A Comparative Study Of Non-Performing Assets In Public And Personal Sector Banks

Abstract

The scope of the study is prescribed to the analysis of NPAs of the general public sector banks and personal sector banks NPAs relating solely weaker sections. It examines trend of NPAs in weaker sections in each public sector and personal sector banks. The study ascertained that the general public sector banks have achieved a bigger penetration compared to the personal sector banks. Non-performing assets area unit one amongst the key considerations for banks in Asian nation. NPAs mirror the performance of banks. A high level of NPAs suggests high likelihood of an oversized range of credit defaults that have an effect on the profitableness and net-worth of banks and additionally erodes the worth of the plus. NPAs have an effect on the liquidity and profitableness, additionally to motility threat on quality of plus and survival of banks. The Indian banking sector has been facing serious issues of raising Non-activity Assets (NPAs). The NPAs growth incorporates a direct impact on profitableness of banks. It involves the requirement of provisions that reduces the profits and shareholders’ price. The matter of NPAs is not solely moving the banks however additionally the full economy. Of course high level of NPAs in Indian banks is nothing however a mirrored image of the state of health of the business and trade. It is necessary to trim NPAs to enhance the monetary health within the industry. The Indian banking sector is facing a significant drawback of NPAs. An endeavour is formed during this paper that the factors contributory to NPAs, reasons for top NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in elect Indian banks.
1. INTRODUCTION

The banking industry in Asian nation includes business and cooperative banks, of that the previous accounts for over ninety per cent of banking system’s assets. Besides some foreign and Indian non-public banks, the business banks comprise nationalized banks (majority equity holding is with the Government), the banking concern of Asian nation (SBI) (majority equity holding being with the banking company of India) and therefore the associate banks of SBI (majority holding being with banking concern of India). These banks, together with regional rural banks, represent the general public sector (state owned) banking industry in Asian nation. While the first perform of banks is to lend funds as loans to varied sectors appreciate agriculture, industry, personal loans, housing loans etc., however in recent times the banks became terribly cautious in extending loans. The explanation being mounting for nonperforming assets (NPAs) and these days these square measure the key considerations for banks in Asian nation.

NPA (non-performing assets) is said to banking and finance term. Once bank or no depository financial institution is unable to recover its Lent cash from recipient in ninety days than that quantity that have not been recovered are treated as foreign terrorist organization. It represents unhealthy loans, the borrowers of that did not satisfy their reimbursement obligations.

With result from March thirty one, 2004, a non-performing plus (NPA) shall be a loan or associate advance where;

- Interest and/ or installment of principal stay delinquent for a amount of over ninety days in respect of a term loan,
- The account remains ‘out of order’ for a amount of over ninety days, in respect of associate Overdraft/Cash Credit (OD/CC),
- The bill remains delinquent for an amount of over ninety days within the case of bills purchased and discounted
- Interest associated/or installment of principal remains delinquent 2|for 2} harvest seasons except for a amount not extraordinary two 0.5 years within the case of an advance granted for agricultural functions, and w.e.f 30.09.2004 following additional amendments were issued by the Apex Bank,
- A loan granted for brief period crops are treated as foreign terrorist organization if the installment of principal or interest on it remains delinquent for 2 crop seasons.
- A loan granted for long period crops are treated as foreign terrorist organization if the installment of principal or interest on it remains delinquent for one crop season.

If any advance or credit facilities granted by banks to a receiver become nonperforming, then the bank can ought to treat all the advances/credit facilities granted to it receiver as non-performing while not having any relevance the actual fact that there should still exist bound advances / credit facilities having playacting standing. As per the prudent norms steered by the depository financial institution of Asian nation (RBI), a bank cannot book interest on associate terrorist group on accounting. In alternative words such interests is engaged only it’s been really received.
Narasimhan Committee that mandated identification and reduction of terrorist groups to be treated as a national priority as a result of NPA direct toward credit risk that bank faces and its potency in allocating resources. Profit and earnings of banks are affected thanks to terrorist group numbers. If we tend to look on the numbers of non-performing assets we tend to could return to grasp that within the year 1995 the NPAs were Rs. 38385 large integer and reached to 71047 large integer in 2011 publicly sector banks and relatively within the year 2001 the NPAs were Rs. 6410 large integer and reached to Rs. 17972 large integer in 2011 privately sector banks.

1.1 Asset Classification Classes Of NPAS
i) Commonplace assets
Standard assets are those within which the bank is receiving interest still because the principal quantity of the loan frequently from the client. Here it is additionally important that during this case the arrears of interest and also the principal quantity of loan do not exceed ninety days at the top of monetary year. If quality fails to be in class of normal quality that is quantity due over ninety days then it is terrorist group and NPAs are any have to be compelled to classify in sub classes. Banks are needed to classify non-performing quality’s any into the subsequent 3 classes supported the amount that the asset has remained non-performing and also the liableness of the dues.

ii) Sub-standard assets
With result from thirty one March 2005, a substandard quality would be one, that has remained terrorist group for a amount not up to or adequate to twelve month.

iii) Uncertain assets A loan classified as uncertain if it remained within the sub-standard class for twelve months.

iv) Loss assets A loss quality is one that thought-about bad and of such very little price that its continuance as a bankable quality is not warranted- though there is also some salvage or recovery price. Also, these assets would are known as „loss assets” by the bank or internal or external auditors or the run scrutiny however the number would not are written-off completely.

1.2 Factors for rise in NPAs
The banking sector has been facing the intense issues of the rising NPAs. However the matter of NPAs is additional publicly sector banks in comparison to personal sector banks and foreign banks. The NPAs are growing because of external furthermore as internal factors.

1.2.1 External factors
a. Ineffective recovery - The govt. has established numbers of recovery tribunals that works for recovery of loans and advances. Because of their negligence and ineffectuality in their work the bank suffers the consequence of non-recover, thereby reducing their gain and liquidity.
b. Willful defaults - There are borrowers who are able to pay back loans however are on purpose retreating it. These teams of individuals ought to be known and correct measures ought to be taken so as to induce back the money extended to them as advances and loans.

c. Natural calamities - This can be the most important issue, that is making minacious rise in NPAs of the PSBs. Each currently and so India is hit by major natural calamities so creating the borrowers unable to pay back there loans. So the bank needs to build great amount of provisions so as to compensate those loans, thence find yourself the financial with a reduced profit.

d. Industrial illness - Improper project handling, ineffective management, lack of adequate resources, lack of advance technology, day to day dynamical govt. Policies provide birth to industrial illness. Thence the banks that finance those industries ultimately find yourself with an occasional recovery of their loans reducing their profit and liquidity.

e. Lack of demand - Entrepreneurs in India could not foresee their product demand and starts production that ultimately piles up their product so creating them unable to pay back the money they borrow to work these activities. The banks recover the number by commercialism of their assets that covers a minimum label so the banks record the non-recovered half as NPAs and needs to build provision for it.

f. modification on govt. Policies - With each new govt. banking sector gets new policies for its operation so it is to touch upon the dynamical principles and policies for the regulation of the rising of NPAs.

g. Directed loans system - Underneath this industrial banks area unit needed to produce four-hundredth share of their credit to priority sectors most important sources of NPAs are directed loans provided to the micro sector area unit problematic of recoveries particularly once a number of its units become sick or weak.

1.2.2 Internal factors

a. Defective disposition method - There are a unit 3 cardinal principles of bank disposition that are followed by the industrial banks since long.

i.) Principle of safety

ii.) Principle of liquidity

iii.) Principle of gain.

b. Inappropriate technology - Because of inappropriate technology and management system, market driven choices on real time basis can’t be taken. Correct MIS and monetary register is not enforced within the banks that result in poor credit assortment, thus NPAs. All the branches of the bank ought to be computerized.

c. Improper SWOT analysis - The improper strength, weakness, and chance and threat analysis is one more reason for rise in NPAs. Whereas providing unsecured advances the banks rely a lot of on the honesty, integrity, and monetary soundness and credit good of the receiver.

d. Poor credit appraisal system - Poor credit appraisal is another issue for the increase in NPAs. Because of poor credit appraisal the bank offer advances to those that do not
seem to be ready to repay it back. They must use sensible credit appraisal to decrease the NPAs.

e. social control deficiencies - The banker must always choose the receiver terribly rigorously and will take tangible assets as security to safe guard its interests. Once attractive securities banks ought to take into account the:

i) Marketability

ii). Acceptableness

iii) Safety

iv) Interchangeability

The banker ought to follow the principle of diversification of risk supported the illustrious maxim do not keep all the eggs in one basket, it implies that the banker should not grant advances to many massive farms solely or to concentrate them in few industries or during a few cities. If a brand new massive client meets misfortune or bound traders or industries affected adversely, the position of the bank would not be affected.

1.2.3 Causes for NPA

The factors attributed for the cause of NPA can be:

Improper choice of borrower’s activities, Weak credit appraisal system Industrial drawback, unskillfulness in management of recipient, slack in credit management & watching, Lack of correct follow up by bank, Recession in the market, Due to natural calamities and different uncertainties.

1.3 Impact of NPA’s on banking operations

The efficiency of a bank is not reflected only by the size of its balance sheet but also by the level of return on its assets. The NPAs do not generate interest income for banks. At the same time, banks are required to provide provisions for NPAs from their current profits. The NPAs have deleterious impact on the return on assets in the following ways:

i.) The interest income of banks will fall and it is to be accounted only on receipt basis.

ii.) Banks profitability is affected adversely because of the providing of doubtful debts and consequent to writing it off as bad debts.

iii.) Return on investments (ROI) is reduced.

iv.) The capital adequacy ratio is disturbed as NPAs enter into its calculation.

v.) The cost of capital will go up.

vi.) Asset and liability mismatch will widen.

vii.) It limits recycling of the funds

Banks could incline towards additional unhazardous investments to avoid and cut back peril that is not tributary for the expansion of economy. If the amount of NPAs is not controlled timely they will:

➢ Cut back the earning capability of assets and badly have an effect on the ROI.

➢ The value of capital can go up.

➢ The assets and liability couple can widen.
Higher provisioning demand on mounting NPAs adversely has an effect on capital adequacy quantitative relation and banks profitableness.

The measure an addition (EVA) by banks gets upset as a result of EVA is up to information superhighway operative profit minus value of capital.

NPAs causes to decrease the worth of share typically even below their value within the capital market.

NPAs have an effect on the chance facing ability of banks.

1.4 Cost of Nonperforming assets
Non-Performing Assets have an effect on the profit, liquidity and competitive functioning of banks and organic process money establishments and eventually the scientific discipline of the bankers in respect of their disposition towards credit delivery and credit enlargement. Non-Performing assets cause high value for the bank, as these assets do not improve any of the following:

- Profits
- Capital adequacy
- Reduction of other costs
- Capital market perception

2. OBJECTIVES OF THE STUDY
The study aims to gain insights into the position of Non-Performing Assets of all commercial banks categories in public sector, private sector, scheduled commercial banks and foreign banks. The following broad objectives are laid down for the purpose of the study:

I. To study NPA trend in last 7 years of private and public sector banks.

II. To make a comparative study of NPA’s of public sector and private sector banks.

III. Assess the comparative position of NPAS in nationalized banks

3. RESEARCH METHODOLOGY
Research style wont to do this study is descriptive analysis as a result of it deals with applied mathematics information and also the main aim of the report is to explain the factors moving the matter mentioned and creating comparison between banks performance in context of terrorist organization. This study is Associate in nursing analytical study. For the aim of this project non likelihood convenience technique of sampling is employed. The banks for the aim of study area unit chosen as per convenience solely. The sample consists of 3 Public sector banks - bank of Asian nation, Corporation Bank, Bank of Baroda and 3 non-public sector Banks - ICICI Bank Ltd, Axis Bank Ltd, HDFC Bank . The study is completed on the idea {of information of knowledge of information} for the amount of seven years from the fiscal year 2009-2015 and secondary data is collected in the main from the sources offered at web just like the run web site, websites of the banks etc. information is bestowed with the assistance of tables etc.
Abbreviations are used. The total variety of these abbreviations is as follows:

- GNPA- Gross terrorist organization,
- ICICI
- HDFC
- AXIS
- PNB
- Bank of Baroda
- SBI
- Public Sector Banks
- Private Sector Banks

**Table 1: Gross and Net NPA of Public Sector Banks**

<table>
<thead>
<tr>
<th>Year</th>
<th>GNPA</th>
<th>%GNPA</th>
<th>NNPA</th>
<th>%NNPA</th>
<th>GNPA</th>
<th>%GNPA</th>
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<th>%GNPA</th>
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<td>9,552</td>
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<td>1552.59</td>
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<td>1842.92</td>
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<td>4379.39</td>
<td>1.79</td>
<td>2038.63</td>
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<td>9916.99</td>
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<td>Avg.</td>
<td>38628.8</td>
<td>4.03</td>
<td>18,461</td>
<td>1.85</td>
<td>11065.89</td>
<td>3.43</td>
<td>6039.13</td>
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<td>6854.39</td>
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**Table 2: Gross and Net NPA of Private Sector Banks**

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<th>Year</th>
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<th>%GNPA</th>
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<td>3.96</td>
<td>45.53</td>
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<td>1.12</td>
<td>627</td>
<td>0.63</td>
<td>897</td>
<td>1.15</td>
<td>327</td>
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<td>2010</td>
<td>94.80</td>
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<td>38.41</td>
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<td>1,999</td>
<td>1.02</td>
<td>352</td>
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<td>2013</td>
<td>9,607</td>
<td>3.22</td>
<td>2,230</td>
<td>0.77</td>
<td>2,334</td>
<td>0.97</td>
<td>468</td>
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<td>2014</td>
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<td>2,977</td>
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<td>2015</td>
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<td>6,255.5</td>
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<td>Avg.</td>
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**Table 3: Gross and Net NPA of public and private sector banks**

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<th>NNPA</th>
<th>%NNPA</th>
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<td>954</td>
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<td>2010</td>
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<td>13,201</td>
<td>3</td>
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<td>3,402</td>
<td>1.29</td>
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<tr>
<td>2014</td>
<td>92,361</td>
<td>13.14</td>
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<td>6.19</td>
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<td>7.3</td>
<td>854.472</td>
<td>2.28</td>
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<tr>
<td>2015</td>
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<td>8468.51</td>
<td>2.14</td>
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</table>

4. ANALYSIS OF KNOWLEDGE

In the information analysis some abbreviations are used. The total variety of these abbreviations is as follows:

a. GNPA- Gross terrorist organization.
b. %GNPA - proportion of Gross terrorist organization to Gross advances

c. NNPA – internet terrorist organization

d. %NNPA - proportion of internet terrorist organization to internet advances

- The average GNPA and NNPA of SBI is highest among all 3 banks. The kids GNPA and %NNPA is additionally highest in SBI and lowest In Bank of Baroda. The typical GNPA and NNPA of ICICI are highest among all 3 banks. The kids GNPA and %NNPA is additionally highest in ICICI and lowest in HDFC. The trend on GNPA is sort of perpetually high in ICICI.

- The average GNPA and NNPA of ICICI is highest among all 3 banks. The kids GNPA and %NNPA is additionally highest in ICICI and lowest in HDFC. The trend on GNPA is sort of perpetually high in ICICI. The level of GNPA in HDFC is sort of same in seven years. And just in case of Axis bank it is highest in 2015 and lowest in 2011.

- The level of Gross terrorist organization publicly Banks is relatively terribly high than non-public banks. The trend is increasing publicly banks for all 7 years however in camera banks it is increasing until 2011 however at the moment it is nearly constant.

- The level of internet terrorist organization publicly Banks is additionally relatively terribly high than in camera banks. The trend is increasing publicly banks for all 7 years however in camera banks it is increasing until 2011 however at the moment it is nearly constant.

5. LIMITATIONS OF STUDY

Every study has sure limitations. Same is true with this study additionally. A number of the constraints round-faced throughout this study are:

I. For the aim of this study solely information of seven years has been taken that is from twelvemonth 2009 to 2015.

II. The info would be collected from solely half-dozen banks that is three non-public sector banks and three public sector banks.

III. The study covers just one side that is comparison of trend and quantity of NPA in several public and personal banks.

IV. Convenience technique of sampling has been used therefore all the units within the universe (all public and personal banks) did not have the equal possibilities of choice.

6. FINDINGS

It is found on the premise of study of information that the plus quality of public sector banks and personal sector banks improved systematically within the past few years as mirrored within the decline within the magnitude relation i.e. NPAs as proportion of advances to weaker sections from eighteen.9% to three percent just in case of public sector banks and from twelve.15percent to 0.5 percent. Over the amount of study, it has been registered that the general public sector banks have achieved a larger penetration compared to the personal sector banks vis-à-vis the weaker sections. The results from higher than analysis show that there\'s robust proof that the statistics within the advances to the weaker section of recent personal sector minute.
7. CONCLUSION

The NPAs have perpetually created a giant drawback for the banks in Asian nation. It is simply not solely drawback for the banks except for the economy too. The money fastened up in NPAs features a direct impact on profitableness of the bank as Indian banks area unit extremely smitten by financial gain from interest on funds lended. This study shows that extent of NPA is relatively terribly high publically sectors banks as compared to non-public banks. though numerous steps are taken by government to cut back the NPAs however still loads has to be done to curb this drawback. The NPAs level of our banks continues to be high as compared to the foreign banks. It is not in any respect potential to own zero NPAs. The bank management ought to speed up the recovery method. {The drawback the matter} of recovery is not with little borrowers however with massive borrowers and a strict policy ought to be followed for finding this problem. The govt. ought to additionally build additional provisions for quicker settlement of unfinished cases and additionally it ought to cut back the obligatory loaning to priority sector as this can be the main drawback making space. That the drawback of NPA wants several serious efforts otherwise NPAs can keep killing the profitableness of banks that is not sensible for the growing Indian economy in any respect.

NPAs did rise 23% between 2013-’14 and 2014-’15, threatening India’s banking system, but it is also true that in the year since Narendra Modi’s government took charge, there has been a 100% increase in bank fraud (as per RBI data).

Non – Performing Assets in Indian’s Banking System

<table>
<thead>
<tr>
<th>Years</th>
<th>In Rs. crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>183,854</td>
</tr>
<tr>
<td>2013-2014</td>
<td>251,060</td>
</tr>
<tr>
<td>2014-2015</td>
<td>309,409</td>
</tr>
</tbody>
</table>

Over the year since Modi’s government took office, the amount involved in bank fraud rose from Rs 10,170 crore in the fiscal year 2013-’14 to Rs 19,361 crore in 2014-’15, i.e. nearly 100%.

Source: Right To Information Query With Reserve Bank of India

Fraud Reported By Banks Where Amount Involved Is More Than Rs One Lakh

<table>
<thead>
<tr>
<th>Years</th>
<th>In Rs. crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2013</td>
<td>8,649</td>
</tr>
<tr>
<td>2013-2014</td>
<td>10,170</td>
</tr>
<tr>
<td>2014-2015</td>
<td>19,361</td>
</tr>
</tbody>
</table>

The fraud ranged from cheques alteration to fake loans, debit/credit card fraud to cyber fraud.

8. REFERENCES


9. AUTHOR’S BIOGRAPHY

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