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IMPACT OF INTERNAL AND EXTERNAL FACTORS OF PUBLIC AND PRIVATE SECTOR BANKS ON PERFORMANCE OF NON-PERFORMING ASSETS

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Abstract

The banking system plays a crucial role in mobilizing financial resources and supporting economic development in India. While commercial banks perform the dual function of accepting deposits and extending credit, lending activities inherently involve the risk of default, which may lead to the accumulation of non-performing assets (NPAs). In recent years, rising NPAs have emerged as a major concern for Indian banks, affecting their profitability, liquidity, and overall financial stability. Effective credit risk management has therefore become essential for minimizing loan defaults and ensuring sustainable banking operations. The present research paper aims to examine the impact of credit risk management practices on non-performing assets in Indian commercial banks by analyzing bankers 'perceptions. The study is empirical in nature and is based on primary data collected through a structured questionnaire administered to bankers working in selected public and private sector banks, namely SBI and ICICI, in Visakhapatnam city. The collected data were analyzed using statistical tools with the help of SPSS software. The findings reveal that weaknesses in credit appraisal, monitoring mechanisms, and policy implementation contribute significantly to the growth of NPAs. The study highlights the need for strengthening institutional risk management frameworks and regulatory interventions to mitigate credit risk and enhance the overall performance of the banking sector.

Key Words: Policy related factors, Borrowers related factors, Non-performing assets

INTRODUCTION

Credit risk management in commercial banks involves identifying, assessing, and mitigating the risk of loss due to a borrower's inability to repay loans, encompassing various strategies to minimize potential financial damage (Hemanth Kumar, et al., 2023). Credit risk management is an essential aspect of banking operations, especially for commercial banks that are involved in lending activities (Catherine, 2020). Thus, credit risk is the financial risk that a bank faces when a borrower defaults on a loan, meaning they fail to repay the principal and/or interest as agreed. To overcome these difficulties the Reserve Bank of India (RBI) has implemented various measures to address these challenges and improve credit risk management in commercial banks. Despite these measures, credit risk management remains a significant concern for commercial banks in India. Therefore, it is crucial to study the credit risk management practices of commercial banks in India and identify the challenges and opportunities for improvement.

Commercial Banks as a significant part of the Banking System in India, play a pivotal role in the Indian financial sector. They are the primary source of credit for individuals, businesses, and other financial institutions (Kalpana and Vasantaha, 2017). Therefore, they are the backbone of the economy, providing the financial resources necessary for growth and development. In this context an effective credit risk management is crucial to ensure the financial stability of banks and the broader financial system.

The sound management of credit activities in banks and the ability to deal with the risks of these activities significantly affects the profitability and overall performance of these banks (Athanasoglou et al., 2008). Accurate measurement of the size and ability to deal with credit risk reduces the marginal cost of debt and capital and thus reduces the cost of money owed by banks (Basel, 1999). Therefore, good credit risk management keeps banks from reaching financial hardship and unexpected losses, besides poorly performing banks, which are exacerbated by increased credit risk and continued negative effects, may leave their customers to their destiny or reschedule their plans, change their strategies, change their capital structure, or even resort to merging with other better banks on terms that may be difficult for them and may therefore have to do so as a difficult option or a last resort (Bhattarai, 2016). Therefore, banks that perform poorly because of the inability to manage their credit activity may have to liquidate or merge when they are exposed to financial hardship resulting in large losses in debt, which eventually turns into bad debt and, as a result, hundreds or thousands of employees lose their jobs and negatively affect the economy and development. Accordingly, poor credit risk management in any bank is a main reason behind banks' failures (Kalui, 2015).

The link between bank performance and risk management is critical in understanding an empirical analysis of the determinants of bank performance and their impact on risk management practices. It presents available theories and empirical evidence on the link between bank profitability and credit risk management (Ebrahim Almekhlafi et al., 2015).

Credit risk management in banks

The financial services sector has experienced several significant losses over the past two decades due to the lack of an efficient risk management and control system (Claessens and Kose, 2013). The different types of risks such as credit risk, market risk, operational risk and other risks constantly threaten the financial sector. Among all risks, studies indicate that globally 50 percent of the total risk elements in the financial sector and, in particular, banking industry relate to credit risk (Heffernan, 2005). Banks decrease their exposure to tradable risk through derivative hedging and take larger credit risk simultaneously by extending more loans for gaining higher economic rent (Deng et al., 2016). The determination of each individual loan, or borrower, credit risk assessment plays a primary role in the minimization of the credit risk (non-performing loans). (Korobova, 2010).

While credit risk is a critical risk zone in the banking business, if not effectively supervised and administered, it causes non-performing assets, decreases a bank's net revenues, disintegrates capital and in extraordinary cases, may result in a prompt bank failure (Greuning and Bratanovic, 2009). Moreover, commercial banks engage in various activities to provide financial support to the industrial sector, agriculture sector, and also offer consumer credit in developing countries like India for boosting economic growth and development (Garhwali, 1993), there is little evidence on credit risk management practices of commercial banks and its relationship with credit risk performance and growth of non-performing assets (Sirus Sharifi, et al., 2018). Therefore, the current research paper attempts to study Impact of Credit Risk Management of Commercial Banks on Non-Performing Assets in India with reference to bankers perceptions.

LITERATURE REVIEW

Previous studies have extensively examined the relationship between credit risk management and bank performance, emphasizing the role of non-performing loans as a key determinant of financial stability. Several researchers have highlighted that higher levels of NPAs adversely affect profitability and lending capacity, thereby weakening the overall performance of banks. Studies conducted by Marshal and Onyekachi (2014) and Taiwo et al. (2017) indicate that credit risk indicators such as non-performing loan ratios and loan-to-deposit ratios significantly influence bank performance and lending behavior.

Research by Ogboi and Unuafe (2013) and Yimka et al. (2015) suggests that while NPAs may not always have a statistically significant impact on profitability indicators, ineffective credit risk management practices can expose banks to long-term financial vulnerabilities. Similarly, Dimitrios et al. (2019) emphasize that sound credit risk management is essential for banks to remain solvent and competitive, particularly in environments characterized by economic uncertainty.

Studies focusing on developing economies highlight additional challenges in managing credit risk due to institutional weaknesses, limited credit information systems, and regulatory constraints. Ahmad Alqatan and Haneen Al-Jabri (2020) observe that banks in developing countries face structural limitations that hinder effective risk assessment and loan recovery. In the Indian context, Nupur Jain and Srinivasan (2021) identify high NPAs and inadequate risk management frameworks as major challenges confronting commercial banks.

Empirical evidence from Indian banking studies indicates that the adoption of advanced credit appraisal techniques, loan monitoring systems, and recovery strategies can significantly reduce NPAs and improve financial performance (Das and Mishra, 2018; Joshi and Verma, 2017). Despite these findings, limited research has explored credit risk management from the perspective of bankers, particularly in comparing public and private sector banks. The present study attempts to bridge this gap by examining bankers 'perceptions regarding internal and external factors influencing NPAs in Indian commercial banks.

Kuldeep Solanki, et al. (2023) studied on credit risk management in Indian Commercial Banks and stated that the goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The results indicate effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

Significance of the study

The accumulation of non-performing assets has emerged as one of the most pressing challenges facing the Indian banking sector. Rising NPAs not only weaken banks 'financial positions but also restrict the flow of credit to productive sectors of the economy. Ineffective credit risk management practices contribute to delayed recovery, increased provisioning requirements, and reduced profitability, thereby affecting banks 'operational efficiency. Thus, the present study is significant as it provides insights into credit risk management practices from the perspective of bankers, who play a crucial role in loan sanctioning, monitoring, and recovery processes. By identifying policy-related and borrower-related factors influencing NPAs, the study offers practical implications for improving credit appraisal systems and strengthening monitoring mechanisms. The findings of the study are expected to assist bank management, policymakers, and regulators in designing effective strategies to control NPAs and enhance the stability of the banking sector. Therefore, this paper titled "The Impact of Credit Risk Management of Commercial Banks on Non-Performing Assets in India" with the following objectives.

Objectives of the Study

1. To study the perceptions of bankers on policy related internal and external factors influencing NPAs in banking sector.
2. To study the perceptions of bankers on barrowers related internal and external factors influencing NPAs in banking sector.
3. To suggest measures to improve the credit risk management to control the Non-Performing Assets in the banking sector.

Hypothesis

1. There is no significant difference between public and private sector banks in the policy related internal and external factors influencing NPAs.
2. There is no significant difference between public and private sector banks in the barrowers related internal and external factors influencing NPAs.

Scope of the Study

The Indian banking sector is the backbone of the country's economy. It serves as a barometer for the financial health and economic condition of the country. In addition to lending money to various industries and sectors such as agriculture, industry, personal finance, and residential real estate; banks also collect deposits from both individual and industrial and institutional customers. The receipt of deposits generally carries no risk because the bank is required to repay the deposit on demand, whereas lending funds always carries significant risk due to the uncertainty of loan repayments. Banks have become extremely cautious in recent years when it comes to extending loans, fearing that the number of non-performing assets will rise. In the current financial performance of banks there is a great deal of potential credit risk management in understanding the disbursement of loans and non-performing assets (NPAs) of banks in India. Thus, it is found that there is a score to study the impact of credit risk management on non-performing assets of commercial banks in India.

METHOD OF INVESTIGATION

The study adopts an empirical research design to examine the impact of credit risk management on non-performing assets in commercial banks. Primary data were collected through a structured questionnaire administered to bankers working in selected public and private sector banks. For the purpose of the study, State Bank of India (SBI) and ICICI Bank were selected, and a total of 100 respondents (50 from each bank) were randomly chosen from branches located in Visakhapatnam city. In this purpose a questionnaire was designed to capture bankers' perceptions regarding credit risk management practices, policy-related factors, and borrower-related factors influencing NPAs.
The collected data were coded and analyzed using statistical tools with the help of SPSS software. Descriptive statistics and inferential tests were employed to examine differences between public and private sector banks and to achieve the stated objectives of the study.

Data Collection Methods and analysis

The investigator personally visited the selective public and private sector banks in the study area and interacted with the bankers and explained about the purpose of this study and survey method. Later distributed the questionnaires to the respondents and collected the required primary data for analysis. The collected data was processed through SPSS software and generated the information by tables and analysed to study the objectives. Hence, the the results derived from the data was presented in the following tables and analysed.

Table-1: Demographic profile of the bankers

Demographic profile	Details	Frequency	Percentage
Banks	State Bank of India	50	50.0
	ICICI Bank	50	50.0
Gender	Male	65	65.0
	Female	35	35.0
Age in years	30-40	28	28.0
	41-50	42	42.0
	Above 50	30	30.0
Education qualification	Graduate	63	63.0
	Post Graduate	37	37.0
Experience in the current job	Below 10 years	24	24.0
	10 – 15 years	42	42.0
	Above 15 years	36	36.0

	Total	100	100.0

In part of study the data was collected from the bankers on impact of credit risk management of commercial banks on non-performing assets in India. Hence, the above table table shows the demographic profile of bankers in the study area. Since, the sample is equally collected from SBI and ICICI banks it is found that the sample is 50.0 percent represent by each sector banks, whereas the gender distribution shows 65.0 percent male and 35.0 percent female. The age-group of the bankers revealed that 28.0 percent are between 30-40 years, 42.0 percent are in 41-50 years and 30.0 percent are in above 50 years. The education level of the bankers shows that 63.0 percent are qualified graduation and 37.0 percent qualified post-graduation. The job experience of the respondents indicates that 24.0 percent have below 10 years, 42.0 percent are having 10-15 years and 36.0 percent have above 15 years of experience.

Table-2: Perceptions of bankers on policy related internal factors influencing NPAs in banking sector

Sl. No	Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Total
1	Loans and advances turn into bad due to faulty lending policy of the bank	8 (8.0)	13 (13.0)	19 (19.0)	25 (25.0)	35 (35.0)	100 (100.0)
2	Creation of new financial products leads to increase in the level of NPAs	7 (7.0)	13 (13.0)	19 (19.0)	25 (25.0)	36 (36.0)	100 (100.0)
3	More of unsecured and profitable loans like personal loans etc. result in NPAs	14 (14.0)	16 (16.0)	17 (17.0)	22 (22.0)	30 (30.0)	100 (100.0)
4	Target or budget oriented approach of lending is the reason for NPAs	9 (9.0)	14 (14.0)	18 (18.)	22 (22.0)	37 (37.0)	100 (100.0)
5	Volatility of Interest rates for customers is one of the reasons for NPAs	9 (9.0)	13 (13.0)	15 (15.0)	24 (24.0)	39 (39.0)	100 (100.0)
6	Credit appraisal policies followed by banks are old and ineffective, thus causing NPAs	8 (8.0)	15 (15.0)	20 (20.0)	21 (21.0)	36 (36.0)	100 (100.0)
7	Loan growth in excess of the bank's ability to manage results in NPAs	8 (8.0)	12 (12.0)	17 (17.0)	26 (26.0)	37 (37.0)	100 (100.0)
8	Rapid credit expansion causes the NPAs	8 (8.0)	14 (14.0)	16 (16.0)	26 (26.0)	36 (36.0)	100 (100.0)
9	Inadequate system for identifying loan problems is the reason for NPAs	13 (13.0)	14 (14.0)	18 (18.0)	23 (23.0)	32 (32.0)	100 (100.0)
10	Banking sector reforms created pressure on bank profitability and performance, resulting in NPAs	9 (9.0)	13 (13.0)	17 (17.0)	23 (23.0)	38 (38.0)	100 (100.0)

The perceptions of bankers on policy related internal factors influencing NPAs in banking sector are represented in the Table-2. It is noticed that 35.5 percent strongly agreed and 25.0 percent agreed, whereas 12.8 percent disagreed and 8.3 percent strongly disagreed about the loans and advances turn into bad due to faculty lending policy of the bank. It is observed that 36.0 percent strongly agreed and 25.0 percent agreed, but 12.9 percent disagreed and 6.9 percent strongly disagreed about the creation of new financial products leads to increase in the level of NPAs. The data shows 29.9 percent strongly agreed and 22.4 percent agreed, but 16.1 percent disagreed and 14.4 percent strongly disagreed on more unsecured and profitable loans like personal loan result NPAs. It is found that 37.3 percent strongly agreed and 22.4 percent agreed, whereas 13.6 percent disagreed and 8.6 percent strongly disagreed for the target or budget oriented approach of lending is the reason for NPAs. The data shows that 39.1 percent strongly agreed and 23.6 percent agreed, but 12.8 percent disagreed and 9.3 percent strongly disagreed about the volatility of interest rates for customers is one of the reasons for NPAs. According to the data it is observed that 35.6 percent strongly agreed, 21.3 percent agreed, 19.8 percent are undecided, 15.0 percent disagreed and 8.4 percent strongly disagreed that the credit appraisal policies followed by banks are old and ineffective, thus causing NPAs. It is found that 36.5 percent strongly agreed, 25.8 percent agreed, 17.1 percent are undecided, 12.4 percent disagreed and 8.3 percent strongly disagreed that the loan growth in execs of the bank’s ability to manage results in NPAs. From the data 36.4 percent strongly agreed, 25.9 percent agreed, 16.2 percent are undecided, 13.7 percent disagreed and 7.9 percent strongly disagreed that the rapid credit expansion causes the NPAs, 32.4 percent strongly agreed, 23.0 percent agreed, 17.8 percent are undecided, 14.2 percent disagreed and 12.6 percent strongly disagreed that the inadequate system for identifying loan problems is the reason for NPAs and finally 37.6 percent strongly agreed, 23.1 percent agreed, 16.9 percent are undecided, 13.1 percent disagreed and 9.4 percent strongly disagreed that the banking sector reforms created pressure on bank profitability and performance, resulting in NPAs.

Table-3: Perceptions of bankers on policy related external factors influencing NPAs in banking sector

Sl. No	Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Total
1	Recovery of NPAs through legal measures is a very lengthy and tedious process	9 (9.0)	15 (15.0)	20 (120.)	22 (22.0)	34 (34.0)	100 (100.0)
2	The legal and procedural obstacles remain with the liquidation of loss-making enterprises thus causing NPAs	9 (9.0)	13 (13.0)	19 (19.0)	21 (21.0)	38 (38.0)	100 (100.0)
3	Making compulsory lending to priority sector by banks is the reason for NPAs	14 (14.0)	16 (16.0)	18 (18.0)	23 (23.0)	29 (29.0)	100 (100.0)
4	Unfavorable macro-economic environment like recession increases the level of NPAs	10 (10.0)	13 (13.0)	17 (17.0)	21 (21.0)	39 (39.0)	100 (100.0)
5	Decrease in the GDP causes an increase in the level of NPAs	8 (8.0)	14 (14.0)	18 (18.0)	22 (22.0)	38 (38.0)	100 (100.0)
6	Inflation rate is having an impact on the level of NPAs	9 (9.0)	15 (15.0)	18 (18.0)	24 (24.0)	34 (34.0)	100 (100.0)
7	Instability in government policies is one of the factors for NPAs	7 (7.0)	12 (12.0)	19 (19.0)	22 (22.0)	40 (40.0)	100 (100.0)
8	Capital Adequacy Ratio influences the non-performing loans	9 (9.0)	15 (15.0)	19 (19.0)	20 (20.0)	37 (37.0)	100 (100.0)

The perceptions of bankers on policy related external factors influencing NPAs in banking sector are presented in the Table-3. It is noticed that out of total respondents of 35.0 percent strongly agreed, 21.9 percent agreed, 19.5 percent are undecided, 15.1 percent disagreed and 8.5 percent strongly disagreed that the recovery of NPAs through legal measures is a very lengthy and tedious process. It is noticed that 38.8 percent strongly agreed, 21.2 percent agreed, 18.5 percent are undecided, 12.8 percent disagreed and 8.7 percent strongly disagreed that the legal and procedural obstacles remain the liquidation of loss-making enterprise thus causing NPAs. The data shows that 28.6 percent strongly agreed, 23.4 percent agreed, 18.1 percent are undecided, 16.0 percent disagreed and 13.8 percent strongly disagreed that making compulsory lending to priority sector by banks is the reason for NPAs. It is found that 38.9 percent strongly agreed, 21.3 percent agreed, 17.5 percent are undecided, 14.0 percent disagreed and 8.1 percent strongly disagreed that the unfavorable macro-economic environment like recession increases the level of NPAs. The data shows that 38.9 percent strongly agreed, 21.5 percent agreed, 17.5 percent are undecided, 14.0 percent disagreed and 8.1 percent strongly disagreed that the decrease in the GDP causes an increase in the level of NPAs. It is observed that 35.1 percent strongly agreed, 23.5 percent agreed, 18.2 percent are undecided, 14.5 percent disagreed and 8.7 percent strongly disagreed that the inflation rate is having an impact on the level of NPAs. It is found that 39.8 percent strongly agreed, 22.1 percent agreed, 18.7 percent are undecided, 12.2 percent disagreed and 7.1 percent strongly disagreed that the instability in government policies is one of the factors for NPAs. From the data 35.9 percent strongly agreed, 20.3 percent agreed, 19.0 percent are undecided, 15.4 percent disagreed and 9.3 percent strongly disagreed that the capital adequacy ratio influences the non-performing loans.

Table-4: Perceptions of bankers on barrowers related internal factors influencing NPAs in banking sector

Sl. No	Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Total
1	Competitive lending has created the problem of NPAs in banks	14 (14.0)	14 (14.0)	20 (20.0)	23 (23.0)	29 (29.0)	100 (100.0)
2	Delay in disbursement of loan results in NPAs	8 (8.0)	14 (14.0)	23 (23.0)	24 (24.0)	31 (31.0)	100 (100.0)
3	Unscientific repayment schedule may results in NPAs	9 (9.0)	14 (14.0)	17 (17.0)	23 (23.0)	37 (37.0)	100 (100.0)
4	Inadequate control by loan officers on the NPAs	12 (12.0)	14 (14.0)	20 (20.0)	23 (23.0)	31 (31.0)	100 (100.0)
5	Ineffective supervision of loan account results in increase in the level of NPAs	11 (11.0)	15 (15.0)	20 (20.0)	22 (22.0)	32 (32.0)	100 (100.0)
6	Lack of technical and	10	15	18	21	36	100

	managerial expertise is the reason for NPAs	(10.0)	(15.0)	(18.0)	(21.0)	(36.0)	(100.0)
7	Bank failures are directly associated with poor management of credit risk	12 (12.0)	14 (14.0)	17 (17.0)	26 (26.0)	31 (31.0)	100 (100.0)
8	Inability to control loan officers is one of the reasons for NPAs	10 (10.0)	13 (13.0)	18 (18.0)	24 (24.0)	35 (35.0)	100 (100.0)
9	Lack of accountability is one of the reason for NPAs	9 (9.0)	17 (17.0)	20 (20.0)	21 (21.0)	33 (33.0)	100 (100.0)
10	Lack of knowledge about the sectors is one of the reason for NPAs	11 (11.0)	13 (13.0)	17 (17.0)	27 (27.0)	32 (32.0)	100 (100.0)

The Table-4 shows the perceptions of bankers on staff related internal factors influencing NPAs in banking sector. It is found that a dominated group of 29.3 percent respondents strongly agreed, 22.9 percent agreed, 19.9 percent are undecided, 14.1 percent disagreed and 13.8 percent strongly disagreed that the competitive lending has created the problem of NPAs in banks. It is noticed that 30.9 percent strongly agreed, 23.7 percent agreed, 22.9 percent are undecided, 14.2 percent disagreed and 8.3 percent strongly disagreed that the delay in distributors of loan results in NPAs. The data shows that 36.8 percent strongly agreed, 23.1 percent agreed, 16.6 percent are undecided, 14.1 percent disagreed and 9.4 percent strongly disagreed that the unscientific repayment schedule may results in NPAs. It is found that 30.8 percent strongly agreed, 23.3 percent agreed, 19.8 percent are undecided, 14.5 percent disagreed and 11.6 percent strongly disagreed that the inadequate control by loan officers on the NPAs. The data shows that 32.4 percent strongly agreed, 22.2 percent agreed, 19.5 percent are undecided, 14.8 percent disagreed and 11.1 percent strongly disagreed that the ineffective supervision of loan account results in increases the level of NPAs. According to the data it is observed that 36.7 percent strongly agreed, 21.2 percent agreed, 17.9 percent are undecided, 14.7 percent disagreed and 9.5 percent strongly disagreed that the lack of technical and managerial expertise is the reason for NPAs. It is found that 32.3 percent strongly agreed, 25.9 percent agreed, 16.8 percent are undecided, 13.6 percent disagreed and 11.5 percent strongly disagreed that the bank failures are directly associated with poor management of credit risk. From the data 35.3 percent strongly agreed, 24.1 percent agreed, 17.9 percent are undecided, 13.3 percent disagreed and 9.5 percent strongly disagreed that the inability to control loan officers is one of the reasons for NPAs, 33.5 percent strongly agreed, 21.0 percent agreed, 20.1 percent are undecided, 16.7 percent disagreed and 8.6 percent strongly disagreed that the lack of accountability is one of the reason for NPAs and finally 32.0 percent strongly agreed, 26.8 percent agreed, 16.9 percent are undecided, 13.2 percent disagreed and 11.0 percent strongly disagreed that the lack of knowledge about the sectors is one of the reason for NPAs.

Table-5: Perceptions of bankers on barrowers related external factors influencing NPAs in banking sector

Sl. No	Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Total
1	Miss-utilization of loans by user result in NPAs	9 (9.0)	13 (13.0)	16 (16.0)	20 (20.0)	42 (42.0)	100 (100.0)
2	Willful defaults are one of the main reasons for the high percentage of NPAs	12 (12.0)	15 (15.0)	18 (18.0)	20 (20.0)	35 (35.0)	100 (100.0)
3	The borrowers are generally farmers and small scale industry owner whose financial condition is weak and this is one of the reasons for NPAs	8 (8.0)	16 (16.0)	19 (19.0)	24 (24.0)	33 (33.0)	100 (100.0)
4	Political intervention in the credit market results in NPAs	8 (8.0)	14 (14.0)	18 (18.0)	22 (22.0)	38 (38.0)	100 (100.0)
5	The social role of banks is a hurdle for handling NPAs	9 (9.0)	13 (13.0)	17 (17.0)	23 (23.0)	38 (38.0)	100 (100.0)
6	Tightening of prudential norms results in underestimating the NPAs and the provisioning	7 (7.0)	15 (15.0)	18 (18.0)	23 (23.0)	37 (37.0)	100 (100.0)

The Table-5 shows the perceptions of bankers on barrower related external factors influencing NPAs in banking sector. It is found that out of total respondents of 42.0 percent strongly agreed, 20.3 percent agreed, 16.2 percent are undecided, 13.0 percent disagreed and 8.6 percent strongly disagreed that miss-utilization of loans by user result in NPAs. It is noticed that 35.7 percent strongly agreed, 19.6 percent agreed, 18.0 percent are undecided, 14.6 percent disagreed and 12.2 percent strongly disagreed that the willful defaults are one of the main reasons for the high percentage of NPAs. The data shows that 33.5 percent strongly agreed, 24.0 percent agreed, 18.7 percent are undecided, 15.7 percent disagreed and 8.2 percent strongly disagreed that the borrowers are generally farmers and small scale industry owners whose financial condition is weak and this is one of the reasons for NPAs. The data reveals that 38.0 percent strongly agreed, 21.8 percent agreed, 18.3 percent are undecided, 14.1 percent disagreed and 7.8 percent strongly disagreed that political intervention in the credit market results in NPAs. It is observed that 37.5 percent strongly agreed, 23.0 percent agreed, 17.3 percent are undecided, 13.4 percent disagreed and 8.8 percent strongly disagreed that the social role of banks is a hurdle for handling NPAs. It is found that 37.3 percent strongly agreed, 22.5 percent agreed, 18.2 percent are undecided, 14.9 percent disagreed and 7.0 percent strongly disagreed that the tightening of prudential norms results in underestimating the NPAs and the provisioning.

Table-6: Difference in the policy related internal and external factors influencing NPAs in the banking sector

Particulars	Category	N	Mean	Std dev	Std Err	t- value	p-value
Policy related internal factors	SBI	50	37.56	4.544	0.151	2.33*	0.036
	ICICI	50	35.67	4.347	0.241		
Policy related external factors	SBI	50	35.53	4.483	0.202	3.50**	0.005
	ICICI	50	38.62	4.247	0.234		

The Table-6 shows the level of difference in the policy related internal and external factors of credit risk management influencing NPAs between public and private sector banks indicate that in internal factors SBI found significantly more influenced than ICICI banks because the average influence score of SBI (37.56) is higher than ICICI (35.67) and the t-value 2.33 indicate significant at 5% level because the p-value is 0.036. With reference to influence of policy related external factors it is found that ICICI banks are significantly more influenced than SBI, where the the mean score are 3862 and 35.53 respectively. With these mean scores the calculated t-value 3.50 shows significant at 1% level because the p-value is 0.005. This infers that in credit risk management of internal policy related factor public sector banks are more positive than the private sector banks, whereas in external policy related factors the private sector banks are more positive and public sector banks.

Table-7: Difference in the barrowers related internal and external factors influencing NPAs in the banking sector

Particulars	Category	N	Mean	Std dev	Std Err	f- value	p-value
Barrowers related internal factors	SBI	50	36.74	4.066	0.135	2.20	0.036
	ICICI	50	34.89	4.256	0.236		
Barrowers related external factors	SBI	50	27.41	3.969	0.220	2.589**	0.015
	ICICI	50	29.46	3.868	0.129		

According to the Table-7 the level of difference in the borrowers related internal and external credit risk management factors influencing NPAs between public and private sector banks indicate that in internal factors of credit risk management with reference to barrowers the SBI found significantly more influenced than ICICI banks because the average influence score of SBI 36.74) is higher than ICICI (34.89) and the t-value 2.20 indicate significant at 5% level because the p-value is 0.036. With reference the influence of barrowers related external factors it is found that ICICI banks are significantly more influenced by credit risk management than SBI, where the the mean score are 29.46 and 27.41 respectively. With these mean scores the calculated t-value 2.589 shows significant at 1% level because the p-value is 0.015. This infers that in credit risk management of internal factors of barrowers related public sector banks are more positive than the private sector banks, whereas in external barrowers related factors the private sector banks are more positive and public sector banks.

DISCUSSION

The perceptions of bankers on policy related internal factors influencing NPAs in banking sector shows that a dominated group of 80.2 percent said creation of new financial products leads to increase in the level of NPAs, whereas 78.0 percent said volatility of Interest rates for customers is one of the reasons for NPAs. While 79.4 percent said loan growth in excess of the bank's ability to manage results in NPAs, 78.5 percent said rapid credit expansion causes the NPAs. Moreover, 79.0 percent said loans and advances turn into bad due to faulty lending policy of the bank, 77.9 percent said target or budget oriented approach of lending is the reason for NPAs. Even though 76.7 percent opined credit appraisal policies followed by banks are old and ineffective, thus causing NPAs, 77.6 percent felt banking sector reforms created pressure on bank profitability and performance, resulting in NPAs. Since, 73.2 percent felt inadequate system for identifying loan problems is the reason for NPAs 69.5 percent opined more of unsecured and profitable loans like personal loans etc. result in NPAs.

The perceptions of bankers on policy related external factors influencing NPAs in banking sector shows that a predominant group of 80.6 percent opined instability in government policies is one of the factors for NPAs, 78.5 percent felt legal and procedural obstacles remain with the liquidation of loss-making enterprises thus causing NPAs. While 77.9 percent opined decrease in the GDP causes an increase in the level of NPAs, 77.2 percent felt unfavorable macro-economic environment like recession increases the level of NPAs. Even though 70.1 percent said making compulsory lending to priority sector by banks is the reason for NPAs, 76.8 percent felt inflation rate is having an impact on the level of NPAs. While 76.4 percent said recovery of NPAs through legal measures is a very lengthy and tedious process, 75.2 percent said Capital Adequacy Ratio influences the non-performing loans.

The perceptions of bankers on barrowers related internal factors influencing NPAs in banking sector indicate that 77.5 percent felt delay in disbursement of loan results in NPAs, 77.3 percent said inability to control loan officers is one of the reasons for NPAs, 76.5 percent opined unscientific repayment schedule may results in NPAs and 75.8 percent said lack of technical and managerial expertise is the reason for NPAs. Moreover, 75.7 percent said lack of knowledge about the sectors is one of the reason for NPAs, 75.0 percent said bank failures are directly associated with poor management of credit risk. While 74.6 percent opined lack of accountability is one of the reason for NPAs, 74.1 percent said ineffective supervision of loan account results in increase in the level of NPAs. Since, 73.9 percent felt inadequate control by loan officers on the NPAs, 72.1 percent thought competitive lending has created the problem of NPAs in banks.

The perceptions of bankers on barrowers related external factors influencing NPAs in banking sector revealed that as many as 78.5 percent said miss-utilization of loans by user result in NPAs but 77.8 percent said social role of banks is a hurdle for handling NPAs. While 78.0 percent of the bankers felt tightening of prudential norms results in underestimating the NPAs and the provisioning, 78.1 percent opined political intervention in the credit market results in NPAs. Moreover, 76.2 percent bankers said borrowers are generally farmers and small scale industry owner whose financial condition is weak and this is one of the reasons for NPAs, 73.3 percent opined willful defaults are one of the main reasons for the high percentage of NPAs.

CONCLUSION

Effective credit risk management is essential for maintaining asset quality and ensuring the long-term sustainability of commercial banks in India. The findings of the study indicate that weaknesses in internal policies, borrower assessment, and external economic conditions contribute significantly to the growth of non-performing assets. The study further reveals notable differences between public and private sector banks in terms of their exposure to internal and external credit risk factors. Strengthening credit appraisal mechanisms, improving monitoring systems, and enhancing regulatory support are crucial for controlling NPAs. The study underscores the need for continuous training of banking personnel and the adoption of advanced risk management practices to mitigate credit risk. By addressing these issues, banks can improve their financial performance and contribute more effectively to economic development.

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