Study of Management of Non-Performing Assets of Banks by Public Sector Banks in India.

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ABSTRACT: -

In India, Banking Sector has a long history and tradition. However, the severity of the bad debt issue of banks has not been taken seriously. Subsequently, following the recommendations of the Narasimham committee and the Verma committee, some steps have been taken in the banks' balance sheets to solve the issue of old NPAs. It continues to be articulated from every corner that there has been barely any formal evaluation of the best way to tackle the issue. There doesn't seem to be unanimity in the proper policies to be followed to solve this problem. There is also little flexibility in implementing NPA criteria, as these have been accepted. Often named Non Performing Assets are Non-Performing Loans. It is done by a bank or finance company that fails to make repayments or interest payments on time. A loan is an asset to a bank, as interest payments and the principal's repayment create a cash flow stream. A bank makes its money from interest payments. To solve this problem, there does not seem to be unanimity in the proper policies to follow. As these have been acknowledged, there is also little flexibility in applying the NPA requirements. The Non Performing Assets are also referred to as Non Performing Loans. A bank or investment firm does so without allowing repayments or interest payments on time. A loan is an advantage to a bank because interest payments and repayment by the borrower create a cash flow stream. A bank is making its money out of paying interest. The present Research Paper focuses on the growing issue of NPA of banks and the effects thereof on the Economy.

Keywords: - Nationalization, Basel Committee, Narsimha Committee, NPA, Private Banks, RRB (Regional Rural Bank)

1. INTRODUCTION

Banks directly or indirectly affect economic development and are established all over the world to mobilize savings and invest in the economy either directly or indirectly for production and generation of income and employment. The importance and necessity of the banking system have been realized in the post-independence period and were restructured into nationalized or public sector banks. Till the eighties, they achieved broader economic objectives and registered an impressive achievement in terms of branch expansion, deposits, and credit mobilization, and other investments. RBI, as the Supreme Bank, has been taking strong measures from time to time, and based on the recommendations of the Narsimahan Committee, the landscape of the Indian banking System changed altogether. All the banks were directed to follow the norms of capital adequacy, asset quality, provisioning for NPAs, prudential norms, disclosure requirements, acceleration of pace and reach of the latest technology, streamlining the procedures and complying with accounting standards and making financial statements transparent. The issue of non-performing assets (NPAs) came into existence in 1992 and its absolute amount is increasing continuously from Rs.39253 crore in1993 to Rs.48406 crore in 2006 (Source: FICCI 1999) indicates poor quality in recovery management and a high degree of riskiness in the credit-portfolio of the public banks, resulted in an adverse impact on the profitability of banks (Source: Kaveri1995 and RBI 1999). The above discussion and outing debate about non-performing assets (NPAs) of public sector banks necessitates evaluating and analyses its impact on the profitability and productivity of public sector banks for ten years to conclude strengthening or winding upstate public banks. The Reserve Bank released guidelines on 31/03/1993 and submitted a new definition of Income Recognition.' This is done on the recommendations of the Narasimhan Committee. According to these guidelines, banks must classify their credit facilities into two parts: (1) Performing Assets (Standard Assets) (2) Non – Performing Assets (Standard Assets) Standard Assets is one that is not reported. NON PERFORMING ASSETS (NPA) for moving towards international best practices and ensuring greater transparency, 90-day overdue * NPA identification standards were made applicable from the year ended March 31, 2004 onwards. As such, except and except for certain relaxations as mentioned below for Tier I Banks and Tier II Banks, with effect from March 31, 2004, a non-performing asset shall be a loan or advance where: I interest and/or installment of principal remain "overdue" * for a term loan for more than 90 days. (II) The Overdraft / Cash Allowance (OD / OS) account shall remain out of order for more than 90 days. (III) In the case of Bills paid and discounted, the payment remains unpaid for more than 90 days. (IV) The definition of NPAs will be made on the same basis as non-agricultural advances for agricultural loans other than direct funding to farmers for agricultural purposes. (V) Any amount received shall remain overdue in respect of other accounts for a period greater than 90Days

2. NON-PERFORMING ASSETS (NPA) IN INDIAN BANKS

The Indian Reserve Bank (RBI) estimates gross non-performing assets in Indian banks , especially in public-sector banks, at about Rs 400,000 crore (~US$61.5 billion), which accounts for 90 per cent of India's overall NPA, with private-sector banks accounting for the remainder.

3. WHAT ARE NON-PERFORMING ASSETS (NPA)?

Money or assets that banks provide to corporations as loans sometimes remain unpaid by borrowers. This payment of late or outstanding loans is defined as Non-Performing Assets (NPA). They are also termed bad assets. In India, the RBI monitors the entire banking system and if the interest or installment amount has been overdue for more than 90 days, as defined by the central bank of the country, then that loan account may be called a non-performing asset. In Indian banks, the rise in non-performing assets meets the recognition criteria that banks adopt after the RBI highlighted it in the Asset Quality Review (QAR).

4. REASONS FOR THE RISE IN NPA LEVELS

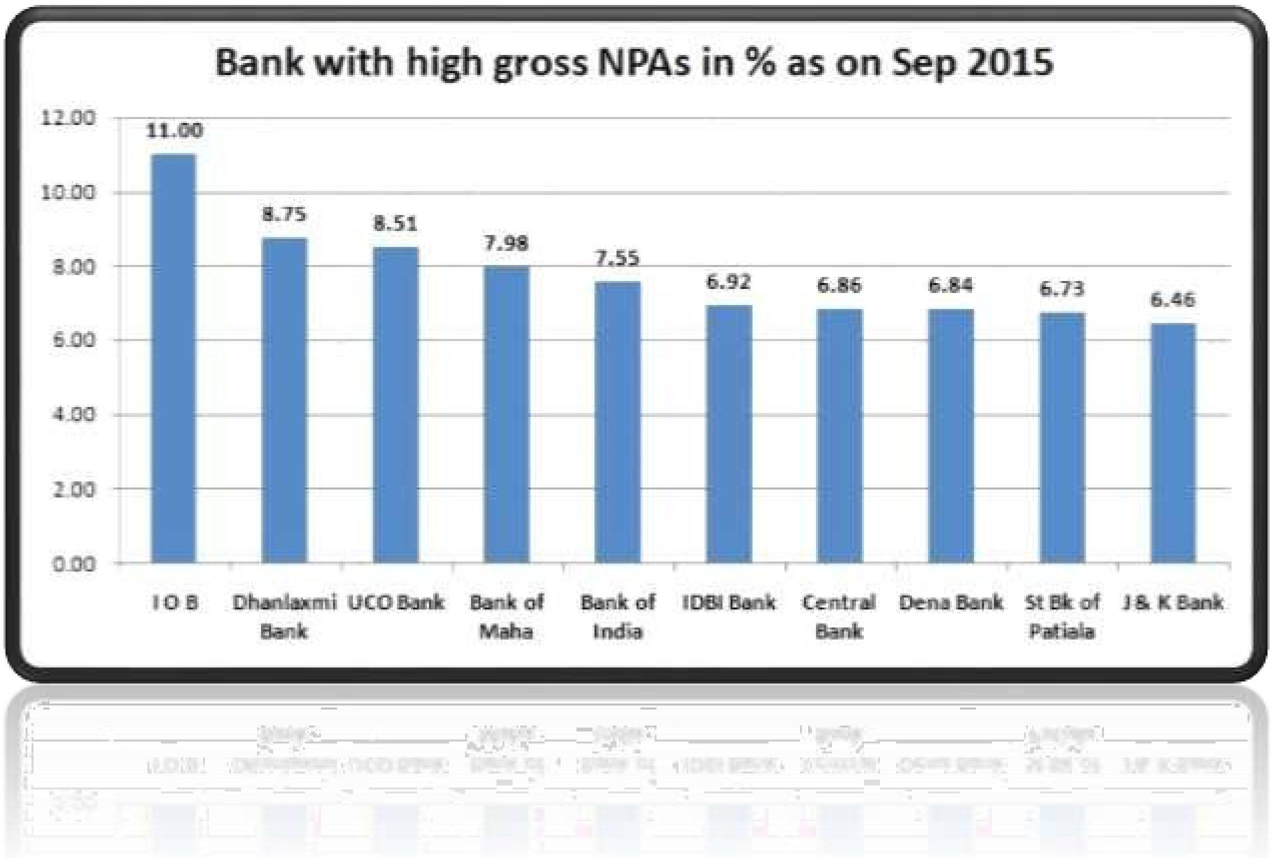
The Indian economy was in a boom phase from 2000-2008, and banks , especially public-sector banks, began to lend large amounts to companies. However, with the 2008-09 financial crisis, corporate profits decreased, and mining projects were banned by the Government. With the substantial pause in environmental approvals impacting the infrastructure sector – electricity, iron , and steel – the situation became severe, resulting in fluctuations in raw material prices and shortages of supply. Another explanation for this is that banks have embraced relaxed lending criteria, especially for large corporate houses, their financial analyzes and credit ratings.

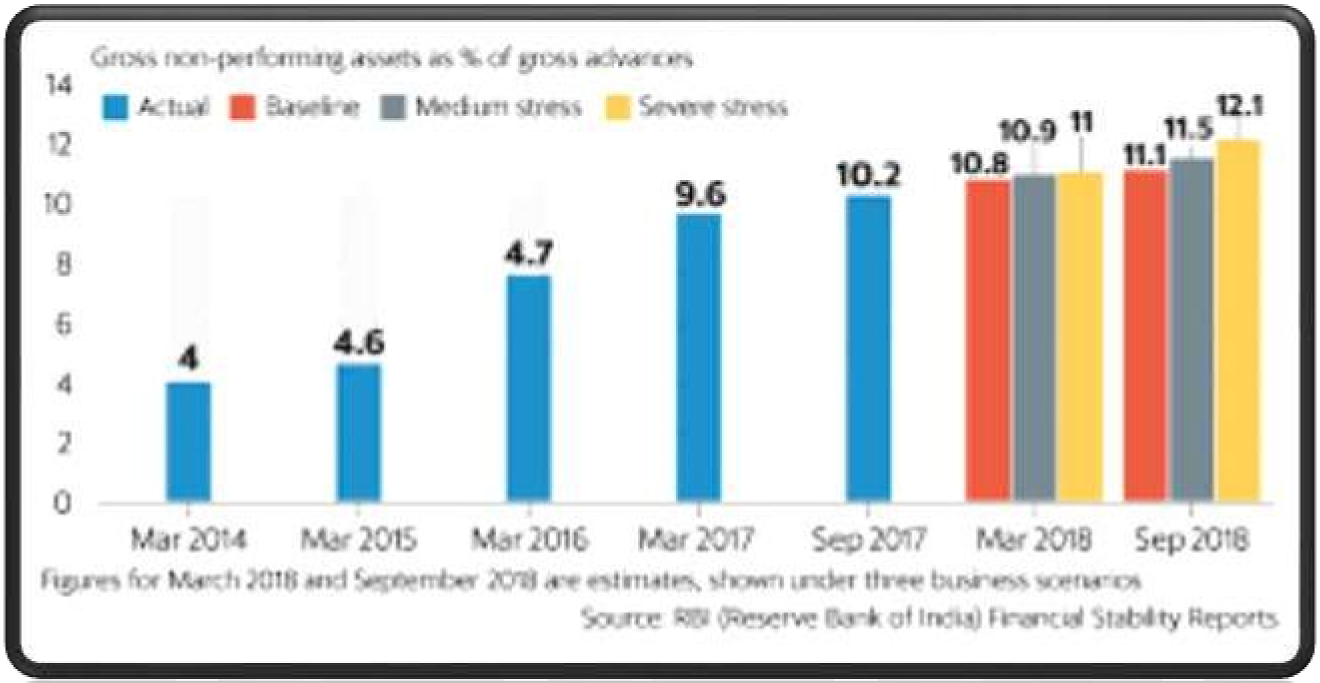
5. STRICTER NPA RECOVERY:

It is also discussed that the government needs to amend the laws and give banks more power to recover NPA rather than play the "wait-and-watch" game. Corporate governance concerns – banks, particularly those in the public sector, need to have appropriate guidelines and structure for senior-level appointments. Accountability – Lower-level executives are still kept accountable today; nevertheless, senior-level executives make important decisions. Hence, making senior executives accountable becomes very important if Indian banks are to tackle the NPAs issue. Banks should also consider "capital raising" to address the NPA issue.

6. MONETIZATION OF ASSETS HELD BY BANKS:

In this case, banks with retail franchisees should create value by auctioning a bank assurance association instead of running it as an insurance company themselves. The current system is blocking capital inflows and generating no income for the owners. With the above potential solutions, the NPAs problem of Indian banks can be effectively monitored and controlled, allowing the banks to obtain a clean balance sheet.





7. HIGHLIGHTS OF THE RECOMMENDATION OF NIRSIHMA COMMITTEES:-

In 1991 Nirsihma committee has been formed and Indian banking sector got the following changes:-

1. Commercial banking and rural banking have restored growth
2. In the overall loan increased
3. Banks increased their investment in government cash (RBI gave cash reserve ratio, which must be maintained by the banks and statutory liquidity ratio, some amount must be given as bonds or shares)
4. The ability of banks to get profit has diminished.
5. Banks earned flexibility in their operations

J.P., 2014 The Nayak Committee suggested the classification of bank investment and public share capital.

The same was also proposed in the Parsi committee in 2007.

The Nayak Committee also decided to convert the nationalized banks into private banks and levy the banks' company law

1. In 1992, the second banking committee sent a report that was approved in 1998.
2. They contained the following points in the report
3. Bank can step up its branches

4. The private sector banks have more option to start new banks
5. Interest rate changes

In their report, Nirshimha Committee 1 stated that the banking stream became more competitive because of the free entry of private sector banks

In 1998 Nirshimha Committee 2 gave its report that this was the second phase of banking sector transition.

8. BASEL NORMS IN BANKING:

Basel is a small town in Switzerland, on the Rite River. This town is well known to the citizen for its banking and financial services.

Bank for International Settlement – an international financial industry has appointed a committee called the Basel Committee for World Banking Inspection – this committee looks after continuous improvement of world banking services. India has also signed this contract, which is why we must follow and implement the Committee's suggestions and recommendations

Basel 1 – stated in 1988 that it focused on Bank for International Settlement because of flaws in the law on asset classification and risk created by the Basel 2 committee.

Basel 2 stated in 1999, it got approved in 2003 cause of many controversies finally it got operated in 2006. In their report, the following points have been mentioned

Each bank has to give adequacy to its ideal financial management and the importance of capital standards-here Deposit Frozen scheme has been followed by all public sector banks (Because of Which MFI came into being). Bank has to obey the guidelines and should be more open about its business.

9. CONCLUSION:-

Banks in the public sector must work in the interests of the public, but in accordance with commercial ways. The banks that work under the government had to function according to the RBI guidelines the commercial banks have to act accordingly. When the business sector can not repay the loans obtained from these banks, then there must be regulatory action against them. The government's role should be merely to show the way to public banks. For a long time, Non-Performing Assets (NPA) have not had strict guidelines. The senior board of directors will be liable for this in particular for the loans given to major businesses and for their debts. Considering the competitive nature of the banking sector, the central government or the highest authority of banks, i.e. the RBI, should re-look basic banking rules for NPA. As suggested by the Narsinmhan Committee's recommendations, some public sector banks will need to be merged with other public sector banks so that control over NPA and overall economic stability can be achieved.

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