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NON-PERFORMING ASSETS : PROBLEMS AND REMEDIES

Dr. M. B. Sonkusare
M. B. Patel college,Sakoli.

ABSTRACT :

The decades of nineties heralded an era of economic and monetary policy change brought about by the government of India and Reserve Bank of India to globalise the Indian economy. The waves of liberalisation that swept across the external trade sector the world over was not without its impact on the domestic sector.

KEYWORDS : *era of economic and monetary policy .*

INTRODUCTION:

The investment policies and indeed the financial sector. The Implementation of the recommendations of the Narasiham Committee ushered in the reformation of the Indian Banking Industry. The banks have adopted international standards of accounting since 8 years, moving towards prudential regulations.

What is NPAs

A benefit becomes non-performing when it stops to produce pay for the bank. Already a non-performing resource (NPA) was characterized as a credit office in regard of which the intrigue or portion of chief has stayed past due for a predetermined timeframe which was decreased from four quarters to two quarters in a stage way.

Because of the upgrades in the installment and settlement framework, recuperation atmosphere , up-degree for innovation in the financial framework, it has been chosen to get rid of past due idea, with impact from March 31, 2001. As from that date, a non-performing resource (NPA) us a development where :

a) The account remains out of order for period of more than 180 days in respect of an overdraft/cash credit.
b) Interest or instalment of principal remains overdue for a period of more than 180 days in respect of term loan.
c) Interest Interest or portion of chief stays late for two collect occasional however for a period not surpassing two half years on account of a development conceded for agricultureal purposes
d) The charge stays late for a time of over 180 days on account of bills acquired and limited, andAny amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

The introduction for prudential norms of regulations aimed at ensuring the safety and soundness of the banking system, imparting greater transparency and accountability in operations and restoring the credibility of the confidence in the Indian financial system. Prudential norms serve two primary purposes first they bring out the true position of a bank's loan portfolio and secondly, they help to arrest its deterioration. Prudential norms introduced in India related to :

1) Income Recognition
2) Asset Classification
3) Provisioning for bad and doubtful debts
4) Capital adequacy

Reserve Bank of India given a clear definition of what constitutes a 'Non- performing asset' and interactions have been issued that no interest should be charged and taken to income account on any 'Non-performing' asset. Banks are now required to make provisions on advances depending on the classification of assets into four broad groups :

a) Standard assets
b) Substandard assets
c) Doubtful assets
d) Loss assets

The provisioning requirement ranges from 10 per cent to 100 per cent depending on the category of the assets.

The most crucial factor that governs the performance of banks is the health of its credit portfolio, level of Non-performing Assets (NPAs) of the total loan assets the urban co-operative banks aggregating Rs. 442.084 millions at the end of 2000-01 and NPAs ratio is gradually increasing from 1990-91 it is 11.8% (per cent) and in 1995-96 it is 20.43% and in 2000-01 around it is 20%.

The study conducted by Reserve Bank of India revealed that the following major factors are contributing to the loans becoming NPAs.

Problems

a) Diversion of funds
b) Business failure, inefficient management, strained labour relations, inappropriate technology/technical problems product obsolescence, etc.
c) Recession, input/power shortage, price escalation, accident, natural calamities etc.
d) Time/cost overrun during project implantation stage.
e) Government policies like changes in excise duties, pollution control orders etc.
f) Wilful default, siphoning off of funds, fraud/misappropriation promoters/directors disputes in the firm.
g) Deficiencies on the part of banks like delay in release of limits and delay in release of payments/subsidies by government.

Other Problems of NPAs

Higher gross NPAs can be attributed largely to slow and inefficient legal system, policy distortions in the liberalised regime and general slow down in the Indian economy. We can highlight how a collapse can be caused due to weak financial systems. Poor financial disclosure excessive exposure in high risk sectors, bad loan apparels, inadequate concern for collateral and security.

Higher provisioning that requirement on account of mounting NPAs is adversely affecting bank's profitability directly and capital adequacy indirectly. Unless urgent measures are taken to tackle NPAs the position may deteriorate further in the coming year due to tightening of provisioning norms by RBI.

The need for additional capital and responding to technological innovations is charging the business paradigms. The process of shake of in the banking sector has begun. The income streams are getting thinner and profits are under stain. The competition is getting fierce. Besides higher NPAs, Banks are stuck with operational inefficiencies like overstaffing, low productivity and higher expenses ratio.

In a Competitive Environment, all stake holders would like to see a heat their capital base, strong asset quality and a good portfolio of assets.

There is a need to treat reduction of NPAs in banking sector as a national priority item to make them the Indian banking system more strong, resilient and geared to meet the challenges of globalisation.

Remedies to Tackle NPAs

1) Credit Risk Mangement

History of the last decade is replete with instances of failure of major banks. Drawing useful lessons from the bitter experience of the past, banks have now developed a keen awareness to manage credit risk i.e. to identify, measures, monitor and control credit risk. Banks are also keen to ensure that they old adequate capital against these risks and that they are adequately compensated for the risk taken.

Basically, credit risk involves a systematic analysis of various risk factors that directly or indirectly influence or likely to influence the repayment of the loans given by banks for measuring credit risk one has to take into account its three components namely : (i) Probability of default, (ii) Recovery rate, (iii) Credit exposure.

2) Settlement Advisory Committees

To tackle chronic NPAs in priority sector, RBI has recently come out with a one time measure – constitution of Settlements Advisory Committees (SAC's) by bank. This is to promote compromise settlements in small sector viz. SSI, small business including trate, agricultural and personal segments. Bankersneeed to appreciate the fact that compromise settlement is an effective and accepted non-legal remedy for recovery in chronic NPA accounts. For encouraging compromise settlements imparting necessary knowledge, refining negotiating skills and reorienting attitudes to operating functionaries are some pre requisites.

3) Asset Reconstruction Companies (ARC's)

Many banks have sought to address their NPA management problems by creating dedicated out fits for acquiring and managing NPAs. An ARC is a special purpose limited liability company with acquires the problem assets of banks and financial intermediates and subsequently sells these to other buyers.

4) Credit Appraisal & Credit Audit

NPA reductions achieved by banks have been offset due to accretion of new NPAs. Prevention of deterioration of assets quality and timely handling of potential NPA accounts assume significance. Sound credit appraisal, credit risk evaluation, centralised data base, credit management information system, effective credit monitoring, compliance of terms of sanction, timely review and renewals, periodic interaction with borrowers, market and economic intelligence and human resources management are equally important.

5) Legal Recourse

The legal recourse is one of the least attractive alternatives for banks in dealing with a problem loan situation. To overcome the situation, banks have put in place specific guidelines prescribing detailed procedures for initiating legal process as also to monitor and follow-up the suit filed accounts. Highly inefficient loan recovery system through legal means in India has emerged as the greatest impediment in management of NPAs by banks.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the go day's overdue norms for identification of NPAs from the year ending 31st March 2004.

CONCLUSION

In conclusion, it can be stated that the surest way of containing NPAs is to prevent their occurrence. But to manage effectively the existing NPAs the bank must adopt a structured NPA management policy for guidance of operating functionaries. Proper risk management systems be put in place in the banks, strong and effective credit monitoring. An open and co-operative working relationship between banks and borrowers that would allow exchange of confidences and initiation of corrective action early. Finally, an effective legal framework will be needed to bring recovery suits to their logical conclusion and effect recoveries within a reasonable time frame. Compromise settlements should be explored as an effective non-legal option for recovery.

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