



Study on impact of non-performing assets on working of Nationalized Bank

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Abstract

A banking institution is indispensable in a modern society. It plays a pivotal role in economic development of a country. According to definition of banking as given in the Banking Regulation Act, 1949, the essence of banking lies in the performance of twin functions of the acceptance of deposits from the public and employing the funds thus mobilised in lending or investing in securities. Banking Companies are however permitted to undertake a number of other functions and render a variety of services also to their customers and the public in general.

Banking in India has undergone a tremendous transformation during the past few years. It is considered to be of strategic importance for guaranteeing the success of our planning targets and priorities. It is an effective agency for economic transformation of modern societies. In the past banking institution were subsidiary organizations of big industrial houses or profit oriented vested interests. These banks were designed to mobilise social resources for personal and group gains. There was an atmosphere of anarchy and failure of banks in those days.

Keywords: nonperforming assets, banks

Introduction

The concept of innovative socially oriented dynamic banking system has gained universal recognition. It has been accepted that the growth of banking should be responsive to the needs of accelerated economic development with social justice and stability and sensitive to the aspirations of people. With this view our late Prime Minister Mrs. Indira Gandhi decided to nationalize 14 commercial banks in 1969 despite stiff opposition from various corners. The nationalization of banks brought total metamorphosis in banking scene. The concept of priority sector advances called upon banks to play their role in economic development & social justice. Banks were not thus inspired by only financial considerations, but also by socio-economic considerations. All this brought impressive changes in the development of banks. Such qualitative changes have been geographically in favour of underdeveloped states, institutionally in favour of units and purposes of public and Co-operative sectors, sectorally in favour of agriculture and small business as distinguished from large and medium industries and size wise in favour of small & medium borrowers. Thus banking became socially, oriented and quite forcefully involved in the task of socio-economic considerations.

Thus a strong financial system is central to the objective of strengthening the real economy and for its healthy and orderly growth. Having accepted this proposition the next question obviously is what should be done to ensure sound financial system.

On the basis of recommendation of the Committee financial sector reforms were introduced in banks in the form of following measures:

- i) Introduction of prudential norms.
- ii) Transparency in balance sheet.
- iii) Partial deregulation of interest rates.
- iv) Partial deviation from direct lending.

The efficiency of credit delivery and payment system as well as facility to hedge various types of business risk are equally important factors. The providers of these inputs being financial institutes and banks it is imperative that they themselves are sound financially, that they work in an efficient manner, their policies are prudent, they have the capacity to bear unforeseen shocks arising on accounts of both domestic and international development of political economic and speculative nature. Thus a strong financial system is central to the objective of strengthening the real economy and for its healthy and orderly growth. Having accepted this proposition the next question obviously is what should be done to ensure sound financial system. To seek expert advice on this issue, in August 1991, Government of India appointed a committee on the financial system under the chairmanship of M. Narasimham, former Governor of RBI. The Committee on banking reforms submitted its report in November.

The objective of the study is to analyze the growth of Nationalized Banks in India during the post liberalizations era. The study will focus and analyze components like growth in NPA, new branches and loan market.

- To study the status of Non-Performing Assets of Indian Scheduled Commercial Banks in India
- To study the impact of NPAs on Banks with special reference to Indian Overseas Bank

On the basis of recommendations of Narasimham Committee, financial sector reforms were introduced in banks in the form of following measures:

- i) Impact of introduction of prudential norms.
- ii) To check the transparency in balance sheet.
- iii) Impact of partial deregulation of interest rates.

The main objective of reforms was to improve customer service and bottom line of banks, whereas introduction of

prudential norms and transparency of balance sheet were meant for bringing on surface the true state of affairs which will then serve as a guide to the course to be followed to improve bottom line, up-gradation of technology helping in improving customer service.

The scope of present study is confined only to Nationalized Banks and with special reference to Indian Overseas Bank. The study mainly involves analyzing the financial performance and cost efficiency of Nationalized Banks in India. Similar studies on this line may be conducted to compare performance of public and private Banks in other countries.

To conduct the research, the researcher has to set a plan, which would be widely used in all the systematic study of the problem. Social sciences results may or may not be same even after the systematic and scientific use of method. Case study method has been used in this study. This study heavily depends on secondary data. The relevant and required data have been collected from secondary sources such as national as well as international research papers, articles, Newspapers and annual reports of Banking Regulator i.e. RBI. The factors studied in detail include number of Bank branches, Loan granted, Non-Performing Assets and Impact of NPA on the working and Management of Nationalised Banks.

The questionnaires will be distributed to the focus group and the random sample will be conducted to serve the purpose.

A Research design is a plan of action to be carried out in connection with a research project. It is the conceptual structure within which research is conducted and it constitutes the blue print for the collection, measurement and analysis of data. It is the specification of methods and procedures for acquiring the information needed for solving the problem. Decisions regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design.

The research involves an experimental study and the assignment (Questionnaire) is given to the respondents on the random basis, so that they may fill in their responses in their own handwriting and without the biasness of the researcher. The Guidelines regarding the filling in of the questionnaire is attached with the questionnaire. The respondents are asked to fill in the questionnaire in their best belief and with utmost interest.

Ranking questions were also interests creating and the respondents had to think each and every option, before filling it. The researcher also tried out to get subjective responses, so that the data can be easily analyzed.

The data herein collected with the help of structured questionnaire has subjective and multiple questions on the random basis. The researcher has distributed the questionnaire to the respondents on randomly selected basis. They filled it up with the relevant information, which they could furnish at their level best.

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