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A Comparative Study of Gross NPA of Nationalized Banks and New Private Sector Banks

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

Abstract:-

Gross NPA of both Nationalised Banks and New Private Sector Banks exhibit an increasing trend except the year 2008 in Nationalised Banks and 2010 in New Private Sector Banks. The study is based on the secondary data. The scope of the study is limited to five years data. The study is related to Nationalised Banks and New Private Sector Banks.

KEYWORDS:- NPA, NATIONALISED BANK, NEW PRIVATE SECTOR,

1. Introduction:-

NPAs beyond a certain level are indeed cause for concern for everyone involved because credit is essential for economic growth and NPAs affect the smooth flow of credit. Banks raise resources not just on fresh deposits, but also by recycling the funds received from the borrowers. Thus, when a loan becomes non-performing, it affects recycling of credit and credit creation. Apart from this, NPAs affect profitability as well, since higher NPAs require higher provisioning, which means a large part of the profits needs to be kept aside as provision against bad loans. Therefore, the problem of NPAs is not the concern of the lenders alone but is, indeed, a concern for policy makers as well who are involved in putting economic growth on the fast track. In India due to the social banking motto, the problem of bad loans did not receive priority from policy makers initially. However, with the reform of the financial sector and the adoption of international banking practices the issue of NPAs received due focus. Thus, in India, the concept of NPA came into the reckoning after reforms in the financial sector were introduced on the recommendations of the Report of the Committee on the Financial System (Narasimham, 1991) and an appropriate accounting system was put in place.

Broadly speaking, NPA is defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham Committee Report (1991),those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs. Subsequently, this period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days were considered as NPAs.

2.Objectives:-

(i) To determine Gross NPA of Nationalised Banks and New Private Sector Banks
(ii) To estimate Gross Advances of Nationalised Banks and New Private Sector Banks
(iii) To study the rationalisation of interest rates
(iv) To examine Dimensions of Bank Transformation & Internet Banking
(v) To analyse future agenda of banking sector reforms

3.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 Nationalised Banks and New Private Sector Banks.

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Table 1.Gross NPA of Nationalised Banks and New Private Sector Banks
(Amounts in Rs. Lakhs)

Year	Nationalised Banks	New Private Sector Banks
2007	2629100	595300
2008	2511900	988900
2009	2680380	1389992
2010	3547031	1377220
2011	4290739	1427672

Source:-www. Department of Banking Supervision, RBI

Table 1 shows that Gross NPA of both Nationalised Banks and New Private Sector Banks exhibit an increasing trend except the year 2008 in Nationalised Banks and 2010 in New Private Sector Banks.

Table 2. Gross Advances of Nationalised Banks and New Private Sector Banks
(Amounts in Rs. Lakhs)

Year	Nationalised Banks	New Private Sector Banks
2007	97573300	31387500
2008	121855400	39598600
2009	153560191	45471321
2010	174640025	42818433
2011	217696671	54501393

Source:-www. Department of Banking Supervision, RBI

The Table 2 shows that Gross Advances of both Nationalised Banks and New Private Sector Banks exhibit an increasing trend except the year 2010 in New Private Sector Banks.

3.1Rationalisation of Interest Rates

Interest income is declining continuously due to deregulation of interest rates, entry of NBFCs with easy financing and intense competition. On the other side non-interest income is increasing, a good indicator of increasing profitability. To manage the interest rates following suggestions can be considered:

- evolve a Reserve Bank Reference Rate of Interest, which will be the basis for determining the entire gamut of interest rates
- adopt cautious step by step approach rather a rapid deregulation of interest rates
- adopt more and more fee-based activities like merchant banking, advisory services etc, especially public sector banks should be motivated to initiate fee-based activities
- the government should reduce the rate of interest on housing loans and also on loans for infrastructure development activities.

3.2Dimensions of Bank Transformation & Internet Banking

The term transformation in Indian Banking Industry relates to intermediately stage when the industry is passing from the earlier social banking era to the newly conceived technology based customer-centric and competitive banking. The activities and banks have grown in multi-directional as well as in multidimensional manners.

During transformation, all known parameters of the earlier regime continuously change. The current transformation process in the Indian Banking has many aspects. They pertain to:

- Capital Restructuring
- Information Technology

- Human Resource Development
- To reduce substantially to real cost of handling payments
- To liberate the banks from the traditional constraints on time and place
- To introduce new products and services

The latest wave in IT is Internet banking. It is becoming more obvious that the Internet has unleashed a revolution that is affecting every sphere of life. Internet is an interconnection of computer communication networks spanning the entire globe, crossing all geographical boundaries. Touching lifestyles in every sphere the Net has redefined methods of communication, work, study, education interaction, health, trade and commerce. The Net is changing everything. From the way we conduct commerce, the way we distribute information.

3.3 Future Agenda of Banking Sector Reforms

A national priority status should be given to financial sector reforms, particularly to banking sector reforms, because finance is a heart of any national economic development policy. The government should make some effective policies for banking sector, particularly for public sector banks. There are so many new challenges thrown by globalization, and liberalization policies of RBI. If we improve our banking sector accordingly, then we can convert these challenges in to opportunities, which will further strengthen our national economic development policy. In the present scenario, following suggestions can be implemented to improve our banking sector.

1. One of the challenges faced by the banking sector today is the high level of NPAs. To tackle this critical problem, different options are available, which may be:

- reducing the existing NPAs & curving their future build up
- organizing Lok adalats for recovering small loans
- increasing the number of debt recovery tribunals
- eliminate interference of the political parties to waive-up the loans
- setting up of the asset reconstruction fund as recommended by Narasimham Committee in its first and second reports.

2. In order to involve all members in business development and build team spirits at the branch level, regular staff meeting must be organized at least fortnightly or monthly.
3. Strategies of foreign banks and new private sector banks should be created among the public sector banks to make them competitive in the global age.
4. Branch rationalization policy should look into the aspect of bringing down the number of loss making branches along with the objective of improving overall efficiency of the branches. The loss making branches should mainly focus their attention to the recovery of NPAs.
5.New private sector banks should allow entering the banking industry to intensify the competition.
6. Transforming the work culture to make banking really a service industry.

4.Conclusion:

The overall banking sector reforms have improved the performance of banking industry. All the banks should implement all the recommendations of the first and second Narasimaham Committee report in the true spirit. From time to time, the efficacy of reforms should be evaluated and any deficiency and misunderstanding should be removed.

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