

UNIT 10 - RBI measures on Non-Performing Assets (NPA)



Introduction

Non Performing Assets are increasing rapidly and shaking the entire banking sector including both public and private sector banks in India.

What is NPA?

- A credit amount for which both the principal amount and the interest due on the amount is not paid for a specific period of time (generally 90 days) is termed as NPA
- NPA are also termed as bad loans or defaults
- NPA arise as a result of bad lending practices, banking crisis, frauds in banking operations etc
- Public sector banks are highly stressed due to NPA
- NPA causes severe liquidity problems in banks and to the shareholders of the banks

NPA facts for current fiscal

- RBI has reported gross NPA has increased to 11.1 percent from 9.2 percent in the previous year
- RBI reports a staggering gross NPA figure of 3 lac crore
- Stressed assets of banks stood at more than 6 lac crore
- RBI has revealed that 5 out of 8 PSU banks have recorded huge losses due to NPA

The highly stressed public sector banks include

1. Punjab National Bank
2. Indian Overseas bank
3. Syndicate bank
4. Bank of Baroda
5. Dena Bank
6. Allahabad bank
7. Central bank of India

Ill effects of NPA

- Borrowers find it difficult to borrow from banks as bankers show aversion to borrowers
- The attitude of bankers towards the borrowers becomes arrogant
- Borrower gets demoralized with such behavior of the employees and loses faith in the banking system.
- Bank loyal customers move away from their banks
- The reputation of the bankers is at stake in such high NPA situation
- The relation between bankers and borrowers is not conducive
- Banks start to adjust daily operations and accounts as a result of NPA
- Shareholders lose confidence in the banks and withdraw their invested money from the banks as a result of NPA
- Customer service of Banks becomes negative and employees start shouting at customers over the phone
- Banks start moving towards bankruptcy

Gross NPA figures of banks

- Punjab National Bank reported the maximum gross NPA and ranks top among public sector banks
- Punjab National Bank reported gross NPA of 34338 crore, an increase of 10000 crore from previous year
- Central Bank of India has reported gross NPA of 17564 crore
- Dena Bank has reported gross NPA of 7916.47 crore
- Allahabad Bank has reported gross NPA of 3494 crore
- ICICI banks is facing huge problems due to NPA and faces the heat in the private sector

- ICICI bank has reported gross NPA of 21149 crore, a steep rise of 70 percent compared to previous years

RBI Measures

- Asset restructuring
- Divestment through sell off of stressed assets
- Reformed Bankruptcy norms
- RBI has asked banks to accelerate provisioning of stressed assets
- This provisioning measure has reflected heavily on the profitability of the banks with banks recording huge losses or low profits
- RBI has eased the NPA redressal norms
- RBI revised guidelines on Strategic debt restructuring (SDR)
- Banks can make provisions to the tune of 15% of the loan value
- RBI relaxed Joint Lender's Forum (JLF) by bringing down the divestment limit to 26% from 51%
- RBI has released corrective action plan (CAP) on defaulters
- RBI has initiated criminal action on willful defaulters
- RBI has recognized Common Equity Tier I (CETI) capital for deferred tax assets
- RBI has unlocked 40000 crore to banks to handle the NPA problem temporarily
- Public sector banks will get an infusion of 35000 crore from RBI
- Private sector banks will get an infusion of 5000 crore from RBI
- SARFAESI Act amended to handle NPA related cases in State High court and Supreme court
- The recent demonetization drive could help banks in recovering some of the NPA arrears