



A Comparative Study of Non-Performing Assets on Two Public Banks of India and China

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ABSTRACT

The quality of assets is a major factor in determining the stability and strength of the financial system. One of the main issues facing India's banking system is non-performing assets (NPA). In this essay, we compared the two public banks in India with the two public banks in China in terms of nonperforming assets. For the chosen categories of banks, secondary data has been gathered. The data we used is from the most recent five years. Our findings reveal that the public sector bank of India's NPA is first rising before starting to decline, demonstrating that Indian banks are acting strictly to lower the NPAs. The rising NPAs are now causing Indian banks considerable anxiety, and they are taking preventative and corrective actions to lower the NPAs.

Keywords: Capital Adequacy Ratio (CAR), Comparative Study of India's & China's bank, Non-Performing Assets (NPA), Public Sector Banks, PNB, SBI.

INTRODUCTION OF THE TOPIC

This paper aids in learning about the concepts and organization that make it useful for thriving in today's cutthroat environment. It gave the chance to learn and comprehend banking ideas and assisted in preparing for the future working environment.

The topic for research study

“A comparative study of non-performing assets on two public banks of India and China”

When a lender classifies loans and advances as non-performing assets, it means that they are "past due" and have not yet received interest or principle payments. When loan payments are past due for more than 90 days, debt is typically classified as a non-performing asset. Every loan's term sheet or sanction letter will typically include information on the period of default under which the loan will be considered a non-performing asset. Non-Performing Assets (NPAs) are typically listed as such on a bank's balance sheet, and the percentage of NPAs to total advances is now a crucial ratio that banks must monitor before disclosing the results. over 90 days without payment.

Non-Performing Assets (Example NPA) For example: Company XYZ borrowed 6.9 billion from Bank ADCB, and over the course of five years, it will be required to pay interest of 6,90,000 every month. The bank must designate the loan as a non-performing asset in their balance sheet for that financial year if the borrower missed payments for three consecutive months, or 90 days.

Types of NPA: -

The various types of NPA are: -

- Gross NPA
- Net NPA

Gross NPA: - The total amount of the loan or credit account's assets that have been designated as NPA in accordance with RBI criteria is known as the gross NPA. The gross NPA that the bank has made reflects the calibre of the loans it has made. Additionally, all classified assets are included.

Net NPA: - The bank makes deductions for a variety of assets from the net NPA. The balance sheet of the NPA in India contains a sizable sum. In India, there are many recovery methods and times when property is written off.

The effects of NPAs

The loss of the initial payment or premium reduces the income received by the lender, which will disrupt the plans and reduce the financial gain.

NPA lower the assets' earning capability. There is no way to reuse the money that has been blocked in an NPA. To put it simply, NPAs lower advances turnover continuously influence the prospective revenues.

Problems effected by NPA

- The bank may charge high interest and deposit rates to make up for its losses, which will hurt the financial markets' ability to grow along with the economy.
- In the market, the owners won't get a return on their investment. The worst case scenario is that the owner might lose their assets if it fails. The pool of shareholders could be impacted.
- Non-performing loans will eventually result in poor investment decisions. Credit may have been incorrectly assigned from another successful project, preventing it from going to the unsuccessful project. The operating personnel is afraid of NPAs demoralising them. When handling advances, the employees can occasionally become more inflexible and stick-like, which causes genuine clients to experience trouble.

Symptoms of NPA:

- If there is not a required minimum balance in the account;
- If the installment has not been paid on time;
- If the account balance is insufficient.
- If the loan's first installment is not paid.
- Different changes have been made to the strategies.
- If the borrower and the bank are unable to communicate clearly.
- If the stock statement submission is delayed.
- The government's policies could shift dramatically.

Causes for NPAs in bank are: -

An account doesn't become non-performing overnight. It denotes the loan's insufficient balances, where measures have to be taken to prevent the record from slipping into the NPA sector. According to an internal RBI survey, the accompanying factors that are added to the unmistakably high-quality requests and NPAs are:

INTERNAL FACTOR

- Cost and time estimates for the project's implementation are excessive.
- Ineffective loan management.
- Obsolescence of products.
- Poor credit evaluations and insufficient SWOT analysis of the bank.

EXTERNAL FACTOR

- A weakening economy.
- Unbalanced power or input.
- An increase in price.
- Changes in exchange rates

BASEL COMMITTEE**BASEL I**

Basel I, or the Basel Accord of 1988, is largely concerned with credit risk and appropriate asset risk-weighting.

From 1988 to 2013, the G-10's 13 members—Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States of America—gradually adopted this structure.

BASEL II

The Basel II Accord was first released in June 2004 with the intention of amending global banking norms that governed the amount of capital banks were obliged to keep to protect themselves against the operational and financial risks they face. These requirements were designed to make sure that, in order to protect a bank's solvency and broader economic stability, a bank must keep a larger quantity of capital the more substantial the risk it is exposed to.

Basel II made an effort to achieve this by setting rules for risk and capital management to make sure that a bank has enough capital for the risk that the bank exposes itself to through its lending, investing, and trading activities.

BASEL III

Basel III is a global, voluntary regulatory framework for banks that addresses market liquidity risk, stress testing, and adequate capital requirements. Basel III was created in response to the flaws in financial regulation that the 2007–2008 financial crisis exposed.

By raising the minimum capital requirements, ownership of high-quality liquid assets, and lowering bank leverage, it aims to increase bank capital requirements.

LITERATURE REVIEW

Girnara Mona Rameshbhai (JULY 2020) took 5 public banks and 5 private banks for study of NPAs. This research paper considered data of public sector banks and private sector banks of last 5 years. This research paper attempts to evaluate various ratios of NPAs on the basis of secondary data. This research paper gives conceptual idea about meaning of NPAs, Various ratios related to NPAs and also compare NPAs in public sector banks and private sector banks. I found that more amount of NPAs is negatively affecting to profitability of bank.

HaraniB, Subramanyam Mutyala (DEC 2019)-Their investigations indicates that NPAs problem is a very serious concern and it's an endless battle in India because it destroys the sound financial position of them. This problem has to be addressed in such a way that it should not impact on the financial position and image of the bank. This study analyzes the sector wise classification NPAs and loan assets of public and private sector banks. It also examines the gross NPAs, gross advance, and gross NPAs ratio of public and private sector banks in India. This study also reveals that non-priority sector loans have worsened NPAs which cause a headache for public sector banks.

Dr. Kapil K Dave (2016) The comparative study of NPA of public and private sector banks have concluded that each bank has its own independence credit rating agency which should evaluate the financial capacity of the borrower before than credit facility. An effective committee can be formed for management of NPA comprising of financial experts who have wide knowledge in this field. NPA can be considered as a crucial rating factor for any bank; it should regularly evaluate the financial condition of the client.

OBJECTIVES OF THE STUDY

- Researching the effects of NPAs on banks
- A comparison of NPAs between the public banks in China and India
- To learn about the various avenues used for NPA recovery.

COMPANY PROFILE

INDIA'S TWO PUBLIC BANKS



One of India's oldest and biggest public sector banks is the state bank of India. After the Imperial Bank of India was nationalised, the State Bank of India was established in 1955. The Imperial Bank of India was created by the merging of the banks of Bombay and Madras as well as Calcutta.

Headquarter of the State Bank of India at Mumbai, Maharashtra's M.C. Road.

In India, the SBI bank has 62,617 ATMs and 22,219 branches.

229 branches worldwide spread throughout 31 nations.



The Punjab National Bank opened an office at Anarkali Bazaar, Lahore, on May 19, 1894, when it was registered under the Indian Companies Act. The founding board was composed of individuals from various regions of India who practised different religions and came from a variety of backgrounds, but they all shared the goal of giving India a truly national bank that would advance the nation's economic interests.

The Swadeshi movement's top figures, including Dyal Singh Majithia, Lala Harkishan Lal, Lala Lalchand, Shri Kali Prasanna Roy, Shri E.C. Jessawala, Shri Prabhu Dayal, Bakshi Jaishi Ram, and Lala Dholan Dass, were among the founders of PNB. In the Bank's early years, Lala Lajpat Rai was a key player in its management. The board's first meeting was on May 23, 1894.



CHINA'S TWO PUBLIC BANKS

Agricultural Bank of China



One of the "Big Four" banks in the People's Republic of China is the Agricultural Bank of China (ABC), also referred to as AgBank. It was established on July 10, 1951, and is headquartered in Beijing's Dongcheng District. It has offices in Hong Kong, London, Tokyo, New York, Frankfurt, Sydney, Seoul, and Singapore in addition to mainland China.



ABC has almost 24,000 branches, 320 million retail consumers, and 2.7 million corporate clients. By assets, it is the third-largest lender in China. When ABC went public in the middle of 2010, it raised the most money in any initial public offering (IPO) in history—a record Saudi Aramco has subsequently surpassed. It was ranked third on Forbes' 13th annual Global 2000 list in 2015, up from its position of eighth among the Top 1000 World Banks in 2011.

BANK OF CHINA



The fourth-largest bank in the world is the Bank of China. On February 5th, 1912, Chen Jintao established it in Shanghai, China. It is mainland China's second-oldest bank. Although they retain tight ties in management and administration and collaborate in a number of sectors, including the reselling of BOC's insurance and securities services, the bank of China and its subsidiary, the bank of China, are legally independent entities. It was China's second-largest bank as of the end of 2019.



RESEARCH METHODOLOGY

The following information has been obtained from various sources in order to achieve the specified objectives:

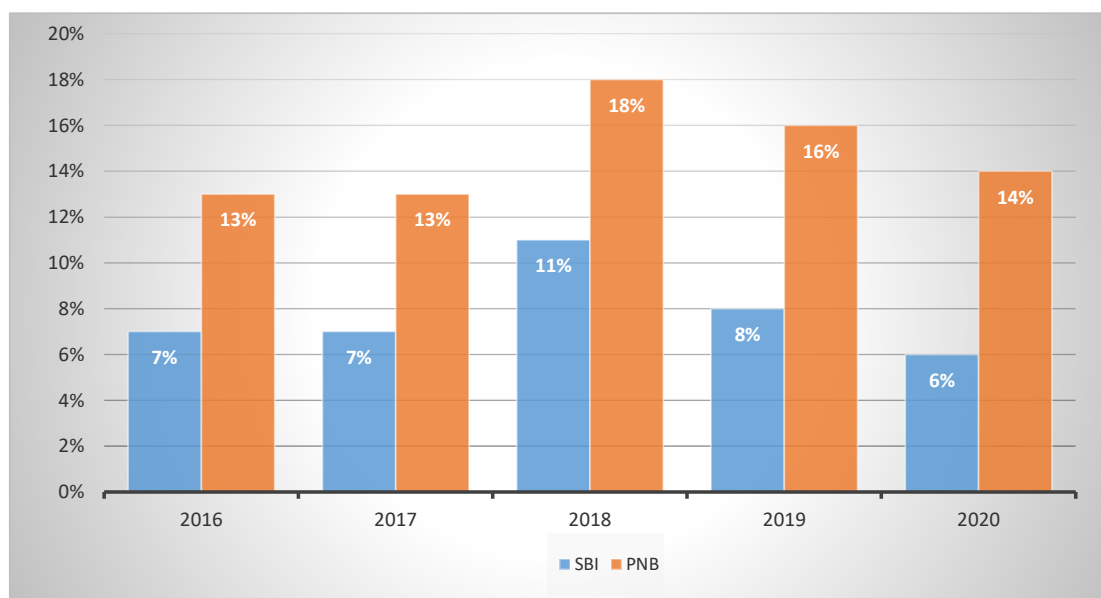
- The information is gathered from the account office, branch managers, promoting research, research papers, and published publications linked to NPA.
- The research is primarily based on secondary data where it is in descriptive analysis, and the sources of the data.
- The primary sources for the statistical data on NPA, bank-explicit, and economic indicators were the websites, annual reports, and other publications of the RBI and SBI.

DATA ANALYSIS AND INTERPRETATION

Gross NPA of SBI and PNB

	2016	2017	2018	2019	2020
SBI	7%	7%	11%	8%	6%
PNB	13%	13%	18%	16%	14%

Table No. 1



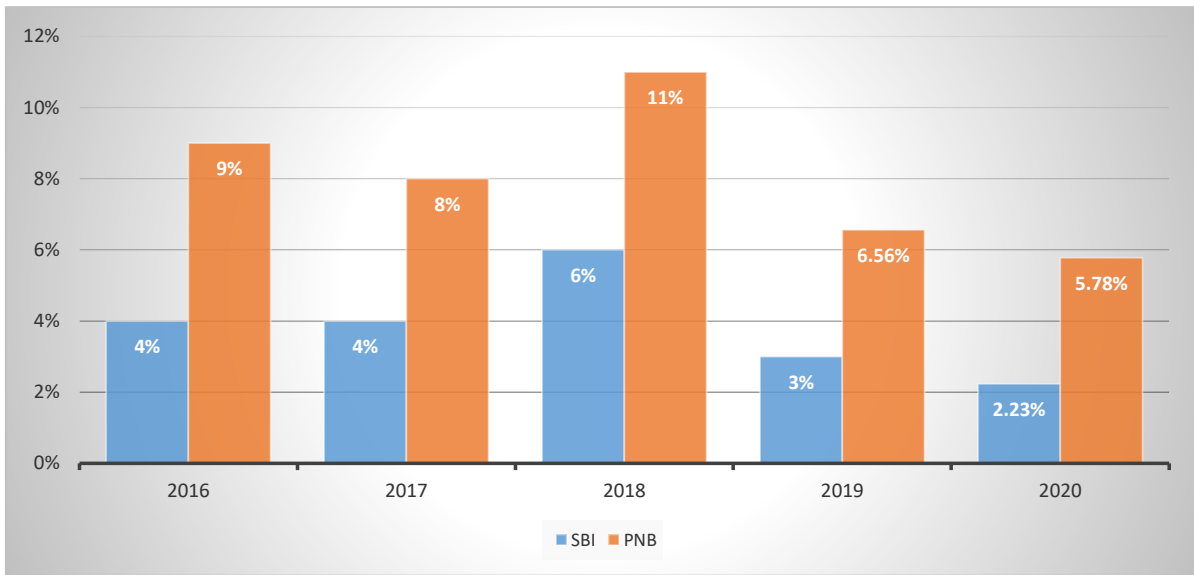
Graph no. 1

1. The quality of the bank's credit portfolio is shown in the above table.
2. A high gross NPA ratio reveals a bank with a small credit portfolio.
3. As can be seen, PNB has higher gross NPA than SBI.

Net NPA of SBI and PNB

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>SBI</u>	4%	4%	6%	3%	2.23%
<u>PNB</u>	9%	8%	11%	6.56%	5.78%

Table No. 2



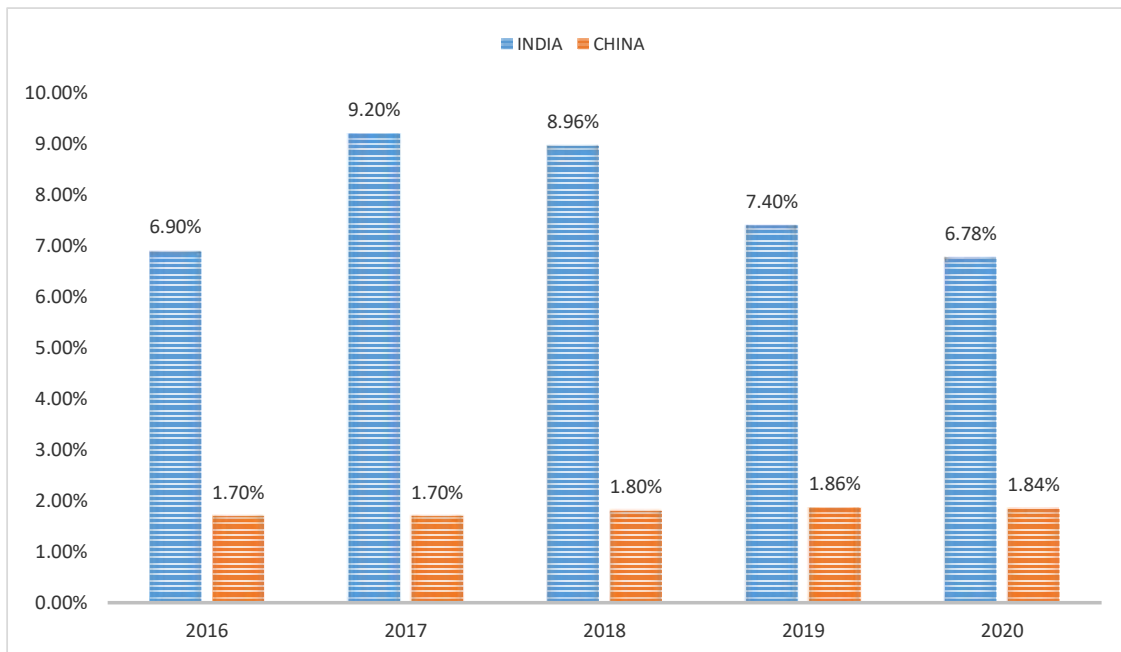
Graph no. 2

1. High NPA ratio indicates the high quality of risk assets in the banks
2. PNB has higher NPA ratio as compared to SBI

NPA rate of India and China

	2016	2017	2018	2019	2020
INDIA	6.9%	9.2%	8.96%	7.4%	6.78%
CHINA	1.7%	1.7%	1.8%	1.86%	1.84%

Table No. 3

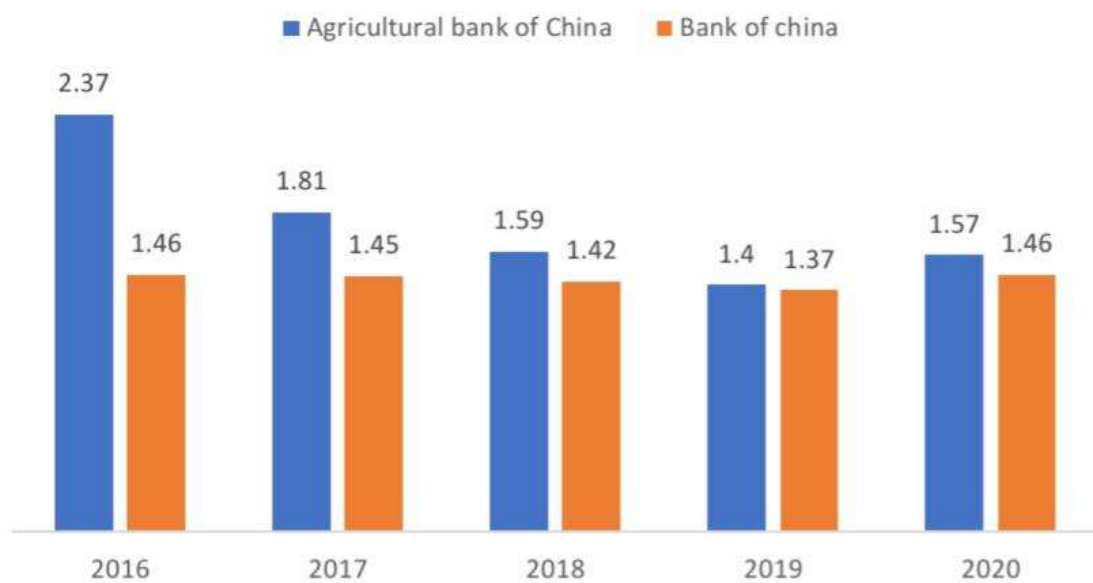


Graph no. 3

1. China has their good NPA rate as compared to India
2. But we also see that India's is now more focusing on decreasing the NPA

Non-Performing Loan Ratio**Table No. 4**

	2016	2017	2018	2019	2020
Agricultural bank of China	2.37	1.81	1.59	1.40	1.57
Bank of China	1.46	1.45	1.42	1.37	1.46

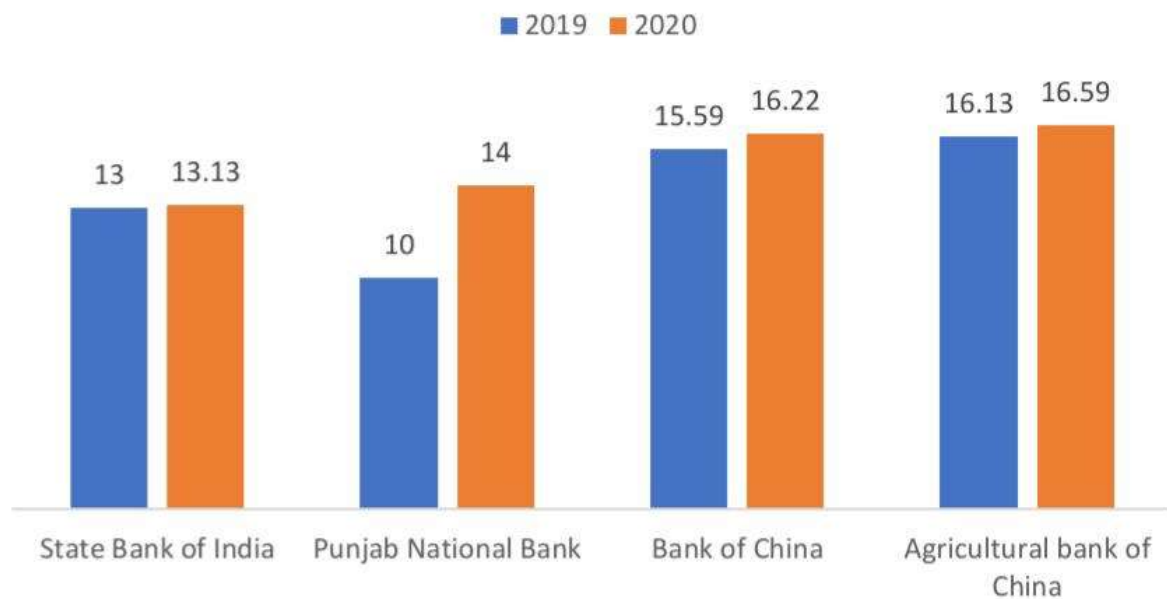
Non-performing loan ratio**Graph no. 4**

1. As we see here, the NPA of Bank of China is lower than the Agricultural bank of China
2. In 2020, due to the pandemic their NPAs are slightly increase as compared to previous year.

Capital adequacy Ratio**Table No. 5**

	2019	2020
<u>State Bank of India</u>	13	13.13
<u>Punjab National Bank</u>	10	14
<u>Bank of China</u>	15.59	16.22
<u>Agricultural bank of China</u>	16.13	16.59

Capital Adequacy Ratio



Graph no. 5

1. Each bank needs to create the capital reserve to compensate NPA
2. As far as this, China's bank has better Capital Adequacy Ratio as compared to India's bank
3. In context to Indian bank, PNB is more concerned to increase their Capital Adequacy ratio as compared to SBI

FINDINGS

CHINA'S BANK

More concerned to decrease the NPA

Focusing on increasing the capital adequacy ratio

Use various channel to reduce the NPA

Method adopted by China to decrease NPA:

1. **Write-off:** Banks employ this technique to identify debts that are very unlikely to be repaid. The loans are taken out of the balance sheet, and the income statement shows a 100% loss.
2. **Sale or resale:** Selling NPLs is the simplest and most straightforward manner of doing so. After the sale of the NPL, the bank's balance sheet would appear improved. Auctions, bids, competitive discussions, and agreement-based transfers are frequently used to sell NPLs.
3. **Asset replacement:** Asset replacement occurs when the controlling shareholder replaces a company's underperforming asset with cash or other assets.
4. **Pay off with assets:** When a debtor's business is about to file for bankruptcy or has ceased operations, the debtor typically lacks the cash necessary to pay back outstanding loans. In this case, the creditor and debtor can decide to work out a plan to use assets to pay off the remaining debt.
5. **Asset restructure:** This covers asset improvement, bankruptcy restructuring, and mergers and acquisitions. The primary purposes of asset improvement are to modernize real estate assets including outdated commercial real estate, industrial parks, and hotels.
6. **Securitization:** In 2016, Chinese officials launched a pilot program to resume the securitization of non-performing loans into asset-backed securities.
7. **Capital adequacy ratio:** A country's capacity to withstand losses increases with its capital adequacy ratio. We discover that China has higher ratio in comparison to India.

INDIA'S BANK

- Public bank of india have higher NPAs as compared to China's public bank;

- High NPAs ratio show low credit portfolio bank;
- Punjab National Bank (PNB) has better Capital Adequacy Ratio (CAR) as compared to State Bank of India (SBI) in 2020.

Now India is also focusing on increasing the *capital adequacy ratio* and resolving the NPAs through *securitization*.

SUGGESTIONS

1. During the project's timeframe, it was evident that the NPA had a significant influence on the loan portfolio and the bank's balance sheet. The profit made by the banks is ultimately affected. However, the bank is also making every effort to lower the percentage of NPA in the next years.
2. The SBI and PNB need to keep their NPA provision under control by taking specific measures to ensure loan recovery.
3. The bank should choose the borrower carefully and maintain good administration that is friendly to the borrowers.
4. To avoid slipups and standard NPA assets, banks must be cautious when performing credit evaluations and should take steps both before and after loan approval.
5. It's crucial to identify NPA early on, and specific actions must be made to recoup the debt and reduce the bank's NPA.
6. For a quick recovery, the bank must take specific steps and actions to collect the debts from the borrowers.
7. The probable NPAs within the special category should be highlighted by the bank.
8. The bank should continue to monitor and should act right away if it discovers misuse.
9. The bank should conduct frequent audits to ensure that no periphery accounts fall into the NPA category.
10. Before granting credit to a customer or extending an advance to a client, SBI and PNB must carefully consider the proposal.

CONCLUSION

1. The Chinese government has worked hard to develop and improve the NPL market there. As a result of the changes made over the past 20 years, the market's fundamentals now feature strong loan documentation, properly registered collateral, a quick and predictable legal system, and banks that are better at managing legal proceedings.
2. In my opinion, the China NPL market would offer attractive investment prospects in the future due to the rising NPL balance, improved market fundamentals, and government support for local and foreign investors to invest in the China NPLs market.
3. The problem with nonperforming assets has been a big problem for the Indian banking industry. The Reserve Bank of India has provided SBI Bank with guidelines and standards to control the , as well as SBI Bank with the guidelines and standards to control the delivery of NPA. The NPA analysis with regard to SBI has evolved to go beyond the non-performing asset situation and its impact on the bank's operations.
4. To sum up, State Bank of India has made improvements to the methodology that it used to determine NPAs while maintaining a standard portfolio in the banking industry. The report on State Bank of India's NPA reveals credit, but since the bank is currently on hold, it needs to keep a close eye on things and learn lessons that will help bring the NPA to a lower segment, which would help it grow.

I now declare that the investigation of the facts It calculates that the state group's financial performance in terms of NPAs at the SBI bank may be regarded as satisfactory with minor deviations in the amount and in the percentage as not very worrying.

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