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A COMPARATIVE STUDY OF MANAGEMENT OF NON PERFORMING ASSETS IN PUBLIC AND PRIVATE SECTOR BANKS IN HARYANA

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ABSTRACT

Banks are the important determinant of any countries economic development. During colonization banks provide credit facility to business and trading class. The main importance of banks were realized in post independence period when in 1969 nationalization of banks took place and banks registered impressive achievement in term of branch banking, deposits, credit and investment. But with the time public banks face the allegations of fulfilling the social need only because there is an increase in the non performing asset (NPA) which not only affect the profitability of the bank but sometimes even a threat for the survival of the bank. Lending is the main activity of banks but this practice involved a large amount of risk and mainly credit risk. It is important to keep an eye on every credit right from the beginning to reduce the level of NPA. A proper policy need to be framed to keep a check on the NPA level in banks. It was always considered that there is difference in management of NPA between public and private sector banks as the private sector banks have good infrastructure and various other facilities. An attempt has been made t make a comparative study between the management of NPA by public and private sector banks in Haryana.

Key Words – Non-Performing Assets, Banking

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INTRODUCTION

"The economic progress of a nation and development of banking is invariably interrelated. The Banking sector is an indispensable financial service sector supporting development plans through channelizing funds for productive purpose" (Siraj. K 2012) Banking is the basic industry, which not only caters to the development of trade, commerce and industry, but also helps in removing many obstacles in the way of economic development. "Commercial banks are oldest, biggest and fastest growing financial intermediaries in India. Commercial banking in India is a unique system, the like of which exists nowhere in the world. The truth of this statement becomes clear as one studies the philosophy and approaches that have contributed to the evolution of the banking policy, programs and operations in India" (Bhole L.M 1999)

The banks, in their books, have different categories of assets for e.g. cash in hand, investments, loans and loans and advances. But the concept of non -performing assets is restricted to loans and advances."As long as an asset generates the income expected from it and does not disclose any unusual risk other than normal commercial risk, it is treated as a 'performing asset', and when it fails to generate the expected income, it becomes a 'non performing asset'. In other words, a loan asset becomes non performing asset (NPA) when it ceases to generate income, i.e. interest, fees, commission, or any other dues for the bank for 90 days." (Vibha Jain 2007). The impact of NPAs result in lower interest rates to depositors, higher intermediation cost, higher rates of interest to borrowers, higher rates of services charges to all customers, more provisions towards loan losses, more capital contribution and less return to shareholders by way of dividend, etc. All these costs are finally passed on to the government, which is forced to bail out the banks through its budgetary provisions. This means that ultimately the tax payers bear the cost of non-performing advances for no fault of theirs. (T.V Gopalkrishnan 2004).

CONCEPT OF NPAs

"Bank lending is very crucial for it makes it possible, the financing of agriculture, industrial and commercial activities of the country. It is an established fact that fragile banking system can not only hamper the development of a particular economy but also it can deepen the real economic crisis and impose heavy social cost. So the health of the banking system should be one of the primary concerns of the government of each country" (Rajini.M.L.2013).

An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where;

I. Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

II. The account remains 'out of order' as indicated below, in respect of an Overdraft/Cash Credit (OD/CC),

III. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

IV. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

V. The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

VI. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

VII. In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

MANAGEMENT OF NPAs

It is very important for the banking industry to keep the level of NPAs at the lowest level. There are various techniques adopted by the banks for the effective management of NPAs.

Following techniques are generally adopted by banks

Early Warning signals:

Banks should have adequate preventive measures, fixing pre sanctioning appraisal responsibility and having an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing (G.V Bhavani Prasad, D.Veena 2011). Early warning system helps the management of banks in identifying the potential NPAs. Early warning system not triggered only by default in payments. It took care of financial performance of the borrowers, general economic condition of the country, weakening of the industry in which borrower is operation and many more. EWS can be classified as financial performance, Operational performance, Banking behavior, Management, External factors

Relationship Manager/Credit Officer

The Relationship Manager/Credit Officer is an official who is expected to have complete knowledge of borrower, his business, his future plans, etc. The Relationship Manager has to keep in constant touch with the borrower and report all developments impacting the borrowable account. As a part of this contact he is also expected to conduct scrutiny and activity inspections. In the credit monitoring process, the responsibility of monitoring a corporate account is vested with Relationship Manager/Credit Officer.

Know your client' profile (KYC)

Most banks in India have a system of preparing `know your client' (KYC) profile/credit report. As a part of `KYC' system, visits are made on clients and their places of business/units. The frequency of such visits depends on the nature and needs of relationship.

Credit Rating System

The credit rating system is essentially one point indicator of an individual credit exposure and is used to identify measure and monitor the credit risk of individual proposal. At the whole bank level, credit rating system enables tracking the health of banks entire credit portfolio. Most banks in India have put in place the system of internal credit rating. While most of the banks have developed their own models, a few banks have adopted credit rating models designed by rating agencies. Credit rating models take into account various types of risks viz. financial, industry and management, etc. associated with a borrowable unit. The exercise is generally done at the time of sanction of new borrowable account and at the time of review renewal of existing credit facilities.

CBS

Core banking solution is very efficient in dealing with the problem of NPA. With the help of CBS it is easy to know about the financial performance of the organization and comparison of the financial performance can also per performed in different quarters or in different years. Various ratios can also be computed which will further bring the effectiveness in credit granting process. Information about the industry and the sector to which the organization related can also be collected so that the norms related to that specific sector can be complied. Apart from all this information like product information, credit agency report, customer transactions and other relevant data can also be collected. The core solution system has put various credit checks before approving any loan proposals. These checks are credit score check, Debt service ratio, Loan to value ratio, Credit reporting check, Underwriting, Exception check and deviation check.

REVIEW OF LITERATURE

Kavitha.N (2012) In her research topic **"the impact of nonperforming assets on the profitability of Indian scheduled commercial banks: an empirical evidence**" tries to find out the impact of NPA on the profitability and efficiency of Indian commercial banks. The author has calculated various ratios on the basis of which she has made various conclusions. In Indian banking sector the problem of NPA is very deep but the banks are taking serious steps so that they can remove NPA from there balance sheet although it is not possible to bring NPA at zero level but still the steps taken by banks are encouraging. in the end the author has concluded that the prudential norms, arcs and other NAP management schemes which were followed by banks helps the banks in lowering down there NPA.

A.P.Hosmani, Hudagi Jagadish(2011) In their research **" unearthing the epidemic of nonperforming assets- a study with reference to public sector banks in India"** the researchers are trying to emphasize the importance of management of nonperforming assets in banking industry. The non performing assets were big problem for the banking industry as they are hampering the profitability of the banks. A large amount of banks were blocked in the form of nonperforming assets. The researcher has tried to find out the various reasons of the NPA in banking industry as well as he also tried find out the magnitude of NPA in banks. In the end author has concluded that there are new management techniques which are coming which can help the banks in lowering down their NPA like Basel III and IFRS. Bank should adopt these new methods as it will help them in reducing their level of nonperforming assets. In the end the author has concluded that the level of nonperforming assets has no doubt come down but the public sector banks still need to work a lot.

K.K.Siraj, Dr. Pillai P.Sudarsanan (2012) In their research topic **"Management of NPAs in Indian SCBs: Effectiveness of SARFAESI Act, DRT & Lok Adalat during 2004-2011"**. The researcher discussed about ill impact of nonperforming assets. They have tried with the help of various statistical tools the effectiveness of SARFAESI ACT, DRT and Lok Adalat during 2004-2011. In the end the author has concluded that among all the three recovery measures SARFAESI Act is the most effective tool. It has shown the most promising results. In the end the author has concluded that though there is some problems in the recovery process but overall the banking system going in right direction with SARFAESI Act.

Bansal Anshu (2012) his research topic is **"A study on recent trends in risk management of nonperforming assets (NPAs) by public sector banks in India".** In this paper the researcher study risk management trend in in management of nonperforming assets. After liberalization the problem of NPA came into light in from of banks. With the entry of many foreign banks the banking sector becomes more competitive. Therefore banks need to manage their non performing assets. Many problems arise due to NPA like loss of faith of depositors, bad impact on profitability etc. In the end author has concluded that due to NPA the genuine borrower many times not able to take loan from bank and if he gets the loan the loan came at very high cost. The process of reduction of NPA should be bounded with time so that effective results can be taken out. It has been seen that banks are now taking less time in declaring their loans as NPA due to which our banks are matching with the international standers.

S. Poongavanam(2010) In his research topic **"Non performing assets: Issues, Causes and remedial Solution" S. Poongavanam(2010)** In his research topic **"Non performing assets: Issues, Causes and remedial Solution"** he study "the various causes of turning an asset into non performing asset, these causes are political, social, industrial as well as from borrower side and banking side. He examined some regulatory issues prevailing in India as well as in other countries. He discussed the various remedial solution available for NPAs like Industrial Reconstruction Bank of India (IRBI), ARCs, Lok Adalats, Debt recovery Tribunal (DRT), Corporate debt restructuring, SARFAESI Act. In the end author concluded that there were a lot of changes in Indian banking industry after liberalization and credit management is very important for the smooth functioning of the banking system. Banks has shown a very cautious approach in granting loan in past few years. Due to which the NPA level has come down.

OBJECTIVE OF THE STUDY

1. To make a comparison of management of NPAs in public and private sector banks in Haryana.

HYPOTHESIS OF THE STUDY

H0: there is no difference in the management of NPAs in public and private sector banks. In case of following variables.

I. Preferences while granting loan to different subsectors of industry and service.

II. Effectiveness of CBS system.

III. Taking the help of different credit rating agencies while granting loan.

RESEARCH METHODOLOGY

The study is exploratory in nature as research questions have been asked during survey and research hypothesis. Six commercial banks are selected for the study from Haryana state among which three are public sector banks and three are private sector banks. The three public sector banks are State bank of India, Punjab National bank and oriental bank of commerce. The three private sector banks are HDFC bank, ICICI bank and Axis bank. These banks are selected because they have maximum customer base. Data has been collected from regional offices, zonal offices and from retail branches of these banks. A sample size of 60 credit officers has been taken for the study. For the purpose of analysis 'z' test has been used.

PREFERANCE WHILE PROVIDING LOAN

Banks provide loan to different sectors for e.g industrial sector and service sector. Which subsectors are more preferred among these sectors help us to know is there any difference of preference given by public sector and private sector. It also helps us to know which sectors are preferred by the banks while granting loan.

Industrial Sector

Among industry there are three main sectors which are micro and small industry, medium size industry and last one is large industry

Table 1

Preference while granting loan to Industry

Items	Public Sector						Private Sector					
	Rank 1	%	Rank 2	%	Rank 3	%	Rank 1	%	Rank 2	%	Rank 3	%
Micro &Small Industry	48	80	8	13.3	4	6.7	49	81.7	9	15	2	3.3
Medium Industry	8	13.3	52	86.7	0	0	10	3.3	48	80	2	16.7
Large Industry	4	6.7	0	0	56	93.3	2	3.3	3	5.0	55	91.7

Source: Field survey

Table 2

Preference while granting loan to Industry

S.No	Items	N	Total Score (ΣX)	Mean $\bar{X}$	S.D σ	S E	'Z' Value	Result
1	Micro and small Public sector Private sector	 60 60	 164 167	 2.7333 2.7833	 .5783 .4903	.09788	.5108	Null hypothesis accepted
2	Medium Public sector	 60	 128	 2.1333	 .3428	.0710	0	Null hypothesis

	Private sector	60	128	2.1333	.4304			accepted
3	Large							Null
	Public sector	60	68	1.1333	.5030	.0842	.1978	hypothesis
	Private sector	60	67	1.1166	.4154			accepted

Note: Here responses were obtained in the form of rank (1,2,3….n). the ranks received to the various items were converted into scores by assigning weights equal to (n,n-1……2,1) and total scores computed for both bank groups.

Source: Field survey

From Table 2 it is clear that there is no significant difference between the management of nonperforming asset between public and private sector banks. Both public and private sector banks have same preference while granting loan to industry.

Service Sector

There are three sub sectors in service sector they are trade, commercial real estate and NBFC's (non banking financial corporation). Here an effort is being made to find out which sub sector among service sector preferred most by public sector banks and private sector banks.

Table 3

Preference while granting loan to Service Sector

Items	Public Sector						Private Sector					
	Rank 1	%	Rank 2	%	Rank 3	%	Rank 1	%	Rank 2	%	Rank 3	%
Trade	55	91.7	4	6.7	1	1.7	52	86.7	6	10.0	2	3.3
Commercial real estate	3	5.0	54	90.0	3	5.0	5	8.3	52	86.7	3	5.0
NBFC	2	3.3	2	3.3	56	96.3	3	5.0	2	3.3	55	91.7

Source: Field survey

Table 4

Preference while granting loan to Service Sector

S.No	Items	N	Total Score (ΣX)	Mean $\bar{X}$	S.D σ	S E	'Z' Value	Result
1	Trade							
	Public sector	60	174	2.9	.3541	.7466	.8929	Null hypothesis accepted
	Private sector	60	170	2.8333	.4572			
2	Commercial							
	Public sector	60	120	2	.3188	.0627	.5313	Null hypothesis accepted
	Private sector	60	122	2.0333	.3666			
3	NBFC							
	Public sector	60	66	1.1	.3991	.0794	.4196	Null hypothesis accepted
	Private sector	60	68	1.1333	.4682			

Note: Here responses were obtained in the form of rank (1,2,3….n). the ranks received to the various items were converted into scores by assigning weights equal to (n,n-1……2,1) and total scores computed for both bank groups.

Source: Field survey

From Table 4 it is clear that there is no significant difference between the management of nonperforming asset between public and private sector banks. Both public and private sector banks have same preference while granting loan to service sector.

USAGE AND EFFECTIVENESS OF CBS SYSTEM

Table 5

Calculation of NPA under CBS system

Items	Public Sector Banks				Private Sector banks			
	YES	%	NO	%	YES	%	NO	%
Is your bank calculating NPA under CBS system	60	100.0	0	0	60	100.0	0	0.0

Source: Field Survey

Table 6

How much effective is the Calculation of NPA under CBS system

S.No	Items	N	Total Score (ΣX)	Mean $\bar{X}$	S.D σ	S E	'Z' Value	Result
1	Effectiveness of CBS system							
	Public sector	60	259	4.3166	.7247	.1230	.1354	Null hypothesis accepted
	Private sector	60	258	4.3	.6189			

Note: Here responses were obtained in the form of rank (1,2,3….n). the ranks received to the various items were converted into scores by assigning weights equal to (n,n-1……2,1) and total scores computed for both bank groups.

Source: Field survey

From Table 5 and Table 6 it is clear that all the banks are calculating NPA under CBS system and there is no significant difference in the opinion of bank officials of public and private sector banks about its effectiveness.

CREDIT RATING AGENICES

Table 7

Does your bank take the help of different credit rating agencies of India

S.No	Items	N	Total Score (ΣX)	Mean $\bar{X}$	S.D σ	S E	'Z' Value	Result
1	Taking help of credit rating agencies							
	Public sector	60	268	4.4667	.9291	.1574	.1058	Null hypothesis accepted
	Private sector	60	267	4.45	.7903			

Note: Here responses were obtained in the form of rank (1, 2, 3….n). the ranks received to the various items were converted into scores by assigning weights equal to (n,n-1……2,1) and total scores computed for both bank groups.

Source: Field survey

From table 7 it is clear that both public and private sector bank follow same approach towards taking the help of different credit rating agencies of India while appraising loan.

INTERPRETATION OF RESULT

The null hypothesis of the study was that there is no difference in the management of NPAs in public and private sector banks. The following variables are taken for the study:

I. Preferences while granting loan to different subsectors of industry, service, individual household and priority sector.

The value of z test at 0.05 level of significance is less than 1.96 due to which we accept the null hypothesis that there is no significant difference between the preference of public and private sector banks while granting loan to the different subsectors of industry and service sector.

II. Effectiveness of CBS system

The value of z test is .1354 at .05 level of significance due to which we accept the null hypothesis.

III. Taking the help of different credit rating agencies while granting loan.

The value of z test is .1058 at .05 level of significance due to which we accept the null hypothesis.

CONCLUSION

From the above discussion it can be easily concluded that the basic management style of managing NPAs in public and private sector banks are same. There is slight variation at some places but both public and private sector banks are taking full use of the latest technology and both public and private sector banks are taking the help of credit rating agencies while approving loan to any individual. The preference of loan is also same for both of them which indicate that both having full knowledge about the sectors to which they are granting loan.

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