

THE SPECTER OF NPA: TAME THE SPECTER, BEFORE IT'S TOO LATE

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ABSTRACT

Health of the banks often reflects the health of the economy. The banks in our country are facing a problem of mounting NPA for past few years. The banks are at peril, the bubble might burst if corrective measures are not taken in time. The humongous amount of NPA is contagious for any economy and can lead to numerous macroeconomics problems: sluggish growth which in turn hampers overall investment climate and eventually impact job and economic growth adversely. For a national like India, who 2/3 of the population is below the age of 35, can't gloss over the specter of NPA. The paper with the help of secondary data (RBI reports, Financial Times, Livemint etc.) showcase the NPA for the last five years in Indian banks –both Private and Public sector banks. The objectives of the study are to underline the gravity of NPA and also establish the fact that the ownership of the banks has nothing to do with NPA. The paper also focuses on the reason behind the mounting NPA and how to address them.

Key Words: Bank Bureau Board, KCC, NPA

NON-PERFORMING ASSETS: 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;

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- The installment of principal or interest there on remains overdue for two crop seasons for short duration crops,
- The installment of principal or interest there on remains overdue for one crop season for long duration crops,

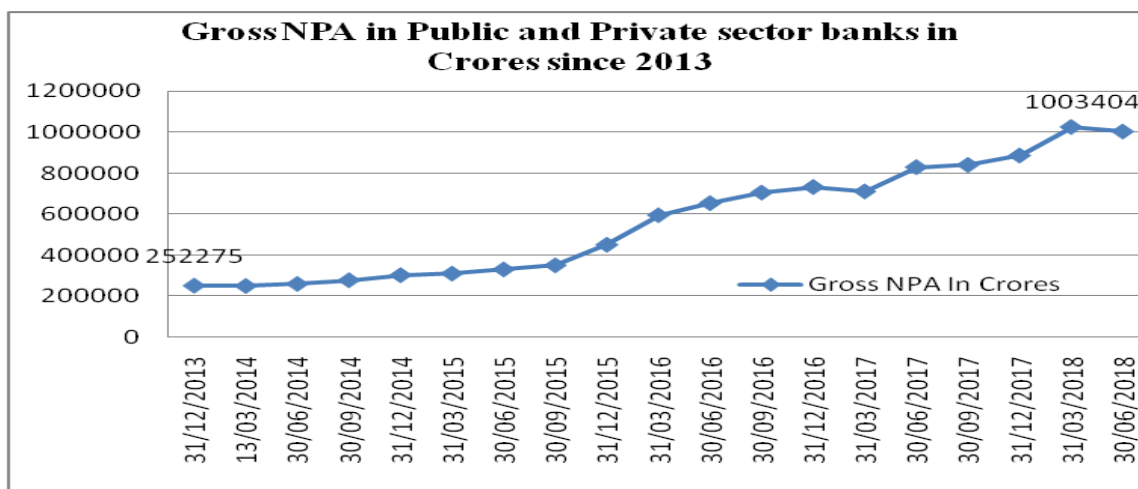
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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. NPA are further classified into Substandard, Doubt full and Loss assets.

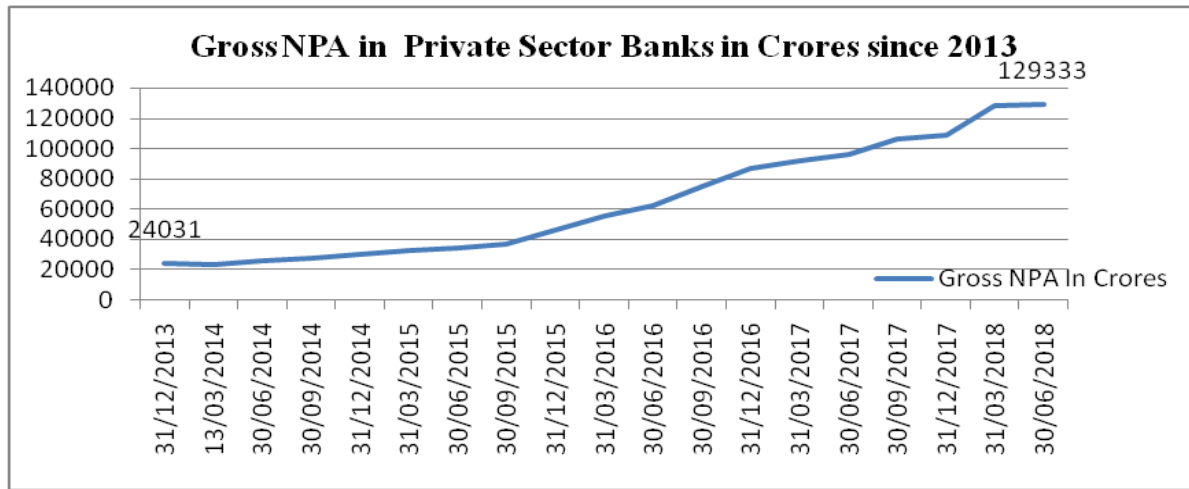
- Substandard: Assets which has remained NPA for a period less than or equal to 12 months.
- Doubt full: Assets is classified as doubtful if it has remained in sub-standard category NPA for a period of 12 months.
- Loss assets: Loss asset is considered unrecoverable and of such little worth that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

NPA TRENDS IN THE LAST 5 YEARS

The problem of mounting NPA started way back in 2013, and since then it has kept on mounting. By the end of June 2018, the banks (both PSB and Pvt. Sector banks) were saddled with NPA worth Rs1003404 corers. It has out the entire banking system under tremendous stress. We can study the upward trends of the NPA in fallowing graph:-

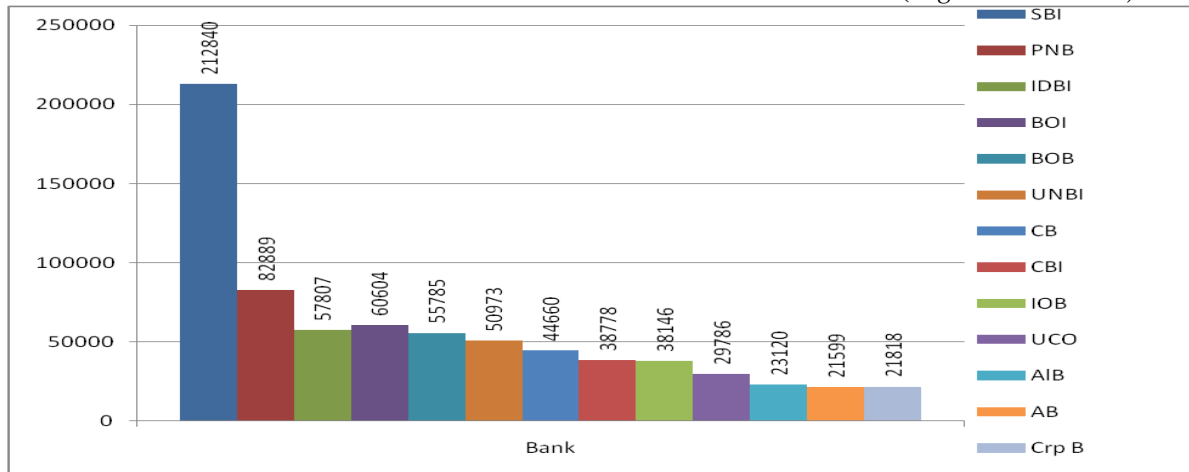


Source: RBI report



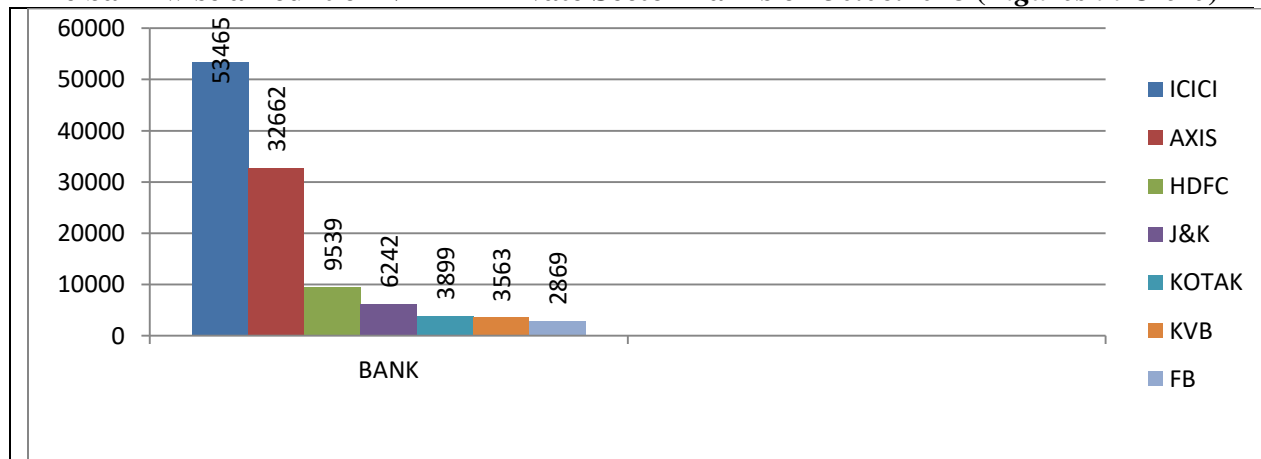
Source: RBI report

The bank wise amount of NPA in Public Sector Banks on 30.06.2018 (Figures in Crore)



Source: RBI report

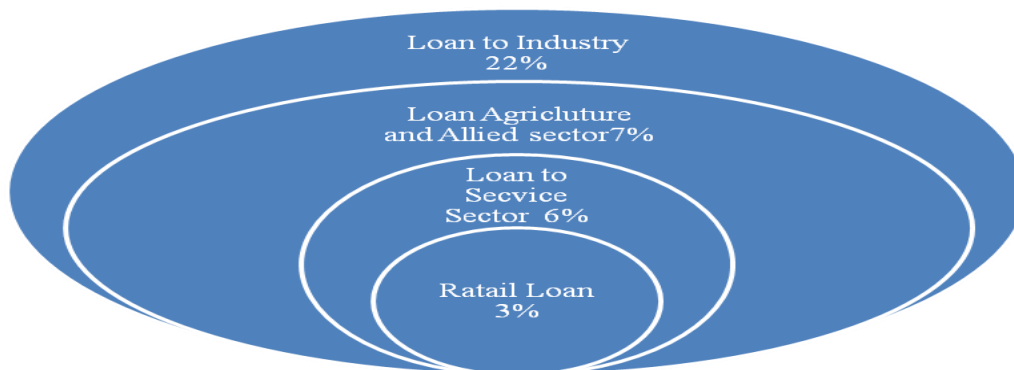
The bank wise amount of NPA in Private Sector Banks on 30.06.2018 (Figures in Crore)



Source: RBI report

The majority of the NPA loans are led by industries loans followed by services and agriculture sector. As a result RBI had to place eleven PSBs -- Dena Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, IDBI Bank, and Oriental Bank of Commerce, Indian Overseas Bank, Corporation Bank, Bank of India, Allahabad Bank and United Bank of India --under the Prompt Corrective Action framework. The credit and economic growth will suffer due to these measures.

Sector wise bad Loan



Public Sector Banks	Gross NPA % to advances for quarter ending June 2018
PNB	18.3%
SBI	10.9%
IDBI	30.78 %
UCO	25.71%
IOB	25.64%
UBI	22.73%
CBI	22.17

Private Sector Banks	Gross NPA % to advances for quarter ending June 2018
Laxami Vilas bank	10.73%
J&K	9.83%
Dhanlaxmi Bank	8.94 %
ICICI Bank	8.81 %
Axis bank	6.52%
UBI	22.73%
CBI	22.17

Source: RBI report

Blaming and shaming by political rivals may be good politics, but bad economic. The issue of NPA is complex, as well as technician and will require pragmatic approach. The rot is deep and

long. Curing it might require major fundamental and institutional changes in the ways we bank in India. Such changes are often beyond political understanding. Prudence must prevail over foolhardy-- as it always should. Make no mistake; private owned banks are not immune to this specter. The ownership of the banks has little to do with mounting banking NPA.

WHAT WENT WRONG AND WHAT CREATED THIS MESS?

No doubt, PSBs are beleaguered by myriad problems and certainly have enough on their plate to ponder over. From the dearth of quality human resource, mass retirements, amounting NPA, lack of sound credit appraisal system to name few. The undue pressure of cross selling meant that recovery mechanism of loan took a back seat.

Major reason of NPA is poor credit appraisal system in PSBs. Credit appraisal system in the PSBs banks need major overall. The problem was further compounded by possible malfeasance and quid pro quo by the officials in relaxing the due diligence and norm in sanctioning the loans. The greed for incentive induced bankers to take unnecessary risk and breaching laws and regulations to appease the shareholders. Off laid the top management of the PSBs is more inclined towards cross selling rather than managing its lending portfolio; as extensive cross selling earn them hefty incentives. (Top management get well paid holiday of South East Asia.) This has certainly diverted the focus of the bankers from strengthening the credit portfolio and proactive recovery process. The transgression has proved lethal and result is in front for us to see.

Acute shortage of official-especially at middle and top level- is due to mass retirement and inadequate recruitment. The recruitment done by the PSBs over the years is not sufficient to commensurate with the manpower requirement. To overcome the shortage of staff boards of many PSBs gave relaxation in promotion policy that lead to reckless promotions in these banks. This impacted the overall governance of banks. Successive government has not done enough to punish the willful defaulters and the issue of crony capitalism. The events, like flamboyant absconding of various barrowers, has deteriorated the credit culture and the message such events exudes if bad. To meet the financial inclusion, PSBs has expanded their network rapidly that further aggravated the problem of staff shortage. It hampered the functioning of the branches. Partially, this has lead to increase in NPA along with more thrust on implementing government scheme.

Keeping in mind the changing demography and society structure, PSBs over the years started product diversification. It helped PSBs to compete with private owned and foreign banks. Mismatch in capacity available human resource required for successful implementation of product diversification. It left the human resource of PSBs dispirited and this has started to reflect in their work. No doubt, product diversification is a positive step as it takes PSBs banks at par with private and foreign banks in terms of product ranges offered is concerned. However, it requires dedicated manpower with technical know-how in addition to capacity building of existing staff. Such aspects, sadly, remained neglected and repercussions are reflective when you talk to modern bankers.

How do we stop this specter, which has jeopardized our banking system and economy? The rigorous debate and brainstorming should about this.

The problem of NPA has myriad facets: few facets have political side to it, but majority are technical. There are “vital few and trivial many.” If we cure these the “trivial many” may be sorted out easily.

VITAL FEW

25% of the NPA is owed by 100 big companies. Why not set the dice rolling by naming them? Let's play fair: naming a default farmer is fair, so should be naming default behemoth Company. There should be no two way about this, after all its public money. The insolvency and Bankruptcy Code enacted in May 2016(should have been enacted earlier) provide a time bound 180 day recovery process for such accounts. No point maintaining such account ever green.

- **Studying the NPA**

An independent research study should be conducted to examine the nature and patterns of bad loan, as well as the ownership of companies owing these loans. The study might help in finding out two things: firstly, whether there was any malfeasance on the part of top bankers, secondly, who are the owners of these companies and may provide vital indication of crony capitalism. The study will also identify the most and least stressed sector. Findings of this study may prove imperative in laying down the road map ahead for establishing the new leading culture--we must not repeat the same mistake.

- **The Bank Bureau Board:**

it can play a crucial role in injecting much needed reform in the banking sector. Firstly, let's not make this a retirement home; we don't need slave of quadruple procedures and sclerotic functioning here. A person with proven track record in banking and finance should head it. BBB can act as a catalyst in improving the governance and working environment of the PSBs: reducing the talent deficit in top management of the banks, improving the overall functioning of their boards etc. The board can also offer resolution to the various issues that plague PSBs banks: capacity building, talent management, career planning, salary parity etc.

TRIVIAL MANY

A monthly review of the stress assets by the Ministry of Finance/RBI will help. The monitoring of such assent by the Ministry/RBI will ensure the adherence of recovery mechanism by the banks.

Monitor the disbursal of loan under Mudra, PMEGP, Stand up India, Swavalamban and its ilk's. Such loan can lead to trouble if distributed recklessly, as past experience will tell us majority of the beneficiaries are political in nature, with strong forbearance to recovery. The due diligence with cautious approach will be the key, whereas reckless disbursal just to show up the number will create another heap of NPA. You don't create entrepreneurs by showering loan on them; it requires creation of responsive industrial ecosystem. Banks should refrain from one size fit all policy of leading. Banks executives should take the heed to indentify the potential loan product for every region- -KCC is a product viable in an agriculture belt, but may not be a sagacious for region with industrial activity. The leading target of the banks should be decided after environmental scanning of the region.

No window dressing of bad account. This must stop for good. 2019 General election are around the corners, we must not give any loan waiver, be it farmers, be it industrialist. It not only blights the credit culture, such steps send wrong signals to burrowers.

CONCLUSION

We must acknowledge the problem first, if we want to find a solution. For long, we have been going round and round about the augmenting NPA in our banks. We have habit of making political mileage out of every issue; we can't even spare economic matters-- which majority of our politicians doesn't understand.

So let's acknowledge we have a colossal of a problem in our hands. Make no mistake it's an economics problem, political rhetoric's will serve nothing. To tame this specter, radical and collective efforts would be required. NPA is a complex issue; a comprehensive plan, prudent financial and banking supervision is required to resolve it. That too at every level: from regulator to government.

They all much take responsibility for their role and act as a cohesive unit to clean up the mess. Else we are heading for a crisis. Political slugfest and muckraking would not help. The buck stops here, now.

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- (Note: Part of this paper is to be published in Himachal Watcher, an online news magazine as an essay titled: The specter of NPA: tame the specter, before it's too late.)