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NON-PERFORMING ASSETS: CAUSES, CHALLENGE, AND MAINTENANCE IN BANKING INDUSTRY

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ABSTRACT

With several high profile cases of defaulting that occurred in India during the last couple of years, renewed focus has been shifted on the Non-performing assets (NPAs) and the delirious impact they have on the banking sector in particular and economy in general. Although continuous policy measures have been taken in order to check this threat, however, NPAs still occupy a considerable share in the balance sheet of banks, which have witnessed higher levels on the first decade of the millennium. In recognition of this renewed focus, the research article has raised the issue highlighting its dimensions- Level of NPAs in public and private banks, global scenario, Indian context, causes, challenges, and management. The article has taken credible research studies on NPAs to build arguments and put forth suggestions.

KEYWORDS: *Non-Performing Assets (NPAs), Assets, Reserve Bank of India (RBI) Provisioning*

INTRODUCTION

The basic purpose of the financial system is to accomplish allocation of resources in an efficient way cutting across time and space. The potential benefit of such financial system is a reduction in inefficiencies which are the result of market frictions and other socio-economic factors. In current world order, a challenge exists for the policymakers in general and banks in particular who have witnessed the surge in the quantum of non-performing (NPAs). Banks advance resources in two ways –i) fresh deposits from account holders and ii) by reprocessing the funds received from the borrowers. Thus, when NPAs in the banking industry is progressively on the higher lever, it potentially affects regeneration of credit and credit creation. NPAs beyond a threshold level is worrisome for everyone especially the banking industry because it affects the smooth flow of credit. An economy where credit is not smoothly flowing can cause the reduction in economic progress. Therefore, keeping track of the level of NPAs of the economy in general and banking industry in particular, is vital for well-functioning of the financial system.

Non-Performing Assets (NPAs)

According to Reserve Bank of India (RBI, 2010), an asset (including a leased asset), becomes non-performing when it ceases to generate income for the bank. NPA, thus, is defined as an advance where payment of interest or repayment of installment of principal or both remains unpaid for a certain period of time. In other words, NPA is a classification used by financial institutions which refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for a period of 90 days, the loan is considered to be a non-performing asset (the '90 days' overdue norm for identification of NPA, has been adopted from the year ending March 31, 2004,

with a view to moving towards international best practices and to ensure greater transparency). The below table summarizes the different type of assets (loans) and the parameters for them becoming NPAs:

Table 1: Parameter for NPAs

Nature of Facility	Parameters
Term Loan	Interest and/or installment of principal remain overdue beyond 90 days
Overdraft/Cash Credit	Account remains 'out of order' beyond 90 days
Bill Purchased/Discounted	Remains overdue beyond 90 days
Crop Loans (Short duration crops)	Installment of principal or interest thereon remains overdue for 2 crop seasons (not exceeding two and a half years)
Crop Loans (Long duration crops)	Installment of principal or interest thereon remains overdue for 1 crop season
Securitization transactions	Amount of liquidity facility remains outstanding beyond 90 days
Derivative transactions	Overdue receivables representing positive mark-to-market value of a derivative contract which remains unpaid beyond 90 days from specified due date for payment
Securitisation transaction	Liquidity facility remains outstanding for more than 90 days,

Source: *DBOD-MC On IRAC Norms-2014*

Since the time span of assets having turned into NPA varies hugely, banks classify them into different categories. These categories not only signify the bleakness of the assets value realization but also the provisional requirements to be made by the bank. Three broad categories based on the period for which the asset has remained non-performing or the overdue period of realizability:

- **Substandard Assets:** a substandard asset is one, which has remained NPA for a period less than or equal to one year. In such cases, the current net worth of the borrower or guarantor or market value of the security charged is not enough to ensure recovery of the bank's dues. In other words, such assets have well-defined credit weaknesses that jeopardize the liquidation of the debt and there is clear possibility that the banks will sustain some loss if deficiencies are not corrected.
- **Doubtful Assets:** an asset is classified as doubtful if it has remained NPA for a period of more than one year. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values highly questionable and improbable.
- **Loss Assets:** A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. All the above three categories warrant different levels of provisioning to be made by the banks, Table 2 below sums it up:

Table 2: Asset Categories and Provisioning Requirements

No.	Category	Provision Requirement
1	Substandard Asset	15% of the sum of the net investment in the lease and the unrealized portion of finance income net of finance charge component. Additional 10% for unsecured lease exposure i.e. total 25%.
2	Doubtful Asset	100% of the finance not secured by the realizable value of the leased asset. Additional provision on the unrealized portion of finance income net of finance charge component of the secured portion as under:- Period for which the advance remained in doubtful category and the provision (%) up to one year is 25% provision, One to three years 40% provision, More than three years 100%
3	Loss Asset	To be written off or 100% of the sum of the net investment in the lease and the unrealized portion of finance income net of finance charge component.

Source: *DBOD-MC On IRAC Norms-2014*

1.2 Acceptable NPA Levels

The level of non-performing loans is recognized as a critical indicator for assessing banks' credit risk, asset quality and efficiency in the allocation of resources to productive sectors. As per RBI instructions, the generally accepted level of net NPAs is less than 10 percent and gross NPA is below 15 percent. However, it depends on various factors such as local market, economic conditions, and how strictly the bank classifies NPAs. The following is the rule of thumb for gross NPAs on total advances (Golin 2001: 235):

- Below 2% is Excellent, 2 – 5% is considered Good,
- 5 – 10% is fair, 10 – 20% is a danger zone indicating Moderate to severe problems
- Over 20% is an indication of extremely severe problems.

In this context, at the macro-level, Khan and Bishnoi (2001) remark that, a banking crisis exists in the country if the level of NPAs touches 10 percent of GDP.

RBI Provisioning Norms for NPAS

After a proper classification of loan assets, the banks are required to make sufficient provision against each of the NPA accounts for possible loan losses as per prudential norms. The minimum amount of provision required to be made against a loan asset is different for different types of assets. The details of the provisioning requirements as per the RBI guidelines are furnished below:

- In terms of RBI circular No, RBI/2004/254/DBOD No. BP.BC.NO 97/21.04.141/2003-04 dated 17.06.2004, the Reserve Bank of India has decided that w.e.f March 31, 2005, an general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.
- NPAs under Substandard Assets category The ‘unsecured exposures’ which are identified as ‘substandard’ would attract additional provision of 10 % i.e a total of 20 % on the outstanding balance. The provisioning requirement for unsecured doubtful assets is 100 %. NPAs under the Doubtful category.
- In terms of RBI Circular No. 2004/261/DBOD BP.BC.99/21.04.048/2003-2004 dated 21.06.2004, Reserve Bank decided to introduce graded higher provisioning according to the age of NPAs in doubtful category for more than three years, with effect from March 31, 2005.

Consequently the increase in provisioning requirement on the secured portion would be applied in a phased manner over a three year period in respect of the existing stock of NPAs as classified as 'doubtful for more three years as on March 31, 2004 as per clarification given hereunder: In respect of all advance classified as doubtful for more than three years on or after 1 April 2004 the provisioning requirement would be 100 percent.

Significance of the Study

In India, following financial sector reforms, the banking system has undergone significant transformation, adopting international best practices. Several prudential, payment, integrating and provisioning norms have been introduced, and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health of the banking system. RBI and Government have made some notable changes in policies and regulations to strengthen the sector, as it is the indicator of the economic health of a country. In line with the above significance and the changing scenario, it becomes important to have a periodical assessment for getting an idea of the impact of different measures designed and implemented for improving the situation on NPAs. Such evaluation helps in better planning or in improvising the existing mechanisms. Since the nature and magnitude of the problem of NPAs are likely to differ in different types of banks, uniform measures or interventions may not yield expected results. Hence, it sometimes necessitates case specific remedies in different situations. All this creates a need for periodical study of the problem and the measures undertaken in different types of banks and at different points in time.

Objectives of the Study

- To study the levels, dimensions, and behavior of NPAs with respect to the banking industry.
- To identify causes and challenges of NPAs across private and public sector banks.
- To identify the measures undertaken by the banks for efficient management of NPA.

REVIEW OF LITERATURE

According to Spicka (2008) "Although, the extent and nature of banking crises vary substantially, a common observation is that financial crises often spread to the real sphere of the economy". So, the stability of the overall financial system depends highly on the financial soundness of banks. As far as the banking sector, NPA is an important criterion to assess its financial health (Ahmed, 2010). The level of Non-performing Asset is a prime parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. The reduction of the non-performing asset is necessary to improve the profitability of banks. Non-performing assets (NPA), understood as the root cause of the recent global financial crisis has been drawing the attention at the global level of the policymakers and academicians alike. As far in India, the issue of NPAs, which was ignored till recently, has been given considerable attention after liberalization of the financial sector; however academic work on the subject is not adequate (Ghosh, 2005; Mor and Sharma, 2003; Rajaraman et al., 1999).

World Scenario of NPAs

Ammannaya (2007) observed that the commercial banking all over the world has undergone a lot of changes during the last six decades. The improvement in terms of Net NPAs has been much more impressive. The trend is expected to continue with gross NPAs & Net NPAs further declining in the years to come. Though a clear picture of the magnitude of NPA emerges from the absolute values, it does not reveal the complete picture mainly because the absolute level of NPA depends on total advances. A country with a large population or GDP may have large advances and, in turn, larger NPA as well. Thus, apart from the absolute value, it is also important to look at what proportion of the total loan has become non-performing. The average NPA as a percentage of total loans across the countries was around 11.89 per -cent in 2001, which declined to around 6.44 percent in 2005. This shows that the quality of bank assets has been improving across countries over the years. This could be the result of the stringent regulations prescribed by the BASEL norms (Sen and Ghosh, 2005).

However, this trend was upset when financial crises hit the global economy in 2007-2008. Since then, average bank asset quality deteriorated sharply due to the global economic recession. The deterioration of loan performance, however, was felt unevenly across countries. As a case in point, during the recession and adjusting for its severity, the Baltic countries which far excel in inter-country comparisons in GDP performance has large advances in non-performing loans. Similarly, in Latvia, a striking drop of 18% in the economy was recorded in real GDP in the year 2009, as amazingly the NPLs had more than tripled during same period against expected two-fold increase. In Germany too, the NPL ratio soared to more than expected, as per an inter-country regression which further revealed that economy of Germany had shrinked to nearly % 5 in the year 2009. These global examples clearly speak of the varying impact of different macro/micro economic indicators and other factors that have a role in NPL ratio of a country.

Subsequently, with the recovery in the economic activity, private bank balance-sheets in developing Asia started improving. Bank non-performing loans (NPLs) as a share of total loans outstanding remained stable or declined in 2010 from 2009. Non-performing bank loans (NPLs) in developing Asia as a share of total loans outstanding have declined from 5.3% in 2009 to 5% (median) in 2010. However, in Europe and Central Asia and in some high-income countries NPLs continued to rise and remain a concern. Among 62 countries with 2010 data, over one-fourth (17) report NPLs of 9% or more. Most of these are in Europe and Central Asia, where output has yet to return to pre-crisis levels. Bank provisioning of NPLs varies widely; in Albania, Greece, Latvia, Romania, and Ukraine between 35% and 57s% of NPLs are un-provisioned, whereas, in Kazakhstan, Russia, FYR Macedonia and Serbia at least 98% of loans are provisioned. In the countries, where NPLs continue to rise, monetary authorities are expected to further raise bank-capital (recapitalize) and liquidity requirements—suggesting continued tight credit.

NPAs-Indian Context

The concept of Non-Performing Assets (NPAs) was introduced for the first time in the Narasimham Committee on “Financial System Reforms” that was tabled in Parliament on Dec. 17th, 1991. The Committee studied the prevailing financial system, identified its shortcomings and weaknesses and made wide-ranging suggestions and recommendations in line with internationally accepted norms. Based on the recommendations of the Committee on “Financial System Reforms”, the RBI evolved prudential norms on Income Recognition, Asset classification, and Provisioning and issued revised instructions to banks in Apr. 1992. The instructions to banks among other things, also advised them that as per practice followed internationally, income on NPAs is not to be recognized on accrual basis but is to be looked only when it

is actually realized because an asset becomes non-performing when it ceases to generate income. Accounting norms were modified substantially and mechanisms were put in place for reduction of bad loans. The above instructions of RBI have since been implemented by banks from the financial year ended Mar.1998. Over time the definition of NPAs underwent change, according to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs. Subsequently, this period was reduced, the assets for which the interest has remained unpaid for 90 days were considered as NPAs.

In order to conform to capital adequacy norms as prescribed under the Basel Accord, the decrease in the level of the non-performing asset is compulsory to recover profitability of banks. Accordingly, a capital adequacy requirement of minimum 8% risk assets has been prescribed under the Basel II norms. With this aim, all commercial banks in India with exception of regional rural banks and local area banks have come under Basel II. In India, the apex bank has instructed banks to maintain a minimum of 9% capital adequacy ratio (CAR) or capital to Risk Weighted Assets Ratio (CRAR). It is important to note that RBI has introduced stringent policy norms for Indian banks with the purpose of making Indian banking business at par with global standards and make it more reliable, transparent and safe. These norms are necessary since India is a developing economy and it is witnessing increased capital flows from foreign countries and there is increasing international economic & financial transactions.

Causes of NPAs

In the past researches, many authors have found out many reasons for NPA which includes factors as- Market Failure, Willful Defaults, Poor follow-up and Supervision, Non-cooperation from Banks, Poor Legal framework, Lack of Entrepreneurial Skills, Diversion of funds. A comparative study on the management of NPAs levels among nationalized banks has examined number of reasons for surge which includes- inappropriate choice of borrower's activities, fragile credit evaluation system, industrial issues, incompetence in administration of borrower, negligence in credit administration and monitoring, mismanaged follow up by bank, depression in the marketplace, and natural calamities and uncertainties (Ahmad, & Jegadeeshwaran 2013). Further, elaborating on the dismal management of NPAs (Joseph, & Prakash 2014) in their study analyzed the progression NPA levels in both private and public operating bank, recognized meager external, internal and other factors cause of NPA which include- redirection of funds for expansion, modification, transformation or taking up fresh projects, redirection of fund for supporting or promoting associate concerns, time or cost overrun during the project implementation stage, business failure due to product failure, failure in marketing etc., inefficiency in bank management, slackness in credit management and monitoring, and inappropriate technology or problems related to modern technology.

The external factors include the recession in the economy as a whole, input or power shortage, price escalation of inputs, exchange rate fluctuations, and change in government policies. Other factors include liberalization of the economy and the consequent pressures from liberalization like several competitions, reduction of tariffs etc., poor monitoring of credits and failure to recognize early warning signals shown by standard assets, sudden crashing of capital market and inability to raise adequate funds, mismatching of funds i.e. using loan granted for short term for long-term transactions, granting of loans to certain sectors of the economy on the basis of government directives rather than commercial imperatives. (Rajput, Arora, & Kaur 2012) analyzed some reasons behind the formation of NPA, revealed the impact of the

NPA on banking operations. (Satpal, 2014) a study found out some external factors and some internal factors which affect the NPA.

Godlewski (2004) uses the adjusted ROA as a proxy for performance, shows that banks profitability negatively impacts the level of non-performing loans ratio. The banking business is always vulnerable to various risks such as credit risk, liquidity risk, interest risk, market risk, operational risk, and management risk. But, credit risk stands out as the most detrimental of them all (Iyer, 1999). The risk of erosion in asset value due to simple default or non-payment of dues by the borrowers is credit risk or default risk (Sarma, 1996), and it is this risk which gives rise to the problem of NPAs. Another aspect is that, for several decades, many economies, including the Indian, experimented with subsidized credit for the poor. But the only tangible outcome perhaps was the increase in non-performing loans (Srinivasan and Sriram 2003).

GDP and credit risk have an important connection for both public and private operating banks. A considerable number of the studies have discovered that mutual factors- macroeconomic and banking industry-specific factors play a vital role in ascertaining the credit risk for the commercial banking sector. While investing parameter Das, S. (2010) found in his study reasons for the NPAs which include- a market anomaly, uncontrolled and willful defaulters, and inefficient follow -up and administration, an attitude of non-conformity& non-cooperation from banks, dismal legal structure, dearth of entrepreneurial abilities, and redirection of funds. In one of the studies by Ranjan and Dhal (2003) wherein empirical frame work via regression analysis on NPAs of Indian commercial banks showed three economic and financial factors-influence NPAs- credit terms, size of bank & risk preference and macroeconomic upheavals.

Table 3: Factors Contributing to NPAs

Internal Factors	External Factors
Diversion of funds for; • Expansion/diversification/modernization • Taking up new projects. • Helping/promoting associate concerns.	Recession.
Time/cost overrun during the project implementation.	Input or power shortage.
Inefficient management.	Price escalation.
Strained labor relations.	Exchange rate fluctuation.
Inappropriate technology/technical problems.	Accidents and natural calamities.
Product obsolescence, etc.	Changes in government policy such as excise, import and export duties, pollution control order etc.
Poor credit Appraisals, monitoring and follow up, improper SWOT analysis on the part of banks.	Willful defaulters have been there because they knew that legal recourse available to the lenders is time consuming and slow.
	Sickness of the industry also leads to gradual erosion of the liquidity and units start failing to honour its obligations for the loan payments. Heavy funds are locked up in these units.
	Political tool-Directed credit to SSI and Rural sectors has been there

Source: *Reserve Bank of India*

CHALLENGES AND MANAGEMENT OF NPAS

Challenges Posed by NPAs

Non-performing assets are a major cause of concern for the banking industry, as they make multipronged attacks on banks efficiency, bottom-line as well as its brand name. NPA, on one hand, don't generate income for the banks, and on the other banks are required to make provisions for such NPAs from their current profits.NPA impacts banks in two ways; one is the amount of NPA and the other is the opportunity cost. As a result, it leads to money getting blocked decreasing the prodigality of the bank, as the same investment could have been done in other return earning asset. Therefore, it implies that NPA not only affects the current profits but can potentially affect the future flow of profits as well as leading to loss of long-term beneficial opportunity lost. In one of the studies by Sirajand Pillai (2012) advocated that NPAs is a major risk to the banking sector as it poses dangers on the quality of assets in dimensions of profitability and liquidity, thereby affecting the survival of banks.

Also, the incremental component explained through additions to NPA poses a great question mark on the efficiency of credit risk management practices of banks in India. In a comparative study, Kumar (2013), remarks that the quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications for profitability, productivity, liquidity, solvency, capital adequacy and image of the bank. Thus Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector. Examining different micro variables affecting productivity and efficiency of banks, Yadav (2011) explained that the level of the NPAs of PSBs affected 50% profitability of the banks and its impact has increased at very large extent with other strategic banking variables. Moreover, productivity and efficiency of PSBs in terms of business per employee and operating profit per employee was highly impacted.

In their study on NPAs Reduction Strategies for Commercial Banks in India Prasad and Veena (2011), state that NPAs have a destructive impact on the return on assets of banks in the following ways- the interest income of banks is reduced since it is to be accounted only on receipt basis. The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it also limits the recycling funds. Thus, the loss of income from NPAs not only brings down the level of income of the banks but also hinders them from quoting finer Prime Lending Rates (Jain and Balachandran, 1997).

Reddy (2008) on Management of Non-Performing Assets in Banks, comes to a conclusion, that the NPAs not only eat into profitability and hamper banks' ability to recycle fund but also shake the public confidence which is crucial for the existence and growth of any financial institution. Non-Performing Assets (NPA) demand creation of provisions, which are regarded as a controlling mechanism over expected loan losses, previous practices have shown that provisions are triggered by default incidents on loans, higher level of nonperforming Loans are associated with high rates of provisioning (Hasan and Wall, 2004). Further, the recovery process of NPAs adds to the woe of time for the employees and management. Apart from internal and external complexities, increases in NPAs directly affect banks' profitability sometimes even their existence.

Talking at the Macro Level, Another, notable impact of NPA is the change in banker's sentiments which may hinder credit expansion to productive purpose. Banks may incline towards more risk-free investments to avoid and reduce riskiness, which is not conducive for the growth of the economy. Kaur and Singh (2011) in their study on Non-performing assets of public and private sector banks (a comparative study) state that Non-Performing Assets (NPAs) are proving to become a major setback for the growth of the economy. The high levels of NPAs also pose a serious hurdle for pushing through the reforms which have been proceeding in a phased manner in India spearheaded by the Narasimham Committee. In the words of Narasimham Committee II, (1998) on banking sector reforms "NPAs constitute a real economic cost to the nation is that they reflect the application of scarce capital & credit funds to unproductive uses. The money locked up in NPAs is not available for productive uses to the extent that bank seek to make provisions for NPAs or write them off. It is a charge on their profits, NPAs, in short, is not just a problem for banks; they are bad for the economy".

Management of NPAs

NPAs adversely affect the lending activity of banks as non-recovery of loan installments and interest on the loan portfolio negates the effectiveness of the credit-dispensation process. Non-recovery of loans also hurts the profitability of banks. Besides, banks with a high level of NPAs have to carry more owned funds by way of capital and create reserves and provisions to provide the cushion for the loan losses. NPAs, thus, make a two-pronged attack on the bottom lines of commercial banks- interest applied on such assets is not taken into account because such interest is to be taken into account only on its realization unlike interest on performing assets which is taken into account on accrual basis. Further, banks have to make provisions on NPAs from out of the income earned by them on performing assets. Persistently high level of NPAs in the loan portfolio of banks makes them fragile, leading ultimately to their failure. This shakes the confidence of both domestic and global investors in the banking system, which will have a multiplier effect, bringing disaster in the economy. Thus, the most critical condition for bringing about an improvement in the profitability of banks is the reduction in the level of NPAs. In fact, it is a pre-condition for the stability of the financial system.

Though most banks have Early Warning Systems (EWS) for identification of potential non-performing assets (NPAs), the actual processes followed varies from bank to bank. The major components or processes of a EWS followed by banks in India as brought out by a study conducted by Reserve Bank of India at the instance of the Board of Financial Supervision are as follows:

- Designating Relationship Manager / Credit Officer for monitoring account/s
- Preparation of 'know your client' profile
- Credit rating system
- Identification of watch-list/special mention category accounts
- Monitoring of early warning signals

However "Management of non-performing assets (NPAs) by banks remains an area of concern, particularly, due to the likelihood of deterioration in the quality of restructured advances," RBI said in its Annual Report on Trend and Progress of Banking in India for the year ended Mar. 31, 2010. Poor management can imply weak monitoring for both operating costs and credit quality of customers, which will include high levels of capital losses. Under the "bad

management" hypothesis advances by Berger and DeYoung (1997), managers lack competencies to effectively assess and control risks incurred when lending to new customers.

It is evident that a lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism (Gupta 2012; Rai 2012). The best way to manage NPAs is to prevent them by taking precautionary measures to prevent their occurrence. This can be achieved through proper risk management, strong and effective credit monitoring (Singh 2013). Proper selection of borrowal accounts, extending need-based financing, ensuring proper end-use, proper post sanction follows up. There must regular follow-up with the customers and it is the duty of banker to ensure that there is no diversion of funds. There should be a careful appraisal of the project which involves checking the economic viability of the project (Shalini, 2013). Assisting the borrowers in developing his/her entrepreneurial skill will not only establish a good relationship between the borrowers but also help the bankers to keep a track of their funds. Adequate preventive measures should be put in place for fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision (Chaudhary & Sharma, 2011). The strict asset classification norms as rolled out from time to time should be followed in letter and spirit. Use of Joint liability groups or self-help groups can be explored for enhancing the loan recovery rate (Rajeev, & Mahesh, 2010). Further, wherever the NPAs occurs it is better to recover them through negotiation and compromise rather than, by the lengthy and costly procedure of litigation. Moreover, different technological platforms like the ones based on Core Banking Solution should be used for proper monitoring of sticky accounts.

CONCLUSIONS

Summing up the above discussion, we can say that the NPAs have a deleterious impact on the banks in the following ways:

- As the interest income on NPAs is to be accounted only on receipt basis, the interest income of banks as a whole decline.
- NPAs erode current profits through provisioning requirements for doubtful debts and consequent to writing them off as bad debts.
- Return on investments (ROI) is reduced.
- The capital adequacy ratio is disturbed as NPAs enter into its calculation. It leading to erosion of capital base and reduction in bank competitiveness through the creation of reserves and provisions that come from profits, to act as cushions for loan losses.
- The cost of capital goes up.
- Asset and liability mismatch widens.
- It limits recycling of the funds, thus impacting not only the banks but the economy as a whole.
- A decline in profit has its bearing on variables like Capital to Risk Weighted Assets Ratio (CRAR and cost).
- NPAs affect the risk facing ability of banks as the managers become more risk-averse.

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