



“A STUDY ON DIFFERENT WAYS AND MEANS TO FIX NON- PERFORMING ASSETS IN THE BANKS”

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Abstract

Banking Sector has been playing a predominant role in the economic development of our country. It is the main functioning body of monetary service sector. The banking has reformed hugely from past few decades. Non-performing assets (NPA) are huge burden for the banking sector. Bank has to monitor standard assets properly, to avoid occurrences of NPA. Now-a-days the growth of bank depends upon the methods of managing NPA's and as far as possible keeping them low. The non-performing assets (NPA's) are one in all the main issues that has affected both public sector and private sector banks. To improve the efficiency and overall performance of banks the NPA needs to be decreased and also eradicated.

Keywords:*NPA, Banking Sector, Public Sector and Private Sector Banks.*

Introduction

The banking system in India is the biggest and main segment of financial sector which accounts for a top position of funds flow. NPA has been in existence over a decade as a major threat to the banking sector in our country sending danger signals on the performance and growth of affected banks. A non-performing asset in the banking sector is referred as an asset that is not generating income of the bank or which affects the fund flow of the bank. In other words, an advance account that ceases to grow and yield income for the bank.

A Non-Performing Asset is defined as a credit facility in respect of which the interest or installment of principal has remained due for a specific period of time. It does not generate income for the lender.

The various types of NPA are as follows

1. Standard assets: - It is an asset in which the borrower does not make repayment regularly on regular intervals of time.
2. Sub-Standard assets: - It is an asset in which bank has to compulsorily 15 % as their reserves. Here under this type of NPA it is for a period not exceeding 12 months.
3. Doubtful Assets: - It is one in which the assets has been NPA for a period exceeding 12 months.
4. Loss Assets: - A loss asset is one in which the loss has been found out by the bank, by their auditors.

Objectives of the Study

1. To understand the various factors and causes affecting NPA.
2. To understand NPA position in Indian Banking sector.
3. To know the effect of NPA's on our Indian Banking Sector and to find out how to overcome fix NPA for smooth development of our country growth.

Review of the Literature

1. Ujjwal (2017) in his research paper “A Study on Non-Performing assets and its impact on Banking Sector” stressed on the importance ways and means of reducing NPA in banking sector and its total effect on banking sector.
2. Mohammad (2007) in his research paper “A Comparative Statistical Approach towards NPA of Public Sector and Private Sector Banks in India” has found out about the Gross NPA and Net NPA of banks for a period from 2011-2012 to 2015-2016.
3. Manisha (2018) in her research paper “Non-Performing Assets: A Comparative study of SBI & ICICI Bank from 2014-2017” has focused on main points of a NPA in SBI and ICICI Bank from 2014-2017.



Research Methodology

This research paper is mainly based on secondary data analysis. The data for this study has been collected from various web sources like annual reports and financial statements from official RBI website, banking related sites, journals, online articles, textbooks and newspapers.

Data Analysis and Interpretation

The magnitude of NPA during 2017-2018 in various banks is given in the following table:-

Banks	(Rupees in crore)
Public Sector Banks	6,20,000
Private Sector Banks	1,09,076
Foreign Banks	3,45,800
Scheduled Commercial Banks	10,35,528

Source: - According to the RBI official website of: - “Report on Trend and Progress of Banking in India”

This table gives a detailed description of total Gross and Net NPA's percentage in Public and also Private Sector Banks. Scheduled commercial banks NPA is more compare to other banks.

Table showing 9 years Gross and Net NPA percentage of banks

Year	Gross NPA	Net NPA
From 2006 to 2007	2.5 %	1.0 %
From 2007 to 2008	2.3 %	1.0 %
From 2008 to 2009	2.3 %	1.1 %
From 2009 to 2010	2.4 %	1.1 %
From 2010 to 2011	2.4 %	1.0 %
From 2011 to 2012	2.9 %	1.3 %
From 2012 to 2013	3.4 %	1.4 %

Analysis

This table gives a complete analysis of the GROSS and NET NPA's for the years 2006 to 2013. This clearly shows that in initial years the percentage of NPA's was less, later on it increased due to the poor management of funds.

Causes and Factors affecting NPA

1. Wilful Defaulters: - According to RBI, a wilful defaulter is to have occurred if the borrower has not met repayment obligations even though having the capacity to do so.
2. Industrial Crisis: - This is the external factors affecting the industry which slows the growth in capital goods industry.
3. Lenient Lending Norms: - Over estimation of financial status leads to lenient lending norms of banks.
4. Amendment of Government policies: - With the emergence of every new government, banking sectors functions and operations changes it has to be amended accordingly, so all the banks has to come up with the new emerging policies for the regulation and control of NPA.
5. Diversification of funds mainly for the expansion of business plants, diversification into various branches, modernization with updated technology and for taking up new ventures and projects.
6. Downfall in proper credit management and monitoring.
7. High leveraging and Borrowing costs are higher.
8. Sudden fall of capital markets and the downfall in raising proper funds required.

Impact of NPA on Banking Sector

1. Profitability: - The profitability of banks is affected because of low income from NPA.
2. Asset Contraction: - It Reduces Bank's ability to lend more and also lesser income may lead to economic crisis.
3. Liability Management: - Due to High NPA the liability of banks is also increased to a greater extent.
4. Public Confidence: - When NPA is more in the banks people does not show interest to invest in the banks and also will not come forward to invest, which in turns affects the profitability and growth of the firm.



Ways and Means to Fix NPA in Banks

1. Banking Regulation Act has been changed and amended mainly to provide RBI more powers to keep a track on big wilful defaulters account.
2. In Parliament, Insolvency and Bankruptcy code was passed to keep check on all defaulters and to eradicate NPA.
3. Rigid rules mainly to recover NPA: - The government over the years brought tough and hard rules mainly to recover the assets of defaulters.
4. Increasing Supervisory capacity: - RBI does not have proper supervisory capacity mainly to conduct the forensic audits and that has to be increased and given more powers mainly to humans and also for the technological resources.
5. Rotation of Staff: - If HR practices in the banks are improved effectively and efficiently it can help to minimize and as well as reduce the frauds. If all the officers in banks are rotated in their roles, it could not only increase the supervision capacity of banks, but also helpful in overall development of banks and also all the staffs will gain knowledge of banking policies and regulations.
6. Credit Appraisal and Risk Management Mechanism: - The record of credit arrangement and credit review promptly after the authorization is important to keep a track on the nature of credit evaluation in banks. It is vital that managing an account framework is backed with also necessary standards to minimize if not to stay away from the issue of credit.
7. Organizational Reformation: - Concerning inside variables prompting NPA's the reasons for high NPA rest with the bank themselves where they have to reform.
8. Downfall of dependence on interest: - The Indian banks are generally concentrating on loaning and speculations. The investor can win adequate net edge by putting resources into more secure securities however they could not earn more and high rate of premium. It encourages for the restrictions of abnormal state of NPA's.
9. Lok Adalats: - This organization helps the banks to settle debit including accounts in farfetched and misfortune classification by banks. The Lok Adalats and Debt Recovery Tribunals have been enabled mainly to tackle the issues of NPA to choose for Rs 10 Lakhs or more.
10. Enactment of SARFAESI Act: - "The Securitization and Reconstruction of Financial assets and Enforcement of Security Interest Act (SARFAESI) provides the main and complete legal basis and regulatory framework for setting up of an Asset Reconstruction Company (ARC) in India mainly for the purpose of controlling and regulating NPA's.
11. Asset Reconstruction Company: - The Narasimham Committee on money related framework as set down for setting up of Asset Reconstruction Funds (ARF). The ICICI bank as promoted Asset Reconstruction Company across the countries. The goal of ARC is to completely eradicate drifting of bonds and taking important measures for recovery of NPA's from both the borrowers and default borrowers specifically.
12. Corporate Debt Restructuring (CDR):- The corporate obligation rebuilding is one of the good policies proposed for the removal of NPA's. It will serve as an important alert for considering either a new or extra credit limits for the defaulters who are obtaining, further more from the executives, proprietors and also the accomplishes.
13. Recovery measures and steps against Large NPA's:- The RBI coordinated the Public Sector Banks to inspect all the documents of default of Rs. 1 crore or more and document criminal cases against strong defaulters. The governing body is asked to audit NPA's records of 1 crore or more with reference to the responsibility of staffs in banks exclusively.
14. Credit Information Bureau: - This will keep the individuals who exploit data sharing amongst existing foundations to acquire expensive amount against some important resources and property, which has in no measures added to the development of all the banks.



Conclusion

The bank should have sufficient and good credit appraisal system so as to prevent NPA's from occurring on a large, though taking these preventing measures NPA's do come into existence, this problem can be solved only if there is good legal structure in the country, since recovery of NPA's is often required for good functioning of banks and also to recover all the loans. Recovery of debt takes a very long time in India. The issue of NPA's can be accomplished with proper credit evaluation and danger check system. It is required that the banks have to manage a good and proper accounts which has to be furnished with required standards to diminish defaulters account if not totally avoid the issue of NPA's. In this way, it is exceptionally important for all the banks to reduce the level of NPA as low as possible under circumstances. Therefore NPA is one of the main boundary set in the accomplishment of banks and it influences the execution of banks among these lines, for that the proper administration of NPA in bank is very much important.

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