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A STUDY OF REASONS AND REMEDIES OF NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR

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ABSTRACT

Increasing non-performing assets (NPAs) in the banking sector can severely affect the economy in a number of ways. If NPAs are not properly managed, it can lead to financial and economic downturn, leading to a negative investment environment. This study focuses on the management of non-performing assets in Indian public sector banks approach under strict asset classification principles, use of state-of-the-art technical platform based on Core Banking Solution (CBS), recovery procedures. And highlights other bank-specific indicators. The approach of the Reserve Bank of India's strict regulatory framework is a major hurdle in the study of NPA Bank's financial performance as it results in lower margins and more provisioning for doubtful loans. Different banks of different categories jointly provide development to different sectors like SSI, Agriculture, Priority Sector, Public Sector and others. These developments need to be controlled after pre-approval assessment and distribution to curb the rising NPAs in the Indian banking sector. The reduction in NPAs is necessary to improve the profitability of banks and to meet the standards of capital acumen as per the Basel Agreement. A comprehensive framework for NPA management has been developed for recovery of NPAs under which several options for debt recovery and restructuring have been provided. This study traces the dynamics of NPAs in Indian public sector banks so that new policy measures and key performance indicators within the scope of the Reserve Bank of India's regulatory process and the management of non-performing assets.

Keywords: *Indian Banking Sector, NPA, Core Banking Solution (CBS), Capital Adequacy Ratio (CAR).*

Introduction

An NPA is defined as a debt asset that has stopped generating any income for the bank, whether it is interest or principal payments. Banking is one of the most prominent sectors in India that promotes the growth of the Indian economy. This sector is the foundation of modern economic development and a key player in development strategy. Public sector banks are the ones in which the government has a large stake. They are divided into two groups, namely Nationalized Bank and State Bank of India and its associates. The future of the PSB will depend on their ability to consistently build good quality assets in an increasingly competitive environment and maintain capital adequacy and strict precautionary principles. Most banks follow the Early Warning System (EWS) to identify potential NPAs, the actual procedure varies from bank to bank. Major EWS mechanisms followed by banks in India have been modelled by the Reserve Bank of India on the example of the Board of Financial Supervision, which includes parameters such as the appointment of a Relationship Manager / Credit Officer to oversee the accounts. Know your client profile, credit rating system, watch list identification / special mention category accounts, monitoring early warning signs.

As a result of the rapid decline in profits due to oversupply of NPAs, it is now connected to technology. There is a welcome change in stopping and tracking NPAs using technology. This will help banks avoid human intervention. As the software will mark the defaulting accounts as NPAs, it will be classified by reducing the discretionary power of the bank managers. Currently, only Indian Bank and SBI have started calculating NPAs under a technical platform called Core Banking Solution (CBS) System. Most other PSU banks are in the final stages of transitioning to CBS and calculating NPAs under the CBS system. The most important challenge facing the country's financial system today is to bring

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informal debt into the formal financial system. Implementing the principles of Basel II, banks have made significant changes to the business model in which the potential economic impact can be carefully monitored. Since, the management standard of credit risk by banks is one of the reasons for raising NPAs, the concerned banks are constantly monitoring the loans to identify the accounts which are likely to become inactive as the banks have all There must be adequate capital to deal with the risks. Under Basel II principles, banks are required to invest at least 8% of risky assets. With the exception of regional rural banks and local area banks, all commercial banks in India have become subservient to Basel II. The Reserve Bank of India has made it mandatory for India to maintain a minimum9%Capital Adequacy Ratio (CAR) or Capital to Risk Weighted Assets Ratio (CRAR). The Reserve Bank of India (RBI) has introduced strict policy principles to bring Indian banking business up to world standards and make it more reliable, transparent and secure. These principles are important because India is a developing economy and it is seeing a growing influx of capital from abroad and there is an increase in international financial and economic transactions.

Objective of the Study

The issues of NPA remain a bigger challenge for the banking sector. In the 1990's the government appointed the Narasimham Committee to study the reasons for NPA and to recommend the steps to reduce NPA. The Government of India in the year 1990 introduced a number of reforms to deal with the problems of NPA. In this backdrop the present paper to highlight the major Causes and reasons for the NPA and its remedial suggestion to betterment condition of NPAs in Indian banking sector.

Research Methodology

The study is based on secondary data which is collected from reports, journals and websites for the latest happenings in the banking sector in India, where a major part of the data is extracted from the tables relating to banks as published by RBI and Report on Trend and Progress of Banking in India.

Reasons behind NPAs

- Restrictions on mining projects, options, delays in environmental permits affecting the iron and steel sector, fluctuations in raw material prices and reduced availability of electricity have all affected the repayment efficiency of these loans.
- Non-discriminatory lending by some state-owned banks during the period of high growth 2004 is a major reason.
- Lack of strictness in credit assessment system and monitoring of warning signs in state-run banks.
- Banks use poor recovery and coercion techniques to recover loans.
- Debt waiver policy is one of the main reasons for the NPA.
- Rising system of fraud in India who left the country after taking loans from banks.
- Poor monitoring system and poor banking management.
- The wait-and-watch approach of banks is often cited as the reason for the rising NPAs.
- Slow legal system (judiciary in India) and lack of systematic and sustained efforts by banks make it difficult to recover these loans from both corporate and non-corporate countries.

Causes NPA's

Bank assets turn to NPAs for real and bad reasons. They need to be identified in a timely manner and steps taken to avoid them. Once an asset becomes an NPA, it becomes difficult to upgrade or recover it. This places an additional burden on the resources of the bank and on the workload of those employees who spend most of their energy and attention on such cumbersome work rather than central business development.[21] The real and inevitable causes of NPAs are:

- Government change policy for example, the ban on plastic bags affected the plastic bag industry and led to bad loans in such industries.
- Consumer lifestyle changes have an impact on an industry whose products are out of fashion.
- Elimination of natural disasters.
- Wars and protracted public unrest. They cannot be avoided, and because of such circumstances, the government needs to deal with the assets that become NPAs. And bank with sympathy.

Causes and Remedies of Non-Performing Assets (NPAs)

NPAs are the key to the survival of the banking industry around the world, especially in developing countries. There is a challenge. The cause of concern for these countries is the growing trend in NPAs which is spreading like an epidemic. Until this trend is present and controlled, nearby is a risk of failure or slowdown in the economies of the affected countries.[15]

NPAs have a detrimental effect on banks and the economy in various ways. They stop generating any revenue for banks, which is why such assets are called non-performing assets.

They take advantage of a good advocacy portion of their income, i.e., refuse to derive it from asset performance and other means as the supply against NPAs reduces the gross profit of the banks.

They describe the bank's reputation. Such a devaluation of the stock has a detrimental effect on investors, which is ultimately a reason for the public to be discouraged from contributing to the reserves and resources of such a bank.

This has severely hampered the morale of the employees as any reduction in profits deprives the staff of any incentives and career advancement. If this trend is fixed, it is a very serious matter and a major reason for losing the war.

The nation's economy suffers because banks cannot support economic activity due to lack of creditworthy funds as resources are blocked in NPAs.

The abundance of capital falls below the required standards and to make up for the shortfall, banks resort to public issue to raise capital which is in such a depressing state and loss of credibility of the market. It is difficult to get full membership due to poor response from. This forces banks to invest in discounts rather than premiums. The cost is too high to handle the public issue, and there is another reduction in the bank's profits. Though, in the case of PSBs, the central government incorporates capital from its own resources to guarantee banks. The current issue is to alleviate the crisis by adding more than ₹2,00,000 crore of Indian government debt to the capital of state-owned banks.[16]

This money could have been used to grow the economy, but instead it has affected its growth. How long can it be allowed to run? Can an economy afford to tolerate a situation where institutions become a burden for its development? They will have to stand on their own two feet and support the economy instead. This serious issue requirements to be addressed by the concerned banks with the govt. administration.

These are the major effects of NPAs on the economy that undermine trade culture and international relations with other countries. Let us now consider the reasons behind this mess.[17]

Reasons and Remedies for NPAs

- **Deviation of Funds by Borrowers:** Deviation of funds is one of the major reasons for tainting bad debts in our country. Anil Sinha, then director of the Central Bureau of Investigation, stressed the need to monitor the final use of money by banks, especially if significant progress is made to detect changes in funds. According to the Government of India (RBI), diversion of funds means that borrowers use the funds for purposes other than the purpose for which the loan was approved. The deployment of short-term working capital funds for the long term does not meet the approval requirements. And the provision of funds to subsidiaries or other corporations by any means; Turnover of funds through any other bank.[25]
- **No Strict Legal Action Against Defaulters:** NPAs are largely from an inadequate legal system, Indians work legally for the benefit of borrowers and use a lot of legal procedures. The govt. announced the B.R. (Amendment) Ordinance, 2017 in May 2017, which includes provisions of the B.R. Act, 1949 to deal with distressed assets. The RBI and the government felt that all three should take stern legal action against the deliberate losers, and the law and the Home Ministry opined that the money laundering was a breach of trust and therefore a punishable offense. On January 28, the RBI formed a working group to recommend appropriate action, including criminal proceedings and fines, for deliberately defaulting on loans. The working group submitted its report in May, suggesting that money laundering is a punishable offense under the regulations. There are different rules for all corporate entities. For example, Anil Ambani, Reliance Défense requested IDBI to convert its loan into long term loan, this request was also considered, but the same approach for Vijay Malia and other deliberate defaulter cases.

- **Political Interference in Lending:** Process in India Political interference in banking activities cannot be completely eliminated. As a democratic country, the Ministry of Finance interferes in the selection of the Chairman, Directors and Managing Directors of the Bank. The government forces banks to provide financial assistance to certain sectors and individuals in the national interest. This can be done away with by giving autonomy to bank boards. Today, the RBI is also under political interference. In 2007-08, the bank supported investments in the infrastructure, power, steel, textile and telecom sectors, which accounted for 61% of the underlying assets. The RBI is working with banks and the govt. to confrontation the problem of distressed assets. The bank should be allowed to choose the sector from which it offers financial assistance. For example, foreign banks focus on export credit rather than agriculture. Similarly, private sector banks prefer to lend housing credit in urban areas. Nowadays is the time to allow the Indian banking sector to prepare its own balance sheet and conduct business in the only way possible, that is, with the following lines.
- **Lack of Follow-Up Monitoring:** Absence of regular follow-up by bank officials on the lender's site increases the default. NPA does not happen overnight, therefore, regular institutional visits will be required. A technical team should be formed for the field visit. Physical verification of progress achieved by the support unit helps to monitor the final utilization of funds and regular recovery of loans.
- **Contributes More to NPAs in EWS of The Loan:** The economically weaker sections which are government development schemes, such as Swachh Bharat Abhiyan, Pradhan Mantri Gram Sadak Yojana, Pradhan Mantri Jan Dhan Yojana etc. Public are from the sector. When related to private sector banks also foreign banks (PSBs), PSBs have larger NPAs. An estimated 85% of NPAs are from loans and advances from PSBs. For example, NPAs in SBI are worth ₹2.23 lakh crore.[25]
- **Credit Guarantee Schemes and Collateral Security Exemptions Increase in NPA Levels:** The Credit Guarantee Fund Scheme was launched by the Govt. of India to provide collateral free credit to the micro, small and medium enterprise sector. Both new and existing enterprises are eligible for credit under this scheme. CGTMSE for Credit Guarantee Fund Scheme, Micro Industries, Small and Medium Enterprises, SIDBI and Government of India Established a trust from Micro and small enterprises. The scheme was earlier introduced on August 30, 2000. As on May 31, 2016, the Govt. of India and SIDBI jointly participate in the CGTMSE Corps in the proportion of 4:1 and contributed ₹2477.78 crore as corpus fund of the trust. By the end of the 11th Plan, as announced in the MSE package, the corporation was to be expanded to ₹2,500 crore.
- According to the RBI report, the total outstanding portfolio of the banking sector to MSME industrial companies in March 2016 was ₹4.86 for example, the SBI, India's largest lender, had a book of small and medium business loans worth ₹1.89 trillion as on March 31, with non-performing assets of ₹17,032 crore. (NPA) was reported. About 9% of SME loans are considered bad.

Remedies of NPAs

- Banks legitimately recover their loans, SARFAESI Act 2002, which allows banks / financial institutions to recover their NPAs without court intervention.
- Other methods are debt recovery due to the Banks in addition Financial Institutions Act.
- The immediate action is that the Bank of India Association has prepared a six-member panel in the direction of oversee the resolution project to guide lenders.
- An alternative to the establishment of a Loan Resolution Authority by an Act of Parliament after the election, if necessary.
- The government must once again take advantage of the additional capital needed to recapitalize the bank.
- Reserve Bank of India wants to develop better procedures for monitoring, especially finding credit bubbles.
- Banks Steps requirement to be taken to support the work of banks, involve high quality professionals and provide them with better compensation.

- Expanding and diversifying the customer base through innovative business models. Reaching people in remote areas due to lack of communication and access, brought them under the banking system.
- The government cannot be expected to save state-run banks from taxpayer's money every time they are in crisis. But the way the issue has been acknowledged by means of policymakers and bankers is a ray of hope. Timely and concrete action and the right steps to revive Indian economy will put a lid on the NPA, however, its prevention should be a priority over mere treatment.19
- Political interference can be neutralized by effective evaluation without compromising the proposal and security standards. Such pressure should be limited to quick and easy approval of the loan before the weight age is given.
- Goals for development need to be set scientifically and trained staff need to be evaluated. The formation of specially trained staff requires proper planning and constant efforts to upgrade their capabilities. Round holes should not have square holes otherwise things will end up in failures.
- Appropriate legal documents and legal charges should be created before issuing a single penny of legally approved loan. Distribution should be based on need and in stages. In order to check for any change in funds, the post should be inspected after each stage of distribution and also after the transfer.
- All assets charged by banks should be properly insured and renewed on due dates. The value of securities should be reviewed from time to time at appropriate intervals. Lending authorities are required to follow the installation and any delay due to timely start of a project may lead to cost overruns thus making the project unrecognizable. This can result in an early entry into the NPA.
- All legal / necessary permits, approvals, licenses must be in place before the loan can be granted.

The controlling authorities will have to keep an eagle's eye on large loans and large departments and guide the operating level at every stage. The pre-post inspection and controlling authority's guidance should be on the ground, not just on paper. These are not the only precautionary measures as there may be many other people depending on each case

Conclusion

Indian banks need to take care of bad debts with complex care, maintaining significant capital to offset the losses caused by bad debts is essential for survival. To know the NPA scenario of the commercial banks in India, the RBI has presented an asset quality review. The issue of NPAs has been given high priority in both public also private sector banks in our country. Concerned NPA is a wake-up call for the government and banks. Immediately after repayment, loans and advances are considered as standard assets, which means good loans, unfortunately for a while it falls into the bad and dubious category. Early warning signs and regular follow-up are essential to reduce NPAs in banks. The NPAs increase during the lockdown period specially in Bihar region because of low recovery rate as well as moratorium scheme of Government policy harm the bank profit and activities of banking transactions are very low during COVID-19 pandemic situation.

Rising NPAs are one of the biggest concerns facing Indian banks today. NPAs reflect the overall performance of banks. A higher level of NPAs suggests a higher probability of many credit defaults affecting bank's profits and liquidity. If NPAs are not properly managed, it will affect the performance of banks. If the thought of NPAs is taken lightly, it will be risky for the banking sector. NPAs eliminate existing profits and interest income also affect the even functioning of funds recycling. Banks also charge higher interest rates and distribute losses to other lenders. Low deposit rates and high lending rates depress savings and financial markets, hampering the country's economic growth. Branch managers should be constantly diligent and careful before approving loans to clients.

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