

GROWING NPAs IN BANK (BANKING SECTOR)

Group-9

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Growing NPAs in Banks

Non-Performing Assets (NPAs) are loans or advances that are in default or close to default, posing a significant challenge for banks.

Understanding the factors contributing to rising NPAs and the measures taken to address this issue is crucial for the banking sector's stability and growth.

Comparative Analysis of NPAs in Public and Private Banks

Public Banks

Public sector banks often have higher NPA ratios due to various factors, such as political interference, legacy issues, and a larger share of lending to riskier sectors.

Private Banks

Private banks generally maintain lower NPA levels through stricter credit appraisal, risk management, and efficient recovery mechanisms.

Comparison

Understanding the differences in NPA management between public and private banks can provide insights into improving the overall banking sector's performance.

The Effect Of NPAs

1. Banking Sector

- Profitability
- Capital Adequacy
- Credit Growth

2. Economy

- Investment
- Financial Stability
- Growth





Causes of NPAs

1

Economic Slowdown

Downturns in the economy can lead to lower business profitability, affecting the borrowers' ability to repay loans.

2

Mismanagement

Poor credit appraisal, inefficient monitoring, and lack of early intervention by banks can contribute to NPAs.

3

Wilful Defaults

Some borrowers intentionally default on their loans, often due to ethical issues or a lack of accountability.

4

External Factors

Natural disasters, regulatory changes, and industry-specific challenges can also impact borrowers' repayment capacity.

Impact of Growing NPAs

Profitability

High NPAs reduce a bank's profitability by requiring higher provisioning and reducing the funds available for lending.

Lending Capacity

NPAs constrain a bank's ability to provide new loans, hampering economic growth and development.

Investor Confidence

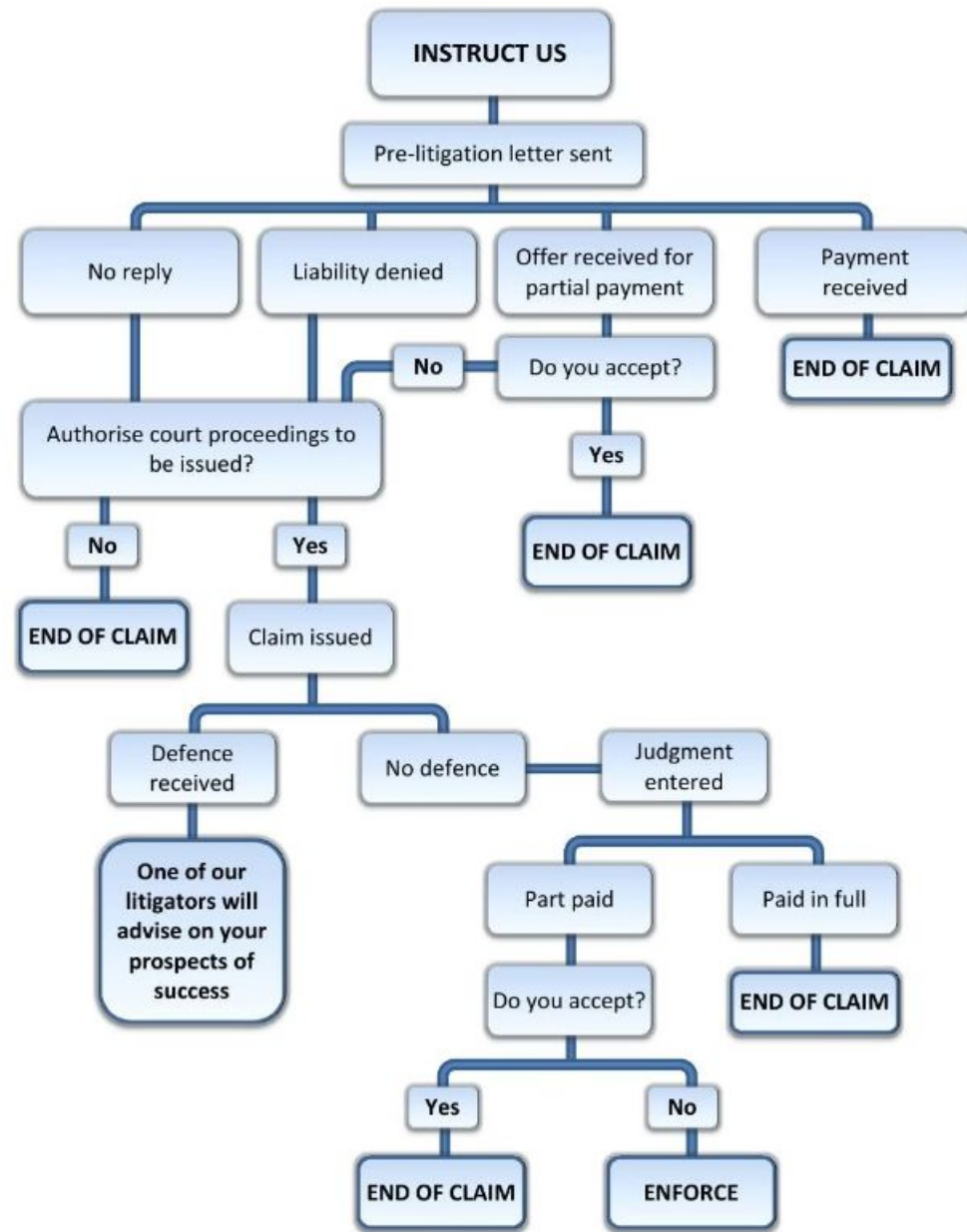
Increasing NPAs can undermine investor confidence in the banking sector, making it difficult to raise capital.

Financial Stability

Uncontrolled NPA growth can lead to systemic risks, potentially destabilizing the entire financial system.



The Debt Recovery Process



Measures Taken by Banks to Tackle NPAs

1 Early Intervention

Proactive monitoring and early identification of potential NPAs can help banks address issues before they escalate.

2 Debt Recovery

Improved recovery mechanisms, such as loan restructuring, asset sales, and legal action, can help banks reduce their NPA levels.

3 Risk Management

Strengthening credit appraisal, loan monitoring, and collateral management practices can prevent the buildup of NPAs.

Role of the Government in Addressing NPAs



Legislative Reforms

The government can introduce laws and regulations to empower banks in recovering NPAs more effectively.



Bank Recapitalization

Providing capital infusion to public sector banks can strengthen their ability to absorb losses and lend more.



Asset Resolution

Establishing specialized asset reconstruction companies can help banks and the government resolve NPAs more efficiently.





Interventions by the Reserve Bank of India (RBI)

Regulatory Reforms

The RBI has introduced various regulatory measures, such as Asset Quality Review and Prompt Corrective Action, to strengthen NPA management.

Monitoring and Supervision

Rigorous monitoring and supervision of banks' NPA management practices by the RBI help ensure their effectiveness.

1

2

3

Resolution Frameworks

The RBI has established mechanisms like the Insolvency and Bankruptcy Code to facilitate the resolution of stressed assets.

Impact of COVID-19 on NPAs

1 Economic Disruption

The COVID-19 pandemic has led to widespread economic disruptions, affecting borrowers' repayment capabilities and contributing to a rise in NPAs.

2 Loan Moratoriums

The RBI's loan moratorium measures have provided temporary relief to borrowers, but the impact on NPAs may be delayed.

3 Sectoral Vulnerabilities

Certain sectors, such as aviation, hospitality, and tourism, have been hit harder by the pandemic, leading to higher NPAs in these areas.

4 Uncertain Recovery

The pace and strength of economic recovery will be a key factor in determining the long-term impact of COVID-19 on NPAs.



Case Studies

NPA Resolution in State Bank of India

SBI's proactive measures, such as the formation of a dedicated stressed asset management vertical and the use of the Insolvency and Bankruptcy Code, have helped in reducing its NPA levels.

NPA Challenges in Punjab National Bank

PNB's NPA issues, including the high-profile Nirav Modi fraud case, have highlighted the need for stronger internal controls and risk management practices in public sector banks.

Innovative Approaches in ICICI Bank

ICICI Bank's emphasis on digital transformation and data analytics has enabled it to identify and address potential NPA risks more effectively.

Conclusion and Recommendations

Holistic Approach

Effectively addressing the NPA challenge requires a comprehensive strategy involving banks, the government, and the RBI.

Strengthening Risk Management

Banks should focus on improving their credit appraisal, monitoring, and recovery mechanisms to prevent and resolve NPAs.

Regulatory and Policy Support

Continued regulatory reforms and policy interventions can provide the necessary framework and resources to tackle the NPA crisis.

Technological Advancements

Leveraging technology and data-driven insights can enhance banks' ability to identify, manage, and resolve NPAs.



