

NON PERFORMING ASSETS IN BANKING SECTOR: A COMPARATIVE STUDY (WITH REFERENCE TO RURAL BANKS IN RAJASTHAN)

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Abstract

Banking sector plays an important role in growth of Indian economic. The Banking sector also plays important role in Production, Distribution, Exchange and Consumption processes in our Economic System. For Economic Development point of view Rural Development plays an important role in growth of our economy. So Rural Development was necessary requirement of growth. The RBI recommended a Banking Commission in 1972 for established for RRBs as a separate institution. This commission working under the chairmanship of sh. M. Narasimham RRBs setup through RRB Act. 1976. RRBs were established with a view of developing the Rural economy by providing finance for development of agriculture, commerce, trade etc. in Rural area. Equity of RRBs held in the ratio of 50:15:35 by central Government concerned state govt. and sponsor bank respectively.

Keywords: Gross NPA, Net NPA RRBs, Public Sector Banks, Private Sector Banks, Non-Performing Asset.

Introduction

The India banking system includes commercial and cooperative banks, of which the former accounts for more than 90 percent of banking system's assets. As well as few foreign and Indian private banks, the commercial banks includes nationalized banks (majority equity holding being with the Government), the State Bank of India (SBI) (majority equity holding being with the RBI) and the associate banks of SBI (majority holding being with SBI). These banks, along with Regional Rural Banks, constitute the public sector banking system in India. After 1991 the banking sector has undergone a sea change with first phase of economic liberalization and hence credit management. Asset quality was not prime concern in Indian banking sector up to 1991, but was mainly focused on performance such as opening wide networks/branches, development of rural areas, priority sector lending, developing entrepreneurship, higher employment generation, etc. While the primary function of banks is to lending funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in present times the banks have become very cautious in extending loans. The reason besides increasing non-performing assets (NPAs) and nowadays these are one of the major concerns for banks in India

NPA Define

The amount of loan given by bank is remaining unpaid up to a specific period. It is known as loan overdue. These loans overdue after fulfillment of some specific norms related to non-performing asset described in Banking Act. It is treated as non-performing assets and a separate list of non-performing assets prepared by bank. Non-performing assets are harmful not only for bank but also for all the non-performing asset holders (beneficiaries) of the financial system. Prevention of loans losses is a very important task for increasing the profitability of that bank. With a view to ensure greater transparency and to moving towards international best practices, it had been decided from the year ending March 31, 2004 to adopt the '90 days' overdue' norm for identification of non-performing asset. Accordingly, w.e.f. March 31, 2004, a non-performing asset (NPA) is a loan or an advance where;

- Interest or installment of principal amount remain overdue for a period of more than 90 days in respect of a term loan,

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