Journal of Contemporary Issues in Business and Government Vol. 26, No. 2, 2020
https://cibg.org.au/

P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2020.26.02.137

A study on non-performing assets and their impact on public and private sector banks

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Abstract: Banks are struggling with challenges related to NPA's. The objective of the study is to examine the reasons for the rising NPAs and its impact on public and private sector banks.The research findings were analysed using tools like frequency analysis, mean analysis and ANOVA analysis.The sample size of the study is 83 and respondents were customers of the bank.This paper focuses on the reasons behind the NPA and its impact on public and private sector banks.

Keywords: Non-performing assets (NPAs), Private sector banks, Public sector banks, Profitability & Economic Development.

INTRODUCTION

Assets which produce income are called performing assets but those which do not produce income are called non-performing assets. The banks are commercial organizations and the main business of banking is to collect the deposits from the public and lend it to the individuals, business concerns, institutions etc. The lending business is associated with risk. One of the risks in lending is the possibility of the account becoming non performing assets. Non-performing assets (NPAs) do not earn interest income and repayment of loan to bank does not take place according to repayment schedule affecting income of the bank and thereby profitability.

The term Non-performing assets figured within the Indian managing an account sector after presentation of budgetary division changes in 1992. The prudential standards on income acknowledgment, Assets classification and provisioning consequently are implemented from the money related year 1992-93, as per the proposal of the committee on the Money related Framework (Narasimham Committee). These standards have brought in measurement and objectivity into the evaluation and provisioning for NPAs. Reserve Bank of India continually endeavors to ensure that prescriptions in this respect are near to universal standards. The productivity of a bank isn't continuously reflected as it were by the measure of its balance sheet but by the level of return on its assets. NPAs don't generate an interest salary for the banks, but at the same time banks are required to make provision for such NPAs from their current yield.

Concurring to RBI, Non-performing assets shows a resource of borrower, this has been classified by a monetary institution as sub-standard, loss or far fetched resource, with regard to the rules relating to resource classification. NPAs straightforwardly impacts on the liquidity, productivity and by the large quality of Assets and successful survival of banks. The expanding level of default is driving a rise in Non-performing assets, lessening the profitability and quality Assets in budgetary explanations of the banking segment. The issue of NPAs isn't fair affecting the bank but too the complete economy. The NPA measure on banking sector is comparatively higher in Public sector banks. To maintain the benefit and proficiency of banks the NPA must be controlled and diminished.

The amount of non-performing credits is considered as a marker for surveying banks credit hazard, asset quality and proficiency in allotment of assets to profitable sectors.

The issue of Non Performing assets has been talked about at length for the budgetary framework all over the world. The dilemma of NPAs isn't as troubling the banks but also the whole nation. In truth, the level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and exchange. Giving credit for economic activities is the prime obligation of managing an account. Loaning is generally encouraged since it has the impact of reserves being transferred from the framework to beneficial purposes, which results in financial development. Be that as it may, loaning moreover carries a risk called credit hazard, which emerges from the disappointment of a borrower. Non-recovery of loans in conjunction with intrigued shapes a major jump within the handle of the credit cycle. These loans affect the bank's productivity on an expansive scale. Though complete end of such losses isn't conceivable; banks can continuously point to keep the misfortunes at an extension level. In this situation, there's a requirement of the analyst to deal with how the non-performing assets of the banks influence the bank's profitability, development and improvement.

Finally, Carrying nonperforming assets moreover alluded to as nonperforming credits, on the balance sheet places noteworthy burden on the banks. The default of interest or diminishes the bank's cash flow, which can disturb budgets and diminish profit. Advance misfortune arrangements, which are set aside to cover potential misfortunes, decrease the capital accessible to supply ensuing credits to other borrowers. Once the genuine misfortunes from defaulted advances are decided, they are composed off against profit. Carrying a noteworthy sum of NPAs on the balance sheet over a period of time is an indication to controllers that the money related wellbeing of the bank is at risk.

NEED FOR THE STUDY

The present study aims at the following needs

- To measure the reason for rising NPAs.
- To find the problems caused by NPAs.
- To find ways to reduce the level of 2NPAs.

REVIEW OF LITERATURE

(Siraj and Pillai, 2013) have studied that Nonperforming assets are one of the major concerns for banks in India. NPAs reflect the execution of banks. A higher level of NPAs proposes a high possibility of a huge number of credit defaults that influence the productivity and net-worth of banks additionally disintegrates the esteem of the resource. The problem of NPAs isn't only affecting the banks but moreover the total economy.

(Sahu, 2017) have studied that the issue of Nonperforming assets is profound and worldwide. But, the size of this issue is undoubtedly exceptionally higher within the creating nations like India. The expedient developing issue of NPAs is undermining the bank’s presence, contracting their benefit, and influencing the economy in common. In Indian managing an account and financial sector, the public sector banks are worst affected followed by private sector banks.

(Misra and Rana, n.d.) have studied that the quality of an economy is subordinate to the strength of its monetary framework. Banks, both private and public sector banks are an imperative component of the Indian budgetary framework. Indian banks have perceived the truth that Nonperforming assets (NPAs) influence the benefit, net worth, and esteem of the banks adversely**.**

(Kumari et al., n.d.) have studied that the solid, healthy and sound management of an account framework is exceptionally fundamental for an economy in order to develop and stay in this competitive environment.NPA features a coordinated effect on the productivity, liquidity, and dissolubility position of the bank. To move forward the proficiency and benefit of banks the NPA got to be decreased and controlled..

(Siraj and Pillai, 2013) have studied that in India Non-performing assets are one of the major concerns for banks. The public sector banks have appeared exceptionally great execution over the private sector banks as distant as the budgetary operations are concerned. The non-performing assets of the public sector banks have been expanding routinely year by year. On the opposite, the non-performing assets of private sector banks have been diminishing routinely year by year.

(Valliammal and Manivannan, 2018) have studied that the banking industry is a critical player in the making of any economy The banks show efficiency to control their non-performing asset level to some degree, but because of the conversion of standard assets into non-performing asset classifications, their position is continuously deteriorating. The recession in the capital market, financial indiscipline, Willful defaults by the borrowers, overburdened and slow judiciary, competition from multinational companies, less backing from banks in needy situations.

(Mishra and Pawaskar, 2017) have studied that the Banks play an imperative part in the financial advancement of a nation. Banks are growth-drivers and the keeping money trade is uncovered to different chances, such as credit hazard, liquidity chance, intrigued chance, advertisement chance, operational chance, and administration chance. Separated from these dangers the exceptionally critical hazard is advance recuperation. To progress the effectiveness and productivity of banks the NPA ought to be decreased and controlled.

(Ibrahim and Thangavelu, 2014) have studied that the banking system is one of the essential instruments of the economic process. The more the NPAs the lower the performance of the bank.. NPA level of private & public sector banks conveyed that to evaluate the financial health and work performance of the Indian Banks NPA is addressed as a very important factor.

(Joseph and Prakash, 2014) have studied that the issue of non-performing assets has shaken the complete Indian banking sector. The biggest reason for the higher rate of NPAs is the target-oriented approach, which falls apart from the subjective angle of loaning required. The non-recovery of credits impacts not as it assisted the accessibility of credit but too money related soundness of the credit of organization.

(Singh, 2018) have studied that the Indian banking framework faces an issue of a colossal number of Non-Performing Assets on the bank's balance sheet. This was driven to the trapping of cores of rupees in case proceedings, which the bank may not re-advance, driving the Government to set up an Obligation Recuperation

Tribunal (DRT) to guarantee quick recuperation procedures and fast arbitration of things concerning debt recovery of banks.

RESEARCH METHODS

Descriptive research design using questionnaires was applied in this case study.The questionnaire was framed systematically through proven instruments developed by various researchers.The sampling technique used in this study is a convenience sampling method.Here to accomplish this, a structured questionnaire was circulated and data was collected from 83 targeted respondents from the customers of the bank.The main goal of the research is to find out the reasons and impact of Non-performing assets in public and private sector banks. In this research both primary and secondary data had equal parts which helped to enhance the research. Firstly the demographic profile was collected and then further the data collected were analysed using the tools.

The sample profile of the study is represented through the following pie charts.

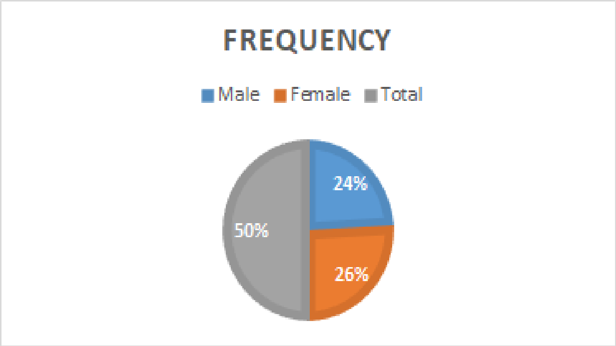

Fig.1: The pie chart depicts the percentage of gender in the sample. 24% of the sample were male and 26% were female.

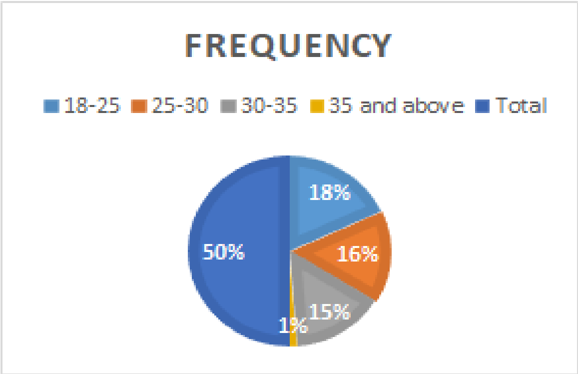

Fig.2: The pie chart describes the age of the respondents.18% of the employees were of age 18-25 years, 16% of the employees were of age 25-30 years, 15% of the employees were of age 30-35 years and 1% of the employees were of age 35 and above.

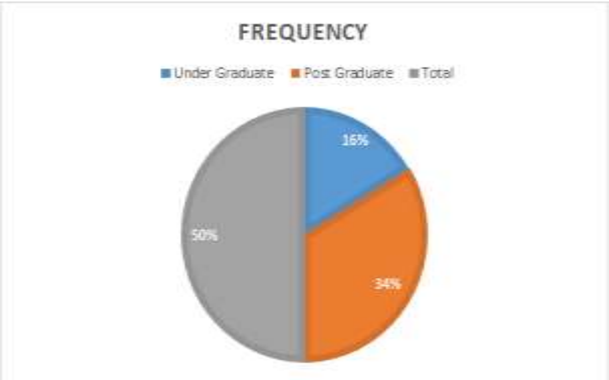

Fig.3: The pie chart depicts the education background of sample respondents. 16% of respondents were undergraduate. 34% of respondents have completed post graduate.

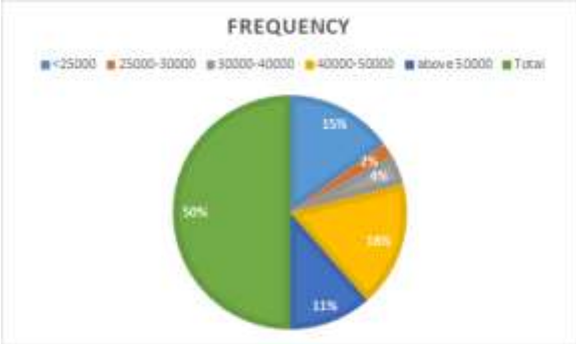

Fig.4: The pie chart describes the monthly income of sample respondents.15% of respondents were earning less than 25000. 2% of respondents were earning 25000-30000.4% of respondents were earning 30000-40000.18%of respondents were earning 40000-50000.11%of respondents were earning above 50000.

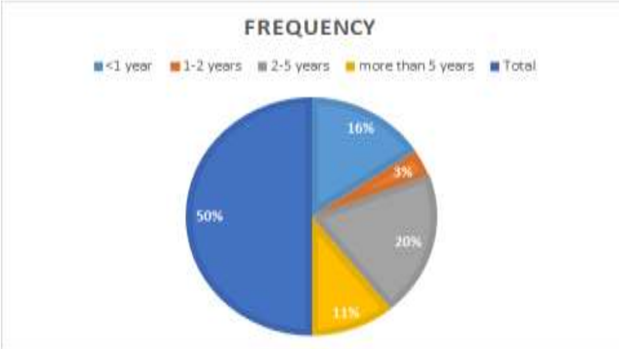

Fig.5: The pie chart depicts the work experience of respondents. 16% of respondents job experience is less than 1 year.3% of respondents job experience is 1-2 years.20% of respondents job experience is 2-5 years.11% of respondents job experience is more than five years.

Table 1: Mean analysis

Reasons for non-performing assets	Mean	Rank
Default by customers	1.39	6
Lack of supervision	2.55	1
No proper appraisal	1.92	2
Political influence on loans	1.57	5
Change in government policy	1.61	4
Diversification of funds	1.65	3

The mean analysis and the rank is done by the factors computed together in such a way that it shows the clear mean score of the computed variable from the highest to the lowest for a better understanding. The topmost reason for having Non Performing assets in banks is lack of supervision which is ranked 1.No proper appraisal is ranked 2 as it was the next reason for having NPAs. Diversification of funds is ranked 3 and it has been affected only because of the change in government policy which is ranked 4.Political influence on loans is ranked 5 followed by default by customers ranked 6 followed by all the reasons the default by customers has not been much prioritized because of the changing reasons for having Non-performing assets in banks.

Table 2: Mean analysis

Impact Of Non-performing assets	Mean	Rank
Loss of capital	1.49	14
Decline reserves	1.84	4
Decrease in profitability	1.67	8
Decrease in stock price	2.35	1
Increasing spread	2.02	2
Reduced buying ability	1.98	3
Recession in the market	1.81	5
changes in government policies	1.66	10

Increasing market borrowings	1.70	6
Attrition of profit	1.67	9
Increasing intermediation cost	1.70	7
NPA affect the Liquidity of banks and its income generating capacity	1.57	11
NPAs have Significant position on interest rate charged by banks	1.47	15
A higher NPA affect the credit proposals and the credit growth.	1.53	12
A higher NPA may force banks to depend on subordinated debt	1.47	16
Non-performing assets are more in public sector banks when compared to private sector banks	1.43	17
Public and private sector banks are still facing vulnerability to financial crises.	1.53	13

The table shows the mean value for impact of non-performing assets. The results prove that Decrease in stock price (2.35%) and High NPA in public sector banks (1.43%) are the major reason for the impact of non-performing assets.

Table 3: Mean analysis

DESCRIPTIVE ANALYSIS	MEAN	RANK
The problem of NPA can be maintained with a continuous relationship with customers.	1.45	2
Borrowers have to be made more accountable to contain the NPA problem.	1.42	3
Corporate bodies can help to improve the accounts and bring down the level of NPA.	1.78	1

The table shows the mean values of suggestions to reduce the level of NPA in the public and private sector. The result proves that corporate bodies can help to bring down the level of NPA (1.78%) and borrowers have to be more responsible (1.42%) are the major suggestions to reduce the level of NPAs in banks**.**

Table 4: Educational Qualification and the factors in ANOVA analysis

S.NO	Variable	F-value	Significance
1	Default by customers	3.826	.054
2	Lack of supervision	2.975	.088
3	No proper appraisal	1.952	.166
4	Political influence on loans	1.513	.222
5	Change in government policy	.335	.564
6	Diversification of funds	1.655	.202

The table shows the ANOVA analysis and the F values of the educational qualification in comparison with the reasons. Here it is evident that out of six reasons, there was a significant difference between the two factors. There is a significant difference with respect to educational qualification and Lack of supervision and other significant differences was with the educational qualification and Default by customers.

RESULT AND DISCUSSION

There were various analyses done to understand the impact of the non performing assets in public and private sector banks.Mean analysis,Frequency analysis and ANOVA were analyzed using the tool IBM SPSS v23 with the collected sample datas from the targeted respondents.

The result of the ANOVA analysis proves that there are significant differences with respect to educational qualification and lack of supervision,also there are significant differences with respect to educational qualification and default by customers.

CONCLUSION

From the research it is clear that Non-performing assets are always a major problem for both public and private sector banks. The problem of NPA is not only affecting the banks but also the entire economy in the ways of affecting its profitability, capital adequacy and lot more reason in the form of weaker bank’s revenue stream .The banks should recognize the problem and adopt proper recovery methods in implementing it through the process of reducing the NPA levels at bank. It is clear that public sector banks are most affected in the NPA problem .Whereas; it doesn’t mean that private sector banks are facing less NPA; both the banks have to be made more accountable in insisting on the recovery process slowly to reduce the level of NPAs. Thus it is not possible to reduce the level of NPAs to zero. The process can be done slowly by uplifting the recovery process of banks in assisting the problem in tracking the funds by the proper selection of borrowers & following up the required time to get the payment of funds to reduce the occurrence of NPA in both public and private sector banks.

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