

---

# Management Of Non-Performing Assets (Npa) In Banks – With Special Reference To Union Bank Of India

---

Monti Saha<sup>1</sup>, Aminuz Zaman<sup>2</sup>, Priyo Basumatary<sup>3</sup>

<sup>1,2,3</sup>Department of Commerce, Gauhati University

Email ID: montisaha62@gmail.com, aminuzzamana9@gmail.com,

priyobasumatary1@gmail.com

**Abstract:**

*The term non-performing asset can be defined as those advances or loans which are in arrears or in defaults. A bank considers its loans and advances as non-performing assets when the borrowers became unable to pay the interest along with the principal amount on due date. Through this study the researcher aims to ascertain the management of non-performing assets in Union Bank of India. This study is based on descriptive in nature and analysed the data which are collected from secondary sources of data. Through this study the researcher has find that the level of non-performing assets has decreased which has increased the level of profitability.*

**Keywords:-***Non-performing asset, performing asset, Union bank of India, arrears, borrowers.*

## 1. INTRODUCTION

Union Bank of India was registered on November 11, 1919 as a limited company with its registered office at 7, Marzban Road, Fort, and Mumbai. Union Bank of India shifted its registered office in 1921 to its own premises at Mumbai Samachar Marg, Fort, and, Mumbai. In 1947, the bank had only 4 branches; 3 in Mumbai and 1 in Saurashtra, all concentrated in key centres because the Board of the Bank was closely associated with trade and commerce.

It was only from 1960 onwards that the bank's growth phase began and the bank aligned its activities in line with national priorities. In the context of foreign exchange crisis faced by the country in the late 50s and early 60s, the bank geared itself to assist the export sector and push its foreign exchange business with an added emphasis. After nationalization in 1975, Belgaum Bank Ltd., a private sector bank was merged with the bank. In 1985, Miraj State Bank Ltd., a private sector bank was merged with the bank and in 1999; Sikkim Bank Ltd. was merged with the bank.

Union Bank of India has nearly 423 networked ATMs. The bank opened 23 new Branches, 14 new extensions counters and upgraded 12 extension counters into full-fledged branches during the period under review.

### **Evaluation of the Non-performing Assets concept**

Non-Performing Assets have existed since the inception of banking, but in India definitive steps were taken first in 1985, when Reserve bank of India introduced the health code system and then in 1992-93, The NPA concept was introduced in accordance with income recognition and asset classification (IRAC) norms.

### **Reserve Bank Guidelines on purchase/sale of Non-Performing Financial Assets**

The guidelines to be followed by banks purchasing/selling non-performing financial assets from/to others banks are given below. The guidelines have been grouped under the following headings:

Procedure for purchase/ sale of non-performing financial assets by banks, including valuation and pricing aspects.

A bank which is purchasing/ selling non performing financial assets should ensure that the purchase/ sells are conducted in accordance with a policy approved by the board.

The board shall satisfy itself that the bank has adequate skills to purchase non performing financial assets and deal with them in an efficient manner which will result in value addition to the bank. The board shall also ensure that appropriate system and procedures are in place to effectively address the risks that a purchasing bank would assume while engaging in this activity.

The estimated cash flows are normally expected to be realized within a period of three yrs and not less than 5% of the estimated cash flows should be realized in each half year.

A bank may purchase/sell non-performing financial assets from/ to other banks only on 'without recourse' basis, i.e., the entire credit risks associated with the non performing financial assets should be transferred to the purchasing bank. Selling bank will ensure that the effect of the sale of the financial should be such that the assets is taken off the books of the bank and after the sales there should not be any known liability developing on the selling bank. Bank should ensure that subsequent to the sale of the Non-performing financial assets of other banks, they do not have any involvement with reference to assets sold and do not assume operational, legal or any other type of risks relating to the financial assets sold. Each bank will make its own assessment of the value offered by the purchasing bank for the financial assets and decide whether to accept or reject the offer. A non performing financial asset in the books of a bank shall be eligible for sale to other banks only if it has remained a non-performing asset for at least 2 years in the books of the selling bank.

Bank shall sell non performing financial assets to other banks only on cash basis. The entire sale consideration should be received upfront and the assets can be taken out of the books of the selling bank only on the receipt of the entire sale consideration. A non performing financial asset should be held by the purchasing bank in its books for at least for a period of 15 months before it is sold to other banks. The selling bank shall pursue the staff accountability aspects as per the existing instructions in respect to the non performing financial assets sold to other banks.

**Prudential norms**

Introduction of prudential norms in 1993 was a step towards reducing the soaring level of Non-performing assets in the banking industry of India. These norms helped the banks to be better prepared for the contingencies by creating provisions out of the profits. The level of non-performing assets in the banks reduced significantly after the norms were introduced.

**Prudential norms on Income Recognition-** These norms deal with the concept of income recognition. It provides the guidelines which helps the banks to know when profits are to be credited to the profit and loss accounts. The profits are transferred to the accounts only when they are actually received and not when they become due.

**Performing assets:** Assets are called as ‘performing assets’ only when they are adding something to the profit of the bank. Advances which just add up on the asset side but do not generate any funds cannot be termed as performing assets. Defaults to a certain extent can be forgone in some assets as they do not hurt the profitability of the bank.

**Non-performing assets:** An asset is labelled as Non performing when the recovery of such assets is doubtful and the asset stops generating profits or contributes negatively to the bank. If the interest or the principal of any amount advanced by the bank is not recoverable, such assets form the Non-performing assets of the bank.

RBI has constantly reduced the delinquency period since the introduction of the prudential norms. It was 360 days when the norms were first implemented as on 31<sup>st</sup> march it stood at 90 days. This sure lead to some assets becoming Non-performing assets but the step was a positive one. The bank could recognize such Non-performing assets at an initial stage rather than after the expiry of 360 days.

**2. ANALYSIS AND INTERPRETATION**

Table 1: Table showing the Gross and the Net Non-Performing Asset of Union Bank of India.

<b>GROSS and NET NPA of UNION BANK of INDIA (in crores)</b>		
Financial Years	Gross NPA	Net NPA
2017-18	49,369	24326
2018-19	48,728	20332
2019-20	49,085	22549

(Source: compiled from Union Bank of India website “[www.unionbankofindia.co.in](http://www.unionbankofindia.co.in)”.)

**Interpretation:** The above table shows the changes in the level of non-performing assets of the union bank of India form the financial year 2017-18 to 2019-20. It can be easily be seen that the Gross and the Net NPA’s have been declined from Rs 49,369 & Rs 24,326 crores respectively in 2017-18 to Rs 48,728 & Rs 20,332 crores in 2018-19, and has again inclined from RS 48,728 & Rs 20,332crores in 2018-19 to 49,085 & 22,549 crores in 2019-20. There is a decrease of 1.29% in the gross NPA and 16.41 % in the net NPA from the financial year

2017-18 to 2018-19, and there is an increase of 0.73% in gross NPA and 10.90% in the net NPA from the financial year 20018-19 to 2019-20

Table 2- A table showing the movement of Non-performing assets of Union Bank of India.

<b>Movement of Provision for NPA's in UNION BANK OF INDIA (in crores)</b>		
Particulars	Financial Years	
	2018-19	2019-20
Opening balance of Provision	11267	10698
Add: Provisions during the year	7865	6377
Sub total	2,848	17075
Less: Write off excess Provision	8438	6678
Closing balance of Provision	10698	10397

(Source: compiled from Union Bank of India website “www.unionbankofindia.co.in”.)

**Interpretation:** The above table shows the Movement of Provision for NPA's in UNION BANK OF INDIA for the financial years 2018-19 and 2019-20. The above table shows the opening balance of the provisions, after that the provision during the year are added, then after the excess provision is written off, thus arriving at the closing balance of the provision.

Table 3- Table showing the Gross and the Net Non-Performing Assets of Public Sector Banks of India.

<b>GROSS and NET NPA of PSB's (in crores)</b>		
Financial Years	Gross NPA	Net NPA
2018-19	7,39,541	2,85,122
2019-20	6,78,317	2,30,918

(Source: compiled from “reports on trend and progress of banking in India” published by Reserve bank of India.)

**Interpretation:** The above table shows the changes in the level of Non-Performing Assets of the Public Sector Banks of India from the financial year 2018-19 to 2019-20. It can easily be

seen that the Gross and the Net NPA's have been declined from Rs 7,39,541 & Rs 2,85,122 crores in 2018-19 to Rs 6,78,317 an 2,30,918 crores respectively in 2019-20. There is a fall of 8.27%% in the gross NPA and 19.71% in net NPA from the financial year 2018-19 to 2019-20.

Table 4- A table showing the Classification of Loan Assets of Public Sector Banks of India

<b>CLASSIFICATION of LOAN ASSETS of PSB's (in crores)</b>				
<b>FINANCIAL YEAR</b>	<b>STANDARD ASSETS</b>	<b>SUB STANDARD ASSETS</b>	<b>DOUBTFUL ASSETS</b>	<b>LOSS ASSETS</b>
2017-18	46,02,125	2,05,340	5,93,615	46,521
2018-19	50,86,874	1,37,377	5,06,492	66,239
2019-20	56,93,248	1,89,564	5,00,235	74,899

(Source: compiled from "reports on trend and progress of banking in India" published by Reserve bank of India.)

**Interpretation:** The above table shows the Classification of Loan Assets of PSB's from the financial year 2017-18 to 2019-20. The classification has been done as Standard Assets, Sub Standard Assets, Doubtful Assets and Loss Assets. It can easily be seen that the Standard Assets and Sub-Standard Assets have gradually being increasing from the financial year 2017-18 to 2018-19 to 2019-20, and the Doubtful and Loss Assets has been decreasing from the financial year 2017-18 to 2018-19 to 2019-20

Table5 -Table showing the classification of Non-Performing Assets in Priority Sector.

<b>CLASSIFICATION of NPA's IN PRIORITY SECTOR (in crore)</b>						
<b>FINANCIAL YEAR</b>	<b>AGRICULTURE SECTOR</b>	<b>Per (%)</b>	<b>SMALL SCALE SECTOR</b>	<b>Per (%)</b>	<b>OTHER SECTORS</b>	<b>Per (%)</b>
2017-18	75274	8.9	82,094	9.7	30,143	3.6

2018-19	95,938	13.4	73,381	10.3	28,016	3.9
2019-20	100,254	17.8	78,982	11.6	25,907	4.2

(Source: compiled from “reports on trend and progress of banking in India” published by Reserve bank of India.)

**Analysis:**

The above table shows the Classification of non-performing assets in Priority Sector from the financial year 2017-18 to 2019-20. The priority sector has been classified as Agriculture sector, small scale sector and others. It can be easily be seen that the NPA’s in the agriculture sector have been increased from Rs 75,274 crores in 2017-18 to Rs 95938 crores in 2018-19, and has again increased to Rs 100,254 crores in 2019-20. Similarly, it can easily be seen that the NPA’s in Small scale and other sector have decreases from Rs 82,094 crores in 2017-18 to Rs 73,381 in 2018-19 and again increased to 78,982 crores in 2019-20.

Table 6- A table showing the Sector wise classification of Non-Performing Assets.

<b>FINANCIAL YEAR</b>	<b>PRIORITY SECTOR</b>	<b>Per (%)</b>	<b>NON-PRIORITY SECTORS</b>	<b>Per (%)</b>
2017-18	1,87,511	22.2	6,57,964	77.8
2018-19	1,97,334	27.8	5,12,774	77.2
2019-20	1,73,153	29.6	4,11,823	70.4

(Source: compiled from “reports on trend and progress of banking in India” published by Reserve bank of India.)

**Analysis:**

The above table shows the Sector wise Classification of Non-Performing Assets from the financial year 2017-18 to 2019-20. The classification has been done as Priority sector, Public sector and Non-priority sector. It can easily be seen that the NPA’s in the Priority sector have been increased from Rs 1,87,511 crores in 2017-18 to 1,97,334 crores in 2018-19, and has again decreased to Rs 1,73,153 crores in 2019-20. It can be seen that the NPA’s in Non-priority sector have decreased from Rs 6,57,964 crores in 2017-18 to Rs 5,12,774 crores in 2018-19 again to Rs 4,11,823 crores in 2019-20

Table 7- A table showing the Non-Performing Assets recovered through various channels by the Public Sector Banks.

<b>NPA RECOVERED BY PSB's THROUGH VARIOUS CHANNELS (in crores)</b>						
Particulars	2018-19			2019-20		
	Amount I involved	Amount recovered	Per (%) recovered	Amount involved	Amount recovered	Per (%) recovered
Lok Adalats	53,484	2750	5.1	67,801	4211	6.2
DRT	2,68,413	10,552	3.9	2,45,570	10,018	4.1
SARFAESI Act	2,58,612	38,905	15.0	1,96,582	52,563	26.7

(Source: compiled from "reports on trend and progress of banking in India" published by Reserve bank of India.)

**Interpretation:** The above table shows the Non-Performing Assets recovered by Public Sector Banks of India through various channels in the financial year 2018-19 and 2019-20. The channels through which the NPA's have been recovered are classified as Lok Adalats, DRT's, SARFAESI Act. It can e be seen that the percentage of recovery through the Lok Adalats has increased from 5.1% in 2018-19 to 6.2% in 2019-20. The percentage recovery from DRT's have increased from 3.9% in 2018-19 to 4.1% in 2019-20. The percentage recovery from SARFAESI Act has increased from 15% in 2018-19 to 26.7% in 2019-20

### 3. SUGGESTIONS TO UNION BANK OF INDIA

- Union Bank of India has debt recovery departments in all of its regional offices but lack of man power and technicality in these departments has affected its functioning adversely. Fixing of responsibility in the departments will help to make the department's mote accountable
- The bank should make proper use of compromise schemes as it has been the most successful mode of recovery, which would help to improve the recovery rate.
- Early detection of potential NPA's should be made to prevent them from turning into non-performing assets. Monitoring system can be used to alert the recovery departments. Proper training should be imparted to the personnel of these departments to improve their functional efficiency.
- Special accounts should be made of the clients where monthly loan concentration report should be made.

- No loan is to be given to a group whose one or the other undertaking has become a defaulter.
- There should be proper monitoring of restricted accounts because there is every possibility of the loans slipping into NPA category again.

#### 4. LIMITATIONS

- Time constraints – Time was the crucial limiting factors due to the limited time provided it was quite difficult to make the surveys that provided a consistent result.
- Window dressing – This study extensively uses the data provided in the financial reports of the company. If there is any window dressing the findings could be misleading. The study is primarily based on secondary data there is a little scope for the researcher to provide his views and the opinion for the experts in the industry.

#### 5. CONCLUSION

In the last decade the banking sector in India has grown and developed into a strong financial system. The profitability has increased the level of non performing assets have decreased. Public sector banks are now providing stiff competition to the other players in the market including foreign banks.

Basel II norms have been introduced by the RBI in 2006. These norms help the bank to strengthen their financial position and become global player's merger of different public sector banks will help them to diversify their customer base and will enable the banks to fight stiff competition.

#### 6. REFERENCES

##### Books:-

Srivastava, P.K 1999, *Banking Theory and practices*, New Delhi: kalyani publisher.

Shekhar, K.C 2003, *Banking Theory and practices*, New Delhi:

##### Journal:-

Ahmed, Jaynal ud-din 2009, "Management of Non Performing Assets in commercial banks in India", *The Management Accountant*, Vol.44 No.06, Pp. 470-478.

Chatterjee, Chanchal 2009, " Future Trends and Challenges in Indian Banking", *The Chartered Accountant*, Vol.57 No.12, Pp.2115-2119.

Pillai, Manoj 2009, " Financial Restructuring of Non Performing Assets of Indian Banks", *The Management Accountant*, Vol.44 No.10, Pp. 789-793.

##### Reports:-

RBI Reports on trends and progress of banking in India 2006-07 to 2008-09.

RBI reports on NPA

Union Bank of India Annual reports 2006-07 to 2008-09.

##### Bulletins:-

RBI bulletins.

**Websites:-**

[www.rbi.org.in](http://www.rbi.org.in)

[www.unionbankofindia.com](http://www.unionbankofindia.com)

[www.economictimes.com](http://www.economictimes.com)

[www.google.com](http://www.google.com)