



MOUNTING NON PERFORMING ASSETS OF THE BANKS: NEED FOR SELF REGULATION

Dr.R.S. Solunke

Emeritus Professor, Department of Economics, Dr. Babasaheb Ambedkar Marathwada University, Aurangabad, Maharashtra.

Abstract

For the overall development of the economy the banking and financial sector should be sound. But if the banking sector is suffering from the problem of increasing Non Performing Assets (NPAs), it directly affects the profitability of the banks and also its affects the whole economy. The purpose of this paper is to describe the concept of NPA. It further discusses the NPA trend in the scheduled commercial bank in India for the past three year i.e 2012, 2013 & 2014. The study shows that the rise in the level of NPA in banking sector should be given serious attention because it is the barrier in the smooth functioning of the banking institutions.

Keywords: *Non Performing Assets, Asset Classification, Scheduled Commercial Banks.*

Introduction

The financial sector reforms were initiated in India since June 1991. Thereafter, the banking and the financial sector has seen many dramatic changes. The banking industry has moved gradually from a regulated environment to a deregulated market based economy. In the process of globalization the banking sector was opened for the private and foreign banks. Consequently, we are noticing the cut throat competition in the banking industry these days. For the overall development of the economy the banking and financial sector should be sound. But if the banking sector is suffering from the problem of increasing Non Performing Assets, it directly affects the profitability of the banks. This problem is not then limited with the banking sector but it a matter of concern to the whole economy.

Non- performing assets (NPA) means an asset of account of borrower, which has been categorized by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions relating to asset classification issued by RBI. It means a kind of a loan and advance where repayment of installment and interest on principal or both remain unpaid for a certain period of time. Once the borrower has failed to make installment with principal and interest payment for 90 days then this loan and advance is considered as non- performing assets. So NPA is problematic for banks because these banks cannot able to earning any other ways through this loan and advance. NPA affect the profitability of banks. Above this background objective of this paper is to analysis the NPA of scheduled commercial banks in India during the past three year i.e 2012, 2013 & 2014.

Review of Literature

Some studies have observed that bank related and macroeconomic factors impacts on the loan portfolios of commercial banks in India. According the study of Dash & Kabra(2010) there is no significant relationship between the size of a banking institution and the level of NPAs. Another one study of Reddy (2004) observed that the banks' lending policy could have crucial influence on NPA. The study of Mohan & Rakesh (2003) have conceptualized 'Lazy Banking' while critically reflecting on banks' investment portfolio and lending policy. In Indian point of view all these banking literature shows that lending policy is a major driver of NPAs. Thus some study shows that level of NPA has been increased year by year due to mismanagement of banking sector.

In the Indian economy particularly the public sector banks are facing the problem of increasing Non Performing Assets. The data relating to the Non performing Assets of the nationalized banks has been depicted in table 1.

Public Sector Bank-wise data on Gross NPAs and Write-offs during the last three years (Amount Rs. Crore)

Sr. No.	Bank Name	2012		2013		2014	
		Gross NPAs	Gross NPAs to Gross Advance	Gross NPAs	Gross NPAs to Gross Advance	Gross NPAs	Gross NPAs to Gross Advance
1	Allahabad Bank	2059	1.83	5137	3.92	8068	5.73
2	Andhra Bank	1798	2.12	3714	3.71	5858	5.29
3	Bank of Baroda	4465	1.53	7983	2.40	11876	2.94
4	Bank of India	5894	2.34	8765	2.99	11869	3.15



5	Bank of Maharashtra	1297	2.28	1138	1.49	2860	3.16
6	Canara Bank	4032	1.73	6260	2.57	7570	2.49
7	Central Bank of India	7273	4.83	8456	4.80	11500	6.27
8	Corporation Bank	1274	1.26	2048	1.72	4737	3.42
9	Dena Bank	957	1.67	1452	2.19	2616	3.33
10	IDBI Bank Limited	4551	2.49	6450	3.22	9960	4.90
11	Indian Bank	1851	2.03	3565	3.33	4562	3.67
12	Indian Overseas Bank	3920	2.74	6608	4.02	9020	4.98
13	Oriental Bank of Commerce	3580	3.17	4184	3.21	5618	3.99
14	Punjab & Sind Bank	763	1.65	1537	2.96	2554	4.41
15	Punjab National Bank	8720	2.93	13466	4.27	18880	5.25
16	Syndicate Bank	3183	2.53	2979	1.99	4611	2.62
17	UCO Bank	4086	3.48	7130	5.42	5621	4.32
18	Union Bank of India	5450	3.01	6314	2.98	9564	4.08
19	United Bank of India	2176	3.41	2964	4.25	7118	10.47
20	Vijaya Bank	1718	2.93	1533	2.17	1986	2.41
21	State Bank of Bikaner & Jaipur	1651	3.30	2119	3.62	2733	4.18
22	State Bank of Hyderabad	2007	2.56	3186	3.46	5824	5.89
23	State Bank of India	39676	1.44	51189	4.75	61605	4.95
24	State Bank of Mysore	1503	3.70	2081	4.53	2819	5.54
25	State Bank of Patiala	1888	2.94	2453	3.25	3758	4.83
26	State Bank of Travancore	1489	2.66	1750	2.56	3077	4.35
Public Sector Banks		117262	2.97	164462	3.61	227264	4.36

Source: www.rbi.nic.in

It is evident from the above table that in the year 2012, the figure of Gross NPAs of public sector was Rs. 1,17,262 which reached to Rs. 1,64,462 in the year 2013. Further it increased to Rs. 2,27,264 in the year 2014. It means within two years there was 1.9 times increase in the Gross NPAs of the public sector banks.

In the year 2012 the highest Gross NPAs was of the State Bank of India and the figure of Gross NPAs was Rs. 39,676. This figure increased to Rs. 61,605 in the year 2014. The increase in the Gross NPAs of the State Bank of India within two years was nearly 1.5 times. In the year 2012 the percentage of Gross NPAs to Gross Advances of the State Bank of India was 4.44 which increased to 4.95 times in the year 2014. The figure of Gross NPAs of the State Bank of India was highest in the year 2012, 2013 and 2014 when it was compared with other public sector banks in India.

Causes of Increasing NPAs

The increasing NPAs of the public sector banks can adversely affect the profitability of these banks. It also creates pressure on the daily transaction of these banks. The public sector banks those which are having less income (return on Assets) then these banks have to suffer more due to the increasing NPAs.

The basic causes responsible for increasing Gross NPAs of the commercial banks are high and fluctuating rates of interest, bankers' unhealthy practices for sanction of loan, use of loans for non productive purpose, bankers do not follow standard principles of banking, bankers negligence towards proper utilization of loan amount by the borrowers, practice of hundred percent finance to the borrower, practice of conversion for repayment of loan, market volatility, diversion of funds, interference regarding loan sanction, industrial recession, natural calamities non availability of the raw material, lack of experienced and expert team in the banks to handle big loan proposals etc.

Conclusions

CRISIL Ratings has estimated that NPAs of the commercial banks increase from 3.3% in month 2013 to 4% by March 2014. The rise in the level of NPA in the banking sector should be given serious attention because it is the barrier in the smooth functioning of the banking institutions. Some effective measures should be adopted so as to bring down the level of NPA.



Though there are many causes responsible for mounting NPAs of the commercial banks but it is the need of the hour to contain the rising NPAs. There is need to put extra energy to tackle the problem of the NPAs. Among the various causes responsible for increasing NPA the main cause is relating to diversion of funds. So the bankers should concentrate on this issue. It is necessary to see that there should not be diversion of the funds. The another thing is that there is timely sanction and disbursement of the loans by the commercial banks. Because such healthy practise may contain mounting NPAs. The banks should keep continuous follow up relating to recovery of the loans.

In brief it can be said that for the promotion of industry, employment, economic growth the banking sector should be more sound. The increasing NPAs is a obstacle in the smooth functioning of the banking sector. There is need to pay serious attention towards the problem of increasing NPAs of the commercial banks by those relating to the banking sector. There is need for self regulation to overcome the problem of the NPAs.

References

1. Dash M. K. & Kabra G.(2010), 'The Determinants of Non- Performing Assets in Indian Commercial Banks _ An Econometric Study', Middle Eastern Finance & Economics (Eurojournals Publising Inc.)
2. Mohan & Rakesh (2003), 'Transforming Indian Banking – In suarch of a Better Tomorrow, Speeches from RBI Bulletin.
3. Non- Performing Assets - Causes, Extent, Remedies (A collection of workshop papers, published by shivaji University, Kolhapur) August, 2003.
4. Reddy Y. V. (2004), 'Credit Policy, Systems and Culture, RBI Bulletin.
5. Reserve bank of India, Prudential Norms, Master circular, 2002.
6. Reserve Bank of India, Report on Trend and Progress of Banking in India,(2008-12).
7. Sikdar P. & Makkad M. (2013), Role of Non Performing Assets in the Risk Framework ok Commercial Banks- A Study of Select Indian Commercial Banks, AIMA Journal of Management & Research Vol. 7
8. The Economic Times, May 15, 2015.
9. The Economic Times, June 18, 2015.