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Non-Performing Assets in Public and Private Sector Banks in India: A Comparative Study

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***Abstract*—** In emerging economies, banks are not only working as agents of financial intermediation but also having additional responsibilities to achieve social agenda of government. They are working as lubricant for the wheels of economy by providing financial help to the needy sectors. This financial help is providing by them via granting loans to all these sectors of economy. But the problem of rising non-performing assets (NPAs) is becoming hurdle in smooth functioning of banks which is also impacts on the growth and development of economy. The entire banking system in India is suffering from this problem of rising non-performing assets which is not good for bank's progress. Because in case, if banks are not able to recover the amount lent to their borrowers, the level of their profits come down which will adversely affect the financial health of banks. This problem of increasing NPAs is not only faced by Public Sector Banks (PSBs) but also by the Private Sector Banks in India. This paper focuses on the level of non-performing assets in Public and Private sector Banks in India and also tries to give suggestions to reduce NPAs in banks.

***Keywords*—** Non Performing Assets, Public Sector Banks, Private Sector Banks.

I. Introduction

Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) that the interest remains due for a period of 4 quarters (180 days) should be considered as NPAs. Subsequently, this era was reduced, and from March 1995 onwards the assets that the interest has remained unpaid for 90 days were considered as NPAs. As per guidelines of Reserve Bank of India (RBI), the assets or advances of banks are classified into four categories, based on the period of non-performing. These are:

i) Standard Assets: A Standard asset is one with respect to which no default in repayment of principal or payment of interest is perceived, and which does not disclose any problems nor carry quite normal risk attached to the business. These assets do not require provisions.

ii) Sub-Standard Assets: those assets in respect of which bank may sustain some loss. These amounts are classified as NPAs for a period not exceeding two years and require provisioning in the range of 15% to 25% of total outstanding.

iii) Doubtful Assets: Assets about which serious doubts exists as to their recovery and have remained in as NPAs for a period above two years. These assets have higher provisioning range as compared to substandard assets which lays 25% to 100% of secured and unsecured portion.

iv) Loss Assets: Where loss has been identified by the banks auditors and RBI inspectors of these assets, but amount have not been written off. It is considered as uncollectible and warranted to continue as bankable asset with a little hope for recovery and made full provision for the amount outstanding.

Standard assets are treated as performing assets and the remaining categories of sub-standard, doubtful and loss assets are known as NPAs. The non-performing assets can also be classified into two categories which are: Gross NPAs and Net NPAs. Non-performing assets are a drain to the banks as the financial soundness of banking system is deteriorating day by day due to continuously increase in the value of non-performing loans and non-recovery of loans. It also affects bankers, investors, lenders, depositors etc. in many ways. The greater is the amount of non-performing

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assets, the weaker will be the bank's revenue stream.

II. REVIEW OF LITERATURE

Patnaik Dr. C. Umesh (1992) concluded that it is not rules, regulations and circulars of the government and the RBI will help to improve the present scenario of NPA in rural lending Institutions, but then, the attitude, sincerity, seriousness and involvement of the banker and all those who are involved bill count a lot. He said that the Co-operative movement in India is basically a credit movement. Unless the problem of mounting NPAs in credit co-operative institutions are effectively and timely managed the future of Co-operatives in India, will remain in doldrums forever.

Umoh P.N. (1994) in his research paper traced out that the rising non-performing assets ratio in banks leads to poor loan processing and also to absence of loan collateral from which loans will be recovered. It reflects the poor and ineffective credit administration in banks.

Bhide M.G., Prasad A. and Ghosh S. (2001) concluded that the level of non-performing assets is increasing in banks due to failure of debt recovery process, inadequate legal provisions for bankruptcy and also due to judicial limitations in getting court orders and in the execution of court decrees.

Chandan C.L. and Rajput Pawan Kumar (2002) concluded that the increasing competition of public sector banks with private sector banks and foreign banks, deregulation of interest rate, stringent prudential norms and requirements of capital adequacy according to international standard have all forced all the public sector banks to shift their focus from other things to profitability for their survival.

Kohli Ms. Harpeet and Chawla A.S. (2006) analysed the emerging trends of profits and profitability in public and private sector banks and observed that the performance of private sector banks was better than the public sector banks and there was rise in the non-interest income of private sector banks. They suggested that with the ushering in reforms, the increased competition has brought into focus the need for banks to earn profits and remain viable by stabilizing their incomes and banks have to diversify into other income generating activities with change in their traditional activity.

Monteiro N.J. Mohan and Ananthan B.R. (2007) concluded that irregular repayment was the major signal for an account turning into Non-Performing Assets. They suggested that Compromise and Seeking instruction of higher authorities is the least preferred option of a majority of mangers.

Ahmed J. (2009) concluded that the quantum of non- performing assets is high in Indian banking sector and there is need for effective management of non-performing assets to speed up the growth and profitability in public sector banks in India.

Rajeev Meenakshi and Mahesh H.P. (2010) examined the trend of non-performing assets in Indian banking industry from various dimensions and also discussed about the role of self help group and joint liability groups in enhancing recovery rate of loan. They concluded that those public sector banks in India which are functioning with some extend of welfare motives, are recording a reduction in level of NPAs as compare to other banks.

Kalra Jappanjyot Kaur and Singla S.K. (2011) concluded that the major causes for the occurrence of NPAs were lack of proper planning, wrong selection of the customer by the banks and the recessionary period.

Kumar K. Veer (2012) in his study highlighted that 'Direct lending system' of Reserve Bank of India for social banking motive is one of the main reason for rising NPAs in the banking industry. For concluded this, he studied the priority sector advances given by public, private and foreign banks on the basis of groups and targets achieved by them.

Selvarajan B. and Vidivalagan G. (2013) studied the measures for banks to avoid future NPAs as well as present NPAs. They suggested

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to create and implements new strategies to control NPAs, selection of appropriate technique to manage NPAs and to develop a time bound action plan to control the growth of NPAs.

Murali S. and Sathyaprasad B.G. (2014) concluded that to control the rapid rise of non-performing assets in banking industry. There is need for initiated the effective measures so that this problem can be pretended and suggested that there is need to strengthen the internal credit appraisal mechanism and risk management mechanism in banks and also external credit appraisal should not be any interface of government in banks processing as well.

Agarwala Varuna and Agarwala Nidhi (2019) analyze that the growth rate in the NPA level shows that the problem is evident not only with small-sized banks but also with big names in the banking space. Hence, the entire sector is gripped in the crisis. The poor asset for the banks is a problem because as per the guidelines, given by the RBI, banks are required to keep some amount as provision depending on their asset quality thereby leading to declining profitability of the banks. Hence, it impacts not only the profitability level of these banks but also affects the shareholders' wealth. Thus, the time is apt that the RBI has been coming up with very stringent norms so that the growth in these assets can be put under control.

III. OBJECTIVES OF THE STUDY

1. To find out the difference in the level of NPAs between Public and Private Sector Banks in India.
2. To study the implications of rising NPAs in banks.
3. To trace out the factors responsible for rising NPAs in banks.
4. To give suggestions to control the level of increasing NPAs.

IV. RESEARCH METHODOLOGY

The nature of research is descriptive and is based on secondary data which is collected from the various sites, papers, books, journals and reports issued by the Reserve Bank of India (RBI) and from other government websites and reports. The data regarding Non-Performing Assets in Public and Private sector banks in India will be taken for the study purpose from year 2011-2020.

V. NPAs IN PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

There are 27 Public Sector banks and 21 private sector banks in India which are suffering from the problem of non-performing assets due to non-repayment of loan amount by borrowers. Table No.1 represents the amount and percentage of non-performing assets in public and private sector banks from 2010-11 to 2019-20 in India.

Table No. 1
NPAs in Public and Private Sector Banks in India, 2011-2020

(Amount in Rs. Crore)

Year	Public Sector Banks		Private Sector Banks	
	Amount	%age of NPAs to Advances	Amount	%age of NPAs to Advances
2010-11	74664	2.4	18200	2.2
2011-12	117839	3.3	18500	1.9
2012-13	165006	3.6	20800	1.8
2013-14	228274	4.4	24189.56	1.8
2014-15	278468	5.0	33700.01	2.1
2015-16	539956	9.3	55853.12	2.8
2016-17	684732	11.7	91915	4.1
2017-18	895601	14.6	125863	4.6
2018-19	739541	11.6	180872.44	5.3

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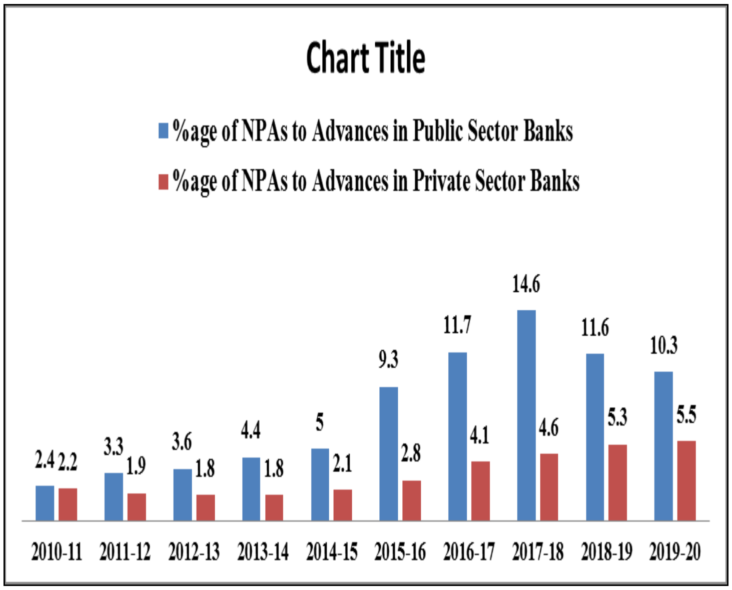
2019 -20	678317	10.3	205874.8 2	5.5

Source: www.dbie.rbi.org.in

Chart-1

Percentage of NPAs to Advances in Public and Private Sector Banks in India, 2011-2020



From Chart-1, it is clear that, in 2011, the percentage of NPAs to total advances in public sector banks is almost equal to percentage of NPAs to total advances in private sector banks which is 2.4% and 2.2%. After that this ratio of NPAs is continuously changing in both banks. From 2011-12 to 2019-20, it is higher in public sector banks as compared to private sector banks. This change in ratio from 2010-11 is due to selection of appropriate technology, good monitoring system and management information system by private sector banks. Private sector banks are continuously cope up with the changing environment of technology and innovations while public sector banks have lack of proper and appropriate technology for regular supervision of accounts and financial system. Due to which the ratio of non-performing assets in public sector banks is increasing year on year as compared to private sector banks.

VI. IMPLICATIONS OF RISING NPAs

The non-performing assets have its multiple impacts on the performance of the financial institutions and banks. It simultaneously affects the profitability, liquidity, resource mobilizing, goodwill and overall performance of the organisation. The following are the implications of mounting non-performing assets on banking system and also on economy.

- Adverse impact on profits of banks
- Reduction in profit per employee
- High level of adequate capital in banks
- Additional cost over bank management
- Banks failure/closure
- Scarcity of funds for needy sectors
- Financial burden on government for capital infusion in banks
- Adverse impact on goodwill of banks
- Economic slowdown
- Impact on credit rating of country
- Adverse impact on other business of defaulters

VII. FACTORS RESPONSIBLE FOR RISING NPAs

For a flourishing economy, a strong banking sector is very important. Because it's failure may have adverse impact on other sectors of economy. Now a day, many challenges are facing by Indian Banking System and it is only because of rising non-performing assets (NPAs) in the banks especially in the public sector banks in India. The NPAs in the banks are rising due to some internal and external factors which are broadly classified as follows:

FACTORS	
INTERNAL FACTORS	**EXTERNAL FACTORS**
Unsecured Advances	Willful Defaulters
Defective Lending Process	Ineffective Recovery
Inappropriate Technology	Directed Loans System

Impact of Loan Waiver Scheme	Industrial Sickness
Change in Customer Psychology towards Loan Repayment	Lack of Demand
Conflicting and Vested Interest of Partners in Business	Natural Calamities
Fraud by Bank Employees	Change of Government Policies
Defective Management Policies	Political Influence
Lack of Proper Credit Monitoring	

VII. MEASURES TO OVERCOME FROM PROBLEM OF RISING NPAs

The level of non-performing assets in public and private sector banks in India can be decreased by paying attention on the various issues which acts as hindrance in proper management of non-performing assets in banks. On the whole, the various measures which can bring improvement in the state of management of NPAs in banks are as follows:

- Vigilant Lending under Government Sponsored schemes
- Adequate appraisal about credit worthiness of borrower
- Need for New Provision for Unsecured loans
- Appointment of Experts
- Effective Follow-Up of borrower
- Identification of Willful Defaulters in banks
- Appropriate Reporting System for NPAs should be used by bank
- Early Diagnosis of NPAs in banks
- Effective Legal Measures for Loan Recovery
- Implementation of Recovery Agencies
- Use of Appropriate Technology
- Strict Action on loan default issues

VIII. CONCLUSION

From paper, it is concluded that the level of non-performing assets are higher in public sector banks as compared to private sector banks. This increase in level of NPAs has many adverse impacts on banks and economy. For this problem of many internal and external factors are responsible. Both internal and external factors together led to creation of non-performing assets in the banking system. They all together have negative effect on bank’s business growth and economic growth in India. The profitability and asset quality of banks are affected due to continuous increase in non-performing assets and make banks’ handicapped for providing fresh loans to the needy sectors in the economy. To overcome from this problem of NPAs, some necessary steps should be taken by banks and government so that banks can maintain their financial health and image in market.

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