

## **A Study on Measures to Control of NPAs in Banks in Dakshina Kannada District**

Dr. M. Dhanabhakya \*Mrs. Usha Nayak \*\*

### **Abstract**

**This paper tries to make an attempt to study of performance and control of NPA's in banks in Dakshina Kannada District. The banking system depends on the NPA's. These directly have an impact on the profitability, liquidity and solvency position of the bank. Higher NPA indicates inefficiency of the bank and lower NPA indicates better performance and management of funds. To increase the performance of the bank, the NPAs need to be reduced and controlled by the banks.**

**Keywords: Non-performance assets, control of NPA's.**

---

\*Associate Professor, Department of Commerce, Bharathiar University, Coimbatore-641046

\*\*Assistant Professor in Commerce, Canara College, Mangaluru-575003

# **A Study on Measures to Control of NPAs in Banks in Dakshina Kannada District**

## **Introduction:**

India's financial service industry is dominated by the banking sector that contributes significantly to the revenues of this Industry. To be sure, the industry has generated tremendous employment opportunities for a large section of the populace in India. The back bone of any economy can be best evaluated by the strength and flexibility of its banking structure. In the Indian context, banking is verily the proxy and indeed the cornerstone of the overall economic growth of the country. Non-Performing Assets had been the single largest cause of frustration of the banking sector.

## ***Non-Performing Assets :***

*A loan (and even a leased asset) that is not paid on or after the due date, and stops generating income for the lending bank is called a Non-Performing Asset (or NPA). In general, any loan installment or EMIs that remain overdue for a period of 90 days or more are put into NPA category.*

## ***Classification of NPAs***

***The non-performing assets are broadly classified into three categories namely:***

1. **Sub-standard Assets-** when a loan continues to be unpaid and remains an NPA for a period of up to 12 months.
2. **Doubtful Assets-** when an asset has remained in the sub-standard category and remains an NPA for more than 12 months.
3. **Loss Assets-** when the loss has been incurred and the amount has not been written off in half or full.

### ***Why NPAs occur?***

***Non-performing Assets (NPAs) are widely known as defaults or bad loans. Behind these defaults are causes that result in their increase in the numbers.***

#### **1. Bad Lending Practices**

When loans are given away by banks without doing a thorough background check of borrowers for their repaying capacity, financial health and intent to repay etc.

#### **2. Competition**

When banks compete among themselves and as a result disburse unsecured loans.

#### **3. Incremental Component**

When the internal bank management is affected such as the terms of credit, credit policy etc.

#### **4. Crisis**

When the revenues and profits are observed lower than the average rate.

#### **5. Overhang Components**

When NPAs are an outcome of environmental factors like when the agricultural loans are not repaid due to the slow crop yield or lack of natural facts like rain, water, sunlight etc.

### ***Impact of NPAs***

***Not just the books of accounts in a bank, NPAs impact a lot more than we think of. Check out the impact of NPAs in detail.***

- Depositors get lower returns on their investments and may also lose any uninsured deposits.
- Borrowers have to pay a higher rate of interests on the loans to compensate bad loans.
- Reputation of the bank's shareholders is negatively affected.
- Increased failure due to bad investments and redirection of funds from good to bad projects.
- Liquidity of banks is influenced.

**The objectives of this paper are:-**

1. To study the impact of NPA
2. To suggest the various measures for control of NPA in banks.

**Methodology of study**

This primary data and information would be collected from bank managers from few of public and private sector bank in the study area. I have conducted a survey for the purpose of this research paper and my target group was Bank managers from different sectors and the area was Mangalore City. I have collected 35 samples.

**The primary data has been collected through**

1. Questionnaire Method
2. Personal Interview Method

**The Secondary information have been collected through various articles in news papers, magazines, internet etc.**

**Research Design:** Descriptive research design is used for the study.

**Data Collection:** Data used in this paper is primary and collected from questionnaire method.

**Data Analysis Tools:** Tools includes Percentage method and Chi square method to control the NPAs better in study area.

**Analysis and Interpretation**

Many of the managers came out with more than one suggestion to Control NPAs better. 20% of the managers gave 3 suggestions. 65.7% of them gave at least 2 suggestions, and 82.9% gave at least one suggestion. 17.1% didnot respond to this question. The below table provides the details.

## Suggestions to Control NPA's better

Responses	1 <sup>st</sup> Suggestion	2 <sup>nd</sup> Suggestion	3 <sup>rd</sup> Suggestion	Total frequency	Total Percent
Good pre-sanction scrutiny	15	0	0	15	42.9
Effective post sanction Supervision	11	10	0	21	60
Frequent interaction with borrowers	2	6	0	8	22.9
Adherence to KYC( Know your customer) norms	1	0	2	3	8.6
To adequate realizable security	0	2	1	3	8.6
Branches to have adequate manpower for follow up/ supervision of advances	0	2	0	2	5.7
Need based finance	0	2	0	2	5.7
Obtain confidential opinion from other banks were the customer is also maintaining an account	0	1	0	1	2.9
Effective recovery steps	0	0	4	4	11.4
No response	6	12	28	46	--
Total	35	35	35	--	--
Chi Square	20.286	23.600	57.000	---	--
P Value	<.000	<.001	<.000	--	--

From the above table it is evident that 42.9% of the bank managers suggested that good pre sanction scrutiny of loan proposals would help in better control of NPAs. 60% of the bank

managers suggested effective post sanction supervision would help in better control of NPAs. 22.9% of the bank managers suggested frequent interaction with borrowers would help in better control of NPAs. 8.6% each of the bank managers suggested i) adherence to KYC (Know Your Customer) norms and ii) taking adequate realizable security would help in better control of NPAs. 5.7% each of the bank managers suggested i) branches supported with adequate manpower for followup/supervision of advances ii) need based finance would help in better control of NPAs. 11.4% of the bank managers suggested taking effective recovery steps would help in better control of NPAs. 2.9% of the bank managers suggested 'obtaining confidential opinion' from other banks where customer is also maintaining an account would help in better control of NPAs. The Chi square test revealed significant difference among these frequencies.

### **Findings and Suggestions to Control NPA's better:**

Good pre-sanction scrutiny, effective post-sanction supervision and effective recover steps were the measures to control NPA's.

### **Conclusion:**

The Non-Performing Assets is a very important aspect of every banking sector. If NPA is not managed properly, it will have a serious effect on the profitability of the banks and also on the economy of the country. For solving that, strict policies should be followed by the Government and bankers otherwise it completely damages the profitability of the banker and also it is not good for developing countries like India.

### **References**

1. Bhatia, "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment", *Icfai Journal of Bank Management*, Vol. 6, No. 3, 2007, pp. 7-28.
2. Chaudhary K and Sharma M "performance public sector bank and private sector bank: A comparative study", *international journal of innovation management and technology*, vol .2, no.3, 2011.
3. Sudhakar V.K., "Policies and Perspectives of NPA reduction in Banks", *IBA Bulletin*.