A STUDY OF BANKS’ NON-PERFORMING ASSETS AND PROBLEMS ASSOCIATED WITH ITS RECOVERY IN INDIA

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Abstract:
Banking sector being the pillar of the nation’s growth is facing the serious issue of Non-Performing Assets (NPA) which will adversely affect the profitability and goodwill of the banks. NPA is not a single economy’s problem as many countries in the world face the same but the level of severity differs. However, India’s NPA chart shows an increasing trend in NPA levels for past few years which need an attention. To get a clear insight in NPA levels of Indian banking sector both public and private sector banks are compared. The data required for the study collected through websites, RBI reports, World Bank reports and other secondary data sources too are analysed through charts. The study shows the reasons behind the increase of NPA levels and some measures to reduce the same.

Keywords: NPA, Public Sector, Private Sector Banks, policy reviews.

INTRODUCTION
Banking sector plays a most indispensable role in a country’s economic development by promoting savings, directing funds to needy sectors, controlling fund flows in the economy and ensuring balanced growth of economy through various activities and measures. As banking sector is a pillar of a country, its strength should be evaluated and reinforced regularly. Nowadays, Non-Performing Assets is becoming a major challenge for the growth of banking sector. According to the definition of RBI Non-Performing Assets means assets that stop providing income for the bank. These assets are mostly the credit facility extended by the bank for which the interest amount as well as the principal amount remaining due for more than 90 days from due date. These Non Performing Assets are divided into Sub-Standard assets, Doubtful assets and Loss Assets. Sub Standard assets are those credits which are under NPA list for less than or equal to 18 months whereas in case of Doubtful debts the period exceeds 18 months. Loss assets are uncollectible but have a salvage value. Non Performing Assets arise due to defective lending policies of banks, change in government policies and dynamic transformations of business environment which adversely impact the growth, profit and goodwill of the banking sector.

1.1 Ranking of countries on the basis of NPA Levels
Non-Performing assets is a global issue for banking sectors however the level of severity varies from country to country based on its policies. As per 2017 report of World Bank among 262
countries, 146 countries face NPA risk in which Ukraine holds the first position in NPA with 54.54% of Bank Non-performing loans to gross loans. China holds the last position in NPA ranking with 0.23% of Bank Non-performing loans to gross loans. With reference to the report India holds 37th ranking in Non Performing Assets with 9.975% of Bank Non-performing loans to gross loans.

1.2 NPA in India

The following chart shows NPA levels in India for the past 8 years i.e. from 2010 - 2017

![Chart 1: NPA levels in India](chart.png)

The chart clearly depicts an increasing trend in NPA levels. Moreover, the annual reports 2018 of RBI shows that NPA levels as a percentage of gross NPAs on total loans reached 12.2 percent in March 2018. The estimations related to NPAs levels too are not positive as it is expected that there will be further increase in gross NPA percentage. This situation shows the necessity to review the framework and policies of Indian banking sector. Indian Banking Sector can be divided into public sector and private sector. To have a clear cut view on banking sector of India both public and private sector NPA levels and management needed to be understood.

OBJECTIVES OF THE STUDY

1. To know the NPA levels of Public and Private sector of Indian Banking Sector.
2. To understand the reasons for increase of NPA in Indian Banking Sector.
3. To provide suggestions to reduce Bank’s NPA levels in India.

REVIEW OF LITERATURE

Dr. Raj Kumar Mittal and Ms. Deeksha Suneja (2017) examined “The Problem of Rising Non-performing Assets in Banking Sector in India” and also made a comparative analysis of public and private sector banks” using the secondary data collected from RBI publications,
journals, reports and websites of public and private sector banks in India which was analyzed using graphs and figures. The study revealed that extent of NPA was more in public sector compared to private sector which can be recovered by government policies. The suggestions given was to consider ROI before lending loans and credit worthiness is to be considered.

Chetan Dudhe (2017) analyzed “Impact of Non-Performing Assets on the profitability of Banks” using secondary data such as RBI Bulletins, statistical tables relating to banks in India. The data collected was analysed using correlation and regression techniques. The study concluded that public sector banks are more prone to NPA problems that have adverse effect on their profitability growth. The suggestion to get rid of this trouble is to have a proper credit management which includes activities such as preparation of credit planning, proper credit appraisal, post sanction follow up and need based credit.

Dr. Ujjwal M. Mishra and Jayant R Pawaskar (2017) made a “A Study of Non-Performing Assets and its impact on Banking Sector” that analyzed sector wise NPA, recovery channel and impact of NPA on Indian Banking Sector using secondary data which mainly constitute information from annual reports of banks. The data analysis tools used were ratio analysis, tables and pie diagrams which revealed that bank need to maintain proper credit appraisal system to reduce NPA.

Vivek Rajbahadur Singh (2016) in “A Study of Non-performing Assets of Commercial Banks and it’s recovery in India” aimed to understand the impact of NPA on banks, their recovery channels and suggested some ideas to avoid NPAs in future. The source for the study was secondary data collected from published data of Indian Bank, RBI, various magazines, Journals and books related to banking scenario. The study showed that there was increase in NPA and decrease in profit. The recovery measures for this problem as per the author were the RBI should revise the credit appraisal and monitoring policies.

Ms. Shalini H. S. (2013) conducted “A study on causes and remedies for non performing assets in Indian public sector banks with special reference to agricultural development branch, state bank of Mysore” which attempts to find the causes (variables) of non- performing farmers. Telephone interview was used for data collection and the collected data was analyzed with the statistical tool Chi-square test. The result revealed that various failures in weather condition and resource constraints are the reasons for non performance. Banker can reduce the
non performance by providing return based credit, continuous monitoring and motivating farmers to make timely payment.

RESEARCH METHODOLOGY
The study utilizes secondary data available in the form of RBI annual reports, World Bank data related to the topic, Magazines, Journals and other web sources. The collected data was analyzed using tables, Charts, figures and graphs.

PUBLIC AND PRIVATE SECTOR BANKS IN INDIA
In India, public sector banks came into scenario in 1955 and it’s the period during which the banks got nationalized. The public sector banks are one in which the government hold more than 50% of the stack. Whereas, in case of private sector more than 50% of the stack are held by the private stakeholders holds. First private bank named IndusInd Bank was established in the year 1994 in Mumbai. At present there are totally 41 private sector banks and 21 public sector banks functioning in India. The efficiency of banks are measured by its profitability which is adversely affected by Non-Performing Assets (NPAs). Managing NPAs is becoming a great challenge for banks. However in comparison with public sector, private sector is efficient in managing NPAs which is evident from the following chart based on RBI’s data.

Chart 2: GROSS NPAs OF PUBLIC AND PRIVATE SECTOR

From the above chart it’s clear that as compared to private sector, the public sector is more prone to NPA risks. Revising NPA management policies and techniques by public sector will help to get rid of NPA risks.
REASONS FOR ENHANCED NPA LEVELS

I. From loan sanctioning point of view

1. Reasons in pre-sanction phase
   - Lack of skilled or trained professionals in analysing and choosing the borrower.
   - Selecting projects by banks for funding without proper scrutiny or with biased scrutiny of credit worthiness of the entrepreneur, future scope for the project, uncertainties involved in the project, technical, legal and environmental viability of the project.
   - Insufficient value of security or bogus security attached to the loan
   - Acceptance of Impractical repayment schedules by the borrower showing off exaggerated returns.

2. Reasons in post-sanction phase
   - Lack of proper follow up of borrower by the bank.
   - Defaults due to risks or uncertainties in business
   - Lack of understanding of borrowers’ problems and non-availability of proper support by banks in case of rehabilitation and restructuring.
   - Failure to choose proper third party to disburse loans and monitor borrowers.
   - Want of finding wilful defaulters on time
   - Banker not getting proper cooperation from the borrower
   - Non-availability of manpower for carrying out efficient recovery process

3. Other reasons
   - Delay in getting proper assistance to carry out legal proceedings.
   - Lack of proper policies in tackling bad loans.
   - Frequent transfer of recovery officers by banks.
   - Lack of decentralised system to make immediate decisions relating to bad loans.

IMPACT OF NPA

- Reduction in the profitability of banks
- Lack of availability of funds to lend in future
- Fixation of high interest rates to recover from losses and maintain profit margin
- Downfall in the return provided to shareholders
- Pressure to judiciary to solve the NPA cases immediately
- Lack of balance in the financial position of the country.
SUGGESTIONS

- Regular follow up of the borrowers
- Appointing skilful personnel to analyse the projects before sanctioning funds.
- Training bank professionals in choosing right projects for lending and recovering the loans.
- Setting practical repayment schedules.
- Proper scrutiny and analysis of security attached to the loan.
- Strengthening the legal assistance required by banks and reducing the legal procedures in recovering loans.
- Motivating bank employees by providing incentives or bonus or promotion measures based on recovery of bad loans
- Analysing countries with sound recovery mechanisms and with low NPA levels
- Rendering great care in choosing proper third party to disburse and monitor loans

CONCLUSION

Indian Banking sector once strength of the nation is facing a downfall due to lack of care in lending activities. The bank’s lending systems and recovery mechanisms need to be revised and improved which is a step by step process. Though immediate recovery of banking sector is not possible, it is expected to recover from increasing NPA levels in the long run.

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