AIJR Preprints
Section: Working Paper
Article Id: 313, Version: 1, 2021
DOI: https://doi.org/10.21467/preprints.313
URL: https://preprints.aijr.org/index.php/ap/preprint/view/313
{Click on above link or DOI to see the latest available version of this article}

NOT PEER-REVIEWED

Version 1: Received: 20 May 2021 / Approved: 21 May 2021 / Online: 21 May 2021

Role of Increasing Levels of Non-Performing Assets in Bank's Deteriorating Financial Position After COVID: A Review of Literature

S. Prasanth*, Dr. S. Sudhamathi**

*PhD scholar, Alagappa Institute of Management, Alagappa University, Karaikudi, Tamilnadu

**Assistant Professor, Alagappa Institute of Management, Alagappa University, Tamilnadu

ABSTRACT

After the 2009 planet-wide crisis, Non-Performing Assets (NPA) have seen an unprecedented rise. Along with the Indian Government, the Reserve Bank of India (RBI) introduced rules and provided guidelines to control the increasing amount of NPA, but failed to do so. The ever - NPA level has contributed to a decline in the bank's revenue and profitability level, adding further to its failures. The report contains an analysis of literature published by renowned scholars on rising NPA and bank failures. The report provides an overview of the diverse perspectives of experts and regulators. It reviews a total of 105 academic papers published in leading journals. The key aim of the report is to address the multiple factors instigating the NPA's growing degree. It also discusses the role of these factors in the failure of the numerous banks following Covid 19. It is undisputed that the journey to recovery is incredibly long, but the study proposes steps to control and decrease increasing NPA levels that can be taken.

Keywords: Banks, Non-performing assets, Stressed assets, Bad Loans , Assets quality, RBI

INTRODUCTION

A increase in the number of defaulters inside Indian Banks has been seen in the last 10 years, leaving the economy suffering. There has been an unprecedented decline in the amount of profitability and liquidity in the financial industry, thereby contributing to a challenge to the survival of banks. Alongside the RBI, the Indian Government has repeatedly issued directives to control this example. Yet both authorities have miserably failed. Compared to non-public banks, the numerous law enforcement bodies have revealed that the NPA problem is worse only in the case of public banks. This article analyses 20 years of Indian banking literature to guard the existing state of evidence on

How to Cite:

S. Prasanth & S. Sudhamathi, "Role of Increasing Levels of Non-Performing Assets in Bank's Deteriorating Financial Position After COVID: A Review of Literature". *AIJR Preprints*, 313, Version 1, 2021.

the involvement of non-performing assets in the worsening financial condition of the bank and to examine how the NPA term is used within it. The financial status of the banks after Covid-19 is further discussed here.

BACKGROUND

Financial crime has routinely soared to bounds in recent years. Despite the very fact that financial crime is a cost of doing the banking business, over the past decade, these costs have undergone an unprecedented escalation. Various regulators have given various corrective steps to be implemented by the banks, much like the Indian Government and thus the reserve bank, however these attempts have fallen flat time and again and the greed of bank workers has culminated in the collapse of all corrective guidelines, which have now clearly seen a significant dent inside the economy. The study indicates that businesses knowingly prepare false and distorted financial statements for the specific purpose of deceiving and misleading banks, analysts, creditors or other consumers.

Dutta. A (2014) The researcher based his analysis on the success of banks under the efficacy of NPA management initiatives. Data was obtained from secondary sources from both public and private sector banks. Joseph,L.(2014) The study aims to investigate the contributory factors of NPA's rising patterns. The investigator also proposed steps that would have lowered the NPA level if followed. Arora, N. Ostwal. (2014) The investigator concluded his analysis by claiming that the NPA is a financial danger to all or most banks and financial institutions. He achieved this by analysing the loan reserves of different banks. Satpal (2014) The analysis centred primarily on the concept of NPA and thus the key contributors to the growing NPA level and its effect on banking operations.

OBJECTIVES:

The objective of this paper is to spot the gaps within the previously done studies to get out a foundation for future studies validate current arguments supported previous findings

RESEARCH METHODOLOGY

The research is predicated on the tactic of exploratory study which comprises of the reason of various views of academicians and regulators A total of 105 research papers written by various academicians, published in eminent journals, are reviewed

CAUSES

Muniappan, (2002) After an in-depth analysis into the causes of NPA, the study categorised them into two broad internal and external factors divisions. Diversion of funds or company collapse or board failure are both listed under Internal NPA-instigating causes. In the other side, a. External variables include recession, the world economy, natural disasters, etc.

In their research report, Chaudhary and Sharma (2011) claimed that strict steps including an appropriate management data framework, adequate reporting and collection of borrower projects before issuing the loans should be haunted. These would result in holding NPA's to an excellent degree in restraint Gupta (2012) In her report, the researcher recommended that each bank should have its own credit agency that would not only assess and rank borrowers at the time of credit assessment, but also constantly redflag any possible NPA opportunities. The primary effect parameter should be considered as NPA together, so it should be considered as a significant ranking criterion for any bank to avoid new NPAs. In her report, Rai (2012) stressed the lack of intensive methods of healing until recently, rendering the defaulters fearless. But not only has the implementation of the SARFAECI Act proven to be an incentive to reclaim loans, but it has also been ready to make a serious dent in the defaulters' fearless mindset. In their report, Chatterjee, Mukherjee and Das (2012) emphasised that the bank should check and validate the first reason for which the loan is required before advancing the loan. The study also promotes that on ongoing loan accounts, endless weekly checks should be carried out so that any loans that appear to display sour on the red flag. Even the guarantor's credentials should be tested and confirmed.

Selvarajan & Vadivalagan (2013) The report covers the extension of loans to the priority market from Indian banks and other public sector banks. The report confirms the slippages made by the Indian bank in regulating NPA's, so the researchers have concluded that sufficient and effective steps taken by bank officials will end up restricting the production of the new NPA's

The researcher, Sikadar Pallab, (2013) concluded, after an in-depth analysis of secondary evidence, that the NPA issue is always handled by the bank's credit department when providing loans with proper credit evaluation and risk management system. The author stressed that the need of the hour is to use technologies and research to spot the warning signs of NPA and to improve credit appraisal skills. Nishant Raj (2017) The author also advocated the application of Forensic audit to research the purpose of borrowers Iliemena, Rachael (2019) in their study explored Forensic audit as a panacea for the Nigerian bank failure crisis. The study based its assessment on the information gathered from primary sources within the type of questionnaires filled out by Nigeria's selected banks. The results revealed that there was a close association between bribery, bank defaults and the confidence of investors. Forensic audit is recommended to assist the bank in tracking and even red flagging the accounts that display signs of default and theft.

The outbreak of the Covid-19 pandemic is an unparalleled blow to the Indian economy, S. SUDHAMATHI (2020). At that point, the economy was in a parlous condition until Covid-19 struck. Perhaps the economy is facing an extended period of slack with the delayed countrywide lockout, worldwide monetary slowdown and associated disruption of interest and supply chains. The continuation and severity of the well-being emergency, the duration of the lockout, and hence the direction in which the crisis unfurls until the lockdown is lifted, can be believed by the dimensions of the monetary consequence. In the pre-Covid-19 period, we report on the condition of the Indian financial system during this article, the financial region should be the inspiration of whatever state's monetary structure. It's a fundamental role of every nation's development. In raising non-performing assets (NPAs), the Indian financial sector has faced big problems.

Discussion and Findings

Indian Banking Sector at Glance[ii] (Table 1)

S. No	Items	Amount Outstanding (As At End-March) (Amount in Rs,10 lakhs	
		2020	2021
1	Deposits	1,00,927	1,11,139
2	Borrowings	14,488	12,807
3	Loans and advances	78,965	81,162
4	Investments	33,278	36,522
5	Profitability		
	Net profit	341	439
	Return on Asset (RoA) (Per cent)	0.4	0.35
	Return on Equity (RoE) (Per cent)	3.58	4.16
6	Capital Adequacy		
	Capital to risk weighted assets ratio (CRAR) @	13.3	13.6
	Tier I capital (as percentage of total capital) @	81.2	82.1
	CRAR (tier I) (Per cent) @	10.8	11.2
7	Asset Quality		
	Gross Non – Performance Assets	6,119	7,918
	Net Non – Performance Assets	3,498	4,331
	Gross Non – Performance Assets Ratio (Gross Non – Performance Assets Ratio as % Gross Advances)	7.5	9.3

	NET Non – Performance Assets Ratio (NET Non – Performance Assets ratio as % of net Advances)	4.4	5.3
	Provision Coverage Ratio (Per cent)**	41.9	43.5
	Slippage ratio (Per cent)	6.3	5.7
8	Sector Deployment of Bank Credit		
	Gross bank credit	66,500	71,347
	Agriculture	8,829	9,924
	Industry	27,307	26,800
	Services	15,411	18,022
	Personal loans	13,922	16,200

Bad Loan duringthe UPA & NDA Government:

As per Reserve bank of India data the Gross Non-performing Assets of Public sector and private sector banks stood Rs. 7,33, 974/- crore and Rs.1,02,808/- crore respectively as on 30th September 2020. It is also observed that approximately 77 percent of Gross Non–Performance Assets pertain to leading corporate houses and companies.

Among the large public categories of banks, State Bank of India (SBI) had the most raised extent of Non – Performance Assets at over Rs 1.86 lakh crore took after by Punjab National Bank (Rs 57,630 crore), Bank of India (Rs.49,307 crore), Bank of Baroda (Rs 46,307 crore) Canara Bank (Rs.39,164 crore) and Union Bank of India (Rs.38,286 Crore) ICICI Banks had most important Non – Performance Assets Rs. 44,237/crore as one end of September 2017 took after by Axis Bank Rs. 22,136/ - crore.[iii] Hon'ble our prime minister Shri Narendra Modi ji said that actual figure of Non – Performance Assets was 82 % during the Congress Led UPA Government but they have wrongly quoted the 36 percent of Non – Performance Assets. Honorable prime minister also claimed that the facts have already revealed but no one wants to disclose Earlier. In March 2008, the total advance given by banks was Rs. 18 lakh crore and in March 2014, this became Rs. 52 lakh crore. The amount that is increasing now is the interest of the money that you gave and not the money we have given.

While the Gross NPA of state ensured banks remained at Rs 176,000 crore in June 2013, it rose to Rs 829,338 crore by June 2020, a move of 371 for each penny. A for all intents and purposes indistinguishable precedent was found in private part banks and moreover the gross non-performing resources of private banks took off to Rs 100,481 crore toward the total of September 2020 against Rs 22,020 crore in September 2013, a move of 356 for every penny.

The hop in the NPA proportion over the most recent two years can be ascribed to a blend of the acknowledgment standards being sought after by banks after the RBI featured the same in late 2015, Asset Quality Review (AQR) started by the then RBI Governor Shri Raghuram Rajan and in addition to deficient advancein the wellbeing of the organizations. RBI has given to guideline of the considerable number of banks to tidy up their asset report before 31st March 2020.

The terrible advance emergency that has held India's Rs 95 trillion banking sectors didn't occur incidentally. The Non – Performance Assets figure is composed as selective information nobody needed to recognize it. After nationalization of bank (1969) the Governments regularly regarded these banks as their broadened arms and utilized them for populist measures. That was a period (2011-2013) when each bank raced to give the credit to the enormous corporate house without the best possible check of ventures and nature of Assets. First post investigates how the Non – Performance Assets image of India's administration claimed banks has advanced up until now. In the end of September 2020, the total Gross Non – Performance Assets was Rs. 53,917/- crore immediate before the Worldwide Financial Crisis and collapse of Lehman Brothers but now figure of Gross Non – Performance Assets has changed Rs. 3, 41,641/- crore at the end of September 2020. In other words, we can say that total Gross Non – Performance Assets of banks as percentage of total advance has been grown from 2.11 per cent to 5.08 percent.

CONCLUSION

- ❖ The descriptions are also presented as follows after an in-depth analysis of such research papers.
- ❖ Rising NPA levels can be a major challenge to banks in the public and private sectors.
- ❖ Compared to non-public sector banks, the amount of NPA is exceptionally high in the case of public sector banks.
- ❖ The key reason contributing to the growing degree of NPA is that banks' weak credit evaluation mechanism continues to track post-disbursement loan accounts in order to keep them from converting into NPA.
- ❖ Changes can also be made within the regulatory system as government regulations surrounding priority business sector goals
- ❖ Banks should have their own credit reporting companies who are responsible for rating particular borrowers before loans are granted.
- ❖ The borrower's forensic audit should be conducted as a pre-loan disbursement and post loan disbursement operation to curb the growing NPA.

- ❖ Covid-19 has presented India with an unparalleled challenge. Given the large population scale, the precarious state of the economy, notably the financial sector, within the pre-Covid-19 period, needs an equal amount of time to ensure that responses remain enshrined in the rules-based system and restrict the exercise of discretion in order to prevent long-term economic harm. Not all zero NPAs are feasible, but management can step up the pace of recovery to solve current problems.

ACKNOWLEDGEMENT

The author thank the RUSA Phase 2.0grant (No: F.24-51/2014-U.Policy (TN.Multi-Gen). Dept of Edn. Govt. of Indiadated 09.10.2018) scheme of MHRD,Govt of India.

REFERENCES

[1] Ahmad, Z., & Jegadeeshwaran, M. (2013). Comparative Study on Npa Management of Nationalised Banks. International Journal of Marketing, 2(8), 66-78. www.indianresearchjournals.com

[2] Bhasin, Madan L. (2016). the Role of Technology in Combatting Bank Frauds: Perspectives and Prospects. Ecoforum, 5(2), 200-212.

[3] Bhasin, Madan Lal. (2015). Menace of Frauds in the Indian Banking Industry: An Empirical Study. SSRN Electronic Journal, November. https://doi.org/10.2139/ssrn.2676466

[4] Central, B. I. S. (2012). B Mahapatra: Implications of Basel III for capital , liquidity and profitability of banks. 1-12.

[5] CORPORATEFRAUDCONTROL- APPLICATIONOFFORENSICTECHNIQUES. pdf. (n.d.).

[6] Deloitte. (2015). India Banking Fraud Survey Edition II. April, 36. www.de1oitte.com/in

[7] Durtschi, C., Hillison, W., & Pacini, C. (2004). The Effective Use of Benford s Law to Assist in Detecting Fraud in Accounting The Effective Use of Benford s Law to Assist in Detecting Fraud in Accounting Data. December 2014.

[8] Enofe, A. 0., Agbonkpolor, 0. R., & Edebiri, 0. J. (2015). Forensic Accounting and Financial Fraud. International Journal of Multidisiplinary Research and Development, 2(10), 305—312.

[9] Enofe, A. 0., Utomew, 0., & Danjuma, E. J. (2015). the Role of Forensic Accounting in Mitigating. International Journal of Advanced Academic Research, 1(1), 1—25.

[10] Jorge Bernard, A. G. A., Barreto, B. E., & D'Silva, R. (2019). Impact of frauds on the Indian banking sector. International Journal of Innovative Technology and Exploring Engineering, 8(7), 219-223.

[11] Kumar, B. R., Rao, B. V. S. S. S., & Kusuma,

G. D. V. (2018). Genesis for Increase of Npas in Indian Banks — An Empirical Analysis. 1(1), 1— 8.

[12] Loganathan, P. (n.d.). Micro Aspects of Management of Non-Performing Assets in India. IOSR Journal of Business and Management, 2319-7668.

[13] Madan, B. (2013). an Emperical Investigation of the Relevant Skills of Forensic. European Journal of Accounting Auditing and Finance Research, 1(June), 11-52.

[14] Mahajan, P. (2014). Non Performing Assets: A Study of Public, Private & Foreign Sector Banks in India. Pacific Business Review International, 7(1), 9—16.

[15] Manikyam, D. K. R. (2014). Indian Banking Sector — Challenges and Opportunities. IOSR Journal of Business and Management, 16(2), 52—61. https://doi.org/10.9790/487x-16215261

[16] Ni1ayam, P., Pradesh, A., & Hartshorne, H. (2009). Duvvuri Subbarao : Ethics and the world of finance. August, 1-6.

[17] Oyedokun, G. E. (2017). Forensic Accounting Investigation Techniques: Any Rationalization? SSRN Electronic Journal, January 2016. https://doi.org/10.2139/ssrn.2910318

[18] Pallab, S., Ratings, C., Raj, N., Patel, U., & Radhakrishnan, T. R. (2018). F s i b s. 6(4), 611—615.

[19] Ph, E. I. D. (2013). AN EVALUATION OF THE EFFECT OF FRAUD AND RELATED FINANCIAL CRIMES ON THE NIGERIAN ECONOMY . 2(7), 81—91.

[20] PricewaterhouseCoopers. (2020). PwC's global economic crime and fraud survey 2020 fighting fraud:a never-ending battle. https://www.pwc.com/gx/en/services/advisory/forensics/economic-crime-survey.html

[21] Proactive fraud monitoring for banks in India Holistic , intelligent and real-time. (n.d.).

[22] Raab, M. S. (1987). Detecting and Preventing Financial Statement Fraud : The Roles of the Reporting Company and the Independent Auditor. Yale Law & Policy Review, 5(2), 514— 535.

[23] Ranjan, R., & Dhal, S. C. (2003). Non- Performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment. Reserve Bank of India Occasional Papers, 24(3), 81-121. https://doi.org/10.1080/08039410.1994.966596 0

[24] Reserve Bank of India. (2014). Report of the Committee to review Governance of Boards of Banks in India. Reserve Bank of India, May, 1— 117.

[25] Reserve Bank of India. (2016). Report on Trend and Progress of Banking in India.

[26] Sanjeevi, P. (n.d.). A Study on Non Performance Assets Impact on Financial Sustainability of Commercial Banks in India. 8(3108), 3108-3117.

[27] Sikdar, P. (2013). ROLE OF NON P ERFORMING ASSETS IN THE RISK F RAMEWORK OF COMMERCIAL BANKS — A STUDY OF S ELECT INDIAN C OMMERCIAL. 7(2).

[28] Singh, A. (2013). Performance of mon- Performing assets in Indian commercial banks. International Journal of Marketing, Financial Services & Management Research, 2(9), 86-94.

[29] Singh, V. R. (2016). A Study of Non- Performing Assets of Commercial Banks and it's recovery in India. Pune Annual Research Journal of Symbiosis Centre for Management Studies, Pune, 4(March), 110—125.

[30] Sinha, A. (2012). Journey into the Future *. February, 281—290.

[31] Sontakke, R. N., & Tiwari, C. (2013). Trend Analysis of Non Performing Asset in Scheduled Commercial Banks in India. 2013(Ratmig).

[32] South, N. (2015). Electronic copy available Published by. The Mattingley Publishing Co., Inc.

[33] Speech, I., Gandhi, S. R., Governor, D., Lakes, A. G., Bank, U., & Conference, F. (n.d.). Inaugural Speech delivered by Shri R. Gandhi, Deputy Governor at the 6.

[34] State, A. (2016). 32 nd Inaugural Lecture of Nnamdi Azikiwe University , Awka ,. August.

[35] Swamy, V. (2013). Munich Personal RePEc Archive Impact of Macroeconomic and Endogenous Factors on Non-Performing Bank Assets Impact of macroeconomic and endogenous factors on non performing bank assets. 49600.

[36] S. SUDHAMATHI, S. P. D. "THE IMPACT OF CORONA VIRUS ON NPA AND GDP OF INDIAN ECONOMY." Alochana Chakra Journal Volume IX,(Issue IV): 4059-4066.