EMERGENCE OF NON PERFORMING ASSETS IS AN INDICATOR OF FINANCIAL INADEQUACY OF BANKING INDUSTRY IN INDIA

Pramod Kumar Srivastava, Dr. RaiMurari
Research Scholar,Professor (Retd.) & Former H.O.D.
Economics Department,Patna University

Abstract: *The* economic growth and development of a nation depend on sound banking system and practices. The banking sector in Indian accounts for a main share of financial intermediation and recognized as key vehicle for Indian monetary policy indicators, manage payment systems and credit channel. Indian banking industry is life line for continues progress of economy of our country. A strong and effective banking system is very necessary for economic growth and development of our country. Today NPAs became one of the best indicators for Indian banking. NPAs have a direct impact on the liquidity, profitability and solvency position of the banking system. These days everyone consider directly if bank has higher NPA this means the banking system is inefficiency and lower NPA means better management and performance of funds. For profitability and effective banking it is very necessary to reduce and control NPA. Our banking system stressed with increasing NPA and it badly impact on Indian economy and there is need to accept numerous actions to controlled NPAs.

Index Terms - **b**anking industry, Public Sector, Private Sector, Non-Performing Assets (NPAs)

Introduction

For a healthy economy, one should have a strong banking system. NPAs are being the only one of the significant indicators for judging the performance of the banking. These are a predictable problem on the bank. Banking industry needs to examine funds in order to prevent NPA. The success of the banking industry depends on the effective and efficient management of NPAs and keeps it under controlled level. NPA causes serious damage on the profitability of banking system as, on the other side Indian banks cannot book income on such accounts and in a second way, charge for funding cost is required and provision required for the profits. In order to keep debtors friendly we keep the provision of NPAs. In the Indian context, the lending policy and credit policy have vital pressure on non-performing loans.NPA is usually termed as dormant assets means these assets does not bring any substantial income to its owners.

NPAs are the assets of the banks which don't perform or don't bring any return for bank are called NPAs or bad loan. As per RBI guide line, the terms loans on which either interest or installment on principal remain overdue for 90 days and more period are considered as NPAs. For Agriculture and Farm Loans; the NPA guide line is defined as short duration crop agriculture loans such as wheat, paddy, Bajra, Jowar etc. if the loan installment or interest is not paid for 2 crop seasons, it would be considered as a NPA and for Long Period Crops, the above would be 1 Crop season from the due date. As per RBI guide lines banks assets are classification into four categories.

1. Standard Assets

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA

2. Sub-standard Assets

(i) With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(ii) An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the re-negotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of this condition.

3. Doubtful Assets

With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tier I banks, the 12-month period of classification of a substandard asset in doubtful category is effective from April 1, 2009. As in the case of sub-standard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

4. Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

According to RBI factors contributing NPAs

Factors contributing to NPA are divided into three parts

First -Internal factors

a) Fund diversion of by organization.
b) Failure Business.
c) Increase Time and cost of project
d) Inadequacy in bank management
e) Old technology and introduction of new technology Second -External factors
a) Stagnation in business and economy
b) Inputs or energy crisis
c) Increase inputs cost.

d) Change in government policies
e) Fluctuations in exchange rate Third-Other factors
a) Globalization
b) Tariffs reduction
c) Monitoring and control of credits ineffective.
d) Poor fallow up process.
e) Capital market crisis
f) Fund inability and inadequacy
g) Funds mismatching
h) Government intervention and directive regarding loans granting

NPA - Impact on Banking Industry

As we all know that now NPAs became nightmare for Indian banking sector. NPA became one of the prime and the most alarming problem for banking sector in India. It impact the entire banking process very badly. Inadequate and inefficient credit management led to higher NPA ratio that reduces the confidence our banking system. It also causes poor multiplier effect of bank's assets. Our credit system is badly due to rise pressure of NPA. Availability of credit and advance badly effected due to continue increasing NPA in Nationalized Banks in India. The present and future availability of credit, it is mandatory requirement to limit NPAs.

1. Asset (Credit) construction
2. Liability management
3. Capital adequacy
4. Shareholders confidence
5. Public confidence

<u>Presently Status of NPA in Banking Industry in India</u>

The continuous increase in NPA of commercial banks in India, it could be 10.1 percent by March 2018 May 2017 five banks have reported Gross NPA ratio of over 15 percent. The public sector banks, Gross NPA ratio may increase 12.5 percent in March 2017 the bad loans crisis of government-owned banks surged 56.4 percent in 12 months ending December 2016. Modi government's demonetization move in November 8. The Indian Express published that Gross NPA surged to Rs 6, 14,872 cr. they now constitute 11 percent of the gross advance of Public Sector Unit (PSU) banks. In all, the total NPS including both the public and private sector banks were Rs. 6, 97,409 cr in December 2016.Movement of NPAs from year 2005 to 2016 in all banks in India (SBI & Associates, Private Sectors Banks, Nationalized Banks and Foreign Banks)

Table: All Banks in India (SBI & Associates, Private Sectors Banks, Nationalized Banks and Foreign Banks)
(Amount in 'Million)

Year	GNPA					Net NPA	
	As on March March 31 (Previous Year)	**Addition During the year**	**Reducing During the year**	**Write-off during the year**	**As on March March 31 (current Year)**	**As on March March 31 (Previous Year)**	**As on March March 31 (current Year)**
2005	204056	228790	24632	634735	241177	217543	643101
2006	213800	285953	511	510969	226107	185434	583631

2007	262114	261598	841	504865	182657	202807	505199
2008	501914	349813	278468	9168	788475	202085	245499
2009	548369	523459	338707	49839	683281	242255	315641
2010	682843	695796	284213	248419	847009	315641	391266
2011	839089	704399	288722	232607	979251	1900251	417993
2012	979712	1071765	427590	200623	1423264	417801	650188
2013	1423264	1380076	541479	319772	1875091	650186	986086
2014	1934969	1897219	717387	457082	2633717	986079	1423826
2015	2633619	2086383	884683	601966	3233352	1424210	1758411
2016	3226200	3604925	803339	725013	6119473	1754423	2976201

Source: Department of Banking Supervision, RBI.

The above table show that GNPA and Net NPA are increasing day by day. The gross bad loans of banks increases

Measures Taken to solve the problem of NPA

In 1991 in India government has taken great attention and initiated several measures to solve the problem of NPA. Regarding the solution it is very important for RBI, government and commercial banks increasing NPA impact profitability of banks as well as economic growth of the country. For this regard Naraimhan Committee recommended number of steps to reduce NPA. Government of India introduced numbers of reform to deal with increasing NPA.

1. **Debt Recovery Tribunals (DRTs):**
2. **Securitisation Act 2002:**
3. **LokAdalats**
4. **Compromise Settlement:**
5. **Credit Information Bureau:**

NPAs of SCBs Recovered through Various Channels

(Amount in 'Billion)

Year	Sr. No.	Recovery Channel	LokAdalat	DRTs	SARFAESI Act	Total
2012-13	1	No. of cases referred	840691	13408	190537	1044636
	2	Amount involved	66	310	681	1057
	3	Amount recovered*	4	44	185	233
	4	3 as percent of 2	6.1	12.2	27.5	22
2013-14	1	No. of cases referred	1636975	28258	194707#	1859922
	2	Amount involved	232	553	953	1738
	3	Amount recovered*	14	53	253	320
	4	3 as percent of 2	6	9.6	26.6	18.4
2014-15	1	No. of cases referred	2958313	22004	175355	3155672
	2	Amount involved	310	604	1568	2482
	3	Amount recovered*	10	42	256	308
	4	3 as percent of 2	3.2	7	16.3	12.4
2015-16	1	No. of cases referred	4456634	24537	173582	4654753
	2	Amount involved	720	693	801	2214
	3	Amount recovered*	32	64	132	228
	4	3 as percent of 2	4.4	9.2	16.5	10.322

Source: Statistical table related to banks in India-RBI 2017

For curtailing NPAs measures should be taken

1. NPA can be contained largely by maintaining continuous follow up with borrower customers.
2. "Prevention is better than cure" or "A stitch in time saves nine", holds good in monitoring
3. Banks should impose Credit Audit
4. Intense identification process for potential NPAs.
5. Regular review and report for problem loans and advances.
6. Effective monitoring and control for exposer of NPA account holders.
7. Banks should take strong and effective credit and risk management measures.
8. Transparent relationship with banks and borrowers.
9. Strong and effective legal pressure for recovery with logical solution.
10. Effective framework for e recovery management and time bound.
11. Regular monitoring and control of standard Assets at least once in a quarterly basis.
12. Identification process of NPA should be sizable branch wise,
13. Staff motivation and training should be regular baisis for reduction of NPA.
14. At last but not least bank should go to every aspect to reduce NPAs.

- ✓ Periodical Meetings with the NPA borrowers

CONCLUSION

A robust Banking system is essential for strengthening the economy of a country. A Banking system is a multifaceted, very well-integrated set of sub-systems of Financial Establishments, Markets, Instruments, and Services which accommodations the transfer and distribution of funds, efficiently and effectively. As the sanctity of ethics and values are getting eroded continually in business environment. Banks have to face risk and challenges and borrowings are increasing because of dynamism taking place in business world. Economic liberalization and globalization lead the possibility of investment failures banks and borrowers viewpoint. At present the presence of NPAs is unavoidable.

The 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 among other things 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.

REFERENCES

[1] Joseph, A. L., &Prakash, M. (2014): A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks. Retrieved from International Journal of Scientific and Research Publications, 4(7), 1.

[2] Mehta, L., &Malhotra, M. (2014): Empirical Analysis of Non Performing Assets Related to Private Banks of India. International Journal of Management Excellence, 3(1), 386-391.

[3] Rai, K (2012): " Study on performance of NPAs of Indian commercial Banks"Asian Journal of Research in Business Economics and Management, Vol.2, issue N0.12, pp. 16-26, June 2012

[4] Shyamala A (2012): "NPAs in Indian Banking Sector: Impact on Profitability"Indian Streams Research Journal,Vol 1,No.V,pp.1-7,June 2012

[5] Siraj, K. K., &Pillai, P. S. (2012): A study on the performance of non-performing assets (NPAs) of Indian banking during post millennium period. International Journal of Business and Management Tomorrow, 2(3), 1-12.

[6] Siraj, K. K., &Pillai, P. S. (2013): Efficiency of NPA management in Indian SCBs-A Bank-group wise exploratory study. Journal of Applied Finance and Banking, 3(2), 123.

Websites

[1] https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications

[2] www.financialexpress.com › Industry › banking finance

[3] www.bloombergquint.com/business

[4] www.thehindu.com/data/Details-of-NPA-figures...sector-banks/article16670548.ece

[5] www.drt.gov.in/

[6]http://pib.nic.in/newsite/PrintRelease.aspx?relid=142298