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A STUDY ON CREDIT MANAGEMENT APPROACH FOR RETAIL SECTOR IN PUBLIC SECTOR BANKS

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ABSTRACT

The impact of a highly regulated banking environment on asset quality, productivity, and bank performance necessitated the reform process, which resulted in the adoption of prudential norms for income recognition, asset classification and provisioning, and capital adequacy, all of which are in line with international best practices. The major goal of the reform initiatives was to enhance asset quality and reduce non-performing assets. Because banks may concurrently meet the requirements and preferences of both surplus and deficit units, the banking industry adds to the economy's actual production and general standard of life. Credit management is one of the most crucial aspects of any organisation and should not be disregarded by any firm that deals with credit, regardless of its industry. The current study looks at credit management strategies in public sector banks as well as retail loan and advance management. Data was analysed using trend analysis and percentage approaches.

Keywords: Retail, Management, Assets, Credit, Risk.

I. INTRODUCTION

Since the early 1990s, the global banking business has seen a significant upheaval. The banking sector's altered operating environment, fueled by liberalisation, privatisation, and globalisation, as well as information technology changes, has resulted in significant competitive pressures. Banks have responded to this problem by diversifying their operations via organic expansion and imaginative marketing of their services. This has exposed the banking industry to new dangers and created significant regulatory issues. As a result, regulatory and supervisory policies are always being updated to meet new difficulties. The regulatory focus has been on strengthening financial institutions by matching prudential principles with international standards, identifying systemic risks, and implementing risk management programmes. While working to strengthen the prudential framework, regulators have recently concentrated on enhancing bank governance and information disclosures in order to improve market discipline. In the vast majority of situations, regulatory actions have been led by international best practises that have been appropriately adapted to domestic realities.

Scholars, economists, accountants, researchers, and professionals have recognised the banking sector's critical role in economic growth and development in both established and developing nations. Because banks may concurrently meet the demands and preferences of both surplus and deficit units, the banking industry adds to the economy's actual production and general standard of living Researcher further emphasises that banks are key stakeholders in every country's financial industry. The financial industry and the economy as a whole will be greatly influenced by the success or failure of these banks. This means that banks are the most important factor of financial inclusion since they efficiently transfer cash from savers to borrowers.

Over the last three decades, India has been acknowledged as one of the world's emerging economic giants. Despite having inherited more than two centuries of formal legal systems, India's financial sector is substantially smaller than the average of the nation groups described by La Porta et al (1997). Thus, the banking industry is small in comparison to the size of the economy, while it is efficient (low overhead costs) and underutilised (in terms of providing credit). In India, bank credit is the most common source of business financing. With the world's largest commercial bank functioning for over two centuries and Asia's oldest stock market (approximately 130 years), India is an appropriate location to investigate this study subject. Because banks are the major source of credit for Indian businesses, their reliance on Indian banks is projected to grow as they grow and extend operations outside. Because these businesses demand less capital than international requirements, foreign banks may be hesitant to support them. As a result, these companies favour domestic banks, which must increase their size and adopt internationally recognised best practises to boost their competitiveness. Because of their efficient classification of (risk) assets, big multinational banks are known for their strong risk management techniques, particularly in credit risk. In comparison, Indian banks classify non-performing (loss) assets (non-performing assets (NPAs)) into only four categories (namely, standard, sub-standard, doubtful and loss assets). Indian banks are working to strengthen their risk management methods and performance in order to meet internationally recognised benchmarks, with stringent provisioning rules and early credit risk detection being a step in the right direction. The purpose of this study is to identify and examine the key parts (components) of Indian banks' credit risk management systems.

The extent to which the bank's present processes and procedures need to be improved to meet the demands of the legislation should be determined. To do this, bankers must be trained, and strategic models and solutions must be developed with the assistance of professionals or outside organisations. It entails keeping track of all of the bank's activities in order to mitigate credit risks. "A better and effective strategic credit risk management method is a better strategy to manage portfolio credit risk," says RekhaArunkumar (2005). The method establishes a framework for ensuring consistency between strategy and execution, lowering the risk of earnings volatility and increasing shareholder wealth. Beyond and beyond the specifics of risk modelling issues, the challenge in improving credit risk management is addressing banks' willingness and openness to accept change to a more transparent system, rapidly changing markets, more effective and efficient ways of operating, and increased accountability to stakeholders. In Indian commercial banks, a systematic approach to credit risk management (CRM) is required, especially in light of NPA levels, CAR (Capital Adequacy Ratio) standards, and the Basel Capital Accord.

II. METHOD OF RESEARCH

This research used both primary and secondary data and focused solely on PSBs. Secondary data was gathered from yearly RBI publications such as Trend and Progress of Banking in India, Statistical Tables pertaining to Banks in India, Articles and Papers referring to NPAs published in various journals and magazines, as well as data available on the internet and other sources.

III. ANALYSIS

Non-Performing Assets (NPAs)

Non-performing Assets (NPAs) - Non-performing assets (NPAs) are assets that produce periodic revenue. Non-performing assets are assets that do not produce recurring revenue. NPAs are further divided into sub-standard, questionable, and loss assets according to RBI standards. When an asset, including a leased asset, stops generating revenue for the bank for a specific amount of time, it is classified as non-performing. The following are the RBI recommendations for asset categorization and provision, which went into effect on March 31, 2005.

Loan Asset Classification

Standard Assets: Standard assets produce a steady stream of revenue and repayments when they become due. As a result, a performing asset is a typical asset. These assets are not nonperforming assets in the traditional sense. As a result, Standard Assets do not require any extra arrangements.

Sub-Standard Assets: A sub-standard asset was one that has been regarded non-performing for at least a year.

Doubtful Assets: These are assets that have been labelled non-performing for longer than a year.

Loss Assets: A loss asset is one for which the bank, internal or external auditors, or the RBI examination have recognised a loss, but the value has not been written off entirely. In other words, such an asset is regarded uncollectible and of such little value that it is not warranted as a bankable asset, even if it has some salvage or recovery potential.

Gross Advances and Gross NPAs Analysis:

First, the study looked at the trajectory of gross advances, gross nonperforming assets (NPAs), the ratio of gross NPAs to Gross Advances, and the ratio of gross NPAs to total assets. Table 1 shows that bank gross advances have been increasing since 2012-13. In absolute terms, gross advances by public sector banks have climbed from Rs 661975 crore in 2012-13 to Rs 3500389 crore in 2020-21. During the research period, the gross advances of public sector banks increased by 528.77 percent. In absolute terms, gross nonperforming assets climbed by 142.15 percent in 2020-21 over 2013-14. An in-depth examination of gross nonperforming assets (NPAs) reveals that gross NPAs in public sector banks decreased until 2015-16, then dramatically surged in the latter two years of the research, 2019-20 and 2020-21. The study

found that public sector banks' gross nonperforming assets (NPAs) had shown a mixed trend across the study period. The asset quality of public sector banks has improved steadily in recent years, as seen by the fall in the two ratios of gross nonperforming assets as a percentage of gross advances and gross nonperforming assets as a percentage of total assets, according to data analysis.

Table 1: Gross Non-Performing Assets (NPAs) of public sector banks (Amount in crore)

Year	Advances (Cr)	NPAs		
		Amount (Cr)	Percentage to advances	Percentage to Total Assets
2009-10	442134	54772	12.4	5.3
2010-11	509369	56473	11.1	4.9
2011-12	577813	54090	9.5	4.2
2012-13	661975	51537	7.8	3.5
2013-14	817248	48399	5.7	2.7
2014-15	1070872	41358	3.9	2.1
2015-16	1373777	38968	2.8	1.6
2016-17	1696333	40452	2.3	1.3
2017-18	2103763	44957	2.1	1.2
2018-19	2519331	59926	2.3	1.3
2019-20	3079804	74600	2.3	1.4
2020-21	3500389	117200	3.3	1.9

Analysis Of Net Advances and Net NPAs:

The research then looked at net advances, net nonperforming assets (NPAs), the ratio of net NPAs to net advances, and the ratio of net NPAs to total assets (Table2). According to the report, public sector banks' net advances grew by 9.4 times in absolute terms in 2020-21 compared to 2009-10. Net NPAs as a proportion of advances have decreased from 6.7 percent in 2009-10 to 1.7 percent in 2020-21 over the research period. Over the research period, the net NPAs of public sector banks showed a mixed pattern. It was discovered that between 2009-10 and 2014-15, Net NPAs dropped. Following then, it has

demonstrated an upward tendency. Despite an increase in gross non-performing assets (NPAs) during the year, asset quality in public sector banks improved in 2017-18, as seen by decreases in these two ratios: net NPAs as a percentage of net loans and net NPAs as a percentage of total assets. However, it has been noticed that, following 2017-18, public sector banks are once again failing to achieve asset quality standards. As a result, it is possible to conclude that, on the overall, public sector banks' asset quality need improvement.

Table 2: Net Non-Performing Assets (NPAs) of public sector banks (Amount in crore)

Year	Advances (Cr)	NET NPAs		
		Amount (Cr)	Percentage to advances	Percentage to Total Assets
2009-10	415207	27977	6.7	2.7
2010-11	480681	27958	5.8	2.4
2011-12	549351	24877	4.5	1.9
2012-13	631383	19335	3.1	1.3
2013-14	848912	16904	2.1	1.0
2014-15	1106288	14566	1.3	0.7
2015-16	1440146	15145	1.1	0.6
2016-17	1797401	17836	1.0	0.6
2017-18	2259212	21155	0.9	0.6
2018-19	2701300	29375	1.1	0.7
2019-20	3305632	36000	1.2	0.7
2020-21	3878300	59100	1.7	1.0

Retail Portfolio of banks

Banks' retail loan portfolios grew at a faster rate in 2020-21 than the previous year, owing mostly to increase in credit card receivables and other personal loans. Housing loans accounted for over half of the bank's total retail portfolio. Consumer durables saw a 40% drop in 2021 (27 crore) compared to 2020. (46 crore).

Table3: Retail Portfolio of Banks (Amount in crore)

Sl. No	Particulars	Outstanding as at end-March		Percentage Variation	
		2020	2021	2020	2021
1	Housing Loans	3,607	4,118	15.1	14.2
2	Consumer Durables	46	27	50.3	-40.9
3	Credit Card Receivables	187	223	-13.5	19.6
4	Vehicle Loans	1,002	1,162	27.8	16.0
5	Other Personal Loans	2,469	3,069	18.5	24.3
Total Retail Loans		7,310	8,599	17.0	17.6

The accompanying graph depicts the market share of each retail banking product in India. Housing financing accounts for 60% of all consumer personal loans, while vehicle loans account for 10% of total personal loans.

Table 4 Status Of Outstanding Housing Loan (Rs. in Millions)

Year	Total Personal Loan	Housing Loan	Share of Housing Loan in total personal loan
2016	3184502.1	2101608.0	66.0
2017	3653723.6	2295992.5	62.8
2018	4130723.6	2653070.6	64.2
2019	6085928.4	2884390.5	47.4
2020	5453525.8	3311084.6	60.7
2021	6085928.4	3628439.8	59.6

Housing finance is growing relevance, since it is known that housing is one of the most significant fundamental necessities of a human being, as shown in Table 4. Customers (borrowers) are served by

public sector banks by providing housing finance at a reasonable interest rate ranging from 9.25 percent to 10.75 percent per year.

The public sector banks are working admirably in satisfying the housing shortage's demands. It is clear that house loans alone account for more than half of overall personal loans.

Table5: Status of Retail Credits in Public Sector Banks (Rs. in Millions)

Year	Housing Loan	Consumer	Educational Loan	Vehicle Loan	Credit Card	Other Personal	Total personal
2018	1830348.9	39565.7	236501.3	199729	12127.9	5310983	7629255
2019	2207582.7	31732.2	316344.5	256832.5	25426.8	5461405	8299324
2020	2448260.4	34264.5	410543.1	350130.1	32756.5	1341392	4617347
2021	2778765.7	27056.3	472676.1	410328.9	97.9	1485749	5174674

Effective credit risk management procedures assist commercial banks stay competitive in the lending market by lowering the chance of client default. The success of CRM is assessed in this study by the change in public sector banks' NPA levels and the status of retail loans. This study looked at trends in NPA levels, different retail banking services, and CRM practises of public sector banks. The data analysis (which included both primary and secondary data) yielded a good level, which is summarised in the following paragraphs.

IV. CONCLUSION:

Retail banking, which is a component of modern banking, has experienced significant modifications in order to stay up with the fast-paced global economy. The Indian government has complete control over the financial system. Economic changes created the stage for competition to become the credo for the survival of banks and other businesses in general. Private banks, foreign banks, and public sector banks are required to compete with one another in order to seize opportunities and increase retail banking market share. Banking in India was supposed to be appropriately equipped to tackle the problems of international banks entering India under the General Agreement on Trade and Services and Basal II and Basal III. The Indian government has laid up a road map and issued a directive to all public sector banks to acquire the necessary competencies to handle the challenges. Furthermore, the government has been attempting to overcome legal, technological, and human resource challenges by either repeating existing requirements of the relevant bank law prior to mergers or amending the current Act with appropriate

measures. Public sector banks have been unable to adapt to the globalised standard, resulting in issues such as the economic impact of social banking, poor customer service, technological obsolescence, alarming NPA, prudential regulation, and ineffective human resources resulting in underutilization of human resources.

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