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Non -Performing Assets

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ABSTRACT

Non-Performing Assets (NPAs) have emerged as a major challenge for the Indian banking sector, particularly affecting public sector banks. This paper examines the causes of NPAs, their implications on the economy and banking operations, and evaluates the effectiveness of policy measures such as the Insolvency and Bankruptcy Code (IBC) and SARFAESI Act. Using a mixed-methods approach—including survey data and secondary sources like RBI reports—the study finds that poor credit appraisal, delayed legal processes, and weak monitoring are key drivers of NPAs. The paper suggests technology-based solutions, stronger governance, and borrower accountability as effective steps to reduce NPAs and ensure financial stability.

1. INTRODUCTION

Banks are vital to economic development by facilitating financial intermediation. However, when borrowers fail to repay loans, these become Non-Performing Assets (NPAs)—a growing concern in India. NPAs are loans where payment of principal or interest is overdue by more than 90 days. Over the past decade, NPAs have strained the financial system, especially public sector banks (PSBs), and have affected credit growth, investor confidence, and macroeconomic stability. Government initiatives such as IBC (2016), Debt Recovery Tribunals, and the creation of the National Asset Reconstruction Company (Bad Bank) aim to reduce the bad loan burden. Yet, challenges remain due to procedural inefficiencies and poor internal controls in banks. This paper explores these issues in depth, highlighting root causes and recommending practical reforms.

2.LITERATURE REVIEW

Several studies have analysed NPAs from financial, regulatory, and technological perspectives:

- **Kaur & Kapoor (2018)** found that higher NPAs directly reduce banks' profitability and return on assets, especially in PSBs.
- **Rajeev & Mahesh (2015)** linked rising NPAs with structural issues like politically motivated lending and delayed banking reforms post-liberalization.
- **Basu & Sen (2022)** discussed the importance of AI and big data in preventing NPAs through predictive modeling and early warning systems.

Together, these studies show that NPAs are a result of weak governance, poor borrower assessments, and delayed legal recoveries—issues that require both institutional and technological interventions.

3. METHODOLOGY

This research followed a mixed-methods approach:

- **Primary Data**: A structured questionnaire was distributed to 70 respondents including students and working professionals. It gathered views on NPA awareness, causes, sectoral trends, and policy effectiveness.

- **Secondary Data**: Sourced from RBI reports, Ministry of Finance documents, and academic articles.
- **Tools Used**:
  - Google Forms for survey
  - Microsoft Excel for data analysis
  - Charts for visual representation

4.Crucial Findings

Public Sector Banks Are Worst Hit

More than 80% of NPAs are held by public sector banks due to delayed loan recognition and political pressures.

Sectoral Risk Concentration

Infrastructure, telecom, steel, and real estate sectors have the highest default rates due to their capital-intensive nature and delayed revenue cycles.

Weak Risk Management

Respondents indicated that banks often do incomplete background checks. 75% believe that banks "only sometimes" conduct proper credit evaluations.

Legal Frameworks Still Underperforming

Although laws like IBC and SARFAESI exist, only 50% of respondents found them "very effective," showing dissatisfaction with resolution speed.

Digital Tools Underutilized

While technologies like AI and EWS are available, adoption is limited—especially among public banks.

Public Sentiment

- 74% had heard of NPAs.
- 75% agree NPAs are a serious issue.
- 61% recommend better borrower screening.
- 52% blame loan waivers for rising NPAs.
- 33% demand stricter punishment for large corporate defaulters.

5. CONCLUSION

The study concludes that NPAs are not only financial problems but also reflect systemic governance failures. Public sector banks, because of legacy practices and political interference, are most affected. Government initiatives like the IBC and NARCL offer solutions, but effectiveness is hampered by legal and institutional inefficiencies. A shift towards preventive measures—using AI, real-time monitoring, and borrower profiling—can significantly reduce NPAs. Transparency, stricter appraisal, and public awareness are also essential to restore confidence in India's banking system.

REFERENCES

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APPENDICIES

Survey Questionnaire (Selected Questions)

1. Have you heard the term Non-Performing Asset (NPA)?
2. Which type of banks do you think have more NPAs?
3. Which sectors contribute the most to NPAs?
4. Do you believe loan waivers increase NPAs?
5. What should banks do to avoid NPAs? (Multiple choice)