



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 8.4
IJAR 2022; 8(1): 191-192
www.allresearchjournal.com
Received: 18-10-2021
Accepted: 02-12-2021

Rahmuddin Miyan
Research Scholar,
Management, University
Department of Commerce and
Business Administration, L.N.
Mithila University,
Darbhanga, Bihar, India

Role of NPA in Indian banking sector

Rahmuddin Miyan

Abstract

Non-Performing Assets (NPAs) are such loans which dispersed by bank, to which borrower makes default in making payment of principal or interest amount. Whenever a bank is not in a position to recover the loan or regular interest on such a loan, the flow of fund in banking system is adversely affect, This dilemma related to Non-Performing Assets is distressing for the bank and for the economy of the country. An NPA is such loan assets, ceased to generate any income for the bank in the form of repayment of interest or principal. In the presiding chapter focus has been given on the commercial banking structure and system in India and detail. In this chapter a detail description related to Non-Performing Assets, its status in Indian commercial Banks because the mounting volume of NPA in the Indian Banking System have unpleasant effect on banks and major impact on the economy.

Keywords: Bank, loan, NPA, public sector banks, private sector banks

Introduction

Broadly speaking the set of financial performance measures for banks are (1) Capital Adequacy (2) Asset Quality (3) Earnings and Profitability (4) Liquidity and (6) Sensitivity of market, credit and operational risks. The NPA are the advances from banks to clients, (Customers) unable to repay the amount. The significance of resolution for NPA is understood. It is normally understood that NPA reduce profitability of a bank, weaken financial health and halt banks solvency. Resolving NPA enables banks to make free its capital available resources and make is ready for productive use. Hence, the recycling of capital in the economy of the nation in time is the prime objective of NPA resolution.

NPA in Banking System in India

In India the origination of the NPAs in the Banking Sector, can be grouped into two steps:-

- 1) Pre-liberalisation period.
 - 2) Post-liberalizing period.
- **Pre-liberalisation period:** In India NPA in the banking sector the main factors during this period are below: Down-ward trend in agriculture sectors affected by monsoon, faced all-round economic and demand recessions for the nation.
 - **Sectorial Reservation:** Further the Reservation of core sectors for investment by the Government in the public sector in post-independence days became significant for many causes. In coming years most of the PSU became unviable in lack of a proper growth plan.
 - **Licensing:** The Standard economy with regard to global. Standard has been compromised, leading high capital costs of production of the product. This is responsible for low labour cost. In real sense labour productivity. Automation, created benefit of low labour costs in the country. Reservation in these sectors due to setting of uneconomical facilities, improper quality and product pricing despite subsidisation by the Government.
 - **Interest Rate:** Further in the controlled interest rate era, bank are not in a position to fix price for the risk. Which led to cross-subsidisation around the risk profile of the loan. Whenever additional collaterals are considered for such loan assets, in the absence of proper Legal system, the banks are not in a position to realise value from this collaterals.
 - **Tariff Policy:** In the absence of a long-term tariff policy, it has been problematic for the banking sector to appraise project stability during the loan pay-back era.
 - **Role of financial Institutions:** The DFI has played a major role in the growth during the pre-liberalisation period. In a way, the DFI in the country played the role of VC funding.

Corresponding Author:
Rahmuddin Miyan
Research Scholar,
Management, University
Department of Commerce and
Business Administration, L.N.
Mithila University,
Darbhanga, Bihar, India

The success of DFI can, hence be compared only with VC funding. Whenever, because of Lack of favourable legal environment, they are discredited with failures in the country.

Impact of NPAs

Profitability is in the centre for any organization including the banking industry. Rise of NPA have a big impact on the bank profitability and its earning capacity. The recovery of Loan on time has a big problem for bank. The main function of bank is to provide fund in the form of loan amount. The Banks have to take various strategies attempts to reduce NPA in given time for recovery of NPA a detail mechanism has been highlighted for management of NPA in which many options are available for debt recovery. Banks are free to structure and practice their policies for recovery.

The impacts of NPA are below

Liquidity: When the money is locked there is decrease in profit which again leads to lack of proper cash. Because of lack of fund there may be many problem arise in operating the function of bank.

Profit: Because of NPA money is treated as bad debt. As the money is getting locked the activity of bank decreases. Increasing trend of NPA have several effect in the economy of the country. A big amount of fund of lending organization is locked which is serious problem for bank survival and existence.

Effect of NPA on Banks

1. The Interest income is being reduced due to poor performance of assets.
2. The total net worth of the bank goes down.
3. Proper result is not achieved.
4. The bank has to face the problem of demotivated employees.
5. The cost of supervision and monitoring goes up.
6. The provision of provisioning, negatively effecting the profit for the banks.
7. The banks face difficulty in getting license for expansion of new branches.
8. The NPA have a very negative effect on Capital Risk Adequacy Ratio.
9. NPA negate the recycling of funds in Banks ^[15].

Conclusion

According to the mandate of the report of (1991) Narasimhan Committee and Basel Accord capital standards (1992) were to be adopted. The 9 percent adequacy ratio had to be met by foreign banks in India (1993). Indian bank with a foreign appearance had to reach the 9 percent March 1994, while domestically operating banks had until (March 1996) to implement the requirement. In 1994 various changes were taken place. The year between 1994-1998, Non-Performing loans became a major problem in banking system in India. It comes from 26.4 percent in 1995 to 18 percent in 1998 in PSCB. This scenario was not confined only to PSCB, ever Private banks were also having NPA of 11.8 percent during 1998 and 4.7 percent of NPAs were handled by foreign players. Narasimhan Committee II submitted its report in 1998 and recommend the changes in different heads. In order to Measure for enhancing role of Market Forces, introduction of prudential norms of international practices, Legislative measures for supervision of banks.

References

1. NPA Strategies for Indian Commercial Banks. Journal of Management and Business. 6(7):57-59.
2. Singh R. NPAs in Indian Commercial Banks Indian Journal of Research. 2014;4:10.
3. Khanna P. Managing NPA in Commercial Banks, Global Management E-Journal. 2014;4:8.
4. Sundar K. Recovery of Non-Performing Asset: Banker, IBA Journal. 2018;6(9):35-36.
5. Chander Gupta. Banking Sector: Analyst, 2010, 24-26.
6. Murugadoss Murugan. Concept of NPA and its position. Journal of Transformation in Business Management, Compiled and Computed from Annual Reports of Banks. 2017;6(8).
7. Dhal S. "Non-Performing Loans and Terms of Credit of Public Sector Commercial Banks. Reserve Bank of India Publication, Mumbai, Occasional Papers, winter, 2008;26(8).
8. Kumar C, Singh L. NPA in Indian Commercial Bank, Journal of Business Management. 2014;4(8).