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A STUDY ON NON-PERFORMING ASSETS

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Abstract

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sector. Non- performing assets (NPA)is one of the major concerns for banks in India. NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. A high level of NPAs suggests that large number of credit defaults that affect that affect the profitability and net worth of banks. The public sector banks have shown very good performance over the private sector banks as far as the financial operations are concerned. However the position of public sector banks is not so good in the area of Non-performing assets (NPAs) as compared to private sector banks. In this paper made an attempt to analyses how efficiently the selected public and private sector banks managed their NPAs.

Introduction

Meaning of NPA

Reserve bank of India (RBI) defines NPA as: An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank. A 'non-performing asset' (NPA)is identified as a credit facility in respect of which the interest and/or instalment of principle has remained 'past due' for a specified period of time (90 days, march 31, 2004 onwards).

Financial sector plays an indispensable role in the overall development of a country. Both public and private sector banks play an important role in economic development of the country. The primary function of banks is mobilizing deposits from surplus units to deficit units in the form of loan and advances to various sectors such as agricultural, industry, personal and governments at affordable interest rates. Lending by the banking sector is generally encouraged because it has the more effect of funds being transferred from the system to productive purposes. However process of lending also carries a risk called credit risk, which arises from the failure of borrower. Non-performing assets refers to loans that are in risk of default. The level of non-performing loans is recognised as a critical indicator for assessing banks credit risk, asset quality and efficiency in allocation of resources to productive sectors in particular, banks have made substantial progress in cleaning up the NPAs from their balance sheets.

Significance of the study

The present study attempts to analyse the non performing assets of public and private sector bank in India. NPAs reflects the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. Similar to any other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it possess. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled

Types of NPA

- Overdraft and cash credit (OD/CC) accounts left out-of-order for more than 90 days
- Agricultural advances whose interest or principal instalment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops.
- Expected payment on any other type of account is overdue for more than 90 days

0bjectives

1.To examine the gross NPAs and Net NPAs of select public and private sector banks

2.To make a comparative study of NPAs in select public and private sector banks.

Research methodology

The research approach is descriptive in nature. This study is concluded for the selected public sector bank and private sector bank. The study is based on the secondary data collected from various RBI annual reports, research papers, articles and various newspapers.

Review literature

In this research paper entitled, Non- per-performing assets of Indian public, private and foreign sector banks studied that, the NPAs is one of the drivers of financial stability and growth of the banking sector. The aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank specific parameters, is developed and the behavior of NPAs of the three categories of bank is observed.

Conclusion

As the sanctity of ethics and values is getting eroded and challenges and risks faced by banks and borrowers are increasing because of fast changes taking place in business environment and the economy in the context of economic liberalization and globalization, the possibility of some investment failures cannot be rules out both from banks‟ and borrowers‟ angle. In such a scenario, the presence of NPAs is unavoidable and the only way to come out of this is to have the suggested Fund built up over a period of time. This will certainly prove to be a win-win situation for all stake holders of banking including the major stake holders the Government.

This suggestion on implementation can become an effective Regulatory Tool. It has to be noted that a good violently executed now in better than a perfect future plan. Time is always the enemy, as it increases the repair bill exponentially. We have neither the time nor the money to experiment with the problem of ever growing NPAs.

The suggestions to contain NPAs inter-alia include making the banks more effective in appraisal, supervision and follow-up of loan accounts, making the borrowers more accountable and responsible and strengthening and expending the legal machinery.

Since the problem of NPAs emanates from borrowers and it is problem of money, which ultimately money only can solve, a model has been developed through this study to find some practical solution to contain the menace in future and at the same time strengthen the balance sheets of banks. The solution is simple and practicable. Create a fund named Precautionary Margin Reserve, by recovering an annual levy in the range of 0.10%(i.e. approximately 10 paise for every Rs 100/ borrowers by the client) from all standard advances, in a graded manner depending on the performance of borrowers reflected in the conduct of their accounts. The model also recommends a contribution from the banks towards the said fund by away of paying compound interest on the fund, to make them involve themselves, also share the burden of future NPAs and be more vigilant in the conduct of credit portfolio. The fund should directly go to the liability side of the balance Sheet. Since it is in the nature of bank’s owned funds, it can be considered for capital adequacy purpose. Consequently the raising of subordinated debt which is a recurring liability and at a high cost can be avoided.

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