A Comparative Study of Gross NPA of State Bank Group & Foreign Banks

Dr. Tanmaya Kumar Pradhan  
Asst. Professor, Dept. of Economics,  
NM Institute of Engineering and Technology,  
Sijua, Patrapada, Khandagiri, Bhubaneswar, Orissa-751019, India.

Abstract:

Gross NPAs of State Bank Group exhibit an increasing trend but in case of Foreign Banks gross NPAs continue to rise up to the year 2009 and thereafter it falls. 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. The study is based on secondary data. The scope of the study is limited to five years data.

KEYWORDS: BASE II, RISK, ACCORD, NPA

1. Introduction

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. The improvement in the financial health of the banking system is reflected in declining share of NPAs in the total advances of all the bank groups. It has been observed that gross NPAs to gross advances ratio of all the bank groups has shown a declining trend during 1998-2004. It decreased at tremendous rate despite tightening of norms relating to NPAs. On an average, it is the least in case of New Private Sector Banks i.e. 6.01% followed by Foreign Banks with 6.16%, it is half the NPAs share that of SBI & its associates & Nationalised Banks while variations are maximum in SBI & its associates i.e. 32.28%. In case of Foreign Banks from 2009 onwards Gross NPAs continues to fall till 2011.

2. Literature Review

Sarda (1998) in an article on the strategies for reducing Non-Performing Assets states that guidelines issued by the Reserve Banks non-income recognition, asset classification and provisioning norms compelled banks in India not only to show the true financial picture in the balance sheet but also to take corrective steps for improving their loan portfolio. With the adoption of these guidelines banks are fully vigilant about the quality of their assets and several steps are being taken by them to reduce NPA.

On lok adalat as an effective forum for reducing NPA, Rao (1999) remarks that lok adalats have gained prominence over a period of time as a forum through which the disputes/statements among the parties are settled through an expeditious compromise settlement by adopting principles of justice, equity, fair play and other legal principles.

Baslas and Bansal (2001) in their study on banking sector reforms found that the level of NPA is a contentious issue and a vital parameter in the analysis of the financial health of banking industry. Public sector banks account for a higher level of NPA as they hold a higher share in lending, but contrary to general perception, the ratio of gross NPA to total advances and total assets has come down.

B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote private sector banks play an important role in development of Indian
economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

It has also been viewed that banks lending policy could have crucial influence on non-performing loans (Reddy, 2004). He critically examined various issues relating to terms of credit of Indian banks.

Jain and Balachandran (1997) in their article point out that with the liberalization of the economy in general and the financial sector in particular, the risk dimensions facing the Indian commercial banks have multiplied. Banks which were familiar only with credit risk relating to non-payment earlier are now facing multiple financial risk in the form of credit risk relating to non-payment and non-performing risks, interest rate risk, exchange risk, maturity gap risk and technology risk.

3. Objectives

(i) To estimate Gross NPA of State Bank Group and foreign Banks
(ii) To examine Gross advances of State Bank Group and foreign Banks
(iii) To study Basel Committee –II Recommendations on banking sector reforms

4. Methodology

The study is based on the secondary data. The scope of the study is limited to five years data. The study is related to State Bank Groups and Foreign Banks.

<table>
<thead>
<tr>
<th>Year</th>
<th>State Bank Group</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1226000</td>
<td>209500</td>
</tr>
<tr>
<td>2008</td>
<td>1503700</td>
<td>274500</td>
</tr>
<tr>
<td>2009</td>
<td>1881255</td>
<td>626507</td>
</tr>
<tr>
<td>2010</td>
<td>2133767</td>
<td>587844</td>
</tr>
<tr>
<td>2011</td>
<td>2814002</td>
<td>401474</td>
</tr>
</tbody>
</table>

Source: www. Department of Banking supervision, RBI

The above table shows that gross NPAs of State Bank Group exhibit an increasing trend but in case of Foreign Banks gross NPAs continue to rise up to the year 2009 and thereafter it falls.

<table>
<thead>
<tr>
<th>Year</th>
<th>State Bank Group</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>46216307</td>
<td>10016700</td>
</tr>
<tr>
<td>2008</td>
<td>56987508</td>
<td>13057300</td>
</tr>
<tr>
<td>2009</td>
<td>72614499</td>
<td>13857628</td>
</tr>
<tr>
<td>2010</td>
<td>74900128</td>
<td>13702112</td>
</tr>
<tr>
<td>2011</td>
<td>90285760</td>
<td>16155716</td>
</tr>
</tbody>
</table>

Source: www. Department of Banking supervision, RBI
The above table indicates that gross advances of both State Bank Group and Foreign Banks exhibits an increasing trend throughout the year from 2007 to 2011 except the year 2010 in case of Foreign Banks.

**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 cannot. So it is suggested that each is essential to achieve an 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.

**5. Conclusions**

Banking sector reforms have strengthened the Indian banking system which has come up to meet the challenges emerging from global competition. The severity of the problem has been reduced to some extent. One of the main cause of NPA has been priority sector lending. Gross NPAs of State Bank Group exhibit an increasing trend but in case of Foreign Banks gross NPAs continue to rise up to the year 2009 and thereafter it falls.

**References:-**

8. Table B7: Bank-wise Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Scheduled Commercial Banks-2010.