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PARADIGM SHIFT OF INDIAN ECONOMY AND ITS IMPACT ON VARIOUS SECTORS

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CONTENTS

67.

PARADIGM SHIFT OF INDIAN ECONOMY AND ITS IMPACT ON BANKING SECTOR

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Abstract :- This research paper throws light on the key issues concerned Paradigm shift of Indian Economy and its impact on Banking sector. Merger of banks has a long term effect on Indian banking sector. It has paved way to great efficiency and proper functioning of banks. Digital banking also changed the organisational structure and functioning of banks. The paradigm shift of Indian economy has boosted Digital Banking. The government has also encouraged Digital Banking through its policy and decisions. Indian Banking Industry stays a life support system to our Economy. We have witnessed huge changes in the socio-economic landscape of Asia's third largest economy. The annual economic survey took a very important centre stage in the wake of two tumultuous international developments (Brexit and Political changes in advanced economies) and two radical policy actions domestically (Demonetization and passage of GST constitutional amendment bill). High levels of bad loans have brought down credit growth in public sector banks (PSBs) to historic lows, despite the fact that private banks continue to be aggressive in lending.The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The success of banks depends upon methods of managing NPAs and keeping them within tolerance level. It is not at all possible to have zero NPAs. Hence, the human Resources Management, Technology and Legal Aspects play a crucial role in the Management of NPAs and lack of these key aspects in our Financial System have already dented the growth of Indian Economy.

Keywords: NPAs, Financial Sector, Banking sector, PCA, SARFAESI

Introduction:-

India's banking sector has undergone a paradigm shift in the past two decades—evolving from physical bank branches to today's branchless banking paradigms that use new-age contactless technologies. In fact, the pace of technological advancement has led these developments to be viewed less as enablers and more as positive disruptors. This shift can be attributed to organic changes across the following five key segments:

Customers' trust: The first part of the 2000s witnessed a change in the mindsets of consumers. Customers progressed from perceiving money as an instrument that was meant to be preserved to one that offered growth opportunities. This led to 'safe' money from homes being increasingly mobilised to banks.

Technology: The movement from paper-based book-keeping to systems was a step in the right direction. But it was the adoption of the Core Banking Solutions (CBS) in 2002 that set the ball rolling for the incorporation of sophisticated technological processes in the banking sector.

Credit preferences: Informal lending and borrowing from family and relatives played a prominent role and was prevalent in the first decade of the 21st century. But with growing trust in the banking system, people started to move away from the social stigma associated with borrowing from family and friends.

Regulation: The industry has moved from a pro-banking regime that was unsupportive of NBFCs and other small players till the late 2000s to one in which payments banks, NBFCs, small finance banks and Jan-Dhan accounts flourished in the second decade. With the RBI mandating more prudent capital adequacy measures in the wake of the unfolding Non-Performing Asset (NPA)

Profitability: Due to major drivers that put the industry on a growth trajectory in 2002, banks were driven to acquire customers as a means to ensure their profitability. This led to opening of bank branches across India so that banks could be as inclusive as possible.

India's banking sector is set to move to a transformational space in the next decade. With technology increasingly becoming an imperative in the household and digital servicing domains, the day is not far when customers are likely to place their trust in robots.

NPA and its effects

Today, the banking industry is reeling under increased accumulation of NPAs while the expectation of the stakeholders are going on a sky rocketing pace which is a cause of serious concern. NPA has now scaled 12.6 percent at end-June, the highest level in at least 15 years. Indian banks' sour loans hit a record 9.5 trillion rupees ($145.56 billion) at the end of June, unpublished data shows, suggesting Asia's third-largest economy is nearer to bringing its bad debt problems under control. Credit risk is the principal risk faced by the commercial banks NPA creates three major problems before any bank- As the bank has to make provision against NPA, their profit is reduced and also the interest income as NPA does not generate any Income. It also creates mismatch of Assets & Liabilities of the banks.

There is no separate Department at the Reserve Bank of India to supervise or monitor the Non-Performing Assets of its member banks. Management of Non-Performing Assets in Financial Institution is an Art and the requires special skill sets. Reserve Bank of India is empowered by statute to perform the role of a Regulator and supervisor for the entire Indian financial system. Its objectives are to maintain public confidence in the system protect depositors' interest and provide cost-effective banking services to the public. However, this role finds inadequacy when it comes into the macro level aspects in the overall management of NPAs by the respective member banks due to lack of clear cut policy in three broad parameters viz, Human Resources, Technology and Legal Aspects.

Macro Aspects Of Management Of Non Performing Assets :-

Current Focus of the study relates to the importance of Human Resources Management. Since there are no explicit guidelines or instructions from RBI, the respective member banks have not put in place an effective training methodology to address the management issues of NPAs. And for the Management of NPA, one requires a specialized skill sets. Hence, the following parameters contribute to the root cause for the core issues:

1 Lack of Expertise in Credit Appraisal and Assessment of Credit Needs of Borrowers. This critical component falls under the category of internal inadequacies found in the banking system. And this expertise surmounts under the following premises:

1.1. Knowledge and Analytical skill

1.2. Decision Making.

1.3 Service Orientation.

1.4.Lack of Trained Professionals in the Management of NPAs.

1.5. Lack of General Awareness of NPA amongst the operational staff of bank

1.6. Ineffective roles played by the Empanelled Lawyers and Valuers in NPA Management

II. NPA Reduction Strategies

NPA Management Policy devised by banks must be in tune Credit Risk exposure. They must revisit their strategies associated with Identification of NPA, Organizational set-up, review of loan sanction terms, Rephasement and Reschedulement of loans, Rehabilitation Packages etc.

III. Absence of realistic classification of assets

Assets are generally classified into Standard, Sub-Standard, Doubtful and Loss. This serves the purpose only for Balance Sheet perceptive including provisions for bad loans. However, there is no branch level data-base to classify Non-Performing Assets for recovery action.

IV. Inadequate policy guidelines in Banks

Every bank must strive hard to devise it's policy guidelines to for —PREVENTION OF POTENTIAL NPA BECOMING NPA. Potential NPAs can be prevented from becoming NPAs.

V. Legal Aspects and Statutory Compliance of Government Policies or norms for Lending:

The primary two aspects of banking knowledge are the legal aspect and the banking aspects. The legal aspects are governed by their respective Acts and rules, legal system and procedures. The advent of Basel norms applicable globally in the banking sector and the introduction of prudential norms during the Indian banking reforms initiated in the year 1990 along with the dawn of the concept of non-performing assets (NPA) and The Securitisation And Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 , have changed the entire perceptions of law and practice of banking with specific regard to acquiring legal knowledge.

VI. Legal Reforms:

Legal Reforms are very much required to address the age old issues in the statutes which are the causative factors to place the borrower in an advantageous position thereby defeating and demoralizing the secured creditors. Provisions which under Transfer of Property Act, SARFAESI Act, RDBBFI Act, Limitation Act, State Finance Acts, Stamp Acts, Civil Procedure Code, Criminal Procedure Code, Indian Penal Code, Indian Evidence Act, etc are to be thoroughly reviewed and proposed to the Finance Ministry to take up for suitable amendments in the statute in order to facilitate effective recovery of NPAs through legal measures.

VII. Role of Technology in the Management of Non-Performing Assets:

Information Technology plays a huge role in the Management of NPA. However, RBI has not devised a common or robust software for its member banks in their CBS system to assess, evaluate the sensitive indicators in advance before slippage. There is no separate NPA Module in the CBS system or an effective Management information system tool. Proper Management Information System (MIS) is an important tool for effective NPA management.

How to Optimize Information Technology in NPA Management?

There is hardly any use of IT in NPA management by banks. Further, the software used in the banks are not effective in meeting the present needs of the banks, rather sometimes they create problems. Banks should use proper software & networking at the branch and controlling office levels for the purpose of Forecasting of Potential NPA syndrome in each loan account.

Integration of Customer ID across all banks using common parameters

After the advent of Aadhar where biometric credentials are embedded in a single database, RBI can establish a robust technology wherein all common credentials of any single borrower can be integrated in a single database and share the same to member banks where they have NPA loans outstanding.

Management of NPA data:

Many financial institutions operate under Core Banking Solutions and loan master information is maintained in an application software. These contain all credentials of the borrower including updation of Standard BSR codes for any specific business activity, scheme or sector and are KYC compliant in general. However, if the NPA loans are kept under a separate module and shown separately directly in the Balance Sheet, the Asset movement, slippages, etc can be closely monitored at every layer of operations and Management of Non Performing Assets can be attached with special focus and attention for recovery.

Role Of Reserve Bank Of India In The Management Of NPAs

Reserve Bank of India has to play a major role in exercising their supervision and monitoring of loan portfolio of the member banks within their statutory powers in the following manner:

1. Uniform and standardized norms can be prescribed for empanelment of Advocates who handle bank related legal work, Engineers who are engaged in Valuation of Securities offered to banks and Chartered Accountants who are engaged in the conduct of Concurrent Audit, Revenue Audit, Statutory Audit, Stock Audit, Credit Audit, etc.

2. Inspection and Audit of NPA accounts should be a regular exercise and reports and action points proposed should be submitted to the respective bank managements.

3. Bank-wise exposure and NPA position to a particular sector should be periodically evaluated and published in its website.

Conclusion The Non-performing assets (NPAs) have emerged as a major headache for the government and the Reserve Bank of India (RBI). During the last three years both the RBI and government started addressing to this problem in a big way. Total bad loans of India's 38 listed commercial banks have already crossed Rs 8 lakh crore . This NPA chunk now accounts for nearly 11 percent of the total loans given by the banking industry. The problem of recovery is not with small borrowers but with large borrowers but adoption of a pragmatic Regulatory and Supervisory approach by RBI for solving this problem of the Management of NPA. Hence, Human Resources, Technology and Legal Aspects of Non-Performing Assets constitute a major chunk in the managerial challenges envisaged in this most critical segment of our Indian Economy. Government announced a capital infusion of Rs.2.11 lakh crores into the public sector banks to redeem its credibility since over 90 percent of these stressed assets are on the books of government-owned banks for strengthening NPA-hit public sector banks, which include re-capitalisation bonds, budgetary support, and equity dilution. The actual bad loan scenario in the sector could be even worse if one accounts for the amount of loans that are being restructured under various schemes and are technically retained as standard on the books of banks. If the economic cycle doesn't pick up as expected, a significant chunk of such loans too may turn bad.

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