A STUDY ON THE GROUNDS FOR RISE OF NPAs IN RETAIL LENDING OF SCHEDULED COMMERCIAL BANKS IN INDIA

Mrs.R.Nithya[1],
Assistant Professor, Sinhgad College of Arts,
Science & Commerce, Ambegaon, Pune

Dr.(Mrs.) N.Yesodha Devi[2]
Secretary, PSGR Krishnammal College for Women,
Peelamedu, Coimbatore

Abstract

Retail lending by banks in India gathered momentum following financial sector reforms in 1990s. During the period from 1992-93 to 2005-06, retail loans grew at an average annual growth rate of 28.4 per cent against 19.5 per cent growth of overall bank credit during this period (Hari Misra,2009). Since 2005, over the years retail loans continue to grow even as the demand for bank credit from corporates and industry continues to remain tepid. Within retail, it is especially unsecured lending i.e., personal loans and credit cards, which are outpacing overall bank credit growth. According to Reserve Bank of India (RBI) data, personal loans increased by 16.5 per cent in June 2015 compared to an increase of 15.2 per cent in June 2014(BS Report, 2015). Growth of retail loans over the years depicts that there is a high potential for the retail loan market in India for banking sectors. The growth in credit flow to retail segment has declined overtime. This is also accompanied by fall in the growth of NPAs in the retail loans sector. From a detailed data analysis conducted for 14 years period 2001-02 to 2014-15, it has been observed that over the years the all four categories of banks have reduced consumer durable loans and rest of other personal loans, on the contrary housing finance by these category of banks have increased during the study period. The reduction in loan lending to the retail sector has greatly supported the banks in reduction its loan outstanding i.e., NPAs margins.

Keywords : Non-Performing Assets(NPAs), Bank Credit, Retail loans.

Introduction

Retail lending by banks in India gathered momentum following financial sector reforms in 1990s. Till then, most of the banking credit was focused on agriculture, industry, and commerce. The major role of bank lending till then was to support supply. To ensure that bank lending does not go to finance consumption, the regulator had put various restrictions on retail credit such as limits on total amount of housing loan and loans to individuals. Banks could lend only a specified small percentage of their total lending to individuals for non-productive purposes. The regulator also imposed strict norms for rate of interest, margin stipulation and maximum repayment period. These restrictions were gradually relaxed during 1990s which paved the way for increased retail lending by Indian banks.

During the period from 1992-93 to 2005-06, retail loans grew at an average annual growth rate of 28.4 per cent against 19.5 per cent growth of overall bank credit during this period (Hari Misra,2009). Since 2005, over the years retail loans continue to grow even as the demand for bank credit from corporates and industry continues to remain tepid. Within retail, it is especially unsecured lending i.e., personal loans and credit cards, which are outpacing overall bank credit growth. According to Reserve Bank of India (RBI) data, personal loans increased by 16.5 per cent in June 2015 compared with an increase of 15.2 per cent in June 2014(BS Report, 2015). Growth of retail loans over the years depicts that there is a high potential for the retail loan market in India for banking sectors. Though, the trend in retail lending of scheduled commercial banks operating in India has been increasing over the years, it is a undeniable fact that retail NPAs are increasing in parallel with the growth in credit limit. The deteriorating asset quality is not only an issue linked to public sector banks. But, private sector banks have problems with recovery of loan lended by them **(**Joel Rebello, 2015)**.**

Trend in Retail Loan NPA Status of Scheduled Commercial Banks in India

Since the year 2000, the share of priority sector in total NPAs has averaged at 45 per cent, while the share of non-priority sector averaged at 55 per cent prior to the period of 2008. Disaggregated analysis reveals that, on an average, retail loans occupy the largest share in total NPAs followed by Small Scale Industries (SSIs), agriculture, personal loans, housing loans, exports, credit cards and auto loans. The growth in credit flow to retail segment has declined overtime. This is also accompanied by fall in the growth of NPAs in the retail loans sector. When compared with pre-crisis period 2008,

there was a marked deceleration in the growth of retail loans and during the post-crisis period, from 7.5 per cent during 2001-2007 to 2.6 per cent during 2008-2012. This could partly be due to risk aversion that generally followed after the crisis. The deceleration in NPAs in retail loan segment has been even sharper from 9.3 per cent to 2.5 per cent during the above period. Though the share of NPAs in retail loan segment in the total NPAs has come down from 38 per cent as at end-March 2009 to 18 per cent by end-March 2012, it still continues to be high and above the levels of key priority sectors like agriculture (Shashidhar 2014).

The rise in NPAs was due to some infrastructure projects, slowdown in global economic recovery, and continuing uncertainty in global markets leading to lower growth of credit. It was stated that public sector banks continued to be under stress on account of their past lending. Going through the details of annual financial results of public and private sector banks (including old private banks) for 2014-15, it may be noted that the Gross Non-Performing Assets (GNPA) of 26 public sector banks (including 19 nationalised banks, State Bank of India and its associates and IDBI) have risen by 22.5 per cent to Rs.2.78 lakh crore against Rs.2.27 lakh crore in the previous financial year. While the 19 nationalised banks have registered a rise of 39.8 per cent in gross NPA at Rs.1,92,270 crore against Rs.1,37,487 crore in the previous financial year, State Bank of India and its associates have reported eight per cent drop in their NPAs at Rs.73,508 crore against Rs.79,818 crore. The gross NPAs of eight old private sector banks (listed on stock exchanges) and Tamil Nadu Mercantile Bank put together shows a rise of 50 per cent at Rs.7,755 crore against Rs.5,170 crore in 2013-14. The details of new private sector banks - consisting of Axis Bank, DCB Bank (Development Credit Bank), HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Yes Bank — present a different picture. Their gross NPA has risen by 35.3 per cent to Rs.24,534 crore in 2014-15 from Rs.18,133 crore in the previous financial year (Vardharajan, 2015).

Retail Loan Recovery Practices in India

In India, retail loans have sound security support, which appreciates with time. The level of non-performing assets in the case of the retail loans is very low. With very low post credit supervision costs, the profits from retail loan margins become attractive for banks, especially in a scenario of falling interest rates after the liberalisation of Indian economy in 1991. Retail loans are offered by the scheduled commercial banks operating in India for various purposes like: acquisition of consumer durables, meeting

travel, medical expenses and the like also offer great scope for credit absorption. As a result, all banks in the banking industry apply their own marketing strategies to attract more consumers (Vikkraman and Ganapathi 2011), who have the potential of borrowing retail loans. Moreover, according to Credit Information Bureau (India), the country's leading credit information company, retail NPAs have dipped to their historical lows with delinquencies on home loans and other retail loans showing a significant fall in 2015.The better asset quality is encouraging all leading banks to grow their retail advances faster than any other segment (Manju. 2015).

In India, Credit bureaus did not exist in India till 2005, but today most banks use their services to evaluate consumer credit quality before sanctioning loans. First time loan takers, as well as already leveraged borrowers, are, in particular, scrutinised very carefully. Similarly, the use of data analytics and risk prediction models has increased while deciding which loan applications to accept or reject, how much to lend and at what rate. Unsecured loans i.e., personal loans are being given largely to account holders only (Mahesh Nayak, 2015). Moreover, as far as small loans are concerned RBI has not prescribed any Board/Bank level position at which these loans need to be approved. The operational rules have been left to the concerned banks (Standing Committee on Finance, 2015-16.)

Conclusion

The issue of NPAs in the financial sector has been an area of concern for all economies and reduction in NPAs has become synonymous with, functional efficiency of financial intermediaries. Although NPAs are a balance sheet issue of individual banks and financial institutions, it has wider macroeconomic implications. It is important that, if resolution strategies for recovery of dues from NPAs are not put in place quickly and efficiently, these asset would deteriorate in value overtime and only scrap value would be realized at the end (Abhay Korde and Kavita Laghate 2014). From a detailed data analysis conducted for 14 years period 2001-02 to 2014-15, it has been observed that over the years the all four categories of banks have reduced consumer durable loans and rest of other personal loans, on the contrary housing finance by these category of banks have increased during the study period. The reduction in loan lending to the retail sector has greatly supported the banks in reduction its loan outstanding i.e., NPAs margins.

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