



ISSN NO. 2320-5407

Journal homepage: <http://www.journalijar.com>

INTERNATIONAL JOURNAL
OF ADVANCED RESEARCH

RESEARCH ARTICLE

A Study on the Causes of Non-Performing Asset in Selected Co-operative Banks in Pune

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Manuscript Info

Manuscript History:

Received: 15 April 2015
Final Accepted: 25 May 2015
Published Online: June 2015

Key words:

NPA, Co-operative Banks,
Appraisal, Sanction and Disbursal,
Post- Disbursal Stage

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Abstract

Banking is a dynamic business activity prevalent across the world. It helps in capital formation for an economy with the help of saving and investment function. Accumulation of saving and lending of money is prime function of any bank. Lending money involves risk because it is not the bank money but the depositors' money who need their money back when demanded. Thus effective asset allocation is essential for a bank to grow and succeed. There is no doubt that increasing Non - Performing Asset commonly known as NPA has become a crucial concern for any bank whether it is commercial or co-operative. There are instances where many co-operative banks have faced strict action and closure from the central bank. Thus, the paper is an attempt to study and analyse the causes of NPA in selected co-operative banks in Pune. It studies the causes of NPA at the micro level for co-operative banks and brings out the major causes responsible for assets turning into non-performing.

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I. Introduction

Non-Performing Asset (NPA) shall be a loan or an advance, where:

Interest and /or instalment of principal remain overdue for a period of more than 90 Days in respect of a Term Loan, the account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft / Cash Credit (OD/CC), the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, Interest and/ or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose and any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

NPA is a double edge weapon. On one hand, it does not generate income for the banks, and at the other banks are required to make provisions for such NPAs from their current profits which also affect their future stream of profits.

II. Objectives and Methodology

Some of the underlying objectives of the study are as follows.

- 1) To discuss the conceptual framework of Non -Performing Asset in banking.
- 2) To understand the causes of NPA during appraisal, sanction and disbursal and post disbursal stage at the micro level.

It has been observed that when it comes to the study of Non- Performing Assets, co-operative banking sector is generally ignored which is as important as commercial banks in our country. Thus, the researcher felt the need to study the causes of NPA with reference to Co-operative banks.

The study takes into account 15 cooperative banks where three branches of every bank were considered to study the causes of NPA. The banks selected for the study are Saraswat Cooperative Bank, Cosmos Bank, Mahesh Sahkari Bank, Janta Sahkari Bank, Thane Janata Sahkari Bank ,Pavana Sahkari Bank, Indrayani Cooperative Bank, The Muslim Cooperative Bank, Pune Peoples Cooperative Bank, Shamrao Vitthal Cooperative Bank, The SevaVikas

Cooperative Bank, Pune Central Cooperative Bank, Karad Urban Cooperative Bank, Abhyudaya Cooperative Bank and Jijo Mata MahilaSahakari Bank.

The study is based on primary data. An exploratory study, it primary highlights the causes of NPA in co-operative banks during appraisal, sanction and disbursal and post disbursal stage. Data was collected with the help of a structured questionnaire. Branch managers, zonal heads, department heads were the major respondents.

Data collected have been analysed with the help of 'Friedman test' in order to study the most important causes of non-performing assets in banks as perceived by bankers.

III. Discussion and Findings

(I) APPRAISAL STAGE:

- A Friedman Chi-Square test was conducted to study if there is difference in the importance Cooperative banks attach to causes of NPAs during the Appraisal Stage.

- **Statistical Test: Friedman Test**

- **Variables & Measurement**

Respondents of Cooperative Banks were offered 13 common causes of NPA during appraisal stage and were asked to tell the extent to which they agree or disagree over these causes being prominently responsible for NPAs using a 5- point likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).

H_0 : There is no difference in the importance that the Cooperative Banks attach to the causes of NPA during Appraisal Stage.

H_1 : There is significant difference in the importance that the Cooperative Banks attach to the causes of NPA during Appraisal Stage.

- **Level of Significance:** $\alpha = 0.05$

Ranks

	Mean Rank
Lack of critical presentation appraisal	7.79
Deliberate attempt of loose appraisal	4.31
Submission of unrealistic project by the borrower	9.28
Incorporation of improper assessment of experience of the borrower or his capacity to pursue the business activity.	8.97
Preparation of incorrect loan repayment schedule	7.60
Non-Availability of reliable market study to the credit officer	8.30
Reliance on provisional/ unaudited data as submitted by the borrower to Bank.	6.90
Lack of network/ information system amongst branches/ banks enabling borrowers to enjoying banks funds from more than one bank.	6.58
Non-availability of skilled/ trained staff in credit department	6.47
Absence of right to select good borrowers by the credit department	3.69
Fear of staff accountability on account turning NPA in future in the mind of credit officer at the time of appraisal	8.03
Fraudulent approach of borrowers	10.00
Fraudulent and irresponsible attitude of bank officials	3.09

Test Statistics^a

N	45
Chi-square	194.817
Df	12
Asymp. Sig.	.000

a. Friedman Test

- **Observation:** $\chi^2 (12)=194.817, P=0.000, N=45$

- **Conclusion:**

Since the *P* value is less than level of significance (0.05). The null hypothesis is rejected. And it is therefore concluded that there is significant difference in the importance cooperative banks attach to the causes of NPA.

We refer to the table ranks to understand the most prominent causes.

- Fraudulent approach of borrowers (10) is the strongest cause of NPA as perceived by cooperative banks followed by Submission of unrealistic project by the borrower (9.28), Incorporation of improper assessment of experience of the borrower or his capacity to pursue the business activity (8.97), Non availability of reliable market study to the credit officer (8.30) and so on.
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(II) SANCTION & DISBURSAL STAGE

- A Friedman Chi-Square test was conducted to study if there is difference in the importance Cooperative banks attach to causes of NPAs during the Sanction & Disbursal Stage.
- **Statistical Test: Friedman Test**
- **Variables & Measurement**
Respondents of Cooperative Banks were offered 07 common causes of NPA during Sanction & Disbursal stage and were asked to tell the extent to which they agree or disagree over these causes being prominently responsible for NPAs using a 5- point likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).
H₀: There is no difference in the importance that the Cooperative Banks attach to the causes of NPA during Sanction & Disbursal Stage.
H₁: There is significant difference in the importance that the Cooperative Banks attach to the causes of NPA during Sanction & Disbursal Stage.
- **Level of Significance:** $\alpha = 0.05$

Ranks

	Mean Rank
Indulgent approach to family or group connection or long standing relationship than to the project viability	4.87
Political interference i.e. pressure to sanction loan	3.70
Political favouritism to particular borrower in order to please politicians	3.20
Undue delay in decision making in sanction of loan	4.48
Undue delay in disbursements of credit facilities	4.14
Disbursement of loan before the compliance of terms and conditions of sanction	3.23
Incomplete and defective legal documentation	4.38

Test Statistics^a

N	45
Chi-square	30.124
Df	6
Asymp. Sig.	.000

a. Friedman Test

- **Observation:** $\chi^2 (6)=30.124, P=0.000, N=45$
- **Conclusion:**
Since the *P* value is less than level of significance (0.05). The null hypothesis is rejected. And it is therefore concluded that there is a significant difference in the importance cooperative banks attach to the causes of NPA.

We refer to the table ranks to understand the most prominent causes.
- Indulgent approach to family or group connection or long standing relationship than to the project viability (4.87) is the strongest cause of NPA as perceived by cooperative banks followed by , Undue delay in decision making in sanction of loan (4.48), Incomplete and defective legal documentation (4.38), Undue delay in disbursements of credit facilities (4.14) and so on.

(III) POST DISBURSAL STAGE

- A Friedman Chi-Square test was conducted to study if there is difference in the importance Cooperative banks attach to causes of NPAs during the Post Disbursal Stage.

- **Statistical Test: Friedman Test**

- **Variables & Measurement**

Respondents of Cooperative Banks were offered 07 common causes of NPA during Post Disbursal stage and were asked to tell the extent to which they agree or disagree over these causes being prominently responsible for NPAs using a 5- point likert scale (5= Strongly Agree, 4= Moderately Agree, 3= Undecided, 2 = Moderately Disagree, 1= Strongly Disagree).

H₀: There is no difference in the importance that the Cooperative Banks attach to the causes of NPA during Post Disbursal Stage.

H₁: There is significant difference in the importance that the Cooperative Banks attach to the causes of NPA during Post Disbursal Stage.

- **Level of Significance:** $\alpha = 0.05$

Ranks

	Mean Rank
Unavailability of audited financial statements in time	4.27
Non-submission of stock and other required periodical statements by the borrowers	4.91
Negligent approach by the bank officials in regards to inspection of stock	2.34
Absence of effective monitoring	4.38
Lack of close supervision of loan account	4.40
Delayed detection of warning signals	4.01
Delay in initiating remedial measures and actions	3.69

Test Statistics^a

N	45
Chi-square	63.610
Df	6
Asymp. Sig.	.000

a. Friedman Test

- **Observation:** $\chi^2 (6)=63.610, P=0.000, N=45$

- **Conclusion:**

Since the P value is less than level of significance (0.05). The null hypothesis is rejected. And it is therefore concluded that there is a significant difference in the importance cooperative banks attach to the causes of NPA.

We refer to the table ranks to understand the most prominent causes.

- Non submission of stock and other required periodical statements by the borrowers (4.91) is the strongest cause of NPA as perceived by cooperative banks followed by Lack of close supervision of loan account (4.40), Absence of effective monitoring (4.38) and Unavailability of audited financial statements in time (4.27) and so on.

IV. Conclusion

NPA is considered to be an important parameter to judge the soundness of banking industry. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The NPA growth involves the necessity of provisions, which poorly affects the banks and its stakeholders. Identifying the causes of loans turning bad during several stages of disbursement of credit facilities are therefore significant for a banker. Sound appraisal and due diligence must be taken by the branch managers before sanctioning the loans to clients. Effective post disbursal monitoring and control will also enhance the creditability and soundness of the banking sector.

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