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A STUDY ON NON PERFORMING ASSET OF STATE BANK OF INDIA WITH SPECIAL REFERENCE TO SALEM TOWN

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Abstract:

Banking sector plays an important role in the development of an economy. This Role of Bank determines the pace of development of the economy. Hence the stability of banking sector is pivotal for the development of an economy. The Main function of any bank is to lend funds as loans to various sectors such as agriculture, industry, personal and housing and other to meet the productive use of these funds. With the introduction of financial sector reforms 1991 the faces of Indian Banking sector have enormously changed. The banking industry has moved gradually from a regulated environment to a deregulated market based economy. With the emergence of liberalization and globalization, resulting in market development there has been tremendous change in the intermediation role of banks in India. Consequently, we are noticing the cut throat competition in the banking industry these days.

Keywords: Role of Bank, Globalization, Banking sector.

1. INTRODUCTION

"Banking in India" in the modern sense is originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829–32; and the General Bank of India, established in 1786 but failed in 1791.The largest bank, and the oldest still in existence, is the State Bank of India (S.B.I). It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency Government the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the Indian government nationalized 14 major private banks; one of the big banks was Bank of India. In 1980, 6 more private banks were nationalized. These nationalized banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalized banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. The term commercial bank refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949. Generally banking in India is fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development (NABARD) with facilities like microfinance.

A second dose of nationalisation of 6 more commercial banks followed in 1980. The stated reason for the nationalisation was to give the government more control of credit delivery. With the second dose of nationalisation, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks and resulted in the reduction of the number of nationalised banks from 20 to 19. Until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

2. RELATED WORK

The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA's. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend, but lent for a purpose and with a purpose ought to be the slogan for salvation."The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development.

The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking. As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualized, that means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers. The level of NPAs of the banking system in India is still too high. It affects the financial standing of the banks and it is a heavy burden to the banks. A vigorous effort has to be made by the banks to strengthen their internal control and risk management system and to set up early warning signals for timely detection action. the NPAs problem also requires great accountability, great disclosures in the case of default an efficient credit information system. This is an area which requires urgent consideration as the present system involves delays in arriving at a legal solution. The absence of a quick and efficient system of legal redress constitutes an important 'moral hazard' in the financial sector, as it encourages imprudent borrowers.

3. LITERATURE REVIEW

Luther (1976) chaired the committee appointed by Reserve Bank of India to Study the productivity, efficiency and profitability of commercial banks. The committee analyzed the various issues related to the planning, budgeting and marketing in commercial banks.

Swamy (2001) studied the comparative performance of different bank groups since 1995-96 to 1999-2000. An attempt was made by researcher to identify factors which could have led to changes in the position of individual banks in terms of their share in the overall banking industry? He analyzed the share of rural branches , average branch size, trends in bank's profitability, share of public sector assets, share of wages in expenditure, provision and contingencies, net non performance assets in net advances, spread, has been calculated. He concluded that in many respects nationalized public sectors banks much better than private banks, even they are better than foreign banks.

Bloem and Gorter (2001) suggested that a more or less predictable level of nonperforming loans, though it may vary slightly from year to year, is caused by an inevitable number of 'wrong economic decisions by individuals and plain bad luck (inclement weather, unexpected price changes for certain products, *etc*.). Under such circumstances, the holders of loans can make an allowance for a normal share of nonperformance in the form of bad loan provisions, or they may spread the risk by taking out insurance. Enterprises may well be able to pass a large portion of these costs to customers in the form of higher prices.

4. PROPOSED SYSTEM

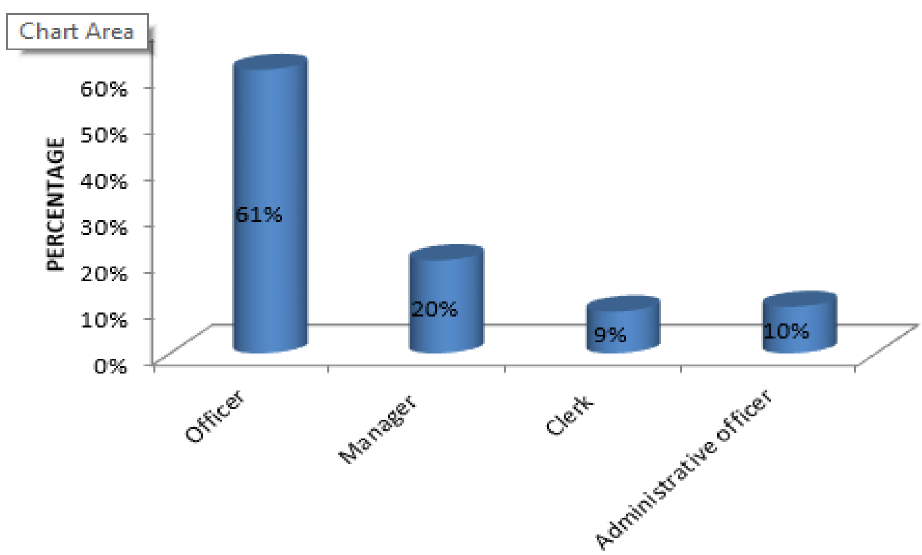

Fig.1.Designation Respondent

State Bank of India (SBI) is that country's largest commercial bank. The government-controlled bank--the Indian government maintains a stake of nearly 60 percent in SBI through the central Reserve Bank of India-

-also operates the world's largest branch network, with more than 13,500 branch offices throughout India, staffed by nearly 220,000 employees. SBI is also present worldwide, with seven international subsidiaries in the United States, Canada, Nepal, Bhutan, Nigeria, Mauritius, and the United Kingdom, and more than 50 branch offices in 30 countries. Long an arm of the Indian government's infrastructure, agricultural, and industrial development policies, SBI has been forced to revamp its operations since competition was introduced into the country's commercial banking system. As part of that effort, SBI has been rolling out its own network of automated teller machines, as well as developing anytime-anywhere banking services through Internet and other technologies.

It is seen from the above table that, 41 percentage of the respondents presume that borrowers are good performers and are willing to repay, 39 percentage of the respondents states that borrowers are not are willing to repay even though they perform well, 11 percentage of the respondents states that borrowers are willing to repay the loan even if they don't perform well and remaining 9 percentage of the respondents states that borrower rethinking to repay.

5. ANALYSIS

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. There will be more transparency and disclosures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures. India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

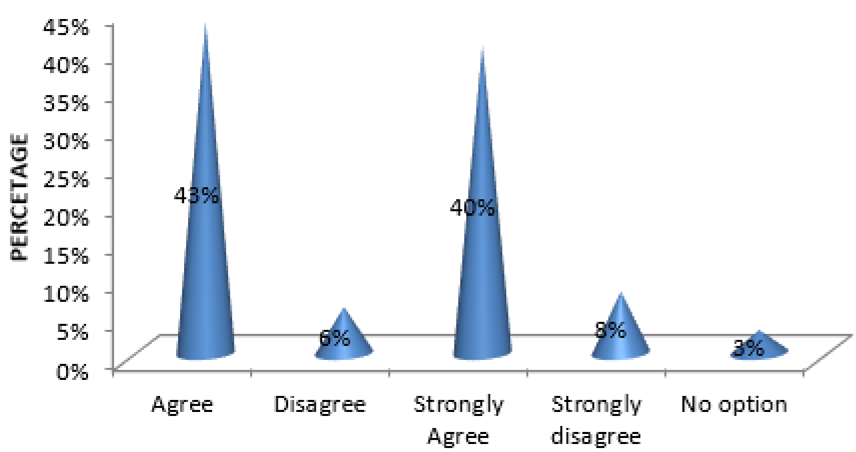

Fig.2.Information Exchange

The level of NPAs of the banking system in India is still too high. It affects the financial standing of the banks and it is a heavy burden to the banks. A vigorous effort has to be made by the banks to strengthen their internal control and risk management system and to set up early warning signals for timely detection action. the NPAs problem also requires great accountability, great disclosures in the case of default an efficient credit information system. This is an area which requires urgent consideration as the present system involves delays in arriving at a legal solution. The absence of a quick and efficient system of legal redress constitutes an important 'moral hazard' in the financial sector, as it encourages imprudent borrowers.

CONCLUSION

NPAs result from what are termed "Bad Loans" or NPL. The Indian banking system which was operating in a closed economy since the late 80's, now faces new challenges of an open economy. Bank started getting concerned about NPAS with the introduction of the prudential accounting norms Default, in the financial parlance, is the failure to meet financial obligations, say non-payment of a loan installment. NPAS reflects the performance of banks. A high level of NPAs indicates large number of credit defaulters that would affect the cash flows thus, rising NPAS are a matter of concern for banks. The NPAS management policy has to identify the causes for the occurrence of NPAS. These causes may be attributed to either the borrower or the bank itself or may be due to factors beyond the control of both. Again these may be internal or external for either the borrower or the bank.

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