

## **WIDE ANALYSIS OF CAUSES AND REMEDIES FOR NON-PERFORMING ASSETS IN INDIAN BANKS**

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### **Abstract**

During the most recent decade of the last century, India has experienced real remodels in the field of financial advancement and liberalization. Subsequent to this change, to adapt up to the developing economy, the banking segment needed to assume a noteworthy job in the improvement and foundations of new business prospects all through the nation.

The presence of the banks for insignificant keeping of the assets from the client has ended up being the loaning asset. Getting of assets and stores has no dangers where as loaning of credits dependably immerse enormous risk factors. Non-performing assets establish a noteworthy arrangement of banks portfolio and consequently are an inescapable weight on the banking industry.

The Net loss faced by 20 public sector banks (PSB) was Rs.16272.34 crore at the end of financial year 2015-2016. Non-performing Assets or awful advances now and again have ruptured resilience dimension of Reserve Bank of India that could result in brief restorative activity. The Research paper examinations the origination of the Non-Performing Assets (NPA) as far as significance, causes and remedial measures and strategic exercises which should be taken for limiting the Non-Performing Assets in Indian Banks.

**Keywords:** Banking, Gross Non Performing Assets, Indian Banking, Non Performing Assets, Public Sector Banks

### **1. Introduction**

#### *1.1 Non-Performing Assets*

According to rules of Reserve Bank of India, Non-Performing Assets is a loan or

advance where in the unpaid due time of the particular credit surpasses the span of ninety days. Additionally, if the record keeps on being in the out of request state as for money credit or overdraft or if the particular bill sum isn't paid and kept in late for the time of over ninety days after buy and markdown process, at that point likewise the assets is named as Non-performing Assets.

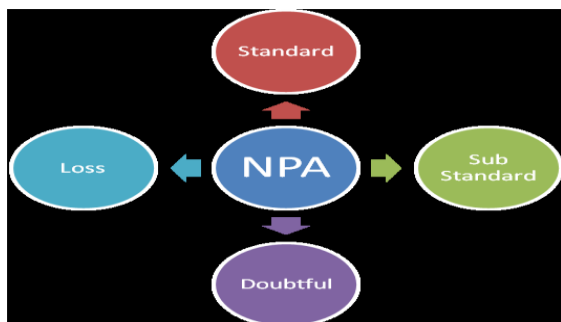
On the off chance that the reimbursement portion or the customary enthusiasm for the sum obtained is past due and unpaid for two terms, at that point likewise it is named Non-Performing Assets. Non Performing Asset is characterized as the asset of the client as trained by any managing an account association or money organization as standard, unsatisfactory, dicey or misfortune resource, according to the requests or core values issued by RBI. The components that are adding to NPA are poor advance administration strategy, inappropriate credit evaluation, business disappointments, poor recuperation of receivables, sluggish legal system, modern retreat, and unfriendly trade rates and so forth.

According to the guidelines and core values pondered by Reserve Bank of India, advantages of the client or borrower, that are named as Standard, Sub Standard, Doubtful

and Loss are called as Non-Performing Assets as appeared in Figure 1.

- *Standard Assets:* Actually, standard resources are consistently giving income and settlements at whatever point remarkable levy are there. There is an extremely little rate or conventional hazard is engaged with such resources and they can even be named as Performing Assets in real situation.
- *Unacceptable Assets:* When the benefits are not performing for the time of one year, it is named as Sub Standard Assets.
- *Doubtful Assets:* When the advantages are not performing for the time of over one year, it is named as Doubtful Assets.
- *Loss Assets:* Loss Assets are those, which are not collectable by the banks and are delegated misfortune by the brokers and the reviewers. Despite the fact that the estimation of some recoverable appraisal is faultless, they are not ensured by any recover or recovery worth.

**Figure 1: Classification of Non Performing Assets**



*1.2 Impact of NPA in profitability of banks*

Traded on an open market banks in India included almost Rs. One trillion in awful advances in the quarter finished 31 Dec.2015, adding up to a 29% expansion in the supply of crumbled obligation from end September. Legislative head of RBI, set banks a March 2017 due date to tidy up their monetary records and has poked them to treat some inconvenience advance records as terrible and make arrangements for them before the finish of this March.

For the quarter year finishing on December 2015, the Gross Non Performing Assets (GNPA) of major recorded banks has the limit of 4.38 trillion Rupees and it was 3.4 trillion Rupees for the quarter year finishing on September 2015 from the information gathered from Capital Line. Awful Loans arrangements are definitely expanded by

Ninety Percentage between the September and the December quarter of the year 2015.

**2. The Study**

*2.1 Reasons for NPA in Banks*

The accompanying real reasons are distinguished for Non Performing Assets in Indian Banks.

- (1) Lending strategy pursued.
- (2) Follow up strategy
- (3) Recovery Norms received

*2.2 Objectives*

The prime destinations of the present research examine are as per the following

- (1) To study the Gross NPA and Net NPA in Banks.
- (2) To fluid sector wise NPA.
- (3) To identify the reasons for ascend in NPA and systems to be embraced to diminish NPA.

*2.3 Data Used Primary Data:*

Through Direct Survey Questionnaire  
 Secondary Data: Through auxiliary sources like Books, Internet and Magazines

### 2.4 Tools Used

For the exploration investigation, following systematic procedural devices are utilized for estimating the engaging and inferential examination for the reactions from the poll.

- (1) Correlation investigation
- (2) Regression investigation
- (3) Chi Square investigation

### 2.5 Data Analysis

#### 2.5.1 Ranking of Major Reasons for NPA

The major reason for non-performing assets is tabulated in table 1.

**Table 1:** Ranking of Major Reasons for NPA

S. No	Reasons for NPA	Mean score	Rank
1.	Willful default by clients	5.56	1
2.	Diversification of fund for other purpose	5.49	2
3.	Lack of supervision and follow up	5.00	3
4.	Inadequate or defective credit appraisal	3.50	4
5.	Economic slowdown leading to recessionary trends	3.10	5
6.	Political influence	2.97	6
7.	Higher rate of interest	2.50	

### 2.6 Contribution of Different Sectors on Total NPA

The contributions of various sectors in banking industry on total NPA are tabulated in Table 2.

**Table 2:** Contribution of Different Sectors on Total NPA

Sectors	Frequen cy	Percent age	Valid %	Cumulative Percentage
Priority sector	42	26.3	26.3	26.3
Non Priority sector	12	7.5	7.5	33.8
Both	106	66.3	66.3	100
Total	160	100	100	

### 2.7 Correlation Analysis

**Aim:** To find the relationship between lending procedure being adopted and the amount of NPA.

**Null Hypothesis (H0):** There is no significant relationship between lending procedure and the amount of NPA.

**Alternate Hypothesis (H1):** There is significant relationship between lending procedure and the amount of NPA. Correlation Table is shown in Table 3.

**Table 3:** Correlation Table

		WF	Mf
WF	Pearson Correlation	1	.650 (**)
	Sig. (2 tailed)		.000
	N	188	188
Mf	Pearson Correlation	.650 (**)	1
	Sig. (2 tailed)	.000	
	N	188	188

\*\* Correlation is significant at the 0.01 level (2 – tailed)

From the above table we can see that the relationship is .650 which implies there is a positive correlation between loaning method being embraced and the measure of NPA. By looking at the noteworthiness from table .000 is under .05. Hence, we dismiss H0 and Accept H1 (ix) There is huge connection between loaning system and the sum NPA.

*2.8 Regression analysis*

Aim: To find the relationship and the dependency of the follow up Norms and the rise in NPA.

Null Hypothesis (H0): There is no significant connection among follow up Norms and the rise in NPA.

Alternate Hypothesis (H1): There is significant connection among follow up Norms and the rise in NPA.

The ANOVA and the COEFFICIENT are measured in Table 4 and Table 5.

**Table 4:** ANOVA Measurement

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	43.230	1	43.230	72.299	< 0.001
Residual	111.214	186	.598		
Total	154.444	187			

**Table 5:** Coefficient Measurement

Model	Unstandardized Co-efficient		Standardized Co-efficient	t	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	.368	.378		.972	.332
<u>Cf</u>	.831	.098	.529	8.5.3	<0.001

From the above tables, we can see that the importance is .000 which is under .05, subsequently we Reject H0 and Accept H1 (ix) There is noteworthy connection between Follow up Norms and the measure of NPA. From the Coefficients table we see that the estimation of constant (c) is .368 and estimation of M is .831. By Formula it is  $Y=0.368 + 0.831 (X)$  This implies when the estimation of X increment then the estimation

of Y likewise increments by  $(0.368 + 0.831(X))$ .

### 2.9 Chi Square Analysis

**Aim:** To find the significant association between defective credit appraisal system and the level of NPA.

**Null Hypothesis (H0):** There is no significant association between defective credit appraisal system and the level of NPA. Chi-Square Tests are presented in Table 6.

**Table 6:** Chi-Square Tests

Value		Df	Asymp. Sig. (2 tailed)
Pearson Chi-square	143.697(a)	12	<0.001
Likelihood Ratio	71.417	12	<0.001
Linear-by-Linear Association	17.639	1	<0.001
N of valid cases		188	

A 11 cells (55.0%) have Expected count less than 5. The minimum count is .15.

### Interpretation

From the above table we can conclude that the significance is .000 which is less than .05. Thus, we Reject H0 and Accept H1 (ix) There is significant association between diversification of fund for other purpose and level of NPA.

### 2.10 Findings and Suggestions

From the present research ponder with respect to the causes and solutions for the Non-Performing Assets in Indian Banks, some striking highlights for the decrease of NPA have been discovered. The Major explanations behind the non performing resources in Indian banks are positioned dependent on the mean score and rank qualities. Absolutely seven parameters are taken for the positioning procedure in which the parameter, " Willful defaults by the clients " has the most noteworthy mean esteem which implies that the clients don't demonstrate enthusiasm for the reimbursement of the charges. The other major reasons for the non-performing assets are divergence of funds for other purpose and nonexistence of regulation and follow up. These parameters also have major influence in the nonpayment of dues. Remaining parameters like Economic slowdown, Political influence and Higher rate of interest have low rank values and have little influence on the non-performing assets.

To the extent the commitment by various divisions of Banking on Non-Performing resources, Non-need area has higher combined rate than the Priority segment. Likewise, utilizing the connection investigation, the connection between the loaning strategies received by the banks and

the measure of Non-Performing Assets, Null theory is encircled. The outcomes utilizing connection examination, there exists a huge connection between the loaning strategies and measure of NPA.

Utilizing the Regression investigation, the invalid theory is confined for the critical relationship between Follow up Norms rehearsed in the accumulation of NPA and the ascent in NPA. Results demonstrate that there exists a noteworthy connection between the Follow up Norms rehearsed in the gathering of NPA and the ascent in NPA.

Utilizing Chi-Square Analysis, the connection between the deficient credit evaluation framework and the dimension of NPA is confined utilizing the fitting Null Hypothesis and from the outcomes, it is deduced that there is a noteworthy relationship between the blemished credit examination framework and the dimension of NPA. Thus, the huge relationship between the broadening of assets to other reason and dimension of NPA is likewise examined. From the examination, its whenever discovered that there is a critical relationship between enhancement of store for other reason and dimension of NPA.

As a summary, we can consolidate the following findings and suggestions regarding the causes and remedial measures for the Non-Performing Assets in Indian Banks.

1. During the Last ten years, the rate of decline in Gross Non-Performing Assets (GNPA) is exceptionally low in value.
2. Considerable improvements are witnessed with respect to the proportion of GNPA to Gross Advances during the recent years.
3. Allotment and Classification of outstanding dues is not properly managed among various available schemes.
4. For Monthly loan absorption statements, specialized and exclusive account maintenance needs to be done for customers.
5. Proper analysis of present financial position for most important assets and liabilities must be done periodically by the banks.
6. SWOT analysis shall be done for the borrowing companies and customers and proper evaluations should be done by the banks before sanctioning of loans.

7. Regular and proper monitoring of repayment of dues should be done to avoid debts being falling into NPA.
8. Periodical and Appropriate training should be given for Bank staff and employees to deal with the NPA analysis.
9. Arrangement and Maintenance of Specialized teams can be done by banks to collect NPA.
10. Insurance of loans should be carried out by banks for higher amounts.
11. Integration of salary account with the loan account within the same branch can be one of the best ideas for avoiding NPA.
12. Complete and Thorough auditing process should be carried out while document submission and property mortgage processes.

### **3. Conclusions**

In the banking procedure in the nation like India with broadened populace and different scopes of monetary areas, it isn't totally conceivable to wipe out the Non-Performing Assets in the business exchanges however it very well may be limited to the greatest dimension conceivable by receiving appropriate and determined systems. To decrease Non-Performing Assets, fitting

polices must be confined and the banks ought to entirely hold fast to them.

Standard observing, Supervision and Follow-up exercises will give incredible outcomes in the decrease of NPA. While focusing on the decrease of present NPA, fundamental safety measure measures are to be taken by banks to evade NPA in future. The declaration of SEBEL scores and the combination of advance procedures crosswise over different banks all through the nation and the obligatory method of including PAN subtleties in the credit accounts have just begun giving positive outcomes and a similar way, Non-Performing Assets can possibly be captured by the banks.

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