A Comparative Study of NPA of State Bank of India Group & Nationalized Banks

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Abstract: Gross NPA of both SBI group & Nationalised Banks exhibit an increasing trend except the year 2008 of Nationalised Banks. As risk management becomes more sophisticated, the simple and static rules of 1998 Accord are becoming less relevant, Emphasis needs to be given on innovative banking. Autonomy is a sine qua non of innovation. Which needed a new capital framework and ways to manage risks. To solve these problems, Basel-II framework is an indicator approach for risk management. The study is based on the secondary data. The scope the study is limited to five years data. The study is related to SBI group and Nationalised banks.

KEY WORDS: NPA, GROSS NPA, OVER HANG & BANKS

1. Introduction:- Financial sector reform was undertaken early in the reform cycle in India. However, the banking sector reforms were not driven by any immediate crisis as has often been the case in several emerging economies. The design and detail of the reform were evolved by domestic expertise, while taking on board the international experience in this regard. And, enough space was created for the growth and healthy competition among public and private sectors as well as foreign and domestic sectors. The Government preferred that public sector banks manage the over-hang problems of the past rather than cleanup the balance sheets with support of the Government. It was also felt that there is enough room for growth and healthy competition for public and private sector banks as well as foreign and domestic banks. The twin governing principles are non-disruptive progress and consultative process.

In order to ensure timely and effective implementation of the measures, RBI has been adopting a consultative approach before introducing policy measures. Suitable mechanisms have been instituted to deliberate upon various issues so that the benefits of financial efficiency and stability percolate to the common person and the services of the Indian financial system can be benchmarked against international best standards in a transparent manner.

2. Objectives:-

(i) To determine gross NPA of SBI group and Nationalised banks.
(ii) To study Basel Committee-II Recommendations
(iii) To suggest measures to curb the growing NPA

3. Methodology:- The study is based on the secondary data. The scope the study is limited to five years data. The study is related to SBI group and Nationalised banks.

3.1 Gross NPA of SBI group & Nationalised Banks(Amount in Lakh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross NPA SBI Group</th>
<th>Gross NPA Nationalised Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1226000</td>
<td>2629100</td>
</tr>
<tr>
<td>2008</td>
<td>1503700</td>
<td>251900</td>
</tr>
<tr>
<td>2009</td>
<td>1881255</td>
<td>2680380</td>
</tr>
<tr>
<td>2010</td>
<td>2133767</td>
<td>3547031</td>
</tr>
<tr>
<td>2011</td>
<td>2814002</td>
<td>4290739</td>
</tr>
</tbody>
</table>

Source: Department of Banking Supervision, RBI
The Table 3.1 shows that gross NPA of both SBI group & Nationalised Banks exhibit an increasing trend except the year 2008 of Nationalised Banks.

3.1 Basel Committee-II Recommendations

Advancement in technology, telecommunications and markets have changed the way banks collect, measure and manage their risks. As risk management becomes more sophisticated, the simple and static rules of 1998 Accord are becoming less relevant, Which needed a new capital framework and ways to manage risks. To solve these problems, Basel-II framework is an indicator approach for risk management. Basel-II Consists of three mutually reinforcing pillars.

The first pillar aligns the minimum capital requirements more closely to banks actual underlying risks. It will be helpful in credit rating of risks on the basis of external measures issued by external rating agencies.

The second pillar – supervisory review – allows supervisors to evaluate each bank’s assessments of its own risks and to determine whether these assessments are reasonable or not.

The third pillar – market discipline – recognizes the power of marketplace participants to motivate prudent risk management, which leads to enhancing transparency in bank’s financial reporting.

Each pillar provides something that the other two can not. So it is suggested that each is essential to achieve overall objective of financial stability. Hence, implementation of Basel – II in Indian banking sector will help to focus on risk, to improve skills in measuring and managing the risks and to enhance efficiency.

3.2 Suggestions to curb NPA

The findings of the study make it abundantly clear that banking sector reforms have strengthened the Indian banking system which has come up to meet the challenges emerging from global competition. But the menace of NPA has not completely gone. The severity of the problem has been reduced to some extent. Banks are now no longer functioning under the protected environment. Therefore, their very survival depends upon their economic viability. One of the major source of NPA has been priority sector lending under different schemes of the government. Sometime in the past the populist approach of democratically elected government with regard to rural credit puts the bank in trouble. Therefore, NPA arising out of priority sector lending should not be reflected in the performance assessment of banks nor in the estimation of NPA. The high percentage of NPA erodes public confidence in the performance of the banks. Non inclusion of NPA arising out of non payment of priority sector loans would provide a proper yardstick for the measurement of efficiency as well as accountability of banks.

Another major obstacle in the way of efficient functioning of banks has been the sluggish legal system of our country. Debt Recovery Tribunals should be converted in to special courts with the power of the high courts, the appeal against which can only be heard by the Supreme Court.

The present system of internal vigilance of banks needs to be strengthened with adequate power conferred on the management to deal with cases of fraud and misappropriation by members of staff.

Emphasis needs to be given on innovative banking. Autonomy is a sine qua non of innovation. Every branch head should have the autonomy to decide upon the credit delivery & loan recovery
processes. Instead of fixing targets for them it would be more prudent to leave each of them to set their own target for themselves. The views and suggestions of the branch managers should be given due importance while framing the credit policy of a bank. Incentives in the form of promotion, desired place of posting and advanced increments would imbibe a spirit of involvement and responsibility among the lower cadre officers.

Financial markets in India are many and varied standard norm can be prescribed for all kinds of financial markets dealing with short term loans. The present practice of unhealthy competition among the private and public sector banks in comparatively developed markets creates a lot of confusion in the minds of middle class investors/savers. In their endeavor to offer higher rate of return to the depositors very often banks get in to capital market transactions which are risky and uncertain. This has been the major cause of NPA of private sector banks. The expenditure now banks are making for mobilization of savings should be curtailed.

Very purpose of social banking will be served when the nationalized commercial banks, instead of running after capital market investment will involve them in the process of economic development in the country by extending their credit base through system of micro finance. Investment in human resource development, employment generating programmes through direct participation, agricultural and industrial productivity enhancement programmes, rural industrialization and such other schemes would make the commercial banks effective agents of economic development. A shift from the role of mediation to that of direct participation in the best way for achieving economic viability. There is a need for a formal apex body for constant monitoring & assessment of commercial banks which would be an advisory body and which will have no conflict or overlapping of power with the Reserve Bank of India. It will function under the Ministry of Finance Government of India with a specific purpose of monitoring continuous reforms in the banking sector. The activities of all institutions both public and private, registered and unregistered, foreign & indigenous banks operating in the money market should be under the purview of the apex body. The main thrust of the proposed apex institution would be to provide ways and means for preventing unhealthy competition among the aforesaid institutions.

4. Conclusions:

Gross NPA of both SBI group & Nationalised Banks exhibit an increasing trend except the year 2008 of Nationalised Banks. Very purpose of social banking will be served when the nationalized commercial banks, instead of running after capital market investment will involve themselves in the process of economic development in the country by extending their credit base through system of micro finance. Investment in human resource development, employment generating programmes through direct participation, agricultural and industrial productivity enhancement programmes, rural industrialization and such other schemes would make the commercial banks effective agents of economic development.

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