STUDY OF NON PERFORMING ASSETS IN SELECTED BANKS

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Abstract: The gradual transition towards international accounting standards, income recognition and asset classification, has made management of NPA as one of the toughest problem in the decade for the banks. NPAs affect the banks on its solvency, profitability and liquidity. The major aim behind this research is to find out the bank employee perception towards the occurrence of NPA in SBI, ICICI, Axis and PNB. A structured questionnaire was floated amongst the bank employees to find out their perception towards occurrence of NPA. It also highlights the various variables that impact the NPA and the suggestions for speedy recovery of the same. ANOVA test has been adopted to test these variables that affect the occurrence of the NPA. The findings include lack of experienced staff and absence of quality information of the borrower has led to the present situation in the banks.

Key words: *Banks, NPA, Bank employee, lack of experienced staff, absence of quality information*

JEL Category: E51

1. INTRODUCTION: In the earlier decades the major emphasis on banks was on social banking and increase in the assets rather than profitability of the banks. The Indian banking industry has witnessed remarkable changes due to the liberalization, privatization and globalization wave. These reforms were the results of the structural policy transformation adopted from the Narasimhan Committee of 1991. The major propel of these reforms is to improve the operational and allocative efficiency of the system by reducing the extraneous and structural factors affecting the performance of the banks. The financial sector reform stresses upon effectiveness, accountability, profitability, viability. The major thrust of these reforms was to improve the health condition of the banks. The introduction of the prudential accounting norms to banks have brought better financial discipline in the banks, cleansed the balance sheets and made them more transparent. These reforms incorporate income classification, norms and banks are alerted to the risk categories of the risk profiles of the Indian customers.

RBI as a regulator of the bank introduced the coding system for credit administration of the banks. But this coding system did not mention a proper yardstick to check the authenticity of the loans and advances made by the banks. It did not specify the time limit for the loan/advance to be classified as a sticky loan. The bank's balance sheet is prepared so as to reflect the banks actual financial position, a proper system for recognition and classification of income and provisioning of bad debts on a prudential basis is all the more important.

The major cause for the NPA is the credit boom from 2004-05 to 2008-09. During this period commercial credit doubled as the Indian economy and global economy were booming. Indian firms borrowed to avail the growth opportunities they expected to come in the future. NPAs in 2015-16 almost doubled over the previous years, as a result RBI came out with tougher norms under Asset Quality Review.

2. MEANING OF NPA (Non Performing Asset): The term NPA has a tremendous and continuous impact on the banking sector and financial institutions of the country. In a developing country like India it has become an alarming factor which ultimately slows down the operations of the banks. There has been a sudden slowdown in the growth of India. This is one of the major reasons for erosion of profits in the Indian banking sector.

The present quantum of nonperforming assets in commercial banks has reached alarming levels and if left unattended might lead to the collapse of the economy like in the developed countries. Mounting NPAs has a definite impact on the growth of the economy also. Gross NPAs reduced to 7.11% of the gross advances by the end of March 2019.

2.1 Asset Classification and NPAs: Banks are required to classify the loans and advance assets into four categories:

1. Standard assets- Standard Assets are those assets which do not have problems attached to it. Such assets are considered to be performing assets as they have only the normal risk attached to the business.

2. Sub Standard assets- A sub-standard asset is one, which has been classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard asset is one, which has remained **NPA for a period less than or equal to 12 months. In this type of asset**, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

3. Doubtful assets- A doubtful asset is one, which has remained NPA for a period exceeding two years. With effect from 31 March 2001, an asset is to be classified as doubtful, if it has remained **NPA for a period exceeding 12 months. A loan classified as doubtful has** all the weaknesses inherent in assets that were classified as sub-standard.

4. Loss assets-A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection team but the amount has not been written off completely.

2.2 MAJOR CAUSES FOR NPA:

A. External factors include market recession and globalization, Government policies, lack of effective legal system in the country, change in commercial laws and practices
B. Borrowal factors include mismanagement, diversion of funds, , improper choice of technology, willful default
C. Internal factors include poor credit appraisal system , delay in disbursement , lack of proper follow up and transparency.

2.3 NPA STRESS TEST: The asset quality review exercise which was initiated by the central bank in 2015 to clean up the bank balance sheets and full provision for stressed loans unearthed a huge amount of bad debts of public sector and private sector banks. These stressed accounts were classified as NPA. As a result of the recognition of the stressed assets of NPA, Gross NPAs of public sector banks shot up from 2.17 trillion to 8.45 trillion at the end of March 2018. Yet the amount of bad debts was much higher than the public sector banks networth. But things started changing drastically when the NPAs started falling from 2015. The recovery procedure improved particularly after the introduction of the Insolvency and Bankruptcy Code (IBC) as bankers started using it not just a recovery tool but as a means of bringing in defaulters to pay up.

2.4 PROVISIONING AND CAPITAL: The next major thing bankers are concerned with is provisioning. Even though provisioning is done, as accounts age, bad debts reach the stage of writing off, banks need to set aside the full amount of provision. Here the new Indian Accounting Standards (Ind AS) are based on the IFRS are going to play a crucial role for the banking system. This will have a significant influence on the banking sector and helps us to a more prescriptive assessment such as expected credit loss. The Insolvency and Bankruptcy Code (IBC) gives supportive laws yet the recovery of bad loans takes time and is a staggered process. The recovery is Rs.1.8 lakh crores in this fiscal year with some of the resolutions under the final stage of implementation. The direct capitalization by the Government is the surest way to boost the ailing Indian banking industry. As of now, the Indian Government has injected Rs.48239 crores to public sector banks help them meet regulatory capital requirements (as on February 2019).The Government has now infused Rs.100958 crores for this financial year. The capital so allocated was keeping in mind the threshold set by the RBI in the prompt corrective action framework under which restrictions in terms of lending along with other curbs were imposed on the loss making banks.

2.5 RECOVERY OF BAD LOANS: Banks are commercial organizations that necessarily want to earn profits. Profitability refers to how banks lend outside their advances portfolio and is possible to recover the same within the stipulated time. Of late, it has been observed that the number of willful defaulters has increased particularly in the public sector banks. The legal course of action is the only way which is left to the banker to collect the advance given outside. Lock up of funds for several years prevents in the proper utilization of the funds in the progress of the country.

3. REVIEW OF LITERATURE:

- Aninidita Chakraborty. Dr (2012) in her article has mentioned that NPA has been a threat to the Indian banking sector. NPA cannot be used for any unproductive purpose because they reflect the application of scarce capital and credit funds.NPA in the loan portfolio affects the profitability, liquidity and the solvency position of the banks. It also affects the psychology of bankers in respect to the credit delivery and expansion. Public sector banks of the country are bearing the maximum brunt of the NPAs.RBI has taken several initiatives like faster grievances redressal mechanism, better banking experience to the common man. NPA threatens the repayment capacity of the banks and erodes the confidence of the customers, employees kept on the banks. A total of 120 bank employees of both public sector and private sector banks were a part of the survey. Factor analysis and Z-test were adopted to analyze the data. The major findings were basic information of the customer has to be collected before disbursing the loan. When managers were target oriented they issue more loans without monitoring and this shows the incompetency of the bank employees. They also do not show much interest in the recovery of the loan from the customer.

- Naveenan.R.et.al (2018) in their article has tried to assess the factors that contribute to NPA in banks. The factors that contribute to the growth of NPA can be divided into internal factors and external factors. Internal factors are faulty projects, willful defaulters, lack of professionalism and appraisal standards. External factors are natural calamities, recession, lack of Government policies, technical problems and so on. Secondary data has been collected from a phd thesis. Friedman test is adopted to analyze the data. The major findings of the study are unsecured loans, improper selection of borrowers, lack of monitoring of loans, lack of infrastructure, misutilization of funds are some of the factors contributing to the growth of NPA.
- Naveenan.R (2016) is his article has mentioned that a healthy financial system is possible to achieve efficient allocation of resources across time and space. Credit is important for economic growth and NPA affects the smooth flow of credit. NPA affects credit creation and credit rotation. The banker need to have a constant check on the early warning signals of the borrowers to control NPA situation in the bank. Sample of 103 bank managers was taken to conduct the personal interview. Data was collected through the structured telephonic interview schedule method. Friedman test was applied to analyze the data . The findings were continuous irregularity in the account, deterioration in the working capital position, evidence of nonpayment of utility bills, evidence of overaged inventory, diversion of funds and so on were the major causes for NPA in the banks.
- Tanmaya Kumar Pradhan .Dr.(2012) in his article has mentioned that Indian banks have achieved a lot ever since nationalization. Despite this achievement, the growth of the banks is facing problems of inefficient organizational structure, declining profitability and high NPA. Primary data has been collected from 50 bank managers/senior officers of six leading banks and analyzed using percentage method. The major findings were diversion of funds, willful default and flaw in the system have contributed to the growth of the NPAs. Large borrowers and willful defaulters are the major contributors to this current position of NPA. Suggestions to tackle this problem include care during loan processing, strengthening of recovery efforts, monitoring of performing assets and out of court settlement.
- Ravikumar.et.al (2018) in their article has analyzed the causes for increase in NPAs in the country. The banking system of the country acts as a catalyst for the economy's growth. Banks provide financial assistance to a wide range of sectors such as steel, automobiles, health care and infrastructure. But if banks provide loans indiscriminately without taking into consideration the credibility of the borrower NPAs are born. If left unattended NPA can cause financial and economic degradation of the country. The data is collected from both primary and secondary sources from 429 respondents in Vijaywada. Statistical tools like arithmetic mean, percentages and Garrett Ranking technique has been used to analyze the data. The major findings are industrial sickness, change in Government policies, defective lending process, absence of regular industrial sickness lead to NPA.

4. AIM AND METHODOLOGY OF THE STUDY: The aim of the present research paper is to analyze the employee perception on increasing NPAs and how NPA levels can be managed. Further there are only a few studies regarding the employees' perception on the causes of high NPA, general outlook on the reasons for NPA, tools for resolution for NPA and the negative impact of NPA. This study is based on primary data. So through this research, effort to analyze the bank employee perception towards increasing NPA has been made. A structured questionnaire was used to analyze the bank employee perception. The questionnaire has been collected from 100 employees of SBI, ICICI, PNB and Axis Bank of Bangalore city. The data has been analyzed using the ANOVA Method.

4.1 OBJECTIVES OF THE STUDY: To analyze the responses of bank employees regarding reasons of increasing NPAs in private sector and public sector banks.

4.2 HYPOTHESIS OF THE STUDY:

Ho- There is no significant difference of responses of bank employees towards NPA in public sector and private sector banks

H1-There is a significant difference of responses of bank employees towards NPA in public sector and private sector banks

Profile of the employees

Table 1: Table showing the designation of the employees

Designation	
Officer	29
manager	37
clerk	34
Total	100

Source: Primary Data

From the above table we can observe that majority (37%) of the employees are managers, followed by clerks(34%) and officers(29%).

Table 2: Table showing the experience (in years)of the bank employees

Experience	In years
Less than 5 years	15
5-10 years	14
10-15 years	20
15-20 years	39
More than 20 years	12

Source: Primary Data

From the above table we can observe that majority of the employees are having 15-20 years(39%), followed by 10-15 years(20%), less than 5 years (15%), 5-10 years (14%), more than 20 years (12%) experience.

Table 3: Table showing the number of employees opted for the study

Nature of bank	
Public sector	50
Private sector	50

Source: Primary Data

From the above table it can be analyzed that out of 100 questionnaires floated 25 employees of SBI, PNB,ICICI and Axis were selected to be a part for the survey .

Table 4: Table showing the major reasons for NPA in banks

Reasons for NPA	
Lack of supervision and follow up	21
Diversification of funds	33
Higher rate of interest	24
Wilful Defaulter	22

Source: Primary Data

From the above table it can be analyzed that majority of the employees (33) feel that borrowers diversify the funds that are taken as loans. The next reason is higher rate of interest (24) also keeps the borrowers to refrain from making the payment. Further added to these are the willful defaulters (22) who despite having money do not want to pay. There is lack of quick supervision and follow up from the banks (21) also. All these reasons have contributed to the quick growth of NPA in the country.

Table 5: Table showing the contribution of NPA from the major sectors of the economy.

Sector contributing for NPA	
Agricultural	21
SSI	27
Public sector lending	32
Agriculture and SSI	20

Source: Primary Data

From the above table it can be inferred that banks are facing NPA mainly due to public sector lending(32), small scale industries(27), agricultural loans(21) and agricultural and small scale industries put together(20).

Table 6: Table showing the variables affecting the NPA situation in the country

Variables affecting NPA	SA	A	N	DA	SDA
inadequate credit appraisal	80	20	0	0	0
competitive pressure in banks	20	15	42	23	0
inadequate staff in credit department	0	48	24	28	0
no strong market intelligence system	42	24	34	0	0
inadequate mechanism to gather information	35	61	0	4	0
overhang component of banks	23	45	11	21	0

Source: Primary Data

From the above table it can be observed that under the first variable(inadequate credit appraisal) around 80 employees has a strong opinion that the credit appraisal done by the banker is not at all adequate for disbursal of the loan. Only 20 employees just agree upon this point. Under the second variable(competitive pressure in banks) only 20 employees feel that due to intense competitive pressure from other banks loans are disbursed, while only 15 employees agree upon this, 42 employees are neutral on this point and 23 employees do not agree upon this at all. Under the third variable(inadequate staff in the credit department) 48 employees agree that inadequate staff in the credit department contribute to NPA , while 24 employees gave a neutral opinion , 28 employees did not agree upon this at all. Under the fourth variable (no strong market intelligence system) 42 employees strongly agree that this is one of the reasons for NPA, 24 employees agree and 34 employees are neutral on this point. Under the fifth variable (Inadequate mechanism to gather information) 35 employees have strongly agreed and 61 employees have agreed that the sources of collection of information of the borrowers is inadequate in our system. Under the sixth variable (overhang component of banks) 23 employees have strongly agreed that the overhang component has largely affected NPA, 45 employees have also agreed upon the same and 11 employees are neutral with regard to this and 21 employees have disagreed on this point.

Table 7: Table showing the impact of NPA on banks

Impact of NPA on banks	SA	A	N	DA	SDA
affects liquidity	36	13	20	18	13
higher rate of interest	42	7	16	25	10
affects credit growth	40	29	14	12	5
depends on subordinated debts	52	23	15	7	3

Source: Primary Data

From the above table, it can be observed that majority of the employees have agreed that NPA affects liquidity of the banks while 20 employees are neutral, remaining employees have disagreed that NPA affects the liquidity. When it comes to higher rate of interest, majority of the employees have agreed that NPA pushes the credit sector to a higher end. The growth of credit is also affected to a greater extent according to the employees, while 14 employees are neutral about this, 17 of them have not agreed upon it. Around 75 employees have opined that NPA depends on subordinated debts, while 15 of them are neutral, 10 employees have disagreed on the same.

Table 8: Table showing the variables how to manage NPA

Variables to manage NPA	SA	A	N	DA	SDA
loan appraisal to be managed	76	24	0	0	0
continuous rapport with borrower	24	35	30	11	0
better credit rating agency	0	11	70	19	0
training and development	0	30	0	70	0

Source: Primary Data

From the above table it can be observed that the employees have agreed that the loan appraisal has to be managed in a better manner, while 59 employees opined that a continuous rapport has to be managed with the borrower, 30 employees were neutral in this regard, while 11 completely disagreed upon this idea itself. Around 70 employees gave a neutral stand for having the presence of a better credit agency, while 11 only agreed upon this, 19 disagreed on this idea. Only 30 employees agreed that training and development would help to reduce NPA while 70 employees disagreed upon this idea.

Table 9: Table showing ANOVA results of reasons for NPA

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	3949.2	4	987.3	4.693829	0.007786	2.866081
Within Groups	4206.8	20	210.34			
Total	8156	24				

Source: Primary Data

From the above table it is clear that there is a difference in the opinion for occurrence of NPA amongst bank employees of both public sector and private sector banks because the calculated value is higher than the F-critical value. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence there is a significant difference between the responses of employees of banks.

Table 10: Table showing ANOVA impact of NPA on banks

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	2778.5	4	694.625	14.98113	4.04E-05	3.055568
Within Groups	695.5	15	46.36667			
Total	3474	19				

Source: Primary Data

From the above table it is clear that there is a difference in the opinion of bank employees of both public sector and private sector banks regarding the impact of NPA in banks. This is because the calculated value is higher than the F-critical value. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence there is a significant difference between the responses of employees of banks.

5. FINDINGS OF THE STUDY:

- Majority of the employees forming part of the study are clerks and managers
- The major sectors contributing to NPA are public sector lending, small scale industries lending and agricultural lending
- Lack of experienced and skilled staff to study the risks attached to the loan and do the loan disbursal work.
- Banks are reeling under pressure to disburse loans during the loan utsav/ loan melas conducted. They just concentrate on capturing the market share and not on the quality of assets created.
- The borrowed funds are diversified for other purposes/needs of their own.
- Absence of a centralized market intelligence system
- Effective recovery of the NPA is spoilt on account of the sizeable hangover component due to inadequate legal provisions on foreclosure and bankruptcy.
- NPA affects credit growth and it depends on subordinated debts.
- Variables like credit appraisal to be managed and continuous rapport with the borrower would help to reduce NPA in banks as per the responses of bank employees.
- There is a difference of opinion between the employees of public sector banks and private sector banks for occurrence and impact of NPA.

6. SUGGESTIONS: NPA are a burden on the banks profitability. In case there is a continuous recovery of the loans and advances the question of NPA does not arise. Banks are adopting various strategies to reduce NPA in banks. By adopting the following suggestions banks can reduce the grim NPA situation of the country:

- Banks must adopt well defined credit policies and the same must be appraised to the bank employees clearly

- Credit appraisal has to be done by the officials without any prejudice taking into account the policies of the loan portfolio.
- All the loan accounts are to be reviewed in frequent intervals by the bank officials
- Frequent intensive training to be provided to bank employees to check the applicant's details before disbursal of the loans. Post disbursal of the loans also they need to monitor the borrower's account in an intense manner to keep a check on willful defaulters.
- Bank employees need to keep in constant touch with the borrowers to ascertain the financial position at every stage.
- The loopholes in the banking system must be eliminated and an effective recovery mechanism has to be framed.
- More teeth must be given to the Debt Recovery Tribunal to publish the name of the defaulters to banks.

7. CONCLUSION: Nonperforming assets are a drain on the bank's profits. This has affected the credit institutions both financially and psychologically. In case there is no problem in the repayment of the loans by the due date or within the stipulated date then there is no problem to the banker at all. But in today's situation there is no such bank at all. Recently established banks might have not experienced this situation, else all banks are prone to this problem due to loans and advances. The Indian banking industry has adopted various strategies to reduce the NPA problem and further additions in the near future in the banks. It has become the need of the hour to monitor exposure levels, look at industry scenarios and take timely action in troubled industries. NPA management along with negotiated settlement, advisory committees, restructuring and rehabilitation with suitable legal reforms is required for better financial soundness in the banks.

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