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Banking sector reforms and non-performing assets: A study of Vijayapur district Co-operative banks

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Abstract
Non-performing assets had been the single largest cause of irritation of the banking sector of India. Earlier, the Narasimham Committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was the priority sector lending. The committee had highlighted that 'priority sector lending' was leading to the buildup of non-performing assets of the banks and thus it recommended it to be phased out. Subsequently, the Narasimham Committee-II also highlighted the need for 'zero' non-performing assets for all Indian banks with International presence. The management of non-performing asset is crucial aspect for any banking institution. The banks cannot have sustenance unless the fund disbursed by it to the clients is recovered and recycled. The management of NPAs in Co-operative banks is a really robust challenge and cumbersome task since, the Co-operative banks are mainly based in rural areas the people and the numbers of defaulters are more. In this background a case study was taken based on the case nonperforming assets of co-operative bank. RBI has brought in a series of reforms to reduce the NPAs of Co-operative banks. On the bases of this and having main objective, a study was carried out to analyze the measures and ways to reduce NPAs in Co-operative banks of Vijayapur, District.

Keywords: Co-operative Bank, Provisions, Reforms, Sustainable Development, Standard Assets.

Introduction

A strong, efficient, functionally diverse and geographically widespread financial system is critical to the attainment of our objectives of creating a market driven, productive and competitive economy. Financial system with financial stability is for the sustained and rapid economic progress. Among the various indicators of financial stability, NPAs assumes critical importance since it reflect on the asset quality, credit risk and efficiency in the allocation of resources to productive sectors. The committee on banking sector reforms rightly pointed out that the funds locked up in NPAs are not available for productive use or recycling. The trend of NPAs in banking institutions commercial banks (CBs) and regional rural banks (RRBs) have recorded decreasing trend in NPAs from 17.8 and 36.8 percent (1996-97) to 4.8 and 7.5 percent (2005-06). At present, the level of NPAs of the CBs has been very close to the international level i.e., 4.8 percent. CBs and RRBs have taken certain measures to curtail the growth of problematic assets by the efficient risk management practices and various policy supports of the government and the RBI.

Reforms of UCBs: The urban Co-operative banking sector being an integral part of financial system, RBI has brought in a series of reforms in it. The recent Madhava Rao Committee which is also called High Power Committee (HPC) on UCBs, has dwelt extensively on certain regulatory issues related to UCBs' licensing policy, future set up of weak and unlicensed banks, application of capital adequacy norms, resolution of conflicts arising of dual control over UCBs, etc. RBI has accepted these recommendations and implemented them. However, issues related to dual control necessitate legislative changes to State and Central Acts and there is hardly any progress in this area. In the backdrop of the present scenario, future agenda for reforms in urban co-operative banking sector, as is four fold: * Aligning urban cooperative banking sector with the rest of the financial system * Deciding the future of weak entities * Improving governance * Resolving the issues emanating from dual control.

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Non-performing Assets

An asset which ceases to generate income for t h e bank is called as Non-performing asset. Non-performing assets are those when loan given by a bank or financial institution and t h e borrower delays in payment of interest or principle amount with in stipulated period. According to the guidelines, 'any loan repayment, which is delayed beyond 90 days, has to be identified as Non-performing assets. Banks a r e not allowed to book any income from Non-performing assets. They have to make provision for t h e Non-performing assets or keep money aside'. An asset is classified as non-performing asset (NPAs) if dues in t h e form of principal and interest are not paid by the borrower for a period of 180 days. With effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days. If any advance or credit facilities granted by bank to a borrower become non-performing, then the bank will have to consider all the advances/credit facilities granted to t h a t borrower as non-performing without having any regard to certain advances/credit facilities which still have performing status. According to Reserve bank of India guidelines on income recognition, classification of assets, and provisioning, assets are classified as.

A. Performing assets
B. Non-performing asset

Identification of Non-performing Asset

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. Non-performing asset (NPA) is a loan or an advance which may take following form;

• **Term loan:** A term loan will be treated as Non-performing asset if Interest and/ or installment of principal remain overdue for a period of more than 90 days.

• **Cash credit and overdraft:** A cash credit or overdraft account will be treated as Non-performing asset if the account remains out of order for a period of 90 days. It means in balance sheet, there is no credit in the account for 90 days or credit is less than interest debited or where stock report has not been received for three months or more.

• **Bills purchased and discounted:** The bill purchased and discount account should be treated as Nonperforming asset if bill remains overdue and unpaid for a period of 90 days.

• **Agriculture Account:** A loan granted for short duration crops will be treated as Non-performing assets, if the installment of the principal or interest there on remains unpaid for two crop seasons beyond the due date with respect to advances granted for agriculture purpose, and a loan granted long duration crops will be treated as Non-performing assets, if the installment of principal or interest there on remains unpaid for one crop season beyond the due date.

• **Liquidity facility:** The amount of liquidity facility remains outstanding for more than 90 days in respect of a security transaction undertaken.

• **Derivative transaction:** In respect of derivative transaction, the overdue receivable remains undue for a period of 90 days from the specified due date for payment.

General or miscellaneous

a. Government guaranteed account: These are to be treated as performing assets only for the purpose of income recognition. The overdue may be treated as Non-performing assets only when government repudiates its guarantee.

b. Advances against Term Deposit, National Saving Certificate, Vikas Patras, Kisan Vikas Patra And Life Insurance Corporation Policies: These advances need not be treated as Non-performing assets even though Interest has not been paid for 90 days and no provision is required.

c. Other Account: Any other credit facility should be treated as Non-performing assets if amount in respect of that remains overdue for a period of more than 90 days.

Objectives of the study

1. To study the reforms on co-operative Banks.
2. To study management of Non-performing Assets in Co-operative banks.
3. To study performance of the bank in terms of NPA over 5 years.

Research Methodology

The research study is descriptive and analytical in nature. The research study is mainly based on secondary sources. The researchers have used the published data of the all the19 Co-operative banks of Vijayapur District, report and trends of RBI. The data is also collected from other sources like books, journals etc. All the secondary sources collected were analyzed using various tools like, percentage, trend analysis etc.

Population

Banking industry is taken for the study, where aggregate data related to NPA for Co-operative banks.

Research Design

Descriptive research design is used for the study. Data Collection Data used in the paper is secondary, which is compiled from Reserve Bank of India (RBI) website, and from review of Literature. Data Analysis Tools include Ratio analysis and use of SPSS. Time- Period of the Paper 5year"s Aggregate data from 2008 to 2013 is used for the study.

Scope of study

The study has been conducted to understand the position of Non-performing Assets and a. The entire study depicts the movement of Non-performing assets for several years. This study is conducted by referring to one of the leading co-operative bank in Vijayapur. The study was restricted to only one co-operative bank and its branches based on its performance and popularity. The research study can be further extended to major study by taking into many other co-operative banks. Even the comparative study can be undertaken to have more accurate results.

Hypotheses of the Study

Ho: There is no relative effectiveness of NPA management in co-operative Banking.
H₁: The relative effectiveness of NPA management in co-operative Banking.

Results and Discussions

Table 1: Asset-Wise Classification of Non-Performing Assets in 19 Co-Operative Bank of Vijayapur District. (AVG)(Rs. in Lakh)

Assets	2008-09	2009-10	2010-11	2011-12	2012-13
Loans outstanding	77809.52053	107239.6247	135947.8768	155578.2989	184854.3716
Standard	74707.76526	104582.3595	133638.5953	153609.5221	183236.0511
Substandard	1672.460526	1411.308947	1159.348947	1074.286842	867.1926316
Doubtful-I	568.2868421	490.3868421	469.8526316	369.3605263	311.4363158
Doubtful-II	386.5189474	364.5715789	302.7826316	238.5668421	196.8442105
Doubtful-III	276.6031579	223.9584211	210.3005263	151.2094737	119.0647368
Unsecured	122.7710526	100.5015789	114.2357895	81.70789474	72.41631579
Loss	75.11473684	65.18263158	62.28736842	53.64842105	37.15578947
Total NPA	3101.755263	2657.265263	2319.281579	1968.78	1604.11
Percentage of NPA to loan Outstanding	4.133157895	2.329473684	1.727368421	1.244736842	0.957368421

Source: Secondary Data, Annual Reports of 19 Co-Operative Banks

The above table shows that, the amount of outstanding loans was increased in the financial year 2008-09 to 2012-13 i.e Rs. (lakhs) 77809.52053 to Rs.184854.3716. Out of loans outstanding, standard Assets are in decreasing trend from 2008-09 to 2012-13 i.e Rs.1672.460526 to Rs.183236.0511. Standard assets is one, which does not disclose any recovery or interest generating problems and which does not carry more than the normal risk attached to business. Substandard Assets also in decreasing trend from 2008-09 to 2012-13 i.e

Rs. 1672.460526 to Rs. 867.1926316 and Doubtful I, II, III also in decreasing trend from 2008-09 to 2012-13 i.e Rs1231.4089474 to Rs.627.3452631. and Unsecured Loans is decreasing from 2008-09 to 2012-13 i.e Rs. 122.7710526 to Rs. 72.41631579 and Loss Assets decreasing from 2008-09 to 2012-13 i.e Rs. 75.11473684 to Rs. 37.15578947. And total NPA decreasing from 2008-09 to 2012-13 i.e Rs. 3101.755263 to Rs. 1604.11.

Table 2: Provisioning of NPAs in 19 Co-Operative Bank of Vijayapur District. (AVG)(Rs. in Lakh)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Substandard	167.1963158	141.1292105	115.9315789	107.4289474	86.71736842
Doubtful-I	113.6584211	98.07594737	93.96789474	73.87	62.26263158
Doubtful-II	106.5210526	115.3688421	90.85684211	71.55684211	59.03526316
Doubtful-III	138.3363158	111.9794737	105.1505263	75.60421053	59.53263158
Loss	197.8842105	165.6894737	176.2478947	134.2357895	108.9810526
Total Provisioning	723.6110526	618.0321053	581.5331579	462.6957895	376.6342105

Source: Secondary Data, Annual Reports of 19 Co-Operative Banks

The above table depicts provisions against Sub-standard Assets in all 19 Cooperative Banks. A general provision of 10 percent of total outstanding loan was calculated out of substandard asset In this category, all 19 banks shows decreasing trend from 2008-09 to 2012-13 i.e Rs. 167.1963158 to Rs. 86.71736842.20 percent, 30 percent, 50 percent of Doubtful assets provisions respectively show

decreasing amount from 2008-09 to 2012-13 i.e Rs. 358.5157895 to 180.83052632. And Loss Assets full provision at 100 percent should be made if the expected salvage value of the security is negligible. This amount is in decreasing trend from 2008-09 to 2012-13 i.e Rs. 197.8842105 to Rs. 108.9810526.

Table 3: Ratio Analysis of NPAs 19 Co-operative Bank, Vijayapur.

Year	GNR	NNR	GPAR	NPAR	SAR	DAR	LAR
2008-09	4.145263	3.481053	29.92211	13.58737	46.88158	43.90579	9.204211
2009-10	2.371579	1.996842	28.62842	13.28895	46.88263	44.52684	8.59
2010-11	1.733684	1.465789	31.18842	13.13579	45.86105	44.25789	9.508421
2011-12	1.251053	1.012105	33.28263	13.74158	47.97105	43.06421	8.243158
2012-13	0.963158	0.774737	34.60684	14.56263	47.61947	43.53526	8.235263

Note: GNR-Gross Non Performing Assets Ratio, NNR- Net Non-Performing Assets Ratio, GPAR-Gross Problem Assets Ratio, NPAR-Net Problem Assets Ratio, SAR- Substandard Assets ratio, DAR-Doubtful Assets Ratio, LAR- Loss Assets Ratio.

The above table shows the GNR ratio is decreasing from 2008-09 to 2012-13 i.e 4.145263 to 0.963158. And NNP ratio also in decreasing trend from 2008-09 to 2012-13 i.e3.481053 to 1.012105.The committee constituted for

Banking Sector Reforms suggested that, banks should reduce the gross NPA level below 15 percent to 5 percent in 2010 and 2012 respectively.
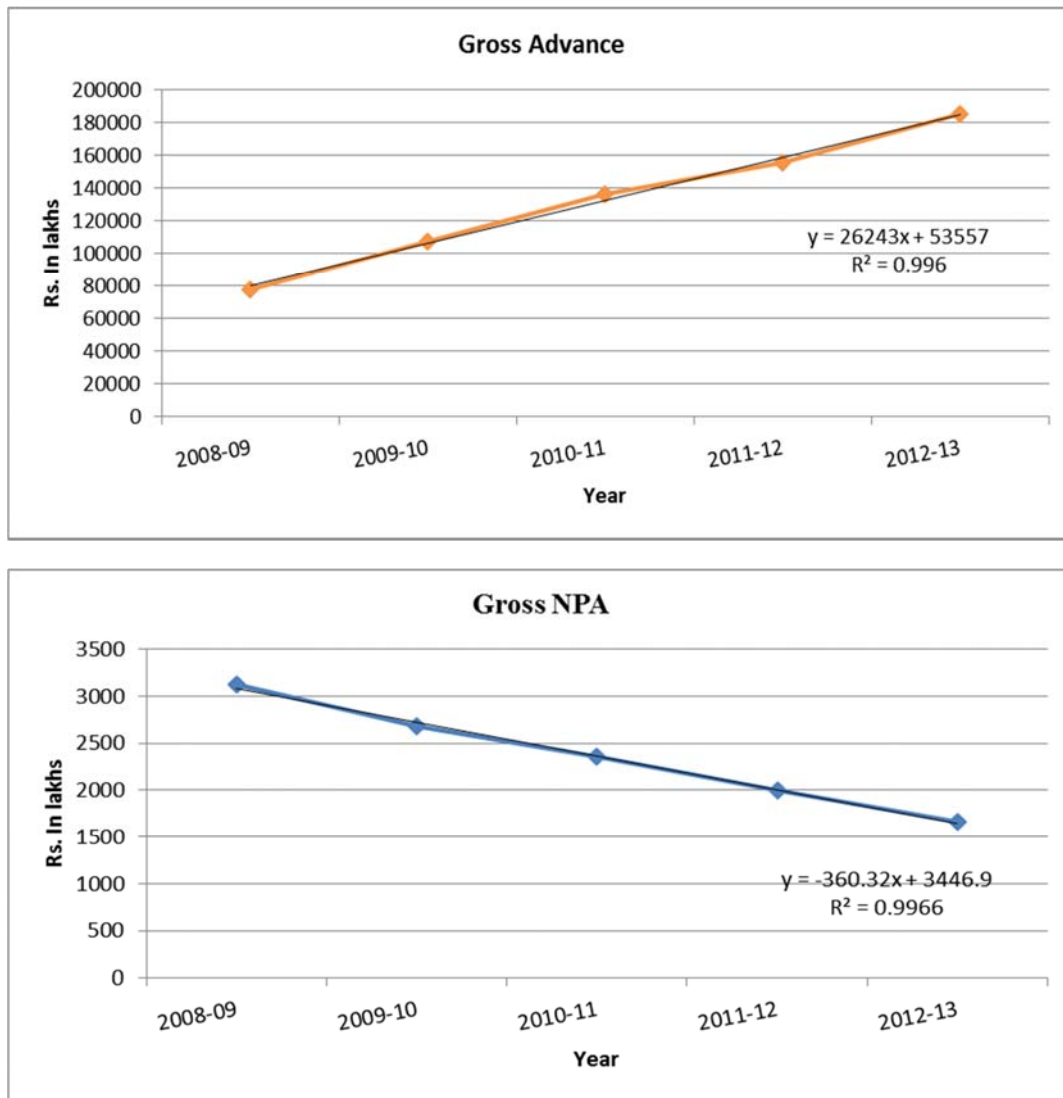
Table 1: Analysis of Gross Advance and Gross NPA of Co-Operative Banks of Vijayapur District & its Trend.

Year	Gross Advance	Gross NPA
2008-09	77809.52	3128.282
2009-10	107239.6	2679.002
2010-11	135947.9	2354.65
2011-12	155578.3	2002.991
2012-13	184854.4	1664.689
mean	108607.2	1620.972
Standard deviation	41576.39	570.69
Coefficient of Variation	31.42%	21.12%
correlation Coefficient (r^2)	0.996	0.996

Source: Secondary Data, Level of Sin. 5%Degree of Freedom = (n-2) = 19-2 = 17

The above table depicts gross advance of the bank and corresponding gross Non Performing Assets from total gross advance. The gross advances have increased every year; Increase in its gross advance indicates better loan disbursement. The gross Non Performing Assets have shown decrease year after year which is a good sign for the bank. The calculated correlation coefficient (r^2) value is 0.996. As H_1 is one-sided, we applied one-tailed test for determining the rejection region at 5% level which comes to as under, using table value for 17 degree of freedom. The observed table value is 1.740 which falls in the rejection region and thus we accept the calculated value and conclude that there is decreasing trend in Gross NPA.

Graph 1: Gross Advance and Gross NPA of Co-Operative Banks of Vijayapur District.

The figure mentioned above shows a mounting tendency in Gross advance which is 2008-09 Rs. 77809.52 lakh to 2012-13 Rs. 184854.4 increasing continuously and comparing to Gross Nonperforming Assets is decreasing year by year which means Gross NPA is desirable to the Bank.

Table 2: Analysis of Net Advance and Net NPA of Co-Operative Banks of Vijayapur District & its Trend.

Year	Net Advance	Net NPA	% of NPA
2008-09	77110.73	2429.49	66.14
2009-10	106673.90	2113.28	37.94
2010-11	135301.41	1862.77	27.85
2011-2012	159763.67	1575.52	19.23
2012-2013	187431.74	1260.38	14.72
mean	133256.29	1848.29	-------
Standard deviation	43303.44	455.05	------
Coefficient of Variation	32.49%	24.62	-------
Coefficient of correlation (r^2)	0.999	0.998	------

Source: Secondary Data, Level of Sin. 5%Degree of Freedom = (n-2) = 19-2 = 17

The above table shows Net Advance of the bank and corresponding of Net Non-Performing Assets from total Net Advance. The Net Advances have increased every year the greater increase in its Net advance which indicates better loan disbursement. The Net Nonperforming Assets have shown decrease year after year which is a good sign for the bank. The above table coefficient of correlation (r^2)

calculated value 0.999. As H_1 is one-sided, we shall apply a one-tailed test for determining the rejection region at 5% level which comes to as under, using table of value for 17 degree of freedom.
The observed table value is 1.740 which falls in the rejection region and thus we accept the calculated value and conclude that there is decreasing trend in Gross NPA.
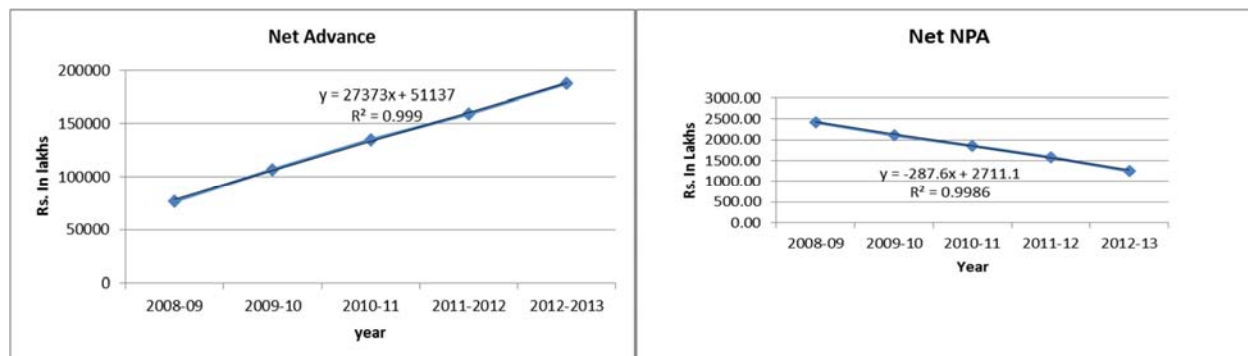
Graph 2: Gross Advance and Gross NPA of Co-Operative Banks of Vijayapur District.

The figure mentioned above shows a mounting tendency in Net advance which is 2008-09 Rs. 77110.73lakh to 2012-13 Rs. 187431.74increasing continuously and comparing to Net Non-performing Assets is decreasing year by year which means Net NPA is desirable to the Bank.

Findings
Following are the various findings revealed from the Study:
1. There is a deceasing tendency in Nonperforming assets over the years, which is a good sign for the bank. From the analysis it is shown that trend value of Nonperforming assets to total outstanding assets is decreasing gradually from 66.14% to 14.72% and the percent of Nonperforming assets decreasing is 51.42%.
2. The bank has witnessed unstable growth in its total outstanding assets.
3. The study disclosed that average decrease rate of Non-Performing assets by considering the difference in the percentage of decrease over the years is +14.72 which is comparing the NPA Reforms 15%.
4. The study found that the Co-operative bank is much consistent in management of Non-Performing Assets as it shows coefficient of variation.
5. It is found that the bank shows tremendous growth in its banking transactions. The total outstanding loan was increased from Rs. 77110.73 to Rs. 187431.74 which is a positive sign.

Suggestions
The suggestions are given based on the outcome of the data analyzed. These suggestions are related to the improvement in the management of NPA.
1. As concern to future feasibility of the banks provision is necessary. It is advisable for the bank to classify the assets according to the prudential norms of Reserve bank of India and keep aside prescribed amount of provision as a reserve to future likelihood of bank concern.
2. The bank has to maintain strong relationship with the client and conduct recovery camps for the effective recovery of loans.
3. The bank should provide training and awareness programme regarding the repayment of loans. Effective

use of funds, repercussions of non-payments etc., for effective utilization of available funds and smooth recovery.

Conclusion
Every authority concerned with Co-operative Sector will have to play its part in ensuring that the aspirations of the Urban Co-operative Banking sector are nurtured in a manner that depositor interest and the public interest at large is protected. The role of RBI could, thus, be to frame a regulatory and supervisory regime that is multilayered to capture the heterogeneity of the sector adequate implement policies that would provide adequate elbowroom for the sector to grow in a non-disruptive manner. The state and Central Governments could recognize that the UCBs are not just co-operative societies but they are essentially banking entities whose management structure is that of a cooperative. They should recognize the systemic impact that inefficient functioning of the entities in the sector could have. Consequently, it would be in the interest of the sector if they support, facilitate and empower the RBI to put in place mechanisms and systems that would enable these UCBs to perform their banking functions.

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