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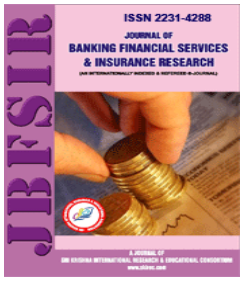

NPAS IN INDIAN BANKING SECTOR – TRENDS AND ISSUES

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ABSTRACT

Banks plays an important role in the mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of the nation.

Today the Indian banking system is among the best in the world because Indian banks are favorable on growth, asset quality and profitability; RBI and Government have made some notable changes in policies and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations of commercial banks. In terms of quality of assets and capital adequacy, these banks have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. PSBs need to strengthen institutional skill levels especially in sales and marketing, service operations, risk management and the overall organizational performance ethic & strengthen human capital.

The best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled.

In this paper, an effort has been made to evaluate the operational performance of the SCBs in India since 2000, NPAs Trends and issues. The study is diagnostic, exploratory in nature and makes use of secondary data. The statistical tools like Averages, percentages, Mean and Standard Deviations are used to analyze the data. And concluded that New Private Sector Banks and Foreign Banks started

with clean slate and latest technologies, the Public Sector Banks and Old Private Sector Banks had to overcome the old systems and employee resistance and introduce the new systems and processes and norms to catch up with the competition.

***KEYWORDS**: RBI and Government policies, Strengthening Prudential norms and enhancing the Payment system, NPAs Trends and Issues, Introduction of New Systems and Processes.*

INTRODUCTION

BANKING INDUSTRY IN INDIA

The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, scheduled banks and non-scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its associate banks, regional rural banks and private sector banks (the old/ new domestic and foreign). These banks have over 67,000 branches spread across the country.

During the first phase of financial reforms, there was a nationalization of 14 major banks in 1969. This crucial step led to a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of their loan portfolio to sectors identified as “priority sectors”. The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold.

After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSBs) found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. Eight new private sector banks are in operation. These banks due to their late start have access to state-of-the-art technology, which in turn helps them to save on manpower costs and provide better services. Since then the growth of the banking industry in India has been a continuous process.

As far as the present scenario is concerned the banking industry is in a transition phase. The Public Sector Banks, which are the foundation of the Indian Banking system account for more than 78 per cent of total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPA), massive manpower and lack of modern technology.

Indusind bank was the first to set up private bank in India. IDBI, ING Vyasa Bank, SBI Commercial and International Bank Ltd, Dhanalakshmi Bank Ltd, Karur Vysya Bank Ltd, Bank of Rajasthan Ltd are some Private Sector Banks. Public sector banks include Punjab national bank, Vijaya bank, UCO bank, oriental bank, Allahabad bank, Andhra bank. ANZ Grindlays Bank, ABN-AMRO Bank, American Express Bank Ltd, Citibank are some foreign banks operating in India.

NORMS OF NPAS IN BANKING INDUSTRY

BASEL I NORMS

The history of the Basel International codes and Standards (BIS) relating to minimum capital adequacy for banks goes back to the developed countries' initiative in 1988 to protect the Organization for Economic Cooperation and Development (OECD) banks from the financial crises common during the 1980s.

Basel I norms, were set out in 1988 and accepted over the years by around 100 Central Banks across the globe under what came to be known as the Basel Accord. The original accord, now known as Basel-I, was quite simple and adopted a straight-forward `one size fits all approach' that does not distinguish between the differing risk profiles and risk management standards across banks. The Indian monetary authorities implemented the Basel II by 1999.

The banks were to assess their assets and off-balance-sheet risks taken and incorporate them on their balance-sheet. Basel I norms prescribed a minimum capital adequacy ratio (CRAR) (1) of 8 % for Banks which were signatories to the Basel Accord. .

Basel I framework was confined to the prescription of only minimum capital requirements for banks, the Basel II framework expands this approach not only to

capture certain additional risks in the minimum capital ratio but also includes two additional areas, Supervisory Review Process and Market Discipline through increased disclosure. Thus emerged RBI guidelines on investments and operations risk, paving the way for adoption of what have come to be known as Basel II norms.

BASEL II NORMS

It is the second guidelines which focused on operational risk along with market risk and credit risk. Basel II tries to ensure that the anomalies existed in Basel I are corrected. The process of implementing Basel II norms in India is being carried out in phases. Phase I has been carried out for foreign banks operating in India and Indian banks having operational presence outside India with effect from March 31,2008.

In phase II, all other scheduled commercial banks (except Local Area Banks and RRBs) will have to adhere to Basel II guidelines by March 31, 2009. With the deadline of March 31, 2009 for full implementation of Basel II norms fast approaching, banks are looking to

Maintain a cushion in their respective capital reserves. The minimum capital to risk-weighted asset ratio (CRAR) in India is placed at 9%, one percentage point above the Basel II requirement. All the banks have their Capital to Risk Weighted Assets Ratio (CRAR) above the stipulated requirement of Basel guidelines (8%) and RBI guidelines (9%). As per Basel II norms, Indian banks should maintain tier I capital of at least 6%.

The Government of India has emphasized that public sector banks should maintain CRAR of 12%. For this, it announced measures to re-capitalize most of the public sector banks, as these banks cannot dilute stake further, as the Government is required to maintain a stake of minimum 51% in these banks.

GROSS NPA AND NET NPA

Gross NPA is a advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account.

Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

The Reserve Bank of India states that, compared to other Asian countries and the US, the gross non-performing asset figures in India seem more alarming than the net NPA figure.

The problem of high gross NPAs is simply one of inheritance. Historically, Indian public sector banks have been poor on credit recovery, mainly because of very little legal provision governing foreclosure and bankruptcy, lengthy legal battles, sticky loans made to government public sector undertakings, loan waivers and priority sector lending.

Net NPAs are comparatively better on a global basis because of the stringent provisioning norms prescribed for banks in 1991 by Narasimham Committee.

In India, even on security taken against loans, provision has to be created. Further, Indian banks have to make a 100 per cent provision on the amount not covered by the realizable value of securities in case of "doubtful" advance, while in some countries; it is 75 per cent or just 50 per cent.

The ASSOCHAM Study titled “Solvency Analysis of the Indian Banking Sector”, reveals that on an average 24 per cent rise in net non performing assets have been registered by 25 public sector and commercial banks during the second quarter of the 2009 as against 2008.

According to the RBI, "Reduction of NPAs in the Indian banking sector should be treated as a national priority item to make the system stronger, resilient and geared to meet the challenges of globalization. It is necessary that a public debate is started soon on the problem of NPAs and their resolution."

ISSUES AND CHALLENGES FOR BANKING INDUSTRY

The Indian banking system witnessed a series of reforms over the past few years like the deregulation of interest rates, dilution of the government stake in public sector banks and the increased participation of private sector banks but Indian banks (both public and private) have not able to tap the domestic market also to compete in the global market place. New foreign banks are very enthusiastic to gain in the Indian market.

There are several challenges that Indian banks will have to face as they look to compete in a globalize environment. They are:

•Risk Management & Basel II

• Consolidation

• Overseas Expansion

• Technology

• Government Reforms

• Non Performing Assets (NPAs)

• Skilled Manpower

• Consumer Protection

NON PERFORMING ASSETS AS A MAJOR ISSUE AND CHALLENGE FOR BANKING INDUSTRY:

Non-performing Assets are threatening the stability and demolishing bank's profitability through a loss of interest income, write-off of the principal loan amount itself.RBI issued guidelines in 1993 based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs be treated as a 'national priority' because the level of NPA act as an indicator showing the bankers credit risks and efficiency of allocation of resource.

The financial reforms in Indian bank industry have helped largely to clean NPA which was around Rs. 52,000 crores in the year 2004. The earning capacity and profitability of the bank are highly affected due to this NPA.

IMPACT OF NPAS ON BANKING OPERATIONS

The efficiency of a bank is not always reflected only by the size of its balance sheet but also the level of return on its assets. The NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits.

The NPAs have destructive impact on the return on assets in the following ways.

- ❖ The interest income of banks reduced it is to be accounted only on receipt basis.
- ❖ The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it limits the recycling funds.
- ❖ The capital adequacy ratio is disturbed and cost of capital will go up.
- ❖ The economic value addition (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital.

CAUSES RESPONSIBLE FOR INCREASING NPAS

The banking sector has been facing the serious problems of the rising NPAs. In fact PSBs are facing more problems than the private sector banks and foreign banks. The NPAs in PSBs are growing due to external as well as internal factors.

One of the main causes of NPAs in the banking sector is the Directed loans system under which commercial banks are required to supply 40% percentage of their credit to priority sectors.

Most significant sources of NPAs are directed loans supplied to the "micro sector" are problematic of recoveries especially when some of its units become sick or weak. PSBs 7 percent of net advances were directed to these units.

Poverty elevation programs like IRDP, RREP, SUME, SEPUP, JRY, PMRY etc., failed on various grounds in meeting their objectives. The huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections.

NPAS OF BANKS

The asset quality of the banks can be examined by considering the NPAs. These NPAs should be considered against not just total assets but also against the advances, because the NPAs primarily arise. When NPAs arise, banks have to make provision for the same as per the regulatory prescriptions. When the provisions are adjusted against the Gross NPAs it gives rise to the net NPAs. Provisions reduce the risk exposure arising due to the NPAs to a reasonable extent as they ensure that the banks sustain the possible loss arising from these assets. The sharp rise in credit growth continued to be accompanied by a significant improvement in asset quality. Several options available to banks for dealing with bad loans and the improved industrial climate in the country helped in recovering a significant amount of NPAs.

Banks were specifically advised to ensure that recoveries of NPAs exceed Write-offs while bringing down bad debts. An improved industrial climate contributed to a better recovery position. The recourse to aggressive asset restructuring by banks in 2004-05 also helped in reducing the level of NPAs.

NPAS OF SCHEDULED COMMERCIAL BANKS :- (SCBS)

There was a significant decline in the non-performing assets (NPAs) of SCBs in 2003-04, despite adoption of 90 day delinquency norm from March 31, 2004. The gross NPAs of SCBs declined from 4.0 per cent of total assets in 2002-03 to 3.3 per cent in 2003-04. The corresponding decline in net NPAs was from 1.9 per cent to 1.2 per cent. Both gross NPAs and net NPAs declined in absolute terms. While the gross NPAs declined from Rs. 68,717 crores in 2002-03 to Rs. 64,787 corer in 2003-04, net NPAs declined from Rs. 32,670 crores to Rs. 24,617 crores in the same period.

TABLE: 1 GROSS AND NET NPAS OF SCBS

(RS. IN CRORES)

Years	Gross NPAs					Net NPAs		
	Gross Advances	Amount	% to Net Advances	% to Total Assets	Net Advances	Amount	% to Net Advances	% to Total Assets
2000-01	5,58,766	63,883	11.4	4.9	5,26,329	32,632	6.2	2.72
2001-02	6,80,958	70,861	10.4	4.6	6,45,859	35,554	5.5	2.3
2002-03	7,78,043	68,717	8.8	4	7,40,473	29,692	4.4	1.8
2003-04	9,02,026	64,785	7.2	3.3	8,62,643	24,396	2.9	1.2
2004-05	11,52,682	59,373	5.2	2.5	11,15,663	21,754	2	0.9
2005-06	15,51,378	51,816	3.3	1.9	15,15,669	18,529	1.2	0.7
2006-07	20,12,510	50,486	2.5	1.5	19,81,237	20,101	1	0.6
2007-08	25,07,885	56,309	2.3	1.3	24,77,039	24,734	1	0.6
2008-09	30,38,254	68,328	2.25	1.3	30,00,906	31,564	1.05	0.6
2009-10	35,45,900	84,747	2.39	1.3	34,93,393	39,126	1.12	0.6

(Table 24: Gross and Net NPAs of Scheduled Commercial Banks, Report on Trend and Progress of Banking in India 2003-04, 2005-06, 2006-07, 2008-09, 2009-10)

Following the trend of the previous year reductions in NPAs for SCBs outpaced additions to NPAs during 2004-05(see Table-1). The gross NPAs of SCBs declined by Rs.7, 309 corers during 2005-06 over and above the decline of Rs.6, 561 corers in the previous year.

Write-offs and write-back of excess provisions were more than the fresh provisions made by SCBs during the year across all bank groups, except for old private sector and new private sector banks.

Increased recovery of NPAs, decline in fresh slippages and a sharp increase in gross loans and advances by SCBs led to a sharp decline in the ratio of gross NPAs to gross advances to 3.3 per cent at end-March 2006 from 5.2 per cent at end-March 2005. Likewise, net NPAs as percentage of net advances declined to 1.2 per cent from 2.0 per cent at end-March 2005 and gross NPAs to total assets 1.83 percent at end-March 2006 from 2.52 at end-March 2005.

The setting up of the Asset Reconstruction Corporation of India (ARCIL) has provided a major boost to banks' efforts to recover their NPAs. Indian banks recovered a higher amount of NPAs during 2007-08 than that during the previous year. Though the total amount recovered and written-off at Rs.28, 283 crores in 2007-08 was higher than Rs.26, 243 crores in the previous year, it was lower than fresh addition of NPAs (Rs.34, 420 crores) during the year. As a result, the gross NPAs of SCBs increased by Rs.6, 136 crores in 2007-08. The hardening of interest rates might have made the repayment of loans difficult for some borrowers, resulting in some increase in NPAs in this sector. Notwithstanding increase in gross NPAs of the banking sector, The gross NPAs as a percent of total assets per cent is declined to 1.3 during the year 2006-07 and net NPAs to total assets percent is also declined to 0.57.

In the year 2008-09 provisioning made was higher than write-back of excess provisioning, net NPAs increased during the year due to increase in gross NPAs, the gross NPAs to gross advances ratio for SCBs is 2.25 per cent and the gross NPAs to total assets, net NPAs to total assets per cent is 1.3 & 0.6.

The SARFAESI Act has, thus, been the most important means of recovery of NPAs. However, there has been a steady fall in the amount of NPAs recovered under SARFAESI Act as per cent of the total amount of NPAs involved under this channel in recent years, a trend which could also be seen between 2008-09 and 2009-10.

During the crisis year 2008-09, the gross NPA ratio remained unchanged for Indian banks. However, during 2009-10, the gross NPA ratio showed an increase to 2.39 per cent. After netting out provisions, there was a rise in the net NPA ratio of SCBs from 1.05 per cent at end-March

2009 to 1.12 per cent at end-March 2010. The growth in NPAs of Indian banks has largely followed a lagged cyclical pattern with regard to credit growth, the pro-cyclical behavior of the banking system, wherein asset quality can get compromised during periods of high credit growth and this can result in the creation of NPAs for banks in the later years. At end- June 2010, there were 13 registered SCs/RCs in India. Of the total amount of assets securitized by these companies at end-June 2010, the largest amount was subscribed to by banks.

NPAS OF PUBLIC SECTOR BANKS

NPAs of public and private sector banks are classified in three broad sectors, priority sector, public sector and non-priority sector. In the year 2003-04, advances to non-priority sectors accounted for bulk of the outstanding NPAs in the case of PSBs, while the share of NPAs in agriculture sector and SSIs of PSBs declined in 2003-04, the share of other priority sectors increased. The gross NPAs of PSBs declined from 4.21 per cent of total assets in 2002-03 to 3.50 per cent in 2003-04(see table – 3). The share of NPAs in the priority sector to total NPAs of public sector banks increased marginally to 48.9 per cent at end-March 2005 from 47.5 per cent at end-March 2004. However, the share of NPAs of small scale industries in respect of PSBs declined while the share of NPAs of non-priority sector increased during 2004-05.

TABLE: 2 GROSS AND NET NPAS OF PSBS

(RS. IN CRORES)

Years		**Gross NPAs**				**Net NPAs**		
	Gross Advances	Amount	% to Net Advances	% to Total Assets	Net Advances	Amount	% to Net Advances	% to Total Assets
2000-01	4,42,134	54,777	12.37	5.31		27,967	6.74	2.72
2001-02	5,09,368	56,473	11.09	4.9	4,80,681	27,958	5.8	2.42
2002-03	5,77,813	54,090	9.36	4.2	5,49,351	24,877	4.5	1.9
2003-04	6,61,975	51,538	7.8	3.5	6,31,383	19,335	3.1	1.3

2004-05	8,77,825	48,399	5.5	2.7	8,48,912	16,904	2.1	1
2005-06	11,34,724	42,106	3.7	2.1	11,06,128	14,561	1.3	0.7
2006-07	14,64,493	38,968	2.7	1.6	14,40,146	15,145	1.1	0.6
2007-08	18,19,074	40,595	2.2	1.3	17,97,504	17,836	1	0.6
2008-09	22,83,473	44,957	1.97	1.2	22,60,156	21,155	0.94	0.6
2009-10	27,36,347	59,926	2.19	1.2	26,94,909	29,644	1.1	0.6

(Table 24: Gross and Net NPAs of Scheduled Commercial Banks, Report on Trend and Progress of Banking in India 2003-04, 2005-06, 2006-07, 2008-09, 2009-10)

Measures taken to reduce NPAs include reschedulement, restructuring at the recovery through Lok Adalats, Civil Courts, and debt recovery tribunals and compromise settlements. The recovery management received a major fillip with the enactment of the SARFAESI Act, 2002 enabling banks to realize their dues without intervention of courts and tribunals. As credit information is crucial for the development of the financial system and for addressing the problems of NPAs, dissemination of credit information on suit-filed defaulters is being undertaken by the Credit Information Bureau of India Lt (CIBIL) from March 2003. In its annual policy statement for 2004-05, the RBI advised banks and financial institutions to review the measures taken for furnishing credit information in respect of all borrowers to CIBIL.

During the year 2008-09 the NPAs of priority sector registered a decline on year-on-year basis that of non-priority sector registered a rise of 36.7 per cent. The decline in priority sector NPAs was contributed by the agricultural sector, partly reflecting the effect of the debt waiver scheme for farmers announced by the Central Government in 2007. The sharp rise in NPAs of non-priority sector was reflective of dismal financial conditions of corporate sector. The gross NPAs to total assets declined from 2.19 per cent in 2009-10 to 2.7 per cent in 2006-07.

The average percentage of Gross NPAs to Gross Advances and Net NPAs to Net Advances are very high with 3.9 and 1.76 as compared to all SCBs bank wise except Old Private Sector Banks. NPAs as percentage seems to be declining over the years but the absolute figures are increasing. Main reason for this is write offs of NPAs are more than the actual recovery percentage of net NPAs.

NPAS OF OLD PRIVATE SECTOR BANKS

The share of NPAs on account of all the three components of priority sector, agriculture, small scale industries and other priority sector increased during 2004-05 as compared with 2003-04. The absolute amount of NPAs in each of these sectors, however, registered a decline during the year. The share of non-priority sector NPAs in total NPAs of private sector banks remained steady at 75.0 per cent during 2004-05.

The gross NPAs to total assets declined from 2.51 percent in 2005-06 to 5.2 per cent in 2001-02 this indicates improved recovery climate (see table- 4). The average percentages of gross NPAs to gross advances, net NPAs to net advances are 4.0 and 2.16 which was very high but during the year 2009-2010 the gross NPAs and net NPAs to total assets per cent is 1.3 and 0.5 per cent. This is similar to the trends shown by SCBs.

TABLE: 3 GROSS AND NET NPAS OF OLD PRIVATE SECTOR BANKS

(RS. IN CRORES)

Years	**Gross NPAs**					**Net NPAs**		
	Gross Advances	Amount	% to Net Advances	% to total Assets	Net Advances	Amount	% to Net Advances	% to Total Assets
2000-01	39738	4,346	12.16	5.14	37973	2,771	7.3	3.28
2001-02	44,057	4,851	11	5.2	42,286	3,013	7.10	3.22
2002-03	51,329	4,550	8.9	4.3	49,436	2,548	5.20	2.5

2003-04	57,908	4,393	7.6	3.6	55,648	2,142	3.80	1.8
2004-05	70,412	4,200	6	3.1	67,742	1,859	2.70	1.4
2005-06	85,154	3,740	4.3	2.5	81,980	1,368	1.60	0.9
2006-07	94,872	2,969	3.1	1.8	92,887	891	1.00	0.6
2007-08	1,13,404	2,557	2.3	1.3	1,11,670	740	0.70	0.4
2008-09	1,30,352	3,072	2.36	1.3	1,28,512	1,159	0.90	0.5
2009-10	1,56,121	3,622	2.32	1.3	1,53,133	1,271	0.83	0.5

(Table 24: Gross and Net NPAs of Scheduled Commercial Banks, Report on Trend and Progress of Banking in India 2003-04, 2005-06, 2006-07, 2008-09, 2009-10)

NPAS OF NEW PRIVATE SECTOR BANKS

The same trend was followed by new private sector banks but the gross NPAs and net NPAs to total assets increased to 1.1 and 0.54 per cent in 2006-07 from 0.96 and 0.43 per cent in 2005-06 and it continued for next two years (see table – 5). Increase in gross NPAs was due to real estate and housing loans segments in which these banks are more active. The gross NPAs and net NPAs to total assets percent decreased to 1.8 and 0.8 percent during the year 2009-10. The average percentages of gross NPAs to gross advances, net NPAs to net advances are 0.31 and 1.36. As compared to all SCBs there is a marked difference in the GNPAs and NNPAs.

TABLE: 4 GROSS AND NET NPAS OF NEW PRIVATE SECTOR BANKS

(RS. IN CRORES)

Years	Gross NPAs					Net NPAs		
	Gross Advances	Amount	% to Net Advances	% to total Assets	Net Advances	Amount	% to Net Advances	% to Total Assets
2000-01	31499	1,617	5.13	2.05	30086	929	3.09	1.18
2001-02	76,901	6,811	8.9	3.91	74,187	3,663	4.90	2.1
2002-03	94,718	7,232	7.6	3.8	89,515	1,365	1.50	0.7
2003-04	1,19,511	5,961	5	2.4	1,15,106	1,986	1.70	0.8
2004-05	1,24,420	4,582	3.6	1.6	1,23,655	2,353	1.90	0.8
2005-06	2,32,536	4,042	1.7	1	2,30,005	1,793	0.80	0.4
2006-07	3,25,273	6,287	1.9	1.1	3,21,865	3,137	1.00	0.5
2007-08	4,12,441	10,426	2.5	1.4	4,06,733	4,907	1.20	0.7
2008-09	4,54,713	13,854	3.05	1.8	4,46,733	6,252	1.40	0.8

2009-10	4,88,397	14,017	2.87	1.8	4,80,184	5,234	1.09	0.8

(Table 24: Gross and Net NPAs of Scheduled Commercial Banks, Report on Trend and Progress of Banking in India 2003-04, 2005-06, 2006-07, 2008-09, 2009-10)

FOREIGN BANKS IN INDIA

Foreign banks in India decreased their gross NPAs and net NPAs to total assets from 0.97 and 0.41 per cent in 2005-06 to 3.04 and 0.77 per cent in 2000-01(see table – 6). Provisioning made during 2007-08 was higher than write-back of excess provisioning during the year so the gross NPAs and net NPAs are constant with 0.8 and 0.3 per cent. But in the year 2009-10 gross NPAs and net NPAs to total assets increased to 1.5 and 0.7 percent.

TABLE: 5 GROSS AND NET NPAS OF OLD PRIVATE SECTOR BANKS

(RS. IN CRORES)

Years	**Gross NPAs**					**Net NPAs**		
	Gross Advances	Amount	% to Net Advances	% to total Assets	Net Advances	Amount	% to Net Advances	% to Total Assets
2000-01	45395	3,106	6.84	3.04	43063	785	1.82	0.77
2001-02	50,631	2,726	5.4	2.43	48,705	920	1.90	0.82
2002-03	54,184	2,845	5.3	2.4	52,171	903	1.70	0.8

2003-04	62,632	2,894	4.6	2.1	60,506	933	1.50	0.7
2004-05	77,026	2,192	2.8	1.4	75,354	639	0.80	0.4
2005-06	98,965	1,927	1.9	1	97,555	808	0.80	0.4
2006-07	1,27,872	2,263	1.8	0.8	1,26,339	927	0.70	0.3
2007-08	1,62,966	2,857	1.8	0.8	1,61,133	1,250	0.80	0.3
2008-09	1,69,716	6,444	3.8	1.5	1,65,415	2,996	1.81	0.7
2009-10	1,67,366	7,180	4.29	1.5	1,63,462	2,975	1.82	0.7

(Table 24: Gross and Net NPAs of Scheduled Commercial Banks, Report on Trend and Progress of Banking in India 2003-04, 2005-06, 2006-07, 2008-09, 2009-10)

The average percentages of gross NPAs to gross advances, net NPAs to net advances are 3.39 and 1.32. Foreign banks are facing competition from New Private Sector Banks in India and the foreign banks are yet to come to grips with Indian Lending scenario.

ANALYSIS OF MEAN AND STANDARD DEVIATION TABLE

The Means of gross NPAs to gross Advances for SCBs and PSBs are 5.57, 5.89 but Old Private Sector Banks show the mean as 6. The means of percentage of net NPAs to net Advances SCBs and PSBs are similar but Old Private Sector Banks (OPSBs) are high with 3.11. Coming to gross NPAs, net NPAs to total assets again OPSBs are higher with 1.51. On the other percentage of hand the New Private Sector Banks and Foreign Banks showed a healthy trend when we take in to account the means of Percentage of Gross NPAs to Gross Advances and Percentage of Net NPAs to Net Advances. Similar trend could be seen in the means of Gross NPAs to Total Assets and Net NPAs to Total Assets. While Public Sector Banks and Old Private Sector Banks need to catch up with New Private Sector Banks and Foreign Banks (FBs), It is heartening to note that they are making good effort to control the NPAs by taking necessary control measures.

TABLE: 6 MEAN AND STANDARD DEVIATION OF ALL SCBS

Banks	Mean				Standard deviation			
	Gross NPAs		Net NPAs		Gross NPAs		Net NPAs	
	% to Gross Advances	% to total Assets	% to Net Advances	% to Total Assets	% to Gross Advances	% to total Assets	% to Net Advances	% to Total Assets
SCBs	5.57	2.66	2.64	1.2	3.27	1.36	1.79	0.75
PSBs	5.89	2.77	2.77	1.24	3.64	1.49	2.06	0.78
OPSBs	6	2.95	3.11	1.51	3.55	1.48	2.19	1.08
NPSBs	4.23	2.08	1.86	0.88	2.3	0.97	1.18	0.45
FBs	3.85	1.79	1.37	0.59	1.66	0.73	0.49	0.19

The Standard Deviation of percentage of Gross NPAs to gross advances and gross NPAs to total assets of PSBs are showing a higher trend with 3.64, 1.49 compared with all other SCBs. However in the case of Standard Deviation of the percentage of net NPAs to net advances and total assets, Old Private Sector Banks have shown indicated a higher variation. The variations in Standard Deviations indicate that the variations in the results obtained in the management of NPAs by PSBs and OPSBs. While New Private Sector Banks and Foreign Banks started with clean slate and latest technologies, the Public Sector Banks and Old Private Sector Banks had to overcome the old systems and employee resistance and introduce the new systems and processes and norms. In spite of this the trend that could be observed from the data presented in table no.s 2 and 3 show that these Banks are putting in effort to catch up with the competition.

CONCLUSION

The industry is currently in a transition phase. On the one hand, the PSBs, which are the main pillar of the Indian Banking system, are in trouble with excessive manpower, excessive NPAs and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through adoption of latest technology and systems.

PSBs, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs, falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service and adoption of modern technology. Private sector Banks have pioneered internet banking, phone banking, anywhere banking, and mobile banking, debit cards, Automatic Teller Machines (ATMs) and combined various other services and integrated them into the mainstream banking arena. While New Private Sector Banks and Foreign Banks started with clean slate and latest technologies, the Public Sector Banks and Old Private Sector Banks had to overcome the old systems and employee resistance and introduce the new systems and processes and norms. In spite of this the trend that could be observed show that these Banks are putting in effort to catch up with the competition.

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