IMPACT OF PRIVATIZATION ON NON-PERFORMING ASSETS OF BANKS IN INDIA

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Abstract

When the ownership and control of the assets is transferred from public to private sector, it is known as privatization. In other words, the demand and supply forces are highly influenced under high competition which makes the government to involve in activities more. Demand and supply forces are implemented in the economy and also to minimize the competition, privatization is used to liberalize the regulations. Various advantages such as employment development, improvement in the quality of the products and services provided to the consumers and reducing the burden of tax can be achieved by investing more capital, competitiveness and modernization which will bring up competition by considering privatization. In January 1993, certain guidelines were issued by RBI in the private to issue license of new banks, to improve the financial sector services. In January 2001, these reforms were revised after 8 years. Paid-up capital, promoter's contribution, foreign investment was the main focus point that has been revised under the guidelines. This paper has made an attempt to study the benefits of privatization in increasing the branches, increment in job opportunities, improvement in credit facilities for agriculture and its effect on Indian banking in terms of high interest rates, recovery of bad loans.

Keywords: Privatization. RBI, Bad loans, Interest rates, capital, Indian banking.

Introduction

Privatization is the process in which the ownership of the property or business is transferred from being government owned to privately own. It is highly influenced by market forces, high competition and participation in government activities.

The Indian banking system is the conjunction of both private and public sector and most of the banking bearing are featured with it. The main function of banking industry in India was always the deposit and the credit and also to collaborate the economic growth where government has major control over the shares. But there has been enormous change in the banking industry after liberalization. To provide accountability and introduce new practices, new norms were introduced by RBI.

RBI guidelines for new private sector banks:

In January 1993, certain guidelines were issued by RBI to provide license for new banks in private sector. These guidelines has been revised in 2001, and then in 2011. Some important guidelines for new private sector banks by RBI are:

1. Paid-up capital: the initial amount to be maintained by new banks shall be 500 crore rupees. And after that the net worth of the bank shall be minimum 500 crore rupees at all times. RBI approves the overall capital structure of the bank.
2. Corporate structure: large industrial houses can invest in banks up to 10% only but are excluded from eligible entities.

3. The shares must be listed on stoke exchanges by bank within 6 years of the commencement of the business.
4. Foreign shareholding: it requires minimum promoter shareholding depending on the existing foreign direct investment policy. Presently the limit of foreign investment in aggregate is 74%.
5. Eligible promoters: to promote universal bank, resident individuals and professionals having 10 years of experience at senior level in banking and finance are eligible.
6. In case of promoters, non-operative financial holding company is not mandatory. And the ownership of the promoters shall not be less than 51% of the total paid up equity capital of the NOFHC.
7. Business model considerations the bank shall open at least 25% of branches in rural areas.

Recommendations of first and second Narsimham committee and Verma committee.

Privatization was not directly supported by Narsimham committee, rather it only give suggestions for market strategy and profit seeking banks. Along with other aspects of government policies, the consistency in foreign investment policy was assumed by the policy. According to the committee, in terms of competition, efficiency and improvement in Indian banking system, the entry of foreign banks will be beneficiary for the country as it will upgrade the technology.

The second stage of banking reforms was recommended by the committee on banking sector reforms in April 1988 by Narasimham as chairman. To make the capital adequacy efficient, to generate income and to provide related norms, the main objective of the committee should be the growth of the economy.

The banks having high non-performing assets are known as weak banks. According to verma committee the weak banks were recommended to be closed in 1988. Continuation of these banks affects the efficiency of the banks and other related banks also.

Thus the recommendations of all the committees focused on bringing efficiency in the banking sector and government advised to implement it.

Effect of norms: The ignorance of priority sectors, unfair treatment of market related activities reflects the new banking culture protected by reforms. The change in reforms affects the activities as follows:

1. Priority sector lending: The loan provided to priority sector consists of 40% of net bank credit, which results in high non-performing assets. So, the increased NPA will have adverse affect on Indian banking system.
2. Subsidized interest: There is no concession in the interest rate, so a positive aspect of real interest rate was the aim of Narasimham committee.
3. Impact on agriculture: Agriculture sector is the back bone of Indian economy. It comprises involvement of 59.4% of population but the income and productivity is very low as compared to its collaborations. The improper finance and marketing services are responsible for low productivity as to compete with the requirements of the sector, the credit requirement is very large.
4. Regional imbalances: As per section 22 of the banking regulation act, 1949 every company has to acquire license from RBI before commencing business. One of the main reasons responsible for regional imbalance was the liberalization of licensing policy.

Arguments in favour of privatization of banks in India:

1. There exist a private ownership and the government ownership is lost by privatization.
2. Privatization will give rise to monopoly system which affects the customers and decrease the quality of service.

3. Competition and inefficiency is reduced by state ownership.
4. Reduction in profitability is doubtful in case of state ownership.
5. To bring efficiency and increase the productivity through proper management is the main motive behind privatization.
6. The private sector banks and the foreign banks are protected from local government pressure with the help of privatization.

Arguments against privatization:

1. After privatization, the banks will not be bounded to government restrictions.
2. Due to increased competition and to achieve technical efficiency, the public sector banks has forced to use its resources in optimum way. In all this is to favour privatization and foreign ownership.
3. The density of the economy will be removed from social accountability and examination of public by privatization.
4. Along with profit making, social accountability becomes necessary, but privatization effects the social functions when enterprises concentrate only on profit.
5. Due to ineffective control over commercial bank there is incomplete economic planning and also the goals are not achieved during the last five decades the India have been a planned economy.

Objectives of the study:

1. To study the advantages of privatization to the banking sector.
2. To study the impact of the norms of the new private sector banks.
3. To study the development of private sector banks.
4. To collect information about the factors of privatization leading to success of the banks.
5. To study the limitations of the privatization.

Findings:

1. The RBI should approve the capital structure in which promoters and foreign investment must be involved. Also a minimum paid-up capital of 500 crore need to be maintained during commencement of privatized banks.
2. The participation of the companies in the equity of the banks is 10% according to the rules of the RBI.
3. The main aim of Narasimham committee was to bring efficiency in capital and in up gradation of technology in private sector banks.
4. Verma committee recommended closing the week banks having assets to protect the other banks also.
5. The agriculture sector is suffered from the problem of less productivity which occurs due to insufficient credit finance.
6. Privatization brings monopoly which affects the quality of efficiency and also influence public.
7. All the decisions in privatization are business-oriented.

Conclusion:

The economic development or growth of a country mainly depends on the banking sector. Insurance and banking sector includes public fund.

Surplus money is collected from the society and then used required direction.

According to Indian constitution the satisfaction of public interest is the main economic activity which is harmed by privatization. And also it is responsible for improper behavior of human beings.

The banking and insurance sector of India is highly affected by privatization as the protection of public money is not guaranteed by the government. Also the companies will not be able to earn profit because of the doubtful obligation of the society. But it will not be considered as a fall of banking sector. The success will be affected by only a part of the weaker section.

To maintain the success of the sector, the debt recovery concept must be maid effective and powerful. The other big industries influence the banking industry in privatization. Banking industries does not find consistency in such type of industries. The suggestions of the government proved to be developing and beneficial to the society rather than disturbing.

This will help the small borrowers and small savers also.

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