

# Impact of NPA (Non-Performing Asset) on Indian Banking Sector

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## 1. Introduction

In the era of development and industrialisation, each and every country wishes to have the prominent place in the global competition. There are mainly two types of policies are prevailing for the smooth function of economy and those are namely; Monetary policies which is mainly influenced by banks and Fiscal policies influenced by government regulations. Banking sector is the core part of the circulation of money in the economy. Banks provide the velocity to the supply of money and help to mobilise the surplus supply of fund to the deficit sector. Banks receive the deposits in the form of saving, current and term deposits. On the other hand, banks provide finance in the form of Loan. Any bank provides finance and the borrower is supposed to repay the whole due amount with interest. Some banks keep mortgage for the sake of security, but some provide loan without mortgage to attract the investors. When borrowers do not have ability to repay the whole due with interest, sometimes banks forgo the interest and seek the capital. Even though the borrower fails to pay the basic value he or she had borrowed is considered as NPA (Non-Performing Asset) for the financial institution.

### What is NPA?

"A nonperforming asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations." - By ALICIA TUOVILA

Normally banks provide loans in the form of financing and borrowers are supposed to repay the whole amount with interest till the predetermined period and date. For safety purpose banks take the obligation in the stock of borrower in the form of mortgage. If borrower can't repay the fund the bank may collect the amount by selling it, thus banks feel safer and hedge themselves from bad-debts.

## 2. Literature Review

ASHA SINGH (2013) Has analysed MEASURES FOR IDENTIFYING AND CONTROLLING RISKS IN INDIAN COMMERCIAL BANKS. The objective should be to find out and understand the exact degree of risk elements in each category in the operational environment. Managing risk is one of the basic tasks to be done, once it has been identified and known. The risk and return are directly related to each other, which means that increasing one will subsequently increase the other and vice versa. And, effective risk management leads to more balanced trade-off between risk and reward, to realize a better position in the future. Banks face a number of risks in order to conduct their business, and how well these risks are

managed and understood is a key driver behind profitability, and how much capital a bank is required to hold.

VIDYASHREE D V (2015) has analysed CREDIT RISK MANAGEMENT – A STUDY ON PUBLIC SECTOR, PRIVATE SECTOR AND FOREIGN BANKS IN INDIA. The objective of the study is To understand the concept of credit risk management, To analyse NPAs position and their risk management in public sector, private sector and foreign banks, To focus on the macro stress factors relating to credit risk impacting on Public, Private and Foreign banks, and To study the techniques to overcome credit risk. The present study is based on descriptive study where the methodology used to collect the data is based on secondary data like books, report of RBI publications including Trend and Progress of Banking in India, Statistical Tables relating to Banks in India, Articles and Papers relating to NPAs published in different journal and magazines were studied and data available on internet and other sources have also been used. The ratio of gross non-performing advances (GNPAs) of scheduled commercial banks (SCBs) marginally increased between 2014 to March 2015. Comparatively public sector banks have more non-performing assets and have fallen in maintaining credit risk management. The Scheduled banks have been successful in recovering 3% of bad debts.

THIRUPATHI KANCHU (2013) has analysed RISK MANAGEMENT IN BANKING SECTOR -AN EMPIRICAL STUDY. The main objective of study is To identify the risks faced by the banking industry, To trace out the process and system of risk management, To examine the techniques adopted by banking industry for risk management. This paper is theoretical modal based on the extensive research for which the secondary source of information has gathered. The sources include online publications, Books and journals. The banks can take risk more consciously, anticipate adverse changes and hedges accordingly; it becomes a source of competitive advantage, as it can offer its products at a better price than its competitors. Regarding use of risk management techniques, it is found that internal rating system and risk adjusted rate of return on capital are important.

DR. SMITA SHUKLA (2012) has analysed RISK ANALYSIS OF SELECT PUBLIC AND PRIVATE SECTOR BANKS OPERATING IN INDIA. The moot objective of capital requirement by banks is to absorb shocks. Hence, based on the risk management policy, the bank needs to decide the quantum and quality of capital. The regulatory norms on Capital Adequacy are the minimum norms from the Regulator's perspective, taking the Banking system as a whole. The present study is based on descriptive study where the methodology used to collect the data is based on secondary

data like books, report of RBI publications including Trend and Progress of Banking in India, Statistical Tables relating to Banks in India, Articles and Papers relating to NPAs published in different journal and magazines were studied and data available on internet and other sources have also been used. However, each bank is the best judge for deciding its capital requirement. There is cost attached to the capital held by a bank. Prudence demands that in the economic decision making by the management of the bank, due consideration is given to the objective of survival in worst case scenario.

ROMIZE ROSMAN (2007) has ANALYSED RISK MANAGEMENT PRACTICES AND RISK MANAGEMENT PROCESSES OF ISLAMIC BANKS. The objective of the study is to understand risk and risk management; risk identification risk analysis and assessment; and risk 5 monitoring. It is crucial for Islamic banks (IBs) to have comprehensive risk management framework as there is growing realization among IBs that sustainable growth critically depends on the development of a comprehensive risk management framework (Greuning and Iqbal,2007). A robust risk management framework can help IBs to reduce their exposure to risks, and enhance their ability to compete in the market (Iqbal and Mirakhor, 2007). A reduction in each institution's exposure will reduce the systemic risk as well. Hence, it is necessary that IBs have in place a comprehensive risk management and reporting process to identify, measure, monitor, manage, report and control different categories of risks. In addition, this process should pay attention to compliance with Shari'ah rules and principles. Finally, this paper contributes by providing some gaps that need to be filled in the area of Islamic banking.

**3. Hypotheses**

- H0:** There is no significant impact of NPA on Indian banks at post-recession
- H1:** There is a significant impact of NPA on Indian banks at post-recession

**4. Research Methodology**

**Research Design**

The study is purely based upon Descriptive and Causal research design.

**Objectives**

1. To identify the effect of NPA on Indian banking sector.
2. To evaluate the effect of NPA on Indian economy.
3. Compare pre and post recessionary NPA.
4. Provide suggestions to minimise the risk of Non-Performing Asset.

**Sampling Design**

The study is purely based on the secondary data collected from handbook of statistics published by RBI, Central Statistical Organisation, and ministry of finance reports.

**Table 1 Variable Definitions**

NAME	DEFINITION
NPA	Non-performing asset with bank
BANK RATES	Rate of Lending and borrowing
GDP	The Gross Domestic product
RBI	Finance with Reserve Bank of India

**5. Statistical Techniques Applied**

Descriptive Analysis and Trend Analysis has been used to represent the situation of banks at the event of NPA.

**6. Data Analysis and Interpretation**

**Table 2**

Year	Gross NPA to Advances (%)	Net NPA to Net Advances (%)
1999-2000	12.7	6.8
2000-2001	11.4	6.2
2001-2002	10.4	5.5
2002-2003	8.8	4.0
2003-2004	7.2	2.8
2004-2005	5.2	2.0
2005-2006	3.3	1.2
2006-2007	2.5	1.0
2007-2008	2.3	1.0
2008-2009	2.3	1.1
2009-2010	2.4	1.1
2010-2011	2.4	1.1
2011-2012	3.1	1.4
2012-2013	3.6	1.7

Source: Reserve Bank of India (Issues of Report on Trend and Progress of Banking in India)

From the above table it is seen that Gross NPA to Advances was minimum in the year 2006-2007 at 2.5% and Net NPA to Advances was least at 1.0%. This indicates the direct impact of recession on Banking sectors and the banks lost the landed finance. As we can observe the following years it seems that in the year 2011-12 the level of NPA was the highest of the decade. It seemed 3.1% till the end of 2012.

**Table 3**

Year	Gross NPA to Total Assets (%)	Net NPA to Total Assets (%)
1999-2000	5.5	2.7
2000-2001	4.9	2.5
2001-2002	4.6	2.3
2002-2003	4.1	1.8
2003-2004	3.3	1.2
2004-2005	2.5	0.9
2005-2006	2.3	0.7
2006-2007	1.8	0.6
2007-2008	1.5	0.6
2008-2009	1.3	0.6
2009-2010	1.3	0.6
2010-2011	1.4	0.6
2011-2012	1.4	0.6
2012-2013	1.7	1.03

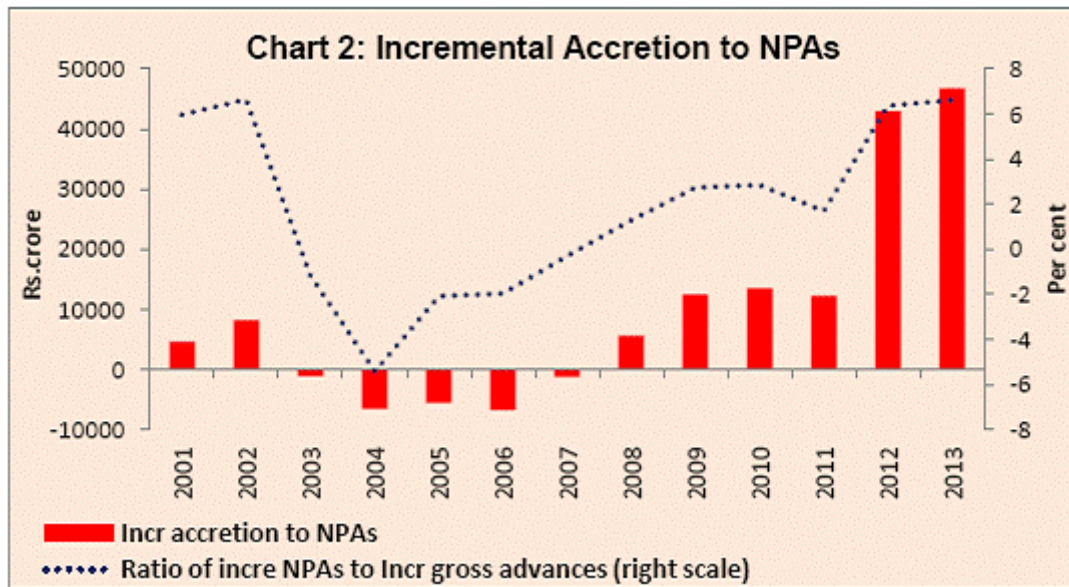
Source: Reserve Bank of India (Issues of Report on Trend and Progress of Banking in India)

It is found from the above table that NPA was least in the year 2006-07 and was 1.5% to total assets. Net NPA to total

asset was 0.6% in the same year. Observing the year 2012-13 the gross NPA was 1.7% and the net NPA was 1.03%

depicting the highest among the other years.

**Trend Analysis**

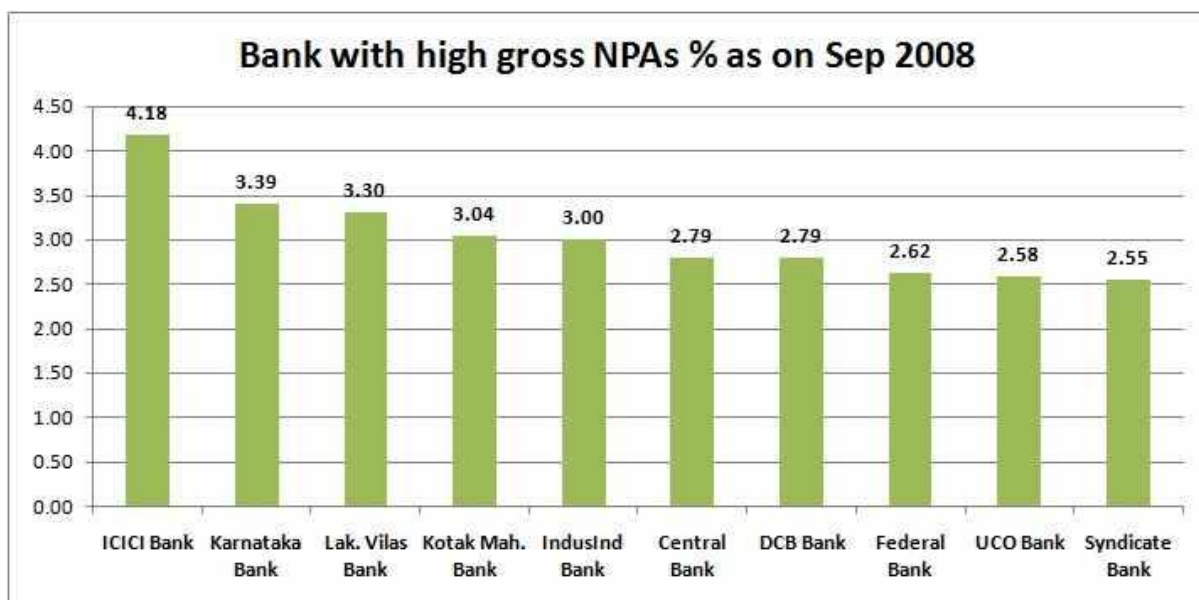


SOURCE: <https://www.rbi.org.in/Scripts/PublicationsView.aspx?Id=15720>

The above given graphical presentation represents the data from the year 2001 till 2013. It is found that in the year 2004 the incremental acceleration to NPA was at the lowest in the year 2004 gradually in their 2005 followed by 2009-10 NPA reached to the peak and in the year 2011 there was a slight

slowdown in the NPA that was rupees 20,000 crore observing the followed next year again and reached two Forty thousand crores it was the highest of the decade does we can say that the NPA was the highest in the year 2012-13.

**Banks with High Gross NPAs**



<https://www.quora.com/Economy-of-India-What-are-the-causes-of-rise-of-the-NPAs-of-Indian-Banks>

The above given graph represent the banks with high gross NPA percentage as on September 2008. As per the data of various companies it can easily identify that which bank highly affected through NPA or we can say which bank has maximum percentage of NPA and also we can make an easy comparison with those bank which have least NPA during September,2008.

**7. Findings**

Present paper used to identify whether there was impact of NPA non-performing asset on Indian banking sector or not.

It is found that Indian economy is highly affected due to globalisation and as we can see that a small change in the

foreign trade and policies going to affect the Indian economy adversely or positively.

Banking sector is conducting the daily routine and established the policies on the basis of monetary policies.

It was found that Indian banking system was quite weak as compared to the other foreign and international banks so it is advisable for Indian banks to revise the monetary policies so that whenever Bank provide any loans to the individual or institution then Bank need to make sure that they have sufficient capability to repay the loan not only that but bank should established a kind of system where a borrower has to repay the borrowed money and if he or she fails to repay the loan amount then there should be a very strict norms regarding

the strong mortgage of property for any asset by which the bank can easily compensate their losses which have faced due to the non-payment of the money borrowed by the borrowers.

## 8. Conclusion

Ultimately one thing to be accepted that the future of any business or profession cannot be imagined without risk, and if there is higher risk the return would also be high. Banks are also following the same fundamentals while providing loans. Yet a strong fundamental policies and proper verifiability can reduced the risk of NPA to the financial institutions. The Reserve Bank of India should frame up such policies to be followed by commercial banks so that the risk of non-recovery can be minimised.

## References

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