



# The Status of Non-Performing Assets (NPAs) in Cooperative Banks of India

**DR PRAFULLA RANJAN,  
PROFESSOR  
AMITY UNIVERSITY NOIDA**

## Introduction:

Non-Performing Assets (NPAs) have been a major concern for the banking sector in India, including cooperative banks. Cooperative banks play a crucial role in providing financial services to rural and semi-urban areas, supporting agricultural activities, and promoting inclusive growth. However, the rising levels of NPAs in these banks have raised questions about their financial stability and effectiveness in fulfilling their objectives. In this article, we will explore the current status of NPAs in cooperative banks in India and discuss the challenges they face in managing these assets.

## Understanding Non-Performing Assets:

Non-Performing Assets are loans and advances that have stopped generating income for the bank. When a borrower fails to make interest or principal payments for a specified period, typically 90 days or more, the loan is classified as an NPA. Cooperative banks, like other banks, face the risk of NPAs due to various factors such as economic downturns, inadequate credit appraisal, wilful defaults, and inadequate recovery mechanisms.

## The Current Scenario in Cooperative Banks:

The NPAs in cooperative banks in India have witnessed an upward trend in recent years. Although the exact figures may vary, reports suggest that cooperative banks have been grappling with a high NPA ratio compared to their commercial counterparts. The reasons contributing to the rising NPAs in these banks include:

1. **Inadequate Credit Assessment:** Cooperative banks often lack robust credit appraisal systems and rely heavily on personal relationships and trust-based lending. This approach can lead to inadequate evaluation of borrower creditworthiness, increasing the chances of defaults.

2. **Exposure to High-Risk Sectors:** Cooperative banks predominantly cater to the agricultural and rural sectors, which are prone to income volatility and external factors such as natural disasters. These banks face the challenge of managing NPAs arising from loans extended to farmers and small-scale entrepreneurs.

3. **Weak Recovery Mechanisms:** Compared to commercial banks, cooperative banks face difficulties in recovering loans due to their limited resources and influence. Inefficient loan recovery processes and legal complexities often hinder the timely resolution of NPAs.

#### Efforts to Address the NPA Issue:

Recognizing the importance of cooperative banks in rural development, the Indian government and regulatory bodies have taken steps to address the NPA issue. Some of these measures include:

1. **Strengthening Governance and Risk Management:** There is a push for cooperative banks to improve their governance structure, risk management practices, and internal controls. Regular audits, stress tests, and stricter regulations aim to enhance the banks' ability to identify and mitigate potential NPAs.

2. **Capacity Building and Training:** Training programs and capacity-building initiatives have been introduced to enhance the skillset of cooperative bank officials in credit appraisal, risk assessment, and recovery mechanisms. This helps in strengthening loan portfolios and reducing the incidence of NPAs.

3. **Embracing Technology:** Cooperative banks are encouraged to adopt modern banking technologies and digital platforms to streamline operations, enhance transparency, and improve loan monitoring and recovery processes. These technological advancements can contribute to early identification of potential NPAs and enable prompt remedial actions.

#### Conclusion:

The issue of NPAs in cooperative banks in India requires sustained efforts from all stakeholders involved. While cooperative banks play a vital role in financial inclusion and rural development, they must address the challenges associated with NPAs effectively. Strengthening governance, enhancing risk management practices, and leveraging technology can help mitigate the risks associated with NPAs and ensure the long-term sustainability of cooperative banks. Additionally, promoting financial literacy and supporting economic activities in rural areas can contribute to reducing the incidence of NPAs and fostering a healthier banking ecosystem in India.