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ASSETS QUALITY OF INDIAN BANKS-AN OVERVIEW

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Introduction

The banking sector in India emerged largely unscathed from the global financial crisis of 2007-08, but faced a slowdown in the momentum of growth due to the weakening of trade and finance. However, post crisis, the economic growth in most emerging market economies (EMEs) including India recovered, while growth remains anemic in advanced economies.

Economic instability in the Euro zone due to financially weak countries in the zone and various bailout packages, political turmoil in Syria ,Middle East, West Asia and Korean Region have together led to an accentuation of downside risks to global growth. While these risks are expected to recede gradually over time, the long-term sustainability of higher growth in India will depend crucially on the ability of the banking sector to mobilize the savings and meet the credit needs of the growing economy through innovative financial instruments and services that foster financial inclusion and provide efficient and transparent delivery of credit.

The most important factor which measures the health of a banking system is the size and components of NPAs . Slow growth, higher interest rates, economic slow down and inability of borrowers to service the debt on time are co-existing now. When the GDP growth is poor the level of NPAs will naturally increase . The GDP growth rate, predictions and actuals do not match because of elements like inflation, high cost of borrowing and low level of consumption.

Current Statistics

The NPA figures for 2011-12 shows that Public Sector Banks have contributed maximum , with SBI Group taking the major share. The table given below shows a comparison of NPAs for the year 2011 and 2012.

Gross NPA of Banks (in percentage)

Bank Group	**2010-11**	**2011-12**
State Bank Group	3.4	4.6
Nationalised Banks	2.1	2.8
Public Sector Banks	2.4	3.3
Old Private Banks	1.9	1.8
New Private Banks	2.7	2.2
All Private Banks	2.5	2.1
Foreign Banks	2.5	2.6
Scheduled Commercial Banks	2.5	3.1

Source: Report on Trend and Progress of Banking in India,2011-12, RBI

From the above table it is clear that the State Bank Group had a jump of 1.20 percent in their NPA over a period of 12 months. The current fiscal (2012-13) figures will be available only after the audit, being down now. But estimates hint that the picture is not rosy and the NPA figure is a cause for great concern for the CEOs of the Group Banks, which keep them awake at night.
Compared to State Bank Group, the increase of NPA in the Nationalised Banks segment was only 0.7 percentage while their counterparts in Old Generation Private banks showed an improvement in their NPA management. The figure of New Generation Private Banks also has shown a healthy trend while Foreign banks have registered only a marginal increase in their NPA figure. The credit offtake in fiscal 2011-12 was also poor at 17.4 % compared to 22.3% during the year 2010-11 and 19.60% during 2009-10

Analysis of Reasons:
The economic Survey, 2012-13 has identified some points as the main reasons for growing NPAs in the recent past.

1. Most Public sector banks have adopted the system of identifying the NPAs (loan accounts) based on the software system they use.
2. Present slow down in GDP growth and other macro- economic factors prevalent in the country
3. High interest rates and increased borrowing cost in the recent past
4. Aggressive lending by banks in the recent past

Looking at the above points an inference is reasonable that Banks were really aggressive in lending with number-games and target- games. When ever a new CEO takes charge in a Bank he sets a target of business-growth and the message is passed on to the operating functionaries. The functionaries at different levels take the pressure to meet the targets set by the higher-ups, occasionally succumbing to the peer pressure as well as pressure from the controllers. Nobody wants to compromise with their career progress and ultimately the asset quality is suffering because of the enthusiasm and pressure, to some how perform and meet the magical target figures.

The system classification of NPAs (so called technical NPAs) can be manipulated upto a certain level if the auditor/ inspector is taken into confidence .There are cases where the borrowers are not able to plan their repayment due to intermittent increase in EMIs due to interest rate reset and consequent re- alignment of EMIs.

RBI report on Trends and Progress of Banking in India 2011-12 said " the slow down prevailing in the domestic economy " as the main cause for increase in NPAs. Is this the only reason we can rely upon? Some banks , including major players in the Nationalised segment also conduct "loan ***melas***[1] ' during festival seasons with announcement of quite a lot of concessions, This is usually done in the retail segment especially housing loans and car loans. There can be an argument that the amount in this segment will be marginal compared to the total advances. But it is worthwhile to go for an analysis of these loans and its repayments to assess the quality of loans disbursed during the special offers.

In the case of Corporate lending, the quality of appraisal plays an important role. The poor knowledge of the person in the appraisal teams, unwanted deviations being sanctioned by the credit committees etc. play a vital role in the quality of assets. There are occasions where dilution of security comes to the decision making table and they succumbs to the pressure of peer level officers or higher authorities to meet the periodical targets.

Being a financial service industry banking needs people of high integrity and value in the credit appraisal and administration department . There are quite a number incidents surfaced in the recent past where unhealthy nexus has been established between the borrowers, bank officials and also the official valuers/ legal advisors. These factors cannot be neglected in order to safeguard the interest of the banking system and the economy as a whole.

Knowledge base of the appraisal team, continuous training of the persons engaged in this job, random surprise scrutiny of the appraisals done etc. can bring a lot of changes in the process which can bring down the NPA level to a great extent.

Post sanction follow up is equally essential for the maintenance of the quality of the assets. Regular credit monitoring , follow up and personal visits are the most essential things to be done regularly. This is also lacking now a days because of the non-availability of staff in the public sector banks. The volume is another villain in this respect. Most banks have migrated to centralised processing system and it has brought a lot of damage . Most banks have not given adequate importance to regular follow up . They use to appoint junior officers in the credit cell for follow up , which is bare dilution in the process.

Generally Bankers become alert only after the account is stamped as NPA either by the Statutory Auditors or by the Internal Auditors.Till that point generally the officials do not care the account. They never bother to find out the real reason for the slippage, whether the unit/project is under- financed, whether any more financial support is needed to save the borrower /project from the adverse situation etc. Another important aspect is the consideration to be given to the borrowers on the macro economic situation in the country and restructuring to be done if necessary, Restructuring , rephasement, moratorium etc should be implemented on a need based basis after due discussion with the higher authorities.

Conclusion.

Banking system is the platform for economic development in a country like India .The key drivers for the growth of the banking system are Financial inclusion, Competition, Consolidation and Globalisation , on the external front. The regulatory drivers like KYC and AML issues, fair treatment to customers, proper risk management also assume significant attention of Bank Management. The recent cobrapost allegations on AML on a few new generation private banks have stirred up the hornets' nest. There are internal drivers for the Indian banking system, like, Human Resource Management, Leveraging of technology, Improving MIS etc. which also can supplement the efforts in improving the quality of assets. Globally , rating agencies are keenly observing the quality of assets of the major banks to give their rating, which is a major concern not only for the banks but also Indian economy as a whole.

It is a consolation that recently Sarfaesi Act has been amended to give more operational convenience for speedy recovery of banks' dues, which can be leveraged by the banking system in a big way. Moreover the Ministry of Finance has made it mandatory for all commercial banks to move from physical auctions to e-auction mode for all NPA cases under the Debt Recovery Tribunal(DRT). The ministry is considering the proposal to be extended to recovery under Sarfaesi Act also. If this is properly implemented the NPA can be substantially reduced within the shortest time and asset's quality can be improved substantially.

Reference:

***Reserve Bank of India*: Report on trend and progress of banking in India 2011-12**