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CONTENTS

STRATEGY OF MANAGING NPA BY PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN INDIA

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Abstract

In India, public sector banks cover almost 80 percent of the market share when it comes to financing. The next sector penetrating deep into the market is private sector banks (on the basis of advances granted). A bank can never grant credit if it remains over cautious for loss. Therefore every bank has some possibility of incurring loss due to bad loan or Non-performing Asset. NPA is a loan which has stopped generating income either in the form of interest and/or instalment. This paper is about the NPA of both sectors and its management by them(asset management). Public Sector has high ratio of NPA when compared with its private peers. Therefore this topic has been taken up to compare the both sectors on the basis of bad loans and accordingly conclusion has been made.

Keywords: NPA, Asset management, financial sector.

I. INTRODUCTION

A globally competitive economy requires a robust and well-functioning financial sector. Financial sector mainly consist of banks and other financial institutions. In a developing economy like India, banks play a very pivotal role. But financial sector along with such an important responsibility faces some critical problems also. One of these problems is mounting Non-performing Assets or bad loans. Banking sector forms the basis for economic activities in an economy like India. Banks in our country are going through a stiff situation of rising NPA. This mounting Non-Performing Asset (NPA) has affected banking sector very badly. Their profitability and credit ability has been impacted. Due to increasing bad loans they are becoming averse to credit granting. Although RBI and other supervisory committees have advised and devised many tools and techniques for resolving the same. Still the problem of NPA remains unsolved and mounting.

'What is an NPA?'

NPA means an asset or account of borrower which ceases to generate income for the bank. A non-performing asset was, earlier defined as a credit facility in respect of which the interest and/or instalment of principal has remained 'past due' (the due amount remaining unpaid for a period of 30days from due date) for a specified period of time. But with a view to moving towards international best practices it has been decided to adopt the '90days overdue' norm for identification of NPAs.

Implications of accounts becoming Non-Performing Asset (NPA)

- Banks cannot credit income to their profit and loss account to the debit of loan account unless recovery thereof takes place.
- Interest or other charges already debited but not recovered have to be provided for.
- All loan accounts of the borrower would be treated as NPA.

Asset Classification

Standard Assets- they are the ones in which the bank is receiving interest as well as the principal amount regularly from the customer. They asset fails to be in the category of standard asset then it is NPA and NPAs are further classified as:

- Sub-standard Assets
- Doubtful Assets
- Loss Asset
- Sub-standard Asset- with effect from 31st march, 2005, a sub-standard would be one which has remained Non-Performing Asset (NPA) for a period less than or equal to 12 months. 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.
- Doubtful Asset- with effect from march 31st, 2005, an asset would be classified as doubtful if it remained as non-performing asset for a period exceeding 12 months.
- Loss Asset- a loss asset is one which is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted .Also these assets have been identified as ‘loss assets’ by the bank or internal or external auditor or the RBI inspection but the amount would not have been written off wholly or partly. Only those advances would be classified here ,where no security is available. Accounts where any security /ECGC/DICGC cover is available are not to be reported under loss category.

Statement of problem

Non-Performing Asset (NPA) of Public Sector banks is much more than Private Sector banks. At the end of fiscal year 2015-16 the gross NPA of public sector banks was 5.39 lakh crore and is still increasing. If NPLs of PSU Banks is compared with its private peers, it is much lower in private banks. It is 55900 crore only, i.e., 559 billion and that of PSBs is 5400 billion ,at the end of fiscal year 2015-16. Because of the continuous increase in Non-Performing Asset, the Banks have been affected in several ways. Profitability has been reduced and productivity has been affected adversely. Profitability has reduced due to non-payment of interest and/or instalment amount (for more than 90days) and also because of increase in provisioning requirements. Productivity has been affected in the sense that credit growth to few sector from where NPA is comparatively higher, has been declining since last few years.

Review of literature

A study of articles, journals, reports, research papers etc has been done and still to be done to find out the existing gap.

Sonia Narula & Monika Singla (2014). They studied deeply the causes of alarming NPA and emphasized on the negligence on the part of management. They tried to establish a positive relation between total advances, net profit and NPA of banks they selected and the reason they found was mis-management. Hence suggested that good management is needed on the part of bank to decrease the level of Non-Performing Asset.

Harpreet Kaur & Neeraj Kumar Saddy (2011). They emphasized on impacts of Non-Performing Asset on performance of banks and tried to find out its causes. They concluded that the extent of Non-Performing Asset is comparatively higher in public sector banks. Various steps have been taken by GoI but still a lot more needs to be done. The Non-Performing Asset level in our country is still high as compared to international standard.

Balaji, S., N.,& R Surya (2014). They conducted a descriptive research, collected primary data directly from office, loan section of Indian

Bank, Tamil Nadu. After rigorous analysis they suggested that the instalment amount to be paid by customer should be reduced ,instead number of instalment should be increased, Lok Adalat should be used, logistic support should be given to collection staff for the branch office.

Neha Rani (2014). She concluded in her study that there is a need to concentrate on non-priority sector for reducing NPA because NPA is increasing in this sector. She further emphasized on the need of a good appraisal system and performance evaluation method and loan should be given to different sector according to their credit worthiness.

Srinivas K T (2013). He conducted his study using data of the time period 1996-97 to 2011-12. This paper was undertaken to study reasons of advances becoming non-performing assets in Indian commercial banks and to give suitable suggestion to the same.

According to RBI Articles and Circulars; asset quality of banks is one of the most important indicators of their financial health. Banks should therefore put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as segment level(asset class, industry, geographic, size etc.). The banks' IT & MIS system should be robust.

II. Objectives

1) To know the level of bad loans of Public Sector and Private Sector Banks.
2) To know the asset quality of both segments of banks.
3) To compare the asset management techniques of both segments of banks.

Research Methodology

This paper is descriptive in nature. Secondary data have been used to complete this research. Sources of secondary data sources are RBI websites, reports, journals, newspapers etc. Ms-excel has been used to analyse the data.

Hypothesis

H0: Asset management of Public Sector Banks is better than Private Sector Banks.

H1: Asset management of Private Sector Banks is better than Public Sector Banks.

Data analysis and interpretation

Table No. 2 Classification of loan assets of Public Sector Banks

(Amount in ₹ billion)

Year	Standard advances		Sub-standard advances		Doubtful advances		Loss advances		Gross NPA		Total advances
	Amt	%	amt	%	amt	%	amt	%	Amt	%	amount
2016	52875	90.7	2005	3.4	3232	5.5	163	0.3	5400	9.3	**58275**
2015	53382	95.0	1054	1.9	1630	2.9	100	0.2	2785	5.0	**56167**
2014	49887	95.6	958	1.8	1216	2.3	99	0.2	2273	4.4	**52159**
2013	43957	96.4	815	1.8	761	1.7	68	0.2	1645	3.6	**45601**
2012	38255	97.0	623	1.6	490	1.2	60	0.2	1173	3.0	**39428**
2011	32718	97.8	350	1.1	332	1.0	65	0.2	747	2.2	**33465**

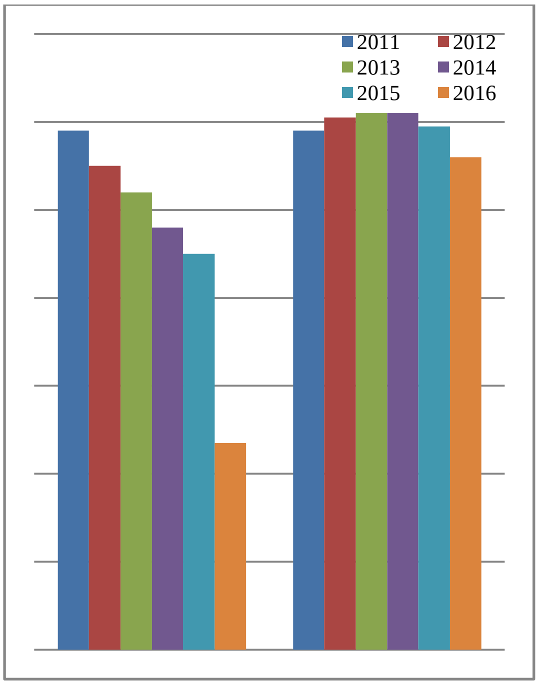
Source: Department of Banking Supervision; RBI.

Table No.2 Classification of loan assets of Private Sector Banks

(Amount in ₹ billion)

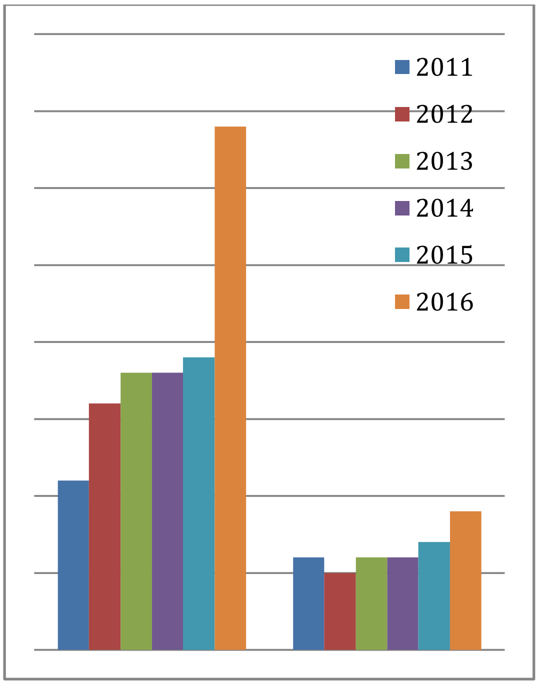
Year	Standard advances		Sub-standard advances		Doubtful advances		Loss advances		Gross NPA		Total advances
	amt	%	amt	%	amt	%	amt	%	Amt	%	amount
2016	19184	97.2	186	0.9	311	1.6	62	0.3	559	2.8	**19742**
2015	15750	97.9	108	0.7	176	1.1	52	0.3	337	2.1	**16087**
2014	13371	98.2	86	0.6	114	0.8	42	0.3	242	1.8	**13613**
2013	11384	98.2	64	0.6	112	1.0	32	0.3	208	1.8	**11592**
2012	9629	98.1	52	0.5	104	1.1	29	0.3	185	1.9	**9814**
2011	7936	97.8	45	0.6	108	1.3	29	0.4	182	2.2	**8118**

Source: Department of Banking Supervision; RBI



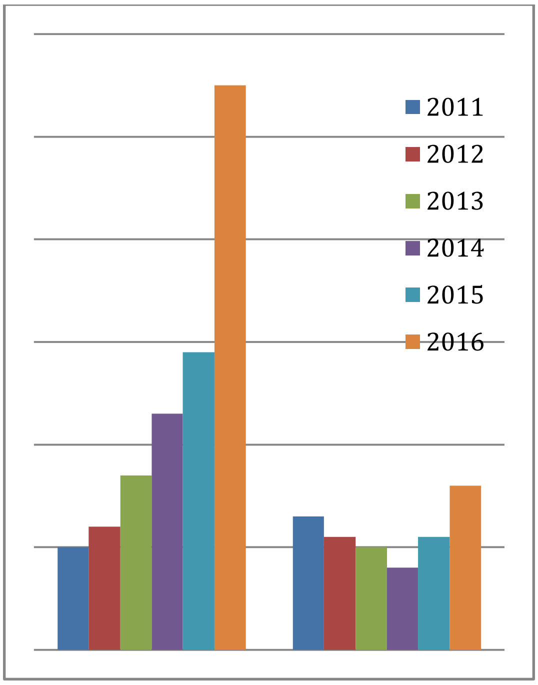
Standard Assets (%)

From the above graph it is clear standard assets of private sector banks is comparatively higher. And that of public sector banks is continuously declining since 2011. A little decrease is there in the standard assets of private sector banks since 2014 but that is too little.



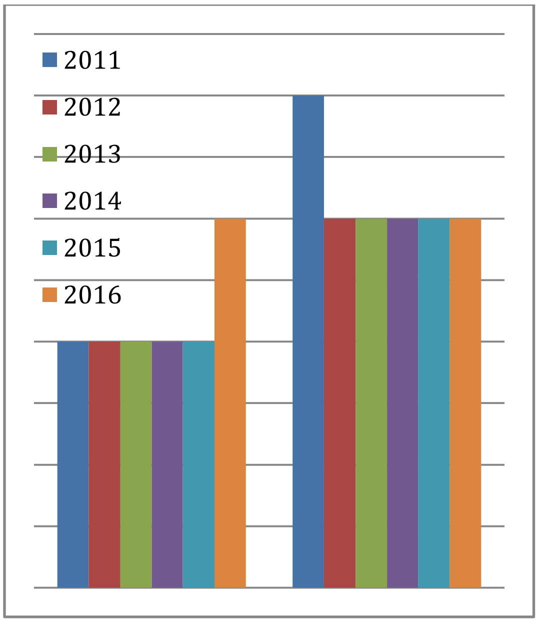
Sub-Standard Assets (%)

From graph B it is evident that sub-standard assets of public sector banks are much higher than private sector banks, which is not a good sign.



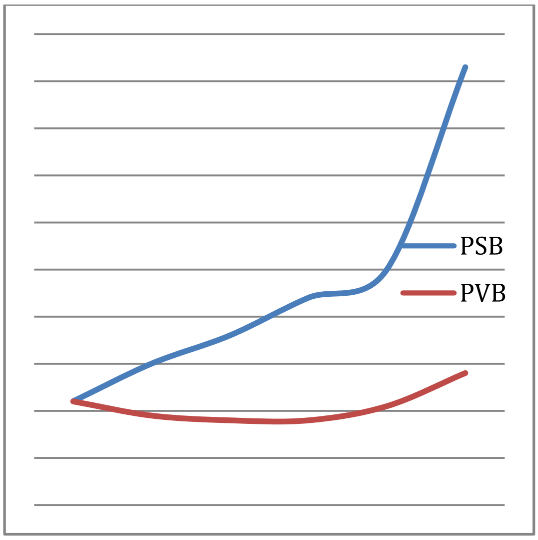
Doubtful Assets (%)

The graph C shows that a doubtful asset of private sector banks is lower than public sector banks. In 2016 it is much lower than that of public sector banks.



Loss Assets (%)

From the above graph it is evident that loss assets is comparatively higher in private sector banks, but in the year 2016 both sectors have same level of loss assets.



Gross NPA (%)

This graph shows that gross NPA of Public Sector banks is higher than that of private sector banks. Which shows better asset management of private sector banks?

Hence, null hypothesis is rejected and alternate is accepted, i.e., private sector banks have better asset management than public sector banks.

III. CONCLUSION

From the above discussion it is clear that private counter-parts have most of the time out-performed their public counterparts. And credit goes to their management capabilities. If we look at the NPA ratio of both categories, the private sector has very less NPA than that of public sector. Because of this, credit advanced to various sector by public sector banks is decreasing in comparison to private sector banks.

It is also said that private sector banks don't lend as much money to vulnerable sector as public sector banks. But this cannot be the reason for minimal NPA ratio in private banks. Actually the private banks remain very cautious while disbursing loan as well as after disbursement. And even a default occurs they become very strict for recovery.

Hence, public sector banks should learn some lessons from private banks in order to cope with the current situation.

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