TRENDS OF NON PERFORMING ASSETS IN REGIONAL RURAL BANKS IN INDIA

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EXECUTIVE SUMMARY

Regional Rural Banks are facing a lot of challenges in facing Nonperforming assets. Sometimes Financial assistance in terms of loan given by Regional rural Banks to the poor becomes a non performing loan for the bank that is known as Non Performing Asset. Non Performing Assets affects the performance of RRBs and bank suffers from heavy losses. NPAs had become a stumbling block for regional rural banks before transformation affecting the performance and profitability. Government of India took steps to control the NPA and improve the performance of RRBs by consolidating and amalgamating the RRBs. The present study aims to study the classification of assets, causes and trends of NPA' s in RRBs in India in post transformation era.

KEYWORDS: Regional Rural banks, Non Performing Assets, transactions,

INTRODUCTION

Regional Rural banks have made a significant progress after the restructuring of RRBs which was started in 2005 by amalgamating 196 RRBs to 56 in 2015. The action of consolidation helped the RRBs in improving their functioning and achieving economies of scale and better managerial control. It also helped in Branch expansion, deposit mobilization, loan and investment maximization. Non Performing Assets is the major problem faced by RRBs. Government of India has taken steps to control the NPA which is affecting the performance of RRBs. Recently our GOI has directed regional rural banks to become slim by cutting jobs and outsource non-core functions such as IT maintenance, cash remittance and house-keeping to improve the productivity and profitability of RRBs. This move is based on the recommendations of SK Mitra committee on HR policy for RRBs. NPAs play a major role in the performance of RRBs, the increase in NPAs suggests

high level of credit defaults which affects the performance and profitability of RRBs. The efficiency of RRBs is reflected by the level of returns which it gets on its assets.

NON PERFORMING ASSETS (NPA)

The assets of a bank are classified into two, namely Performing Assets and Non Performing Assets. Standard assets are considered as performing assets as the borrower regularly pays his installments and interest on or before due date and Non Performing Assets are classified as sub standard assets, doubtful assets and loss assets. NPA is defined as a credit facility in which the interest/principal has remained past due for a specific period of time.

If the borrower is unable to pay and the bank is not able to realize its interest/principal during a period prescribed by the RBI, it is classified as NPA. RBI has defined and

classified Non Performing Assets as, NPA is a loan or an advance where;

    (i)   Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,

    (ii)   In respect of Overdraft or Cash Credit advances, if the account remains "out of order" for more than 90 days,

    (iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

    (iv) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

    (v)   The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

    (vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

    (vii) In respect of derivative transactions, the overdue receivables representing positive ttmark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

    (viii) In case of interest payments, banks should, classify an account as NPA only if the interest is due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

There are many experts who have defined NPAs, among them, the best suited definition of an NPA is;

According to Mohan, B. and Rajesh, K., "A non-performing asset is one which does not generate income for the bank. In other words an advance account which ceases to yield income in a non-performing asset."

ASSET CLASSIFICATION

1. Sub-Standard Assets

A sub standard asset would be a loan, which has remained unreturned (NPA) for a period less than or equal to 12 month.

2. Doubtful Assets

An asset would be classified as doubtful if it remained in the sub-standard category for a period of 12 months.

3. Loss Assets

An asset where the amount has not been written off wholly but loss has been identified by the bank or internal or external auditors or the RBI inspection. These are the assets where loss has been identified by the bank.

CAUSES OF NPAs

RRBs are facing a lot of problems in controlling the NPAs. The causes of NPAs are as follows:

Internal Factors:-

    (1) Improper SWOT Analysis

SWOT analysis is an important tool for analyzing the strength, weakness, opportunity and threat of the borrower. The improper analysis of a borrower is the reason for rise in NPAs.

    (2) Credit Appraisal System

Incorrect Credit Appraisal system is also the reason for the causal of NPAs. Lack of vision while sanctioning/ reviewing or enhancing credit limits by RRBs. The advances is given to those who are not able to give them back which leads to NPAs. The loans and advances should be given to those who can repay them.

    (3) Inappropriate use of technology:

Inappropriate technology leads to poor credit collection. All the RRBs should be computerized and use of MIS should be implemented.

    (4) Managerial Deficiency:

Loans and advances should be given to the borrowers very carefully and the banks should take the tangible assets of the borrower as a security to safeguard its interest.

    (5) Delay in sanctioning of loans:

The loans are not given at an adequate time. The loan sanctioning process should be on time.

External factors:-

    (1) Change in government policies

As government changes the banking policies also changes, so the banks have to cope up with new policies to tackle NPAs.

    (2) Ineffective Recovery

The recovery of loans is very ineffective so the government has to take crucial steps by setting up of number of tribunals to recover the loans and advances.

    (3) Natural Calamities

Natural calamities like floods, accidents making the borrowers unable to pay back their loans.

(4) Willful Defaulters

There are borrowers who can pay back loans but they intentionally withdraw it. This leads to increase in NPA.

Impact of NPAs on RRBs:-
1. They erode current profits.
2. Return on investment is reduced.
3. Limits the recycling of the funds, set in asset-liability mismatches.
4. The interest income of banks reduces.

OBJECTIVES OF THIS STUDY
1. To highlight the concept and causes of NPAs in RRBs.
2. To find out the trends of NPAs after the transformation of RRBs.
3. To discuss the problems faced by the RRBs.
4. To find out the strategies that can be used to control and reduce the NPAs.

RESEARCH METHODOLOGY
The objective of the study is to examine the trends of NPAs and its management in RRBs in India in Post Transformation Era, 2010 to 2015 in India, the study is of descriptive in nature, secondary data have been used from the annual reports of NABARD, RBI and other sources.

CLASSIFICATION OF NPAs
Gross NPAs:-
Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non standard assets like as sub-standard, doubtful, and loss assets.

Net NPAs:-
Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA reflects the actual burden of banks.

Table-I: Trends of Non Performing Assets

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Gross NPA (%)	7.3	6.55	6.1	4.2	3.72	3.75	5.03	6.08	6.08	5.83
Net NPA %	3.92	3.46	3.36	1.81	1.62	2.05	2.98	3.40	3.53	3.25

Source: Reports of NABARD and RBI

The above table reveals that gross NPA of RRBs has reduced from 6.08% in 2013-14 to 5.83% in 2014-15. In percentage terms, net NPA of RRBs has also reduced from 3.53% in 2013-14 to 3.25% in 2014-15. This trend of significant reduction in the gross NPA and Net NPA of RRBs appear to be the result of good loaning policies and their follow-up.

NPAs have been posing the biggest challenge for RRBs as increase NPAs affect the profitability, liquidity of the RRBs. The GOI has tried to develop many schemes and tools to reduce the non performing assets by introducing internal checks, control scheme and pattern of the borrowings. As RRBs were facing heavy losses the GOI took steps to improve the performance of RRBs by amalgamating the RRBs in 2005. To improve NPAs, RRBs should be motivated to introduce their own precautionary steps and strict measures should be taken for managing their assets and controlling them. On funds management and general administrative cost control, the proper credit worthiness of the prospective borrowers have been started to evaluate and judge the financial health of the borrower.

Table II: Asset Classification

(Amount in crore)

Sr. No	Particulars	2010	2011	2012	2013	2014	2015
1	**Asset Classification**						
a.	**Standard**	79734	95205	110526	128748	149613	170983
	% to total	96.27	96.25	94.97	93.93	93.94	94.13
b.	**Sub-standard**	1182	1622	3270	4622	4964	4938
	% to total	1.43	1.64	2.81	3.37	3.11	2.72
c.	**Doubtful**	1713	1900	2377	3488	4501	5480
	% to total	2.07	1.92	2.04	2.54	2.81	3.02
d.	**Loss**	190	190	211	220	224	244
	% to total	0.23	0.19	0.18	0.16	0.14	0.13
2	**Gross Loans**	82819	98917	116385	137078	159302	181644
3	**Gross NPA**	3085	3712	5859	8330	9689	10582
	% to total	3.72	3.75	5.03	6.08	6.08	5.83

Source: Compiled from the reports of various agencies

The above table shows that the Gross NPAs of RRBs increased to 9689 crore as on 31st March, 2014. However, the percentage of gross NPAs remained constant at 6.08 on 31st march, 2014. There has been a slight increase in substandard, doubtful and loss assets which means that RRBs are facing difficulties in converting them into performing assets. The fluctuation trend of NPAs may not be said alarming.

PROBLEMS OF RRBs

RRBs are trying to achieve their social objective by providing credit facility to the poor and are acting as a development bank of the rural poor. The following were the main problems faced by the RRB:

1. Scope of investment is limited: RRBs were having limited scope in investing their surplus fund as their main is to provide credit facilities to poor and weaker sections of society, i.e., to small and marginal farmers and other weaker sections.
2. Difficulties in deposit mobilization: RRBs are not attracting the deposits from the richer section and are only catering to the needs of poor and not the needs of the rich. They are not able to accept the deposits from NRIs.
3. Poor recovery rate: The recovery performance of the RRBs is very low. High over dues and poor recovery of loan is affecting the functioning of RRB's.
4. Capital inadequacy: Most of the RRBs are facing huge losses in teir balance sheet which is causing capital inadequacy in RRBs. The capital adequacy is the origin to financial soundness.
5. Inadequate finance: RRB's are facing the problem of inadequate finance and are dependent on NABARD to for their further operation.
6. Imbalance in banking facility: The facilities of rural credit is concentrated in some specific states and districts which is creating an imbalance in banking facilities provided by RRB'. They are loosing other prospective group of customers.
7. Lack of Co-ordination: The reason behind the low performance of the RRBs is lack of coordination between RRB's and other financial institution like commercial banks, NABARD and other co-operative bank.
8. Level of NPA: As on 31st March 2015, there are 23 RRBs which are having NPA of above 5%, which needs to be taken care of urgently. As those can affect the performance of RRBs.

9. Tolerance limit: As on 31st March 2015, the gross NPA of RRBs stood at 5.85%, which is higher then the tolerable limit of 5%. The gross NPA needs to be cut down below 5%.

SUGGESTIONS FOR IMPROVEMENT OF RRBs

Various measures can be used to reduce NPAs like through recovery, up gradation and selective write off. Some of the measures to control NPAs and improve the performance of RRBs are:

1. The banks should go for securitization of assets which can help them in transforming non performing assets to performing assets.
2. The employees of RRBs should get trained and they should give attention on the activities of the NPA's and slow recovery of overdue loans. The recovery of loans should be on time.
3. Serious legal action should be taken against the willfull defaulters who intentionally do not pay their debt.
4. Government should open more branches in weaker and remote areas.
5. The RRBs should be allowed to lend up advances to richer sections of the rural society.
6. The RRBs which are not performing to their potential and are not generating business should be allowed to extend the area of operation to one or more districts where RRBs are not present.
7. RRBs should improve their existing appraisal system covering all the aspects that are technical, commercial, Financial, economic and management.
8. The RRBs should be encouraged to take proper steps in rural development.
9. The government should announce incentives for the prompt payers and penal interest rates for the willful defaulters.
10. The RRBs should relax the lending procedure and make it easier for rural borrowers.
11. If a borrower faces problem in paying the dues, the banks should take all the possible actions to recover those dues, they can give the borrower some concessions in interest rates or they can reschedule the repayments. It will help the bank to recover the dues in a faster way.

CONCLUSION

Regional Rural Banks were set up to provide credit facilities to the rural people but the NPAs have become a major problem in the recent past for the RRBs.

NPAs are bad debts and they do not generate income for the RRBs. NPAs not only effect the profitability of the bank but also it requires higher provisioning as a large amount of profit is kept aside as a provision for bad debts, hence it effects the recycling of funds. Constant efforts are being made by RRBs to control the NPAs. In recent past the RRBs were restructured to improve their performance as lot of RRBs were facing heavy losses and the NPAs were rising. In the same way a lot measures should be implemented to control the NPAs. There is an increase in the aggregate gross and net NPAs but in percentage terms the level of NPAs have dropped down. Hence the trend suggests that there has been a significant reduction in NPAs after amalgamation.

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