INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
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METAMORPHOSIS OF INDIAN BANKS: A STUDY WITH REFERENCE TO NON PERFORMING ASSETS

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ABSTRACT

Banking industry in India is one of the most important and vibrant in economic development of the country. After introduction of the economic reforms introduced in 1991 there was tremendous changes in the banking industry. Competition, consolidation, technology development, diversification of services etc. were some of the significant changes observed in banking industry. The non-performing assets in banks started to decline due to stringent measures taken by banks in recovery of debts. As compared to NPA of public sector and foreign banks the NPA of the private sector was recorded as lowest. Mismanagement of funds, willful default, delay in recovery of the loans are the few causes observed in the study for rising nonperformance assets. The government has taken various legal measures to reduce NPA such as Lok Adalat, Debt Recovery Tribunals, SARFASI ACT and observed that maximum recovery cases was under the Lok Adalat. The study concluded that there were significant changes in the banking sector after introduction of the economic reforms. Monthly review of the outstanding loan and precautionary measures to be taken by Banks in sanctioning of the loans has been suggested in the study.

KEYWORDS

NPA, Indian banks.

INTRODUCTION

Banking industry in India is one of the most important and vibrant in economic development of the country. Entire trade and commerce depend largely upon the effective functioning of banks. It is one of the major financial institutions which provides strength and support to industries in operating effectively The face of banking industry has been changed after the reforms introduced in 1991. The mass banking concept before reforms were changed in class banking. Service rendering was the major objective before the reforms and maximization on profit has become the important objective after the reforms. Diversifications of services, consolidation of banks, financial regulations, and deregulation of interest were certain major highlights in post reforms period.

First reforms in banks were initiated in 1992 on the recommendation of M. Narasimham and second reforms in 1998. Several observations were recommended by this committee such as

a) Concession in the rate of interest on priority sector lends should be reduced.
b) Enhancement of micro finance institution.
c) Competitive environment should be created
d) Transparency in operations and assets classifications
e) Provisioning standards as per the norms and not discretions to banks
f) Supervision system need to be strengthen
g) Strengthening of recovery process

The face of banking industry has been changed after the reforms introduced in 1991. Service rendering was the major objective before the reforms and maximization on profit has become the important objective after the reforms. Diversifications of services, consolidation of banks, financial regulations, and deregulation of interest were certain major highlights in post reforms period.

In India banks were owned by the private sector even after independence. In 1969 the govt. of India has nationalized 14 banks and later in 1980 the government nationalized 6 banks. The objective of the nationalization was to have more control by the Government on the finance through banking.

CHANGES IN INDIAN BANKING INDUSTRY

1) COMPETITION IN BANKING INDUSTRY

Before introducing the reforms, public sector banks were enjoying the status as govt. banks and competitions were negligible or zero. But after reforms there were entry of private and foreign banks. The service rendering was considered as major objective of banks rather than earning profits. The significant changes occurred in the banking products and banks started its focus on marketing of banking products such as deposits, loans etc. The banks also concentrated on reducing the NPA by reducing the lending to priority sectors and speedy recovery of debts. This has helped the banks to improve on their profitability. The major changes in the banking industry in India was focus on the retail banking.

The globalization has become challenge for the domestic enterprise as they are bound to compete with the global players. There are 36 foreign banks operating in India which becomes the major challenge to nationalized banks. Foreign banks are large in size, technically advanced and having the global markets are its strength which made them to lay a strong foot in Indian market. The public sector banks raised the capital from the public by keeping 51 percent shareholding of Govt. The diversification of ownership has made a qualitative difference to the functioning of PSBs since private participation. The deregulation process has brought in more competition in the banking sector, resulting in delivery of innovative financial products at competitive rates.

2) DIVERSIFICATION OF PRODUCT AND SERVICES

The pre-nationalization era of banking industry consisted of financial services and products which were largely traditional in nature such as accepting deposits, lending loans, overdraft, cash credit, bills discounting etc. Accepting deposits and lending credit was the core service of banking industry. In the post-nationalization period banks played a vital role in extending banking services in rural areas, mobilizing and channelizing resources, finance to weaker sections of the community. During this period there was a gradual shift from urban to rural banking, from class banking to mass banking and traditional to modern banking.

The implementation of Narasimham committee from 1992-93 brought about a tremendous transformation in banking industry. Public sector banks diversified their services from traditional to non-traditional services. It includes merchant banking services, factoring, mutual funds, hire purchase and leasing; housing finance, credit cards etc. and also emerging services like internet banking, insurance were introduced in banking industry. These services are more of non-banking nature than banking services. These services are classified into fee –based and fund –based services. Fee based services includes issue management, portfolio management, co-operative counselling, loan-base syndication, arranging foreign collaboration, mergers and acquisition etc. and fund based services include equipment leasing, hire-purchase, bills discounting, loans syndication, venture capital, housing finance, factoring etc. Public sector banks started to render new services such as mutual fund, factoring, Gilt securities, venture capital, insurance, ATMs, credit card, housing finance. These services were rendered by banks either through departmentally or by establishing separate subsidiaries. The selected banks viz. State bank of India, Canara Bank and Punjab National banks provide various range of modern services through departmentally and through establishing separate subsidiaries. Introduction of these services has contributed for the improvement of the profitability of the bank

3) TECHNOLOGY DEVELOPMENTS IN BANKS

The reforms introduced has brought significant change in banking sector with regards introduction of technology. The computerization in banks has improved the efficiency of the employees and helped to give better services to customers. Foreign and private sector banks enjoy technology advancement as their strengths in developing the market for their banking products. The public sector banks on par with private and foreign banks introduced technology driven products to attract the customers. Technology up gradation is an inevitable aspect to face the challenges of banking sectors. The internet banking, mobile banking, ATMS, Credit and debit cards are some of the technology based products introduced by the banks. After globalization the competition was the major change in the banking industry and due to the competitions the Indian public sector banks have no options to upgrade the technology in the banks and retain the customers by providing the competitive products.

REVIEW OF LITERATURE

Pacha Malyadri (2011) found on the basis of analysis of data that the asset quality of public sector and private sector banks improved consistently in the past few years as reflected in the decline in the ratio. Dr Virender Koundal (2012) observed that the efficiency and profitability of the Banking sector in India has assumed prime importance due to intense competition, greater, customer demands and changing banking reforms. K. Sarala Rao (2013) concluded that in terms of profit-ability, modern banks have registered above the benchmark (more than one percent) on ROA while traditional banks displayed a significant improvement on this ratio during the study period.

Prof Anbalagan and Prof M. Gurusamy (2013) observed that among the three bank groups in SCBs, the public sector banks rendered excellent services towards collections of deposits, granting advances, interest income and interest expended. Garima Chaudhary (2014) concluded that during the 2009-11, most of the new private sector banks have shown better performance than their public sector counterparts. RGanesan and R. Santhanakrishnan found in the study that Banking industry has undergone a major change after the first phase of economic liberalization. Due to various steps taken by the Government of India NPAS levels were reduced to considerable level. M saline (2013) concluded that the bankers can avoid sanctioning loan to the non- credit worthy borrowers by adopting certain measures. Srinivas K.T found that problem of NPAs has been a major issue for the banking industry. Reduction of NPA in banking sector should be treated as national priority item to make the Indian banking system stronger, vibrant and geared to meet the challenges of globalization. Mayur Rao and Ankita Patel found that ratio of Gross NPA to Gross Advances is decreasing in private banks and situations is better than foreign and public sector banks. Dr. V. Shanmugassundaram and S.N. Selvaraj (2015) concluded that the NPAS of public sector banks will decline marginally both in terms of Gross and Net figures over three years. Selection of right borrowers, viable economic activity, adequate finance and timely disbursement, correct end use of funds and timely recovery of loan is absolutely neces-sary preconditions for preventing or minimizing further occurrence of New NPA. Dr Sonia Narula and Moniak Singla (2014) observed that NPAs of PNB is increasing every year because of mismanagement in bank and there is a positive relation between total advances, Net profit and NPAs of bank. There is adverse effect on the liquidity of banks. Dr P. Raman (2013) made attempt to study to evaluate the performance of commercial banks in TamilNadu and also tried to analyze the performance of priority sector credit with special reference to educational loan and to analyse the NPA with regard to priority sector advances. It was found in the study that the rate of change on advances to priority sector segment both planned as well as achievement led the phenomenal growth in not only quantity but also qualitative.

OBJECTIVES OF THE STUDY

The objectives of the study are as follows

1) To study the structural changes in Indian Banking industry.
2) To identify the non-performing assets in commercial banks in India.
3) To study the factor influencing and impact of NPAs in banks.
4) To study the recovery channels and suggests remedial measures to reduce the NPAs in public sector banks.

DATA AND METHODOLOGY

The data is collected from the secondary source with help of the website, journals etc. The data is analyzed with help of the percentage method. The study period is from 2006 to 2015. The change in the percentage rate movement of gross NPA is calculated by comparing with time period and rate of change is calculated by using following equation:

$$\text{Percentage rate of change} = \frac{X\,1(\text{present}) - X(\text{past})}{X(\text{past})} \times 100$$

STATEMENT OF PROBLEM

The banking industry is one of the major industry on which the economy of India is depend. After economic reforms there has been significant changes in the trade, commerce and industry and other sectors. There have been major changes incurred in the banking industry in India after introduction of economic reforms. The public sector banks started concentrating on reducing Nonperforming assets and improved profitability. Many public sector banks suffered due high NPA and slow recovery process. The profitability and financial position of bank suffered due to high rising NPAs. Thus it was essential to study the changes occurred in the banking industry in India and to identify the NPAs status in all banks i.e public, private and foreign banks. It was also required to make a comparative study of the various banks i.e public sector, private sector and foreign banks in identifying the NPAs and method used to recovery of debts.

NON-PERFORMING ASSETS

An asset is classified as non –performing asset (NPA) if dues in the form of principal and interest are not paid by the borrower for a period of 180 days. However, with effect from March 2010, default status would be given to borrower if dues are not paid for 90 days.

The loans borrowed can be classifies into four categories

a) Standard Loan

Standard loan is one which does not disclose any problem and which does not carry any high risk but only normal risk is attached to business. Thus standard loan is recoverable or already recovery started.

b) Substandard Loan

From 2005 substandard loan would be one which has remained NPA for a period of less than or equal to12 months

c) Doubtful loan

With effect from 2005 an asset would be classified as doubtful if it remained in the sub –standard category for 12 months.

d) Loss loan

A loss loan is one where loss has been identified by the bank or internal or external auditor or the RBI inspection but amount has not been written off wholly.

ANALYSIS AND DISCUSSIONS

TABLE 1: GROSS NPAs, GROSS ADVANCES AND RATIO OF GROSS NPAS TO GROSS ADVANCES OF PUBLIC SECTOR BANKS

year	Gross NPAs	Gross Advances	Gross NPA to gross Advances (%)	Sub Standard Advance	Doubtful Advance	Loss Advance
2006	421	11347	421(3.71)	113(0.99)	246(2.16)	55(0.48)
2007	389	14644	389(2.66)	143(0.97)	198(1.35)	48(0.32)
2008	406	18190	405(2.23)	173(0.95)	192(1.02)	40(0.21)
2009	459	22834	450(2.01)	203(0.88)	206(0.90)	41(0.17)
2010	573	25193	599(2.37)	288(0.93)	254(1.00)	58(0.23)
2011	710	30798	747(2.30)	250(0.81)	332(1.07)	65(0.21)
2012	1124	35503	1173(3.16)	623(1.75)	490(1.38)	60(0.16)
2013	1644	45601	1645(3.60)	815(1.78)	761(1.66)	68(0.14)
2014	2272	52159	2273(4.35)	958(1.83)	1216(2.33)	99(0.17)
2015	2784	56167	2785(4.95)	1054(1.87)	1630(2.90)	100(0.17)

Source: rbi.org.in

It has been observed form the above table that the ratio of Gross NPA to Gross Advances in public sector banks has been increased from 2012 onwards. The lowest ratio was observed in the year 2009 whereas the highest was recorded in the year 2015 with 4.95 percent. The percentage of the substandard advance and loss advance has been increased over the years in the public sector banks. The percentage of the doubtful advance has shown mix trend of increase and decrease. The gross NPA of the public sector banks is due to lending of banks into priority sector such as agriculture, small-scale industries where the lending are done as per the policies of the government.

TABLE 2: GROSS NPAs, GROSS ADVANCES AND RATIO OF GROSS NPAS TO GROSS ADVANCES OF PRIVATE BANKS

year	Gross NPAs	Gross Advances	Gross NPA to gross Advances (%)	Sub standard advance	Doubtful advance	Loss advance
2006	75	3151	2.41	97.6(3.09)	44(1.39)	9(0.28)
2007	91	4182	2.19	97.8(2.33)	39(0.93)	9(0.21)
2008	129	5236	2.47	97.5(1.86)	45(0.85)	12(0.22)
2009	167	5761	2.92	97.1(1.68)	50(0.86)	13(0.22)
2010	173	5795	2.99	97.3(1.67)	66(1.13)	22(0.37)
2011	179	7232	2.48	97.8(1.35)	108(1.49)	29(0.40)
2012	182	8716	2.09	98.1(1.12)	104(1.19)	29(0.33)
2013	203	11512	1.77	98.2(0.85)	112(0.97)	32(0.27)
2014	241	13602	1.78	98.2(0.72)	114(0.83)	42(0.30)
2015	336	1673	2.10	97.9(0.60)	176(1.09)	52(0.32)

Source: rbi.org.in

The table 2 shows the gross NPA ratio with gross advanced with regards to Private sector banks and it has been observed that the ratio is less than 3 percent. The highest percent was recorded in 2010 with2.99 and lowest was recorded in 2013 with1.77 percent. Thus compared to public sector banks the NPA is lower. The substandard advance, doubtful advance and loss advances of the private sector has been reduced over the years. Private Banks loan disbursement norms are normally strict and recovery process is efficient. Thus they advance the loan where the chances of recovery are higher due to that the NPA of the private banks are normally at lower level. Private banks are not much involved in the agriculture loans or priority sector. Private banks functioning is purely on the commercial basis where they concentrate on higher earnings. Thus due to that the NPA is lower in case of private banks.

TABLE 3: GROSS NPAs, GROSS ADVANCES AND RATIO OF GROSS NPAS TO GROSS ADVANCES OF FOREIGN BANKS

year	Gross NPAs	Gross Advances	Gross NPA to Gross Advances (%)	Sub standard advance	Doubtful advance	Loss advance
2006	20	959	2.12	9(0.93)	7(0.72)	4(0.41)
2007	23	1246	1.92	14(1.120	6(0.48)	4(0.32)
2008	30	1606	1.91	20(1.24)	8(0.49)	4(0.24)
2009	72	1660	4.37	59(3.55)	10(0.60)	4(0.24)
2010	71	1632	4.36	49(3.00)	14(0.85)	8(0.49)
2011	50	1929	2.61	19(0.98)	21(0.56)	11(0.56)
2012	62	2267	2.76	21(0.92)	22 (0.97)	20(0.88)
2013	79	2604	3.04	29(1.11)	27(1.03)	23(0.88)
2014	115	2995	3.86	43(1.87)	43(1.87)	29(0.96)
2015	107	3366	3.20	23(0.68)	54(1.60)	30 (0.89)

Source: rbi.org.in

As regards to Gross NPA ratio of foreign Banks shows the mix trend of increase and up to 2010 and later on reduced but not consistently. The highest was recorded in 2009 with 4.37 percent and lowest was shown in the year 2008 with1.91 percent. It is shocking that the NPA of the foreign banks are rising. Normally foreign banks are not involved in priority sector lending nor in the agriculture promotion.t still it has been noticed that the NPA of the foreign banks are rising which is not good sign. Foreign banks are more focused towards the technology and on line banking's. The customer base of the foreign banks is little different from the public sector or private banks.

TABLE 4: GROSS NPAs, GROSS ADVANCES AND RATIO OF GROSS NPAS TO GROSS ADVANCES OF SCHEDULED COMMERCIAL BANKS

year	Gross NPAs	Gross Advances	Gross NPA to gross Advances (%)	Sub standard advance	Doubtful advance	Loss advance
2006	517	15457	3.34	146(0.94)	297(1.92)	69(0.44)
2007	505	20074	2.52	200(0.99)	243(1.21)	62(0.30)
2008	566	25034	2.26	265(1.05)	244(0.97)	56(0.22)
2009	699	30246	2.31	367(1.21)	266(0.87)	59(0.19)
2010	817	32620	2.61	426(1.30)	334(1.02)	87(0.26)
2011	939	39959	2.35	414(1.03)	461(1.15)	104(0.26)
2012	1369	46488	2.95	695(1.49)	617(1.32)	109(0.23)
2013	1927	59718	3.23	909(1.52)	900(1.50)	123(0.20)
2014	2630	68757	3.83	1087(1.58)	1374(1.99)	170(0.24)
2015	3229	75606	4.27	1186(1.56)	1861(2.46)	182(0.20)

Source: rbi.org.in

The Gross NPA ratio of the scheduled commercial banks was shown rising form 2013 with highest of 4.27 percent and lowest was recorded in 2009 with 2.31 percent. The percentage of the substandard advance and doubtful advance has been increased over the years whereas the loss advance has shown reducing trend in percentages. Thus it shows that the after Declaration of NPA s the banks are taking interest in recovery of debts by various method including the legal methods hence due to that the gross NPA shows decline.

TABLE 5: MOVEMENT OF GROSS NPA (2006 TO 2010)

	Gross NPA in 2006	% to Total	Gross NPA in 2010	% to Total	Percent rate of change (2006 to 2010)
Public sector banks	421	81.58	573	70.13	36.10
Private Banks	75	14.53	173	21.17	130.66
Foreign Banks	20	3.87	71	8.69	255
	516	100	817	100	

Source computed form the data rbi.org.in

TABLE 6: MOVEMENT OF GROSS NPA (2010 TO 2015)

	Gross NPA in 2010	% to Total	Gross NPA in 2015	% to Total	Percent rate of change (2010 to 2015)
Public sector banks	573	70.13	2784	86.27	385.86
Private Banks	173	21.17	336	10.41	94.21
Foreign Banks	71	8.69	107	3.31	50.70
	817	100	3227	100	

Source computed form the data rbi.org.in

Table 5 and 6 displays the movement of the percentage of Gross NPAs of public sector banks, private sector banks and foreign banks from 2006 to 2010 and from 2010 to2015. It has been observed that the gross NPAs of foreign banks is higher as compared to private and public sector banks and from 2010 to 2015 the Percent change in gross NPA of public sector banks is higher as compared to private and foreign banks. Movement of NPA shows the increase of NPA to the base year. in the table % the base year is 2006 and the NPA movement shown form 2006to 2010 and similar way from 2010 to 2015. The movement of NPA helps to understand in what percentage the NPA is moving so that some effective measures could be possible to prevent or reduce NPAs.

CAUSES OF NON-PERFORMING ASSETS IN PUBLIC SECTOR BANKS

NPA has been increasing in the banks for various reasons such as following:

1) Due to Borrower
a) Too ambitious project
b) Heavy borrowing
c) Willful default
d) Mismanagement of funds
e) Poor quality of management
2) Due to Bank functioning
a) Defective lending process
b) No proper security
c) Lack of commitment to recovery
d) Delay in recovery process
3) Others factors
a) Slowdown in the domestic industry which has created impact on the turnover of the business.
b) Change in Government policies.
c) Natural calamities

STEPS TAKEN BY THE GOVERNMENT TO REDUCE NPAs

1) Appointment of nodal officers in banks for recovery at their head offices/ zonal offices/ for each debt recovery Tribunals(DRTs)
2) Trust on recovery of loss assets by banks and designing assets reconstruction companies(ARC) resolution Agents of Banks
3) Instructing the state level bank committees to take more initiative in resolving the matters
4) Fresh loans by providing information to other banks
5) Constant supervision and issuing warnings for nonpayment of loans

RECOVERY MECHANISM OF NPA

The government of India has taken certain steps to recover the NPA through legal measures. The government constituted committee under the chairmanship of Late ShriTiwari in 1981.The committee examined and recommended set up of the special tribunals to expedite the recovery process. Later Naramsimham committee recommended to set up of Asset reconstruction fund. Based on the recommendation of both committees Debt Recovery Tribunals were established in various parts of the country. The various measures taken to reduce NPAS include rescheduling and restructuring of Banks, corporate debts restructuring and recovery through LokAdalats, civil courts, Debt recovery tribunals and compromise setup. In addition to this some legal measures were introduced

SARFAESI ACT

Based on the recommendation of Andhyarujina committee the securitization and reconstruction of financial Assets and enforcement of security Interest (SARFAESI) Act 2002 was passed the act provides enforcement of security factors without recourse to civil court. The objective of the passing of the act was to speedy recovery of debt which has been long pending due to various reasons. As per this act bank can take possession of the assets of the borrower and sell it through auction and raise the money of the outstanding debt. Beside tis act also some legal measures were also recommended by the Govt for the speedy recovery of the bank money.

TABLE 7: RECOVERY OF THE NPAS THROUGH VARIOUS RECOVERY CHANNELS (Amount in Billions)

Recovery channels	2011-12				2012-13			
	No of cases referred	Amount involved	Amount recovered	% of amt. recovered	No of cases referred	Amount involved	Amount recovered	% of amt. recovered
lokAdalats	476073 (75.51)	17	2	11.8	840691(80.47)	66	4	6.1
DRTs	13365(2.11)	241	41	17.0	13408 (1.28)	310	44	14.0
SARFAESI Act	140991(22.36)	353	101	28.6	190537 (18.23)	681	185	27.1
Total	630429	611	144	23.6	1044636	1058	232	21.9

Source: retrived from rbi.org.in

DRT- DEBT RECOVERY TRIBUNALS

Table 7 shows the recovery of the NPAs through various recovery channels and cases referred and the recovery made. It shows that more cases referred through lok Adalats compared to other channels. In 2011-12 the cases referred in lok Adalat were 75 percent of total cases whereas it has increased to 80 percent in 2012-13. This was due to these courts deals with a large number of cases involving smaller amount having an individual ceiling of Rs 20,00,000 The second biggest recovery channel was Securitization and reconstruction of financial Assets and enforcement of security Interest Act (SARFASI Act.)

CONCLUSION AND SUGGESTIONS

The study attempted to identify the structural changes occurred in banking industry and it was observed that there is phenomenal changes identified after introduction of the economic reforms introduced in a 1991. Competition among the banks, innovation of new product, and diversification of services, consolidations and technology development in banks has been noticed. As regard to NPA in Banks it was observed that NPA in private sector banks has been reduced marginally as compared to public sect and foreign banks. Mismanagement of funds, willful defaulters, and slow recovery process by banks are some of the major reasons of increase in NPAS in Banks. The govt. has taken some legal steps to reduce the NPAs and among them are Lok Adalats, SARFASI) Act 2002, debt Recovery Tribunals are some measures started and among them through Lok Adalat many cases settled.

SUGGESTIONS

1) Bank should sanction the loan with proper security measures and quick legal steps should be taken to recovery of debts.
2) Monthly review of the recovery of debts should be taken at higher level by banks and accordingly implement the strategies to recovery of debts.

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