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MANAGEMENT OF NON-PERFORMING ASSETS OF BANKS BY PUBLIC SECTOR BANKS IN INDIA: A STUDY

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ABSTRACT

In India, the banking sector has a long history and tradition. However, the severity of the issue of bad loans of banks has not been taken seriously. Subsequently, following the recommendations of the Narasimham Committee and the Verma Committee, some steps have been taken in the balance sheets of banks to resolve the issue of old NPAs. It is becoming clear from every angle that there is hardly a formal assessment of the best way to deal with this problem. There can be no consensus on appropriate policies to address this issue. There is also little flexibility in enforcing NPA standards, as they have been accepted. Most so-called performing assets are non-performing loans. This is done by a bank or finance company that fails to pay on time or pay interest. A loan is a bank's asset, as interest payments and principal repayments create a stream of cash flow. A bank makes its money by paying interest. There can be no consensus on appropriate policies to address this issue. As they acknowledge, there is little flexibility in implementing the requirements of the NPA. Non-performing assets are also called non-performing loans. A bank or investment firm does this without allowing timely payments or interest payments. Loan is an advantage for a bank as interest payments and repayments by borrowing create a cash flow. A bank is making money by paying interest. The current research paper focuses on the growing problem of bank's NPAs and its impact on the economy.

KEYWORDS: *NPAs, Public Sector Bank, Basel Committee, Narasimham Committee.*

Introduction

Banks directly or indirectly affect economic growth and are established around the world to mobilize savings and invest in the economy to generate direct and indirect income and employment. The importance and necessity of the banking system was realized in the post-independence period and was restructured into national or public sector banks. By the 1980s, they had achieved broader economic goals and achieved impressive success in terms of branch expansion, reserves, and credit mobilization, and other investments. The RBI, as the Supreme Bank, has from time to time taken drastic measures, and based on the recommendations of the Narasimhan Committee, the landscape of the Indian banking system has changed drastically. All banks are directed to adhere to the principles of capital liabilities, asset quality, and supply for NPAs, strategic regulations, disclosure requirements, speed and access to the latest technology. It was directed to comply with the standards of preparation and accounting and to make financial statements transparent.

The issue of non-performing assets (NPAs) came into existence in 1992 and its absolute amount has been steadily increasing from ₹39,323 crore in 1993 to ₹46,406 crore in 2006 with poor management arrangements. High risk in quality and credit. As a result of the portfolio of public sector banks, the profitability of banks has been negatively affected. To review and analyse the ten-year impact on the profitability and productivity of public sector banks as a result of strengthening or consolidating the strong banking of the public sector banks. The above-mentioned discussion about NPAs includes the Reserve Bank issued instructions on 31/03/1993 and introduced a new definition of income identification. This has been done on the recommendations of the Narasimhan Committee. According to these guidelines, banks must classify their credit facilities into two parts:

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- Performing Assets (Standard Assets)
- Non – Performing Assets (Standard Assets) Standard Assets is one that is not reported. Non-Performing Assets (NPA) for moving towards international best practices and ensuring greater transparency, 90-day overdue - NPA identification standards were made applicable from the year ended March 31, 2004 onwards. As such, except and except for certain relaxations as mentioned below for Tier I Banks and Tier II Banks, with effect from March 31, 2004, a non-performing asset shall be a loan or advance where:
  - Interest and/or installments of principal remain "overdue" - for a term loan for more than 90 days.
  - The Overdraft / Cash Allowance (OD / OS) account shall remain out of order for more than 90 days.
  - In the case of Bills paid and discounted, the payment remains unpaid for more than 90 days.
  - The definition of NPAs will be made on the same basis as non-agricultural advances for agricultural loans other than direct funding to farmers for agricultural purposes.
  - Any amount received shall remain overdue in respect of other accounts for a period greater than 90Days

Objectives

- To study the impact of NPAs in public sector Banks
- To study the reason behind increasing NPAs
- To study the recovery rate of NPAs in Banks
- To study the Basel Norms in Banking

Research Methodology

This is a descriptive research paper. This study has been compiled with the help of secondary data time to time released by public sector banks and private sector banks. The main sources of secondary data are collected through books, annual general reports of banking sector organizations, magazines, journal published material, internet and various online sites which provide relevant information for the study.

Non-Performing Assets (NPA) in Indian Banks

The Indian Reserve Bank (RBI) estimates gross non-performing assets in Indian banks, especially in public-sector banks, at about ₹400,000 crore (~US$61.5 billion), which accounts for 90 per cent of India's overall NPA, with private-sector banks accounting for the remainder.

What are Non-Performing Assets (NPA)?

Money or assets that banks provide to corporations as loans sometimes remain unpaid by borrowers. This payment of late or outstanding loans is defined as Non-Performing Assets (NPA). They are also termed bad assets. In India, the RBI monitors the entire banking system and if the interest or instalments amount has been overdue for more than 90 days, as defined by the central bank of the country, then that loan account may be called a non-performing asset. In Indian banks, the rise in non-performing assets meets the recognition criteria that banks adopt after the RBI highlighted it in the Asset Quality Review (QAR).

Reasons for the Rise in NPA Levels

The Indian economy was in a boom phase from 2000-2008, and banks, especially public-sector banks, began to lend large amounts to companies. However, with the 2008-09 financial crisis, corporate profits decreased, and mining projects were banned by the Government. With the substantial pause in environmental approvals impacting the infrastructure sector – electricity, iron, and steel – the situation became severe, resulting in fluctuations in raw material prices and shortages of supply. Another explanation for this is that banks have embraced relaxed lending criteria, especially for large corporate houses, their financial analyses and credit ratings.

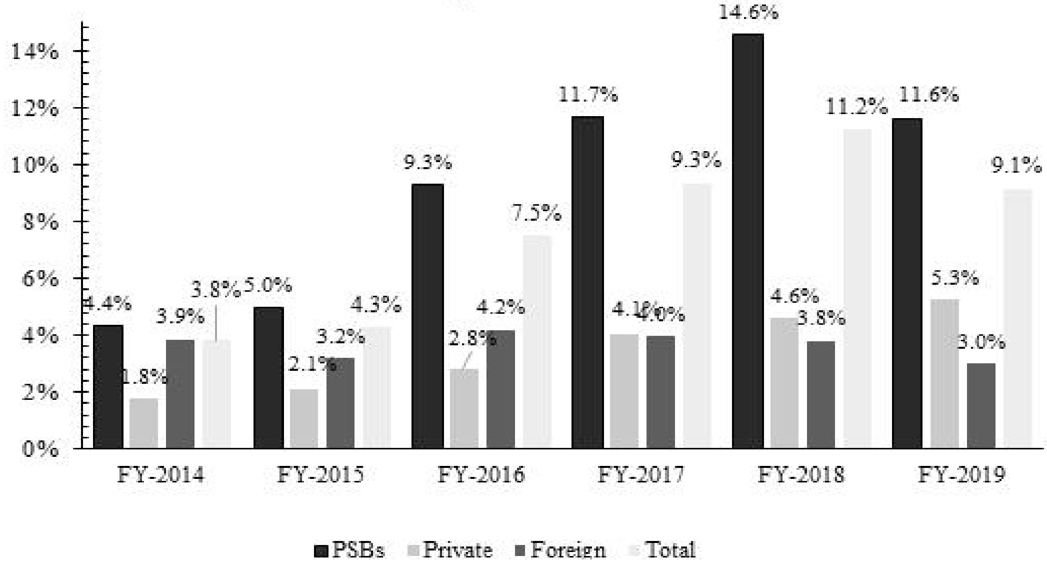
Stricter NPA Recovery

It is also discussed that the government needs to amend the laws and give banks more power to recover NPA rather than play the "wait-and-watch" game. Corporate governance concerns – banks, particularly those in the public sector, need to have appropriate guidelines and structure for senior-level appointments. Accountability – Lower-level executives are still kept accountable today; nevertheless, senior-level executives make important decisions. Hence, making senior executives accountable becomes very important if Indian banks are to tackle the NPAs issue. Banks should also consider "capital raising" to address the NPA issue.

Monetization of Assets held by Banks

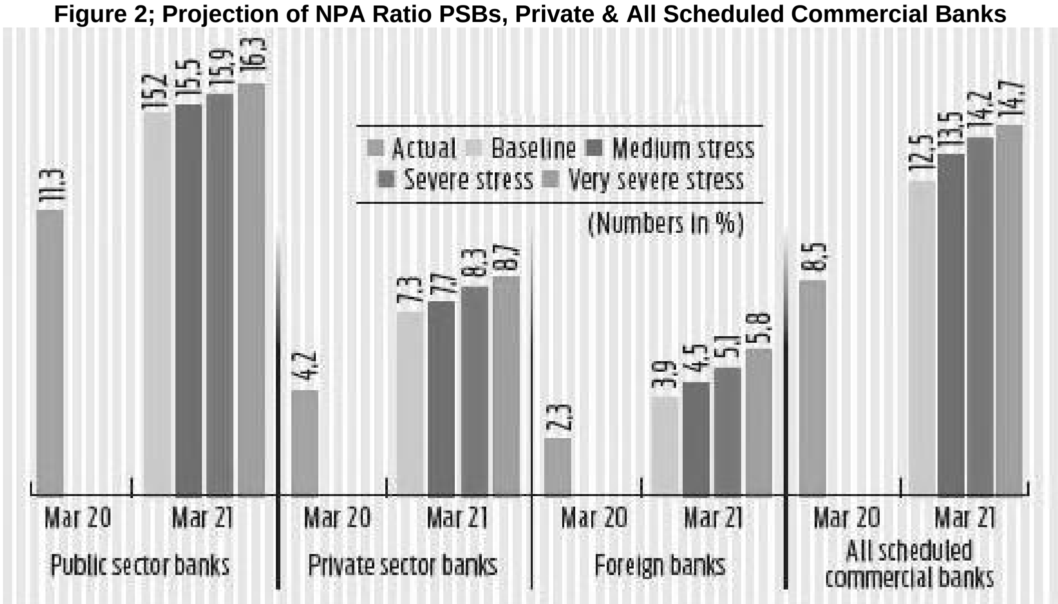
In this case, banks with retail franchisees should create value by auctioning a bank assurance association instead of running it as an insurance company themselves. The current system is blocking capital inflows and generating no income for the owners. With the above potential solutions, the NPAs problem of Indian banks can be effectively monitored and controlled, allowing the banks to obtain a clean balance sheet.

Figure 1: Gross NPAs of PSBs, Private & Foreign Banks



Source: RBI Annual Report –2018-19

Figure 2; Projection of NPA Ratio PSBs, Private & All Scheduled Commercial Banks



Source: RBI Annual Report – 2019-20

Highlights of the Recommendation of Banking Committees

- In 1991 Narasimham committee has been formed and Indian banking sector got the following changes:
  - Commercial banking and rural banking have restored growth
  - In the overall loan increased
  - Banks increased their investment in government cash (RBI gave cash reserve ratio, which must be maintained by the banks and statutory liquidity ratio, some amount must be given as bonds or shares)
  - The ability of banks to get profit has diminished.
  - Banks earned flexibility in their operations
- J.P., 2014 The Nayak Committee suggested the classification of bank investment and public share capital.
- The same was also proposed in the Parsi committee in 2007.
- The Nayak Committee also decided to convert the nationalized banks into private banks and levy the banks' company law
- In 1992, the second banking committee sent a report that was approved in 1998.
- Bank can step up its branches
- The private sector banks have more option to start new banks
- Interest rate changes

In their report, Narasimham Committee - I stated that the banking stream became more competitive because of the free entry of private sector banks.

In 1998 Narasimham Committee - II gave its report that this was the second phase of banking sector transition.

Basel Norms in Banking

Basel is a small town in Switzerland, on the Rite River. This town is well known to the citizen for its banking and financial services.

Bank for International Settlement – an international financial industry has appointed a committee called the Basel Committee for World Banking Inspection – this committee looks after continuous improvement of world banking services. India has also signed this contract, which is why we must follow and implement the Committee's suggestions and recommendations.

Basel 1 – stated in 1988 that it focused on Bank for International Settlement because of flaws in the law on asset classification and risk created by the Basel 2 committee.

Basel 2 stated in 1999, it got approved in 2003 cause of many controversies finally it got operated in 2006. In their report, the following points have been mentioned.

Each bank has to give adequacy to its ideal financial management and the importance of capital standards-here Deposit Frozen scheme has been followed by all public sector banks (Because of Which MFI came into being). Bank has to obey the guidelines and should be more open about its business.

Conclusion

In the public sector, banks should work in the public interest, but in a commercial way. Banks operating under the government had to follow the RBI guidelines of commercial banks. When the business sector cannot repay the loans obtained from these banks, then necessary action should be taken against them. The role of the government should be to guide the state-owned banks. For a long time, non-performing assets (NPAs) did not have strict guidelines. The Senior Board of Directors will be responsible for this, especially for loans to large businesses and their loans. Given the competitive nature of the banking sector, the central government or the higher authority of the banks, the RBI, should reconsider the basic banking rules for NPAs. As suggested by the Narasimham Committee's recommendations, some public sector banks will need to be merged with other public sector banks to gain control over NPAs and achieve overall economic stability.

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