International Research Journal of Human Resource and Social Sciences
ISSN(O): (2349-4085) ISSN(P): (2394-4218)
Impact Factor 6.924 Volume 9, Issue 12, December 2022
Website- www.aarf.asia, Email : editoraarf@gmail.com

ASSESSING THE STATUS OF NON-PERFORMING ASSEST IN COOPERATIVE BANK AND ITS IMPACT IN JHARKHAND STUDY

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ABSTRACT

The Indian banking industry is operating in a dynamic and competitive environment. In recent years banks are exposed to various financial crises or challenges due to the highly competitive nature of the market. These financial crises have an adverse influence on the performance of the bank. One of the major challenges faced by the bank is a problem of the mounting amount of Non-performing assets. Non-performing assets are those loans and advances, on which principle or Interest amount is overdue for a period of 90 days. Non-performing assets are the Indicator of the financial health of the bank. The present study made an attempt to compare the performance of Co-operative banks by analysing the trends of Non-performing assets for the period 2008-2018. The data analysis was done by using statistical tools like tabulation and line graphs. The study observes that the UCBs and StCBs have shown a significant improvement in the management of Non-performing assets in comparison to the DCCBs, PACs, SCARDBS, and PCARDBS.

Keywords: - Bank, Jharkhand, Non-Performing Asset (NPA), Financial, Economy.

I. INTRODUCTION

An vital part in a nation's economic growth is played by banks. Banks are a major generator of economic development, and the banking industry is subject to a number of risks, including operational, managerial, and credit risks as well as liquidity and market risks. The ability of a bank to recover loans or control its level of non-performing assets (NPA) determines its good financial condition. Growth in NPA reduces the total profitability of banks, however decreased NPA often conveys the appearance that banks have improved their credit evaluation procedure over time. The NPA must be decreased and regulated in order to increase the effectiveness and profitability of banks. One of the main issues facing all Indian banks is non-performing assets (NPA). NPAs show how well banks are doing. A high percentage of non-performing assets

(NPAs) indicates a significant likelihood of many loan defaults, which may have an impact on a bank's profitability and net worth as well as the asset's value. As NPAs increase, provisions become necessary, which lowers total earnings and shareholder value. An attempt has been made in this chapter to understand how cooperative banks in Jharkhand handle their non-performing assets (NPA).

The management of NPA is a pressing concern in the banking industry nowadays. The buying and lending of money is the foundation of the banking industry. The recovery of loans is the banking industry's most crucial activity. For this reason, the Narasimham Committee on Financial Sector Reforms has recommended that banks align their policy on income recognition with international best practices, which call for the division of assets into two categories, namely Performing Assets (PA) and Non-performing Assets (NPA).

A thriving economy depends on a robust financial industry. Failure in the banking industry might have a negative effect on other industries. One of the main issues facing Indian banks is non-performing assets. NPAs show how well banks are doing. A high percentage of non-performing assets (NPAs) indicates a significant likelihood of many loan defaults, which may have an impact on a bank's profitability and net worth as well as the asset's value. As NPAs increase, provisions become necessary, which lowers total earnings and shareholder value. NPAs are an issue that not only affects banks but the whole economy. In truth, the amount of NPAs in Indian banks is nothing more than a reflection of how well the market and business are doing. Lending does, however, also include a risk known as credit risk, which results from borrower failure. Unpaid interest and loan non-recovery are two main obstacles in the credit cycle process. Even while it is impossible to completely eliminate these losses, banks may always work to keep them at a minimum.

II. NON-PERFORMING ASSETS IN FINANCIAL COOPERATIVES - THE INTERNATIONAL EXPERIENCE

NPAs are an issue that is not exclusive to India. This is a characteristic of banking everywhere in the globe. Both developed and developing nations deal with this challenge in unique ways; the only difference, perhaps, is that developed nations are able to absorb the issue quickly before it has an impact, whereas developing nations try to bury the issue and put on a brave face through some temporary financial tricks that have no lasting impact. The following details the situation with respect to non-performing advances in credit unions in several nations.

Although the NPAs for some of the countries have been provided, it must be acknowledged that cross-country comparisons are frequently challenging to interpret because the regulatory and economic environments that financial entities must operate in vary across countries, as well as because the quantity and caliber of services related to deposits and loans may vary.

Based on new regulations, Korea's banking Supervisory Service published a report on the non-performing or bad loans in the banking sector. According to the study, as of April 2007, credit unions had 21,6% nonperforming loans.

The biggest credit cooperative movement in the world, which serves an estimated 200 million people, is based in China. 10% of all bank deposits are held by Rural Credit Cooperatives (RCCs). The RCCs had been incurring losses and amassing bad loans in 2003. The Chinese government's first objective is to rebuild the RCCs. The RCC modernization project is being evaluated in collaboration with the People's Bank of China (PBC), the nation's central bank, in order to determine its optimum policy framework and track its progress. Even now, the percentage of bad debt is as high as 10%.The United States Credit Union profile from 2004 to 2008 clearly demonstrates that mortgage and car loans account for the lion's share of the entire loan portfolio, with corresponding shares of 33.2% and 33.3%. 14 credit unions had to be taken over because they got into so many difficulties, and around 21% of the country's credit unions lost money in at least one quarter of 2008.

In accordance with international credit union safety and soundness criteria, the percentage of nonperforming loans in a portfolio cannot be more than 5%. Wales credit unions were unable to maintain the required level of NPAs, whereas credit unions in England and Scotland were able to keep the ratio at less than 5%.

III. NON-PERFORMING ASSET (NPA)

It has been extensively explored how non-performing assets affect financial systems across the globe. NPAs are an issue that not only affects banks but the whole economy. In truth, the amount of NPAs in Indian banks is nothing more than a reflection of how well the market and business are doing. The banking industry's main responsibility is to provide credit for economic activity. A significant portion of financing credit distribution activities is made up of borrowings and recycling of cash received back from borrowers in addition to obtaining resources via new deposits. In general, lending is promoted since it has the effect of moving money from the system to useful uses, which boosts the economy. Lending does, however, also include a risk known as credit risk, which results from borrower failure. Unpaid interest and loan non-recovery are two main obstacles in the credit cycle process. The profitability of the bank is significantly impacted by these loans. Even while it is impossible to completely eliminate these losses, banks may always work to keep them at a minimum.

NPAs are loans made by banks or other financial institutions when the borrower fails to make the required principle or interest payments.

The flow of money in the banking sector is impacted when a bank is unable to collect the loan that was granted or does not receive regular interest on such loan. Additionally, the earning potential is negatively impacted. The efficiency and profitability of banks are immediately and directly impacted by this.7 The prudential standards prohibit banks from recording any NPA revenue. Additionally, they must make the appropriate NPA preparations, which negatively impacts profitability. Lower banking sector profitability has an impact on its development and growth. NPA has two sharp edges. NPAs are a drag on bank profitability since, on the one hand, banks cannot recognize interest revenue from them. Additionally, earnings must be redirected towards the supply of NPA. The high degree of NPA poses a threat to banks' ability to continue operating.

An asset is referred to be a non-performing asset (NPA) if it ceases to bring in money for the bank. When a borrower is unable to make interest and/or instalment payments on a loan and those payments are past due, the debt becomes a nonperforming asset.

The recovery rate, not the availability of security, is the primary determinant in determining whether an account is NPA or not. With effect from March 31st 2004, the term of non-performance of an asset is 90 days; hence, an asset that has not produced any revenue for the bank for the last 90 days or longer is designated as an NPA.8 Non-performing assets must also be divided into three categories, Substandard Assets, Doubtful Assets, and Loss Assets, depending on how long they have been non-performing.

IV. IMPACT OF NON PERFORMING ASSET (NPA)

1. **Profitability:** When money is blocked due to a client's poor decision, it is referred to as a non-performing asset (NPA). In addition to reducing the bank's prodigality by the amount of NPA, NPA also results in opportunity costs because that much of the profit was invested in a project or asset that would generate a return on investment. Therefore, NPA not only affects future streams of profit but also present profits, which may result in the loss of certain long-term advantageous opportunities. Low Return on Investment is another consequence of decreased profitability, which has a negative influence on the bank's present profits.

2. **Liquidity:** Money is being blocked; declining profits cause a shortage of available cash, which forces a corporation to borrow money for the shortest possible time, incurring extra costs. Another factor contributing to NPA is difficulty running the bank's operations because of cash flow issues, regular payments, and unpaid dues.

3. **Involvement of Management:** Another indirect cost that the bank has to endure as a result of NPA is the time and effort of the management. Management's time and energy would have been better spent on productive tasks that would have produced positive results rather than addressing and controlling NPA. Banks now hire specialized personnel to deal with and manage NPAs, which adds to their costs.

4. **Credit Loss:** When a bank has an NPA issue, it negatively impacts the bank's market credit worth. It will lose its reputation, brand, and credit, which will hurt the customers who are depositing money in banks.

V. IMPACT OF NPAS ON DISTRICT CENTRAL COOPERATIVE BANKS IN JHARKHAND

1. Banks must abide by the RBI's bad loan provisioning standards, which reduce their profitability. As a result, banks have less capital available for investment, shareholders lose money, and banks struggle to survive in the market.

2. Banks will obviously have more money to loan and earn interest on if they do not categorize an asset as an NPA. The bank may find itself in a position where it has loaned more money than it has available, which might result in a state of technical insolvency, if big NPAs are not disclosed.

3. The burden of sustaining the Capital Adequacy Ratio rises in light of achieving the Bessel criteria.

4. It also has an impact on banks' ability to compete.

5. It is detrimental to the economy because banks become less willing to provide loans, which has an impact on how much credit is extended to businesses. Due to the underdeveloped bond market, India's economy still relies heavily on banks to raise finance. This causes a decrease in gross capital formation, which affects economic expansion.

6. An increase in NPAs would cause a market confidence problem. The cost of borrowing, or the interest rates, will soar. The increase in interest rates will have a direct effect on investors who want to borrow money to build infrastructure, industrial projects, etc.

7. Retail customers like us would also be impacted since they will be required to pay a higher interest rate for a loan.

8. As a result, the Indian economy's total demand would suffer, which will result in slower growth rates and, of course, increased inflation due to the higher cost of capital.

9. The issue can become worse if the trend keeps going in a downward spiral.

VI. CONCLUSION

In this modern era, financial institutions, especially banking institutions, exposed to a remarkable number of financial crises or challenges in their operating environment. The most challenging issue concern to the banks is the mounting amount of Non-performing assets. The problem of

Non-performing Assets becomes an unbearable burden to the bank. A high NPA indicates poor quality of the asset and a lack of credit management system in the bank. The magnitude of NPA has significant influences on the profitability and performance of the bank.

The present study observed that the NPA level of all the selected co-operative banks showing a declining trend over the study period. The study also observed that there is a significant improvement in the Non-performing asset management in UCBs and StCBs, In the case of DCCBs, have a marginal improvement in the NPA management system. But the NPA level of PACs, SCARDBs, and PCARDBs reached an alarming range. It is indicated that they have a poor credit management system. Therefore Co-operative Bank should manage its NPA in an effective and systematic manner.

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