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INCREASING NPA'S IN PUBLIC SECTOR BANKS "A THREAT TO INDIAN PSB'S

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Abstract: *Banking sector is an imperative financial service sector in the economic growth of a nation. It facilitates channelization of funds for productive purpose, adjudicate funds flow from surplus to deficits units and also supports in the economic and financial policies of the government. Thus, the economic development and the banking development of a nation is invariably inter-related. However the magnitude of the problem of bad debts in India is increasing by every passing day and systematic evaluation and proper strategies are the need for the banks to eliminate this problem. It is very important for banks to maintain its asset quality and profitability for its survival and growth to fulfil its social objective of lending to the priority sector, employment generation mass branch network but prevalence of Non-Performing Assets (NPAs) is a major threat to Indian banking sector specially the public sector banks. Non-Performing Assets are also called bad debts or non-Performing loans which are provided by banks on which repayments or interest payments are not being made on time. Loans represent the assets of bank and in loan portfolio bad debts or NPAs affect the operational efficiency and profitability of banks, which reflect the liquidity and solvency position of banks. The study has been carried out to analyse the causes and effects of NPAs in public sector banks and to provide remedial suggestion to tackle the problem.*

Key Words: *NPAs, Banking, bad debts.*

INTRODUCTION:

As a major player in the development of economy, banking industry accepts deposits from the public and mobilizes the savings of people. This not only help in breaking the vicious circle of poverty but also helps in the overall progress of economy. Therefore a healthy banking system is indispensable to remain stable in the growth process. NPAs reflect the health of banks high level of NPAs not only restrict the profits of bank but also corrode the value of assets. Debt is very essential in the progress of economy and it clearly improves welfare but only when it is distributed or given wisely and in moderation otherwise it can cause disaster to the economy. Too much of debt debilitate the government's ability to deliver the essential services to its citizen. The rise of bad debts in Indian banks has caused a severe damage to their health and Indian banks have witnessed a sharp jump in their gross

NPAs in last four years (2012-15). In international market also the Indian banks have the higher percentage of NPAs in comparison to the other developing countries. High level of NPAs put a lot of strain and pressure on banks to maintain desired level of Capital Adequacy that is why Indian banks are under emmer-pressure and facing very serious problem of increased magnitude of NPAs, specially the public sector banks. So, in order to improve efficiency and profitability of banks, there is need of proper strategies, bankruptcy laws and diligent legal procedures to reduce the level of NPAs in public sector banks.

REVIEW OF LITERATURE:

Reddy (2004) in a bulletin of RBI March 2004 said that lending policy could have decisive influence on non-performing loans. He studied pertaining issues of credit policies of Indian banks. He conceptualized the 'credit culture' of Indian banks. He also said that 'the element of power has no bearing on illegal activity'. **Mohan (2003)** in a bulletin 'Transforming Indian banking in search of better tomorrow observed that lending rates of the banks have not come down in comparison to deposit rates and interest rates on government bonds. According to **Muniappan (2002)** there are several internal and external factors responsible for the problem of NPA's. The internal factors are diversification, taking up new projects, modernization, funds for expansion, inappropriate technology/technical issues, business failure, inefficient management etc. while external factors are inputs and power shortage, non-payment in other countries, recession, accidents and natural calamities, prices escalation etc. **Rajaram and Vashishta (2002)** in an empirical study revealed that there is a significant bivariate relationship between problem loans of PSB's and an operating inefficiency indicator. **Das and Ghosh (2003)** in an empirical study examined non-performing loans of Indian public sector banks in terms of various indicators such as operating efficiency, asset's size, macro-economic conditions and credit growth etc. **Bloem and Goerter (2001)** in their study said that more or less predictable level of non-performing loans are caused by 'wrong economic decisions' of individuals and plain bad luck (unexpected price change, inclement weather, changes for certain products etc.). In such situations can make an allowance for a normal share of non-performance in the form of bad load provisions and they can also spread the risk by taking out the insurance.

OBJECTIVES:

- To understand the reason and impacts of mounting NPAs.

- To provide remedial suggestion to cope up with the alarming situation of NPAs rise in public sector banks.

NON- PERFORMING ASSETS:

Nonperforming assets (NPA) can be defined as loan assets which are not generating any income to the bank both in the form of interest and principal repayment.This is the reason the NPA not only affect the operational efficiency of banks but also cause damage to banks profitability, liquidity, and solvency position. A loan becomes NPA when a payment of interest on that loan and repayment of instalments of principal amount has not been paid for a period of two quarters or more and they have become 'past due'. Loansare treated as assets by the banks and through the interest payments made on loans, banks make their profit but if these assets are not serviced for some time, banks treat them as non-performing. Usually, if payments are late or delayed for shorter period, banks classified them as 'past due' but when payment are not made for more than 90 days, the loan becomes non-performing asset. A high level of non-performing asset is an indicator of high level of risk of bank's failure? Too much of NPA's also have negative impact on profitability, liquidity, and competitive functioning of banks. In order to reduce NPAs banks dispose of its funds and other assets towards credit delivery which in turns affect the survival and growth of banks and sometimes leads to bank's failure.

CAUSES OF NPA:

The Indian banking sector has been facing curial problem of rising NPA's but the magnetic of problem is bigger in PSB's in comparison to private sector banks. There are several internal and external factors are responsible for increased NPA's among public sector banks. Some of them are as follows.

There are several poverty elevation programmes introduced by government of India time to time like SUME, IRDP, SEPUP, PMRY etc. and huge amount of loan is granted under these schemes by PSB's but the schemes failed on various ground in meeting their objectives and ultimately the consequences are faced by the banks. The loans remained uncoverable due to misuse of funds, political manipulation etc. The loans given by banks are their assets and if the interest of loans and repayment of instalments of principle amount is not been made, the bank will suffer the losses and the quality and value of those assets will start deteriorating slowly.

In Indian banking sector, there prevail directed loan system under which commercial banks are required to give 40% of their credit to priority sector. Although lending to priority sector is the social objective of banking to enhance the growth process of the economy but due to political interference & dominance a huge amount of NPA occur from priority sector.

The loan given to 'micro sector' also create problem in recoveries especially when its units starts becoming sick or weak. Other Important reasons for increased NPA's among PSB's are mentioned below.

- Failures of business.
- Improper selection of borrowers.
- Deficiencies on the part of banks *viz*, in credit appraisals, monitoring, and follow-up
- Non-Compliance of sanctions, terms and condition.
- Delay in settlement of payment/subsidies by government bodies etc.
- Poor debt management by the borrower leading to financial crisis.
- Wilful defaults, fraud, mismanagement and misappropriation of funds.
- Delay in completing the project.
- Lack of proper pre-appraisal and follows up.
- Under financing/untimely financing.

IMPACTS OF NPA:

The NPA's do not generate any interest income for banks and at the same time banks are bound to provide provisions for NPA's from current profits, that is why the efficiency of banks is also assessed by the level of return on its assessts. In developing countries like India NPA's are one of the biggest hurdle in way of their socio-economic growth. The high level of NPA's affects the financial stability of banks. So, banks are required to make vigorous effort to strength their risk management system and internal control. The high level of NPA's affects the banking operations in the following ways.

- Continuous decline in interest income and providing provision for doubtful debts to write off bad debts from current profits affect the bank's profitability adversely.
- Return on Investment (ROI) also gets reduced.
- Due to inclusion of NPA's, the calculation of capital adequacy ratios also gets disturbed and cost of capital will go up.

- The overall interest income of bank will decline and will be accounted only on receipt basis.
- Cost of capital will go up to due to uncertainty in return, high risk and high level of NPA's.
- The economic value addition (EVA) by banks gets disturbed due to mismatch of assets and liabilities caused by NPA's. It is because EVA is equal to the net operating profit minus cost of capital and thus, it reduces the recycling of the funds.
- High level of NPA's do not have its impact only on banking operation but it adversely affects the other parties too.
- NPA's misallocate credit from good projects so the non-performing loans epitomize bad investment and economy performs below its production potential.
- NPA's adversely affect the banking system and reduce the money stock which ultimately leads to economic contraction. It happens when many borrowers fail to pay interest and the principle amount. Banks may experience the liquidity shortages and in result these shortages can jam payments across the country.
- Depositors do not receive market returns on their savings by banks. There is also a risk of asset loss to the depositors in case of bank failure.
- Banks also redistribute losses to other borrowers by charging higher interest rate.
- Owners do not receive market return on their capital and in worst cases they loss their assets which affect the broad pool of shareholders.

ALARMING SITUATION AMONG PSB's:

The rise of NPA in 2014-15 has attribute to the effect of global recession coupled with internal factors such as slowdown in the Indian economy, adversely affected the overall corporate performance and reduced the credit quality

During financial year 2012 to 2015,27 public sectors banks wrote off a huge sum of Rs. 1.14 lakh crores of bad loans.

A rise of 53% in the write off was witnessed in the last fiscal alone to clean up the balance sheet (As per date of RBI)

SBI has stopped the chart of PSB's by writing of Rs. 21,313 crore followed by Punjab National Bank Rs. 6587 crore and Indian over scales bank Rs. 3,131 crore.

Top ten PSB bad loans write-offs

Banks	Amount written off in crores
SBI	Rs. 21313 crore
PNB	Rs. 6587 crore
Indian Overseas Bank	Rs. 3131 crore
Allahabad Bank	Rs. 2109 crore
Central Bank of India	Rs. 1995 crore
IDBI Bank	Rs. 1609 crore
Bank of Baroda	Rs. 1564 crore
Syndicate Bank	Rs. 1527 crore
Canara Bank	Rs. 1472 crore
Uco Bank	Rs. 1401 crore

SUGGESTIONS:

The problem of NPA is not limited to public sector Banks but it prevails in entire banking system. As Indian Bank preferred to lend to priority sector with the influence of dictates, politician, and bureaucrats, a major portion of bad debts arose out of this sector, also there are many loopholes in the legal procedures of debt recovery in India and the problem of NPA is tied with this.

The absence of proper bankruptcy laws and delayed legal procedure are the root cause of bad debts in banks. So in order to improve the recovery process and minimize debts here are some suggestions.

- Most bad loans occur due to poor credit monitoring and poor credit approval. In this areas serious efforts and attention is required to monitor the loans sanctioned by banks.
- Public sector banks can increase the number of instalments to be paid by borrowers by reducing the amount of instalments to recovery the loan completely.
- There is a need to develop suitable and relevant system or model to assess financial health and repaying capacity of credit applicants.
- A well-organized coordination should be developed among banks so that defaulter at one place should be recognized as defaulter by the entire banking system. Also there is a need to make borrowers realize, if they fail to repay the loan then their name would get registered with CIBIL which means they cannot get any loan from other banks in future and they will become black listed borrowers.

- Honest organizational restructuring of banks is also the need of today because history reveals that banks themselves are responsible for containing the factors leading to NPA's.
- A proper legal framework should be developed to take quick action against defaulting borrowers' especially wilful defaulters.
- Due to serious debt problem prevailing in Indian banks there is a need of bank recapitalization also, with government aid, write off of NPA's, positive disposal and increased regulation.
- Collection officers for the recovery of loans should be appointed on regular or contractual basis.

CONCLUSION:

The Indian public sector banks are going through severe consequences of maintaining liquidity, cleaning up the balance sheet, write off debts etc. all due to increased level of Non-performing assets (NPA's) among banks. Managing bad loans and controlling them at lowest level has become extremely important for banking industry. A well established, systematic & proper credit assessment and risk management mechanism can solve the problem of NPA's to a large extent. It is necessary for Indians banks to be equipped with prudential norms to minimize and avoid the problem of NPA's. In a situation of liquidity overhang, banks are lending at the cost of assets quality, raising concern about the adverse selection of borrowers and increasing the potential danger of addition to the stock of NPA's.

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