CHAPTER III

ISSUES IN INDIAN FINANCIAL SYSTEM

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CHAPTER - III

Issues in Indian Financial System

INTRODUCTION

In this chapter major issues in the financial system of India are discussed. Increasing trend of NPA's in India, problems & prospects of Urban Co-op Banks, recommendations of Narsimham Committee are discussed at length.

We know that country's balance of payment position is greatly influenced by the nature of its international capital flows & also its economic policy. To face the critical situation in India during 1990, India pledged gold in international bank to honor the commitment of its debts. Some financial issues raised in India and affected on its financial growth.

3.1 The major issues in financial system were: -

The financial system was politicised giving rise to political interference with harmful influence on policies & its day to day working. The financial health of the system has deteriorated & there was an alarming sickness in the financial system reflected in the erosion of profitability. There had been a perceptible decline in productivity & efficiency of the financial system affecting customer service & its integrity.

In developed countries like USA, Britain, Japan etc. have formulated respective Central Bank's Governors committee to focus the problems of banks & its monitory aspects. They appointed the committee based at Basle in Switzerland. They recommended various parameters to be introduced in respect of banking & financial institutions. The committee has invited India to participate & discuss the economic problems & contribution there off in order to present & discipline financial sector. The RBI accepted the norms set out in Basle committee.

In 1991,a high level committee was appointed under the chairmanship of M. Narsimham, which examined all aspect relating to the structure, orgnisation, functions & procedures of the financial system & submitted its reports in November 1991 to the RBI. This committee recommended vast changes in the financial system as per international norms to cater the needs of the sector & to strengthen the system.

This committee observed that the health of the financial system deteriorated in due to reduction of capital base. There was imbalance between income generation & enhancement of capital funds. The expenditures of institutions were increased. The cases of loan losses or loan defaults were high which affected on funds & income generation. Therefore financial institutions could not make adequate provision for loan defaults.

The Indian financial systems suffered from decline in productivity & efficiency due to management weaknesses. The operations of the banks & financial institutions suffered from the problems like low capital base, poor quality of loan & low-income generation. As a result banks could not make adequate provisioning for bad debts i.e. non-performing assets. In this regard, the banks & financial institutions adopted certain accounting practices, which did not show their realistic picture. According to international standard accepted by & implemented by banks & financial institutions in some of the developed & developing countries. The RBI also implemented & put to practice the recommendations popularity known as Income recognition, assets classification, provisioning & other related matters.

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Narsimham committee diagnosed various problems & also come to know the factors, which were responsible for the erosion of profitability, decline in productivity & efficiency. It proposed the financial sector reforms. The assets of the banks should be evaluated on the basis of their realisable values. They recommended in regard to income recognition, the banks & financial institutions should follow 'realisation' system & not the 'accrual' system of accounting. No income should be recognised in the accounts in respect of Non-performing Assets (NPA's). The recommendations were initially implemented to only nationalised banks, commercial banks in the year 1991. Urban Co-op Banks were also advised to follow these recommendations right from 1992.

As the banks adopted new accounting practices, which would, unable them to avoid full disclosure in respect of their operations particularly the bad & non-performing assets & provisioning against such assets. The lack of transparency in the statement of accounts as in the case of balance sheet raised the problems of integrity with regard to financial system.

➢ Urban Co-op Banks: Problems & Prospects

Urban Co-op Banks were set up with the view in promoting sustainable banking practices amongst the relatively specific target client viz. middle income strata of the urban population. They were brought under the regulatory ambit of the reserve bank by extending certain provisions of the banking regulation act 1949 effective from March 1, 1966 by introducing section 154, which covers the Urban Co-op Banks. The performance of co-op banking sector as a whole has attracted considerable attention in the recent years especially in the context of the ongoing face of financial sector reforms. It is true that Urban Co-op Banks are showed their good performance. But some

Urban Co-op Banks on the other hand have shown signs of weaknesses, they showed losses.

Financial sector reform has brought about vast changes in the structure & the operation of the Indian financial sector, which fully impacted, on the finance system. Narsimham Committee suggested that the RBI should review the entry norms in respect of Urban Co-op Banks & prescribed revised prudent minimum capital norms for them. It also recommended that Urban Co-op Banks should also be brought within the ambit of the board of financial supervisions. The RBI setup a high-powered committee on Urban Co-op Banks under the chairmanship of Shri. K. Madhavrao, former chief secretary, the governor of A.P. to review the performance of Urban Co-op Banks to suggest measures in licensing in policy, supervision & control, capital adequacy & legislative reforms.

Among the major recommendations on strengthening the banking system, management & structural issues, regulation & supervision, the recommendations on legal & legislative framework are very noteworthy.

The Narsimham Committee observed that the legal framework which clearly defines the rights & liabilities of the parties to contracts & provides for speedy resolutions of disputes is essential for the financial inter-mediation & Urban Co-op Banks. Narsimham Committee II recommended setting up an expert committee to look into the suggested changes to the legal framework. The Ministry of finance accepting these recommendations set up an expert committee under the chairmanship of Shri. T.R. Andhyarujina. This Committee suggested appropriate amendments in the legal framework affecting the banking sector. This committee in its report recommended that there is need of a new law for granting statutory powers directly to banks & financial institution for possession & sale of secured assets.

3.2 Non-Performing Assets

➢ Introduction

In this chapter the researcher has thrown light on the concept of Non Performing Asset (NPA), its meaning, definition of NPA, effects of NPA on bank. This topic also covers provisioning for NPA. In this topic researcher has given various tables, which shows tremendous increase in NPA's of Commercial banks & Urban Co-op Banks.

➢ The Genesis

The term, NPA's came into existence in the Indian banking sector after introduction of financial sector reforms since 1992. As part of the reforms, prudential accounting norms were introduced, which ended the system of taking credit for interest income to P&L a/c & started the new practice of provisioning for expected losses.

Thus in the words of P. N. Joshi, x-chairmen of United Western Bank Satara,

"The days of counting chicken before they are hatched came to an end'! Prior to introduction of NPA concept, non-recovered loan designated as 'bad & doubtful' & the total advance figure given in the balance sheet was after 'usual & necessary provisions. In any business bad & doubtful debt is inevitable. Banking is a business & therefore, NPA's can not be avoided. It must also be noted that all NPA's are not irrecoverable loans. In fact, a substantial proportion of ' sub-standard' category NPA's lies between 'standard & substandard' categories is depending upon business conditions & bankers responses."[13]

As we know that bank & financial institutions create the money by accepting deposits from its customers. Banks & FI's use their deposits for lending loans to the needy people, for the purpose of profitability. They maintain their balance sheet & annual reports in which they give all information about transactions, deposits, loan, profit etc. Balance sheet stands for assets & liabilities of the bank & FI's. All capital amounts & due amounts are shown on Assets side of balance sheet. We can say that Balance sheet is the mirror, which shows financial position of the banks, so it must be transparent. But unfortunately every bank tries to show only good position by hiding the real position. This should not be shown in financial transactions, which mislead the common people. Banks & financial institutions were calculating & showing the income in the balance sheet, which are actually not received by them. Along with this reserve fund was also created from income, which was not received. These types of wrong balance sheet do not show the actual financial status/position of the banks. Most of the banks calculating their profit / income which are actually not received & also declaring dividends. Because of this banker's policy the dangerous situation arose. It becomes necessary to change this accounting system for healthy economic system.

- **Meaning of NPA**

Non Performing Assets means an assets or an account of borrower that has been classified by bank or a financial institution as substandard default or loss assets. This meaning of N.P.A. is accordance with the directions or guidelines regarding asset classification issued by the RBI. As long as an asset generates income, it is treated as Performing Asset, and when it fails to generate income, it becomes Non Performing Asset (NPA). In other words a loan asset become non- performing when it does not to generate income i.e. interest, fees, commission etc to the bank.

As long as an asset generates income expected from it, it is treated as 'performing asset', but when it fails to generate income, it became 'Non Performing Assets (NPA's).

The concept of NPA. This committee has defined NPA's as. "An advance where on the date of balance and amount to be paid to the bank is past due for a period of 180 days.(Now 90 days) A amount is considered past due when it remains outstanding for 30 days beyond the due date." The quantum of non-performing asset as a percentage of advances is one of the critical indicator of the quality of the bank's loan portfolio & hence its health also.

3.3. Causes of NPA

Co-op banks facing problems of productivity when assets cease to generate income for the bank. NPA not only cease to generate income for the bank but also have cost for hold them. The mounting NPA results in heavy losses to banks. Millions of customer's deposits are eaten away by NPA. International standard rate of NPA is 2 % to 3% of the total asset. Unfortunately the rate of NPA in Indian co-op banks is far away from International Standard Rate of NPA i.e. 2 to 3 % of total loan asset. Even it is far away from standard level i.e.10 %as prescribed by RBI.

➢ Following are general causes of NPA's

1) False scrutiny of loan application.

The bank has not developed any formal risk rating system to assess the risk of lending. The board & its scrutiny committee take wrong decisions in scrutinizing the loan applications & they advance the loans for non-productive purposes.

2) Lack of professionalism.

In co-op banks humanitarian considerations are given more importance than pure profession considerations. Since the borrowers are in close contacts with the board. So political influences, local pressures & personal elements influence on the loan decisions.

3) Inadequate monitoring of the accounts.

The bank grants loans to numerous borrowers every year. Close monitoring of the account particularly the large account is of prime importance. But the existence machinery is not adequate to keep constant watch on the borrower's accounts & follow up the accounts. No physical verification of assets is made in case of personal loans.

4) Diversion of funds.

Another important cause of NPA's is diversion of funds. In many cases funds were borrowed for business purpose but actually were utilised for personal consumption & other non-productive purposes.

5) Lack of financial discipline on the part of borrowers.

Many borrowers do not have thorough knowledge of financial management of practices. They do not make use of various financial control techniques. They do not prepare scientific financial plans & projects. They do not apply SWOT analysis for the management. This led to an increase in cost & lower returns on investments.

6) Tendency of borrowers to avoid the payments.

Some borrowers of the bank were really willful defaulters. They purposely have defaulted in payment of interest & payment of principle amount. the debtors were taking advantage of lengthy procedure of recovery machinery & deny repaying the overdue of the bank.

7) Recession in the economy

It is one of the general causes of NPA, because the recession in business, industry & agriculture affect on the demand for product & services. The huge unsold stocks have increased the operating cost & the borrowers are caught in the loan trap.

8) Directed lending by RBI

According to the guidelines of RBI, commercial banks should lend 40% & co-op banks 60% of its total loans to the priority sector & weaker section. This is also one of the main contributors to the NPA. Subsidised interest rate, poor enforcement of repayment, relaxation to collateral securities etc. has led to increasing burden of the bank.

3.4 The effect of N.P.A. on banks: -

When bank gives loan to a borrower it also accepts the deposits from the customers & it lends to those who are in need. But there is uncertainty to repay the loan amount by the borrower. He may repay it within or on the maturity period or he may not repay that amount.

The NPA or blocked funds create a direct burden in terms of profitability & Liquidity. A sizeable portion of interest income is absorbed in servicing NPA. The NPA is not nearly non-performing but also cost absorbing & profit eroding. A wider spread is necessary to cover the NPA cost, which reduces the competitive ability of the bank.

The high level NPA's indirectly affected the lending attitude of the bank, which can be called as the indirect burden of NPA. The psychology of the banks today is to insulate them with zero percent risk. This has affected adversely credit growth compared to growth of deposits. The NPA's result into blockage of funds and money function of recycling is contracted. High rate of NPA's are the indication of poor performance of banks and FI's.

> **Following are the effects of NPA's: -**

1. It will affect on the source of interest. The income from interest on loan will affect due to NPA's. It means interest earning stops.
2. It will reduce the liquidity of bank because of reduction in inflow of cash.
3. The N.P.A. & bank rating is also related to each other. If NPA increases more than 10% the bank will loose the image & trust of customers.
4. As the NPA increases the blockage of capital also increases & Capital Adequacy Ratio (CAR) will decreases.

5. NPA affect on risk of rate of interest e.g. if a bank has given a loan of Rs.10 lakhs for 2 years in 1998. This amount would be repaid in the year 2000. But borrower repaid this in the year 2004. If these 10 lakhs of Rs. were invested in debentures in 2000 the int. rate was 10% but it reduced to 6% in 2004. This shows that bank would earn 4% more interest & maximize its profit ratio.
6. There is close relation between NPA & legal risk: - If due amount of loan is not recovered by banks, it should take action against the borrower for recovery. Security documents signed by the borrower may be challenged in the court of law. There is no guarantee that Hon. Court will give the decision in favors of bank.
7. NPA affects on the profitability of bank. It means NPA reduces the profits of the bank.

RBI made it compulsory to maintain statutory liquid ratio at 25 % and cash reserve ratio at 3 % by every co-op bank. According to this co-op banks should keep aside 28 % as reserve. By keeping in view, the reducing profitability due to NPA's can be understood by following example. Following example will give clear-cut idea about bad effects of NPA's on over all banking business.

Prof. Deelip K. Purandare – 'Jan Seva Sahakari Bank Ltd, Pune training Center', has given simple example to understand the effect of NPA's on bank's profitability.

Example: -

Just imagine that one co-op bank has given a loan of. 2, 00,000 in the year 2000 at 16% for the term of 5 years. How it reduces the profitability of bank?

To give the loan of 2 lakhs Rs. bank should accept deposit of Rs. 3 lakhs.

[3 Lakhs * 25% SLR=75000 & for CRR 3 lakhs * 3%=9000] should be kept aside according to banking regulation act 1949 sec 18 & sec 24.

Bank advanced the loan for a term of 5 years at the rate of interest 16%. With the objective to earn 4% extra interest, bank has to give interest on the deposit of Rs. 3 lakhs at rate 12%, which was the going rate in the year 2000.

a) The amount near about Rs. 2.50 lakhs i.e. 12% for 5 years on the deposit of Rs.3 lakhs is debited in P&L a/c of bank.
b) Bank should make at least 50% reserve for doubtful debt of Rs. 1 lakh & this is also debited to P&L a/c of bank.
c) They should have to distribute dividend. Suppose 9% capital is required for the loan of 2 lakhs then 2,00,000 * 9/100 =18000 Rs is required. Suppose dividend rate is 15% p.a. then 18000*15%*5years=13500 Rs. Also debited to P&L a/c of bank.
d) For the maintenance of deposits & loan accounts bank should expend on staff, administration, expenses i.e. administrative cost is supposed to be 2% then deposit of Rs. 3 lakhs + loan of Rs. 2 lakhs = 5 Lakhs * 2 % = 50,000 is also debited to P&L a/c of bank.
e) Bank would loose the chance of earning the interest at 16% on 2 lakhs for last 5 years. That will be estimated to 2.50 lakhs Rs.

loss incurred by bank: -

a) Deposit cost	2.50 lakhs
b) N.P.A. risk cost	1.00 lakhs
c) Capital cost	0.13 lakhs
d) Staff & administrative cost	0.50 lakhs
e) Loss incurred due to not earning the required int.	2.50 lakhs
Total loss	6.63 lakhs

From the above discussion we can conclude that if the amount of 2 lakhs of Rs. is not recovered & remained as N.P.A. then it is the loss of

Rs.6.63 lakhs to the bank. And if the same condition is remained for 6 years the expenses goes on increasing & loss is also increasing. If on the other hand bank would succeed in recovery of N.P.A. it would definitely increase its profitability.

If N.P.A's are recovered within the specified period, the bank could able to increase the profit. This can also be understood by following explanation in regard to above example.

Loan amount	2.00 lakhs
+ Interest at 16% (For 5 years)	2.50 lakhs
Total due amount From borrower	4.50 lakhs

If the bank would succeed in recovery of Rs. 4.50 lakhs within 5 years, then it would definitely get 4.04 lakhs of rupees as a profit. This can be explained with following table: -

Recovery amount of interest will credit to P&L a/c of the bank as income.	2.50 lakhs
The reserve of 50% should be made for N.P.A. will be write back from P&L a/c.	1.00 lakhs
The recovered amount of Rs 4.50 lakhs will be again reinvested in new proposal of loan for earning interest at 12%.	.54 lakhs
Total profit	4.04 lakhs

Thus from the above example we can come to know that NPA's curtail the profitability of bank and FI's. If the same NPA amount is recovered in time, it can be reinvested in new proposal of loan and earn interest on them.[14]

3.5 Asset Classification, Income Recognition & Provisioning

Master circular of the RBI dated 4th July 2002 containing prudential norms for Income Recognition & Asset Classification & Provisioning pertaining to advances have been issued.

In line with the international practices & as per the recommendations made by the committee on the Financial System, the RBI introduced prudential norms for Income Recognition & Asset Classification & Provisioning for the advance portfolio of the banks to show greater consistency & transparency in the published accounts. Thus the policy of income recognition should be objective & based on record of recovery. The classification of assets of banks has to be done on the basis of objective criteria, which would prove uniform application of the norms. The provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non performing & the availability of security & the realisable value there of.

With the introduction of prudential norms, the health code based system for classification of advances has now made optional. According to this an asset becomes non-performing when it ceases to generate income for the bank. The NPA was defined as a credit facility in respect of which the interest or installment of principal has remained 'past due' for 90 days period of time. An amount due under any credit facility is treated as past due when it has not been paid within 30 days from the due date. Due to improvement in the payment & settlement systems, recovery climate, up gradation of technology in the banking system etc, it was decided to dispense with past due concept with effect from March 31, 2004. The specified period was reduced in phased manner as under: -

Year ending March 31	Specified period
1993	Four quarters (12 months)
1994	Three quarters (9 months)
1995	Two quarters (6 months)
2004	One quarter (3 months)

Thus from March 31, 2004, N.P.A. shall be a loan or advance where: -

1. Term loan:- Interest & installment of the principle remain overdue for a period of more than 90 days in case of term loan.
2. Cash credit/ overdraft: - The a/c remains overdue for a period of more than 90 days in the case of bills purchased & discounted.
3. Interest or installment of principle amount remains overdue for 2 harvest seasons but for a period not exceeding 2 ½ years in the case of agricultural advance.
4. Other accounts: - Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

- **Asset classification**

Since the year 1992-93 the RBI has been making efforts to reduce the NPA's of banks. It also has given stress on enforcing certain norms for income recognition. The balance sheets of a bank will appear different if the assets are not classified properly. The RBI has asked the banks to classify the loan assets in terms of guidelines issued by it. On the basis of risks involved, all loan assets have been classified into four categories: - They are

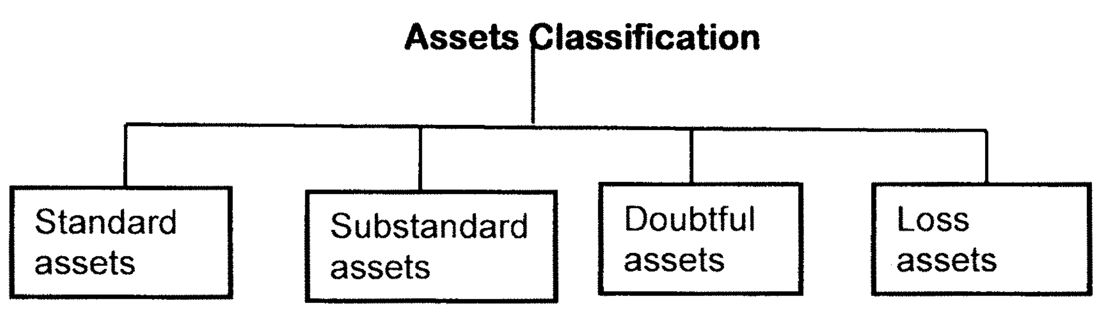

Chart - IV

1) **Standard Assets: -** These are those assets, which do not disclose any problem & do not carry more than normal risk attached to the business. All assets which do not cause any difficulty in timely recovery of principal amount & interest are called as 'standard assets'. These are performing assets & no provision is required for such assets. Because these accounts can be recovered by banks.

E.g. advances against national savings certificate, life insurance policies, Kissan Vikas Patra & fixed deposits are to be treated as standard assets.

1) **Substandard Assets:** - These are those assets which have been classified as non performing for a period not exceeding two years are referred as 'sub standard asset'. In respect of such assets the current net worth of the borrower, guarantor or the current market value of security charged to the bank is not enough to insure recovery of debt in full. These assets have credit weakness, there is possibility that the bank will incur some loss, if the recoveries are not followed properly. Generally, 10 % of total outstanding provisioning has to be made.

2) **Doubtful assets: -** These are those non performing assets & continued to be so for a period exceeding two years are referred to as 'doubtful assets'. Such loans & advances can not be renewed so 100 % provision should be made.

3) **Loss asset: -** An asset which has been defined by the bank, auditors, RBI inspectors as loss asset, but yet the amount has not been written off are referred to as 'loss asset'. In respect of loss asset, entire asset should be written off in the book of accounts of banks. Some times these assets are permitted to remain on record, and then 100 % provision should make on total outstanding.

➢ Income Recognition

After identifying NPA's out of total advances it's an important issue i.e. how to account for these NPA's & what is the accounting treatment of income generated in different stages of an account. In this context, the guidelines of RBI, suggestions of Narsimham Committee are important.

Accounting standards stated that if the asset is not going to be recovered or not going to generate any income, the accrued income is not be accounted for. According to the suggestion of Narsimham Committee & guidelines of RBI, unless interest is actually received, it should not treat as income in profit & loss account.

Mainly there are two systems of accounting: - cash & accrual. Under cash system the income is recognized only when it is actually received by the bank, on the other hand under accrual system, the income is recognized whenever it become due i.e. receivable but till not received.. Hence even if interest is receivable in this financial year & received in next financial year, it will be treated as income of this financial year in which it becomes due.

E.g. If on a term loan interest is accrued Rs. 10,000 for a quarters on 25.03.2006 & it is actually received & deposited by customer on 10.4.2006 (accounting year ends in 31.3.2006) This is the accrual system where interest income is recognised on 25.03.06. Here if banks adopt this type of accrual basis & interest & other charges are not paid by the customers, the profit calculated as per this method of accrual will not be correct. In such case dividend, which is based on profits will also be incorrect.

In order to avoid these NPA problems, the income should be recognised only if such income is actually received by the bank . In other words if any account becomes NPA, borrower is not in a position to make repayment; hence on such account there would not be any income that can be recoganised.But many banks adopt this system.

➢ Provisioning norms

Provisioning norms suggested by Narsimham Committee largely depend upon status of account (asset classification). The concept states that when a particular account is NPA then there is no assurance regarding 100% recovery of such assets. Hence in order to account for a probable loss, bank has to provide for such unrecoverable amount. Following are the provisioning norms based on assets classification:

Status	Provisions
Standard asset	0.25 %
Sub standard assets	10 %
Doubtful assets a) unsecured portion b) secured portion	100 %
I) A/c is NPA for more than 18 months but less than 30 months.	20 %
ii) A/c is NPA for more than 30 months but less than 54 months.	30 %
iii) A/c is NPA for more than 54 months	50 %

It is clear from the above table that, before making provision the 'status of account' should be considered. While making provision, normally it is advised that the amount of provision is not being treated as contingency in respect of standard assets. Once a provision is made, it is immediately recorded in P&L a/c. Hence, if there are more & more NPA's naturally their will be lower & lower profit. According to RBI guidelines, the amount of provisions will have to be increased as the NPA's level increases. Once the bank makes a provision for NPA in accounts & if that account goes into doubtful or loss assets category the provision will be enhanced.

3.6. Growing Non Performing Assets of the bank

Indian banking system is one of the oldest & largest in the world. Indian banking system consists typically various types of banks such as public sector banks, private sector banks, scheduled commercial banks, regional rural banks, co-op banks etc. In the working of Indian bank the biggest challenge is of management of non-performing assets. The banking sector caught in the dangerous circle of non-performing assets. The Basle norms brought the global banking system on common. The banking sector in India also accepted the norms of prudential management. This resulted in disclosure of serious weaknesses of the Indian baking system. The post nationalisation scenario compelled the banks to advance the loans on priority basis to certain sector. The forces of competition made the banks to sanction the loans to large borrowers. But this policy resulted in to large amount of loans are blocked in few borrowers averagely.

The growing proportion of non-performing assets in the advances of the banks & financial institutions has engaged the attention of the government, bankers. The NPA's have been described as a misuse of the public money, which should be used with utmost care. It has been recognized by all people that the growing NPA's can destroy the financial sector of the country. An unstable & weak financial banking sector can jeopardize the entire process of economic development.

The development of financial sector is major achievement & it has contributed significantly of the increase in deposit mobilisation & extending the credit. But over the years, several drawbacks have developed in to the banking & financial system. NPA results on productivity & efficiency of the economic system. The financial weaknesses of the banking sector arised in 1991 as India was caught in to the deep economic crisis. The magnitude of the problem of NPA in various types of banks can be understood by careful study of NPA's in different types of banks, especially before enacting the SARFAESI ACT 2002.

Table no 5

Position of NPA in Indian banks.

(Amount in crores)

Year	Total advances	Gross NPA	Net NPA	% of Gross NPA	% of Net NPA
1997-98	352697	50815	25734	14.4	7.3
1998-99	399496	58722	27892	14.7	7.6
1999-00	475113	60408	30211	12.7	6.8
2000-01	558766	63883	32632	11.4	6.2

(Source: - From the website of RBI http://www.rbi.org)

The above table shows that their is a reduction in NPA level from 14.4% to 11.4% between 1998&2001.The total advances increased from 3,52,697 crores to 5,58,766 crores by 73.15%. Gross NPA increased from 50,817 to 63,883 crores by 25.72 %. The objective set out by Narsimham Committee to bring down NPA to the minimum level has not been reached in reality.

➢ NPA's in Urban Co-op Banks

The co-op banks having extensive networks in remote areas play significant role in the Indian economy. The role of co-op banks in increasing banking habit among the lower & middle-income groups & in rural credit is remarkable. But this sector is developed unevenly in geographically. Similarly there is heterogeneity even in their financial position & performance. This sector is classified in to two categories: - 1) Rural Co-op Credit Institutions 2) Urban Co-op Banks. Both these sectors are facing problem of NPA

Table no 6

NPA position in Urban Co-op Banks in India as on 31. March

(Amount in crores)

Sr. No.	Year	No of banks	Gross NPA	Gross NPA as % to total advances
1	1996	1161	2187.76	13.00
2	1997	1318	2839.04	13.02
3	1998	1474	3305.98	11.70
4	1999	1748	4534.60	12.24
5	2000	1866	NA	12.10
6	2001	1942	9545.00	16.10
7	2002	1342	11472.00	21.90

(Source: - Report on Trend & Progress of banking in India by RBI)

The above table shows that there is an increasing trend of NPA's during the year 1999 to 2002. In 31.03.1998 the gross NPA of Urban Co-op Banks was 3305.98 crores which is 11.17 % to the total advances but this increased in 31.03.2002 by 11,472 crores i.e. 21.90 % to their total advances. This shows tremendous growth in NPA's of the Urban Co-op Banks in India.

➢ NPA's of Urban Co-op Bank in Sangli Districts

The Urban Co-op Banks are registered under Maharashtra Co-op Societies Act 1960. There are total 30 Urban Co-op Banks having 310 branches all over Sangli Districts. They offered huge amount of advances. More than 30 Urban Co-op banks have given near about 2000 crores of Rs. as an advance. They fulfilled needs of 2, 22,763 members. Following table shows their performance in year 2005-2006.

Table no 7

Financial position of Urban Co-op Banks in Sangli District

As on 31.03.2006

(Amount in lakhs)

Sr. No.	Name of the Bank	Deposit	loans	NPA	% ratio	Profit	Loss
1	Sangli Urban Co-op Banks	38,548.00	25250.00	4314.06	8.93		932.79
2	The Ashta Peoples Co-op Bank	5830.00	3608.00	355.06	3.27	42.73	
3	Murgharajendra Co-op Bank, Mirajj	9837.00	6401.00	1446.8	24.25		626.28
4	Annasaheb Karale Co-op Bank	9803.00	6384.00	1885.76	29.54		980.83
5	Jat Urban Co-op Bank, Jat	1729.00	758.00	210.66	27.08	5.36	
6	Laxmi Mahila Co-op Bank, Sangli	1207.00	662.00	69.49	11.52	0.62	
7	Shri. Parshwanath Co-op Bank	9227.00	4993.00	NA	4.77	3.59	
8	Yashwant Co-op Bank, Miraj	2922.00	1825.00	504.12	18.46		167.8
9	Sangli Dist. Primary Teachers co-op Bank	9450.00	6164.00	83.79	1.36	121.69	
10	Sarjerao Naik Shirala Co-op Bank	3619.00	2155.00	100.83	4.68	20.06	
11	Balaso Deshmukh Co-op Bank	1882.00	1354.00	82.43	4.32	23.54	
12	The Vita Merchant Co-op Ban	19855.00	12244.00	1620.41	14.74		449.84
13	The Manmandir Co-op Bank	2990.00	1541.00	151.9	4.79	13.49	
14	Palus Co-op Bank, Palus	10336.00	7267.00	532.03	7.97	50.81	
15	Bajirao Appa Co-op Bank, An.Khop	504.00	288.00	0.19	0.65	6.53	
16	Rajaram Bapu Co-op Bank, Peth	39831.00	22147.00	2148.74	2.92	161.99	
17	Shri. Laxmi Co-op Bank, Maishal	770.00	484.00	78.83	6.49	14.51	
18	Vasantdada Shetkari Sah. Bank Ltd.	58723.00	40416.00	NA	15.14	321.63	
19	Appso Birnale Co-op Bank	805.00	500.00	20.09	4.07	8.14	
20	The Ashta Urban Co-op Bank	4851.00	2661.00	636.22	23.91		162.3
21	Kupwad Urban Co-op Bank	2591.00	1887.00	369.72	20.83	11.08	
22	Mansing Co-op Bank, Dudhondi	2363.00	1643.00	NA	NA	17.76	
23	The Miraj Urban Co-op Banks	6178.00	5729.00	2672.41	46.64		933.44
24	The Vita Urban Co-op Banks	1539.00	836.00	116.22	13.89		57.89
25	The M. D. Pawar Peoples Co-op Bank	1770.00	1324.00	101.46	7.91	7.31	
26	Dhanshree Mahila Co-op Bank	582.00	332.00	NA	22.03		41.73
27	Satyavijay Co-op Bank, Kundal	7992.00	4786.00	390.11	8.55	9.37	
28	Hutatma Co-op Bank	8932.00	5315.00	860.19	5.85	69.36	
29	Tasgao Urban Co-op Bank	4257.00	2870.00	NA	NA	16.74	
30	Islampur Urban Co-op Bank	NA		NA	NA		
	Total	268,923.00	171824.00	18751.52		926.31	4352.9

(Source:- Annual report of Sangli District Urban Co-op Banks Association ,Sangli 2005-06)

(Total 30 banks, reporting banks 29, profitable banks 19, banks in loss 10.)

Above table shows that there are total 30 Urban Co-op Banks in Sangli District. They have accepted the total deposit of Rs. 2, 68,365.03 lakhs. These Urban Co-op Banks advanced huge amount of loans of Rs. 1, 71,823.65 lakhs in the year 2005-06, to cater the needs of urban people living in Sangli District.

The same table indicates that out of 29 reporting Urban Co-op Banks, 19 Urban Co-op Banks in profit & remaining 10 Urban Co-op Banks are in loss. Only 15 Urban Co-op Banks are maintained there standard NPA ratio of 10 % according to RBI's guidelines & remaining 20 banks are failed to maintain the standard NPA ratio. 19 banks have got total profit of Rs. 916.72 lakhs & remaining 10 banks are suffered loss of Rs. 4,417.20 lakhs in the year 2005-06.

Conclusion

The above table's shows increasing trend of NPA's in Urban Co-op Banks, scheduled commercial banks & co-op banks. All types of banks & financial institutions are facing problem of huge amounts of NPA's. Even rural co-op credit institutions are also facing huge amounts of NPA's.

Non performing assets affect on profitability of the banks. So the bank should give more attention on recovery of dues. As such the management of recovery of NPA's has become an important item on the agenda of banks activities. The Central Bank has also advised the banks to draw up specific policy of loan recovery & reduce NPA's through well-defined policies & strategies .If the banks could not succeed in reducing NPA's , it seems that their survival is in danger .They will not be work as a profitable venture in future years.

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