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A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks

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Abstract- A healthy and a sound banking system are very essential for an economy in order to grow and remain in this competitive environment. RBI and other regulatory bodies have taken several policies in the light of developing the functioning of the banking sector. The best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). It reflects the performance of banks. NPAs in the Indian banking sector have become a major concern for the Indian economy. NPA has a direct impact on the profitability, liquidity and solvency position of the bank. Higher NPA indicates inefficiency of the bank and lower NPA indicate better performance and management of funds. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. This paper basically deals with the trends of NPA in banking industry, the factors that mainly contribute to NPA raising in the banking industry and also provides some suggestions how to overcome this burden of NPA on banking industry.

Index Terms- Public sector Banks, Private sector Banks, Non-Performing Asset

I. Introduction

The Banking system remains, as always the most dominant segment of the financial sector. Without a sound and effective Banking system in India it cannot have a healthy economy. The Banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology or any other external and internal factors. Indian Banks continue to build on their strength under the regulators watchful eye and hence has emerged stronger. For the past three decades India's Banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian Banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process. The government's regular policy for Indian Bank since 1969 has paid rich dividends with the nationalization of 14 major private Banks of India. Not long ago, an account holder had to wait for hours at the Bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are days when the most efficient Bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dials a pizza. Money has become the order of the day. The first Bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases.

- Phase I-Early phase from 1786 to 1969 of Indian Banks;
- Phase II-Nationalization of Indian Banks and up to 1991 prior to Indian Banking sector Reforms;

Phase III-New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

NPA AND BANKS

NPAs are an inevitable burden on the banking industry. Banks need to monitor their standard asset regularly in order to prevent any account becoming an NPA. Today the success of the bank depends upon the proper management of NPAs and keeping them within the tolerance level.

EWS-Early Warning Signals are those which clearly indicate or show some signals of credit deterioration in the loan account. They indicate the problems involved in the account so that remedial action can be taken immediately. Most banks have EWS system.

The RBI has issued guidelines to banks for classification of assets into four categories.

(i) Standard Asset
(ii) Doubtful Asset
(iii) Sub-standard Asset
(iv) Loss Asset

Standard Asset: Standard asset are those which are not NPA. These are regular and performing and there are no adverse features. They do not disclose any credit problem.

Doubtful Asset: They are NPA which remain as such for a period exceeding two years.

Sub-standard Asset: They are those which are NPAs for a period not exceeding two years.

Loss Asset: Are those NPAs where 100% loss has been identified and it is not yet written off in the books of accounts.

Table I: PROVISIONAL NORMS

Asset Classification	Provision requirements
Standard assets	a) direct advances to agricultural & SME sectors at 0.25 per cent; (b) residential housing loans beyond Rs. 20 lakh at 1 per cent; (c) advances to specific sectors, i.e., personal loans (including credit card receivables), loans and advances qualifying as Capital Market exposures, Commercial Real Estate loans etc. at 2 per cent (d) all other advances not included in (a), (b) and (c) above, at 0.40 percent
Substandard Assets	10 per cent of the total out standings for substandard
Doubtful assets (i)Doubtful upto 1 yr(NPA more than 2 yrs but upto 3 yrs) (ii)Doubtful for more than 1 yr but upto 3 yrs(NPA more than 3 yrs but upto 5 yrs) (iii)Doubtful for more than 3 yr(NPA more than 5 yrs)	100% to the extend of deficit (deficit=advance- security) 20% of tangible security available. 30% of tangible security available. 50% of tangible security available.
Loss assets	100% of the outstanding

RESEARCH DESIGN

Objectives of the study:

1 .To find out trend in NPA level

2. To find out the factors that contributes to NPA.

3. To suggest the various measures for proper management of NPA in banks.

Scope of the Study:

The present study is descriptive in nature. This study was mainly planned to evaluate the NPA level of public sector and private sector Bank. This research study surely will provide a parameter particular for a better understanding of NPA level in banking sector. This attempt covers the extensive research work on NPA structure of the Indian Banking sector. The findings of study present a comparison between selected variables for the past six years.

Review of Literature:

1. Kajal Chaudhary and Monika Sharma (2011), they studied about the performance of private and public sector banks and how they manage their NPA. They have taken few of the private and public sector banks under the study. The study has shown Performance level in each sector. The study has also given some recommendations regarding how the bank should improve their performance and also managing NPA.
2. DR. Partap Singh (2012), in this paper attempts have been made to analyze trends in NPAs, Causes and

Impact of NPAs. Nonperforming assets indicate the credit risk of the banks. This paper deals with the comparative analysis of advances and non performing assets in public and private sector banks in the light of mounting competitive scenario in the banking sector. The study shows improvement in the management of NPA.

3. G.V.Bhavani Prasad, D.Veena (2011), NPAs Reduction Strategies for Commercial Banks in India. This paper also deals with the concept of NPA, how an account turns into NPA and some measures to manage NPA.
4. Management of Non-Performing Assets in Indian Public Sector Banks with special reference to Jharkhand: This study was basically confined to management of NPA in Public sector banks in Jharkhand. The study outlines the reasons for NPAs through figures and graphs and few recommendations to improve NPA.
5. Dr. Mohan Kumar, Govind Singh (2012) Mounting NPAs in Indian Commercial Banks: Causes and Consequences of NPAs in Banks using tables and few suggestions for improvement of NPA level.

Purpose of the Study:

The basic purpose the study is to understand and analyze the NPA level of private and public sector Banks by considering few public and private sector Banks. To understand what are the factors that contribute to NPA. To suggest some measures in order to reduce the level of NPA. This study would also in turn influence the Banks to identify the problems pertaining to the account and to avoid the occurrence of any account turning into NPA.

Statement of the Problem:

The substance of the Banks will be threatened depending upon the level of NPA. If banks have many accounts that are turning out to NPA, the existence of the bank would be difficult. The banks which have higher NPA can lose the confidence of the customer and also it would affect the liquidity, profitability and solvency position of the bank.

Limitations:

- The study is limited to the extent of the availability of data.
- The period of the study is limited for six years.

Research Methodology:

The study is planned to be carried out with the help of secondary data for the purpose to and understand the NPA level of private and public sector Banks.

Data Collection:

The present study is mainly based on secondary data. The required data were collected from the annual reports of the Banks through their websites.

Sources of Data:

Secondary data was collected from the reports, articles, journals, documents, printed literatures, certain web sites and other online data bases etc.

Factors contributing to NPA

According to the recent study conducted by RBI, the factors contributing to NPA are divided into 2 segments

(i) Internal factors
(ii)External factors
(iii) Other factors

Internal factors

a) Diversion of fund for expansion, diversification, modernization or for taking up new projects.
b) Diversion of fund for assisting or promoting associate concerns.
c) Time or cost overrun during the project implementation stage.
d) Business failure due to product failure, failure in marketing etc.
e) In efficiency in bank management.
f) Slackness in credit management and monitoring.
g) In appropriate technology or problems related to modern technology.

External factors

a) Recession in the economy as a whole.
b) Input or power shortage.
c) Price escalation of inputs.
d) Exchange rate fluctuations
e) Change in government policies

Other factors

a) Liberalization of the economy and the consequent pressures from liberalization like several competitions, reduction of tariffs etc.
b) Poor monitoring of credits and failure to recognize early warning signals shown by standard assets.
c) Sudden crashing of capital market and inability to raise adequate funds.
d) Mismatching of funds i.e. using loan granted for short term for long term transactions.
e) Granting of loans to certain sectors of the economy on the basis of government directives rather than commercial imperatives.

II. DATA ANALYSIS AND INTERPRETATION

Table II: CLASSIFICATION OF LOAN ASSETS OF PUBLIC SECTOR BANKS - 2008 TO 2013

Bank group/Year	Standard advances		Sub-Standard Advances		Doubtful Advances	
	Amount	Percent	Amount	Percent	Amount	Percent
Public Sector Banks						
2008	16,564.51	97.67	168.46	0.99	190.83	1.13
2009	20,546.01	97.90	195.21	0.93	207.08	0.99
2010	24,551.47	97.72	276.85	1.10	246.79	0.98
2011	29,888.72	97.68	336.12	1.10	319.55	1.04
2012	34,379.00	96.83	603.76	1.70	470.75	1.33
2013	38,999.85	96.16	765.89	1.89	734.85	1.81

Source: http://www.rbi.org.in/

The above table shows classification of loan assets of the Public sector banks. Over the years we can see fluctuation of NPAs among the banks both increase and decrease. In case of standard asset there was a constant increase from 2008 to 2011 and then a slight decrease from 2012. In case of sub standard asset, for public sector banks it kept on increasing. In case of doubtful asset, public sector banks there were a constant increase.

Table III: CLASSIFICATION OF LOAN ASSETS OF PRIVATE SECTOR BANKS - 2008 TO 2013

Bank group/Year	Standard advances		Sub-Standard Advances		Doubtful Advances	
	Amount	Percent	Amount	Percent	Amount	Percent
Private Sector Banks						
2008	4,597.22	97.25	72.81	1.54	44.53	0.94
2009	5,031.87	96.75	105.27	2.02	50.18	0.96
2010	5,677.23	97.03	86.78	1.48	65.43	1.12
2011	7,149.78	97.55	44.00	0.60	107.36	1.46
2012	8,628.96	97.92	51.33	0.58	103.16	1.17
2013	10,266.73	98.09	58.54	0.56	110.69	1.06

Source: http://www.rbi.org.in/

The above table shows classification of loan assets of the Private sector banks. Over the years we can see fluctuation of NPAs among the banks both increase and decrease. In case of standard asset there was a constant increase from 2010 to 2013. In case of sub standard asset, for private sector banks it kept on decreasing except in 2009. In case of doubtful asset, private sector banks there were a constant increase from 2008 to 2011 and gradually decreased in 2012 and 2013.

Compared to Private sector banks, Public sector banks NPAs level is more in case of sub standard asset and doubtful asset. But in case of standard asset private sector banks remain high which shows a good position of private sector banks and also it show that they have adopted all necessary measures in order to avoid any account becoming NPAs. Public sector banks need to be more cautions while granting loan and also to avoid the occurrence of NPA in public sector banks.

Table IV: COMPOSITION OF NPAs OF NATIONALIZED BANKS - 2008 TO 2013

Bank group / Years	Priority Sector		Non-priority Sector		Public Sector		Total
	Amount	Percent Share	Amount	Percent Share	Amount	Percent Share	Amount
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Nationalized Banks							
2008	163.85	67.21	77.9	31.96	2.02	0.83	243.80
2009	157.21	60.10	101.4	38.76	2.97	1.13	261.58
2010	199.06	56.13	152.7	43.08	2.80	0.79	354.62
2011	257.21	59.90	169.4	39.47	2.73	0.64	429.40
2012	322.90	48.34	343.1	51.37	1.92	0.29	667.95
2013	404.86	42.21	553.5	57.71	0.78	0.08	959.22

Source: http://www.rbi.org.in/

The above table depicts the total amount of NPAs at Nationalized banks in India as on 31st march from 2008 to 2013. And also the above table depicts the composition of NPAs of different sector at nationalized banks. During 2008, priority sector share was 67.21%, Non-priority sector 31.96% and public sector share was 0.83%. In the year 2009 priority sector, Non-priority sector and public sector share was 60.10%, 38.76% and 1.13% respectively in the NPAs. In the year 2010 priority sector share was 56.13%, Non-priority sector share was 43.08 and public sector share was 0.97% in NPAs, during year 2011 priority sector, Non-priority sector and public sector share was 59.90%, 39.47% and 0.64% respectively. In the year 2012 priority sector share was 48.34%, Non-priority sector share was 51.37% and public sector share was 0.29% and in the year 2013 priority sector was 42.21%, Non-priority sector share was 57.71% and public sector share was 0.08% in the amount of NPAs of Nationalized banks in India.

It can be inferred that during 2012 and 2013 Non-priority sector share in the amount of NPAs of Nationalized banks is more as compared to priority and public sector and during 2008,2009, and 2010 .Priority sector share in the amount of NPAs of Nationalized banks is more as compared to public sector share and non-priority sector.

Table V: COMPOSITION OF NPAs OF SBI Group- 2008 TO 2013

Bank group / Years	Priority Sector		Non-priority Sector		Public Sector		Total
SBI Group	Amount	Percent	Amount	Percent	Amount	Percent	Amount
2008	89.02	58.49	62.22	40.8	0.97	0.63	152.20
2009	84.47	47.26	92.50	51.7	1.77	0.99	178.74
2010	109.40	50.11	106.46	48.7	2.44	1.12	218.31
2011	155.67	55.32	125.67	44.6	0.06	0.02	281.40
2012	239.11	52.33	217.59	47.6	0.25	0.05	456.94
2013	264.42	44.09	334.94	55.8	0.31	0.05	599.67

Source: http://www.rbi.org.in/

The above table depicts total amount of NPAs at SBI Group banks in India as on 31st March from 2008 to 2013. The above table also depicts the sector wise share in the amount of NPAs of SBI Group in India. From the above table it is observed that, In the year 2008 priority sector, Non-priority sector and public sector share was 58.49%, 40.88% and 0.63% respectively. In the year 2009 priority sector, Non-priority sector and public sector share was 47.26%, 51.75% and 0.99% respectively. During 2010 priority sector share was 50.11%, Non-priority sector share was 48.77% and public sector share was 1.12% in the amount of NPAs of SBI Group banks. In the year 2011 priority sector, Non-priority sector and public sector share was 55.32%, 44.66% and 0.02% respectively. During the year 2012 priority sector, Non-priority sector and public sector share was 52.33%, 47.62% and 0.05% respectively. During 2013 priority sector share in the amount of NPAs of SBI Group banks was 44.09%, Non-priority sector share was 55.85% and Public sector share was 0.05% only.

The above table depicts the total amount of NPAs at SBI Group Banks in India as on 31st march from 2008 to 2013. And also the above table depicts the composition of NPAs of different sector at SBI Group Banks. From the above table it can be inferred that during 2008 to 2012 Priority sector share was high in generation of amount of NPAs in the SBI Group banks, during the year 2013 Non-priority share was high in the creation of amount of NPAs in the SBI Group banks. It can be concluded that Priority sector is the troubling sector for SBI Group banks in the amount of NPAs.

Table VI: COMPOSITION OF NPAs OF PUBLIC SECTOR BANKS - 2008 TO 2013

Bank group / Years	Priority Sector		Non-priority Sector		Public Sector		Total
Public Sector Banks	Amount	Percent	Amount	Percent	Amount	Percent	Amount
2008	252.87	63.85	140.15	35.3	2.99	0.75	396.00
2009	241.68	54.89	193.90	44.0	4.74	1.08	440.32
2010	308.46	53.84	259.23	45.2	5.24	0.91	572.93
2011	412.87	58.09	295.15	41.5	2.78	0.39	710.80
2012	562.01	49.96	560.71	49.8	2.17	0.19	1124.89
2013	669.28	42.93	888.53	57.0	1.08	0.07	1558.90

Source: http://www.rbi.org.in/

The above table depicts the total amount of NPAs at Public sector banks in India. And different sectors contribution to the total NPAs. During the year 2008 priority sector share was 63.85%, Non-priority sector share was 35.39% and Public sector share 0.75 for the total NPAs of 396.05 billion. In the year 2009 priority sector, Non-priority sector and public sector share was 54.89%, 44.04% and 1.08% respectively. During the year 2010 priority sector, Non-priority sector and public sector share was 53.84%, 45.25% and 0.91% respectively. In the year 2011 priority sector, Non-priority sector and public sector share was 58.09%, 41.52% and 0.39% for the total amount of NPAs of 710.80 billion. During the year 2012 priority sector, Non-priority sector and public sector share was 49.96%, 49.85% and 0.19% for the total amount of NPAs of 1124.89 billion. In the year 2013 priority sector, Non-priority sector and public sector share was 42.93%, 57.00% and 0.07% for the total amount of NPAs of 1558.90 billion.

It is depicting priority sector, Non-priority sector and public sector share for the amount of NPAs from 2008 to as on 31st march 2013. From the above table it can be inferred that during 2008to till 2011 priority sector share was high in the NPAs as compared to Non-priority and public sector. During 2011 priority and non-priority sector share was almost equal in the creation of NPAs for public sector banks. During 2013 Non- priority share was high in creation of NPAs in public sector banks as compared to priority and public sector.

Table VII: BANKS GROUP-WISE GROSS NON-PERFORMING ASSETS, GROSS ADVANCES AND GROSS NPA RATIO OF PUBLIC SECTOR BANKS-2013

Banks	Gross NPAs (1)	Gross Advances (2)	Gross NPAs to Gross advances
Public Sector Banks			
SBI and its Associates	627784	14188827	4.42
Nationalized Banks $	1016834	31412861	3.24
Public Sector Banks	1644618	45601688	3.61

Source: http://www.rbi.org.in/

Table VIII: BANKS GROUP-WISE GROSS NON-PERFORMING ASSETS, GROSS ADVANCES AND GROSS NPA RATIO OF PRIVATE SECTOR BANKS-2013

Banks	Gross NPAs	Gross Advances	Gross NPAs to Gross Advances Ratio (%)
	(1)	(2)	(3)
Private Sector Banks			
Old Private Sector Banks	52098	2731197	1.91
New Private Sector Banks	155525	8860233	1.76
Private Sector Banks	207623	11591430	1.79

Source: http://www.rbi.org.in/

Gross NPA is an advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Compared to private sector banks (207623), Public sector banks have more gross NPA (1644618).Gross advances Compared to private sector banks (45601688), Public sector banks have more gross advances (11591430).The ratio of Gross NPA to gross advances in case of public sector is more compared to private sector (3.6 public sector to 1.79 private sector), which need to be reduced by adopting the necessary measures.

III. SUGGESTIONS TO REDUCE NPAs IN BANKS

These are some of the legal measures in order to recover NPAs.

1. Debt Recovery Tribunals (DRTs): Narasimham Committee Report I (1991) recommended the setting up of Special Tribunals to reduce the time required for settling cases. There are 22 DRTs and 5 Debt Recovery Appellate Tribunals. This is insufficient to solve the problem all over the country (India).

2. Securitisation Act 2002: Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitisation Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days. Once the notice is issued the borrower cannot sell or dispose the assets without the consent of the lender. The Securitisation Act further empowers the banks to take over the possession of the assets and management of the company. The lenders can recover the dues by selling the assets or changing the management of the firm. The Act also enables the establishment of Asset Reconstruction Companies for acquiring NPA. According to the provisions of the Act, Asset Reconstruction Company of India Ltd. with eight shareholders and an initial capital of Rs. 10 crores has been set up. The eight shareholders are HDFC, HDFC Bank, IDBI, IDBI Bank, SBI, ICICI, Federal Bank and South Indian Bank.

3. Lok Adalats: Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001. They cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process. The Public Sector Banks had recovered Rs. 40 Crores by September 2001.

4. Compromise Settlement: Compromise Settlement Scheme provides a simple mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances below Rs. 10 Crores. It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals). Cases of Willful default and fraud were excluded.

5. Credit Information Bureau: A good information system is required to prevent loans from turning into a NPA. If a borrower is a defaulter to one bank, this information should be available to all banks so that they may avoid lending to him. A Credit Information Bureau can help by maintaining a data bank which can be assessed by all lending institutions.

Corporate Governance: A Consultative Group under the chairmanship of Dr. A.S. Ganguly was set up by the Reserve Bank to review the supervisory role of Boards of banks and financial institutions and to obtain feedback on the functioning of the Boards vis-à-vis compliance, transparency, disclosures, audit committees etc. and make recommendations for making the role of Board of Directors more effective with a view to minimizing risks and over-exposure. The Group is finalizing its recommendations shortly and may come out with guidelines for effective control and supervision by bank boards over credit management and NPA prevention measures.

Other factors to reduce NPAs

Credit Appraisal and Monitoring:

- Banks should have the well defined policies in respect of their loan portfolio and those policies should be communicated to the staff at the service points clearly and any lacunae in this area will jeopardize the interests of the bank to a great extent in the sense, that the staff servicing the loan accounts on account of lack of knowledge will not be in a position to adhere to the terms and conditions stipulated for the loan portfolio
- Credit appraisal has to be done branch officials without any bias taking into consideration the well defined policies framed for the loan portfolio

- All loan accounts are to be reviewed at periodical intervals and they should be renewed in time wherever required
- Borrowers are to be contacted at periodical intervals and the managers should be in a position to ascertain the financial position of the borrowers at each stage
- The managers should have profound knowledge about the market conditions and towards enriching his knowledge in this direction, he should be capable of updating his knowledge through various means like newspapers, media, internet etc
- Weakness in credit appraisal and credit monitoring can be overcome by proper training, human resource management and support to use acquired knowledge boldly by the operating staff.

Inspection and Credit:

Inspection and credit audit finds on credit irregularities/deficiency should be given the weightage and necessary compliance carried out promptly to prevent non performing assets. By strengthening security and improving activity level, non performing accounts can turn the corner

Risk Management:

Adherence to documented risk management policy, proper risk architecture, independent credit risk evaluation, centralized data base, credit management information system and credit modeling can help prevent non performing assets to a great extent. Credit modeling, in particular can predict impending sickness. For example Reserve Bank of India has devised a model i.e. Compatible Index of Lead Indicator (CILI) to predict movements in the manufacturing sector by about two quarters in advance. Similarly ICRA has got a risk assessment software model.

Asset Management Companies:

The Sarfaesi act 2002 provides for formation and operation of Asset Reconstruction Company/Securitisation Company. There should be concerted efforts in all quarters to make the AMC/ARC take off effectively. This concept has been fairly working in certain Asian countries like Japan, South Korea, China, Thailand, Malaysia and Indonesia.

NPAs Impact on profitability of Banks

The definition of banking is that acceptance of deposits and lending of loan. Whereas they pay interest at different rates for the deposits they are accepting from the customers called depositors, they have to collect interest for the advances they lend to the customers called borrowers. They keep a certain margin between the interest charged and interest paid. The margin should be in such a way that the banks can afford to pay all expenses in conducting the banking activities. The balance amount after payment of all expenses and charges will be the profit for the banks and the profit is shared between the shareholders

In case, the banks are not able to recover the amount lent to their borrowers, the level of profits comes down. All loan accounts are classified as performing assets or non performing assets. In classifying the non performing assets, the availability of security or net worth of the borrower/guarantor is not considered for such classification.

Non performing assets impact on the bank's profitability in several ways as indicated below:

- They reduce the net interest income as the interest is not charged to these accounts.
- All non performing assets need to be prudentially provided for. This will again lead to reduced profitability.
- Servicing NPAs becomes costly in terms of time, money and manpower. They reduce employee productivity and overall profitability.
- Non performing assets affect recycling of bank credit as lendable resources shrink and adversely impact profitability. Higher time value of money can be ensured only by faster recycling of money lent.
- Non performing assets affect the liquidity position of the bank, create assets and liability mismatch and force the bank to raise resources at high cost.
- They affect the service to good customers, as their needs may not be met. This leads to loss of business and reduction in profit.
- Banks which makes low profits, have lower capital adequacy ratio and lower the capital adequacy ratio limits further asset creation. Such banks face difficulties in their growth, expansion/diversification plans, as they do not have the wherewithal to march boldly on these fronts. In the absence of vibrant growth and dynamic expansion, the only consequences are stagnation and negative growth.
- High non performing assets shadow the image of the banks in both domestic and international markets. This leads to business contraction and low profitability.
- NPAs lead to adverse selection because in their efforts to increase the income from lending, such banks lend at higher interest rates to low rated borrowers.
- High non performing assets, low profitability, riskier business and high NPAs work in a vicious circle against the bank and may jeopardize the very survival of the bank

IV. CONCLUSION

NPAs are draining the capital of the banks and weakening their financial strength. It is also as much a political and a financial issue. The banks and financial institutions should be more proactive to adopt a pragmatic and structured non performing assets management policy where prevention of non performance assets receives priority. Compared to private sector banks, public sector bank is more in the NPA level. Public sector bank must take more care in avoiding any account becoming NPA by taking proper preventive measures in an efficient manner.

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