
Study Of Non-Performing Asset (Npa) Mitigation Practices In Co-Operative Banks In Thane, Maharashtra, India

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Abstract: Non-Performing Assets (NPA) refers to the categorization of Credit/ loans or advances in the books of a lender (financial institutions/banks) in which there is no payment of interest and principal have been made and are “past due” for a specified period of time. NPA is employed by financial institutions that ask loans that are in jeopardy of default. There is no doubt that increasing NPA has become a matter of concern for any bank or financial institution whether it is commercial or co-operative. There are instances where many co-operative banks have faced strict action and closure from the central bank. The present paper is an attempt to study and analyze the causes of NPA in selected co-operative banks in Thane. It studies the causes of NPA at the micro level for co-operative banks and brings out the main causes liable for assets turning into non- performing. This paper further highlights the importance of NPA in Credit risk management mitigation in Cooperative banks in Thane. The findings of this paper will significantly contribute to the effective asset allocation to cooperative bank and help them to grow and succeed.

Keywords: NPA, NPA risk management, Cooperative banks in Thane

INTRODUCTION

Banking sector is the backbone of economic development of all nations around the world. Banking is a dynamic business activity prevalent across the world. It helps in capital formation for an economy with the help of saving and investment function. Accumulation of saving and lending of cash is leading function of any financial institution. Lending money involves risk because it is the not the bank money but the depositors money who need their money back when needed.

The Urban Co-operative Banks (UCBs) are primarily cooperative banks located in urban and semi-urban areas. In India UCBs are directly involved in farming sector and lending and borrowing practices in small town and rural areas. They play a significant financial role amid those having resources and those requiring these resources. These UCBs are in the business of safeguarding money and other valuables of small town and rural borrowers. They provide loans, credit, different payment services, investments, insurance products and a whole range of other financial services to small town /village clients. Thus, their financial health status directly affects the finances of these common people which are eventually low income people.

Non-Performing Assets (NPA) are loan, credits or advances where Interest and /or installment of principal remain unpaid for a period of more than 3 months. In last decade, NPA in India banking system especially UCBs has become a plague problem. In Current scenario too, Non-Performing Asset (NPAs) are at its peak in UCBs and the problem seems to show no signs of dwindling.

NPA risk management is crucial for the financial health of any institution and has gained focal importance after huge financial losses faced by some big international financial organizations. Cooperative banks plays important role in Indian economy. Their functional structure is entirely demarcated from commercial banks. It has been observed that when it comes to the study of Non- Performing Assets, co-operative banking sector is generally ignored which is as important as commercial banks in our country.

The study is an exploratory study and is based on primary data. It primary highlights the causes of NPA in co-operative banks during appraisal, sanction and disbursal and post disbursal stage. The study takes into account of 15 cooperative banks where three branches of every bank were considered to study the causes of NPA and its mitigation strategies. Primary data was collected with the help of a structured standard questionnaire. The primary Data was collected from Branch managers; zonal heads, department heads were the major respondents. Data collected have been analyzed with the help of Friedman test in order to study the most important causes of non-performing assets in banks as perceived by the cooperative bankers. Thus this paper is an attempt to understand the NPA risk management cycle in Co-operative banks in Thane.

Objectives

Some of the underlying objectives of the study are as follows.

1. To discuss the theoretical framework of Non-Performing Assets in cooperative banks in Thane.
2. To understand the causes of NPA during appraisal, sanction and disbursal and post disbursal stage at the micro level in cooperative banks in Thane.
3. To understand the NPA risk management cycle in cooperative banks in Thane.

Methodology And Findings

NPA mitigation strategies were observed at three different stages in designated cooperative banks in Thane.

Variables & Measurement

Respondents of Cooperative Banks were offered a standard questionnaire consisting questions related to common causes of NPA during three different stages of credit disbursal.

Each respondent was required to notify the extent of their agreement or disagreement for these causes being prominently responsible for NPAs using a 5- point Likert scale (5 -Strongly Agree, 4- Moderately Agree, 3- Don't Know, 2-Moderately Disagree, and 1-Strongly Disagree).

Level of Significance: $\alpha = 0.05$ was maintained throughout the study.

Stages Studied

1. Appraisal Stage

The primary data was analyzed especially for appraisal stage. For statistical analysis, Friedman's Chi-Square test was conducted to find if there is any significant role of Credit Appraisal Stage in NPA.

Hypothesis

H₀: There is no difference in the importance that the Cooperative Banks attach to the causes of NPA during Appraisal Stage.

H₁: There is significant difference in the importance that the Cooperative Banks attach to the causes of NPA during Appraisal Stage.

Table 1. Table shows the mean rank of 13 parameters which are possible causes of NPAs in customer's purview at appraisal stage.

S.No.	Parameters	Mean Rank
1	Submission of unrealistic project by the borrower.	8.28
2	Deliberate attempt of loose appraisal.	2.35
3	Lack of critical presentation appraisal.	7.31
4	Preparation of incorrect loan repayment schedule activity.	6.38
5	Incorporation of improper assessment of experience of the borrower or to pursue his capacity or the business.	7.61
6	Non-Availability of reliable market to study to the credit officer.	7.34
7	Reliance on provisional/ unaudited data as submitted by the borrower to Bank.	5.67
8	Lack of network/ information system amongst branches/ banks enabling borrowers to enjoying banks funds from more than one bank.	5.28
9	Non-availability of skilled/trained staff in credit department.	5.31
10.	Absence of right to select good borrowers by the credit department.	1.68
11	Fear of staff accountability on account turning NPA in future in the mind of credit officer at the time of appraisal.	6.97
12	Fraudulent approach of borrowers.	9.54
13	Fraudulent and irresponsible attitude of bank officials.	1.59

S.No.	Test Statistics	
1	N	50
2	Chi-square	184.214963
3	Df	12
4	Asymp. Sig.	.000
Friedman Test Observation: $\chi^2(12)=184.214963, P=0.0245, N=50$		

Inference

From the above table it is observed that the P value is less than level of significance (0.05) thus the null hypothesis is summarily rejected. From this set of data it is inferred that there are ample factors responsible for

NPA losses in Cooperative banks. Among these factors, Fraudulent approach of borrowers (9.54) is the strongest cause of NPA as perceived by cooperative banks followed by Submission of unrealistic project by the borrower (8.28), Incorporation of improper assessment of experience of the borrower or his capacity to pursue the business activity (7.61), Non availability of reliable market study to the credit officer (7.34) and soon. Thus the study concluded that fraudulent approach of borrowers in the ways possible is main causes of NPA in Cooperative banks in Thane.

2. SANCTION AND DISBURSAL STAGE

Primary data was collected for understanding of causes of NPA from bank perspective during Sanction and Disbursal Stage of any type of credit disbursed by cooperative banks in Thane under study. Collected data was statistically analyzed by Friedman's Chi-Square test to study if there is any significant difference in the strategies of Cooperative banks for mitigation of NPAs during the Sanction & Disbursal Stage.

Hypothesis

H₀: There is a no flaw in the sanction process of Cooperative Banks during sanction and disbursal stage which causes NPA.

H₁: There is a flaw in the sanction process of Cooperative Banks during sanction and disbursal stage which causes NPA.

Table 2. Table shows the mean rank of 7 parameters which are possible causes of NPAs in banker's purview at sanction and disbursal stage.

S.No.	Parameters	Mean Rank
1	Indulgent approach to family or group connection or long standing relationship than to the project viability.	4.68
2	Political interference i.e. pressure to sanction loan.	3.28
3	Political favoritism to particular borrower in order to please politicians.	3.05
4	Undue delay in decision making in sanction of loan.	4.55
5	Undue delay in disbursements of credit facilities.	4.08
6	Disbursement of loan before the compliance of terms and conditions of sanction.	3.31
7	Incomplete and defective legal documentation.	4.09

S.No.	Test Statistics	
1	N	50
2	Chi-square	28.614
3	Df	6
4	Asymp. Sig.	0.00189

Friedman Test analysis: Observation: χ^2 (6)=28.614, P=0.0024, N=50

Inference

From table 2, it is understood that the Indulgent approach to family or group connection or long standing relationship than to the project viability (4.68) is the strongest cause of NPA as perceived by cooperative banks followed by Undue delay in decision making in sanction of loan (4.55), Incomplete and defective legal documentation (4.38), Undue delay in disbursements of credit facilities (4.08) and so on.

From descriptive statistics it is understood that the P value is less than level of significance (0.05). The null hypothesis is rejected and it is therefore concluded that there is a flaw in the sanction process of Cooperative Banks during sanction and disbursal stage which causes NPA.

3. POST DISBURSAL STAGE

This stage is a crucial stage in NPA accumulation in any banking system. Researcher collected primary data for this purpose. Collected data was analyzed by Friedman's Chi-Square test to study if there is difference in the importance Cooperative banks attach to causes of NPAs during the Post Disbursal Stage.

Hypothesis

H₀: There are no flaws in the post disbursal process of loans in Cooperative Banks strategies.

H₁: There are flaws in the post disbursal process of loans in Cooperative Banks strategies.

Table 3. Table shows the mean rank of 7 parameters which are possible causes of NPAs in banker's purview at post disbursal stage.

S. No.	Parameters	Mean Rank
1	Unavailability of audited financial statements in time.	4.28

2	Non-submission of stock and other required periodical statements by the borrowers.	5.35
3	Negligent approach by the bank officials in regards to inspection of stock.	3.01
4	Absence of effective monitoring.	4.68
5	Lack of close supervision of loan account.	4.82
6	Delayed detection of warning signals.	4.34
7	Delay in initiating remedial measures and actions.	3.99

S.No.	Test Statistics	Statistics value
1	N	50
2	Chi-square	38.1274
3	Df	6
4	Asymp. Sig.	0.0143
Friedman Test Observation: $\chi^2(6)=38.1274, P=0.0143, N=50$		

Inference

From table 3, it is depicted that Non submission of stock and other required periodical statements by the borrowers (5.35) is the strongest cause of NPA as perceived by cooperative banks followed by Lack of close supervision of loan account (4.82), Absence of effective monitoring (4.68) and Unavailability of audited financial statements in time (4.28) and so on.

Since the P value is less than level of significance (0.05). The null hypothesis is rejected and it is therefore concluded that there are flaws in the post disbursal process of loans in Cooperative Banks strategies.

CONCLUSION

NPA is measured as an important parameter to judge the reliability of banking industry. A high level of NPAs suggests more credit defaults that affect the profitability and liquidity of cooperative banks.

The NPA growth involves the necessity of provisions, which poorly affects the cooperative banks and its stakeholders. Identifying the causes of loans turning badly during numerous stages of disbursement of credit facilities are therefore significant for a cooperative banker.

Thus in a nut shell, it is concluded that sound appraisal and due diligence must be taken by the cooperative banks branch managers before sanctioning the loans to clients and a proper backcheck of their fraudulency must be thoroughly done. Effective post disbursal monitoring and control will also enhance the creditability and soundness of the cooperative banking sector in Thane region.

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