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MANAGEMENT OF NON-PERFORMING ASSETS IN DISTRICT COOPERATIVE BANKS IN INDIA

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ABSTRACT:

Banking sector plays an indispensable role in economic development of a country through mobilization of savings and deployment of funds to the productive sectors. Bank lending is very crucial for it makes it possible, the financing of agricultural, industrial and commercial activities of the country. So the health of the banking system should be one of the primary concerns of the government of each country. A major threat of banking sector is prevalence of Non - Performing Assets (NPAs). The Non Performing Assets (NPAs) problem is one of the foremost and the most formidable problems that have shaken the entire banking industry in India like an earthquake. Like a cancer worm, it has been eating the banking system from within, since long. Like any other business, success of banking is assessed based

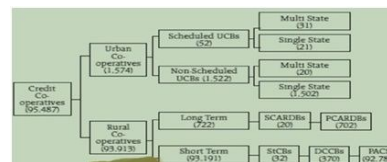
on profit and quality of asset it possesses. Successful management of Non Performing Assets (NPAs) plays a vital role in gaining good profits of bank.

KEYWORDS: Non Performing Assets, Economic Development, Successful management.

INTRODUCTION :

Turning account as NPA erodes the profit and at subsequent stage, if not controlled, the capital also. In awarding gradation to the banks by RBI and the statutory auditors, NPA is the most important determining factor. As per RBI guidelines, the asset classification and provisioning is required to be done correctly. Cooperatives banks have played an important role in the socio – economic development of rural masses. A small beginning was made with the enactment of first Cooperative Credit Societies Act in 1904 and now

the cooperative system has completed a century. At present, there are more than 5 lakh cooperative societies which have deeply penetrated in the rural economy. The short term and long-term cooperative banking structure has met the Demand for agriculture and allied agriculture credit needs of the farmers in India. The short-term cooperative banking structure consists of 30 State Cooperative Banks (SCBs) at the State level, 367 District Central Cooperative Bank (DCCB) at the District level, and 93816 Primary Agriculture Cooperative Societies/Banks (PACBs) at the village level. Here, the DCCBs being the middle tier between SCBs and PACBs, occupy a position of strategic importance.



CLASSIFICATION OF ASSET AS NON-PERFORMING (NPA)

An asset becomes non-performing when it ceases to generate come for the Bank. Earlier an asset was considered as Non –Performing Asset (NPA) based on the concept of ‘Past Dur’. However, with effect from March 31, 2001, the concept of ‘Past Due’ has been changed. Now from that date a Non-Performing Asset (NPA) is an advance, where:

- ❖ Interest and/or instalment of principal remain overdue for a period of more than

- ❖ 90 days in respect of a Term Loan.
- ❖ The account remains 'out of order' for a period of more than 90 days, in respect of
- ❖ any type of working capital.
- ❖ The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
- ❖ Interest and/or instalment of principle remain overdue for two harvest seasons but for a period not exceeding two half years in case of agricultural advances specified to be for that purpose. These advances are detailed herein below. For non-specified agricultural advances the identification of NPA is to be done on the same basis as non-agricultural advances.
- ❖ Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

CURRENT STATUS PROFIT & LOSS OF CO-OPERATIVE BANKS IN INDIA

	Bank	2015-16	2016-17	2017-18
Total No. of Banks	StCBs	35	38	40
	DCCBs	375	377	379
No. in Profit	StCBs	29	29	30
	DCCBs	310	322	317
No. in Current Loss	StCBs	4	4	2
	DCCBs	61	49	52
Amount of Current Loss [Rs Cr]	StCBs	24.94	98.77	18.00
	DCCBs	1020.55	555.77	834.18
No having Accumulated Losses	StCBs	7	8	5
	DCCBs	114	104	110
Amount of Accumulated Loss [Rs Cr]	StCBs	616.76	697.30	378.28
	DCCBs	4651.58	4781.97	5196.23
No. having CRAR < 9%	StCBs	11	5	1
	DCCBs	141	110	27

CURRENT STATUS GROSS & NET NPAs

		Bank	2015-16	2016-17	2017-18
Total	Gross NPAs [Amount - Rs Cr]	StCBs	5755.02	5564.12	4965.80
		DCCBs	22167.16	22848.16	26096.05
Total	Gross NPAs [% to loan O/S]	StCBs	5.0	4.5	3.9
		DCCBs	9.9	9.4	10.4
Total Net NPAs [Amount - Rs Cr]		StCBs	1854.97	1718.92	1285.32
		DCCBs	7782.82	7901.10	10214.25
Total Net NPAs [% to loan O/S]		StCBs	1.7	1.5	1.1
		DCCBs	3.7	3.5	4.3
No. having Gross NPAs > 10%		StCBs	12	10	4
		DCCBs	166	153	148
No. having Net NPAs > 5%.		StCBs	10	10	6
		DCCBs	141	128	128

OBJECTIVE OF THE STUDY

The present study was undertaken with the following objectives:

1. To understand the concept of NPA and classification of asset as per RBI guidelines.
2. To examine the asset classification and NPA movement of central cooperative banks in India
3. To analyse the management of NPA central cooperative banks Ltd.

STATEMENT OF PROBLEM

Recovery of credit is very important for ensuring smooth flow of recycling of credit. Management of Overdue is the most important task for the banker as it affects the profitability as well as corrosion of the working funds. In spite of the fact that agricultural lending by its very nature is more risky, large number of DCCBs are able to achieve Gross NPA of less than 5% and net NPA of less than 2% [even 0% NNPA]. The wide variation in the percentage of NPA position can be seen across the regions of our country, indicating the divergence of recovery management positions of the banks. Strategy to achieve these is a tall order but some DCCBs like Sangli in Maharashtra have been able to reduce NPA

from High levels of > 65% to the manageable level. After study of banks of few DCCBs across the country, we feel that good banks do same things more effectively.

BEST PRACTICES IN NPA MANAGEMENT

These efforts can be classified in the following subheads:

- ❖ Due diligence and internal processes of the Management. [Thanjavur, Belgaum,
- ❖ Satara, Rajkot, Sriganganagar etc.]
- ❖ Precise planning for Recovery. [Satara, Rajkot, Hooghly, etc.]
- ❖ Cultivating new clients and adding new borrowing members
- ❖ SHGs, JLGs & Farmers Club [Bidar, Hooghly, etc.]
- ❖ Strengthening PACS & Addressing imbalance, incentivising the recovery efforts & provision for new businesses. [Satara, Dakshina Kannada, Sriganganagar, etc.]
- ❖ Customer Relationship Building efforts. [Satara, Rajkot, Srikakulam, etc.]
- ❖ Effective use of the provisions of the Cooperative societies Act for recovery & Through tie up arrangements. [Satara]

MANAGEMENT OF NPAS IN DISTRICT CENTRAL COOPERATIVE BANKS IN INDIA

- ❖ Banks are highly leveraged entities compared to that of other business entities due to their nature of business.
- ❖ Imposition of prudential norms by the regulator, was more with an intention of ensuring that the banks do business in a prudent manner and not to restrict banks from issuing loans.
- ❖ Rural Financial Institutions today compete on products and effective customer service. Only strong institutions can give effective services.
- ❖ The best practices adopted by various banks have given positive results to them resulting in not only their sustainable viability, but also enabling them to serve their members better. There is an urgent felt need for other banks of STCCS to adopt suitable NPA management practices, to attain current and sustainable viability.

COMPONENT OF GOOD NPA MANAGEMENT STRATEGY

1. Loan Policy of the bank: Every bank must have a Board approved Loan policy, as it plays a vital role in creating awareness amongst its employees/ members.
2. Exposure norms: Given the divergent lending opportunities available these days, banks should have their own exposure norms, so as to ensure that all eggs are not put in one basket.
3. Principles of good lending: The starting point of good lending practices is the selection of the borrower. If two things [borrower's intention and his capability] are observed accurately, the chances of NPA would come down substantially.
4. Strengthening PACS: Given the fact that the PACS are the final lending tier in the STCCS, without them being strong and financially viable, the structure cannot be viable for long.
5. Incentivising the recovery efforts at the PACS level: Since majority of the loans are lent through PACS in the STCCS, banks can consider including a Reward mechanism, as part of their Recovery strategy. [Satara DCCB]

COMPONENT OF GOOD NPA MANAGEMENT STRATEGY

Customer relationship efforts: Satara DCCB proudly calls itself a 'Farmers bank' and have taken many steps for incentivising the prompt paying borrowers. Borrowers are also assured of fresh loans based on adequate Scale of finance/ Unit Cost. & Positive, in these days of vitiating credit climate.

Recovery of Loans through the provisions of the State Acts: Cooperative banks can recover outstanding loans through the mechanism provided in State Cooperative laws, [which are comprehensive, self-contained and less expensive remedy]. They can be effectively put to use, provided the banks have put in place a proper mechanism.

8.Computerisation of STCCS: While most of the StCBs/ DCCBs have moved to CBS, many PACS are still working in manual system. PACS of Kerala state have shown the way with regard to the benefits that can accrue on account of CBS. Urgent steps needs to be taken in this regard, by all concerned, for betterment of the cooperative system.

COMPONENT OF GOOD NPA MANAGEMENT STRATEGY

Movement of focus from NPA identification to NPA resolution

- ❖ Robust mechanism needed for monitoring the incipient sickness in Loan accounts which should trigger time bound response[on the line of Special Mention Accounts[SMA] .
- ❖ For Banks with very high NPAs, Prompt Corrective Action norms need to be evolved and enforced .
- ❖ Effective use of crop insurance to all farmers - for loanee as well as non loanee farmers. Specially for non loanee farmers.
- ❖ Effective use of social sector welfare schemes [Pradhan Mantri Suraksha Bima Yojana [PMSBY] & Pradhan Mantri Jeevan Jyothi Bima Yojana [PMJJBY] Schemes].

CONCLUSION

A non – performance Assets (NPA) is defined as a credit facility in respect of which the interest and or instalment of principal has remained ‘part due’ for a specified period of time. The committee of Non-Performing Assets of public sector Banks (1998) rightly observed that NPA is a double edged knife that tells on a bank’s profitability. However, the problem of NPA’s is likely to become chronic dues the external factors, which are generally beyond the reach of management. It is, therefore, suggested that, Cooperative Bank should fake utmost possible care that the external environmental factors do not adversely affect its efforts of monitoring NPAs. High NPAs in the banks have devastating effects not only on the banks but also the economy as a whole the formulation of the good policy will be of no use unless it is implemented in true spirit.

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