Problems Associated with Non-Performing Assets in Indian Commercial Banks

A Minor Research Project Report

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Submitted To

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SUMMARY

Credits given by the banks are extremely valuable to the people, industrial concerns, and organizations. Bank financing has a huge effect on the development and broadening of companies. For monetary development in the country, the prime obligation of the banks is to grant the advances and credits to their clients.Non-performing Asset alludes to advances that are at risk of failure to return. When the borrower neglects to make intrigue or principal installments for 90 days, at that point the credit sum is viewed as a Non-performing Asset. Non-performing Assets are dangerous and risky for banks because the interest on loans is the source of income for them.

Social Relevance of the Study

High level of NPA implies scarce resources of the bank get blocked, restricting the recycling of funds in the productive sectors of the economy. Once the credit to various sectors of the economy slows down, the economy is badly hit, resulting in increase in unemployment and poverty. Moreover mounting menace of NPA raises the cost of credit, makes banks more averse to credit risk and as a result, genuine small and medium entrepreneurs are denied of credit, which unfortunately, throttle their enterprising spirits as well. Present study removes these huddles which are obstacles in the way of economic development.

Reserch Methodology

Research Methology discusses the methodology adopted for conducting the present research in systematic manner.

OBJECTIVES OF THE STUDY

The present study has the following objectives:

1) To review of related literature of the non-performing assets, advances and recovery performance of the Banks.
2) To identify the elements that lead to the growth of non-performing assets of banks in the public and the private sector.
3) To examine the performance of the public and private Banks in respect of i.e gross NPAs and net NPAs.
4) To analysis the impact of NPAs on profitability of the Banks.
5) To offer suitable suggestions, conclusions to reduce the NPAs in Public and private sector

Sample and Data Collection

In present study primary and secondary data are used , focusing on NPAs of private sector and public sector banks from 2015-2016 to 2019-20. The mutual relationships between NPAs and micro level variables in the banking sector and the officials' perceptions of 120 respondents on the causes, consequences and remedies for NPAs have been discussed.

Quantitative Techniques used for the study

The data collected from various sources has been tabulated and analysed using various statistical techniques including like growth rate, mean, standard deviation, co- efficient variation, percentage analysis, correlation, t-test and factor analysis.

MAJOR FINDINGS

- The objective of the study is to identify the factors that lead to the growth of NPAs in public and private sector banks. Seventeen variables were taken into the study. With the help of factor analysis six major factors have been extracted..

- The Present study examines the impact of NPAs on banks profitability, liquidity and solvency. After the analysis, it was found that NPAs have a huge impact on the profitability, liquidity and solvency of the banks. NPAs impact negatively on the profitability, liquidity and solvency of the banks.

- The third objective is to make a comparison of management of NPAs in both public and private sector banks. Two questionnaires were prepared for the purpose of the study to get an in-depth knowledge about the different aspects of NPA management.

- It has been observed that both bank groups gave first rank to micro and small industries, second rank to the medium industry and last rank to large industries.

- As per the opinion received from credit officer regarding the effectiveness of the health code and prudential norms system, results reveal both health code system and prudential norms system are effective,

- With regard to usage and effectiveness of the CBS system for the calculation of NPAs by both bank groups, results reveal that both bank groups use CBS system.

- Loan assets are classified as standard assets, substandard assets, doubtful assets and loss assets. Both the bank groups find this system of classification of loan assts effectively.

- Both public and private sector banks check the credit score of their clients before granting loans.

- Proper feasibility study It was found that banks of both the sector perform a feasibility study as 100.0% positive response has been received.
- The results of the analysis reveal that both public and private sector banks have incorporated an early warning system in their banks as 100% positive response is received from both bank groups.
- There is no significant difference between the choices of public and private sector bank except for how much recoverable debtors.
- While managing NPAs there are different objectives of branch officers. Public sector banks have given maximum importance to prevent further slippage.
- It was observed that both the bank groups have dedicated recovery department in their banks as 100% positive response received from both bank groups.
- Public sector banks have small and simple organizational structure while private sector banks have large and complex organizational structure.
- On public sector banks important decisions are taken by branch managers and sometimes by credit officers, but in private sector banks whole committee decides about appropriate action.
- In public as well as private sector banks maximum employees need on the job training. Although in public sector banks some employees need training by lecture method also.
- Public sector bank recovery department employees need training on yearly and half yearly basis while in private sector banks, employees need training on quarterly and half yearly .
- In both bank groups when an asset comes under the substandard category it has been transferred to recovery department for further action. But sometime in private sector banks, they wait till the asset reached to doubtful category
- Both banks have different recovery procedure.
- Different type of credit recovery methods followed by banks, but both bank groups uses SARFAESI act maximum for the recovery of NPAs.
- Nonperforming assets are recovered mainly with the help of lok adalats, debt recovery tribunals and SARFASI act. Among these three SARFAESI acts was considered most effective by both the bank groups.

- KYC (Know your customer) norms are important to know the worthiness of your clients. Both the bank groups consider that KYC norms are helpful in reducing NPA from banks.

- Regular reminders from the banks about the due payments to their customers help the borrowers in keeping track of their due installments.

- Both the bank groups verify the permanent address of their borrowers. The document which is taken in maximum cases is Adhar card and ration card by both public and private sector banks.

- There is a significant difference found between public and private sector bank for the obstacles faced by them in the recovery of NPAs except for infrastructure problem and political pressure.

SUGGESTIONS

In spite of various RBI norms and government regulation there is continuous growth in NPAs in both bank groups. Proper steps should be taken by banks, RBI and government to reduce the level of NPAs from banks, these steps can be:

- Making the infrastructure of banks more strong.

- Fixing the responsibility of credit officer whose loan account turns into NPAs

- Making strict laws for the defaulters.

- RBI should take appropriate actions to remove political pressures from banks