Research Paper
Impact Factor: 5.483
Peer Reviewed & Indexed Journal

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

A STUDY ON NON PERFORMING ASSETS WITH SPECIAL REFERENCE TO ISSUES &SOLUTIONS IN BANKING SECTOR

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Abstract
According to the Reserve Bank of India (RBI), the gross non-performing assets in Indian banks, specifically in public sector banks, are valued at around Rs 400,000 crore (~US$61.5 billion), which represents 90% of the total NPA in India, with private sector banks accounting for the remainder. Money or Assets provided by banks to companies as loans sometimes remain unpaid by borrowers. This late or non-payment of loans is defined as Non-Performing Assets (NPA). They are also termed as bad assets. In India, the RBI monitors the entire banking system and, as defined by the country's central bank, if for a period of more than 90 days, the interest or installment amount is overdue then that loan account can be termed as a Non-Performing Asset. The increase in non-performing assets in Indian banks follows the recognition standards being pursued by the banks after the RBI highlighted it in the Asset Quality Review (AQR). Of course the main reason is inadequate progress in the financial health of the companies. From 2000-2008, the Indian economy was in a boom phase and banks, especially public sector banks, started lending extensively to companies. However, with the financial crisis in 2008-09, corporate profits decreased and the Government banned mining projects. The situation became serious with the substantial delay in environmental permits, affecting the infrastructure sector – power, iron, and steel – and resulting in volatility in prices of raw materials and a shortage of supply. Another reason is the relaxed lending norms adopted by banks, especially to the big corporate houses, foregoing analysis of their financials and their credit ratings.

Introduction
The Indian banking sector underwent a major transformation in 1969 when a large number of banks were nationalized. The policy thrust in those days was to spread banking services far and wide into the country side. And this objective was largely achieved.

Bank branches increased rapidly and deposit mobilization rose steadily. This has undeniably aided the process of bringing in large amount of savings into the financial markets for development purposes. Besides, targeted lending to priority sectors they led to capital becoming available to new and small enterprises. The expansion of these services not surprisingly, did not come without any ill effects. loans given the banks are there assets and as the repayment of several of the loans were poor, quality of these assets was steadily deteriorating. Credit allocation became "loan melas", loan proposal evaluations were slack and as a result repayments were very poor.

The first and fore most casualty of banking sector reforms initiated in the early nineties has been " non-performing assets"(NPA), which were cutting into the banks bottom lines in two ways-

1. Banks were not able to book interest accrued on such assets.
2. They had to make provisions for these NPAs over the years; much has been talked about NPAs, which has also become one of the parameters to decide partial autonomy to be given to select banks. However, the emphasis so far has been only on identification and quantification of NPAs rather than on ways to reduce and upgrade them.

Though, the term NPA can notes a financial asset of a commercial bank which has stopped earning an expected reasonable return, it is also a reflection of the productivity of the unit, firm, concern, industry and nation where that asset is idling. Viewed with this broad perspective, the NPA is a result of an environment which prevents it from performing up to expected levels.

However, the global slowdown and the fall of banks worldwide give India's financial system some breathing space to catch up. The problem of NPAs is twofold-

1. Tackling the existing NPAs.
2. Preventing a build up for additional NPAs.

The NPA level has to be brought down to at least 5% to 6%. For this, Indian banks need to set up evaluation of various credit risks, to develop advance skills in risk management and a need to set up speedy recovery mechanism.

The NPAs in bank balance sheet reflects the health the economy. If the economy is doing well and if all its sectors are doing well, bank NPAs will also show an improvement. Hence, it is a joint responsibility of policy- makers, judiciary, entrepreneurs and bankers to collectively fight this problem.

The banking system in India remains handicapped in the absence of an adequate legal framework to ensure expeditious recovery of loans as also enforcement of security.

Comprehensive banking legislation and enforcement machinery be put in place not only to reduce the quantum of NPAs but also to ensure that such a framework serves as a deterrent for future defaulters.
"Banks are yet another sector where the rot has already set in!"

In India, NPAs, which are considered to be at higher levels than those in other countries, of late, attracted attention of public and the subject of high NPAs in banks has also been frequently raised in various areas. These developments have promoted us to undertake a study of NPAs in banks, to understand the problem, its genesis and influence on banking sector.

Need and Importance
Ever since introduction and implementation of prudential norms, management of non performing advances has become the most important issue before the banks.

RBI has therefore advised that banks should have a well-laid recovery management policy approved by the board and the same should be put in place for meticulous compliance so that the level of NPA can be brought down.

Management of Non-performing advances covers both recovery of NPA as also regulars review monitoring of NPA accounts; write off etc in terms of prudential norms issued by RBI.

Apart from up gradation and cash recovery, the bank has introduced several OTS modules aiming at various types of borrowers to ensure recovery through compromise settlement. Further, various modifications are also made for operational aspects of the said OTS modules based on infield experiences/revised norms issued by RBI from time to time and changed banking scenario to make the modules/schemes more effective and fruitful.

Apart from recovery of NPAs, various other important issues like review of NPA accounts, monitoring of stultified accounts. Decreed debts, waiver of legal action in deserving cases, write off of bad debts, delegated authority, appropriation of recovery in NPA accounts, estimation of sacrifice, disclose of information, guidelines in respect of implementation of the securitization Act-2004 and sale of financial asset etc, are also important in day to day functioning of the branches/offices.

Objectives

1. To study the nature and Concept of NPAs.
2. To evaluate the growth and magnitude of NPAs in banking sector.
3. To assess the causes of NPAs in banking sector.
4. To determine the preventive mechanism for NPA and corrective measures in Settlement. .
5. To assess the impact of role of the non-performing assets (NPA's) on the profitability of the bank.

Review of Literature
Recent Developments and Ways to Tackle NPA

1. **Insolvency and Bankruptcy Code (IBC)** – With the RBI's push for the IBC, the resolution process is expected to quicken while continuing to exercise control over the quality of the assets. There will be changes in the provision requirement, with the requirement for the higher proportion for provisions going to make the books better.
2. **Credit Risk Management** – This involves credit appraisal and monitoring accountability and credit by performing various analysis on profit and loss accounts. While conducting these analyses, banks should also do a sensitivity analysis and should build safeguards against external factors.
3. **Tightening Credit Monitoring** – A proper and effective Management Information System (MIS) needs to be implemented to monitor warnings. The MIS should ideally detect issues and set off timely alerts to management so that necessary actions can be taken.
4. **Amendments to Banking Law to give RBI more power** – The present scenario allows the RBI just to conduct an inspection of a lender but doesn't give them the power to set up an oversight committee. With the amendment to the law, the RBI will be able to monitor large big accounts and create oversight committees.

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5. **More "Hair-cut" for Banks –** For quite some time, PSU lenders have started putting aside a large portion of their profits for provisions and losses because of NPA. The situation is so serious that the RBI may ask them to create a bigger reserve and thus, report lower profits.
6. **Stricter NPA recovery –** It is also discussed that the Government needs to amend the laws and give more power to banks to recover NPA rather than play the game of "wait-and-watch."
7. **Corporate Governance Issues** – Banks, especially the public sector ones, need to come up with proper guidance and framework for appointments to senior level positions.
8. **Accountability –** Lower level executives are often made accountable today; however, major decisions are made by senior level executives. Hence, it becomes very important to make senior executives accountable if Indian banks are to tackle the problem of NPAs.

The Banks Should Also Consider "Raising Capital" To Address The Problem of NPA.

1. **Using Unclaimed Deposits** – Similar to provisions for unclaimed dividends, the government may also create a provision and transfer unclaimed deposits to its account. These funds in return can be transferred to banks as capital.
2. **Monetization of Assets Held by Banks –** In this case, banks with retail franchisees should create value by auctioning a bank assurance association rather than running it themselves as an insurance company. The current set-up blocks capital inflows and doesn't generate much wealth for the owners.
3. **Make Cash Reserve Ratio (CRR) Attractive** – At present, the RBI asks Indian banks to maintain a certain limit on CRR on which the RBI doesn't pay interest and hence, banks lose out a lot on interest earnings. If the CRR is made more financially rewarding for banks, it can reduce capital requirements.
4. **Refinancing from the Central Bank** – The US Federal Reserve spent $700 billion to purchase stressed assets in 2008-09 under the "Troubled Asset Relief Program." Indian banks can adopt a similar arrangement by involving the RBI directly or through the creation of a Special Purpose Vehicle (SPV).
5. **Structural Change To Involve Private Capital** – The compensation structure and accountability of banks create a problem for the market. Banks should be governed by a board while aiming to reduce the government's stake and making the financial institutions attractive to private investors.

With the potential solutions above, the problem of NPAs in Indian banks can be effectively monitored and controlled, thus allowing the banks to achieve a clean balance sheet.

Scope of the Study

The study is laid on macro level and to find the impact of NPAs in Banking Sector. It also analyses the efficiency of recovery measures undertaken by Banks. The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs in PSB are growing due to external as well as internal factors

Data Sources

Data will be gathered from the secondary sources to achieve the stated objectives. It includes:

1. Annual reports of the bank.
2. RBI Report on Trend and Progress of Banking in India.
3. Manual of instructions on loans and advances.
4. Research Papers and Published Articles.

Recommendation and Findings
Issues and Solutions of NPA

1. **Profitability:** NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (Return on Investment), which adversely affect current earnings of bank.
2. **Liquidity:** Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortest period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money, routine payments and dues.

3. **Involvement of Management:** Time and efforts of management is another indirect cost which bank has to, bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now day s banks have special employees to deal and handle NPAs, which is additional cost to the bank.
4. **Credit Loss:** Bank is facing problem of NPA then it adversely affect the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

Corrective &Preventive Action for NPA

1. **Early Recognition of the Problem:** Invariably, by the time banks start their efforts to get involved in a revival process, it too late to retrieve the situation- both in terms of rehabilitation of the project and recovery of bank's dues.
2. **Identifying Borrowers with Genuine Intent:** Identifying borrowers with genuine intent from those who are non-serious with no commitment or stake in revival is a challenge confronting bankers. Here the role of frontline officials at the branch level is paramount as they are the ones who have intelligent inputs with regard to promoters sincerity, and capability to achieve turnaround. Based on this objective assessment, banks should decide as quickly as possible whether it would be worthwhile to commit additional finance. "Special Investigation".
3. **Timeliness & Adequacy of Response:** Longer the delay in response, grater the injury to the account and the asset. Time is a crucial element in any restructuring or rehabilitation activity. The response decided on the basis of techno-economic study and promoter s commitment, has to be adequate in terms of extend of additional funding and relaxations etc. Under the restructuring exercise, the package of assistance may be flexible and bank may look at the exit option.

Conclusion

The study of about 900 top NPA accounts in Banking sector has been tabulated from the available information revealed that the following are the important causative factors for units becoming sick\weak and constantly accounts turning NPA in the order of prominence.

1. Diversification of funds mostly for expansion/diversification/ modernization. Taking up of new projects, is the single most prominent reason. Besides being so, this factor also has significant proportion of cases, when compared to other factors.
2. Internal factor such as failure of business (products), inefficient management, inappropriate technology, product obsolescence.
3. External factors such as industrial recession, price escalation, power shortage, accidents etc.
4. Time/cost overrun during the project implementation stage leading to liquidity strain and turning NPA in to next factor.
5. Other factors in order or prominence are government policies like changes in import/excise duties etc, willful default, fraud, disputes etc, and lastly, deficiencies on the part of banks delay in release of limits in settlement of payments by govt. bodies.(Recent issues in NPA in India Vijai Malaya and Neerave Modi case).

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