CHAPTER -7

Chapter 7

FINDINGS, SUGGESTIONS AND CONCLUSION

7.1 Introduction

To minimise the credit risk of the bank, a number of approaches have been identified during the course of this study. Endeavour of the researcher in this chapter will be to put forward the major findings of the study in a summarised form highlighting the intensity and the management of credit risk along with other risks of banking sector. The researcher has also suggested some remedial measures to mitigate the credit and other risks of the banking sector.

7.2 Summary of Findings

The study has pointed out various facts about risk management in Indian Banking Sector as a whole with a special reference to the management of credit risks. The main findings of the study are enumerated below-

- The risk scores indicate, credit risk of a bank is highest among the entire risk groups studied, followed by Market risk and/ or liquidity risk on a case by case basis. e.g. in the year 2012, the cumulative credit risk scores of Indian banks was 1.8, whereas, market risk score was 0.18176 and the total risk score was 0.59896.
- The study has revealed that Composite Risk Scores of Indian Banks are still within the specified limit 0-4, as stipulated by RBI, highest being 2.11 in the year 2003 and 0.53 being lowest in the year 2009, which suggests even

after the opening up of economy, introduction of innovative products and a grappling situation of most of the banks with regard to controlling the menace of a mounting NPA, banks under the jurisdiction of the norms and standards levied by RBI, are having the capacity to withstand risk.

- Post 2011, risk scores again started increasing (in the year 2012, composite risk score was 0.59896 compared to 0.54772 in 2011). This may be due to the alarming increase of the NPA in banks since the year 2011.
- Out of the 14 banks under study, nationalised banks are having more or less nearing score as the NPA level of all these banks are quite high compared to the private players. Thus the highest risk score (1.23) is observed in case of Punjab National Bank, followed by Allahabad Bank (1.22) and Oriental bank of Commerce (1.19). In each cases, credit risk can be identified as the significant contributor to the total risk quotient. In the category of private sector banks, ICICI bank is having the highest risk score(1.08), due to the higher credit risk score.
- Axis bank is the best performer as far as the lower risk is concerned. It is having a score of 0.47 indicating strong internal control mechanism and selective customer base. HDFC bank (0.53) can be treated as second best performer in the league, followed by CANARA Bank (0.64). These banks have exercised control over its loan portfolio, and thus having a comparatively lower level of NPA in its book.
- In spite of the volatility of many macroeconomic and bank specific components, the risk of each individual banks as well as across the entire banking sector has always remained within the specified limit i.e., 0-4.

- Also, the risk scores indicate lowering of net risk over the years till the year 2011, post which again some surge in Risk scores be observed. Also, it is being observed that credit risk has always remained as highest, thereby supporting the views expressed by other researchers (Luy, 2010, Pettway,1976) that ‘Credit risk is the most important risk in all risk groups’ and assigning of more weight age (30%) by RBI for Credit risk.
- Also, the deterioration of risk scores over the years, till the year 2011, post which it again started increasing may be due to the alarming increase of the NPA in banks and the deterioration of asset quality of banks.
- The study reveals that the gross nonperforming assets of Scheduled Commercial banks in India have witnessed downward tendency and have been gradually becoming low if we mull over the GNPA Ratio (15.7% in 1997 to 2.3% in 2009) since the year 1997.Further it is revealed that the gross nonperforming assets have again witnessed a surge since the year 2010 as depicted by GNPA ratio (2.4% in 2010 to 3.8% in 2014) and these toxic assets are increasing regularly over the following years.
- The fluctuation in asset quality is mostly observed in case of Public sector banks with the highest Coefficient of variation (71.58%), followed by private sector banks (57.03%) and foreign banks (43.74%). However, the compounded growth rate shows negative growth of GNPA over the years under study, which is highest that is -8% in case of public sector banks, indicating improvement of asset quality of this bank group over the years in spite of the recent increase. Also the negative increase in both private sector

and foreign banks justifies the initiatives adopted by RBI to curb NPA, and further suggests availability of some room for more improvement.

- In case of NNPA ratio, there has been significant decrease during the period 1997 to 2014,(from 8.1% in 1997 to 0.97% in 2011 in case of Scheduled Commercial banks, from 9.2% to 1.09% in case of Public Sector banks, from 5.4% to 0.6% in case of Private sector banks). Still we can observe a sluggish trend across all bank groups since the year 2010, but the intensity of increase is mostly observed in case of Public sector banks. But the compounded growth rate of increase (shows negative growth rate) of Public sector banks (-7%) is higher than that of private sector banks (-12%). This indicates the rate of decrease of net nonperforming assets is higher in case of Private sector banks compared to other bank groups.
- The above table indicates that although the compounded growth rate of Both GNPA and NNPA is positive in absolute terms (9% and 12% respectively) in case of public sector banks, the GNPA to Gross Advances Ratio and NNPA to Net Advances Ratios are showing negative growth rate over the years. In spite of the increasing amount of GNPA and NNPA in absolute terms, both GNPA and NNPA ratios depict -8% compounded growth rate, indicating slight modification in terms of asset quality of Indian Public Sector banks.
- During the period of the study, banks like Bank of Baroda, Oriental Bank of Commerce, Corporation Bank, Syndicate Bank and Punjab National Bank has depicted deceleration in the parameters like GNPA Ratio, NNPA Ratio, GNPA and NNPA in absolute terms since the year 2003 to 2009 and

started getting momentum since the year 2010, except in some cases where either of the parameters behaved differently for a year and followed the trend of others in very next year.

- It is also found that the banks like CANARA Bank, Union Bank, Bank of India and Axis bank showed decrease in the GNPA Ratio, NNPA Ratio as well as in absolute terms during 2003-08 period and increased from the year 2009. Other banks like State Bank of India, Indian Overseas bank, HDFC bank, ICICI bank too decreased during the beginning of 12 years period and started increasing during the following years, but the movement is not consistent as observed in case of the other banks.
- Bank of Baroda is the better performer in terms of the improvement of Asset quality of banks, measured in terms of Gross Non-Performing assets. The CAGR of GNPA Ratio of the Bank of Baroda is found to be the lowest (-11.72%), followed by Syndicate bank (-10.25) and ICICI bank (-9.62%).
- Also lowest growth in Net Non-Performing Assets can be observed from Axis bank (-14.26%), indicating improvement in asset quality over the years. Axis bank is followed by ICICI Bank (-14.17%) and Syndicate bank (-8.79%). In terms of improvement of asset quality using NNPA ratio, Oriental bank of Commerce has depicted worst performance (6.57%).
- It is also observed that in spite of recession, asset quality of banks has improved during 2009-14 compared to 2003-08 period. This improvement can be attributed to the measures adopted to counter risk and to reduce non-performing assets.

- Among all banks studied, private sector banks are performing better in terms of maintaining CRAR ratio.
- The major players like SBI, Bank of Baroda and Punjab National Bank are maintaining a reasonably higher amount of CRAR ratio to remain protected against shock, but the banks like Allahabad bank, Indian Overseas Bank and Bank of India are still having huge scope of improvement as far as risk buffering is concerned and they have to work on improvement of CRAR ratio in a consistent Manner.
- Out of Public Sector banks, except Bank of Baroda, Syndicate bank and Punjab National Bank, rest all the banks are having negative CAGR of Capital Adequacy, thereby indicating the need to improve CRAR of public sector banks. Also the coefficient of variation is high in case of CANARA bank and Union bank, suggesting the need for betterment in terms of CRAR of both the banks.
- Out of the 14 banks under study, nationalised banks are having more or less nearing Credit Risk score as the NPA level of all these banks are quite high compared to the private players. Thus the highest credit risk score (3.9) is observed in case of Punjab National Bank, followed by Oriental bank of Commerce (3.7) and Allahabad Bank (3.6) whereas lowest credit score is observed in case of CANARA Bank(1.9).
- Banks like SBI (3.5), Indian Overseas bank (3.4), Syndicate Bank (3.2), Bank of Baroda (3.2), Union Bank (3.2) are also showing higher scores of credit risk.

- In the category of private sector banks, ICICI bank is having the highest credit risk score (3.2), due to accumulation of more toxic assets. These scores indicate the need for taming the unbridled growth of credit risk in public sector banks of India.
- It is observed that credit risk over the years decelerated during 2003 to 2009 period. Post recession, in the year 2010, again the credit risk started increasing and continued to increase till 2014, depicting the vulnerability of the banking sector. However, the CAGR of 2003-2014 period, indicates a negative growth rate of -10%.
- Growth of Indian banking Sector has been affected by credit risk along with the stated macroeconomic factors like Rate of Inflation, Real GDP Growth Rate.

7.3. Recommendation

During the course of the study, it has been observed that some banks are performing better than their counterparts as reflected by their risk scores and asset quality. Thus there is a felt need for identifying and adopting more internal control measures.

It is being observed that credit risk has always remained as highest, thereby supporting the views expressed by other researchers (Luy, 2010, Pettway, 1976) that 'credit risk is the most important risk in all risk groups'. This suggests assigning more weight-age to credit risk while addressing the risk management of banks.

The following suggestions are offered for further improving the risk quotient of the banks and for smoother management of Credit risk as well as the overall risk of the banks.

- Along with collecting adequate information about the borrowers the following suggestions are offered for further improving the risk quotient of the banks and for smoother management of Credit risk as well as the overall risk of the banks through CIBIL and other credit rating agencies, proper caution and stringent care must be undertaken while designing credit appraisal and credit monitoring system of banks.
- As risk and credit risk score of a bank depends on the quality of its assets, therefore stronger vigilance must be adopted while practicing Asset Classification norms and maintaining provision for risky assets. Ahmed (2008) has substantiated this view.
- As monitoring and evaluation are the most essential part of risk management, there should be introduction of accountability at all level of managing a loan account. Also sufficient vigil must be exercised to ensure the supervisory norms being practiced properly, which will help to reduce the occurrence of credit risk management up to certain level. This is also supported by previous researches like Ahmed & Ariff (2007). Also, involving technology can reduce chances of other risks.
- There is need for devising and taking up strong policy measures by RBI for keeping Gross Non Performing Assets under tolerable limit. These measures should be able to minimise lapses of the bank as well as the

sanctioning officer along with ensuring no escape for wilful defaulters. This is also supported by previous researches like Ghosh (2017).

- Even after taking all probable measures for improvement of a NPA account, there is no change in the status of the account and it remains NPA for at least 12 months, measures must be taken to hand over the account to Asset Reconstruction Company through auction. Also Ghosh (2017) pitched for having mark up price not less than 75% of the amount due from the borrower.
- Borrowers, irrespective of the amount of loan, should be sensitised towards the available measures, liabilities on their part and policies in case of default. This can be of use in making the borrowers ready to pay back their dues in time, thereby supporting the views expressed by previous researchers like Ahmed (2007), Ghosh (2017).
- It is important for Banks to adopt Risk Based Audit which should be more IT based. There is software available for IT based Audit. However, the Banks and the RBI are yet to make the Bank Supervisory Inspections and Audits IT based. This affirms the views expressed by Rao (2013).

7.4 Conclusion

The study has tried to emphasise on the identification of the major risks prevalent in a bank as well as in the banking sector at large. It further envisages on measuring the risks and preparing risk profile of the sector to understand the position of Indian banking sector in terms of risk involvement. This will help the researchers and policy makers to dig into the matter at length in the coming days.