
Emperor International Journal of Finance and Management Research

ISSN: 2395-5929

Received : 4th August 2019

Accepted : 19th August 2019

Published : 25th September 2019

www.eijfmr.com

© Mayas Publication

Volume-V

Issue-9

September - 2019

A Study on NPA - From a Banker's Perspective

Gayathri .R

*Assistant Professor,
KCT Business School, Coimbatore.*

Banking sector in India

Banking is the fulcrum of an Economy. The Banking Industry is one of the basic instruments of economic growth. It must be on a sound footing as it constitutes an important link in various socio-economic activities. Since it is considered the backbone of economic development, any change in its processes is deemed to have repercussions on the country's growth. The essential part of the banking system is its financial viability. It is not only necessary for its survival but also to discharge its various obligations. There has been amazing growth in profits in banking industry over the last two decades.

The Indian banking sector has witnessed wide ranging changes under the influence of the financial sector reforms initiated during the early 1990s. The approach to such reforms in India has been one of gradual and non-disruptive progress through a consultative process. The emphasis has been on deregulation and opening up the banking sector to market forces. The Reserve Bank has been consistently working towards the establishment of an enabling regulatory framework with prompt and effective supervision as well as the development of technological and institutional infrastructure.

The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural

Banks (RRBs); foreign banks; and other Indian private sector banks. The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949. The Indian banking system consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1,562 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions.

Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure. These are the challenges and opportunities for the Indian Banking Industry.

NPA in banks

Money or Assets provided by banks to companies as loans sometimes remain unpaid by borrowers. This late or non-payment of loans is defined as Non-Performing Assets (NPA). They are also termed as bad assets. In India, the RBI monitors the entire banking system and, as defined by the country's central bank, if for a period of more than 90 days, the interest or installment amount is overdue then that loan account can be termed as a Non-Performing Asset.

All As long as an asset generates income expected from it, it is treated as "performing asset" and when it fails to generate income, a loan asset becomes a "Non Performing Asset". The problem of NPA is not limited to Indian banks but in fact, this is the problem of almost all countries of the world, no matter country is developing, developed or poor. It cannot be denied that mismanagement, wilful default, fund diversion and siphoning off of funds, delay in project completion, changes in industrial policy, and the dropping interest rate regime have contributed tremendously to rendering several assets sick.

Although the most common nonperforming assets are term loans, there are six other ways loans and advances are NPAs:

- Overdraft and cash credit (OD/CC) accounts left out-of-order for more than 90 days
- Agricultural advances whose interest or principal installment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops
- Bill overdue for more than 90 days for bills purchased and discounted
- Expected payment is overdue for more than 90 days in respect of other accounts

- Non-submission of stock statements for 3 consecutive quarters in case of cash-credit facility
- No activity in the cash credit, overdraft, EPC, or PCFC account for more than 91 days

Growth

The NPA lifecycle of banks has three main stages: Identification of stressed assets and NPAs, investigation by measurement and obtaining insight and lastly, resolution through crisis management and revitalisation of stressed assets

One of the main reasons of rising NPA is the relaxed lending norms especially for corporate honchos when their financial status and credit rating is not analyzed properly. Also, to face competition banks are hugely selling unsecured loans which attributes to the level of NPAs.

According to the Reserve Bank of India (RBI), the gross non-performing assets in Indian banks, specifically in public sector banks, are valued at around Rs 400,000 crore (~US\$61.5 billion), which represents 90% of the total NPA in India, with private sector banks. Bad loans held by India's banks rose to 10.36 trillion rupees (\$150.21 billion) at the end of March 2018, with state-backed lenders accounting for more than 86 percent of the total non-performing loans. Twenty one banks majority owned by the Indian government had gross non-performing loans of 8.96 trillion rupees

Gross NPAs continued to rise after moderating from 9.04 per cent in June 2017 to 8.93 per cent in September 2017; the ratio has climbed subsequently to peak at 10.14 per cent in March 2018. The GNPA ratio for PSU banks was at 13.41 per cent of the total advances. The bad loan ratio remained largely stable for staterun lenders, in the range of 11-12 per cent, in the first three quarters of FY18, but increased by 163 bps in Q4 to 13.41 per cent. For private banks, too, NPAs have spiked in March 20

Issues in NPA

5 sectors Textile, aviation, mining, Infrastructure contributes to most of the NPA, since most of the loan given in these sector are by t6, They account for most of the NPA.

Public Sector banks provide around 80% of the credit to industries and it is this part of the credit distribution that forms a great chunk of NPA. Last year, when kingfisher was marred in financial crisis, SBI provided it huge amount of loan which it is not able to recover from it There is a myth that main reason for rise in NPA in Public sector banks was Priority sector lending, However according to the findings of Standing Committee on Finance NPAs in the corporate sector are far higher than those in the priority or agriculture sector. However, even the PSL sector has contributed substantially to the NPAs. As per the latest estimates by the SBI, education loans constitute 20% of its NPAs.

Restructuring of loan facility was extended to companies that were facing larger problems of over-leverage & inadequate profitability. This problem was more in the Public sector banks. Companies with dwindling debt repayment capacity were raising more & more debt from the system.

Problems

The biggest problem in India's Banking system is lack of incentives the big borrower has to repay the loans back. They do not have to make many sacrifices if they default. This is the single most major reason of the NPAs in Public Sector Banks. Across the World, when a borrower defaults irrespective of how big he is, the borrower has to make sacrifices if he defaults. Sacrifices can be in terms of asset confiscation, taking over of firms etc.

In India, however, large borrower insists on their divine right to stay in control despite their unwillingness to put in new money. The firms and its workers, as well as past bank loans, are taken as hostages in this game. The promoters threaten to run the enterprise into the ground unless the government do not bail them out. Also most of the defaulters in recent years are not the small retail borrowers but are large borrowers and corporate houses. Bank loans imply redirecting of funds from good projects to bad ones. Hence, the economy suffers due to loss of good projects and failure of bad investments. When bank do not get loan or interest payment, liquidity problems may ensure Bank share holders are adversely affected.

Causes of NPA

Non-performing Assets has emerged since over a decade as an alarming thread to the banking industry in our country sending distressing signals on the sustainability and endurability of the affected banks. A strong banking sector is important for a flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. The Indian banking system, which was operating in a closed economy, now faces the challenges of an open economy.

On one hand a protected environment ensured that banks never needed to develop sophisticated treasury operations and Asset Liability Management skills.

On the other hand a combination of directed lending and social banking relegated profitability and competitiveness to the background. The net result was unsustainable NPAs and consequently a higher effective cost of banking services.

One of the main causes of NPAs into banking sector is the directed loans system under which commercial banks are required a prescribed percentage of their credit (40%) to priority sectors. As of today nearly 7 percent of Gross NPAs are locked up in 'hard-core' doubtful and loss assets, accumulated over the years.

The problem India Faces is not lack of strict prudential norms but

- The legal impediments and time consuming nature of asset disposal proposal.
- Manipulation of debtors using political influence.

Internal Cause

Defective Lending process; There are three cardinal principles of bank lending that have been followed by commercial banks, that is, Principles of safety, Principle of liquidity, Principles of profitability. Principles of safety mean that the borrower is in a position to pay back the loan, including both principal and interest. The refund of loan depends upon the borrowers, Capacity to pay and Willingness to pay.

Inappropriate technology; Due to improper technology and management information system, market driven decisions on real time basis cannot be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, so NPA, therefore all the branches of the bank should be computerized.

Improper SWOT analysis; The inappropriate strength, weakness, opportunity and threat analysis is another reason for increase in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, and financial soundness and credit worthiness of the borrower, so, banks should consider the borrowers own capital investment and bank should collect credit information of the borrowers from, a. Bankers b. Enquiry from market/segment of trade, industry, business. c. From external credit rating agencies.

Poor credit appraisal system; Deprived credit appraisal is an additional factor for the increase in NPAs, due to poor credit appraisal the bank gives advances to those who are not able to repay it back. They should use better credit appraisal to reduce the NPAs.

Managerial deficiencies; The banker should always select the borrower very cautiously and should take tangible assets as security to safeguard its interests. When accepting securities, banks should consider, the Marketability, Acceptability, Safety, Transferability etc. The banker should follow the principle of diversification of risk based on the famous maxim “do not keep all the eggs in one basket”, which means that the banker should not grant advances to a few big firms only or to concentrate them in few industries or in a few cities. If a latest big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.

Absence of regular visit; The irregularities in spot visit also increases the NPAs, absence of regularly visit of bank officials to the customer point decreases the collection of interest and principals on the loan. So the NPAs can be collected by regular visits. The growth and proliferation in the activities of the bank has led to ever-increasing non-performing assets that have mounted to a huge amount during the last decade or so. The quantum of NPAs has been calculated and put at different figures mainly due to absence of correct statistics and the method on the basis adopted for calculating the percentage of NPAs in relation to either the total assets of the bank or

the quantity of loan portfolio or on the basis of the number of the accounts or the size of the outstanding advances.

External Cause

The Govt. has set of numbers of recovery tribunals, which works for recovery of loans and advances, due to their carelessness and ineffectiveness in their work the bank suffers the consequence of non-recover, their by reducing their profitability and liquidity. There are borrowers who are competent to pay back loans but are intentionally withdrawing it. These groups of people should be recognized and proper measures should be taken in order to get back the money extended to them as advances and loans.

Natural calamities; This is the measured factor, which is creating an alarming increase in NPAs of the PSBs. every now and then India is hit by major natural calamities thus making the borrowers unable to pay back there loans. Thus the bank has to make a large amount of provisions in order to pay damages those loans, hence end up the fiscal with a reduced profit. Basically ours farmers depend on rain fall for cropping. Due to irregularities of rain fall the farmers are not to attain the production level thus they are not repaying the loans.

Industrial sickness; Inappropriate project handling , ineffective management , lack of adequate resources , lack of advance technology , day to day changing govt. Policies produce industrial sickness. Therefore the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

Lack of demand; Entrepreneurs in India could not predict their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers the smallest label. Therefore the banks record the non recovered part as NPAs and has to make provision for it.

Change on Govtpolicies; With every new govt. banking sector gets new policies for its operation, so it has to cope with the changing principles and policies for the regulation of the rising of NPAs. For example, the fallout of the handloom sector is continuing as most of the weavers Co-operative societies have become defunct largely due to withdrawal of state patronage. The rehabilitation plan worked out by the Central government to renew the handloom sector has not yet been implemented, so the over dues due to the handloom sectors are becoming NPAs.

Technical

The Govt. has set of numbers of recovery tribunals, which works for recovery of loans and advances, due to their carelessness and ineffectiveness in their work the bank suffers the consequence of non-recover, their by reducing their profitability and liquidity.

There are borrowers who are competent to pay back loans but are intentionally withdrawing it. These groups of people should be recognized and proper measures should be taken in order to get back the money extended to them as advances and loans.

Entrepreneurs in India could not predict their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers the smallest label. Therefore the banks record the non recovered part as NPAs and has to make provision for it.

With every new govt. banking sector gets new policies for its operation, so it has to cope with the changing principles and policies for the regulation of the rising of NPAs. For example, the fallout of the handloom sector is continuing as most of the weavers Co-operative societies have become defunct largely due to withdrawal of state patronage. The rehabilitation plan worked out by the Central government to renew the handloom sector has not yet been implemented, so the over dues due to the handloom sectors are becoming NPAs.

Soft

There are three cardinal principles of bank lending that have been followed by commercial banks, that is, Principles of safety, Principle of liquidity, Principles of profitability. Principles of safety mean that the borrower is in a position to pay back the loan, including both principal and interest. The refund of loan depends upon the borrowers, Capacity to pay depends upon, Tangible assets, Success in business. Willingness to pay depends on, Character, Honest, Reputation of borrower. The banker should, therefore take utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is competent of carrying it out successfully, he should be a person of integrity and good character.

Due to improper technology and management information system, market driven decisions on real time basis can not be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, so NPA, therefore all the branches of the bank should be computerized.

Deprived credit appraisal is an additional factor for the increase in NPAs, due to poor credit appraisal the bank gives advances to those who are not able to repay it back. They should use better credit appraisal to reduce the NPAs.

The banker should always select the borrower very cautiously and should take tangible assets as security to safeguard its interests. When accepting securities, banks should consider, the Marketability, Acceptability, Safety, Transferability etc. The banker should follow the principle of diversification of risk based on the famous maxim “do not keep all the eggs in one basket”, which

means that the banker should not grant advances to a few big farms only or to concentrate them in few industries or in a few cities. If a latest big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.

Banker perceptive is important

The banker perception is important in NPAs because the things maintained by them only such as adopting proper pre-sanction procedure like Due Diligence, Proper Borrower Selection etc. Proper sanction process will reduce the deterioration in asset quality, Close monitoring and supervision will have positive impact on NPA containment, NPAs can be contained by maintaining continuous rapport/relationship with Borrower customers, Corporate Governance in Corporates can help to improve the conduct of accounts with banks and bring down the NPAs, Borrowers to be made more accountable/responsible to contain the NPA problem, Involvement of Auditors/Regulators/Representative bodies etc. would help to recover the bank dues in an effective manner, Restructuring/Strategic Debt Restructuring (SDR)/Joint Lenders' Forum (JLF) Formation/CAP & Information to Central Repository of Information on Large Credits (CRILC) helps the Bank in containing NPAs Conducting recovery camps will be helpful in recovery of NPAs, Invocation of SARFAESI Act helps accelerates recovery of NPAs, Declaring as Wilful Defaulters, Non-cooperative Borrowers Help in Containing NPAs, Publishing Defaulters' Names help in recovering NPAs.

Attributes/variables containing NPA

- Substandard assets: Assets which has remained NPA for a period less than or equal to 12 months.
- Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
- Loss assets: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

II. LITERATURE REVIEW

This chapter provides an overview of research on NPA's knowledge sharing and intranets. It introduces the framework for the study that comprises the main focus of the research described in this thesis. In the context of banking sector, the issue of Non-performing assets has been studied and observed by plenty of researchers, a review of the relevant literature on the topic of NPAs has been described as under.

Causes of Bad Loans – Borrower's Perspective

The Non-Performing Asset (NPA) concept is restricted to loans, advances and investments. 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 performing asset, and when it fails to generate the expected income it becomes a “Non Performing Asset”. In other words, a loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days. A NPA is an advance where payment of interest or repayment of instalment on principal or both remains unpaid for a period of two quarters or more and if they have become „past due“. An amount under any of the credit facilities is to be treated as past due when it remain unpaid for 30 days beyond due date. It is also called as Non Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as nonperforming if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing (B.Selvarajan& G. Vadivalagan, 2013).

NPA usually refers to non-performing assets and the lenders consider it as those assets that are not fetching benefits to them. The word is not new to the bankers. It is regular but disguised loan asset.. An asset becomes nonperforming when it ceases to generate income for the bank. Prior to 31st March, 2004 a nonperforming asset was defined as a credit facility in respect of which the interest or instalment of principal has remained past due for a specified period of time which was four quarters. Due to the improvements in payment and settlement system, recovery climate, up gradation of technology in the banking system, etc., it has been decided to dispense with past due concept, with effect from March 31st 2004(Chandan Kumar Tiwari &Ravindra Sontakke)

Thomas Ferguson (2007) conducted a research on “ Observations on the securitization of Non –performing loans in Russia.” Asset securitization is a burgeoning trend in Russia as companies burdened by poor credit ratings seek access to capital at lower costs than they would be allowed in traditional equity or debt markets. Study indicates that securitization of these bad loans has not occurred in Russia at the levels one might expect. This has been due to both a relatively small amount of loans that under perform as well as legal and regulatory impediments that have discouraged investors and lenders alike. This article anticipates a significant risen the level of non-performing loans which will be logically paired with an increased interest of Russian lenders in Securitizing these assets

Causes of Bad Loans – Bankers Perspective

Credit Policy refers to guidelines that are followed in managing credit in the business. They include credit standards, credit terms and collection effort (Bank for International Settlements, 2001). Weak policies and poor regulation have contributed to the NPLs in financial institutions. In this context we will review the effectiveness of loan products and the KYC policy. Churchill (1999) argues that defining loan products involves balancing the demands for risk management and profitability; he further noted that defining the loan product is challenging because the interest of the borrower and the lender are often in conflict. In his study, he recommends granting of the right product to the right clients at the right time. Pandey (2008) stated that economic conditions will influence a bank's credit policy and as these economic conditions change, so will the credit policy of the bank. In Uganda, it can be noted that most banks, UDBL inclusive, devise policies based on what other banks have formulated and this leads to a theory of low frequency in business cycles. Raghuran (1994) stated that banks should maintain a credit policy of lending if and only if borrowers have a positive net present value of their businesses. Credit policies should be formulated in consultation with business units covering collateral, assessment, risk grading, reporting and in compliance with regulatory and statutory requirements. A bank's credit policy is an essential reference source to all personnel involved in the granting of credit. If the credit policy becomes out-dated or does not specify all relevant aspects clearly it will result in the Bank's downfall. Ultimately, the success of lending out credit depends on the methodology applied to evaluate and to award the credit and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

According to Louzis, Vouldis, & Metaxas, (2012), distinctive features of the banking sector and the policy choices of each particular bank with respect to their efforts for maximum efficiency and improvements in their risk management are expected to exert a decisive influence on the evolution of NPLs. Several scholars have examined the connection between bank-specific factors and NPLs. Berger & DeYoung's (1997) seminal paper sampled U.S commercial banks during the period 1985- 1994 and observed that 'bad' management with poor skills in credit scoring, appraisal of pledged collaterals and monitoring borrowers often led to increases in future NPLs. This was further supported by Podpiera & Weill (2008) who discovered the same phenomenon in the Czech banking industry between 1994 -2005. They recommended that regulatory authorities in emerging economies should focus on managerial performance in order to enhance the stability of the financial system (by reducing nonperforming loans). Studies have shown that Bank staff productivity is essential to the long run viability of financial institutions e.g. providing job satisfaction and good career prospects (Rhyne & Rotblatt, 1994) Shofiqul, Nikhil & Abdul (2005) identified that a weak follow up by credit officers weakens the system of loan loss mitigation. All the above scholars clearly illustrate the urgency of well trained and

competent staff within banking institutions to mitigate against NPLs and this molded the researchers decision to delve further into this field using a local financial institution within Uganda. I have not come across any literature investigating the relationship between staff related factors and NPL

According to a study by Brown bridge (1998), most of the bank failures were caused by non- performing loans. Arrears affecting more than half the loan portfolios were typical of the failed banks. Many of the bad debts were attributable to moral hazard: the adverse incentives on bank owners to adopt imprudent lending strategies, in particular insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets.

Attributes contributing to Bad Loans

There is no global standard to define non-performing loans at the practical level. It is recognised that what is appropriate in one country may not be suitable for another. However, a nonperforming loan is generally defined as a sum of borrowed money for which the debtor has not made the scheduled payments (principal and/or interest) for at least ninety days. Once a loan is nonperforming, the chances that it will be repaid in full are considered to be substantially lower. In Barbados the standard loan classifications are defined as follows: Pass - loans with repayments in arrears up to one month; Special Mention - loans in arrears for one to three months; Substandard - loans owing for at least three months; Doubtful - unsecured portion of loans at least six months due; and Loss - unsecured portion of loans at least twelve months due. Non-performing loans comprise loans in the latter three categories and can be further differentiated according to the degree of collection difficulties.

This study attempted an empirical analysis of the non-performing loans of public sector banks in India and investigated the response of NPLs to terms of credit, bank size and macroeconomic condition. The empirical analysis suggested that terms of credit variables have significant effect on the banks' non-performing loans in the presence of bank size and macroeconomic shocks. Moreover, alternative measures of bank size could give rise to differential impact on bank's non-performing loans. For instance, the bank size measured in terms of assets, has negative impact on NPAs, while the measure of bank size in terms of capital has positive and significant effect on gross NPAs but negligible effect on net NPAs. Thus, appropriate measure of size assumes importance. The empirical analysis suggests that asset measure of size could yield meaningful results relating to borrowers' loan response. The changes in the cost of credit in terms of expectation of higher interest rate induce increase in NPAs. On the other hand, factors like horizon of maturity of credit, better credit culture, and favorable macroeconomic and business conditions lead to lowering of NPAs. The results confirm the viewpoint that banks exposure to priority sector lending could not be more important than credit culture and terms of lending variables. The empirical analysis suggests that positive deviation of an individual bank's credit-deposit ratio

(CDR), from that of industry's average could have favourable effect on reducing NPAs. Banks could exploit competitive portfolio advantage within a range of about 8-13 per cent difference between their own CDR and that of the industry. The robustness of results was tested by excluding a major bank from the sample and re-estimating parameters of the model. As a result, the sign condition of parameters does not alter for any explanatory variable, thereby, reiterating the stability of the empirical mode.

Bloem and Gorter (2001) suggested that a more or less predictable level of non-performing loans, though it may vary slightly from year to year, is caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products. Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, may spread the risk by taking out insurance. Enterprises may well be able to pass a large portion of these costs to customers in the form of higher prices. For instance, the interest margin applied by financial institutions will include a premium for the risk of nonperformance on granted loans. At this time, banks' non-performing loans increase, profits decline and substantial losses to capital may become apparent. Eventually, the economy reaches a trough and turns towards a new expansionary phase, as a result the risk of future losses reaches a low point, even though banks may still appear relatively unhealthy at this stage in the cycle.

According to Gorter and Bloem (2002) non-performing loans are mainly caused by an inevitable number of wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, etc.). Under such circumstances, the holders of loans can make an allowance for a normal share of nonperformance in the form of bad loan provisions, or they may spread the risk by taking out insurance.

Monitoring and controlling

Most of the bankers feel that genuine viability problem of the borrowing units, weakness in credit appraisal system, absence of effective monitoring and supervision of loan account, absence of credit information sharing among the banks etc. are some of the significant causative factors of high level of NPAs internal to the banks.

- So for preventive the fresh inflow of funds into the non-performing category, banks should reformulate their credit appraisal techniques.
- Proper evaluation of the loan application may help in detecting the unviable projects at the first instance. Full information about unit, industry, its financial stake, management etc. should be collected.
- Industrial cell should be established at the bank level, which would have complete information about the industry and its prospects in future.

- Proper credit monitoring should be equally emphasized. There should be proper flow of information from the units regarding their financial area, annual accounts, stock reports etc., which would enable the banker to know the need based credit requirement of borrower and warning signals for taking quick remedial action.
- Banks should inspect the progress of the project or the business. Separate monitoring department should be established in large branches for periodical review of accounts, comparative risk analysis and compliance of terms and conditions of sanction. Equal emphasis should be given for monitoring of standard assets also.
- Banks should be equipped with latest credit risk management techniques to protect the bank funds and minimize insolvency risks. Banks should develop credit derivatives markets to avoid these risks. There should be regular outflow of senior bank officers from all public sector banks for specialized training in training institute to equip them with latest procedures and practices.

Difficulties faced by banks in inspection of accounts

There are preventive and curative. Preventive measures stop the slippage of performing assets to become non-performing asset. It would be better to tackle the problem at the initial state. Curative measures help in bringing back the non-performing assets to performing one. These measures designed to maximize recoveries so that bank's funds locked up in NPAs are released for recycling. Pre-sanction Appraisal:- While recommending the credit proposal for sanction by senior officers, the field functionaries in bank should make discreet queries about the promoters and approve only those conditions which are acceptable to borrowers and the bank. Timely sanction of credit is essential. The Security in only loan account should be examined taking into account their life durability selling position, reliability, demand, etc. All the important terms and conditions which the borrower is to comply with should be conveyed. Post-sanction follow up:- A regular vision and a regular follow of information from the borrowers to the bank relating to the progress of enterprise and the end use of banks funds, should be ensured. Periodical inspection of the business or project should be made and at that time it becomes more imperative to have a dialogue with the borrower on the projected figure and actual received potential and borderline NPA account require quick diagnosis and remedial measures.

Barman R.B. and Samanta G.P "An Exploratory Analysis for India" The discussion has been made by the author in the study is that the incomes of the banks are made available by rendering services through financial intermediation, which are openly charged. The banks provide loans and advances to the needy peoples of the society out of the money deposited by the people which are accepted by the banks. Banks play the role of mediator in between the depositors and the borrowers. Banks provide free services with which bank revenue comes down, which is not good to the

economic health of the bank. Banks are rendering services to the customers in maintaining their accounts. A linking of financial services to the deposited accounts.

The customers are charged very nominal rate of amount, which is very less than the actual incurring of expenses. But the banks indirectly are covering this cost. Banks pay low rate of interest to the depositors and charge high rates of interest to the borrowers. Consequently loans and advances are provided by the banks at higher rates than the rates paid to the depositors. It results into a operating surplus of funds which is a major difference between the rates of interest charged to the borrowers and the rate of interest paid to the depositors. Such type of scheme does not differentiate among the individual customers for services, but as a whole it is applied to all, therefore, it seems very difficult to measure than properly by any direct approach. Therefore, the researcher has proposed some indirect ways of measuring them. It results into the alternative proxies of reference rates, the weighted average rate which appears as the best in the sense of leading less volatile price index.

A review of the literature brings to the fore insights into the determinants of NPL across countries. A considered view is that banks' lending policy could have crucial influence on nonperforming loans (Reddy, 2004). He critically examined various issues pertaining to terms of credit of Indian banks. In this context, it was viewed that „the element of power has no bearing on the illegal activity. A default is not entirely an irrational decision. Rather a defaulter takes into account probabilistic assessment of various costs and benefits of his decision“ Furthermore, in the context of NPAs on account of priority sector lending, it was pointed out that the statistics may or may not confirm this. There may be only a marginal difference in the NPAs of banks' lending to priority sector and the bank's lending to private corporate sector. Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Experience shows that policies of liberalization, deregulation and enabling environment of comfortable liquidity at a reasonable price do not automatically translate themselves into enhanced credit flow.

Secondary Data

Secondary data is data that collected by and readily available from other sources. It is collected from other sources such as articles, research papers, and magazines for the research on NPA – from the banker's perspective.

Universe/Population

Universe talks about the population of the study. It was the study about the employees working in the Banking Industry. Employees with 9-10 years of experience in the sector were part of the sample. This will enable a better understanding from the employees about the learning initiatives inside the organization.

Sampling Method

The data collection is done through Non - Random Sampling method. Under that, the judgmental sampling method will be taken. It is a method where data or population will be taken based on the knowledge and professional judgment. The sample size of data = 60.

Tools for Data Collection

Causes of Bad Loans – Banker's Perspective

Sudden growth of NPL volume became one of the up-to-date problems of bank sector in late 2000s. Analysis of macroeconomic values of development of Eastern, Central and South India, CIS-countries showed that before financial crisis of 2007-2008 the situation with credit portfolios in most countries of the world were rather stable. However world financial crisis changed situation seriously in financial sector - the average quality of bank assets has deteriorated greatly and a number of general problems of development became clear. This article is devoted to analysis of main reasons of NPL growth in modern economy and the evaluation of effects of their influence on national economies. The article analyses the reasons of origination of bad assets (NPL) and considers them in terms of opportunities of national economies. Comparative characteristics of the factors and reasons for nonelimination and growth of bad assets in India.

Causes of Bad Loans – Borrower's Perspective

Borrower becomes defaulter if there is poor management capability, poor financial performance, and poor cash flow. Business could be defaulter because of low market share. Low market share mean low revenue so that business cannot pay the interest payment. Third reason is leading related. It is mainly Bank's fault. Loan could be default if Bank delayed assessment of loan proposal, delayed disbursement of fund, lack of proper monitoring, lack of taking proper action. Last reason is macroeconomic factors. Low GDP growth, increasing crimes, hartals and frequent policy change effect loan. For those reasons loans become default loan. Effects of NPL are such as Stopping Money Cycling, Earning Reduction, Capital Erosion, Increase in Loan Pricing, Frustration etc. As a result, the values of security are increased and the risks of financial recession also see a rise.

Attributes contributing to Bad Loans

The major causes of default of loans are: Idiosyncratic borrower specific problems: The borrower specific risk arises due to reasons such as repayment problem, collateral risk, academic failure, drop out, personal problems, financial problems (hence lesser capacity to pay), and so on.

III. CONCLUSION

NPAs reflect the overall performance of the banks. The NPAs have always been a big worry for the banks in india. The Indian banking sector faced a serious problem of NPAs. . A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The extent of NPAs has comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers.