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Retail Credit Risk Management In Commercial Banks In India With Special Reference To Private Sector Bank

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ABSTRACT:

In current scenario credit risk in Indian banks has been increased due to dynamics of market, market competition, social and economical condition, and foreign exchange business and Global Business. Non Performing Assets reflect the performance of banks. A high level of Non Performing Assets suggests high probability of a large number of credit defaults that affect the profitability and net worth of the banks and also decreases the value of the asset. The impact of the NPAs is not only on the banks but also on the Indian economy. In fact high level of Non Performing Assets in Indian banks is nothing but a reflection of the nation of health of the industry and trade. It is necessary to manage NPAs to improve the financial health in the banking system. Today, the Indian banking industry is dealing with the very big amount of NPAs which is fifth largest in the world. As on June 30, 2018, the gross Non Performing Assets of the banking sector were 11.52% of the total assets while the net Non Performing Assets were 5.92%. As on March 31, 2018, the gross Non Performing Assets were at 11.68% and net Non Performing Assets were 6.21%. Thus there is slight improvement in Non Performing Assets this year. This paper considers the aggregate data of private sector and interpret the Non Performing Asset management from the year 2005 -2018. On the conceptual side, it gives an overview of Non Performing Asset, Types of Non Performing Asset, causes and impact on banks. on the calculation side, it covers various NPA related ratios, use of Least square method for estimating Gross NPAs in the year 2019-20. The finding reveals the percentage of Gross Non Performing Asset to Gross advances is decrease and the ratio of Loss Advances to Gross Advances are higher in Private sector banks.

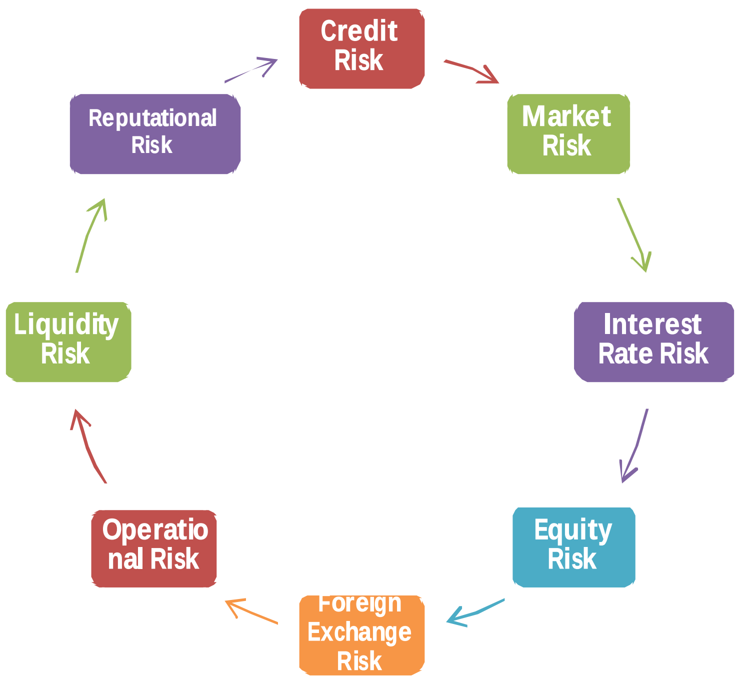
Keywords: Non Performing Asset , Private Banks, credit risk,

TITLE: RETAIL CREDIT RISK MANAGEMENT IN COMMERCIAL BANKS IN INDIA WITH SPECIAL REFERENCE TO PUBLIC SECTOR BANK

1. Introduction:

In current scenario credit risk in Indian banks has been increased due to dynamics of market, market competition, social and economical condition, and foreign exchange business and Global Business. In banks and other financial institutions, credit risk plays a major part in the growth of a bank. The high risk and high returns are essential to maintain parity between risk and return. Today, most of the banks in India are facing the default risk with respect to their retail loans and advances. In recent years most of the Indian banks have been started to expand their branches and turn to other business such as insurance mutual funds etc., at a rapid rate and have reached great advancements in technology and quality of service. However, these expansions also have risk for these banks.

Types of risks:



Credit risk :

On Banking Supervision defines by basel Committee that credit risk is the potential that a bank borrower of the bank, or counter party, fail to meet its payment obligations regarding the terms of agreement with the bank. It includes both risk involved in repayment of the

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bank's loans and timely repayment of dues. The non payment of dues and timely repayment of dues usually occurs for defaulter's inadequate income or loss in business.

Market risk:

The Basel Committee on Banking Supervision described market risk is the risk of losses in balance sheet positions that arise from the changes in market prices. presently in investment banking Market risk is the most prominent for banks.

The main components of market risk are:

Interest rate risk:

It is the possible loss due to agitation in interest rates. This risk arises due to bank's assets it have a significant longer maturity over its liabilities. The management of interest rate risk is called the asset-liability management.

Equity risk:

It is the possible loss due to an unfavorable change in the stock price. Bank accepts equity as collateral security for loans and purchase ownerships in other companies as investments from their investible cash. Subsequently any negative change in the stock price either leads to a loss or decreases the investments' value it called Equity risk.

Foreign exchange risk:

It's the possible loss due to change in the value assets or liabilities of the bank resulting from exchange rate fluctuations. Bank transacts in foreign exchange market for their customers or for own accounts of the bank. Any unfavorable movement can decrease the value of the foreign currency and become a loss for the bank.

Commodity risk:

It is the possible loss due to unfavorable change in commodity prices. These are commodities in which agricultural commodities (wheat, corn, and livestock), energy commodities (shale gas, crude oil and natural gas) and industrial commodities (zinc, copper, and iron). The commodities' values change time to time due to changes in demand and supply.

Operational risk:

Operational risk defined by the The Basel Committee on Banking Supervision "as the risk of loss resulting from inadequate or failed internal processes, people and systems or from

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external events. In this definition also has legal risk, but ignore the strategic and reputation risk."

Liquidity risk:

Liquidity means bank has the ability to take payment obligations primarily from their depositors and it has enough money to give loans. So liquidity risk is that risk in which bank not being able to have enough cash to carry out its day-to-day operations.

Reputational risk:

Reputational risk is that risk which damage to a bank's image due to some doubtful actions taken by the bank. Sometimes reputational risk can be arise due to negative publicity or perception against the bank. Without any solid evidence no one take interest in that. Reputational risk leads to the loss of public confidence in a bank.

RBI Guidelines on Management of Credit Risk:

The Indian Central Bank, Reserve Bank of India was established in April 1935 on the recommendations of Hilton Young Commission with a share capital of Rs 5 crore. One of the most important functions of the RBI is control the credit, i.e., it has the power to control the volume of credit which is created by banks in India.

RBI suggests to every bank that they should have an effective Credit Management Framework in which included Credit Risk Policy, Organization Structure and Operation/System. The board of **directors of** each banks are responsible for approving and periodically revising credit risk strategy and most significant credit risk policies. Banks should prepare proper credit policy to keep in mind for reducing the credit risk. The policy should include risk measurement, risk identification, risk grading/ aggregation techniques, documentation, reporting and risk control/ mitigation techniques, legal issues related with this and proper management of problem loans. Each bank should establish their own Credit Risk Management Department, independent of the Credit Administration Department and a high level Credit Risk Management Committee.

Indications which are responsible for Non Performing Assets:

In private sector banks have been quite hard pressed in recent times in terms of major portion of their advances turning into Non Performing Assets. Following are some of common points which indicate performing assets change in to Non performing assets:

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- Stock statement not submitted on time
- Unpaid initial installment
- Payment which is not covering the interest and principal amount of the installment
- irregular installments
- changes in government policies
- Death of the loan taker
- current ratio is decreasing
- external uncontrollable factor like flood and draught
- Market competition
- clashes in the business and partners
- Bouncing of cheques due to insufficient balance in account

Impact of NPAs on Banks

1. Sometimes Non Performing assets reduce the value of shares below their book values in capital market.

2. It may also reduces the Return on Investment as impact of reduction in profitability in lower return on investment which leads opposite effect on current earning of the bank.

3. reliability of banking system is almost affected greatly by higher level of Non Performing Assets because it vibrate the confidence of general public in the integity of the banking system. The increased NPAs shows liquidities issues. So can say that the increased of Non Performing Assets not only affect the performance of the banks but also affect the economy.

4. NPA also reduces the income of interest as it is to be keeping records only on Receipt basis.

5. It affects the Capital adequacy or distributed the Capital adequacy Ratio as NPAs entered into its calculation.

2. LITERATURE REVIEW:

On Non performing Assets lots of research has been done in this area. In the study researcher has studied on NPA of various banks in which researcher showed various techniques to decrease the Non performing Assets of the Banks (Kaveri,2001). In another study researcher focused on comparative study on Non performing Assets of different banks in the global context (Prashanth K Reddy, 2002).

In another study researcher concluded his study by profitability of the banks and earning capacity of the banks both adversely affected by the higher NPA of the banks and decrease in the NPA is the extreme challenge for the banks (Jaynal Ud-din Ahmed, 2011). In another research researcher tried to analyse the asset qualities of the selected banks in Tamil Nadu

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and pointed out the International prudential norms and practices of accounts are adopting by the banking sector (Ramu, N 2009)

3. SCOPE OF THE STUDY:

As far as the scope of the study is concerned, the study covers a descriptive Analysis of NPA Management of Private sector banks which are operating in the country. The period of the study is last five years spanning from 2013 to 2018.

4. OBJECTIVES OF THE STUDY:

1. To To know the different types of credit risks and the techniques to manage risk in Indian Private sector banks.

2. To analyze and interpret various NPA related ratios for aggregates of Private Sector banks in India from 2008-2018.

3. To use Least Square method for projecting the amount of NPA in the year 2019 for Private Sector Banks in India and interpret the same.

4. To test that is there any significant differences between ratio of Gross NPA to Gross Advances for aggregates of Private Sector banks in India from 2008-2018.

5. METHODOLOGY OF STUDY:

This study includes secondary data and the secondary data have been collected from annual report of RBI publications including Trend and Progress of Banking in India (from the year 2008-2018), Statistical Tables relating to Banks in India, Articles, books, website and Papers published in different journal and magazines related with Commercial Banks only information data available on internet and other sources have also been used. After collecting all the relevant data, the all relevant data is converting into tabular form. The statistical tools that considered for the study is Trend, Ratio Analysis /Percent Analysis

The Analysis in the paper is done on the total i.e. aggregate data starting from 2008 to 2018 on the overall basis. This helped us to derive the findings and conclusions. Banking industry is taken for the study, where aggregate data related to NPA for Private Sector Banks are used. In this Study use the Descriptive research design. Data used in the paper is secondary, which is compiled from Reserve Bank of India (RBI) website, and other related websites. in this research paper tools used for interpretation are Ratio analysis and application of Least Square Method.

6. ANALYSIS AND INTERPRETATION:

Ratios Related to Non Performing Asset (NPA)

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Firstly the study examined the trend of gross advances and gross NPAs and the ratio of gross NPAs to Gross Advances of New Private sector banks. It is revealed from the table – 1 that shows the rising trend from 2005-06 to 2017-18 of the banks.

Table1: Total Gross NPA to Total Gross Advances (Rs In Billions)

Year	NEW PRIVATE SECTOR BANKS		
	Total Gross Advances	Gross NPAs	Percent Share
2005-06	3151.01	75.99	2.4
2006-07	4182.41	91.45	2.2
2007-08	5236.99	129.22	2.5
2008-09	5751.67	167.87	2.9
2009-10	5795.35	173.07	3.0
2010-11	7232.05	179.05	2.5
2011-12	8716.41	182.10	2.1
2012-13	11512.46	203.82	1.8
2013-14	13602.53	241.84	1.8
2014-15	16073.39	336.90	2.1
2015-16	19726.59	558.53	2.8
2016-17	22667.21	919.15	4.1
2017-18	27259.00	1259.00	4.6

(Sources: WWW.rbi.org.in)

Interpretation: Above table shows Gross Advances amounts, Gross NPA amounts and the percentage of Gross NPA during the period of 2005-06 to 2017-18. The amount of advances of has increased from Rs. 3151.01 Billion in 2005-06 to Rs. 27259.00 Billion in 2017-18 of Private sector bank. The gross NPA amount has increased from Rs. 75.99 billion in 2005-06 to Rs. 1259.00 billion in 2017-18 of private sector bank. NPA percentage is also showing the up and down trends lowest percent share is 1.8 of private sector bank. Thus private banks shows efforts to manage gross NPA by its decreasing percent.

Table 2: Total Net NPA to Total Net Advances (Rs In Billions)

Year	NEW PRIVATE SECTOR BANKS		
	Total Net Advances	Net NPAs	Percent Share
2005-06	3129.62	31.70	1.0
2006-07	4147.51	40.28	1.0
2007-08	5184.02	56.47	1.1
2008-09	5753.28	74.12	1.3
2009-10	6324.41	65.06	1.0
2010-11	7975.44	44.32	0.6
2011-12	9664.03	44.01	0.5
2012-13	11432.40	59.94	0.5
2013-14	13429.35	88.62	0.7

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2014-15	**15843.12**	**141.28**	**0.9**
2015-16	**19393.39**	**266.77**	**1.4**
2016-17	**22195.63**	**477.80**	**2.2**

(Source: http://www.rbi.org.in)

Interpretation: The above table shows the amount of Net Advances, Net NPA and the percentage of Net NPA during the period of 2005-06 to 2016-17. The amount of advances has increased from Rs. 3129.62 billion in 2005-06 to 2215.63 billion in 2016-17 of private sector banks. The percent share is less of new private banks in India.

Table 3: Sub Standard Advances to Total Gross Advances of Private sector bank (Rs in Billions) As on 31st March

Year	Total Gross Advances	Standard Advances	Percent share	Sub-Standard Advances	Percent share
2008	**5259**	**5129**	**97.5**	**73**	**1.4**
2009	**5850**	**5681**	**97.1**	**106**	**1.8**
2010	**6442**	**6265**	**97.3**	**89**	**1.4**
2011	**8118**	**7936**	**97.8**	**45**	**0.6**
2012	**9814**	**9629**	**98.1**	**52**	**0.5**
2013	**11592**	**11384**	**98.2**	**64**	**0.6**
2014	**13613**	**13371**	**98.2**	**86**	**0.6**
2015	**16087**	**15750**	**97.9**	**108**	**0.7**
2016	**19742**	**19184**	**97.2**	**186**	**0.9**
2017	**22604**	**21685**	**95.9**	**311**	**1.4**
2018	**27259**	**26000**	**95.4**	**318**	**1.2**

(Source: www.rbi.org.in)

Interpretation: The above table shows the amount of Standard advances and the percentage of standard advances over the Gross advances during the period of 2005-06 to 2017-18. The amount of advances has increased from Rs. 5129 billion in 2005-06 to 26000 billion in 2017-18.The Ratio of sub- standard advances to Gross Advances is showing increasing and decreasing trend for Private sector Banks. Still the situation for Private Banks is better

Table 4. Doubtful Advances to Total Gross Advances (Rs in Billions) As on 31st March

Year	NEW PRIVATE SECTOR BANKS		
	Doubtful Advances	**Total Gross Advances**	**Percent share**
2008	**45**	**5259**	**0.9**
2009	**50**	**5850**	**0.9**
2010	**66**	**6442**	**1.0**
2011	**104**	**8118**	**1.3**
2012	**108**	**9814**	**1.1**

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2013	**112**	**11592**	**1.0**
2014	**114**	**13613**	**0.8**
2015	**176**	**16087**	**1.1**
2016	**311**	**19742**	**1.6**
2017	**518**	**22604**	**2.3**
2018	**886**	**27259**	**3.2**

(Source: http://www.rbi.org.in)

Interpretation: The Ratio of Doubtful advances to Gross Advances for Private Sector Banks is showing increasing trend, while the ratio started decreasing since 2011 to 2014 in case of Private Banks. Overall the situation of Private sector Banks is better.

Table 5. Loss Advances to Total Gross Advances (Rs in Billions) As on 31st March

Year	**PRIVATE SECTOR BANKS**		
	Loss Advances	**Total Gross Advances**	**Percent share**
2008	**12**	**5259**	**0.2**
2009	**13**	**5850**	**0.2**
2010	**22**	**6442**	**0.3**
2011	**29**	**8118**	**0.4**
2012	**29**	**9814**	**0.3**
2013	**32**	**11592**	**0.3**
2014	**42**	**13613**	**0.3**
2015	**52**	**16087**	**0.3**
2016	**62**	**19742**	**0.3**
2017	**90**	**22604**	**0.4**
2018	**54**	**27259**	**0.2**

(Source:http://www.rbi.org.in)

Interpretation: The Ratio of Loss Advances to Gross Advances is showing stabilized for private banks.

Table 6. Use of Least Square Method for Predicting Gross advances for private sector banks 2019-20

Year	**Y Gross advances (Rs. Billions)**	**X= year-2016**	**XY**	**X^2**
2014	**13613**	**-2**	**-27226**	**4**
2015	**16087**	**-1**	**-16087**	**1**
2016	**19742**	**0**	**0**	**0**
2017	**22604**	**1**	**22604**	**1**

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2018	**27259**	**2**	**54518**	**4**
10080	**Σy=99305**	**0**	**Σxy =33809**	**Σx^2=10**

<u>Private sector bank</u> : a= ΣY/N
n=5
a= 99305/5 =19861

b= $\Sigma xy/\Sigma x^2$
b= 33809/10=3380.9

y= $a+b_x$

x= 2019-2016=3

y= 19861+ 3380.9 X 3 = 30003.7

Private sector bank : y2019= 30003.7 billion

Interpretation: From the use of least square method the Gross advances for Private sector Banks will rise by Rs. 30003.7 Billion for the year 2019-20, which was 27259.0 Billion for the year 2018-19.

Table 7: Use of Least Square Method for Predicting Gross NPAs of private sector banks in India for 2019-20

Year	Y Gross NPAs (Rs. Billions)	X=Year-2013.5	XY	X^2
2014	2272.64	-2	-4545.3	4
2015	2784.68	-1	-2784.7	1
2016	5399.56	0	0	0
2017	6847.33	1	6847.33	1
2018	8956	2	17912	4
10080	ΣY =26260.21	0	ΣXY =17429.4	ΣX^2=10

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Private sector bank : **a= ΣY/N**
n=5
a= 26260/5 =5252

b= Σxy/Σx^2
b= 33809/10=3380.9

y= a+b$_x$

y= 5252+3380.9 X 3= 15394.7

Private sector bank : y2019= 15394.7 billion

Interpretation: From the use of least square method the Gross NPAs for Private sector Banks will rise by Rs. 15394.7 Billion for the year 2019-20, which was 8956 **Billion for the year 2018-19.**

7. FINDINGS:

1.The Ratio of Gross NPA to Gross Advances is decreasing for Private Sector Banks, which was 3.25 in 2009 , and has decreased to 1.91 and it is in better situation than other sector Banks.

2. The Ratio of Sub- standard advances to Gross Advances is nearby 0.6 from three consecutive years starting from 2011 to 2013 for Private Banks and is better than Public Banks.

3. The Ratio of Doubtful advances to Gross Advances was having increasing trend for the Private sector Banks, still on the overall basis ratio was not greater than 3.2 for Private Banks on the upper side.

4. The Ratio of Loss Advances to Gross Advances is showing stabilized for private banks. Overall it is observed the ratio of loss advances to Gross advances is not good against other Banks.

5. From the use of least square method the Gross NPAs for Private sector Banks will rise by Rs. 15394.7 Billion for the year 2019-20, which was 8956 Billion for the year 2018-19.

8. Suggestion:

1.The bank employees have to take initiatives to follow the credit policies during the lending process.

2. The private sector banks have to minimize the NPA's ratio by framing a good credit risk management in a much better way.

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3. The RBI has laid down the policy but it has to make all the banks especially for Private Sector Banks to implement in a systematic manner.

4. employee of the banks should watch continuous on NPAs and should take effective steps to recover the NPA

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