

Empirical Analysis on NPA Management of Scheduled Commercial Banks (SCBs) of Punjab

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Abstract

Banks constitute the backbone of a nation's financial system, performing manifold functions through liquidity, maturity and risk transformation. Indeed, it needs no gainsaying that the health of the economy is, in a way, the mirror reflection of the banking system, especially in bank-based financial systems such as ours. The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. The role of the modern banks has widened up now from traditional functions of granting credit and accepting deposits to agency services, utility services, sale and purchase of financial assets etc. But now days, banks are becoming more cautious in granting loan due to mounting NPAs. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholder's value. The present paper is based on the empirical study that will explore the primary reasons for the growth of NPAs in scheduled commercial banks of Punjab and will also suggest the measures for controlling them.

I. Introduction

BANKING TODAY HAS become more convenient and instant, with the account holder not having to wait for hours at the bank counter for getting a draft or for withdrawing money from his account.

The problem of NPAs is linked to the function of lending money. In India due to the social banking motto, the problem of bad loans did not receive priority from policy makers initially. However, with the reforms in the financial sector and the adoption of international banking practices the issue of NPAs received due focus. Thus, in India, the concept of NPA came into the reckoning after reforms in the financial sector were introduced on the recommendations of the Report of the Committee on the Financial System (Narasimham, 1991) and an appropriate accounting system was put in place.

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