ABSTRACT

The global economies feel that the financial institutions have been equivalent of a high velocity roller coaster ride for the past couple of years. We have seen major ups and downs, with twists and turns along the way. The Indian banks are not an exception. The issue of Non Performing Assets (NPAs), the origin of the global financial crisis just like a roller coaster ride does, has left some with a rush of adrenaline and others feeling sick. The increasing level of NPA demands the necessity of provisions at the cost of profit margin and banks market value. The various studies had discussed the issue of Non Performing Assets under many deliberations all over the world the problem is not only affecting the banks but the economy as whole. The wealth, health & financial status of the industry and trade is the reflection of Non Performing Assets in Indian Banks. The accumulating NPA exposes the banks to the credit risk, arising due to the failure of non recovery of loans from the borrowers. Though complete elimination of losses due to NPA is not possible but banks can always aim to keep the losses at a lower level.

Effective NPA Management has become very vital in view of the multifarious impact NPAs have on profitability. No income accrues from NPAs. Provisioning eats into the profit made from other operations. Cost is involved in holding corresponding capital. Though no income is generated bank continues to incur cost on funds lent. The image of the bank also gets a beating. Effective NPA Management is a real challenge to day and the entire staff members need to be sensitized to the urgency of task on hand. RBI has been insisting on banks to utilize various measures on recovery of bad loans and strengthen due diligence. The global rating agency, Moody’s, in its latest report of 2013, has downgraded Indian banking system’s rating outlook from ‘stable’ to ‘negative’. The Reserve Bank of India (RBI) has also observed in its second quarter review of monetary policy 2012-13 that the
Non Performing Assets (NPA) and restructured loans of banks have been increasing significantly and a major reason for deterioration in the asset quality of banks is the lack of effective timely information exchange among banks on credit, derivatives and un-hedged foreign currency exposures. (Sashidaran 2013)

In India, NPA were very high in the beginning of 90’s. Over a period of time there is considerable decline in the NPA’s of all banks. In the case of public sector banks, gross non-performing assets were 9.4% in 2002-03 and it declined to 7.8% in 2003-04. The net NPA during the same period declined from 4.5% to 3%. Non-Performing Assets are popularly known as NPA. Commercial Banks assets are of various types. All those assets which generate periodical income are called as Performing Assets (PA). All those assets which do not generate periodical income are called as Non-Performing Assets (NPA). If the customers do not repay principal amount and interest for a certain period of time then such loans become non-performing assets (NPA). Thus non-performing assets are basically non-performing loans. In India, the time frame given for classifying the asset as NPA is 180 days as compared to 45 days to 90 days of international norms.

The present study is conducted with the primary objective to find out the reasons for increasing level of nonperforming assets in the public sector. A hybrid research methodology is adopted for the purpose of this study. Descriptive research methodology is adopted to know the banking sector climate and NPA management practices of banking sector. An exploratory approach is followed to dig out the internal affairs of banking to know the difficulties in the management of NPAs in banks. Methodology relates to plan of study, which includes steps of data collection, types of questionnaires, process of data and finally interpretation of data. Data is collected from Public sector bank branches located in and around Chennai. Present thesis is outcome of research conducted by researcher adopting survey method. A survey research is usually based on the sample survey or census survey. The sample
The priority sector composition of non-performing assets are started increasing from the year 2005 to reached a maximum composition from priority sector advances during the year 2008, later, it was started diminishing in by year on year till date. On the other hand, the composition of non-priority sector non-performing assets are increased from 1995 to 2005 and started diminishing and reached the lowest composition from the non-priority sector during the year 2008. Later the composition of non-performing assets from non-priority sector started increasing and continuing the same trend till date. The composition of non-performing assets from the public sector is nominal throughout the period and further diminishing in the recent past. Hence, there is a need to focus on non-priority sector loans recovery from the corporate groups by exercising all measures to recover the loans from the customers.

The composition of non-performing assets of public sector banks, from different sectors are as follows. The priority sector composition to non-performing assets is high during 1995, 2006 to 2012. Whereas non-priority sector composition to non-performing assets is high during 1996 to 2005 and 2013. The composition of public sector to the level of non-performing assets in the public sector banks is as low as less than 3 percent from 1995 to 1999 and later it was reduced to 2 percent and in the recent past the composition has come down to less than one percent.

The reasons for high level of accumulated non-performing assets in public sector banks is quoted in the primary data survey among the bankers indicates that, The poor level of adoption of Integrated risk Management Division is observed with 56.5 percent response level in the sample survey. Similarly, 53.7 percent of the sample perceived that, Operational risk management Policy on NPAs is poor among
the public sector banks in the sample area. There is a highly significant relationship between Time taking to declare NPAs in Banks and Preventive activities performed by a bank to control NPAs, Precautions taken while lending loans, Appraisal stage Reasons for NPAs, Sanction and disbursement Reasons for NPAs, Post disbursement stage Reasons for NPAs, Difficulties in the management of NPAs in banks.

Integration of Risk management division: The need for adoption of integrated risk Management Division and Operational risk management Policy on NPAs by reviewing the same and simplifying and removing the bottlenecks in the adoption. Initiatives on integration of all the departments relating to risk management and functioning together by sharing and caring helps in controlling the level of non-performance assets in banks. The need for careful appraisal of a loan application and regular follow-up of the same for effective recovery. The responsibility needs to be fixed at team and a branch instead of single person or authority. It can bring lot of co-operation and co-ordination between the employees of a bank.

There are common causes responsible for NPAs in selected banks are like lack of supervision, political interference, willful defaulters, diverted use of funds, internal and external causes, fraudulent approach of borrowers, irresponsible attitude of officers and poor appraisal system. Thus NPA is a threat to the existence of bank. Default on account of big borrowers is a problem in recovery for public sector banks. The quality of standard assets is important factor in determining NPA. The process of maintaining the quality of the assets starts from appraisal stage, sanctioning of loan, post disbursement activities, efficient use of legal norms, which strengthen the recovery process resulting in lower level of NPA. NPAs found at higher level are an indication of low profitability. The seed of success of managing the loss asset in any economy lies in the speed of recycling these assets and their realization into cash.