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TRENDS AND ISSUES OF NON-PERFORMING ASSETS - AN OVERVIEW OF BANKING SECTOR

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ABSTRACT:
Today, banks performance is assessing on the basis of volume of deposits, number of branches and quality of services along with the quality of assets it possess. In present scenario, recognition of revenue, obtaining funds for banking institutions, reduction in presence of Non-Performing Assets (NPAs) and to classify the assets providing international standards etc., are the key challenges in banking sector. Non-Performing Assets affect profitability, liquidity and solvency positions of financial institutions. This paper is presenting a comparative trend analysis of NPAs of various categories of banking sector. The study period is taken from 2010-11 to 2018-19. Majority of information is taken from secondary sources to compare the Non-Performing Assets of various selective types of banks. For the analysis purpose the suitable methods and tools of statistics are applied. Based on the findings, suitable recommendations are also presented accordingly.

INTRODUCTION

Financial institutions are the key role players in the prosperous growth of a country's economy. Basically these are oldest form and have a large quantum of operations and worldwide network of branches with their traditional banking business and they also diversified their functioning in modern ways recent past. For ever-growing economy like our India a healthy and financially sound banking system is important. The failure of public sector banks will show the negative impact on various sectors of economy. One of the major causes of failure of such banks is Non-Performing Assets (NPAs). The NPAs reflect adverse effect on profitability, solvency, and liquidity of these banks. The high level of NPAs describes that which affects the credit worthiness and reputation of banks, and shows adverse effect on its repayment capacity to its borrowers. The development of an economy is totally depends on a strong, feasible and sustainable banking system. The flow of funds in banking system and its profitability is lies on deposits collected and loans issued by these institutions. Actually the primary objective of any bank is to meet the needs of peoplefor agriculture, business and for personal use. In this process these financial institutions have to give priority to agriculture, business, and industry and for other productive purposes.The timely repayment of interest and loan amount by the customers are treated as assets with performance. Whenever, the borrowers are failed to repay these amounts on loans, the problem of non-performing assets arises among these financial institutions. If a bank is failed to recover the loan sanctioned in the earlier period, then the flow of funds in that bank is affected adversely and affects its liquidity and profitability. The presence of NPAs affects adversely both the banking sector and the entire monetary environment of the country.

NON-PERFORMING ASSETS

Concept of NPA is bounded to advances, loansand funds. Until and unless the loan asset is generating regular income with expected usual commercial risk, that asset is known as performing asset. If it is failed to generate the expected revenue, then this is identified as “Non-Performing Asset”. The presence of NPA means the advance or credit for which the principle and interest of loan amount repayment remained overdue for 90 days period.

Types of Non-Performing Assets

The Non-Performing Assets can be classified into two types:

a. Gross Non-Performing Assets (GNPAs)

In accordance with the stated guidelines by Indian supreme bank the sum of loan assets, that are noticed as, NPAs as on the date of Balance Sheet are known as GNPAs, which mirrors the entire credit worth given by banks and contains all nonstandard assets.

b. Net Non-Performing Assets (NNPAs)

Sum of assets whose amount of gross non-performing assets less provisions are known as NNPAs. They exhibit the original burden of banks. The ratio for net non performing assets is calculated by dividing the Gross nonperforming assets less provisions by gross advances less provisions.

Asset Classification

Assets can be classified into 4 groups.

- **Standard Assets**: When banks are receiving regularly the amount of interest and principle amount from their customers, those assets are called as Standard assets.However it is to be noted that the dues in principle and interest amount of loan that should not exceed ninety days at the closure of a financial year.

- **Substandard Assets***:* Up to 12 months or less than 12 months which assets remained as non-performing, those are known as substandard assets.
- **Doubtful Assets***:* If some more features such as weaknesses make collection or bankruptcy in total, based on the present information, situations and values highly problematic and doubtful are added to substandard assets, those loan assets are known as doubtful assets.
- **Loss Assets***:* it is an uncollectible loan with minute value that its tenacity as financial asset which is not assured, though there might be some residual / recoverable value. To treat them as loss assets either external or internal auditors of bank or in the inspection of RBI should be identified and the total amount my not be written-off wholly.

SCOPE OF THE STUDY

From past two decades, the banking industry facing severe financial crisis in the form of losses and overdue due to liberal loan sanction policies and poor recovery rate. The introduction of various online services in banking industry increased their productivity, efficiency and profitability to a large extent, but because of several reasons the growth in NPAs is becoming cause for huge reduction in profits of banks and some various other financial institutions. It is a key area that each and every aspect of banking operationsneeds to be taken utmost care. In many cases public sector banks reached the expectations of customers than private sector banks. The banks are providing various types of loans and advance to the categorized people either individuals or firms etc who requires funds. The level of Nonperforming loans is best sign for the economic power of the banking sector for any country. In Indian banks, one of the major constraints is low or non performing assets. There is a continuous increase in the growth of nonperforming assets rather than Profitability. It is important to keep the non performing level as low as possible to be allowed by the banks. In order to make sure the financial strength of the country, there should be a methodical approach to gauge the efficiency of the bankers.

REVIEW OF LITERATURE

Rajeev & Mahesh (2010) in their study they mentioned about our weak legal system meant for banking system in India. It is one of the responsible factors for continuously increasing NPAs in banking business. The legal system in India is works sympathetically for its borrowing customers and it doesn’t show interest for banks.

Prasad and Veena, D. (2011) as researchers tested various aspects related to trends of NPAs of banking sector. They pointed out that major section of Public Sector Banks are facing the difficulty of unproductive manpower and too much of inoperative assets, than other sectors of banks.

Ibrahim, M.S., & Thangavelu, R. (2014) in their research study they examined various assets categories. As per their analysis the presence of sub-standard assets stands huge in public and foreign banks whereas for private sector banks the doubtful assets are high. They observed that on the wholethe gross nonperforming assets are increasing year by year.

K.S. Venkateswara Kumar, K. Sripathi and S. Hanumantha Rao (2017) in their study examined the role of statutory bodies in handling NPAs**.** The increase in the ratio of Non-Performance Assets (NPA) showed effect on the profitability of banks, as they have to allocate provisions for the settlement of NPAs. For recovery of loans of banking institutions Debt Recovery Tribunals (DRTs) were set up. This act was supported to recovery loans on an average 1 year instead of 5 to 7 years required civil suits.

Sunil B. Kapadia &Venu V. Madhav (2019)through their study they identified that due to bad loans a highest amount of banking sector resources are blocked and becoming unproductive. Based on their findings it is clear that the amount recovered is very low and the role of lending dynamism is resulting an increase in NPAs is still gloomy.

STATEMENT OF THE PROBLEM

The issue of NPAs has been broadly explained for the financial system around the globe. In the banking sector, the funds flow is exaggerated when a bank is unable to recover the loan given or does not receive even interest on such a loan. The problem of NPAs disturbs entire wealth of the economy along with the banks. It echoes the reputation and performance of the banks. If the NPA level is high, this results in a high likelihood of credit defaults affecting bank's profitability and net worth. The present research focused on the NPA levels at various categories of banking sector.

RATIONALE OF THE STUDY

The one of the causes of reduction in the growth and profitability in banking industry is year-by-year increasing non-performing assets. After studying and analyzing various reasons and influence of NPAs in various categories of banking sector, it will give solution for bankers to decrease the burden of Non-performing assets.

OBJECTIVES-OF THE STUDY

1. To examine thenotionof non-performing assets in selective categories of banking sector.
2. To analyze and examine the annual trends and annual growth rate trends of Gross &Net NPAs in selective categories of banking sector.
3. To offer suitable suggestions for the speedy recovery of Non-Performing Assets.

HYPOTHESIS OF THE STUDY

H_0: There is no significant difference in the annual trends of Gross &Net NPAs.
H_1: There is a significant difference in the annual trends of Gross & Net NPAs.
H_{0a}: There is no significant difference in annual growth rate trends of Gross & Net NPAs.
H_{1a}: There is a significant difference in annual growth rate trends of Gross& Net NPAs.

RESEARCH METHODOLOGY

Research is relied on method of censuring. The method is adopted in this study follows a mixed approach comprising the qualitative analysis as well as the quantitative analysis for data collection from Indian Economy Annual Report and Statistics Handbook of Reserve Bank of India. The guidelines issued for qualitative analysis by RBI effective to the study period various journals, newspapers, magazines were studied and data available through credible sources are used for the analyzing the NPAs recovery causes. The study period is 10 years, from 2010-11 to 2018-19. The study concerns the public, private, foreign and all scheduled commercial banks in India. Thus, the statistical technique of linear regression was used where NPAs is the independent variable, i.e. the gross NPAs to the gross advance ratio, and the dependent variables time period of the study i.e2010-11 to 2018-19. The data used in the present analysis is confined to the time phase between the years 2010 to 2019. For hypothesis testing the collected data analyzed by using suitable descriptive and inferential measures

ANALYSIS AND INTERPRETATION

Data analysis is the centerpiece of research. Nowadays, scientific methods have been used to make the resultand for the analysis purpose for which the study meant may also have been sufficient. With the help of appropriate statistical techniques, collection of data from all resources were tabulated, analyzed and interpreted to reach certain relevant results.

Comparative Analysis of Annual Trends of Absolute Gross & Net NPAs

Table 1 Annual Trends of Gross NPAs and Net NPAs of Selective Categories of Banking Sector

Bank Cluster	**Public Sector Banks**		**Private Sector banks**		**Foreign Banks**		**All Scheduled Commercial Banks(SCBs)**	
Dependent, Variable	**GNPA**	**NNPA**	**GNPA**	**NNPA**	**GNPA**	**NNPA**	**GNPA**	**NNPA**
Independent, Variable (Time in Years)	Constant	Constant,	Constant	Constant,	Constant	Constant	Constant	Constant
Regression Coefficient	-201711123.9 **100320.127**	-118267533.49 **58816.66**	-26494755.84 **13178.224**	-15954561.418 **7932.612**	-2128522.52 **1061.81**	132621.2 **-64.7879**	-264500185.5 **13153.5636**	-126063566.49 **62696.79**
't' Statistics (p value)	-8.724 (0.000) 8.741 (0.000)	-10.128 (0.000) 10.147 (0.000)	-5.888 (0.000) 5.90 (0.000)	-5.922 (0.000) 5.932 (0.000)	-4.982 (0.001) 5.007 (0.001)	0.805 (0.444) -0.792 (0.451)	-8.20155 (0.000) 8.216 (0.000)	-9.537 (0.000) 9.555 (0.000)
'F' Statistics (p value)	76.407 (0.000)	102.96 (0.000)	34.812 (0.000)	35.194 (0.000)	25.075 (0.001)	0.627 (0.451)	67.50 (0.00)	91.316 (0.000)
R Square	91%	93%	81%	81%	76%	7%	89%	92%

Source: Statistics on the Indian Economy –Handbook

Based on the above information it can be interpreted that 'p' value of 'f' statistics was identifiedthat less than 0.05 significance level for all the mentioned categories in both the cases of Gross and Net NPAs. Hence, the null hypothesis (H_0) is not accepted, at 5% level of significance. The 'p' value of 't' statistics are also shown a less than 5% meaning level. Therefore, this can be concluded that substantial trends for long term of above all groups except private sector banks (which shown a positive value) exists in net NPAs. It found that the significant trend in Net NPAs is negative in cases of involving foreign banks. In addition the result R square value indicated the %

of variance in gross and net NPAs behavior which is clarified by their time behavior.

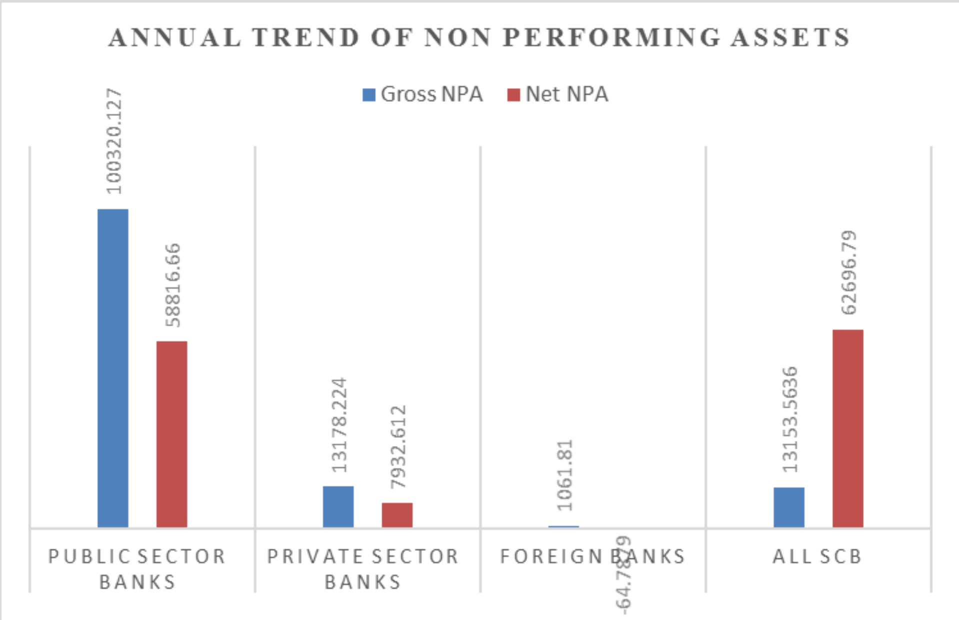

Figure 1 Annual Trend in Gross NPAs and Net NPAs (in Rupees Crores)

Figure 1 denotes that theexistence of positive long-term trend in all the cases of GNPAs. The substantial positive trend in gross NPAs is found for private sector banks (13178.224), for foreign banks (1061.81), for All SCBs (13153.5636) and for the banks in public sector. (100320.127). Further it also denotes that the existence of long termpositive trend in all the cases of net NPAs except foreign sector banks (-64.7879).

Absolute Gross &Net NPAs Comparative Exponential Growth Analysis

Table 2 Comparative Analysis of Exponential Growth of Absolute Gross & Net NPAs

Bank Cluster	**Public Sector Banks**		**Private Sector banks**		**Foreign Banks**		**All SCBs**	
Dependent Variable	**GNPA**	**NNPA**	**GNPA**	**NNPA**	**GNPA**	**NNPA**	**GNPA**	**NNPA**
Independent, Variable (Time in Years,)	Constant,	Constant,	Constant,	Constant,	Constant	Constant	Constant	Constant
Exponential Growth Rate	144.862 7.5	-162.997 9.2	-443.908 22.3	-342.789 17.2	- 195.381 9.9	- 158.627 9.3	- 156.499 8.5	- 163.379 8.5
't'Statistics(p value)	-4.0250 (0.001), 4.206 (0.001),	-3.605 (0.002) 3.731 (0.002)	-9.0140 (0.000) 9.093 (0.000)	-7.551 (0.000) 7.617 (0.000)	-7.130 (0.000) 7.261 (0.000)	-5.464 (0.000) 5.549 (0.000)	-5.187 (0.000) 5.409 (0.000)	-4.210 (0.001) 4.363 (0.000)
'F' Statistic (p value)	17.688 (0.001)	13.921 (0.002)	82.682 (0.000)	58.024 (0.000)	52.723 (0.000)	30.789 (0.000)	29.259 (0.000)	19.031 (0.000)
R^2	51%	46%	82%	78%	75%	65%	63%	25%

The outcomes of the semi-log model offered in Table 2 reveals that the p value of 'F' statistics was identified less than 0.05 significance level for all the said categories under the heads of Gross and Net NPAs. Hence, H_{0a} which is rejected at significance level of 5% and an alternate hypothesis (H_{1a}) is accepted. Further the 'p' value of 't'statistics is also marked below the 5 % level of significance for all bank groups. It indicates considerable annual growth of absolute gross and net NPAs for all selective categories of banks.The R^2 value represents the variance percentage in absolute growth rate of the gross and net NPAs which is clarified by their behavior in time.For example the R^2 value of banks under public sector is 51% and under private sector itis 82% of absolute growth of GNPAs which is elaborated with the aid of its time behavior.

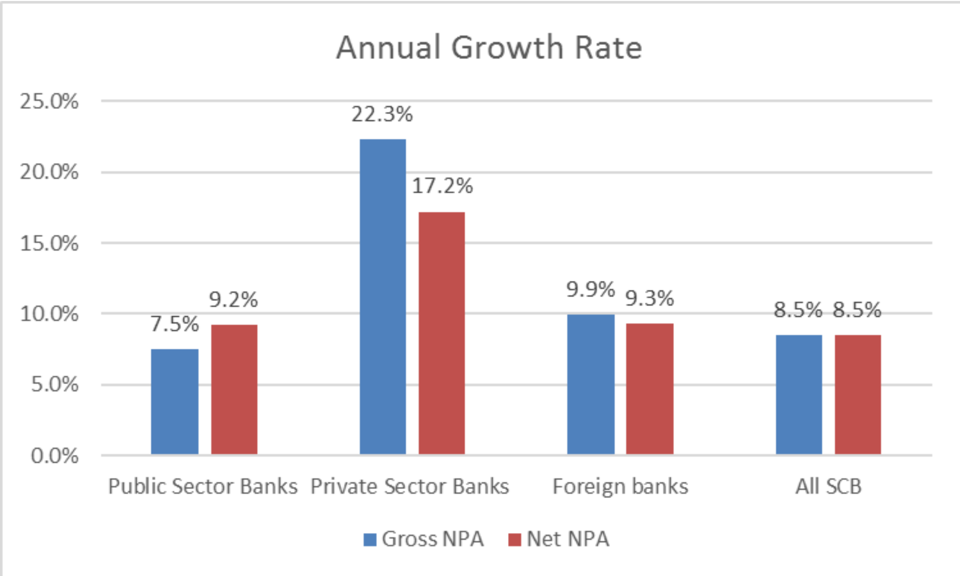

Figure 2 Annual Growth Rate of Both Gross & Net NPAs

A keen observation of figure 2 reveals the gross NPAs and net NPAs annual growth rate in percentage. It is identifiedthat exponential growth rate of all bank groups is varying significantly. Though the amount of annual growth varies but still it is positive. By comparing the gross NPAs annual growth rate with its net NPAs annual growth rate the private sector banks experienced a big positive difference (i.e. 22.3% to 17.2%). It clearly indicates that the existence and implementation of good regulatory mechanisms in banks in private sector. In the same way the foreign banks are also recorded a positive growth rate. However, all scheduled commercial banks have found no change in its gross and net NPAs growth rate.

MAJOR FINDINGS

- The researcher identified that there is a significant impact on long term trend in gross NPAs of all selective categories of banks in India.
- The banks under private sector (22.3) point out the greatest annual growth in absolute gross NPAs whereas under the head of foreign banks it is (9.9) and Public banks (7.6) are 2nd and 3rd position comparatively.
- It noticed that substantial long-term trends for all SCB groups except for the banks in old private sector which be present net NPAs. Thus, in the case of foreign banks a considerable long-term negative trend in Net NPAs is observed.

- Foreign bank (-64,7879) clearly noticed that they are in negative position in terms of the long term trend in net NPAs, whereas 3 categories of banking sector had a significant annual growth in absolute net NPAs.

RECOMMENDATIONS

Based on the comparative analysis, subsequent suggestions begin which can aid the bankers to reduce their mounting balances of non-performing assets;

- RBI has to revise existing credit appraisals and monitoring systems.
- For a systematic functioning of banks the credit management is very essential.
- A pre-defined procedure for credit planning, credit proposal appraising mechanism, methods of sanctioning and disbursements loans, and periodical follow ups of disbursed loans etc will support the bankers to a great extent in accomplishing the objective of reducing NPAs.
- The supreme body of banks initiated numerous legal and procedural measures to eradicate the problem of high NPA. However, the loop holes in the legal measure, have to be minimized in order to swift the attitudes of the loan defaulters.
- The Government also has to assist in the recovery of government sponsored schemes.
- Use of the services provided by means of Credit Information Bureau of India Limited has to initiated and executed by each and every lender to minimize the presence of NPAs particularly in Banking Sector.
- Bank management can provide officials with needed training in the part of lending to, the several groups, and may endure to support the officials to upgrade their skills in the speedy recovery of loans.
- The managements of respective banks may have specialized standard credit rating agencies to determine potential borrowers' repayment capabilities before offering credit to the needy.

CONCLUSION

The financial performance of Indian Banks is affected by Nonperforming assets and the economic growth of the country. Banking system of Indian is struggling hard to overcome the problem of NPAs. For any Nation, the economic growth purely relies on its monetary system. The main part in economic system is bankingsector. The study recommended to regulators and respective bank officials are therefore the necessary steps to be taken to reduce the NPAs and get better methods for recovery.

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