NPAs: PUBLIC VERSUS PRIVATE SECTOR BANKS OFFICER'S PERCEPTION

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Abstract

Banks are the main stimulus of the economic progress of a country. In general there are several challenges confronting of Scheduled Commercial Banks. The main challenge confronting the Scheduled Commercial Banks is the disbursement of funds in; loans and advances i.e. the problem of Non Performing Assets. Non Performing Assets means an assets or account of borrower, which has been classified by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions or guidelines relating to asset classification issued by Reserve Bank of India. The concept of Non Performing Assets was originally introduced by Reserve Bank of India in the year 1993 based on the recommendations of "Narasimham Committee" on "Financial System Reforms", in line with International Accepted Norms. According to the concept, Non Performing Asset in banks is those assets, which cease to generate income for the banks and remain irregular due to non payment of interest and installments. The present research paper is designed to examine the opinion of officers of Public Sector Banks and Private Sector Banks in respect of NPAs, the causes and remedial measures thereof. For the purpose of analysis of perception of officers of Public Sector Banks and Private Sector Banks data has been collected from 20 officers of Public Sector Banks and 20 officers of Private Sector Banks through questionnaire. The response of officers of banks has been analyzed on five point scale by using Likert Scale.

Introduction

The issue of Non Performing Assets (NPAs) has come to occupy the central stage in the discussion of India's financial sector reforms. The concept of Non Performing Assets was originally introduced by Reserve Bank of India in the year 1993 based on the recommendations of "Narasimham Committee" on "Financial System Reforms", in line with International Accepted Norms. According to the concept, Non Performing Asset in banks is those assets, which cease to generate income for the banks and remain irregular due to non payment of interest and installments. Systematic soundness and stability of the banking system all over the world is engaging the attention of policy makers. The overdue advances of banks in India are mounting and in consequences the Non Performing Assets in their portfolio are on the rise, impinging on the viability of the banks. Avoidances of loan losses are one of the pre-occupation of management of banks while complete elimination of such losses is not possible. Bank management wants to keep the losses at a low level. Infact, it is the level of Non Performing Assets that to a great extent differentiates between a good and a bad bank. Once an assets fall under the NPAs category, banks are required by the Reserve Bank of India (RBI) to make provision for the uncollected

interest on these assets. For the purpose they have to classify their assets on the strength and on collateral securities into:

* **Standard Assets:** this is not a Non Performing Assets. It does not carry more than normal risk attached to the business.
* **Sub-Standard Assets:** an advance is to be classified as sub-standard assets if it remains NPA less than or equal to 12 months.
* **Doubtful assets:** an advance is to be classified as doubtful if it remains in the category of sub-standard assets for more than or equal to 12 months.
* **Loss Assets:** an account can be classified as loss assets without any waiting period where the dues are considered uncollectible by the bank or internal or external auditors or RBI inspectors but the amount has not been written off wholly.

After classifying assets into above categories, banks are required to make provision against these assets for the interest not collected by them. In terms of exact prudential regulation, the provisioning norms are as under:

Assets Classification	Provision Requirements
Standard Assets	0.25%
Sub-standard Assets	10% on total outstanding balance
Doubtful Assets	20%-50% of the secured portion depending on the period of assets remaining sub-standard and 100% of the unsecured portion.
Loss Assets	It may be either written off or fully provided by the banks.

The present research paper is designed to examine the opinion of officers of Public Sector Banks and Private Sector Banks in respect of NPAs, the causes and remedial measures thereof. For the purpose of analysis of opinion of officers of Public Sector Banks and Private Sector Banks data has been collected from 20 officers of Public Sector Banks and 20 officers of Private Sector Banks through questionnaire. The response of officers of banks has been analyzed on five point scale by using Likert Scale.

Review of literature

Keeping in view of the importance of NPAs management in banks in the process of reducing NPAs, large number of studies has been carried out by researchers, on the concept, type, impact, reasons and measures for NPAs.

Janardhar G. Naik (2006) pointed out on the problem of NPAs management in banking sector and concluded that government of India has to set ARCs to manage NPAs to face the challenges before the banking sector.

Sujata Visaria (2005) investigated the micro level link between judicial quality and economic outcomes. It uses a loan level data set from large Indian banks to estimate the impact of quasi-

level installment, debt recovery, aimed at accelerating banks recovery of Non Performing Loans. This study reveals that the establishment of tribunal reduces delinquency in loan repayment by between 3 percent and 10 percent.

Rajaraman et. Al (2002) in an empirical study provided an evidence of significant bi-vitiate relationship between an operating inefficiency indicator and the loans problem of public sector banks.

Murthy (2000) in his study focuses on branch level management of NPAs through better credit monitoring. He has given ABC analysis as a tool for NPAs management. He suggested that accounts should be listed with critical details and then ranking should be done and account should be segregated into A+, A, B and C groups on the basis of value involved.

Kaveri (1995) in his study on the relationship between recovery and profitability took twelve Public Sector Banks out of which six were profit making banks and other six loss making. It was found that profit making banks witnessed either rise in the growth of advances or a marginal decline in the same when compares with last year figures. It was revealed that higher Non Performing Assets due to poor recovery led banks to show losses and reverse is the situation in case of profit making banks.

Objectives of the Study

- To find the relationship between the ranks given by officers of Public Sector Banks and Private Sector Banks to the factors responsible for NPAs in banks.
- To find the relationship between opinion of officers of Public Sector Banks and Private Sector Banks about NPAs.
- To analysis the significance difference in opinion of officers of Public Sector Banks and Private Sector Banks about NPAs.

Data Sources and Methodology

For the study, primary data and secondary data has been collected. For primary data questionnaire has been made and data has been collected from various officers of public sector Banks and Private Sector Banks. 40 questionnaires have been filled, 20 questionnaire each from officers of public sector Banks and Private Sector Banks. Primary data is used for knowing the causes, impact and measures of Non Performing Assets. Secondary data has been collected from Annual Report of Reserve Banks of India. Guide lines issued by Reserve Banks of India from time to time related to Non Performing Assets were studied in depth. In the present study, various statistical tool ratio, average, percentage, measure of central tendency, rank correlation, karl pearson coefficient correlation and t-test have been used to analyzing and interpreting the data. The data has been illustrated in the form of table to make it more communicative.

Analysis of Data

Comparison of Views Regarding Causes Attributable to Banks

Officers of Public Sector Banks and Private Sector Banks rated the factors responsible for causes attributable to banks differently. These differences are giving below in table 1.

Table-1 Opinion of Officers of Public Sector Banks and Private Sector Banks Regarding Causes of NPAs Attributable to Bank

Causes	Public Sector Banks		Private Sector Banks	
	Mean Score Value	Ranks	Mean Score Value	Ranks
Target Oriented Approach	4.5	4	4.4	2
Wrong Identification of Beneficiary	4.8	2	4.3	3
Weak Monitoring	3.7	5	2.8	7
Weakness in Credit Appraisal	2.5	7	3.5	6
Non Availability of Data	3.6	6	3.9	5
Delay in Disbursement of Credit facility	4.7	3	4.2	4
Absence of Credit Information	5	1	4.6	1

Source: Compiled on the basis of primary data

Rank correlation = 0.96
Karl Pearson Coefficient of Correlation = 0.71

In table-1 the opinion of officers of Public Sector Banks and Private Sector Banks towards causes of Non Performing Assets has been given. From the table it is observed that "Absence of Credit Information" is considered the most important cause for occurrences of Non Performing Assets attributable to bank with same mean score value. "Weak Monitoring" considered less important by officers of Private Sector Banks as compare to Public Sector Bank's officers. Rank correlation between the ranks given by officers of Public Sector Banks and Private Sector Banks is 0.96 and Karl Pearson Coefficient of Correlation between mean score value of Public Sector Banks and Private Sector Banks is 0.71 which shows the positive relationship between responses of officers of Public Sector Banks and Private Sector Banks regarding factors responsible for occurrence of Non Performing Assets attributable to banks.

For finding the significance difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding causes of NPAs Attributable to Bank, a null hypothesis has been formulated and tested by using t-test, the result of t-test has been given in below Table – 2.

Null Hypothesis

There is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding causes of NPAs attributable to bank.

Table 2 T-Test

Factors	Calculated Value	Table Value @ 5% Level of Significance	Result
Mean score value of Public Sector Banks and Private Sector Banks	0.71	2.228	Reject Ho

From the Table 2, it is observed that calculated value is less than tabulated value of t, null hypothesis has been accepted and concluded that there is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding causes of NPAs attributable to bank.

Comparison of Views Regarding Causes Attributable to Borrowers

Primary data has also been collected from the officers of Public Sector Banks and Private Sector Banks to identify the differences in their views. Viewpoints of officers of Public Sector Banks and Private Sector Banks are given in table-3.

Table-3: Opinion of Officers of Public Sector Banks and Private Sector Banks Regarding Causes Attributable to Borrowers

Causes	Public Sector Banks		Private Sector Banks	
	Mean Score Value	Rank	Mean Score Value	Rank
Misutilization of Loan	4.9	1	4.5	2
Willful default caused by other factors	3.2	6	3.7	6
Lack of Technical Experts	3.8	4	4.0	5
Willful Default Induced by Loan Waiver Scheme	4.1	3	4.3	4
No Collaterals Security	4.3	2	4.7	1
Genuine Viability Problem of Borrower Unit	2.7	7	4.4	3
Disputes Among Borrowers	3.5	5	2.5	7

Rank correlation = 0.92
Karl Pearson Coefficient of Correlation = 0.36

From the above table it is observed that officers have given the different rating to the maximum causes of Non Performing Assets attributable to borrowers. The same rank is related to only one factor i.e. "Willful Default Induced by Officially Announced Loan Waiver Scheme". Rank correlation between the ranks given by officers of Public Sector Banks and Private Sector Banks is 0.92 and Karl Pearson Coefficient of Correlation between mean score value of Public Sector Banks and Private Sector Banks is 0.36 which shows the positive relationship between responses of officers of Public Sector Banks and Private Sector Banks regarding factors responsible for occurrence of Non Performing Assets attributable to borrowers.

For finding the significance difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding causes attributable to borrowers, a null hypothesis has been formulated and tested by using t-test, the result of t-test has been given in below Table – 4.

Null Hypothesis

There is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding causes attributable to borrowers.

Table – 4: T-Test

Factors	Calculated Value	Table Value @ 5% Level of Significance	Result
Mean score value of Public Sector Banks and Private Sector Banks	0.57	2.228	Reject Ho

From the Table 4, it is observed that calculated value is less than tabulated value of t, null hypothesis has been accepted and concluded that difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding causes attributable to borrowers.

Comparison of Views Regarding Other Causes

Officers of Public Sector Banks and Private Sector Banks have given importance to other factor of causes of Non Performing Assets with a little difference. And these differences are given below in table-5.

Table-5: Opinion of Public Sector Bank's and Private Sector Bank's Officers Regarding other Causes

Causes	Public Sector Banks		Private Sector Banks	
	Mean Score	Rank	Mean Score Value	Rank
General Slow Down Economy	4.7	1	4.2	3
Depressed Capital Market	4.5	2	4.4	1

Inadequate Infrastructure	3.3	5	2.6	6
Withdrawal of Policy	4.3	3	2.9	5
Price Preference	2.7	6	4.3	2
Frequent Change in Government	3.7	4	3.3	4
Slow Disposal of Recovery Cases	2.5	7	2.2	7

Source: Compiled on the basis of primary data
Rank correlation = 0.92
Karl Pearson Coefficient of Correlation = 0.46

During the study, it was analyzed the respondents rated differently to other causes of Non Performing Assets except two factors i.e. "Frequent Change in Government" and "Slow Disposal of Recovery Cases". "General Slow Down in Economy" considered extraneous general causes contributing towards accumulation of Non Performing Assets with mean score value of 4.7 by officers of Public Sector Banks while "Depressed Capital Market" with mean score value of 4.4 by officers of Private Sector Banks.

Rank correlation between the ranks given by officers of Public Sector Banks and Private Sector Banks is 0.92 and Karl Pearson Coefficient of Correlation between mean score value of Public Sector Banks and Private Sector Banks is 0.46 which shows the positive relationship between responses of officers of Public Sector Banks and Private Sector Banks regarding factors responsible for occurrence of Non Performing Assets attributable to other causes.
For finding the significance difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding other causes of NPAs, a null hypothesis has been formulated and tested by using t-test, the result of t-test has been given in below Table – 6.

Null Hypothesis
There is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding other causes of NPAs.

Table – 6: T-Test

Factors	Calculated Value	Table Value @ 5% Level of Significance	Result
Mean score value of Public Sector Banks and Private Sector Banks	0.60	2.228	Reject Ho

From the Table 6, it is observed that calculated value is less than tabulated value of t, null hypothesis has been accepted and concluded that there is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding other causes of NPAs.

Comparison of Views Regarding Impact of NPAs

Comparative opinion of officers and clerks are also taken regarding impact of Non Performing Assets. These are given in table 7.

Table-7: Opinion of Officers of Public Sector Banks and Private Sector Banks Regarding Impact of NPAs

Factors	Public Sector Banks		Private Sector Banks	
	Mean Score Value	Rank	Mean Score Value	Rank
Profitability	5	1.5	5	1.5
Productivity	5	1.5	4.7	3
Interest Spread	4.5	3	5	1.5
Achievement of Credit	3.9	4	4.2	4
Appraisal Level				
Credit Deployment	3.2	5	3.9	5
On Credibility of Banking System	2.9	6	3.1	6
On the Economy	2.5	7	2.4	7

Source: Compiled on the basis of primary data

Rank correlation = 0.98

Karl Pearson Coefficient of Correlation = 0.94

100 percent officers of Public Sector Banks considered "Profitability" and Productivity are highly affected by Non Performing Assets and in case of Private Sector Banks "Profitability" and "Interest Spread" are highly affected by Non Performing Assets. To the factors "Achievement of Credit", "Credit Deployment and Investment Policy", "On Credibility of Bank System" and "On the Economy" has been given same rank i.e. 4th, 5th, 6th and 7th rank by officers of Public Sector Banks and Private Sector Banks. So it can be said that officers of Public Sector Banks and Private Sector Bank's opinion are same regarding impact of Non Performing Assets on banking performance. Rank correlation between the ranks given by officers of Public Sector Banks and Private Sector Banks is 0.98 and Karl Pearson Coefficient of Correlation between mean score value of Public Sector Banks and Private Sector Banks is 0.94 which shows the positive relationship between responses of officers of Public Sector Banks and Private Sector Banks regarding impact of NPAs.

For finding the significance difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding impact of NPAs, a null hypothesis has been formulated and tested by using t-test, the result of t-test has been given in below Table – 8.

Null Hypothesis

There is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding impact of NPAs.

Table – 8: T-Test

Factors	Calculated Value	Table Value @ 5% Level of Significance	Result
Mean score value of Public Sector Banks and Private Sector Banks	0.74	2.228	Reject Ho

From the Table 4.8, it is observed that calculated value is less than tabulated value of t, null hypothesis has been accepted and concluded that difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding impact of NPAs is not significant.

Measures of Non Performing Assets

Opinion of officers of Public Sector Banks and Private Sector Banks has also been taken for measures of Non Performing Assets. Their comparative views are given in below table 9.

Table-9: Opinion officers of Public Sector Banks and Private Sector Banks Regarding Measures of NPAs

Factors	Public Sector Banks		Private Sector Banks	
	Mean Score Value	Rank	Mean Score Value	Rank
Efficient Credit Appraisal	4.5	1	3.4	2
Credit Monitoring	3.5	2	4.7	1
Training to Officers	3.2	3	2.9	3
Credit Risk Rating	2.7	4	2.3	4
Monitoring of Standard Assets	1.5	5	2	5

Source: Compiled on the basis of primary data

Rank correlation = 0.98

Karl Pearson coefficient of correlation = 0.66

100 percent officers of Public Sector Banks considered the "Efficient Credit Appraisal" as the most important measures of Non Performing Assets while "Credit Rating" as the most important measures of Non Performing Assets according to officers of Private Sector Banks. "Training to Officers", "Credit Risk Rating" and "Monitoring of Standard Assets" considered as next important measures of Non Performing Assets by officers of Public Sector Banks and Private Sector Banks. Rank correlation between the ranks given by officers of Public Sector Banks and Private Sector Banks is 0.98 and Karl Pearson Coefficient of Correlation between mean score value of Public Sector Banks and Private Sector Banks is 0.66 which shows the positive relationship between responses of officers of Public Sector Banks and Private Sector Banks regarding measures of NPAs.

For finding the significance difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding the measures of NPAs, a null hypothesis has been formulated and tested by using t-test, the result of t-test has been given in below Table – 10.

Null Hypothesis:

There is no significant difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding the measures of NPAs.

Table – 10 : T-Test

Factors	Calculated Value	Table Value @ 5% Level of Significance	Result
Mean score value of Public Sector Banks and Private Sector Banks	0.74	2.228	Reject Ho

From the Table 10, it is observed that calculated value is less than tabulated value of t, null hypothesis has been accepted and concluded that the difference between opinion of officers of Public Sector Banks and Private Sector Banks regarding the measures of NPAs is not significant.

Conclusion

On the basis of opinion of officers of Public Sector Banks and Private Sector Banks, it can be concluded that Absence of Credit Information" and Willful Default Induced by Officially Announced Loan Waiver Scheme is considered the most important cause for occurrences of Non Performing Assets attributable to bank and borrower. Profitability of banks is highly affected by Non Performing Assets and efficient credit appraisal is considered the most important measure to control Non Performing Assets.

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