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AN ASSESSMENT OF RETAIL CREDIT RISK MANAGEMENT AMONG URBAN COOPERATIVE BANKS OF RAJASTHAN

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Abstract

There seems to be no unanimity in the proper policies to be followed in resolving this problem. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the Indian economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system. For the study data has been collected from secondary sources. An attempt is made in this paper to understand NPA, the status and trend of NPAs in Urban Cooperative Banks of Rajasthan. The factors contributing to NPAs, reasons for high impact of NPAs Urban Cooperative Banks of Rajasthan and recovery of NPAs through various channels.

Keywords: risk management, Indian banks, credit risk, non-performing assets, Urban cooperatives banks

1. Introduction

Worldwide recession and its impact on Global economy have highlighted the need for banks to incorporate the concept of Credit Risk Management particularly in Indian economy into their regular policies. In current scenario credit risk in Indian banks has increased due to market competition, social and economical condition, dynamics of market, and foreign exchange business and Global Business. Today, most of the banks in India are facing the default risk with respect to the retail loans and advances. As the increasing global competition by foreign banks, introduction of innovative products, and have forced the Indian banks to be prepared for the credit risk management specially retail customers. In recent years most of the Indian banks have started to expand their branches and diversify 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 bring risk for these banks. At the times of high volatility and fluctuations in the market, banks need to prove their sustainability in terms of growth as well as have a share value. Hence, an important factor for credit risk management framework would be to steam line all the risks and maximize profit from the products and service offered by the bank. Banks are exposed to tough market competition and hence are compelled to take various types of financial and non-financial risks. There is a need that the banks have to discriminate avoidable and unavoidable risks and are required to decide on what extent such risks can be taken by banks. In banks and other financial institutions, risk plays a major part in the profit making of a bank. The high risk, high returns, hence, it is essential to maintain parity between risk and return.

2. Credit Risk

If a borrower is failed to repay the debt amount which may raise default on a debt and this condition is known as a credit risk. Risk may mean that there is a possibility of loss or damage which, may or may not happen. In the simplest words, risk may be defined as possibility of loss. It may be financial loss or loss to the reputation/ image (Sharma, 2003).

Type of Risks

The major risks in banking business or 'banking risks', as commonly referred, are listed below:

1. Liquidity Risk

a) Funding Risk

b) Time Risk

c) Call Risk

2. Interest Rate Risk

a) Gap Risk

b) Yield Curve Risk

c) Basis Risk

d) Embedded Risk

e) Reinvested Risk

f) Net Interest Position Risk

3. Market Risk

a) Forex Risk

b) Market Liquidity Risk

4. Credit or Default Risk

a) Counter party Risk

b) Country Risk

5. Operational Risk

a) Transaction Risk

b) Compliance Risk

6. Other Risk

a) Strategic Risk

b) Reputation Risk

3. Literature Review

Tamimi and Mazrooei (2007) [1] in their study find that the credit risk in public sector banks bear the credit risk attached to forward contracts and advances from bank. Credit risk means the risk of defaults or protracted arrears on outstanding loan.

Dash & Kabra (2010) [5], revealed that large banks are not necessarily more effective in screening loan customers when compared to their smaller counterparts as there is no significant relationship between the size of a banking institution and the level of NPAs it reports.

Mallikarjun (2012) [9] stressed upon the various risks that Indian banks are facing; systematic risks, operational risks, liquidity risks and credit risks. He had suggested different plans and decisions should be taken by the banks to reduce these risks.

B.Selvarajan & Dr. G. Vadivalagan (2013) [13], stresses that the problem of NPA is not limited to only Indian public sector banks, but it prevails in the entire banking industry. Major portion of bad debts in Indian Banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. The top management of the banks was forced by politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers. Agriculture advances have registered a 7 fold net increase, SSI advances have set a record net increase of 8.5 times and the advances to other priority sector have made a net increase of 4.5 times, that of their respective figures in 2001–02.

Nayan & Kumaraswamy (2014) [10**]** in their study find that the profit in PSBs was declining trend due to competition, lack of diversity of banking services and stringent rules of RBI before economic reforms. The profit was declining initial period due to operation was not linked with profit and lack of diversity in the banking services.

Lalon (2015) [8], it is imperative to mention that default clients have been a major problem for the banking financial institutions for long and the financial institutions have been trying to minimize the default problem all along. The Bangladesh Bank has been striving to assist the financial institutions to get out of the default risk problem and formulating policies for that purpose. As a continuance to this, Bangladesh Bank has been providing directives when and where it seems to be necessary.

Vivek Rajbahadur Singh (2016), in their study an attempt is made to understand the status and trend of NPAs in Indian Scheduled commercial banks, The factors contributing to NPAs, reasons for high impact of PAs on Scheduled commercial banks in India and recovery of NPAs through various channels. This study shows that extent of NPA is comparatively very high in public sectors banks. The NPAs level of our banks is still high as compared to the foreign banks.

4. Statement of Problem

Post liberalization, credit Risk Management has got much importance in the Indian Economy. The main challenges faced by the banking sector today are the challenge of identifying the risk and managing it. The risk is imbibed nature of the banking business. The main role of bank is of intermediate for those having surplus and those requiring resources. For risk management various risks like credit risk, market risk or operational risk have to be converted into one composite measure. Therefore, it is necessary that measurement of credit risk should be in tandem with other measurements of operation and market risk so that the requisite composite estimate can be worked out. So, in banking sector credit risk management is being most important task of all.

5. Objectives of the Study

1. To understand the concept and nature of Retail Credit Risk Management of Urban Cooperative Banks of Rajasthan.

2. To know the different types of credit risks and the techniques to manage risk in Urban Cooperative Banks of Rajasthan
3. To analyze the pattern in Non-Performing Assets of Urban Cooperative Banks of Rajasthan.
4. To analysis lending trend of Urban Cooperative Banks of Rajasthan for retail borrowers.
5. To analyze NPAs position of Urban Cooperative Banks of Rajasthan and their risk management
6. To suggest the measures for improving credit risk management practices of Indian banks.

6. Research Methodology

This study includes both primary and secondary data and. The secondary data have been collected were studied and data available on internet and other sources have also been used.

6.1 Research Type

This research is descriptive in nature which is relevant to an inquisitive study as it requires some analysis on the efficient management of bank's credit risk relating to NPAs.

6.2 Types of Data

The secondary source of data have been collected from annual report of RBI publications including Trend and Progress of Banking in India (from the year 2005-2015), Statistical Tables relating to Banks in India, Articles, books, website and Papers published in different journal and magazines concentrated on Commercial Banks only information.

6.3 Data Analysis Tools

After collecting the relevant data, the relevant data is converting into tabular form. The statistical tools that considered for the study is Trend, Ratio Analysis /Percent Analysis

7. Data Analysis and Interpretation:

7.1 NNPA (Net -Performing Assets) to Sales or Net NPA Ratio

The NNPA to Sales ratio helps in understanding the degree of risk in credit portfolio of a bank. This ratio measures as to how much are the net non-performing assets out of the total advances/loans given. It indicates the proportion of defaults per rupee of the money given as loan. Such defaults and is therefore a negative signal. It indicates high risk for the bank. Provisioning is a good tool for reducing this ratio and enhancing the public image of the bank. This ratio and enhancing the public image of the bank. This ratio is computed as:

NNPA to Sales= Net-Non Performing Assets / Total Advances

The internationally prescribed standard for this ratio is 2 percent.

TABLE1: NET NON-PERFORMING ASSETS RATIO

Sr. No.	Name of the Bank	Net Non-performing Assets Ratio				
		2010-11	2011-12	2012-13	2013-14	2014-15
1.	Jaipur central co-operative bank ltd., Jaipur	-	-	-	-	-
2.	Integral Urban Co-operative Bank Ltd., Jaipur	1%#	-	1%#	-1%#	-1
3.	The Rajasthan state co-op. Bank ltd., Jaipur	3%	6%	2%	4%	2%
4.	Kota central co-operative bank ltd.,Kota	-	4%#	7%	9%*	5%*
5.	Jodhpur central co-operative bank ltd., Jodhpur	-	-	-	-	-
6.	Adarsh cooperative bank ltd.,Sirohi	-	-	7%	2%	-
7	Ajmer central co-operative bank ltd.,Ajmer	8%*	10%^*	10%^*	-	-3%#

Source: Figures compiled from the annual reports of the banks under study, Ratios are computed by the researcher.
ˆ Indicates highest value in the table
* Indicates highest value in that particular year
# Indicates lowest value in that particular year

ANALYSIS

In table 1, the NPA ratio of Ajmer central co-operative bank and Adarsh cooperative UCB is too high than the standard. Also, the highest NNPA ratio is recorded for Ajmer central co-operative bank. The performance of the Adarsh cooperative bank is also least satisfactory, but the fact that the bank didn't operated for the consecutive years has been taken into consideration.

The ratio has shown a declining trend for Rajasthan state co-op. Bank and by the end of the year 2014-15, the bank reached the level of standard NNPA. Similarly, the performance of Integral UCB is also marked by a declining trend and also the ratio is too small for this bank.

In a nutshell, it can be concluded that Integral UCB has remained an outperforming bank and it has remained successful in reducing NPAs considerably.

Concrete conclusions cannot be drawn through net NPA statistics (figures) because these are the figures after provisioning.

7.2 GNPA (Gross Non-Performing Assets) to Sales or Gross NPA Ratio

The Gross NPA ratio indicates the quality of credit portfolio of the banks. This ratio measures as to how are the gross non-performing assets out of the total advances/ loans. It indicates the proportion of defaults per rupee of the money given as loan. Such defaults are measured before making suitable provisions for the same. A high ratio indicates low quality of credit portfolio which symbolizes large number of defaults and is therefore a negative signal. It indicates high risk for the bank. This ratio is computed as:

GNPA to Sales = Gross Non Performing Assets/Total Advances

The internationally prescribed level for Gross NPA ratio is 5 percent.

TABLE 2: GROSS NON-PERFORMING ASSETS RATIO

Sr. No.	Name of the Bank	Net Non-performing Assets Ratio				
		2010-11	2011-12	2012-13	2013-14	2014-15
1.	Jaipur central co-operative bank ltd., Jaipur	3%	2%	2%	1%#	0.4%#
2.	Integral Urban Co-operative Bank Ltd., Jaipur	1%#	-	2%	-	-
3.	The Rajasthan state co-op. Bank ltd., Jaipur	5%	6%	3%	4%	2%
4.	Kota central co-operative bank ltd.,Kota	62%*	7%	10 %	13%	11%
5.	Jodhpur central co-operative bank ltd., Jodhpur	3%	1%#	2%	-	-
6.	Adarsh cooperative bank ltd., Sirohi	-	-	-	88% ^ *	88%^*
7	Ajmer central co-operative bank ltd.,Ajmer	17%	20%*	19 % *	9%	5%

Source: Figures compiled from the annual reports of the banks under study, Ratios are computed by the researcher.
ˆ Indicates highest value in the table
* Indicates highest value in that particular year
# Indicates lowest value in that particular year

ANALYSIS

In table 2, the GNPA ratio is too high for Kota central co-operative bank and Ajmer central co-operative. Also, the performance of the Adarsh cooperative bank is least satisfactory, but the fact that the bank didn't operated for three consecutive years has been taken into consideration.

This ratio showed a fluctuating (rather declining) trend for The Rajasthan state co-op. Bank.

This ratio is too low for Ajmer central co-operative, Jaipur central co-operative bank and Jodhpur central co-operative bank which is a positive signal.

. 8. Findings of the Study

Retail credit in Urban cooperatives banks of Rajasthan has been increasing for the last decade as per the data analysis by the researcher and Urban cooperatives banks have identified that credit to this sector has less lending risk is comparatively to other sector, because major of the loans are issued against some type mortgage property etc. and secured for repayment of loans. The study finds that Rajasthan Urban cooperatives banks have find a perfect combination of traditional, modern and international services in the global banking system.

RBI has made Indian banks to move towards global banking. The study shows that the Gross NPAs level of Urban cooperatives banks did registered a clear decreasing trend during the 2004-05 to 2006-07. The NPA level was 2.94 percent during the year 2007-08, which again went on reducing till 2013-14.

In the year 2014-15 NPAs level registered at 2.15%. The Gross NPAs level of Urban cooperatives banks Banks shows an increasing trend during the year 2014 to 2016.The Gross NPAs of Urban cooperatives banks banks in during the year 2004-05 is 2.05 % as a percentage of total assets, where as the lowest NPA was 1.06% during the year 2012-13. This show that the performances of Urban cooperatives banks banks in Retail Credit Risk Management was not satisfactory. During the year 2015-16, retail Loan Portfolio witnessed the higher expansion mainly because of the growth in credit card (8%) and other personal loans. Housing loans alone occupies the 50% share in total retail portfolio of bank.

During the post-liberalization period NPAs level of Urban cooperatives banks did register a clear decreasing trend.. The decrease in NPAs level is caused by reduction in concentration risk. Credit risk management performance of commercial banks in India is not satisfactory. The present study revealed the retail credit management practices in Indian Urban cooperatives banks and management of loans and advances. The Urban cooperatives banks today are offering all most all services that are offered by public or international bank in retail. The Urban cooperatives banks have linkage with mutual funds, capital market, insurance etc.

The study found out that the profit in Urban cooperatives banks was increasing trend due to competitive advantage, diversity of banking services provided by the Urban cooperatives banks and rules of RBI after economic reforms. The Urban cooperatives banks are facing the problem of liquidity due to the period of retail credit like house loan whose repayment period is between 25 – 30 years long. The banks were not segmenting the customers as per their requirement. It is revealed from last five years data that the housing finance is having almost half of the total share in personal loans as it fulfill one of the basic needs of human being. The Urban cooperatives banks banks are satisfying the needs of customers by providing housing loan at an affordable interest rate

Finally it can be concluded that the banks should manage its retail credit risk more consciously, anticipates adverse changes and hedges accordingly, so that it can be used as a competitive advantage.

9. Conclusion

Risk Management is the proactive strategy to plan, organize, lead, and control the variety of risks that are associated with the organization's daily and long-term functioning. Credit risk analysis has emerged as a big challenge for the banks in India. It is imperative to mention that default clients have been a major problem for the Urban cooperatives banks and others banks too for long and the banks have been trying to reduce the default problem all along. The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The bank management must speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. There is an adverse effect on liquidity of the bank. The RBI has been striving to assist the Indian Banks to get out of the default risk problem by formulating policies. As a continuance to this, RBI has been providing directives when a where it seems to be necessary. Indian economy and banks has already prove their strength to the world at the time recession, now the Indian banks have just follow the RBI guidelines to reduces their NPAs.

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