



A Study of Non-Performing Assets in Indian Bank : Reason and Solution

K. N .Dhawale¹, K. B. Dhore¹ *

¹ Department of Economics, Changu Kana Thakur Arts, Commerce and Science College, New Panvel.

*Corresponding Author: K. B. Dhore (ram.unipune@gmail.com)

<p>CC License CC-BY-NC-SA 4.0</p>	<p style="text-align: center;">Abstract</p> <p>Asset quality is an important parameter for assessing the financial performance of a bank. Non-performing assets not only reduce income but also reduce the profitability of the bank. Increasing non-performing assets (NPAs) of banks is one of the biggest obstacles to the socio-economic development of our country. From 2014 to 2018, there was a huge increase in non-performing assets. But after that, NPA is seen decreasing. The Reserve Bank of India implemented strict regulation and supervision of Indian banks using the Basel norms. So that loans will be given, and they will take care that it does not increase unproductively. The researcher tries to highlight the causes of unproductive assets and their solutions in this article.</p> <p>Keywords: Finance, Socio-Economic Development, Non-Performing Assets, Bank of India, Causes.</p>
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Introduction:

Currently, if we consider Indian banks, the non-performing assets (Non-Performing Assets) of banks have been increasing in the last few years. Non-performing assets are those loans of the bank that do not generate income for the bank. If the non-performing assets increase beyond a certain limit, the bank and, alternatively, the bank's depositors are in trouble. As the apex bank of all banks, the Reserve Bank of India, which monitors their operations, lays down a definite policy regarding when an asset becomes non-performing and what provisions should be made for it, and banks have to act accordingly. Currently, Indian banks have a bad reputation. Because banks are facing problems due to high non-performing loans. There is no definite amount of non-productive assets in the total assets, so the overall business will not be hampered. But if there is a 3 percent non-performing loan in a developing country, it is considered that there will be no hindrance in the banking business. In this, the proportion of India was 10.8 percent. 11.18 percent was the highest in 2018. As of 2022, this ratio has been reduced to 5.8 percent. The target of the Reserve Bank of India is to bring this ratio to 3 percent by 2024.

Research Objective:

Non-performing assets are the biggest challenge for Indian banks at present. In 1990, the government set up the Narasimha Rao Committee to study the causes of unproductive asset growth. According to them, even though they have made recommendations, the problem is still increasing. So this research is trying to find out the reasons that exist in the present time issue in this sector.

Research Method:

For the present research article, secondary sources have been used and for this, newspapers, websites, annual reports of RBI have been taken.

Meaning of Non-Performing Assets:

Non-performing assets are loans or advances on which the bank does not receive interest and the principal amount is overdue for a specified period of time. This asset does not add anything to the bank's profits.

Classification of Non-Performing Assets:

Non-performing assets become non-performing assets if the loan given by the bank is not repaid. But non-performing assets are classified according to the terms of loan repayment.

- I) Sub-Standard Assets: Assets that are overdue for more than 90 days and less than 12 months are classified under this category.
- II) Doubtful Assets: Non-performing assets remaining for more than one year are classified as doubtful assets.
- III) Loss of Assets: Loans which are impossible to recover, declared by the bank or the Reserve Bank as bad debts, those loans are considered as lost assets.

From the above graph, it can be seen that the NPL ratio of banks has been increasing significantly since 2015. From 4.2 percent in 2015 to 7.49 percent in 2016. Similarly, the rate of non-performing loans was 9.23 percent in 2017 and 11.82 percent in 2018. But after that, the percentage of NPA is seen decreasing. In 2022, this ratio has been brought up to 5.8 percent.

The current status of "Gross Non-Performing Assets Ratio" (GNPA) of Scheduled Commercial Banks in different sectors can be seen from the following,

- i) Public Sector Banks
- ii) Private Sector Banks
- iii) Foreign Banks
- iv) All Scheduled Commercial Banks.

According to the report published by the Reserve Bank of India on 30 June 2022, the GNPA ratio of scheduled commercial banks has been continuously changing positively. In 2021, the ratio was 7.4 percent and it came down to 5.9 percent by 2022. In this way, the Reserve Bank of India is seeing success in reducing non-performing assets as a big obstacle in the development of Indian banks.

Reasons for increase in non-performing assets:

1. Centralization of loans to certain individuals/enterprises.
2. Massive lending to infrastructure projects.
3. Often, it was observed that loans were provided without checking the projects for which loans are to be provided.
4. As the project dragged on, many promoters started making losses. His enthusiasm to complete the project on time gradually faded.
5. Extortion is also an important reason, which has led to increase in NPAs.
6. A sudden change in government policy has a bad effect on many industries. Therefore, that industry closes down and the loan taken for it goes into non-productive assets.
7. Political or other pressure is put on an officer to give a loan, which leads to giving loans to those who are not eligible.
8. Wilfully defaulting borrowers.

Looking at all these reasons, if uncertainty is not studied and managed properly, unproductive assets increase. Necessary measures to deal with the problem of non-performing assets.

If the banks take maximum care while giving loans then the incidences of defaults / creation of non-performing assets will be reduced. Short term and long term measures are as follows –

Short Term Measures:

1. Debt Recovery Camp
2. Preference of Claims
3. Compromise proposal

4. Technical description of loan
5. One Time Redemption Scheme
6. Review of non-performing assets

Long Term Measures:

1. Managing credit risk.
2. Banks should carry out necessary sensitivity analysis while appraising the project
3. Enforcement of determination of liability.

Decisions taken by RBI to control non-performing assets:

1. Debt Recovery Tribunal 1993
2. Credit Information Bureau 2000
3. Lok Adalat 2001
4. Termination by Compromise 2001
5. Property Reconstruction Company
6. Securities and Financial Assets Reorganization and Cash Form (SARFAESI ACT) 2002
7. Joint debt restructuring
8. Mission Rainbow 2015
9. Asset Quality Review 2015
10. Sustainable Structure of Stressed Assets 2016
11. Bad Bank 2017
12. In the Fugitive Economic Offenders Act 2018

If we look generally, these are all remedies to be done after illness. But prevention is better than cure is a problem of unproductive assets. It is necessary to take some steps for this.

1. Conservatism: Projects which have longer duration by banks. Such projects need to be financed on a hand-me-down basis. Because its repayment period is longer.
2. Improvements in loan approval process.
3. Minimal debt restructuring process should be adopted.

Conclusion:

After studying the above research, it is noticed that the problem of unproductive property is a very serious problem. So this problem cannot be ignored. Due to political interference, non-performing assets of banks have increased. Also the decisions taken by the government like demonetisation, GST caused a slowdown in the industries for some time. In addition, due to the lockdown during the Corona period, it had an adverse effect on the industry and due to this, the rate of loan defaults of the banks increased. But taking a lesson from this, the government seems to be successful in reducing the non-performing asset ratio by RBI in the last three years. This is the most positive of all researches. Because the development of Indian economy depends on the development of Indian banks. If Indian Bank continues to function properly then Indian economy will be fixed. Therefore, it is seen that RBI and the government are trying to keep the non-performing asset ratio of Indian banks low.

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