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MANAGEMENT OF NON PERFORMING ASSETS OF COMMERCIAL BANKS IN INDIA

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ABSTRACT

Banks play, an important role in the modem economy by providing necessary credit to different sectors of the economy. In recent years they have been assigned the responsibility of financing the priority sector. The word priority sector is used for those segments of the Indian economy whose development is considered essential for the economic growth of the country and attainment of 'social justice', but which had received only indifferent attention from the private sector banks. The study attempts to analyze various bankers providing financial assistance to priority sector. The present research paper pays its attention on both Public Sector and Private sector banks in India and the expected and perceived quality on banking services and the satisfaction level of the particular service of the bank. The credit facility is the ultimate determinant of the banking Service and decides the motivation level of the borrowers.

Keywords: *Economy, Priority Sector, Public and Private Sector Banks, Banking Services, Credit Facility. Nonperforming Assets, scheduled Commercial Banks.*

INTRODUCTION

Availability of cheap and adequate credit is a boon for the Economic Development of a country. By providing credit to farmers, industries, traders, housing, Education loan and small businessmen the economic progress can be achieved. The banking system can influence economic growth by enhancing resources in the direction of national objectives and priorities. One of the major problems for bankers in the sphere of credit flow has been the poor recovery of loans disbursed. But the poor recovery of credit is partly due to poor performance of bank personnel in respect to monitoring of loans disbursed and wherever the monitoring has been effective loans have not gone bad and recovery affected. In order to meet the purpose, a number of programmes have been launched from time to time. Due to various problems experienced in the course of implementation of these programmes, the lofty objectives of these programmes could not be achieved.

REVIEW OF BANKING SECTOR REFORM

By Eighties, operational efficiency PSBs was unsatisfactory. PSBs were characterized by low profitability, high and Growing NPA's. There was a problem of low capital base and lack of proper disclosure system. The quality of customer services did not keep pace with increasing expectation and there was a feeling that the inefficiency of banking system was encouraging. As the financial system of the economy underwent a complete change, NBFC's foreign players and capital markets emerged as competitors to PSBs. As many controls weakened, selected credit flow was misused which eroded profitability which in turn effected the deepening of financial system? Banking sector reforms are a means to achieve the ultimate economic development and economic stability in the country. The reforms are largely intended to improve efficiency and profitability of the banks and make their financial operations more market oriented and transparent. The pathetic situation of the banking sector necessitated some immediate reforms to cure all its financial ills. The banking sector reforms were implemented in two phases i.e. the first Narismham Committee report in 1991 and second report in 1998. Added to it was the Verma Committee (Advisory Group on Banking Supervision, May, 2001). The achievements so far are substantial though a great deal remain to be done. These committees recommended various reforms to Indian Banking System.

CLASSIFICATION OF ADVANCES

The guidelines require bank to classify their advances into four broad categories are as follows:-

A-Standard Asset: A standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset is not a non- performing asset.

B- Sub Standard Asset: A sub standard asset is one which has been classified as NPA for a period not exceeding 12 months.

C- **Doubtful Asset:** A doubtful asset is one which has remained NPA for a period exceeding 12 months.

D- Loss of Asset: A loss of asset is one where loss has been identified by

a. The Bank

b. Internal or External auditor

c. In Reserve Bank Inspection

Example: Every year banks transferred the amount of those accounts which declares as Non performing to the non performing asset and normally not in a position to recover the same from the account holder, following data is relating to NPA declared by banks during the financial year 2009-10

PRIORITY SECTOR ADVANCES BY COMMERCIAL BANKS IN INDIA

The guiding principle of the revised guidelines on lending to the priority sector has been to ensure adequate flow of bank credit to those sectors of the society/economy that impact large segments of the population and weaker sections, and to the sectors that are employment- intensive such as agriculture, and tiny and small enterprises. The priority sector lending targets were retained at 40 per cent and 32 per cent for the domestic and foreign banks, respectively. However, from April 2007 these are calculated as a percentage of adjusted net bank credit (ANBC) (net bank credit plus investments made by banks in non-SLR bonds held in HTM category) or credit equivalent amount of off-balance sheet exposures (OBE), Whichever is higher, as on March 31 of the preceding accounting year, instead of as a percentage of net bank credit earlier.

Lending to agriculture by banks, both in the public and private sectors, continued to fall short of the stipulated target of 18 per cent; however, the outstanding advances to agriculture, as percentage of net bank credit, in respect of both public and private sector banks increased steadily in the last few years. The targets have been linked to ANBC or credit equivalent of OBE, whichever is higher, with effect from April 30, 2007. In order to improve credit delivery and promote financial inclusion, a number of initiatives were taken during 2007-08. These included revision of guidelines on lending to the priority sectors with emphasis on enhanced flow of credit to those sectors of the economy which impact large segments of the population and are employment intensive; strengthening of the rural cooperatives; and restructuring of regional rural banks, which cater predominantly to the rural areas. The Reserve Bank also continued with its policy of encouraging multiple channels of lending such as self-help groups (SHGs), micro-finance institutions (MFIs), adoption of business facilitator (BF)/ business correspondent (BC) model; and emphasizing the simplification of the procedures and processes for lending to the agriculture and micro, small and medium enterprises (MSME) sectors. In order to provide banking and financial services available hitherto, excluded sections of the population at affordable cost, the Reserve Bank encouraged the banking sector to adopt information and communication technology (ICT) solutions that would enable them to achieve greater outreach and reduce the transaction cost. Public sector banks achieved the overall priority sector lending target of 40 per cent and 32 per cent on the end of March 2008. C. Rangarajan Committee on financial inclusion has defined it as "the process of ensuring access to financial services and adequate credit, needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

BRANCH BANKING AND PRIORITY SECTOR LENDIN

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalized in 1960, on 19th July, 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi, 14 major commercial banks in the country were nationalized. The State Bank of India is India's largest commercial bank and is ranked one of the top five banks worldwide. It serves 90 million customers through a network of 9,000 branches and it offers either directly or through subsidiaries a wide range of banking services. The second phase of nationalization of Indian banks took place in the year 1980. Till this year, approximately 80 per cent of the banking segments in India were under Government ownership. As per the recent RBI Banking Performance Annual Estimation and Performance Report: The Indian banking sector is facing a serious situations in view of the mounting gross and net NPAs of Scheduled Commercial Banks (SCM).The recovery rate (percentage of recovery to demand) of direct agricultural advances of public sector banks has been declining in the couple of years 2008 and 2009. In line with this trend, the recovery rate declined to 75.4 per cent for the year ended June 2008 from 79.7 per cent in the year 2007. The decline in the gross NPA in 2004 was 5.03 per cent compared to 3.03 per cent in 2003, due to significant provisioning. The decline in NPAs is evident across all bank groups. As at end-march 2004, public sector banks (PSB) recorded gross NPAs of 50,149 crore (79.36 of gross NPA of SCBs) in 2003, for the first time, gross NPAs is PSBs declined by 3.03 and the NPAs declined for the second consecutive year by 9.03 and 9.29 respectively for SCBs,. During 2003-04, reduces outpaced additions in the NPA account. SCBs have substandard progress in clearing up the NPAs from their balance sheet.

CONCLUSION

Both public sector and private sector banks have achieved the target fixed by the RBI (i.e., 40 percent of loan to priority sector from the total advances) at the nation and state levels. But for the education loan the private sector participation is lesser than the public sector. It is suggested that the private sector banks should concentrate on Education loan segment also. The SCBs strength should the recovery position. To prevent NPAs and reduction of NPAs the following suggestions are required. Reforms in the legal system for recovering unpaid dues and to reduce NPAs are needed. The Enforcement of Securitization and Recognition of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 has provided significant impacts to banks to ensure substantial recovery without the intervention of courts or tribunals.NPA cells may be established at controlling officials to accelerate the recovery process. Transparent compromise proposals and setting up of investment committees at different levels on the bank can result in prompt disposal of cases.

Reduction of NPAs is necessary to improve the profitability of banks and compliance with capital adequacy norms. Under a promotive and directive role, steps the government should take steps to improve the structure and functioning of commercial banking. It included the declaration of priority and neglected sectors for financing by these banks on a priority basis and introduction of schemes like the Differential Rates of Interest, Credit Guarantee Scheme, Export Interest Subsidy Scheme and a scheme of social control over banks. Developing new lending norms and encouraging priority sector concerns will definitely boost economy of the nation and addresses many chronic economic issues in a right way.

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