

Impact of Npas on Banking Sector



Commerce

KEYWORDS : Bank, Banking, E-BANKING, Meaning of NPA, Non-Performing Asset, Early Warning Signals etc.

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ABSTRACT

Non-Performing Asset or NPA, It is called such as while it is an "Asset", it does not bring substantial income to its Owner or is just dormant. Call it a white elephant if you wish. Basically, it is having something that should work but does not. It is supposed to make Non- Performing Assets work. The RBI has issued guidelines to banks for classification of assets into four categories.

NPA are those categories of assets (advances, bills discounted, overdraft, cash credit etc.) For which any amount remains due for a period of 180 days.

Action for enforcement of security interest can be initiated only if the secured asset is classified as Non-Performing Asset. Non-Performing Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by RBI. An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. Due to the improvement in the payment and settlement systems, recovery climate, up gradation of technology in the banking system, etc., it was decided to dispense with 'past due' concept, with effect from March 31, 2001. Accordingly, as from that date, a Non performing asset (NPA) shall be an advance where interest and /or installment of principal remain overdue for a period of more than 180 days in respect of a Term Loan, the account remains 'out of order' for a period of more than 180 days, in respect of an overdraft/ cash Credit(OD/CC), the bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted, interest and/ or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose, and any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

Introduction

The banking system has a significant role to play in the rapid growth of the economy through planned efforts. In fact, banking system of any country is the lifeline or lifeblood of the economy. A banking institution is indispensable in a modern society.

The banks, in their books, have different kind of assets, such as cash in hand, balances with other banks, investment, loans and advances, fixed assets and other assets. The Non- Performing Asset (NPA) concept is restricted to loans, advances and investments. As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as performing asset, and when it fails to generate the expected income it becomes a "Non-Performing Asset".

The word NPA is not something new to the bankers. It is regular but disguised loan asset. As everyone knows, a portion of assets may become NPA .An asset becomes non-performing when it ceases to generate income for the bank.

Non-Performing Assets are also called as Non-Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing. A high level of nonperforming assets, compared to similar lenders, may be a sign of problems.

CPNCEPT:

Bank: In a simple word bank means financial institution dealing in money. It accepts deposits and leads money. Banking opera-

tions are performed by banker. Bank plays an important role in modern economic activities. Expansion of credit in economic activities is widely performed by banks.

Banking: Banking means the accepting for the purpose of lending or investment, deposits Of money from the public, repayable on demand or otherwise and withdraw able by cheque, drafts, order of otherwise.

E- Banking:

The electronic age has a meant several changes for banking. Firstly the delivery channels have increased leading to lower cost and wider variety of services. The channels include internet, ATM and phone banking.

Meaning of NPA

In a simple word, an asset which, ceases to generate income for the bank is called a non- performing asset (NPA). When a borrower could not pay interest and/or installment on a loan, which remain overdue for more than 180 days then it becomes non- performing. The basic factor to determine whether an account is NPA or the record of recovery is not the availability of security.

Non-Performing Asset

Asset means an asset or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset in accordance with the directions or guidance relating to asset classification issued by The Reserve Banks of India.

Early Warning Signals:

The Early Warning Signals (EWS) are those which clearly indicate or show some signs of credit deterioration in the loan account. They indicate the potential problems involved in the accounts so that remedial action can be initiated immediately. In fact most banks have EWS for identification of potential NPA.

Literature Review:

Many studies have been conducted by researchers on NPAs in banking Industry. The researcher has made attempts to present a brief review of literature available, which are published in the form of research articles and technical papers published in the journals, magazines and websites in the related area. The review of the literature is used to formulate theoretical analysis of Non-performing loans undertaken in the present study.

In view of the importance of NPAs management in banks and in the process of reducing NPAs, large number of studies has been carried out by researchers, on the concept, type, impact, reasons and measures for NPAs in banking industry. Several research studies have been made by academicians, research institutions, Government, working groups and committees appointed by the RBI related to the commercial banks in general and also specific studies pertaining to individual banks focusing on NPAs. Research Students from various institutions and universities have also made significant contribution to this literary wealth.

Toor N.S. (1997) explained the concept of NPAs and management of

NPAs from bankers' point of view and explains the strategy to be followed in handling borrowing accounts right from pre-sanction stage till recovery of the loan. The book is a practical guide for the practicing bankers and serves as a ready reckoner. However, this book does not contain any statistical data of NPAs.

Tannan M.L. (1998) stated that interest income should not be recognized until it is realized. In respect of non-performing assets interest is not to be recognized on accrual basis but is to be treated as income only when actually received. Income in respect of accounts coming under health code 5 to 8 should not be recognized until it is realized. As regards accounts classified in Health Code 4, RBI has advised the banks to evolve a realistic system for income recognition based on prospect of the security. On Non-performing accounts the banks should not charge or take into account the interest.

Banbar Shahoo mentioned the various tenets of effective NPA Management and how it helps to improve bankers' management skills at the field level. Different dimensions of NPAs, effects of NPAs on profitability, return on assets, interest rates, image of banks, the principles of NPAs Management, the concept of NPAs and prudential norms, methods of prevention of NPAs – credit management and of NPAs are the aspects covered and it does not contain any statistical analysis of the data relating to NPAs in the banking sector.

Nature of the Study:

The nature of this research can be termed as descriptive research and also qualitative research. Because of, "Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. In social science and business research, researcher quit often uses the term ex-post factor research for descriptive research studies. The main characteristic of this method is that the researcher has no control over the variables; researcher can only report what has happened or what is happening."

Overview of NPA classification in india

Standard Asset	It does not create any problem while paying interest/ installments of the principal. It usually carries more than normal risk attached to the business.
Sub- standard asset	NPA for a period less than or equal to 12 months.
Doubtful Asset	NPA for a period exceeding 12 months.
Loss Asset	An asset where loss has been identified by the bank or internal or external auditors or by the RBI inspection.

RESEARCH METHODOLOGY

In this research paper a researcher has select some bank like privet and public sector bank used last five year information with NPA.

Hypothesis:

Ho: There is no significant difference of gross NPA ratio of all sampled banks during the study period.

H1: There is significant difference of gross NPA ratio of all sampled banks during the study period.

H0: The financial Performance of the banks not depend upon the nature and size of the selected banks.

H2: The financial performance of the banks depends upon the nature and size of the selected banks.

Limitations of the Study:

Every live and non-live factor has its own limitation, which restrict the usability of that factor. Each study cannot be free from limitations. Some limitations likewise, the limitation of time areas, economic, efforts, scope as well as the method of the study. Some limitations for present research work as under:

(1) Scope of this study is wider but sample size is limited to only some banks. From banks, Private sector banks and public sector banks.

(2) This research study based on secondary data collected from annual reports of various banks and related websites. The limitation of the secondary data and its finding depend entirely on the accuracy of such data.

CONCLUSION: the study and at last suggestions for improvement in accounting practices in bank.

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