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DECREASING NPA THROUGH DIGITILIZATION

P. GEETHA

Assistant Professors of Commerce
V.H.N.SenthikumaraNadar College(Autonomous), Virudhunagar

Abstract

In India, the banking sector is over-burdened with the highly increasing issues around Non-Performing Assets (NPAs). These rising bad loans seem to be swallowing away huge profit margins of financial institutions. A major reason behind pushing borrowers in the NPA category could be identified as the stressed macroeconomic conditions. The foremost action required from banks, considering this tedious situation, is to manage the present loan book effectively and be more cautious in lending new loans.

Keywords: *Demonetization, Consumer Perception, Digital Payment, Digital Wallet.*

Introduction

In India, the banking sector is over-burdened with the highly increasing issues around Non-Performing Assets (NPAs). These rising bad loans seem to be swallowing away huge profit margins of financial institutions. A major reason behind pushing borrowers in the NPA category could be identified as the stressed macroeconomic conditions. The foremost action required from banks, considering this tedious situation, is to manage the present loan book effectively and be more cautious in lending new loans.

Causes for NPA

According to a survey by global research firm, Ernst and Young among Indian bankers, 87% said that NPAs occurred due to diversion of funds to unrelated business or fraud, while a further 64% attributed them to lapses in due diligence. Around 72% of the survey

respondents were of the view that the crisis is set to get worse.

Most of the bankers feel that the main problem is that banks can't monitor and check the finances of an enterprise thoroughly as they have no visibility into its operations. Although banks do ask for a number of documents to sanction a loan, they are found fumbling as far as real-time transactions of an enterprise are concerned, since they don't have access to its financial records or the feasibility of projections. The data that the banks have is not enough to authenticate claims, making them ill equipped to take decisions based on solid facts.

The 7 May 2015 RBI circular on "Framework for dealing with loan frauds" is supposed to bring banks in line with monetary discipline. According to the circular, banks now need to ensure strict monitoring of the finances of an enterprise both pre- and post-sanction. They will