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Research Paper

Sustainability of the Financial System of the Indian Banking Sector

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Abstract: *The banking industry has seen significant changes throughout the years. It began during the first wave of economic liberalization in 1991, when non-performing assets (NPAs) became a distressing threat to the country, giving unfavorable signals about the viability and insurability of the banks carrying the debt. One of the financial system's many desired, well-functioning features is the management of non-performing assets (NPAs). Following the 2008 financial crisis, the worsening asset quality decline of the Indian banking industry steadily gained attention and, over time, reached its apex. The government and RBI took many actions to stop the increase of non-performing assets (NPAs), but the outcome was not what was anticipated. Additional slippages are indicated by the notions of Gross NPA (GNPA) and Net NPA (NNPA). Proper provisioning standards can compensate for increased slippages, and when they are higher, profitability becomes a concern. Since non-performing assets (NPAs) cannot be entirely eliminated from the financial system, their expansion should be opposed as soon as possible in order to prevent excessive future capital depreciation. As of December 2016, the gross NPA of gross loans, which was ~13 lakh crore in March 2012, has risen by an astounding 438.46% to `57 lakh crore. The study examined a sample of 38 banks, including eight public and four private sector banks. It found that the banks' profitability was being negatively impacted by a continually high increase in non-performing assets (NPA).*

Keywords: *Sustainability, Financial system, Banking sector , Non-performing asset.*

I. INTRODUCTION

The increase in Non-Performing Assets (NPAs) that has been plaguing the Indian banking industry since 2009, after the global financial crisis, is a source of concern.

The repeated actions made by the government and the Reserve Bank of India (RBI), either together or individually, did not bring about the results that were anticipated. Furthermore, these actions aggravated the problem to its core and increased the degree of deterioration in the asset quality of Indian banks. In particular, the public sector banks have been impacted more severely than their private counterparts, despite the fact that the private sector banks have introduced themselves to the realm of destruction in recent years and have therefore contributed to the rapid increase of stressed assets. The purpose of this study is to examine the susceptibility of Indian banks, both public and private, in relation to the growing number of non-performing assets (NPAs) that have been accumulated since 2008. According to the findings of the research, the sustainability of the Indian banking system has become problematic due to advantages in uncontrolled asset quality degradation; growth has outpaced the benefits of the corrective efforts.

Since many decades ago, the banking industry has been subjected to significant developments. This phenomenon may be traced back to the period after the first phase of economic liberalization in 1991, when the National Pension Authority (NPA) arose as a disturbing intimidation in the country, giving negative signals about the sustainability and insurability of the debt load banks. It is important to note that the management of non-performing assets (NPA) is one of the many desirable and well-functioning aspects of the financial system. The worsening of the asset quality degradation in the Indian banking sector came to the forefront of public attention gradually after the financial crisis of 2008, and by virtue of the time span, it reached its highest point. Although the government and the Reserve Bank of India (RBI) took a number of measures to prevent the increase in non-performing assets (NPA), the results were not what was anticipated. Gross non-performing assets (GNPA) and net non-performing assets (NNPA) are two notions that are indicative of further slippages. If suitable provisioning rules are implemented, it is possible to compensate for larger slippages; but, when these requirements are increased, the issue of profitability arises. Due to the fact that non-performing assets (NPA) cannot be eliminated entirely from the financial system, it is imperative that any efforts to do so be rejected as soon as possible in order to prevent excessive future financial depreciation of capital. As of December 2016, the gross non-performing assets (NPA) of gross advances, which had been recorded at `13 lakh crore in March 2012, had seen a staggering growth of 438.46%, reaching a total of `57 lakh crore. The research paper has concentrated on a selection of eight public sector banks and four private sector banks that were chosen for examination out of a total of 38 institutions. The findings of the study have shown that the increasing trend in nonperforming assets (NPA) is consistently high, which is reducing the profitability of the banks.

II. REVIEW OF LITERATURE

The study by Sikdar Pallab (2013) determined the credit risk based on the current bank's non-performing assets (NPA) level. Additionally, it outlined the procedures for recovering advances and loans from both state and private institutions. The Indian Banks Association's (IBA) thorough analysis of public and private sector banks' annual reports and publications served as the foundation for the study. With the right credit evaluation and risk management system, the NPA issue may be resolved. Since the readiness to lend ahead may have an effect on the banks' asset quality during a period of increasing non-performing assets, the author came to the conclusion that the problem of non-performing assets (NPA) might be fought at its infancy in order to prevent new additions to the stock of NPA.

According to Care Ratings (2017), the non-performing asset (NPA) crisis in the Indian banking industry, public sector banks in particular have severely damaged their profitability as a result of an unmatched increase in stressed assets, particularly between June 2016 and June 2017. From 8.42% in June 2016 to 10.21% in June 2017, the NPA ratio increased to its highest level in the previous six quarters. Although it was anticipated that the stressed loan book issue would be resolved by March 2017, the situation has turned out otherwise, and public sector banks are doing worse than their private counterparts. The most recent effort to resolve the problem with IBC included referring some of the largest non-performing assets for prompt resolution.

The author of Nishant Raj (2017) emphasized the urgent necessity for NPA management. The essay focused on what NPA is, what causes it, how it affects society, and how to deal with it. The study identified many urgent needs, including the use of forensic audit to look into the intentions of borrowers, the development of internal capabilities for credit assessment, the use of technology and analytics to find early warning signs, and steps to extract hidden non-performing assets.

Patel Urjit (2017), As of March 2017, the stressed advances ratio is at 12% and the GNPA ratio at 9.6%. Due to the major corporate borrowers who have an aggregate exposure of Rs. 5 crores or more, over 86.5% of public sector banks are the most severely impacted by this concerning situation. In order to address this problem, the government and regulators are taking important steps to restructure the banking industry's capital and reorganize recovery from various channels at the expense of current expenses and hardships in order to achieve the intended outcome.

According to T.R. Radhakrishnan (2016), eliminating the underlying cause of cancer NPA is the most effective way to thwart its proliferation in the banking industry. Rather than corporations and industrialists who have been labeled as intentional late defaulters, the financial institutions should bear the burden. The essay emphasizes the need of implementing preventative actions early on before they become totally disastrous and the need to use expertise, care, transparency, and dedication throughout the process to strengthen and improve the financial system.

III. THE METHODOLOGY OF RESEARCH

Need of the research: The analysis highlights the need for the deployment of sensible revival measures as well as the vulnerability of the Indian banking industry and its dubious sustainability.

The study's scope is limited to a few public and private sector institutions that are particularly vulnerable to the non-performing asset (NPA) issue. IDBI, UCO Bank, UBI, Bank of Maharashtra, Overseas Bank, Dena Bank, Corporation Bank, and Central Bank of India are among the public sector banks that were taken into consideration for the research. Axis Bank, ICICI Bank, Yes Bank, and Indus Land Bank are among the private sector banks included.

The study's goals are to: Provide appropriate, competitive, and long-term remedies to mitigate the NPA shocks; Critically evaluate India's eight hardest-hit public sector banks and a few private sector banks that are afflicted by non-performing assets.

Study duration: The study period spans from after 2008 to 2017. This study disregards the pre-crisis era.

Data collection: All of the study's data came from secondary sources, including compilations of magazine, article, and journal excerpts.

One limitation of the research is that it only looked at public sector banks throughout the time frame specified above.

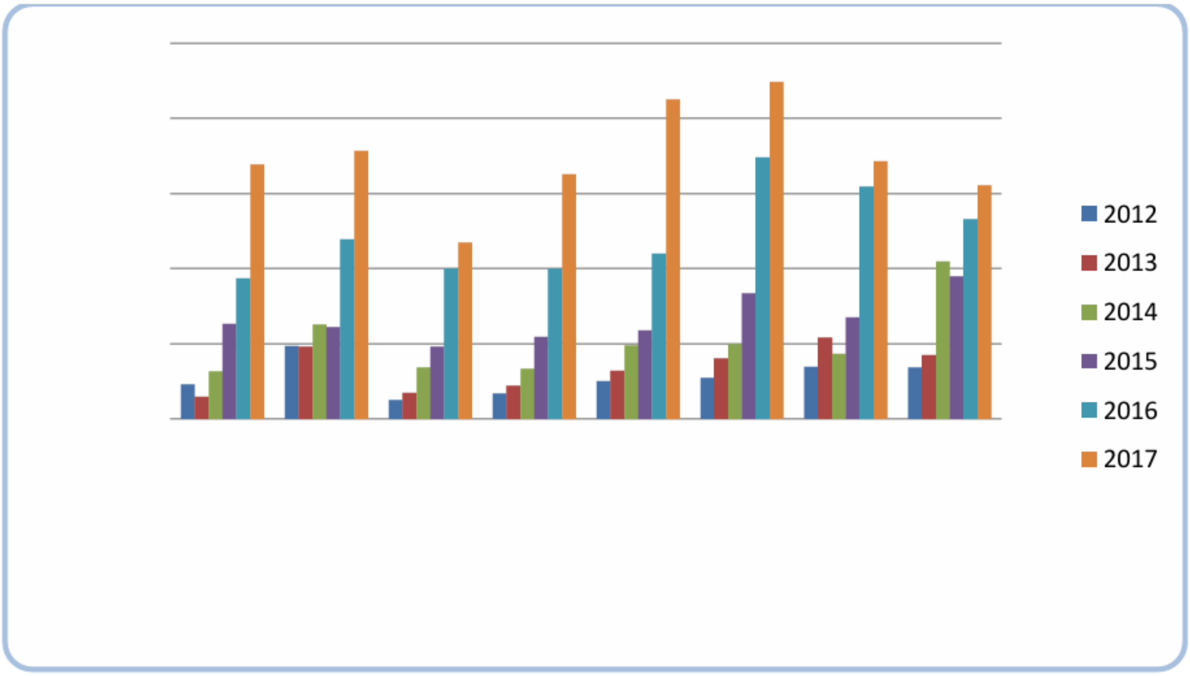
IV. DATA ANALYSIS AND INTERPRETATION

For the purpose of this research, eight public sector banks that have been severely affected by non-performing assets (NPAs) have been selected. Additionally, the two significant variables, GNPA and NNPA, have been taken into consideration from the years 2012 to 2017 in order to investigate the direction in which they have moved. The results of this analysis are shown in the following diagram.

Tabular Analysis of Public Sector Banks (GNPA Ratio):

GNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	Bank of Maharashtra	2.28	1.49	3.16	6.33	9.34	16.93
2.	Central Bank of India	**4.83**	4.80	6.27	6.09	11.95	17.81
3.	Corporation Bank	1.26	1.72	3.42	4.81	9.98	11.70
4.	Dena Bank	1.67	2.19	3.33	5.45	9.98	16.27
5.	IDBI Bank	2.49	3.22	4.90	5.88	10.98	21.25
6.	Indian Overseas Bank	2.74	4.02	4.98	8.33	17.40	**22.39**
7.	United Commercial Bank	3.48	**5.42**	4.32	6.76	**15.43**	17.12
8.	Union Bank of India	3.41	4.25	**10.47**	**9.49**	13.26	15.53

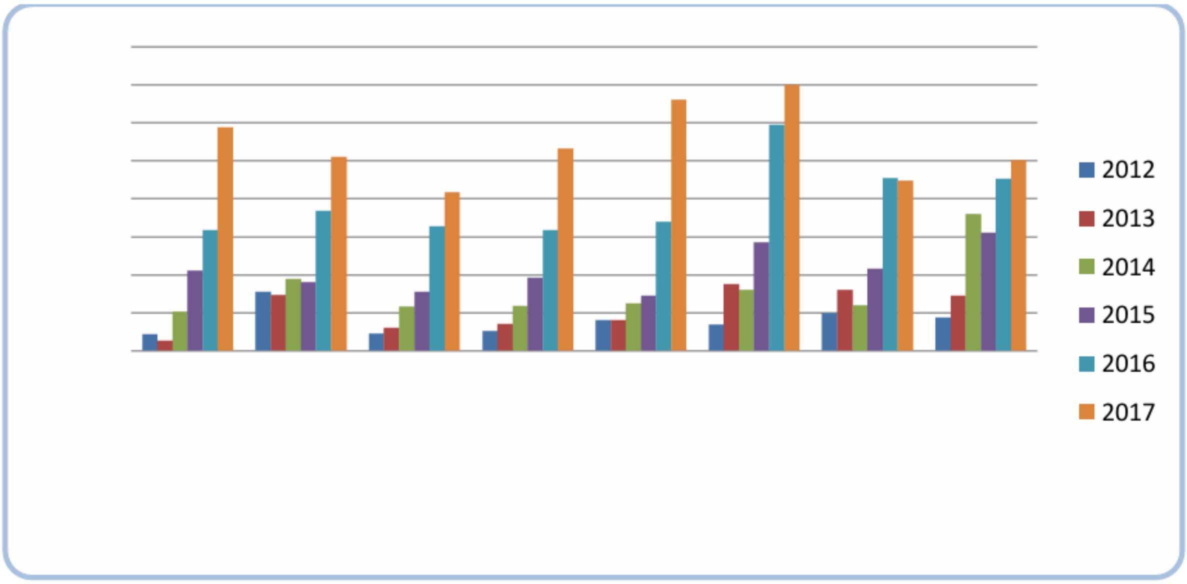
GNPA Ratio of Public Sector Banks:



Tabular Analysis of Public Sector Banks (NNPA Ratio):

NNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	Bank of Maharashtra	0.84	0.52	2.03	4.19	6.35	11.76
2.	Central Bank of India	**3.09**	2.90	3.75	3.61	7.36	10.20
3.	Corporation Bank	0.87	1.19	2.32	3.08	6.53	8.33
4.	Dena Bank	1.01	1.39	2.35	3.82	6.35	10.66
5.	IDBI Bank	1.61	1.58	2.48	2.88	6.78	13.21
6.	Indian Overseas Bank	1.35	**3.50**	3.20	5.68	**11.89**	**13.99**
7.	United Commercial Bank	1.96	3.17	2.38	4.30	9.09	8.94
8.	Union Bank of India	1.72	2.87	**7.18**	**6.22**	9.04	10.02

NNPA Ratio of Public Sector Banks:



V. RESULTS AND DISCUSSION

DISCUSSION ON PUBLIC SECTOR BANKS:

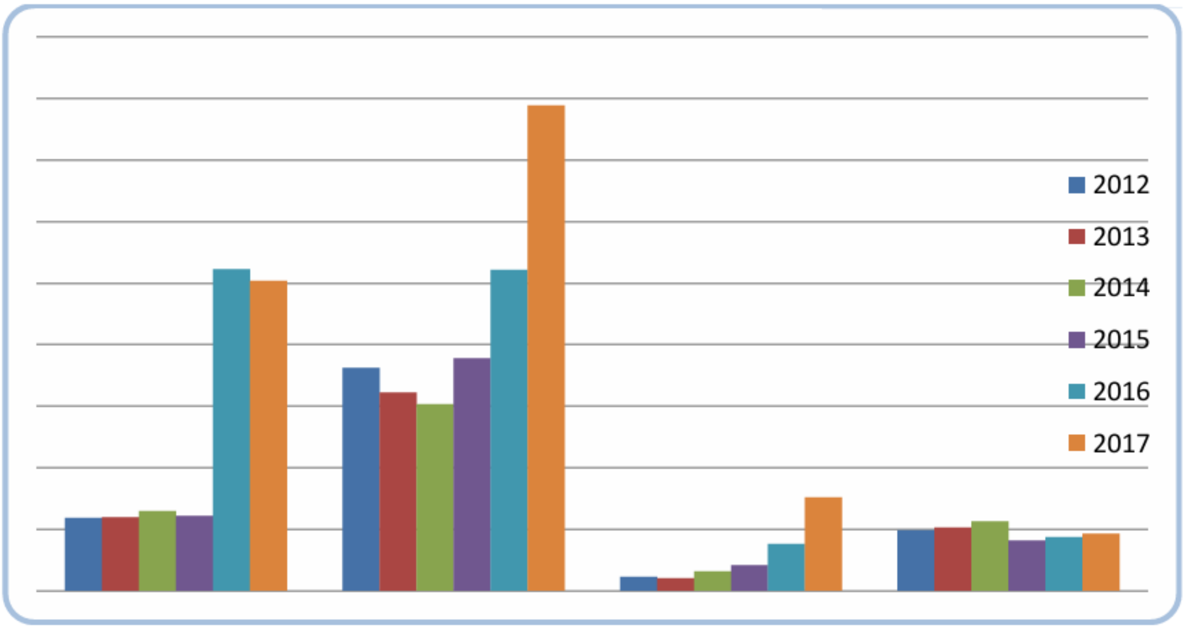
The aforementioned data unequivocally demonstrates a continual increase in NPAs from 2013 to 2017. Both GNPA and NNPA have risen. NNPA signifies the amount of provision established to provide an adequate buffer for non-performing loans based on the GNPA number. Specifically, IOB was adversely affected, with NPAs rising to 22.39% as of March 2017. An analysis of the financial parameters in the annual reports of the aforementioned group of banks indicates that the persistent increase in Non-Performing Assets (NPA) is attributable to several factors, including aggressive lending practices, irresponsible expansion, a substantial appetite for risk, a focus on short-term gains, inadequate scrutiny of customers' credit histories, and negligence in the recovery process. The remarkable growth of UCO Bank is attributed to persistent lending in sectors such as construction, textiles, mining, food processing, and metal goods.

These banks are also monitored by the RBI, which requires the enforcement of the Prevention of Corruption Act (PCA), 1988. The repercussions of this NPA extend beyond the banking sector, including macroeconomic elements such as the depletion of national capital, erosion of public trust, and questionable sustainability.

Private Sector Banks (GNPA Ratio):

GNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	AXIS Bank	1.18	1.19	1.29	1.21	**5.22**	5.04
2.	ICICI Bank	**3.62**	**3.22**	**3.03**	**3.78**	5.21	**7.89**
3.	Yes Bank	0.22	0.20	0.31	0.41	0.76	1.52
4.	IndusInd Bank	0.98	1.03	1.12	0.81	0.87	0.93

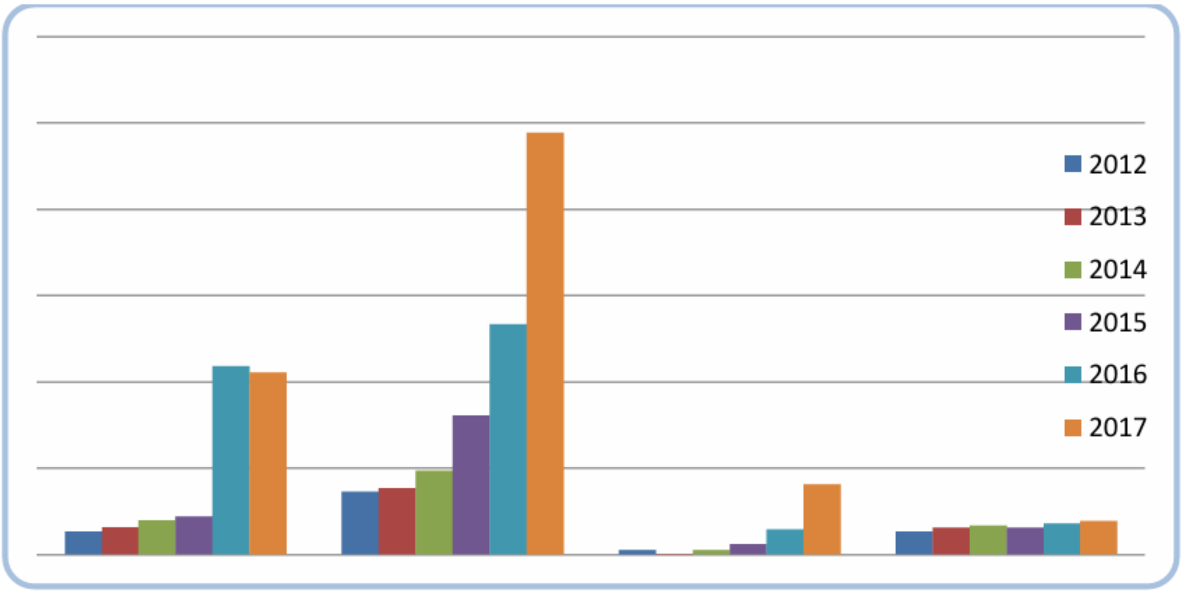
GNPA Ratio of Public Sector Banks:



Private Sector Banks (NNPA Ratio):

NNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	AXIS Bank	0.27	0.32	0.40	0.44	**2.18**	2.11
2.	ICICI Bank	0.73	0.77	0.97	1.61	2.67	**4.89**
3.	Yes Bank	0.05	0.01	0.05	0.12	0.29	0.81
4.	IndusInd Bank	0.27	0.31	0.33	0.31	0.36	0.39

GNPA Ratio of Public Sector Banks:



DISCUSSION ON PRIVATE SECTOR BANKS:

The notion of superior performance among private sector banks is being debunked. The causes are linked to the underreporting of stressed assets, comparatively subdued loan growth, little disbursements, and narrow interest margins. In addition to economic considerations, responsibility may also be attributed to internal inefficiencies, mismanagement, and the effect of political directives. Analysts forecast that the trend of private banks surpassing system growth would continue in the next quarters. Both commercial and governmental banks unequivocally need robust intervention measures to restore their viability. To accomplish this, the Reserve Bank of India (RBI) and the Government of India (GOI) have previously implemented several processes that have not yielded significant results; thus, new fresh approaches should be developed and begun for an improved banking future.

VI. CONCLUSIONS

It is essential to integrate robust market participants into the financial system to sustain banking institutions; otherwise, competition in the banking industry may diminish during the next 20 years. The financial system would remain inefficient without corresponding fundamental reforms in the Government's and RBI's policies and mindset. The overall non-performing loans reached about Rs. 700,000 crore, a substantial figure to address. The severely impacted public sector banks are encumbered by non-performing assets, which have escalated over the last year.

In comparison to the BRIC nations, the increasing NPAs need urgent sustainable strategies to address their persistence beyond 2020. The amalgamation of public sector banks is time-intensive and will encounter significant early challenges owing to several bottlenecks. The public may suffer adverse effects, and there may also be political complications, since the private sector does not provide much more revenue via elevated interest rates. Priority sector lending is mostly maintained by public sector banks; hence, the government should formulate a precise plan for the relevant institutions to consolidate.

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