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Research Paper Management

Causes and Remedies of Non Performing Assets Towards Indian Public Sectors Bank

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ABSTRACT

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 issued by RBI. The factors that are contributing to NPA are poor loan management policy, improper credit appraisal, business failures, poor recovery of receivables, sluggish legal system, industrial recession, and adverse exchange rates etc.
This study deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing, projection with special reference to public sectors bank, Chennai. This study focused on Descriptive research. Primary data were utilized for data collection with the help of structured questionnaire. Stratified random sampling technique will be used here and the samples will be selected using Lottery method. In conclusion, on the basis of information given by the respondents, the observation were made and analysis was carried out using financial tools with better understanding of present and past scenario of NPA management and suggestions are presented.

KEYWORDS Reducing NPAs internal and external impact, improving bank asset quality

INTRODUCTION:
The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture. The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. In recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets. Non-performing assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narasimha committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of non-performing assets of the banks and thus it recommended it to be phased out. Therefore while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk wherein some part of the profit is reserved for covering the non-performing assets. The causes of NPA mainly depend on internal bank management, credit policy, business management problems and other external factors. NPA has its major impacts on Profitability, liquidity and credit loss of the bank. The study on causes and remedies of Non Performing Assets also gives knowledge about the causes of NPA and various remedies to overcome the problems of NPA.

REVIEW OF LITERATURE: Classification of Non Performing Assets
T.N.Gurumoorthy (2012) stated that "non-performing assets can be further classified by bank as standard, substandard, doubtful and loss asset in accordance with guidelines related to asset classification issued by RBI".

Standard Assets: Standard assets generate continuous income and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are required for Standard Assets.

Sub-Standard Assets: A sub-standard asset was one, which was considered as non performing for a period of 12 months.

Doubtful Assets: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful assets.

Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Provisional Norms -Standard assets:
(a) Direct advances to agricultural & SME sectors at 0.25 per cent;
(b) Residential housing loans beyond Rs. 20 lakh at 1 per cent;
(c) Advances to specific sectors, i.e. personal loan and credit card. Receivable loan and advances qualifying as capital market exposures, commercial Real estate loan at 2 percent.
(d) All other advances not included in (a), (b) and (c) at 40 percent.

Substandard assets: 10 per cent of the total out standings for total sub Standard assets.

Doubtful assets: 20- 50% of the secured portion depending on the age of NPA and 100% of unsecured portion.

Loss assets: It may be either written off or fully provided by the bank.

GROSS NPA AND NET NPA
Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account.

Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

OBJECTIVES OF THE STUDY

- To study the position of NPA and its causes.
- To study the impact of NPA on asset quality.
- To identify the factors influencing NPA in public sector banks

RESEARCH METHODOLOGY

Descriptive research is a study designed to depict the participants in an accurate way.

It's used to describe characteristics of a population or phenomenon being studied. It provides an accurate portrayal of characteristics of a particular individual, situation or group a research instrument is "a tool used to collect data" which measure knowledge, attitude and skill of the respondents. The researcher prepared a structured questionnaire as an instrument to collect the data.

Stratified Random Sampling is a method of sampling that involves the division of a population into various sub groups form into single group is known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. The sample size of a survey most typically refers to the number of units that were chosen from which data were gathered. The sample size is 54 for this study.

Limitation

- ✓ Since non-performing assets are critical, bank officials are not willing to part with all the information with them.
- ✓ Reasons for NPAs and Management of NPAs are changing with the time. The study is done in the present environment without foreseeing future developments.
- ✓ The conclusions of the study are based on the responses of the banks and secondary information. Thus, some amount of subjectivity might remain.

FACTORS HELP TO IMPROVE ASSET QUALITY

INFERENCE: To reduce NPA: 5% of respondents given rank 1, 0% of respondents given rank 2 , 0% of respondents given rank 3, 41% of respondents given rank 4 and 54% of respondents given rank 5.

To have control over the fixed assets: 0% of respondents given rank 1, 2% of respondents given rank 2 , 24% of respondents given rank 3, 44% of respondents given rank 4 and 30% of respondents given rank 5.

To reduce NP To have control over the substandard assets : 3% of respondents given rank 1, 4% of respondents given rank 2 , 28% of respondents given rank 3, 37% of respondents given rank 4 and 28% of respondents given rank 5.

To have control over the standard assets: 0% of respondents given rank 1, 26% of respondents given rank 2 , 33% of respondents given rank 3, 28% of respondents given rank 4 and 13% of respondents given rank 5.

To have control over the borrowing funds: 2% of respondents given rank 1, 19% of respondents given rank 2 , 31% of respondents given rank 3, 37% of respondents given rank 4 and 11% of respondents given rank 5.

To have control over the lending funds: 9% of respondents given rank 1, 19% of respondents given rank 2 , 26% of respondents given rank 3, 33% of respondents given rank 4 and 13% of respondents given rank 5.

To have control over the credit cycling: 20% of respondents given rank 1, 13% of respondents given rank 2 , 24% of respondents given rank 3, 26% of respondents given rank 4 and 17% of respondents given rank 5.

ANOVA

OBJECTIVE: To indentify the significance difference within priority sectors.

H0: There is no significance difference within priority sectors.

H1: There is a significance difference within priority sectors.

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

a. Listwise deletion based on all variables in the procedure.

Item Statistics

	Mean	Std. Deviation	N
Agriculture	4.40	.990	50
Micro and Small Enterprises	3.84	.817	50
Education	2.38	1.048	50
Housing	2.08	.829	50
Export Credit	2.10	1.216	50

Inter-Item Correlation Matrix

	Agriculture	Micro and Small Enterprises	Education	Housing	Export Credit
Agriculture	1.000	.434	.382	.234	.153
Micro and Small Enterprises	.434	1.000	.435	.381	.078
Education	.383	.435	1.000	.676	-.094
Housing	.234	.381	.676	1.000	.174
Export Credit	.153	.078	-.094	.174	1.000

Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item Means	2.960	2.080	4.400	2.320	2.115	1.175	5

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
14.80	9.673	3.110	5

ANOVA

		Sum of Squares	df	Mean Square	F	Sig
Between People		94.800	49	1.935		
Within People	Between Items	234.920	4	58.730	78.908	.000
	Residual	145.880	196	.744		
	Total	380.800	200	1.904		
Total		475.600	249	1.910		

Grand Mean = 2.96

INFERENCE: From above F test it is inferred that 0 .00 >0.05 the null hypothesis is rejected therefore there is significance difference within priority sectors on NPA.

FINDING AND SUGGESTION

- It is found that 21% of respondents have 5 to 10 years experience, 44 % of respondents have 11to15 years experience, 24% of respondents have 16 to20 years experience and 11 % of respondents have 21 years & above experience.
- 68% of NPA arise from Priority Sectors and 32% NPA arise from Non Priority Sectors.
- Per Capita Income: 41% of respondents are Strongly Agree, 31% of respondents are Agree, 11% of respondents are Neutral, 11% of respondents are Disagree and 6% of respondents were Strongly Disagree the impact of Per capita Income on NPA.
- Unemployment: 41% of respondents are Strongly Agree, 31% of respondents are Agree, 11% of respondents are Neutral, 11% of respondents are Disagree and 6% of respondents were Strongly Disagree the impact of Unemployment on NPA.
- Personal Factors of Customers: 46% of respondents are Strongly Agree, 33% of respondents are Agree, 9% of respondents are Neutral, 8% of respondents are Disagree and 4% of respondents were Strongly Disagree the impact of Personal Factors of Customers on NPA.
- Securities Evaluation: 11% of respondents are Strongly Agree, 7% of respondents are Agree, 28% of respondents

are Neutral, 24% of respondents are Disagree and 30% of respondents were Strongly Disagree the impact of Per capita Income on NPA.

- Technical Evaluation on Assets: 7% of respondents are Strongly Agree, 4% of respondents are Agree, 30% of respondents are Neutral, 26% of respondents are Disagree and 33% of respondents were Strongly Disagree the impact of Per capita Income on NPA.
- Instabilities of inflation rate: 9% of respondents are Strongly Agree, 6% of respondents are Agree, 32% of respondents are Neutral, % of respondents are Disagree and 31% of respondents were Strongly Disagree the impact of Per capita Income on NPA.
- To reduce NPA: 5% of respondents given rank 1, 0% of respondents given rank 2 , 0% of respondents given rank 3, 41% of respondents given rank 4 and 54% of respondents given rank 5
- To have control over the fixed assets: 0% of respondents given rank 1, 2% of respondents given rank 2 , 24% of respondents given rank 3, 44% of respondents given rank 4 and 30% of respondents given rank 5.
- To reduce NP To have control over the substandard assets : 3% of respondents given rank 1, 4% of respondents given rank 2 , 28% of respondents given rank 3, 37% of respondents given rank 4 and 28% of respondents given rank 5.
- To have control over the standard assets: 0% of respondents given rank 1, 26% of respondents given rank 2 , 33% of respondents given rank 3, 28% of respondents given rank 4 and 13% of respondents given rank 5.
- To have control over the borrowing funds: 2% of respondents given rank 1, 19% of respondents given rank 2 , 31% of respondents given rank 3, 37% of respondents given rank 4 and 11% of respondents given rank 5.
- To have control over the lending funds: 9% of respondents given rank 1, 19% of respondents given rank 2 , 26% of respondents given rank 3, 33% of respondents given rank 4 and 13% of respondents given rank 5.
- To have control over the credit cycling: 20% of respondents given rank 1, 13% of respondents given rank 2 , 24% of respondents given rank 3, 26% of respondents given rank 4 and 17% of respondents given rank 5.
- 65% of respondents say the doubtful debts in the bank every month is less than 1% and 35% of respondents say the doubtful debts in the bank every month is 1.1% to 2%.
- 44% of respondents have 11 to 15 years of experience in banking operations since most of failures arise in credit process. So, the bank should give proper training for other respondents for developing the competency of credit operators, information system management pertaining to credit and efficiency of the credit process towards cash flow.
- When compared to Non priority sectors, 68% of NPA arises from priority sectors. So, bank should take little more care in assessing the creditworthiness of the borrowers from priority sectors, taking measures for checking mismanagement of funds by them and also they must focus on recovery from those borrowers who have the capacity to repay but are not repaying the debt.
- When compared to others small, medium and large scale industries have more impact on the asset quality because of NPA. So, to improve the asset quality Effective inspection system should be implemented in banks. Because identifying reasons for turning of each account of a branch into NPA is the most important factor for upgrading the asset quality, as that would help to initiate suitable steps to upgrade the accounts and also the Credit section should carefully watch the warning signals viz. non-payment of quarterly interest, dishonour of check etc.
- It is not only that high inflation feeds into nominal interest rates, making debt servicing more onerous, it also erodes the disposable incomes and impinges on the repaying capacity of borrowers. The evidence in the literature, as seen earlier, corroborates the fact that banks' write-off ratio increases after increase in retail price inflation and nominal interest rates. The majority of respondents opinion confirms that rising prices in the recent years are contributing to the asset quality problems
- Sectoral analysis reveals that, on an average, retail loans occupy the largest share in total NPAs followed by SSIs, agriculture, personal loans, housing loans, exports, credit cards and auto loans over the last one decade. Arguably, non-priority sector has contributed significantly to acceleration in total NPAs.

CONCLUSION: Growing NPAs is one of the biggest problems that the Indian banks are facing today. NPAs reflect the overall performance of the banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. If proper management of the NPAs is not undertaken it would hamper the efficiency of the banks. If the concept of NPAs is taken very lightly it would be dangerous for the banking sector. The NPAs destroy the current profit and interest income and affect the smooth functioning of the recycling of the funds. Banks also redistribute losses to other borrowers by charging higher interest rates. Lower deposit rates and higher lending rates repress savings and financial markets, which in turn hampers the economic growth of the country. Due diligence and utmost care must be taken by the branch managers before sanctioning the loans to the clients.

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