The concept of Debt Recovery Management

Banks were never so serious in their efforts to ensure timely recovery and consequent reduction of Non-Performing Assets (NPAs) as they are today. It is important to remember that recovery management, be of fresh loans or old loans, is central to NPA management. This management process needs to start at the loan initiating stage itself. Effective management of recovery and Non-Performing Assets comprise two pronged strategy. First relates to arresting of the defaults and creation of NPA thereof and the second is to handling of loan delinquencies. The tenets of financial sector reforms were revolutionary which created a sense of urgency in the minds of staff of bank and gave them a message that either they perform or perish. The prudential norm has forced the bank to look into the asset quality.

A debt from a loan, credit line or accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt. In accounting, the bad debt recovery would credit the “allowance for bad debts” or “bad debt reserve” categories, and reduce the “accounts receivable” category in the books.

Not all bad debt recoveries are “like-kind” recoveries. For example, a collateralized loan that has been written off may be partially recovered through sale of the collateral. Or, a bank may receive equity in exchange for writing off a loan, which could later result in recovery of the loan and, perhaps, some additional profit.

“Recovery is defined as the process of regaining and saving something lost or in danger of becoming costs.”

Recovery is a key to the stability of the banking sector there should be no hesitation in stating that Indian banks have done a remarkable job in containment of Non-Performing Assets (NPA) considering the over all difficult environment. Recovery management is also linked to the bank’s interest margin’s we must recognize that cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the Indian banks. No doubt, improving recovery management in India is an area requiring expeditions and effective actions in legal institutional and judicial processes. Banks at present experience considerable difficulties in recovering loans and enforcement of securities charged with them. The existing procedure for recovery of debts due to banks has blocked a significant portion of their funds in unproductive assets, the value of which deteriorates with the passage of time.

Why recovery management?

- Bank deserves to be paid for their products and services. The collection professionals in Recovery Management Systems will work to see that.
- Reasonable fees with no up-front costs. They get paid only when it is collect.
- Recovery Management Systems will design a collection strategy to meet bank’s objectives. Bank can recover their debts without losing customers.
- Monthly settlements with meaningful reporting. Status updates on demand.
- Extensive experience obtaining and collecting money judgments in Ohio. Garnishments, liens, and levies Recovery Management Systems will collect when legal action is the only option.
- Cutting edge skip-tracing tools and techniques recovery Management Systems can work 1st, 2nd, and 3rd placements and even turn bank old judgments into money.

**Advantages & Disadvantages of recovery**

**Advantages:**

- The process of assigning debt collection to outsides enables officials from Banks to develop more remunerative new business.
- Third party involvement in debt collection has proven time and again to improve the chances of recovering bank dues as these people are specialists in negotiating with debtors and the result usually speak for themselves;
- A skillfully negotiated debt collection could mean saving on litigation cost.
- The process of assigning debt collection to outsides enables officials of non-Banks. Cost to develop more beneficial new business.

**Disadvantages:**

- Debt collection does cost money;
- The debt collection agency will be establishing a relationship with the banks customers, which could be potentially harmful if they sour that relationship by not dealing with customers in a courteous manner.

**Important points for debt recovery**

On the basis of the foregoing procedure for normal recovery process, we may list below certain Don’ts for the dent recovery, which are as follows:

1) Don’t violate or breach the recovery policy, procedure etc. prescribed by the principal.

2) Don’t exceed the authority given in the recovery arrangement.

3) Don’t make a call to the debtor before 0700 hours or after 2100 hours.

4) Don’t make anonymous calls or bunched calls to the debtor, which may be perceived as harassment.

5) Don’t conceal or misrepresent your identity during calls and visit or other interaction with the debtor.

6) Don’t show uncivil/ indecent/ dirty behavior or use such language during calls and visits to the debtor.
7) Don’t harass/humiliate/intimidate/threaten the debtor-verbally or physically.

8) Don’t intrude into the privacy of the debtor’s family members, friends/coworkers.

9) Don’t disclose the customer’s debts/dues/account information to unauthorized person.

10) Don’t forget that the debtor is a human being and deserves to be treated with fairness and courtesy, despite the fact that he/she is a debtor for the time being.

**Elements of debt recovery**

The agency regarding debt recovery contains the main terms and conditions agreed by the principal (say a bank) and the agent. The main elements of the debt recovery would generally include:

1) Specific tasks to be accomplished e.g. the amount to be recovered from the specified loan accounts in default and the broad time frame.

2) Debt Recovery Policy and Procedure of the bank.

3) Code of conduct in recovery process may include dress code, verbal and written communication rules to be followed by the individuals employed by the agency for the purpose of collection.

4) Duties of the agent.

5) Rights of the agent, including the commissions/fees payable by the principal to the agent/agency for the recovery of debt/other services.

The Debt Recovery Policy and code of conduct in the debt recovery will be regulations compliant, i.e. in accordance with the directives and guidelines of the Reserve Bank of India issued from time to time. If, however these are not incorporated therein, it is advisable for agents to seek clarification from the principal, as compliance with the regulations is mandatory for the banks and also their recovery agents.

The Debt Recovery Agreement between the credit institution and the debt recovery agent/agency serves as the contractual arrangement that is legally binding on both. Such an arrangement, being bank specific may vary from bank to bank in details. The duties of the agent/agency the authority delegated and code of conduct prescribed by the bank in the process of recovery function would to be carefully noted for strict compliance by the agent.