# CAN INDIAN BANKING INDUSTRY OVERCOME NPA ISSUE DURING THE PANDEMIC TIME?

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## ABSTRACT

The real economy at present is in big and deep trouble. Sectors like aviation, logistics, airport infrastructure, transport and tourism need some stimulus to revive from pandemic situation. An account is classified NPA if the default is beyond 90 days. With the present crisis, a large number of accounts whether current or saving will fall in this category in the next two quarters. Researchers tries to evaluate do banking industry come out from NPAs loss because of COVID-19.

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|---|---|
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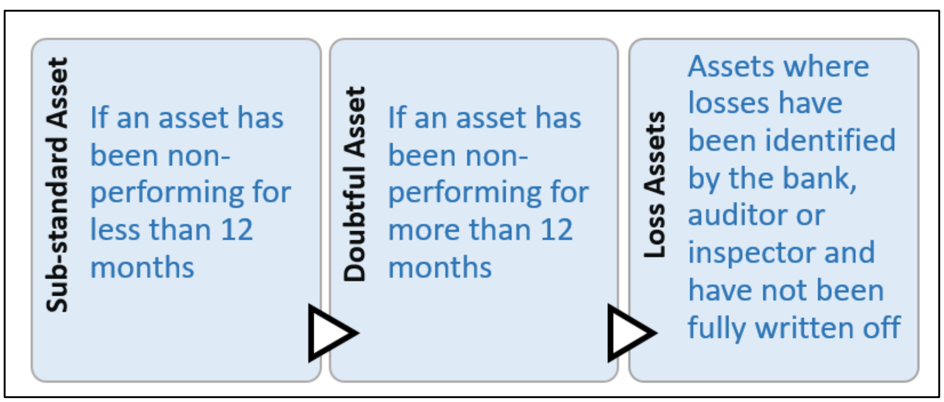
## INTRODUCTION

Government authorities around the world have taken and constantly taking steps to shield the economic system from the modern-day pandemic situation. The move by the Finance Ministry is a promising move to shield MSMEs from liquidation and opposition at a notable extent. However, Micro and MSMEs rely upon massive and large establishments for his or her survival and boom. The authorities are taking essential movements and assisting the massive organization due to the massive range of human beings for employment, which can immediately depend on them. Without good assistance from the authorities of India couldn't survive and stabilize in the course of and after COVID-19.

1. According to a senior banker of a public financial institution, there is a need for blanket forbearance on debts that can be grown to be NPA withinside the coming months. "Otherwise, a large range of debts will grow to be NPA," said the banker.
2. A senior reliable of State Banks of India stated, "The actual economic system is in deep trouble. In the subsequent quarters or greater, banks assume deferment of NPA. Additionally, sectors like aviation, airport infrastructure, logistics, shipping and hospitality, transportation among different might want a few stimuli for survival."

Based on way lengthy the asset has been non-acting, banks are required to type the non-performing assets in one of the following categories:

**Figure 1: Bank asset classification**




Source: Based on various definitions

## REVIEW OF LITERATURE

1. Academicians such as Berger and DeYoung, 1997, Podpiera and Weill, 2008, Klein, 2013 and Breuer (2006) who have investigated determinants of NPAs have focused on a bank's efficiency (representing operational capability of a bank). The bank's efficiency is studied using a number of bank operational ratios such as operational costs in relation to interest income, net interest income to total assets, and others. These ratios indicated how well the bank used the available resources to generate income, and studies found empirical evidence that lower efficiency and NPAs have a positive relation.

2. Rajeev and Mahesh (2010), in their article deal with the issue of NPAs after the global financial crisis. They suggest that mere recognition of the problem and self-monitoring can help to manage the NPA problem to a great extent. Self-help groups can also play an important role in the recovery of loans.

## OBJECTIVES OF STUDY

1. To assess the modern-day role of NPA
2. To evaluate NPA before and during COVID-19
3. To proposed some strategies to come out of COVID-19

## POSITION OF BANKING INDUSTRY DURING COVID-19

- One review endorses that about 1/3 of industries and service providers have carried out mercy on their financial institutions loans. If simplest a 1/4 of those deferred loans subsequently cross awful, then the inventory of NPAs might growth via way of means of about Rs. Five lakh crores. And that is a conservative estimation. Senior financial institution officials had been quoted as estimating that the inventory of NPAs may want to grow via way of means of as a good deal as Rs. Nine lakh crores. In this case, we would be searching at NPAs of Rs. 18 lakh crores, equal to around 18 percent of current loans outstanding. For making plan purposes, it's miles really well worth thinking about who pays for such losses, if they will now no longer to materialize and due care must now no longer been taken.

- At one level, the solution can additionally be:

This time, the authority's monetary role can be pretty unique in comparison to every day 12 months. Central and State authorities deficits and money owed will growth dramatically this 12 months, as revenues, already slowing, had been decimated via way of means of the COVID -19 crisis, while prices have multiplied tell of a greater grant, donation, and monetary assistance.

- Add in a slowly getting better economic system, and it will become clean that the monetary role will continue to be vulnerable for a few giants. As a result, the authorities will need to pass the burden onto the corporate houses and family sectors in the form of a higher amount of taxes, more arrears, and possibly higher inflation. But these sectors will resist, for they have monetary problems of their own.

- It will be tempting in those circumstances and occasion to delay in recognizing the issues, pushing it into the future, for example, by allowing financial institutions not to classify any awful loans as NPAs, and barring them from taking defaulters to the Insolvency and Bankruptcy (IBC) system. The purpose is that, in occasions where in no sector has a strong ability to undergo a loss, it will become vital to minimize the dimensions of said bad loss and awful loans.

- Broadly, in two ways.

➢ First, by stopping bankruptcies from occurring at the first place. To do this, banks will want to perceive the corporations which can be viable and lend them in the price range they want to tide them over the instantaneously disaster. But banks are going through their own difficulties and are reluctant to undergo the risk of making such kind of loans. So, the authorities may want to create an assure fund to assist lending as one of the proposed.

➢ Second, when firms do default, they want to be resolved as fast as possible. Speed is essential because the monetary role of stressed and weak firms tends to worsen from time to time.

**Figure 2: Gross Non-Performing Assets of Banking Sector**

**GROSS NON-PERFORMING ASSETS OF BANKING SECTOR**

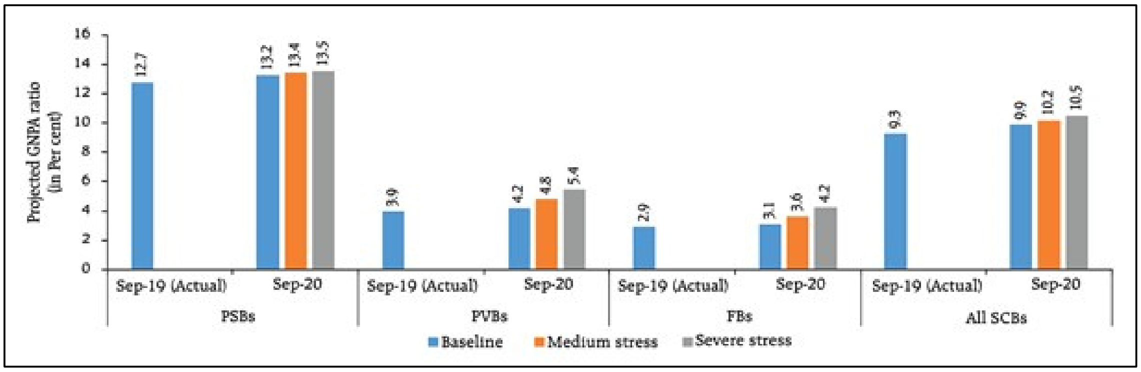
| Components | 2018 (₹cr) | 2019 (₹cr) | 2020 Estimate (₹cr) |
|---|---|---|---|
| Opening NPAs | 7,26,500 | 10,38,684 | 9,50,000 |
| Addition | 6,04,300 | 3,14,449 | 4,77,000 |
| Reduction | 1,28,300 | 1,79,711 | 1,94,000 |
| Write-Off | 1,62,700 | 2,36,948 | 2,60,000 |
| Closing NPAs | 10,39,800 | 9,36,474 | 9,73,000 |
| Gross NPA% | 11.20% | 9.10% | 9.14% |
| Gross Advances (For NPA computation) | 92,83,929 | 102,90,923 | 106,50,000 |

Source: BusinessToday.in

Public attention is largely focused on the size of the NPAs, but a much more important matter is the recovery rate — the degree to which the banks can recover on these loans. Moreover, the only way to maximize the recovery rate is to sort out the bad loans speedily and accurately. If this can be done and firms put back on their feet quickly, the economy will get an additional benefit since the resolved firms will be able to contribute to the recovery.

A new approach is consequently needed. The immediate problems created by the crisis must be addressed quickly.

**Figure 3: Projection of Gross NPA Ratios for Banks**




Source: RBI Financial Stability Report, December 2019

According to the records of the report, under the baseline scenario:

1. Gross NPA ratios for public sector banks may increase to 13.2 percent by September 2020 from 12.7 percent in September 2019.
2. For private banks, gross bad loans may rise to 4.2 percent from 3.9 percent;
3. For foreign banks, the gross NPAs may increase to 3.1 percent from 2.9 percent.

The share of large borrowers in scheduled commercial banks' total loan portfolios and their share in gross NPAs were at 51.8 percent and 79.3 percent, respectively, in September. That is lower than 53 percent and 82.2 percent, respectively in March.

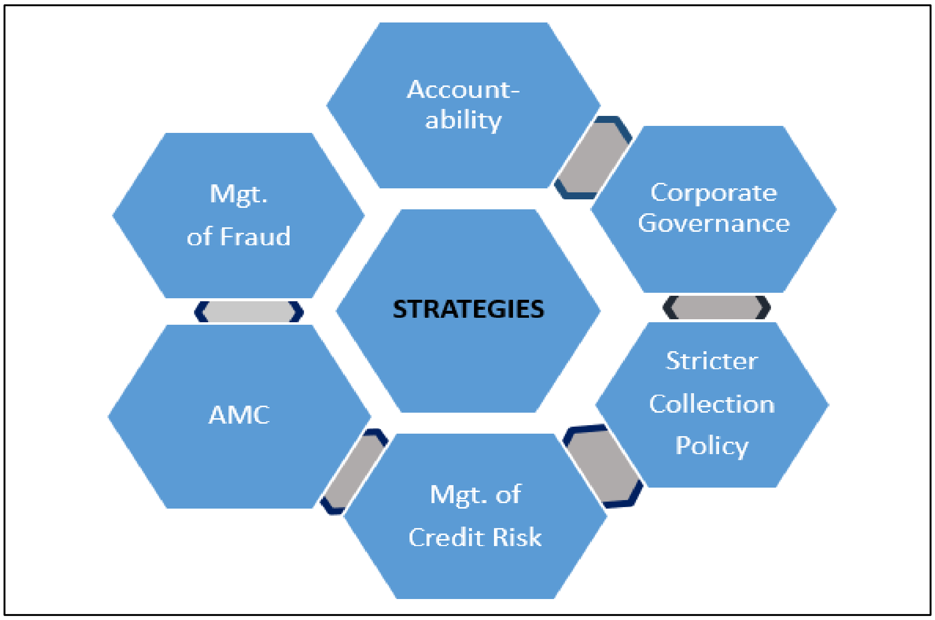
Experts believe small business portfolios will see significant stress and face a liquidity crunch in the coming days if banks do not resume lending to the sector. Moreover, a government-backed credit scheme would greatly help the sector hit badly by the disruption in economic activity. Government guarantees are a popular below-the-line measure adopted by many countries to stimulate economies in the wake of covid-19, according to a 28 April note by ICICI Securities. Private sector lender IndusInd Bank has, in its internal assessment, used a scenario where the lockdown is lifted in phases, with half of the country opening up around mid-May or the third week of May; another 25% between the first and second week of June, and the remaining 25% in the first week of July.

The Reserve Bank of India also assesses the resilience of the Indian banking sector to macroeconomic shocks. In its Financial Stability Report released in December, the central bank found that under the baseline scenario, gross bad loan ratio of commercial banks may increase from 9.3% in September 2019 to 9.9% by September 2020.

## STRATEGIES TO SOLVE UPCOMING INCREASE PROBLEM OF NPA'S:

Focus on business continuity planning on issues for survival.

**Figure 4: Strategies to resolve NPAs**




Source: Author compilation from various sources

1. **Responsibility & Accountability:** Junior and less experience executives are often made accountable for lapses, however, major decisions are made by the Credit Sanction Committee consisting of senior-level executives. Hence it's important to make senior executives accountable if banks want to handle and reduce NPAs.
2. **Code of Corporate Governance:** Even though the government had set up Banks Board Bureau (BBB) in April 2016 to attract talent, corporate governance hasn't improved to the desired level. Certain issues persist and need to be resolved urgently.
3. **Stricter NPA Policy and its Recovery:** The government needs to amend specific laws and give more powers to banks to recover their NPAs. The Insolvency and Bankruptcy Code (IBC) has brought in discipline because of fear of losing the asset. Since debtor control amendments to the Banking Regulation Act, the present scenario allows the RBI to conduct an inspection of a lender but does not give them the power to set up an oversight committee.
4. **Management of Credit Risk:** Proper credit appraisal, credit worthiness of customers and their skill and experience should be carried out properly. While conducting these analyses, banks should also do a sensitivity analysis and should build safeguards against external factors to avoid future losses. Effective Management Information System (MIS) needs to be implemented to monitor early warning signals about the projects. The MIS should ideally detect issues and set off timely alerts to management so that necessary action is to be taken on time.

5. **Asset Reconstruction Company:** There's a need to set up an ARC or an Asset Management Company (AMC) for fast-track resolution of stressed assets of PSBs. The government should initiate necessary steps to explore the feasibility after thorough discussions on pricing and capital issues.
6. **Fraud Management**: Frauds in PSBs arose both in number and value over the last three years. Three decades ago, too, the banking industry faced a similar situation of high NPAs, at 24%. However, we overcame the situation, and similarly, the prevailing stress won't last long.

## CONCLUSION

Banks will need to respond to lasting social changes, including how consumers select channel preferences, products, and banks for their individual financial needs that are likely to result from the current crisis. Behavioral changes may accelerate the shift of the branch concept away from transactions toward a more complex, high-value operation. A special refinance facility of Rs 50,000 crores was announced to meet sectorial credit requirements - this is to specifically boost the liquidity of financial institutions like NABARD, SIDBI, and NHBs. NPA (Non-performing Assets) norms of 90 days have been relaxed. The period of the moratorium will be excluded from the 90-day classification norms of NPAs for those accounts, which would avail the moratorium facility. The NBFCs (Non-Banking Financial Companies) have been given the flexibility to give such relief to their borrowers. Though it is very difficult for BANKS to come out from the crisis of NPAs with acceptable strategies, at least they can minimize.

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