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Short Communication

A Comparative study of NPA of Old Private Sector Banks and Foreign Banks

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Abstract

Gross NPA of both Old Private Sector Banks and Foreign Banks continue to rise except the year 2008 in Old Private Sector Banks and 2011 in Foreign Banks continue to fall. Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. The scope of the study is limited to five years data. The study is related to Old Private Sector Banks and foreign Banks.

Keywords: NPA, Gross NPA, Banks, Basel II

Introduction

Since the nationalization of fourteen major banks, the geographical and functional coverage of commercial banks have increased at a rate that is unprecedented in the world[1]. The Indian banking system passed through a revolution in the sixties, which unleashed a chain reaction of rapid changes[2]. Commercial banking was converted in to mass banking from class banking[3]. From orthodox methods and conventional constraints it moved into an era of speedy social changes[4]. It was transformed from a profit seeking institution into one of service giving to the poor and needy sections[5].

Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years[6]. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs)[7]. The quality of loan portfolio is very crucial for the health and existence of the banks[8]. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank[9].

Objectives: i. To examine capital adequacy Ratio. ii. To study measures adopted by RBI for implementation of Basel II. iii. To analyse gross NPA of Old Private Sector Banks and Foreign Banks.

Methodology

The study is based on the secondary data. The scope of the study is limited to five years data. The study is related to Old Private Sector Banks and Foreign Banks.

Measures adopted by RBI for implementation of Basel II: For the introduction of Basel II accord by Indian banks, RBI initiated several measures. First, RBI advised the banks to undertake a self-appraisal of the different risk management systems with specific reference to the three vital risks covered under the Basel II[10]. They were also directed to take required remedial actions to modernize the systems to achieve the minimum standards prescribed in Basel II.

RBI advised banks to implement the capital Adequacy Assessment Process (CAAP) as needed under Pillar II of the new framework[6]. Banks are encouraged to implement their Capital Adequacy Assessment Process (CAAP) in co-ordination with their business plan[11]. In order to have greater clarity in the financial position and risk profile of banks RBI expanded the area of disclosures.[12]

Capital Adequacy Ratio: Capital adequacy has been the cornerstone of prudential regulatory framework in India. It is an important indicator of the financial health of a banking institution. It helps to improve and maintain the confidence of the customers and acts as a shock absorber to absorb unforeseen losses[10]. The capital adequacy norms for Indian banks are based on the Capital Accord of the Basel Committee.

Capital adequacy ratio is explained as the ratio between a bank's total capital and its risk-weighted assets[13]. The capital adequacy ratio of Indian banks prior to the implementation of banking sector reforms was very weak[14]. It accounted for only 1.5 per cent of the risk-weighted assets of the banks. Narasimham Committee observed that erosion of profitability was the major cause for the low accumulation to reserves[15]. The RBI therefore recommended that the commercial banks were achieve the capital adequacy of 8 per cent by the year 1996[16].

Table-1 shows that Gross NPA of both Old Private Sector Banks and Foreign Banks continue to rise except the year 2008 in Old Private Sector Banks and 2011 in Foreign Banks continues to fall.

Table-1
Gross NPA of Old Private Sector Banks and Foreign Banks (Amounts in Rs. Lakhs)

Years	Old Private Sector Banks	Foreign Banks
2007	236900	209500
2008	217700	274500
2009	261925	626507
2010	305391	587844
2011	336172	401474

Source: www.Department of Banking supervision, RBI

Table-2 exhibits that Gross Advances of both Old Private Sector Banks and Foreign Banks continues to rise through out from the year 2007 to 2011 except the year 2010 in Foreign Banks.

Table-2
Gross Advances of Old Private Sector Banks and Foreign Banks (Amounts in Rs. Lakhs)

Years	Old Private Sector Banks	Foreign Banks
2007	8046900	10016700
2008	9705700	13057300
2009	11203679	13857628
2010	13499071	13702112
2011	17012186	16155716

Source: www.Department of Banking supervision, RBI

Results and Discussion

The above comparison and study can be summarized as the following graph in FIG-1 and FIG-2

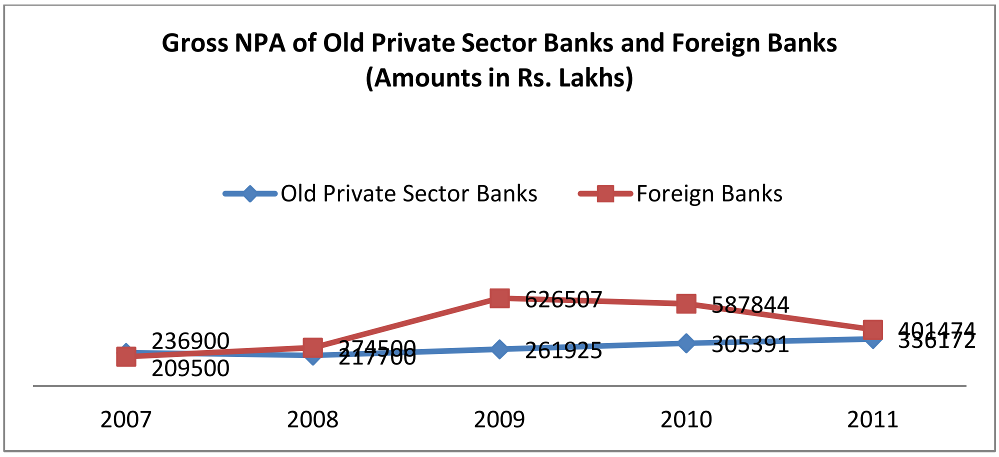

Figure-1
Gross NPA of Old Private Sector Banks and Foreign Banks (Amounts in Rs. Lakhs)

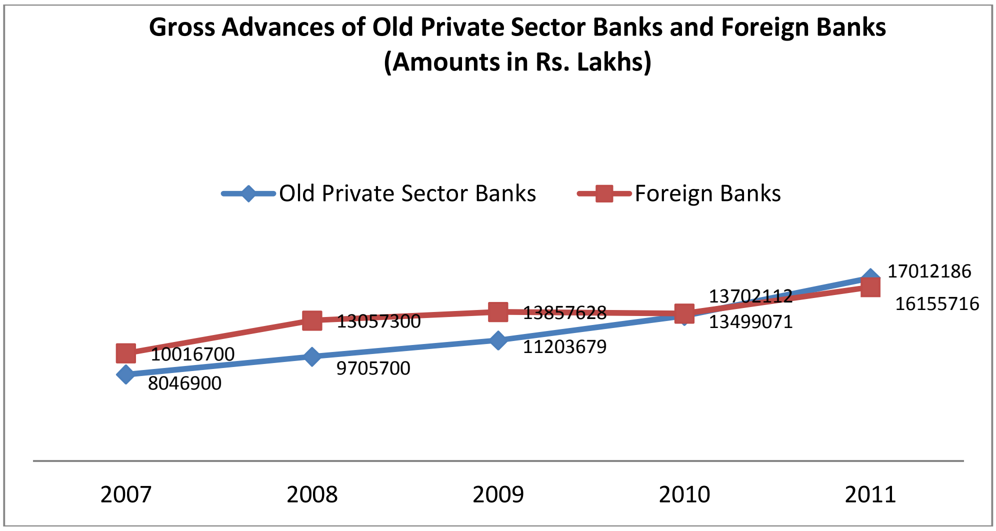

Figure-2
Gross Advances of Old Private Sector Banks and Foreign Banks (Amounts in Rs. Lakhs)

Since the NPA of Old private sector banks and Foreign banks are small one when compared to Public sector banks in India, it do not have a clear cut strategy to check the NPA position. As both the Old private sector banks and Foreign banks aggressively sanction the loans to their customers, the NPA amount continues to rise. This made me to study the capital adequacy ratio and measures adopted by RBI for implementation of Basel II.

Capital adequacy ratio which reflects the financial health of a banking institution andfor the application of Basel II accord by Indian banks RBI asked the banks to under go self evaluation of different risk management systems.

Conclusion

Gross NPA of both Old Private Sector Banks and Foreign Banks continue to rise except the year 2008 in Old Private Sector Banks and 2011 in Foreign Banks continues to fall. Similarly, Gross Advances of both Old Private Sector Banks and Foreign Banks continues to rise through out from the year 2007 to 2011 except the year 2010 in Foreign Banks. For the introduction of Basel II accord by Indian banks, RBI initiated several measures. First, RBI advised the banks to undertake a self-appraisal of the different risk management systems with specific reference to the three vital risks covered under the Basel II[10]. They were also directed to take required remedial actions to modernize the systems to achieve to the minimum standards prescribed in Basel II.

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