacuna in implementation of collection policy. The highest among them is due to unnecessary sympathy by finance company officials followed by false asset verification report, lack of reminder letters and phone calls, false field report and not handing over of repayment schedule. These disparities prove to have greater impact on recovery process which in turn increases the arrears in NBFCs. It also proves the hypothesis that the current collection policies and practices of NBFCs are insufficient.

Arrears

The least arrears are found to be among borrowers of small car (8.94 percent) and the highest arrear is seen in the two wheeler borrowers (16.68 percent). But the analysis between different categories of vehicle shows no significant difference in the arrear level. Similarly there is no significant difference in the arrears of new and used vehicle and in private and commercial vehicles. The district wise analysis shows that the highest arrear is in Trivandrum district followed by Calicut and Ernakulum. The overall arrear percentage is 12.55 percent.

From the respondents of NBFCs, it is seen that average loan outstanding per NBFC branch is Rs. 13.81 crore. Average arrears percentage according to NBFC branches prior to finalisation adjustment is seen to be 14.27 percent. This is very much in consonance with the opinion of borrowers on their arrears ie., 12.55 percent. It is seen that average NPA percent of NBFC branches are 8.25. This is seen to be prior to finalisation and provisioning and write off. This is not in tune with the reported NPA percentage of NBFCs in RBI Trend and Analysis meaning thereby that there are various adjustments taking place between the independent branch NPAs prior to finalisation, and in the overall NPA percentage of the company on the finalisation.

It is seen that average write off percentage per branch with respect to outstanding loans is 3.27 percent which is quite high. It is interesting to see that average collection per annum from write off amount is 50.83 percent. This suggests that in many cases, write off is done on the accounts where collection is possible by employing more efforts and time. It seems that gravity of write off percentage is nullified to certain extent by at least 50 percent collection out of it in the subsequent year and is helpful in maintaining the profitability and survival of NBFCs. It is also revealed that average vehicle repossessing per branch per year, money suits per branch per annum and Section 138 complaints (cases of cheque return) per branch per annum is about 45, 22 and 95 numbers respectively. Virtually, the above facts highlights on the need for improved receivable management mechanism to reduce arrears percentage and other related problems.

6.4 Determinants of Arrear

To get a comprehensive knowledge on the determinants of arrears, multiple regression analysis was done on total sample and separately for private/commercial, new/used and the seven categories of vehicles. The analysis shows that the capacity of the borrower, identification of borrower, information prior to cheque presentation and verification of social status have very high impact in reducing the arrears whereas issue of blank cheques, delayed payment and returning of cheques have impact on increasing the arrears. In case of private vehicle, it is seen that verification of asset value, earning of other members and EMI calculations have very high impact on reducing the arrears. Issuing of blank cheques, delay in payment of first instalment, more number of delayed payment, etc. have impact on increasing the arrears.

In case of commercial vehicle information prior to cheque presentation has the highest impact in the reducing of arrears followed by EMI calculations. Number of delayed payment has the impact on increasing the arrears. In case of new vehicles, verification of asset value seems to have highest impact in reducing the arrears followed by EMI calculation. Issuing of blank cheques have the highest impact on rise in the arrears followed by delayed first instalment. In case of used vehicle, information prior to cheque presentation has highest impact in reducing the arrears.

Category of vehicle wise analysis shows that in the case of small car, other repayments verification have highest impact in reducing the arrears and increased number of delayed payment have the impact on increase in arrears. In case of premium cars, proper EMI calculation has the highest impact on reducing the arrears. For two wheeler borrowers, highest impact in reducing the arrears is the verification of asset of the guarantor followed by neighbourhood enquiry. Delayed first instalment followed by cheque bouncing has highest impact on increasing the arrears.

In case of three wheeler borrowers, verification of bank operations has the highest impact on reducing the arrears and in case of commercial vehicle highest impact on reducing the arrears is on verification of capacity of borrower to repay. In case of LCV, highest impact on reducing the arrear is seen on calculating the relationship of EMI to monthly income, but in case of HCV, the highest impact on reducing the arrears is on cheque bouncing followed by neighbourhood enquiry. It is quite interesting to see that other repayments have a positive impact on the increasing arrears probably due to the reason of increasing the burden when more borrowings are made.

6.5 Borrower Attraction to NBFC

Rate of interest is not the only factor in attracting customers to NBFC. Vehicle financing of NBFCs do not have a level playing ground and in fact, they are competing with their unequal counterpart- the banking companies. However, there is good number of borrowers attracted to NBFCs and many of them even repeat business with NBFCs. To measure the aspects of attraction, the opinion of borrowers, intermediaries and officials on the attractions to NBFC is taken. The features included are speedy processing, customer service, personal relations, expertise in vehicle finance, flexibility, better marketing, dealer routes and banking procedure.

The maximum score of opinion on the aspects of borrower attraction to NBFC is expertise in vehicle finance followed by dealer routes and personal relations. The least scores are for better customer service followed by banking procedure and flexibility. The opinions of borrowers, intermediaries and officials are found to differ in the cases of personal relations, dealer routes and banking procedure. The score of borrowers in personal relations is higher indicating that borrowers pay more importance to personal relationships than intermediaries and officials. The score of intermediaries on dealer routes is higher indicating that they pay more importance to dealer routes than borrowers and officials. The score of NBFC officials on banking procedure is higher indicating that they pay more importance to banking procedure than borrowers and intermediaries.

On evaluation, it is seen that expertise in vehicle finance is the most attractive element of NBFCs from the point of view of borrowers. The borrowers give the second rank to the ability of speedy processing of loan transactions of NBFCs. Flexibility in the financing norms is the next important attraction of NBFCs. It is interesting to note that the customer service provided by the NBFCs is the least attracting element of its contact. The banking procedure and better marketing are found to be less attractive.

Speedy processing is found to attract the borrowers of middle aged group (between 30 and 39) with education of plus two level. Borrowers having plus two education is less attractive to the speedy of processing compared to borrowers in other educational categories. In the case of occupation, agriculturists and businessmen are found to be less attractive to the speed of processing of NBFCs in comparison with borrowers of other occupation. As far as district is concerned, borrowers from Trivandrum and Erankulam are less attracted to the speed of processing of NBFCs compared to borrowers from Calicut. Among the three districts, borrowers of Trivandrum are least attracted to the speed of the processing of NBFCs. Borrowers approaching NBFC for loan for small car, two wheeler and three wheeler loans are found to be more attractive on speedy processing than borrowers who approach NBFC for other category of vehicle loans.

The quality of customer service of the NBFCs is least attracted by borrowers belonging to the income group between 5 and 10 lakh. The results also indicate that compared to the other category, borrowers of commercial car are less attractive. At the same time the borrowers reaching through broker channel has the highest attraction to customer service than those approaching NBFCs directly. Borrowers' age, education, type vehicle and district do not have significant impact on the attraction of customer service of the NBFCs.

Analysis on attraction to personal relationship shows that borrowers with qualification of plus two are found to be attracted more to personal relationships of NBFCs. Business men and those with an income between 5 and 10 lakh are also found to be more attracted to personal relations in the NBFCs. Borrowers of Ernakulam district show significant attraction to personal relationship. It is also found that borrowers approaching NBFC for small car loan are found to be attracted more by personal relationships than borrowers who approach NBFC for other category of vehicle loan. Similarly, business men who approach NBFC for vehicle loan are more attracted to them because of personal relationships in comparison to borrowers of other occupation. In district wise analysis, it seen that borrowers of Ernakulam district are less attracted to personal relationship of NBFCs compared to borrowers from Calicut and Trivandrum.

On the expertise of vehicle finance in NBFC, commercial car borrowers have the highest attraction compared to other category of vehicle borrowers. It is also seen from the analysis that small car borrowers are found to be significantly attracted to the aspect of expertise of NBFCs in vehicle financing. Borrowers having plus 2 qualification and borrowers of commercial car borrowers are more attracted to NBFC because of their expertise in vehicle financing.

An analysis of attracting aspect of flexibility points out that borrowers belonging to income group of 2 to 5 lakh are significantly attracted to the flexibility of procedure of NBFCs. The highest attraction is seen among the borrowers belonging to age group between 30 and 39. It is also seen that borrowers of small car are least attracted to the aspect of flexibility followed by commercial car, three wheeler and LCV. Borrower belonging to the income group between 2 and 5 lakh is highly attracted to NBFC because of their flexibility.

Considering the aspects of marketing of NBFCs, borrowers belonging to age group of less than 30 years are found to be more attracted to the marketing strategies of NBFCs. It is also found that borrowers with SSLC qualification and those approaching NBFCs through dealers are also found to be significantly attracted to the marketing tactics of NBFCs. Borrowers of premium cars, two wheelers and LCV have recorded significant attraction in this respect. Similarly income wise analysis shows that borrowers with income below 1 lakh, between 1 and 2 lakh and between 2 and 5 lakh have significant attraction to the better marketing. In case of occupation, it is seen that industrialists are highly attracted to the aspect of better marketing whereas business men and drivers are less attracted to the same aspect. Vehicle wise analysis shows that borrowers of premium car are highly attracted to better marketing. This analysis also indicates that better marketing tactics of NBFCs are highly useful in attracting borrowers.

Taking the case of dealer routes, vehicle wise analysis shows that small car borrowers are significantly attracted to it. Age wise analysis shows that all the borrowers belonging to age groups less than 30, between 30 and 39 and between 40 and 49 years are significantly attracted to dealers routing. Borrowers arrived through channel of marketing executive are significantly attracted to the characteristic of dealer routes. It is also seen that small car borrowers who approach NBFC for loan are highly attracted to NBFC compared to all other category of vehicles because of dealer routing.

The borrowers belonging to the age group between 40 and 49 are attracted more to banking procedures. It is also found that borrowers of new vehicles with an income between 1 and 2 lakh are attracted to NBFC because they want to avoid tough procedures in banks. It is seen that borrowers directly coming to NBFCs are attracted to them because of the difficulty to pass through the evaluation process of banks. It is found that borrowers of LCV and premium car are attracted to NBFC due to difficult banking procedures. It further reveals that borrowers of SSLC and plus two qualifications are attracted to NBFC because of the difficult credit evaluation process in banks. All these indicate that the NBFC business thrives mainly because of the restrictions and difficulties involved in banking procedures related to loan.

From the attracting aspects, it is seen that borrowers with various profiles have different reasons for being drawn to NBFC. The study points out that NBFCs can take informed decisions as to borrowers' profile, the aspect that tempts them and the type of vehicle to which they are attracted. NBFCs do specialise in financing different category of vehicles and such finance companies can take decisions concerning the features necessary to draw the borrowers.

6.6 Borrower Suggestions to NBFC

Borrowers being the target market of NBFC, their specific suggestions to them are an inevitable prerequisite for its efficient functioning. In order to get the best suggestions for the development of NBFC and for better receivable management various suggestions of all the three respondents- borrower, intermediary and NBFC, were taken.

Most important suggestions of NBFC officials were on reduced percentage of funding, need to avoid mediators, proper follow up, better relationship and limiting the instalments to 10 per year compared to other two groups of respondents- intermediary and borrowers. Most important suggestions of borrowers compared to intermediaries and NBFCs were on reduced EMI, prompt payment rebate, interest calculation and reduced early closing load. Similarly, intermediaries had higher suggestions on structured payment, holidays on eventualities, supplementary loan to overcome problems, rescheduling EMI, permitting sale while retaining loan and avoidance of loading extra interest compared to the other respondents of NBFC and borrowers.

Suggestions from borrowers are ranked on its importance of the suggestion and it is seen that the most important suggestion given by borrowers is on mode of simple interest calculation followed by reduction in preclosing loan, holidays on eventualities, and on proper follow up. It is seen that strong suggestion has come from industrialists and employees on the aspect of reduced percentage of funding. Similarly commercial car borrowers also have greater suggestion on this aspect.

Borrowers of age group below 30, employed borrowers, borrowers of three wheelers and LCV and that of Ernakulam district are quite significant to the suggestion of reduced EMI. On the suggestion of avoiding mediators, borrowers below the age of 30, borrowers from Trivandrum district and borrowers coming through the channel of dealers have significance. They are highly in favour of avoiding mediators in NBFCs vehicle loan transactions.

On the suggestion of proper follow up, borrowers with qualification of SSLC, those accessed through the channel of marketing executive and dealers, borrowers of Ernakulam district and from the category of vehicle wise borrowers small car, two wheeler, three wheeler, commercial car and LCV have suggested for proper follow up to enable them to maintain repayment well within the time frame. Those who were in favour of the suggestion of maintaining better relationship between financier and client for the smooth and effective management of receivables in NBFCs are borrowers below 30's, small car borrowers, and borrowers coming through the channel of marketing executives. This indicates that better relationship with their clients during the entire period of loan is necessary for NBFCs rather than meeting them when they defaults.

Those who have found to be interested in the suggestion of providing prompt payment rebate to motivate the borrowers for timely repayment are borrowers of two wheeler, commercial car, LCV, premium car, three wheeler and small car. It is seen that both the three wheeler and commercial car borrowers are the only most interested category on the suggestion of structured payment. The borrowers below the age of 30, borrowers who have and have not passed SSLC, new vehicle borrowers and borrowers of Trivandrum district are very much interested in the suggestion of holidays whenever they are confronted with eventualities.

Supplementary loan to overcome problems is an important suggestion from business men, professionals and borrowers below 1 lakh income. It is also seen that borrowers reaching through the channel of dealers and premium car borrowers prefer this suggestion. The most important among those who suggests the rescheduling of EMI is business men and NBFCs need to take care of this suggestion whenever they are confronted with problems. Borrowers below 1 lakh, between 1 and 2 lakh and between 2 and 5 lakh income groups suggests for the permission of sale of vehicle while retaining loan (assignment) whenever situation necessitates. NBFCs need to consider such suggestion in selective cases.

Suggestions have come from borrowers of two wheeler, small car, new car and borrowers below SSLC on avoidance of loading extra interest. They expect it whenever rescheduling, assignment or similar type of services is provided to the borrowers. It is seen that a variety of borrowers are suggestive and are interested in changing the mode of interest calculation from the current running flat rate to the more popular simple interest calculation. The borrowers of new vehicle, from income group of 2 to 5 lakh, those with plus two qualification, small car, premium car, two wheeler, three wheeler, commercial car and LCV suggests simple interest calculation. This suggestion shows that almost every borrower prefers simple interest in vehicle financing of NBFCs.

It is interesting to see that the only positive suggestion that came in favour of limiting the instalments to 10 per year was from new vehicle borrowers. Rest of the other significant categories of borrowers had only lesser suggestions. The suggestion of reducing of early closing load have come from professionals, borrowers of small car, two wheeler, three wheeler and commercial car. NBFCs are to take special note of the suggestion to reduce preclosing load as all the significant contributors positively supporting to this suggestion.

6.7 SUGGESTIONS BASED ON FINDINGS

The following are the suggestions emerged from the findings of the study for better receivable management in NBFCs with special reference to vehicle financing.

Interest rates at which finance availed are not fully clear to the borrowers. There is a practice of quoting low rate and then applying it in flat which amounts to a higher rate of interest than understood by the borrower. It is suggested there should be more transparency in dealing with the borrowers and the interest rate calculation. A sizeable percentage of borrowers prefer simple interest calculation in vehicle financing of NBFCs.

The mode of disposal of repossessed vehicle needs to be totally decentralised to branches for getting better price. The policy and procedure on sale of vehicle need to be as simple as possible, as more and more stringent procedures will delay sale and reduce accountability of employees, resulting in substantial loss in sale value. Branches need to be given full freedom with certain clear cut authority with proper accountability and loyalty.

A very high percentage of used vehicle lien creation is after release of finance. This creates tension among the NBFC officials because of the uphill task of getting the lien created thereafter. It is suggested that all NBFCs strictly adhere to the norm of creation of financier's lien in RC records prior to the release of payment.

Relationship between NBFCs and vehicle dealers seems to have jeopardised due to the increased competition and entry of comparatively less experienced banking companies into vehicle finance. There should be improved healthy relationship between dealers and NBFCs and better transparency in dealings like acceptance of down payment, delivery of correct variant of vehicle, providing proof of lien creation in RC and of course timely payment by NBFC for the benefit of both NBFCs and vehicle dealers.

It is suggested to discontinue the practice of temporary registration of vehicles even for those addressees whose permanent residence is out side the jurisdiction of initial registering authority. There can be straight away permanent registration in all cases and subsequent reporting to concerned RTOs. There need to be a lobbying by NBFC and vehicle dealers associations to make amendments in the provisions of the Motor Vehicle Act.

The proper understanding of EMI calculation at the time of documentation is found to substantially decrease the arrears and hence NBFCs have to improve in making aware of EMI calculation for their borrowers for reducing the arrears.

There should be more emphasis to the felt need of borrowers to record and keep the contents of the PDC issued by them for reference. Lack of the minimum of such inevitable information increases the arrears.

PDCs are collected in NBFCs (on many instances) with oral understanding that it will not be presented and borrower can make monthly remittances. Such understanding against credit norms, merely for sanctioning the proposal should be stopped. Discussion between borrower and financier should be in tune with the true spirit of credit norms and loan proposals.

The NBFCs assert cent percent existence of negatives in financing such as negative area, negative class and negative asset. But the prevalence of negatives is contradictory according to the dealer, intermediaries and the borrowers. So, the NBFCs should be prudent enough in fixing negatives and its implementation.

When few of the cheques are consecutively returned, NBFCs stop further cheque presentations without alternate arrangement for payment. This induces the chronic defaulting borrowers to have an easy ride over the financier. It is suggested that PDC presentation and action on cheque return may be stopped only after arriving at an alternate arrangement for recovery, which may include repossession of asset, termination of contract and other legal recourses.

Credit appraisal mechanism is seen as a dramatic exercise rather than extracting valuable information during the process of marketing, credit appraisal and documentation. It is suggested that vital information apart from routine credit appraisal should be gathered during the interaction with clients and that is to be utilised for the purpose of sanction as well as recovery.

The evaluation of borrowers' previous bank operations and ascertaining of their social status have significant bearing in reducing the arrears. Hence it is suggested that NBFCs need to take utmost care and proper evaluation on the aspects of banking operations as well as on the enquiry of social status as a measure for better receivable management.

Verification of copy of supporting papers with original is seen to be a futile exercise. If verification with original is found difficult, it is suggested that a self attested copy with verification by borrower may be taken. This will have greater legal validity than verification by NBFC officials themselves.

Prompt payment customers are encouraged to borrow more and more by NBFCs which converts them to defaulters due to their repayment burden as seen in the case of HCV. It is suggested that customers should be restricted from over borrowing and past track record need not be over emphasized until and unless their other repayment commitments are fully exhausted.

It is suggested to limit the advance to 80 percentage of asset value in new vehicle finance as more problems are seen in higher funding accounts. At least 20 percent of stake is necessary even for those customers who have very high paying capacity.

The negative aspects which contributed to the increase in arrears are first instalment delay, number of cheques returned and number of delayed payments. NBFCs have to reduce the occurrence of above mentioned arrear increasing aspects.

Borrowers need to be made aware of the advantage and need for the timely payment of instalment (including that of first EMI) and written repayment schedule is to be issued to all borrowers at the right time as these factors can reduce the arrears substantially.

NBFC officials are to be specifically trained on initial field investigation and recovery works. A screened, trained, in-house team is far better than commission agents.

Verifying the credit rating through the data base of credit agencies like CIBIL and additional investigation on high value loans through private detective agencies shall also be useful for better appraisal of borrowers.

Recovery works by lawful means by NBFC officials should be tightened as arrears, NPA and write off increase due to the unnecessary sympathy and lapses from the part of NBFC officials.

Borrower intimation of the presentation of PDC held by NBFC is an inevitable prerequisite as it helps to reduce the arrears substantially. In an advanced technological era, NBFCs should use effective ways to intimate the borrowers on reducing the arrears.

Action taken on cheque return and first EMI delay is to be systematised as improper handling of these aspects lead to an increase in arrears.

Interest load on preclosing of vehicle loan accounts should be reduced by NBFCs as this is one of the most important suggestion of the borrower. If implemented, it shall increase the satisfaction of borrowers and in turn provide more chances for repeat business.

Another suggestion is to reduce the dependence on mediators for marketing, recovery and repossession of NBFCs to improve upon their recovery which in turn business, profitability and image. During the interaction with NBFC officials, it is seen that quality of their men are not up to a satisfactory level. It is suggested to build a cadre of NBFC services at least through a specialised organisation, jointly sponsored by NBFCs.

The weakness seen in collection policy which contributed to the increase in arrears and write offs is repossession and recovery through outsourcing mode. Similarly, the strength of collection policy which contributed to the decrease in arrears are availing police support as and when required, introduction of collection incentives and encouraging concessional settlements. NBFCs have to reduce the occurrence of write offs increasing aspects and strengthen the write off decreasing aspects of collection policy for reduction of write offs.

NBFCs need to strengthen their attracting aspects based on the suggestion by borrowers to improve their business on their core area. Special emphasis need to be given on attracting aspects like (i) expertise in vehicle finance, (ii) speedy processing, and (iii) flexibility. It is very pertinent to note that the above suggestions of attraction have the unanimity among all the three categories of respondents ie., borrowers, dealer intermediaries and NBFCs and hence NBFCs need to take special care on it.

Similarly the NBFC needs to take special care on implementing high ranked suggestions like simple interest calculation, preclosing load, holidays on eventuality, proper follow up, rescheduling in genuine cases and providing supplementary loan on problems.

From the ranking of arrears of various vehicles, it is seen that two wheelers have the highest arrears and small car the lowest. Based on this ranking, recovery tactics of NBFC need to be modified to handle different category of vehicle borrowers differently to bring down the arrears.

Lapses in implementation of collection policy like unnecessary sympathy, false field report, not rendering repayment schedule and lacuna in sending letters and phone calls are seen. It is suggested that the implementation of that part of the collection policy need to be tightened to decrease arrears, non performing assets and write offs.

It is seen from the study that more than 50 percent of bad debt write offs are recovered in the subsequent year. This shows that these write offs were premature to a certain extent. Probably this is done to merely project a lower NPA, to postpone the incidence of payment of corporate tax and also to project a glossy picture on arrears and NPA. If retained in the book of account, collection will be substantial in subsequent year because of vigorous efforts in reducing NPAs which reduce the bad debt write off as well as improve the profitability. The accountability and the recovery efforts of NBFC officials will be improved and strengthened and they will not wait for dumping the NPA in to the bad debt write off ditch. Until and unless this is implemented the profitability percentage of NBFC may continue to go down year after year as already seen in the reported consolidated figures of NBFC-AFC-D in RBI report on Trend and Analysis, 2006-07 It is suggested that NBFC auditors (Institute of Chartered Accountants of India), credit rating agencies and income tax authorities may recommend to RBI to amend the prudential norms, that there shall not be any excess write offs by NBFCs beyond the provisions of prudential norms.

6.8 Limitations

1. Problems related to high handedness of recovery men are not studied.

2. Arrears, NPAs and write offs are taken in percentage and not in actual rupee due to its confidentiality.

3. Even though the number of NBFCs and their deposits are available for the period from 1971 to 2007, the advances, arrears and NPAs figures are not available for the period from 1971 to 1997 for comparison.

6.9 Scope for Further Study

1. To study the effect of judicial pronouncements on the recovery/receivable management of NBFCs.

2. To study how far the wide media coverage on high handedness of recovery men affects the recovery and receivable management of NBFCs.

3. A sponsored study by associations of NBFCs may be conducted
   (i) to find as to how far the high attrition rate of employees badly hits the credit appraisal, documentation and implementation of collection policies and to what extent it contribute for the increase in arrears and problems for receivable management.
   (ii) to arrive at a standard and liberalised credit appraisal norm in the light of the prevailing competition in vehicle financing.
   (iii) to find reasons for low percentage of repeat business in NBFC even from the satisfied customers.

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ABBREVIATIONS

A/P	- Accounts Payable
A/R	- Accounts Receivable
ARC	- Asset Reconstruction Company
BIFR	- Bureau for Industrial and Financial Reconstruction
CD ratio	- Credit to Deposit Ratio
CIBIL	- Credit Information Bureau of India Limited
CRAR	- Capital to Risk Asset Ratio
DICGC	- Deposit Insurance Credit Guarantee Corporation
DMA	– Distributed Multi-agent System
DRT	- Debt Recovery Tribunal
ECB	- Economic Commercial Borrowing
ECS	- Electronic Clearing System
EMI	- Equated Monthly Installments
FB	– Foreign Bank
FI	– Financial Institutions
GIC	- General Insurance Corporation
HCV	– Heavy Commercial Vehicle
IBA	- Indian Banks Association
ICD	- Inter Corporate Deposit
IDBI	- Industrial Development Bank of India
IFCI	– Industrial Finance Corporation of India
IIBF	- Indian Institute of Banking and Finance
LCV	– Light Commercial Vehicle
LIC	- Life Insurance Corporation of India
MF	– Mutual Fund

MFI	- Microfinance Institution
MIS	– Management Information System
NABARD	–National Bank for Agriculture and Rural Development
NBFC	- Non Banking Finance Corporation
NBFI	- Non Banking Financial Intermediaries
NHB	– National Housing Bank
NOF	- Net Owned Fund
NPA	- Non Performing Assets
NPB	– New Private Bank
OPB	– Old Private Sector Bank
PDC	- Post Dated Cheque
PSB	– Public Sector Bank
RA	- Recovery Assistant
RBI	- Reserve Bank of India
RC	- Registration Certificate
RCM	- Receivables and Collection Managements
RNBFC	- Residuary Non Banking Finance Companies
RTA	– Road Transport Authority
RTO	- Road Transport Officer
SRO	- Self Regulatory Organisation
SCB	- Scheduled Commercial Bank
SFC	- State Finance Corporation
SIDBI	- Small Industries Development Bank of India
SIDCO	- Small Industries Development Corporation
TFCI	- Tourism Financial Corporation of India
UTI	- Unit Trust of India

Annexure

Serial No.

RECEIVABLE MANAGEMENT IN NON BANKING FINANCE COMPANIES

The survey is carried out as a part of the study on
"Receivable Management in Non Banking Finance Companies"
Information collected through this survey will be used only for
research purpose and not for any other purpose.

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Interview Schedule for Borrowers

Part I. Identification Details

1 Name of the District [ ]

2 Urban area [ ]

3 Rural area [ ]

4 Age [ ] 1 = Less than 30 yrs., 2 = 30-39; 3 = 40-49, 4 =50-59, 5= 60+ yrs.

5 Sex [ ] 1 = Male, 2 = Female

6 Education [ ] 1 = Below SSLC, 2 = SSLC, 3 = Plus Two, 4 = Diploma, 5 = Graduation, 6 = Post graduation

7 Occupation [ ] 1 = Agriculture/Estate owner, 2 = Industrialist, 3 = Business man, 4 = Professional, 5 = Employee, 6 = Driver, 7 = Transport operator

8 Annual Family Income [ ] 1 = Upto Rs.50 000 2= 50 000- 1 lakh, 3 = 1-2 lakh, 4 = 2-5 lakh, 5 = 5-10 lakh, 6 = 10-20 lakh, 7 = above Rs. 20 lakh

9 Categories and types of vehicles got financed by you so far (Mention numbers wherever applicable)

Category	Private			Commercial			
	Small Car	Premium Car	Two Wheeler	Three Wheeler	Comm. Car	LCV	HCV
New							
Old							

10 Do your NBFCs observe the following (1 = Yes, 2 = No)

Negative areas [ ]
Negative classes [ ]
Negative assets [ ]

Small cars include all cars upto 1100 cc like*. Premium cars include all cars above 1100 cc and above. LCV includes vehicles up to Swaraj Mazda, DCM Toyota, Eicher etc. both Passenger and Goods. HCV includes vehicles above that. Jeeps and other vehicles like SUVs are included in Commercial Car category.
*M 800, Alto, Zen, Omni Wagnor Santro, Indica, Matiz, Ambassidor, Premier Padmini

Part II. Details of Received Finance

Describe the position of oldest running account

11	Which is the vehicle of above account?	1 = Small Cars, 2 = Premium Cars, 3 = 2 Wheeler, 4 = 3 Wheeler, 5 = Commercial Cars, 6 = LCV, 7 = HCV
12	1 = New, 2 = Used	
13	Year of manufacturing of the asset?	
14	At what age you have received the finance?	
15	Percentage of loan received % of invoice value (new vehicles) % of market value (used vehicles)	
16	Channel of finance?	1 = Directly from NBFC 2 = Through Marketing Executive of NBFC 3 = Through Dealer 4 = Through Broker
17	Tenure of loan (months)	1 = 72m, 2 = 60m, 3 = 48m, 4 = 36m, 5 = 24m and below
18	Percentage of Interest	1= Not known;2= known
19	Mode of interest calculation	1 = Flat, 2= Diminishing
20	No. of installments: Over Paid	Like 36 Over, 32 Paid etc.
21	What is the mode of repayment?	1 = Post dated cheque 2 = Regular payment by cheque 3 = Regular payment by cash at counter 4 = Payment through other branch 5 = Cash collection at your premises
22	Do you get proper monthly receipt for your PDCs	1 = Yes, 2 = No
23	How many times you failed to pay the installments on time?	

Part III. Credit Appraisal Criteria

24 Which of the following criteria were examined to give you financing by NBFC?

No.	Criteria	Is the criteria considered?	Nature of document submitted for verification
		1 = Yes 2 = No	1 = Original 2 = Copy
1	Percentage of asset value financed		
2	Income generated out of asset borrowed		
3	Other conveyance expenses saved on owning this		
4	Financial/asset backing of borrower		
5	Financial/asset backing of guarantor/co-obligant		
6	Paying capacity of borrower		
7	Additional income in case of salaried people		
8	Other earning members in the family		
9	Verification of other encumbrances/commitment/expenses		
10	Average family expenses with respect to income of borrower and family		
11	Relationship between net worth of borrower and amount to be financed		
12	Past track record of borrowers		
13	Details of bank operations		
14	Other loan repayments		
15	Cheque returns details through pass books		
16	Neighborhood enquiry on personnel habits and financial discipline		
17	Social status of customer		
18	EMI in percentage term to the monthly income		
19	Remittances from children		
20	Other income from unsolicited sources		
21	Verify identity		

* For verification

Part IV. Details of Documentation Practices

25 Did you give any collateral securities for your loan? (tick wherever applicable) ☐ 1 = Yes; 2 = No

26 Did the NBFC exercise any of the following? (1 = Yes, 2 = No)

a) Pre-printed agreement format ☐

b) Identifying you and guarantors at the time of documentation with an identity proof ☐

c) Explain interest/EMI calculations in detail to you ☐

d) Reading out the terms and conditions to you ☐

e) Your signature was made in NBFC office? ☐

f) If not in their office, was it in the presence of their manager? ☐

g) Did the NBFC give a copy of agreement to you? ☐

27 Have you been calculative on your capacity to pay the EMI amount? ☐

28 Did you noted down the details of post dated cheques on counterfoil? ☐

29 Was your post dated cheques issued in blank? ☐

30 Where was the down payment / first installment paid? ☐
1 = At NBFC branch,
2 = With NBFC staff,
3 = With vehicle dealer,
4 = With dealer executive,
5 = With broker/mediator

31 In case of used vehicle, when lien was created? ☐
1 = Before release of loan,
2 = After release of loan,
3 = No lien at all RC with borrower
4 = No lien at all RC with financer

32 Do NBFC practice the following (1 = Yes, 2 = No)
Intimating payments details, due dates and repayment schedule to you ☐

Part V. Details of Collection Policies

33	Did you fail to make the first installment on time?		1 = Yes, 2 = No
34	How many of your cheques so far returned?		Nil, 1, 2, 3........
35	Upon bounce, what did you do?		1 = I did not know, 2 = Kept quiet, 3 = Inform the financer and took time, 4 = Arranged payment
36	Upon bounce, what the financer do?		1 = Ask to pay through telephone 2 = Send notice, 3 = Visit by representatives 4 = Threatening by phone, 5 = Cheque case 6 = Threatening by person
37	Do the NBFC inform you prior to cheque presentation/ due date?		1 = Sometimes, 2 = No, 3 = Always
38	Has NBFC ever re-possessed assets on earlier occasions with any of your known men?		1 = Yes, 2 = No
39	Have any of your known men willingly surrender the vehicle earlier		1 = Yes, 2 = No
40	Had there been any circumstances your known people had to respond to goondas sent by NBFC?		1 = Yes, 2 = No
41	How did they react on repossession of assets?		1 = Kept quite, 2 = Approached for settlement, 3 = Filed theft compliant with police, 4 = Threatened and reacted with Co. officials
42	Have they ever come across with any criminal activities on repossession?		1 = Yes, 2 = No

Part VI. Views and Suggestions

43	What attracted you to avail finance from this particular NBFC? (Tick applicable columns) Mention in the order of preference by numbering in the column		1 = Speedy processing, 2 = Better customer service, 3 = Personal relationships, 4 = Expert in vehicle finance, 5 = More flexibility, 6 = Better marketing, 7 = Dealers routes to NBFCs because of tie up 8 =Banking procedures are tough
44	How far you are satisfied with your financier?		1 = Very dissatisfied, 2 = Dissatisfied, 3 = OK, 4 = Satisfied, 5 = Very satisfied
45	Would you again avail finance from the same financier?		1 = Yes, 2 = No, 3 = Don't know

56 What are your suggestions for better management of receivables?
(Mention your order of preference in column)

- Percentage of funding
- Lower EMI
- Avoid mediators
- Proper follow up
- Better relationship
- Prompt payment rebate
- Structured payment
- Holidays on eventualities
- Supplementary loans to overcome problems
- Rescheduling the EMI
- Permitting sale of vehicle by retaining loans (assignment)
- Avoid loading extra interest
- Interest calculation (diminishing balance mode)
- Number of installments to be 10 per year
- Preclosing interest load to be reduced

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Interview Schedule for Intermediaries

Part I. Identification Details

1 Name of the District

2 Name of the dealer in case of new vehicle

3 Make of the vehicle

4 Name of the intermediary in case of used vehicle

5 No. of NBFCs with you are associated?

6 Categories and types of vehicles dealing by you

Category	Private			Commercial			
	Small Cars	Premium Cars	Two Wheeler	Three Wheeler	Cars	LCV	HCV
New							
Old			---				

7 Do your NBFCs observe the following (1 = Yes, 2 = No)

Negative area

Negative classes

Negative assets

8 Up to how many year old vehicle do your NBFCs finance in case of used ?(average)
Like 7,10.... years etc

9 What is the upper age limit for your NBFC borrowers? (average)

Small cars include all cars upto 1100 cc like * Premium cars include all cars above 1100 cc and above. LCV includes vehicles up to Swaraj Mazda, DCM Toyota, Eicher etc. both Passenger and Goods. HCV includes vehicles above that. Jeeps and other vehicles like SUVs are included in Commercial Car category.
*M 800,Alto ,Zen,Omni Wagnor Santro, Indica,matiz,Ambassidor,Premier padmini

Part II. Credit Appraisal Criteria

10. Do you consider the following as credit appraisal criteria by your NBFCs?

No.	Criteria	Is the criteria considered?	Nature of document Required?*
		1 = Yes 2 = No	1 = Original 2 = Copy
1	Percentage of asset value financed		
2	Income generated out of asset borrowed in case of commercial vehicles		
3	Other conveyance expenses saved in case of private vehicle		
4	Financial/asset backing of borrower		
5	Financial/asset backing of guarantor/co-obligant		
6	Paying capacity of borrower		
7	Additional income in case of salaried people		
8	Other earning members in the family		
9	Verification of other encumbrances/commitment/expenses		
10	Average family expenses with respect to income of borrower and family		
11	Relationship between net worth of borrower and amount to be financed		
12	Past track record of borrowers		
13	Details of bank operations		
14	Other loan repayments		
15	Cheque returns details through pass books		
16	Neighborhood enquiry on personnel habits and financial discipline		
17	Social status of customer		
18	EMI in percentage term to the monthly income		
19	Remittances from children		
20	Other income from unsolicited sources		
21	Verify identity		

* For verification

Part III. Details of Documentation Practices

11 Percentage of NBFCs who ask for collateral securities? 1= 10% and above, 2= between 5 &10%,3= between 2 & 5% , 4=below 2%, 5= nobody

12 Did your NBFCs practice any of the following? (1=Yes, 2=No) (average)

a) Pre-printed agreement format

b) Identifying borrower and guarantors at the time of documentation with an identity proof

c) Explain interest/EMI calculations in detail to the customer

d) Reading out the terms and conditions to the borrower

e) Borrower's signature is made in NBFC office

f) If not in NBFC office, is it in their presence of their manager?

g) Give a copy of agreement to the customer

13 What percentage of customers is calculative on their capacity to pay the EMI amount? 1=between 100&75%, 2=between 75&50%, 3=between 50&25%, 4=below 25%, 5= nobody

14 What percentage of customers notes down the details of post dated cheques on counterfoil?(Mention in percentage as per question 13 above 1,2,3,4,5,6)

15 What percentage of customers give post dated cheques without specifying the amount on it? (Mention in percentage as per question 13 above 1,2,3,4,5,6)

16 Where is the down payment / first installment paid?(mention in percentage terms against each)

1 = At NBFC branch, 2 = With NBFC staff, 3 = With vehicle dealer, 4 = With dealer executive, 5 = With broker/mediator

17 In case of used vehicle, how do you make sure of creation of lien?(mention in percentage terms)

1 = Before release of loan,
2 = After release of loan,
3 = No lien at all RC with borrower
4 = No lien at all RC with financer

18 Do your NBFCs practice the following (1= Yes, 2 = No)

Do your NBFC intimate payments details, due dates and repayment schedule to clients?

Part IV. Details of Collection Policies

19 What is the mode of repayment?- mention in percentage ☐ 1 = Post Date Cheque, 2 = Regular Payment, 3 = Cash Payment, 4 = Through other Branch

20 In your opinion, what attracts customers to NBFCs even though they charge higher rate of interest in comparison to banks?
(tick applicable columns)
Mention the order of priority most important as one

1 = Speedy processing,
2 = Better customer service,
3 = Personal relationships,
4 =Expert in vehicle finance,
5 = More flexibility,
6 = Better marketing,
7 = Dealers routes to NBFCs because of tie up
8 = Banking procedures are tuff

Part VII. Views and Suggestions

21 What are your suggestions for better management of receivables?
(Mention your order of preference in column)

- Percentage of funding ☐
- Lower EMI ☐
- Avoid mediators ☐
- Proper follow up ☐
- Better relationship ☐
- Prompt payment rebate ☐
- Structured payment ☐
- Holidays on eventualities ☐
- Supplementary loans to overcome problems ☐
- Rescheduling the EMI ☐
- Permitting sale of vehicle by retaining loans (assignment) ☐
- Avoid loading extra interest ☐
- Interest calculation (diminishing balance mode) ☐
- Number of installments to be 10 per year ☐
- Preclosing interest load to be reduced ☐

Serial No:

RECEIVABLE MANAGEMENT IN NON BANKING FINANCE COMPANIES

The survey is carried out as a part of the study on
"Receivable Management in Non Banking Finance Companies"
Information collected through this survey will be used only for
research purpose and not for any other purpose.

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Interview Schedule for NBFCs

Part I. Identification Details

1 Name of the District

2 Name of the NBFC

3 Branch place

4 Urban area

5 Rural area

6 Categories and types of vehicles financed (percentage of financing to the total)

Category	Private			Commercial			
	Small Cars	Premium Cars	Two Wheeler	Three Wheeler	Cars	LCV	HCV
New							
Old			---				

7 Do your NBFCs observe the following (1 = Yes, 2 = No)

Negative area
Negative classes
Negative assets

8 Up to what model (year) do you finance in case of used vehicle?

9 What is the upper age limit for your borrowers?

Small cars include all cars upto 1100 cc like*. Premium cars include all cars above 1100 cc and above. LCV includes vehicles up to Swaraj Mazda, DCM Toyota, Eicher etc. both Passenger and Goods. HCV includes vehicles above that. Jeeps and other vehicles like SUVs are included in Commercial Car category.

*M 800,Alto ,Zen,Omni Wagnor Santro, Indica,matiz,Ambassidor,Premier padmini

Part II. Details of Receivables

10. Details of receivable problem

Mention the information as follows pertaining to your branch

1	Total advances outstanding	Amount (Rs. in crore)	
2	Total arrears to outstanding	%	
3	Total NPA to outstanding	%	
4	Annual bad debt write-off to outstanding	%	
5	Collection out of write off in percentage of previous year's write off (from total written off outstanding)	%	
6	Annual average repossessing/surrendering of vehicles in your branch	Nos.	
7	Average annual money suits filed in your branch	Nos.	
8	Average annual 138 complaints filed in your branch	Nos.	

10a. Please mention the receivable issues on various assets in the order of its gravity of problem in your branch

Categories and types of vehicles

Category	Private			Commercial			
	Small Cars	Premium Cars	Two Wheeler	Three Wheeler	Comm. Cars	LCV	HCV
New							
Old			-------				

Recovery problem of above category to be mentioned against it in the order of its gravity of problem (For example most problematic is 1, next problematic 2 and so on)

Part III. Credit Appraisal Criteria

11. Do you consider the following as credit appraisal criteria?

No.	Criteria	Is the criteria considered?	Nature of document Required?*
		1 = Yes 2 = No	1 = Original 2 = Copy
1	Percentage of asset value financed		
2	Income generated out of asset borrowed in case of commercial vehicles		
3	Other conveyance expenses saved in case of private vehicle		
4	Financial/asset backing of borrower		
5	Financial/asset backing of guarantor/co-obligant		
6	Paying capacity of borrower		
7	Additional income in case of salaried people		
8	Other earning members in the family		
9	Verification of other encumbrances/commitment/expenses		
10	Average family expenses with respect to income of borrower and family		
11	Relationship between net worth of borrower and amount to be financed		
12	Past track record of borrowers		
13	Details of bank operations		
14	Other loan repayments		
15	Cheque returns details through pass books		
16	Neighborhood enquiry on personnel habits and financial discipline		
17	Social status of customer		
18	EMI in percentage term to the monthly income		
19	Remittances from children		
20	Other income from unsolicited sources		
21	Verify identity		

* For verification

Part IV. Details of Documentation Practices

12 What are the types of collateral securities usually taken by company? (Tick applicable) Mention in percentage

	1 = Equitable mortgage in terms of deposit of title deed
	2 = Registered mortgage in Non notified towns
	3 = Lean creation on deposits
	4 = Assignment of LIC policies favoring financiers
	5 = Lean creation on financial instrument like shares, debentures, bonds, mutual funds etc.
	6 = Lien on other vehicles
	7 = Do not insist on collateral security
	8 = Others

13 Do you practice any of the following? (1 = Yes, 2 = No)

a) Pre-printed agreement format

b) Identifying borrower and guarantors at the time of documentation with an identity proof

c) Explain interest/EMI calculations in detail to the customer

d) Reading out the terms and conditions to the borrower

e) Borrower's signature is made in your office

f) If not in your office, is it in your presence?

g) Do you give a copy of agreement to the customer

14 What percentage of customers is calculative on their capacity to pay the EMI amount?

15 What percentage of customers notes down the details of post dated cheques on counterfoil?

16 What percentage of customers give post dated cheques without specifying the amount on it?

17 Where is the down payment / first installment paid? Tick and mention in percentage terms

1 = At NBFC branch,
2 = With NBFC staff,
3 = With vehicle dealer,
4 = With dealer executive,
5 = With broker/mediator

18 In case of used vehicle, when do you make sure of creation of lien? mention in percentage terms

1 = Before release of loan,
2 = After release of loan,
3 = No lien at all RC with borrower
4 = No lien at all RC with financer

19 Do your company intimate payments details, due dates and repayment schedule to clients? 1- Yes, 2- No

Part V. Details of Collection Policies

20	What is the mode of repayment? (Mention in percentage terms)		a = Post Date Cheque, b = Regular cheque payment, c = Cash payment, d = Payment through other branches e = ECS

21 Answers to the following questions may be given in percentages

a) Clients making payments without any collection efforts?	
b) Default on the very first installment of the vehicle account?	
c) Cheques return in terms of number of cheques.	
d) Customers who contact you voluntarily on return of his cheques.	
e) Customers who consents for re-presentation of cheques on follow-up.	
f) Honouring of re-presented cheques on representation.	
g) Customers who do not pay even single installment until and unless re-possessing /legal action is taken.	
h) Customers who do not pay even 25% of their outstanding without repossessing /legal action.	

22	Do your men collect cash in field?		1 = Yes, 2 = No
23	Do you have the collection incentive schemes for employees?		1 = Yes, 2 = No
24	Do you outsource your collection portfolio to outside agency?		1 = Yes, 2 = No
25	Do you inform the client prior to cheque presentation at least the first?		1 = No, 2 = Sometimes, 3 = Always
26	What is the procedure if the first EMI is not paid on due date?		1 = Action starts on 3 default only, 2 = Action starts on subsequent months only, 3 = Telephones /letter/visits are made to pay in the same month
27	Do you re-possess assets?		1 = Yes, 2 = No
28	What percentage of clients willingly surrender the asset?		
29	How do you re-possess the assets?		1 = Using own staff, 2 = By outsourcing
30	Do you get support from police?		1 = Not at all, 2 = Sometimes, 3 = Always
31	Do you obtain court order?		1 = Not at all, 2 = Sometimes, 3 = Always
32	What are the steps taken before repossession of assets? (tick applicable)		1 = No intimation
			2 = Sends letter
			3 = Inform police
			4 = Get Court order
			5 = Give times but immediately repossesses

33	What are the steps taken after repossession of assets? (tick applicable)		1 = Sends telegram 2 = Sends registered letter 3 = Prepares inventory 4 = Inform police 5 = No intimation
34	How do clients react on repossession of assets?(tick applicable) mention in percentage need not tally as 100.		1 = Comes for settlement 2 = Files theft compliant 3 = Keep quiet 4 = Quarrels in office
35	Have you ever come across with some criminal activities on repossession?		1 = No, 2 = Sometimes, 3 = Frequently
36	How will you dispose off the re-possessed vehicle		1 = Sealed quotation, 2 = Auction by office, 3 = Auction by agents, 4 = Negotiate and sale
37	What is the percentage of sale price received in comparison to market		
38	Do you give concessions and make amicable settlement on repossessing		1 = Yes, 2 = No
39	What percentage of repossession was led to litigation?		
40	What are the problems in re-possessing of assets? (tick applicable) Mention in the gravity of problem. most problematic one		1 = Hired men quarrels 2 = Collects money & do not repossess 3 = Extra fittings removed 4 = Misuses the repossessed vehicle 5 = Police criminal complaint 6 = False claim of money & materials 7 = Borrower quarrels in office
41	What are the lacunas in recovery work? Most serious lacuna one and so on		1 = Letter & phone calls not made as per policy 2 = Repayment schedule not send 3 = False field report with out visit 4 = Asset verification report without verifying 5 = Unnecessarily sympathises with client's excuses 6 = Other dishonest behaviour by recovery men

Part VI. Details of Repayment Habits

42 In your opinion, what percentages of customers take loan with the intention of not paying?

43 What is the percentage of promptly paying customers?

44 What percentage of customers pay within the same month even if delayed?

45 What are the reactions of guarantor while contacting for default? (Tick applicable) Tick and mention priority. Highest number one

	1 = Pleads unaware of guaranty
	2 = Pleads he was witness only
	3 = Agrees to persuade borrower
	4 = Guarantor himself pays
	5 = No reaction at all
	6 = Reacts and warns not to contact him

46 What percentage of customers closes the account within the termination date even though they have made arrears in between?

47 What percentage of defaulting customers closes the account within the following periods of termination?

3 months	
6 months	
12 months	
24 months	
Above 24 month	
Does not close	

48 What is the percentage of foreclosing accounts to the total borrowing?

1 = Between 10&20%,
2 = Between 5&10%, 3 = Between 1&5%,
4 = Below 1%

49 What are major reasons for foreclosing of accounts? (tick applicable) Mention in the order of preference. Most important one

	1 = For sale of vehicle
	2 = When additional cash comes in
	3 = To borrow at a lowest interest
	4 = To avail higher amount of loan
	5 = To come out of dispute with others (like guarantor, partner)
	6 = To get rid of the finance headache

50 What percentage of customers are satisfied while closing the account

51 What is the percentage of customers raise complaints at the time of closing

52 What is the percentage of repeat customers?

53 In your opinion, what attracts customers to you even though you charge higher rate of interest in comparison to banks? Mention in the order of attraction. Most important one

	1 = Speedy processing,
	2 = Better customer service,
	3 = Personal relationships,
	4 =Expert in vehicle finance,
	5 = More flexibility,
	6 = Better marketing,
	7 = Dealers routes to NBFCs due to tie up
	8 = Banking procedures are tuff

Part VII. Views and Suggestions

54 What are your suggestions for better management of receivables?
(Mention your order of preference in column)

Percentage of funding	☐
Lower EMI	☐
Avoid mediators	☐
Proper follow up	☐
Better relationship	☐
Prompt payment rebate	☐
Structured payment	☐
Holidays on eventualities	☐
Supplementary loans to overcome problems	☐
Rescheduling the EMI	☐
Permitting sale of vehicle by retaining loans (assignment)	☐
Avoid loading extra interest	☐
Interest calculation (diminishing balance mode)	☐
Number of installments to be 10 per year	☐
Preclosing interest load to be reduced	☐

Thanks for your kind co-operation