

## A LITERATURE REVIEW ON NON-PERFORMING ASSETS OF CO-OPERATIVE BANKS IN INDIA

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### ABSTRACT

A strong banking sector is important for developing economy. The cooperative immerse nearly all cent percent villages in India. The cooperative form of organization is the ultimate Organization for economically weaker sections in the country. The disaster of the Co-operative banking sector may have an adverse impact on other sectors. The management of NPA's in co-operative banks is a really tough challenge and UN manageable task. The Study of the co-operative structure in India has proved that maximum co- operative sector damaged its reputation because of high position of NPA which effect ultimately the economic development of the state and nation.

**KEYWORDS:** Cooperative Bank, Non Performing Assets, Performing Asset, Co-Operative Bank

### INTRODUCTION

The Co-Operative societies play a significant role in the economic growth of the country. India is primarily a rural economy with predominance of citizenry occupy in rural region. The two third of the citizenry depend on agriculture for their sustenance. So, the magnification of agriculture and poverty alleviation is remarkable objectives of every co-operative society and bank. Through the co-operative societies, it is feasible to extend last man in a village. They dispense finance to agrarians at low rates of interest and thereby alleviate them from the clench of the money lenders. But, the main difficulty is retrieval management. The un-recovered loan which is called as Non Performing Assets (NPAs) is a great head-ache for the banks mainly in rural areas. A strong rural (Co-Operative Banks) banking sector is important for prosper economy. The termination of the rural (Co-operative Banks) banking sector may have an adverse impact on other sectors. Non-Performing assets are one of the vital concerns for (Co-Operative Banks) banks in India. Non-Performing Assets (NPAs) remit the staging of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability of the banking sector. The NPA advancement involves the necessity of provisions, which diminish the overall profitability position of the banks. Now-a-days, Non Performing Assets are one of the major and troublesome issues, which require higher attention. Therefore, it is a strive to study on Non-Performing Assets of Co-Operative Banks in India.

### REASONS BEHIND NPA

- Default of a loan deliberately.
- Repeated shuffle of govt. policies leads to NPA.
- Customer has taken the loan for non performance of business

- Most of the loan authorize for agricultural purposes
- Heedless pre-enquiry by the bank for sanctioning the loan to a customer.

### **EFFECTS OF NPA ON BANKS & FI**

- Continuous evacuate of profit
- Negative bang on goodwill
- Unfavourable growth of equity value
- Confined cash flow by bank due to provision of fund created against NPA

### **SIGNIFICANCE OF THE STUDY**

Co-operative banks frolic very ascendant part in providing banking facility to common man in their area of co-operation. A small depositor or a small borrower feels comfortable in dealing with the local staff of co-operative bank than to the staff of nationalized banks and private sector banks. If co-operative banks go in liquidation due to abnormal increase of NPA not only customers and staff members of that particular co-operative bank will sustain but all other co-operative banks will also get a major setback. Leading to severe damage to the reputation of entire co-operative sector which is very important for the balance of economic development of our country.

### **OBJECTIVES OF THE STUDY**

- To Study the co-operative structure in India.
- To review of literature on Non Performing Assets of Co-operative Banks in India

### **REVIEW OF LITERATURE**

**The Report of the Rural Banking Enquiry Committee (Thakurdas Committee) (1949)** Concluded that proper investigate action was very essential. Banks have to maintain close contacts with the borrowers, keep track of the end-use of funds lent to the borrowers' effective recovery of advances as per the repayment schedule.

**RBI's Study Team on Overdues (1974)** Estimated that more than three-fourths of the over dues were due to willful default. Faulty lending policies, failure to link credit with marketing, lack of will on the part of management to take strong action against recalcitrant and willful defaulters, lack of financial discipline and apathetic of some of the State Governments towards creating an environment conducive and congenial to repayment of dues were the causes for over dues. **According to the Report of the Agriculture Credit Review Committee (1989)**, over dues prevented recycling of funds, impaired refinance eligibility and productivity of co-operative banks. Nearly 26 per cent of the resources deployed by the credit agencies for the agriculture sector were locked up in over dues and were not available for recycling. At the institutional level, the clogging of over dues had severely impaired the eligibility of the credit agencies, for refinance from NABARD. As a defaulter, the borrower is cut off from any access to credit from institutions. This affects his productive enterprise.

**Gopalakrishnan (1996)**, Suggested that the bad effect of Debt Relief Schemes should be erased from the minds of borrowers.

**The Working Committee (1999)** on NPAs considered write-off, compromise, one time settlement for recovery of NPAs. It recommended compromise model for the recovery of NPAs as the most effective mechanism. However both write-off and compromise are steps to be taken with caution and due monitoring.

**RBI study (1999)** Stated that banks were required to closely monitor the operations of the borrowal units. In respect of accounts where the classification of asset worsens, banks were required to take prompt steps to recover the dues and staff accountability was required to be examined. Special emphasis was given on monitoring of large NPA accounts, also on reduction of NPAs, through up-gradation, recovery, and compromise settlements.

**Namasivayam and Ranachandriaiah (2000)**, Concluded that the productive loan as a proportion of total loan was higher for marginal farmers among non-defaulter and control groups who were utilizing loans predominantly for digging and deepening wells. The crop loan tended to be more often misused than term loans. This may be partly due to untimely issue of loans.

**S.Sambasiva Rao (2002)**, Suggested declaring default of bank loans as criminal offence and punishment be awarded along with financial recovery, authorizing seizure agencies and giving them a legal status to recover loans.

**According to Samal (2002)**, NPA overhang was due to defects in legal processes like prolonged / delayed legal system, absence of proper legal framework for non-payment of bank's dues.

**Reddy, B. Rama Chandra and Reddy, S Vijayulu (2003)**, View that the new challenges faced by the banks are forcing to attempt all new things with the same old rigid structure and system. What required is more managerial and administrative freedom to the management with commensurate and result oriented accountabilities. They stressed that the banks should move towards professional banking with requisite freedom to operate freely in the market within the regulatory and prudential framework prescribed by the Reserve Bank of India.

**Sachin Agrawal and Kavita Agrawal,(2006)** Held that the proper policies adopted by the banks regarding disbursement of the loan, good chain of recovery, continuous and systematic way of working has also made the NPAs to diminishing rates”

**Fulbag Singh and Balwinder Singh (2006)** examined the funds management in the Central Co-operative Banks in Punjab. They observed that higher proportion of own funds in the working funds of the bank and the concerned shown by the bank in the timely recovery of loans resulted in an increased monetary boundary of the central co-operative banks in Punjab. They concluded that less dependence on the new outside resources helped these banks in increasing their financial margin.

**Avinash V.Raikar (2006)**, Analyzed the issues, problems and prospects of co-operative credit institutions (CCIs) in India. He has found that the major problems of the CCIs are dual control, high overdues and low resource base. He concludes that the future survival of these institutions would be determined by its ability to technologically modernize themselves, innovation of new products and its reach among the agrarian society.

**Mayilsamy,R (2007)**,Non-Performing Assets (NPAs) in short term co-operative credit structure. He observed that the banks have to evolve recovery strategies and plan for recovery management. He concluded that if they fail to improve the recovery, the huge burden of NPAs is really breaking the backbone of the short term co-operative credit structure in India.

**Lakshmanan, C and Dharmendran, A(2007)** Studied the impact of Non Performing Assets (NPAs) on performance variables in Chennai Central Co-operative Bank. They examined performance variables namely, net profit, investment, legal expenses and spread. They observed that the results of NPAs on all the above performance variables were negative and insignificant at 5 percent level in all the equation. They concluded that the effective management of NPAs is essential to strengthen the financial position of the bank.

**Mandira Sarma and Rajiv Kumar (2008)**, Carried out primary studies on the rural short-term co-operative credit structure. They observed that the Non-Performing Assets (NPAs) level in the Rural Short-term Co-operative Credit Structure (RSTCCS) was very high compared to that in the commercial banking system in India. They concluded that in spite of significant development in India's financial sector over the last decade, a large number of poor, particularly large and marginal communities remained "financially excluded" even today.

**Kulwant Pathania and Sabina Batra (2009)**, the NPA management in co-operative banks. It was observed that the main factor responsible for NPAs was willful default i.e. able, but not willing to pay followed by inadequacy of loans, ineffective management and supervision, utilization of loans for unproductive purposes, political support, redemption of post debts, inadequate infrastructure facilities and field staff for recoveries and poor socio economic conditions. They have concluded that the poor recovery position of the banks concerned has adversely affected the image of the bank among other banks and also in the public.

**Jayalakshmi.G and Sumathy.M (2009)**, In their study on NPAs Management in Co-operative Banks in India opined that a good management of NPAs requires pro-active actions to be taken by banks at the time of taking decisions for granting advances by making proper assessment of risk involved and strict adherence to the prudential norms. They concluded that following prudential norms for NPAs management is compulsory for survival of co-operative banks along with the confidence of the customer.

**Mayilsamy,R and Revathi Bala,M (2009)** in their work entitled "Management of Non Performing Assets (NPAs) in District Central Co-operative Banks (DCCBs) in India", felt that the Narasimham Committee Report-1998, rightly pointed out that 'NPAs constitute a real economic cause to the nation in that they reflected the application of lacking capital and credit finance to inefficient uses. They have concluded that high NPAs in the banks have devastating effects not only on the banks but also on the economy as a whole.

They have suggested that the formation of the good policy will be no use unless it is implemented in true spirit.

**Pacha Malyadri, S. Sirisha (2011)**, observed that the banking sector in India has responded very positively in the field of enhancing the role of market forces regarding measures of prudential regulations of accounting, income recognition, provisioning and exposure, introduction of CAMELS supervisory rating system and reduction of NPA's and up gradation of technology. It is suggested that government should formulate bank specific policies and should implement these policies through Reserve Bank of India for upliftment of Public Sector Banks. Public sector banks should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level.

**Dr. A Ramachandran, D.Siva Shanmugam (2012)**, Analyzed that the urban cooperative banks exhibited a greater emphasis on product diversification, customer orientation thrust towards retail banking, adoption of IT for improved service, better MIS and management and strategic mergers and acquisition across bank groups. The researcher

concluded that the future of urban cooperative banks is challenging because of the competition from public sector banks and private sector banks. Public sector banks and private sector banks are concentrating on their major expansion activities both vertically and horizontally. The growth of urban cooperative banks depends on transparency in control and operation, governance, customer-centric policies, technology-up gradation and efficiency.

**Vighneswara Swamy (2013)**, Study has established that private banks and foreign banks have advantages in terms of their efficiencies in better credit management in containing the NPAs, which indicates that bank privatization can lead to better management of default risk. These findings infer that better credit risk management practices need to be taken up for bank lending. Adequate attention should be paid to those banks with low operating efficiency and low capitalisation as also to macroeconomic cycles that appear to be playing some role in NPA management. The state owned banks need to be toned up with adequate measures to sharpen their NPA management practices. These findings assume crucial importance in view of the significance. It is summarised that Private Banks (both Old and New) and Foreign Banks appear to manage their NPAs efficiently.

## CONCLUSIONS

Banking is the life blood of Indian economy. Banking has three types of sectors, which provide finance to different sectors i.e. private sector, public sector and co- operative sector. The co-operative banking sector in India plays an important role in expanding rural economy as well as banking structure and its services to the last man of the society. The co-operative banking structure has developed very fast in India but still it lags in so many things like ideal liquidity position due to NPA of customer as well as staff, modernization of banking structure etc.

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