Prevention of NPAs: A Comparative Study on Indian Banks

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Abstract: This study compares the Loans and Advances, NPAs of both public and private sector banks in India to explore the preventive measures to control the rising NPAs. Suitable preventive measures help banks to decrease the level of NPAs in India. A lower level of NPAs helps the banks in consolidating their position, increasing confidence to depositors and increasing market share of the banks.

Keywords: Banking, NPAs, Basel

Introduction:

The study of Non Performing Advances (NPAs) is necessities because of the alarming rise of NPAs of Banks in India from 2015 to 2018.. Indian Banks profits have come down due to higher provision for NPAs indicating poor credit risk management of Indian Banks. This study compares the NPAs of both public and private sector banks in India to explore the preventive measures to control the rising NPAs.

Review of Literature:

Andrew Campbell (2007) observes that ineffective internal control systems as the important factor in controlling the rising NPAs by banks in many countries. He also observes that bank management has to ensure that suitable risk measures were in place for the prevention of NPAs as per Basel guidelines on banking supervision. He emphasizes the need for effective system of banking supervision and regulation to prevent NPAs. Bank supervisors must be satisfied with the credit risk management process of banks with adequate internal controls for management of credit risks to prevent NPAs.

Meena Sharma (2005) observed that NPAs will decrease the profitability of the banks, decrease the credit growth in the economy. So Efficient Credit approval and review mechanism, sound legal framework and strong political will find better solution to the problem of growing NPAs of Indian Banks.

Objectives of the Study:

1. Compare the advances and NPAs of Public and Private Sector Banks in India
2. Analyze the Risk Management practices of Public and Private Banks in India
3. Suggest Preventive Measures for reducing NPAs of Public and Private Banks.

Methodology of the Study:

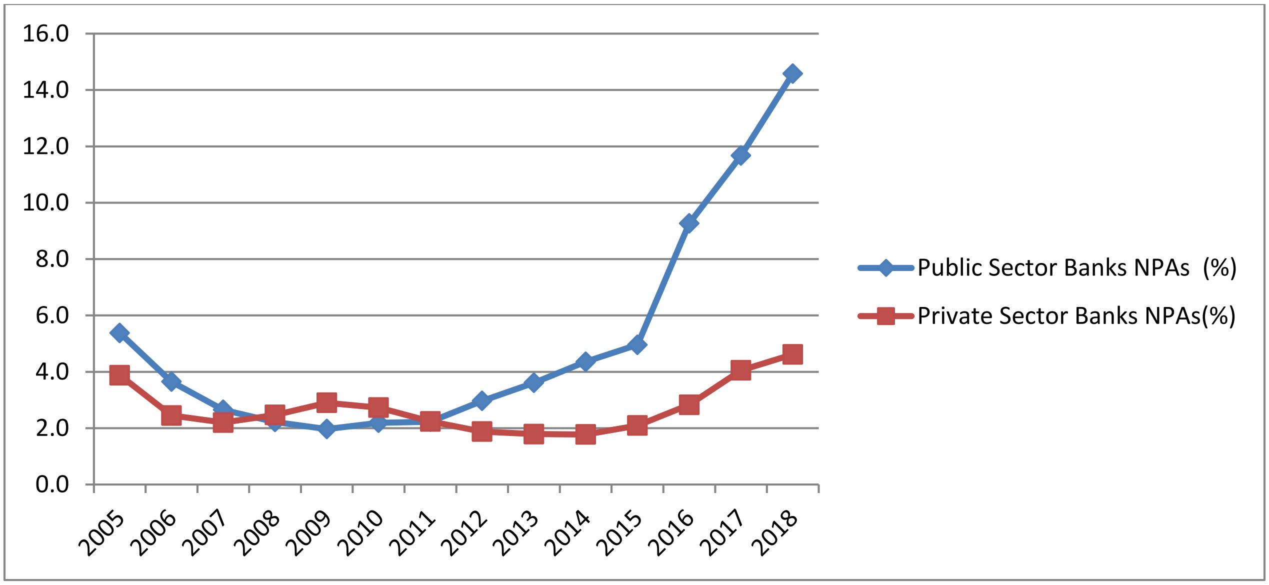
Analyze the data on existing NPAs, Risk management framework of both Public and Private Banks in India for the last three years by collecting secondary data from banks, RBI and internet sources.

Analysis, Interpretations and Suggestions:

Table 1: Gross NPAs of Indian Public and Private Sector Banks from 2005 to 2018

	Public Sector Banks Gross NPAs (%)	**Private Sector Banks Gross NPAs (%)**
2005	5.4	3.9
2006	3.7	2.5
2007	2.7	2.2
2008	2.2	2.5
2009	2.0	2.9
2010	2.2	2.7
2011	2.2	2.2
2012	3.0	1.9
2013	3.6	1.8
2014	4.4	1.8
2015	5.0	2.1
2016	9.3	2.8
2017	11.7	4.1
2018	14.6	4.6

Source: RBI

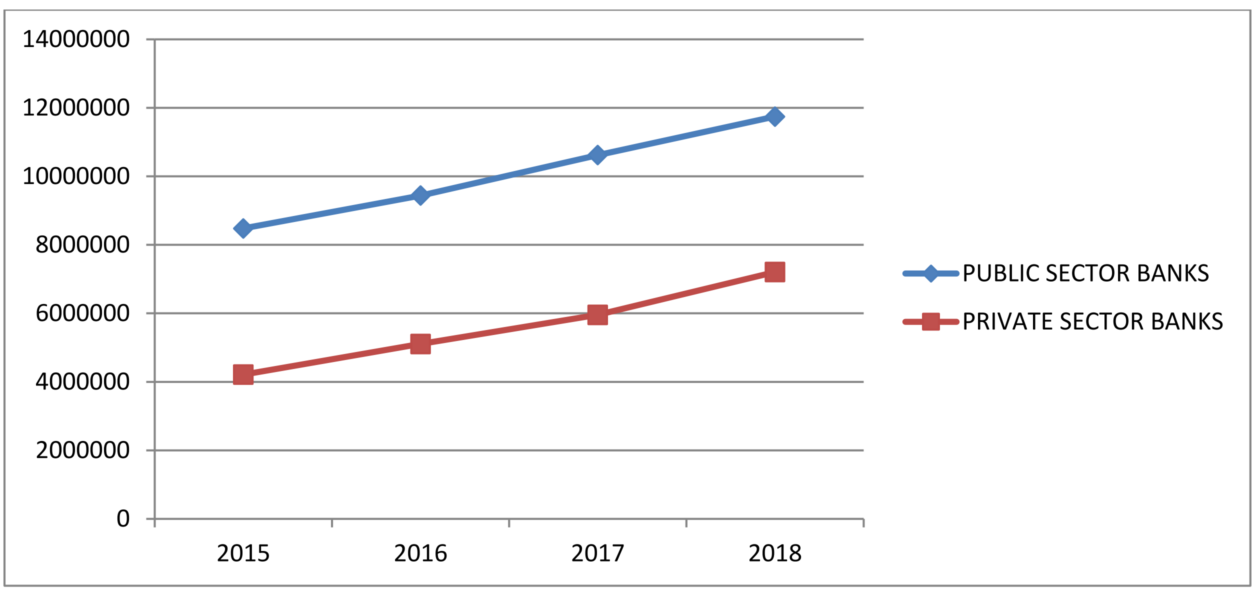


Graph1: Gross NPAs of Public and Private Sectors Banks in India from 2005-2018

Table II: Public and Private Sector Banks advances to sensitive sectors

	2015	**2016**	**2017**	**2018**
PUBLIC SECTOR BANKS	8478012	9438330	10619911	**11744076**
PRIVATE SECTOR BANKS	4213026	5105458	5955673	**7204958**

Source :RBI



Graph2: Loans and advances of Public and Private Sectors Banks to Sensitive Sectors from 2015-2018

It can be observed that public sector banks advances to Sensitive Sectors and NPAs are increasing more than Private sector banks in India during the study period.

Risk Management Framework:

All the Banks in India are following standardized approach to credit risk in India prescribed by RBI as per Basel III guidelines. Basel III-Pillar 3 disclosures of Public and Private Sectors banks reveal that the industry wide exposure of private sector banks to sensitive sectors has decreased where as the exposure of public sector banks have increased. Private sector banks have increased retail loans than corporate loans during the study period. It indicates the weakness in analyzing the changing macro and industry factors by the public sectors in limiting their exposures to the respective sectors. It indicates the weakness in credit appraisal system followed at public sector banks. It also indicates that weakness in credit monitoring mechanism and governance at public sector banks in containing credit risk leading to rising NPAs in public sectors banks.

Preventive Measures for reducing Bank NPAs:

Public sector banks need to strengthen the credit approval process using reliable data on changing market and Industry trends to limit their exposures to sensitive sectors.

Public sector banks has to change the loan review mechanism through advanced internal rating mechanism using sophisticated internal rating models as per Basel III advanced internal rating approach as depending on external rating model is not helping the banks for early recognition of the advances becoming NPAs.

Loan rating and loan officer rating using internal risk rating models is must for transparency and follow up of advances. Performance based incentives to loan review officers should be incorporated by the public sector banks.

Conclusion:

The alarming level of NPAs of Public sectors banks will erode the confidence of depositors leading to decreased credit growth, profits and market share for public sector banks. So, Indian Public sector banks have to apply preventive measures to contain NPAs.

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