# A Study of Factors Amplifying Non-Performing Assets in Public and Private Banks in the Indian Economy

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**Abstract**
*Banking system is the foundational stone of Indian economy. In recent time, both public and private sector banks were marred by an growing number of NPAs, which is a matter of grave concern for Indian economic stability. This study aims to analyse the significance of growing NPAs on banking industry, identify the factors that contribute to the growth in the number of NPAs in Public and Private Banks in India, analyse them in Indian context and suggests various remedial measures for reducing the growing amount of NPAs with banking industry. The study also endeavours to formulate NPAs amount recovery techniques with explanation of their efficacy in Indian Banking Sector. It tries to provide various suggestions to stakeholders, analyisng both the adavantages and disadvantages of each such measure for the arrest in the growth of NPAs and their remediation.*
**Keywords: Non-Performing Assets, Factors, Public Banks, Private Banks**

## Introduction

The Indian banking system is globally efficient and viable, with activities tailored to the changing economic climate. The policies of the Reserve Bank of India are always focused on the development of banking procedures that help shape the country's economic policies (Shenbagavalli, Senthilkumar & Ramachandran, 2013). The Public and Private Sector Banks play a significant role in the Indian banking sector. With their traditional business of taking and lending money and expanded commercial activities such as venture capital, they have a massive volume of operations and a worldwide network of branches (Shenbagavalli, Senthilkumar & Ramachandran, 2013). The process of financial intermediation is significantly harmed by the deterioration in the quality of bank assets and the concomitant rise in non-performing assets (Bardhan and Mukherjee, 2016).

Non-performing advances or loans are becoming more common, negatively influencing bank performance by squeezing earnings and diminishing profitability (Das & Uppal, 2021). Particularly in the banking sector, non-performing assets (NPAs) have increased during the past few years in the Indian economy. Banks continue to be pressured by low credit expansion and an ever-growing volume of stressed assets

(Gaur & Mohapatra, 2020). Non-performing assets (NPAs) do not generate any income for the bank, according to international best standards. The growth in NPAs in India's banking industry has severely endangered the country's financial stability. The increase in bad loans in public sector banks has halted their operations, resulting in massive losses for these institutions (Nidugala & Pant, 2017). The high levels of non-performing loans harm a bank's profitability. Majority of Indian banks are losing money. There is also a possibility of bank failure, which would endanger the economy. As a result, it is vital to investigate the factors contributing to the high levels of NPAs in the Indian banking sector (Laila, 2017). Many factors have been found that adversely affect the repayment of the loan thereby indicating towards the causes of mounting NPA in banks. Public sector banks in India have a considerably worse story than the private sector banks. Public sector banks account for a substantially more significant proportion of NPAs than their private counterparts. At least 13 public sector banks have more than 20% of their outstanding loans classed as non-performing. Share prices have plummeted, prompting investors to seek refuge in private-sector banks (Memdani, Dubey, and K.G.,2017).

## Methodology

The research is secondary. Articles have been collected from reliable sources like Google Scholar, Emerald Insight, and Science Direct. Articles have been chosen based on relevance—only recent papers taken into consideration that were published after 2010.

## Non-Performing Assets

NPAs is a term used to describe non-performing assets. Commercial banks have a wide range of assets. "Performing assets" refers to all recurring revenue (PA) assets. Non-performing assets are assets that do not create a regular stream of income. When consumers fail to repay the principal and interest on a loan for a particular period, the loan becomes a non-performing asset (NPA). On the other side, non-performing assets are effectively non-performing debts. In India, a non-performing asset designation can only be made after 180 days, as opposed to the 45 to 90 days required by international norms. NPA is categorised as: Sub-standard Assets (NPA for less than or equal to 18 months), Doubtful Assets (NPA exceeding 18 months), Loss Assets (loans with losses identified that are required to be written off fully) (Shenbagavalli, Senthilkumar & Ramachandran, 2013).

## Factors Amplifying NPA

- **Wilful Defaulters** - Intentional default is a significant issues with the Indian banking industry (Bardhan and Marjit 2005; Bardhan and Mukherjee 2013). Borrowers who can repay their loans yet purposefully choose not to. Identification of these people is necessary, and suitable measures should be taken to recover the money granted to them as loans and advances. The number of debts owed to wilful defaulters steadily increases yearly (Jayadev & Padma, 2019).
- **Recovery Issues** - The government has established various recovery tribunals to assist in recovering debts and advances. Banks suffer non-recovery due to their incompetence and ineffectiveness in operations, diminishing their profitability and liquidity (Murugan, Balammal, Priya, Kamatchi, 2018).
- **Inaccurate Appraisal of Loan proposal-** Poor credit appraisal is another aspect that has contributed to the rise in NPAs. Banks sanction loans to customers who are unable to repay it due to faulty credit appraisal of customers. Banks should use proper credit appraisal techniques to lower NPAs (Murugan et al., 2018).
- **Target-oriented approach to Lending** - Commercial banks must provide 40% of their lending to priority sectors according to government norms. Direct loans to the micro sector account for most non-performing assets (NPAs). They pose a big challenge in loan recovery, mainly when some of its components are ill or frail.
- **Weak Monitoring** - Irregular visits to customer sites for monitoring the use of loan also increases the NPAs. The collection of interest and principal on a loan is reduced when bank representatives do not visit the customer frequently. Regular visits can be used to collect NPAs from willful defaulters (Murugan et al., 2018).

- **Unstable Policies** - New regulations for the banking industry's operation are introduced with every change in government. It must adjust to new ideas and procedures for controlling the rise in non-performing assets (Gautami, 2015). In India, several exogenous variables contribute to NPAs, such as the legal and procedural barriers in the liquidation process of businesses that are losing money (Rizvi, Kashiramka, Singh, and Sushil, 2019).
- **Natural Disasters** - This is the primary cause of the Public Sector Banks' alarming increase in non-performing assets (NPAs). India occasionally experiences devastating natural calamities that make it impossible for borrowers to pay back their obligations. The bank must therefore reserve a significant sum of money to cover those debts, which lowers its profitability and credit creation at the end of the financial year. Industrial sickness- Ineffective administration, poor project management, frequent policy changes, lack of sufficient resources, obsolete technology are the root causes of industrial sickness. Because of poor loan recovery rate from such industries, the financing banks experience decline in their profit and liquidity.

## Conclusion

Presently, the Indian banking industry is passing through a challenging time that is testing its resilience and strength. The amount of NPAs in the banking industry is being exacerbated by several causes. Blatant defaulters, unexpected domestic issues, such as family member deaths, divorces, illnesses, and marriages, financial difficulties, wrong beneficiary identification, incorrect pre-sanction security, faulty loan proposal evaluation, targeted lending method, lack of credit information sharing between financial institutions, weak supervision, inadequate legislation that prevent proper action, and bank employees' lack of initiative are some of the important contributing causes. A bank can reduce its NPAs by analysing these factors while providing loans. During policy formation, it is prudent to consider such factors among others. Banks can decrease the amount of NPAs if they take care of these factors.

## Implications

The findings of the study are helpful for banks in identifying the crucial factors which affect non-Performing Assets. It further helps policy formulation as it tries to guide banks to consider risk factors while initiating development of policies framework. It is helpful to bankers, depositors, investors and banks in controlling NPAs in a significant manner.

## Limitations and Future Research

The present article is based on public and private secotor banks only. It is based on secondary data. Future researchers can work on the default factors in Non Banking Financial Companies and payment banks like Paytm, PhonePe, Airtel Money and OlaMoney. Researcher can extend their scope of research to the NPAs analysis of Co-operative Banks and Regional Rural Banks. Comparative analysis can be done between Indian and Foreign banks. Research based on primary data can also be undertaken.

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